Setting the Stage

A Guide to Creating Impact Investment Initiatives in the Cultural and Creative Sectors

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Figurative

Figurative is an independent not-for-profit dedicated to impact, investment and innovation in the cultural and creative sectors. Its specialisms include raising and managing impact funds, developing philanthropic networks, and designing innovation programmes and impact frameworks tailored to the sector's needs. It also offers global advisory services and conducts research into the future of cultural and creative funding and impact.

Figurative was established in August 2024 through the strategic combination of Arts & Culture Finance (formerly part of Nesta) and New Philanthropy for Arts & Culture (now Figurative Philanthropy for Arts & Culture). Figurative manages three impact investment portfolios – the Arts Impact Fund, the Cultural Impact Development Fund, and the Arts & Culture Impact Fund.

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Introduction

The Growing Interest in Impact Investment for the Cultural and Creative Sectors

The cultural and creative sectors (CCS) have traditionally drawn their funding from a 'mixed-model economy' - a combination of public grants, philanthropic donations, and earned income. However, we are witnessing the emergence of a new paradigm that recognises the potential for impact investment to complement (but not replace) these established funding streams. This shift is being driven by converging pressures: declining public funding across many jurisdictions, increasing demand for philanthropic funding, a growing recognition of the substantial economic and social value created by cultural organisations, and increasing interest from impact investors who seek both financial returns and meaningful social outcomes.

Impact investment offers cultural organisations access to repayable capital that can support growth, incentivise innovation, and build long-term sustainability. It provides an alternative funding mechanism that has the potential to disrupt the cycle of grant dependency, whilst allowing the CCS to articulate their evident social impact and cultural value. Cultural organisations embody deeply held values about artistic freedom, community and social mission that have evolved over generations. Success of new funding models lies in their ability to honour the sector's essential values whilst providing the stability and growth capital needed to expand cultural organisations' reach and influence in their communities.

Purpose and Scope

This guide aims to provide a comprehensive framework for establishing primarily debt-focused impact investment funds and initiatives in the cultural and creative sectors. The focus on debt-based impact investment reflects both the authors' extensive experience managing such funds and the reality that many traditionally grant-subsidised cultural organisations in the UK are asset-locked entities unable to accept equity investment. We recognise that in other jurisdictions, more commercially-oriented creative enterprises may be suitable for equity models, and many of the principles, governance frameworks, and operational considerations outlined here will prove relevant regardless of the specific financial instruments employed.

The guide builds on the Impact Investment in the Cultural and Creative Sectors report from 2023, commissioned by the UK's Creative Industries Policy and Evidence Centre, which made the case for expanding this form of capital globally. Drawing on the substantial experience of the UK's Arts & Culture Finance (now operating as Figurative) and incorporating insights from recent Canadian explorations facilitated by the Metcalf Foundation, it offers practical guidance for funders, policymakers, and cultural sector leaders who are considering this approach.

The framework has been designed for broad applicability across different jurisdictions, with insight drawn from UK and Canadian experiences. We recognise that legal and regulatory frameworks vary significantly between countries, as do the maturity of cultural funding ecosystems and the scale of cultural sectors. The principles and approaches outlined here can be adapted to different contexts whilst maintaining the core elements of effective impact investment practice.

Structure of the Guide

This document follows the natural progression of developing an impact investment initiative, beginning with making the case for why such an approach is needed in the cultural sector. We then explore how to establish a clear vision and objectives, before moving into the practical aspects of building stakeholder coalitions, designing fund structures, establishing governance frameworks, and implementing investment operations. The paper concludes with guidance on learning, scaling, and ensuring long-term sustainability. A glossary has been included as an appendix to explain some of the more technical terms.

The Case for Impact Investment

Social Impact

Cultural organisations create profound social value that extends far beyond their artistic output. They foster community cohesion and social inclusion, often working directly with marginalised communities to provide access to cultural experiences and creative expression. Their educational programmes contribute significantly to learning outcomes and employability, whilst cultural participation has been shown to have measurable impacts on mental health and wellbeing. Moreover, cultural organisations serve as economic engines, driving local economies through employment, tourism, and urban regeneration, all whilst pioneering innovative approaches to social challenges.

Case study: Pinc College

To give just one example from the UK that encapsulates many of these axes, take the case of Pinc College, a social enterprise founded in 2016 that provides creative alternative education for neurodivergent young people aged 16-24. An accredited Independent Specialist College, Pinc offers unique creative study programmes in 13 'campuses' located in galleries, museums and cultural locations across England's North West and Midlands, Yorkshire and Wales. Students have the opportunity to study outside of school classrooms and inside some of the most prestigious local cultural centres such as the Manchester Museum, Leeds Art Gallery and the National Museum in Cardiff, simultaneously enabling the centres to reach new audiences.

Figurative's experience of managing impact investment funds for the cultural sector shows that organisations like Pinc College are capable of and can benefit from utilising repayable finance, which enables them to ultimately broaden and deepen their impact. Pinc College used a loan from Figurative's Arts Impact Fund to support its early stage growth and after successfully repaying, secured further investment from the Sumerian Foundation.

Current Funding Gaps and Challenges

The cultural sector faces persistent funding challenges that traditional grant funding alone cannot address. Capital constraints limit organisations' ability to invest in essential infrastructure upgrades, new equipment, or strategic growth initiatives that could expand their reach and impact. Cash flow mismatches create operational difficulties when organisations must meet immediate expenses whilst waiting for grant payments that may arrive months later, forcing them into expensive overdraft arrangements or limiting their programming ambitions.

Innovation remains chronically underfunded, with limited resources available for research and development or the testing of new business models that could enhance sustainability. Many cultural organisations recognise the need to diversify revenue streams but lack the capital to experiment with social enterprises, digital platforms, or use physical premises to earn revenue. Even when these ideas are developed to the prototype stage, access to appropriate investment capital to scale them is rarely available. Sustainability concerns persist as organisations find themselves overly dependent on single funding sources - whether that's one major public funder, a dominant corporate sponsor, or a small group of committed donors.

Geographic disparities exacerbate these challenges, with funding opportunities often concentrated in major urban centres whilst rural and regional organisations struggle to access appropriate support. This concentration not only limits opportunities for individual organisations but also reduces the cultural sector's overall resilience and reach, leaving many communities underserved despite having vibrant local cultural activity that could flourish with appropriate financial support.

Shifting from Grant Dependency to Investment Readiness

The transition towards impact investment requires fundamental shifts in thinking across the sector. Funders must be encouraged to recognise the potential for repayable finance to sit alongside grants in their funding portfolios. Understanding cultural organisations as enterprises with social missions, capable of generating both financial returns and social value is crucial; as is knowledge of the array of capital instruments that will provide optimal support for this. Developing an appreciation of the levels and distributions of risk and return that reflect the sector's unique characteristics will help funders optimise their own portfolios.

For cultural organisations, a fundamental shift in perspective is required: recognising that reliance on grant funding is not inherently safer than debt finance. Grants remain vulnerable to funder strategy changes, government policy shifts, and typically operate on short cycles of 2-3 years or even annually, whereas well-structured debt can provide greater predictability and longer-term planning horizons. This realisation enables organisations to approach repayable finance as a strategic tool rather than a last resort. The transition also involves developing robust financial management capabilities, creating sustainable business models that can support repayment and embracing commercial thinking whilst maintaining focus on artistic and social missions. Perhaps most importantly, it demands building confidence in the organisation's ability to take on and manage repayable finance responsibly.

The Role of Repayable Finance Within Existing Funding Ecosystems

Impact investment should be understood as complementary to, rather than a replacement for, existing funding sources. Perhaps its main advantage for CCS organisations is that there are typically very few restrictions on how the funding can be used - provided that there is a credible plan for repayment and an organisational impact thesis. Importantly, repayable finance can enable cultural organisations to lead with their distinct mission and vision rather than constantly adapting their activities to fit the specific requirements of government and external funders. This autonomy allows organisations to pursue projects and initiatives that genuinely serve their own strategic goals and community needs, rather than being shaped primarily by what funders are willing to support at any given moment.

The assessment and application process may also be quicker and more interactive and flexible than grant funding calls from trusts and foundations. More generally, impact investment proposals are more likely to be declined due to investors' concerns about project risk rather than lack of available capital - a marked contrast to the grant-making environment where limited funding supply increasingly determines outcomes.

Foundational Considerations

Understanding the landscape

Understanding the investment landscape requires mapping of both current realities and future possibilities. Before launching any impact investment initiative, practitioners must investigate the cultural sector's appetite and capacity for repayable finance - not merely counting organisations, but understanding their diverse characteristics, financial maturity, and how this ecosystem might evolve as impact investment becomes more established.

This exploration extends beyond simple market sizing to encompass the rich texture of cultural enterprise. What kinds of projects spark ambition in cultural leaders? How do revenue patterns fluctuate across seasons and sectors? Where might new approaches to funding find their most fertile ground? Understanding the geography of opportunity, the distribution of assets, and the possible use cases of investment helps build a nuanced picture of where capital can create the greatest impact.

Accessing reliable data for this analysis requires strategic thinking about the information landscape within each jurisdiction. The challenge may lie not in the absence of data but in its likely fragmentation across multiple sources, each offering partial glimpses of the sector's financial reality. Some countries benefit from centralised cultural databases maintained by arts councils or ministries, that may create relatively coherent pictures of organisational health and funding patterns. Others must piece together insights from charity registers, tax authorities, and various sector bodies, each maintaining records for their own purposes rather than comprehensive sector analysis.

The most revealing insights often emerge from combining these disparate sources creatively. Public funding databases, for example, can illuminate grant dependency patterns while charity registers track organisational evolution over time, showing how revenue structures change. Sector surveys can capture strategic intentions and business model innovations that formal records might miss. Yet perhaps the richest intelligence comes from direct engagement with cultural leaders themselves - at the frontline and funder level - whose understanding of their organisations' financial capabilities, strategic priorities, and appetite for change cannot be captured through administrative data alone.

Perhaps most critically, this mapping exercise must confront uncomfortable questions about market readiness and cultural attitudes. For instance, can the sector absorb the level of investment being contemplated without creating market distortions that harm rather than help cultural organisations? If too much capital chases too few genuinely investment-ready opportunities, it could pressure organisations to accept investment before they're truly prepared or push the sector toward business models that prioritise financial returns over cultural mission.

Furthermore, could there be implicit biases or cultural resistances that might limit uptake among certain types of organisations? The goal is not simply to build a feasible investment model, but to ensure that the developing market serves the sector's genuine needs rather than creating artificial pressures driven by capital availability alone.

Establishing Objectives

Clear objectives are the north star of any initiative, including impact investment funds. For a cultural and creative sector (CCS) specific impact fund, the primary, strategic objectives may include:

- Building sector resilience, transforming cultural organisations from precarity to sustainability through investment in assets, the development of new revenue streams and the scale of existing work.

- Using repayable fund structures with catalytic concessionary capital to attract new funders to the CCS, thereby increasing the total amount of capital available.

- Demonstrating the social impact possible within the CCS through appraisal, monitoring and evaluation of the work undertaken by cultural organisations.

At the organisational level, investments may seek to improve financial sustainability, expand programming capabilities, and enhance facilities or infrastructure. Sector-wide demonstration effects are equally important - creating successful case studies that encourage other organisations to become investment-ready. The initiative may also aim to influence funder behaviour, expanding their toolkits to include repayable finance alongside grants and in doing so, addressing structural funding gaps in the cultural sector.

Taken together, these objectives also work to demonstrate the investability of the CCS - showing that cultural organisations can absorb repayable capital beyond traditional grants, and provide exciting investment opportunities.

Examples of success metrics could include:

Financial: repayment rates, leverage ratios, and organisational financial health indicators such as net assets and revenue diversification.

Social impact: activity specific metrics, across-the-board metrics such as audiences reached and jobs created as well as the impact management capabilities of investees - the capability to monitor, evaluate and articulate the benefit that has been delivered.

Learning outcomes: such as knowledge creation, skill development, and ecosystem maturation - recognising that developing new funding infrastructure is in itself a valuable result.

Understanding the Local Cultural Funding Ecosystem

Effective sector-specific impact investment initiatives require deep contextual understanding of the local cultural funding ecosystem. This entails analysing the existing funding architecture - the existing configuration of public, private, and philanthropic funding to identify how any new investment initiative may fit, as well as its possible funders, potential champions and formal and informal influence networks that could raise awareness in the sector and build demand. A key question at this stage is the extent to which there is an obvious provider of cornerstone, catalytic capital for the initiative that will generate momentum and confidence in the broader funding community. This will likely be a funder who has more usually provided grant capital, for whom 0-100% capital return will be a comparatively advantageous return profile; and who has a significant and long-term interest in developing new financial infrastructure for the sector that can both transform organisations and attract new types of capital.

Regulatory Considerations

The technical feasibility of impact investment initiatives is significantly shaped by jurisdiction-specific regulatory environments, for example, the extent to which it may fall within the scope of financial regulators.

Legal constraints on public and philanthropic funders, which may provide catalytic capital, often present the first challenge - many arts funding bodies face legislative restrictions on providing anything other than grants. The possibility of private benefit arising from investments made into organisations, such as companies limited by shares, will require considerations of which kinds of legal entities would be eligible, which will affect the size of the investable universe.

Some of these technical constraints may be addressed through early engagement with legal and regulatory experts to design compliant structures that can operate effectively within the existing policy framework.

Further, geographic mandate restrictions may constrain regional funders from participating in national initiatives without demonstrable local benefits. Terminology sensitivities can also arise, with potential political resistance to certain language and concepts, for example monitoring and evaluation of social impact, or social finance nomenclature, requiring careful framing and positioning.

Mindset Shifts

Impact investment in the CCS presents the opportunity to create significant cultural shifts among all participants. For funders, the financial interest implied in the investment relationship means a shift towards seeing fund recipients as long-term partners that can share in their success. As part of this, investment appraisal, including commercial understanding, becomes a more necessary skill-set for funders, even if this is limited to investment committee decision-makers. Furthermore, funds that blend different kinds of capital - public, private, philanthropic - such as Figurative's Arts & Culture Impact Fund, require funders with different motivations and priorities to work together, which creates opportunities for learning, the potential for better decision-making that draws on diverse perspectives as well as unexpected synergies.

For cultural organisations, the primary shift is likely to be around moving from a subsidy to an enterprising, investment mindset. In the first instance, this is about educating the sector about what impact investment entails, its risks and opportunities through, for example, toolkits, courses and presentations. Within this, case studies are essential, including the opportunity to directly hear from sector leaders that have gone through the impact investment journey. Additionally, cohort based programmes, such as incubators and financial literacy programmes can help build confidence and capability. Creating peer learning networks of investment-ready organisations normalises the idea of taking on repayable finance and shares practical experience.

These mindset shifts require deliberate capacity-building interventions rather than assuming natural evolution. Facilitating mindset change - from grants to investments for funders, and from scarcity and risk aversion to opportunity for recipients - is essential for creating a sustainable impact investment ecosystem.

Investment Readiness and Non-Financial Support

While much of this guide focuses on the set-up of impact investment funds, their success will largely be driven by the investment readiness of frontline cultural organisations - their capacity, confidence and capability to understand and act on the opportunity that impact investment presents. This, in turn, depends on the availability and quality of non-financial support systems. They can significantly improve investment outcomes and reduce risk for all parties involved.

Pre-investment support through investment readiness programmes can help cultural organisations develop awareness of the opportunity, as well as the financial literacy, business planning capabilities, and governance structures necessary to absorb and effectively deploy repayable capital. Post-investment support tends to be equally valuable, providing ongoing guidance on financial management, strategic planning, and performance monitoring throughout the investment period.

The responsibility for providing this support need not fall solely on impact investment fund managers or their investors, though funders may choose to support such work separately from their investment activities. Many jurisdictions already have social enterprise support organisations, business development agencies, or impact investment intermediaries that provide investment readiness training and ongoing technical assistance. Some cultural sector organisations may have developed their own capacity-building programmes. The key consideration for any new cultural impact investment initiative is conducting a thorough assessment of what support infrastructure already exists and identifying any gaps that may need to be addressed.

Building the Coalition

Identifying and Engaging Key Stakeholders

Building an effective impact investment coalition requires deliberate stakeholder mapping and strategic engagement. Three critical stakeholder categories must be considered:

- First, a coalition of the willing, ready, and committed - emphasizing the need for stakeholders with genuine buy-in rather than merely interested parties. These are organisations and individuals drawn from any community that has relevance for the cultural and creative sectors (CCS) prepared to commit resources, take risks, and persist through implementation challenges.

- Second, a diverse funder mix, differentiating between public funders (at local, regional, and national levels) and private funders (community foundations, private foundations, impact investors, and high-net-worth individuals). Each brings different constraints, opportunities, and expectations.

- Third, sector builders-those entities that provide non-capital support to enhance success prospects, including networks, accelerators, incubators, training providers, technical assistance specialists, insight generators, and convenors. These organisations strengthen the ecosystem in which investments will operate.

Particularly valuable are "boundary-spanning" people and organisations that can understand both financial and cultural worlds. They can often serve as translators between sectors with different vocabularies, priorities, and working methods.

Within these categories, successful impact investment initiatives bring together diverse yet complementary stakeholders that should each be able to contribute at least one of the following:

- Capital, either first-loss or concessionary
- Recognition and credibility within the CCS (i.e. a significant arts funder)
- Deep knowledge of the risks and opportunities associated with particular business models, income sources and technologies within the CCS
- Skills and experience in financial analysis
- An understanding of social impact methodologies and what good impact practice looks like in the sector
- Independence, acting as a check/ balance to funder interests

Creating a Coalition of the Willing and Committed

Building a coalition of authentically committed stakeholders requires several elements:

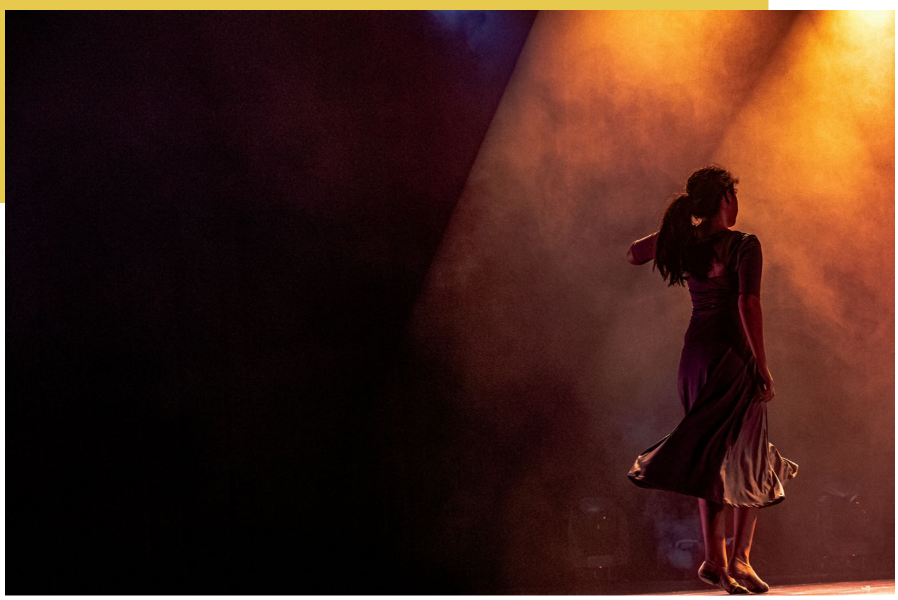
- **A lead agency** that takes on the mantle of championing impact investment for the CCS, bringing together stakeholders - cultural organisations, arts councils, funders, policymakers - and driving the initiative forward, such as Figurative, Metcalf Foundation (Canada), DOEN Foundation (Netherlands) and Creative Australia, as well as Upstart Co-Lab in the US.

- **Systems thinking orientation** - maintaining focus on the possibility of transforming the entire sector and all its actors rather than simply funding individual organisations. This perspective keeps the initiative's strategic aims at the forefront.

- **Multi-level engagement within participating organisations** - commitment not only from leadership figures like CEOs and board members who approve participation, but also from the operational staff who will implement the work day-to-day. Substantive resources must be committed - both time and money are necessary, not just verbal support.

- **Clear parameters to define the scope of the coalition's work**. For instance, establishing that the fund is not intended to provide life support to institutions that need to be hospiced or to extend models that no longer serve ensures focused use of limited resources.

- **An evaluation of the local impact investment finance infrastructure** to determine whether appropriate fund management capacity exists or needs to be developed, in addition to existing intermediaries' expertise in cultural sector investment.



Fund Design

The Case for Piloting

With the coalition of willing and committed stakeholders in place, consideration can be given to the design of a pilot initiative. Responsibility for this is typically taken up by the lead agency championing the initiative. It is likely to be an iterative process, turning on the various requirements of funder motivations and return profiles, as well as the needs of cultural and creative sectors (CSS). This is to say that, whilst an initial fund design will be helpful to create a broad picture of its aims and functions that will be useful in structuring discussions with stakeholders, further refinement is likely to depend on their feedback.

Throughout this section, following a discussion of general pilot design principles, specific examples are provided with reference to the UK's Arts Impact Fund, the first fund of its kind in the world to bring together public, private and philanthropic capital on a repayable basis to arts & culture organisations delivering positive social impact.

The case for piloting is compelling and multi-dimensional:

- Allows for the identification of challenges and refining of both the investment product and its underlying processes before attempting a larger roll-out. This discovery phase uncovers unforeseen barriers and opportunities that theoretical planning cannot predict, enabling more effective design of subsequent, larger initiatives

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- Pilots generate valuable evidence for fund stakeholders and the CCS more broadly, in terms of demand for investment, its use cases and the attitudes of CCS leaders towards impact investment. These allow for evidence-based adjustments to strategies and operations, creating a feedback loop that strengthens the initiative's design over time.

- Building stakeholder confidence is another crucial function. A successful pilot demonstrates proof of concept, building confidence in the viability of the initiative among investors, partners, and potential investees. This confidence is essential for attracting larger-scale participation in subsequent phases.

The £7m Arts Impact Fund pilot launched in 2015 with funding provided by the national arts funder, Arts Council England, by means of a repayable grant, junior loans from Nesta and the Esmée Fairbairn Foundation and a senior loan from Bank of America. The principal aim of this pilot was to test the hypothesis that there is demand for repayable finance from CCS organisations in England, as well as the ability to repay it. Essentially a discovery exercise, the initiative identified borrowing use cases, attitudes to finance as well as the kinds of investment terms that were possible in the CCS. As of July 2025, the fund is managing repayments from its final outstanding loans and is due to be closed by July 2026.

The learning from the pilot informed the design of the scaled-up successor fund, the £20m Arts & Culture Impact Fund launched in 2020, in a number of areas. For example, whereas the first fund provided relatively short-term loans (typically over a five-year term) on a wholly unsecured basis (i.e. with no collateral being taken), it was recognised that many organisations found it challenging to repay the loans within such a timeframe. There was also an opportunity to fund larger, capital projects where taking security would reduce the lending risk profile and as such could lower the cost of lending to CCS organisations. The Arts & Culture Impact Fund, therefore, was able to offer a longer repayment horizon (up to ten years) and would be open to taking security where appropriate. The track record of investment also provided reassurance to investors, allowing them to offer their capital on a longer-term basis.

Balancing Financial Return and Impact Objectives

A proactive commitment to mission - whether in the form of supporting thematic work, be it in the cultural sector, healthcare, education or otherwise, or in more specific outcome areas such as the number of early-stage artists supported to find employment, improved mental health or educational attainment - unites all impact investors. However, there are nonetheless likely to be different attitudes towards the balance of impact prioritisation and financial return amongst them. Some may have a light-touch view on impact reporting while looking for close to market rate returns, while others are willing to accept lower financial returns in exchange for impact, and all other permutations in between. Understanding where each individual funder in an impact investment initiative sits on the spectrum will be instructive to designing the fund and considering its areas of focus (and corresponding resource intensity). Where there is more than one possible funder taking part, this understanding is crucial to striking the right balance of priorities.

The key elements to consider in this regard are:

- Financial risk and return expectations and whether they may correspond to different roles in the capital structure; public funders of the arts may be more likely to accept concessionary returns or higher investment risk if that results in the crowding-in of more risk averse private capital ("impact leverage"). These factors will also affect the overall risk appetite of the fund and the investable universe of organisations.

- The extent to which the monitoring and evaluation (M&E) of social impact is a key criterion over and above the fund being focused on arts and culture (i.e. the necessity of the impact hurdle). M&E adds an additional layer of cost to the fund and on its borrowers by way of reporting obligations, and it potentially narrows the investable pipeline. Therefore, careful thought must be given as to what it is trying to achieve and what funder interest(s) it serves.

- Pilot success criteria for each funder, as well as the funders collectively. The criteria may be financial (e.g. investor returns), operational (e.g. deployment speed, portfolio performance), impact related (e.g. specific outputs or outcomes achieved) or systemic (e.g. the growing awareness and understanding of impact investment as a funding tool in the CCS). Well defined success criteria provide a strategic north star for setting the fund's more specific parameters.

The Arts Impact Fund brought together a mix of motivations in its funders. Whilst the demonstration of social impact by borrowers was a key criterion, the specific metrics were not prescriptive. The key success criteria focused on the pace of capital deployment as well as the extent of losses in the fund. More specifically, funder motivations included:

- **Arts Council England**: exploring a model for attracting additional capital to the sector, and the potential for this to change behaviour, projects and incentives in cultural and creative organisations.

- **Esmée Fairbairn Foundation**: exploring the potential for a sector-specific lender to generate interest in and a portfolio of repayable finance instruments within the sector, as well as creating a specialist hub for developing the bespoke skills needed and a sector-specific lending practice.

- **Nesta**: developing innovative funding models for the arts, breadthening their own impact investing practice and adding to the diversity of its Programme Related Investment portfolio in support of core charitable objectives.

- **Bank of America**: expanding its portfolio of community development lending and experimenting with a new way in which to continue its longstanding support for the UK arts sector.

Setting Fund Parameters

With funder motivations and objectives clear, attention can be given to setting the technical parameters of the pilot:

- **Fund size and timeline parameters**. These include minimum fund size, targeted fund closing date, the deployment period and term of loans made, both by fund investors and to investees and whether any options to extend the investors' repayment term (in the event of, for instance, slower than expected deployment), is 'baked-in' to the fund documents.

- **Product offer for borrowers**. Typically, loans or equity (although this guide is focused on loan initiatives), but equity-like instruments such as revenue share agreements could also be considered. This consideration will also include the size of investment possible, whether any security can be taken as collateral as well as assumptions that look at the flexibility of investment, such as repayment holidays and interest-only periods.

- **Portfolio construction parameters**, which guide investment decision-making and risk management. These include concentration and exposure limits (maximum size of single investment), target number of organisations to fund, geographic concentration limits, and any subsector diversification requirements as well as capital loss assumptions.

- **Financial return expectations of all stakeholders**. These encompass target return and interest rates (both at fund level and for investments), preferred return structures, management fees and operational costs.

Many of the technical parameters of the Arts Impact Fund were driven by the need to keep lending to CCS organisations affordable - broadly in-line with comparable but non sector specific impact investment funds providing unsecured lending in England at that time, c. 6-7%. After taking out contributions to operating expenses, this resulted in an interest return to investors of 1-3%, depending on their position in the capital structure. Fund costs and lending range was determined by the investment team capacity required to deploy £7m within approximately a two year period.

Risk Mitigation Approaches

A pilot is, by definition, a high risk endeavour. What approaches can be taken in order to mitigate these risks for funders exploring impact investment?

- **The provision of first-loss capital** (typically from a public or philanthropic funder), usually 10-20% of fund size, that absorbs initial defaults before affecting other investors. This significantly reduces risk for more risk-averse commercial investors while leveraging public funds effectively, and can often take the form of a repayable grant.
- **Blended finance architecture** combines different capital types with varied risk-return profiles in a single structure. This typically includes concessionary capital (accepting higher risk for lower, sub-market return), commercial capital from private investors (receiving lower risk and market-rate returns), and grant capital for technical assistance (non-repayable).
- **Individual transaction guarantees** for specific high-risk investments.
- **Fund management risk controls** such as robust due diligence procedures, portfolio-level exposure limits; maximum investment sizes ; reserved capital for follow-on investments; and independent investment committees with balanced sector and finance expertise.

The Arts Impact Fund was a blended finance fund utilising a repayable grant from Arts Council England as a way of de-risking the non-grant (loan) investments. The tiered structure and a staged approach to drawing down investor capital (first in, last out / last in, first out) ensured that the senior loan from Bank of America would face minimal exposure, allowing it to offer its capital at a concessionary, below-market rate. In addition to extensive due diligence, the fund, in some high-risk transactions, sought guarantees (personal and organisational). Whilst its investment committee was made up of investor representatives, independence was provided by two external members and collectively the committee brought a wealth of diverse experience and skills to bear upon investment applications.

Governance and Operational Models

Legal Structures and Technical Implications

The legal structure chosen for a cultural and creative sector (CCS) impact investment fund is very likely to have a bearing upon its operations and stakeholder relationships. Selecting the appropriate structure requires careful balancing of multiple considerations. From a funder risk management standpoint, a degree of independence is likely to be a desirable consideration in fund design. The investment vehicle will therefore need to operate outside existing institutional structures while leveraging the expertise and capabilities of the broader coalition to ensure strong oversight and transparency. This independence creates a necessary separation between funding decisions and political or institutional pressures, while enabling the initiative to draw on diverse perspectives and expertise.

Public funder participation may present specific structural challenges. Many arts funding bodies face legislative restrictions that prevent them from making direct investments or offering repayable finance. The fund structure must therefore enable public funders to participate meaningfully without exercising direct control that might conflict with their statutory limitations or create inappropriate influence over investment decisions.

The regulatory environment in each jurisdiction may also significantly affect the kinds of organisations that are eligible for investment, particularly when the funds deployed are of a public or philanthropic nature and must be used to further public benefit rather than private gain. Some regions may have purpose-built, 'asset-locked' vehicles for social purpose organisations that restrict profit distribution, such as Community Interest Companies in the UK or low-profit limited liability companies in parts of North America. Others require adapting conventional structures like limited partnerships or charitable foundations to accommodate impact investment activities.

Investment vehicle structure will be a jurisdiction specific consideration, where legal advice should be sought at the earliest opportunity. Special Purpose Vehicles (SPVs), distinct legal entities for fund activities such as limited liability partnerships (in the UK and USA), can ring-fence liabilities that protect parent organisations and provide flexible governance arrangements that clearly delineate the fund's scope. Disadvantages of SPVs include potentially higher establishment costs, limited precedents specifically for cultural sector investment, and sometimes greater regulatory complexity.

Decision-making and Governance Frameworks

Effective governance balances multiple objectives: maintaining independence while ensuring accountability, incorporating diverse expertise while enabling efficient decision-making, and protecting mission while ensuring adequate financial performance. Several key elements may comprise an effective governance framework and in this section we focus on three: the investment committee, oversight board and stakeholder accountability mechanisms.

Investment committees form the core of investment decision-making, although they may also be advisory in nature, depending on regulatory requirements. Effective committees typically include 5-7 members with complementary expertise across cultural sector knowledge, financial analysis, impact measurement, and operational risk management. The function, composition and decision protocols are set out in the terms of reference and investment guidelines documents. These usually require majority approval for investment decisions to ensure broad consensus. Formal conflict of interest procedures should be established before any investment activity begins, with documented recusal processes when committee members have relationships with potential investees. Regular meeting schedules - for instance, quarterly - maintain momentum while allowing thorough consideration of opportunities. Independent chairs can provide external perspective and lend a sense of credibility to the initiative within the CCS while helping to balance competing stakeholder interests.

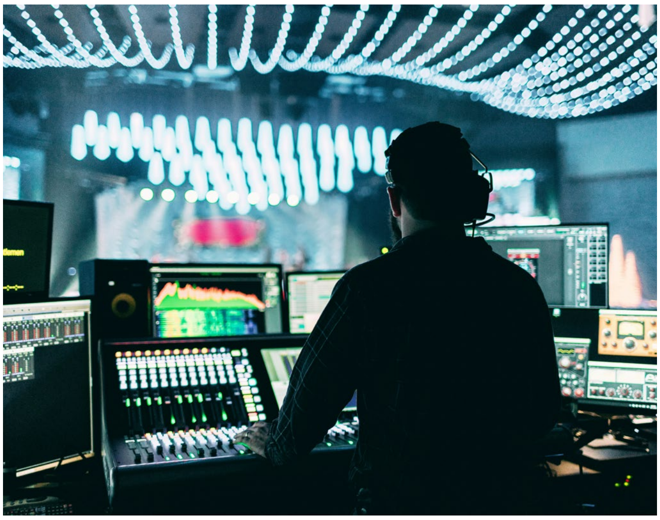
Oversight boards or councils can help with broader governance of the initiative, particularly looking at its financial performance and operational risks as distinct from investment decision-making. These can also include funder representatives, expertise in cultural subsectors, geographic regions, or specialists who provide insight without formal decision-making authority. Regular consultation processes ensure their input meaningfully informs strategy and operations. Diverse composition helps identify blind spots and opportunities that might otherwise be missed.

Stakeholder accountability mechanisms ensure the fund remains responsive to its constituencies. Regular reporting to investors and other stakeholders builds trust and transparency while public disclosure of investment activities and outcomes can demonstrate commitment to mission. Clear procedures for stakeholder feedback, including investee perspectives, create continuous improvement loops. These mechanisms should be commensurate with the fund's size and stage - more developed as the initiative matures.

Building Technical and Cultural Expertise

Successful cultural impact investment initiatives require teams with specialised capabilities bridging financial, cultural, and impact domains. This expertise may be assembled through direct hiring, partnerships, or contracted services, depending on the fund's scale and resources.

Cultural sector knowledge must go beyond surface familiarity to include deep understanding of different subsector business models - performing arts organisations operate differently from visual arts institutions or heritage sites. This knowledge should encompass typical revenue patterns, cost structures, asset utilisation, and value creation mechanisms specific to cultural enterprises. Understanding public funding landscapes and their evolution helps assess sustainability risks for organisations with mixed funding models. Familiarity with sector-specific risks and opportunities enables accurate assessment of investment propositions.



Financial expertise must be adapted to the unique characteristics of cultural organisations. Financial analysis capabilities must accommodate organisations with mixed income streams including earned revenue, contributed income, and public funding. Portfolio management approaches should reflect the patient capital nature of cultural investment, with appropriate monitoring systems and intervention strategies. Risk assessment frameworks must balance financial and mission or impact related considerations.

Impact assessment capabilities ensure the social and cultural value created by investments is properly captured and communicated and the extent to which this is required depends upon the investment mandate of the fund. This may include expertise in theory of change development specifically for cultural interventions, where outcomes may include intrinsic cultural value alongside more measurable social impacts. Monitoring framework design should balance rigour with practicality for cultural organisations with limited administrative capacity. Within this, data collection and analysis systems should accommodate both quantitative and qualitative evidence, while impact communication approaches should translate complex cultural outcomes into compelling narratives for different stakeholders.

Investment Operations

Role of Manager

Following the design of the pilot initiative, attention may be turned to delivery - who will be responsible and what will be required of them? The impact investment fund manager has a crucial role in interfacing between cultural organisations and providers of capital. The long term success of any pilot initiative and its ability to scale will largely depend on the manager's ability to fulfil this role effectively.

More specifically, the fund manager is usually responsible for several functions:

- **Investment pipeline development**, requiring systematic approaches incorporating both personal networks and face-to-face networking activity at industry events and conferences as well as online approaches such as webinars. Fund stakeholder networks should be leveraged to raise awareness of the opportunity to the cultural and creative sectors (CCS) and to identify promising investment opportunities.

- **Investment appraisal and due diligence**, that will typically incorporate assessments of organisations' management teams and boards, operational capabilities, financial performance and social impact.

- **Investment structuring and deal completion**, which will involve structuring repayment schedules to ensure affordability, preparing loan agreement documentation that may also be supported by external legal support and managing any conditions precedent to drawdown of funds.

- **Portfolio management and ongoing investment oversight**. In addition to monitoring receipt of loan payments, this is likely to include periodic (e.g. quarterly) update meetings discussing operational, financial and impact related topics as well as review of information such as management accounts, financial projections, board minutes and impact data. Depending on capacity and resources available, support will be provided to underperforming investments, with the possibility for restructuring investment terms.

- **Investor reporting and relationship management**.

- **Engagement with sector-facing agencies**, such as national and local governments, that have well developed relationships across the creative sector and can broker relationships, raise the profile of the initiative and build trust.

Who Will Be the Manager?

The provision of financial services in any area is a highly intermediated activity, mainly due to the specialist skills and knowledge required. For any new fund, the choice of intermediary is a choice between building anew and strengthening what already exists. Initiatives can begin by thoroughly exploring the current ecosystem of organisations operating in this space, such as existing cultural funders, fund managers or innovation agencies, and understanding their appropriateness and willingness to host the pilot. This reconnaissance may reveal that scaling existing intermediaries may be more effective than creating entirely new entities from scratch.

The decision to develop a bespoke intermediary should be driven by evidence of genuine market gaps rather than institutional ambition. Perhaps existing generalist impact investors lack the cultural sector expertise to serve this market effectively, or maybe current cultural sector support organisations need financial capabilities to bridge into impact investment. Before committing to the complexity and cost of establishing new intermediaries, wise funders explore whether strategic partnerships or capacity building within existing organisations could achieve similar outcomes more efficiently.

An important element of this analysis is mapping the stakeholders and pathways that would either champion or obstruct a new intermediary's emergence. Power dynamics matter in this assessment - whose interests would be served or disrupted by new market entrants? Understanding these political and professional landscapes, while carefully considering questions of equity, diversity, and inclusion in any new structures, ensures that intermediary development strengthens rather than fragments the broader ecosystem supporting cultural enterprises.

The UK's social innovation agency, Nesta, was chosen as the host and manager of the Arts Impact fund pilot in 2015. As a well-resourced independent charity with a background that included supporting research and development in the creative economy as well as being an impact investment pioneer, it was felt by funders to be an appropriate home for the initiative.

Following a change in Nesta's strategic priorities, management of the Arts Impact Fund and its two successors was transferred to Figurative in 2024. Figurative is a new intermediary and charity whose aim is to grow the financial resilience, social impact and capacity for innovation in the CCS. Central to this mission is its ability to be seen as an independent, trusted broker between the worlds of capital and culture.

Building the Investment Team

Building an effective investment team for cultural impact investment requires a blend of expertise that spans financial analysis, cultural sector knowledge, and impact measurement. Success depends on professionals who understand both business fundamentals and the unique characteristics of cultural organisations - from their mixed funding models to their dual focus on artistic excellence and social value creation.

The most effective team members often come from backgrounds that bridge different sectors. Successful cultural finance specialists might be former arts administrators who have developed financial expertise, commercial bankers with substantial nonprofit experience, or finance professionals who have worked extensively with mission-driven organisations. Impact measurement experts frequently bring experience from international development, social research, or program evaluation. Relationship managers typically combine business skills with deep cultural sector knowledge, whether through direct work experience or significant board involvement with arts organisations.

A well-functioning intermediary typically requires several core roles: an Investment Director providing strategic leadership and stakeholder management; Investment Managers/Analysts handling deal sourcing, due diligence, and portfolio monitoring; an Impact Specialist ensuring social outcomes are properly tracked and reported; and an Operations Manager maintaining administrative systems and compliance. The key is finding individuals who combine technical competence with genuine understanding of how cultural organisations operate and create value. This often requires looking beyond conventional recruitment channels to identify candidates whose career experiences reflect both financial acumen and commitment to cultural and social impact.

Learning and Scaling

Capturing Knowledge and Building Evidence

Every investment tells a story - about what works, what doesn't, and why. Smart funds treat knowledge capture not as an administrative burden but as strategic asset building, creating resources that benefit both their own evolution and the broader field. This learning has the potential to accelerate further impact investment activity and expand or deepen the future range of investees such initiatives could support.

Effective documentation goes beyond simple case studies to capture the nuanced decision-making that shapes outcomes. Why did this particular organisation succeed whilst a seemingly similar one struggled? What unexpected challenges emerged during implementation, and how were they addressed? How did external factors -policy changes, economic shifts, or sector developments - influence results? This intelligence becomes invaluable for refining investment strategies and supporting future investees.

The most valuable learning often emerges from the intersection of financial and impact data. Portfolio-wide analysis can reveal patterns invisible at the individual investment level: which types of organisations achieve sustainable growth, which business models prove most resilient, or how different support interventions affect outcomes.
Building robust evidence requires systems that capture both quantitative metrics and qualitative insights, creating a comprehensive picture of how capital catalyses change in cultural contexts.

Building Communities and Attracting Capital

No fund operates in isolation, and the strongest initiatives actively build the ecosystem around them. This means creating networks that connect practitioners across sectors and geographies, sharing both successes and failures with refreshing honesty. The field advances fastest when funds resist the temptation to present themselves as uniquely brilliant and instead contribute to collective learning.

International exchange proves particularly valuable, allowing practitioners to learn from similar initiatives whilst adapting to local contexts. What works in the UK's regulatory environment might require significant modification in Canada or Australia, but the underlying principles often translate. These cross-border conversations also help identify policy barriers that could be addressed through coordinated advocacy.

Attracting additional capital depends largely on demonstrating track record and impact through compelling storytelling. Potential investors need to see not just financial returns but evidence of meaningful change in communities and organisations. This requires moving beyond abstract metrics to share tangible stories about how investment has transformed artistic ambitions into sustainable enterprises, expanded community access to cultural experiences, or strengthened local creative economies.

Replication and Systems Change

Successful models invite replication, but effective scaling requires more than simply copying structures. Each new initiative must adapt to local conditions - regulatory environments, cultural contexts, sector maturity, and stakeholder configurations. The art lies in identifying which elements are essential to preserve and which can be modified for local relevance.

Perhaps most importantly, mature impact investment initiatives increasingly focus on systems change rather than individual transactions. This means engaging with policy makers to coordinate funding efforts and address regulatory barriers, working with other funders to align complementary funding streams, and advocating for changes that benefit the entire cultural and creative sectors. Success ultimately lies not in creating isolated pockets of innovation but in contributing to fundamental shifts in how society values and supports cultural work.

The field of cultural impact investment remains young, with enormous potential for growth and refinement. Those entering it now have the opportunity not just to deploy capital effectively but to help shape an entirely new approach to supporting cultural enterprise - one that recognises both the intrinsic value of artistic work and its profound contributions to community wellbeing and social cohesion.

Conclusion and Next Steps

The Path to Success

Creating effective impact investment initiatives in the cultural and creative sectors (CCS) is both an art and a science, combining financial rigour with a deep understanding of how cultural organisations operate. While successful initiatives share common characteristics, each must navigate its own context of stakeholder interests, regulatory frameworks, and sector dynamics. The closing reflections in this chapter reflect the authors' decade of experience in this field.

Vision and alignment form the foundation of success, but this extends beyond abstract strategic statements. Genuine alignment occurs when diverse stakeholders - from government officials to arts organisation directors - can clearly explain not just the fund's activities, but why those activities matter to their specific priorities and concerns. This shared understanding becomes essential when inevitable challenges arise. Clear objectives guide decision-making, while flexible implementation strategies enable adaptation to changing circumstances

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Leadership quality significantly influences outcomes, extending far beyond individual charisma to encompass the ability to build trust across traditional boundaries. The most effective fund leaders are cultural translators, equally comfortable discussing discount rates with pension fund managers and artistic risk with creative directors. They combine in both style of presentation and technical capabilities financial rigour and genuine appreciation for intrinsic cultural value.

Perhaps most critically, successful initiatives recognise that impact investment is a means, not an end. The goal is strengthening cultural organisations and expanding their social impact, not simply deploying capital. This perspective shapes everything from due diligence approaches to post-investment support, ensuring that financial interventions serve artistic missions rather than distorting them.

Common Pitfalls

Experience reveals predictable challenges that wise practitioners can anticipate and address proactively:

Unrealistic expectations often derail promising initiatives from the start:

- Overestimating potential financial returns creates disappointment when investments perform reasonably but modestly
- Underestimating the time required for meaningful impact leads to premature pressure for results
- Expecting transformational change too quickly from organisations taking on repayable finance for the first time

Resource imbalances create structural weaknesses that compromise outcomes from day one:

- Under-funding due diligence processes leads to poor investment decisions and higher default rates and limits scope and capacity for learning and skills development over time
- Insufficient legal and structuring expertise results in inappropriate deal terms that create problems during implementation
- Inadequate operational funding for fund management undermines stakeholder communication and reporting quality

Communication failures damage stakeholder relationships and limit learning opportunities:

- Poor expectation-setting creates disappointment and can lead to erosion of support or complete withdrawal of backing
- Limited transparency breeds mistrust among partners who expect openness about both successes and challenges
- Language barriers between financial and cultural professionals hamper effective collaboration and mutual understanding

Smart initiative design anticipates these needs and budgets accordingly, whilst retaining flexibility to adapt as circumstances evolve. Communication strategies must be as carefully planned as investment strategies, recognising that different stakeholders require different approaches and levels of detail.

The Road Ahead

The future of cultural funding in its broadest sense is likely to be more diverse and sophisticated than today's models, with impact investment playing an increasingly important role alongside grants, earned income, and philanthropy. Realising this potential requires coordinated action from multiple stakeholders, each contributing their distinctive capabilities.

Public funders have unique opportunities to catalyse market development through pilot initiatives, policies conducive to investment and first-loss capital provision. Their deep sector knowledge and convening power put them in a strong position to bring together diverse coalitions. Most importantly, they can model how repayable finance complements rather than competes with traditional grant funding.

Private investors bring essential discipline and expertise, but their engagement requires education about cultural sector characteristics and opportunities. Patient capital approaches that recognise longer payback periods and accommodate a range of return expectations will prove most successful. Co-investment with public and philanthropic partners can provide valuable risk mitigation whilst building confidence in this emerging asset class.

Cultural organisations themselves must actively engage with the investment readiness journey, recognising it as an opportunity for organisational strengthening rather than an administrative burden. Building financial management capabilities, developing sustainable business models, and articulating impact clearly benefits organisations regardless of whether they ultimately take on investment.

Intermediaries and advisors have crucial ecosystem-building roles, developing specialised expertise, creating support programmes, and facilitating knowledge sharing. Their work often determines whether promising initiatives actually deliver meaningful outcomes.

The transformation won't happen overnight, nor should it. Cultural organisations didn't develop their current characteristics accidentally - they reflect genuine values about artistic independence, community accountability, and social purpose that deserve preservation even as business models evolve. The challenge is creating financial structures that strengthen rather than compromise these values.

Success will be measured not just in repayment rates or social impact metrics, but in the gradual emergence of more resilient, confident, and sustainable cultural organisations. These organisations will be better equipped to weather funding volatility, more capable of pursuing ambitious artistic visions, and more effective at serving their communities. This transformation - from precarity to sustainability, from dependency to agency - represents the ultimate goal of impact investment in the cultural sector.

The opportunity before us is significant. By thoughtful design, patient implementation, and genuine commitment to both financial discipline and cultural values, we can create funding models that truly serve the sector's needs whilst generating meaningful returns for investors. The time to begin this work is now.

Glossary

Asset-lock
A legal mechanism that prevents an organisation from distributing its assets to private individuals, ensuring that assets are retained for social purposes. In the event of dissolution, assets must be transferred to another organisation with similar social objectives rather than being distributed to members or shareholders.

Blended Finance
A financing approach that combines different types of capital (grants, concessionary capital, commercial investment) with varying risk-return profiles to achieve both financial and social objectives while reducing overall risk for commercial investors.

Concessionary Capital
Investment capital that accepts below-market financial returns in exchange for social or environmental impact, often provided by foundations, public funders or development finance institutions.

Due Diligence
The comprehensive investigation and analysis of a potential investment opportunity, including financial, operational, legal, and impact assessment before making an investment decision.

First-Loss Capital
Capital that bears the first risk of loss in an investment structure, typically provided by public or philanthropic funders to absorb initial defaults and thereby reduce risk for other investors.

Guarantee
A promise by one party (the guarantor) to assume responsibility for another party's debt or obligation if that party fails to meet their commitments, used to reduce perceived risk for lenders.

Impact Investment
Investment made with the intention of generating both financial returns and positive social or environmental impact.

Investment Readiness
The state of an organisation being prepared to receive and effectively utilise investment capital, including having appropriate financial systems, business planning, and governance structures in place.

Patient Capital
Investment capital that accepts longer payback periods and lower immediate returns in recognition that meaningful social impact often requires extended timeframes to achieve.

Revenue-Based Financing
A financing method where repayments are tied to a percentage of the borrower's revenue rather than fixed amounts, providing flexibility during periods of lower income.

Theory of Change
A comprehensive description of how and why a desired change is expected to happen, mapping out the logical connections between activities, outputs, outcomes, and long-term impact.