How to Connect Impact Investors and Creative Placemaking

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New report says the time is right for a capital boost for arts and culture.

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As more individuals and institutions move to mission-related investing, the moment could be ripe for bringing some of that capital to the field of arts and culture. A report released Monday looks at how to bring more impact investing opportunities to the creative economy, and use that money to shape an equitable and sustainable field.

“Given the political climate at the time of writing, new sources of funding for creativity and community development are more important than ever,” the authors write. (The report is from Upstart Co-Lab, a nonprofit organization founded last year to connect investors with people working in creative spaces, and the Calvert Foundation.) “With stronger ties between impact investing and creative places and businesses, more capital can be channeled to help anchor communities, create jobs, and improve quality of life across geographic and demographic boundaries.”

The report, “Creative Places & Businesses: Catalyzing Growth in Communities,” found that at $704 billion, the U.S. creative economy accounts for 4.2 percent of the U.S. GDP, yet has largely been left out of impact investment. Although community development finance institutions have been putting capital into creative places and businesses for decades — through affordable housing, community facilities, small businesses and more — there has been little attention paid to the “creative characteristics” of these ventures.

The report’s authors peg this as a major missed opportunity, particularly given that “creative placemaking” is a rising buzzword at the moment. Creative placemaking, they write, has shown how the work creatives do in their communities can strengthen economies, build engagement across the city and help support resiliency efforts, and has become “a core component of comprehensive community development.”

With individuals backing creative projects in small amounts through online crowdfunding platforms, it only makes sense, the authors argue, to convert these small-scale backers and donors into “an army of impact investors.” This army could well be a critical source of support in making up for a decline (or disappearance) in federal funding for such projects during President Donald Trump’s administration; for more on that, see Next City’s “Can Taxpayer-Funded Placemaking Survive Trump?”

The main barrier to this solution: Creative places and businesses often aren’t recognized as a segment for investors. Many financial advisers say clients have been asking about ways to invest in arts, culture and creativity, but the absence of a stronger ecosystem connecting impact investors to creative places and business has prevented these investments from taking off.

The need for better education goes both ways. Many of the creative business owners the researchers talked to had never heard of CDFIs or community lenders, and preferred “bootstrapping and organic growth” to borrowing because they did not believe they would qualify for a loan. When they did take on a loan, many of these businesses preferred equity over debt, fearing “pressure to repay the loan would interfere with their creative vision and commitment to social impact.”

Investing in creative places also requires extra effort and technical assistance. The report authors recommend combining philanthropic capital with investment capital to help defray these additional costs.

“It’s hard to justify the person power that goes into organizing a capital facility and working with a borrower who’s not well organized to access debt financing — that is often a big cost that goes unrecognized, the hours and hours of time it takes to pull off a transaction and who bears the cost of that,” says Gary Hattem, philanthropy and social finance adviser and president of Deutsche Bank Americas Foundation.

Overcoming these barriers could prove worth the reward, both financially and in social impact outcomes: Demand for impact capital could grow substantially over the next five years among creative places and businesses. The report identifies 26 projects in 14 states with total project costs of $1.543 billion seeking impact investment capital for the period of 2017-2022, with about $326 million of this capital coming from CDFIs and community lenders.

“Creative places anchor communities and help foster cohesion and engagement at a time when our nation is divided and its values are tested,” the report states. “Creative businesses can be a source for quality jobs in a U.S. shifting from a manufacturing economy to an ideas economy. As public spending cuts loom on the horizon, impact capital has the potential to fill the void in support of communities and the creative solutions they deserve.”

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Kelsey E. Thomas is a writer and editor based in the most upper-left corner of the country. She writes about urban policy, equitable development and the outdoors (but also about nearly everything else) with a focus on solutions-oriented journalism. She is a former associate editor and current contributing editor at Next City.

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