Be.CULTOUR:

"Beyond CULtural TOURism: human-centred innovations for sustainable and circular cultural tourism"

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Deliverable 2.4
Scouting of funding alternatives to support sustainable cultural tourism Action Plans in pilot regions (v1)

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Author list: Aliona Lupu, Ivo Allegro, Giada Arundine (INI)

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Abstract

Be.CULTOUR aims to empower European regions to co-create innovative, circular solutions for heritage regeneration and regional development beyond cultural tourism. The objectives and impact of the project are based on the implementation of co-creation activities, the development of Local Action Plans and innovative solutions for circular cultural tourism in six pilot ecosystems located in Italy, Spain, Cyprus, Sweden, Serbia and the cross-border region of North-East Romania-Moldova. As a partner to the consortium, each pilot ecosystem has identified a specific Pilot Heritage Site on which the project's methodology will be applied, tested, and validated. This will be done together with the local stakeholders engaged in local Heritage Innovation Networks, working together amongst each other and actively involved in the participation in the Be.CULTOUR Community of Practice. In parallel, a Community of Interest is developed to engage additional organisations (mirror ecosystems) committed to engaging in a peer-learning programme and replicating the Be.CULTOUR methodology in their territory, with their resources. As the drawing up of Action Plans has just started, the first version of this document bwill provide an overview of traditional and most innovative financing mechanisms and approaches to support sustainable investments in cultural tourism field. The final version of the deliverable, expected at the end of the project second year, will describe the scouting phase of financial mechanisms and the specific activities to be undertaken to implement the Local Action Plans in the regions involved.

Partners involved in the document

Participant No	Participant organisation name	Short Name	Check if involved
1 Coordinator	CONSIGLIO NAZIONALE DELLE RICERCHE, Institute for Research on Innovation and Services for Development	CNR IRISS	
2	European Regions Research and Innovation Network	ERRIN	
3	ICLEI Europe – Local governments for Sustainability	ICLEI	
4	Iniziativa Cube S.r.l.	INI	X
5	Uppsala University	UU	
6	Haute Ecole ICHEC - ECAM – ISFSC	ICHEC	
7	Open University of the Netherlands	OUNL	
8	APT Basilicata	APT-BAS	
9	Diputación Provincial de Teruel	PGT	
10	Larnaca and Famagusta Districts Development Agency	ANETEL	
11	Laona Foundation	LAONA	
12	Västra Götaland region	VGR	
13	Stalna Konferencija Gradova I Opstina	SCTM	
14	Agentia Pentru Dezvoltare Regionala Nord-Est	NERDA	
15	Verde e Moldova	VEM	

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1. Description of the Project

Be.CULTOUR stands for "Beyond CULtural TOURism: heritage innovation networks as drivers of Europeanisation towards a human-centred and circular tourism economy". It expresses the goal to move beyond tourism through a longer-term *human-centred* development perspective, enhancing cultural heritage and landscape values.

Cultural tourism entails opportunities but also risks. Tourism as a whole can be a highly volatile economic sector. If not managed properly, cultural tourism can also easily turn into a "value extractive" industry, generating negative environmental, social and cultural impacts on local communities and ecosystems. This project will develop specific strategies to promote an understanding of cultural tourism, which moves away from a "stop-and-go" consumer-oriented approach towards one that puts humans and circular economy models at its centre, paying attention to nature, communities and cultural diversity. "Place", intended as the *genius loci*, the ancient spirit of the site expressing its "intrinsic value" and "people" as co-creators of its uniqueness, culture, art, tradition, folklore, productivity, spirituality, as well as its "time space routine", are the focus of Be.CULTOUR, which aims at realizing a longer-term development project for the pilot areas involved.

The overarching goal of Be.CULTOUR is to co-create and test sustainable human-centred innovations for circular cultural tourism through collaborative innovation networks/methodologies and improved investments strategies. Targeting deprived remote, peripheral or deindustrialized areas and cultural landscapes as well as over-exploited areas, local Heritage innovation networks will co-develop a long-term heritage-led development project in the areas involved enhancing inclusive economic growth, communities' wellbeing and resilience, nature regeneration as well as effective cooperation at cross-border, regional and local level.

Wide and diversified partnerships of stakeholders from 18 EU and non-EU regions of Northern-Central and Southern Europe, the Balkans, the Eastern neighbourhood and the Mediterranean will be the driving force of the project. A community of 300 innovators (which includes regional authorities and municipalities, clusters and associations, museums and tourist boards, entrepreneurs, chambers of commerce, citizens, researchers, practitioners as well as project partners) in 6 pilot regions will co-create innovative place-based solutions for human-centred development through *sustainable* and *circular* cultural tourism.

Collaborative "Heritage innovation networks" will be established in 6 European deprived remote, peripheral and deindustrialised areas and cultural landscapes identified as "pilot innovation ecosystems": committed to the project's objectives, they have defined clear cultural tourism-related challenges requiring innovation that will serve as the basis for the collaboration with the 16 additional "mirror innovation ecosystems". Mutual learning and up-scaling of business solutions will be the objectives of the collaboration between pilot and mirror ecosystems, building the sustainability of the project's results beyond its lifetime.

By adopting a human-centred quadruple/quintuple helix approach to co-design, Be.CULTOUR will result in 6 community-led Action Plans, 18 innovative human-centred solutions and 6 close-to-market prototypes of new cultural tourism integrated services and products: these will directly contribute to inclusive economic growth, communities' wellbeing and resilience, and nature regeneration in pilot and mirror regions, stimulating effective cooperation at a cross-border, regional and local level. The core partners of the Consortium will progressively build Be.CULTOUR sustainability by broadening the interregional collaboration while anchoring it to relevant EU initiatives in the academic, business and institutional realms.

1.1 Be.CULTOUR specific objectives

The scopes of the Be.CULTOUR project will be achieved through a set of specific, measurable, achievable, realistic and time-constrained (SMART) specific objectives:

Objective 1 – To assess the impacts and market potential of sustainable and circular cultural tourism at national, regional and local level through multidimensional quantitative and qualitative indicators, innovative statistical methods and advanced smart data management systems;

Objective 2 – To build a Community of Practice of 6 pilot regional ecosystems and a Community of Interest with 16 "mirror ecosystems" in EU and non-EU countries actively engaged in knowledge-sharing and exploitation of Be.CULTOUR's approach, methodology, tools, and innovative solutions for sustainable and circular cultural tourism;

Objective 3 – To co-develop 6 Action Plans for sustainable and circular cultural tourism by establishing collaborative "Heritage innovation networks" in 6 pilot regions in Northern-Central and Southern Europe, the Balkans, the Eastern neighbourhood and the Mediterranean;

Objective 4 – To co-develop, prototype and test human-centred and place-specific product, process and service innovations for sustainable and circular cultural tourism in pilot heritage sites;

Objective 5 – To provide policy recommendations for more effective use of European Structural Investment Funds (ESIFs) and other EU funds to support cultural tourism innovation ecosystems in pilot and mirror regions, and develop a proposal of evolution of ESIFs through synergies with other public funds;

Objective 6 – To contribute to deepen cultural Europeanisation through information and educational activities focused on the European history, identity and culture expressed in tangible and intangible cultural heritage and cultural landscapes, developing European Cultural Routes and European Heritage Labels in pilot heritage sites.

All partners have wide experience in developing and testing the Be.CULTOUR proposed approach, methodology and tools, ensuring the effective and time-constrained achievement of all the above-mentioned specific goals.

2. Introduction

Be.CULTOUR aims to empower European regions to co-create innovative, circular solutions for heritage regeneration and regional development beyond cultural tourism. The objectives and impact of the project are based on the implementation of co-creation activities, the development of Local Action Plans and innovative solutions for circular cultural tourism in six pilot ecosystems located in Italy, Spain, Cyprus, Sweden, Serbia and the cross-border region of North-East Romania-Moldova.

As a partner of the consortium, each pilot ecosystem has identified a specific Pilot Heritage Site on which the project's methodology will be applied, tested, and validated. This will be done together with the local stakeholders engaged in local Heritage Innovation Networks, working together amongst each other and actively engaged in the participation in the Be.CULTOUR Community of Practice. In parallel, a Community of Interest is developed to engage additional organisations (mirror ecosystems) committed to engaging a peer-learning programme and replicating the Be.CULTOUR methodology in their territory, with their resources.

This deliverable of WP2, under its first version, provides a general overview of existing and innovative financing mechanisms and tools that can be used by the project stakeholders during the project life-time to adequately and effectively support sustainable cultural tourism Action Plans implementation developed under WP3 in the pilot regions. The starting point of this document is represented by the introductory work already provided by other Be.CULTOUR partners under WP1 (D1.1), WP3 (D3.1, D3.3 and D3.4) and WP4 (D4.1 and D4.2). These first project deliverables define the overall theoretical project framework, concepts, methodology and detailed guidance and information on specific activities to be further conducted by the partners. As evidenced in the D3.1[1], the project overall methodology is built around four main steps, which articulates the design process into four stages:

- Exploration phase;
- Action Plans and concepts co-design phase;
- Co-development phase; and
- Deployment phase.

At month twelve of Be.CULTOUR project implementation, the partners completed the "exploration phase" and started to prepare for the Action Plans drafting phase. For this reason, the first version of the deliverable is focused on desk analysis of existing financial mechanisms for

[1] https://becultour.eu/results

cultural tourism as a starting point for a more operative version that can support the effective implementation of the future Action Plans. Thus, a more advanced version of the document will be released after the drafting of Action Plans will be completed and the innovative solutions to be financed will be ideated, i.e. indicatively at month twenty-four of the project.

2.1 Document structure

This deliverable aims at the identification of financing mechanisms and approaches to support the implementation of the activities envisaged in the Action Plans of the pilots and regions involved in Be.CULTOUR project. Meanwhile project partners develop the Action Plans, the first version of this deliverable is focused on the analysis of the existing landscape of financing mechanisms from the traditional ones to the most recent and innovative approaches up to the exploitation of the European Commission funds. The document is structured as following:

- Section 1: General description of the project;
- Section 2: Introduction issues and the structure of the document;
- Section 3: Outline of the cultural tourism sector as a driver for the EU green economy, addressing sustainability issues applied to the cultural tourism sector, focusing on the "heritage capital approach" and the integration of sustainability in tourism and cultural heritage management;
- Section 4: Overview of traditional and innovative financing mechanisms to support financing the sustainable transition in the cultural tourism sector;
- Section 5: Introduction of EU Funding mechanisms and ESIFs and their role in financing cultural tourism;
- Section 6: Conclusions of the first version of this deliverables.

3. Tourism as a driver towards a green economy

3.1 Introduction to sustainable cultural tourism and financing mechanisms

Tourism, as one of the most promising drivers of growth for the world economy, **can play an important role in driving the transition to a green economy**, and contributing to more sustainable and inclusive growth. Tourism industry, and particularly cultural tourism sub-sector, is well-placed to contribute to increasing employment rates, enhancing social cohesion, improving productivity and fostering economic growth across many sectors, given its strong local dimension. Moreover, the cross-cutting nature of tourism, with close connections to numerous sectors at destination and international levels, means that even small improvements towards greater sustainability in production and consumption patterns will have significant impacts.

Global trends and priorities change – more than ever the overarching challenge for the tourism sector is to remain competitive while also embracing sustainability recognising that, in the long term, competitiveness depends on sustainability. In particular, climate change is now seen as a fundamental issue also requiring the tourism industry to reduce its contribution to greenhouse gas emissions and the destinations to adapt to changes in the pattern of demand and in the types of tourism they offer.[2]

The future of European tourism relies on the quality of the tourist experience; by integrating sustainability concerns into their activities, tourism stakeholders will thus protect the competitive advantages that make Europe the most attractive tourist destination in the world – its intrinsic diversity, its variety of landscapes and cultures. In addition, addressing sustainability concerns in a socially responsible manner will help the tourism industry to innovate its products and services and increase their quality and value.

Financing the transition to a more sustainable tourism model involves a range of relevant challenges, that can be generally grouped along four main dimensions; on the supply side, **there is a general lack of financial viability and a concentration of investments in the sector,** since the public sector still remains the main financing entity, traditionally resulting in a generally lower attractiveness and profitability of the sector for private investors. Furthermore, **there is a scarcity and even limited knowledge of suitable financing instruments designed for sustainability-oriented**

[2] Communication from the Commission - Agenda for a sustainable and competitive European tourism /* COM/2007/0621 final */ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52007DC0621

projects, that could be effectively implemented to finance cultural tourism industry transition towards more environmentally, socially, and economically sustainable practices and models. On the demand side, the incentives for firms of all sizes, especially SMEs, to adopt sustainable practices are weak, while the capacity of policy makers to design, coordinate, implement and enforce sustainable tourism development policies remains also an issue. Although these difficulties significantly affect the sustainable transition in the sector, there is a growing awareness of the need and value of conserving unique natural, social and cultural assets, that is leading to an increasing motivation for both public and private sectors to invest in preserving cultural heritage sites and in making tourism more sustainable. Investment in sustainable cultural tourism, in fact, can potentially offer opportunities to generate significant returns and at the same time effectively contribute to have positive and long-term impacts on environment, society and economy. Nowadays, climate risk is becoming investment risk, and most stakeholders - from shareholders, to customers, communities and regulators - are now expecting companies to play a role in decarbonizing the global economy. Before the pandemic started, it was possible to see a massive shift of capital towards more sustainable-oriented businesses, but it is during these years that this trend is increasingly becoming one of the main priorities in public and private investors choices of resources and funds allocations.

These considerations are confirmed by the spread and popularity of innovative and sustainable financing instruments (e.g. impact and ESG invest, social impact bonds etc.) included into a wider so-called impact finance approach, which refers to the provision of capital for investments in businesses or economic activities with the explicit and declared intention of generating verifiable and direct positive impact on the society and /or environment, while also seeking market aligned or better financial return.

The below description of the traditional financing instruments provided by public or private entities (i.e. grants, bonds, equity, quasi-equity etc.) that can be adopted to finance projects and activities in the tourism sector, will be complemented by the analysis of alternative financing mechanisms usually adopted and successfully implemented in the cultural heritage and tourism sectors, subsequently highlighting the effectiveness of adopting a blended financing approach, as a key approach to financing SDGs, as it entails collaborative partnerships between different stakeholders to solve the parallel needs of local authorities and local communities by raising combined funding on the capital markets through the issuance of various financial instruments, such as debt and equity instruments. The application of hybrid financing instruments within integrated initiatives can, in fact, then produce considerable synergy between instruments in order to create “added value” to the financial viability of sustainability-related projects also in tourism sector, in addition to fostering public-private partnerships in the sector development towards a more sustainable path.

Given the general objective of Be.Cultour project of developing policy recommendations for the effective use of European Invest Funds (ESIFs) and other EU funds, an in-depth overview of European funding instruments will then be provided, with a focus on ESIFs, and in particular on the types of ESIFs designed and planned for the current 2021-2027 programming period, also reviewing the results and objectives achieved through the use of funds provided by ESIFs in previous programming periods (2007-2013 and 2014-2020) in the EU cultural tourism sector.

In the second version (*to be completed*), on the basis of the Action Plans drawn up in the Pilot Regions, a proposal on the adequate and efficient use of ESIFs will be developed, identifying the opportunity of synergies with other financing instruments and mechanisms, both public and private, to finance sustainability-oriented actions in the cultural tourism sector.

3.2 Developing a sustainability-centred cultural tourism management

Culture and tourism have always been inextricably linked; cultural sights, attractions and events provide an important motivation for travel, and even travel itself generates culture. It has been only in recent decades, however, that the link between culture and tourism has become more explicitly identified as a specific form of consumption: Cultural Tourism (Richards 2018, p.12).

Cultural tourism, as a sub-sector of tourism, has been defined as a “type of tourism activity in which the visitor’s essential motivation is to learn, discover, experience and consume the tangible and intangible cultural attractions/ products in a tourism destination. These attractions/ products relate to a set of distinctive material, intellectual, spiritual and emotional features of a society that encompasses arts and architecture, historical and cultural heritage, culinary heritage, literature, music, creative industries and the living cultures with their lifestyles, value systems, beliefs and traditions.”[3]

A 2009 OECD publication highlights the mutually beneficial relationship between culture, which attracts tourists, and tourism, which enhances culture and creates income, while also supporting cultural heritage, production and creativity. Cultural tourism has been one of the fastest-growing

[3] (UNWTO, 2017, p.14) UNWTO. Tourism and Culture. Available online: https://www.unwto.org/tourism-and-culture

global markets, and cultural and creative industries, in addition to cultural heritage, are its main driving force.

Moving away from its original orientation as a niche market, more focused on a specific market segment mainly composed of historians, scholars or art enthusiasts, nowadays cultural tourism is targeting the mass market, broadening its concept beyond the promotion of physical and tangible sites and monuments, encompassing more intangible and identity-linked assets, such as creativity, lifestyles, folklore, inherited traditions from the past but also more recent and contemporary local practices.

The development of cultural tourism can be attributed to the growing relevance given by the urban middle class with a high level of education, disposable income, and interest in experiencing something different from the usual touristic trips, and a desire to learn something rich in cultural, symbolic, spiritual, or historical content (Bendixen, 1997; Bonet in Towse ed, 2003). At the beginning of the new millennium, the development of cultural tourism was influenced mainly by a greater demand for weekend travels, interest in travel packages and itineraries, and the use of technology and the Internet.

Cultural tourism is also becoming increasingly driven by language tourism, gastronomy, and the search for cultural experiences based on the lifestyles and habits of the place visited. [4]

The diversification process that the cultural tourism subsector is currently experiencing poses a challenge in terms of defining a "cultural tourist "and measuring the impact of cultural tourism on the overall tourism industry and, then, its contribution to a country's economic and social wealth.

Although it is difficult to quantify the weight of the cultural tourism industry on the EU economy, it is easy to imagine the significant and positive contribution that this type of tourism makes in European countries, as well as, given the enormous historical and cultural heritage that characterised most of them, the quality of the services and activities offered and the potential for development and further growth of this sector in the coming years. Europe, with its rich cultural heritage and favourable socio-political environment, accounts for 51% of the world tourism market; from the second half of the 1990s, EU institutions have determined a tourism policy peculiar to EU, mainly through the promotion and implementation of incentives addressed to the sector, supporting small and medium enterprises (SMEs) operating in it, conscious of their key role in shaping the European identity. Nowadays, it is estimated that cultural tourism accounts for 40% of all European tourism and 4 out of 10 tourists choose their destination based on its

[4] Noonan, D.S.; Rizzo, I. Economics of cultural tourism: Issues and perspectives. J. Cult. Econ. **2017**, 41, 95–107.

cultural offering. (World tourism Organization, 2018). Despite the fact that the tourism sector has been a highly competitive sector of the EU economy for decades, and that much of it relies on the enormous historical and cultural heritage of most European countries, however, as it happened with other sectors that involve the physical movement of consumers in order to use the service offered, cultural tourism, but generally the whole tourism sector, has also been severely affected by the spread of the coronavirus in Europe and the rest of the world. As it is easy to imagine, the impact of COVID-19 on global tourism has been both overwhelming and immediate, with asymmetrical and highly localised impacts. Within and across countries, some destinations are more exposed than others, reflecting differences in the nature of the tourism offer, the impact of travel restrictions on visitor flows, the speed of economic recovery in source markets, the level of exposure to international tourism, and the relative importance of tourism in the economy. Despite the sector's resilience to previous crises, the sheer depth and breadth of the pandemic's impacts on tourism and the wider economy mean that a quick recovery is unlikely. However, while it remains unclear what long-standing or permanent changes the current crisis will inflict on the global tourism sector, a recovery, mainly based on the so-called "proximity tourism" was tested in 2021 and is expected to grow considerably in forthcoming years.

Furthermore, there's no doubt that the pandemic has dramatically changed the policy context for tourism, and that it has paved the road for many countries to explore new ways and opportunities to fast track the move to greener, more sustainable tourism development. As will be discussed in more detail in the document, the sustainable transition also involves the tourism sector and it constitutes the key and essential strategy for attracting new and diversified sources of investment and financing, useful not only for the short-term recovery of the sector, but also and above all for its long-term regeneration and resilience.

3.3 The "Heritage capital approach": preserving the cultural capital of heritage through sustainability

Cultural tourism can be considered as an activity which connects tourists with the local culture, and thus with local people and places.

The relation and interconnection between tourism and culture, especially cultural heritage, has evolved through both the dynamics of tourism as an expression of modernity and the different conceptions that cultural heritage has acquired in contemporary societies. As evidence of this phenomena, in the second half of the 20th century the notion of cultural heritage emerged to denote, in particular, the characterisation of tourism as an experience in which it represents its own expression, since tourism is historically and intrinsically connected to the territory in which it is experienced.

Given this framework, the attractiveness of a specific location or site determines the degree in which tangible cultural heritage may attract and influence tourism, and thus enhance both visitors and resources flow in that area. In the last twenty years, tourism has taken on a new dimension and capacity to influence the transformation of cities and areas, and to strengthen the partnership between different actors, belonging both to public and private sectors, and between regions and its citizens, in cooperating to revitalise the territories in which they operate and live. Today, **cultural heritage continues to be considered a resource for local development strategies, however, the costs for their functional maintenance and reuse are constantly becoming burdensome to support financially, mainly because of the scarcity of resources allocated by the State –** traditionally the main investor in cultural heritage, given its nature as "common good" (Angrisano et al. 2016) - **in its preservation and maintenance, a condition that, due to the spread of Covid-19 pandemic, has become even less financially sustainable in these last two years.**

Another critical issue is linked to the fact that, although higher visitation leads to more revenues and a generally better management of financial resources allocated to most visited areas, massive flows of visitors are not always as beneficial for cultural heritage sites: more tourists, in fact, do not necessarily lead to more financial sustainability, as excessive visitation can often be the primary cause of overcrowding, environmental damage and wear-and-tear phenomenon (Mourato et al. 2004), hence harming directly or indirectly the environment in which tourism experiences are consumed and further raising the costs of restoration and maintenance. Some authors (Mc Kercher, Ho, and Du Cros, 2005) provide an overview of two opposing views of this relationship as a "conflict/co-operation dichotomy". On one hand, a number of sources (Urry, 1990) focus on the incompatibility and inevitable conflict of cultural heritage-tourism relationship, arguing that cultural values are too often compromises for commercial gains, while others (McKercher, Ho & du Cros, 2005) insist that tourism value are compromised due to management attitudes that consider any kind of touristification as having a corrupting influence. Finding the right balance between the consumption of extrinsic values by tourists and conservation of the intrinsic values by who is in charge to managing cultural heritages represents therefore the main challenge facing the heritage tourism sectors. (McKercher& du Cros, 2002)

The negative effect that the decay of cultural heritage - due to the lack of funds and investments allocated to it- has on the attractiveness, and therefore on tourism, of the place and, vice versa, the damage that the phenomenon of over-tourism generates on the preservation and maintenance of cultural heritage, shows once again the strong interconnection existing between culture and tourism. To balance the relationship between culture and tourism and stimulate the financial sustainability of both, Loulanski and Loulanski (2011) emphasize the **heritage capital approach**, also known as cultural capital (Throsby,1999).

The term "cultural capital" remains central to understand cultural heritage value creation in the financial landscape; it has been defined as "the capital value that can be attributed to a building, a collection of buildings, a monument or more generally a place, which is additional to the value of the land and buildings purely as physical entities or structures, and which embodies the community's valuation of the asset in terms of its social, historical and cultural dimension" (Throsby, 1997).

The concept of culture capital applied to cultural heritage is considered crucial for restoring the distorted balance in the heritage-tourism relationship, achieving mutual benefits, and should represent a fundamental component of the widely advocated application of a sustainable approach in heritage and tourism planning and management, with its distinctive stance in prioritizing the preservation of the value-generating capacity of heritage resource and maintaining the critical cultural capital stock in all its diversity. Following the idea of a cultural capital embedded in historical and cultural sites and patrimony, the heritage capital approach therefore emphasizes the importance of the preservation of cultural heritage value and the maintenance of its cultural capital, through policies, strategies and practices that may in turn stimulate a flow of goods and services that may, on the one hand, enable income and the financial sustainability of cultural heritage and tourism, and on the other, positively affect cultural heritage value over time, by maintaining and preserving the cultural capital embedded in it.

3.4 The integration of sustainability in tourism and cultural heritage management: challenges, solutions and tools

Sustainable tourism has its roots in sustainable development, in the sense that if tourism is to contribute to sustainable development, it must be economically viable, environmentally sensitive, and culturally appropriate (Nasser, 2003, p.474). The concept of sustainable tourism was proposed by the World Tourism Organization in 1988 (Liu, 2003), and further elaborated in the book *Sustainable tourism development: A guide for local planners* (UNWTO, McIntyre, 1993). UNWTO defined sustainable tourism as:

…the tourism that meets the needs of current tourists and host populations, while enhancing opportunities for the future. It is envisaged as leading to the management of resources in such a

way that economic, social, and aesthetic needs can be met while maintaining essential ecological processes, biological diversity, cultural integrity, and life support systems. (UNWTO, 1993)

The definition explicitly mentions the term "culture integrity", hence implying also the notion of sustainable cultural tourism within the overall concept of sustainable tourism development. The concept of sustainable tourism proposed by the World Tourism Organization is introduced as essentially destination-centred, forming a triangular relationship between host areas with their habitants, tourists, and the tourism industry. Countering the long-established development and consolidation of the tourism industry, the sustainable approach applied to the sector implies strategies, policies and actions intended to reconcile the tensions and frictions created by the complex interactions between the different stakeholders involved in the triangle, ensuring the equilibrium in the long term (Bramwell & Lane, 1993). More concretely, its key objectives are outlined as meeting the needs of the host population in terms of improved living standards both in the short and long term, satisfying the demands of a growing number of tourists while safeguarding the natural environment in order to achieve both of the preceding aims (Cater, 1993). When it comes to cultural heritage, sustainability does refer not only to the physical maintenance of resources, but also to their comprehensive and social relevance (Tunbridge & Ashworth, 1996); sustainability here implies ensuring the continuing contribution of heritage to the present through a thoughtful management of change (Matero,2003) and, besides that, a sustainable approach applied to heritage offers the necessary long-term and holistic framework for interpreting how economic, social, cultural and environmental systems fit together. (Throsby,2003). Different approaches to Sustainable Tourism have been developed so far, ranging from focusing on individual issues, for example on environment, society or economic sustainability, or combining these aspects, to focusing on a more integrated approach that tackle all aspects of sustainability and require a strategic management of the overall process. In general, a key target of sustainable tourism is to assure the economic welfare of host communities, a conservative use of natural and human resources, to maintain a local self-reliance - that is their low dependence on external inputs or assistance - , a local control and participation in development and tourism decision-making and to guarantee a balanced achievement of social, economic, and environmental goals.

Concerns about the need to ensure environmentally, socially and economically sustainable goals in tourism sector arise from the spread of unsustainable destructive practices that tourism brings with it, inevitably causing the crumbling of the very foundations on which tourism, and particularly cultural tourism, is based, and that pose real challenges to the transformation of the sector.

“Unsustainability” is most often discussed with regard to tourism over-development, uneven distribution of tourism costs and over-exploitation of cultural heritage sites by tourist masses, to the loss of a cultural and territorial identity of extremely touristic places, to the unbalanced distributions of tourism costs and benefits in communities and to the dominance of economic interests and short-term profits over sustainability and maintenance of sites and areas. In this respect, the phenomenon of “sustainable consumption” and its application within the field of cultural tourism has been highlighted, stressing the need to achieve it through the implementation of the principles of responsible tourism.

However, unsustainable practices arising from tourism development in some areas are less frequently associated to the lack of a proper regime, built upon an adequate regulation and governance and on an efficient allocation of costs and benefits between stakeholders, that can effectively manage and reduce the negative consequences of tourism on the environment – and on the communities living in it- in which it flourishes. The need to adopt an holistic political-economy approach to sustainable tourism development, which may address the issue from the perspective of governance, ownership and funding of tourism industry - and on the distribution of profits generated by it - entails that the wide and different range of stakeholders involved into the tourism industry has to take their own financial responsibility for the long-term maintenance of the heritage resources on which they depend and, at the same time, requires that all these stakeholders, that include both public and private actors, do hold higher stakes in tourism and in the management of their historical resources.

A political-economy approach to sustainable tourism development needs to address relevant current destructive management practices and wasteful behaviours in tourism in order to find or design solutions and tools to be integrated into a comprehensive regulatory framework for cultural tourism regulation and supervision, aimed to guarantee the sustainability of the sector in the long run.

Unsustainable practices / challenges	Solutions and tools
Cultural disinheritance, loss of identity by communities, degradation of local culture by its extreme commercialization, uneven distribution of costs and benefits	Promote local involvement through: • the decentralization and participation of authority and citizens involved in tourism-related decision-making • a proactive leadership and local control, from planning to implementation by local authorities • local entrepreneurial involvement in tourism activities
Dominance of economic short-term profit over sustainability, society and heritage, exploitation of resources, foreign ownership, dominance of "one size fits all" approach in tourism development, poor intervention on negative impacts.	Advocate a controlled, balanced and diversified growth in tourism development through: • the adherence to principles of balanced growth (such as its balance with the subsequent impacts, balance of public and private interests, the promotion of local self-sufficiency) • the diversification of activities and services offered, by analysing and segmenting the market and its customers and by creating a balance between education and entertainment components/ purposes • the strengthening of government-industry-community communication, negotiation and participation schemes, and cooperation between local and national authorities on objectives, policies, plans for long-term viability.
Lack of fundraising knowledge and skills, lack of financial viability, concentration of investments, management and revaluation activities of tourist areas and landmarks by the public sector, leakage of tourism revenues compared to other government policy priorities, leakage of investments by private investors, poor heritage funding legislation, lack of collaboration and responsibilities delineation between stakeholders.	Scout and provide sufficient and diversified funds through: • a mix of funding instruments, subsides and incentives to the sector (public, private, civic sources, both national, international, regional and local) • more adequate reallocations of revenues from tourism and from taxpayers earmarked for heritage conservation (e.g. wider use of the "user pays" principle) • enable innovative funding mechanisms (e.g. Crowdfunding)

Table 1 – Integration of sustainability in tourism and CH management: challenges, solutions and tools

4. Financing the transition: Exploration of traditional and innovative financing mechanisms

Investment and financing have a crucial role to play in supporting the transition to a low carbon, resource efficient and socially inclusive economy; in order to achieve more sustainable development and deliver on the ambitious targets to reduce poverty and combat climate change set out in Agenda 2030 and the Paris Agreement, investment needs to take place on a far greater scale over coming decades. Indeed, the Paris Agreement established the goal of **"making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".** The scale of the transition to a green, low-emissions and climate-resilient economy is perhaps the biggest structural adjustment ever proposed in the field of international governance **and tourism has a key role to play in this**, since the sector is particularly well placed to contribute to increasing employment rates, enhancing social cohesion, improving productivity and fostering economic growth across many portfolios, given its strong local dimension. Moreover, the cross-cutting nature of tourism means that even small improvements towards greater sustainability in production and consumption patterns will have important impacts.

Today, investment possibilities in the sector are wide-ranging, and include investment aimed, for example, in enhancing low carbon transport options or in the construction of resource efficient tourism infrastructures, as well as initiatives aimed to support innovation and encourage the adoption of responsible businesses practices for Cultural and Creative Industries (CCIs) operating in the sector.

Given the objective of the paper, the analysis will continue by exploring current available and appropriate funding alternatives that can be used to allow the effective implementation and up-scaling of long-term sustainability plans and objectives in cultural tourism sector. As the previous table has shown, tourism financing, traditionally characterized by shortage of funds and a general concentration of investments, still represents a critical issue that inhibits the transformation and the introduction of more innovative and sustainable business models in cultural tourism industry, since financial viability of sustainable initiatives is essential to ensure their subsequent implementation and effectiveness.

Generally speaking, the ability to finance large sustainable tourism investment projects (e.g. hotels and resorts, attractions, transport, tour operator and other services) is challenged by a lack of suitable finance instruments. One reason for this is a maturity mismatch: depositors and investors typically prefer to liquidate assets quickly, with the result that available finance instruments tend to be for a shorter term than the longer time period required to realise the investment project and become profitable. This is particularly the case for infrastructure investments.

Financing small tourism projects presents challenges linked with their size which may require public intervention, as higher transaction costs (related to low volumes traded) result in difficulties in accessing external finance (OECD, 2006; 2013b). Regulatory rigidities and an insufficient legal framework can also obstruct the ability of the financial system to provide products adapted to the needs of small firms. This is particularly a challenge when firms are subject to seasonal flows, as with many tourism businesses.

In this section will be examined how the need to shift toward sustainable practices in cultural tourism can be financially supported by the introduction and diversification of both traditional and innovative financing instruments in the sector, combining traditionally available funding instruments applied to the sector with innovative instruments focused on enhancing environmentally, socially and economically sustainable practices, actions and objectives.

More precisely, this section will start with the exploration of public and private funds, followed by a review of some of alternative mechanisms (crowdfunding, PPPs) frequently applied in cultural heritage and tourism sectors and an analysis of innovative tools (impact financing, pay-by results, ESG investing) aimed at funding sustainability-oriented projects.

It will then end highlighting the effectiveness of adopting a blended financing approach, as an innovative approach to financing sustainable development that aims to attract commercial capital towards projects that benefit society while also providing financial returns to investors. These considerations will be subsequently integrated by the analysis conducted in the next section, which will instead focus on the current tools set up at European level, in particular ESIFs, in order to assess how complementarity and joint resilience on different types of financing instruments can be the key to revitalising the cultural tourism sector and, at the same time, enhancing its transition towards more sustainable and resilient business models over the coming years.

4.1 Traditional financing instruments

Investment and financing mechanisms for sustainable tourism development does not necessarily require the creation of new instruments but instead it is possible to provide an adequate financial support to innovative projects in cultural tourism sector with already available funding mechanisms and financing tools. While in the past there has been a lack of diversity in financial institutions offering long term capital for the sustainable financing needs of firms operating in tourism sector, especially of SMEs, today there's a wider availability of financing instruments for tourism sector, ranging from public and private or from domestic for foreign subjects and institutions. The main reason is because there's an increasing motivation for both the public and private sector to invest in making tourism more sustainable, and the market for green bonds and other sources of green financing is expanding, also involving tourism sector.

Cultural tourism finance decisions are the processes involved in the responsible and strategical choices of looking for potential investors and investment alternatives that tourism businesses and organizations operating in cultural tourism make in order to provide financial support to their projects. One of the most important decisions that the tourism financial management have to do is about how to secure funding for their projects and from whom; these investment decisions are crucial not only for building new infrastructures or setting-up new projects, but also for the expansion of current assets and/or the replacement of old ones. Investments in the sector are also needed to comply with environment regulations, and make adjustment in order to meet the interests of all stakeholders.

Financial instruments (FIs) are defined by OECD as tools that entail the provision of finance to an organization, enterprise or individual, with the expectation of both a social and financial returns from this investment. They do leverage private investment by channelling funds to a final organization/project through public and/or private co-financing modalities, and are categorised as loans (debt), guarantees, equity, and quasi-equity instruments. This classification is coherent to the one given by EC (2015) in the context of European Structural and Investment Funds (ESIF), which defines financial instrument(s) as *"Union measures of financial support provided on a complementary basis … to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments, and may, where appropriate, be combined with grants"*.

Generally speaking, four categories of financial funding mechanisms are identified in order to provide adequate resources to financially support new projects or initiatives: grants, financial instruments, market revenue and hybrid instruments.

- Grants: tend to be unrepayable and may be direct or indirect. Direct grants provide money for specific activities (e.g. the restoration of a cultural heritage site for tourism purpose), while indirect grants enable access to other financial instruments (e.g. indirect grant can be incentives used as leverage in order to obtain debt instruments or bank loans, useful especially for SMEs), or can cover the cost of financial instruments (e.g. interest rates for loans);
- Financial Instruments: allow enterprises to obtain money that has to be repaid to the investors. There are two categories of financial instruments: debt and equity. Debt assumes a contract (loan) between the lender and the borrower, under which money is lent to the borrower and needs to be repaid within a certain time frame, whereas equity provides a total or partial ownership of the firm by the lender, locking the financial returns of its investment to the profitability of the invested cultural project;
- Market revenues and fees: acquired through the sale of goods and services, such as accommodation, transport, events, entry fees, rentals, etc.
- Hybrid instruments: these instruments are generated by combining and mixing different financing instruments features and characteristics. Some examples are given below:
    - recoverable grant, that can only be repaid if the project reaches certain predefined targets. If the project objectives are not met, the recoverable grant is converted into a real grant. This mechanism can be used when the project achieves successful results that allow the company to repay the investor;
    - forgivable loan is a loan, which can be converted into a grant without repayment if previously defined conditions are met. However, if the conditions are not met, the loan must be repaid, usually with interest;
    - convertible grant is another hybrid instrument in which the investor provides the company with a grant which can be converted into equity if previously defined conditions are met;
    - revenue sharing contracts are financing instruments whereby the investor finances a project and receives an agreed percentage / share of future revenues. This risk-sharing model can be used for the repayment of funding and to give financial flexibility to the social enterprise.

These types of funding schemes can be provided from public or private sources.

Public funding typically does not have to be repaid and they are primarily used to unlock other funds and stimulate private investment in the sector, and then to provide incentives and build capacities. These financial instruments belong to a wide range of public actors and institutions of different levels (supra-national, national and sub-national public institutions). Public finance institutions have a general development mandate that lies beyond economic and financial viability of projects financed. Institutions operating at regional or local level are particularly well placed to overcome location- specific investment barriers, while multi-lateral finance organization can scale up and diversify the inherent environmental risk by joining several environmental projects in different countries. They do also include banks specialized into green investments which target and tailor financing to facilitate private investment in low carbon climate resilient infrastructure (e.g. Nordic Investment Bank, which offers financial support mainly through long-term loans and guarantees, to support sustainable projects of SMEs operating in tourism that could boost sustainable development in the Baltic Region).

Public funding can be:

- Direct, when it entails the direct creation or investment in companies which, thanks to the processes implemented or the services offered, can be instrumental in achieving a public objective;
- Indirect, when it is provided to companies through subsidised loans or grants, or loans targeting specific objectives (e.g. green lending, with lower / no interest rate), total or partial credit guarantees. The rationale for such interventions is to provide financial and economic additionality, by offering instruments that the private sector does not provide.

Although public funding tends to have the characteristic and benefit to be an unrepayable grant, financial instruments provided by financial intermediaries (banks, funds, etc.) are becoming increasingly more popular and are starting partly replacing grants, essentially due to the relatively scarcity of financial resources on the national level designed to support the sector. This approach was also encouraged by European Commission in the EU 2014-2020 programme for the cultural and creative sector, enhancing "*a change in behaviour among some parts of the sector, by encouraging a shift from a mentality of grants to loans, thus strengthening the competitiveness [of businesses operating in these sectors] while reducing their reliance on public funding*" (EUR-Lex 2011). The pandemic and the intensification of government measures to prevent its damaging effects on the most affected sectors have led to the reintroduction of public subsidy schemes for the financing of distressed companies in most European countries, however, the need to rely on alternative sources of funding to those of the state remains strong, particularly when the economic crisis tightens and the governments' extraordinary measures come to their end.

Private funding generally refers to three main categories of financiers, such as: banks, funds/ capital market, and philanthropic investors. While the main two categories focus mainly on financial instruments and thus require a financial return for their investment, philanthropic investors adopt more grant-like actions, not expecting a financial return or a profit on the investment made. Private investors operate mainly through the instrument of investment funds, with the aim of raising and collect capital from a wide range of investors (both private and institutional) to invest into initiatives with a high potential of development, generating high returns to investors. Capital raised can be invested in venture capital (private equity), by provisioning risk capital to finance start-ups or business growth in sectors with high development, innovation or attractiveness potential or can be used providing funds through debt instruments (loans, bonds), or in both instruments (injection of risk capital + fixed-income assets). Differently from grants, that do not have to be paid back to the provider, financial instruments are reimbursed and it’s possible to re- invest them again, and similarly to grants, also private investments through equity or debt have a relevant leverage effect, being potentially able to attract additional private funds.

Furthermore, as highlighted by the Managing Authorities of European Structural and Investment Funds (ESIFs), traditional financial instruments carry several benefits and disadvantages, that should be taken into consideration when dealing with them (European Commission, 2015):

- With regard to loans, reliance on a pre-defined repayment plan makes budgeting easier, and they allow the preservation of the beneficiary's capital, as there are no takeover mechanisms on the ownership of the company. However, the advantage for the beneficiaries is almost exclusively financial, further benefits remain limited as no knowledge transfer occurs;
- Participation in the project through the acquisition of risk capital assumes higher profit margins for investors than pure debt instruments, the investor has an active role in the management of the project so that the financed company can benefit from their management experience, and it can potentially encourage capital investment by local private companies. However, equity carries more risks and, compared to debt instruments, may be less advantageous for the beneficiaries, as it implies a partial or total transfer of company control.

In between these two traditional financial instruments, there is the **quasi-equity** investment, that presents a risk level in-between debt and equity. Quasi-equity investments can be structured as debt securities (typically unsecured and subordinated and convertible into shares in some cases) or as preferred shares. Quasi-equity can take several forms (*mezzanine finance*) with different levels of exposure to loss in the event of default by the investor. As a hybrid instrument between debt and equity, quasi-equity instrument has not dissimilar characteristics from those already described for the two instruments which, combined, lead to a generally better balance between risk and return of these instruments but, at the same time, quasi-equity still preserves specific disadvantages of both instruments.

Traditional financing instruments are complemented by **hybrid financing instruments**, that are mixed forms and combinations of grant, equity and debt capital instruments. Those kind of blended combinations of different financial instruments have the potential to deliberately channels private investment to sectors of high development impact while, at the same time, delivering risk-adjusted returns.

4.2 Examples of alternative financing mechanisms used in funding cultural-related projects: Crowdfunding and PPPs schemes

4.2.1 Crowdfunding

In addition to traditional financing instruments, other alternative schemes and tools of financing investment projects have emerged in recent years; among them, mini-bonds, crowdfunding, digital financing through specific platforms (FinTech), payment by results mechanisms etc. These instruments are often seen as alternatives to bank credit but, instead of replacing the role of banking intermediaries in supplying credit, they can potentially **strengthen the ability to have access to bank credit**, especially for start-ups or SMEs, for which access to bank credit still remains extremely constrained. Some of these instruments could be reasonably applied to cultural tourism sector, primarily **Crowdfunding** mechanisms. The introduction of sophisticated technologies and innovation in the finance sector (so-called "FinTech", an innovative example of *peer-to-peer lending* mechanism*)* allows borrowers to collect funds for their projects through social lending platforms without bank intermediations, at interest rates that are lower than those traditionally applied by the banks. Among the mechanisms most commonly used to finance projects in culture- related sectors, the crowdfunding mechanism is based on Internet-obtained financial incentives from groups of people interested in project's scope and objectives. In crowdfunding, money is generally collected to support specific projects for which professional financing is difficult to obtain and single investor motivation to invest is low. Through crowdfunding and the use of digital platforms, "fundraising activities become worldwide available" instead of being bounded by geographical location of the project (Roy 2020, p. 179). This has become increasingly significative, as cultural organizations are facing cuts in public funding and there is large competition for sponsors and donations, which has adverse effects on consumption of cultural expression and heritage (Rykkja et al. 2020). There are four types of crowdfunding models:

- crowdlending, when backers provide loans to fundraiser and expect repayment with interest;
- equity crowdfunding, when backers obtain a percentage of ownership of an organization/project they are backing;
- reward crowdfunding, when backers receive non-monetary rewards for their financial help;
- donation crowdfunding, when backers provide financial resources out of philanthropic reasons with no expectation of any type of return.

Out of these four models, crowdlending is generally the most common type of crowdfunding, while reward crowdfunding is popular in cultural projects, with 88% of cultural campaigns using this model (Chiesa and Handke 2020; Rykkja et al. 2020).

Crowdfunding is increasingly used to financially support cultural-related projects in European countries, even if its mechanisms may not suit all kind of projects presented, but it has been observed how crowdfunding campaigns do have a greater success in financing those projects that are highly innovative (Bertasini, 2020). Several other factors, though, may influence crowdfunding campaign success, e.g. the importance of a legislative framework regulating crowdfunding, that is crucial to entice businesses and institutions to rely on this alternative way of getting financed. Although crowdfunding is resource intensive, research shows that crowdfunding has a leverage effect that can go beyond the funding of one project or organization. Despite this, little is known about the socio-cultural impact of cultural crowdfunding ventures (EC 2017) (Baeck, Bone & Mitchell 2017). Furthermore, the crowdfunding landscape remains highly fragmented with a proliferation of small niche platforms operating in different economic sectors and geographical locations, with varying business models, payment systems and fee structures creating resultant tax disparity, particularly in cross border initiatives. At present, no code of conduct is in place to regulate the overall crowdfunding industry in Europe, which then relies on the track record and sense of goodwill established by platforms, disincentivising thus a large proportion of operators from making their investments in crowdfunding initiatives.

4.2.2 Implementation of PPPs schemes

When dealing with the interrelationship between public and private funding and interests between public and private entities, it is essential to consider how to align private business objectives with public social/cultural and environmental ones. An available and effective tool that can be used for this purpose is the constitution of Public Private Partnerships (PPPs).

The concept of PPP combines two contrasting objectives, such as the public sector, which aim is to provide maximum service to communities, and the private sector, which objective is to maximize profits and returns to shareholders. The OECD defines PPP as "long term contractual arrangements between the government and a private partner whereby the latter delivers and funds public services using a capital asset, sharing the associated risks" (OECD, 2012).

Public-private collaborations are thus a way of mobilising additional financial resources, in addition to those provided by public sector, and to increase the effectiveness and the efficiency of public spending, mainly used for long-term infrastructure projects. In other words, through this type of agreement more resources are potentially secured while the overall risk is distributed among different stakeholders. There are some main features typically characterizing a traditional PPP (European Commission, 2004):

- the long duration of the relationship between the two types of partners;
- the mix of public and private funding resources;
- the relevance of the private partner role at different stages of the PPP (ie design, completion, implementation, funding…);
- the relevance of public partner in the definition of public interest objectives, the quality of services, pricing policies and in the monitoring compliance with these issues;
- risk transfer and sharing between the two parties;
- payments to the private sector which reflect the services delivered: the private partner may be either paid by users, by the public partner of by a combination of both.

In a PPP it is expected a perfect alignment of public and private interests in deploying the best value for money (VfM) for the public sector and ultimately the end user. The effectiveness of the alignment of public and private interests depends on the appropriate risk sharing between the parties (Allegro and Lupu, 2018).

As already analysed for CLIC, project financed in the Horizon2020 framework with the aim of testing, implementing and sharing innovative circular financing, business and governance models for the adaptive reuse of cultural heritage and landscapes, PPP arrangements can potentially represent, if enhanced, a win-win solution between the exclusively public intervention, more and more anachronistic and inefficient given the budget constraints, and the recourse to the privatization of cultural heritage that often allows making cash not without side effects. The Parliamentary Assembly of the Council of Europe emphasizes the importance "to develop partnerships between the private and public sectors for the conservation and sustainable use of this heritage" (Council of Europe, 2005). Moreover, the Recommendation states three main issues regarding CH privatization:

(1) it shall not reduce cultural heritage protection,

(2) it shall not absolve the state from its responsibilities,

(3) it shall not limit public access to cultural property.

These issues require the organization of balanced partnerships between the private and public sectors for the adequate sharing of risk and responsibilities (Council of Europe, 2005). The close interconnection between the management of cultural heritage and the cultural tourism sector leads to the assumption that managed public and private investments in the cultural tourism industry could potentially produce optimal economic returns due to funds typically being used for renovations, maintenance, and new cultural projects with proven ability to attract more visitors, stimulate expenditure, and inspire an environment for job creation. This leads to more revenue, and thus financial and economic sustainability of cultural tourism industry (Nijkamp 2012). The strategic use of public-private partnerships can therefore contribute significantly to the development of a sustainable tourism program, and PPPs can be an effective tool for facilitating tourist access and improving the destination experience. PPPs for sustainable tourism encompass a variety of different models, from simple social collaborations to major infrastructure and project development projects, in order to improve the offering of public goods, like historical artifacts or museums, or/and private goods and services, like hotels, entertainment events and theme parks.

Furthermore, when applied to cultural-related projects, PPPs should also involve local community in the management of the cultural project and then include a fourth P (people) referring both to community participation in the design and management of an intervention (co-design and bottom-up generation) as well as participation in financing (through fundraising systems) (RESTAURA 2019).This hybridisation through the adjustment of a strategic instrument such as PPP will contribute to achieve the final goal of cultural sustainability with relevant impact not only for the economic development of a territory but also for the social inclusiveness and enhancement of local communities. Besides this, through the involvement of people, it is also potentially possible to significantly reduce several weaknesses, mainly connected to agency problems and moral hazard behaviours resulting from information asymmetries between public and private partners, that may arise when executing PPP arrangements.

4.3 Innovative tools designed to address sustainability-oriented projects: Impact financing, Pay-by-result and ESG investing

Innovative financial instruments and business models are now facing new opportunities offered by the impact finance approach, which refers to the provision of capital for investments in businesses or economic activities with the explicit and declared intention of generating verifiable and direct positive impact on the society and /or environment, based on agreed metrics and benchmarking, while also seeking market aligned or better financial return (International Capital Market Association,2020).

Impact finance was originally created as an alternative to traditional donations and speculative investments: what makes impact finance innovative, in fact, is the opportunity for investors to allocate financial resources to projects aligned with predetermined objectives, in order to actively participate in the promotion or creation of a significant social and/or environmental impact. Moreover, the return on capital is often linked to the achievement of objectives. Although renewable energy, sustainable agriculture, microfinance and affordable accessible basic services (i.e. housing, healthcare, education) remain the most targeted areas of impact investments by private investors, a 2012 study of World Bank on the economics of cultural heritage showed how investments in cultural heritage, besides generating positive returns, can contribute to urban liveability, attract talent and generate a favourable environment for job creation, having thus a positive impact on society and local communities. Furthermore, they do have a distributional effect, channelling transversal industries, first and foremost the cultural tourism one, towards defined trajectories and the adoption of specific business models.

Another interesting and innovative tool is represented by social impact bonds (SIB), based on Pay-for-results approach. A SIB is an innovative financing mechanism in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organisations, and collect resources from private investors to pay for the delivery of pre-defined social outcomes (Social Finance, 2011; OECD, 2015). More precisely, a bond-issuing organisation raises funds from private-sector investors, charities or foundations. These funds are then distributed to service providers to cover their operating costs. Despite they are named as "bond", in financial terms SIBs are not real bonds, but rather future contract on social outcomes in which the rate of return is not fixed but the repayment to the investors is strictly dependent on the achievement of certain pre-established social results. Therefore, in terms of investment risk, Social Impact Bonds are more akin to a structured financial product, where the usual payment structure dependent on financial results is replaced by a structure dependent on performance results capable of generating impact. Similarly to social objectives, cultural objectives can also be the driving force behind such innovative contracts. For example, the impact bond could be used for the revitalisation of a local historical site or for the realisation of a cultural event that could generate a lot of involvement. It is therefore hoped that a new type of bond (which could be called a Cultural Impact Bond) for the promotion of local cultural activities will soon be tested (Finpiemonte,2021).

ESG investing places itself within the investment spectrum between financial and social returns. One extreme of the spectrum, based only on pure social investing such as philanthropy, looks for social returns, related to environmental or social benefits, including with regard to human and worker rights, gender equality etc. while the other extreme of the spectrum is characterised by the maximisation of investors' value through financial returns based on absolute or risk-adjusted measures of financial value (Boffo and Patalano, 2020). Within this spectrum, ESG investing aims at financial returns maximisation and application of ESG factors for the risks and opportunities assessment in a mid to long-term perspective. Indeed, the main differences from purely commercial investing is that it takes into account factors other than assessment of short-term financial performance and commercial risks to that performance. In this way, ESG investing incorporates the risk assessment of long-term environmental, social and governance challenges and developments, and while some investors use ESG as a tool for risk management, some others use it to improve their position on sustainable finance in order to align with societal and impact issues (Boffo and Patalano, 2020).

The definitions for circular, sustainable, green, social, impact and ESG investment are characterised by rather vague boundaries depending on different factors, and these similarity in definition affect also the set of instruments described above, making it difficult to clearly differentiate them. The interaction between the provided definitions is, in fact, quite high and it can be assumed that wider definitions incorporate narrower ones. For example, Sustainable Finance can be considered as a wider definition incorporating impact investing, ESG investing, green finance and social finance (Boffo and Patalano, 2020).

4.4 Developing a blended finance approach in sustainable cultural tourism

With the strong forecast growth in global tourism to 2030, significant actions are needed in order to strengthen the investment environment and better mobilise public and private resources towards the sector transformation, and it will necessarily require an integrated approach across many levels of government (transnational, national, regional, local) that should enable a greater involvement by a wider range of stakeholders. With public budgets likely to remain tight for some time to come, all levels of government have to apply policies and strategies in order to invest less resources but more efficiently and at the same time to effectively regulate the access of other investors, that can bring not only the resources needed to guarantee the financial sustainability of tourism, but also the necessary skills and expertise for the proper and efficient management of the sector. With the growing awareness of the need to conserve unique, natural and socio-cultural assets, both private and public actors have a strong interest to invest in making cultural tourism more sustainable. In fact, investments towards its transformation offer benefits for government as well as great opportunities to generate significant returns for private investors. It can be said that, just as alternative ways of financing can promote the sustainable transition of cultural tourism sub-sector, also the adoption of sustainable business models by companies operating in the sector, positively affecting its resilience and growth potential in the years to come, could potentially make it highly attractive to both national and international investors.

In recent years, blended finance has emerged as a key approach to financing SDGs[5], as it entails collaborative partnerships between different stakeholders to solve the parallel needs of local authorities and local communities by raising combined funding on the capital markets through the issuance of various financial instruments, such as debt and equity instruments. The application of hybrid financing instruments within integrated initiatives can then produce considerable synergy between instruments in order to create "added value" to the financial viability of sustainability-related projects also in tourism sector, in addition to fostering public-private partnerships in the sector development towards a more sustainable path.

The OECD (2018) defines blended finance as "the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries". Development banks and development finance institutions (DFIs) play a critical role in blending by

[5] https://www.oecd-ilibrary.org/docserver/ded656b4en.pdf?expires=1646478500&id=id&accname=guest&checksum=A9E9B8235E277782F74B1B205F42F148

deploying instruments and structuring mechanisms to mobilise the private sector. The perspective addressed is that of developing countries and (multilateral) development banks and finance institutions. The OECD also identifies other market players to get engaged in blended finance such as foundations, philanthropic investors, institutional investors, commercial banks, private equity and venture capital funds, hedge funds, as well as corporations and SMEs (OECD, 2020). Blended finance is not yet targeted to all SDGs but now mainly targets sectors with investing opportunities and clear potential for revenue generation (OECD/UNCDF, 2019).

One of the objectives of blended finance is to reduce the (actual or perceived) risks for private investors to invest in a certain geography or sector, hence building a track record and demonstrating the viability of a transaction to ultimately develop new markets while benefitting those furthest behind.

Blended structures may be needed to address the risk-return balance and bring the perception of risk down to its actual level, especially in those sectors in which the spread of Covid-19 pandemic has shown their weaknesses and needs for renewal in order to become more resilient to future shocks, as cultural tourism, and the tourism sector in general, has been during these years.

Depending on the local context and project opportunities, blended finance providers may wish to prioritise SDGs that have the ability to catalyse other positive development effects while protecting both people and the planet. Proper prioritisation and sequencing can accelerate progress toward sustainable development by facilitating the realisation of positive *spillovers* and limiting negative trade-offs without downplaying the importance of any specific SDGs. Blended finance providers should work with local actors to identify the least-financed sectors, in which the private sector can bring new solutions or expertise to tackle specific development challenges. Blended finance is one approach in a toolkit of approaches that may be adopt in order to adequately fund a project. As such, it should be deployed when its comparative advantage and value-added relative to other tools are clear, based on ex ante assessments taking into account alternative financing approaches.

The assessment of the effectiveness of the blended finance approach should consider both the expected development outcomes and a comparison in terms of "costs", including the fiscal implications. Finally, blended finance is still a relatively new financing approach in the development co-operation landscape; that's why in light of the increasing risk of fragmentation in blended finance practices and governance, a common policy framework and understanding is crucial to ensure its effectiveness when this approach is pursued and implemented.

5. EU Funding mechanisms: the role of ESIFs in financing culture

Although the introduction of innovative financing mechanisms is becoming increasingly important in stimulating private investment, for most EU countries public resources (at European, national, regional and local level) remain the main source of funding for culture-related projects. At European level, the EU provides direct public funding through grants, and indirect public funding provided through national/regional authorities or financial intermediaries.

Direct funding consists of grants that are publicised through calls for proposals and in most cases are used as means for co-financing projects that are in line with the objectives set by European policies. Among EU direct funding, a significant contribution is provided by European Structural and Investment Funds (ESIFs), whose support is normally provided through calls for proposals managed by national or regional authorities. According to EC definition, European Structural and Investment Funds (ESIFs) represents the EU's main source of investment for helping Member States to re-establish and increase growth and to guarantee a recovery that generates employment, while also ensuring sustainable development, in line with the aims and application of the Europe 2020 Strategy (European Commission, 2010).

These Funds constitute financial instruments defined by a specific regulatory framework and their implementation processes are the outcome of negotiations between the European Commission and each Member State, resulting in partnership agreements between the two parties which also involves stakeholders at local and/or regional level.

Furthermore, ESIFs can also be used by regional/national public policy makers to set up financial instruments, according to the prescribed regulation. Currently, the most consolidated experience in Europe on the use of financial instruments is related to the support of micro, small and medium-sized enterprises. Given ESIFs overall objective to improve the quality of life of EU citizens, they are targeted to enhance development in a comprehensive way by investing mainly in hard infrastructure such as rail corridors, motorways, broadband wirelines, agriculture, forestry and fisheries development, however, the cultural dimension is not excluded from ESIFs and a large amount of money is devoted to the improvement of culture-related infrastructures and industries. In ESIFs, several notions of culture are identified and promoted: in addition to the anthropologic meaning of culture, identified as a set of attitudes, customs, value and practices commonly shared by a group or a community, ESIFs address two specific domains of cultural policies: the first concerns cultural content and creative industries, while the second is related to the instrumental role of culture in urban regeneration, landscape attractiveness, tourism, entrepreneurship, economic development, social integration and innovation[6]. The ESIFs designed for the 2021-2027 programming period lay down common provisions for seven shared-management funds at EU level:

- **Cohesion Fund (CF)**, mainly focused on environmental and transport infrastructures;
- **European Maritime and Fisheries Fund (EMFF),** aimed to support the Common Fisheries Policy, the Maritime Policy and the EU's international commitments on ocean governance in the context of the 2030 Agenda for Sustainable Development;
- **European Regional Development Fund (ERDF)** mainly focused on smart growth and the green economy, but it will also support other activities such as connectivity, social issues and local development.
- **European Social Fund Plus (ESF+),** aimed at strengthen the social dimension of Europe;
- **Asylum and Migration Fund (AMIF), Internal Security Fund (ISF), Border Management and Visa Instrument (BVI),** three funds aimed at strengthen and develop a Common European Asylum System, promote legal migration to EU States and improve solidarity among EU Member States.

ESIFs are mainly used by Cohesion Policy to finance its interventions; for the financial period 2021-2027, the overall resources approved and adopted by the Council for the cohesion package amount at €330 billion at constant 2018 prices (€373 billion at current prices).
In particular, Cohesion Policy forms the political framework behind hundreds of thousands of projects across Europe that receive funding through the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (the Cohesion Fund targets EU Member States with a GDP below 90% of the EU27 average, not including Croatia).[7]
Among the ESIFs planned for the period 2021-2027, three of them have the potential to provide effective support for the development of the tourism sector in Europe:

- The Cohesion Fund (CF). Although the use of the CF funding depends on objectives, investment priorities and needs of each Member State, the CF may support:

[6] The European Structural and Investment Funds, 2021-2027 Funding Opportunities for libraries, EBLIDA , May 2020 http://www.eblida.org/Documents/The-European-Structural-and-Investment-Funds_%202021-2027.pdf

[7] https://ec.europa.eu/regional_policy/it/faq/#1

- Investment in the environment, including areas related to sustainable development and energy which present environmental benefits;
- Trans-European transport networks (TEN-T) in the area of transport infrastructure;

- The European Regional Development Fund (ERDF), which aims to strengthen economic and social cohesion in the European Union by correcting the imbalances between regions. For this reason, it may provide essential support to improve the competitiveness and quality of tourism at regional and local levels, notably in areas in (industrial / rural) decline or those undergoing urban regeneration. These programmes may for instance support:
  - tourism-related research, technological development and innovation, including service innovation and clusters (e.g. tourism service incubators, living labs, demonstration projects etc.);
  - the development of tourism-related ICT products (e.g. apps, data mining etc.);
  - the development of innovative tourism services, in particular in less favoured and peripheral regions with underdeveloped industrial structures and strongly dependent on tourism (e.g. new business models, exploitation of new ideas etc.);
  - the development of high value-added products and services in niche markets (e.g. health tourism, tourism for seniors, cultural and ecotourism, gastronomy tourism, sports tourism, etc.) by mobilising specific local resources and therefore contributing to smart regional specialisation;
  - clustering activities among different tourism industries as well as with creative industries, to diversify regional tourism products and extend the tourism season (e.g. in the nautical and boating tourism industry, as well as for the cruise industry);
  - activities connecting the coastal regions to the hinterland for more integrated regional development;
  - measures to improve energy efficiency and renewable energy use among tourism SMEs;
  - the protection, promotion and development of natural and cultural tourism assets and related services;
  - small-scale cultural and sustainable tourism infrastructure;
  - measures in favour of entrepreneurship, self-employment and business creation as well as the internationalisation of tourism SMEs and clusters;

- Vocational training and skills upgrading [8];

- The **European Social Fund (ESF)** funding resources use also depends on the needs and specific objectives of each Member State, however, funding from the European Social Fund may be used, among other things, for:
    - training workers to help companies having to cope with restructuring or a lack of qualified workers;
    - training people in difficulty and those from disadvantaged groups to get better skills and jobs;
    - supporting mutual learning, establishing networks, and disseminating and promoting good practices and methodologies in the domain of social innovation.

5.1 Synergies between ESIFs and the other funds EU programme

Several existing European policies and actions can have a strong influence on tourism and its sustainability and can make an important contribution in tackling the key challenges.
Europe's cultural heritage industry is, in fact, mainly supported by a range of EU policies, programmes and funding, notably included into the Creative Europe programme.
Furthermore, there are EU policies in other areas, from research, innovation, education, environment and climate change, that also started taking account heritage and culture-related sectors: consequently, other programmes could be included in those providing funding actions in favour of the development of a cultural tourism offer, projects involving education, culture and social inclusion as well as interventions in line with environmental policies for a sustainable development, **effectively interacting with the funding support provided through ESIFs.**

- **The Creative Europe Programme** was launched in 2014, following the successful implementation of the Culture and MEDIA programmes, and now represents a consolidated framework programme supporting Europe's cultural and creative sectors. The Programme aims at helping cultural and creative organizations to operate transnationally, the circulation of works of culture as well as the mobility of cultural

[8] http://europelago.it/wp-content/uploads/2017/11/2014-GuideEUfunding-for-tourism.pdf

players. Bringing together pre-existing programmes (Culture, MEDIA and MEDIA Mundus), "Creative Europe" is made of three parts:

- the "Culture sub-programme" for cultural & creative sectors
- the "Media sub-programme" for the audio-visual industries
- the Cross-sectoral strand for joint projects between the cultural & creative sectors and the audio-visual industries.

Type of tourism-related actions and projects eligible for funding in CE Programme framework are:

- TRANSNATIONAL COOPERATION PROJECTS: The "Culture sub-programme" funds transnational activities within and outside of the EU, aimed at **developing, creating, producing, disseminating and preserving goods and services** which embody **cultural, artistic or other creative expressions**. This encompasses activities to develop skills, competences and know-how, including how to adapt to digital technologies; to test new business and management models; to organise international cultural activities, such as touring events, exhibitions, exchanges and festivals; as well as to stimulate interest in, and improve access to, European cultural and creative works;
- EUROPEAN NETWORKS: The "Culture sub-programme" supports European networks (i.e. structured groups of organisations) that strengthen the capacity of the cultural and creative sectors to operate transnationally and internationally, adapt to change and promote innovation. A limited number of networks with broad coverage will be supported across a balanced range of sectors. Greater synergies between existing networks are welcomed in order to reinforce their organisational and financial structure and avoid duplication of efforts.
- EUROPEAN CAPITALS OF CULTURE: The title of "European Capital of Culture" is awarded each year to one city in two Member States, according to a chronological list of eligible Member States set for 2020-2033 (Croatia and Ireland in 2020; Romania and Greece in 2021 …). These cities have to create a cultural programme specifically for that year. The "Culture sub-programme" supports the implementation of this programme which has to highlight the richness and diversity of European cultures and the features they share, as well as to promote greater understanding between European citizens. Interaction between ESIF and the European Capitals of Culture programmes could also be very productive.

- CROSS-SECTORAL STRAND: The Cross-sectoral strand will facilitate loans to cultural & creative enterprises and organizations. It will also support transnational policy cooperation activities across the cultural, creative and audio-visual sectors, for instance to exchange of experiences and know-how relating to new business and management models.

- Horizon Europe (2021-2027)

In order to promote a new way of thinking and provide solutions to social and economic challenges, the cultural and creative sectors are expected to be integrated into the research and innovation processes. For this aim, Horizon Europe, as the European framework programme for research and innovation, can effectively support through these instruments the need of creating and shaping a common sense of belonging based on common roots and enhance the diversity of Europe's cultural heritage.

Horizon Europe Programme runs from 2021 to 2027, replacing Horizon 2020, and is structured around three pillars. Pillar 2, in particular, includes the pillar on culture, creativity and the inclusive society, also addressing EU priorities on cultural heritage. The implementation of research activities promoted through Horizon Europe will result in greater access, understanding and involvement in culture, cultural heritage and arts.

Horizon Europe activities will also improve the governance of European cultural heritage institutions and networks; above all, they will improve the more efficient protection, valorisation, conservation and restoration of Europe's cultural heritage.

Research and Innovation will provide solutions to make the EU a world leader in technologies for cultural heritage conservation and in the management, digitisation and care of digital heritage assets. They will also increase capacities to protect the most fragile cultural heritage and the application of preventive measures against illicit trade in cultural goods.

Furthermore, supported activities will provide research and innovation for the development of sustainable and inclusive cultural tourism in Europe.

Finally, Research and Innovation will support sustainable growth and job creation by contributing to a European industrial policy for cultural and creative industrial policy for cultural and creative industries and design.

- COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs). It aims to support SMEs in four areas:

    - facilitate access to finance for SMEs through the "Loan Guarantee Facility" and the "Equity Facility for Growth";
    - improving access to markets (notably thanks to the services provided by the Enterprise Europe Network);
    - improving framework conditions for the competitiveness and sustainability of Union enterprises, notably thanks to the Tourism Action Plan;
    - promoting entrepreneurship and entrepreneurial culture, notably thanks to the Erasmus for young entrepreneurs exchange scheme;

Some of the Tourism Action Plan's objectives are pursued through calls for Proposals and calls for tenders open to the tourism sector. These concerns, among other things:

- the development and/or promotion of sustainable transnational thematic tourism products (linked, for instance, European routes dedicated to specific aspects of our cultural and industrial heritage, cycling trails, eco-tourism, maritime and sub-aquatic areas, etc.);
- the development and/or promotion of niche products exploiting synergies between tourism and creative industries at European level (e.g. European Route around high-end products);
- transnational public and private partnerships developing tourism products targeting specific age groups (e.g. seniors and youth) to increase tourism flows between European countries during the low and medium seasons;
- capacity building schemes whereby managers, destination managers and entrepreneurs can learn from experienced and successful "accessible" operators, create synergies with other operators along the supply chain, explore new market opportunities and ways to do businesses.

6. Conclusions

The overview provided in this first version of the deliverable evidences both scarcity of available financing resources as well as knowledge lack to support sustainability-oriented cultural tourism initiatives towards more environmentally, socially, and economically sustainable practices and models.

The analysis of traditional financing instruments provided by public or private entities and of alternative financing mechanisms highlights the relevance and effectiveness of adopting a blended financing approach, as a key approach to financing SDGs. This entails collaborative partnerships between different stakeholders to solve the parallel needs of local authorities and local communities. The application of hybrid financing approaches can bring considerable synergy between different types of funding, including resources under ESIFs, and create "added value" to the financial viability of sustainability-related projects in tourism sector, in addition to fostering public-private partnerships in the sector development towards a more sustainable path.

In the second version (to be released later), on the basis of the Action Plans drawn up in the Pilot Regions, a proposal on the adequate and efficient use of ESIFs will be developed, identifying the opportunity of synergies with other financing instruments and mechanisms, both public and private, to finance sustainability-oriented actions in the cultural tourism sector.

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Acronyms

[AMIF]	[Asylum and Migration Fund]
[BVI]	[Border Management and Visa Instrument]
[CF]	[Cohesion Fund]
[EC]	[European Commission]
[EMFF]	[European Maritime and Fisheries Fund]
[ERDF]	[European Regional Development Fund]
[ESF+]	[European Social Fund Plus]
[ESG]	[Environmental, Social and Governance]
[ESIFs]	[European Structural Investment Funds]
[FIs]	[Financial Instruments]
[ISF]	[Internal Security Fund]
[OECD]	[Organisation for Economic Co-operation and Development]
[SDGs]	[Sustainable Development Goals]
[SIBs]	[Social Impact Bonds]
[SMEs]	[Small and Medium Enterprises]
[VfM]	[Value for Money]