FINCH
Interreg Europe

European Union
European Regional
Development Fund

Living document on financial instruments and regulatory frameworks for the introduction of partnership with private sector

by UNITO

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Contents

Premise

FINCH project will help partner regions in improving their policies in the field of valorisation of cultural heritage. It will support the implementation of light financial instruments targeted to private actors and Public-Private Partnerships to enable local and regional policies move towards more sustainable models of cultural heritage valorisation.

As stated in the application form of FINCH project:

The issue addressed by the project is the protection, valorisation, management and exploitation of cultural heritage through the support of light financial instruments (as micro loans or loans with public guarantee, crowdfunding, revolving funds) to leverage the participation of private actors, mainly young and innovative entrepreneurs and non-profit organizations, in public-private partnership solutions. The need to preserve cultural heritage is widely recognized: as written in the European Commission Communication "Towards an integrated approach to cultural heritage for Europe", published in July 2014 (COM(2014) 477 final), Europe’s cultural heritage, both tangible and intangible … is an irreplaceable repository of knowledge and a valuable resource for economic growth, employment and social cohesion. As heritage sites become spaces that produce both social and environmental capital, the cities and regions that host them turn into drivers of economic activity…; in short they generate innovation and contribute to smart, sustainable and inclusive growth, in line with the objectives of the EU 2020 strategy. And, again: “under the European Regional Development Fund investment in culture and heritage should be part of integrated and sustainable economic development strategies. It can cover a wide spectrum of activities in the public, non-profit and private sectors (in particular SMEs), pursuing investments that contribute directly to the fund's objectives and investment priorities”. Investments in cultural heritage, as part of a territorial strategy, should contribute both to the development of endogenous potential and to the promotion of social inclusion and quality of life. Anyway the availability of financial resources to do so is often deficient. Public institutions have tried to interrupt this trend introducing different instruments for increasing private sector participation in the cultural heritage protection and valorisation (like Public-Private Partnerships). Nevertheless, the shortage of financial resources and the problem of accessing finance hinder the participation of some private actors, above all non-profit oriented organizations or young entrepreneurs: the investment situation of these two types of actors is clearly sub-optimal, due to the presence of market failures and to their bankability profile. In this kind of integrated strategies is needed a financial support which only the public party can guarantee. Considering that the challenge of FINCH is common to the entire Europe, common solutions will only be met through an effective cooperation at interregional level, through exchange and policy-learning among the relevant policy organizations, leading to knowledge generation and improving the performance of regional development policies and programmes.

In order to achieve the objectives of the project, FINCH will set out a step-by-step approach, which allows delineating more clearly the scope of the different project activities and what they bring to all partners. This step-by-step approach is needed to address all the challenging dimensions (economic, environmental, social and cultural) of the protection, valorisation, management and exploitation of cultural heritage through the support of light financial instruments and with PPPs. With regard to the project goals, the step-by-step approach realizes in:

- benefit from the diversity of approaches and experiences within the partners regions, through a policy learning process based on exchange of practices and experiences (integration, step 1);
- overcome the gaps in experience and expertise among the partners through transfer of knowledge and mutual learning (capitalisation, step 2);
- jointly face common challenges (improvement, step 3);
- join efforts to elaborate and implement regional action plans (cohesion 4).

Through step 2 (capitalization), the partnership develops this Living document on financial instruments and regulatory frameworks for the introduction of partnership with private sector and will periodically update it (each time after 2 workshops), after discussing main obstacles and challenges in implementing financial instruments and building linkages among actors operating in cultural heritage and financers, faced by PPs. The intention is to lead the partners' staff to a network working method, creating a community of practices. This living document is structured as an action guide for activities, conceived to be directed and governed at central level, but nourished by partner contributions for the enhancement and step-by-step upgrade of skills.

Introduction: the Evolution of the Valorisation of Cultural Heritage

The notion of “cultural heritage” can be considered as the legacy of physical artefacts and intangible attributes of a group or a society that are inherited from past generations, maintained in the present and bestowed for the benefit of future generations[1].
Furthermore, Cultural Heritage stands for an all-encompassing vision of services (provided by public bodies – e.g. facility management, mobility, security, hospitality, tour guides, educational activities, disability support, music events, neighborhood initiatives) which go beyond the management of the individual building / monument, attracting users as actors of any cultural heritage re-use project. This process is complex and it requires the definition of a correct approach according to the characteristics of the relevant community, since traditional communication approaches tend to concentrate on the messages that pass from the heritage asset experts and managers to (potential) users while overlooking the potential of the reverse flows (from users to experts/managers) and horizontal flows (from users to users). Now, digitalization and data analysis provide both the possibility to improve the aforementioned process[2].
As part of human activity, Cultural Heritage produces tangible representations of value systems, beliefs, tradition and lifestyle.
The Universal Declaration of Human Rights of 1948 provides for a right of each individual to benefit from the cultural life in its community, setting up a right to participate in full freedom “in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits”[3]. This statement was further specified in the International Covenant on Civil and Political Rights (adopted by the General Assembly of the United Nations in 1966)[4], and in the Convention on the Value of Cultural Heritage for Society (Faro Convention, 2005) [5], seems to attribute an individual or collective right to enjoy the benefits of scientific progress and of Cultural Heritage[6].

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[1] In this view Cultural Heritage can be considered as an expression of the ways of living developed by a community and passed on from generation to generation, including customs, practices, places, artistic expressions and values; from March 30 to March 31, 2017, in Florence, the first ever G7 meeting of Ministers of Culture, together with representatives of the EU and of UNESCO, took place under Italy’s Presidency of the G7, and resulted in the issue of a joint declaration on “Culture as an instrument for dialogue among Peoples.” See, L. Casini, *International Journal of Constitutional Law*, Volume 16, Issue 1, 12 May 2018, 1–10; C. Vitale, *La fruizione dei beni culturali tra ordinamento internazionale ed europeo*, in *La globalizzazione dei beni culturali*, a cura di L. Casini, Bologna, 2010, 171.

[2] See the section on “Heritage System Communication”. See also: J.-B. Auby, *Droit de la Ville*, LexisNexis, Paris, 2016 ; S. Andreani, F. Bianconi, M. Filippucci, A. Sayegh, *Responsive cities: tecnologie digitali, spazi interattivi ed esperienze urbane aumentate*, in (ed. by G. F. Ferrari) *La prossima città*, Mimesis Edizioni, Milano, 2017, 426 s.

[3] art. 27 - R. Cavallo Perin, *Il diritto al bene culturale*, in *Dir. Amm.*, 4/2016, 495-510; E. Stamatopoulou, *Cultural rights in international law: article 27 of the UDHR and beyond*, Leiden-Boston, 2007, 37 s. At international level, see also the notion of “cultural asset” provided by the Convention for the Protection of Cultural Property in the Event of Armed Conflict (The Hague, May 1954).

[4] In Italy, see Law 25 October 1977, n. 881. E. Craig, *A right to cultural identity in a UK Bill of Rights?*, in *European Public Law*, 2013, 19 (4), 689 s.; Y. Donders, *Study on the legal framework of the right to take part in cultural life*, in Y. Donders and V. Volodin (eds.) *Human Rights in Education, Science and Culture: Legal Developments and Challenges*, UNESCO/Ashgate, December 2007, 231; R. Stavenhagen, *Cultural Rights: A Social Science Perspective, in Economic, Social and Cultural Rights*, ed. by A. Eide, C. Krause, A. Rosas, Dordrecht, 2001, 85 s.

[5] Convention on the Value of Cultural Heritage for Society, 27 October 2005, art. 1, § 1 lett. a.

[6] International Covenant on Civil and Political Rights, art. 15, co. 1, lett. b.; R. Cavallo Perin, *Il diritto al bene culturale*, in *Dir. Amm.*, 4/2016, 495-510.

To enhance Cultural Heritage's valorisation, it is necessary to ensure its conservation in a dynamic and productive perspective, thus by attracting and incubating new activities, by revitalizing the old ones, by improving people general wellness *(right to the fruition*) and by assuring environmental sustainability *(duty to assure the fruition)*.
Moreover, globalization, development, economy and demographic change are the main factors that directly impact the preservation of historic urban environments, increasing the obsolescence of monumental, historic publicly-owned buildings, for which governments are obliged to find new contemporary uses[7].
Indeed, a considerable part of cultural heritage resources is located in countries which are going through an economic stagnation-phase, where stringent budget constraints, high public debt and the contraction of public finance involve cultural heritage (museum collections, archaeological sites, palaces and historic houses, etc.), and deal with the lack of management expertise in the public sector.
At the same time, huge financial resources have accumulated in China, the Gulf or other emerging countries - which have emerged - thanks to economic progress, developing interest in the "heritage assets" of other countries, with the aim of promoting tourism and cultural exchange[8].
A process of decentralization took place (particularly in European countries) reducing the role of central governments in the implementation of policies for the cultural heritage aimed to improve the intervention to other levels of government and, above all, to the private sector[9].
Private contribution in financing public sector is called upon to play an increasingly active role financing and directly managing cultural institutions, so that cooperation between the business and culture worlds has become an established practise nowadays[10].
Financing investments in cultural heritage has a direct impact on growth and a considerable potential for creating new jobs, which leads to long-term social and economic benefits encouraging also the search for alternative financing models. For example, so-called "cultural arbitrage" operations began to take shape, cross-border collaborations between governments, financial institutions and companies that allow countries with scarce financial endowments to protect, conserve and enhance some cultural heritage, sharing its economic and extra-economic benefits with rich countries, but relatively poor in heritage[11].
Lately more and more light has been shed on various public-private initiatives, including fiscal incentives (such as various tax relieves, percentage legislation, transfer of art *in lieu* of tax payment, earmarked taxes, vouchers), matching funds and the involvement of private

[7] Council conclusions on cultural heritage as a strategic resource for a sustainable Europe adopted 21 May 2014, available at *register.consilium.europa.eu/doc/srv?l=EN&f=ST%209129%202014%20INIT*.; EU Commission, *Towards an integrated approach to cultural heritage for Europe*, 22 July 2014, COM(2014) 477 final, *http://ec.europa.eu/assets/eac/culture/library/publications/2014-heritage-communication_en.pdf*.

[9] A. Klamer, L. Petrova, A. Mignosa, *Financing the Arts and Culture in the European Union*, Brussels: European Parliament, 2006, available at *http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL-CULT_ET%282006%29375309*.
[10] European Parliament, Directorate General for Internal Policies, Policy Department B, *Structural and Cohesion Policies, Encouraging Private Investment in the Cultural Sector. Study*, 2011, available at *www.europarl.europa.eu/RegData/etudes/etudes/join/2011/460057/IPOL-CULT_ET%282011%29460057_EN.pdf*, in which it is stated that "mixed funding economy of arts and culture could raise new perspectives for the sustainability of cultural sector activities instigated a pressure for finding other sources to complement public funds and encourage their use".

companies in the management of cultural institutions[12]. In this sector, public-private partnerships schemes have often been encouraged, ranging from individual and entrepreneurial investments or joint ventures to grant-giving foundations (e.g. banking institutions).

[12] THINK PAPERS COLLECTION / 07, Public-Private Partnerships for Cultural Heritage: Opportunities, Challenges, Future Steps, available at http://www.digitalmeetsculture.net/wp-content/uploads/2016/04/rch_thinkpapers_07.pdf.

Part 1 – Investments in the Cultural Sector: evaluation methods, dissemination and implications for the territory

The objective of the chapter is to identify the most important drivers to disseminate and evaluate the investments in the cultural sector. The cultural sector is an important driving force for many countries, but each country has specific characteristics that can influence the allocation of investments such as the number of tourists or the number of cultural sites and attractions. For this reason - from a theory and a practical point of view – there is not a unique method to measure the impact of investments done in the sector but, according to the single situation and the established goals, it is possible to share guidelines that help institutions to achieve success. Moreover, it is necessary to consider that it is fundamental to communicate and disseminate on the territory information about cultural events, investments done, goals achieved and make the cultural sites available to the community in order to achieve a common and shared success.
In the following paragraphs the authors will delineate the role of the culture and the main elements that can influence the cultural weight in a country, the investments process and the impact that can be generated and monitored by public and private institutions, and finally, the role of communication and the importance of involving the community in the cultural projects.

1. Culture: some definitions

"Culture may [...] be said to be the whole complex of distinctive spiritual, material, intellectual and emotional features that characterize a society or social group. It includes not only the arts and letters, but also the modes of life, the fundamental rights of human beings, value systems, traditions and beliefs" (UNESCO, 1982:41). The definition proposed by UNESCO highlights the social, foundational and, identity nature of the concept of culture. This description is representative of regional and national diversities and specificities, but at the same time it represents a basis for the identification of a shared heritage (EU, 1992).
Culture is therefore a crucial element as the first form of patrimony that characterizes a more or less broad social group and that provides it with a common base. It is essential that cultural multiplicity be respected: "culture diversity widens the range of options open to everyone; it is one of the roots of development, not just in terms of economic growth, but also as a means of achieving satisfactory intellectual, emotional, moral and spiritual existence" (UNESCO, 2002:4). Thus, cultural heritage is just a legacy or a capital that remains immovable. Conversely, the heritage is a real resource for an economic and cultural development. This progress is nodal, since it allows the survival and sustainability of the community, therefore the durability of culture.
Two other descriptions underline the above picture.
The first is that of UNESCO, which defines heritage as "our legacy from the past, what we live with today, and what we pass on to future generations. Our cultural and natural heritage are both irreplaceable sources of life and inspiration".
The second one is that of "Council conclusions of 21 May 2014 on cultural heritage as a strategic resource for a sustainable Europe" (EU, 2014). In the document, the European Union regains and updates its strategic role: "cultural heritage consists of the resources inherited from the past in all forms and aspects - tangible, intangible and digital (born digital and digitized), including monuments, sites, landscapes, skills, practices, knowledge and

expressions of human creativity, as well as collections conserved and managed by public and private bodies such as museums, libraries and archives. It originates from the interaction between people and places through time and it is constantly evolving. These resources are of great value to society from a cultural, environmental, social and economic point of view and thus their sustainable management constitutes a strategic choice for the 21st century".
Culture heritage can be described as all the assets that have been significantly influenced by the past (Timothy and Boyd, 2003) and, to value its impact, the adoption of a more holistic approach simultaneously considering the contribution of cultural, social, environmental and economic aspects is suggested (European Commission Report, 2015).

Such holistic approach can help policy makers in obtaining multiple benefits on their territories.

2. Culture as a driving force toward growth: from investments to tourism development

The role of culture is important for many countries because every expense in the cultural sector can influence the whole local economy affecting and contributing to develop other important industries, enhancing regional competitiveness (Re et al., 2006; European Commission Report, 2015). Due to its role of connector between different sectors, it is

possible to look at the culture as a starter of economic local dynamism, as trigger of an accumulation process and repartition of value through the different players present in that area.
However, in the majority of the cases, culture is considered as a fundamental driver for the growth of a country because it can attract tourists on the territory that usually spend money and time for cultural activities; cultural heritage, in fact, provides destination a unique identity that can be leverage through marketing strategies (European Commission Report, 2015; Mourato and Mazzanti, 2002). If marketing strategies work, the economic dynamism is activated: the money coming from tourists start the added value creation process in the local economy and more jobs are created within the sector. Cultural heritage is estimated to produce almost 27 indirect jobs position for each direct job (European Commission Report, 2015).
As a consequence, institutions and organizations invest their money in the cultural sector in order to raise the cultural level of the country and attract a higher number of tourists.
Is the role of culture the same in every country? Why the same amount of investments done in the cultural sector of different area does not correspond to the same return of value created?
First of all, the role and the presence of cultural sites and attractions in each country is different and this is highly depending on the cultural heritage of the country/area. There can be a high variance in terms of number of museums, cultural sites, cultural events, communication programs, etc.
All these factors have an influence on the popularity of the country. In fact, cultural heritage sites besides contributing to the quality of life and characterizing towns, regions and countries, make them attractive to both residents and tourists (European Commission Report, 2015)

Table 1. Numbers about culture and tourism in some countries

Country	Cultural Investments (2015)	Number of Museums	Number of Unesco Sites	International Tourist Arrivals (2017)
Italy	0.7% del PIL	4720	54	58.253.000
Romania	1.2% del PIL	761	8	2.760.000
Germany	1.0% del PIL	6712	44	37.452.000
Spain	1.2% del PIL	1504	47	81.786.000
Finland	1.5% del PIL	323	7	3.181.000
Greece	0.8% del PIL	176	18	27.194.000
Polland	1.1% del PIL	944	15	18.400.000

In some cases, although the cultural heritage of a country is not so relevant, the investments done by institutions and organization can influence the obtained result. Every country has a spending program dedicated to culture and, in some cases, it can be an element able to launch a territory in the cultural industry or leave it in the middle. Cultural investments are not coming just from institutions and organizations but also from donations and sponsorships, for example. It is important to note that the level of diffusion of these instruments is very different from one country to another one.
A research conducted by the World cities culture finance (Sole24Ore, 2017) has underlined the role of cultural policies in 16 global cities around the world studying the relationship between the direct public investments (i.e. funds of institutions often used to make cities more attractive), the indirect public investments (i.e. fiscal facilitation) and donations/sponsorships. In USA donations and sponsorships are the first sources of investments (in New York donations and sponsorships represent the 70% of all investments

done in the sector) while in Paris, Moscow and London they are characterized by a majority of direct public investments. In these short highlights it is possible to understand the different approach used by countries.
Another important aspect is linked to the number of tourists that culture can move: the relevance of the cultural heritage can attract a lot of tourists all over the country. Tourists can spend their money and contribute to the above-mentioned economic dynamism. Tourists can be of different nature and it is important to classify them: according to the reasons of their visits different elements can influence their choices. This is a matter of segmentation and target market: if you know why someone has chosen your territory you can more easily control the effect of a strategic decision.
It is possible to identify some categories of tourists: generic tourists, cultural tourists, occasional tourists and local tourists. Generic tourists are tourists coming just to visit a specific territory: they are on holiday and they have different interests among which culture; so, if they heard about events, museums and important sites they can decide to visit them. Cultural tourists are tourists whose main interest is the culture, so they look for specific information and often they decide the destination according to the culture possibilities offered by that country; in this case, they are an active part of the research process. Occasional tourists are tourists that have some free days and decide to spend some money for a travel; in this case, a specific event can influence their decision on the destination; just an important cultural site or museum or event can convince them. Finally, the local tourists are those already present in the territory: they are moved by single initiatives, often they go to visit a city nearby and in this case also minor events or cultural sites can be important in taking the decision to visit a city or a museum.
Tourists, however, typically include in their trips visits to cultural sites i.e. from a walk in an historical town to a tour in a museum, and they benefit from experiences, memories and feelings offered by heritage assets (Mourato and Mazzanti, 2002).
Cultural tourism is a guideline of the Commission as a promoter and a means of what is called "a unique tourist destination", in which values and heritage can be shared and used (European Commission Report, 2015). A significant project inside of this line is that of the Cultural Routes of the Council of Europe Council of Europe cultural routes, launched in 1987 with the Declaration of Santiago de Compostela, which puts into practice the values of the Council: human rights, cultural diversity, intercultural dialogue, etc. The routes are 31 and are certified on the basis of certain items, including:

- enhancing European heritage and help give a reading of the present cultural diversity;
- supporting cultural and educational exchanges;
- developing innovative projects in the field of cultural tourism and sustainable development, as well as accessible to all types of users.

It is thus clear that culture and tourism can be a successful combination for a sustainable development. In Italy, cultural and creative production system represents the 6.0% 6.1% of total employment and wealth products in Italy. Core culture jobs account for 3.8% of value added and employment for 3.7% manufactured in Italy.
More specifically, the cultural industries produce 33.6 billion euros of added value (2.2% of the National Assembly), thanks to the use of 488,000 workforce (the 1.9% of total employees) (Symbola, 2018).

Considering one last aspect concerning tourist offers based on culture, in addition to cross-contamination between culture and economy, this mix can allow a continuous improvement of intellectual capital: involved human resources in services related to cultural touristic products improve their skills, know-how, competencies (Erickson and Rothberg, 2015). Eventually, there is a constant growth of different capitals that allows the enhancement of local heritage: the creation of jobs and the production of revenues that is a marriage to be maintained and strengthened.

However, there are some important strategic elements to consider in implementing all the initiatives: to find a way to measure all the initiatives on the territory (e.g key performance indicator); to monitor trends over time; to share data and best practices; identify the areas (e.g. economic, social, cultural, environmental) in which maximizing the impact (European Commission Report, 2015). One of the most difficult strategic elements to implement is the measuring of all the initiatives (eg. KPI). For this reason, considering the four pillars above presented a number of subdomains and indicators are here proposed, with an example of the obtained results. It is not always easy to gather data or information and sometimes can be impossible to have specific insights, however, in the majority of the cases data can be gathered.

Domain	Subdomain	Indicator	Results
ECONOMIC	Cultural tourism	Amount of visitors and their expenditures Accessibility of the city Number of heritage-related events in the city	180,000 night visits, 775,000 day trips and 55 million EUR of income (in 2011) Easy to reach by car, bus, train. Twelve parking lots and tourism signage throughout the city No data
	Jobs	Amount of jobs directly related to heritage Amount of jobs indirectly related to heritage	2.8 FTEs in Monumentenzorg (in 2014) and 1.7 FTEs guides (in 2013) No data
	Maintenance and restoration works	Estimate of the city for future maintenance and restoration works of the immovable heritage Amount of contractors active in Mechelen and their activities Turnover of heritage-related contractors (example)	33,850,000 EUR from 2014 to 2019 No data 8% of the turnover of Altritempi from 2002 to 2013 came from projects in Mechelen
	Real estate	Rental values of heritage Property prices in the proximity of heritage	No data An increase of 257% in real estate prices in Mechelen from 2002 to 2012
	Attracting new investments	Opinion of people about heritage as a factor to attract new investments	40% of the respondents rank this factor as the least important out of six when setting up a new investment
CULTURAL	Education	The influence of heritage on students' knowledge about their culture's past Offer of specialised studies related to heritage in schools	No data. 71% of respondents think that it should get more attention in class In Mechelen, there are 5 studies related to immovable and 2 to movable heritage
	Civic pride	Opinion of inhabitants about the image of Mechelen Opinion of people about immovable heritage contributing to their feeling of identity	84% of the respondents think that Mechelen has obtained a new image and heritage projects are rated as the biggest contributing factor 48.5% of the respondents identify themselves as Mechelaars, of which 71% state that the built heritage contributes to this feeling
	Recreation	Number of recreational activities taking place in the heritage Number of visitors on Open Monuments Day	No data, but 85.3% of the respondents have visited a heritage building in Mechelen in the past 14,662 visitors in Mechelen in 2013
	City revitalisation	Opinion of inhabitants about a trade-off between a heritage and a non-heritage building	74.7% of the respondents would prefer to keep the heritage building (the Hanswijk Basilica)
	Quality of life	Willingness to pay by inhabitants for the entrance to a heritage monument Preference of people for their residence	41.2% of the respondents would be willing to pay 2.5 to 5 EUR, 23% 5 to 10 EUR, 17.3% 1 to 2.5 EUR and 11.1% nothing 18.8% and 6.6% of the respondents would mostly like to live in a protected or an unprotected heritage building in the urban centre respectively

	Policy	Opinion of inhabitants about the policy on the conservation and maintenance of heritage	57.9% of respondents agree with the number of organised heritage projects, while 17% think the city invests too much money in these projects
SOCIAL	Cultural tourism	Carrying capacity on a social level	Inhabitants are not disturbed by tourists
		Satisfaction of visitors coming to Mechelen	Large majority of the tourists are satisfied with their visit to Mechelen
	Social cohesion	The amount and popularity of initiatives related to immovable heritage	No data
		Perception of involvement of the inhabitants in heritage	More or less 50% of the inhabitants feel they are involved in heritage
		Number of heritage related activities involving minority groups	No data
	Education and personal development	Increase of awareness of heritage (including its history) by the inhabitants	72% of the respondents agree that heritage should be addressed frequently in school
	Quality of life	Opinion on feelings of safety: increased/ decreased feeling of safety in the city	65% of the respondents feel safe in Mechelen and 46% acknowledge that this feeling has altered during the past decade
		Increase or decrease of crime statistics in Mechelen	No noteworthy change during the past decade
		Feeling of well-being of the inhabitants	No data
		Increase of interest in living in heritage buildings	20% of the respondents would prefer to live in a protected building and 7% in an unprotected heritage building inside the city centre
ENVIRONMENTAL	Reduction of emission and pollution	Amount of pollution related to heritage	No data
	Energy efficiency	Energy consumption of heritage buildings	No data
		Accessibility and congestion related to heritage	No data
	Quality of life	Development of green areas related to heritage	No data
		Carrying capacity on an ecological level	No data
		Heritage as part of the urban planning	No data

3. The importance of a sustainable approach

Culture is an input for the economic growth, because of its role of non-replaceable resource, allowing local innovation, transformations and generating positive impacts (European Commission Report, 2015; Anderson e Hardwick 2017; Favre-bonté e Thevenard-puthod 2013). This meaning of culture is linked to the concept of sustainable development that is a coevolution of human needs - to which an economic approach responds - that must be respectful of natural resources and assess its social impact (Elkington 2013; 1997).

It is clear how this could be the fundamental input of the tourism sector: tourism is based on local resources that become an attractor for visitors. The industry is typically considered as sustainable (Dini, 2008) and follows the direction of Brundtland report “Our Common Future” (Brundtland, 1987) integrating economic, environmental and social goals. UNWTO - United Nations World Organization, the United Nations World Tourism Organization that in 2005 collects the legacy of the Brundtland Report in 2005, proposes two considerations:

- the increase in tourism significantly contributes to global economy, but necessarily implies a greater use of the natural environment and its resources, because it significantly increases the impact on the ecosystem;
- tourism can contribute to improving, over time, the tenor of life of countries and mostly of lower-income areas (UNWTO, 2016).

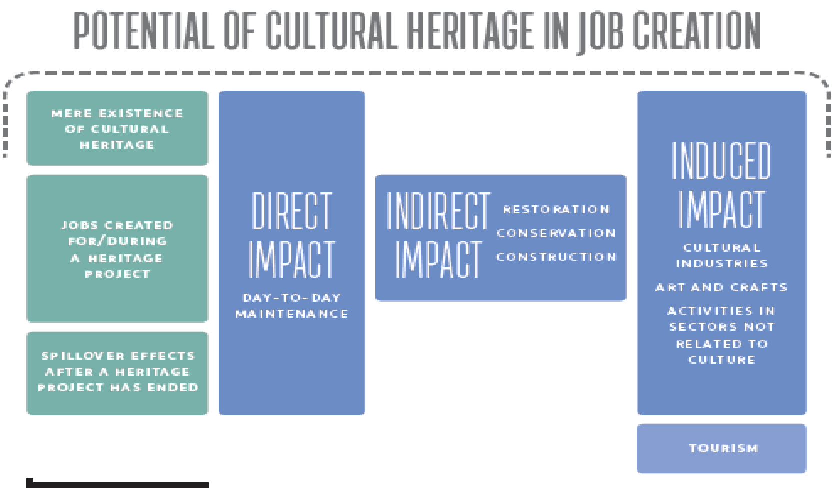
Accordingly, it is necessary to manage two opposing tensions to find an effective balance: sustainable tourism “takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities” (UNEP, 2005:12).
It is crucial:

- to make an optimal use of environmental and cultural resources, because these are a key factor. This results in a conservative, attentive approach to biodiversity;
- to enforce the authenticity of host communities respecting their cultural heritage;
- to ensure economic actions that are feasible in the long run transferring socio-economic benefits to all stakeholders starting from employment, opportunities for revenues and social services for host communities.

The Travel and Tourism industry becomes a trigger for the economic development, as well as a vehicle for a cultural dissemination and sharing.
The potential achievement of these goals can be explained by some important data:

- in 2015 international tourism has generated 161.5 trillion dollars, reaching 2.3 trillion dollars for the following year (WTTC , 2017a);
- Tourism covers 10% of GDP – Gross domestic product
- The 7% of global export depends by tourism and 30% of global export of services.

According to data of the WTTC (2017b) forecasts of growth in tourism are conceivable over the next 10 years and should lead, in 2030, to 1.8 billion of international arrivals.
In 2016, the Travel industry and Tourism has directly contributed to the global economy with 109 million jobs worldwide; the growth in the year was 1.8% and generated nearly 2 million new jobs.

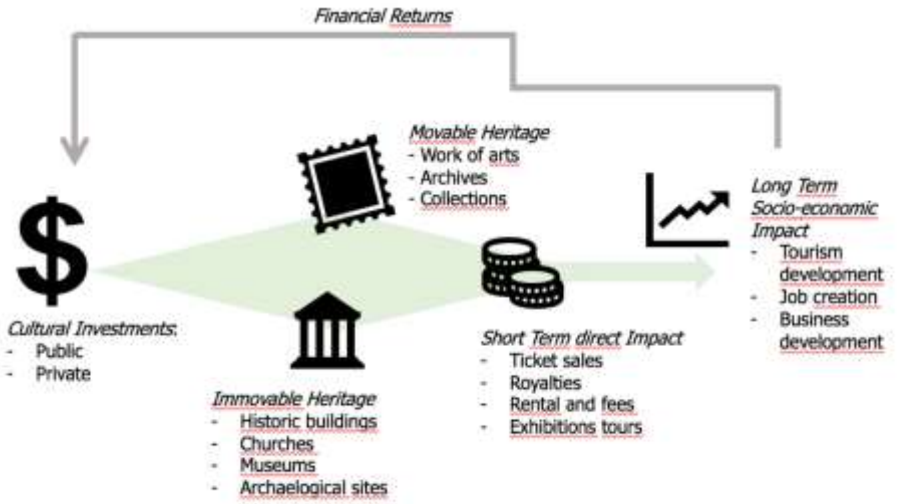


This results in 1/11 jobs globally due to the tourism sector. In addition, the direct contribution to GDP grew by 3.1%, compared to a global economic growth of 2.5%. The results represented an outperformance for 6 consecutive years.
Taking into account the indirect and induced effect the contribution in 2016 is 7.6 trillion and 292 million of loans or 10.2% of global GDP and 1/10 jobs. The total new positions created in 2016 are 6 million: about 1/5 (23% of the total) of all new jobs in the year is related to Travel and Tourism.
In Europe, due to the historical, artistic and natural characteristic, the tourism is an economic, cultural resource as well as a conservation and enhancement tool and an engine of sustainable development.
The Sustainable Development Goals of the United Nations establishing sustainable development goals for 2030 devote a declination to tourism, highlighting, in particular the role of culture (ONU, 2015).

4. The flow of the investments' process

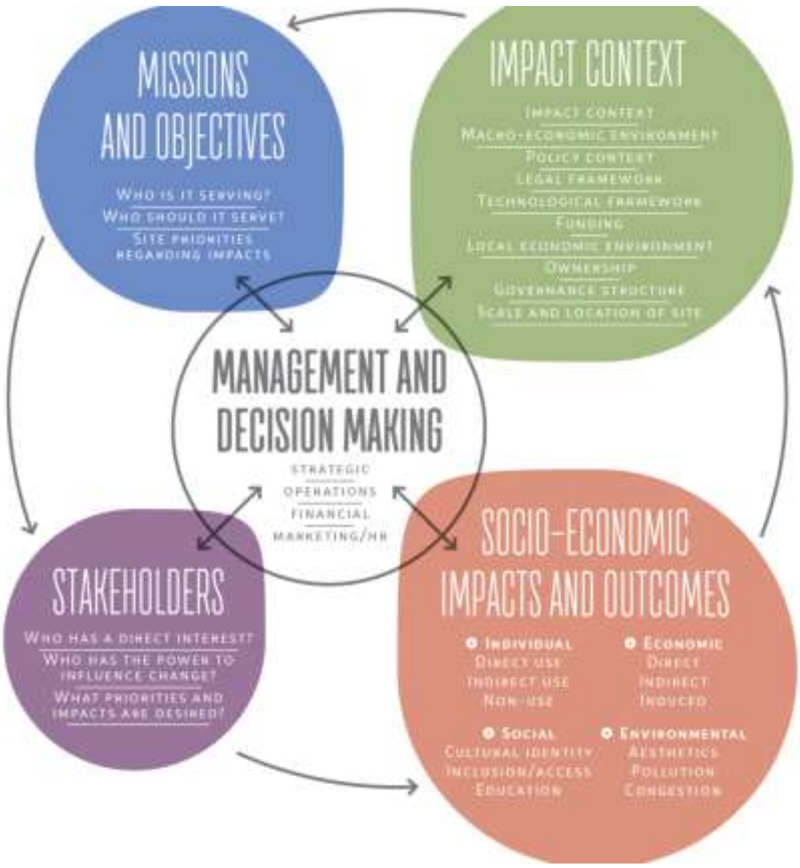
There are different sources of possible investments in the cultural sector but, independently from the source of the investments, every euro invested in the sector has some consequences on the territory (European Commission Report, 2015; Re et al., 2007). In this case, the difficulty is to determine the effect of investments. There is not a rule or a method that can be applied to every situation but it can be of help to create scenarios, maintain a conservative approach and perform a data analysis specific for each country/area.
Before creating possible scenarios it is necessary to understand the process followed by investments in the cultural sector and, consequently, identify the elements to consider to estimate a possible impact.

Figure 1. The flow of investments in culture: a simple representation



Cultural investments can be made by public and private sectors and they can be used to improve the movable or the immovable heritage patrimony. When investments are done in movable heritage improvements are made on archives, collections, work of arts and

everything that can be "transferred". On the other side, when investments are done in immovable heritage improvements are made on historic buildings, churches, museums and everything that is fixed in a certain location.
However, investments' effect can be measured considering two different perspectives: the short- and long-term impact. The short-term impact can be also called direct impact and it is possible to monitor it through the ticket sales, the number of exhibitions tours sold, the number of jobs created in a museum, etc. (Bowitz and Ibenholt, 2009).
On the contrary, the long-term impact – or the indirect impact – is referred to the socio-economic implication of investments done in a certain area. Tourism development, job creation in the area, business development is some of the aspects that can be improved. In this second case, it is more complex estimates the impact (Bowitz and Ibenholt, 2009).
It is widely acknowledged that from a business and economic perspective, the awareness of the relationship between the enterprise and the territorial context in which it operates determines continuous and mutual connections between different environments concerned - natural, social, political, economic, cultural - and the enterprise itself, generating constraints and/or opportunities (Asif et al., 2011).
Moreover, in considering the effect of investments done there is also the multiplier effect that has to be taken into account or the Keynesian effect (Re, 2006) and the ancillary spending are the money spent by tourists in accommodation, food, retail goods and this kind of spending contribute to the business developments in the area (Bowitz and Ibenholt, 2009).
To take coherent and clear decision about investments can be of help following a scheme that consider different aspects of the cultural heritage initiatives: missions and objectives, impact context, stakeholders and socio-economic impact and outcomes (European Commission Report, 2015).



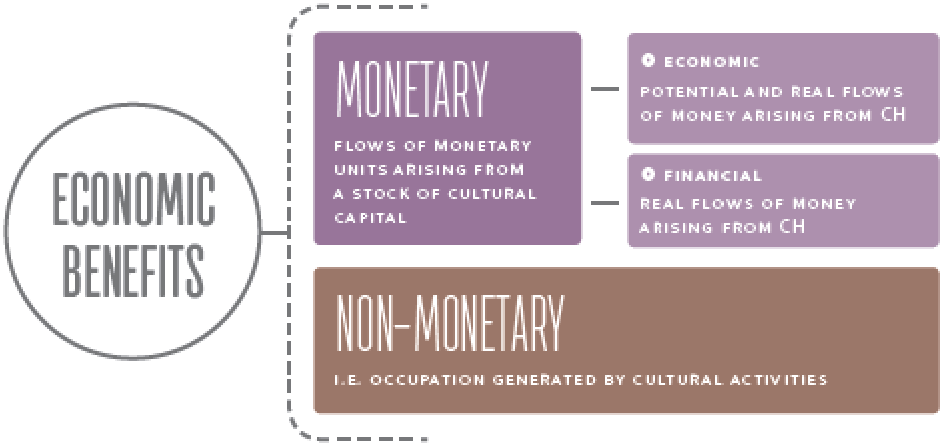
5. The impact of cultural investments

“At certain moments and during certain periods economic value will be the center of attention. Then everything appears to revolve around profit, wealth, income, economic growth, and so on. When someone exclaims ‘it’s all for the money’, people acquiesce. In such a climate profits are it, people are valued by their income, or wealth; and the purpose of getting an education is to be worth more than labour market. When cultural producers have to justify a new theatre, the expansion of a museum, or the conservation of an archaeological site in this climate, their best argument is to point at the income that the investment will generate, by way of jobs created and additional tourist spending in the local economy. Such a justification requires an economic argumentation. Economists have complied and developed ‘economic impact’ analyses, contingent valuation methods and willingness to pay studies” (Klamer, 2001).

The literature about economic impact measurement is extensive (Getz and Page 2016; Mair and Whitford 2013) and engenders a constant debate but in all the cases is necessary to use data post events/investments to obtain a more precise result.

Two of the most important standards for assessment of special and touristic events are typically the Input-Output (I-O) analysis and Cost-Benefits Analysis - CBA (Dwyer and Forsyth 2009). Some scholars (Matheson & Baade, 2003; Porter, 1999) criticize the economic impact based I-O because of their tendency to optimistic estimations; on the contrary, CBA requires too much data and therefore it is difficult to apply (Dwyer and Forsyth 2009). A possible way to overcome this problem is the triple bottom line approach (Getz, 2009; Fredline et al., 2005; Elkington, 1994) that represents a new paradigm for a more holistic evaluation. The integration of economic, social and environmental impact assessment is functional in enlightening “the externalities associated with business activities and therefore to promote sustainability through planning and management practices which ameliorate negative outcomes and promote positive ones” (Fredline et al., 2005). The triple bottom line approach has the problem that requires too much time of observation of the phenomenon before being implemented.

Finally, the Economic Impact Method (EIM) considers direct and indirect effect. This method was explained by Leontief in the ‘30s and it needs statistics data coming from the elaboration of the effect that industries have on each other when inputs are modified. It was used in the cultural sector above all in USA, but it is difficult to be implemented due to the data and information needed.



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In the cultural heritage system, before considering the possible application of those methods, there is the necessity to map the segments of people/tourists present in an area (ie. generic tourist, local tourist, cultural tourist and occasional tourist) and, understand people preferences, their spending and willingness to pay.
From this point of view, Klamer and Throsby (2000) suggested to start the economic valuation considering that tourist is willing to pay for their cultural experience and more they value things for cultural reasons more they will be willing to pay for them.
The economic valuation has to consider the travel costs for tourists (Thorsby, 2007) and the sponsorship (Timothy and Boyd, 2003) and the additional expenses. Those elements are relevant in an economic valuation because if tourists spend a lot of money for they travel to visit a cultural site it means that they are willing to pay and, on the other side, if a cultural site is relevant sponsorship can finance it and have a positive impact.

Figure 3. Methods that can help in measuring the willingness to pay of customers

Revelead Preference	Stated Preference
• *Travel cost method* ➢ It includes any entrance fees for the visit to the site, other expenses, wear, costs for the car, etc. • *Hedonic pricing* ➢ It helps to identify the value that people gives to the differen parts of the good so that is possible to understand to what extent individual elements contribut to the overall value.	• *Contingent valuation method* ➢ People are asked to say how much they are willing to pay considering a specific scenario and a specific good. • *Choice modeling method or conjoint analysis* ➢ It asks consumers to choose betweeen different alternatives. It identifies the value of attributes. • *Focus group* ➢ It is a discussion between a selected group of people (10/12)

To measure the willingness to pay there are two methods: the revealed preference (rp) and the stated preference (sp). While the revealed preference draws data from the choices made by individuals in the real world, the stated preference collects data from people's answers to hypothetical questions (Bateman et al., 2002; Re, 2006; Lvova, 2013).
In conclusion, the first step to start an economic evaluation is to know the situation "as is" (i.e. number of tourists in the area, amount of money spent for culture and additional

services/products, number of nights spent in the area, etc.) and their willingness to pay (i.e. for new cultural possibilities, additional services, etc.).
Starting from those information, that are specific for each destination, institution and organization can estimate the possible impact of and investments more precisely.
Beside the focus groups, there are also other qualitative methods useful to assess the socio-cultural values. Individual interviews on a specific sample give specific information on the target of population in which we are interested in; expert interviews are often use to gain more knowledge on a specific topic; participants observation implies the need to record and observe people at the site in a way to understand their behaviours and attitudes. All these methods require to follow specific procedure and need to be planned in details in order to be useful (European Commission Report, 2015).
To give a complete overview about all the most commonly methods used and the reference about the studies, the following table is presented (European Commission Report, 2015).

Name		Description	Examples of studies in European literature
Quantitative methods	Cost benefit	Market-based evaluation technique, used by decision-makers to assess whether a proposed project should be undertaken or not. Cost benefit analysis is carried out to weigh the costs, both financial and otherwise, of a project against benefits which would arise from it (Smith, 2010, p. 13).	EVoCH, 2012 Passamar & Marchetti, 2009 Witteveen+Bos, 2012
	Hedonic pricing	Revealed preference method, can be used to measure the effect of the heritage on the land value in various distance from the site. This technique assumes that prices of goods on the market are affected by their characteristics. The estimation of the real estate value and of house prices is based on several attributes like surface, comfort, age, number of rooms, and on a freely functioning and efficient property market (Nijkamp & Riganti, 2004, p. 7).	Ahlfeldt, et al., 2012 Lazrak, et al., 2014 Ruijgrok, 2006
	Travel cost	Revealed preference method, uses differences in travel costs of individuals making use of a cultural site to infer the value of the site (Nijkamp & Riganti, 2004, p. 7).	Bedate, et al., 2004 Fonseca & Rebelo, 2010 Vicente & de Frutos, 2011
	CVM	Stated preference method, estimates total value ascribed by an individual to a heritage site (willingness to pay) (Mason, 2004, p. 17).	Ruijgrok, 2006 Kovač & Srakar, 2013 Iorgulescu, et al., 2011
	Choice modelling	Stated preference method similar to CVM, but it asks respondents to rank the alternatives, rather than just choose among them (Mason, 2004, pp. 17-18).	Kinghorn & Willis, 2008 Van Loon, 2013
Qualitative participatory methods	REAP	Method used to examine and describe the relation between local communities and park lands, which can be applied as well in case of the interconnection between communities and heritage sites. In a REAP, a number of methods are selected to produce a dataset that can be triangulated to provide a comprehensive analysis of the site (Low, 2002, p. 36).	BOP Consulting, 2011 ECOTEC, October 2008 eftec, 2005
	Participatory mapping	Cartographic practice used to examine the relationships between people and the surrounding landscape, it makes use of sketch mapping, participatory 3D modelling, GPS and GIS (Vandesande, 2012, p. 39).	Bazan, et al., 2009 Vamescu, 2008
	Cultural mapping	Cartographic practice used to document local cultural tangible and intangible resources (Vandesande, 2012, p. 39).	Accenture and National Trust, 2006
	Grounded theory	Inductive method revealing information on cultural valuation processes, based on interviews and participant observations (Vandesande, 2012, p. 39); (Munhall, 2007, p. 93).	Temel & Dögl, 2007 Orange, 2012 Alberti & Giusti, 2012
	Ethnography	Method employing interviews and participant observations to reveal data on the cultural values associated with heritage (Vandesande, 2012, p. 39; Low, 2002, p. 31).	Hutchison, 2014 Vodeb & Medarić, 2013

QUALITATIVE NON-PARTICIPATORY METHODS	EXPERT ANALYSIS	Method relying on the knowledge and experience of experts in the field, obtained for example by conducting expert interviews.	Bradley, et al., 2009 Dvořáková, et al., 2011 Echter, 2011 Murzyn, 2006 Põldma, 2012 Echter, et al., 2001
	PRIMARY/ SECONDARY LITERATURE REVIEW	The collection of historical documents and review of relevant archives, newspapers and magazines (primary) or books and journals (secondary).	Csáky & Sommer, 2005 Grazuleviciute-Vileniske & Urbonas, 2011 Grubmüller, et al., 2008 Historic Houses Association, 2010 Tynkkynen, 2007
	CASE STUDIES	Method consisting in providing narrative examples to disseminate information on results of research.	AMION Consulting; Locum Consulting, 2010 Clark & Maeer, 2008 Ebert, et al., 2009 English Heritage, 2010 North East Environment Forum, 2005 Murzyn-Kupisz, 2012
	MULTI-CRITERIA ANALYSIS	Non-monetary evaluation method, takes into consideration the multiple dimensions of a decision problem. Project effects are addressed in their own dimensions and a weighing procedure is used to compare or assess the various project effects against each other (Ost, 2009, p. 90).	Laplante & Throsby, 2011 Ost, 2009
	POLICY ANALYSIS	Determining which of various alternative policies will most likely achieve a given set of goals in light of the relations between the policies and the goals (Nagel, 1999).	Jura Consultants, 2013 Karnite, 1998

6. The role of communication and dissemination on the territory

Heritage should enable sustainable service systems that (re)generate value for many communities of potential users.

Traditionally, heritage communication has been conceived as a dissemination and promotion issue mainly. Today, conversely, dissemination and promotion are increasingly considered only a part of a much wider communication issue. This shift mirrors the on-going transition to a service-oriented approach to cultural heritage.

In the light of the service-oriented approach, cultural heritage creates value to the extent it serves as the engine of a sustainable and resilient service system. It is this service system, rather than the cultural good per se, that creates (or destroys) value.

For example, the services in and around an architectural monument may include facility management, mobility, security, hospitality, tour guides, educational activities, disability support, music events, neighbourhood initiatives, and so on.

According to the service system approach, the system's users are expected to play a much more active role than traditional models' customers and taxpayers. The users' collaboration may increase the system's performance dramatically. For example, users' behaviours during

the visiting time may significantly change the users' experience, along with the service system's sustainability and robustness to crises.
For this reason, the individual people, communities and organizations that are involved in an activity system can be described as the system's actors, rather than mere stakeholders. In fact, all the system's users and beneficiaries do not just bring in interests and money as (potential) customers and/or taxpayers: they (may) also bring in work, that is, they (may) contribute to the activity system with their choices, behaviours, data, content production and learning efforts. For example, users' readiness to share visiting data, respect the other visitors' needs, adapt to new visiting solutions and provide constructive feedbacks may be essential to the quality of the service system.
In this light, a successful heritage service system can only be built if users' interests, resources, capabilities, needs and preoccupations are reconciled and transformed into coordinated action for the common purpose of perpetuating a viable heritage to the next generations, while improving the territorial system's competitiveness and quality of life.
In this scenario, communication is not a corollary, but an integral part of any project of architectural heritage re-use. Any project of cultural heritage re-use, in fact, consists in designing a new service system that is capable of both attracting users and transforming them into actors that actively contribute to maximize the system's resilience and sustainability.

Heritage service systems are becoming increasingly complex due to globalization and digitization

In our increasingly globalized context, designing heritage service systems poses complex challenges. Even a heritage service system with a local audience, such as that enabled by a neighbourhood library with a cafeteria, is likely to include potential users with very different cultures, languages, backgrounds and technological capabilities. Different communities of potential users may require different approaches and techniques for transforming these potential users into beneficiaries and active contributors of the activity system. Communication processes play a pivotal role in pursuing this goal.
Digitization, on the other side, makes the scenario even more complex. A "heritage+context+people" system (constituted by a heritage asset and its physical context, the people working for it and those using it) increasingly owes its service generation capacity to the data that the system is able to generate. The services generated by the system may generate further data which, in turn, may generate further services. For example, the Rijksmuseum digitized its collection of historical naturalistic illustrations. Then, in collaboration with the Free University Amsterdam, Center for Mathematics and Informatics, and Technical University of Delft developed a campaign and a digital tool to get experts in domains like birds, ships, castles, etc. involved in annotating art and enriches the museums' metadata with expertise that is not available internally. These experts contributed for free in a "niche sourcing" process that allowed the system to involve further people in art annotation while controlling the accuracy of the process. Thanks to this data-service-data-service loop, the museum has dramatically increased its capacity to answer to visitors' curiosities on the arts displayed (http://accurator.nl/#Intro). This project is a good instance of how, in today's digitized scenario, (online) communication is at the core of service strategies, rather than a corollary to launch them.
However, the data-service cascade of digitized service systems has also its dark side. In the model described above, most of the fixed costs affect the heritage asset layer (for building restoration and maintenance, for example), whilst a lot of potential profits concentrate in the service and meta-service layers. For example, while a local government spends a lot of money for the infrastructures and workforce that enable its heritage service systems, digital players (such as tourism web portals) make a lot of money by using the data generated by

those service systems and their users. If these digital players are not local, they are unlikely to compensate for their cream-skimming through the traditional channels such as taxes or employment.

Heritage service systems are vulnerable to (potential) users' disregard, disengagement, and/or misuse

Due to the data-service cascade layers described above, heritage service systems are now much more complex than in the past. The system's beneficiaries today include not only the people that use the services directly linked to the heritage asset, but also the people that benefit from the data and knowledge directly or indirectly generated by the system.

This deeply interconnected structure of the heritage service system constitutes its greatest potential, but it is also a driver of fragility. For the system to thrive, all the beneficiaries should contribute to it. Therefore, the system is vulnerable to its beneficiaries' lack of collaboration, in terms of disregard, misuse, and disengagement.

- *Disregard* occurs when potential users do not become users. It may stem from unawareness and lack of interest.
- *Disengagement* occurs when the system's users/beneficiaries do not actively contribute to it: for example, if visitors do not give feedback or tourism portals do not contribute to promote the service system's initiatives.
- *Misuse* occurs when users become resource predators instead of co-creators. Examples of heritage systems' misuse include over-exploitation, depletion, inappropriate use, and the cream-skimming use described above.

Cultural heritage communication should address all of the possible fragilities of the cultural heritage service system at stake, far beyond the traditional purposes of dissemination and promotion

Traditional communication plans and actions in the cultural heritage sector usually consist in dissemination and promotion, thus mainly concentrating on fighting the first source of fragility listed above that is, disregard, while overlooking misuse and disengagement as sources of system fragility. In other words, traditional approaches to cultural heritage communication focus on transforming potential users into actual users but tend to overlook the need of transforming users into engaged users and protecting the system from misusers.

In order to enhance the heritage service system's sustainability and resilience, it is important that communication strategies target all of the possible sources of system fragility. A viable service system is the best way to protect the heritage asset at its core.

Today, communication strategies should consist of feedback-based, double-way interaction strategies that co-evolve with the digital environment and the system's service model

Traditional heritage communication approaches tend to concentrate on the messages that go from the heritage asset experts and managers to (potential) users, overlooking the potential of the reverse flows (from users to experts/managers) and horizontal flows (from users to users).

Digitalization, conversely, provides great opportunities of leveraging all of these three communication flows to enable the service model and to collect information for improving it. In particular, a service system cannot remain viable unless it continuously evolves based on effective feedback and users' empowerment. This new approach is increasingly needed to complement the traditional mechanisms of market and taxation to make the maintenance of heritage assets sustainable.

In this light, it is essential that a heritage service system remains connected, through multi-way communication channels, to the ever-evolving innovations of the digital age, including online communities, urban commons, new-generation digital tools and social media.
The conception of high-level communication strategies for user-centred experiences, user empowerment and content production is at the core of the heritage communication management for the years to come.

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Part 2 - The Financial Instruments for cultural heritage

The study of financial instruments is not easy and requests a deep knowledge about the instruments used. Here we will try to give a short description about the fundamental ones.

1. What is a 'Financial Instrument'

It is important to specify exactly what is actually meant by a financial instrument in EU accounting rule, that applies to accounting for all financial instruments (financial assets, financial liabilities, equity instruments, and financial guarantees):

"A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity".

This means that financial instruments are financial contracts of different nature made between institutional units, or assets that can be traded. They can also be seen as packages of capital that may be traded. These comprise the full range of financial claims and liabilities between institutional units, including contingent liabilities like guarantees, commitments, etc.

These instruments can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of one's ownership of an entity.

For an entity that is raising finance it is important that the instrument is correctly classified as either a financial liability (debt) or an equity instrument (shares). When raising finance the instrument issued will be a financial liability, as opposed to being an equity instrument, where it contains an obligation to repay. Thus, the issue of a bond (debenture) creates a financial liability as the monies received will have to be repaid, while the issue of ordinary shares will create an equity instrument. In a formal sense an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. It is possible that a single instrument is issued that contains both debt and equity elements. An example of this is a convertible bond – i.e. where the bond contains an embedded derivative in the form of an option to convert to shares rather than be repaid in cash.

In particular the term "financial instrument" is now firmly embedded in Cohesion Policy parlance, but in fact embraces an array of financial products that not only operate in diverse ways, but are of widely differing orders of scale, address a variety of policy objectives, use various modes of governance and function within assorted socio-economic, institutional and geographic contexts. The common thread is essentially that **financial instruments provide funding that is intended to be repayable**.

Regulations for the 2014-2020 programming period reinforced the role of financial instruments, providing comprehensive provisions regarding the requirements and options for their implementation. The definition used in the financial regulation[13], and therefore applicable to all budgetary areas, is the following:

"Article 2, (29), 'financial instrument' means a Union measure of financial support provided from the budget to address one or more specific policy objectives of the Union which may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing

13 Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.

instruments, and which may, where appropriate, be combined with other forms of financial support or with funds under shared management or funds of the European Development Fund (EDF)”.

So financial instruments are meant as a delivery tool to provide financial support from the EU budget through loans, guarantees and equity (or quasi-equity) investments for the implementation of projects, which underpin one or more policy objectives of the EU.

So, in light of any definitive unpacking of the term, but to better focus the objectives of this Living Document, the following notion will be used:

“Financial instruments are public policy instruments such as subsidised loans, credit guarantees and equity finance schemes designed to overcome market failures experienced by micro, small and medium-sized enterprises to promote investments in a way that would not result though market interactions alone”.

2. Categories of 'Financial Instrument'

LOAN	GUARANTEE
“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*”. Under a FI, a loan can help where banks are unwilling to lend on terms acceptable to the borrower. They can offer lower interest rates, longer repayment periods or have lower collateral requirements.	“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*”. Guarantees normally cover financial operations such as loans.
EQUITY	**QUASI-EQUITY**
“Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm’s profits*”. The financial return depends on the growth and profitability of the business. It is earned through dividends and on the sale of the shares to another investor (‘exit’), or through an initial public offering (IPO).	“A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity*”. The risk-return profile typically falls between debt and equity in a company’s capital structure.
* European Commission (2015). Guidance for Member States on Financial Instruments — Glossary.	

2.1 LOANS

"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".

In general, for commercial loans, the interest charged on the loan is the market rate plus a risk premium that reflects the likelihood of a lender getting their money back. The risk premium includes credit risk which varies with the borrower's credit history and expected cash flow.

One way to decrease the risk premium is through collateral, where the borrower offers assets such as property, receivables, or investments as security which become the property of the lender if the borrower defaults (does not repay the loan).

Risk completely ceases only on the date the loan is fully repaid, the maturity date. Therefore the later the maturity date, the higher the risk premium is. Individual repayments must cover the interest due, but the sooner the principal of the loan is repaid then the lower the total payments will be.

Loans are the traditional and most common form of funding mechanisms used by MSMEs because there is no loss of control or ownership, as with equity, but they can lack the flexibility required by young firms.

Loans are offered almost everywhere in domestic and/or co-financed economic development policies; loans are also widely used by other project promoters, such as local authorities, for upgrading public buildings and spaces and other capital investments, and householders and landlords for energy renovation. Loans are comparatively easy to administer from a public administration perspective, to the extent that the implementation of a loan fund can be "outsourced" or funds can essentially be used to increase the volume of finance available through existing commercial sources.

Loans in the European Structural and Investment Funds

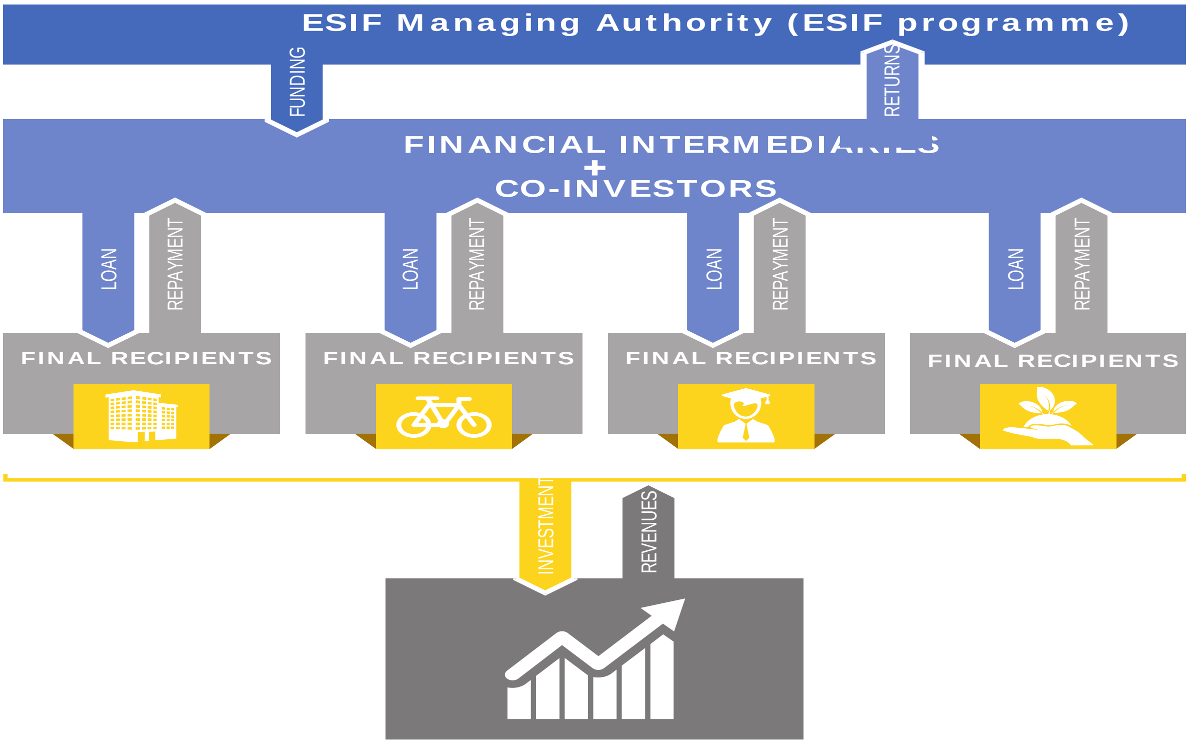
Regarding the use of loans for the implementation of ESI Funds, Risk sharing loans are financed in ESIF programmes and additional resources provided by one or more Financial intermediary. Thus the same Financial Intermediary may be a fund manager and a co-investor. The losses, recoveries and benefits are borne and shared by the ESIF programme contribution and the additional resources provided by Financial Intermediary in agreed proportion. Very small loans (microcredit) are available for final recipients who do not have access to credit, typically because they lack collateral and a credit history. These microcredits are normally less than EUR 25 000 and can finance micro enterprises.

Under an ESI Financial Instrument, a loan can help where banks are unwilling to lend on terms acceptable to the borrower. They can offer lower interest rates, longer repayment periods or have lower collateral requirements.

The leverage effect for loans depends on the resources co-invested in the fund in addition to ESI Funds. It is important to distinguish the leverage effect from the revolving effect when borrowers repay the loans and these funds can be reinvested in new projects.

Use of loans in ESI Funds implementation usually results in loans that are offered at lower than market interest rates, with longer repayment periods, the possibility of grace periods, when loans do not need to be repaid in the first years or with reduced collateral requirements; these are called soft loans.

Loans – How does it work? (European Investment Bank, 2015)



NOTES:

1 In addition to disbursing loans through F.Ints (in an implementation structure with a Fund of Funds (FoF) or without), MAs may undertake implementation tasks directly (see CPR, Art. 38(4)(c)).

2 Co-investment may come from the same F.Int or a third party investor, contributing either to the fund or to individual projects.

3 Resources returned from repaid loans, which are attributable to the support from ESI Funds, i.e. excluding national co-financing, have to be re used for purposes defined in Articles 44 and 45 of the CPR.

Subcategories and types of investment

Risk sharing loans are financed by both the ESIF programmes and additional resources provided by one or more F.Ints. Thus the same F.Int may be a fund manager and a co-investor. The losses, recoveries and benefits are borne and shared by the ESIF programme contribution and the additional resources provided by F.Ints in agreed proportion.

Very small loans (**microcredit**) are available for FRs who does not have access to credit, typically because they lack collateral and a credit history. These microcredits are normally less than EUR 25 000 and can finance micro enterprises in farming, commerce, handcraft, food, etc.

Technical features
The involvement of ESI Funds results in loans that are offered at lower than market interest rates, with longer repayment periods, the possibility of grace periods, when loans do not need to be repaid in the first years or with reduced collateral requirements; these are called soft loans. In general, for commercial loans, the interest charged on the loan is the market rate plus a risk premium that reflects the likelihood of a lender getting their money back. The risk premium includes credit risk which varies with the borrower's credit history and expected cash flow. One way to decrease the risk premium is through collateral, where the borrower offers assets such as property, receivables, or investments as security which become the property of the lender if the borrower defaults (does not repay the loan). Risk completely ceases only on the date the loan is fully repaid, the maturity date. Therefore the later the maturity date, the higher the risk premium. Individual repayments must cover the interest due, but the sooner the principal of the loan is repaid then the lower the total payments will be.

PROS	CONS
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 FRs as there is no claim on the ownership of the enterprise.	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 FRs. 3. The advantage for the FRs is almost entirely financial. There are limited additional benefits as know-how is not transferred.

2.2 GUARANTEES

"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".

Guarantees normally cover financial operations such as loans.

Credit guarantees seek to expand funding to MSMEs by underwriting the risks associated with the loan. These are essentially risk transfer and risk diversification mechanisms which guarantee repayment of part of the loan upon a default event.

The guarantor issues a direct guarantee for an agreed amount of debt to cover the losses of the lender in the event that the final recipient does not repay the debt. Guarantees may be capped only on a loan-by-loan basis to ensure that the lender bears some risk (e.g. a guarantee rate of 70% would mean that 70% of the loss incurred due to a loan default will be covered by the guarantor). The guarantees may also be capped at the level of the loan portfolio (e.g. a cap of 20% at the portfolio level would mean that losses incurred due to default of individual loans may be covered until their aggregate value reaches 20% of the total loan portfolio value) therefore limiting the total exposure to losses.

A **first loss default/portfolio guarantee** is a guarantee where first the guarantor covers the losses of a loan portfolio until the cap is reached. Therefore the lender is exposed to losses greater than the capped amount of the guarantee, rather than both lender and guarantor sharing the risks of every default in proportion.

An **uncapped guarantee** is a guarantee where no cap at portfolio level is foreseen. According to capital adequacy requirements in force, this guarantee can reduce the capital required for the lending bank.

A **capped guarantee** would indemnify the lender up to a pre-defined percentage or amount of the loan and for the portfolio in default.

Counter guarantees allow a guarantor to seek reimbursement if they have to pay a claim under a guarantee they issued for a loan in default.

The **multiplier** is the ratio between the amount of resources set aside to cover expected and unexpected losses from new loans to be covered by the guarantees and the total amount of new loans disbursed to final recipients. The multiplier shall be established on the basis of a prudent *ex-ante risk assessment* for the specific guarantee product taking into account the specific market conditions, the investment strategy of the financial instrument and the principles of economy and efficiency, amongst others. For example, a multiplier of 4 means the fund can provide 4 times that amount in loans.

The revolving effect of guarantees depends on the individual contract. For normal loan guarantees, repayments of the loan then release that proportion of the guarantee and free up this amount for reinvestment.

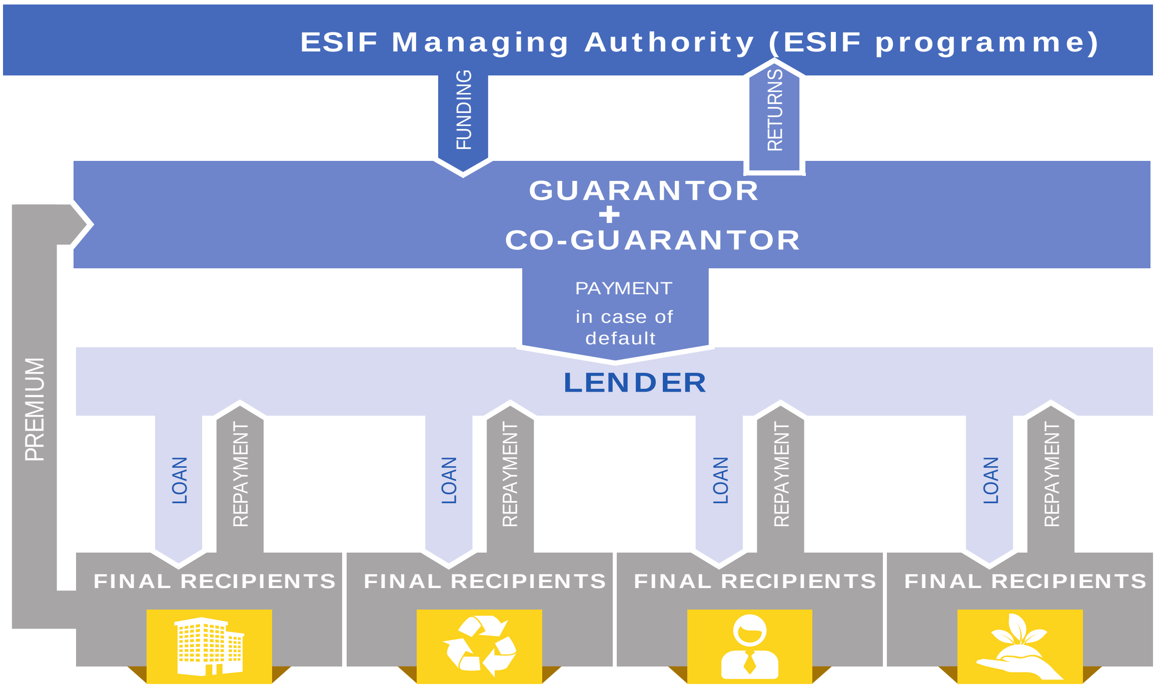
Guarantees in the European Structural and Investment Funds

Technical features
Key elements in defining a **guarantee instrument** are: • ***Portfolio volume***: the aggregate amount of the underlying transaction, such as loans to be disbursed by the lender which are covered by the guarantee. • ***Guarantee Rate***: the maximum portion of the value of each loan covered by the guarantee. • ***Guarantee Cap Rate****:* the maximum portion of the total portfolio covered by the guarantee. In other words, the guarantee will cover losses at the guarantee rate up to the maximum determined by the guarantee cap rate applied to the total portfolio. • ***Capped amount***: the maximum liability under the capped guarantee. It is calculated as the product of the i) total portfolio volume, ii) the guarantee rate and (iii) the guarantee cap rate. In other words, the capped guarantee will cover losses at the guarantee rate up to the maximum determined by the guarantee cap rate applied to the total portfolio volume. This amount plus

expected management costs and fees related to the instrument will be set aside from the OP resources.

Other important elements for the definition of a guarantee are:

- ***Eligibility criteria***: conditions which regulate the access to the guarantee regarding three layers: FR, F.Int and the relevant underlying transactions. A breach of any of the eligibility criteria will result in an exclusion of the underlying transaction from the portfolio.
- ***Timing***: termination of the guarantee.
- ***Payment claim***: conditions under which payment demands are valid (e.g. losses incurred by a lender in respect to defaulted loans).
- ***Loss recoveries***: the F.Int should take recovery action in relation to each defaulted loan.
- ***Responsibilities for managing the repayments due and collateral of defaulting borrowers***: what happens to funds recovered after a complete or partial default has been accepted.



NOTES:

1 In addition to issuing guarantees through a body implementing FI who acts as the guarantor (in an implementation structure with a FoF or without) MAs may undertake implementation directly (see CPR, Art. 38(4)(c).

2 ESIF programme resources could also be used for counter-guarantees for a commercial guarantor who guarantees the loans given to FRs by a commercial lender.

3 Resources returned from guarantee fees and released uncalled guarantees, which are attributable to the support from ESI Funds, i.e. excluding national co-financing, have to be re-used for purposes defined in Articles 44 and 45 CPR.

PROS	CONS
1. Guarantees can preserve the equity of FRs as there is normally no claim on the ownership of the enterprise. 2. Potential benefits for FRs 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. 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 FRs.

2.3 EQUITY

"Provision of capital to a firm, invested directly or indirectly in return for total or partial ownership of that firm and where the equity investor may assume some management control of the firm and may share the firm's profits".

The financial return depends on the growth and profitability of the business. It is earned through dividends and on the sale of the shares to another investor ('exit'), or through an initial public offering (IPO).

Equity finance occurs when firms exchange share capital in return for liquidity. This can include venture or risk capital and early-stage (seed and start-up funding). Equity finance is much less common and is typically associated with risky high-tech ventures. In the main, this type of finance is commonly associated with very innovative and/or high-tech firms that are often unable to obtain funding from banks. The return depends on the growth and profitability of the business and is earned when the investor sells its share to another investor or through an exit, such as an initial public offering or trade sale.

In equity investments the exit means the liquidation of holdings including a trade sale, sale by public offering (including IPO), write-off, and repayment of preference shares or loans, sale to another venture capitalist or sale to a financial institution.

There is full insolvency risk for the invested capital in the target companies. Thus, a high risk is borne by the Financial Intermediary. However this can be mitigated by portfolio investing and by having private sector co-investors.

The types of equity investment normally depend on the stage of a company's development (new vs. mature) and on the investment model (co-investor in the fund portfolio or in individual investments, on a deal-by-deal basis).

Investments are often described by the relevant phase, starting with Pre-seed, then Early stage which includes Seed and Start-up, followed by Growth and Expansion. Investment in newly established enterprises can finance the study and development of a concept or prototype. Given the unproven business models of new enterprises, these investments are often needed to pursue strategic developments, complementary technology or new opportunities for the firm. Targeted enterprises are generally high tech (biotech, ICT, hi-tech energy, creativity, nanotechnology, applied mechanics, robotics, etc.) or pursuing innovative products or services with expensive R&D projects. Mature companies with proven business models may need equity investment to fund new projects, including the penetration of new markets.

In relation to the investment model, a typical 'deal-by-deal' investor is a Business Angel. This is normally an individual with business experience, who invests their personal assets and provides management experience at the very early stage of a company. Venture Capital is similar, investing their own capital and providing business and management assistance in high development potential sectors.

The rationale behind more risky investments is the expectation of higher than average returns. These investments can be time-consuming and cost-intensive (due diligence is carried out for several potential business plans before investment). Typically there are few target firms and large amounts in each transaction.

Publicly backed equity or venture capital is the least used of the four "conventionally defined" financial products and is often regarded as a "niche" product for potentially fast-growing innovative firms. Private equity markets vary widely across Europe and equity and venture capital are not prominent sources of finance for MSMEs, especially smaller ones. Indeed, across Europe, over 80% of MSMEs consider that "equity is not applicable to my firm" (European Central Bank, 2017). Equity products can provide significant amounts of medium- to long-term capital but imply at least some loss of management control by founders and are typically more difficult to manage for public authorities.

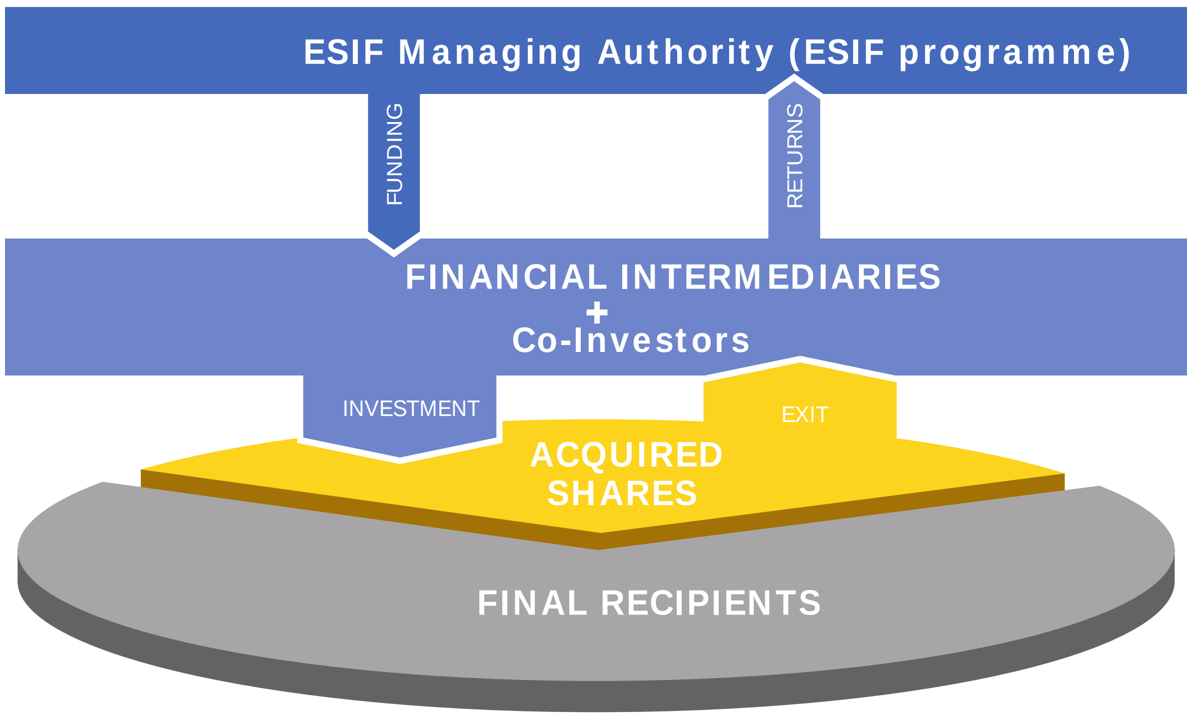
Equity in the European Structural and Investment Funds

Subcategories and types of investment
The types of equity investment normally depend on the stage of a company's development (new vs. mature) and on the investment model (coinvestor in the fund portfolio or in individual investments, on a deal-by-deal basis). Investments are often described by the relevant phase, starting with **Pre-seed**, then **Early stage** which includes **Seed** and **Start-up**, followed by **Growth** and **Expansion**. Investment in **newly established enterprises can** finance the study and development of a concept or prototype. Given the unproven business models of new enterprises, these investments are often needed to pursue strategic developments, complementary technology or new opportunities for the firm. Targeted enterprises are generally **high tech** (biotech, ICT, hi-tech energy, nanotechnology, applied mechanics, robotics, etc.) or pursuing innovative products or services with expensive **R&D** projects. **Mature companies** with proven business models may need equity investment to fund new projects, including the penetration of new markets.

In relation to the investment model, a typical 'deal-by-deal' investor is a **Business Angel.** This is normally an individual with business experience, who invests their personal assets and provides management experience at the very early stage of a company. **Venture Capital** is similar, investing their own capital and providing business and management assistance.
The **rationale** behind more risky investments is the expectation of higher than average returns. These investments can be time-consuming and cost-intensive (due diligence is carried out for several potential business plans before investment). Typically there are few target firms and large amounts in each transaction.

Technical features

In equity investments the **exit** means the liquidation of holdings including a trade sale, sale by public offering (including IPO), write-off, repayment of preference shares or loans, sale to another venture capitalist or sale to a financial institution.
There is full insolvency **risk** for the invested capital in the target companies. Thus, a high risk is borne by the FI. However this can be mitigated by portfolio investing and by having private sector co-investors.



PROS	CONS
1. There are higher potential returns compared to pure debt instruments. 2. There is an active role in project management and access to share-holder 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. 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 FRs due to the obligation to yield control.

2.4 QUASI-EQUITY

"A type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity. Quasi-equity investments can be structured as debt, typically unsecured and subordinated and in some cases convertible into equity, or as preferred equity".

The risk-return profile typically falls between debt and equity in a company's capital structure.

The different forms of quasi-equity (also known as mezzanine capital or mezzanine finance) are classified as closer to equity or debt capital according to the level of ownership acquired and the exposure to loss in the event of insolvency. The risk profile will also change with the duration of capital commitment and the remuneration conditions. In general quasi-equity investments are more difficult to administer than classic debt instruments (loans and guarantees).

- Subordinated loans have a lower repayment priority than normal (senior) loans. In the event of default all other lenders are repaid before the holders of subordinated loans. Since the interest payments as well as the capital repayments are subordinated, the risk of loss in the event of default is substantially higher than for senior loans. In addition, generally, there is no collateral (security) required so interest rates are higher to cover the higher risks.

- Convertible bonds are debt where the initial investment is structured as a debt claim, earning interest. At the discretion of the investor, the debt can be converted into equity at a predetermined conversion rate. A convertible bond is essentially a bond combined with a share option where the holder may exchange the bond for a predetermined number of shares at a predetermined price. Because convertibles can be changed into shares they have lower interest rates.
- Preferred stocks are stocks that entitle the holder to a fixed-rate dividend, paid before any dividend is distributed to holders of ordinary shares. Holders of preferred stock also rank higher than ordinary shareholders in receiving proceeds from the liquidation of assets if a company is wound up.

Underpinning the distinction between these financial instruments and other forms of public financial provision (i.e. grants) is that capital is ***repayable*** when using these financial instruments. However, it is important to note that the structure of each of the three instruments is fundamentally different. Therefore, while these financial mechanisms all fall under the overarching heading of financial instrument, the ***underlying principles and dynamics of these vehicles are quite heterogeneous***.

First, in some cases these instruments are repayable, such as the case of subsidised loan instruments. Under these circumstances MSMEs obtain loans from a bank or public sector intermediary which they may not have been able to obtain from a purely private sector bank. In some cases, the costs of borrowing are subsidised by the managing authority.

Second, in the case of equity finance, the public sector receives shares in the firm in return for the capital sum provided to the MSME. These tend to be higher risk companies, such as young innovative start-ups, which often require risk capital from business angels or venture capital to fund their expansion activities. Often these programmes co-invest in tandem with other private sector funders such as business angels and venture capital.

Third, there is a variety of specialisation among partial credit guarantee funds. Most are restricted to smaller firms and often to MSMEs located in specific regions. The risk management and risk assessment also differ across different schemes.

Fourth, there are different institutional arrangements in place for managing these initiatives across different EU member states. In countries that receive Cohesion funding, a Managing Authority oversees the use of these available resources. This either takes place through a fund of funds or another financial intermediary that manages the eligible projects which are financed.

For each financial instruments, Pros and Cons for the Managing Authorities of the ESIF Programmes can be also highlighted (table 9 and 10).

Table 9: Pros for ESIF Managing Authorities (European Commission, 2015).

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 share-holder 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.

Table 10: Cons for ESIF Managing Authorities (European Commission, 2015).

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 time-consuming 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.

3. Under what conditions do financial instruments work/don't work?

From the review of theory combined with the assessment of empirical evidence, it is very much apparent that "context matters". When considering the conditions which will influence the structure, conduct and performance of financial instruments, policy makers need to bear in mind the following three main issues: institutional and regulatory context, timing, and targeting (normal Micro, Small, Medium Enterprises versus high-growth firms).

The first important point to make is the crucial importance of the ***domestic institutional and regulatory context*** within different EU economies. The manner in which the banks operate is obviously a crucial distinction in this regard. The overall structure of banks, together with the levels of banking competition, state ownership of banks and bank regulation are vastly different across various EU member states. Research shows that the levels of banking concentration also vary markedly across the EU, which will obviously shape the ability of MSMEs to access finance in certain countries more than others.

Additionally, the nature of the funding landscape for entrepreneurial finance is also highly varied across the EU. In countries such as France, Germany and the United Kingdom, there are well-developed sources of entrepreneurial finance from both institutional and private investors. Within these countries there are also a range of various tax incentives to encourage investors to invest in early-stage companies which stimulates the supply side of the venture capital and business angel market. Consequently, firms are aware of the opportunities presented using risk finance as a source of funding.

These distinctions have important implications, but are often overlooked by regional policy makers keen to undertake localised policy instruments. In other words, the institutional context within which policy making is formulated is very important in the context of interventions in the credit market.

The second point concerns the issue of ***targeting****.* In the main, governments adopt a relatively wide-ranging approach when designing financial instruments in terms of sectoral coverage, stage of company development, company growth orientation, etc. Observers have noted that in many of these regionally funded projects, financial instruments have very different eligibility criteria (start-ups versus MSMEs, R&D-based firms, social innovation, etc.) and sectoral orientation. While there may be very solid theoretical and pragmatic reasons for this kind of targeting, this may not always be the case. This is a crucially important issue, however, as the funding requirements of MSMEs are not homogenous, above all in the cultural sector. Policy makers therefore have to pay considerable attention to the precise issues within the intended target market for different financial instruments.

There is also likely to be a trade-off between the economies of scale achievable and the specificity of different programmes within various types of financial instrument schemes. In other words, narrowly focused schemes targeting specific types of MSMEs (either high-tech or in cultural sectors) may incur higher set-up and operational costs, which reduces their overall cost-effectiveness.

Another consideration related to targeting is the impact this has on the private sector. The evidence on various types of financial instruments is the fact that they can effectively "crowd out" the private sector in some instances. The use of hybrid schemes whereby the public sector co-invests with the private sector seems to be one relatively successful approach to help "crowd in" the private sector. However, co-investment with the private sector may not be feasible within some economically disadvantageous economies where the private sector investment community is absent or nascent.

A final issue concerns the issue of ***timing***. A key instance in this regard concerns the nature of market conditions: in other words “timing matters”. At times of extreme economic recession, such as the recent global financial crisis, the problems facing MSMEs when attempting to obtain credit clearly markedly worsened. These kind of temporal factors have clear implications for the direction of public policy. During this time, concerted efforts were made to quickly increase the supply of liquidity to the MSME population in many countries. In many countries, directly increasing the supply of funding through loan instruments may be a very appropriate course of action. However, during normal circumstances, bank liquidity increases and lending conditions to MSMEs can improve. Therefore, schemes could tighten their eligibility criteria during periods of economic growth; for example by restricting the types of usage of the associated loans to prevent MSMEs using loans for working capital, etc. Conversely, there could be a case for increasing the levels of partial credit guarantees for MSMEs during economic downturns and perhaps consequently accepting a higher level default rate. In other words, the nature of market imperfections is cyclical, meaning that a temporal approach towards policy making is required.

4. Preconditions and Requirements for the use of financial instruments from a policy design perspective

From a policy design perspective, financial instruments are an alternative delivery mechanism to grants. It is important to highlight this since the use of financial instruments is often cast in terms of addressing a “gap” in access to finance – typically difficulties that MSMEs (in cultural sector in particular) have in accessing loan funding or investment capital. However, grants can also be used to address gaps in access to finance and the key issue here lies not in the objective of funding *per se*, but rather in what difference the delivery mechanism can make to the achievement of that objective and wider policy effects.

In practical terms, a role for financial instruments is only feasible where the ultimate investment is income-generating or cost-saving, enabling the initial support to be repaid. This means that where public intervention is justified by the need for public goods, repayable support is unlikely to be well-suited. In other words, appropriate forms of finance need to be tailored to the market imperfection being addressed. Three principal benefits of financial instruments as opposed to grants are conventionally highlighted (European Commission, 2012b).

First, financial instruments are more sustainable because funds are repaid, creating a legacy to invest again. For policy makers with long experience of financial instruments, this is often regarded as the key benefit, even if it is not always the primary consideration among newer practitioners. Importantly, however, the scale of returns depends not only on the presence of sufficient numbers and scale of viable projects that are not commercially funded and the scope for timely exits and repayments, but also on the extent to which management costs and fees, defaults and losses erode returns.

Second, financial instruments can improve project quality – this may be partly through the due diligence involved in private sector project assessment, but also because the recipient is more focused on project viability because of the obligation to repay. This rationale is partly founded on the idea that the level of deadweight involved in financial instruments is lower than for grants; there is also a psychological dimension as both investee and investor share the risk, though how this is distributed will depend on how the instrument is designed. In addition, the use of financial instruments is influenced by the view that private sector expertise in assessing business plans improves the viability of projects compared to grants.

Third, financial instruments can make more cost-effective use of public funds partly because funds may be recycled, but also because of their potential to attract private funds. This argument was particularly significant in the context of the financial crisis, which affected not only public spending, but also the willingness of the private sector to lend and invest. That said, there is limited evidence of the capacity of public financial instruments to draw in private capital, and many ESIF co-funded instruments use public capital alone.

That said, grants are generally considered easier to administer by policy makers, though there is not necessarily a substantial difference between the two for recipients and some policy makers note that good-quality applicants may prefer loans because a larger proportion of their cost can be covered. Moreover financial instruments are not universally considered more complex by managing authorities, noting that they can be simpler than grants at the audit stage, provided that procurement processes are compliant. The scope to combine different forms of support has been given limited consideration in Cohesion Policy, but blending loans and grants has become common practice in international development finance. This involves the combination of grant aid from official development assistance with other public or private sources of finance such as loans and risk capital.

This approach is perceived to offer a number of advantages, in particular:

- the scope to do "more with less", as already mentioned
- the possibility to ensure the uptake of international political and technical standards
- the ability to enhance "ownership" through close involvement in the design and implementation of the funding
- the capacity to open up and provide incentives for entry into new or otherwise too risky markets for the private sector, and lever in private funds.

Potential downsides are also identified, including:

- the risk that financial incentives outweigh development objectives
- the possibility that finance becomes too concentrated on certain sectors if funding follows "market-led" trends
- ill-defined monitoring and evaluation inefficiencies in the way in which private investment is incentivised.

Financial instruments should not be viewed in isolation, or purely as part of a funding package; instead, a holistic approach that combines advice and other support, whether training, consultancy, energy audits, etc. is needed to optimise intervention.

It is important to note that financial instruments are not suitable for all types of intervention. As outlined earlier, the justifications for intervening vary and these in turn affect the choice of delivery mode (whether non-repayable or financial instruments). In practice, however, the academic and policy literature reveals little research on the relative merits of grants versus financial instruments in different situations. A recent "think piece" posited that there should be a presumption in favour of using financial instruments in supporting MSMEs, but that grants might be appropriate in four scenarios:

1) For early-stage research and development (where there is an established precedent for the provision of grants to new ventures to support proof of concept and provide seed funding, and grants may be appropriate for early rounds of funding for young, small technology-based MSMEs).

2) To encourage change in behaviour, such as investment in energy-saving measures (using a grant to incentivise behaviour change to tackle an important market failure and to deliver public goods).

3) At key points in their development, for social enterprises and charities (some of which will never be traded on markets or be financially self-sustaining).

4) Addressing a viability gap to enable a project to proceed (where own contributions and commercial sources are insufficient but additionality and value- for-money criteria are met). In these circumstances there may be a case for a grant to fill the viability gap and enable the project to go ahead, if additionality and value-for-money criteria are met.

FINAL WARNING

Framework Conditions relevant to the implementation of financial instruments include the existing financial ecosystem/economic context, institutional capacity, the regulatory framework and a range of more operational issues. In considering these contextual issues in the discussion that follows, the main focus is on support for MSMEs, where there is most experience in the use of financial instruments across EU member states, but these factors are also relevant to the use of financial instruments in other policy areas, together with more specific elements.

The context within which financial instruments are implemented will affect how and how well they work. Circumstances vary between member states and regions, so there is no "one-size-fits-all" approach. Financial instrument models are seldom transferable without modification to take local, regional or national conditions into account. These include differences in local economic conditions, in banking and legal systems, previous experience with implementing financial instruments, etc. The financial instrument model must be shaped by local circumstances and needs.

5. Some example of financial instrument for culture in Europe

BGK (Bank Gospodarstwa Krajowego - The State Development Bank of Poland)-managed UDF in Pomorskie, Poland

Funding source
ERDF (as the source of EU funding within Pomorskie ROP)
Type of FI
Loans
Financial size
The loan's final interest rate must not be lower than 0.25% p.a. Loan repayment can be up to 20 years and the grace period can be up to 12 months following the project's completion.

The final recipient must provide own contribution equal at least to 25% of the eligible expenditure when receiving regional aid, or 15% in the case of de minimis aid. The average loans worth EUR 12.9 million.

Thematic focus

Urban development

Type of final recipient

Public organisations, social and economic partners, non-governmental organisations, commercial companies, housing associations or communities, public-private partnership operators, other partnerships of the above entities.

Project types

BGK-managed UDF supports urban projects in the region's four major cities: Gdańsk, Gdynia, Sopot and Słupsk with low-interest rate long-term loans.

Projects eligible and implemented within the UDF include:

- construction, expansion, remodelling, or renovation of buildings to create or develop science and technology parks, advanced technology centres, centres of excellence, education and implementation centres, business incubators and similar institutions, including technical infrastructure and surroundings;
- projects for comprehensively regenerating degraded urban areas such as brownfields, former military installations, railways, ports, housing, or commercial sites, including the construction of new, expanded or remodeled public infrastructure for economic, educational, social and recreational functions;
- construction, expansion, remodelling, renovation, adaptation and fitting out of public buildings (excluding the seats of local government units), historical sites and metropolitan and trans local functions including sports, convention, cultural, exhibition and fair facilities, together with development of their surroundings;
- comprehensive thermal modernisation of public buildings and multifamily residential buildings, also connected with the transformation of existing heating systems and the use of renewable energy

"New Széchenyi" Combined Micro Credit and Grant scheme (CMCG), Hungary

Funding source

Operational programmes "Economic Development Operational Programme" and "Central Hungary Region Operational Programme", co-financed under ERDF

Type of FI

Combination of loans (micro credit) and grants.

Financial size

SMEs could receive up to 45% as a grant (from EUR 3,000 to EUR 33,000), up to 45% as a micro credit (Loan Max 66,000 EUR) and would contribute a minimum of 10% of the total investment from their own resources.

Thematic focus

SME support

Main results

9,389 final recipients received combined micro credit to enhance their businesses

Project types

It provided micro financing opportunities to those micro enterprises that did not make use of credit or had limited access to financial resources, and made them capable of growing their businesses. The CMCG, in general, has no explicit targets, sectorial or other policy goals. The aim is to focus on financial segments where the supply of financing is low, those enterprises that are below the banks' credit limit: businesses that need loans, but to whom commercial banks would not provide credit without a risk-sharing scheme.

Entrepreneurship Promotion Fund, Lithuania

Funding source

ESF (OP for the Development of Human Resources 2007-2013)

Type of FI

Loan combined with training and consultations (final recipients can also make use of other related instruments, i.e. guarantees, interest rate subsidies and subsidies for employee salaries)

Financial size

Loans of up to EUR 24,907; final recipients have to finance 10% of the project value from their own funds, the average loan amounts to EUR 15,900.

Thematic focus

Social enterprises

Type of final recipient

Micro and small enterprises younger than one year, entrepreneurs and business-oriented social enterprises. Priority given to unemployed people, disabled people, young people under age 29 and individuals over 50.

Main results

New jobs created: 1,758 (up to March 2014)

Individuals / enterprises using the scheme: 1,017 (up to September 2014)

Project types

The instrument provides loans at better-than-market conditions in combination with free training. The primary aim is to promote self-employment and entrepreneurship as a sustainable way of keeping people active in business and the labour market and to create jobs. As mentioned, the loans target micro and small enterprises that have been operating for less than one year, as well as individual entrepreneurs and social enterprises. The combination of loans and training is a very important aspect of the strategy.

Although training is not obligatory, it is very popular among final recipients. It has been shown that providing training on different aspects of business development improves final recipients' entrepreneurial and management capacities. From the EPF perspective, providing training increases the scope for creating jobs and reduces the probability of loan defaults by the final recipients.

The economic sectors of projects were very diverse. Food and typical products, wholesale and retail fair trade were very popular. Innovative services and cultural and creative industries were also supported.

Mikromezzaninfonds, Germany

Funding source

ESF OP at federal level in Germany 2007‑2013, ERP Special Fund1

Type of FI

Mezzanine capital in the form of silent partnerships (a hybrid form of finance that combines elements of both debt and equity, having advantages for the final recipient; the investment is normally treated as a loan but the investor participates in the profits of the enterprise)

Financial size

Investments of up to EUR 50.000 under the de minimis regulation and for up to 10 years. During the grace period for repayment of the principle, the enterprise has to amortise an annual fixed premium of 8%, which is paid quarterly in arrears. Depending on the economic viability of the enterprise, the mezzanine investor receives up to 1.5% of the profits per annum.

Thematic focus

Promoting employment and social inclusion

Type of final recipient

SMEs as well as enterprises led by disadvantaged people – e.g. women, migrants or the unemployed – that are excluded from financial services due to insufficient equity or no credit history

Main results

From September 2013 to December 2015, 1.781 enterprises have been supported with approximately EUR 74.5 million. Around 7.775 jobs have been secured. Some 2%, or 35 of the 1.781 supported enterprises, are social enterprises.

Project types

Enterprises pursuing a social or ecological mission

SELFIEmployment, Italy

Funding source

ESF NOPs 2014-2020

Type of FI

Microloans, small loans

Financial size

Small loans up to EUR 50.000 and targeted services to promote project implementation and to support the development of specific entrepreneurial ideas (these business development services are covered by a grant of up to EUR 5.000 for each application). Average loan of EUR 35.000. No collateral is required and no interest is to be paid.

Thematic focus

Increasing employability of NEETs (people Not (engaged) in Education, Employment or Training)

Type of final recipient

Self-Employment individuals and disadvantaged groups.

Project types

The eligible sectors are producing and trading goods, tourism, culture, health and social care, ICT, manufacturing, renewable energy, energy efficiency and services.

Cultural Impact Development Fund, UK

Funding source
Private (Big Lottery Fund and Big Society Capital)
Type of FI
Unsecured loans (and revenue participation agreements, where appropriate)
Financial size
Investments between £25,000 and £150,000 with repayment term of one to five years and interest rates ranging between 5.5% and 8.5%.
Thematic focus
Enable organisations in the arts and cultural sector to take on small-scale repayable finance in order to achieve social outcomes
Type of final recipient

- Arts and cultural venues
- Museums, libraries and archives
- Non-venue based organisations (e.g. touring organisations, production companies, festivals, etc.)
- Sector support organisations (e.g. development agencies, workspace providers, cultural education organisations)

Organisations registered in England and primarily benefiting communities in England.

Project types/Areas of work

- Music and performing arts
- Visual arts, including graphic design
- Film and Broadcasting
- Literature
- Combined arts
- Crafts
- Fashion design
- Cultural heritage
- Architecture
- Digital arts and culture

Arts Impact Fund, UK

Funding source
Private (Bank of America Merrill Lynch, Esmée Fairbairn Foundation, Nesta and Arts Council England, with additional funding and support from Calouste Gulbenkian Foundation)
Type of FI
Unsecured loans (and revenue participation agreements, where appropriate)

Financial size
Investments between £150,000 and £600,000 repayable over a period of three to five years
Thematic focus
Social investment in the arts and cultural sector
Type of final recipient
Organisations registered in England and primarily benefiting communities in England. Charities, community interest companies and community benefit societies with a recognised charitable purpose are eligible for investment.

Project types/Areas of work
Organisations must work in one of the art forms recognised by Arts Council England. These are:

- Theatre
- Dance
- Music
- Visual arts
- Literature
- Combined or multi art forms
- Digital arts

Three social outcomes areas:

- Young people and educational attainment
- Citizenship and Community
- Health and Well-being

6. Other instruments

6.1 Tax incentives

(Many parts of the discussion in the present chapter rely on Alex Easson and Eric M. Zolt, "Tax Incentives", World Bank Institute (Washington, D.C., World Bank Group, 2002)

Despite tax incentives are not a financial instrument, and they can't be supported by ESI Funds, and normally regional authorities don't have the sufficient fiscal autonomy to use them, some tax incentives are meant to help the welfare of the society. For example, the historical preservation tax incentive to preserve the historic buildings can generate jobs, increase private investment in the cities, create housing for low-income individuals in the historic buildings, and enhance property values. One way a public body does so is through tax incentives for the rehabilitation of historic buildings.

Tax incentives are those special exclusions, exemptions, or deductions that provide special credits, preferential tax rates or deferral of tax liability. Tax incentives can take the form of tax holidays for a limited duration, current deductibility for certain types of expenditures, or reduced import tariffs or customs duties.

Tax incentives may play a larger role in influencing investment decisions than in past years. Several factors may explain why tax considerations may be more important in investment decisions. First, tax incentives may be more generous than in past years. For example, the effective reduction in tax burden for investment projects may be greater than in the past as tax holiday periods increase from two years to ten years or the tax relief provided in certain enterprise zones expand to cover trade taxes as well as income taxes.

Second, the last ten years have seen substantial trade liberalization and greater capital mobility. As non-tax barriers decline, the significance of taxes as an important factor on investment decisions increase.

But nowadays countries no longer have the luxury of designing their tax systems in isolation. With increased mobility of capital and labor, countries must design tax systems considering the tax regimes of other countries in the region as well as international practices. The European Union took a broader approach by adopting a Code of Conduct for its member states. The Code requires member states to refrain from certain types of tax competition that may affect the location of business activity within the European Union. A European Union group identified 66 special tax regimes and members were required to eliminate the tax incentives to conform to the Code. Also important in the EU, are the “State Aid Rules” that restrict or prohibit state assistance to industry. The scope of the state aid prohibitions is broad enough to cover many types of tax incentives.

The costs and benefits of tax incentives are not easy to evaluate and are hard to quantify and estimate. Incentives that may work well in one country or region may be ineffective in another context. Tax incentive regimes in many countries have evolved from general tax holidays to incentive regimes that are more narrowly targeted.

It therefore may make sense (i) to limit the duration of tax incentive regimes to reduce the potential costs of unsuccessful or poorly designed programs by including a specific “sunset” provision as part of the original legislation; (ii) to design incentive regimes to require information reporting by beneficiaries to investment agencies and to specify what government agency has responsibility for monitoring and enforcing qualification and any recapture provisions; and (iii) to require an evaluation be made as to the costs and benefits of specific tax incentive regimes and to specify the timing of the evaluation and the parties responsible for conducting the review.

ADVANTAGES OF TAX INCENTIVES

If properly designed and implemented, tax incentives may be a useful tool in attracting investments that would not have been made without the provision of tax benefits. As discussed below, new investment may bring substantial benefits, some of which are not easily quantifiable. A narrowly targeted tax incentive program may be successful in attracting specific projects or specific types of investors.

That governments often choose tax incentives over other types of government action is not surprising. It is much easier to provide tax benefits than to correct deficiencies in the legal system or to dramatically improve the economic system in the country. Also, tax incentives do not require an actual expenditure of funds by the government. One alternative to using tax incentives is to provide for grants or cash subsidies to investors. Although tax incentives and cash grants may be similar economically, for political and other reasons, it is easier to provide tax benefits than to actually provide funds to investors. Tax incentives may yield different types of benefits. The benefits from tax incentives for foreign investment follow the traditional list of benefits resulting from foreign direct investment. These include increased capital transfers, transfers of know-how and technology, increased employment, and assistance in improving conditions in less-developed areas.

DISADVANTAGES OF TAX INCENTIVES

The tax revenue losses from tax incentives come from two primary sources: first, foregone revenue from projects that would have been undertaken even if the investor did not receive any tax incentives; and, second, lost revenue from investors and activities that improperly claim incentives or shift income from related taxable firms to those firms qualifying for favorable tax treatment.

Policy makers may wish to target tax incentives to achieve the greatest possible benefits for the lowest costs. The goal would be to offer tax incentives only to those investors who at the margin would invest elsewhere but for the tax incentives. Offering tax incentives to those investors whose decisions to invest are not affected by the proposed tax benefit results in just a transfer to the investor from the host government without any gain.

It is very difficult to determine on a project-by-project basis which projects were undertaken solely due to tax incentives. Similarly, it is hard to estimate for an economy as a whole what the levels of investment would be with or without a tax incentive regime.

For those projects that really would not have been undertaken without tax incentives, there is no real loss of tax revenue from those firms. Indeed, to the extent that the firms become regular taxpayers or to the extent that these operations generate other tax revenue (such as increased profits from suppliers or increased wage taxes from employees) there are revenue gains from those projects.

FORMS OF TAX INCENTIVES

Tax incentives for investment take a variety of forms. The most suitable for cultural sector are:

- reduced corporate income tax rates;
- tax holidays (i.e., reduction of or exemption from tax for a limited duration);
- investment credits or allowances;
- tax credit accounts;
- favorable deduction rules for certain types of expenditure

What Is a Tax Credit?

A tax credit differs from an income tax deduction. An income tax deduction lowers the amount of income subject to taxation. A tax credit, however, lowers the amount of tax owed. In general, a euro of tax credit reduces the amount of income tax owed by one euro.

CONCLUSION

Tax incentives can play a useful role in encouraging both domestic and foreign investment. How useful, and at what cost, depends on how well the tax incentive programs are designed, implemented, and monitored.

No easy answers exist to the questions of whether to use tax incentives and what form these tax incentives should take. There are, however, some clear guidelines that may improve the chances of success of tax incentive programs. First, the objectives of the tax incentive program should be clearly set forth. Second, the type of tax incentive program should be crafted to best fit the objective. Third, the government should estimate the anticipated costs and benefits of the incentive program in a manner similar to other types of tax expenditure analysis. Fourth, the incentive program should be designed to minimize the opportunities for corruption in the granting of incentive and for taxpayer abuse in exploiting the tax benefit. Fifth, the tax incentive regime should have a definite "sunset" provision to allow for a determination of the merits of the program. Finally, the government should be required at a specific time to assess the success and failure of each incentive program

GOOD PRACTICE - The U.S. Federal Historic Preservation Tax Incentives

The Federal Historic Preservation Tax Incentives program is one of the Federal government's most successful and cost-effective community revitalization programs. The tax incentives promote the rehabilitation of historic structures of every period, size, style and type. They are instrumental in preserving the historic places that give cities, towns and rural areas their special character. The tax incentives for preservation attract private investment to the historic cores of cities and towns. They also generate jobs, enhance property values, and augment revenues for State and local governments through increased property, business and income taxes. The Preservation Tax Incentives also help create moderate and low-income housing in historic buildings.

Through this program, abandoned or underused schools, warehouses, factories, churches, retail stores, apartments, hotels, houses, and offices throughout the country have been restored to life in a manner that maintains their historic character.

Current tax incentives for preservation include:

- a 20% tax credit for the *certified rehabilitation* of *certified historic structures*.
- a 10% tax credit for the rehabilitation of *nonhistoric, non-residential buildings* built before 1936.

The 20% rehabilitation tax credit applies to any project that the Secretary of the Interior designates a certified rehabilitation of a certified historic structure. The 20% credit is available for properties rehabilitated for commercial, industrial, agricultural, or rental residential purposes, but it is not available for properties used exclusively as the owner's private residence.

The 10% rehabilitation tax credit is available for the rehabilitation of non-historic buildings placed in service before 1936. As with the 20% rehabilitation tax credit, the 10% credit applies only to buildings—not to ships, bridges or other structures. The 10% credit applies only to buildings rehabilitated for non-residential uses. Rental housing would thus not qualify. Hotels, however, would qualify. They are considered to be in commercial use, not residential.

GOOD PRACTICE - The Italian "ART BONUS"

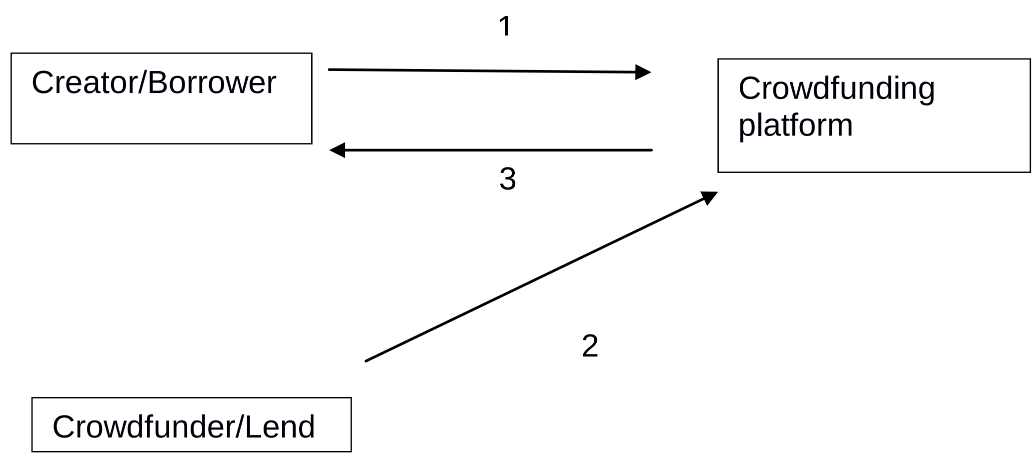
The Art bonus is a tax credit to support cultural patronage established by Article 1 of the D.L. n. 83/2014 and amended by the 2016 Stability Law (No. 2018/2015), which transformed the temporary measure (valid for the three-year period 2014-2016) to final and at the same time raised the benefit measure to 65%. The tax benefit is granted to both individuals and corporations, regardless of the nature and legal form, which make the donations in favor of culture and entertainment.

In order to grant the tax benefit, equal to 65% of the donations made, it is necessary that the donation is made through bank, post office, debit or credit cards and prepaid, bank checks and circulars. It is not possible, on the other hand, to benefit from the tax credit in the case of payment methods other than the previous ones (for example in cash). It is also mandatory to keep a copy of the document certifying the cash dispensation, containing the indication in the reason for the "Art bonus" - object of the disbursement - subject / beneficiary body. The maximum limits for the benefit are different depending on the qualification of the patron. In any case, for all subjects the tax credit must be divided into three annual installments of the same amount.

6.2 Crowdfunding

(Text from the European Commission, communication COM(2014) 172 final 27/03/2014 "Unleashing the potential of Crowdfunding in the European Union")

The European Commission establishes that “Crowdfunding generally refers to an open call to the public to raise funds for a specific project.” And “There is great potential in crowdfunding to complement traditional sources of finance and contribute to the financing of the real economy. … It is one of the newly emerging financing models that increasingly contribute to helping start-ups move up the "funding escalator" and contribute to building a pluralistic and resilient social market economy. Crowdfunding has real potential to finance different types of projects, such as innovative, creative and cultural projects, or activities of social entrepreneurs, that have difficulties in accessing other forms of financing.”



1. The creator launches the idea by publishing it on the platform
2. The crowdfunder becomes the lender
3. The creator collects funds and becomes the borrower

What is crowdfunding?

The term emerged from the field and generally refers to open calls to the wider public to raise funds for a specific project. Often these calls are published and promoted through the internet and with the help of social media, and are open only for a specified time period. The funds are typically raised from a larger number of contributors in the form of relatively small contributions, but exceptions exist.

The expression "crowdfunding" refers merely to a channel of financing, which can be used in many different ways. Donations can be collected from people, which would qualify as donation-based crowdfunding if collected for a specific project during a specified time period promoted through internet and social media. But crowdfunding campaigns can also offer contributors something in exchange. We can talk about rewards-based or pre-sales crowdfunding when contributors get in return something symbolic, like the opportunity to participate in the cultural experience they finance (e.g. appearing as an extra in a film), or a product that was developed and produced with the funds raised. All of the above forms of crowdfunding can be described as "crowd sponsoring".

Other crowdfunding campaigns offer some form of financial return. Profit-sharing schemes would promise a part of future profits made by the project that is being financed. Securities based crowdfunding involves issuing equity or debt to contributors. The difference from an IPO for example is that the shares issued are typically not traded on a secondary market and there is no underwriting involved. Profit-sharing and securities-based crowdfunding can be described as "crowd investing". Finally "crowd lending" campaigners borrow money from the people and promise to pay back the capital on specified terms with (or in certain cases without) interests. Examples include consumers borrowing lower amounts of money from the crowd to renovate their home, finance studies, etc., or businesses borrowing to finance some new operations.

Alternative Finance Model	Definition
Real Estate Crowdfunding	Individuals or institutional funders provide equity or subordinated-debt financing for real estate.
Equity-based Crowdfunding	Individuals or institutional funders purchase equity issued by a company.
Reward-based Crowdfunding	Backers provide funding to individuals, projects or companies in exchange for non- monetary rewards or products.
Donation-based Crowdfunding	Donors provide funding to individuals, projects or companies based on philanthropic or civic motivations with no expectation of monetary or material
P2P Lending	It's a crowdfunding method where investors co-finance projects by lending money (under the form of loans) to the borrowers in return for interests.
Debt-based Securities	Individuals or institutional funders purchase debt-based securities, typically a bond or debenture at a fixed interest rate.
Invoice Trading	Individuals or institutional funders purchase invoices or receivable notes from a business at a discount.
Profit Sharing (or Royalty-based Crowdfunding)	Individuals or institutions purchase securities from a company, such as shares or bonds, and share in the profits or royalties of the business.
Balance Sheet Consumer Lending	The platform entity provides a loan directly to a consumer borrower.

From the 4th European alternative finance benchmarking program - University of Cambridge Judge Business School.

Why crowdfunding?

Crowdfunding can offer various benefits to a large spectrum of users. This is partly explained by its flexibility, community engagement, and the variety of financing forms it can offer. While donations, rewards and pre-sales models do not entail any financial return to contributors, profit-sharing, lending and investment in securities models involve the prospect of financial return. The first category can be referred to generally as crowd sponsoring, while the latter can be described as crowd lending or crowd investing (including profit sharing). The campaigners collecting funds can include SMEs, startups, micro-entrepreneurs, social entrepreneurs, the self-employed, the cultural and creative sectors, public authorities, innovative or environmental projects, public interest bodies, researchers, consumers or the unemployed.

Crowdfunding can foster entrepreneurship not only in terms of increased access to finance, but also as an additional market testing and marketing tool, which can help entrepreneurs acquiring relevant knowledge of customers and media exposure. The experience with such campaigns also build employability skills while successful campaigns provide a valuable role model to other 'entrepreneurs to be'.

Possibilities for matched (public and private) financing

Due to its limited size, crowdfunding cannot be expected to solve all various forms of access to finance issues on its own. Possibilities for public funding alongside crowdfunding could therefore be further explored at both national and EU level in duly justified cases where a market failure can be demonstrated.

Matched financing could be provided either in the form of co-investment in projects alongside private contributors (e.g. loan guarantees to crowd lending transactions, or grant in parallel with money raised on a platform) or directly to crowdfunding platforms. The newly adopted state aid rules applicable to risk finance extend the scope of eligible undertakings by including SMEs, small midcaps and innovative midcaps to improve access to funding for companies that though viable, are faced with a market failure in accessing the necessary finance. The risk finance rules applicable to alternative trading platforms can, by analogy, apply to certain types of crowdfunding platforms. Any support with state resources shall comply with competition rules, and in particular the State aid rules applicable to risk finance.

Crowdfunding is an alternative form of financing that can complement other forms of traditional financing.

With the "***civic crowdfunding*"**, crowdfunding is used to finance public works and projects by citizens themselves.

It is a bottom-up method of financing capable of actively involve citizenship, ans capable of promoting the development of the territory and communities. Therefore, both individuals and social arrangements can create civic-based projects that benefit the whole community.

Civic crowdfunding, in general, can be "donation" or "reward", but it can also be "equity-based" and "social lending".

This civic fundraising for all citizens has some potential that can be summarized as follows:

a. Civic crowdfunding increases the sense of belonging and the involvement of citizens for their territory, also promoting transparency through a more effective allocation of funds;

b. Public administrations and local authorities, with civic crowdfunding, can:

• Leverage close relationships with citizens and small and medium-sized enterprises;

• Test the citizens' interest in each new project, in order to better define - thanks to the participation of the citizens themselves - the priorities of each territory;

• Invest budget in those projects considered important by the citizens themselves and for which, often, there is a lack of public funds for their realization

c. Many crowdfunding platforms are active above all at a local level and, therefore, are excellent for launching projects for the community living in the area;

d. Citizens can follow and access all information, both (indirectly) online and (directly) offline (on the territory), relating to the projects they intend to support through civic crowdfunding, starting from the early stages of development until their complete realization.

Part 3 - Public-private partnership (PPP)

Over the past few decades public-private partnership (PPP) has become a new way for delivering and financing public sector projects, involving investment in fully economic (e.g. highways, railways, airports, seaports, etc.) or social (e.g. schools, hospitals, museums and other significant and historical buildings of public interest) infrastructures[14].

Compared to the concept of “privatisation” conceived as sharing or selling public assets to private companies interested in making profit, often raising concerns because of the possible implication of losing the ownership over public goods, PPP is generally limited to a specific project and it tends to be more accepted and understood by the general public.

Economic operators act as the financial backers and technical partners, by offering their know-how for the strategy of implementation and management of a work or service, in order to preserve and improve the sector, but also allow more value to be distributed among all stakeholders.

As a result, PPP guarantees:

a. quality and efficiency of the services as a result of a complete and timely evaluation of the projects, costs, revenues and benefits over appropriate time horizons compared to the technical life of the works (i.e. respect for the project's timing and methods of implementation as conditions for achieving the expected cash flows);

b. effectiveness (according to the specific parameters of the expected 'public' investment);

c. transparency (due to the series of ex-ante, *in itinere* and *ex-post* controls that are activated in these operations);

d. the distribution of the risks borne by both partners, even though the so-called "business risk" essentially passes on to private operators;

e. benefits for citizen, the final recipients of works and services.

PPPs categories
Institutional PPPs (joint venture): refer to a specific type of PPP where public and private parties establish an entity with mixed capital in which the private party takes part actively in the operation of contracts awarded to the partnership. ***Contractual PPPs:*** where the relationship between the parties is governed by a contract ***Concession contracts*** *(EU Directive 2014/23)*: the final user of the service/work pay the private partner directly, with no (or reduced) remuneration from the public sector (the operating risk of economic nature involving the possibility that it will not recoup the investments made and the costs incurred in operating the works or services is on the private economic operator)

[14] THINK PAPERS COLLECTION / 07, *Public-Private Partnerships for Cultural Heritage: Opportunities, Challenges, Future Steps*, cit.; S. Macdonald and C. Cheong, *The Role of Public-Private Partnerships and the Third Sector in Conserving Heritage Buildings, Sites, and Historic Urban Areas*, The Getty Conservation Institute, Los Angeles, 2015.

Public Procurement (*EU Directives 2014/24 and 2014/25*): contracts for pecuniary interest concluded in writing between one or more economic operators and one or more contracting authorities and having as their object the execution of works, the supply of products or the provision of services. The public entity normally have recourse to the procedure provided by EU Directives to choose its private partner.

Elements normally characterise PPPs:

(EU Commission, Green Paper on public-private partnerships and community law on ic contracts and concessions, 30 April 2004, COM(2004) 327 final)

- The relatively long duration of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project.
- The method of funding the project, in part from the private sector, sometimes by means of complex arrangements between the various players. Nonetheless, public funds - in some cases rather substantial - may be added to the private funds.
- The important role of the economic operator, who participates at different stages in the project (design, completion, implementation, funding). The public partner concentrates primarily on defining the objectives to be attained in terms of public interest, quality of services provided and pricing policy, and it takes responsibility for monitoring compliance with these objectives.
- The distribution of risks between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred. However, a PPP does not necessarily mean that the private partner assumes all the risks, or even the major share of the risks linked to the project. The precise distribution of risk is determined case by case, according to the respective ability of the parties concerned to assess, control and cope with this risk

1. The International Legal Framework on PPPs

PPPs have gained popularity over the last twenty years and these partnerships have already been employed in the main infrastructure areas of energy, water, telecommunication and transportation to deliver necessary public services.
Although the preservation of the historical urban environment raises questions and challenges which makes necessary a strategic multidisciplinary approach[15], nowadays also the protection and the valorisation of cultural heritage begins to require the involvement of multiple actors both in the

[15] See, further, C. Ventura, G. Cassalia, L. Della Spina, *New models of public-Private Partnership in cultural heritage sector: Sponsorship between models and traps,* in *Procedia-Social and Behavorial Sciences* 223, 2016, p. 257 ss.; R. Cavallo Perin – G. M. Racca, *Caratteri ed elementi essenziali nelle sponsorizzazioni con le pubbliche amministrazioni*, in Dir. Amm., 2013, pag. 583.

public, and private, and non-governmental-sectors to carry out the conservation and to sustain the place[16].
In the cultural heritage sector, PPP takes place in various forms / contractual models, such as support to museums (as in Austria), support to museum collections and heritage policy development (for example in the Netherlands) and protection of historical heritage by bank foundations (Spain)[17], playing a key role in the social and economic development of a city, namely in the promotion of new business operating in the cultural sector and ultimately in job creation.
Cities will promote the adoption of this type of financial innovation on their territories, learning from others' experiences to support new long-term agreements.
Over the years, a number of different definitions of PPP have been developed.
At the international level **UNESCO** (2013) pointed out that "the cultural sector offers a great and unexplored potential for partnerships. Partnerships in the area of culture can bridge the funding gap of public entities and provide interesting investment opportunities for the private sector, but, at the same time, PPPs require environmentally and socially sound approaches apt to respect and benefit local communities"[18].
The **United Nations Economic Commission for Europe (UNECE**), set up in 1947 by the United Nations Economic and Social Council with the aim to promote pan-European economic integration, strives to improve the expertise of governments in identifying, negotiating, managing and implementing successful PPPs projects[19].
The **Organisation for Economic Co-operation and Development (OECD)**, considers the PPP as "long term agreements between the government and a private partner whereby the private partner delivers and funds public services using a capital asset, sharing the associated risks"[20].
Moreover, the **National Council (of America)** defines PPP as a "contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares the potential risks and rewards emerging from the delivery of the service and/or facility"[21].
This definition provides three key elements:

- **a.** the presence of public bodies and private entities;
- **b.** the sharing of skills and assets, risks and rewards;
- **c.** benefit for citizens.

The **Council of Europe** stated in 2005 the important aspects of heritage, as it relates to human rights and democracy, and promotes a wider understanding of heritage, communities and societies encouraging the recognition that objects and places are not, *per se,* what is important about cultural heritage[22].

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[16] World Bank, *A Framework for Disclosure in Public-Private Partnership Projects*, 2016.
[17] See, I. Rizzo, A. Mignosa, *Hand book on the Economics of Cultural Heritage, passim* ma spec., p. 48 s.
[18] available at *http://www.unesco.org/new/en/culture/themes/culture-and-development/hangzhou-congress/public-private-partnerships-in-culture-sector/*.
[19] See *http://www.unece.org/ceci/ppp.html*. This activity is realized by the Committee on Innovation, Competitiveness and Public-Private Partnerships. This is done through exchange of knowledge and experiences of PPPs between member States, including experts from public and private sectors, particularly in the identification and testing of best practices. The activities will result in guides on best practice, studies and innovative tools that can be used in capacity-building programmes and training. M.T. Adekilekun, C.C. Gan, Cao Fuguo, *International legislative frameworks for public-private partnerships: an evaluation*, in *P.P.L.R*. 2018, 1, 33-50.
[20] OECD, *OECD Principles for Public Governance of Public-Private Partnerships*, 2016, available at *www.oecd.org/gov/budgeting/oecd-principles-for-public-governance-of-public-private-partnerships.htm.*
[21] National Council (of America) for PPP, 2010.
[22] Framework Convention on the Value of Cultural Heritage for Society (Faro Convention), 2005. In the Preamble of the Faro Convention (Recital 4) it can be read as follows: «The member States of the Council of Europe, […] […]

The Council of Europe recognized the emerging role of the private sector in heritage management in the mid-2000s and recommended to develop guidelines for best practice regarding public-private partnerships.
According to the Council of Europe policies, PPPs introduced a new approach to public provision: a private economic operator finances and builds a public work or delivers a public service.
The private party is entrusted with the operation and maintenance of the asset or service upon performance and availability standards throughout the contract life, offering financial and human resources as well as experience and expertise. Instead, the public sector, once defined the project's objectives in terms of public interest, quality of services and pricing policy, monitors the compliance by the private party with such objectives, providing administrative support and facilitate investments.
Certainly, the collaboration between the public and private sectors is one of the most evident expressions of the principle of horizontal subsidiarity[23], in addition to what provided for in the TEU[24], while at the same time envisaging a change in the role of the public administration.

2. The EU Legal Framework on PPPs

"Since the 1990s, 1749 PPPs worth a total of 336 billion euro have reached financial close in the EU".

Recognising that every person has a right to engage with the cultural heritage of their choice, while respecting the rights and freedoms of others, as an aspect of the right to freely participate in cultural life enshrined in the United Nations Universal Declaration of Human Rights (1948) and guaranteed by the International Covenant on Economic, Social and Cultural Rights (1966)».

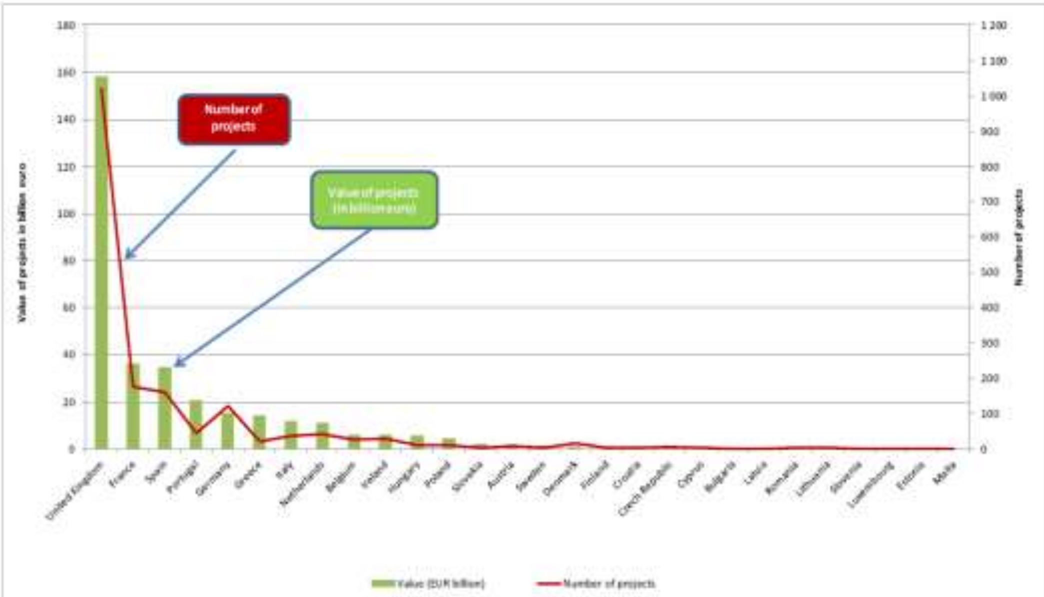
[23] Horizontal subsidiarity takes place within the framework of the relationship between authority and freedom, state and social formations, and expresses the criterion for the distribution of competences between local authorities and private entities, based on the assumption that the care of collective needs and activities of general interest are directly provided by private individuals and the public authorities intervene in accordance with subsidiary, programming, coordination and, where appropriate, management activities. For the Italian legal framework see: Italian Constitution, art. 118, par. 4, for which "the State, Regions, Metropolitan Cities, Provinces and Municipalities shall promote the autonomous initiative of citizens, individuals and associates, to carry out activities of general interest, on the basis of the principle of subsidiarity". See, v. G. U. Rescigno, *Principio di sussidiarietà orizzontale e diritti sociali*, in *Diritto pubblico*, 2002; A. Albanese, *Il principio di sussidiarietà orizzontale: autonomia sociale e compiti pubblici*, in *Dir. pubbl*., 2002; P. Duret, *La sussidiarietà "orizzontale": le radici e le suggestioni di un concetto*, in *Jus-Rivista di scienze giuridiche, 2000*; G. Arena*, Il principio di sussidiarietà orizzontale nell'art. 118 u. c. della Costituzione, in www.astridonline.it,*2003.

[24] art. 11, first paragraph, according to which Institutions shall give citizens and representative associations, through appropriate channels, the opportunity to make known and publicly exchange their views in all areas of action of the Union.

EU PPP market from 1990 to 2016

Source: European Court of Auditors based on information provided by EPEC.

EU PPP market per Member State from 1990 to 2016



A first definition of PPP was given by the European Commission which in 2003 referred to a "cooperation between the public and private sectors for the development and operation of infrastructure for a wide range of economic activities" [25].

The Green Paper approved by the European Commission in 2004 has discussed the phenomenon of PPPs from the perspective of the EU legal framework on public contracts (public procurement and concessions contracts), emphasising that the development of the PPP can be generally considered as part of a more general change in the role of the State in the economy, moving from a role of direct operator to one of organiser, regulator and controller[26].

The EU Commission gave a general and wide definition of PPPs in 2008, based also on a list of elements identified as normally characteristic of a PPP, later specified taking into account the peculiar features established by other international organizations (and in particular the above mentioned 2010 definition of the National Council of America for PPP[27])[28].

As a result, the definition given in 2010 by the European Digital Libraries is certainly more exhaustive and interesting, focusing on the sharing of three core "Rs": Resources, Responsibilities, and Risks[29].

In the last years, many other EU documents were approved on PPPs[30], but now a comprehensive definition of PPP is contained in the 2013 regulation on the *European system of national and*

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[25] European Parliament, Directorate General for Internal Policies, Policy Department B, *Structural and Cohesion Policies, Encouraging Private Investment in the Cultural Sector. Study,* cit.; EU Commission, *Guidelines for Successful Public-Private Partnerships*, March 2003.

[26] EU Commission, *Green Paper on public-private partnerships and community law on public contracts and concessions*, 30.4.2004, COM(2004) 327 final, "In general, the term [PPP] refers to forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service".

[27] National Council (of America) for PPP, 2010.

[28] *i2010 European Digital Libraries Initiative*, May 2008. "By PPPs we mean any partnership between a private-sector corporation and a public-sector body, through which the parties contribute different assets to a project and achieve complementary objectives."; "- The relatively long duration of the relationship, involving cooperation between the public partner and the private partner on different aspects of a planned project.

- The method of funding the project, in part from the private sector, sometimes by means of complex arrangements between the various players. Nonetheless, public funds - in some cases rather substantial - may be added to the private funds.

- The important role of the economic operator, which participates at different stages in the project (design, completion, implementation, funding). The public partner concentrates primarily on defining the objectives to be attained in terms of public interest, quality of services provided and pricing policy, and it takes responsibility for monitoring compliance with these objectives.

- The distribution of risks between the public partner and the private partner, to whom the risks generally borne by the public sector are transferred. However, a PPP does not necessarily mean that the private partner assumes all the risks, or even the major share of the risks linked to the project. The precise distribution of risk is determined case by case, according to the respective ability of the parties concerned to assess, control and cope with this risk", EU Commission, G*reen Paper on public-private partnerships and community law on public contracts and concessions (presented by the Commission)*, 30.4.2004, COM(2004) 327 final. In the Green Paper, the European Commission has also stressed a dual purpose, that of guaranteeing public works and services, even in situations of budget restriction and that of ensuring the use of private-sector methodologies, so to improve this safeguard with a view to achieving a better price/performance ratio without prejudice to the interest of public

[29] THINK PAPERS COLLECTION / 07, *Public-Private Partnerships for Cultural Heritage: Opportunities, Challenges, Future Steps*, cit.

[30] Communication from the European Commission of 15.11.2005 on PPPs and the law on public contracts and concessions, COM 2005, 569; the European Parliament Resolution of 16.10.2006 on public-private partnerships and Community law on public contracts and concessions; the interpretative communication of the Commission on the application of Community law on public contracts and concessions to institutionalised public-private partnerships (IPPPs) of 5 February 2008, COM 2007 6661. The 2011 Green Paper on the modernisation of EU public procurement policy to

regional accounts, in which PPPs are defined as "long-term contracts between two units, whereby one unit acquires or builds an asset or a set of assets, operates it for a period and then hands the asset over to a second unit. Such arrangements are usually between a private enterprise and government but other combinations are possible, with a public corporation as either party or a private non-profit institution as the second party"[31].

make the European procurement market more efficient, COM 2011 15.

[31] EU Regulation No 549/2013 of 21 May 2013 on the European system of national and regional accounts in the European Union, Art. 15.41. See also C. H. Bovis, *Efficiency and Effectiveness in Public Sector Management: The Regulation of Public Markets and Public-Private Partnerships and Its Impact on Contemporary Theories of Public Administra*tion, in *European Procurement & Public Private Partnership Law Review*, 2013, 186.

The PPP project cycle

Source: EPEC PPP Guide, http://www.eib.org/epec/g2g/ii-detailed-preparation/22/223/index.htm

Phase	Stage	Step
1 Project Identification	1.1 Project Selection	• Investment assessment • Output specification
	1.2 Assessment of PPP Option	• Affordability • Risk allocation • Bankability • Value for money analysis • Debt and deficit treatment of PPPs according to Eurostat
2 Detailed Preparation	2.1 Getting organised	• Set up project team and governance structure • Engage team of advisers • Develop project plan and timetable
	2.2 Before launching the tender	• Carry out further studies • Prepare detailed design of PPP arrangement • Select procurement method • Select bid evaluation criteria • Prepare draft PPP contract
3 Procurement	3.1 Bidding process	• Procurement notice, prequalification and shortlisting • Invitation to tender • Interaction with bidders • Evaluation of tenders and PPP contract award
	3.2 PPP contract and financial close	• Finalise PPP contract • Conclude financing agreements • Reach financial close
4 Project Implementation	4.1 Contract management	• Attribute management responsabilities • Monitor and manage project delivery and service outputs • Manage changes permitted in the PPP contract • Manage changes not provided for in the PPP contract • Dispute resolution • When the contract ends
	4.2 *Ex post* evaluation	• Define institutional framework • Develop analytical framework

Since PPPs are also strictly connected with Public Contracts, it appears relevant to consider the EU Directives adopted in the sector of public procurement and concession contracts[32]. The new Public Procurement Directives[33], repealing the previous 2004 Directives[34], and the Concessions contracts Directive[35] are innovative pieces of legislation reflecting the EU's wish to regulate concessions more closely[36].

The design of the PPP arrangement entail to define the main commercial terms of the PPP contract, development of the risk matrix, and detailed commercial and financial analysis. This phase is focused on the determination of all aspects of the PPP arrangement (e.g. responsibilities, risk allocation, payment mechanism). After these activities, the procurement method is selected. Four procurement procedures are envisaged according to the EU directives. The main procedures provided for this are: open, restricted (these two are also sometimes referred to as "standard procedures"), negotiated (an exceptional procedure) and competitive dialogue (the use of which is subject to conditions).

A comparison of EU procurement procedures

	Open Procedure	**Restricted Procedure**	**Negotiated Procedure**	**Competitive Dialogue**
Possibility to limit number of bidders	No prequalification or pre-selection is permitted. Any interested company may submit a bid.	The number of bidders may be limited to no less than five in accordance with criteria specified in contract notice (prequalification and shortlisting permitted).	The number of bidders may be limited to no less than three in accordance with criteria specified in contract notice (prequalification and shortlisting permitted).	The number of bidders may be limited to no less than three in accordance with criteria specified in contract notice (prequalification and shortlisting permitted).
Discussions during process	The specifications may not be changed during the bidding process, and no negotiations or dialogue may take place with bidders. Clarification is permitted.	The specifications may not be changed during the bidding process, and no negotiations or dialogue may take place with bidders. Clarification is permitted.	Negotiations permitted throughout process. Successive stages can be used to reduce the number of bidders (further short-listing).	Dialogue with bidders permitted on all aspects (similar to negotiated procedure, including further short-listing). When dialogue is concluded, final complete bids must be requested based on the solution(s) presented during the dialogue phase.
Discussions after final bid is submitted	No scope for negotiations with a bidder after bids are submitted.	No scope for negotiations with a bidder after bids are submitted.	Not relevant because the negotiations can continue until the contract is agreed. There need be no "final bid" per se.	Only permitted to clarify, fine tune or specify a bid. No changes permitted to basic features.
Basis for award	Lowest price or most economically advantageous tender	Lowest price or most economically advantageous tender	Lowest price or most economically advantageous tender	Most economically advantageous tender

Source: EPEC PPP Guide, http://www.eib.org/epec/g2g/ii-detailed-preparation/22/223/index.htm

[32] This new public procurement package was adopted in 2014 with the aim of simplifying procedures and making them more flexible in order to encourage access to public procurement for SMEs, and to ensure that greater consideration is given to social and environmental criteria.
[33] 2014/24/EU, so called "Classic Directive" and 2014/25/EU on procurement by entities operating in the water, energy, transport and postal services sectors.
[34] 2004/18/EC and 2004/17/CE.
[35] 2014/23/EU.
[36] The particular subject of concessions was brought forward from the documents now mentioned in the Commission's Interpretative Communication of 12 April 2000 on concessions in Community law.

The EU Commission recognized the "increasing importance of public-private partnerships"[37], the EU Directives on public contracts does not explicitly mention public-private partnership, albeit in the short space of a decade (2004-2014), the critical debate on PPPs has been so intense that it has led the European Union to change its policies[38].

PPP – Overviews of potential benefits and risks European Court of Auditors, Special report, Public Private Partnerships in the EU: Widespread shortcomings and limited benefits, n. 9/2018	
BENEFITS	**RISKS**
May enable to implement large-scale projects in one go	Less competition due to the size of the infrastructure to be procured. Affordability illusion, i.e. use of the State budget for more or bigger projects than would normally be affordable.
Bringing together the design, financing, building, operation and maintenance phases of a project in a single contract may ensure whole life approach for long-term benefits	Financing the full cost of construction through the private partner may complicate and delay financial close, increase financial costs and expose the private partner to increased financial risks; Combining different phases in a single contract adds elaborated requirements and risks to the procurement procedure and may lead to delays; Long-duration contracts not compatible with the rapid pace of technological change.
Risk sharing and risk allocation to the party best suited to manage them	Risk allocation may be influenced by the negotiation skills of the parties involved, with unsatisfactory results; Risk allocation may be influenced by considerations regarding the statistical treatment of the project.
Cost and time efficiency	Additional requirements are likely to increase the duration of procurement, offsetting any efficiencies during construction; Causes of delay are often independent from whether the project was procured traditionally or as a PPP. Impact of shortcomings in the project planning and implementation are amplified and may result in

[37] EU Commission, *Green Paper on the modernisation of EU public procurement policy Towards a more efficient European Procurement Market*, 27 January 2011, COM(2011) 15 final. In order to improve the statistical framework Eurostat, in cooperation with the EPEC, has produced a Guide on the Statistical Treatment of PPPs, which has received a very positive response from all public and private stakeholders, including the ECOFIN Council, and it is undertaking the promotion of this Guide in Member States, available at http://ec.europa.eu/eurostat/documents/1015035/7204121/epec-eurostat-statistical-guide-en.pdf.
[38] M. P. Chiti, *Il Partenariato Pubblico Privato e la nuova direttiva concessioni*, in *Riv. It. di dir. pubbl. com*., 2016.

	considerable payments borne by the public partner.
More realistic and robust assessment of the required infrastructure needs and its future usage	Public partner may rely on assessments made by private partners and lenders, whose objectives may not be in the public interest; Paying for the infrastructure in multiple instalments and, in some cases, without putting the infrastructure on-budget may dull the incentive to scale projects appropriately to requirements.
Better standards of maintenance and service	Lack of automatic penalty adjustments, especially in long contracts may reduce the incentive for the private to ensure good quality maintenance.
Under certain conditions, the EU accounting framework may allow public involvement in PPPs to be registered as off-balance sheet items, thus incentivising their use for enhanced compliance with the Euro Convergence Criteria.	Potential lack of a level playing field between different procurement options may result in biased selection. Less consideration of value-for-money aspects when selecting the PPP option; Keeping PPP projects off-balance may provide incomplete information.
Comprehensive legal and institutional frameworks can support the implementation of PPP projects.	Lack of appropriate strategies for the use of PPPs within an overall investment policy, and of adequate PPP laws and standard contracts, together with the lack of appropriate administrative capability, may lead to a less implementation of PPP projects.

The relevance of PPPs in pursuing the EU policies is highlighted by project supported and funded on this topic and on the possibility of combining PPPs with EU funds (eg. structural and cohesion funds)[39].
Another reason for selecting the PPP option is the possibility of allocating risks (such as construction, demand, availability) according to the principle that they should be borne by the partner that is best suited to manage them.

[39] Interreg: Central Europe, RESTAURA: Revitalizing Historic Buildings through Public-Private Partnership Schemes (CE339), Country Report available at *https://www.interreg-central.eu/Content.Node/RESTAURA.html*.

Depending on the **risk/reward allocation between the public and private partners**, the rules allow for two possibilities:	
a) PPPs can be recorded on the government balance sheet in a similar way as traditionally procured projects. This option treats the PPP asset as a public investment that generates an increase in government debt in line with the investment and therefore has an impact on compliance with the Maastricht criteria	b) PPPs can be recorded off the government balance sheet by shifting the investment costs from the capital budget to the annual operating budgets for future years. The advantage is that the share of debt relating to the PPP is not taken into account for purposes of compliance with the Maastricht criteria

Recently, the European Court of Auditors has expressed very strong doubts about the general use of public-private partnerships in the EU, highlighting its criticalities and denouncing a generalized lack of expertise of public administrations in planning and managing initiatives that compromises, at the operational level, the achievement of results legitimately expected from the application of PPPs[40].

Recommendations of the European Court of Auditors (ECA)	
1. Do not promote a more intensive and widespread use of PPPs until the issues identified by ECA are addressed and their recommendations successfully implemented	"Improving the institutional and legal frameworks and project management and increasing assurance that the choice of the PPP option is the one that provides most value-for-money and that PPP projects are likely to be managed in a successful manner".
2. Mitigate the financial impact of delays and re-negotiations on the cost of PPPs borne by the public partner	"In order to better share the cost of delays and re-negotiations between the partners, with the aim to mitigate the financial impact of delays attributable to the public partner and contract re-negotiations on the final cost of PPPs borne by the public partner, we recommend that: (a) Member States identify and propose standard contractual provisions that limit the amounts of possible extra costs to be paid by the public partner. (b) Member States assess any early contract re-negotiation to ensure that consequent costs borne by the public partner are duly justified and in line with value-for-money principles".
3. Base the selection of the PPP option on sound comparative analyses on the best procurement option	"In order to ensure that the PPP option is the one that maximises value-for-money, we recommend that: (a) Member States base the selection of the PPP option on sound comparative analyses, such as Public Sector Comparator, and appropriate approaches that ensure that the PPP option is selected only if it maximises

[40] Special report, Public Private Partnerships in the EU: Widespread shortcomings and limited benefits, n. 9/2018, in *https://www.eca.europa.eu/Lists/ECADocuments/SR18_09/SR_PPP_EN.pdf*.

	value-for-money also under pessimistic scenarios. (b) The Commission ensures that the Court of Auditors has full access to the necessary information in order to assess the choice of the procurement option and the related procurement by the public authorities even where EU support is provided directly to private entities through financial instruments".
4. Establishment of clear PPP policies and strategies	"In order to ensure that Member States have the necessary administrative capability and clear PPP policies and strategies are in place to implement successful EU-supported PPP projects, we recommend that: (a) The Member States establish clear PPP policies and strategies that clearly identify the role that PPPs are expected to play within their infrastructure investment policies, with a view to identifying the sectors in which PPPs are most suitable and establishing possible limits to the extent to which PPPs can be effectively used. (b) The Commission proposes legislative amendments to concentrate financial support to future PPPs in sectors that it considers of high strategic relevance and compatible with the long-term commitments of PPPs, such as the Core TEN-T network".
5. Improved EU framework for better PPP project effectiveness	In order mitigate the risk of bias towards selecting the PPP option, to promote further transparency and to ensure that PPPs can be effectively supported by EU funds, the Court recommends that: (a) The Commission links the EU-support to PPP projects to the assurance that the choice of the PPP option was justified by value-for-money considerations and thus not unduly influenced by considerations relating to budgetary constraints or to their statistical treatment. (b) The Member States improve transparency by publishing periodic lists of PPP projects, including sufficient and meaningful data on the assets financed, their future commitments and their balance-sheet treatment, while preserving the protection of confidential and commercially sensitive data.

3. PPP models in EU Member States

PPP includes variegated and heterogeneous set of different contracts, many of them defined at National level, within which subjects can find different roles and functions.
An important distinction between contractual PPPs and the so-called institutionalised PPP was made with the Green Paper of the 2004 and in the following EU communication of 2005[41].
So, according to contractual PPPs, the public entity and private individuals regulate their relations exclusively on a conventional basis. The best-known models is, indeed, the "concessive model", characterised by "the direct link that exists between the private partner and the final user: the private partner provides a service to the public, "in place of" the public partner"[42], albeit under the control of this latter, and the operating risk of economic nature is transferred to the private economic operator[43]. The remuneration for the private economic operator consists solely in the right to exploit the works (or of charges levied on the users of the service)[44].
In a contractual PPP the selection of the private partner can be realized through the common award procedures provided for concession contracts[45] or for public procurement[46], according to the relevant contractual model.
In the second type, the so-called institutionalized PPPs, the cooperation takes place through a legal entity (i.e. *ad hoc*) distinct from the parties, entrusted with the task of ensuring the execution of a work or the management of a service in favour of the public, jointly owned by both private and public part, allowing the latter to maintain a relatively high level of control on the conduct of operations.
An institutionalised PPP can be put in place, either by creating an entity jointly held by the public sector and the private sector, or when the private sector takes control of an existing public undertaking (e.g.: the Kooperationsmodell, joint PPPs, Joint Ventures).
The selection of a private partner in a mixed entity/company "can therefore not be based exclusively on the quality of its capital contribution or its experience, but should also take account of the characteristics of its offer – the most economically advantageous – in terms of the specific services to be provided. Thus, in the absence of clear and objective criteria allowing the contracting authority to select the most economically advantageous offer, the capital transaction could constitute a breach of the law on public contracts and concessions"[47].

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[41] EU Commission, *Public-Private Partnerships and Community Law on Public Procurement and Concessions*, 15.11.2005, COM(2005) 569 final.
[42] EU Commission, *Green Paper on public-private partnerships and community law on public contracts and concessions*, 30.4.2004, COM(2004) 327 final.
[43] Even if a part of the risk remains with the contracting authority or contracting entity
[44] EU Directive 2014/23, Art. 5, 1(a) and 1(b). If necessary the remuneration can be supplemented by subsidies from the public authorities. An example can be the Private Finance Initiative.
[45] EU Directive 2014/23, Artt. 30 et seq.
[46] open procedure, restricted procedure, competitive procedure with negotiation, competitive dialogue, innovation, partnership, negotiated procedure without prior publication.
[47] EU Commission, *Green Paper on public-private partnerships and community law on public contracts and concessions*, cit.

The EU Directives on public procurement and concessions do not automatically apply to the transaction creating a mixed-capital entity. However, when such a transaction is accompanied by the award of tasks through a public contract, or even a concession, it is important that it is compliant with the rules and principles arising from EU procurement law in all the PPP phases.

In both models the principles given by EU Treaties (free movement of goods, free movement of persons, services and capital, non-discrimination, equal treatment, proportionality and competition)[48] and by EU public contracts directives (non-discrimination, equal treatment, transparency, proportionality and competition)[49] have to be taken into account according to the contractual model used in the relevant case.

Given the diversity among EU Member States as well as the tendency of the EU to evolve towards the harmonization of the legal framework, the examination of PPPs from a worldwide comparative perspective may be an interesting point.

Several local governments have given priority to fostering citizen initiatives. They developed new forms of governance, leading to the outsourcing of public tasks and services to volunteer organisations, community associations, non-profit organisations, foundations, and private firms[50].

The participation of communities as non-institutional and non-profit actors allowrenovating, operating and managing civic spaces. Instead of expressing consent or dissent on a planned development project, many communities have taken the initiative into their own hands and have become developers – urban pioneers, spatial entrepreneurs or city makers – themselves. In recent years, cultural, social, community and educational spaces within cities have become laboratories of new forms of living, working, learning and collective exchange.

[48] Treaty on European Union - TEU, Art. 3; Treaty on the Functioning of the European Union – TFEU.
[49] EU Directive 2014/24, Art. 18; EU Directive 2014/25, Art. 36 ; EU Directive 2014/23, Artt. 2 et seq.
[50] OECD, *Culture and local development*, 2018, 32 et seq.

3.1. The Italian legal framework, case studies and best practices

The Italian Constitution provides that "the Republic shall promote the development of culture and scientific and technical research". Moreover, "It shall safeguard natural landscape and the historical and artistic assets of the Nation"[51].

The Italian Constitution reserve to the State the exclusive legislative powers in a list of sectors in which are included the "protection of the environment, the ecosystem and cultural heritage"[52].

The valorisation of cultural and environmental assets, with the promotion and organisation of cultural activities, are included in the "concurrent legislative powers" among State and Region[53]. In these sectors, the State determines, with a National law, the fundamental principles and Regions can exercise their legislative powers providing detailed rules.

The intervention of private economic operators in the valorisation of cultural heritage is admitted and indeed encouraged by the Italian Constitution, by numerous provisions of the Code of Cultural Heritage and Landscape[54] and/or by regional provisions[55], establishing a "private-business" approach, shaped on the criteria of economy, effectiveness and efficiency of cultural heritage, as means for its best public use and valorization, pursuing the constitutional principles of the good management of public entities and of the necessary balance of the public budget[56], thence leading to the horizontal subsidiarity principle[57].

The funding of public interventions in the valorization of cultural heritage is implemented through two alternative and often competing systems: the one of liberal donations made by individuals and private companies who allocate resources to art realizing a "cultural patronage", which is related to *ad hoc* tax system of exemptions and tax breaks; and the other, that concerns the business operation of sponsorship, carried out by private individuals for particular cultural goods[58].

Since the second system appears to be more convenient, the Italian legal framework, like other European Member States[59], has governed sponsorship in cultural heritage through several provision set out especially in the Code of Cultural Heritage and Landscape [60].

Indeed, a specific provision of the Code refers to sponsorship contracts, defining them as: "any contribution, including in goods or services, made (by the *sponsor* to the *sponsee*) for the design or implementation of initiatives in relation to the protection or enhancement of cultural heritage, with

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[51] Article 9, Italian Constitution.

[52] Article 117, second par., (s), Italian Constitution.

[53] Article 117, third par., Italian Constitution.

[54] P. Rossi, *Partenariato pubblico-privato e valorizzazione economica dei beni culturali nella riforma del codice degli appalti*, in *Federalismi.it*, 17 gennaio 2018; G. Aedon, *Il ruolo dei privati nella valorizzazione dei beni culturali: dalle sponsorizzazioni alle forme di gestione*, in AEDON online, 1-2/2012; M. Cammelli*, Pubblico e privato nei beni culturali: condizioni di partenza e punti di arrivo*, in *Aedon*, n. 2/2007.

[55] See the recent regulation of the Piedmont Region No. 7 of 2015, as amended in July 2018 and in which are provided the maximum extension of concession contracts on public goods.

[56] Art. 97, Italian Constitution

[57] Art. 118, par. 4, Italian Constitution

[58] The system of liberal donations has not worked for insufficient fiscal convenience, lack of visibility and/or return of image for the donor, bureaucratic burdens that contradict the principle of simplification of administrative procedures, competition between these tools and other forms of donations (e.g. those for medical research, poverty, etc..) that are more capable of attracting capital. See: R. Cavallo Perin – G. M. Racca, *Caratteri ed elementi essenziali nelle sponsorizzazioni con le pubbliche amministrazioni*, cit.

[59] E. Borin, *Public-Private, Partnership in the Cultural Sector. A Comparative Analysis of European Models*, Peter Lang, 2017.

[60] Legislative Decree No. 42 of 2004, Artt. 6, 111, 112, 115 and 117. Art. 6, paragraph 3 of the Cultural Heritage Code states, precisely, that "The Republic favours and supports the participation of private individuals or associates in the enhancement of the cultural heritage"; G. Piperata, *Sponsorizzazione e interventi di restauro sui beni culturali*, in *www.aedon.mulino.it*, n. 1/2005.

the purpose of promoting the name, trademark, image, activity or product of the activity of the dispensing party"[61].

The sponsorship contract in cultural sector must necessarily provide the duration of the relationship itself, the obligations (determination and modality of the contribution) of the *sponsor* and those of the *sponsee* (the obligation to grant the use of the advertising space to the sponsor in relation to the cultural asset object of the sponsorship), as well as allowing the sponsor's control of the finalization of the contribution paid for the initiative[62]. Moreover, the sponsorship must always be justified by the contribution of the private sector to the design or implementation of an institutional initiative for the protection or enhancement of the property in question.

The rules also sets out that the initiative subject to sponsorship can proceed not only from the Ministry for Cultural Heritage and Activities, or the Regions and other local authorities, but also from other public entities, private non-profit entities and private entities on cultural property owned by them.

Moreover, the sponsorship can lead to significant economic returns to compensate for the strength trend of public administration to allocate fewer and fewer resources to culture and for companies shall be provided the full deductibility of investment in culture[63] and tax relief in favor of fair patronage[64].

As for liberal donations, even in the case of sponsorships, the role of the private subject remains confined to the mere financing of a certain operation relating to a cultural good, so that is the public entity which maintains its traditional role of *protection* and *enhancement* of the cultural asset[65].

The provisions on sponsorship in the Code of Cultural Heritage and Landscape have to be coordinated with the Italian Public Contracts Code that provide a general provision[66] and a special provision on sponsorships and forms of partnership in the cultural sector[67].

Criticism of coordination with the rules on cultural heritage sector were identified in application of the previous code of public contracts[68].

The Italian Ministry for cultural heritage and activities in 2012 provided guidelines one the procedure to conclude a sponsorship contract. According these provisions the public entity have to publish the notice of the activities for which it intends to obtain private financing on its own website (without particular formalities). In case a private economic operator (sponsors) formulate a proposal, the public entity can negotiate directly with the private economic operator only in the case of contracts of an amount less or equal to 40,000 Euros, or concerning sponsorships of services or supplies not connected to works of any amount[69].

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[61] Legislative Decree No. 42 of 2004, Art. 120.

[62] Legislative Decree No. 42 of 2004, Art. 120, last par. R. Cavallo Perin – G. M. Racca, *Caratteri ed elementi essenziali nelle sponsorizzazioni con le pubbliche amministrazioni*, cit.

[63] Law No. 342 of 2000.

[64] d.l. No. 83 of 2014, Art. 1.; P. Rossi, *Partenariato pubblico-privato e valorizzazione economica dei beni culturali nella riforma del codice degli appalti*, cit.

[65] Even in the case of the so-called technical sponsorship of the cultural asset, the contribution of the private individual is limited to the purely executive aspect, as a contractor of the public administration for works, services or supplies.

[66] The general rule on sponsorship is provided in Legislative Decree, No. 50 of 2016, Art. 19.

[67] Legislative Decree, No. 50 of 2016, Art. 151.

[68] see the case of the sponsorship for the work at the Colosseo in Rome of 2010. Cons. St., VI, No. 4034 of 2013. The criticalities that emerged in the "Colosseo" case had urged the legislator to intervene, introducing, with d.l. n.5 / 2012 converted in Law n. 35/12, art. 199 bis in the previous Italian Public Contract Code, with which the cultural sponsorship was regulated, especially with regard to the methods for selecting the sponsor.

[69] Decree of the Ministry for cultural heritage and activities and for Tourism of 19th December 2012 on the guidelines on sponsorship contracts.

For sponsorship of a value above 40,000 Euros, the provision of article 19 of the 2016 Italian Public Contract Code shall apply. This article govern sponsorship relating to cultural assets, as well as to sponsorship contracts aimed at supporting institutions and cultural structures, of lyrical and symphonic foundations and traditional theatres[70].
The contracting authority entrusted with the safeguard of cultural assets imparts adequate prescriptions in relation to the design, execution of works and/or supplies and the direction of works and their testing[71].
Another Communication of the Italian Ministry for cultural heritage and activities was provided in 2016 in order to coordinate the Code of Cultural Heritage and Landscape and the 2016 Public Contracts Code[72].
In order to "ensure the enjoyment of the cultural heritage of the Nation" and "promote scientific research applied to its protection", simplified procedures for the selection of the sponsor may be implemented by the Ministerial authority in relation to the promotion of "special" forms of public-private partnership aimed at the restoration, recovery, scheduled maintenance, management, as well as the public enjoyment and valorisation of cultural heritage[73].
Several specific activities can be adopted under this provision (i.e. project services, museum assistance, management services, …). A guideline with a draft of notice were published by the Italian Ministry for Cultural Heritage and Activities in 2019.[74]

Compliance with Art. 151, par. 3, of Legislative Decree no. 50 of 18 April 2016.
To assure uniformity of the initiatives on the national territory, the draft documents that public entities design for this procedure should be bring forward to the Italian Ministry for Cultural Heritage and Activities **Procedure**: - Identification of the civil servant that have in charge the procedure - Act of the public entity in which is contained the determine to enter into an agreement and the reasons for which it was chosen this procedure) - Publication of the notice on the web site on the web sites of the public entity and of the Italian Ministry for Cultural Heritage and Activities for at least 30 days (It is recommended to enclose a brief document with the description of technical-performance characteristics of the work / site with details of its location, its artistic description and the state of maintenance of the same, the activities required (i.e. minimum days and times of opening to public use; provisions for the use and access of the asset; methods for visiting the site , etc.) additional information that may be useful to the potential private partner for the submission of a proposal. The **amount** of the rent to be paid by the partner will be determined by the territorially competent State Agency. It should be noted that this amount is to be considered as a minimum rent, which can be increased by the public entity autonomously by applying the percentages increasing when certain objective conditions of facilitated use of the property / museum site occur. **Evaluation of the submitted proposals**:

[70] pursuant to Article 101 of the Code of Cultural Heritage and Landscape.
[71] Legislative Decree, No. 50 of 2016, Art. 151(1 and 2).
[72] Communication of the Ministry for cultural heritage and activities and for Tourism of 9th June 2016.
[73] Art. 151, par. 3, of Legislative Decree no. 50 of 18 April 2016.
[74] Italian Ministry for Cultural Heritage and Activities, Circular, 8 November 2019, No. 45.

- in case of a single proposal, the agreement may be subject to direct free negotiation between the parties, provided that in compliance with the principles of impartiality and equal treatment (the exclusion grounds provided for public procurement are applied);
- in case of several proposals, they will be assessed by an internal commission (usually 3 members), preferably interdisciplinary, specifically appointed after the deadline for the proposals submission. The principles of impartiality and equal treatment between economic operators can be applied.

E.g. Public notice, pursuant to art. 151 paragraph 3 of d lgs 50/2016, for events for the cultural enhancement of the website called Piscina Mirabile (Bacoli - NA), available at https://www.beniculturali.it/mibac/opencms/MiBAC/sito-MiBAC/Contenuti/MibacUnif/Appalti/visualizza_asset.html?id=200585&pagename=230

The Italian Public Contracts Code provide other specific provision for the public contracts in the sector of cultural heritage on qualitative selection of economic operators[75], levels and contents of the design[76], the award of the contracts[77], on the modifications of the contract during its execution[78]

[75] Legislative Decree, No. 50 of 2016, Art. 146,

[76] Legislative Decree, No. 50 of 2016, Art. 147.

[77] Legislative Decree, No. 50 of 2016, Art. 148. Works concerning movable assets, decorated surfaces of architectonical assets and historicized materials of immovable assets of historical, artistic or archaeological interest, archaeological excavations also of submarine nature, as well as those relating to villas, parks and gardens referred to in Article 10, paragraph 4, letter f) of the Code of cultural heritage and landscape, shall not be awarded in conjunction with works related to other categories of general and special works, except where justified and exceptional exigencies of coordination of works, certified by the responsible of the procedure and however not related to the security in workplaces pursuant to legislative decree n. 81 of 9 April 2008, do not make necessary the joint award. This is without prejudice to what provided for in Article 146 on the possession of the qualification requirements established in this Chapter. Under no circumstances specialized works referred to in paragraph 1 shall be absorbed in another category or be omitted in the indication of the works composing the intervention, irrespective of the percentage that the value of specialized interventions retains on the total amount. To this end, the contracting authority separately identifies, in tender documents, the activities related to monitoring, maintenance and restoration of assets referred to in paragraph 1 with respect to those of structural, installation and functional adaptation nature related to immovable assets safeguarded by the Code of cultural heritage and landscape. For contracts having as their subject-matter the establishment of institutes and cultural structures pursuant to Article 101 of the Code of cultural heritage and landscape, and for the maintenance and restoration of villas, parks and gardens pursuant to Article 10, paragraph 4, letter f) of the Code of cultural heritage and landscape the contracting authority, following a substantiated decision of the responsible for the procedure, may apply the legislation relating to services or supplies, where services or supplies assume a qualitatively preponderant relevance in relation to the subject-matter of the contract, irrespective of the amount of the works. The subjects executing the works referred to in paragraph 1 shall possess in any case the qualification requirements established in this Chapter. For what not differently provided in paragraphs 1, 2 and 3, Article 28 shall be applied. Works referred to in paragraph 1 shall be generally contracted on a time and material basis, independently from the relevant amount. For works in this Chapter, by way of derogation from Article 95, paragraph 4, may be used the criterion of the lowest price for works with an amount equal to € 500,000 or less. The execution of works in this Chapter shall be allowed in cases of extreme urgency when every delay may be prejudicial to public safety or to the safeguard of the asset, up to €300,000, according to the modalities provided for in Article 163 of this Code. Within those same limits of amount, the execution of works of extreme urgency shall also be allowed in relation to particular kinds of intervention identified by the decree referred to in Article 146, paragraph 4.

[78] Legislative Decree, No. 50 of 2016, Art. 149. Interventions decided by the director of works shall not be considered as modifications of the contract during its execution if adopted to address questions of detail, with the aim to prevent and reduce risks of damages or deterioration of the safeguarded assets, that do not qualitatively modify the work and do not imply a variation in increase or decrease exceeding 20% of the value of each category of work, within the limits of 10% of

and testing activities[79] are provided for public contracts in cultural sector and other relevant regulation has been laid down by the Italian in 2007[80]. PPPs in the sector of cultural heritage valorisation represent in Italy a privileged alternative to direct management, an explication of the principle of horizontal subsidiarity and an exploitation of the division of responsibilities between State and regions, as the Italian Constitution provides.

Considering the Italian legal framework of PPPs, several measures contain specific rules on this instrument[81], starting from the Italian Code of Public Contracts[82].

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the total amount of the contract, in case the economic framework has the required financial availability in relation to the sums available to the contracting authority. modifications of the contract during its execution, within the limits of an increase of 20% with respect to the total contracted sum, shall be admitted when deemed necessary given the nature and specificity of the assets on which the intervention is planned, for facts occurred along the way, for discoveries unforeseen and unforeseeable in the design phase, to adjust the design project in case this is made necessary to safeguard the asset, and for the achievement of the goals of the intervention. Equally, modifications of the contract justified by the evolution of criteria regulating the restoration shall be allowed.

[79] Legislative Decree, No. 50 of 2016, Art. 150. 1. For works relating to assets in this Chapter it is mandatory to conduct a testing in progress, provided that the conditions for the issuance of a certificate of regular execution do not subsist. The decree referred to in Article 146, paragraph 4, shall establish specific provisions concerning the testing of interventions on cultural assets in relation to their features.

[80] Law No. 296 of 2006, modified the Decree Law No. 351 of 2001; subsequently amended by the Decree Law No. 95 of 2012.

[81] See L. Perfects - C. Montagna, *Cultural sponsorships, everything still to be done*, Interview in *Il Sole 24 Ore*, July 9, 2016, who believe that what would really give space to partnerships is to acknowledge that this is a form of cooperation already provided for in principle in Community law, so that an ad hoc rule is not always necessary that specifies the single case, being instead possible to create new ones in relation from time to time, because in accordance with the principles.

[82] Art. 180 (2), Legislative Decree No. 50 of 2016, as amended by Legislative Decree No. 56 of 2017 in force from 20 May 2017.

Number and value of PPP in Italy

Anni	Bandi PPP		Percentuale bandi PPP su OO.PP.	
	Numero	Importo (Mln €)	Numero	Importo
2002	331	1.424	0,9%	6,0%
2003	513	3.767	1,5%	11,5%
2004	800	2.136	2,6%	6,6%
2005	966	5.412	3,2%	16,9%
2006	782	8.394	2,9%	28,1%
2007	948	4.828	3,7%	17,2%
2008	1.292	5.697	5,4%	18,5%
2009	1.852	4.777	10,0%	18,6%
2010	2.991	7.338	16,2%	26,6%
2011	2.787	9.646	16,7%	35,8%
2012	3.014	7.148	19,0%	32,4%
2013	2.852	4.065	20,3%	23,3%
2014	3.086	3.676	17,6%	13,2%
2015	3.334	7.203	17,9%	24,3%
2016	3.187	13.318	18,8%	53,0%
2002-16	**28.735***	**88.830***	**10,4%****	**22,1%****
**Somma. **Media.*				

Fonte: elaborazione IFEL-Dipartimento Studi Economia Territoriale su dati infoppp.it, anni vari

The Italian Parliament defining the principles that the Government had to respect in the transposition of 2014 EU Directives on public contracts[83] provided for, "innovative and specific financial instruments and technical support to the contracting authorities" to enhance the use of PPPs[84] and the simplification of PPPs procedure[85], in compliance with the provisions provided by the Code of Cultural Goods and the Landscape[86].

PPP contracts are defined by the Italian Public Contracts code as a contract stipulated in writing, in which one or more contracting authorities confer to one or more economic operators, for a determined period, a set of activities consisting in the implementation, transformation, maintenance and operational management of a work in exchange for its availability, or its economic exploitation, or the provision of a service related to the use of the work itself, with the assumption of risk by the

[84] Delegated law of 28 January 2016, No. 11; delegations to the Government for the implementation of Directives 2014/23/EU, 2014/24/EU and 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts, public contracts and the procurement procedures of entities operating in the water, energy, transport and postal services sectors, as well as the reorganization of the existing rules on public contracts relating to works, services and supplies, Art. 1(ss).

[85] Delegated law of 28 January 2016, No. 11, Art. 1(tt).

[86] Legislative Decree, No. 50 of 2016, Art. 3 par. 1 (eee).

operator in accordance with procedures identified in the contract[87]. The provision on PPP works contracts are applicable also to services contracts, if compatible[88].
Italian law consider as PPP contracts: project financing, concessions contracts of works and management, concessions contracts of services, financial leasing of works, “availability” contracts (“contratto di disponibilità”) and any other procedure for works or services in partnership which present the characteristics referred in the explanation provided[89].

Concessione di lavori	“‘works concession’ means a contract for pecuniary interest concluded in writing by means of which one or more contracting authorities or contracting entities entrust the execution of works, or the executive project and execution, or the final project, the executive project and the execution of works to one or more economic operators the consideration for which consists either solely in the right to exploit the works that are the subject of the contract or in that right together with payment” (d.lgs. n. 50 del 2016, art. 3 (uu)
Concessione di servizi	“‘services concession’ means a contract for pecuniary interest concluded in writing by means of which one or more contracting authorities or contracting entities entrust the provision and the management of services other than the execution of works referred to in point (a) to one or more economic operators, the consideration of which consists either solely in the right to exploit the services that are the subject of the contract or in that right together with payment.” (d.lgs. n. 50 del 2016, art. 3 (vv)
Concessione amministrativa uso di spazi di valorizzazioni	Measure with which the public entity confers A NEW RIGHT to a private part. This measure can be a: - “Concessione traslativa”. The public entity confers a right which it held to the recipient of the provision - “Concessione costitutiva” The public entity constitutes a new right for the recipient of the measure An award procedure is needed to select the concessionaire (Cons. St., VI, 31 January 2017, No. 394).

88 Legislative Decree, No. 50 of 2016, Art. 179, c. III.
89 Legislative Decree, No. 50 of 2016, Art. 180, par. 8.

	The public entity can verify the correct use of goods or area and can indicate constraints and objectives for the private part.

In PPP contracts, the operating revenues of the economic operator shall come from the fee paid by the lending institution and/or from any other form of economic compensation received by the same economic operator, even in form of direct income for the management of the service with external users[90]. In this perspective, the transfer of risk to the economic operator implies the allocation to the latter, in addition to the risk of construction, of availability or, in cases of activity generating external incomes, of the risk of demand of the services provided, for the period of the work[91].
The content of the contract is defined between the parties in a way that the recovery of the investment made and the costs incurred by the economic operator, to execute the work or provide the service, shall depend on the effective supply of the service or usability of the work or the volume of the services provided in correspondence to the demand and, in any case, on the respect of the contracted quality levels, provided that the assessment is conducted *ex ante.*
Against the availability of a work or the demand of a service, the contracting authority may choose to pay a fee to the economic operator that is proportionally reduced or cancelled in periods of less or absent availability of the work, or periods of less or absent provision of the service[92]. The contracting authority may also choose that against the availability of the work or provision of services, a different economic utility – however stipulated ex ante – shall be paid and/or the remuneration of the service shall be connected to the direct exploitation of the availability to the economic operator, which takes the risk of the negative fluctuation of the market of demand of the same service[93].
The economic and financial balance[94], represents the precondition for the correct implementation of risks sharing between public and private partner[95].
In any case, the possible recognition of the price, summed to the value of potential public guarantees or other mechanisms of financing borne by the public administration, shall not exceed 49% of the cost of the total investment, including possible financial burdens[96].
In Italy PPPs may be concluded with different models having the mentioned characteristics he 2016 Italian Public Contracts Code, as well as the previous code, provides for a merely indicative list of contracts belonging to the PPP domain, open to further hypotheses (i.e. the project financing[97]; the concession of work and management[98], with the possibility to establish project

[90] Legislative Decree, No. 50 of 2016, Art. 180(2). The PPP contract may be used by public entities for each kind of public work.
[91] As defined, respectively, in Legislative Decree, No. 50 of 2016, Art 3, par. 1, letters aaa), bbb) and ccc)
[92] Legislative Decree, No. 50 of 2016, Art. 180(4). Where the reduced or absent availability of the work or provision of the service is imputable to the operator, those variations of the fee shall, in any case, be able to significantly impact on the current net value of the total investment, costs and revenues of the economic operator.
[93] Legislative Decree, No. 50 of 2016, Art. 180(5).
[94] Defined in Legislative Decree, No. 50 of 2016, Art. 3, par. 1(fff).
[95] Legislative Decree, No. 50 of 2016, Art. 180(6). A right to use may also be recognized as a title of contribution, whose utilization is instrumental and technically connected to the work to be awarded in concession. The modalities of use of immovable assets shall be defined by the contracting administration and shall constitute one of the preconditions determining the economic and financial balance of the concession.
[96] Legislative Decree, No. 50 of 2016, Art. 180(8).
[97] Legislative Decree, No. 50 of 2016, Art. 183. The project financing is provided for the realization of public works or works of public utility, including those works related to facilities dedicated to boating, inserted in the programming instruments formally approved by the contracting authority on the basis of the legislation currently in force.

companies[99], or of services[100]; the financial leasing of public works[101]; availability contracts[102]; the administrative barter[103]; the transfer of public property in exchange of works[104], etc.). The flexible structure of PPPs allows to choose the most appropriate cooperation model to the cases to be dealt with.

Concerning institutionalised PPPs, the Italian Public Contracts Code provides also for the possibility to resort to a mixed company (public-private). In this case the private partner has to be selected according to a competitive procedure[105].

With regard to the Italian legal framework, the guidelines issued by the national Anticorruption Authority (A.N.AC.) should also be mentioned[106]. They provide indications on the legal framework;

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[98] Legislative Decree, No. 50 of 2016, Artt. 3(uu) and 164 et seq.

[99] Legislative Decree, No. 50 of 2016, Artt. 184 and 185. In order to realize a single infrastructure or a new service of public utility, the project companies as well as the companies holding a public-private partnership, may issue bonds and debt securities.

[100] Legislative Decree, No. 50 of 2016, Artt. 3(vv) and 164 et seq.

[101] Legislative Decree, No. 50 of 2016, Art. 187 financial leasing contracts represent a public procurement of works, when those contracts do not have a merely accessory nature with respect to the main object of the contract itself.

[102] Legislative Decree, No. 50 of 2016, Art. 188. The awardee of the availability contract shall be remunerated through the subsequent means, subject to monetary adjustment according to the provisions in the contract:

a) availability fee, to be paid only in correspondence with the actual availability of the work; the fee is proportionally reduced or cancelled in periods of reduced or lacking availability of the same for maintenance, defects or any other reason not falling within the risks borne by the contracting authority pursuant to paragraph 3;

b) the possible recognition of a contribution during the execution of the work, however not exceeding 50% of the cost of construction of the work, in case of transfer of property of the work by the contracting authority;

c) a possible price of transfer, determined in relation to the already paid fees and to the possible contribution during the execution of the work provided in the previous letter b), and to the residual market value of the work, to be paid, at the end of the contract, in case of transfer of the property of the work to the contracting authority. The awardee takes the risks related to the construction and technical management of the work for the period of provision to the contracting authority. The contract shall determine the modalities of subdivision of the risks between the parties, that may imply variations of the remuneration due for the events impacting on the project, on the realization or technical management of the work, deriving from the occurrence of norms or binding measures by the public authorities.

[103] Legislative Decree, No. 50 of 2016, Art. 190. Territorial entities shall define by means of an *ad hoc* deliberation the criteria and conditions for the realization of social partnership contracts, on the basis of projects submitted by individual or associated citizens, provided that they are identified in relation to a specific territorial ambit. Contracts may regard the cleaning, maintenance, refurbishment of green areas, squares or streets, as well as their exploitation through different cultural initiatives, urban decency interventions, recovery and re-use with finalities of general interest of unutilized areas or assets. In relation to the typology of the interventions, territorial entities shall identify reductions or exemptions from tributes corresponding to the kind of activity performed by the private or association or however useful to the reference community with a view to the recovery of the social value of participation by citizens.

[104] Legislative Decree, No. 50 of 2016, Art. 191. The call for tender may provide in place of total or partial remuneration, the transfer to the awardee or, in case the awardee has an interest in it, to a third subject indicated by the awardee, provided that it possesses the requirements referred to in Article 80, of the property of premises pertaining to the contracting authority, already identified in the triennial programme for works or in the pre-information notice for services and supplies and that do not perform, according to a justified assessment by the contracting authority or entity, functions of public interest.

2. Properties already included in programmes of dismissal, insofar as the inclusion precede the publication of the tender or notice for alienation, or if the procedure for dismissal had a negative outcome, shall be object of transferral.

2-bis. The value of the premises to be transferred following an award procedure is established by the sole responsible of the procedure on the basis of the market value determined through the competent offices holding the property of the premises object of transfer.

[105] Legislative Decree, No. 50 of 2016, Art. 5(9).

[106] A.N.AC. Guidelines no. 9 were approved by the ANAC Board on March 28, 2018 by Resolution no. 318/2018. As clarified by the Italian Council of State (Consiglio di Stato, with consultant and judicial functions in the Italian legal framework), in the past EU directives on public contracts were implemented by laws of the Parliament and legislative decrees of the Government, followed by more detailed regulatory interventions by the Government (D.P.R. No. 207 of

risk analysis and allocation, any revision of the economic and financial plan; contract contents and any changes; monitoring and information flows.
In September 2018 the Italian Ministry of Economy and Finance put in consultation a Guide on the use of concession contracts for PPPs with a contract template in order to enhance the use of PPPs.[107]
As said, Italian heritage, both cultural and natural, is highly diverse and diffused throughout the national territory: its “cities of art” – such as Rome, Florence, Venice, Milan, Turin, Naples etc.- are only some notable examples of a mixture of tangible and intangible heritage spread all over the peninsula.
More specifically, Italy is a country where immoveable heritage has been predominantly of public domain for ownership and management. Like many other European countries, it is currently facing the price to be paid for the technical and administrative oversights made during the gradual shift from in-house conservation staff (expertise and workers) to the outsourcing of nearly all preservation and enhancement services to freelance specialists and private contractors.
As well-known all decision-making for cultural heritage has been traditionally kept in the hands of the upper levels of the public heritage administrations, although recent legislative changes in Italy are leading to greater involvement of the private sector at the management level[108].
In relation to the privatisation of museums, the benchmark comes from the English-speaking countries and the United States[109].
In particular, Turin hosts several Foundations operates in the cultural heritage sector (e.g.: Turin Museums Foundation, the Egyptian Antiquities Foundation of Turin, the Venaria Reale Foundation, the Fondazione di San Paolo, the Fondazione CRT - Cassa di Risparmio di Torino) supported by banks such as the Compagnia di San Paolo and the Fondazione CRT, which include the Italian Ministry for Cultural Heritage and Activities, the Piedmont Region, the Province and City of Turin, representing, as said, the new frontier of alliance between the public and private sectors.
Moreover, the pilot projects of the “Museo Egizio” in Turin and of the “Museo delle Navi” in Pisa , as well as the mature experiences of the Nuovi Uffizi in Florence and La Scala in Milan, show that

2010). At present, the Italian legislator provides for different measures and types of administrative provision in order to pursue flexibility: a) decrees adopted by the Prime Minister or by the Ministers (secondary sources in the Italian legal framework); b) binding resolutions by ANAC with erga omnes applicability (guidelines with the legal effect of general administrative acts); c) non-binding resolutions by ANAC (guidelines from which the public administration can deviate upon presentation of a valid justification). ANAC guidelines are generally provided as tools to clarify the content of the IPPCCC. General guidelines proposed by ANAC are approved by the Minister of Infrastructure and Transport, which are then transmitted to the relevant parliamentary committee for an opinion before their adoption (Law No. 11 of 2016, art. 1, par. 8).

[107] Italian Ministry of economy and Finance, *Guide for public administrations for the drafting of a contract for the concession of design, construction and management of public works in private public partnership standard contract scheme placed in consultation*, 21 September 2018.

[108] J. Thompson, *Engagement in public-private partnerships for cultural heritage: the case of Herculaneum, Italy,* in ICCROM (ed.) Proceedings of the International Forum on Privatisation and Cultural Heritage, Catania, 13 - 15 September (2007). ICCROM, Rome (2007) 120-134.

[109] In Europe, the Netherlands have been privatising nationally-owned museums since the end of the 1980s. In Italy, the D.L. 20-10-1998, n. 368 provided that the Ministry for Cultural Heritage and Activities could establish or participate in associations, companies or foundations and draw up agreements with public and private subjects and bodies (art.10); the following Code of Cultural Heritage and Landscape, Legislative Decree of 22-01-2004, n. 42 provided for the direct or indirect management of the enhancement of cultural assets where: "indirect management is implemented through the concession to third parties of the activities of enhancement, even in a joint and integrated by the administrations to which the assets belong ..." (art.115).

mixed networks can achieve, in a very short time, results that public institutions alone have not been able to achieve.
In addition to the abovementioned experiences, the Grande Brera project represents another demonstration of how the privatizations entrusted to mixed foundations are able to revitalize and requalify places of fundamental cultural, historical and artistic importance for our country.
It seemed useful to focus on a mixed public-private system, pursuing public ends with instruments that mimic private ones.
An example is the mixed foundation, which recomposes all the skills that were previously disintegrated, and gives the possibility of calling on the private sector to contribute. This is what has been experimented with the Egyptian Museum in Turin, aiming to expand the experience.
Representing the first Italian example of private participation to the management of a public cultural heritage, the Fondazione “Museo Egizio” was founded in Turin in 2004 by the Ministry of Cultural Heritage and Activities, the Piedmont Region, the Province of Turin, Compagnia di San Paolo and Fondazione CRT. Rapidly the Fondazione showed from the outset great potential for further development[110].
In 10 years of activity of the Fondazione, indeed, the Museo Egizio has managed to establish itself as a scientific research centre of international renown for the quality of the projects undertaken and as one of the main national tourist attractions.
The Fondazione “Museo Egizio” enjoys the economic subsidies allocated from its founding members: the collection and real estate, an ordinary endowment fund (quinquennial initially, then annual) and a € 50 million dedicated endowment fund for the renovation and refitting of the Museum**.**
Another example is provided by the “Herculaneum Conservation Project”[111], a conservation and restoration project promoted by the collaboration between the US Packard Humanities Institute and the Special Superintendence of Naples and Pompei.
But many other initiatives could be launched to enhance the immense cultural heritage that today is only partially workable.

3.2. The British legal framework, case studies and best practices

Despite in UK there is neither a unified concept of cultural heritage nor an organic regulatory apparatus (probably because of the propensity to delegate to both public and private body institutional powers), since the beginning of the last century the **British** legislator not only favoured but even considered as indispensable the contribution of private actors in order to ensure and enhance the existing cultural heritage.
The key role of the private sector in the conservation of the cultural heritage is therefore part of a rather complex general framework which is flanked by a heterogeneous regulatory system composed, to a lesser extent, of legislation at primary level, and for the remainder of secondary legislation, both general and individual administrative measures and consensual forms.
Among private entities, associations differs from private law foundations generally set up in the form of charities or trusts. Still, both entities have been a fundamental part of the British legal system.

[110] The main goal of the Fondazione was to **“**endorsing, promoting, managing and adapting the structural, functional and expositive facets of the Museo, of the cultural assets received or acquired in any capacity and the promotion and enrichment of museum activities**”**
[111] http://www.herculaneum.org/.

3.3. The French legal framework, case studies and best practices

As far as the **French** experience concerns in the protection, revaluation and circulation of cultural goods, the concept of *patrimoine* gives a suitable idea of inheritance and, therefore, shows an image of the transmission of historical-artistic heritage to future generations[112].

In recent years, France, like the rest of Europe, has faced many problems linked to the economic and financial crisis which led to favour the entry of capital by companies and individuals and to introduce very advantageous tax breaks. Indeed, France has been a forerunner trying to achieve the objective of modernising museums by focusing on hybrid management tools, capable of reconciling the interests of the various players involved in the cultural sector.

In France PPP refers to a vast array of forms of partnerships, also because the national law is traditionally organised according to a typology of contracts among which none of them bear the very name of "PPP contract"[113].

More precisely, in the case of a public service delegations (SDRs) the private partner is paid for by the service operation (e.g. cases of management of a theatre or a cinema belonging to the city), but the most criticised form is the Partnership Contracts (PCAs).

Introduced in 2004, this legal form allows the State or a local authority to delegate in all or in part a series of actions: financing, maintenance, restructuring, management, maintenance and management of works or equipment necessary for a public service.

It has to be notice that in France was realised one of the most advanced example of "cultural arbitrage" operations by the partnership between Agence France-Museum (a specially created consortium involving all the major museums and major French cultural institutions) and the Abu Dhabi Investment Council. The aim of the 15 years lasting agreement is the creation of a new museum called "Louvre Abu Dhabi", which - thanks to an investment of 27 billion dollars – is going to be the new cultural district and tourist landmark in the Gulf, providing for fees exceeding one billion dollars in exchange for the transfer of the right to use the Louvre brand, loans, exhibitions and scientific, managerial and organizational assistance[114].

3.4. The German legal framework, case studies and best practices

In **Germany**, there is not a single set of laws governing public-private partnerships (PPPs), but a plethora of acts, rules and regulations[115].

In 2013 the German Federal Court of Auditors published a critical report in which the accuracy of the value for money assessments conducted by the German Ministry of Transport whenever opting for a PPP procurement has been questioned[116].

However, federal and state legislators are increasingly appreciating the importance of PPPs as useful tools for future development in the public sector[117].

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[112] Unlike the term *bien*, É. Penalva-Icher - E. Lazega, *Remplacer l'Etat ? Promotion et réseaux des Partenariats Public-Privé en France*, *La nouvelle revue du travail*.

[113] B. du Marais, *PPP Contracts in France through the 2015-2016 "Big Bang Reform"*, in *European Procurement & Public Private Partnership Law Review*, 2018, 39.

[114] B. Bortolotti, *Nuovi modelli di finanza e nuovi investitori per i Beni culturali italiani: il Cultural Arbitrage.*

[115] M. Ruhlmann, *Public-Private Partnership (PPP) in Germany - Current Developments Eyeglasses – Previously viewed in last 30 days for current Client ID*, in *European Procurement & Public Private Partnership Law Review*, 2016, 145.

[116] The report concluded that it would have been more convenient for the taxpayer if the respective motorway projects had not been implemented as PPP procurements. The report prompted the German federal parliamentary financial committee to put the topic on its agenda for 2014. M. Ruhlmann, *Public-Private Partnership (PPP) in Germany - Current Developments Eyeglasses – Previously viewed in last 30 days for current Client ID*, cit.

Traditionally, the municipal level has been the most active in Germany carrying out projects on lands, and the main type of financing for municipal PPP projects in Germany is non-recourse forfaiting with instalments. Indeed, most of the small-to-mid-size PPP building-construction projects are so-called ‘three-phase projects', i.e. the private investor only has to finance the construction stage whereas the subsequent management of the building is financed by the municipality[118].

3.5. The Spanish legal framework, case studies and best practices

In **Spain**, the first PPP model was created in relation to the national railway infrastructures, and was later developed with regard to the motorways sector. The final step forward was taken in 2003, by means of a regulation that generally deals with PPPs in any sector.
In the Spanish framework, several contracts may be encompassed under the concept of PPP, through which a contractor builds and maintains an infrastructure operating and receiving benefits derived from its exploitation, and/or through which a contractor manage a public service that, in turn, may require the construction of a certain infrastructure.
Both cases must be privately funded (whether fully or partially) and they may be framed within the concept of design-build-finance-maintain-operate contracts.
There is no specific legislation regarding PPPs, but the Spanish Procurement Law[119] envisages an extensive general regulation referring to aspects such as: rights and obligations of contractors; powers of the public administration; the economic-financial regime; the modification of the agreement; and termination causes.
Furthermore, since specific administrative clauses are approved for each PPP, it has to be considered that there is not a centralised PPP authority and projects may be tendered by central, regional or local authorities, depending on their competencies and the relevant activity sector.
It has to be noticed that 2015, the Spanish National Evaluation Office was created for the sole purpose of analysing the financial sustainability of existing and new PPPs.

3.6. The Greek legal framework, case studies and best practices

After the law of 2005[120], the PPP Unit of the **Greek** Ministry of Economy and Finance planned a programme to excite interest at national and international level, implementing a successful approach, judged from the number of international economic operators attending the recent conferences to promote the PPP programme.

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[117] As evidenced by the enactment of a number of laws to facilitate the deployment of PPPs in Germany, including the 2005 PPP Acceleration Act; R.W. Mcquaid, W. Scherrer, *Public Private Partnership in the European Union: Experiences in the UK, Germany and Austria*, in Uprava, letnik VI, 2/2008.

[118] M. Ruhlmann, *Public-Private Partnership (PPP) in Germany - Current Developments Eyeglasses – Previously viewed in last 30 days for current Client ID*, cit. In which it is pointed out that “at the municipal level, not only large consortia but also German mid-size firms seem to profit directly from PPP projects. A recent report by the German ÖPP Deutschland agency (a joint venture between the State and the German industry)7 points out that within the municipal project portfolio medium-sized companies have achieved a solid award share (facilitated by the fact that hardly any of these projects exceed the amount of €25 m)”.

[119] P. Alonso Góme, *Las “public private partnerships” como colaboración público privada en el contexto europeo*, Madrid, 2014; Joan Ridao I Martín, *La colaboración entre el sector público y el sector privado en proyectos omplejos de infraestructuras y servicios públicos. Una revisión crítica del marco legal en España*, in Revista Española de Ciencia Política. Núm. 34, March 2014, pp. 89-117.

[120] Law No. 3389 of 2005; D. Tziovas, *Greece in Crisis: The Cultural Politics of Austerity,*e-book, 2017; V. Delitheou, M. Vinieratou, M. Touri, *The contribution of public and private investments to the growth of conference tourism in Greece*, in *Management research and practice* vol. 2 issue 2 (2010) pp: 165-178.

The aforementioned law introduced a stable legal framework providing incentives for both public and private entities to be engaged in partnerships for infrastructures or services, mainly through the simplification of relevant procedures, and it established two new administrative bodies, aiming at the support of Public Authorities, in order to improve the effective preparation and management of PPP projects:

a. the Inter-Ministerial Committee for Public-Private Partnerships (IM PPP Committee), a collective governmental body that defines and specializes PPP policy, approves projects, coordinates and monitors the implementation of PPP projects;

b. the Special Secretariat for Public-Private Partnerships (PPP Unit), established within the Ministry of Economy and Finance, that promotes implementation and provides support and assistance to IM PPP Committee and to the Public Entities in the context of all necessary procedures for the finalization of a PPP project[121].

3.7. The Polish legal framework, case studies and best practices

In the last years the level of infrastructural development in **Poland** as well as the level of public services improved significantly, as a result of modernization of the country.

On 26 July 2017, the Polish Council of Ministers adopted "the Government Policy for the Development of Public-Private Partnerships" in order to “increase the scale and efficiency of infrastructure investment implemented through the PPP”[122].

"PPP Policy" identifies a series of activities, most of which already implemented, provided by the Polish Government for PPP development, with a view to 2020.

On the initiative of the Ministry of Infrastructure and Development, It has been created a PPP Platform with the aim of favouring the exchange of information, experiences and best practices among local authorities through the implementation of specific projects in order to increase the number of implemented and signed contracts of PPP[123].

Several activities defined in Polish policies are:

a. proposing the necessary legal amendments that are needed to improve the development of PPP in Poland;

b. developing and monitoring a PPP project pipeline (a database of investment plans);

c. carrying out educational and information dissemination activities including the development and implementation of a communication strategy, guidelines, recommendations and good practices;

d. providing comprehensive advisory services to public bodies at the preparation and tendering stages;

e. developing and implementing an obligatory opinion (so-called "PPP test”) on the formula to be used to implement large projects (i.e. over PLN 300 million of investment from the Government/State budget);

f. analysing and establishing a system of warranties and guarantees for the public and private sectors and other possible financial instruments that reduce the costs of preparing and implementing PPP projects.

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[121] Ministry of Economy and Finance, *Special Secretariat for Public – Private Partnerships, Guide for the implementation of Public Private Partnerships in Greece*, 2005.

[122] Public-Private Partnership Platform, *Polish Government adopted Policy for the Development of PPP*, available in *http://www.ppp.gov.pl/English/News/Strony/Policy_for_PPP_in_Poland.aspx.*

[123] http://www.ppp.gov.pl/english/strony/default.aspx.

PPP in Poland is also regulated by the Act on Public-Private Partnership dated 19 December 2008 and by the Act on Concessions for construction works or services of 9 January 2009, further referred to as “the Act on Concessions”[124].

3.8. The Romanian legal framework, case studies and best practices

In **Romania**, public-private partnership is one of the main alternative ways to finance strategic projects of national interest, foreseen in the Governance Program 2017-2020 under the responsibility of the Ministry for Business Environment, Commerce and Entrepreneurship and the Ministry of Public Finance.

The Law on Public-Private Partnership, also known as the New PPP Law, came into force at the end of 2016[125], and established premises for the implementation of PPP projects in Romania.

However, the aforementioned law lacked of the implementation norms, thus is not currently functional and the Romanian Government approved Government Emergency Ordinance (“GEO 104”)[126] to amend it.

On May 24th 2018 was adopted a list of strategic partnerships to be carried out in public-private partnership, including three highways and a large medical complex near Bucharest.

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[124] See the English version of the Act on Public Private Partnership of the 19th of December 2008 and the English Version of consolidated text of Public Procurement Law was prepared by the Public Procurement Office, available at *https://www.ppp.gov.pl/English/Documents_and_publications/Strony/default.aspx*.

[125] Law No. 233 of 2016.

[126] Law No. 104 of 2017.

Appendix 1 Financial Instruments Guide: Setting up and implementing Financial Instruments in ESI Funds

This Appendix 1 has been made upon the Assignment 29 –Strategic UDF Investing and Project Structuring done by the European Investment Bank with the financial assistance of the European Union.

Financial Instruments in ESI Funds

The European Commission encourages the use of Financial Instruments (European Commission, 2014) to transform EU resources under the European Structural and Investment Funds (ESIF) into financial products such as loans, guarantees, equity and other risk-bearing mechanisms. These are then used to support economically viable projects which promote EU policy objectives.

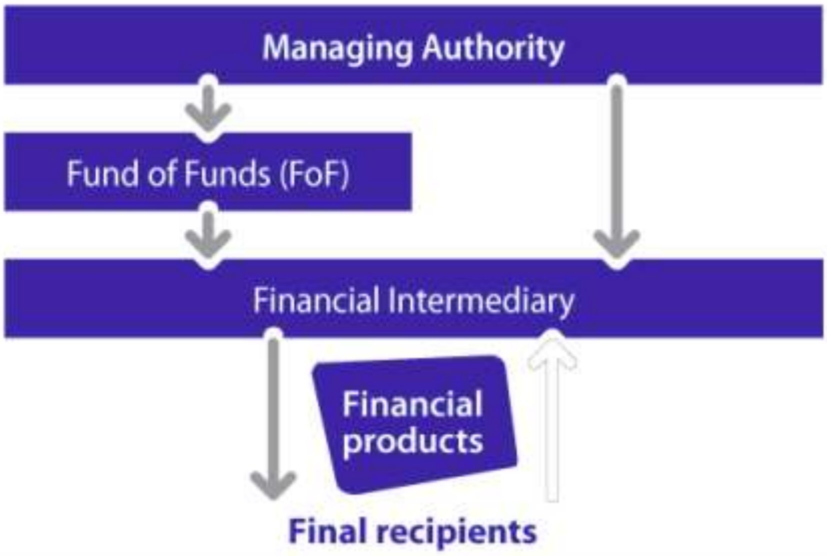
The overall political message (backed by the ESIF policy frameworks and regulations) emphasises the need for more use of financial instruments in 2014-2020, particularly in a context of fiscal retrenchment: the overall aim is therefore to deliver more ESI funding through financial instruments in future.

The benefits linked with financial instruments are highlighted by the European Commission to underpin their adoption ad implementation:

- **Leverage effect**: FIs attract public/private investors given the lower risk and long-term nature of projects. This increases the amount of money available for financing;
- **Revolving nature of funds**: Managing Authorities (MAs) place part of their ESI Fund allocations in an existing or newly-created FI. The FI finances projects and when it is repaid by the promoter the FI reinvests the funds plus the interest into other projects;
- **Better quality of projects** (as investment must be repaid) and incentives for better performance: the repayable nature of FIs means that projects funded through them must prove themselves to be more financially-sound than grant-financed ones. The flexibility and financial accountability rules set out in the 2014-2020 offer more control over the resources;
- **Access to a wider spectrum of financial tools** for policy delivery & private sector involvement and expertise;
- **Move away from grant-dependency**: a (total or at least partial) switch to FIs offers projects a more sustainable and innovative way of financing rather than the traditional dependence on grants;
- **Attract private sector** support and financing to public policy objectives.

Who receive funding under the ESIF has a body known as the Managing Authority (MA) which oversees the use of the available resources. MAs use ESIF allocations and place them in FIs through a Fund of Funds or a financial intermediary from which eligible projects can be financed.

Figure 7: Exemplified functioning of Financial Instruments in ESI Funds (European Commission, 2014)



Managing Authorities should therefore consider the use of financial instruments as an option wherever suitable, but not for reasons of absorption. Financial instruments cannot be considered as a way of front-loading expenditure or for avoidance of automatic de-commitment. They are a delivery mode and not a stand-alone objective. Activities supported by financial instruments must be judged by the financial intermediary or Managing Authority to be able to repay the investment. They must therefore generate income or revenue, or savings on future expenditure and they must be used on the basis of the final recipients' capacity to reimburse.

Synergies and complementarity should be sought – financial instruments through ESIF should take account of and work together when justified with ESIF grants, other EU instruments (financial instruments and grants) and national public programmes. In addition, MAs should seek critical mass and economies of scale. Both the European Court of Auditors and the European Parliament have pointed out that there is room for consolidation towards larger more efficient instruments. While the overall amounts delivered through financial instruments should therefore increase, this should not necessarily correspond to a multiplication in the number of regional or local instruments.

While each case should be judged on its merits, the general policy line is that there should be consolidation of resources into national or supra-regional instruments, as well as using the possibility of contributing to EU-level instruments whenever suitable.

Regarding the intervention logic for financial instruments, Managing Authorities will need to go through a step by step process for determining whether or not financial instruments should be used.

Firstly, overall programming should be relatively advanced. Programming can already give a first indication of the potential use for financial instruments at various stages, including analysis of development needs at national and regional level, selection of thematic objectives, focus areas, investment priorities according to market failure analysis in the domain of financial instruments, set up and description of priority axis, measures, etc. For example, the analysis may point the programme towards use of financial instruments on the basis of previous experience of financial instruments, or identify a general gap in terms of SME access to finance.

Next, there must be potential for use of financial instruments. As mentioned before, the planned activities must be income generating or saving and there must also be interest by financial intermediaries and final recipients. There may be cases where a grant with a low co-financing rate or a repayable grant might be a better option e.g. in case of a negative financial cost-benefit ratio in terms of amount of loan as opposed to management fees and costs.

Finally, where the MA sees the possibility for use of financial instruments, this shall be further developed and confirmed by the ex-ante assessment referred to in CPR 37(2).

Financial Instruments aim to put EU funds to good and efficient use, ensuring that grants are complemented by other financial products so that EU funding can be used time and time again in a revolving fashion. FIs can be combined with technical support or guarantee/interest rate subsidies.

Financial Instruments in Programming Period 2014-2020

Financial Instruments are market-based tools aimed at supporting EU 2020 policy objectives. Financial Instruments invest ESIF and other public and private funds on a repayable rather than a grant basis. Financial Instruments aim to multiply the impact of the use of ESIF by attracting co-investment from other sources, and enabling ESIF funds to be invested on multiple occasions.

Financial Instrument investments are made by way of loans, guarantees equity or quasi-equity, and other risk-sharing instruments. Investments should support projects that have both the ability to repay the investment, and the potential to generate non-financial impacts i.e. contribute to economic, social, and environmental impacts. Investments should also contribute to the achievement of specific objectives set out under a priority, based on an ex-ante assessment which has identified market failures or suboptimal investment situations, and investment needs as per Article 37.2 of the CPR.
There could also be further commercial financing viability concerns around the investment's innovative nature, long payback periods or their risk profile. Financial instruments can support all of the 11 Thematic Objectives provided there is a market need and subject to an Ex-Ante Assessment.

Greater Use of Financial Instruments

Financial Instruments in support of urban development, Small and Medium Sized Enterprises (SMEs), and energy efficiency/renewable energy have been in operation in many Member States in the 2007-2013 programming period. Based on the experience from 2007-2013, to encourage and increase the use of Financial Instruments in the 2014- 2020 programming period, the European Commission:

- Has widened the scope of EU funds that can be used in Financial Instruments to include all five ESIF
- Has widened the scope of policy areas Financial Instruments can invest in to include all 11 Thematic Objectives where there is a demonstrated market failure
- Is offering greater flexibility to Member States and regions in implementation options, including new options to have:
    - ➢ Contributions to Financial Instruments set-up at the EU level and managed by the Commission
    - ➢ Financial Instruments set-up at the national/regional level using tailor-made or

'off-the-shelf' instruments

- Aims to provide a stable implementation framework and rules regarding the monitoring and reporting of Financial Instruments
- Is providing greater flexibility in relation to complementarity activities between Financial Instruments and other forms of support, such as traditional grant financing.

Benefits of using Financial Instruments

Financial Instruments are considered a resource-efficient way of using public funds to make strategic investments. Financial Instruments can have the following benefits:

- **Create a 'legacy fund':** Whilst grant funding provides for a one off non repayable investment into a project, due to their 'recyclable' nature, by allocating ESIF to Financial Instruments Managing Authorities are able to maximise the impact of ESIF by enabling it to be invested multiple times in different projects. Managing Authorities can therefore create a sustainable 'legacy' fund from ESIF, allowing for greater flexibility and efficiency in using public monies over the long-term.
- **Attracting co-investment:** Financial Instruments seek to attract additional public and private resources for investment in projects through co-financing and co-investments at the fund or project levels. This increases the overall capital available for investments into projects to help meet EU2020 objectives.
- **Tapping into private sector expertise:** Private sector involvement with Financial Instruments enables the public sector to gain financial and managerial skills in identifying investments suitable for Financial Instruments (if applicable), and assessing both the financial and non- financial impacts of investments. These skills can help more broadly in efforts to increase the return on investment of public funds.
- **Making ESIF go further:** Financial Instruments can act as an incentive for better quality investments, because of the greater efficiencies that can be generated by the requirement to repay monies. This can enable Managing Authorities to achieve greater outcomes with fixed or limited resources.
- **Benefit to the Final Recipient:** Final Recipients can receive upfront payments via Financial Instruments as oppose to grants, which are reimbursed against proof of expenditure. Furthermore, Financial Instruments provide a greater range of financial products to meet different financing needs.

THE FINANCIAL INSTRUMENTS ROADMAP

The Financial Instruments Roadmap (Figure 1 overleaf) provides a high- level overview of the process involved in setting up and implementing Financial Instruments.

The Roadmap aims to provide a navigable path, highlighted by green arrows, of the three strategic and interlinked components of the Financial Instruments lifecycle. These strategic components should be considered in parallel when designing Financial Instruments, to ensure that Financial Instrument investments are aligned with Operational Programme objectives. The three components are:

- **Strategic Policy** - Managing Authorities at the ex-ante assessment stage design the policy framework and set the high- level Investment Strategy (see section on ex-ante assessment) including but not to limit to products, targeted final recipients, expected non-financial results and contribution to Operational Programme objectives within which Fund Managers identify suitable strategically-aligned projects for investment.

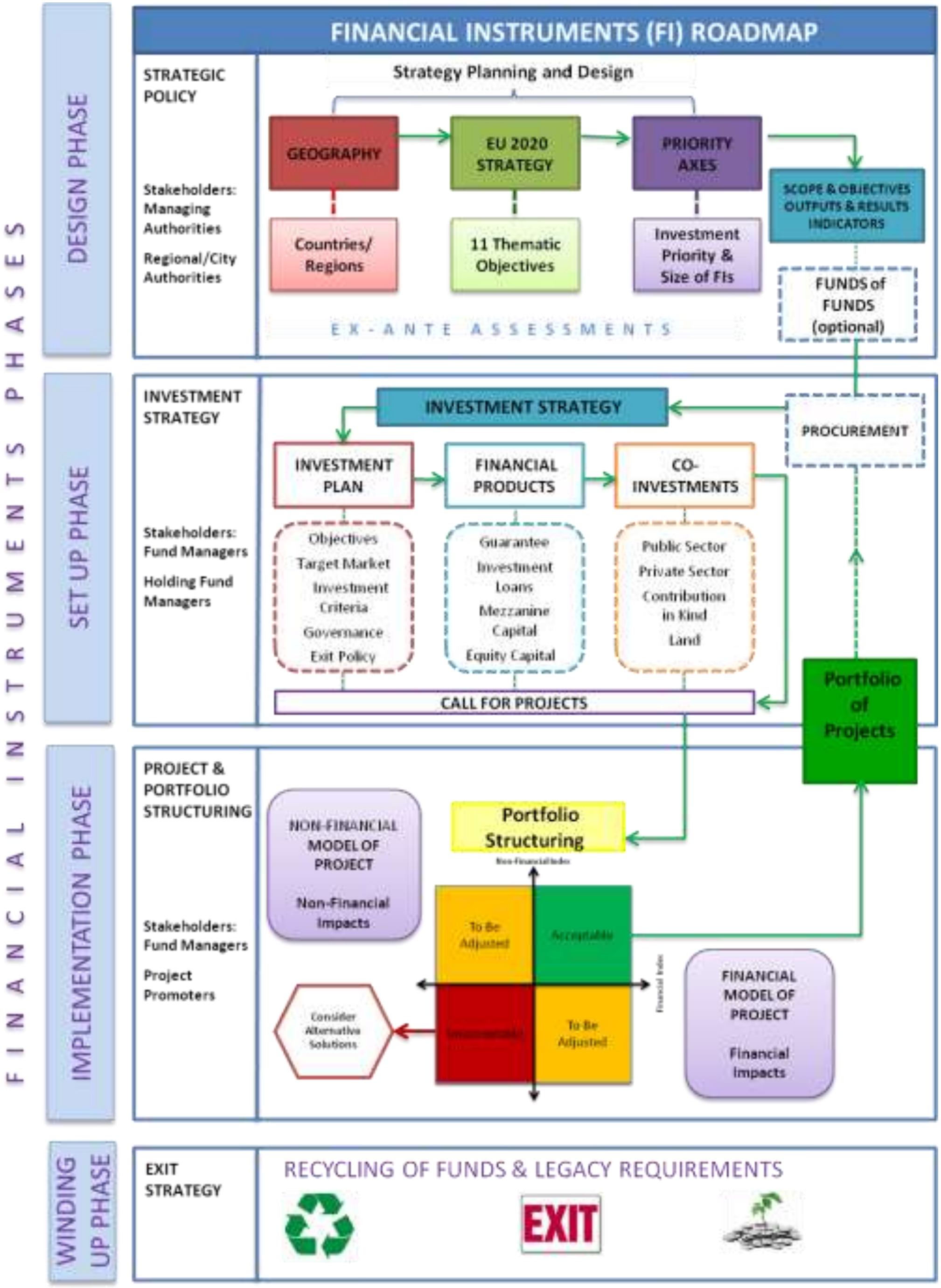
- **Investment Strategy** - Fund Managers and "Fund of Funds" Managers elaborate the business plan of the fund, and the mix of financial products offered to enable delivery of strategic policy objectives, financial return on investment, and alignment with private and public co-investment requirements.

- **Project & Portfolio Structuring** - Project Promoters structure their projects, and fund managers their project portfolio, to align with the fund's investment strategy, and correspondingly the strategic policy framework set by the Managing Authority.

An additional slightly separate component 'Winding Up of Financial Instruments' is also illustrated in the Roadmap, which should also be considered when designing Financial Instruments.

The components of the Roadmap are linked to the four phases of Financial Instruments described within this Guide: Design, Set-Up, Implementation, and Winding Up.

Figure 1: Financial Instruments Roadmap



Structure of the Guide

This Guide follows the four phases of the Financial Instruments implementation lifecycle: **Design, Set-Up, Implementation,** and **Winding-Up** providing an outline of the step-by-step tasks associated with each phase.

As each phase provides a building block for another phase, it is important that they are considered simultaneously when designing Financial Instruments, rather than separately and in sequence.

Thinking about the broader picture upfront allows Financial Instruments to be established that are most likely to meet specific policy objectives.

Figure 2: Structure of the Guide

Financial Instruments Phases	Steps	Financial Instruments Roadmap
PRELIMINARY STEPS: OPERATIONAL PROGRAMMES		
DESIGN PHASE	• Ex Ante Assessments • Thematic Focus/Geographical Focus • Demand for FIs • Funds of Funds (Optional) & Governance	Strategic Policy
SET-UP PHASE	• Procurement of Fund Managers • Business Plans • Investment Strategy/Policy • Co-Investments/Co-Finance • Management Fees	Investment Strategy
IMPLEMENTATION PHASE	• Identify Projects • Analysis of Projects for Strategic Fit • Monitoring & Reporting • Audit	Project & Portfolio Structuring
WINDING UP PHASE	• Exit Strategy • Legacy Requirements • Recycling of Funds	Recycling & Legacy Fund

PRELIMINARY STEPS

Identifying a role for Financial Instruments within the Operational Programme

An Operational Programme sets out national and region's priorities for delivering the ESIF. The Operational Programme sets out the socio- economic circumstances, investment priorities, indicators, targets, partnership, and management arrangements.

Managing Authorities should set out if and how they intend to use Financial Instruments within their respective Operational Programmes. This should be done as part of the programme level Ex-Ante Evaluation.

Ex-Ante Evaluation for Operational Programmes

The Ex-Ante Evaluation aims to ensure:

- That resources are allocated optimally
- That the Operational Programmes demonstrate a contribution to the Europe 2020 strategy

- the adequacy of human resources and administrative capacity for management of the programme;
- the suitability of the procedures for monitoring the programme and for collecting the
- data necessary to carry out evaluations etc.

The Ex-Ante Evaluation assists in maximising the quality of plans and programme implementation.

In line with European Commission guidance, the Ex Ante Evaluation consists of eight themes, which follow the structure of the Operational Programme:

- Socio-economic analysis
- Programme Strategy and Priorities
- Contribution to Europe 2020 Strategy
- Financial Instruments
- Consistency of financial allocations
- Indicators, Monitoring and Evaluation
- Strategic Environmental Assessment
- Equality Impact Assessment.

DESIGN PHASE

If Managing Authorities decide to use Financial Instruments within their Operational Programme, then they also need to conduct the mandatory Ex-Ante Assessment for Financial Instruments to help design the Instruments.

In the CPR, Title IV (Articles 37 to 46) lays down provisions for ESIF. Article 37 stipulates that support from Operational Programme resources to a Financial Instrument shall be based "*on an Ex-Ante Assessment which has established evidence of market failures or sub- optimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported.*"

The Financial Instrument Ex-Ante Assessment needs to be completed before the Managing Authority decides to make Operational Programme contributions to a Financial Instrument. It needs to be submitted to the Monitoring Committee for information purposes and be in accordance with the rules set out by the Commission in the CPR. The summary findings and conclusions of the Ex-Ante Assessment should be published within three months from their date of finalisation.

DESIGN PHASE OF FINANCIAL INSTRUMENTS

- conducting ex-ante assessments
- assessing market demand, policy fit, sector-specific investment strategies and products
- development of implementation structures
- identification of potential co-financing/co-investment sources
- state aid and procurement considerations
- features and economic viability of target final recipients.

Ex-Ante Assessments for Financial Instruments

The Ex-Ante Assessments for Financial Instruments are designed to enable Managing Authorities to understand the prospective demand for Financial Instruments, key relevant market players, the ability to attract private sector co-investments, and to help ensure that their introduction will not crowd out existing funds. The key components of the Ex-Ante Assessment are illustrated in Figure 5 below and discussed overlea

Figure 5: Key Components of the Ex-Ante Assessment

Key Components of the Financial Instrument Ex-Ante Assessment

- **Assessment of market failure:** Successful design and implementation of Financial Instruments hinges on a correct assessment of market gaps and needs. A mismatch between the demand and supply for financing – known as the financing gap – can constitute a rationale for public intervention in the market, where that intervention can help to address EU 2020 policy objectives. Demonstrating the existence of market failure is critical to ensure that Financial Instruments are in line with State Aid regulations within the European Union.

- **Investment strategy:** This should consider the financial products to be offered, Final Recipients to be targeted, and any envisaged combination with grant support as appropriate. Implementation arrangements should be considered in accordance with the requirements of Article 38 of the CPR.

- **Level of co-finance/co-investment:** An estimation of additional public and private resources to be potentially raised by the Financial Instrument should be undertaken. There should also be an assessment of what might be needed to attract co-investment from private investors.

- **Expected results and impacts:** How the use of Financial Instrument is expected to contribute to the achievement of the specific Operational Programme objectives, priorities or measures within a Programme should be set out, along with indicators i.e. unemployment, GDP, carbon reduction, etc. to monitor such contribution to support economic growth and prosperity.

- **Value Added:** An assessment of the value added Financial Instruments would make should be undertaken. This should consider any overlap with other forms of public intervention addressing the same market, possible state aid issues, whether the introduction of Financial Instruments is proportionate to the market need, and measures that may be undertaken to reduce any market distortion.

- **Application of lessons learnt:** There must be an assessment of lessons learned from similar Instruments or Ex-Ante, Interim, and Ex- Post Assessments or review exercises in the past to help maximise the success of Financial Instruments in the future.

Setting the Strategic Policy Framework

The Financial Instrument Ex-Ante Assessment is integral to defining the strategic policy framework for the introduction of Financial Instruments. The Ex Ante Assessment process should allow Managing Authorities to define:

- The geographical area the Financial Instrument(s) will cover;
- The scope and objectives of the Financial Instrument(s) and its contribution to meeting the Operational Programme objectives;
- The size of the Financial Instrument(s);
- The target outputs and indicators to measure progress and results which should be clearly defined in order to seek suitable propositions; and
- The implementation structure for the Financial Instrument(s). These are described overleaf.

Figure 6: Financial Instruments – Setting the Strategic Policy

Geography

The geographical area or boundaries in which the Financial Instruments can make investments must be clearly defined, and could be at the following levels:

1. National
2. Regional
3. Local
4. Transnational and Cross Border.

Geographical areas of coverage can also be defined according to by size of town/cities by population i.e. small, medium, and large; they could cover the entire geographical boundary of the Managing Authority; or cover a sub-regional level where multiple Managing Authorities pull together resources in order to reach the critical mass of resources required to make a Financial Instrument viable.

The Investment Strategy will need to conform to any geographical restrictions set down in the contributing Operational Programme or Programmes.

Scope

The scope of the Financial Instruments is important to determine, and provides the link to the Operational Programme priorities. Informed by the Ex Ante Assessment, Managing Authorities need to determine which Thematic Objectives the Financial Instrument (s) will support. This is core to the Investment Strategy of the Financial Instrument.

Size of the Financial Instruments

The size of the Financial Instrument is a key consideration. The amount committed from Operational

Programmes for Financial Instruments should correspond to the market gaps identified in the Ex-Ante Assessment. The amount will also vary depending on the product type, region, and policy.

Implementation Structure

As part of the design of Financial Instruments, Managing Authorities need to decide on the desired implementation structure.

This should be informed by the Ex-Ante Assessment, and should consider issues such as: knowledge, skills and expertise of the Managing Authority, local and national organisations in setting up and managing Financial Instruments; market capacity for setting up and managing Financial Instruments; the importance or otherwise of local vs. regional, national, or cross border networks and connections to build a robust project pipeline; and the number and diversity of Financial Instruments proposed. This is not an exhaustive list, and Managing Authorities may wish to seek advice on the pros and cons of different options. Implementation options include establishing Financial Instruments directly, using 'off the shelf' templates, using EU wide Instruments, and a "Fund of Funds" approach.

A "Fund of Funds" (in 2007-2013 known as "Holding Fund") is a fundwith the objective to contribute support from programmes to several bodies implementing Financial Instruments. The purpose of the "Fund of

Funds" is an umbrella fund set up to invest in more than one Financial Instruments via financial intermediaries to allow for flexibility and balancing risk and rewards of the funds, in addition to the set-up, management and supervision of the Financial Instruments.

This can assist in reaching the desired size of fund to attract co- investment and achieve efficiencies of size and scope, allow for flexibility, and provide greater opportunities for portfolio diversification to achieve the desired financial and non-financial returns and manage risks. The pros and cons of a 'Fund of Funds' structure is found overleaf.

Different structures will be more or less appropriate in different areas, but are crucial to determine prior to the set-up of Financial Instruments. Soft market testing is recommended to help Managing Authorities decide on appropriate structures.

Pros and Cons of "Fund of Funds" Structure

A summary of pros and cons of the "Fund of Funds" structure is provided below:

Pros:

- Robust financial structure to ensure independent and professional management of funds, overseeing key tasks including: treasury management, risk management, monitoring and reporting
- Allows for greater flexibility and diversification of investments
- Provides technical, managerial, and financial expertise
- If there are multiple funds, "Fund of Funds" allows for economies of scale.

Cons:

- Establishing a "Fund of Funds" can be complex and potentially time-consuming in order to reach an agreement. However, if the structure and governance is well designed, then this itself could accelerate investments into projects at a later stage
- Potentially requires an additional layer of reporting and monitoring
- Where there is considerable in-house, financial and fund management expertise within public sector organisations, then the added value of having a "Fund of Funds" could be minimal.

Moving from Design to Set-up

The Ex-Ante Assessment should enable Managing Authorities to be able to articulate any market failures and how Financial Instruments could address these within their Operational Programmes. The Ex-Ante Assessment informs the strategic policy framework for the introduction of Financial Instruments, by identifying the investment priorities for the Instruments, their size, and thematic and geographical focus. This links to and informs the design of the Financial Instrument(s) and the Investment Strategy.

Setting out a clear policy framework linked to how Financial Instruments can be invested ensures that prospective propositions for investment can be checked against both:

- Eligibility: Assurance that prospective investments contribute to impacts whether these are social, economic, or environmental, and that they comply with EU regulations.

- Suitability: Prospective propositions are in line with the policy aims and objectives of the Financial Instruments i.e. thematic focus, geography, types of Final Recipients, and non-financial impacts resulting from the investments. The indicators should be clearly defined from the onset and be aligned with the Operational Programme objectives.

The policy framework is one half of the Investment Strategy, the other half needs to set out the technical aspects such as financial products, delivery, governance, and operational arrangements (procedures and processes) which is discussed in more detail in the Set Up Phase section of this Guide.

SET-UP PHASE

Setting up Financial Instruments involves finalising the technical detail of the Investment Strategy, and selecting suitable financial intermediaries to implement and manage the Financial Instruments, usually referred to as Fund Managers.

This Set Up section of the Guide provides information on: financial products to finalise the Investment Strategy; the selection process for Fund Managers; business plans; co-investments; and governance arrangements.

SET-UP PHASE OF FINANCIAL INSTRUMENTS

- selection and appraisal of bodies implementing Financial Instruments
- management costs and fees
- development of business plans of Financial Instruments
- drafting and conclusion of funding agreements.

Finalising the Investment Strategy

The Investment Strategy should incorporate the policy framework in the Strategic Policy Pathway informed by the Ex-Ante Assessment in the design phase, and include the financial products offered overleaf.

Figure 7: Investment Strategy

The delivery mechanisms for the Investment Strategy are set out in the Business Plan. These are developed by the Fund Manager as part of their selection process, and an outline of their contents are contained in this Set Up Phase of the Guide.

Co-investments are key to delivering on the Investment Strategy, and are the responsibility of the Fund Manager.
As soon as the parameters of the Investment Strategy have been defined, it is advisable for the Managing Authority to start a marketing campaign to publicise the forthcoming Financial Instruments to help identify suitable projects for investments. This will assist Fund Managers in identifying indicative pipelines of projects.

Financial Products

Financial products refer to loans, equity or quasi-equity, guarantees, and other risk-sharing instruments. The products selected to be offered should be informed by the Ex-Ante Assessment which should provide an indication of the types of products required to address sub-optimal performance/market failures. The financial products will depend on the sectors targeted as well as regional economic context.

- **Investment Loans:** Loans are often the most important external source of financing for projects. Consideration needs to be given to the term of the loan and its intended purpose, the required interest rates and likely losses from default.

- **Equity Capital:** By taking an equity stake, Financial Instruments play a very active role in project management. The eventual role will depend on whether the Financial Instrument provides equity capital in the development phase or the operational phase of a project's life cycle.

- **Mezzanine Capital:** Financial Instruments can offer a 'blend' of capital mixing debt and equity. The mezzanine 'investor' does not participate actively in the project management, and the capital provided does not bear full liability in case of insolvency. However, other investors still regard mezzanine capital as "quasi- equity" and therefore it can be used to provide increased leverage.

- **Guarantees:** Financial Instruments can support projects by providing guarantees, a legally binding commitment given by a third party to pay the remaining balance of a loan, including unpaid interest, in the event of default by the main borrower. Guarantees could be issued to project companies in order to facilitate access to external finance in return for a processing fee to cover both the risk exposure and the administrative and processing costs.

Establishing Financial Instruments

Article 38.4 of the CPR outlines the following in relation to establishing Financial Instruments:

a) Managing Authorities can invest in the capital of existing or newly created financial institutions, which will implement Financial Instruments

b) Managing Authorities can entrust implementation tasks to:

- The European Investment Bank Group
- National or international public financial institution where Member States are shareholders
- Any other public or private body following a tender process

c) Managing Authorities can undertake implementation tasks directly where Financial Instruments consist solely of loans and guarantees.

The process of selecting a public or private body to implement Financial Instruments is found overleaf.

Procurement Options for Fund Managers of Financial Instruments

Managing Authorities have several procurement options with respect to selecting Fund Managers(s) to select Fund Manager(s), whether to make direct investments in projects,

or to manage a 'Fund of Funds' to invest in individual Financial Instruments. These include:

- Entrusting the European Investment Bank (EIB) Group as the "Fund of Funds" Manager;

- Appointing an international financial institutions (IFI) in which a Member State is a shareholder, or financial institutions established in a Member State aiming at the achievement of public interest under the control of a public authority, selected in accordance with applicable Union and national rules;

Managing Authorities have also the option of procuring a financial institution via a competitive procurement process.

If this is the case, Managing Authorities will need to conduct a public procurement exercise. Applications from Fund Managers are invited through a published 'Call for Proposals'. Managing Authorities score the applications from Fund Managers against a set of criteria to decide who is their preferred bidder. Subsequently, the Managing Authorities and Fund Manager(s) negotiate and finalise

a Funding Agreement between each other.
Using a “Fund of Fund” model is optional. Where a Managing Authority wishes not to use this model, then the Funding Agreement is directly with the individual Financial Instrument.

Public Procurement Options

Under EU law, there are different options that Managing Authorities can follow when selecting Fund Managers through a competitive public procurement process:

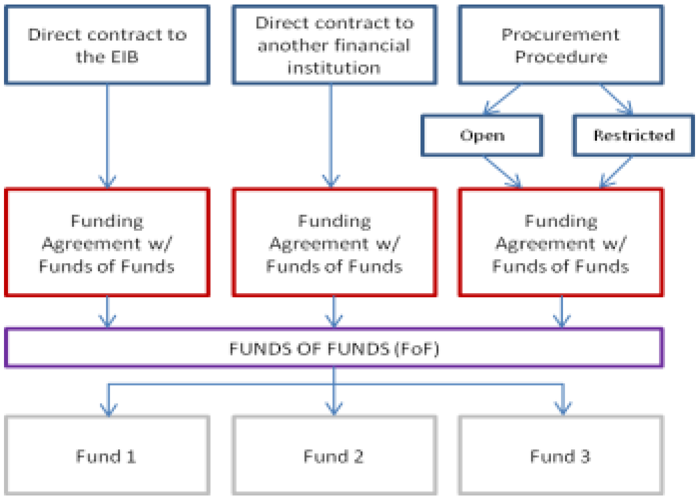
- **Open Procedure** – This provides that all those interested in the matter advertised in the Official Journal of the European Union (OJEU) may respond to the advertisement by tendering for the contract.

- **Restricted Procedure** – This process selects an initial list of applicants through a review of pre-qualification questionnaire (“PQQ”) responses. The opportunity will need to be initially advertised on OJEU and only the selected entities from the PQQ stage are invited to submit a tender for the contract. The benefit of this approach is that it avoids the need to deal with a large number of tenders.

- **Competitive Dialogue Procedure** – Following the issue of an OJEU Contract Notice and a selection process based on PQQ responses, a dialogue with selected potential bidders commences. The purpose of the dialogue is to develop one or more suitable solutions for required services, and to select a final set of bidders who are invited to tender.

- **Negotiated Procedure** – Here the purchaser of the services may select one or more potential bidders with whom they will then negotiate with respect of the contract. An advertisement in the OJEU is usually required but, in certain circumstances described in the regulations, the contract does not have to be advertised in the OJEU.

Figure 8: Procurement Options - Adapted from the JESSICA Holding Fund Handbook



Business Plan

As part of the tendering process, potential Fund Managers should propose an outline Business Plan, which should be finalised as part of the Funding Agreement.
The Business Plan is essential because it defines the scope and objectives, investment strategy, size,

and outputs measured by indicators of the Financial Instrument. The Business Plan should include the following:

- **Investment Policy:** outlines the investment objectives, summarises the portfolio of potential projects including the methodology of selecting projects for investments. It should clearly articulate elements such as the performance objectives, eligibility of final recipients, risk profile, time horizon, financial and regulatory constraints.

- **Investment Period:** outlines the proposed life span of the Financial Instruments, which informs the timescales for investment.

- **National Co-finance:** outlines contribution in cash or in-kind.

- **Public and Private Co-Investment**: outlines expected levels of co- investments at the level of the "Fund of Funds", at the level of the Financial Instrument or at the level of Final Recipients.

- **Legal and Ownership Structure:** describes the legal and ownership structure including the rationale for the structure.

- **Management Costs and Management Fees:** outlines the proposed level of fees payable, including a proposed fee structure and calculations.

- **Monitoring and Reporting:** procedures for monitoring and reporting are required to ensure regulatory compliance with EU regulations.

- **Audit procedures:** Fund Manager(s) will receive regular control reports from the appointed auditors designated in the agreements when setting up the Financial Instrument(s).

- **Winding-Up Provisions** and Re-utilisation of Resources: discusses plans for first and follow-on investments, as well as exit strategies.

Co-Investments

One of the key characteristics of Financial Instruments is the ability to attract private sector co-investments, either at the project or fund levels, alongside other public investment. The Fund Managers will need to consider the different conditions required in order to attract private investors (level of interest rate, liquidity risks, public and private initiative conditions, level of public aid). The Fund Manager should determine the 'financial effectiveness' of an investment, and in doing so, identify the risk areas and the intervention, if possible, which is most suitable for private investors.

Regardless of the financial products on offer, using Financial Instruments should adhere to the principle of risk sharing with private/public co-investors.

Governance Structure

The role of governance is a key factor in the structure and on-going management of the Financial Instruments and before the Funding Agreement if finalised, the governance rules and processes need be clear. These:

- Set the parameters for the Financial Instruments operation
- Provide clarity around the decision-making process (e.g. investment decisions)
- Establish governance principles (investment policies, and any approvals processes)

- Outline any additional management and control procedures (e.g. management of risk strategies, and the process for escalating issues that arise in the delivery of Financial Instruments operations by the Fund Manager to the Managing Authority and "Fund of Funds" Manager)
- Identify clear roles and responsibilities on approval of investments; supervision and performance review; and decision- making with the appropriate checks and balances in place.

IMPLEMENTATION PHASE

The Implementation Phase seeks to identify and make investments into a suitable portfolio of projects. Investments should contribute to Operational Programme objectives, as well as achieving adequate financial returns. Projects and funds will need to be monitored and audited regularly in line with the financial regulations requirements of the European Commission.

IMPLEMENATION PHASE OF FINANCIAL INSTRUMENTS

- Outline the investment process (identification, evaluation and selection of final recipients or projects)
- Assessing and appraisal projects for investments
- Finalise financing agreements with final recipients
- Financial management (treasury, disbursement, repayment, follow-on investments)
- Detection and settlement of irregularities
- Monitoring, auditing, reporting, etc.

Identifying Projects for Investment

Fund Managers should actively build a pipeline of projects as soon as all investment agreements have been finalised. This process is perhaps the most time intensive, and stakeholders should seek to identify possible project promoters at an early stage, even if projects are at the conceptual phase.

Projects that have high economic-social impacts are frequently not adequately structured to fulfil the requirements for investments via Financial Instruments. These projects often take a long time to become 'investment ready'. Whilst Fund Managers can provide technical support to assist project promoters in financially structuring projects to make them suitable for investment, the earlier they are identified and informed of the requirements of Financial Instruments, the more likely they are to be ready when a Fund Manager initiates a 'Call for Projects'.

The aim of the 'Call for Projects' is to construct a portfolio of suitable projects for investments that meets EU regulations and are in line with Investment Strategy.

A 'Call for Projects' will involve marketing the Financial Instruments to help stakeholders understand what eligible activities the UDF can invest in, and how that investment can be made (by Loan, Equity or Guarantee). The aim is to engage potential Project Promoters to determine if the Financial Instruments can invest in their projects.

Interested promoters then submit an Expression of Interest. The Fund Managers will collate the project information to produce an initial portfolio of projects potentially eligible for investment. These will then be reviewed to identify projects which may be eligible according to the relevant regulations and Investment Strategy.

Investment Decisions

Once a list of eligible potential projects for investment has been identified, to help determine which projects should be invested in, Fund Managers will assess:

- **Risk:** The level of risk present within any given investment opportunity
- **Returns:** The potential financial return that opportunity offers
- **Impacts:** The economic, social, and environmental outcomes resulting from the investment.

To assess risk, returns and impacts, Fund Managers use different tools, which are described within this Implementation Phase section of the Guide.

Financial Modelling

Financial modelling is the task of building an abstract representation (a model) of a real world financial situation, and assess the performance of a financial asset or portfolio of business, projects, or other investments.

The Financial Models enable Fund Managers to understand the financial viability of potential investments as well as the risk/reward profile. Models help to understand the cash flow (revenues and costs), internal rate of return (the rate of return used in capital budgeting to measure and compare the profitability of investments), and the net present value (NPV) of an investment. NPV compares the value of a Euro today to the value of that same Euro in the future, taking inflation and returns into account. If the NPV of a prospective project were positive, it would normally be acceptable for investment. However, if NPV is negative, the project will likely be rejected because cash flows will also be negative.

Project Business Plans

Project business plans set out the purpose and nature of the project, the financing requirements, and how they will be delivered. These inform the development of a financial model and should include:

- **Project detail** – This provides context for the Fund Manager to assess the projects for strategic fit with the Operational Programme and Investment Strategy.

- **Source and type of financing** – This allows the Fund Manager to understand the scale of the investment sought from the Financial Instrument, contributions from other funders, the timing of those investments, and type of financial product most suitable to project needs – e.g. Loan, Equity, Guarantee

- **Revenue and Costs** – This allows the Fund Manager to understand the sources of revenue to repay investment and undertake an initial assessment of the risks associated with those sources. This information will also help the Fund Managers understand timing of repayment of the investment to ensure the projects can be supported through Financial Instruments resources

- **Repayment plan** – This should illustrate the position of the investment in financing the project and outline how that investment will be repaid alongside the other investors. The analysis should also help the Fund Manager understand the Project IRR and general profitability to compare with any objectives set in the Investment Strategy

- **Delivery structure** – This allows the Fund Manager to understand how the project will be delivered, the organisations involved in its delivery, and the governance and oversight mechanisms. This will enable an initial assessment of the credibility of the project delivery team, and establish if any risks around their reputation or competency need to be addressed in any Investment Agreements.

Project promoters used to commercial financing may be more familiar with these types of business plans than those which have previously sought ESIF grant funding, who may require some assistance with the financial aspects of their proposals.

Impact Analysis of Projects

Investments from Financial Instruments must deliver positive non - financial (economic, social, and/or environmental) impacts alongside financial returns, in line with the Investment Strategy. As discussed earlier in the Design Phase, a common set of output indicators will be critical to measure non-financial impacts. These results indicators will be compulsory for all Programmes and all Priorities, in which the impacts will be evaluated against the broader objectives and targets of the Europe 2020 strategy.

The proposition's business plans should set out what impacts they will achieve, how, and the mechanism by which this will be monitored and quantified. Project should propose clear outputs as a result of the investment, e.g. jobs created, number of homes to be retrofitted with energy efficient insulation, square metres of brownfield land remediated etc, which are in line with the Investment Strategy set out by the Fund Managers.

These outputs should be designed to enable broader outcomes as a result of the project, which will help to achieve the broader strategic objectives of the Operational Programmes, and in turn the overall Europe 2020 objectives, e.g. economic growth, action to address climate change, alleviate poverty, etc.

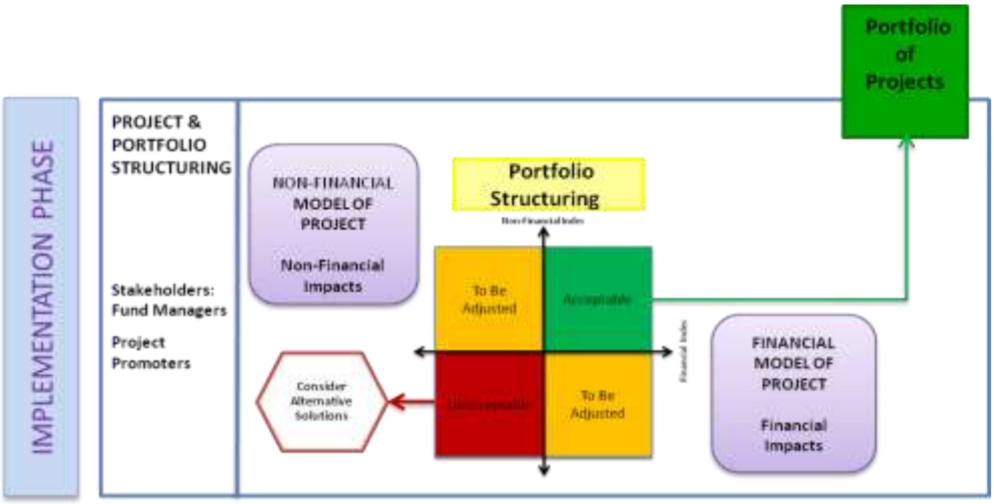
Project promoters which have previously received ESIF grant funding will be familiar with the need to quantify and monitor impact outputs. Others, who are more used to commercial financing, but whose projects nevertheless achieve broader objectives, may require assistance in this area.

Project and Portfolio Structuring

Financial Instruments are designed to achieve both financial return on investment, and broader impacts to society, the economy, and/or the environment. Assessing both the financial and non-financial aspects of projects in tandem, can assist Fund Managers in achieving both of these objectives through viable investments, provided that the non-financial objectives are clearly articulated in the Investment Strategy.

Furthermore, if project investments are considered as part of a portfolio investment approach, rather than individually, this provides an opportunity to optimise the achievement of both financial and non-financial objectives across a portfolio. This may enable some projects with low financial returns but high non-financial returns to be funded, which may not otherwise be, as they could be combined with other projects which achieve higher financial returns as part of the portfolio. Fund Managers are recommended to proactively structure their projects and portfolios to achieve the optimum balance of financial and non-financial outcomes from the onset of designing the Financial Instruments.

Figure 9: Project and Portfolio Structuring



Monitoring and Reporting

During the Implementation Phase, regular monitoring and reporting is required. These will also be a mid-term review to review the performance of the Financial Instrument. Depending on the results of the evaluation, the Financial Instruments may need to be adjusted to reflect changes in the market; additional funds may be contributed to meet unexpected market demand; or funds may be reduced if analysis suggested that the funds would not be able to invest the entire sum by 2023. At the end of the implementation period, all capital, including interest, should have been invested as otherwise; it will need to be repaid.

Managing Authorities will report on all instruments under their responsibility or management, including Financial Instruments set-up at national, regional, transnational or cross-border level. Managing Authorities shall submit to the Commission monitoring information on Financial Instrument(s) as an integral part of the annual report on implementation of the programme by 31 May 2016 and by 31 May each subsequent year until and including 2023. The report submitted in 2016 shall cover the financial years 2014 and 2015, as well as the period between the starting date for eligibility of expenditure and 31 December 2013.

WINDING UP PHASE

The Winding-up phase of Financial Instruments includes the reutilisation of resources returned fund from investments. It could also include remaining funds left over after all guarantees have been honoured. Winding up and exit policy should be included in the funding agreement of each Financial Instruments in line with the CPR.

During the closure of Financial Instruments, the settlement of accounts should be completed and shareholders are paid out their share of the initial investment and returns on investments, if applicable.

Ex-post evaluation analyses the impact of Financial Instruments and identifies points of improvement.

The results of ex-post evaluation will determine the further use of the remaining funds after the closure of the Financial Instruments. The returns from investments after the closure of the fund may be used by the Operational Programme for the same Financial Instruments, for another Financial Instruments or in other forms of support. FIs can continue to work after the exit of resources attributable to ESIF. On the other hand, an FI can complete its life cycle and be liquidated. As part of the liquidation of FIs, accounts should be settled and shareholders paid out their share of the initial investment plus any surplus on realised investments.

Resources in FIs that are attributable to ESIF should be used in the same FI, or following the exit of those resources, in other FIs after the eligibility period if justified by market conditions.

WINDING UP PHASE OF FINANCIAL INSTRUMENTS

- Exit strategies
- Re-use of resources/Investment recycling
- Ex-Post Evaluations

Execution of the exit strategy

Exit refers to the recovery of resources invested in FRs (which might entail sales). It shall be planned and carefully implemented. An exit is the preliminary step in the winding‑up process. At a certain stage, which has to be determined in the funding agreement, the exit strategy will have to be defined between the parties and will have to involve winding up all schemes. The Holding Fund will have to be wound-up and all funds available transferred to the MA.

Re‑use of resources/Investment recycling

This step concerns reinvesting revenues generated by the investments (i.e. interests/dividends) and from the reimbursement of principal in order to enable a new allocation of FIs resources to be made. It is up to the Managing Authority to determine the preferred mechanism for the re-use of returned resources.

As there is no investment recycling policy defined in any legislation, it is the duty and the responsibility of the MA to decide what the recycling backflow mechanism should be. In order to determine what could be the best recycling approach, it is advisable that the evaluation studies and/or the investment strategy establish the possible recycling scenarios in order to evaluate the different recycling possibilities offered to project financing by tailored funding solutions. The most appropriate option may be then chosen by the MA or other competent authorities. The Managing Authority is solely responsible for deciding on the recycling of the funds. The MA has to establish whether the FIs provision and the generated revenues should be returned to the MA or if they should be re-invested at the appropriate levels. Best practice indicates that it is preferable to address this issue when the funding agreement is being drafted.

Resources paid back before the end of the eligibility period to FIs can be re‑used for:

- further investments through the same or other FIs, in accordance with the specific objectives set out under a priority;

- preferential remuneration of private investors, or public investors operating under the market economy principle, who provide additional resources to the FI or who co-invest at the level of FRs;
- reimbursement of FI management costs and fees.

Resources paid back include capital repayments with gains and other earnings or yields, such as interest, guarantee fees, dividends or any other income generated by the instrument, which are attributable to support from ESIF.

In addition:

- Income Receipts and Capital Receipts from investments, or resources left over after all Guarantees have been honored, are required to be reused in a manner consistent with the requirements of Article 78(7) of the General Regulation, namely that the resources returned should be re-used by the competent authorities of the Member States concerned;
- First Round Investments made involving OP resources must comply with the State Aid rules. While Follow-on Investments are not subject to the rules on the use of OP resources for First Round Investments, they are still regarded as State resources and therefore should be used in compliance with State Aid rules as provided for under Article 54 (4) of the General Regulation;
- COCOF Note 3 recommends that "resources returned from investments attributable to the Structural Funds contribution to Financial Engineering Instrument shall be re-used in the region(s) covered by the Operational Programme and that re-use should be through Financial Instrument, with a view to ensuring further multiplier and recycling of public money".

Appendix 2 Practical Instruments Guide

WARNING:

This model must be shaped by local circumstances and needs, according to a strategic thinking process done by policy makers.

The context within which financial instruments are implemented will affect how and how well they work. Circumstances vary between member states and regions, and sectors of the investment, so there is no “one-size-fits-all” approach!

A value for money analysis, with a cost-benefit analysis, is needed to define the duration of the contract and value of activities. A value for money analysis, with a cost-benefit analysis, is needed to reduce risks and for the submission of sustainable tenders.

Type of investment

Micro investment, up to 30.000 euro.
These investments are normally addressing small local cultural heritage and/or merely cultural activities/events, or socio-cultural activities.

Financial Instrument

Due to the small amount of the investments, and to the fact that banks are normally unlikely to provide financial services, such as loans, for customers with little or no income grants are still the most favourable option.
This can be merged with a crowdfunding support or, as an alternative, a technical support for crowdfunding only. Crowdfunding can be donation-based or reward-based.

It is possible to consider a micro-credit scheme to support cultural and creative industries or micro cultural enterprises or social enterprises who does not have access to credit, typically because they lack collateral and a credit history. Even in this case it can be merged with a grant.

PPP

All forms of contractual PPP with local stakeholders (agreement for cooperation) are suitable, as well as concession contract, with no remuneration from the public sector.
It should be a short-term contract (up to 10 years), with more risk for the beneficiary, and preferably low or no rent.
The public partner concentrates primarily on defining the objectives to be attained in terms of public interest, quality of services provided and pricing policy (if any), and it takes responsibility for monitoring compliance with these objectives

Economic evaluation/impact

More importance for the cultural and social effects: impact on social cohesion and community participation (sense of ownership, civic pride, very important for the civic-crowdfunding), sense of place and education, increasing of local attractiveness (small cultural heritage in a local territory is a resource which can enhance social capital, economic growth and environmental sustainability).
As these goods serve a public interest but would not survive in usual market conditions, the local/regional government takes partial responsibility for them on behalf of citizens through regulations, incentives and public funding allocated to heritage.

The risk is controlled and low, an evaluation of proposed activities'/initiatives' Break Even Point is suggested just to secure the funds repayment (for microcredit schemes), but it's secondary.

Policy improvement

New projects supported: it implies that the policy instrument provides funding as is the case with Structural Funds programmes. Thanks to interregional cooperation, managing authorities and other relevant bodies can find inspiration in other regions and import new projects to be financed within their programmes. This type of impact requires the availability of funding in the programme.

Type of investment

Low amount of investment, up to 100.000 euro.
These investments could regard local or regional cultural heritage, and/or merely cultural activities/events, or social investment in the arts and cultural sector, and cultural and creative industries.

Financial Instrument

Small grants (max 10% of the total amount) and guarantee fund or small loans (with an under-the-market rate). The use of hybrid schemes whereby the public sector co-invests with the private sector seems to be one relatively successful approach to help "crowd in" the private sector.
The use of a guarantee fund is cast in terms of addressing a "gap" in access to finance – typical difficulties that in particular cultural sector has in repaying loan funding or investment capital. However, grants can also be used to partially address these gaps.
The possibility to use crowdfunding should be limited to investments up to 50.000 euro, for a bigger amount could be difficult to raise the money.

It is possible to foreseen a technical support (coaching) in form of business development support.

PPP

All forms of contractual PPP with local stakeholders (agreement for cooperation) are suitable, but with a preference for concession contracts, characterised by the fact that the private partner provides a service to the public, “in place of” the public partner, and under the control of this latter, and the operating risk of economic nature is transferred to the private economic operator. The right to exploit the works that are the subject of the contract can be together with payment of public entity (this payment can be designed in the concession documents as a financial instrument to allow the return of this amount).
The duration of the contract should be in the medium term (up to 20 years), with balanced risk and low rent, depending on the kind of financial instrument, its duration and the interest rate used.

Economic evaluation/impact

More importance for the cultural and social effects: these kinds of investments contribute to development of a favourable environment to live in (public space, familiar and stable spaces) as well as to the creation of a feeling of belonging and other social impact, combined with economic impact as indirect and induced effects on job generation and increasing of cultural tourism.
It is important to foresee a ticketing service or other form of paying services (monetary benefits) to repay the loan and direct costs.
The risk is more controlled, but an evaluation of proposed activities’/initiatives’ Break Even Point is always needed to guarantee the funds repayment, even if with a more balance for non-monetary impact (i.e. occupation generated, cultural landscape and sense of place).

Policy improvement

New projects supported: it implies that the policy instrument provides funding as is the case with Structural Funds programmes. Thanks to interregional cooperation, managing authorities and other relevant bodies can find inspiration in other regions and import new projects to be financed within their programmes. This type of impact requires the availability of funding in the programme.

Improved governance: new approaches can be adopted thanks to lessons learnt in other regions. For instance, a new methodology for monitoring or evaluating a measure can be developed within the policy instrument. A managing authority or any other relevant body can also improve the way thematic calls are organised or the way projects are selected. The governance of the programme may also refer to the way environmental issues are integrated into the different measures of the operational programmes.

Type of investment

Medium amount of investment (more than 250.000 euro), typically for arts and cultural venues, museums, libraries and archives, festivals, cultural education organisations, regional sized immovable cultural heritage.

Financial Instrument

Grants (max 25%) and guarantee fund or small loans/revolving fund for more income-generating activities.
It is important to start estimating the additional public and private resources to be potentially raised by the final recipient (expected leverage effect), including as appropriate an assessment of the need for, and level of, preferential remuneration to attract counterpart resources from private co-investors. The existence of complementary support can be crucial for the implementation of financial instruments.
Other form of support can be improved with the involvement of business angels/angel networks.

PPP

All forms of contractual PPP are suitable, but with a preference for concession contracts or joint venture (mixed company), according to the relevance and appeal of the subject matter of the contract.
The design of the PPP arrangement must define the main commercial terms of the contract, development of the risk matrix (with balanced risk), and detailed commercial and financial analysis, with a view to achieving a price/performance ratio without prejudice to the interest of public.
It’s preferable a long-term contract (up to 20 years) and a medium rent.

Sponsorship can be evaluated according to the appeal of the activity.

Economic evaluation/impact

A good balance and simultaneous equilibrium is needed between planned/expected economic and social results in the medium term: the economic viability should go hand by hand with cultural identity and social cohesion and inclusiveness. Important impact to be assessed is in the environmental quality, small cities revitalisation, education and personal development.
These kind of investments should have a direct positive impact on job creation, sustainable tourism, regional attractiveness and cultural landscape.

Regular monitoring of performance, and also of the market more widely has an important role to play in providing feedback on the impact and cost efficiency (evaluation of the Return On Investment and contextual risk and benefits assessment).

A ticketing service or other form of paying services to repay the loan and direct costs are necessary.

Policy improvement

New projects supported: it implies that the policy instrument provides funding as is the case with Structural Funds programmes. Thanks to interregional cooperation, managing authorities and other relevant bodies can find inspiration in other regions and import new projects to be financed within their programmes. This type of impact requires the availability of funding in the programme.

Improved governance: new approaches can be adopted thanks to lessons learnt in other regions. For instance, a new methodology for monitoring or evaluating a measure can be developed within the policy instrument. A managing authority or any other relevant body can also improve the way thematic calls are organised or the way projects are selected. The governance of the programme may also refer to the way environmental issues are integrated into the different measures of the operational programmes.

Type of investment

High amount of investment (more than 1 million euro), high risk and low return on investment (e.g. urban renovation).

Financial Instrument

Loans/revolving fund (financial risk shared with public administration) together with grants (for the part of the investment of public utility or for building energy restoration) or micro-credit (small loans) for small commercial activities.
Flexibility must be built into the system to reflect changing needs or circumstances or to deal with unintended outcomes. Feedback loops resulting from monitoring and evaluation and from revisiting the finance gap are an important component of the capacity to adapt to changing requirements and conditions.
Careful consideration must be given to the design of such incentives in order to ensure adequate alignment of public policy objectives with private sector motives for involvement.
The existence of complementary support can be crucial for the implementation of financial instruments. On an operational level, there are various framework pre-conditions that facilitate the success of financial instrument implementation, including management of the relationship with the private sector; rigorous monitoring including returned funds, effective publicity activity to communicate the existence of the financial instrument, and complementary policy activities such as advice, consultancy support, technical assistance and complementary grants.

PPP

The contractual framework within which this kind of operations are implemented has a crucial role to play in providing the framework conditions for the successful implementation: it is necessary the facilitation of the public sector to intervene in markets through stringently monitoring, and subject to a heavy reporting and audit burden, but without conflict with private sector/commercial practices.
The best ways are concession contracts, which consist in the right to exploit the works that are the subject of the contract together with a payment of public entity, or "Design, build & operate (Dbo)": it is entrusted to the private operator the design, construction and management of a work or service with financing paid by the PA.
It is fundamental to allow public entity to maintain a management role and a view to achieving a price/performance ratio without prejudice to the interest of public.
The duration of the contract and the amount of payment need to be evaluated to balance the possibility to recoup the investment for the concessionaire, preferably long-term contract (up to 60 years), more risk for the beneficiary, and low rent.

Economic evaluation/impact

Deep and consistent research should be conducted on how a qualitatively maintained historic urban environment can contribute to sustainable development and regional attractiveness.
A strong evaluation of social and cultural impact is needed (sense of place and cultural identity, continuity of social life, social cohesion and inclusiveness, revitalisation of urban landscapes) together with direct and indirect economic benefits (job creations, new economic activities - tourism

and crafts – flow of money arising from cultural activities, growth of real estate pricing, ...), because the disproportionate investment of financial and societal resources in restoration works often implies deterioration of the larger part of the historic urban environment. Moreover, the quality of conservation works cannot be underestimated, but it is also an often overlooked topic when it comes to cultural heritage, both in terms of public procedures and skilled workers.

In the medium-long term, a good balance and simultaneous equilibrium is in fact needed between planned economic results and expected social goals (evaluation of the Return On Investment and contextual social risk and benefits assessment): the investment should be self-sufficiency in the medium- long term.

The integration of economic, social and environmental impact assessment is functional in enlightening the externalities associated with business activities and therefore to promote sustainability through planning and management practices which ameliorate negative outcomes and promote positive ones. This especially goes for tourism whose increase (for example as a result of a renovation project) may result in larger traffic, more noise and pollution as well as degradation of the heritage site itself.

Policy improvement

Structural change: this type is the most challenging since it requires a change in the operational programme. To integrate the lessons learnt from the cooperation, some managing authorities can modify existing measures or even create new measures in their programme.

Improved governance: new approaches can be adopted thanks to lessons learnt in other regions. For instance, a new methodology for monitoring or evaluating a measure can be developed within the policy instrument. A managing authority or any other relevant body can also improve the way thematic calls are organised or the way projects are selected. The governance of the programme may also refer to the way environmental issues are integrated into the different measures of the operational programmes.

Type of investment

High amount of investment (more than 1 million euro), high risk and high return on investment (e.g. pure commercial activity in a cultural heritage building).

Financial Instrument

The investment needs more money, but it can be easily repaid: a guarantee fund can support the access to private financial market (which can afford more risks and higher return).
It can benefits the final recipients with lower risk premiums, and generate high leverage effect, because public contributions cover only certain parts of loans (appropriate multiplier ratio), and unfunded products such as guarantees require less initial support than funded products such as loans.
But financial support for these investments require a long-term perspective and predictability to work well; irregular public sector interventions, uncertainty as to whether on-going interventions will be continued, changes in terms and conditions, etc. affect both the willingness of the private sector to invest and the ability to build up competence and capacity.
More generally, market conditions must be favourable for the implementation of financial instruments – there must be enough “density” in terms of numbers of potential co-investors, and appropriate financial intermediaries, whether these are banks or fund managers.
The lack of a functioning ecosystem of project promoters/investors, or the lack of stakeholders with the required expertise, may lead to the fail of the investment.

PPP

The design of the PPP arrangement implicate how to define the main commercial terms of the PPP contract, development of the risk matrix, and detailed commercial and financial analysis. This phase is focused on the determination of all aspects of the PPP arrangement (e.g. responsibilities, risk allocation, payment mechanism).
More suitable are the concession contracts - including project financing contracts - because the economic relevance of the contract and the economic return will favour the interest of economic operators. The concession documents can define limits to the activities of the concessionaire, all the risk passes to the beneficiary, with a high rent.
The duration of a concession should be limited in order to avoid market foreclosure and restriction of competition. However, long term duration may be justified if it is indispensable to enable the concessionaire to recoup investments planned to perform the concession, as well as to obtain a return on the invested capital taking into account the investments required to achieve the specific contractual objectives.

Eventually can be set-up a joint venture: this allows public entities to maintain a management role, but with possibility of conflict with private sector/commercial practices and with price/performance ratio.

The model of management of the contract is the “Design, build, finance & operate (Dbfo)”, the design, financing, construction and management of a work is entrusted to the private operator.

Economic evaluation/impact

A strong evaluation of economic impact is needed: economic viability, job creation, cost efficiency, externalities, together with the exact evaluation of the Return On Investment and contextual economic risk and benefits assessment. Break-even is expected to be reached in the short term.

In the long term, a good balance and simultaneous equilibrium is needed between planned economic results and expected social goals, this kind of investment could play an integrating role and lead to social inclusion, but it can also cause social exclusion. This especially goes for touristic/commercial activities whose increase may result in larger traffic, more noise and pollution as well as degradation of the heritage site itself, due to a large number of visitors (or client of the commercial activity) and site congestion, pollution (due to increased transport) and congestion in the locality of the site which affects the quality of life of the residents.

Hence, such a strategy in cultural heritage management can lead to regional development. It is important, however, to take also into account that heritage is largely influenced by its dynamic context. The scope and level of cultural heritage valorisation impact is interdependent with its context, stakeholders, and the very nature of the body that is running a given heritage site

Policy improvement

Structural change: this type is the most challenging since it requires a change in the operational programme. To integrate the lessons learnt from the cooperation, some managing authorities can modify existing measures or even create new measures in their programme.

Improved governance: new approaches can be adopted thanks to lessons learnt in other regions. For instance, a new methodology for monitoring or evaluating a measure can be developed within the policy instrument. A managing authority or any other relevant body can also improve the way thematic calls are organised or the way projects are selected. The governance of the programme may also refer to the way environmental issues are integrated into the different measures of the operational programmes.

High amount of investment (more than 1 million euro), high risk and high return on investment (e.g. pure commercial activity in a cultural heritage building)	Guarantee fund	Concession contracts - including project financing contracts; eventually a joint venture - mixed company. The duration of a concession should be limited in order to avoid market foreclosure and restriction of competition. Model of management of the contract: Design, build, finance & operate (Dbfo)	A strong evaluation of economic impact is needed: • economic viability • job creation • cost efficiency Good impact on regional competitiveness. Exact evaluation of the Return On Investment and contextual economic risk and benefits assessment. Break-even expected to be reached in the short term.	Structural change; Improved governance
High amount of investment (more than 1 million euro), high risk and low return on investment (e.g. urban renovation)	Loans/revolving fund (financial risk shared with public administration) + grant (for the part of the investment of public utility or for building energy restoration) + Micro-credit (small loans) for small commercial activities	Concession contracts - Design, build & operate (Dbo): It is entrusted to the private operator the design, construction and management of a work or service with financing paid by the PA. Duration of the contract: preferably long-term contract (up to 60 years), more risk for the beneficiary, low rent. Possibility to allow to public entity to mantain a management role.	In the medium-long term, a good balance and simultaneous equilibrium is between planned economic results and expected social goals. Evaluation of the Return On Investment and contextual social risk and benefits assessment. A strong evaluation of social and cultural impact is needed. Good impact on regional attractiveness.	Structural change; Improved governance
Medium amount of investment (more than	Grants (max 25%) and guarantee fund	Concession contracts or joint venture (mixed	Evaluation of the Return On Investment and contextual risk and	New projects supported;

250.000 euro)	or small loans/revolving fund	company). According to the relevance and appeal of the subject matter of the contract; Sponsorship can be evaluated according to the appeal of the activity. Long-term contract (up to 20 years), balanced risk, medium rent	benefits assessment. Is needed a good balance and simultaneous equilibrium between planned/expected economic and social results in the short term. Impact on regional attractiveness and cultural landscape	Improved governance
Low amount of investment (up to 100.000 euro)	Small grants (max 10%) and guarantee fund or small loans + technical support (coaching)	All forms of contractual PPP with local stakeholders are suitable, but with a preference for concession contracts, medium-term contract (up to 20 years), balanced risk, low rent	More importance for the cultural and social effects. The risk is more controlled, but an evaluation of proposed activities'/initiatives' Break Even Point is always needed to guarantee the funds repayment, even if with a more balance for non-monetary impact.	New projects supported; Improved governance
Micro investment (up to 30.000 euro)	Micro-credit, grant mixed with crowdfunding, technical support for crowdfunding only.	All forms of contractual PPP with local stakeholders (agreement for cooperation) are suitable. Short-term contract (up to 10 years), more risk for the beneficiary, preferably low rent.	More importance for the cultural and social effects: impact on social cohesion and community participation, sense of place and education. The risk is controlled and low, an evaluation of proposed activities'/initiatives' Break Even Point is suggested.	New projects supported