

Lending for Urban Heritage Conservation

Issues and Opportunities

Eduardo Rojas
Claudio de Moura Castro

Washington, D.C.
August 1999—No. SOC—105

Foreword

National and local governments increasingly recognize the potential contribution to development that can be made by the complex and varied array of historic buildings and infrastructure that form the core of cities and towns throughout Latin America and which are generically referred to as the urban heritage. Neglected for many years, urban heritage is now being restored and revitalized by enlightened communities that are discovering its cultural and historical value and its economic development potential. Preservation and development efforts are even moving beyond the promotion of tourism seeking also typical urban development objectives, such as maximizing the use of centrally located and potentially valuable buildings and public spaces. The Inter-American Development Bank has pioneered the involvement of multilateral development banks in urban heritage preservation.

As interest in this area of investment is growing, the need for guidance on the most suitable approaches that clients and staff should follow when designing this type of projects became evident to the Bank. This document responds to that need, providing a discussion of the various approaches that can be followed in urban heritage preservation, as well as recommendations on those that are most appropriate given the circumstances of region. A set of guidelines for project identification and design are included to help clients and staff in the complex task of identifying, designing and appraising this type of projects. These recommended approaches and guidelines are a first approximation and will be revised periodically to incorporate the lessons learned from projects appraised by the Bank. The preliminary nature of the proposals contained in this document prompted SDS/SOC to issue it as a discussion paper. It is expected that in time it will evolve into a more firm strategy and policy for Bank action in this new sector of lending.

Mayra Buvinic
Chief
Social Development Division
Sustainable Development Department

August 1999

Contents

Recent Bank Experience in Urban Heritage Conservation	1
---	---

Urban Heritage Conservation	3
-----------------------------	---

Options for Expanding Bank Support to Urban Heritage Conservation	16
---	----

Final Observations	23
--------------------	----

Annex. Guidelines for Project Preparation	24
---	----

Recent Bank Experience in Urban Heritage Conservation

Several borrowing countries are requesting that the Bank consider financing loans for urban heritage conservation. These requests heed the approval in 1994 of a loan for US\$42 million to the Municipality of Quito for the rehabilitation of the historic center, whose design benefited from the experience gained in previous tourism development loans that included resources for urban heritage preservation.

The first Bank loan to include investments in the conservation of urban heritage was made to the Government of Peru in 1974 for US\$26.5 millions to partially finance an Integrated Tourism Development Project (*Plan Copesco*). This loan included the conservation and rehabilitation of several cultural heritage buildings in Cuzco which are the major tourist attraction of the city. The second loan was to the Government of Panama, made in 1977 for US\$24 million to finance a tourism development program. Part of the loan (US\$14 million) was used to rehabilitate and conserve several structures in the historic center of Panama City as well as the ruins of the first city founded in Panama. A 1996 loan to the Government of Brazil for US\$400 million to finance the Northeast Tourism Development Program included a US\$80 million component to assist in the rehabilitation of historic centers that make up the area's tourist attractions. Urban heritage conservation activities were also included in the 1997, US\$500 million Bank financing for the environmental cleanup and flood control infrastructure of the Riachuelo River in Buenos Aires, Argentina. The community heritage rehabilitation component (US\$18 million) will finance improvements in the public spaces of the traditional La Boca, Isla Maciel and Barracas neighborhoods, currently deteriorated as a result of frequent floods. These neighborhoods are regarded as part of the heritage of the city for being the

location of the first port and the reputed birthplace of the tango. All these projects were based on activities financed and executed by the government. In the mid-1990s, the Bank initiated a second generation of urban heritage projects that included, in addition to the financing of public expenditures in infrastructure, resources to promote public-private partnerships in the conservation of historic centers. The first operation using the partnership approach was the 1994 US\$42 million loan to assist the Municipality of Quito in the rehabilitation of the central section of the historic center of the city. Based on the proposed Master Plan for the Rehabilitation of the Historic Center, the municipality embarked on the implementation of a first phase of investments to revert the deterioration of a 72-block area around Independence Square. Activities under execution include joint ventures with private capital to rehabilitate historic buildings. A mixed-capital company operates with resources provided by the municipality, private investors and the Bank loan to undertake projects that will later be sold. It is expected that the company will be self-sustaining, however, the municipality is prepared to shoulder losses in order to support the rehabilitation process. These actions are complemented by investments to improve accessibility (restructuring of traffic patterns and provision of parking space), the quality of urban services (using historic buildings to house the Municipal Library and the City Museum) and the quality of public spaces (lighting, signaling and equipment). Regulations are being put in place to organize the use of public spaces by informal activities.

A more recent operation is a US\$28 million loan to the Government of Uruguay approved in 1998 to support of the Urban Rehabilitation Program. As part of this program, the Bank will provide financing

for the rehabilitating the Central Railway Station of Montevideo. The unused facility—that includes the 19th Century terminal building (a registered historic landmark) and the railway yards—is a major source of blight preventing the redevelopment of the La Aguada district located less than a mile from Montevideo's central business district. Bank financing will go to investments in public spaces and to the preparation of the land for development. It is expected that the private sector will develop a mixed-use (cultural, entertainment and commercial) project in the terminal and will provide office, commercial, entertainment and residential space in the railway yards. Public investments financed by the Bank will be initiated only after private developers are secured for the terminal and the yards.

The importance of the sector as a potential area of lending was highlighted in a recent review of issues confronting the Bank in assisting countries in matters related to cultural development. The document, prepared by Claudio de Moura Castro and Eduardo Rojas and titled *The IADB and Cultural Development: A Discussion of Key Issues* (Inter-American Development Bank, Sustainable Development Department, Washington, D.C., March, 1998), identified the conservation of the urban heritage as the area of cultural development offering the greatest potential for generating bankable projects. This document complements the previous one and, proposes options for furthering Bank involvement in projects aimed at the conservation of urban heritage. This paper also

presents an updated frame of reference to guide project identification and preparation in this field of activity. The feasibility of promoting private involvement in conservation was assessed through the study of three cases in Latin America where the private sector has shown interest in investing. The cases investigated were Cartagena de Indias in Colombia, the Polo do Bom Jesus in the Barrio de Recife, Brazil and the historic center of Quito in Ecuador. These are three different types of public-private association that promote conservation. The case studies are contained in the book "Old Cities, New Assests" written by Eduardo Rojas, published by the Inter-American Development Bank, in 1998. The results of this study are incorporated into this recommendations.

Based on a discussion of the conservation problems faced by historic centers in Latin America and the Caribbean and a review of current practices, three lines of action were identified as suitable for Bank involvement in urban heritage conservation. These are: programs focusing on registered historic centers and with significant involvement by the private sector; heritage conservation projects that can contribute to promoting urban rehabilitation processes, and the promotion of private urban heritage conservation initiatives through the use of incentives and regulations. To guide Bank involvement in this lending area, the present document discusses the scope, objectives and fields of activity for each of the lines of action, and proposes criteria for project design and appraisal.

Urban Heritage Conservation

THE CONSERVATION PROBLEM

Many cities in Latin America contain a rich heritage of buildings and public spaces (or combinations of them) generically referred to as the urban heritage.¹ This heritage is mostly contained in distinctive historic centers that are fine examples of the urbanism and architecture of the 16th, 17th, 18th and 19th Centuries. A number of historic centers have received international recognition: Olinda, Ouro Preto, Salvador and São Luis (Brazil), Potosi and Sucre (Bolivia), Cartagena de Indias and Santa Cruz de Mompox (Colombia), Havana (Cuba), Santo Domingo (Dominican Republic), Quito (Ecuador), Antigua (Guatemala), Mexico City, Puebla, Morelia and Zacatecas (Mexico), Panama Historic District (Panama), Cuzco, and Lima (Peru), Colonia (Uruguay), and Coro (Venezuela) are UNESCO World Heritage Sites. These historic centers are threatened by the pressures exercised on the traditional pattern of streets and public spaces by contemporary urban development, and by the obsolescence of historic buildings. The conservation of the historic centers not only will retain a repository of the countries' history and cultural memory, but will also recuperate for contemporary use a valuable and centrally located stock of buildings and infrastructure.

The Stressed Urban Structure of the Historic Centers

The original street layout of most Latin American

cities is still present in the historic centers and provided the model upon which more modern quarters of the cities are structured. In the cities established by the Spaniards, this urban structure (dating from the late 15th and early 16th centuries) is based on a strict gridiron pattern. The practice of establishing the settlements on the basis of square blocks surrounding a central square can be traced to the military settlements established in Spain in the 15th Century to consolidate the territory gained from the Arabs during the *Reconquista* wars. This, in turn, is a practice that traces its origins to the Roman *castrum*.² Portuguese cities, for the most part, inherited a traditional organic pattern of streets and public spaces that evolved over the years according to the growth of settlements, the needs of defense and the topography.

In both cases, this inherited structure of streets, squares and residential lots that accommodated urban growth for more than four hundred years is showing signs of stress and is increasingly incapable of absorbing the demands of urban life in the late 20th century. The narrow streets are congested and polluted by vehicular traffic; the public spaces are invaded by informal street vendors; subdivision of the land constrains the redevelopment of the parcels; and the infrastructure put in place over the history of the city is insufficient. As a result, the most dynamic urban economic activities and high-income households abandon the historic centers leading to the further deterioration of the public spaces and buildings.

¹ Also included under this generic denomination are sites of historic and cultural interest located outside cities but connected to human settlements. Examples of this specific type of urban heritage are the Jesuit Missions in the Brazil-Argentina-Paraguay border, the colonial *encomiendas* of the Valles Cachaquies in Argentina and pre-Columbian sites in South, Central and North America.

² This practice, later codified in the *Leyes de Indias*, produced what some authors consider the only true Renaissance cities ever built. The regular pattern of square blocks, centrally organized around the main square and the regular placement of main buildings in the square reflects Renaissance ideals of beauty achieved through a geometry of regular forms and classic proportions.

Patterns of Obsolescence in Historic Buildings

The architectural heritage is represented by the vast array of historically and architecturally significant buildings contained in the historic centers of Latin American cities. Government buildings, churches and convents, hospitals, military installations and defense perimeter walls are often fine examples of baroque and neoclassical architecture and colonial military engineering. Railway stations and port facilities are examples of late 19th century industrial architecture. At present, they are affected by varying degrees of functional and physical obsolescence that hinder their capacity to accommodate households and firms comfortably and efficiently. This reduces demand for these buildings leading to the low value fetched by historic buildings in the depressed real estate markets of historic centers. (See Box 1 for a description of obsolescence processes.)

GROWING CONSERVATION CONCERNS

Reversing the process of deterioration that affects historic centers in Latin America is a difficult undertaking. It requires significant changes in the social valuation of urban heritage, in government policies and practices, and in the prevalent trends and fashions in the real estate industry that promote the abandonment and degradation of these assets. Implementing these changes raises several issues, including some related to urban policy. Among these, the rationale for investing; technical issues, including defining priorities and the more efficient types of interventions; and financial issues, including determining who should bear the cost of renovation and identifying viable means of cost recovery. Underlying these issues is the broader question of the division of responsibilities between the private and the public sector, a key concern when defining efficient approaches for promoting urban heritage conservation.

Rationale for Intervention

The market allocates considerable resources to the conservation of urban heritage, particularly households caring for their homes in historic centers. However, there are many gaps in coverage, particularly in the conservation of monuments and public buildings. Communities invest in conservation to preserve the depositories of their cultural identities and witnesses to their history. Tourism promotion is often invoked to justify public investment in urban heritage conservation. Another motivation can be found in certain cities of Europe and the United States, where historic centers often become fashionable and attract high-income households who restore buildings as permanent or temporary residences. A business rationale also motivates private investment in conservation when the heritage condition of buildings is sometimes used as a marketing device for commercial developments.

Interventions in urban heritage conservation, to be effective and useful, must not only rehabilitate the physical fabric of the historic centers (public spaces and emblematic buildings), but also revitalize the social and economic processes that can make efficient use of the stock of buildings and infrastructure and maintain them properly. Lessons drawn from past practice indicate that accomplishing these goals requires significant changes in the social valuation of the urban heritage. Further, they require putting in place institutional mechanisms capable of promoting collaboration among social actors. Some progress has taken place in Latin America in this direction and several stages can be identified in the progress toward socially shared and more sustainable forms of urban heritage conservation. This process, however, is still plagued with inefficiencies and impaired by many obstacles.

Box 1. Patterns of Obsolescence

Functional, physical and economic obsolescence lie at the core of the urban heritage conservation problem. These processes join to cause the deterioration of historic buildings and their surrounding public spaces.

Functional Obsolescence. Functional obsolescence of buildings and public spaces arises when these structures become inadequate for the functions for which they were originally designed. The traditional houses of high-income families in the historic centers of cities of Spanish origin are a classic example. These buildings accommodated the domestic activities of extended families well into the 20th Century when changes in fashion, and the desire for modern amenities made suburban dwellings more desirable. Once high-income homeowners left the historic core of the city, the houses were turned into slum dwellings with many low-income families occupying a room each and sharing inadequate sanitary facilities. These changes in use served the interests of both low-income families and landlords. The former benefitting from the centrally located though substandard accommodations and the latter by extracting rental income from otherwise useless real estate. A similar pattern of functional obsolescence affects other types of historic buildings when they no longer satisfy the requirements of the original activities, or when their original functions are no longer needed. Examples include old hospital buildings that become obsolete as a result of new medical technologies, old libraries incapable of accommodating modern sized book stocks or new information technologies, railway stations no longer used, or convents and churches that communities can no longer support.

Physical Obsolescence. Physical obsolescence refers to the deterioration of the structure, installations or finishing of buildings to the point of turning them incapable of accommodating the functions they house. Usually the outcome of poor maintenance, physical obsolescence may also result from natural disasters (for instance, earthquakes or floods) or the sustained effect of the weather or urban activities (for instance, vibrations generated by vehicles). Independent of its origins, physical obsolescence makes buildings incapable of accommodating economic, cultural or residential activities leading to their abandonment. Historic buildings and sites are often among the most deteriorated structures in cities, making them extreme examples of physical obsolescence that can only be reversed with significant investments.

Economic Obsolescence. Economic obsolescence occurs when it is no longer profitable to continue operating the building given its physical characteristics. The land on which the building sits increases in value, resulting in increasing pressures to tear it down and put the land to the market's 'best and highest use.' A typical example of economic obsolescence is the tearing down of single family homes to use the land for high-rise housing or office buildings. Although this phenomenon mostly occurs in areas undergoing rapid changes in land uses, it also affects inner-city areas and historic districts, particularly those close to expanding office or commercial centers. The conservation of historic and culturally important buildings and public spaces must be able to counteract speculative real estate pressures, a difficult goal to accomplish as shown by the rapid disappearance of fine heritage buildings in the historic centers of most cities in the region.

Progress in Urban Heritage Conservation

First Phase:

Conservation as a Concern of the Elite

In the early stages the cultural elite led the conservation effort as a result of concerns with the loss of specific monuments due to real estate development pressures (the notable exception is

Mexico, where the State was the early leader.)

Typical of this phase of conservation are projects to preserve individual buildings of historic or architectural significance. Funding generally comes from a variety of sources, private and public, the scope of the conservation effort is limited, and the conserved monument is usually devoted to some public use. At this stage, the sustainability of

conservation efforts rests mostly on the energy of the concerned elite and investments are often lost due to lack of continuity.³

This phase often sees the enactment of historic conservation legislation aimed at protecting historic buildings from the ravages of real estate developers. The net effect of this approach is mixed. In many cases, legislation prevented the destruction of historic buildings buying time for more efficient approaches to mature. Also, at times, it promoted the deterioration of buildings. Limiting development options available to the owners of historic buildings, and providing no incentives for proper maintenance by owners and tenants, well-intentioned conservation legislation ended up having the opposite effect of what was intended. Confronted with more profitable uses for the land (even as parking lots) owners of historic properties often cut down on maintenance in the expectation that physical obsolescence would force local authorities to order its demolition. While waiting for physical deterioration to run its course, land owners subdivide large buildings according to market demands (low-income housing, warehousing, repair shops) further contributing to the degradation of historic buildings and the deterioration of historic centers.

Second Phase

Unsustainable Government Interventions

A second phase emerges when governments adopt more proactive approaches to conservation, enacting legislation and creating heritage conservation boards and specialized institutions. However, confronted with pressing social needs, most governments find it

difficult to mobilize taxpayer funds to pay for the rehabilitation and upkeep of urban heritage sites. Weak institutions and lack of technical skills in the labor force often compound the ill effects of insufficient funds. Further, in most cases, the interventions do not achieve a balance between the roles played by the public and private sectors. Examples of this approach include Salvador (Brazil) and Santo Domingo (Dominican Republic). In these cases, public intervention narrowed the scope left to the private sector to assume a role in conducting business and making real estate investments in the historic centers. The proactive public sector not only crowded out potential private investments but undertook the impossible task of operating and maintaining a vast array of buildings and public spaces with limited resources. (see Box 2).

Third Phase

Urban Heritage Conservation

as a Concern of the Whole Society

In a third—and more advanced phase of the process (still to be achieved in Latin America)—the conservation of urban heritage becomes a concern and responsibility of a wide variety of social actors. As such, it derives momentum and dynamism from the interplay of different interest groups and the real estate market. Private philanthropy, civil society organizations and local communities become involved in the process with clear and complementary roles. The public sector provides the regulatory environment and invests in the rehabilitation of public spaces and the infrastructure to attract private investors. As communities increase their appreciation for urban heritage, the commercial value of heritage buildings and historic districts increases. Conservation then becomes a relevant commercial concern, attracting private investors who rehabilitate buildings to satisfy the demand for space for a variety of economic activities. At this stage of development of the conservation effort, the most critical issues confronting urban heritage conservation are solved through the fruitful collaboration of different actors. Key in attaining this stage of development is the consensus in the community about the social and economic value of

³ Sustainability refers to the situation in which the urban heritage is conserved by the social and economic activities that made use of the buildings and public spaces. In operational terms, the conservation effort is sustainable when the buildings permanently retain their structural, stylistic and functional characteristics without requiring new investment in rehabilitation. This outcome is usually the result of devoting the building to social and economic uses capable of undertaking the proper routine and preventive maintenance.

Box 2.
Historic Rehabilitation in Salvador (Brazil)
and Santo Domingo (Dominican Republic)

Salvador (State of Bahia, Brazil). The Recovery Program for the Historic District of Salvador (the Pelourinho a UNESCO World Cultural Heritage Site) adopted the approach of heavy public intervention in a reduced section of the downtown area. Since 1993 a public entity, the Cultural and Historic Heritage Institute of Bahia, with financing from the state government, has rehabilitated more than 300 buildings located in 16 downtown blocks of the city of Salvador. Using the city blocks as rehabilitation units, the Institute undertakes all the works on both public and private properties and offers tenants the option to stay or collect a monetary compensation and move. So far, the Institute has succeeded in rehabilitating buildings and supporting tourism. There has been no meaningful cost recovery, and a major diversification of residential and economic activities has not taken place. The top-down approach to execution achieved physical results at significant cost to the public budget. Still to be tested are the capacity of this approach to promote the diversification of economic activities in the area (beyond tourism), and if present users will be able to afford the long-term sustainability of the effort.

Santo Domingo, (Dominican Republic). The Government Office of Heritage Conservation followed a similar approach in its effort to rehabilitate the historic part of downtown Santo Domingo. Combining public investment in infrastructure and building rehabilitation with the strict enforcement of conservation regulations, the office succeeded in reconstructing the area and transforming it into one of the possible interpretations about how the Colonial City might have looked in the Seventeenth Century. Although successful in rehabilitating landmark buildings and establishing first class museums, the endeavor faces difficulties in attracting the private investment required to diversify the economy. Private investors blame excessive regulations (that limit the use of the buildings and prevent improving vehicular accessibility to the Colonial City), as the major constraints preventing the flow of investment into the area. Inefficient electricity and drainage facilities also hamper development, as do the complex institutional arrangements for development control currently split between several entities. The upkeep of the restored buildings and public spaces falls entirely under the purview of the central government that covers all the expenses. This arrangement does not ensure sustainability, or provide for the equitable distribution of costs among beneficiaries.

the heritage, in turn a process that can be assisted by public education and information campaigns.

The Need for Change

This brief review of the evolution of urban heritage conservation in Latin America and the Caribbean suggests that conservation is still at a point in which it does not fulfill efficiently its aims (as evidenced by the deteriorated condition of most historic centers). Further, it does not make the most efficient use of the public resources allocated to the task (as demonstrated by the lack of sustainability of publicly financed conservation projects). In terms of the evolutionary stages described in this section, for the

most part, the conservation effort in the region has not progressed out of the second stage. The governments are still shouldering most of the costs and are unable to make a noticeable dent in the large task of preserving the urban heritage. The institutions created to promote conservation face chronic shortages of resources and manpower, and the regulations put in place to promote conservation (like historic preservation ordinances) tend to have negative side effects that impair it.

The region is in need of change. It needs a different outlook on the role that urban heritage conservation can play in the preservation of cultural identity and promotion of efficient urban development. It also

needs institutional and operational reforms to increase the efficiency with which public resources are spent and to ensure the long-term sustainability of conservation. These changes will not take place spontaneously. There is a development task to be undertaken by the government, be this local, regional or central. The public sector is the only actor capable of maintaining the long-term perspective required to conceive and implement the process of change and to induce the private sector to take a leading role. A review of the international experience can shed light into the most suitable approach to move the conservation effort in Latin America and the Caribbean into a sustainable stage, that is, the third stage of evolution described before.

URBAN HERITAGE CONSERVATION APPROACHES

A Typology of Approaches

Societies invest in the conservation of urban heritage for a variety of reasons. As stated before, central government intervention may be the result of lobbying by pressure groups. In other cases, international concern for the conservation of cultural artifacts promotes the establishment of public institutions devoted to heritage conservation, an approach that is usually supported by local pressure groups. Conservation institutions, once consolidated, develop their own agendas and gather local and international support to obtain resources. In Latin America, where private philanthropy is not well developed, national budget allocations make up the bulk of the resources commanded by these institutions. Often these resources are insufficient to allow them to comply fully with their mandates. Local governments incorporate urban heritage conservation into their political agendas through similar mechanisms, often motivated by the desire to enhance local identity or boost local pride. Tourism promotion is often invoked to justify public investment in urban heritage conservation. However, the economic rationale for public investment based on tourism needs careful analysis on a case by case basis. Many times, tourists are minor users of historic centers because urban heritage is often a

secondary motivator for tourism. Further, there is the danger that tourist activity could become a source of deterioration if tourism becomes the major user of a historic center.

The private sector also invests in conservation, albeit for different reasons. As stated before, firms occasionally choose historic buildings as their headquarters for prestige or public relations reasons. In this case, the building is usually a well-known landmark, and its conservation can be presented as an enlightened investment in the community. In Europe and the United States, historic centers often become fashionable locations for high-income residents who restore buildings as permanent or temporary residences. Cartagena de Indias in Colombia is a Latin American example of this motivation. The heritage condition of buildings is sometimes used as a marketing device for commercial development. In the United States, Quincy Market in Boston and the Cannery in San Francisco are examples of this marketing approach.

A review of international experiences in the conservation of urban heritage can help to identify alternatives to promote sustainable urban heritage conservation in Latin American and Caribbean. The brief review that follows is structured on the basis of a typology based on two variables. One is the scope of the interventions that differentiates among conservation experiences centered in: *individual buildings*; *historic areas* comprising several buildings and public spaces; and in using the conservation of urban heritage buildings and sites as a trigger for area-wide *urban rehabilitation* processes (see Box 3 for definitions). The second variable refers to the type of intervention involved in each experience and differentiates on the basis of the degree of mutual dependence among public and private actors in conservation activities. On one end of the spectrum are approaches that rely on the passive use of *command and control* regulations to protect historic areas, where the public sector defines the regulations and expects to accomplish its objectives by forcing private land-owners to comply. The second type involves the government providing *incentives* to promote conservation investments by

Box 3. Standard Definitions of Processes Involved in Urban Heritage Conservation

In order to use the same language as other organizations, this document uses definitions adopted by the World Bank that are also consistent with the Burra Charter, one of the most comprehensive and up-to-date statements of conservation principles.

Conservation. Encompasses all aspects of protecting a site or remains so as to retain its cultural significance. It includes maintenance and may, depending on the importance of the cultural artifact and related circumstances, involve preservation, restoration, reconstruction or adaptation, or any combination of these.

Preservation. Maintaining the fabric of a place in its existing state and retarding restoration. It is appropriate where the existing fabric itself constitutes evidence of specific cultural significance, or where insufficient evidence is available to allow for other conservation processes to be carried out. Preservation is limited to the protection, maintenance and, where necessary, stabilization of the existing fabric.

Restoration. Returning the existing fabric of a place to a known earlier state by removing accretions or reassembling existing components without introducing new materials. It is appropriate only (a) if there is sufficient evidence of the earlier state of the fabric, and (b) if returning the fabric to that state reveals the significance of the place and does not destroy other parts of the fabric.

Reconstruction. Returning a place to a known earlier state, as nearly as possible. It is distinguished by the introduction of materials (new or old) into the fabric. Reconstruction is appropriate only where a place is incomplete through damage or alteration and could not otherwise survive. Reconstruction is limited to the completion of a depleted entity and should not constitute the majority of the fabric.

Adaptation. Modifying a place for compatible use. It is acceptable where the adaptation does not substantially detract from its cultural significance and may be essential if a site is to be economically viable.

Maintenance. The continuous protective care of the fabric, contents and setting of a place. Maintenance is to be distinguished from repair, which involves the restoration or reconstruction.

Source: The World Bank. *Cultural Heritage in Environmental Assessment*. Sourcebook Update Number 8. Washington DC, September 1994.

owners. A greater degree of involvement by the private sector is found in those experiences that rely on the use of *private-public partnerships* to undertake urban heritage conservation projects. Finally, at the other extreme of the spectrum are *direct government investments* in conservation, where the public sector bears the entire burden (see Table 1).

Conservation of Individual Buildings

The conservation of individual buildings focuses mostly on the restoration or reconstruction of a cultural landmark. Historic accuracy is central to the undertaking and the building is often devoted to public use, or as a prestige setting for private institutions. This approach plays a significant role in early stages of the conservation effort, particularly

when small groups of citizens struggle to preserve important buildings from real estate speculation. It often leads to public projects that rely heavily on public funding and subsidies, and on public institutions for the conservation, operation and maintenance of the building. Justification for the investment is normally based on the “existence” and “option” value of the building.⁴ The rationale for

⁴ Existence value is conceptualized as the willingness of the population to devote resources to make sure that the site can be seen by others (in some cases future generations), and option value is the willingness to use resources for the option to see or use the site in the future. These concepts are borrowed from environmental economics and they have been found useful for the evaluation of cultural heritage investments. See Pagiola, S. *Economic Analysis of Investments in Cultural Heritage* (Draft), Washington, D.C., The World Bank, June 1996.

Table 1
Urban Heritage Conservation Approaches
Taxonomy of Interventions and Cases

Scope/Type	Command and Control	Incentives	Public-Private Partnerships	Direct Government Investment
Individual Buildings	Historic conservation regulations	UK incentives (see Edinburgh) US incentives	Conservation as prestige address for firms	Conservation for Public Uses
Historic Areas	Cartagena de Indias	Edinburgh	Madrid Bologna	Salvador Santo Domingo Warsaw
Urban Rehabilitation	N/A	USA Enterprise Zones (not discussed)	Barcelona Quito Washington, D.C.	Several urban rehabilitation projects (not discussed)

devoting public resources to these investments is difficult to evaluate. The instruments available to economists to detect individual and community preferences have many limitations, and there is an absence of clear mechanisms for the community to express its consensus in relation to these values.

This approach does not ensure the long-term viability of the conservation effort since, more often than not, the deteriorated surroundings of the building conspire against the sustainability of the investments. This fact also makes this approach unsuitable for private commercial investment since it does not eliminate the central risk of investing in deteriorated areas; namely, the uncertainty of demand.

This approach may be valid for a few outstanding emblematic buildings that are highly valued by the communities. It is not, however, an approach that is sustainable in large scale (even in developed countries) to tackle the problems of the vast array of decaying historic building and sites. It is a transitional approach that can be used in the absence of the social consensus and institutional maturity characteristic of later stages in the evolution of the conservation effort.

Conservation of Historic Areas

To overcome the shortcomings of individual conservation, this approach focuses on the conservation of several buildings and public spaces that make up a coherent functional or historic set. Implementation of this type of project usually requires the commitment of significant financial mostly public resources (although public-private partnerships are sometimes forged) and the effective coordination of numerous public agencies. The interventions are mostly justified on the basis of the existence value of the site, although the impact on tourism is also stressed. The economic rationale of these projects is difficult to ascertain given the diffused (although not necessarily small) benefits they generate. They also pose significant institutional challenges given the diversity of actors involved and the extended period of time during which the investments take place. There are numerous examples of programs for the conservation of historic areas that use one or several of the instruments identified in the taxonomy, they will be reviewed according to the type of instrument used, direct government interventions, public-private partnerships, regulations and incentives and command and control regulations.

Direct Government Investment. The conservation of

monumental sites is an approach much favored in Europe where the government has taken the leading role. Possibly the most striking example of this approach is the reconstruction of the historic core of the city of **Warsaw** (Poland) which was completely destroyed during the Second World War. In the early 1950s, several blocks of downtown Warsaw were painfully reconstructed—using old maps, plans, drawings, photographs and notably, paintings by Tintoretto—by a community that considered them an essential component of the country's historic heritage.

The conservation of the historic centers of **Salvador** (Bahia) in Brazil and **Santo Domingo** in the Dominican Republic followed the historic sites rehabilitation approach based on direct public sector intervention and financing (see Box 2). The heavy-handed public interventions that characterize these cases are difficult to sustain to cover the vast number of historic buildings and face complex challenges to ensure the long-term sustainability of the processes. In addition to encountering difficulties in securing the large volume of public resources required to maintain the sites, these programs did not contribute significantly to revitalizing the economy of the historic districts and ensuring the long-term sustainability of the conservation effort. They attracted but a limited range of private economic activities mostly related to cultural tourism or recreation. In Santo Domingo, public intervention and conservation regulation in the historic center tends to discourage private investment. In Salvador, recreation and tourism activities displaced residents and craftspeople that lived and worked in the historic center to the detriment of the diversification of economic activities.

Public-Private Partnerships. The Municipality of **Bologna** (Italy) conserved the historic center of the city by supporting the rehabilitation of buildings for residential and commercial uses through heavy-handed interventions. After adopting a conservation-oriented plan for the area, and investing in the rehabilitation of the public space and urban services, the Municipality focused in the rehabilitation of privately-owned buildings. To this end, the

Municipality entered into partnerships with landlords contributing to finance the rehabilitation of residential and commercial buildings of historic significance in exchange for commitments to retain existing tenants and economic activities. This is one of the few cases where the rehabilitation of a historic center managed to retain a significant number of the original occupants⁵ (for a more detailed discussion of public-private partnerships refer to the cases of Barcelona and Washington).

Regulations and Incentives. This approach can be used to promote private conservation or as a preventive approach to encourage private conservation and deter the decay of historic areas. As a mechanism promoting private conservation, tax incentives have been widely used in the **United States of America**. The Federal Historic Preservation Tax Incentives program provides a tax credit equivalent to 20 percent of precertified expenditures made in the rehabilitation of certified historic structures and 10 percent of expenditures in the rehabilitation of nonhistoric, nonresidential buildings built before 1936. The tax incentives can be traded thus turning them into cash contributions to the developers allocated through a market mechanism. The program has succeeded in attracting private investment to the rehabilitation of historic buildings registered in the National Register of Historic Places.

As a preventive approach, at the time of establishing regulations to protect buildings of interest in a target area, the public sector grants tax exemptions, direct subsidies or special rights to the owners of the affected buildings. The subsidies compensate owners for the loss of revenue or the extra expenses involved in complying with the conservation regulations. The special rights (like the option to transfer the development rights of the protected building's site to other parcels of land) reduce the

⁵ Bandarin, Francisco. The Bologna Experience: Planning and Historic Renovation in a Communist City in Appleyard, Donald (Ed.) *The Conservation of European Cities*. Cambridge, MA: The MIT Press, 1979 (pp.178-202).

pressure to redevelop sites containing heritage buildings. This approach is very demanding in institutional resources (to devise and implement the regulations) and burdensome to the public sector that finances the subsidies.

Combining regulations and incentives, the city of **Edinburgh** (U.K.) succeeded in preserving the Georgian New Town. Owners of registered historic buildings are prevented from making structural and cosmetic changes to the buildings, and in compensation, receive free technical assistance and tax reductions from the city.⁶ These actions complement the direct investment in specific historic buildings undertaken by the National Trust, a privately funded nongovernmental organization concerned with the conservation of historic buildings. In this case, the combination of regulations and subsidies succeeded in preserving a fine example of Georgian Town planning, the Edinburgh New Town. It was aided by low real estate development pressures on the historic center, sufficient resources to cover the subsidies, and sustained public support for the protection effort.

Command and Control Regulations. The municipality of **Cartagena de Indias** (Colombia) implemented an elaborate conservation plan for the historic buildings located within the walled city. The plan, geared at regulating private investments, was complemented with public investment for the rehabilitation of the walls and conservation of public spaces. As Cartagena turned into a fashionable resort, the private demand for historic houses attracted unsubsidized private investment to restore many buildings in the historic center. Private investors rehabilitating historic houses as vacation homes and tourist facilities resent in part the rigid building regulations based on a restricted menu of

allowed interventions by building type. It is unclear whether these constraints effectively discouraged private investment in the more fashionable sections of the walled city. However, the regulations have so far preserved the character of all areas, including those housing middle-income local families. Professional management of the plan has weakened in later years undermining its capacity to continue preserving the character and monuments of the historic center.⁷

Conservation of Urban Heritage as Part of Urban Rehabilitation Efforts

The most current approach to urban heritage conservation emphasizes the role that it can play in promoting the rehabilitation of the areas in which historic buildings are located, thus, providing an additional justification for the expenses involved in conservation. The approach pivots on the restoration and adaptation of historic buildings for public or private uses (complemented with improvements in the public space and infrastructures), to generate positive externalities that attract economic activities into the target area, propelling the rehabilitation process into a self-sustained stage. The conservation of heritage buildings is financed either with public funds or through joint ventures with private investors. The effective implementation of this approach requires long-term commitments on the part of the public and private investors, and the construction of effective private-public partnerships. Cofinancing of investments requires changes in traditional approaches to public financing including the acceptance of a private sector style of decision-making and risk-taking in the use of public funds.

Two notable examples of the use of public-private

⁶ The Edinburgh Old Town Renewal Trust, a private organization, collaborates in the implementation of the regulations providing technical assistance to owners. The Trust issues technical publications like the *Edinburgh Streetscape Manual* and *Old Town Technical Guidance for Shop Improvements*.

⁷ For a more detailed discussion of private sector involvement in the conservation of historic buildings in Cartagena, see: E. Rojas, *El sector privado en la conservación y rehabilitación de centros históricos en América Latina y el Caribe: un análisis de tres casos*. Inter-American Development Bank, Sustainable Development Department, November 1998, Section Two.

partnerships to accomplish the public objective of redeveloping deteriorated historic districts are **Barcelona** (Spain) and **Washington, D.C.** (USA) (see Box 4). With Bank assistance, the Municipality of **Quito** (Ecuador) is attempting an approach similar to Barcelona's in the rehabilitation of the central section of the large historic center (see section on Recent Bank Experience).

Public interventions, as a catalyst for private investment, is the dominant feature of the cases reviewed. Clearly defined master plans and the presence of public corporations give clear signals of the government's commitment to the long-term rehabilitation of the area, in turn, a key element in attracting private investment. The master plan provides assurances about the nature of future development in the area, easing private fears about developments that may jeopardize the future value of real estate (this is a concern not only for buyers but also for lenders who worry about the value of loan collateral). The corporations, or mixed capital companies, assume part of the business risk, which tends to be high in the early stages of the rehabilitation process. Further, they also perform land-banking services by assembling developable parcels, a feature attractive to private investors who lack a relative advantage in performing this function. An important feature of this approach is that it takes advantage of the synergies that exist between heritage conservation and urban rehabilitation. While heritage conservation improves the chances of success of urban rehabilitation, the economic and social benefits of the process help support the expenditures in conservation.⁸

GENTRIFICATION

Successful rehabilitation of historic districts attracts new residents and economic activities boosting land and building prices. This process, which is

commonly known as gentrification, benefits municipal income and landowners, and boosts economic activity. However, it tends to expel low-income families and less profitable economic activity from the area. There are strong market forces involved in gentrification as buildings are turned by owners and developers into their best and highest use. Further, gentrification generates positive externalities for economic activities interested in locating in historic centers (for instance, commerce, recreation and tourism) contributing to expand demand for space in the historic center, and to the long-term sustainability of the conservation effort.

Gentrification affects the poorest members of the community that loose access to cheap housing and to the economic and social opportunities offered by the downtown location. Equity considerations require mitigation of the social ill effects of gentrification, an undertaking that is greatly facilitated by national or local public programs supporting low-income housing and microenterprises. Side effects of gentrification may be so significant as to jeopardize political support for conservation. There are but a handful of cases where this problem has been mitigated to the satisfaction of local residents (Bologna in Italy, Barcelona in Spain). In all successful cases, interventions involved significant central government subsidies, a price not many countries can afford. The mixed-capital company executing the Rehabilitation Program of Quito is attaining some success in retaining residents in rehabilitated buildings. Working with the community, strictly controlling costs and with financial assistance from the central government—in the form of direct subsidies under the Bank financed National Housing Policy—the company succeeded in retaining 75 percent of the original occupants of a renovated building. The program is currently being extended to several other buildings in a plan to rehabilitate 1,000 dwellings in two years. The company recuperates all the money invested from the beneficiaries that pay for the homes with own savings, bank mortgage loans and government subsidies.

⁸ The rehabilitation of central areas contribute to improve the functional efficiency of cities, making full use of physical capital accumulated throughout the city's history and reducing transportation costs.

MOVING FORWARD: OPTIONS TO FOSTER URBAN HERITAGE CONSERVATION IN LATIN AMERICA

The review of international experiences in urban heritage conservation suggests three major avenues to achieve the changes required to move conservation into a sustainable stage in the region.

First, in order to foster a change in the outlook about the role of urban heritage conservation in the preservation of the cultural identity, the conservation effort should involve the widest possible variety of social actors. In addition to government agencies and the elite, the civil society organizations (community-based organizations, nongovernmental organizations, civic alliances, political parties), real estate investors and the general public must assume a leading role. An efficient approach for this purpose is the promotion of *conservation through regulations and incentives*, an approach that uses scarce government resources to leverage private resources and expand the reach of the conservation effort to levels commensurable with the magnitude of the heritage worth conserving.

Second, to change the outlook about the role of urban heritage conservation in urban development, governments can take advantage of the synergies that exist between heritage conservation and urban rehabilitation. Using urban heritage *conservation as*

a catalyst for urban rehabilitation, expands the urban development impact of conservation fostering its legitimacy and its long-term sustainability. The international experiences reviewed indicate that heritage conservation can be used to spark urban rehabilitation and that the benefits of rehabilitation help support conservation. The complementary nature of these investments make this approach appealing to governments, communities, real estate investors and lending institutions.

Third, to promote the institutional and operational reforms required to ensure the efficient allocation of public resources and the long-term sustainability of urban heritage conservation, priorities should shift from the government financed conservation of individual buildings or monuments to the *conservation of historic areas with private sector participation*. This approach greatly increases the chances that individual monuments, buildings and public spaces will permanently retain their structural, stylistic and functional characteristics without requiring new investments. The full involvement of the private sector in setting the priorities, defining the conservation plans, financing and execution of the conservation works, and lately, assuming the operation and maintenance of the monuments, guarantees the sustainability of the effort and relieves the government of the full burden of conservation.

This agenda for change sets the background for Section Two of this paper which discusses the options open to the Bank to support urban heritage conservation in Latin America and the Caribbean through its lending and nonlending products.

Box 4
Public-Private Partnerships:
The Cases of Barcelona (Spain) and Washington, D.C. (USA)

The city of **Barcelona** (Spain) roused international interest for its approach to rehabilitating and conserving depressed sections of its historic center through private-public partnerships. As part of a major modernization drive, the Municipality of Barcelona implemented a strategic plan that, in agreement with the community and the private sector, included the rehabilitation of deteriorated neighborhoods located in and around the historic center. The approach rests on the impact on private investment of key public investments whereby improvements in urban services and public spaces generate externalities that attract private investment. Whenever possible, urban services were housed in rehabilitated or restored historic buildings and assistance was given to private owners to rehabilitate and restore historic properties. Using its long experience in operating mixed capital companies to promote joint ventures with the private sector, the municipality embarked on a program to upgrade living conditions in the historic center. Private partners brought capital and real estate development expertise into the mixed capital company, while the municipality contributed land and its regulatory and coordination powers to the venture. Participation in the joint ventures allowed the municipality to capture part of the betterment generated by the rehabilitation effort. Using resources from existing national and regional low-income housing programs, the mixed capital companies managed to retain a significant portion of the resident families. Restored buildings also provided space for craftsmen and small merchants financed partially with cross-subsidies from fully commercial ventures. These efforts allowed the retention of some of the original occupants.

In **Washington, D.C.** (U.S.A.), the Pennsylvania Avenue Development Corporation used public-private partnerships to redevelop the area around Pennsylvania Avenue and enhance its historic role as the link between the White House and Congress. Key in attracting private investors was the master plan for the area devised by the Corporation in consultation with the Planning Department of the District of Columbia and the local community. As in the case of Barcelona, the plan provided a long-term view of development, while the concurrence of public and private actors provided assurances of its long-term stability. This feature of the plan was particularly relevant to early investors who were then assured that future investments will preserve the value of the real estate. Another feature that attracted investors was the Corporation's ability to assemble developable parcels of land out of fragmented land ownership patterns. Through land acquisition and the involvement of landowners in partnerships, the Corporation helped investors to acquire the minimum size lots required for viable projects. Funded with federal grants for investment in public infrastructure and public spaces, and borrowing from the Treasury for land acquisition and other expenses, the Corporation succeeded in breaking even in its refundable expenses and accomplished most of its objectives by the end of its 25-year mandate and mandatory closure date of 1996.

Source: Practical Research for Planning Inc. *Public Development Corporations. Case Study: Penn-*

Options for Expanding Bank Support for Urban Heritage Conservation

GENERAL APPROACH

In accordance with its mandates, the Bank should support programs and projects that promote economic and social development. The review of the issues surrounding urban heritage conservation and the most efficient approaches to promote its sustainable conservation, indicates that there is an opportunity for the Bank to pursue its mandates by contributing to the conservation of urban heritage. This opportunity lies in supporting projects that promote a more rational allocation of the public resources devoted to conservation, and that transfer part of the effort to other social actors facilitating the involvement of private capital and managerial capacity. The former objective, increases the impact of scarce public resources, and the latter enhance the long-term sustainability of the effort. This approach leads the Bank to focus on operations that propel conservation onto the third stage of development, that is, the establishment of sustainable heritage conservation processes based on the contributions of all relevant social actors. Projects that attain these objectives are fully in line with Bank mandates.

Under this approach, the Bank should not provide loans for the conservation of individual buildings. Inasmuch as it represents society's desire to preserve an artifact for its testimonial value, this should be financed through taxes or private donations, mechanisms that better express the community's preference for allocating resources. The only rationale for direct Bank involvement and as an exception, would be as a financial outlet for a government seeking to anticipate a stream of taxes or private contributions to undertake urgent preservation works for very significant monuments. As lender of last resort, the Bank may use its leverage to promote the long-term sustainability of heritage conservation activities. This includes

promoting legal reforms to set up sustainable institutional mechanisms for the conservation of cultural and historic monuments, encouraging private involvement in the financing and execution of rehabilitation and conservation activities and fostering local ownership of the conservation effort.

The discussion in the previous section of this paper indicates that there are three approaches that contribute to the establishment of sustainable heritage conservation processes based on the contributions of all relevant social actors that are therefore, appropriate for Bank support at this stage of its involvement in the conservation effort. These approaches are:

- C conservation of historic areas with ample involvement of the private sector, given its proven capacity to generate projects that are sustainable in the long-term;
- C heritage conservation as a trigger of wider urban rehabilitation processes, because of the widespread urban development benefits they generate; and
- C promotion of conservation through incentives and regulation, an approach that transfers a significant part of the conservation effort to the private sector and civil society organizations.

The remainder of this paper will discuss the recommended approaches. The adoption of one approach or the other and the approach's capacity to attain the objectives stated depends on the conditions of the sector in each country or municipality. Therefore, Bank dialogue with borrowers and executing agencies must be based on an understanding of the issues to be addressed, and on technical knowledge about the constraints and opportunities arising from

the regulatory and institutional environment. These topics should be addressed in the basic sector work required to initiate this dialogue, guidelines for which are provided in the following section. The Annex contains guidelines for project preparation under the three recommended approaches spelling out the objectives, fields of activity and criteria for the identification and appraisal of projects belonging to each approach.

BASIC SECTOR WORK

Early in the identification stage, the Bank needs an analysis of the current status of the conservation effort and its effectiveness in attaining the borrowing government's sector objectives. Three major areas of concern should be addressed. First, an analysis of ongoing heritage conservation activities and the identification of conservation priorities. Second, the regulatory environment for the sector and its impact on the willingness of the private sector to participate in urban heritage conservation; and third the capacity of the institutional structure to undertake the tasks that emerge from the approaches to urban heritage conservation promoted by the Bank.

Sector Studies and Priorities

The first stage in establishing a viable approach for the development of urban heritage conservation is determining the magnitude of the conservation problem. The number, cultural value, state of conservation and location of the monuments to be conserved is a determining factor of the approach to be followed. As an example, countries with a large number of monuments, scattered in many localities, may find it more convenient to decentralize urban heritage activities to local authorities rather than promoting the centralized management that may be convenient for countries with fewer and more concentrated monuments. If physical obsolescence severely affects key monuments, a more proactive approach (centered in preservation interventions) may be more efficient than the more loosely organized, community-based, adaptation and restoration activities that are suitable to ensure the sustainable conservation of better maintained buildings.

The approach adopted is highly dependent on priorities. Priority setting concerning urban heritage conservation is a complex activity, highly susceptible to political manipulation and professional and local bias. The legitimacy of the conservation effort rests on the consensual setting of priorities. The whole community must be convinced that the defined priorities do represent their own priorities or, at least, that they are the result of a reasonable compromise with other stakeholders. The approach chosen should include flexibility to accommodate changes in priorities that may emerge either as a result of new knowledge or changes in the social valuation of the heritage.

The knowledge gained and the priorities defined provide the foundation for defining an approach to tackle the conservation of urban heritage in the particular country, region or city under study. Depending on the circumstances, this approach can be one of those supported by the Bank, a combination of them, or a different strategic approach that contains activities consistent with the approaches supported by the Bank.

Regulatory Environment

Implementation of the selected approach can be assisted or hampered by existing regulations and heritage conservation policies. As mentioned before, ill-designed conservation ordinances do more damage than good for the conservation of urban heritage by discouraging building maintenance. Similar impacts can result from legislation not connected to heritage conservation such as tenant protection ordinances that reduce the rents landlords can extract from listed buildings. The impact of these regulations must be assessed early in the project preparation cycle and the necessary reforms must be negotiated. Frequently, the reformed regulatory environment can go a long way in attaining government objectives. For instance, a well-designed system of tax credits may be an efficient way of allocating public resources (the credits) and of leveraging these resources to attract more private investment into urban heritage conservation

Institutional Audit

Effective interventions in urban heritage conservation require the coordinated efforts of a variety of institutions, public and private, national and local. As stated, conservation institutions in Latin America and the Caribbean show many technical, operational, and financial weaknesses. Institutional problems may impede the implementation of the selected approach preventing the effective implementation of Bank assisted projects. An institutional audit can detect these issues and suggest solutions whose execution can be incorporated into Bank operations. The institutional audit is geared to the early detection of these constraints and to providing technical inputs to the design and costing of the institutional reforms and strengthening activities.

APPROACHES TO PROMOTE URBAN HERITAGE CONSERVATION WITH BANK OPERATIONS

The specific approach to be used in a given country to promote the conservation of urban heritage will be defined based on the studies and priorities set in the Basic Sector Work and Policy Dialogue. The selected approach frames project selection and development. This section discusses the scope of the projects that can be generated under each of the recommended strategic approaches.

Conservation of Historic Areas with Private Sector Participation

The approach of promoting the *conservation of historic areas* (as opposed to individual monuments) focuses on the conservation of several buildings and public spaces that make up a coherent functional or historic set. International experiences show that this approach enhances the long-term sustainability of the conservation effort, and that it is more likely to attract private interest than the conservation of isolated buildings. The commitment of public resources to finance this type of intervention is based on the priority assigned by the community to the conservation of the designated area. However, the

way public resources are deployed does have a direct incidence on the long-term sustainability of the undertaking. The cases of Salvador and Santo Domingo already discussed suggest that when based solely on government resources, projects to preserve historic areas are difficult to sustain in the long term. Realization of this shortcoming leads the Bank to promote the extensive *involvement of the private sector* in the financing, operation and maintenance of the conservation works.⁹

The effective implementation of this approach requires long-term commitments on the part of the public and private investors. Further, the construction of effective partnerships among these sectors is required. These partnerships benefit from the regulatory and land assembling powers of the public sector and its capacity to assume part of the commercial risk of the projects, and on the private sector's knowledge of real estate markets and experience in cost-effective implementation. As stated before, to forge effective collaboration, the partners need to change their traditional ways of operating. Public cofinancing of investments

¹¹ The Municipality of Recife (Brazil) achieved some success in attracting private investment to the rehabilitation and conservation of a section of the historic center of the city. Municipal resources were used to improve the public spaces (streets resurfacing, lighting and equipment, infrastructure improvements) and in the rehabilitation of selected buildings (previously acquired by the Municipality) within the designated area. The rehabilitated buildings were lent to private investors that turned the area (the Rua Bom Jesus) into a fashionable entertainment pole for the whole metropolitan region. The success of the early entrepreneurs attracted more private investment to the rehabilitation of other buildings in the area. The expectation of future investments in the area also fuels private interest, rising land prices and rents. To date, the original public investment is less than one third of the total investment in the area. This proportion may change in the near future as the Municipality invest more resources to expand the area conserved. Mendes-Zancheti, S. and Lacerda, N., *Desempenho do plano de revitalizacao do Barrio de Recife: o caso de polo do Bom Jesus*, Recife 1977 (mimeo). A discussion of this case is contained in E. Rojas, *Old Cities, New Assets*, Inter-American Development Bank. Washington, D.C. 1998.

requires changes in traditional approaches to public financing including the acceptance of a private sector style of decision-making and risk-taking in the use of public funds. Private sector involvement requires a new approach to risk evaluation and pricing, and the willingness to embark in projects with long payoff periods.

Conservation as a Catalyst for Urban Rehabilitation

Urban heritage conservation as a catalyst for urban rehabilitation offers the greatest potential of generating bankable projects. Experience shows that synergies do exist among these processes, involving a dual effect. On the one hand, investments in the conservation of heritage buildings and in the rehabilitation of infrastructure and public spaces generate externalities that attract private investors who perceive profit opportunities in taking advantage of the area's location and attractiveness for certain segments of the real estate market. On the other hand, private investment and the reactivation of residential and economic activity in the centrally located historic areas, result in the more efficient use of the built area (for instance, reducing transportation costs). The economic benefits of this re-centralization help justify the investment in heritage conservation, and the revitalized center contributes to the sustainability of the conservation effort.

Heritage-based urban rehabilitation programs offer the potential for productive cooperation between the public and private sectors in achieving development goals that neither of them can accomplish independently. Public-private partnerships to execute projects provide the mutual assurances required by the projects to succeed. The public sector provides the stable regulatory environment required by private investment, including the adoption of a master plan for the area that provides investors with a predictable urban development context. Another public contribution is the land assemblage power of the public corporations or local authorities and the willingness to assume part of the initial business risk of the projects. The

improvements of the public space and public urban services are another contribution of the public sector to the partnership. Implementation of this approach requires close collaboration between public and private actors. Private sector participation brings commercial expertise and knowledge of local markets to improve the long-term sustainability of the undertakings. Community involvement in the design and administration of the master plan reduces the chances of conflict.

Success factors include a strong and sustained political commitment (which results from the strong commitment of the local community) and an adventurous private sector willing to invest in risky undertakings lured by the expectation of high returns. A concerted effort is required to manage the social impacts of gentrification. National low-income housing policies and finance mechanisms, and employment generation schemes (when available from national or regional governments), are advantageous for the successful solution of these problems. The absence of these policies and programs is a significant restriction to solve the side effects of gentrification equitably.

In supporting the acceleration of the economic and social development process, the Bank can assist urban heritage conservation projects that have a direct impact on promoting the rehabilitation of depressed urban areas. By participating in this type of operations, the Bank would not only be contributing to conservation, but it would also be promoting the efficient use of existing assets (infrastructure, buildings, public spaces) that otherwise would remain underutilized. It will also contribute to expand the availability of urban services and promote private involvement in the urban rehabilitation and heritage conservation effort. These projects also contribute to the recentralization of cities, which is to say, they bring back to the central area population and activities, thus postponing the need to extend services to the suburbs and reducing transportation costs. Bank financing may be instrumental in making these projects viable given restricted local capital markets and the fact that urban rehabilitation projects require long-term

financing. As with other real estate investments, after they are established, urban rehabilitation projects usually become attractive to investors and acquire their own momentum. However, initial sponsors must be able to withstand the long maturation process (one characteristic that allows this type of project to benefit from the type of long-term financing that the Bank can provide).

The Conservation of Existing Heritage Buildings or Sites by Means of Regulations and Incentives

The Bank can provide assistance in the definition and implementation of urban heritage conservation through a properly coordinated system of regulations and incentives that promote rehabilitation and conservation by private owners, developers or users. This approach can be advocated as a self-standing option of value when the urban heritage is still relatively well conserved. In these circumstances it is an efficient option to prevent further deterioration. The approach can also be incorporated into projects based on one of the other approaches suggested in this document. In this case, the introduction of regulations and incentives to promote conservation is a necessary step to ensure the long-term conservation of the heritage, helping landowners to compensate for the extra expenses involved in maintaining heritage buildings.

The social impact of this approach is significant in terms of community ownership of the conservation effort and the permanence of economic and residential activities in the historic areas. The economic development impact of this approach arises from the conservation and use of existing physical capital and from the avoidance of costly rehabilitation works. However, places the burden of financing on the institutions sponsoring the incentives, thus affecting their recurrent expenditures.

INSTITUTIONAL DEVELOPMENT FOR URBAN HERITAGE CONSERVATION

Reforms to the institutional setup for urban heritage conservation are frequently required to promote the efficient allocation of public resources and trigger private sector interest. All successful cases of sustainable heritage conservation required reforms to existing institutions, regulations and practices. The Bank's leveraged reforms are often the most lasting contribution to the sector. Three areas of concern need to be addressed when defining an approach and its implementation: the regulations framing public and private interventions in the sector, the institutions involved and the incentive schemes that can be put in place.

The Regulatory Framework

Two levels of laws, ordinances, and practices need to be investigated and reformed if necessary. First, those directly aimed at promoting conservation, that is laws, regulations, policies and practices framing activities and investments concerned with the conservation of urban heritage. As previously stated, poorly designed regulations may have negative impacts on conservation. The golden rule for successful regulations includes balancing the restrictions imposed on the development of the preserved buildings with monetary (see section on subsidies) or non-monetary (like prestige and social recognition) incentives.

Also important are indirect regulations (rules that, although aimed at other purposes, affect urban heritage conservation) like land use ordinances, tenant protection regulations and the tax code. Land use ordinances may open opportunities to promote conservation, for instance, by allowing the transfer of the development rights of the protected property to other locations in the city. If these rights can be applied to high growth areas, and are tradable, the benefits of the sale can compensate the owners for the development restrictions imposed by the conservation ordinances without burdening the public budget. The softening of tenant protection regulations may promote a market for rental housing

that can foster the rehabilitation of heritage buildings. The tax code can be amended to provide tax credits for investors willing to rehabilitate buildings (see section on subsidies).

In this area of concern, reform programs need to achieve a delicate balance between the necessary regulation of private activities to preserve the urban heritage valued by the community and avoid the disincentives to private investment that often accompany ill-conceived regulations.

The Institutional Framework

As with legislation, attention must also be paid to institutions directly linked with urban heritage conservation and others not connected with conservation but whose activities may impact the effort. Conservation board, departments or institutes are the main focus of the institutional audit proposed previously. Existing mandates need to be reviewed since they frequently reflect the limited objectives of preventing destruction or redevelopment of listed buildings and foster the adoption of the more proactive approaches advocated in this document. Policymakers need to define the roles to be played by these institutions before committing resources for institutional development to enhance their operational capacity. The introduction of new procedures, technical practices, and internal organization, and training for the staff of the specialized public institutions should make sense given the new context in which they will operate. It may be the case that the best option involves downsizing regulatory institutions and transferring most of the operational capacity to new organizations, like mixed capital companies. What matters in institutional reform is to enhance the structure's capacity to deliver an innovative product in collaboration with the private sector.

Other institutional arrangements may need to be reformed to promote private involvement in urban heritage conservation. For instance, housing finance institutions often redline historic districts arguing high commercial risks (high costs of rehabilitation and uncertain valorization) this, in turn, blocks other

sources of financing for developers as banks perceive this lack of financing from housing institutions as an additional risk for construction loans in historic districts. Breaking this vicious cycle requires creative approaches capable of distributing efficiently the risks involved in investing in historic districts. Government guarantees on mortgages issued for historic buildings may reduce private mortgage financiers' reluctance to lend in this sector. Direct up front subsidies for households may compensate the higher cost of rehabilitation.

Subsidies

As discussed previously, it is unlikely that the public sector will be able to finance on sustainable basis the conservation of urban heritage. On the other hand the private sector will not find it profitable to undertake the task given the many risks, uncertainties and extra costs of heritage rehabilitation compared to greenfield projects. This is particularly true during the early phases of rehabilitation. When urban heritage conservation is assumed as a desirable public goal, there is basis for devoting public resources as an incentive to the private sector to undertake the task. Apart from financing the rehabilitation of the public space and infrastructure, public funds can be used to fund direct and indirect incentives for the private sector. Three cases may arise: when incentives are required to lure developers to invest in a conservation area; when the incentives go to households to help them afford to live in a conservation area, and when the incentives are complementary to regulations to assist landowners to bear the additional burden imposed on them by conservation. The incentives may take different forms (direct monetary transfers, technical assistance, tax credits) but in all cases entail some form of transfer of resources from the public sector to individuals or entrepreneurs.

Investment Incentives. Perceived or real, commercial risks deter private investors from undertaking heritage conservation projects. Governments lure investors into this type of investments by reducing these risks through guarantees, monetary transfers or other services that

make heritage conservation projects at least as attractive as alternative investments in other areas of the city. Guarantees may involve assurances of purchase or lease of space by public entities. Monetary transfers may take the form of direct subsidies for capital investment, tax credits applicable to the conservation project or transferable to other projects or to the financing partners. Other direct subsidies may involve the provision, free of charge to the developer, of services like parking or access to public transportation. A one-stop window for processing the necessary permits and registrations is another incentive for developers in these areas. Striking the proper balance in the use of incentives is a strategic decision that has a significant impact on the success of attracting private investment and allocating scarce public resources efficiently. The objective is to find the right combination of incentives that is the minimum sufficient to attract the private investment. This combination is the one that uses public resources most efficiently to accomplish the objective.

Incentives for Households. Purchasing and maintaining residential space in heritage buildings is usually more expensive than in new buildings. Households may need to be compensated for the extra cost in order to purchase this space. A more common occurrence is that low-income households may not be able to afford the homes they currently occupy once they are properly conserved. To accomplish the goal of retaining residential activities and a mix of households from different income levels in the historic centers, some households may need to be subsidized. Direct up-front subsidies that reduce the initial cost of purchase are preferable. However, these subsidies are onerous for the public entities and difficult to target. They are better managed at the local level and, as long as they reflect the community's interest in the conservation of the historic center, are better financed with local taxes and contributions. Intergovernmental transfers can be an efficient source for financing the subsidies if regional or local objectives are pursued with the subsidy schemes. The provision of adequate subsidies contributes to reducing the perceived risk by private investors and can be used in conjunction

with other interventions in cases where multiple constraints exist. As with other direct subsidies, determining the right size of the transfers that can accomplish the objective is difficult and often a suboptimal allocation is the only viable option.

Incentives and Regulations. Subsidies may be needed to complement regulations designed to induce conservation and maintenance of the urban heritage by private owners, developers or users. Estimating the correct incentives poses a significant technical problem, particularly in areas under pressure from real estate developers. The question whether the incentives should compensate landowners for lost rents or simply be sufficient to promote conservation by retaining current uses in the buildings needs further investigation.

The Promotion of Urban Heritage Conservation

A great deal of support from the community about the objectives and means to promote sustainable heritage conservation is required to sustain the process in the long term. This support is required to set up commonly agreed priorities but, it is also important when the conservation effort involves the commitment of public funds raised by the community through taxes or intergovernmental transfers. It is rarely the case that communities reach a consensus on urban heritage conservation spontaneously. In most cases, the cultural elite promotes an idea that gradually gains acceptance in the rest of the community. Promoters must engage in a form of social marketing for conservation. Promotion of conservation can be more effective touching on the motivations that mobilize communities to preserve their heritage. The most pervasive is the need for maintaining identity and self-image in an increasingly global culture. A second motivator is local pride for the heritage, a factor that can be played together with the potential for tourism attraction. Strangely enough, one of the major sources of conservation benefits, the recuperation of urban assets, does not mobilize much public support, because its benefits are intangible.

Final Observations

As a result of the growing awareness of social actors about its cultural and economic value, urban heritage conservation is gaining priority in the political agenda of central and local governments in Latin America. Experience shows that this effort will be sustainable in the long term only if all those interested in the city actively participate in their most efficient capacity. This requires a well-balanced distribution of roles between public and private actors. Achieving this balance is a central goal of the Inter-American Development Bank in its involvement with this sector of lending. To that end the Bank should promote the involvement of the private sector, individuals, community organizations, firms and trade associations, and real estate developers. To prosper, this effort requires deepening the change now taking place in the region and promoting public-private partnerships to undertake tasks that cannot be accomplished independently by these actors.

Given the public objectives embodied in this type of project, and the risk profile of its private investment component, governments will not be able to transfer all responsibility to the private sector. The government will have to continue participating in the

conservation effort by providing a stable regulatory environment, financing the public component of the projects and providing the additional guarantees required by private investors to participate. An important goal of the Bank is to put institutional mechanisms in place to ensure these outcomes. In the final analysis, the success or failure of the Bank's effort will be measured more by the lasting institutions and practices it helps set up in the countries than by the actual number of buildings or historic centers whose conservation it contributes to finance. The magnitude of the task makes any Bank financial contribution small but enlarges the importance of its institutional development effort.

Finally, the long-term financing in foreign exchange that the Bank contributes should gradually diminish in importance as local capital markets develop and assume the financing of these programs. The Bank is actively promoting the development of capital markets in the region. It is to be expected that, in the near future they will be capable of financing investments with the return-risk profile of urban heritage conservation and urban rehabilitation programs.

Annex

Guidelines for Project Preparation

CONSERVATION OF HISTORIC AREAS WITH PRIVATE SECTOR PARTICIPATION

Scope

Promote the conservation of several buildings and public spaces that make up a coherent functional or historic set with extensive involvement of the private sector in the financing, and operation and maintenance of the conservation works.

Objectives for Bank Participation

In order to promote the conservation of historic areas with ample participation of the private sector, the Bank should pursue several interrelated development objectives:

- C Promote public expenditures in heritage conservation in manners that prevent the crowding out of private investment and foster the efficient use of public funds.
- C Consolidate an institutional structure capable of promoting the complex private-public partnerships required for effective collaboration.
- C Foster the reform of the regulatory environment and the adoption of conservation approaches capable of attracting private investment to the conservation of urban heritage.
- C Increase public awareness about the socioeconomic values of urban heritage conservation to promote a long term political support to the effort.

Fields of Activity

In the pursuit of its stated objectives, the Bank will support an array of activities and investments including:

- C Setting up national programs for promoting the conservation of historic areas with private sector participation. To this end the Bank can provide technical assistance and financial support for the design and execution of regulations and institutional reforms in order to increase the long-term sustainability of the conservation effort. Assistance can also be provided to established priorities with the agreement of all the key actors. Also, funds can be lent for activities at increasing public awareness about conservation.
- C Promote the establishment of institutional and financial mechanisms to channel private funds into the conservation of historic areas. The Bank can finance the technical cooperation required for the design and establishment of these mechanisms and the initial stages of operation.
- C Finance the public investment component of local programs to conserve historic areas in association with the private sector.

Bank resources could be used to finance:

- C Public investments in historic areas, including: improvements to the urban infrastructure (water supply, sewerage, drainage, street lighting, roads), reorganization and improvement of the public space, area parks and urban greening, recreational areas. Resources can also be used to finance investments in traffic management in the historic areas (including technical studies,

signaling and equipment), and the regulation of the use of the public space (control of informal commerce).

- C The investments preserving monuments of historic and cultural significance in preparation for private sector involvement in their development, operation and maintenance.
- C The public shares in public-private partnerships for the conservation, rehabilitation or recycling of urban heritage buildings and sites.
- C Public investments eliminating or mitigating adverse environmental conditions affecting the conservation of historic areas.
- C Contracting technical services for the design, execution and evaluation of policies and investments.

Basic Criteria

Regulatory Environment. The existence of a regulatory environment favorable to private investment in the conservation of historic areas is a precondition for the successful execution of conservation programs with ample private participation. The impact of national legislation and policies on the viability of the proposed program should be assessed to identify and design the required changes. The sector studies should provide the technical information required to identify, design and execute the necessary reforms. If the reforms are to be executed during the implementation of the program, linkages should be established between the execution of these reforms and the implementation of the investment components.

Evaluation and Selection of Alternatives. As with all Bank financed operations, the investments to be included in the conservation program should correspond to the most efficient technical alternative to attain the objectives. Technical studies should be conducted to justify the area of intervention and the selected combination of investments and reforms.

The evaluation of alternatives should be conducted in such a fashion as to ensure that the selected interventions respond to the priorities and correspond to the least cost solutions that fulfill the project's requirements.

Review of Economic Benefits. Bank policies require public investments to yield a positive economic rate of return (currently set at a minimum of 12 percent). The evaluation of benefits and costs should include both private and public costs and benefits. Benefits of urban heritage conservation are difficult to estimate, particularly when the main benefits are the existence or option value assigned by the community to the monuments or historic area. Contingent valuation techniques offer a way of estimating these benefits although they are plagued with measurement problems and ambiguities in the interpretation of the results and should be used with care.

Institutional Analysis. Sector studies should provide a good insight on the capabilities of conservation institutions. Care should be taken to assess their capacity to execute the complex array of interventions required for the successful implementation of urban heritage conservation programs with the private sector. Execution of the activities requires close coordination with local governments responsible for most of the investments in the public space and for capturing betterment. Institutional development components may be added to the programs to ensure their adequate execution and the long-term viability of the institutions involved in urban heritage conservation.

Financial Viability. Resource flows from public and private entities need to be closely coordinated in public-private endeavors. Project preparation must place particular emphasis in determining the adequacy of funding for the program since this is the major source of interruptions in the works and the lost of the benefits seek by the programs. Sources of public funds need to be identified and quantified to assess their adequacy to the task on hand. The rationale for any subsidy should be carefully assessed and the source of the funds analyzed in terms of appropriateness and sustainability.

Subsidies must be up front and their costs properly accounted for in the budget of the institutions financing them.

CONSERVATION AS A CATALYST FOR URBAN REHABILITATION

Scope

Promote urban heritage conservation projects that have a direct impact on advancing the rehabilitation of depressed urban areas. These projects use urban heritage rehabilitation investment to foster the rehabilitation of the surrounding quarters thus fostering the efficient use of existing assets, providing urban services and inducing economic activities in socially distressed communities, and promoting private involvement in urban rehabilitation as well as in urban heritage conservation.

Objectives for Bank Participation

The objectives pursued by the Bank in these projects are concerned with the conservation of the urban heritage, and the positive synergies of heritage conservation over the rehabilitation of decaying historic centers.

To conserve urban heritage, the Bank will:

- C Promote the adoption of policies, regulations and incentives capable of fostering the maximum participation of the private sector in the conservation of the historic and cultural values of buildings and urban sites.
- C Strengthen the institutions in charge of managing the policies and regulations, and of promoting urban heritage conservation in the private sector.

To rehabilitate decaying historic inner-city areas, the Bank will:

- C Foster the efficient use of the physical capital accumulated in these areas, promoting private

investment in new economic activities and in the rehabilitation, recycling and redevelopment of real estate.

- C Improve the urban infrastructure and the quality of public urban services in the area to create externalities that will attract private investment.
- C Improve the quality of the public space to support the development of the economic and social activities attracted to the area.
- C Minimize the negative impacts of the rehabilitation process on the low-income population working, living or using the area.

Fields of Activity

In the pursuit of these objectives, the Bank will support the following types of projects:

- C National programs for the promotion of urban rehabilitation based on urban heritage conservation. The Bank can provide technical assistance and investment resources for national programs that, either directly or through subnational governments or other entities encourage private investment in depressed urban areas containing urban heritage. These programs should foster public-private collaboration in priority investments. The programs may also attract private investments generating externalities through public investments in the conservation of heritage buildings and improvements of public spaces and the infrastructures. The programs may include direct funding for improvements in urban infrastructure and public spaces, seed capital for private-public companies or corporations devoted to the attainment of these objectives and promote reforms and provide capital markets incentives to promote lending for urban rehabilitation.
- C Local projects or programs to promote urban rehabilitation based on heritage conservation. As with national programs with sovereign

guarantee, the Bank can lend to subnational entities or their agencies to finance investments like the ones described in the national programs.

- C Public-private partnerships. With a sovereign guarantee the Bank can lend to mixed-capital companies or corporations devoted to urban rehabilitation and the conservation of urban heritage. Bank support can include technical cooperation loans and capital loans.
- C Technical cooperation loans to help borrowing countries to establish the appropriate normative and institutional environment to encourage urban rehabilitation through urban heritage conservation.

Bank resources could be used to finance:

- C Public investments. Improvement of urban infrastructures (water supply, sewerage, drainage, street lighting, roads), reorganization and improvement of the public space, area parks and urban greening, recreational areas. Resources can also be used to finance investments in traffic management in the designated areas (including technical studies, signaling and equipment) and the regulation of the use of the public space (control of informal commerce).
- C The public shares in public-private partnerships for the conservation, rehabilitation or recycling of urban heritage buildings and sites.
- C Public investments eliminating or mitigating adverse environmental consequences of the investments in urban heritage conservation and urban rehabilitation.
- C Contracting technical services for the design, execution and evaluation of policies and investments.

Basic Criteria

Evaluation and Selection of Alternatives. Programs

to be financed by the Bank should show that they are the most efficient technical alternatives to attain the objectives. Technical studies should identify the target area for the program and analyze different combinations of reforms to the regulatory framework. These include specific conservation and redevelopment regulations; direct public investment in infrastructures and the public space; private-public investment in rehabilitation and redevelopment, economic and noneconomic incentives for private investment; real estate promotion; public and private promotion of economic development in the target areas, and the like. National programs should carefully contemplate differences in the local characteristics of cities allowing room for adaptation of the package of measures. The evaluation of local programs should include the impact on the program of national policies and regulations. Rent control legislation, real estate investment taxation systems, housing finance mechanisms, enterprise promotion programs, are some national policies that can greatly affect the efficiency of urban rehabilitation programs.

Review of Economic Benefits. Public investments must generate measurable economic benefits in excess of expenses, and yield an internal rate of return in excess of 12 percent to justify the allocation of resources to the project. Often, most of the benefits accrue to the private sector and become apparent in the form of increased value of the real estate. Estimating the increases in value require detailed information on the characteristics of the local urban land markets, in turn a function of the real estate market's reactions to the projects.

Institutional Analysis. The institutional mechanisms for implementation are crucial to the success of urban heritage conservation programs that act as catalyst for urban rehabilitation. They make possible the required collaboration and close coordination of actions between the private and public sectors. Ample involvement of the community, local business groups and nongovernmental organizations are important to ensure success. Formal mechanisms that facilitate the coordination of public efforts in the target areas need to be established early in the

implementation process. This is critical for the efficient execution of urban infrastructure improvement programs and for the upgrading of public spaces.

Mechanisms to promote public-private collaboration are required when the private sector plays a significant role in the rehabilitation effort. The institutional mechanisms devised should be able to overcome the major constraints faced by private investors in rehabilitation areas and for investing in urban heritage conservation. Therefore, the institution should be able to ensure a stable investment environment for private investors and lenders; consolidate land for development allowing private investors access to land parcels of sufficient size; enter into partnerships with private investors to promote the conservation or rehabilitation of strategic properties or sections of the target area; and execute public investments on behalf of the entities responsible for the services (municipalities, utilities, other government entities).

Financial Viability. The financial viability is a complex area of analysis given the long-term nature of the commitments involved in these programs. The sources of finance for the public investments need to be identified and secured. Cost recovery mechanisms should be in place to charge beneficiaries the cost of providing the services or capture the proportion of betterment attributable to public investments. The financial viability of public-private investment ventures should be analyzed from the private perspective ascertaining whether they require subsidies to be viable. Investments that require subsidies will need careful consideration, particularly their priority and the justification of the support to be provided with public funds. The financial analysis should review the financial profits of private undertakings under the conditions created by the program. The assessment of risk is central in estimating the financial viability of the projects. Sale price for the generated by the project should be qualified by accurate estimates of market absorption capacity. This is a central test of the program effectiveness, given the emphasis placed in the promotion of private investment as the main driving

force of urban rehabilitation.

Coordination with Other Plans and Investment Programs. Careful coordination of the rehabilitation plans with the metropolitan or city urban development plan is required to ensure consistency of public investments and reduce negative environmental impacts. Particularly relevant is the coordination of public investment in infrastructure with the investment programs of the public utilities and local authorities. Proposals for investments in water and sanitation infrastructures, drainage and underground electricity and telephone wiring, must be cleared with the utilities. The Bank will also seek assurances that the tariffs charged by the utilities comply with Bank policy aimed at ensuring that they will be able to properly maintain the facilities and expand them in the future as required. Investment in roads, parking and traffic control needs to be consistent with citywide road and transportation planning. The trade-off between public transportation and private car access need to be discussed since they affect investments to redesign public spaces in the target area, including the expansion of walkways, public parks and open air public facilities that compete for the space available for vehicles. Waste collection and disposal services form an important part of the improvements required in rehabilitation areas, yet their efficiency depends on the citywide service structure. Urban rehabilitation investments affect urbanized areas. Thus, they have almost no additional effects over the natural environment. However, redevelopment does affect the built environment and need to be mitigated. Impacts include the additional traffic attracted by investments on roads that, in turn, generate traffic congestion and air pollution, and the increased effluents discharged into the sewerage system. The pressures on urban social services originating in the higher densities of neighborhoods must also be considered and solutions incorporated into the plans.

THE CONSERVATION OF EXISTING HERITAGE BUILDINGS OR SITES THROUGH REGULATION AND INCENTIVES

Scope

Promotion of urban heritage conservation through approaches that prevent the deterioration of buildings and public spaces by inducing conservation and maintenance by private owners, developers or users through a properly coordinated system of regulations and incentives.

Objectives for Bank Participation

Bank objectives in supporting these activities should aim at taking full advantage of the payoffs of preventive activities and ensuring the long-term sustainability of the policies and actions. Consequently, the main objectives of this type of Bank involvement in urban heritage conservation should include:

- C Assistance to borrowers to identify and evaluate the most efficient combination of regulations and incentives to promote the conservation and rehabilitation of urban heritage buildings and sites.
- C Contributing to the efficient implementation of the measures determined to be the most efficient mix and to reform existing regulations to better conform to it.
- C Strengthen the institutions charged with the management of the regulations and incentives.
- C Financing for the transitional costs of implementation until the permanent institutional and financial mechanisms take full effect.

Fields of Activity

The Bank will support national or local programs that may include one or several of the following interventions selected after a technical, economic,

institutional, financial and environmental evaluation of alternatives: definition of the scope and priorities for heritage conservation; development of conservation plans; technical assistance to private investors, owners or users concerning correct and efficient rehabilitation and conservation interventions; economic and noneconomic incentives to foster compliance with the conservation plans; economic and noneconomic incentives to promote the sustained conservation of heritage monuments and sites; and rehabilitation and conservation interventions.

Eligible investments may include: consulting services for the design and start-up phases of the program; training of local staff and equipment required to implement and supervise the conservation activities; financing for expenditures on subsidies and incentives while permanent sources of financing get into operations; and emergency preservation investments.

Basic Criteria

Conservation programs submitted for Bank financing must be supported by thorough technical, economic, institutional, financial and environmental assessments of alternatives to justify the selected approach and the selected mix of conservation activities. Specific guidelines to be considered in program preparation and appraisal are as follows.

Identification and Evaluation of Alternatives. Definition of the program's approach and components must be justified in a detailed technical study of alternatives to define the technical objectives of the conservation effort. This involves the definition of a conservation plan that defines: the scope of the conservation activities including the areas and/or types of monuments and heritage sites to be included, the standards (style, construction and use) at which the monuments must be rehabilitated or conserved to become eligible for the benefits of the program, and the eligible uses for the conserved monuments. The formulation of the conservation plan must be done in consultation with the community, particularly the taxpayers that will bear

the cost of its implementation. The regulatory environment must also be analyzed and measures devised to adjust it whenever necessary. Of particular significance are regulations affecting urban development, real estate investment and rentals.

Economic Analysis. The alternatives must also be subject of an economic analysis capable of providing insight into the most efficient means to attain the objectives set in the conservation plan. This analysis must suggest the correct mix of economic and noneconomic incentives required to induce compliance with the plan by the owners and users of heritage buildings and sites.

Financing. Plan proposals must include a carefully designed financial plan indicating expenditures and sources of finance. The study must identify the financial gap that may exist during the initial stages of implementation and contain assurances of the

availability of sustainable long-term sources of finance. Bank financing may be considered only to cover part of the financial gap if sufficient assurances exist of the availability of sustainable financing for the long term.

Institutional Development. Institutional design must consider the organizational structure required to execute all aspects of the plan including plan preparation, consultation and approval. Also it must specify arrangements required for the delivery of the technical assistance to beneficiaries and for the supervision of execution.

Environmental Impacts Analysis. Two perspectives are relevant: amelioration of negative environmental impacts over the conservation of buildings and heritage sites, a central theme of the conservation plan, and possible negative effects on the environment of the conservation activities (civil works).