

Urban Heritage Conservation in Latin America and the Caribbean

A Task for All Social Actors

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Foreword

In recent decades there has been growing interest in Latin America and the Caribbean in urban heritage conservation. Many national and local governments have undertaken ambitious programs for restoration and preservation of their heritage assets. Some have sought technical and financial assistance from the Bank. To meet this demand, the Bank has developed an active program of loans and technical assistance that has made it possible to introduce significant innovations in the way conservation efforts are funded and carried out. The main objective of these innovations is to make the process sustainable in the long term, involving all social actors in the effort and putting cultural assets to work meeting social needs or real estate market demand.

To support this process of financial and institutional innovation, the Sustainable Development Department has prepared technical studies covering different aspects of this complex question. As part of this effort, this paper examines conditions under which various social actors can be motivated to become involved in heritage conservation. The document offers examples of projects funded by the Bank that seek to establish these innovations. We hope that its publication will be useful not only for Bank officials in charge of lending operations, but especially for officials and consultants involved in the design and execution of heritage conservation programs in the region.

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Abstract

Given the limited scope and sustainability of urban heritage conservation in Latin America and the Caribbean, changes in how it is carried out and funded are needed in order to involve all social actors and use the preserved assets to meet demonstrated social needs. Based on a multidimensional analysis of the assets' value and the social processes through which these values materialize, the paper, identifies measures for better matching the interests of and benefits obtained by those involved in the conservation process. It is suggested that the process will be more sustainable and capable of being expanded in a manner corresponding to the magnitude and value of the region's heritage if those who benefit from it are also those who promote and pay for it. Critical review of some of the projects funded by the Inter-American Development Bank, which may be considered ongoing experiments, inspires moderate optimism about the viability of the proposed changes.

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Introduction

Latin America's priceless urban heritage has received universal recognition as many monuments, historic centers, and urban zones have been designated as World Heritage Sites by UNESCO.¹ Today the region's communities face the challenge of preserving this heritage not only for contemporary use but for that of generations to come. However, the conservation efforts undertaken fall short of the mark. More effective action is needed so that irreplaceable monuments and buildings of great historic value are not snapped up by real estate speculators or left to decay. It is urgent to think of better ways to achieve heritage conservation, to accomplish more and better preservation with ever meager resources.

Drawing on the analysis of some successful international experiences, it can be concluded that ur-

ban heritage conservation is more sustainable if three conditions are met. First, all social actors are involved so that there is broad social support for conservation efforts. Second, the heritage properties are income-producing or serve a clear social need, which enhances the likelihood that they will be preserved over the long term. Third, there is a comprehensive approach to conservation that encompasses both the monuments and their environs. These conditions are possible in Latin America and the Caribbean, but to satisfy them there must be a new attitude toward heritage and new ways of dealing with it. This paper develops these subjects and posits specific actions based on the Inter-American Development Bank's recent experience.

¹ Potosí and Sucre in Bolivia; Diamantina, Goiás, Olinda, Ouro Preto, Salvador de Bahia, Brasília and São Luis in Brazil; Cartagena de Indias and Santa Cruz de Mompo in Colombia; Havana in Cuba; Quito and Cuenca in Ecuador; Antigua in Guatemala; Mexico City, Campeche, Oaxaca, Puebla, Querétaro, Guanajuato, Morelia, Tlacotalpán and Zacatecas in Mexico; Panama City in Panama; Arequipa, Cuzco and Lima in Peru; Santo Domingo in the Dominican Republic; Colonia in Uruguay, and Coro in Venezuela.

Urban Heritage in Latin America and the Caribbean

Many Latin American cities are blessed with a rich legacy of buildings, public spaces, and urban structure (or combinations thereof), which are generically termed urban heritage. In these cities pre-Columbian monuments and structures are interspersed with government buildings, churches, convents, hospitals, military installations, and defensive walls built during the colonial period that are often refined examples of baroque or neoclassical architecture and the military engineering of the period. Houses, some of which date from the seventeenth century, often surround the monumental structures. This urban heritage has been enhanced with the addition of public buildings, residences, and various types of industrial architecture typical of the late nineteenth and early twentieth centuries, which are increasingly prized by the communities. This heritage is part of distinct types of historical areas that fall into four groups, according to Hardoy and Gutman (1992): 1) historic centers of the metropolitan areas and large cities, as in the case of Pelourinho, the historic center of Salvador de Bahia in Brazil, or the city of Quito in Ecuador; 2) neighborhoods of urbanistic and architectural interest, such as Urca in Rio de Janeiro, Brazil or Chorillos in Lima, Peru; 3) historic cities such as Ouro Preto in Brazil or

Antigua in Guatemala; and 4) historic indigenous communities like Ollantaytambo in Peru or Tlalpujahua in Mexico.

This urban heritage, in both public and private hands, has fallen prey to various degrees of functional and physical obsolescence, which detracts from its ability to offer comfortable and efficient space for institutions, homes, and companies. The obsolescence reduces the demand for and prices of the properties, hence depressing real estate markets in the historic centers. Furthermore, pressure exerted by motor vehicle traffic and the activities of vendors and peddlers destroys the traditional layout of the streets and public spaces. In cities experiencing rapid growth, heritage properties are often victims of economic obsolescence and are replaced by new buildings. This deterioration is the communities' loss, because conservation of the asset would have not only preserved a page of their history and cultural tradition, but would have made possible contemporary use of a valuable complex of centrally located buildings and infrastructure. A first step toward more efficient forms of preservation is a realistic appraisal of their value.

Valuation of Urban Heritage: Conceptual and Methodological Considerations

Heritage has a distinct value for the various social actors involved, so in order to place a realistic value on it one must take into account a broad range of factors and consider the opinions of all interested groups. This means building into the appraisal process not only the viewpoints of preservationists and the cultural elite who have traditionally advocated heritage preservation, but also the viewpoints of the community, made known through their governments and civil society associations, and those of investors and the business community. It is also necessary to take into account the opinion of economists and public finance specialists, who look at these questions from such diverse angles as the development of cultural business, cultural tourism, and the most efficient use of public resources spent on heritage conservation. This process leads to the identification of a great variety of use and non-use values, some involving contemporary interests, others concerning the protection of assets for future generations. Throsby (1999) suggests that tangible heritage property can be understood both as fixed capital that could be income-producing, and as cultural capital generating noneconomic benefits for society. Throsby holds that these approaches are complementary because some heritage assets can generate both economic and sociocultural benefits.

From an economic perspective, there are several kinds of value placed on heritage. The so-called *use values* refer to the value assigned to heritage

properties by those that use the services that they produce. These can be direct use consumption values, as in the case of a heritage structure that is used for housing, yielding higher rents than other buildings by virtue of its heritage status. There are also direct use non-consumption values, such as the value of remote use when users of non-heritage properties benefit from the view provided by heritage property. The educational value of a heritage asset is another form of non-consumption use. Another dimension of use value is the indirect use of a heritage property (similar to an externality) which occurs, for example, when the value of a property increases because of its proximity to a heritage site.

Non-use values capture the less tangible economic benefits that the heritage property affords. The existence value captures the benefits that certain people derive from the fact that a specific heritage asset simply exists, even though they have no intention of using its services directly. The existence value includes the so-called option value, which captures the interest of some people in keeping open the possibility that they might make future use of the heritage site's services. Other non-use values are the inheritance values that reflect peoples' interest in bequeathing the heritage asset to future generations, and the philanthropic value of the asset, which includes the public relations or image value to those who invest in it without using it. These non-use values reflect sociocultural factors, such as those discussed below.

Table 1. Patterns of Obsolescence

Functional obsolescence of buildings and public spaces arises when these structures become inadequate for the functions for which they were originally designed. Examples of this problem are the traditional houses of high-income families in the historic centers, which were abandoned by their wealthy occupants when changes in fashion and the desire for modern amenities made suburban dwellings more desirable. The houses were turned into slum dwellings occupied by low-income families, a change of use that although destructive of the asset, is welcomed by the poor families who benefit from the central location of the housing and by the landlords who extract rental income from otherwise useless real estate. A similar pattern of obsolescence affects other types of historic buildings, such as old hospital buildings that become obsolete as a result of new medical technologies, old libraries that are incapable of accommodating modern sized book stocks or new information technologies, railway stations no longer used, or convents or churches that communities can no longer support.

Physical obsolescence refers to the deterioration of the structure, installations, or façade 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 (earthquakes or floods) or the sustained effect of the weather or urban activities (for instance, vibrations generated by vehicles).

Economic obsolescence occurs when it is no longer profitable to continue using a building for its original purposes because the land on which it sits has increased in value, resulting in increasing pressures to tear it down and put the land to the market's "best and highest use." This process affects historic districts, particularly in large cities that continue to experience pressure for commercial development and services.

Source: Eduardo Rojas and Claudio de Moura Castro (1999), page 5.

There are also noneconomic benefits from the heritage property, which satisfy peoples' social or spiritual needs. This category of *sociocultural values* refers to some that are hard to define, and quantify, including esthetic, spiritual, social, historic and symbolic values. Esthetic values refers to the benefits community members receive from being near an object that is considered beautiful. Spiritual values involve the identification by individuals and communities of buildings or places with their worship or with honoring their ancestors. Social values arise when the heritage elements give rise to interpersonal relationships valued by the community (for instance, places for gathering, discussion, or social interaction where events held within are enhanced by virtue of their status as heritage sites). Places that are linked to events of local, national, or world history have a historic value, and when the heritage reflects community values it is said to have symbolic value.

Progress has been made in the definition and identification of these values, which is needed to more accurately measure them and facilitate improved appraisal methods (Getty, 2000). Improvement in

methods for valuation and dissemination of these values through the educational system and the media will facilitate the development of the social consensus needed for the adoption of conservation policies and for the establishment of appropriate strategies. However, these advances alone are insufficient. If the values are to be reflected in conservation actions and development of the heritage they must be incorporated into social processes through which public and private resources are devoted to multiple and competing uses.

In terms of the volume of transactions, the market is the main mechanism for assigning resources in the economies in Latin America and the Caribbean. Although not without problems, it assigns them more efficiently than other social processes. However, the market mechanism does not work well when it comes to urban heritage conservation. Only in a limited fashion and in specific circumstances are use values (like the consumption value of the urban heritage) reflected in higher prices that some buyers (who value the heritage condition of the buildings) are willing to pay for the use of buildings in the historic centers.

Table 2 Value Components of Heritage

ECONOMIC VALUES					
Use value			Non-use value		
Direct use value		Indirect use value	Existence value	Inheritance value	Philanthropic value
Non-consumption	Consumption				
SOCIOCULTURAL VALUES					
Esthetic value	Spiritual value	Social value	Historic value	Symbolic value	

Based on Throsby (1999) and Morato (2000)

Outstanding examples of the smooth operation of this mechanism are the historic centers of the cities in Europe and North America that have become the “in” location for certain segments of housing demand. In South America there are some cases, such as the historic neighborhood of Urca in Rio de Janeiro, Brazil, that is being conserved by private investment; the walled city of Cartagena de Indias, Colombia, which has attracted huge private investment in rehabilitation for tourism and recreation; or Antigua in Guatemala, where many heritage houses have been restored by high-income families as second homes. Economists agree that a market failure occurs in urban heritage conservation because the free operation of the real estate market normally does not produce optimal results from the community’s standpoint, leading to a level of heritage conservation that is lower than what the communities considers appropriate.²

Most heritage values are set not by the market but by other types of social relations. This is the case of the philanthropic value of heritage property (its value as the subject of donations and the benefits received from the donation), which is established based on the philanthropists’ preferences and through formal and informal negotiations involving leaders of the main philanthropic institutions or representatives of governments or community organizations.

² This occurs because urban heritage has many attributes of a public asset (see Throsby 1999; Klamer and Zuidhof, 1998; Shuster et.al. 1997, among others).

Many heritage values are established in cultural or political spheres. For example, specialists in history and conservation determine the educational, historic, or esthetic value of heritage properties, and the cultural elite press governments to invest in their conservation. The resulting action—the investment of public funds in conservation—is fully within the public sphere and therefore subject to the democratic process through which public resources are allocated among competing demands. Communities interested in preserving their cultural identity assign value to their heritage, and therefore support the use of public resources for conservation.

The value that communities assign to heritage varies over time. Factors affecting change include: progress in archeological, historic, or esthetic research; a higher level of education among community members; increases in income, changes in tastes, and even the vagaries of fashion. According to Mosetto (1994), this gives rise to an economic dilemma concerning the difficulty in estimating the opportunity cost of investments in heritage conservation. An example of this dilemma is the decision to allocate resources to the preservation of heritage properties in danger of disappearing. It is always hard to judge whether they will be valued by generations to come, and as noted by Klamer and Zuidhof (1998), “...one cannot foresee regret” (p. 30) given that the decision not to invest is irreversible and the heritage property can be gone forever. In the final analysis, the dilemma’s solution demands a political decision, through agreement by those involved on the

importance of the heritage asset, as reflected by their willingness to pay to conserve it.

This leads to consideration of a second dilemma, the asymmetry of investments in heritage conservation. A typical result of efficient markets is that those who pay for goods are the ones who enjoy the benefits of them and are the same people who want them (Klamer and Zuidhof, 1998). Given the diversity and complexity of the social processes through which value is placed on heritage and through which decisions are made to invest in it, this relationship does not occur spontaneously in heritage conservation. Usually those who pay for the conservation effort (national taxpayers) are rarely the same people who benefit from it (users and neighbors of the heritage property that is conserved) or those who

served) or those who want conservation to occur (the cultural or political elite).

One way to advance in the analysis of these dilemmas and find practical ways to resolve them is to focus on the relationship between the processes through which heritage assets are assigned values and the most efficient ways of financing their conservation. Although improving this relationship may not fully resolve these dilemmas, it could help ensure that a closer correlation exists between those who benefit from heritage conservation, those who pay for it, and those who consider it important. This alignment of interests offers a greater assurance that communities will make investment decisions on heritage conservation based on a broader consensus and better understanding of the implications.

Strategies for Financing Urban Heritage Conservation

PRIVATE INVESTMENT

The real estate market's limited ability to gauge the true value of urban heritage is reflected in its inability to assign sufficient resources to the conservation of buildings with heritage value. The lack of investment leads to the deterioration and eventual destruction of the heritage, even in historic centers increasingly valued by the communities. Valuation by the community itself is insufficient to mobilize private resources because the owners and potential conservation investors face a classical coordination problem. While all would eventually benefit from conserving the assets, no one wants to take the first step (because the market value of the properties conserved at the beginning of the process will be depressed by the deterioration of the rest) and all would benefit from being the last (since their unimproved properties would increase in value as a result of the investments made in the others). In these circumstances, the conservation process never gets off the ground and the result is less investment in conservation than society would like.

Private philanthropy is also constrained from becoming a major player in sustained and substantial efforts to conserve urban heritage that is a priority for the community. The reciprocal nature of philanthropy, which is the public exposure and goodwill that donations afford donors, is not easily shared with others, inducing philanthropists to act in an individual and isolated fashion. This is why private philanthropy usually undertakes highly visible projects but of limited impact. The selection of projects funded by philanthropy is heavily dependent on donor preferences, which do not necessarily coincide with the community's priorities. This financing strategy makes it possible to rescue isolated monuments, but it usually does not lead to sustained heritage conservation.

PUBLIC INVESTMENT

When the market undervalues urban heritage assets and consequently does not conserve them,

conservation-minded groups persuade the government to intervene. According to the outline proposed by Shuster et al. (1997), the government has five possible strategies in the area of urban heritage.

It can purchase buildings to ensure their conservation, an approach widely used in the region, which has made it possible to save many monuments threatened by real estate development. However, this strategy by itself does not produce sustainable results commensurate with the magnitude of the task. The reason lies in the conflicting interests that preclude devoting substantial public resources to conservation over the long term. Those who pay for the project (taxpayers) are not the ones who benefit directly (the owners of the buildings, residents in the vicinity of the heritage sites, and tourists and related business), nor are they the ones who are concerned about conservation (specialists and the cultural elite). This asymmetry results in the allocation of relatively few public resources to conservation. Scarcity of resources has confined this strategy to the restoration of exceptional monuments, so its impact has been limited. Furthermore, the public sector has proved itself to be a poor manager of these assets, which works against the long-term sustainability of the conservation effort.

Government can also intervene to regulate the use of heritage properties to prevent their destruction or damage from improper use. These regulations, which set limits on the use and development of the properties in order to conserve them, are in keeping with the objectives of the conservation specialists and, sometimes, with those of the cultural elite. The process of identification of the heritage to be protected and the processes of consultation with the community that are required for approval of the conservation regulations have helped build community awareness of the value of the heritage, and in some cases, have successfully preserved major monuments. However, this strategy transfers the cost of conservation to the owners, while the benefits are enjoyed by the entire

community and/or by tourists. This asymmetry underscores the main drawback of this strategy, because the affected parties (the owners) have every incentive to fight conservation, and they do so when they think they can get away with it usually neglecting the properties to prompt demolition orders from the local authorities. The deplorable state of many buildings protected by conservation regulations proves this assertion.

Subsidies and incentives can be offered to motivate owners or investors to preserve heritage assets or compensate them for costs incurred. The objective is to induce owners to do what is needed to achieve the public goal of preserving the heritage. There are many types of subsidies, from free technical assistance to direct transfers of capital, including several kinds of tax exemptions (total or partial exemptions from real estate taxes or income tax credits for part of the expenses in buildings that undergo conservation or restoration). This strategy is only now being tried in Latin America and the Caribbean. Although it works with rather than against market forces, which increases its chances of influencing landlords and investors, it also has some limitations. If there is an initial slump in the return on preservation investments, little can be accomplished by subsidized technical assistance alone to motivate landlords and investors to invest. In these circumstances, direct subsidies may be unaffordable. Furthermore, in most countries of the region property tax rates are low, which limits the value of incentives linked to tax exemptions. In many cases, even when property taxes are levied, they are not efficiently collected or the penalties for tax evasion are minimal. Another limitation is that this strategy only covers private buildings and has no effect on the high percentage of public and religious structures that are usually tax exempt.

Government can also intervene through the establishment, assignment and control of property rights. One mechanism is to allow owners to transfer the right to develop a site containing a heritage asset, thus reducing their incentives to demolish it or let it deteriorate in order to get around conservation regulations. Another strategy is to link the granting of building permits for lucrative real estate projects to investments in heritage conservation. To be effective, these strategies

require good urban planning, especially well-defined land use plans for the entire urban area, and precise identification of the areas that can send and receive the development rights transacted. All these instruments, to be effective, must be adopted based on a broad community consensus. In addition, they must be applied through transparent and socially validated institutional mechanisms. These strategies are only recently being discussed in Latin America and the Caribbean. Their effectiveness depends on proper execution and the degree to which other complementary measures.

Communities will only value urban heritage sites if they are educated about their significance. However, the impact of education will only be evident in the long term. Education about the value of urban heritage is vital in order to guarantee long-term sustainability of the conservation effort, and should therefore be incorporated in all heritage conservation strategies. A community that is knowledgeable about the value of urban heritage is naturally going to mobilize and allocate public resources to ensure its conservation. And, more importantly, it will be willing to use preserved properties in a sustainable manner, which will attract private investment for conservation. However, there are many obstacles to these positive effects. Among the most significant is the diversity of viewpoints within the community and between generations concerning the value of heritage, given that the value of heritage is a dynamic concept that changes over time and with the cultural evolution of the communities.³

PUBLIC-PRIVATE PARTNERSHIPS

The necessary complement to the strategies and financing options summarized in the preceding section is the creation of effective partnership among stakeholders. This strategy makes it possible to resolve the problems that prevent the real estate market the public sector, civil society or-

³ As a result, it is not easy to obtain a consensus on priorities and strategies. For example, what conservation specialists consider minimum regulations for the use of heritage properties are seen by owners as restrictions on the use of their buildings that mean considerable monetary loss for them.

ganizations, and philanthropies working in isolation, from conserving urban heritage in a sustainable manner. Coordination between the public and private sectors arguably constitutes a powerful mechanism for sustainable conservation of urban heritage because it facilitates strategies that combine the best that each sector can offer. The public sector contributes the vision and long-term commitment to the urban heritage conservation process and its coordinating ability. Civil society organizations provide the political support required by the public sector to spend taxpayer money on heritage conservation. Real estate investors, for their part, offer their market expertise and their ability to take on a broad spectrum of projects in response to demand. Private philanthropy contributes its ability to provide private resources for funding investments that do not attract developers, such as the conservation of monuments.

Execution of an urban heritage conservation strategy based on cooperation between the public and private sector poses institutional and financial challenges. The institutional mechanisms used must be able to channel the actions of the various actors into activities for which they have the greatest comparative advantage, and assign the risks inherent in urban heritage conservation to the actors who are best suited to and have the most interest in assuming them in view of the potential benefits. The financing mechanisms must be capable of generating a mix of resources that will enable all those involved to contribute in proportion to the benefits received and in accordance with their particular interests. Taxpayer funds should cover conservation costs that produce public goods, while resources from real estate investors should go into profit-making investments. These mechanisms must also allow private philanthropies to find investment niches that satisfy charitable and public relations objectives (usually buildings and public spaces with a strong public good use component, such as religious monuments or museums).

The success of urban heritage conservation efforts through public-private partnership depends on the efficient allocation of the costs, benefits, and risks among the participants who are best suited to assume them or have the greatest interest in assuming them given the potential returns: profits in the

case of real estate investors, better relations with the community in the case of private philanthropies, and votes in the case of politicians.

Partnership of such varying interests demand leadership on the government's part, given that most of the heritage values (existence, bequest, esthetic, spiritual, social, historic, and symbolic values) are of interest to the whole community and can only be protected by agencies that represent it. In a democratic context, these interests are well represented by elected government bodies. Furthermore, the public sector is the only actor capable of resolving the coordination problem confronted by actors operating in real estate markets, and mitigating the bias of private philanthropy so as to establish a sustainable urban heritage conservation process that is consistent with the community's objectives.

One institutional mechanism that attains these objectives to a great degree is the mixed capital corporation (public and private) especially established to carry out investments to preserve historic centers. In this type of organization, equity comes from private investors and public sector entities, and representatives of both sectors share control of the corporation in proportion to their contributions. In most of the international examples of this type of organization, the public sector has a majority share, reflecting the fact that the community is the main party interested in preserving heritage. The private sector is usually represented by civil society organizations (who benefit by participating in these corporations because it expands their sphere of action and influence) and by private real estate investors (who want preferential access to information and business opportunities in the historic centers, which from a real estate perspective are often new and untapped markets).

The presence of the public sector in mixed-capital corporations offers guarantees to private investors because it clearly signals the community's commitment to heritage conservation and because it smoothes the relationship with regulatory bodies, thereby lowering the transaction cost of investments in the historic centers. In addition, the public sector can share with the private sector the inherent risks of investments that are often breaking new ground in local real estate markets. In short,

the presence of public capital mitigates the real or perceived risks for private investors who venture into deteriorated historic districts. It also allows the community to capture part of the benefits generated by the improvements once the process takes off and becomes lucrative.

In addition to providing money for real estate investments, private investors in mixed capital corporations bring knowledge of the real estate market and efficient mechanisms for selling the restored buildings. This marriage of convenience is the best guarantee for the success of heritage conservation efforts involving public and private actors in Latin America and the Caribbean.⁴

Other institutional structures that can accomplish these objectives are public corporations that specialize in heritage conservation programs. There are many examples of this kind of institution in which the property is completely public, yet the company is authorized to make all necessary investments in the public space, infrastructure, and conservation of monuments and heritage buildings required by effective and sustainable urban heritage conservation programs.

These corporations must also be able to effectively coordinate the public agencies responsible for the public investments that the corporations do not undertake directly. However, to be effective, public corporations must also be able to work in association with the private sector, either as sponsors of real estate conservation projects or as active or passive partners. This ability to associate gives them significant leverage to coordinate contributions and benefits among those involved, a vital requirement to ensure the sustainability of the urban heritage conservation process.⁵

A less direct modality that nonetheless permits partial meshing of interests has been tried by local governments that have set up municipal offices to promote conservation and coordination of private investments. These offices encourage the adoption of conservation plans and the necessary investments by the corresponding public agencies. In addition, they facilitate private investment by bringing together owners of heritage properties and investors willing to invest in conservation. A critical role of these offices is to organize demand for the rehabilitated space, reducing the actual or perceived risks for private investors.⁶

⁴ Good examples of this type of organization are the mixed-capital corporations organized to rehabilitate the historic center of Barcelona, *Promoció Ciutat Vella S.A.* (Procivesa) and *Proeixample*. See Dalmau, J.A. "Renovación del centro histórico de Barcelona" in Rojas, E. and Daughters, R (Eds.) 1998, pp. 93-99.

⁵ A good example of this type of institution is the Pennsylvania Avenue Development Corporation in Washington, D.C. This public capital corporation made investments to improve the public space in the heritage area along the avenue and subsidized some conservation activities that were considered essential for the achievement of its objectives, all with public financing. In addition, it consolidated developable parcels of land attractive for private investors using resources from commercial loans that it repaid with income from the land sale.

⁶ A successful example of this type of institution is the Recife Barrio Office, organized by the Municipality of Recife (Brazil) to carry out the Recife Barrio Rehabilitation Plan in the area where the city was originally founded. The Office coordinated the action of investors and organized demand. In the critical phase of launching the program, when some landowners were reluctant to join the process, it bought their properties and restored them with public funds to demonstrate the public commitment to rehabilitation of the Barrio and the viability of investments in conservation and restoration of property. See Mendes-Zancheti, S. and Lacerda, M. (1997).

Conservation Policies in Latin America and the Caribbean

Rojas and de Moura Castro (1999) argue that it is possible to identify two phases in the urban heritage conservation process in Latin America and the Caribbean.

The cultural elite led the process during the first phase because of concerns over the loss of specific buildings or monumental areas threatened with destruction by real estate development pressures. This effort was funded mainly by private philanthropy.⁷ In this phase only those sociocultural values (such as historic or esthetic significance) that are more in line with the interests of the cultural elite and private philanthropy were given priority. Projects were carried out and financed based on a very asymmetrical relationship between the actors, because the beneficiaries, the community at large, and those who advocated the projects (the cultural elite) did not bear the conservation costs. This approach led to a somewhat arbitrary selection of interventions. The skewed project selection process and the lack of correspondence between those who benefited from the improvements and those who paid for them gave rise to the two principal shortcomings of the projects executed in this phase. The first is the limited scope of the conservation effort, which affected few monuments picked in accordance with the interests of a minority and are usually devoted to public use. The second limitation is that the conservation effort is not sustainable because it relies mainly on the energy of the elite and the often fickle tastes of philanthropists.

In this phase of the conservation effort, and anticipating actions to come in a second phase, several countries passed historic heritage conservation laws or regulations whose net effects have been mixed. Although in many cases the protective legislation prevented the destruction of historic buildings, it also promoted the deterioration

of many heritage buildings, especially urban housing and private commercial buildings.⁸

Some countries in the region are undergoing a second phase in which national and local governments are taking a more proactive approach and assuming direct responsibility for heritage conservation through legislation and public investments. Progress during this phase is in part the result of a more comprehensive valuation of heritage, which recognizes, in addition to the values that triggered involvement in the first phase, other sociocultural values (such as the bequest value) and other use values (such as the tourist attraction of the property). Countries in the second phase have established specialized institutions to monitor the application of legislation and the proper use of the resources the government devotes to conservation (IILA-UNESCO, 1994).⁹

More conservation projects have been undertaken as a result of these efforts. However, faced with competing demands for scarce budgetary resources, most governments have found it hard to provide the volume of resources needed to conserve the urban heritage on a sustainable basis. Many conservation efforts undertaken during this phase have also been of limited scope and short-lived because the interests of those involved did not coincide completely. Those who benefit directly from the conservation effort (the communities living in the area around the heritage, visitors and companies involved in tourism) overlap only partially with those who bear the costs (national or

⁷ The notable exception is Mexico, where the state was the early leader of the conservation effort.

⁸ With limited options for development of the historic buildings, and confronted with more profitable uses for the land (even for parking lots), owners often cut down on maintenance in the expectation that physical obsolescence would force local authorities to order their demolition, permitting more lucrative uses of the land.

⁹ Outstanding examples of this phase of the conservation effort are seen in Mexico, Brazil, and Colombia, where national governments established specialized institutions to assist states and municipalities in heritage conservation.

local taxpayers) and with the advocates of conservation (the country's cultural elite).

In an effort to better match up the interests of all those involved and achieve more equity and sustainability in the heritage conservation effort, Rojas and de Moura Castro (1999) hold that the countries of Latin America and the Caribbean need to move into a third phase in which

...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. (page 6)

These circumstances ought to do away with the asymmetry of interests and responsibilities thus far typical of the region's conservation effort. Conservation beneficiaries (the local community) pay a significant share of the cost of conservation and receive national (or provincial) assistance when the heritage is of interest (and therefore benefit) to the entire nation or province. Community participation is promoted by the growing interest that heritage arouses in its members because of the multiple values they attached to it, thus broadening the support base for the effort beyond the national cultural elite. Private philanthropies can find proper channels to contribute to community efforts without displacing the interest that private real estate investors might have in business opportunities offered by heritage assets.

To move toward this third phase, it is necessary to introduce changes in the way countries approach urban heritage conservation. All social groups must develop a positive vision of the worth of heritage, take part in joint actions to conserve and develop it, and support the integrated actions that the government must undertake. It is also necessary to introduce institutional and operational reforms to increase the efficiency of public spending and facilitate partnerships among interested actors. These changes will not happen automatically. They must be promoted by local, regional or central governments because they can take the long-term view required to conceive and carry out reforms of the heritage conservation mechanisms.

Government also controls many of the instruments that can be used to encourage the private sector to take more of a leadership role. The government's role is justified on efficiency and equity grounds because markets alone cannot account for all the social benefits brought about by heritage conservation, like the bequest and options values or the value of heritage of importance for minority groups (Schuster et al., 1997).

Several countries have already begun to make some slow progress toward the third phase described by Rojas and de Moura Castro (1999). In Cartagena de Indias, Colombia, the country's economic elite has made significant investments in the conservation of colonial residences in the walled city. Their investments are supported by central government investments to conserve monuments (such as colonial forts) and by municipal government investments to improve public spaces and infrastructure. Although responding to different motivations and lacking coordination, these efforts have resulted in one of the best preserved historic centers in the region. Another example is the Municipality of Recife, which in 1997 launched a restoration program in Recife Barrio (the area where the city was founded), based on encouraging private investment to restore properties with a heritage significance to house recreation, services, and residential activities. A public agency, the Recife Barrio Office, has been the catalyst for private investment and coordinator of the public investments.¹⁰

In the context of a centrally planned economy, the Historian's Office in Havana has undertaken a restoration effort in the historic center of the city based on profits generated from the lease of space in publicly-owned buildings to hotels and international tourist businesses. The resources generated are used to improve public spaces, restore monuments and improve housing.¹¹ The municipality of Coro in Venezuela established a corporation to promote the conservation of the historic city,

¹⁰ For an analysis of private sector participation in conservation in Cartagena de Indias and Recife, see Rojas, E. (2000).

¹¹ See Rodríguez, P. "El centro histórico de La Habana: un modelo de gestión pública" in Carrión, F. (Ed.) (2001) pp. 217-236.

which coordinates the work of public actors and private philanthropy (Barráez, undated).

These examples show the potential of joint public/private action to promote urban heritage conservation. Some respond to the interest of the economic elite (as in Cartagena de Indias), others result from public sector actions in response to private demand (as in Havana), and still others result from direct public action.

However, except for Cartagena in the 1980s and the first half of the 1990s (a period of rapid economic growth for the Colombian economy), the cases mentioned have not attained a sustained level of private investment that would guarantee the long-term sustainability of conservation. To achieve this objective it is necessary to have strong and sustained public leadership, with heritage valued in its multiple dimensions and the establishment of institutional structures capable of efficiently coordinating interventions of the various actors.

Promoting Change: Lessons Learned from Projects Funded by the Inter-American Development Bank

Projects recently financed by the Inter-American Development Bank promote balanced participation by all actors in the funding and execution of urban heritage conservation programs. To ensure the long-term sustainability of heritage conservation, the Bank has encouraged borrowing governments to establish new institutions and operational procedures, and to reform the institutions responsible for preserving urban heritage. A key objective in these projects is balancing the different interests, costs and benefits among the various actors. To this end, much of the effort has concentrated on developing institutions capable of coordinating these actors.

Aware of the complexity of the processes through which heritage is valued and the risk of inefficient use of public resources inherent in the deficiencies of the mechanisms for allocating resources to conservation, the Bank has concentrated on operations with clear economic and social returns, most of which deal with promoting the urban rehabilitation of central areas (where urban heritage is located) through the efficient use of assets and allocating project costs, benefits and risks among the actors who are most interested in promoting conservation and can benefit from it. These experiments offer significant lessons for reform of the institutional and financial mechanisms for urban heritage conservation.

THE REHABILITATION OF THE HISTORIC CENTER OF QUITO

This project is centered on the activities of a mixed-capital corporation formed by the city government and nongovernmental organizations concerned with heritage conservation the so called Quito Historic Center Corporation (ECH from its Spanish acronym). The program seeks to expand the impact of public actions started in the mid-1980s by the Fund to Save the Historic Center (FONSAL), which restored key monuments with

provincial and city taxpayer funds. Resource limitations prevented FONSAL from tackling the whole complex problem of conservation presented by the historic center. To expand the conservation effort and ensure its sustainability, the Bank-financed project contemplates a coordinated set of investments aimed at preserving urban assets embodying many of the sociocultural values analyzed previously, materializing the community's will to leave this heritage to coming generations, and capturing use values of the urban assets by attracting productive activities to the historic center as well as residents who fled in the 1970s. The objective is to turn the historic center into a multiple use complex that attracts from the entire city. As a result, the ECH has programmed its investments based on the long-term vision of a well-preserved historic center providing space for offices, shops, recreation and residential activities and capable of competing with similar centers located in the outskirts of the city.

On behalf of the city government, the corporation made investments to improve accessibility and the public space. Adequate environmental conditions, ease of access and the availability of convenient parking are important factors for attracting middle- and higher-income clients. Also, the ECH has sought to join forces with private investors to develop pilot projects that show real estate investors (who are generally skeptical of the profitability of investments in historic centers) that these investments are viable. By selling its interests in these businesses, the ECH recovers its investment, and if all goes well, gets part of the profit from the projects. The ECH seeks to involve all social actors in Quito in the roles for which they are most suited. The national government provides resources to preserve monuments. The local government finances the preservation of those components of the urban heritage that are for public use and enters into agreements with private investors to finance the rehabilitation of heritage

Box 1
The IDB's Approach
to Urban Heritage Conservation.

Considering the limited understanding of the connection between heritage conservation and economic development, the Inter-American Development Bank has moved cautiously in funding urban heritage conservation projects. The Bank has concentrated on projects that fall squarely within its mandate to accelerate economic and social development and meet its technical, economic, institutional, financial and environmental review criteria. To determine the eligibility of projects, the Bank applies criteria based on successful international experience and its own policies and operational guidelines.

The Bank **is** interested in projects that:

- Set up conservation models capable of surviving in the long term and becoming self-sustaining.
- Are fully supported by the beneficiary communities or owners of the heritage properties.
- Open channels for participation by private philanthropies as an alternative to public financing through subsidies to make interventions sustainable.
- Encourage public-private cooperation in the execution and financing of conservation.
- Improve the regulatory environment and public functions involving conservation.
- Prevent irreversible loss of heritage properties.

The Bank is **not** interested in projects that:

- Finance activities that can be more effectively financed through market mechanisms.
- Propose isolated activities.
- Distribute conservation cost and benefits unevenly among those involved.

Source: IDB (2001), pp. 8 and 9

properties with sustainable social uses and market demand.

An example of this approach is the social housing program supported by the national housing finance system, which makes direct subsidies and mortgages available to low-income households to buy rehabilitated homes in the historic center. It has enabled the ECH to restore houses through projects in which the beneficiaries pay a large portion of the investment by means of mortgage loans. Additionally, this program has made it possible to keep low-middle and low-income households in the historic center. Otherwise the process of heritage conservation and urban renewal would have forced them out.

The profitability of real estate investments in historic centers, as is the case of those in other areas of the city, fluctuates with economic cycles. The

activities of the ECH have been affected by the economic slump that Ecuador has experienced since 1999. Lackluster demand has precluded the sale of many of the initial investments, so the ECH has cash flow problems. It is to be hoped that the problems attributable to the economic crisis do not weaken the municipality's resolve to rehabilitate the historic center, and that the effort continues in a comprehensive manner when economic growth is restored. Despite these difficulties, the social housing program, which receives mortgage financing from a housing bank and subsidies from the central government, has been able to continue restoring housing for low-income households that want to stay in or relocate to the historic center, demonstrating in a sustainable manner one possible dimension of private participation in the rehabilitation of the center.

GENERAL ARTIGAS RAILWAY STATION

Another type of public-private partnership to promote urban heritage conservation is taking place in Montevideo, Uruguay. The conservation of the passenger terminal building of the General Artigas Railway Station, a national monument, is an interesting experiment in private sector participation in the conservation of property with heritage value. The heritage asset, in this case the passenger terminal building, together with the platforms and yards, were purchased by the *Sociedad Fénix*, a real estate corporation owned by the *Banco Hipotecario* [Mortgage Bank] of Uruguay. The *Sociedad Fénix* turned over the terminal building to private investors in a 30 year concession agreement basis for the development of a cultural, commercial and recreational complex based on a project approved by entities responsible for heritage conservation. The train yards will have residential or commercial use through private real estate projects developed over several years as the demand for them arises.

The desired result is a cultural and recreational attraction, developed by private capital, which is expected to promote renovation of the surrounding area, the neighborhood of *La Aguada*, which is just a few blocks from downtown Montevideo and has experienced serious deterioration following the closing of the railway station. In this case, Bank lending represents a minority share of the investments planned, financing primarily investments to improve or generate public goods. Resources provided by the IDB are earmarked for financing central government investments to re-

store the building and ready it for concession (repairs to the roof, the structure and the façade), and assisting the municipality of Montevideo to carry out infrastructure improvements to encourage development in *La Aguada*. The bulk of the investments will be financed by the private sector, which will initially recover the use value of the building and in the subsequent 15 years achieve the functional recovery of the area through real estate projects for housing, services and businesses.

MONUMENTA PROGRAM

Brazil's *Monumenta* Program represents another strategy to promote joint participation by individuals and groups interested in urban heritage conservation. A Bank loan provides resources to a fund set up by the Ministry of Culture to make nonreimbursable contributions to the financing of projects for urban heritage conservation promoted by the municipalities. The grant from the Ministry of Culture (which covers 80 percent of cost) is earmarked for the rehabilitation of monuments under federal protection and improvements in public spaces and infrastructure in surrounding areas that fall under the jurisdiction of the municipality. In this case, federal funds leverage municipal funds and private investment. The program calls for reimbursable inflation-adjusted loans for owners interested in repairing the structure, roofs or façades of houses in the vicinity of the protected monuments. In this way, the program aims to encourage comprehensive rehabilitation of monument areas and to benefit the low-medium and low-income population.

In Closing

The Inter-American Development Bank's experience in the cases examined has achieved the two necessary conditions for sustainable heritage conservation: involvement of all social actors in their most efficient capacity and in accordance with their best interests, and conversion of the heritage properties for uses for which a demand exists. Urban heritage conservation cannot be tackled through the uncoordinated action of individual actors. It demands concerted action by all interested parties, which can occur only with public sector leadership. Public leadership must encourage the involvement of other interested groups or individuals and channel public and private funding to the most efficient uses: private real estate capital to finance income-producing projects, private philanthropy to conserve the monuments, and public resources to upgrade surrounding areas.

A review of Bank-funded projects and other experience in Latin America and the Caribbean (such as Cartagena de Indias in Colombia) shows that it is possible to attract private investment to the conservation of historic centers if certain conditions are met. For some time private philanthropies have helped fund investments for heritage conservation whenever landmark high-profile projects existed and their costs were commensurate with available resources. Private philanthropies often cooperate with other actors, especially community organizations, to undertake larger scale projects that require more time to complete. However, there is still ample room to increase their participation. To this end, it is necessary to offer donors well-structured institutional channels for participation, such as heritage conservation trusts. Such trusts would receive private and government contributions and be managed by boards representing all interested actors, allocating their resources based on technical criteria and not subject to political pressure. Trusts of this kind are being set up in the municipalities that participate in Brazil's Monumenta Program, in order to ensure the availability of resources to carry on with conservation efforts.

It is harder to attract private real estate investment to the preservation of urban heritage. The necessary conditions to do so include a stable regulatory environment that can offer private investors guarantees concerning the type and quality of other investments flowing to the historic center. The existence of conservation master plans that are fully implemented offers the best guarantees to private investment, which seeks to maximize the long-term value of real estate investments. It is also necessary to create a climate of rehabilitation and conservation in the historic centers. This climate, which results from public investments in the improvement of infrastructure, public spaces and general urban economic development, increase the value of the assets, thereby attracting private investors.

Another necessary condition is the availability of financing for those interested in purchasing space rehabilitated by the private sector or by the mixed-capital corporations, particularly for housing. This is essential to improve the ability of historic centers to attract middle-income households. In order to promote affordable housing and mitigate the negative impact that heritage conservation programs usually have on low-income groups, such families must have access to housing subsidies. Finally, it is necessary to control speculative behavior that could keep properties off the market in hopes of reaping higher rents once conservation investments are made in the vicinity. To do so, governments must enforce regulations in the conservation areas, such as conservation ordinances that authorize the city to expropriate property that is not conserved according to the regulations in force.

Preliminary results of the institutional and operational experiences supported by the Bank in the projects studied indicate that the chosen approach is on track. It has demonstrated that it is possible to involve the private sector in urban heritage conservation, although the process is time consuming and requires a great deal of public leadership and the development of institutions that can permit the

public sector to share in the early risks of the process (and the potential rewards) with private investors. It has also shown that municipalities are central players in sustainable processes of heritage conservation, not only because they are responsi-

ble for key aspects of the process (such as regulation of land and building use, and the quality of infrastructure and public spaces), but because they more closely mirror the interests of the local community.

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