Laura Callanan, Founding Partner, UpStart Co-Lab: Catalyzing Impact Investments in the Creative Economy

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By Matt Sinclair

In its most recent Arts & Economic Prosperity *report, Americans for the Arts found that the U.S. nonprofit arts and culture industry generated $166.3 billion in economic activity in 2015, prompting Robert Lynch, the organization's president and CEO, to comment, "Leaders who care about community and economic vitality, growing tourism, attracting an innovative workforce, and community engagement can feel good about choosing to invest in the arts."*

But where were the impact investments? While the economic importance of the arts has long been recognized, arts-related organization and businesses often fly under the radar when it comes to comprehensive community development, and the relative lack of such investment in the creative economy was one of the things Laura Callanan was determined to explore when she established Upstart Co-Lab in 2016. What's more, Callanan — who majored in theater in college and began her professional career in the financial world, working as an investment banker on Wall Street after graduate school before serving as an endowment manager at the Rockefeller Foundation, a consultant to foundations at McKinsey & Company, and deputy chair of the National Endowment for the Arts — was well positioned to find out.

Earlier this year, Callanan and her colleagues at Upstart Co-Lab released Creative Places & Businesses: Catalyzing Growth in Communities (55 pages, PDF)*, which identified a $1.54 billion pipeline of more than two dozen projects administered by twenty-two creative places and businesses seeking impact capital. The findings came as a pleasant surprise to many in the arts community, and, according to Callanan, who was recently named to the NonProfit Times' Power & Influence Top 50 list, are a clear sign that the creative economy is ready for impact investment on a significant scale.*

PND sat down with Callanan earlier this summer to discuss the findings of the report and the role philanthropy can play in catalyzing impact investments in the creative economy.

Philanthropy News Digest: The first thing that jumped out at me in the report was the almost complete lack of impact investment in the creative economy, despite the fact that the arts, in the most recent year of record, generated $704 billion in nonprofit and for-profit economic activity, or 4.2 percent of the country's gross domestic product.

Laura Callanan: Actually, since we published the report in April, the National Endowment for the Arts and the Bureau of Economic Analysis have updated their assessment of how much of the U.S. economy is driven by arts and cultural production. It's still 4.2 percent of GDP, but the dollar total is $730 billion, $26 billion more than the figure mentioned in the report.

That's the best number currently available on the size of the creative economy, of which the arts are a core part. The National Endowment for the Arts emphasizes music, literature, visual art, and activities related to artistic disciplines. That means it's light on things like fashion, food, furniture making, and some other areas that we at Upstart Co-Lab include in our definition of the creative economy.

PND: That only makes the lack of impact investing in the creative economy more surprising. Why hasn't impact capital been flowing to these areas?

LC: We don't yet have dedicated investment products, investment funds, or investment managers with strategies that make it easy for individuals who are impact investors — or for institutions like foundations doing mission-related investing — to target their capital to the creative economy. Yes, an individual investor can buy a share of stock in Etsy, which is a public company, and feel like they're supporting the creative economy. And a foundation can make a program-related investment with a nonprofit arts organization or creativity-based social enterprise. But these one-off investments don't equal scale.

Let me give you an example of why that's a problem. Stockade Works and Stockade Studios in Kingston, New York, were started by the actress Mary Stuart Masterson and her business partner Beth Davenport. Stockade Works is structured as a nonprofit. Stockade Studios is structured as a for-profit social-purpose business. They've been approaching foundations about supporting their efforts to create a film/TV/media hub in the Hudson River Valley. This could be through a grant to the nonprofit, or a program-related investment, or a mission-related investment in the social-purpose business. But a foundation has to know that Stockade Studios exists, so it needs to have an active deal-sourcing process. And then the foundation has to do its own due diligence, its own risk assessment of the opportunity. Plus track performance on the investment once it's made. These are things that an investment manager could do once, and then make the information available to any number of potential investors. Not being able to get information easily is a disincentive to investment.

Today, there are products, funds, and strategies that facilitate impact investment in education, in affordable housing, in support of women and girls, in support of the environment. Not surprisingly, those are all big areas where impact investors are directing their money. And it's not that we can't tweak and re-deploy existing investment products and funds and manager strategies for the creative economy. It's just that it hasn't happened yet.

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PND: Looking out five or ten years, would you expect impact investing in the arts and the creative economy to be a focus only for larger foundations, or will foundations of any size have opportunities to participate?

LC: Everyone's able to pursue impact investing, from the individuals who invest $20 in a Calvert Foundation Community Investment Note to ultra-high-net-worth individuals, and from small foundations to some of the largest in the country, like the Ford and Gates foundations. Once we have the dots connected, and the products, funds, and strategies are in place, it won't matter whether you're an individual or an institution, or whether you have a modest amount of capital to deploy or a lot of capital to deploy. People and institutions today should be able to support the creative economy with impact investments just as they can support the environment, affordable housing, education, and other important priority areas.

PND: Do the politics of the moment help or hinder what you're trying to do with Upstart Co-Lab?

LC: To my mind, they shine a bright light on the gap we're trying to fill. There was a story in the *Wall Street Journal* recently that said: "No matter what the Trump administration does to the Environmental Protection Agency, impact investing for the environment cannot be stopped." Of course, we can't expect that to be the case if the administration pulls the plug on the National Endowment for the Arts, because impact investing for the creative economy hasn't gotten off the ground. But that just underscores the significance of the opportunity.

The NEA deploys $150 million a year for the arts. That's far less than the $17 billion annually that philanthropy puts into the arts. It's certainly a lot less than $8.8 trillion of impact investing assets under management in the United States today. If we can target a small portion of impact investing assets for creativity — as much, say, as currently flows through crowdfunding sites like Kickstarter and Indiegogo — it would be many times more than the budget of the NEA. As a country that cares about free speech, it's important that we support arts and creativity at the federal level. But on a pure dollar basis, there are a lot of resources available in the impact marketplace that can be deployed in support of arts and creativity.

PND: What do you hope to accomplish with the *Creative Places & Businesses* report?

LC: I hope the report is the beginning of a robust conversation that introduces the concept of a "creativity lens" to impact investing and leads, sooner rather than later, to concrete action.

It is incredibly important that any definition of a creativity lens highlights creative places and creative businesses as an important long-time contributor to comprehensive community development. That's why we started the conversation where we did. There's a lot of discussion in the foundation arts community about cultural equity. If we want to shape a creative economy that is inclusive and equitable and sustainable, we have to back up our words with resources.

We know the future of the United States is the creative economy. We're no longer an agrarian economy; we're no longer a manufacturing economy. Today, what we really have is an innovation economy, an ideas economy. But what do we want that economy to look like in the decades to come? Do we want an economy where a few people get paid a lot of money to make apps, and the rest of us are driving for Uber and Lyft and don’t have a retirement plan or health benefits? Or do we want an economy that is inclusive, equitable, and sustainable; that is generating quality jobs at every level of the wage scale; and that fully celebrates the imagination and innovation that is present in every community in the United States?

PND: Where do you see things going with respect to impact investing and the creative sector?

LC: Upstart Co-Lab has had hundreds of conversations with impact investors and wealth managers over the last couple of years, and they all have clients who have been asking for impact investing opportunities related to arts, culture, and creativity. There's great potential here. Philanthropy did a lot to build the ecosystem of impact investing, social innovation, and social entrepreneurship. Arts philanthropy absolutely has a role to play in enabling this new creativity lens for impact investing. The work that philanthropy has done to build thought leadership, technical capacity, and awareness around creative placemaking has been an important early step.

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PND: Has it been difficult to build on that early momentum?

LC: It's only just begun! What I'm excited about are the examples, those mentioned in the report and others that I learn about every day. In the last couple of weeks, for instance, I've had a chance to make site visits around New York City and visit Chicago. I see people who are ambitious and thinking big, who *see* the potential that can be unlocked by connecting impact capital with creative places and businesses. In Chicago, for example, there's an effort under way to redevelop the Avalon Regal Theater. Jerold Gary, an investor-entrepreneur has been actively working in the African-American community on the South Side, investing in residential housing. He had an opportunity to buy the theater — it's a landmarked 1920s property, amazingly detailed, with an ornately painted lobby. In its day, it was a large-capacity venue that drew A-list performers like Ella Fitzgerald and Michael Jackson, but it has been shuttered for quite some time. The good news is that they're on course to re-open the theater by the end of the year.

But it's not just about the theater. The Avalon is an anchor for a whole new cultural corridor on the South Side that's going to include retail space, incubator space where people can do creative work, and a museum of black music. The project is crucial to ensuring that the South Side has a stake in the emerging creative economy, because it's not just about nostalgia and the cultural expression of the past, it's about recognizing that creativity exists in every neighborhood, and that every neighborhood deserves places where people can develop and showcase their creativity.

PND: What role do you see for arts foundations in the development of an impact investing market linked to the creative economy?

LC: Philanthropy played a crucial role in establishing impact investing, social innovation, and social entrepreneurship. It was early philanthropic support that made it possible for people to explore these new ideas, build awareness and understanding, and establish standards, tools, and metrics that enabled the impact investing community to coordinate and grow. And now we see philanthropy taking the next step, bringing more endowment resources to bear on critical issues through mission-related investing. Foundations that support the arts, creativity, and innovation can follow this playbook for the creative economy.

For foundations that have been making traditional grants to the arts — but may not yet be ready to embrace impact investing as a tool to advance their mission — there's a lot to be done by supporting the growing ecosystem, investing in new ideas, investing in thought leadership and convening activities, in standards-setting and documentation of the types of projects we describe in the report. I wrote for Grantmakers in the Arts about what program officers can do, even if they don't have mission-related investing available to them, and that includes things like making grants to build the ecosystem for impact investing in the creative economy and using their bully pulpit and convening power to spotlight what's happening in creative communities around the country.

One key thing program officers can do is bring to the attention of their fellow grantmakers the artists who are social entrepreneurs who are doing great work. They could be artists focused on the environment and climate change, artists who are focused on reforming the criminal justice system, artists who are focused on immigration. You name it. Folks handing out social entrepreneurship awards always overlook the artist social entrepreneurs.

In short, philanthropy can play an important role in jump-starting the new idea of a creativity lens for impact investing and getting it to a place where the market can take it to scale.

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PND: Have we reached a tipping point with respect to how philanthropy views impact investments in the creative economy?

LC: I certainly hope so. And we think there are three reasons why. One: creativity is cool. The excitement around creativity is palpable. You have mayors and governors commissioning creative economy reports and plans. They recognize that creative activity is going to be crucial to building wealth, ensuring social cohesion, and creating quality jobs in their communities. When you look at surveys that ask corporate CEOs what will drive business success in the future, creativity in their workforce is top of the list. Just look at how many billions of dollars people have put through platforms like Kickstarter and Indiegogo — in small increments — to fund creative projects. Even people who don't think they are particularly creative themselves are happy to invest $25 in someone else's creativity, whether that's making a film, starting a band, painting a mural, you name it. Creativity is having a moment.

Two: at the same time, impact investing is having a moment. McKinsey & Company, the World Economic Forum, *Forbes* — all are telling us that impact investing is going mainstream. And as they launch first-time impact investing portfolios, there's no better time to encourage new impact investors to focus on an area that we know they care about: arts, culture, and creativity. As the field of impact investing becomes more developed, there are more targeted opportunities for impact investors to put their money to work: for women and girls, organic food, education, housing, aging in place, sustainable fisheries. These are things that impact investors can support right now. The creative economy is simply too big to be left out of the picture.

The third reason this is a great opportunity is because creative people gravitate toward solving problems, whether that means bringing jobs to the Hudson River Valley or launching an innovation district on the South Side of Chicago. In our research, we identified $1.5 billion in demand for impact capital over the next five years from creative places and businesses catalyzing growth in communities across the U.S. There are investable opportunities searching for values-aligned capital.

At Upstart Co-Lab, we think this is the right moment to apply a creativity lens to impact investing, and we're trying to bring as much energy, intelligence, and workable solutions to the challenge as we can.

Matt Sinclair spoke with Callanan earlier this summer. The transcript of their conversation has been edited for length and clarity. For information on the Newsmakers series, contact Mitch Nauffts at mfn@foundationcenter.org.

Subjects
People:
Organizations