International Online Webinar: Challenges in Heritage Management
Rijeka | 14 October 2020

The economic challenge and the use of innovative financial schemes

FINPIEMONTE | Susanna Longo | Project Partner

THE ECONOMIC CHALLENGE

INFRASTRUCTURAL INVESTMENT (conservation and renovation)

Cultural heritage valorisation is expensive.
How to finance?
Which financial instruments?
Which budget providers?

REGULAR OPERATING AND MAINTENANCE

Co-funded by the European Union

CAPITALISATION

Interreg CENTRAL EUROPE ForHeritage

Collect knowledge from existing studies, EU-funded projects and practices.

Elaborate a practical synthesis addressed to public and private actors dealing with the management of cultural heritage:

- baseline knowledge and an introductive overview
- real cases and inspirational experiences
- practical tips and lessons learnt

CLIC – Circular models Leveraging Investments in Cultural heritage adaptive reuse

IFISE – Innovative Financial Instruments in support to the Social Economy

KEEP ON – Interreg Europe – Effective policies for durable and self-sustainable projects in the CH sector

ROCK – Regeneration and Optimisation of Cultural Heritage in creative and Knowledge citie

FINCH – Interreg Europe – FINCH - Financing impact on regional development of cultural heritage valorisation

HOW TO (CO) FUND?

- **GRANTS AND DONATIONS** >> not repayable. Can be direct funding (providing money) or indirect funding (e.g. covering the cost of FIs, such as the interest rate).

- **FINANCIAL INSTRUMENTS** >> to be repaid and could envisage a return for investors

- **MARKET REVENUES/FEES** >> sale of good and services

- **HYBRID INSTRUMENTS** >> combination of 1, 2, 3 in a risk sharing mechanism

A combination of instruments is the "optimal" funding mix

WHICH FINANCIAL INSTRUMENTS?

FINANCIAL INSTRUMENTS >> to be repaid and could envisage a return for investors

DEBT: a lender, a borrower, an agreed sum of money to be repayd within an agreed time.

EQUITY: provision of capital to a firm, invested in return for total or partial ownership of that firm.
The investor may also assume some management control of the firm and may participate to profits sharing.
The financial return depends on the growth of the business.

INNOVATIVE AND ALTERNATIVE FINANCIAL INSTRUMENTS?

Interreg CENTRAL EUROPE European Union European Regional Development Fund ForHeritage

INNOVATIVE

are aimed to increase the volume of credit available and go beyond the mainstream private finance mechanisms (often inaccessible)

ALTERNATIVE

They do not use banks as intermediaries.
They are **complementary** to the financing obtainable through banks.

Private equity, mini bonds, crowdfunding and digital financing platforms (fin tech), impact finance and payment by results, ppp etc.

CROWDFUNDING

- A type of Fin Tech (bottom-up financing) most applicable to the cultural domain.
- Using the Internet (through a dedicated platform) to raise funds from groups of people with common interests.
- The EC is promoting harmonization of legislation at European level.

    - Donation-based (simple donation, no rewards)
    - rewards-based (rewards depending on the donated amount. Mainly gadget-type non-financial rewards, meetings with the creator etc.)
    - equity crowdfunding (financing in the form of risk capital in order to obtain stakes in the company)
    - social lending (personal loan granted among private individuals)

IMPACT FINANCE APPLIED TO CH

- The investor provides capital with **the intention to generate a measurable impact**, alongside with a financial return.
- The financial resources are allocated in relation to predetermined objectives/targets and the return is tied to the achievements.
- The primary purpose of the investment is the impact.
- Impact assessment is fundamental: highly debated topic at international level, to define standard methodologies.

Impact Bonds / Pay-by-Result Contracts

WHICH BUDGET PROVIDERS?

PUBLIC FUNDING

- Mainly non-repayable grants.
- Can be used to facilitate access to private FIs (guarantees for private lenders).
- Can be allocated also through **public procurement.**
- Can be provided also through **financial instruments by financial intermediaries** (banks, funds, platforms).

SHORTAGE of public resources ❯ INCREASED use of FIs by public entities

Grants are increasingly combined with repayable financing instruments

generate a ‘leverage effect’ to raise additional private resources

WHICH BUDGET PROVIDERS?

PUBLIC FUNDING – EU FUNDING

- CH is widely supported by a range of EU policies and programmes.
- CH is included in Horizon Europe 2021-2027, in Pillar n.2, within the Cluster on Culture, Creativity and Inclusive Society.
- The EIB (European Investment Bank) and the EIF (European Investment Fund) manage some finance instruments through financial intermediaries
  JESSICA loan (Joint European Support for Sustainable Investment in City Areas)
- Reference website www.access2finance.eu

WHICH BUDGET PROVIDERS?

PUBLIC FUNDING – policy design perspective

ADVANTAGES	BUT…
▪ Funds are repaid and it is possible to re-invest them again. ▪ The due diligence and the repayment obligation may attract projects with higher quality.	▪ different FIs have PROs and CONs (management costs, risk, etc) to be taken duly into consideration
▪ More cost-effective use of public funds: attraction (leverage) of private fund	▪ How to conciliate private business goals and social, cultural and environmental aims?

WHICH BUDGET PROVIDERS?

PRIVATE FUNDERS

- **philanthropic investors** >> mainly grants (do not expect a financial return)
- **Banks**
- **Investors reached through alternative channels** (funds, capital market and crowdfunding)

  ➡ Use financial instruments

  ➡ Expect to have a financial return

  ➡ Typically operate through the **investment fund** instrument: collecting capital from institutional or private investors to be invested in initiatives with high return potential.

OVERVIEW AND EXAMPLES

				PUBLIC	PUBLIC+ PRIVATE	PRIVATE				
						banks	alternative channels			philanthropic investors
							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. Silesia Fund of Fund (Poland) 6. Fond Tourisme Occitanie (France)	7. Arts & Culture Impact Fund (UK) 8. Cultural Impact Development 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 -SCF (Bulgaria)					

OVERVIEW AND EXAMPLES

				PUBLIC	PUBLIC+ PRIVATE	PRIVATE				
						banks	alternative channels			philanthropic investors
							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. Silesia Fund of Fund (Poland) 6. Fond Tourisme Occitanie (France)	7. Arts & Culture Impact Fund (UK) 8. Cultural Impact Development 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 -SCF (Bulgaria)					

1 2 3 4 5 6 7 8

CONCLUSIONS and TIPS for the use of innovative financial schemes in the Cultural Heritage Sector

1 RELATE TO THE CONTEXT

"Appropriate forms of finance need to be tailored to the market imperfection being addressed".

A set of **conditions** should be taken into consideration before deciding to use one financial instrument or another:

- the **INSTITUTIONAL CONTEXT** (offer of the banking sector)
- the **TARGET** (stage of maturity, eligibility criteria, etc.): is it large enough to ensure the cost-effectiveness of your action, in relaton to the management cost and the risk for losses?
- The **ATTRACTIVENESS** for private investors

Design the right instrument responding to the different needs according to the economic moment.

2 COMBINE INSTRUMENTS

Use financial instruments in combination with other support services

FIs should not be used as single and isolated tool: they should be combined with other services: advice, training, consultancy, energy audits, etc. in order to optimise intervention.

3 CONSERVATION + MANAGEMENT

Do not forget the operating and maintenance costs

The investment cost is only one part of the overall funding needed. The larger part over time is the operating and maintenance cost.
Investment and operation may have different funding sources.

4 HOLISTIC VIEW

Interreg CENTRAL EUROPE
European Union European Regional Development Fund
ForHeritage

Take into consideration the social, cultural, economic and environmental aspects and properly manage them all.

- The best economic way, may not be the best way for sustainability.
- Ideal conservation may not respond to the needs of and users.
- Main goal: increase life quality an participation of local communities.

5 SUSTAINABILITY AND DURABILITY

For an effective and efficient investment, have a strategic plan that considers both economic viability and durability.

- Economic viability = matching of funds with expenses.
- Durability and sustainability are crucial to long-term effects.

Adopt a strategic approach

- Focus on **PARTNERS** that can help the business model work
- Define the **cost** structure and the **revenue** stream
- Focus on the **USERS** that can be involved in the intervention
- Set a clear and reasonable **TIMING** as to make it possible for private players to plan their activities.
- Ensure the active strategic engagement of **AUDIENCES**
- Evaluate the **IMPACT**

7 ADDRESS PRIVATE PLAYERS

Private players are a heterogeneous and complex target: desing ad-hoc strategies to approach them

- Higher/lower **INTEREST** on enhancing culture VS higher/lower interest on economic benefits.
- Different typologies of private organisations have different **BUSINESS MODELS** and relating to them is complex.
- Different type of investors can envisage a different **ADDED VALUE** in CH: help them in seeing the "psychological and social value".
- Create a direct link to the **LOCAL COMMUNITY** that is usually sceptical in trusting business investors: enable bidirectional dialogue.

8 CONSIDER IMPACT FINANCE

Implement more innovative projects, capable of contributing to the improvement of the local social/environmental conditions.

- Impact finance opens to new financing tools, as alternative to classic donations and speculative investments.
- Also in CH, social finance can play a strategic role in creating valuable partnerships between public and private bodies.

THANK YOU!

International Online Webinar: Challenges in Heritage Management
Rijeka | 14 October 2020

The economic challenge and the use of innovative financial schemes

FINPIEMONTE | Susanna Longo | Project Partner