

Impact Investment for Urban Cultural Heritage

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Abstract

Impact investing is an emerging but fast fast-growing field in the financial industry. Urban cultural heritage investments having tangible and intangibles features are often in the assets allocation of impact investment portfolios. In this paper, we map out the different financial mechanisms of impact investment in the heritage and creative sector, providing a comprehensive coverage of several case studies. We argue that cultural heritage may render different impacts and financial returns and therefore it is important to choose the appropriate investment mechanisms of financing cultural heritage. From this perspective, we present the structure of an impact investment fund dedicated to urban cultural heritage.

1. Introduction

The public sector, and especially city and regional local authorities, have difficulty developing efficient ways of financing cultural heritage. The role of innovative financial mechanisms can therefore be seen as a robust way to minimise volatility during economic crises, increase accountability and transparency, and as a source of alternative funding under different methods of implementation. In recent decades the call for accountability of the societal and environmental impacts of financial decision makers has given rise to an increasingly rich and diversified branch of finance, i.e. impact investing. This emerging field is well-suited to respond to the needs of cultural heritage projects, since these investments represent an asset class targeted by new types of investors and because they have both tangible and intangible features (Cominelli and Greffe, 2012).

We argue in this paper that in order to implement impact investment for urban cultural heritage we need to adapt traditional investment mechanisms but also design and formulate entirely new

structure of finance. Our objective is to review and propose instruments that encourage decentralised financing and implementation of cultural heritage projects and that therefore better respond to city and region needs. Bringing more flexible tools and alternative forms of investment to the forefront thus allows the most endangered cultural assets to be protected and preserved.

The main potential benefit of the impact financial instruments for cultural heritage investment is their flexibility in adapting the structure of incentives and risk-sharing to the features of the assets and to the specific economic and institutional environment (Hebb, 2013). Given cultural and natural heritage assets capability to generate a wide array of economic, social, beside obviously cultural and environmental values, they often represent excellent candidates to access funds for their preservation and regeneration in the form of impact investing. However, according to the GIIN (2019) Annual Impact Investor Survey – the most comprehensive and authoritative report on the state and trends of the industry since 2011 – in 2018 only about 2% of the 239 bn in impact investing assets managed by respondents globally were allocated to Arts & Culture, the only area among the 13 considered where investment levels decreased compared to 2014.

We need to observe that it is hard to estimate the amount of impact investment in the creative economy, given that both investment into creative-led regeneration projects and into creative and cultural enterprises is often not perceived nor classified as investment in a specific impact investing area. These types of investments are instead distributed among different sectors, including real estate, education, community development, social inclusion, digital and so on. More in general, lack of data on how arts and culture are funded across the world, has been hampering the development of research in this field, as remarked in the World City Culture Finance Report (BOP Consulting, 2017), particularly when it comes to public funding. Indeed, despite the fact that cities like Paris, Moscow and London receive comfortably over \$1 billion of public money per year in culture-dedicated funding (\$3.3 billion, \$2.4 billion and \$1.6 billion respectively) and that cities like New York, Tokyo and London receive similar amounts by private sponsors (1,6 billion, 600 million and 500 million respectively)¹, “no one really knows quite how much is spent, nor by whom – let alone where this money goes and the impact

¹ By comparison, EU27 public expenditure in recreation, culture and religion was equal to 162 billion in 2017 (around 1% of the EU GDP), with the UK being the second worst performer in terms of GDP to expenditure ratio, with only 0.6% of GDP spent in recreation, culture and religion.

of this spending. These are serious gaps for policymakers” (ivi). Moreover, when it comes to capital investment, i.e. investment in premises and infrastructure, data - particularly at the city level- is scarce and little known. So for instance, there is very low awareness among citizens about the fact that the City of New-York, which owns most cultural assets in the city, spent around 1bn in capital investment between 2016 and 2019, which explains why investment on the contents developed by each institution is relatively low (BOP Consulting, 2017).

Even from the point of view of private cultural institutions, capital investment is a very important activity. To make a few examples: LVMH invested USD 143m in the non-profit Guanfu Museum in Shanghai, and 367 out of 422 million USD spent to build the New York Whitney Museum of American Art came from private donors; and totally private were the 390 million euros invested to turn a former textiles factory in Lodz into a cultural district including an arts centre, shopping mall, and leisure complex with 112,500 sqm of rental space and around 300 shops (Brzozowska, 2012)

Most recently, AEA Consulting (2018) on the behalf of the Global Cultural Districts Network started to monitor capital investment (larger than \$10 million) into cultural infrastructure through its Cultural Infrastructure Index, where 4 main project categories are monitored, i.e. Museum/Gallery, Performing Arts Center, Multifunction Arts Venue and Cultural Hub/District. In 2017, 107 projects were completed and 123 were announced, for a total investment of \$9,92 billion and 7,62 billion respectively. The median budget for announced projects was US\$36.8 million, slightly higher than that for completed projects (\$36.1 million), with museums being by far the most dominant building type, by number (50 completed and 59 announced) and budget (\$4,03 billion and \$3.10 billion respectively), followed by performing art centres (27 projects completed for a total investment of \$3.26 billion and 32 announced for a total \$1.31 billion allocation), multifunction arts venues (25 projects completed for a total investment of \$0.59 billion and 19 announced for a total \$1.49 billion allocation) and cultural hubs/districts (5 projects completed for a total investment of \$1,13 billion and 13 announced for a total \$2.62 billion allocation). Interestingly, new buildings account for 66% of the projects, expansions for the 13% and renovations for the 22%, while as far as sponsor institutions are concerned, not-for-profit, public, and commercial entities account for the 52%, 40%, and 8% of allocated budgets respectively (AEA Consulting, 2018). While non exhaustive,

the Index gives an idea of both the importance of capital investment for the creative economy and the reasons why impact investing projects in this area might not be either perceived or classified as such.

Despite these shortcomings in the availability and traceability of data, it has been possible to identify several specific programmes and funds, as well as specific investment cases and innovative funding programmes with a cultural-social purpose which can provide a basis to better understand the role of impact investing in leveraging circular investment in the adaptive reuse of natural and cultural heritage assets.

In the next sections we set out to examine how impact investment and its mechanisms can represent successful financial models targeting cultural heritage projects; these often involve combining different financial tools to suit the needs of the various business models underlying the most complex regeneration projects. In section 2, we will briefly outline what impact investment is and how it evolved in the last decades, sections 3 and 4 examine the different instruments and reasons of their performance. Case studies will exemplify the main concepts and models identified. In the following section we will present the structure and mechanism of our proposed Urban Heritage Impact Fund. We conclude by focussing on the implications and possible ways forward in the domain of cultural heritage and historic urban landscapes.

2. Impact Investment in the cultural heritage sector

Impact investing, sometimes termed social finance, has been emerging in the 2000' mainly in the United Kingdom and United States and includes all those “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return” (A. Mudaliar, R. Bass, 2019).²

According to its growing community of practice, impact investing is characterised by three main features: intentionality, measurability and additionality. Intentionality refers to the fact

² Other definitions include (European Commission and OECD, 2015) according to which “social impact investment is the use of public, philanthropic and private capital to support businesses that are designed to achieve positive, measurable social and/or environmental outcomes together with financial returns”, and the G8 Social Impact Investment Task Force (now Global Steering Group for Impact Investment - GSG), which defines social impact investments as “[...] those that intentionally target specific social objectives along with a financial return and measure the achievement of both” (Social Impact Investment Taskforce, 2014).

that, while any investment can potentially generate positive social and environmental outcomes, impact investing explicitly and proactively seeks to achieve determined social and environmental objectives along with financial returns. Measurability means that any social and environmental impact generated by the investment needs to be assessed objectively and consistently, ensuring accountability and transparency. Finally, additionality indicates that impact investing provides capital for the achievement of results that would not be attained otherwise, with particular reference to those sectors and objectives that are traditionally underinvested due to their lower profitability, and usually require governmental intervention through public spending.

While specialised financial intermediaries serving disadvantaged communities either at lower-than-market return rates or by providing credit to “unbankable” organisations always existed, particularly within the world of cooperative and religious organisations, impact investing as previously defined is a relatively new phenomenon, which gained much traction in the aftermath of the 2008 financial crisis.

Concerning the impact investment market size and main characteristics, according to the latest GIIN study (A. Mudaliar, 2019)³, in 2018 the impact investing market amounted to USD 502 billion, managed by 1,340 organisations, out of which over 60% are asset managers, around 20% are foundations and the rest are banks (4%), Development Finance Institutions – DFIs (2%), family offices (2%), and institutional asset owners such as pension funds and insurance companies (1%).

Asset managers are responsible for 51% of impact investing Assets Under Management (AUM), followed by DFI (27%), banks (12%), Pension Funds (6%) and Foundations (6%).

While most impact investors are relatively small (the median investor AUM is USD 29 million), several investors manage very large impact investing portfolios (the average is USD

³ While there is not total agreement on the definition of impact investing, and therefore on its market size, the GIIN definition and database is considered the standard by practitioners at the global level and will therefore be our main reference. At the European level, EUROSIF has been monitoring the sector within its work on Sustainable and Responsible Finance, through a survey which in 2018 concerned 263 asset managers and asset owners with combined assets under management (AUM) of EUR 20 trillion, representing market coverage of 79%. Estimates from EUROSIF on the EU impact investing market are consistent with GIIN's, placing it at €108 billion in assets in 2018, from only €20 billion in 2013, with a 6-year CAGR of 52% (EUROSIF, 2018).

452 million). Most investors (i.e. the 58%) are based either in the States or Canada, followed by Europe, which is home to the 21% of identified investors. If we look at the sample of 266 impact investors surveyed in detail by (A. Mudaliar, R. Bass, 2019), whose AUM amount to 239 billion, we will realize how diverse the impact investment world is across geographies, sectors, instruments and return expectations. In terms of geographies, around half of the impact investing AUM are allocated to Emerging Markets (EM) and the other half to Developed Markets (DM) and more precisely 28% in the US and Canada and 10% in Europe. Concerning sectors, energy and financial services are by far the most invested areas, with Arts and Culture being the less invested.

If we break down sectoral investment according to geographical scope, asset class and returns expectations, we will find that DM-focused investors allocated a greater share of their capital to housing (13%) and forestry (11%) than did EM-focused Investors, which are more focused into financial services and agriculture. Private-equity-focused investors also had greater allocations to healthcare (21%) than private-debt-focused investors (3%), and Market-Rate Investors allocated a greater proportion of their capital to energy (18%) than Below-Market Investors (4%).

If we take a closer look at impact investing in Arts and Culture, we will see that only developed markets are represented, that there is no equity investment, and that debt investors are mostly public. Moreover, investments in Arts and Culture tend to aim for below market returns more often, albeit marginally, than they do aim for market returns – an opposite trend with respect with sectors such as Energy, Water, Sanitation & Hygiene, and Microfinance. Arts & Culture has also been the only sector which saw a decrease in investment in the last 4 years, from USD 129 million invested in 2014 to 36 million in 2018 (compound annual growth rate or CAGR= -27%), whereas infrastructure, WASH (Water, Sanitation and Hygiene) and ICT were the fastest growing sectors (CAGR= 61%, 43% and 43% respectively). Importantly, heritage projects – and particularly investment in abandoned or underused heritage assets and in creative place-making projects, are likely to be represented within the “Other” category, which includes commercial real estate, retail, community development and multi-sector allocations.

3. Impact investing and the creative economy

As highlighted by Bonny Moellenbrock, (2018), despite the fact that Arts and Culture account for only 0,1% of impact investing assets monitored by the GIIN survey, “impact investing in

the creative economy has been hiding in plain sight”, with over 107 funds (out of which 53% are impact funds, 11% are sustainable and responsible funds and 36% are conventional funds) - representing an estimated USD 60 billion AUM – which provided public and private debt, equity and real estate investment in the creative economy in 2018 across the globe.

In the sample considered by Moellenbrock however, only 19% of the funds have explicit creative economy strategies in place or are exclusively dedicated to the 5 primary creative economy categories identified, i.e. Creative Places, Ethical Fashion, Social Impact Media, Sustainable Food, and Other Creative Businesses. Only 4 funds (NESTA Arts Impact Fund, EDGE Creative Enterprise Fund, the Designer Fund and New Jersey Community Capital Creative Placemaking Fund) explicitly mention the arts or the creative economy in their names. This signals a lack of recognition of the Creative Economy Sector as a specific asset class which is very likely hampering the development of an impact investing market targeting the sector despite its economic viability and investors’ growing appetite.

In the following sections we will be mainly focussing on impact investment in relation to Creative Places – including via investment into creative industries which contribute to the adaptive reuse of regenerated heritage assets -; however, it is important to signal how impact organisations operating in the “Sustainable Food” domain – which is not considered part of the cultural and creative industry sector in its EU definition⁴ -, might have an important role in preserving and re-functionalising both immaterial cultural assets and natural heritage assets, both in developed and developing markets, which would deserve further study.

Our assumption is that a combination of impact funding instruments targeting both cultural infrastructures (so mainly real estate investment) and creative industries which could contribute to the revitalisation of endangered/underused cultural and natural heritage assets could greatly contribute to advance the agenda of European cities towards sustainable and inclusive growth.

4. Sector specific impact investing funds and programmes

⁴ For an EU definition of the Cultural and Creative sector see https://ec.europa.eu/culture/policy/cultural-creative-industries_en

While the creative economy – and arts & culture in particular – have always been among investable areas for impact investors, only few specific funds and programmes have been set-up so far, mainly in the UK and the States, and providing exclusively debt funding. The first attempt in this area was made in the UK by NESTA – the National Endeavour for Science, Technology and the Arts, which in 2015 launched its Arts Impact Fund (AIF), the first impact investment fund targeting social outcomes in the arts and cultural sector in the world. The £7 million social investment fund, backed by Nesta together with the Bank of America Merrill Lynch, Arts Council England and the Esmée Fairbairn Foundation, was created as a pilot with the help of the Cabinet Office – whose research showed an investment demand of £28 million from art-based organisations –, to demonstrate the strong social value creation and commercial potential of the sector. The bespoke finance offer made available by the Arts Impact Fund was designed to be used by organisations to become more financially resilient, in order to protect and develop their social and artistic impact. AIF provides unsecured loans of £150,000 - £600,000 at interest rates of 4%-8.5%. Since 2015, 22 finance facilities were offered. Importantly, the cost of borrowed money depends on the achievement of pre-agreed impact objectives, with organisations meeting their impact targets being offered a capital discount as an incentive to fulfil their social mission and monitor outcomes achieved.

The pilot was so successful that the fundraising for a second fund has already started; in the meantime, new research commissioned by NESTA and carried out by MTM through a survey involving over 1,000 cultural organisations based in the UK evidenced a growing demand for impact capital from the sector: while only 15% of cultural organisations in the UK have taken out repayable finance to date, with £29 million received in 2016, demand for the next 5 years is expected to grow to around £309 million. Importantly, investable organisations are often seeking for small amounts (less than £150,000 for 41% of them) and for long investment periods (5 to 7 years). Not surprisingly, repayable funding is rarely a replacement for grant funding, and is mostly used either to stabilise cashflow/bridge ensured fundraising or to further develop entrepreneurial activities via the acquisition of facilities and the scaling-up of ongoing activities. More in detail, 31% of surveyed organisations used the capital raised in 2016 to acquire new tangible assets, 29% to scale-up existing activities, 19% for refurbishment and 18% to develop new revenue streams (MTM, 2018).

Looking at the 22 investments completed by NESTA's Arts Fund, we find that capital investment in the acquisition, re-functionalisation and/or refurbishment of cultural venues occurred in 15 cases, out of which 6 are good examples of adaptive reuse of cultural heritage assets and, in most cases, of the importance of combining different sources of both grant and repayable capital, including both commercial and impact capital. In October 2018, to meet the demand for smaller size loans, NESTA launched a £3.7m social investment fund with the support of Access – The Foundation for Social Investment through the Growth Fund programme, with finance being provided by its partners Big Lottery Fund and Big Society Capital. The Fund will provide unsecured loans of £25,000 - £150,000 at interest rates of 5.5%-8.5%, while also offering dedicated support around developing social impact monitoring & evaluation capabilities. As in the case of the IAF, cost of capital is linked to impact performances, as an incentive for investees to pursue their social impact mission. Importantly, impact targets and data collection methods are agreed by NESTA and invested organisations, with support and capacity building provided by NESTA and partner organisations to ensure transparency and consistency of data across their portfolio and, most importantly, to raise the cultural sector ability to measure and leverage on impact achieved to take efficient management decisions⁵.

Another impact fund specifically targeting heritage organisations in the UK – the Heritage Impact Fund (HIF) – was launched in early 2019 by The Architectural Heritage Fund (AHF), a registered charity, working since 1976 to promote the conservation and sustainable re-use of historic buildings for the benefit of communities across the UK. Since 1970's AHF has awarded loans with a total value of £125m to over 900 projects across the country, disbursing more than 1,200 individual early project grants totalling over £10 million. Funded projects include Merkinch Welfare Hall in Inverness, a Cat C listed building whose ground floor was converted in a gym for the Inverness City Boxing Club, with a community hub upstairs. AHF assistance consisted in a £28,500 grant combined with a £160,000 loan. The £7 million HIF was launched targeting applicants across the UK seeking to acquire, reuse or redevelop buildings which are of historic or architectural importance – these may be buildings which are listed, in a conservation area, or may be of special significance to a certain community. The fund offers a

⁵ The Fund is also making available frameworks, tools and case studies to the wider impact community, see for instance the [Impact management canvas](#). For a quick review of impact assessment approaches in the cultural sector see (Ratti, 2014).

mix of advice, support, grants and loans, often combining the different tools. Typically, the fund offers loans from £25,000 up to £500,000. Terms are flexible, but the facility normally lasts 3 years. Projects need to have measurable impact objectives and financial incentives are in place for impactful projects.

In the US, impact investing has mainly emerged from community development finance. At both sides of the ocean, Impact Funds targeting specifically the creative sector are largely supporting the acquisition and adaptive reuse of real assets by cultural organisations. However, while in the UK cost of capital is linked to the achievement of pre-agreed social outcomes, this is not the case in the US, where, on the other hand, expected returns from investors (and therefore cost of capital) are well below the market. This means that attention to impact frameworks and outcomes monitoring tends to be higher in the UK, with the American funds mainly focussing on jobs created (particularly for people on low-income or with low skills) and accessibility of spaces to artists and citizens at risk of social and economic exclusion.

The NYC Inclusive Creative Economy Fund (ICEF) was launched in October 2018 as an impact investment fund focused on arts, design, culture and creativity in the context of community development, with the goal of financing affordable workspaces for artists. Very much in line with the trends of creative place-making and urban manufacturing described by (Grodach, 2017) “by establishing and preserving affordable spaces for business incubation, maker and artist studios, cultural activities, and light manufacturing, the Fund will foster quality middle-skill jobs for low- and moderate-income New Yorkers. By focusing on projects that provide ongoing access to affordable space, the Fund ensures that creative and cultural activities that would otherwise be vulnerable to displacement have an assured position in the New York City of the 21st century”(LISC NYC, 2019).

In its first year of activity, the NYC ICEF raised over USD 4.8 million from a range of investors - including long-time community development investors and funders; foundations and endowed arts institutions and High Net Worth Individuals – who purchased Notes which pay 2.75% interest per annum and mature at May 31, 2026. Notes are general obligations of LISC NY, which since 1980 has borrowed and repaid—on time and in full—more than USD 1.7 billion. In 2019, funds raised have generated 3 loans worth USD 13 million which have all

been invested in adaptive reuse of cultural heritage assets projects, often in synergy with other incentives aimed at promoting creative place-making.

Similarly to NYC Inclusive Creative Economy Fund, the USD 12 million New Jersey Creative Placemaking Fund (CPF), managed by New Jersey Community Capital, was approved in 2015 and to date have invested in 8 projects with loans ranging between USD 20,000 to 20 million “supporting catalytic development projects that integrate or complement arts and creative-industry based elements, integrate with broad-based neighbourhood development strategies, and generate significant community impacts” (The Kresge Foundation, 2019). CPF was designed as a revolving loan fund to provide flexible and affordable capital to finance the acquisition, construction, development, and/or sustenance of affordable long-term spaces for creative-economy organisations serving low-income communities of New Jersey.

While community development finance institutions investing in creative places through an impact lens are more developed in the US than in Europe, in London the Mayor of London, the Arts Council England, Bloomberg Philanthropies and the Outset Contemporary Art Fund are working to launch the Creative Land Trust, a £50 million fund combining impact investment and philanthropic capital which will finance affordable creative workspaces which will be protected in perpetuity to address the availability of affordable creative workspace in London. Most recently, the Mayor of London launched the Creative Enterprise Zones (CEZs) in local planning as part of his London Plan. £11 million were awarded so far to 6 projects across CEZs in 7 boroughs, offering incentives to retain and attract artists and new creative businesses to an area by offering permanent affordable workspace, business and skills support, business rates relief and super-fast connection. Interestingly, the initiative is co-funded by the Mayor’s Good Growth Fund, a £70 million fund (which in turn uses the European Social Fund) providing grants to organisations working towards sustainable urban regeneration. The fund, which requires a thorough assessment of both social and economic impact achieved by grantees, is designed to catalyse impact and commercial investment. Similarly, the City of Paris has initiated the Funds for Paris initiative, which offers up to 66% tax deductions for patronage to finance heritage restoration projects (BOP Consulting, 2017).

While impact investing targeting the adaptive reuse of heritage and natural assets is mainly the domain of debt investors, equity impact funds can play a key role in supporting creative industries, often in a synergic way with capital investors contributing to create the space and conducive ecosystem where these industries thrive. Equity investment is particularly well suited for tech impact ventures, particularly in the new-media domain, however, it was possible to find only one equity impact fund specifically dedicated to this typology of creative enterprises, i.e. San Francisco based New Media Ventures (NMV). NMV brings together a community of more than sixty technology leaders, business angels, venture capitalists, entrepreneurs, philanthropists, and policy-makers, providing both grant funding, seed funding and early stage venture capital to not for profit organisations and impact businesses investing together to drive progressive social change via the promotion of democratic participation tools and unbiased information. To date, over USD 13 million have been invested in 6 social ventures, including a USD8 million investment in Hustle, a peer-to-peer text messaging platform providing advocacy organisations with an affordable, efficient, and effective tool to reach their target supporters and customers.

5. Relevant impact equity and equity crowdfunding cases

While impact funds targeting the creative economy through debt funding or a mix of debt and grants are becoming increasingly widespread, there are basically no examples of equity impact investing funds dedicated exclusively to the creative economy, and, when it comes to the adaptive reuse of natural and heritage assets, it has been basically impossible to find examples of impact equity investments from either public or private providers.

There are a number of reasons to explain this fact. Firstly, equity investment implies for investors to acquire control and voting rights in the investee company, and this generates the possibility for new capital to cause a shift in the priorities of the investee itself. For example, at the end of the investment period, the new management might also be tempted to adopt a more commercial approach, at the disadvantage of the company's social mission. The close collaboration required between investors and investees can easily become a barrier. Investee companies (which can take-up a variety of legal forms across different countries, from cooperatives to Ltd, from B-companies to social enterprises) have often impact objectives incorporated in their statutes, and in most cases also feature particular governance structures to prevent the risk of mission drifts, i.e. the possibility that the company's social mission is

overrun during the investment period or at the exit because of the take-over by a board with a conflicting agenda. These clauses, which in fact restrict the company's freedom to operate, and which sometimes imply the obligation to re-invest a part of the investee company's surpluses in other socially-oriented instruments, or other strategies such as asset locks and 'golden shares' (Nicholls, 2010), might be unappealing for equity investors. Conversely, when investors are particularly interested in the achievement of certain social outcomes, is de facto very difficult to ensure these outcomes are pursued after their exit.

Secondly, organisations operating in the creative economy are often small and work-intensive, hardly fit to provide the double-digits returns expected by impact equity investors, and they need patient capital allowing them to grow organically within their communities more than injections of liquidity designed to quickly scale on the global market: indeed, if we look at EUROSTAT data, we find that most companies in the creative economy are either micro or small enterprises and, in line with SMEs in other sectors, are more often seeking debt finance than equity⁶. Thirdly, reporting on impact achieved on top of management and financial performances comes at high costs for both investors and investees, particularly in the absence of an accepted standard. This means that, while committed to their social and environmental missions, neither investors nor impact organisations looking for capital will light-heartedly increase their costs in order to monitor non-financial performance, hence the importance of incentives such as tax breaks.

Finally, as already mentioned, fast-growing companies looking for equity are often technology based, and therefore funded through impact funds covering different areas where impact ventures are particularly active, including Digital, MedTech, EdTech and FinTech, with creative companies often classified under these domains. Indeed, impact investing in technological start-ups and companies is a growing area of interest, with initiatives such as WayraUnLtd, the first Telefonica's global tech start-up accelerator programme focused on impact start-ups launched in 2012, proving very successful. WayraUnLtd is the result of a partnership between Telefonica and UnLtd, the leading provider of support to social entrepreneurs in the UK and is 50% funded by the UK government. The accelerator builds the

⁶ Data on access to finance for the creative economy sector is scarce and largely outdated: see (European Commission, 2013)

capacity and invest in high-tech start-ups, which are addressing social issues and want to improve people's lives, for instance, in the following areas: digital inclusion, education, e-learning, employment, environment, health and social innovation. Up to date, more than 160 British and Irish start-ups were supported, with approximately \$150 million in third-party funding raised. Portfolio companies are worth around 430 million, and already improved the lives of over 300,000 beneficiaries in the UK. WayraUnLtd has a rich portfolio of programmes suited to diverse technological and geographical areas, including: Wayra UK Call (cross-industry call for innovative digital products, services and technologies), GCHQ Cyber Accelerator (security agency for cyber security start-ups), Velocity Health (partnership with a global healthcare company, looking to transform healthcare through innovative solutions), Wayra Fair By Design (an accelerator programme in partnership with the Fair By Design Fund to tackle the poverty premium), Open Future_Haringey (regional call for digital start-ups in North London) and Intelligent Mobility Accelerator (powered by the Transport Systems Catapult and Wayra UK, a regional call for digital start-ups in North London).

Another interesting area for technology enabled creative start-ups is equity-crowdfunding, which is becoming increasingly popular including through the creation of specific cryptocurrencies. This is for instance the case of Maecenas, a British start-up which secured over \$15 million through an Initial Coin Offering (ICO) and released its platform to tokenise art-works in 2018. The Maecenas platform consists of two parts: the auction platform, and the trading platform. It gives the possibility to convert any art-work – which has been previously verified and is stored securely - into tamper-proof digital certificates or “fractions” based on the Ethereum blockchain network. Owners of physical artworks can list their artwork on the Maecenas Auction Platform and sell up to 49% of the economic interests of the artwork to interested investors. Once an art piece is successfully listed, it will appear on the Maecenas Auction Platform. The seller will set the auction date, duration of the auction and the currency that the artwork shares are sold in. Once the auction starts, it will be run via a Smart Contract. Investors can choose to place their bid in any accepted cryptocurrency (bitcoin, Ethereum or Maecenas’ native cryptocurrency, ART). The Smart Contract will automatically convert their bids into the spot price of ART at the time of bidding so that all the bids can be compared in a common currency. The conversion rate will be displayed for the investor to confirm the bid. Upon confirmation, the total bid amount (in their selected currency) will be credited from their account and held in escrow. The auction will successfully close at the deadline set by the seller

if the bids exceed the reserve price or once target funding is reached. The economic interests of the artwork will then be allocated via a Dutch Auction Process by the Smart Contract algorithm to all successful bidders. Once the auction closes, the economic interests of the artwork will be credited to the accounts of the successful bidders, while bid amounts will be returned to unsuccessful bidders. Owners of the artwork fractions can sell their certificates to other buyers at any time via the Maecenas secondary marketplace. Paintings' economic interests bought from the auction can then be bought and sold in the secondary market. Shareholders will participate in the economic life of the paintings, so, for instance, if they are leased out for display, they will receive a cut of the profit in the form of a dividend. A first auction – entirely built on smart contracts - was successfully carried-out this year to purchase fractions of 14 Small Electric Chairs with Bitcoin, Ethereum or the ART token. Both the sale and subsequent trading of the certificates are tracked on a blockchain.

Despite the lack of Equity Impact Funds and Equity crowdfunding platforms specifically dedicated to the creative economy, and in particular to the adaptive reuse of natural and heritage assets, it is possible to find investible social enterprises in this space, which could greatly benefit from equity investment. One case is that of Kalatà, described in the box below. Interestingly, the social enterprise successfully underwent the due-diligence process to receive impact equity from an impact fund, but lastly withdrew due to the high cost of capital and mission-drifts risk connected to the changes in governance. Innovative business models and financial models are often developed by entrepreneurial third sector organisations themselves as in the case of Italian company Kalatà, specialised in adaptive reuse of cultural heritage assets. Kalatà is a social enterprise which creates unique artistic experiences to increase the value and accessibility of underused heritage assets. They scout the Italian territory for underexploited assets and build customised projects aimed at increasing their audience. They fund all the interventions which are necessary to implement the new itinerary or experience, which is then offered as a premium service alongside the original offer. Kalatà receive part of the revenues generated via the new offer so as to recover the original investment and a margin, while the asset's owner is entrusted with both a new revenues' stream and an increase in the number of visitors thanks to the communication and marketing work carried out by Kalatà as part of the project.

6. High-street banks and impact investing in the creative sector

Since 2010, when J.P.Morgan and the Rockefeller Foundation launched the first systemic study on “Impact Investing, an emerging asset class”, which would have later become the GIIN Impact Investor Annual Survey, most high-street banks and institutional investors entered the sustainable and responsible investment arena. From Goldman Sachs to Bain Capital, from Barclays to HSBC, from Deutsche Bank to TPG, impact investing, ESG, and green finance products are becoming mainstream, with BlackRock’s CEO Larry Fink’s declaring in his 2018 annual letter to the CEOs that corporate purpose would have been the focus of the year, since “as wealth shifts and investing preferences change, environmental, social, and governance issues will be increasingly material to corporate valuations. This is one of the reasons why BlackRock devotes considerable resources to improving the data and analytics for measuring these factors, integrates them across our entire investment platform, and engages with the companies in which we invest on behalf of our clients to better understand your approach to them”.

Despite encouraging signs, however, identifying proper impact investment products among high-street banks and commercial asset managers is not always straightforward, and particularly when it comes to specific products targeting cultural heritage. Exceptions to this rule tend to lay with ethical and social banks, often specialising in providing credit to not-for-profit organisations. This is for instance the case of Italian Banca Prossima and of Dutch bank Triodos. Triodos, established in 1980, provides both equity and debt capital exclusively to impact businesses in the energy, food, inclusive finance, education, health and culture sectors. Among impact indicators monitored by the bank is the number of cultural events/visits made possible through investing in cultural organisations, so for instance, in 2017, 17.6 million visitors (up from 13.7 million in 2016) enjoyed cultural events including cinemas, theatres and museums across Europe, as a result of Triodos lending and investments activity to 3,900 cultural institutions.

Urban Heritage Impact Fund

Grodach (2017) examines over three decades of culture-led urban policies, identifying three main narratives behind their ascent in the 1980' and multifaced evolution up to today, which respond to three socio-economic trends, i.e. changing demographic structures and social trends; the rapid deindustrialisation of urban centres, and the raise of fiscal austerity and privatisations under neoliberal governments. The three narratives, which are largely interrelated, see the arts and creative industry as a consumption booster for citizens and visitors alike. Cultural heritage emerges therefore as a productive sector which might offset the negative consequences of deindustrialisation - or, if we think to ongoing debates, to digitalisation and jobless-growth phenomena - and as a “gentrification force” counteracting deurbanization and abandonment. In all cases, heritage sites and creative and cultural activities are interpreted as development assets on which local and national authorities should have invested to revive struggling urban centres.

In many city concerning initiatives aim at boosting cultural consumption and tourism. These initiatives are largely about culture-led developments of abandoned/underused assets or, in the most ambitious cases, about culture-led urban regeneration of entire neighbourhoods and their transformation into cultural districts, supported by land write-downs, tax credits, amenity bonuses. The huge success and worldwide echo which accompanied the opening of Frank Gehry's Guggenheim Museum in Bilbao accelerated this trend: “by the 1990', over 90 US cities had designated arts districts to encourage the rehabilitation of vacant industrial spaces, and many attempted to achieve their own “Bilbao effect” with a high concept cultural building to brand the city” (Grodach, 2017). In Europe, operations such as the establishment of the Centre Pompidou in Paris, the Tate Modern in London or Gateshead's Baltic Centre for Contemporary Art, exemplify this approach, which is still very much alive in different regions of the world, as demonstrated by the recent opening of the Louvre Abu Dhabi, the museum of the Second World War in Gdansk or the Zeitz MOCAA in Cape Town.

As highlighted by Crossick and Kaszynska (2016) “a new narrative emerged in which culture would drive both economic and urban regeneration. The concept of the post-industrial city required not only that it finds new economic motors, but that it also addresses declines in social cohesion, inner-city property values and urban infrastructure. Culture came to be seen as a key driver, as a sub-set of both the knowledge economy and its need for continuing innovation on the one hand, and the consumer, experience economy on the other”.

From this perspective, city investments should be examined under a portfolio perspective which better aligns to the city. Under this proposal, cultural heritage investments become an integral part of the urban portfolio investment because they create an added value added to the financial returns of standard urban investments such as commercial and residential real estate investments. The inclusion of cultural heritage assets into the fund portfolio reflects the need to achieve greater diversification in the portfolio and less volatile and long-term returns. Moreover cultural heritage contributes in the development of commercial and industry providers by amplifying their financial returns and de-risks their investments for example in R&D (Crossick and Kaszynska, 2016). We are therefore argue that since the cities in recent years have achieved unprecedented prospects as hubs of economic opportunity and engines of national growth, we cannot give the private sector *carte blanche* to invest in piecemeal projects only because to tightening of central government funds. The result is often a strange mismatch of urban projects which do not adhere to the overall vision and plan of the city, and as a result, they are not able to leverage far-reaching cultural projects.

In the last ten years there has been a significant rise in the number of both unlisted and listed urban funds within the complex framework of impact finance. Urban impact funds integrate in their structure many positive features of the previously described impact financial mechanisms. In general, urban impact funds have been applied successfully in the EU and US and have potentially multiple benefits (Hill, 2020; Schoenmaker and Schramade, 2018) . Different from an individual project investment, the fund is an investment vehicle based in a portfolio of projects, and tailoring financial products (e.g. debt, equity, guarantees) to project needs. When properly designed, the funds should contribute to coordinate multiple investments over a long time horizon, capture synergies across different types of projects, and improve/tailor the financial structure of individual projects, thereby facilitating co-investing, coordinating day-to-day implementation/monitoring with long-term strategy, and capturing opportunities to employ investment re-flows (dividends/revenues/investment exits) in support of long-term investment objectives.

In promoting private sector finance, the funds are often directed mainly to infrastructure and real estate investments, nonetheless they advocate the definition of a portfolio of urban mixed-use developments. The portfolio structure is designed, as observed, in order to implement

synergies and cross-subsidization between projects and to foster investments for example for cultural heritage assets.

From the perspective of financing urban cultural heritage it is worth discussing here the proposal of the structure of an urban heritage impact fund designed to support cultural heritage investments. The fund is structured at urban level through the creation of a portfolio of projects which must follow the strategic vision of the city and aim to achieve financial returns as well as environmental and social impacts (non-financial impacts). The fund is an impact investment because it aims at achieving objectives beyond conventional financial returns – these can be in many spheres, e.g. environmental targets, skills development, fighting poverty/unemployment, social inclusion, etc. In this context, the impact objectives must inform the investment choices; for instance, through the development of impact indicators in addition to the conventional financial performance indicators. Non-financial performance metrics can be developed on the basis of cost-benefit methods and/or tailored impact indicators so that, for each project and/or project portfolio investment, performance can be mapped onto the dimensions of financial/impact performance.

The proposed urban heritage impact fund is designed to attract a variety of investors (pensions funds, commercial banks and development financial institutions) by offering an urban investment strategy that treats projects in the city as integrated and interdependent. In so doing, it is possible to obtain a multiplier effect in the financial returns. By combining different types of cultural heritage projects and fostering synergies between investments, we construct a diversified portfolio that gives good financial returns on some projects and compensates for (cross-subsidises) poor financial returns of other projects (i.e. a cultural complex), which nevertheless achieves good non-financial impacts.

One important aspect of the fund is to understand that co-investing can take place at both fund level (orange boxes) and at project level (dark grey boxes), exploiting the opportunity to attract different types of investors. For instance, the urban heritage impact fund could be partly financed by the public investment but should be structured in ways to attract others investors, impact investors, conventional investors, and so forth.

It is important to keep in mind, however, that the fund co-investing should be combined with project co-investing corresponding to the sector and risk profile of specific projects. In the

simple illustration below (Figure 1) , a Hotel development could attract conventional investors, possibly specialists in accommodation/real estate assets; the museum could attract funding from foundations and non-profits; the enterprise incubator from venture capitalists, crowdfunding initiatives, etc. The general objective should be to leverage as much as possible the funds provided by the city development agency with those provided by other investors at the level of fund and individual projects. In the illustrated example, a £100m injection from the public investment is complemented by £50m from other investors into the fund, and by say, £150m co-investment at project level, so that a £100m injection could fund £300m worth of investment projects.

The task (and the value added) of the urban heritage impact fund manager would lie in the ability to organise the process over time and across sectors and projects in order to maximise leverage and impact. In addition, the fund can act as a revolving fund, therefore some of the financial returns will be re-invested in the fund (dashed lines), and the re-flows can support further investment cycles by the fund over time and ultimately the sustainability of the urban investment.

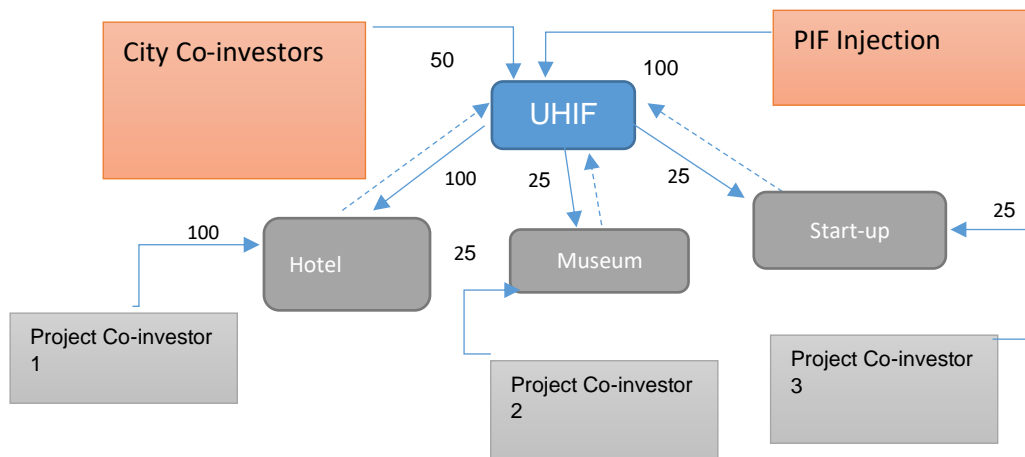


Figure 1. Structure of Urban Heritage Impact Fund.

The importance of the impact investment instruments is based on the necessity for public and private sectors to work together more closely by applying socially and environmentally sustainable ways for cities/regions (society) to reach higher levels of economic growth. We conclude by observing that policymakers will need to know the extent to which the community is willing to pay for its cultural heritage so they can correctly allocate the risks, for example,

with the private sector operators of the heritage assets. The public sector therefore has to consider a variety of options before making a decision, and in practice must make a judgment on the trade-offs between the various and sometimes conflicting objectives. It is particularly important to develop research that determines impartial and objective instruments for evaluating the most efficient and sustainable ways to finance cultural heritage investments.

6. Conclusion

Impact investing is an emerging but fast-growing field which holds tremendous potential in terms of supporting the cultural heritage investments. More in particular, by building financial impact frameworks based on a theory of change negotiated with all projects' key stakeholders, impact investment can facilitate the shift to a symbiotic approach to heritage preservation and adaptive reuse, helping to align public and private interests around shared outcomes at a systemic level.

Within this context as we have analysed in the previous sections, impact investors, and particularly debt investors, are filling market gaps when it comes to much needed bridge finance. For example by anchoring impact principles to the upcoming InvestEU facility, to fund cultural infrastructures and in particular the adaptive reuse of heritage assets under both the infrastructure and the social window, while providing debt capital to creative industries

Adopting a portfolio approach, as in the proposed Urban Heritage Impact Fund we aim at promoting creative place-making at the city or regional level, pooling different resources to provide different types of capital (grant, debt, equity to fund both capital investment, the creation and growth of creative enterprises and community engagement action) which could be allocated based on needs and characteristics of stakeholders involved, leveraging on economy of scale.

While this emerging asset class is still underdeveloped in connection to heritage projects, partly because of lack of recognition and of a common language among investors, policy makers and heritage organisations, as well as of more granular and updated data on funding the creative economy, evidence exists to support a call for more research and more impact investing in this

area. The way forwards is to experiment at the various levels in order to promote cultural heritage impact investment. For instance: anticipate tax credits and other specific incentives, as well as grant funding. Offer collateral and working capital to offset cashflow issues and raise capital investments into cultural heritage assets acquisition or refurbishment. Lower the cost of repayable finance for invested organisations. Lastly consider the combination of the Urban Heritage Impact Fund with social impact bonds, which so far has never been used in the heritage sector, to allow public administrations to shift risks implied in funding impact projects on the private sectors, and make much-needed funding available for cultural heritage projects

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