

Arts & Culture Finance

by **nesta**

ART^s IMPACT FUND

Overview

- **£7m fund partnership** commenced operations in **July 2015**, managed by Nesta, with capital provided by Arts Council England, Esmée Fairbairn Foundation, Nesta and Bank of America, and additional funding from Calouste Gulbenkian Foundation
- Investment period ran from July 2015 until August 2019
- Approximately 2.5 FTE staff working on the fund across its life
- Some early repayments and some undrawn funds enabled the fund to exceed its £7m capital allocation in terms of commitments
- Capital originally due to be repaid to all investors by June 2022, although this has been extended to allow borrowers to recover from Covid-19
- Current portfolio of 18 organisations; no capital losses through the pandemic period due to interest and capital forbearance across the portfolio and support from the Cultural Recovery Fund

Summary of investment activity

- The fund received 330 enquiries and completed on 27 deals (£8.7m)

Overview of completed deals			
Fully repaid	5	£1.5m	
Recycled undrawn	2	£0.9m	
Written-off	2	£0.2m	
Live portfolio	18	£6.1m	£4.2m outstanding
	27	£8.7m	

- Weighted average loan size of £326k (5.95% interest rate)
- New income models at play in 42% of deals, supporting innovation
- Good spread across art-forms; geographic bias towards London & SE
- Historic capital losses of 3.2% (2 loans); 10% loss rate modelled over fund life

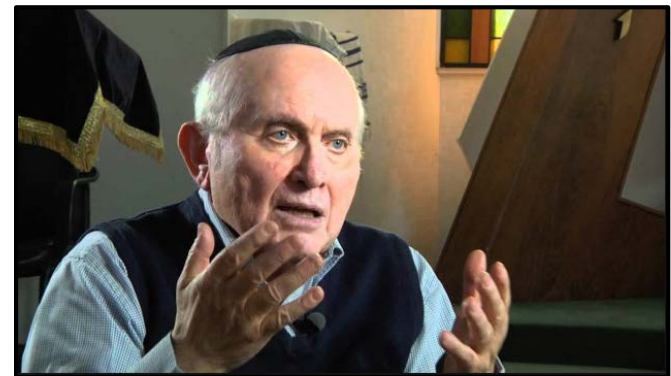
Impact on people

The National Holocaust Centre and Museum used our funding to invest in a trading subsidiary, The Forever Project, which uses holographic technology and Natural Language Processing to preserve the experience of direct interaction with holocaust survivors.

The subsidiary will also explore more commercial ways to generate revenue from the technology, and profits will go back to the parent organisation to continue their vital educational work.

“It’s absolutely fantastic. My great-grandchildren aren’t born yet. It’s incredible they and the generations after them will be able to hear my testimony.”

Steven Frank, Holocaust survivor



Impact on people

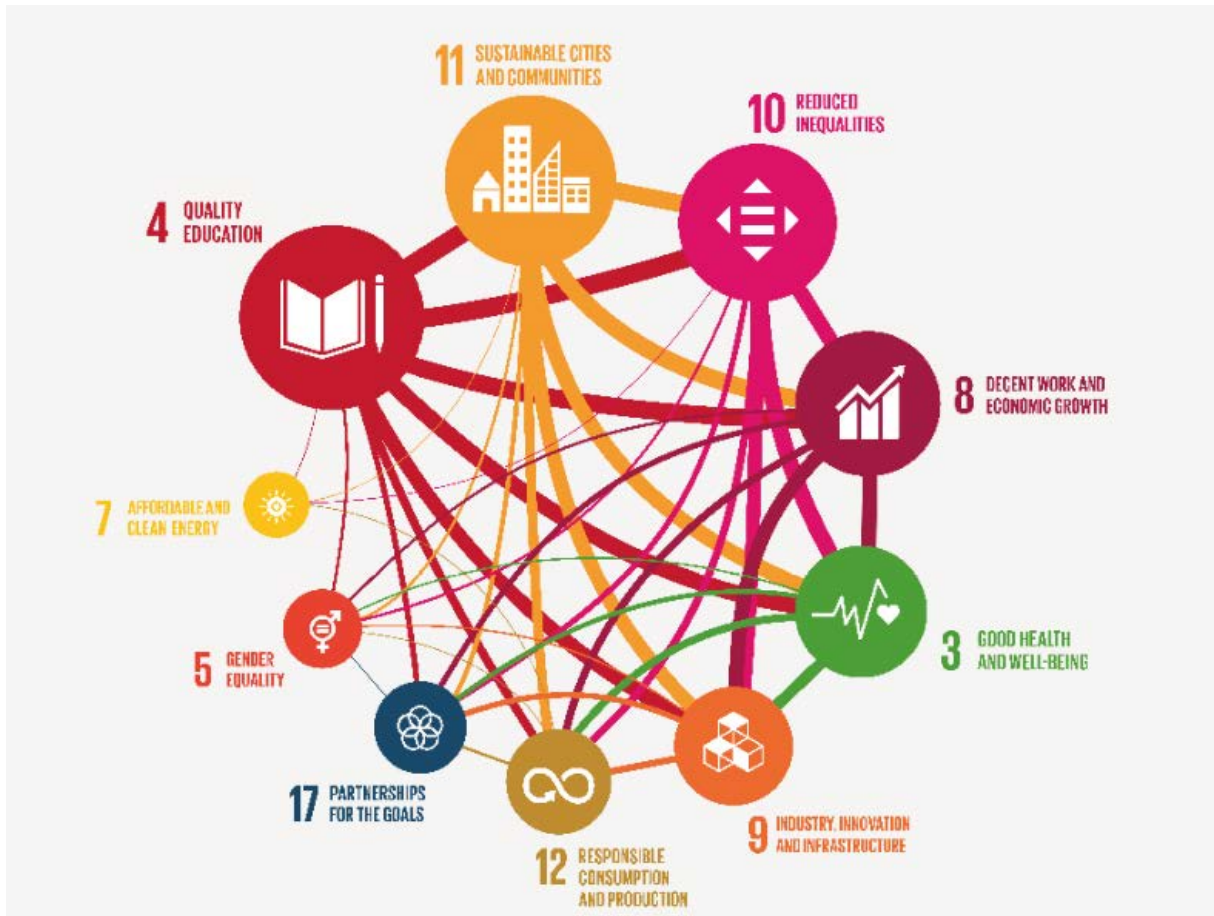
London School of Mosaics is establishing the first university course in mosaics, as well as revitalising a deprived estate in North London and working with youth offending teams throughout London to engage youth offenders in creative activity and civic engagement through creation of public realm mosaic art.



“When I first came to mosaics I thought they was a bunch of nutters and I would never do this. But then I realised it’s part of building and I enjoyed working on pieces and in the end I found out I had a good eye for colour. Now I’m thinking of doing plastering as a trade. I don’t want to waste any more time getting into trouble.”

N.H. aged 17

Portfolio mapped to UN Sustainable Development Goals



Size of icon indicates number of portfolio organisations doing work towards this goal

Ribbons between goals indicate number of organisations working on both/incidence of connection

Impact on organisations

“In London, providing affordable studio provision against the backdrop of competitive land use is incredibly difficult. Almost impossible if you are trying to make an asset acquisition.

The Arts Impact Fund has been a fundamental component in our path of finding the Anthology Deptford Foundry project and working over almost four years to deliver it. AIF understood our sector, and the stability of our rental income and backed us at a critical time when others may have been unlikely to step forward. Everyone loves you when you have a shiny, completed, occupied space but the ‘seed’ fund is what makes projects transition from an idea into reality.

The AIF team robustly scrutinise the business plan - it’s done with humour and honesty. I’ve had many valuable conversations with the AIF team that have helped clarify thinking and supported my journey as a social entrepreneur.”

Nichole Herbert Wood, Chief Executive

Key lessons from AIF

Organisations need **affordable, longer-term** risk finance

There is a **gap** in the market for unsecured debt at scale

Arts and culture organisations are a hotbed of **innovation**

The state of **impact measurement** is mixed – more support around this is required

Investments to date have been predominantly in London and the South East – **greater capacity** will allow us to reach organisations outside the capital

Thematic specialism – arts and culture – has made it easier for AIF to **develop networks**, find deals and implement a bespoke process

We believe AIF has **catalysed a new conversation** within the arts and culture sector about how unsecured loan finance can empower organisations to boost their resilience, creative output and social impact



Heidi Hall

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The support of [@artsculturefin](#) has made a huge difference to the future of [@csbschool](#) [@balletcentral](#) in [@lb_southwark](#) - thank you! [#futureofdance](#)



Arts & Culture Finance [@artsculturefin](#)

Happy #InternationalDanceDay and a big shout out to the brilliant dance organisations we are proud to have invested in! [@BRB](#) [@csbschool](#) [@southeastdance](#) Studio [@WayneMcGregor](#) 🙌🙌
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Cultural Impact Development Fund

CIDF – smaller loans

In 2018 we launched the Cultural Impact Development Fund, through Access Foundation's Growth Fund programme. This was designed to subsidise and support intermediaries to make small loans available, which is in general an uneconomic model

CIDF makes loans of £25,000-£150,000 to cultural and creative organisations generating significant social impact. We also pioneered an impact discount mechanism and impact capacity building support by hiring an impact manager to work alongside investee organisations

InHouse Records

CIDF invested £77,000 to support InHouse Records, a prison-based record label, operating out of the London area, which is using its loan to extend its services from behind bars to ongoing support upon release.



InHouse pivoted their offer in Covid to provide a remote learning opportunity to the prison population, producing high quality materials to support aspiring and proficient musicians to develop their skills in isolation.

In March 2020, Arts & Culture Finance by Nesta launched the **Arts & Culture Impact Fund**, the world's biggest social impact investment fund for the creative economy, capitalised with £23m from a consortium of public, philanthropic and private funders.

The fund is already supporting frontline organisations with flexible finance. In the wake of the global pandemic, this impact-driven capital is needed more than ever before – not only by the creative economy, but society at large.

Arts & Culture Impact Fund



Arts & Culture Impact Fund

A unique impact investment fund focused on creative social enterprises working in arts, culture and heritage

- The only fund in the UK to provide risk-tolerant capital exclusively to arts, culture and heritage, building on the success of the pilot Arts Impact Fund
- Our team has deep knowledge and understanding of business and impact models across arts, culture and heritage
- Our mix of public, private and philanthropic funders brings further expertise to bear on our investment decisions, in addition to strategic alignment
- We are trusted in the sector – an investor that truly understands the arts and their transformative impact on individuals and communities



Why this is needed

- Arts, culture and heritage organisations do not have access to affordable, flexible capital enabling them to innovate and grow
- The emphasis of mainstream finance on returns and security means that many opportunities across social enterprise are missed
- Traditional investors are not prepared to understand business models, risks or the potential upsides – in terms of social benefits as well as financial returns
- Nesta research in 2018 identified that arts and culture organisations would seek repayable finance of £309m over a five-year period
- In order to recover from the effects of the Covid-19 pandemic, arts and culture organisations need flexible, long-term investment enabling them to become more resilient

Our offer

- Loans of £150k to £1m. We expect to take security for large capital projects (£300k+)
- Interest rate pricing according to financial risk and affordability; 3%-8.5% range
- Maximum loan term – 9 years (repayable by June 2030 at the latest)
- Innovative, tailored products informed by our investment experience: revenue participation agreements, revolving credit facilities and underwriting

Non-financial offer:

- Social impact monitoring & evaluation support, building on a growing body of knowledge around what works in the sector
- Cohort development and support programme including networking, events and offline/online peer support mechanisms



Our ask for investors

Support

- Introductions to other partner organisations
- Introductions to potential investees
- Ongoing relationships for cross-referral and open knowledge and expertise sharing

Additional Investment

- Senior lender: low risk, 1% projected return, 9 year term, likely payback in Y5
- Additional repayable grant capital to catalyse other loan investors, 9 year term



Cornerstone investors

Arts Council England and **National Lottery Heritage Fund**, the two biggest public funders of arts and culture organisations, have committed £5m between them to cornerstone the fund.

Representatives of each of these funders sit on the investment committee. As active participants from the national development agencies, they bring:

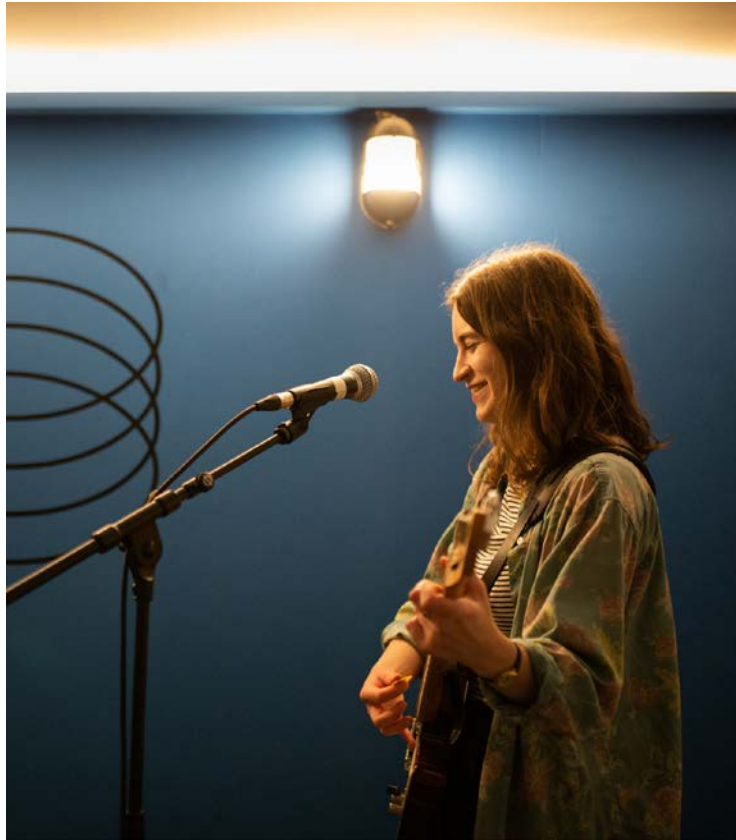
- A wealth of knowledge and experience
- Existing relationships throughout the sector
- A powerful network and strong advocacy voice
- A strong incentive for borrowers to repay

Kurious Arts



- £200,000 secured loan to fund the establishment of a new post-production facility and creative hub in Sheffield.
- The cross-subsidy model is intended to attract commercial productions and support community projects.
- Kurious will provide underserved local creatives with content creation and employment opportunities, offering workshops, mentoring, technical expertise and access to funding.
- Repayment will come through operational surpluses.

Future Yard



- £292,500 secured loan to purchase freehold of a building in Birkenhead to create a community music venue and skills hub.
- Future Yard will showcase emerging music talent and provide an artist development offer incl. music studios and mentoring.
- Free training programmes will support young people to develop industry skills and confidence to pursue careers in the music industry.
- Repayment will come through operational surpluses.

UD & East London Dance



- 2 x £250,000 unsecured loans to two organisations working together to create The Talent House, a new creative hub in East London.
- The Talent House will support around 4,000 young people per year to develop their skills, confidence and aspirations through free or low-cost training and accreditation.
- 750 emerging professionals per year will be supported into creative employment or further training.
- Repayment will come through capital fundraising & operational surpluses.

Friends of the Pipe Factory



- £250,000 secured loan to acquire freehold on a heritage asset in Glasgow's East End and carry out initial enabling works.
- Once complete the site will provide affordable studio workspace, flexible events space, office space and creative learning facilities for young people.
- In addition to health & wellbeing outcomes for young people, the site will provide routes to employment.
- Repayment will come through refinance through mortgage & operational surpluses.



International platform

- Arts & Culture Finance, together with international partners Upstart Co-Lab and Fundacion Compromiso founded [Creativity, Culture & Capital](#) [“CCC”] as a global knowledge exchange and advocacy platform
- CCC showcases the power of arts, culture and the creative economy to effect positive social change globally, and unearths innovative stories of how impact capital can be structured to support this
- CCC was launched in Jan 2021 to coincide with the UN’s Year of Creative Economy for Sustainable Development, and features essays from Sir Ronald Cohen and Yo-Ya Ma, as well as a contribution from Sir Nick Serota
- CCC is run in collaboration with partners GSGII (the Global Steering Group for Impact Investment), UNCTAD (United Nations Conference on Trade and Development) and the British Council
- CCC will host 100 essays by the mid 2022, and additional content investigating the future of live performance