European Union

Interreg
CENTRAL EUROPE

ForHeritage

FINANCIAL INSTRUMENTS AND INNOVATIVE SCHEMES

for cultural heritage

Document information

Project: ForHeritage „Excellence for integrated heritage management in central Europe" (CE1649), www.interreg-central.eu/forheritage

Co-financed by: Interreg CENTRAL EUROPE

Prepared by: FINPIEMONTE

Version: September 2021

Disclaimer:

This publication reflects the authors' view and the Interreg CENTRAL EUROPE authorities are not liable for any use that may be made of the information contained here.

Table of contents

Introduction: purpose and structure of this tool

This tool is a result of the Interreg Central Europe project *For Heritage (4H): Excellence for integrated heritage management in central Europe*. As to promote excellence in heritage management, the project and this document capitalize on the existing knowledge gathered from previously EU-funded projects (such as FORGET HERITAGE, RESTAURA, IFISE, CLIC and others[1]) and other relevant experiences.

Within the *For Heritage* project, six tools related to heritage management have been produced:

- Good/participatory governance in cultural heritage: How to involve public
- Financial instruments and innovative financial schemes for cultural heritage
- Public-private cooperation in cultural heritage revitalisation
- Impact assessment of cultural heritage projects
- Transferable elements of cultural heritage revitalization pilot projects
- How to organise a successful training to improve management in the cultural heritage sector

This document represents the tool n.2 listed above and is aimed at capitalising from existing studies and practices on the specific topic of funding sources and financial instruments, in order to increase the knowledge of public and private actors dealing with the management of the cultural heritage.

The analysis presented in the following pages intends to offer a practical overview and to help building some baseline knowledge on (innovative) financial instruments[2]: advantages and disadvantages and how they can be applied to projects on cultural heritage revitalisation. It aims to deliver a tool useful to anyone who may be interested in understanding what financial instruments are

[1]For further learning, we invite the reader to consult the webpages of the following EU projects, which offered precious sources of information for the purpose of this document:

- FINCH - Financing impact on regional development of cultural heritage valorisation https://www.interregeurope.eu/finch/
- KEEP ON - Effective policies for durable and self-sustainable projects in the cultural heritage sector https://www.interregeurope.eu/keepon/
- IFISE - Innovative Financial Instruments in support to the Social Economy https://www.finpiemonte.it/Ifise-project
- CLIC - Circular models Leveraging Investments in Cultural heritage adaptive reuse https://www.clicproject.eu/
- ROCK - Regeneration and Optimization of Cultural heritage in creative and Knowledge cities https://rockproject.eu/about

[2] As general definition, financial instrument are measures of financial support that may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may combine with grants, where appropriate.

(especially the "innovative" ones), and in which cases it can be advantageous to use them, also based on some real cases, in order to help in making decisions.

The document is articulated into three parts:

- PART 1: provides a baseline knowledge and an introductive overview on a set of financial instruments and innovative financial schemes applicable to the cultural heritage sector, highlighting the most innovative approaches and exploring the possibilities of interrelation between public and private resources.
- PART 2: offers an insight on real cases that applied financial instruments to the cultural heritage sector. This second part of the document aims to give inspiration, through examples, on the feasibility of financial instruments applied to the cultural sector (despite the fact that the replicability is limited and strictly depends on different factors within a specific context).
- PART 3: portrays tips and lessons learnt from previous EU-projects and experiences, as to provide some practical guidelines to be applied in practices of heritage revitalization dealing with sustainability.

PART 1

INTRODUCTIVE OVERVIEW
on financial instruments
and innovative financial schemes

1. Financial instruments and innovative financial schemes: what are we talking about?

Cultural heritage valorisation is expensive and poses an economic challenge. Furthermore, the infrastructural investment (conservation and renovation) represents only one part of the overall cost of preserving a cultural heritage, since the larger parts over time are related rather to the regular operating and maintenance.

One of the hardest decisions faced by those who conceive cultural heritage led regeneration projects is how to finance them (i.e., which are the most effective financial instruments and who are the best budget providers). This difficulty is also due to the lack of information on such instruments and of inspirational case studies.

The following analysis will be aimed at capitalising from existing studies and practices on funding sources and financial instruments run in other EU-funded projects, in order to increase the knowledge of public and private actors dealing with the funding of cultural heritage renovation and management.

Funding (or co-funding) for cultural heritage can be provided through three different types of models/instruments: 1) grants, which are not repayable; 2) financial instruments, which must be repaid and could envisage a return for investors; 3) market revenues/fees, which are made from the sale of good and services. There is also a fourth category of funding which is based on combination of grants, financial instruments and market revenues/fees in risk sharing mechanisms[3]: the so-called hybrid instruments.

As general principle, beyond grants and financial instruments (to be paid back), for a CH investment a combination of instruments should be sought, as “optimal” funding mix for each project.

1. **Grants:** they can be **direct funding**, providing money to pay for activities and/or investment, or **indirect funding**, with the aim to increase access to financial instruments, typically in the form of a grant to cover the cost of financial instruments (interest rate).

> To know more on practical examples, please refer to the following experiences that are described in section 2 of this document: *Credit Card for Culture* (Regione Piemonte, Italy), *Eppela Crownfunding* (Italy), and *Crownfunding for Culture* (City of Trzebiatów, Poland).

[3] With the term "Risk-sharing instrument" it is meant a financial instrument which allows for the sharing of a defined risk between two or more entities, where appropriate in exchange for an agreed remuneration.

2. **Financial instruments:** can be of two types:

- **Debt**: an agreement which obliges the lender to make available to the borrower an agreed sum of money for an agreed period of time, and under which the borrower is obliged to repay that amount within the agreed time.

To know more on practical examples, please refer to the following experiences that are described in section 2 of this document: *Jessica Loan - Old Slaughterhouse* (Poland), *the Silesia EIF Fund of Funds (Poland), the Fonds Tourisme Occitanie (France), the Arts & Culture Impact Fund* (UK), and the *Cultural Impact Development Fund* (UK).

- **Equity:** provision of capital to a firm, invested directly or indirectly in return for total/partial ownership of the firm; the equity investor may assume some management control of the firm and may share the firm's profits. The financial return is bound to the growth and profitability of the business.

To know more on practical examples, please refer to the experience of *Social Fare Seeds* (Italy) that is described in section 2 of this document.

3. **Market revenues and fees**: they include revenues from copyright and from the sale and supply of services, such as accommodation and catering; private hire; events; interpretation; and user fees.

4. **Hybrid instruments:** represented by any possible combination of types 1, 2 and 3 listed above (here below some examples).

- A **recoverable grant** is a grant that must be paid back only if the project reaches some previously defined milestones. If such milestones are not reached, the recoverable grant is converted into a simple grant. This mechanism can be used when a project is so successful as to enables the firm to pay the investor back.

- A **forgivable loan** is a loan that can be "forgiven" (converted into a non-refundable grant) or deferred for a period of time by the lender, when some pre-agreed conditions are met. However, if such conditions are not met the loan has to be paid back, usually with interest.

- A **convertible grant** is another financing instrument with hybrid capital character. The investor provides the firm with a grant that is converted into equity when some pre-agreed conditions are met.

- Revenue **share agreements** are financing instruments with which the investor finances a project and receives a share of future revenues. This risk-sharing model can be used for the repayment of the financing and to give the social enterprise financial flexibility.

All these funding instruments/models can be provided both from **public entities** and from **private operators**, including private citizens. Of course, in relation to the source (public or private) the characteristics of the funding scheme could change.

To know more on practical examples, please refer to the following experiences that are described in section 2 of this document: *Cultura Crea* (Italy), the *Sustainable Cities and Towns Fund* (Bulgaria) and *Rinascimento Firenze* (Italy).

Public funding sources

Public funding tends to be mainly in the form of non-repayable funding, even if it is often based on some pre-agreed targets and results. For example, a grant for audio-visual activity can be related to the cultural contents of the activity itself and/or to the audience of the activity.

Public funding is sometimes intended to facilitate the access to private financial resources. For example, in some cases the public subsidy is used to cover the costs of borrowing, in others public guarantees[4] provide security for private lenders.

Public entities provide money also through financial instruments, typically in cooperation or through **financial intermediaries**, such as banks, funds, platforms. In an environment of significant shortage of public financial resources, the use of financial instruments by public entities has been growing. Nowadays grants are more and more combined with/replaced by repayable financing instruments. These financial instruments are typically set-up with the aim to generate a 'leverage effect', meaning that the amount of public funding provided should raise an additional amount of private resources.

Finally, public money can be provided through **public procurement**. Public entities can buy goods and services from cultural operators: for example, a municipality can rent spaces in a cultural heritage site for public interest activities, thus contributing to support the financial sustainability of the site itself.

For most of the countries, public budgets (at European, national, regional and local level) are the main funding source for cultural heritage projects.

At European level, the EU provides direct public funding through grants and indirect public funding by means of national/regional authorities, or via financial intermediaries. Direct funding consists of grants that are provided through specific calls for proposals and in most cases they are a means of co-financing projects in relation with EU policy objectives.

Public funding also includes the 5 European Structural and Investment Funds, whose support is normally provided through calls managed by the national or regional relevant authorities. At regional/national level, also the ESI Funds

[4] A guarantee is a written commitment to assume responsibility for all or part of a third party's debt or obligation or for the successful performance by that third party of its obligations if an event occurs which triggers such guarantee, such as a loan default.

(European structural and investment funds) can be used by public policy makers to set-up financial instruments, under the prescribed regulation.

The most consolidated experience in Europe on the use of Financial Instruments is related to supporting micro-small-medium enterprise.

1.1.1. EU funding

While policy in the area of Cultural Heritage is primarily the responsibility of Member States and regional and local authorities, the EU is committed to safeguarding and enhancing Europe's cultural heritage through a number of policies and programmes.

Europe's cultural heritage is supported by a range of EU policies, programmes and funding, notably the Creative Europe programme. EU policies in other areas that take increasing account of heritage span from research, innovation, education, environment, climate change and regional policies to digital policies. Consequently, funding for cultural heritage is available under Horizon 2020, Erasmus+, Europe for Citizens, INTERREG Programmes and the European Structural and Investment Funds.

Such programmes have been funding actions in favour of the development of a cultural tourism offer, projects involving education, culture and social inclusion as well as interventions in line with environmental policies for a sustainable development.

	Cultural Tourism (CT)	Culture and Social Inclusion (CS)	Environmental Policy (EP)
EU DIRECT FUNDING			
Creative Europe	X	X	
Europe for Citizens		X	
COSME	X	X	
Horizon 2020	X	X	X
Erasmus+		X	
EaSI		X	
LIFE			X
European Territorial Cooperation (INTERREG)	X	X	X
EU INDIRECT FUNDING			
European Regional Development Fund	X	X	X
Cohesion Fund			X
European Social Fund		X	
European Agriculture Fund for Rural Development	X	X	X
European Maritime and Fisheries Fund	X	X	X

Own elaboration taken from *the Vademecum on Sources of Funding for the Cultural Routes* of the Council of Europe 2019

At EU level the EIB (European Investment Bank) - the financial institution of the European Union - or its operating arm the EIF (European Investment Fund), the EIB organisation specialized in risk capital, manage some subsidized finance instruments through the intervention of financial intermediaries or private investors, to support companies. The website www.access2finance.eu helps searching for financial opportunity and applying for loans and venture capital supported by the European Union.

Among the cases presented in the section 2 of this document, we report about: the use of the JESSICA loan (Joint European Support for Sustainable Investment in City Areas) in West Pomerania and the Silesia EIF Fund of Funds (both cases in Poland); the Fonds Tourisme Occitanie in France and the Cultural and Creative Sectors Guarantee Facility (CCS GF) managed by the European Investment Fund.

1.1.2. Horizon Europe 2021-2027

Horizon Europe, the Ninth European Framework Programme for Research and Innovation that will be running from 2021 to 2027, will be structured into 3 pillars. Pillar n2 will include the Cluster on Culture, Creativity and Inclusive Society and it will address the EU priorities, among other, also on Cultural Heritage.

To promote new thinking and provide solutions to social and economic challenges, the cultural and creative sectors should be integrated in research and innovation processes. The implementation of these research activities will result in better access, understanding of and engagement with cultural heritage. They will support the emergence of a sense of belonging based on the common roots and riches of the diversity of European cultural heritage. R&I results will contribute to European integration by providing better, wider and more equal access to culture, cultural heritage and the arts. Knowledge generated will support the emergence of new forms of cultural expression, at the crossroads between different creative sectors. Horizon Europe activities will also enhance the governance of European cultural heritage institutions and networks. Most importantly, they will improve protection, enhancement, conservation and more efficient restoration of European cultural heritage. Research activities shall increase the quality standards for conservation and restoration of European cultural heritage. R&I will provide solutions for making the EU a world leader in cultural heritage conservation technologies, management, digitisation and curation of digital heritage assets. Supported activities will provide research and innovation for developing sustainable and inclusive cultural tourism in Europe. They will also increase capacities for the protection of endangered cultural heritage and deployment of preventive measures against the illicit trade in *cultural goods. R&I will also help the preservation of endangered languages. Finally, R&I will support sustainable growth and job creation through contributing to a European industrial policy for cultural and creative industries including design.*

The Challenges for the CH sector will be:

- *support the EU's policy objective in monitoring, safeguarding and transmitting cultural heritage, fostering cultural and creative sectors and promoting cultural diversity.*
- *Share and boost access to and participation in cultural heritage through innovative approaches, new and emerging technologies, including digitisation and increased cultural literacy. Support the use of digitised historical collections and archives for ground-breaking new interpretations of the past.*
- *Build on the role of intangible heritage (e.g., crafts, festivals, music, dance etc.), traditions, values and identities and new forms of cultural expression in the development of new approaches for more cohesive, and sustainable societies.*
- *Promote new educational and training pathways and skills to make the existing cultural heritage protection practices compatible with societal transformation (data society).*
- *Promote policies and projects leading to ensuring gender equality in the cultural heritage sector.*
- *Investigate the social construction, usage (and reflexive character) of cultural heritage at the national, European and international levels.*
- *Develop cutting-edge conservation and restoration technologies and methods and provide innovative, integrated, sustainable and participative management models.*
- *Connect cultural heritage with the creative and cultural sectors, with a view to spurring inclusive growth, jobs, social cohesion and diversity.*
- *Break the boundaries between creativity, production, promotion and access to content, innovative business models and technological advances in the cultural and creative sectors and link analogue and digital heritage and intercultural cooperation.*
- *Research old and new forms of cultural and artistic expression to promote tangible and intangible heritage and intercultural cooperation and valorise traditional skills and reuse existing assets.*
- *Provide research capacities for European cultural diplomacy and for underpinning the European Union's leading role in international cooperation for preventing and fighting illicit trafficking in cultural goods and for the protection of endangered cultural heritage, also in conflict zones.*

- Develop new approaches, concepts and practices for sustainable, accessible and inclusive tourism, including cultural tourism.
- R&I will contribute to sustainable development through research and innovation for the conservation, safeguarding, developing and regeneration of cultural landscapes.

Private funding

Private funding refers to three main categories of private funders: banks, alternative channels (funds, capital market and crowdfunding) and philanthropic investors. The first two categories are mainly focused on financial instruments and typically request a financial return for the investment made, while philanthropic investors are more on grants and they often do not expect a return.

				PUBLIC	PUBLIC+ PRIVATE	PRIVATE				
						banks	philanthropic investors	alternative channels		
								funds	capital market	crowdfunding
1	GRANTS	non-repayable funding								
2	FINANCIAL INSTRUMENTS	repayable funding with a return for investors	debt							
			guarantee							
			equity							
3	MARKET REVENUES	sale of goods and services								
4	HYBRID INSTRUMENTS	combination of grant, debt and equity capital								

Overview on financial instruments and funding sources

Private capitals typically operate through the investment fund instrument, with the aim of raising capital from institutional or private investors to be invested in initiatives with high development and return potential. Funds are financial tools managed by specialised companies that combine the capital of several investors and invest such capital as it was a single asset.

More simply, a fund is comparable to a large piggy bank that collects the resources of many investors, the capital raised can be invested in risk capital (private equity) or it could be used to provide loans or both (risk capital + loans).

To know more on practical examples, please refer the following experiences that are described in section 2 of this document: *the Silesia EIF Fund of Funds (Poland), the Fonds Tourisme Occitanie (France), the Arts & Culture Impact Fund* (UK), the *Cultural Impact Development Fund* (UK), the *Socialfare Seeds* fund (Italy), and the *Sustainable Cities and Towns Fund* (Bulgaria).

Policy-design: advantages and disadvantages of financial instruments

Using financial instruments with respect to grants presents some relevant advantages:

- Funds are paid back and it is possible to re-invest them again.
- The due diligence run for the project assessment (a typical expertise of the private sector in assessing business plans) and the repayment obligation may call for projects with higher quality.
- They enable a more cost-effective use of public funds since they can attract (leverage) private funds.

Nevertheless, private players are a heterogeneous and complex target and when approaching the interrelation between public and private budgets some basic critical issues have to be addressed: How and under what conditions the involvement of private players can positively impact on the conservation and management of CH? How can institutions stimulate private players to invest? How to conciliate private business goals and public social/cultural/environmental aims?

Furthermore, as highlighted by the European Commission, different types of Financial Instruments have PROs and CONs that should be taken duly into consideration:

LOANS	GUARANTEES	EQUITY	QUASI-EQUITY
1.Not particularly difficult to administer (so there are limited management costs/fees). 2.A defined repayment schedule makes budgeting easier. 3.The lending mechanism is well understood, reducing the need for capacity building and the risk of misunderstandings. 4.Loans preserve the equity of the financial recepients as there is no claim on the ownership of the enterprise.	1.Guarantees can preserve the equity of FRs as there is normally no claim on the ownership of the enterprise. 2.Potential benefits for final recipients could include inter alia, lower or no guarantee fees, lower or no collateral requirements as well as lower risk premiums. 3.Since programme contributions cover only certain parts of loans (appropriate multiplier ratio), there is a high leverage effect. 4.The investment risk for third party lenders is reduced (because they only bear part of the risk of default). 5. Unfunded products such as guarantees require less initial support than funded products such as loans.	1.There are higher potential returns compared to pure debt instruments. 2.There is an active role in project management and access to shareholder information for the investor. 3.Stimulates investment by local private equity industry also in riskier areas not previously serviced. 4.The need for equity investment might prompt changes in regulatory framework to encourage a private equity market. 5.The company can benefit from investor's management expertise. 6.Public investors can influence the configuration and mission of a company	1.For co-investors, there are higher returns compared to pure debt instruments. 2.Addresses specific risk capacity constraints in a particular market segment. 3.Stimulates investment by local private equity industry, also in riskier areas not previously serviced. 4.Might prompt changes in the regulatory framework to encourage a private equity market.

PROs for ESIF Managing Authorities (European Commission, 2015). Taken from the FINCH Interreg Europe Project - Living document on financial instruments and regulatory frameworks for the introduction of partnership with private sector.

LOANS	GUARANTEES	EQUITY	QUASI-EQUITY
1. Funded products such as loans require more initial resources than unfunded products such as guarantees. 2. It is sometimes difficult to establish the probability of default, especially with a lack of history of financial recipients. 3.The advantage for the financial recipients is almost entirely financial. There are limited additional benefits as know-how is not transferred.	1.The guarantee represents a risk reserve for the lender and does not provide liquidity. It can however, in some cases, provide capital relief to the lender. 2.Estimating the appropriate cap, or maximum limit, can be challenging. 3.There is no transfer of business expertise to final recipients.	1. There is insolvency risk for all the invested capital. 2.Time-consuming and cost-intensive investment. 3. These investments are more difficult to administer than normal loans (high set-up and operational costs), more time-consuming and cost-intensive. 4. Short-term financing is not possible, since returns are feasible only in the long term. 5. Establishing the process for the investment can be challenging. 6. Compared to debt instruments, equity can be less attractive to final recipients due to the obligation to yield control.	1. These investments are more difficult to administer than normal loans (high set-up and operational costs), more timeconsuming and cost more. 2. Short-term financing is not possible, since returns are feasible only in the long term. 3. Any ancillary services such as management expertise would be an expense for the company. 4. There are typically a low number of investors and final recipients, while the investment amounts are high. 5. Compared to debt instruments, they may be less attractive to final recipients as they may involve loss of control when bonds are converted into equity

CONs for ESIF Managing Authorities (European Commission, 2015). Taken from the FINCH Interreg Europe Project - Living document on financial instruments and regulatory frameworks for the introduction of partnership with private sector.

For completeness of information, the following definitions are provided:

- **Guarantees** are normally intended to cover financial operations such as loans. Guarantees on loans seek to expand the access to funds by covering the risks associated with the loan. These are essentially risk transfer and risk diversification mechanisms, which guarantee the repayment of part of the loan upon a default event (a practical example is described in section 2 of this document, with reference to the Cultural and Creative Sectors Guarantee Facility).
- **Quasi-equity** is a type of financing in-between equity and debt, with a higher risk than debt and a lower risk than common equity. In general, it is more difficult to manage than common debt instruments (loans and guarantees).

Quasi-equity investments can be structured as debt (typically unsecured and subordinated and in some cases convertible into equity), or as preferred equity. Quasi-equity can take different forms (also known as mezzanine finance) with different level of exposure to loss in the event of insolvency.

Are financial instruments "innovative"?

In general, the term "innovative" refers to the set of instruments and schemes that are aimed to **increase the volume of credit available to the actors of the cultural sector**, and to facilitate their access **beyond the mainstream private finance mechanisms** (which can often be inaccessible).

In addition, some new instruments have recently emerged, labelled as **"alternative" to bank credit because they are not based on the intermediation of banks.**

1.1.3. "Alternative" financial instruments

Some new instruments and financing models have recently emerged on the scene, such as private equity, mini bonds, crowdfunding, digital financing platforms (fin tech), payment by results, ppp etc.

These new tools are often labelled as 'alternative' to bank credit, but this appellation is misleading since they are not intended to 'replace' the role of bank intermediaries; on the contrary, they can strengthen the ability to access bank credit and, therefore, should be considered as instruments complementary to the financing obtainable through bank intermediaries.

Some of these instruments could be reasonably applied to the Cultural Heritage sector:

Fin tech

It derives from the application of technology to the financial system, for example for lending money in a "peer-to-peer" approach (meaning by that the direct collection of private savings, without the intermediation of banks). The peer-to-peer loan (P2P) consists of a loan that allows entities to borrow or lend money through social lending platforms at interest rates other than those normally applied by financial intermediaries, such as banks. These are forms of financing that are disbursed between subjects without the aid of an intermediary and this is the reason why, usually, those who lend the capital receive a higher interest rate, and those who receive it pay an interest rate lower than that applied by banking institutions. In recent years, some of these platforms have been implemented to ensure repayment of capital to lenders in case of default of the financed subject;

nevertheless, this tool maintains a certain level of risk because intermediaries do not control it.

Crowdfunding

It is a type of Fin Tech most applicable to the cultural domain.

The crowdfunding mechanism consists in using the Internet to raise funds from groups of people with common interests. It is a sort of bottom-up financing, the recent development of which is certainly linked to the growing role of social media, web and mobile applications.

There are four main models of crowdfunding interventions:

- donation-based (simple donation, no rewards)
- rewards-based (with differentiated rewards depending on the amount of the donation. These are gadget-type non-financial rewards, meetings with the creator of the idea, etc.)
- equity crowdfunding (financing in the form of risk capital in order to obtain stakes in the company)
- social lending (non-finalized personal loan granted by private individuals to other private individuals on the Internet)

The starting point for the launch of the "collection" is therefore a dedicated platform.

Typical crowdfunding platforms are Indiegogo (www.indiegogo.com), Fundinghero (www.fundinghero.com), Gofundme (www.gofundme.com), Kickstarter (www.kickstarter.com), Fundly (www.fundly.com), Justgiving (www.justgiving.com), some of them more or less appropriate for heritage-related projects funding.

The European Commission is planning a guide dedicated precisely to crowdfunding, to promote harmonization of legislation at European level.

General information at:

http://ec.europa.eu/finance/general-policy/crowdfunding/index_en.htm

Information also on the website of the European Crowdfunding Network https://eurocrowd.org/, which is part of the Crowdfunding Stakeholder Forum (ECSF), promoted by the European Commission.

To know more on practical examples, please refer to the following experiences that are described in section 2 of this document: *Eppela Crownfunding* (Italy) and *Crownfunding for Culture* (City of Trzebiatów, Poland).

1.1.4. Public-private contracts and procurement models

Some innovative public-private contracts have been experimented in the last years, which assign an active role to the public administration in involving the private sector.

1.1.4.1. Impact finance and the Pay-by-Result approach

Financial instruments and innovative business models are now facing the new opportunities offered by the impact finance approach, which refers to providing capital for investments, with the intention to generate a measurable, beneficial impact alongside a financial return. The (social) impact of an intervention is defined as the difference between what has changed in the life of people thanks to that intervention, and what would have happened anyway.

New financing tools are under development and experimentation, both on equity and debt, and they are structured in order to guarantee an economic return to investors or, at least, the complete return of the invested capital, despite the primary purpose of the investment being the **impact** of the projects on which investors decide to allocate their resources.

Impact finance was born as an alternative tool to classic donations and speculative investments: what makes impact finance innovative is the possibility for the investor to allocate financial resources to projects with predetermined objectives, in order to actively participate in the creation of a significant social and/or environmental impact. Furthermore, the return on capital is often tied to the achievement of the objectives.

The most frequent areas of investment of private investors are renewable energy, basic services including housing, healthcare, education, micro-finance, sustainable agriculture, etc. Nevertheless, in 2012 the World Bank published the book on the economics of cultural heritage where the main conclusions were[5]:

- *Several valuation methods show that heritage investment has positive return: heritage is the cultural capital just as environment is the natural capital.*
- *Through a balanced blend of regulations and incentives, the public and private values of heritage can be enhanced. They contribute to urban liveability, attracting talent, and providing an enabling environment for job creation.*

[5] Taken from TOWARDS AN INTEGRATED APPROACH TO FUNDING CULTURAL HERITAGE FOR EUROPE, Contribution by the European Investment Bank to funding Cultural Heritage projects, Mario Aymerich, Director.

- *Heritage investment has distributional effects. Moreover, it develops tourism, a labour-intensive industry that provides proportionally more income opportunities for the cities low-skilled labourers.*
- *There are a number of successful models, with an increasing integration of public and private financing. Among them, public-private partnerships, land value finance mechanisms, urban development funds and impact investment funds.*

Also in the Cultural Heritage sector, the social finance approach could play a strategic role in creating valuable partnerships between public and private bodies, to find funding and implement the more innovative projects, capable of generating transversal results that contribute to the improvement of the social and/or environmental conditions of the territory in which they are located.

Impact assessment and measurement, therefore, are highly debated topics at international level, in order to define standard methodologies.

Impact Bonds or Pay-by-Result Contracts: are one of the most relevant tool in impact finance, which could reasonably be applicable beyond the social domain, also to the cultural domain.

Impact Bond (originally launched by the Young Foundations in the UK) is a contract between a provider and the public sector, in which the public commits to pay for the "improved" social outcomes generated by the provider, based on their correspondence to public savings.

While the provider operates over a fixed period, the offered return rate is not fixed: in facts, the repayment to investors is bound to the pre-agreed social outcomes being achieved. Therefore, in terms of investment risk, Social impact bonds are rather similar to a structured financial product, in which the usual payment features based on business achievements are replaced with non-traditional payoffs derived from the performance in generating the expected impact.

Similarly, to social goals, also cultural goals can be driving force for making such contracts. For instance, the bond can contribute to the development of a local historical site or the implementation of a traditional cultural event for which a strong commitment can be generated. Thus, the possibility of the realization of a new type of bond (which could be named Cultural Impact Bond) for promoting local cultural activities is expected.

1.1.4.2. PPP and project financing

The public-private partnership (PPP) is a cooperative arrangement between public and private operators, typically of a long-term nature. It involves government(s) and business(es) that work together to complete a project and/or to provide services to the population. It is an example of multi-stakeholder governance.

The private partner participates in designing, completing, implementing, and funding the project, while the public partner focuses on defining and monitoring compliance with the objectives. Risks are distributed between the public and private partners. The public-private collaboration is indeed a way to mobilize additional financial resources, in addition to those provided by the public sector, and to increase effectiveness and efficiency of public spending, being in this sense a win-win solution.

Public–private partnerships have been implemented in multiple countries and are primarily used for infrastructure projects (such as the building and equipping of schools, hospitals, transport systems etc.).

Project financing is one possible financial structure for PPP, mainly used for long-term infrastructures projects. It is a non-recourse or limited recourse financial structure, in which the debt and equity used to finance the project are paid back from the cash flow generated by the project, as payments from the public sector and/or users over the project's lifetime (for instance through users' fees), with the project's assets, rights, and interests held as secondary collateral. Project financing typically have contract periods of 25 to 30 years or longer.

In cultural heritage domain the traditional PPP model could be effectively implemented with a fourth P (people), referring both to participation of the civil community in the design and management (co-design and bottom-up generation), and to participation to funding (crowdfunding). The concept of the Public–Private-People partnership (4P) is an emerging way to bring public and private actors and citizens together in a joint process[6]. In general, in any phase of a cultural heritage initiative 3 key actors should be involved:

> **public**: public authorities provide a strategic perspective and a sound policy framework to promote the protection and valorisation of cultural heritage sites and to integrate them in a broader picture considering both the economic and social value of this sites; in this perspective, for example, it should be acknowledged the importance of cultural heritage sites for tourism and the potential impact on local communities.

> **private**: private operators should provide both financial resources and managerial/organizational capacities and it is important to make clear that cultural heritage could be sustainable and even profitable as long as it is professionally managed and integrated in the socio-economic system of a territory;

[6] The concept of the Public–Private–People partnership (4P) has also been addressed by the Baltic Urban Lab project (INTERREG Central Baltic project) led by Union of the Baltic Cities. See: https://nordregio.org/nordregio-magazine/issues/people-and-cities/public-private-people-partnerships-a-new-concept-to-bring-public-and-private-actors-and-citizens-together/

- **people**: people are the beneficiaries and final users of any cultural heritage initiative and they should be actively involved during its whole life cycle; co-design and bottom-up generation of initiatives is crucial to guarantee the involvement of people in the identification/definition of new initiatives; community-based enterprises could be a useful model to extend the collaboration in the management phase. Crowdfunding could also be a model to involve people in the funding of cultural heritage initiatives.

Project finance is the financing of long-term infrastructures projects, and public services using a non-recourse or limited recourse financial structure. The debt and equity used to finance the project are paid back from the cash flow generated by the project.

Project financing is a loan structure that relies primarily on the project's cash flow for repayment, with the project's assets, rights, and interests held as secondary collateral.

The cultural sector

The cultural production system can be seen as inclusive of **creative industries** (architecture, communication, design), **proper cultural industries** (cinema, publishing, video games, software, music and printing), **historical and artistic heritage** (museums, libraries, archives, archaeological sites and historical monuments), **Performing arts and visual arts**; to these also **Creative-driven companies** can be added since, even if not directly attributable to the sector, they tend to employ cultural and creative professionals in a structural way, such as advanced manufacturing and artistic craftsmanship.

This Cultural and Creative Production System as a whole – including companies, public administrations and non-profit organizations – registers an important economic value and activates other sectors of the economy that move further benefit, starting from the tourism sector.

Links to the social sector are also progressively emerging: initiatives concerning culture are proving to be capable of generating conditions of well-being, autonomy and equity, for example through better access to information and knowledge, overcoming the digital divide, combating illiteracy functional, the dissemination of cultural opportunities, the updating of knowledge and opportunities for social cohesion. In other words, new forms of what we might call "socio-cultural welfare" are emerging.

Furthermore, project of cultural heritage investment cannot leave aside the social, cultural, economic and environmental aspects. The best possible economic way may actually not be always the best way since they may not respond to the user's needs (which can be different from heritage asset’s original function).

Economic aspects are not stand-alone concepts: they should be linked to other aspects: conservation, social and environmental aspects, cultural, tangible or intangible assets of each specific heritage.

In this kind of initiatives, the main goal should be to increase life quality of local communities and to ensure their participation to this process.

PART 2

INSPIRATIONAL EXPERIENCES AND EXAMPLES
on innovative financial schemes
applied to the cultural heritage sector

2. Experiences from around Europe

In strict connection with the overview on the possible financial instruments and funding sources to be applied to the cultural heritage sector (provided in PART 1 of this document), we report in the following pages some real cases and examples.

The purpose is to portray how different types of financial instruments were concretely used in real cases. We collected 13 experiences from around Europe (Poland, Bulgaria, Italy, UK, France), which sometimes also used European support actions, such the Jessica Programme managed by the European Investment Bank and the Cultural and Creative Sectors Guarantee Facility (CCS GF) managed by the European Investment Fund.

Experiences are clustered per type of instrument, distinguishing among:

- GRANTS and non-repayable funding
- FINANCIAL INSTRUMENTS, meaning by that repayable funding with a return for investors (debt, guarantee, equity)
- HYBRID INSTRUMENTS consisting of a combination of grant, debt and equity capital.

In general, in our scheme all capitals from the EIB are considered as public funds as they are granted at more favourable conditions than market conditions.

The aim of this section is to offer an insight on concrete experiences in financial instruments and their peculiarities, with the aim to inspire, through examples, considerations relating to the feasibility of the financial instruments applied to the cultural sector.

For each case presented, the objectives, implementation aspects and achieved results (when available) are reported. Indications for further reading are available in the final section of this document, dedicated to information sources.

The collection of cases is essentially focused on innovative instruments, of public or private-public nature, in order to enable through this reading a preliminary understanding on the complexity of their functioning and management, as well as to have an initial perception on their possible impact. For this purpose, philanthropic investors, which adopt rather traditional funding schemes, and market revenue cases, which do not apply complex financial mechanisms, are not included in this analysis.

As final recommendation, even if real cases can be very important to facilitate the understanding of how Financial Instrument can be used, it is however important to consider that the replicability of the experiences is still limited and strictly depends on the different factors that affect a specific context.

Circumstances vary between Member States and regions, so financial instrument models are seldom transferable without modification to consider local, regional or national conditions, which include differences in local economic conditions, in banking and legal systems, previous experience with implementing financial instruments, etc. The financial instrument model must always be shaped by local circumstances and needs.

			PUBLIC	PUBLIC + PRIVATE	PRIVATE				
					banks	philanthropic investors	alternative channels		
							funds	capital market	crowdfunding
1	GRANTS	non-repayable funding			**1**. Credit Card for Culture- (Italy)			not applicable to CH	**2**. Eppela (Italy) **3**. Trzebiatów Experience (Poland)
2	FINANCIAL INSTRUMENTS	repayable funding with a return for investors: debt	**4**. Jessica loan -Old Slaughterhouse- West Pomerania (Poland) **5**. The Silesia EIF Fund of Funds (Poland) **6**. Fond Tourisme Occitanie (France)	**7**. Arts & Culture Impact Fund (UK)					
		guarantee	**9**. Cultural and Creative Sectors Guarantee Facility (EIF)						
		equity					**10**. Socialfare Seeds (Italy)		
3	MARKET REVENUES	sale of goods and services							
4	HYBRID INSTRUMENTS	combination of grant, debt and equity capital	**11**. Cultura Crea (Italy)	**12**. Sustainable Cities Fund (Bulgaria)	**13**. Rinascimento Firenze (Italy)				

2.1. GRANTS: non-repayable funding

1. Credit Card for Culture - Regione Piemonte, Italy

In 2012 Piedmont Region launched the first credit card aimed at supporting the activities and projects of cultural Piedmontese institutions with the banking operator CartaSi.

CartaSi undertook to pay the 0,3% of the total amount spent with Regione Piemonte credit cards to the Fund for Culture in order to support cultural projects in the region.

From the point of view of the end – users (mostly employees of public and private companies connected to Regione Piemonte), the holders of the Credit Card for Culture were motivated to use it because they directly contributed to the support of the cultural heritage of the Piedmont Region, through the percentage paid by Cartasì to Fund for Culture.

Moreover, credit card for culture did not include any activation cost or annual maintenance costs and it had particularly advantageous economic-financial conditions.

2. Eppela - Crowdfunding, Italy

Eppela is a crowdfunding reward-based platform that provides rewards for supporters. Examples of Eppela campaigns in cultural field are:

2.a. PostepayCrowd

The initiative financed by Poste Italiane (the national Italian postal company), supports young Italian artists and music bands.

Projects that achieve the fundraising objective will receive a co-financing of 50% of the total, up to a maximum of €2.500, and some artists will be selected for a record promotion.

In less than 6 months, 187 projects have been financed for a total of 17.244 supporters and a total of €2.724.384 total fundraising.

2.b. Fondazione Sviluppo e Crescita CRT

This campaign, financed by Fondazione Sviluppo e Crescita CRT (a bank foundation), supports projects with a strong social impact in the artistic and cultural field, able to enhance and satisfy the needs of the population of Piedmont and Valle d'Aosta and creating shared and long-lasting benefits.

Projects reaching 50% of the requested budget will receive from the bank foundation an additional co-funding of that same amount (up to €5.000 per project).

59 projects have been financed for a total of 3.889 supporters and a total of € 505.088 fundraising.

2.c. Crowdfunder 35 - Fondazione Sviluppo e Crescita CRT

Since 2012 the Association of Italian Foundations and Savings Banks has been funding « Funder35 », a project aimed at non-profit cultural enterprises mainly composed of young people under 35 years of age.

Out of the 300 projects selected by «Funder 35», 21 projects have been selected to take part in a crowdfunding campaign on Eppela platform from September 2020.

Projects, that will raise an amount equal to at least 50% of the requested budget, will be co-financed by Fondazione Sviluppo e Crescita CRT that will double the amount raised up to a maximum amount of €5.000.00 per project.

2.d. Regione Piemonte

Regione Piemonte's campaign was aimed at supporting projects related to cultural activities, investments in goods and equipment and structural interventions for the recovery or conservation of cultural buildings already existing in Piedmont.

Public and private non-profit and cultural non-profit entities could participate in the initiative with projects of €20.000 minimum; the minimum amount to be collected on the platform had to be €10.000. Two projects have been funded:

- Fondazione Natale Capellaro (Ivrea)

This crowdfunding campaign was fundamental to set up the new headquarters of the Museo Tecnologic@mente in Ivrea, a museum dedicated to innovation and promotion of Adriano Olivetti's culture.

Adriano Olivetti was an Italian engineer and industrialist whose entrepreneurial activity thrived on the idea that profit should be reinvested for the benefits of the whole society. He was known worldwide during his lifetime as the Italian manufacturer of Olivetti typewriters, calculators, and computers.

Museo Tecnologic@mente is a highly interactive museum model, closely connected to the needs of the community and vocationally oriented to the youngest.

- Teatro Faraggiana (Novara)

The Teatro Civico Faraggiana is a historic theatre in the city of Novara, founded in 1907, as a popular alternative to the more classic theatre Coccia.

After being closed for 17 years, a group of citizens decided to revive it, creating the New Faraggiana Theatre Foundation.

Funds from the crowdfunding campaign are earmarked for the renovation of the foyer, which is currently an empty space with acoustic problem.

The project foresees a transformation from a structural point of view to make the space usable and adaptable to multi-purpose proposals.

3. Crowdfunding for Culture - the Trzebiatów Experience, Poland

The inhabitants of Trzebiatów in 2019 used a crowdfunding platform (www.zrzutka.pl) to raise funds to create a mural on one of the town's tenement houses.

Crowdfunding, together with other initiatives aimed at financing the mural, was very successful and allowed to raise more funds than initially assumed.

Nowadays, the mural is visible 24 hours a day because a lighting system has also been financed, it is visited every day by many people and it has animated the whole neighbourhood, in fact the store across the street sells souvenirs with the image of the mural.

The residents liked the joint initiative so much, that they collected an additional PLN 20.000. Now they are planning the next steps to create tourist trail of murals.

2.2. FINANCIAL INSTRUMENTS: repayable funding with a return for investors

2.2.1. Debt

4. Jessica Loan - Old Slaughterhouse - West Pomerania, Poland

In West Pomerania region in Poland, a historical building, the Old Slaughterhouse, was restored thanks to a JESSICA loan (Joint European Support for Sustainable Investment in City Areas) and some additional resources co-financed from the European Regional Development Fund (ERDF 2007-2013).

The final recipient of the Jessica loan was an international logistics company that owned the building.

The Old Slaughterhouse is nowadays used to host a number of companies for economic and cultural purposes.

The restoration of the Old Slaughterhouse is an example showing how the EU co-financed JESSICA loan and the involvement and collaboration between different institutions enable cultural and urban development projects and give new life to depressed areas.

5. The Silesia EIF Fund of Funds, Poland

Another interesting example of the use of EU funds to support projects aimed at revitalising degraded urban areas for cultural, economic, social and tourism purposes is certainly the Silesia Fund of Funds.

The EUR 91 million Silesia FOF, where EIB and EIF acted as FoF Managers, was set up to attract private investors and it is financed from the Regional Operational Programme for the Silesia Voivodship thanks to European Regional Development Fund (ERDF).

The financial instruments made available are portfolio risk sharing loan and First loss portfolio guarantee. The total investment cost (EUR 91 million) was financed by:

- JESSICA loan: 66 % of total investment cost
- Council of Europe Development Bank (CEB) loan: 28% of total investment cost
- City of Tychy's own financing: 6% of total investment cost

Important results were achieved such as a public utility building including the City Public Library, the Chamber Orchestra AUKSO and 3 business and technical premises; in addition, 219 jobs and 21 enterprises have been newly created.

6. Fonds Tourisme Occitanie, France

In order to support public and private initiatives in the field of tourism and services related to art and entertainment in Occitania, the French region has created a fund financed with EUR 60 million from the EIB. The fund, organized as a debt fund, provides loans not easily available on the market to public bodies, SMEs and mid-caps.

7. Arts & Culture Impact Fund, UK

Thanks to the synergy of many public, private and philanthropic investors (Arts Council England, the National Lottery Heritage Fund, Big Society Capital, Bank of America, the Esmée Fairbairn Foundation and Nesta) in March 2020 a £20 million fund was created in United Kingdom.

It is the world's biggest impact investment fund for the creative arts and till 2023 it will finance arts and cultural initiatives that have a positive social impact on their communities.

The fund provides a range of loans between £150.000 and £1 million, with a repayment period of 10 years and it also provides tailor-made support to structure the request for funding accordingly to need of applicant.

8. Cultural Impact Development Fund, UK

The Cultural Impact Development Fund offers repayable finance between £2.000 and £150.000 to arts, cultural and creative organisations that aim at improving their social impact.

The fund has a duration of 3 years (2018-2021) and a total budget of £3,7 million.

Nesta launched the fund in partnership with the Growth Fund, delivered by Access - The Foundation for Social Investment, with finance being provided by its partners Big Lottery Fund and Big Society Capital.

2.2.2. Guarantee

9. Cultural and Creative Sectors Guarantee Facility

The Cultural and Creative Sectors Guarantee Facility (CCS GF) managed by the European Investment Fund aims to cover potential losses of financial intermediaries on loans granted to SMEs in the cultural and creative sector.

It guarantees up to 70% of the losses of each individual loans and up to a maximum rate of 25% of the financial Intermediary's overall portfolio.

The Cultural and Creative Sectors Guarantee Facility has a dual form:

> financial guarantee to financial intermediaries that grant loans, financial leases or bonds to CCS SMEs;

> financial counter-guarantee to guarantors, who issue guarantees to financial intermediaries for loans and/or financial leases to CCS SMEs.

In addition, financial intermediaries receive ad hoc free training from the European Investment Fund in the form of technical assistance in order to increase the knowledge of the specificities of the Cultural and Creative Sectors Guarantee Facility.

At the end of 2019, 1.547 SMEs had been funded for EUR 424.4 million and projects for more than EUR 1.08 billion have been granted.

2.2.3. Equity

10. Socialfare Seeds, Italy

SocialFareSeed Srl is a private company founded by impact investors that invest up to €500.000 per year in all start-ups selected through the call FOUNDAMENTA and accelerated by SocialFare.

The investors, mentors and other key figures are all involved in the selection of start-ups and invest with a seed fund of up to €100.000 in cash in exchange for equity from 5% to 15%.

The transfer of resources takes place in two phases: the first at the beginning of the acceleration program, and the second halfway through the program, based on whether certain shared objectives were achieved.

Investors also support the start-up in the program with a vast network of contacts, synergies, and opportunities at both national and international level.

This programme is aimed at start-ups that generate social impact in the areas of Welfare, Healthcare, Education, Cultural Heritage, Circular Economy, Food & Agriculture.

2.2.4. HYBRID INSTRUMENTS: combination of grant, debt and equity capital

11. Cultura Crea, Italy

"Cultura Crea" is a financial instrument supporting the creation and growth of entrepreneurial and non-profit initiatives in the cultural, creative and tourist industry in some regions of Southern Italy (Basilicata, Calabria, Campania, Puglia and Sicily). It is co-financed with the resources from the European Regional Development Fund, from National Operational Programme Culture and Development and managed by Invitalia (National Agency for Development).

The financial resources are approximately EUR 107 million and an additional allocation of EUR 7 million is foreseen.

Cultura Crea finances entrepreneurial projects involving innovation in process, product or service in the following areas:

> knowledge economy
> conservation economy
> economy of fruition
> management economics

Funding consists of:

- subsidized loan at zero interest rate (without guarantees):
    - up to 40% of the admitted expenditure, with return in 8 years plus one year of pre-amortization for the period of realization of the investment
    - Elevated to 45% in the case of a company with a majority of women or young people
- Non-repayable grant:

- up to 40% of eligible expenditure,
- Elevated to 45% in the case of a company with a majority of women or young people

The beneficiary enterprises will have to bring own resources equal to the part of the expense eligible not covered by funding.

The results of this initiative are very positive:

- 267 Companies financed
- EUR 44 million facilities granted
- 732 new jobs

12. Sustainable Cities and Towns Fund (SCF), Bulgaria

The Sustainable Cities and Towns Fund (SCF) involves the Fund for Local Authorities and Governments (FLAG) in Bulgaria, the Fund for Sustainable Urban Development, the United Bulgarian Bank and the Bulgarian Advisory Organisation.

The total budget is BGN 342,37 million and it is aimed at urban development and tourism and cultural heritage. Nearly 15% of the SCF resources are intended for the development of cultural heritage.

It supports the development of cultural heritage sites both for conservation and restoration, it offers a marketing support for product development, it finances development of tourist infrastructures and the improvement of accessibility for people with disabilities, through Financial products (investment credits, working loans, credits for individuals) and a combination of support such as additional grants.

An example of project funded by SCF fund is Park "Vuzrajdane" which has a children's playground and a dry fountain that has the ability to generate a "water screen" used for projecting videos and movies.

Inside the park an amphitheatre has also been built to host events and performances.

13. Rinascimento Firenze (Italy)

Rinascimento Firenze is a EUR 60 million project financed by Fondazione Cr Firenze (Banking Foundation) together with Intesa Sanpaolo (Bank), aimed at micro and small enterprises in the fields of artistic craftsmanship; tourism and cultural sector; fashion and 'lifestyle'; start-ups and technology; agro-industry.

This is an innovative project of civil economy, with a high social value, in fact the selected companies have to submit a project with a measurable social impact.

Fondazione CR Firenze, through implementing entities, provides for each selected company grants from EUR 20.000 to EUR 100.000, with a total maximum budget of EUR 10 million.

The selected companies will be asked to provide own capital, equal to 50% of the amount granted by Fondazione CR Firenze.

In addition to the grant, Intesa Sanpaolo bank will provide an Impact Loan ranging from EUR 60.000 to EUR 500.000, thus multiplying by up to 5 times the amount of the Fondazione Cr Firenze grant.

The Impact Loan is an innovative financial instrument that provides long maturities and extremely advantageous repayment rates.

Sources for further reading:

- Jessica loan -Old Slaughterhouse- West Pomerania (Poland), https://www.fi-compass.eu/video/fi-compass-showcase-2019-submission-watch-video-story-west-pomerania-poland-old
- Silesia Fund of Fund (Poland), https://www.eif.org/what_we_do/resources/esif-fund-of-funds-silesia/index.htm
- Mediatheque in Tychy, Sliesia from 2017 FI Campus: https://www.fi-compass.eu/sites/default/files/publications/FI-Campus-DAY1-CASE-STUDY-UrbanDvlpmt_P-Skiba.pdf
- Fond Tourisme Occitanie (France), https://www.fondstourismeoccitanie.fr/
- Cultural and Creative Sectors Guarantee Facility (EIF), https://www.eif.org/what_we_do/guarantees/cultural_creative_sectors_guarantee_facility/index.htm
- Cultura Crea (Italy), https://www.invitalia.it/cosa-facciamo/creiamo-nuove-aziende/cultura-crea
- Arts & Culture Impact Fund (UK), https://www.nesta.org.uk/project/arts-culture-impact-fund/
- Cultural Impact Development Fund (UK), https://www.artsculturefinance.org/our-funds/cultural-impact-development-fund/
- Sustainable Cities Fund -SCF (Bulgaria), https://www.citiesfund.bg/en/?cid=15
- Credit Card for Culture- (Italy), https://www.finpiemonte.it/news/la-news/2012/02/10/in-piemonte-la-prima-carta-di-credito-che-sostiene-la-cultura

- Socialfare Seeds (Italy), https://socialfare.org/socialfare-seed/
- Eppela (Italy), https://www.eppela.com/it
- Trzebiatów Experience (Poland), www.zrzutka.pl
- Rinascimento Firenze (Italy), https://rinascimentofirenze.it/

PART 3

CONCLUSIONS and TIPS
for the use of innovative financial schemes
in the cultural heritage sector

3. Recommendations on approaching financial instruments for cultural heritage

Based on the literature that we have examined and, on the documents, produced by other relevant EU-funded projects such as CLIC, IFISE, FINCH, KEEP ON, and ROCK[7], we provide here below some key recommendations, as supportive tool for public or private organisations that deal with strategic decisions to intervene on cultural heritage.

Lessons learnt from previous EU-projects and experiences are reported into practical tips, with the final goal of providing easily applicable guidelines to be used in practices: the points here below report the most crucial aspects, often underestimated, that should be taken duly into consideration when approaching the broad topic of financing for cultural heritage.

Financial instruments are not suitable for all types of intervention

The justifications for intervening may vary, and these in turn affect the choice of delivery mode (whether non-repayable or financial instruments). A set of conditions should be taken into consideration before deciding to use one financial instrument or another, such as:

> analyse the institutional context (especially with regard to the market offer of the banking sector);

> clearly identify the target you want to address (stage of maturity of companies, eligibility criteria, sector, etc.) and estimate if it is large enough to ensure the cost-effectiveness of your action (take into consideration the management cost and the risk for losses);

> design an instrument that may also attract private investors;

> design the right instrument responding to the different needs according to the economic moment.

There is no one solution that fits for all: "appropriate forms of finance need to be tailored to the market imperfection being addressed".

[7] FINCH - Financing impact on regional development of cultural heritage valorisation https://www.interregeurope.eu/finch/
KEEP ON - Effective policies for durable and self-sustainable projects in the cultural heritage sector https://www.interregeurope.eu/keepon/
IFISE - Innovative Financial Instruments in support to the Social Economy https://www.finpiemonte.it/Ifise-project
CLIC - Circular models Leveraging Investments in Cultural heritage adaptive reuse https://www.clicproject.eu/
ROCK - Regeneration and Optimization of Cultural heritage in creative and Knowledge cities https://rockproject.eu/about

Use financial instruments in combination with other support services

FIs should not be viewed in isolation, or purely as part of a funding package; instead, they should be combined with advice and other support, whether training, consultancy, energy audits, etc. needed to optimise the intervention.

Conservation + management

It should be considered that the funding of the investment cost represents only one part of the overall funding need for preserving cultural heritage. The larger part over time are the regular operating and maintenance costs, which unfortunately tend to be too often forgotten, perhaps also because the funding sources may be different for the investment and for the operation.

Adopt a holistic view

Cultural heritage should be approached in a holistic manner, taking into consideration the social, cultural, economic and environmental aspects.

A holistic view to the topic is therefore advocated, by taking equally into consideration and properly managing all the aspects: from proper conservation, to social, economic, environmental aspects. The best possible economic way may actually not be the best way for heritage sustainability. In the same way, ideal conservation activities may sometimes prevent people to use heritage assets since they do not respond to their needs (which can be different from heritage asset's original function).

Economic aspects are not stand-alone concepts: they should be linked to other aspects (conservation, social and environmental aspects, cultural, tangible or intangible assets of each specific heritage).

In this kind of initiatives, the main goal should be to increase life quality of local communities and to ensure their participation to this process.

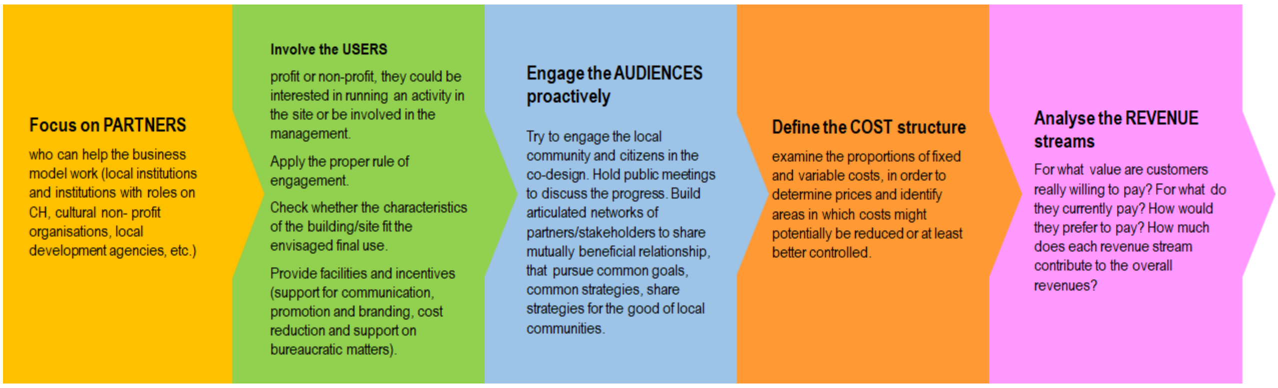
Sustainability and durability VS effectiveness and efficiency

Cultural heritage sustainability cannot be intended only as financial and economic viability (meaning by that successful matching of the available funds with all the required expenses as well as mechanisms for overcoming possible lack of funds). Concerns about durability and sustainability are important because un-sustained projects can result in a loss of investment. Surprisingly, few cultural institutions are yet thinking explicitly about sustainability. Sustainability and durability planning needs to begin long before the project implementation and should be carefully tackled by the funding authorities in their policy documents.

Without a full awareness of the crucial importance of durability and self-sustainability (as to achieve the long-term effects), cultural heritage investment risks to be ineffective and inefficient.

In this sense, it is extremely important to have cultural heritage assets' strategic and management plan that sets clear goals for heritage site management alongside its sustainability and durability.

Develop a strategic approach



Public institutions should always have a clear picture of their aims and purposes as well as of what processes they intend to trigger. There is usually a mix of different aims and purposes behind the decision to bring new life to the cultural heritage but it is advisable that institutions identify their main priorities.

It is essential to set strategic priorities and consequently to:

> Set a clear and reasonable TIMING of the restoration initiative to make it possible for private players to plan their activities. Uncertainty about time management is discouraging.

> Evaluate the IMPACT: the complexity of regeneration processes makes it hard to assess the results and the impacts connected with the interventions made and makes it even harder to evaluate the actual consequences of the measures taken by public institutions. The definition of a framework for the evaluation of expected results and impacts is crucial.

Private players are a heterogeneous and complex target

There are several typologies of private actors, depending on their higher or lower direct interest on enhancing culture with respect to their higher or lower interest on gaining economic financial benefits.

Different typologies of private organisations have different business models and relating to them is complex: public institutions should be able to design ad-hoc engagement strategies to reach each different target, since there is no one-fits-all policy for the involvement of privates in CH regeneration processes.

Each different type of potential private investor can envisage a different added value in investing (or not) in CH projects. A common mistake that especially profit private organisations make is to consider culture, heritage and art mainly as an opportunity to get ordinary economic goals such as increasing revenues or profit margins.

To overcome this narrow vision, public institutions should make private operators aware of the "psychological and social value" of an investment and act to create as much as possible a direct link to the local community that will be affected by the investment.

Local territories and local communities are complex systems comprising different needs, expectations, values and approaches that are usually in potential conflict to each other and involving them can be extremely time-consuming, and in turn expensive, as well as often unpredictable in terms of outcomes. This is particularly true for profit-oriented organisations as local communities are usually sceptical of the nature of such businesses and it might be difficult for these organisations to gain popular trust.

Consider to approach impact finance tools

Financial instruments and innovative business models are now facing the new opportunities offered by impact finance approach, which refers to providing capital for investments, with the intention to generate a measurable, beneficial impact alongside a financial return.

New financing tools are under development and experimentation as alternative tool to classic donations and speculative investments. Heritage investment can have positive return: heritage is the cultural capital just as environment is the natural capital. Through a balanced blend of regulations and incentives, the public and private values of heritage can be enhanced. They contribute to urban liveability, attracting talent, and providing an enabling environment for job creation.

Also in the Cultural Heritage sector, the social finance could play a strategic role in creating valuable partnerships between public and private bodies, to find funding and implement the more innovative projects, capable of generating transversal results that contribute to the improvement of the social and/or environmental conditions of the territory in which they are located.

4. For further reading:

- Vademecum on sources of funding for the cultural routes of the council of Europe 2019

  https://rm.coe.int/vademecum-12092019/1680973a5e

- IFISE Project. State of the art of financial instruments in the social economy, July 2018

  https://www.finpiemonte.it/Ifise-project/ifise-project-deliverables

- IFISE Project. Feasibility studies for the Financial Instruments designed, June 2019

  https://www.finpiemonte.it/Ifise-project/ifise-project-deliverables

- IFISE Project. Guidelines for the setting up of social impact focused FIs June 2019

  https://www.finpiemonte.it/Ifise-project/ifise-project-deliverables

- KEEP ON Project. A Practical Guide on Cultural Heritage and Sustainability

  https://www.interregeurope.eu/keepon/library/

- FINCH Project. A Living document on financial instruments and regulatory frameworks for the introduction of partnership with private sector, April 2020

  https://www.interregeurope.eu/fileadmin/user_upload/tx_tevprojects/library/file_1589466334.pdf

- ROCK project. Report on governance toolkits and financial schemes for implementation of CH-led regeneration projects, October 2019

  https://rockproject.eu/documents-list

- ROCK project. Taxonomically organised database of financial instruments elaborated by the University of York, October 2019

  https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5c4859b47&appId=PPGMS

- New Business Models in the Cultural and Creative Sectors (CCSs), European Expert Network on Culture (EENC) Ad hoc question, June 2015

  http://www.interarts.net/descargas/interarts2540.pdf

- Towards an integrated approach to funding cultural heritage for Europe, Contribution by the European Investment Bank to funding Cultural Heritage projects, Mario Aymerich, Director

  http://www.europanostra.org/wp-content/uploads/2017/04/2015-FundingCulturalHeritage-EIB.pdf

- Rigenerare spazi dismessi. Nuove prospettive per la comunità. A cura di Fondazione Fitzcarraldo. I quaderni della Fondazione CRC. Quaderno 73.

  https://www.fondazionecrc.it/index.php/analisi-e-ricerche/quaderni

- Boosting creative entrepreneurship through creative-based urban strategies, CREATIVE SPIRITS, URBACT III Programme

  https://urbact.eu/sites/default/files/creative_spirits_state_of_the_art.pdf

- ANNEX 2 - Horizon Europe Cluster 2 culture, creativity and inclusive society

  https://docplayer.net/152382509-Annex-2-horizon-europe-cluster-2-culture-creativity-and-inclusive-society.html