

ECUADOR

**QUITO HISTORIC CENTER REHABILITATION PROGRAM
STAGE II**

(EC-L1006)

LOAN PROPOSAL

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Annex I Logical framework

Electronic Links and References	
Basic Socioeconomic Data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of Loans in Execution and Loans Approved	http://portal.iadb.org/approvals/pdfs/ECen.pdf
Tentative Lending Program:	http://opsgs1/ABSPRJ/tentativelending.ASP?S=EC&L=EN
Information Available in the RE3 Technical Files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=363845
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=542255

ABBREVIATIONS

CORPAIRE	Quito Association for the Improvement of Air Quality
ECH	Quito Historic Center Development Corporation
FONSAL	Quito Cultural Heritage Preservation Fund
ICB	International competitive bidding
LCB	Local competitive bidding
OC	Ordinary Capital
PCR	Project completion report
PTI	Poverty-targeted investment
REMMAQ	Quito Metropolitan Atmospheric Monitoring Network
SEQ	Social equity/poverty reduction

PROJECT SUMMARY
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FINANCIAL TERMS AND CONDITIONS ¹				
Borrower: Municipio of the Quito Metropolitan District, guaranteed by the Government of the Republic of Ecuador. Executing agency: Quito Historic Center Development Corporation (ECH).			Amortization period:	20 years
			Grace period:	4 years
			Disbursement period:	4 years
Source	Amount	Percentage	Interest rate:	LIBOR-based option
IDB (OC/IFF)	US\$ 8 million	80%	Inspection and supervision:	0%
Local	US\$ 2 million	20%		
Total	US\$ 10 million	100%	Credit fee:	0.25%
			Currency:	Single Currency Facility
PROJECT AT A GLANCE				
Project objective: To help develop the economic, social, and cultural potential of Quito's historic center, reinforcing what has been accomplished so far and supporting key activities to usher in a new stage in its development. The program will accomplish its objective through four components. Given limited resources, they are expected to act as catalysts for broader processes and to establish good practices. These components are: (i) basic infrastructure; (ii) social sustainability; (iii) economic development; and (iv) institution-strengthening.				
Special contractual clauses: None.				
Exceptions to Bank policy: None.				
Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Project qualifies as: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/> Verified by CESI on: 24 September 2004. Environmental and social review: See paragraphs 4.8, 4.9, 4.10, 4.11, and 4.12. Procurement: See paragraphs 3.18, 3.19, and 3.20.				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3-Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendation. In no event will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. With regard to the inspection and supervision fee, in no event will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount, divided by the number of six-month periods included in the original disbursement period.

I. FRAME OF REFERENCE

A. Background

- 1.1 Quito, capital city of the Republic of Ecuador and once seat of the Real Audiencia de Quito or Spanish Colonial High Court, possesses one of the world's great historic centers. Its cultural and architectural riches led UNESCO to declare it a world heritage site in 1978.
- 1.2 The historic center's monuments, churches, monasteries, museums, and other buildings, combined with the area's infrastructure, are an existing asset and investment with great development potential, primarily in terms of cultural tourism. The mix of ethnicities, cultures, and traditions that the center draws with 350,000 to 400,000 daily visitors further brightens its economic development prospects.
- 1.3 This potential was curtailed sharply when Quito's historic center began to fall into social and economic decline in the 1950s. A number of factors were involved. The center's traditional, well-to-do residents began moving to new areas that were safer and more vibrant. National and local governments neglected the downtown. Rapid growth brought an influx of people from rural areas, who settled first in the center of the city. Quito's north-south growth pattern means that most traffic must pass through the historic center. The city's geography makes the center a mass transit hub. All these factors contributed to the area's transformation from the 1950s to the 1990s.
- 1.4 The historic center's population shifted substantially in the 1950s and 1960s. Residents were fewer and came from lower-income groups, while the number of daily visitors rose. This caused low-income demand to rise. To meet it, the historic center became more commercial, served for the most part by retailers and street vendors. In the absence of law and order, street selling took over many public areas, gradually expanding, whole streets at a time, until the center became "the city's great bazaar." As haphazard traffic flow rose, a parking shortage and parking at will on streets and sidewalks led to major downtown congestion. At the same time, fear for personal safety increased along with other social ills (prostitution, drug dealing, etc.). The center's former inhabitants let their buildings deteriorate, a trend that worsened dramatically with the 1987 earthquake. The gradual result was urban blight and residential buildings being turned into shops and warehouses.
- 1.5 The historic center's other important function as the seat of the national government became merely symbolic as these problems increased and many government offices moved away. The municipio of Quito also deconcentrated, leaving behind only the historic center management and City Hall.

- 1.6 The center was caught in a vicious circle of declining residency, encroachment of public areas, and rising social ills and traffic congestion that made street trade its one and only function, widening the gap between the area's activities and development and its economic and cultural potential. This created an investment disincentive, depriving the center of goods and services that any residential area must have and making it deserted and unsafe at night.
- 1.7 Awareness slowly grew of the need to break this spiral of decay with its steep social and economic cost, which was ruining an important piece of Ecuador's cultural heritage. The process began with the declaration of Quito's historic center as a world heritage site, and gathered speed in 1987 when the City of Quito Cultural Heritage Preservation Fund (FONSAL) was set up to restore, preserve, and safeguard the city's cultural assets, and Quito embarked on a comprehensive plan to restore its historic center. In 1990 Quito expressed interest to the Bank in financing a project to reverse the decline, which culminated in late 1994 in the approval of the Quito historic center rehabilitation program (loan 822/OC-EC). In 1995 the municipio established the Quito Historic Center Development Corporation (ECH) (see paragraph 3.3),¹ which executed the Bank-funded activities.

B. The Bank's Quito historic center rehabilitation program

- 1.8 Loan 822/OC-EC supported restoration of the heart of Quito's historic center, so as to create an enabling environment to halt its decline and unlock its economic and cultural potential. The program took a three-pronged approach: (i) financing urban infrastructure such as sidewalks, underground cable runs, a city museum, street furniture, and parking garages; (ii) pilot and demonstration projects for partnerships with private enterprise, especially for housing and market centers; and (iii) relocation of street vendors by agreement, and building public market centers to house them. The program is 100% complete and its objectives met as part of an ongoing process, making it the international benchmark for initiatives of its kind.
- 1.9 In 2000 there were over 10,000 street vendors in the historic center, 80% of them at its heart. After a preparation and collective participation phase that lasted several years, more than 6,000 relocated to permanent market centers in 2003. Wholesalers relocated to the south of the city, outside the historic center.
- 1.10 The Bank program should be seen as part of a series of efforts over the last 15 years that have begun to reverse the deterioration at the heart of Quito's historic center. Funds equal on average and in addition to the Bank project

¹ Other stakeholders involved in management of the historic center include: the Central District Manager's Office, the City Council's Historic Landmarks Committee, the National Cultural Heritage Institute, the Housing and Development Office, and the city utilities and corporations.

resources have been invested in the historic center over the past five years from various sources, including: the municipio of Quito, FONSAL, Junta de Andalucía, private contributions, and Empresa Metropolitana. Public investment exceeded US\$25 million in 2000-2004.

- 1.11 These efforts led to substantial improvements in mobility, environmental conditions, and urban space. Key to this were the physical recovery of public space and relocation of street vendors, which radically changed the perception and liveability of the city center. As a result, (i) private sector confidence in the process of socioeconomic revitalization started to build as property values picked up again; (ii) cultural and ancillary services started to diversify and grow;² and (iii) the institutional capacity was created to manage and execute revitalization activities in Quito's historic center.
- 1.12 As explained below, several areas require continued support. While substantial progress has been made on revitalizing Quito's historic center, certain critical areas still need addressing. Otherwise, progress may stall or even backslide.

C. Current status

- 1.13 Precensus data³ show that 50,200 people live in Quito's historic center, distributed unevenly. More than 90% reside in the periphery, where the population density is 2.7 times higher than at the heart. These are generally low-income households. But middle-class families have begun moving back into the periphery and, less so, into the heart of the historic center. Additionally, more than 350,000 people visit daily for work, business, school, and/or transfers from one form of transportation to another.
- 1.14 New economic development is springing up to serve this population, moving the historic center away from its one and only function of street selling. Rounding out the retail trade, now housed in public market centers, are activities associated with domestic and international cultural tourism that better leverage the center's culture, tradition, and infrastructure. Such development is still in its infancy and confined to low-income businesses and services, and a few upscale ones, at the heart of the historic center. The process needs bolstering to build business confidence and diversify private investment outside the housing and commercial sectors, where the ECH has already done so.

² Bars, restaurants, and hotels are swelling the flow of new customers, Quito residents, and Ecuadorian and foreign visitors to the center. Each year over 50,000 tourists, 10% of them from abroad, visit Quito's historic center.

³ National Statistics and Census Institute (INEC), National Population and Housing Precensus, November 2001.

- 1.15 While the relocation of street vendors has gone very well, it has now reached a critical stage. The primary objective of peaceful, consensus-based relocation has been met, but the vendors still need support during the transition process. The ECH is managing the new public market centers with subsidies. Organization and distribution of space within these centers is not as efficient as it could be. Merchandise of all kinds is sold on each level, putting stores on out-of-the-way levels at a distinct disadvantage. Vendors in the centers are constantly in danger of being undercut by competitors who want to sell on the street, undermining the level playing field.
- 1.16 The historic center's merchants, both mainstream and former street sellers, need to shift their business to meet new demand and new circumstances. The former street sellers, now together under one roof, often have overstock of a given product. Established businesses that used to suffer from street sellers blocking access or creating surroundings that limited the type of customer they could serve need to upgrade their locale, merchandise, and marketing strategy to meet new demand that is more diversified and discerning.
- 1.17 Social ills have retreated, but still hamper nearly all activities in the center. The heart of the historic center is safer now, so tourism has increased, even at night. This progress must continue, and area residents and organizations have said they want to help.
- 1.18 The ECH has built private investor confidence in certain nontraditional lines of business in the historic center's economy. It did so with demonstration projects in key sectors, initially assuming much of the risk. Such actions have been most successful in the housing sector, where the ECH began conducting cost-effective projects with little or no private-sector involvement. Several private investors are now financing housing projects themselves. The ECH also pioneered investment in middle-class shopping centers. These projects have boosted investment in the historic center and helped draw residents back in from different social strata. This has proved essential to make the area safer, diversify its economy, and build confidence in the revitalization process.
- 1.19 The ECH created this initial enabling environment for private investment through a range of mechanisms from 100% self-investment for subsequent sale or lease, to coinvestment. Yet during this initial transition period in the center's economic development, the private sector still needs special incentives to invest in certain sectors that are instrumental in spurring balanced economic development, such as services targeted to middle-class customers, entertainment, etc.
- 1.20 There are also still physical problems, especially traffic congestion due mainly to a high volume of light vehicles that generate exhaust and noise pollution and make it difficult to get around. This makes Quito's historic center less attractive as a place to live or start a business. The parking shortage exacerbates the

problem. The general public perceives this as one of the main barriers to lasting change in the sector. It should be borne in mind that the city's geography funnels all vehicle traffic through the center as the connector between north and south. The city has done a number of studies to find and recommend solutions to this problem. It has begun work on some of them, including several macroengineering projects that would necessitate the project for traffic within the center⁴ and the building of more parking space.

- 1.21 Most public spaces in the heart of Quito's historic center have been reclaimed through the removal of street sellers and construction of lighting and infrastructure, breathing new life into the communities and economy around them.
- 1.22 Rehabilitation efforts in the past decade have concentrated on the heart of Quito's historic center, especially the northern part with its heightened potential for cultural and tourism development. This created an imbalance with the southern part, which has more relative poverty and is now less developed but possesses great potential.
- 1.23 The ECH's performance has been satisfactory as executing agency on the Quito historic center rehabilitation program and other work for the municipio. Its proven effectiveness and track record, backed by a solid decade working in Quito's historic center, have made the ECH the main implementation arm for the municipio's downtown renewal policies, running multiple projects in several different areas. Growing demands have at times outstripped the ECH's capacity, making it less efficient at the work it was set up to do.
- 1.24 During execution of the first project, the ECH adhered strictly to Bank rules and policies on procurement and balancing revenues and expenditures. It must focus, modernize, and structure itself and operate as a true business, if revitalization of Quito's historic center is to become a stable process and enter the next phase.
- 1.25 The project completion report (PCR) identified several weaknesses at the ECH, mainly in aspects of control and financial management: no clear procedure for prioritizing investments, no project accounting, slow turnover of finished works to the municipio, and insufficient assets for the ECH to operate as a truly autonomous and self-sustaining entity. The ECH must prepare to meet new demands. It must modernize and restructure, increasing its capital and introducing techniques for strategic, operational, and financial management and project selection and prioritization, and. A new program accounting system instituted during preparation of project phase II is now in operation, although some fine-tuning is needed. The new system has quickened turnover of finished works to the city.

⁴ For the list of studies, see the technical files.

- 1.26 As already noted, the impact and benefits of the rehabilitation process are starting to show, first and foremost the boost to the area's economic and social development. Property values in the center have appreciated by some US\$60 million since the Bank project began, a figure comparable to the investment made during that period. This appreciation has benefited mainly property owners; in Quito's historic center the government and Catholic Church represent over 50%.⁵
- 1.27 The government has recovered some of this appreciation through property tax. Property tax rates per square meter are the highest of anywhere in the city, and five times higher than the average for the rest of the municipio. The government has other instruments for recovering more of the appreciation, principally the special tax on improvements and the capital gains tax. The former has not been used, and the latter has not been very effective.
- 1.28 The average property tax assessed per piece of real estate in Quito is low by the standards of other Latin American countries. Yet payment rates are high at over 70% of tax assessments issued. Owners of large properties are more likely to pay. The cadastre will be updated again in 2005. Even more appreciation of historic center properties is expected, since this will be the first assessment since the retail trade was relocated. The municipal tax law was recently amended to shorten the cadastre update period from five years to two. These two measures should help the government better recover the appreciation in property values. Based on a study during project preparation, a workshop with the new local authorities is also slated, to determine a plan of action for accomplishing this. The Bank and municipio have agreed to request nonreimbursable technical-cooperation funding for the plan.
- 1.29 Renewal of Quito's historic center is a long-term process that is still ongoing, as all these considerations show. It calls for continued support, finishing what was started, strengthening certain institutional activities, and introducing mechanisms for prioritization of actions and projects, all within a flexible framework that can adapt to changing circumstances.

⁵ For more information, see H. Serravalle, "Análisis de Plusvalías en el Centro y sus efectos redistributivos [Analysis of real estate appreciation in the center and its distributional impact]," August 2004, in the RE3 technical files.

D. Lessons learned

- 1.30 In preparing this operation, the project team drew upon lessons learned from the Bank's experience on similar projects⁶ and in Ecuador, especially the Quito historic center rehabilitation program.⁷ They include:
- a. Downtown urban renewal is a long-term process that, if successful, alters the area's socioeconomic dynamics. Government support is needed during the transition period for this to occur.
 - b. The supply-side approach can lead to investments with low private and/or social return. Mechanisms must therefore be built into the operation to adjust and meet demand through flexible, innovative project execution methods.
 - c. Maximum impact is achieved when actions are designed integrally, to address physical, social, and economic factors.
 - d. Program execution by an independent entity operating under private law, like the ECH (see paragraph 3.3), (i) streamlines contracting processes; (ii) makes decision-making more responsive to new demands as they arise; (iii) enables strategic partners to be selected from the private sector; and (iv) lends continuity to critical actions. Taken together, these factors have spurred private sector involvement and stimulated investment in the area.
 - e. Yet private sector investment is still very much in its infancy, partly due to fears that the renewal process may be interrupted. The ECH should work to ensure that the process is sustainable, but not limit its role to managing and promoting change. Rather, it should seek to make change permanent. It is important to note that, as renewal progresses, new needs will arise that call for the executing agency to modernize and grow stronger, and to develop new mechanisms for fostering private investment.
- 1.31 The Bank also organized a CT-Intra in Bogota in late 2003, to exchange know-how on historic center renewal in the region. Bogota municipal officials met with ECH staff there.

⁶ Other Bank-supported activities were also studied, including: (i) the Bogota downtown development plan (TC-0301025-CO); (ii) the PROCENTRO São Paulo downtown renewal program (BR-0391); (iii) the national urban renewal program for "La Aguada de Montevideo" (UR-0112); and (iv) the La Paz revitalization and urban development program (BO-0216). All these operations have yielded lessons that went into the design of this program.

⁷ The program activities, specific outcomes, and lessons learned are set out in the project completion report on the operation, currently pending approval.

E. The Bank's country and sector strategy

- 1.32 The Bank's Country Strategy with Uruguay 2004-2006, which is now in preparation and expected to be submitted to the Board of Executive Directors in October 2004, sets the key objectives of (i) helping to lay the groundwork to spur development of the productive structure, and (ii) promoting social development and social safety nets for the most vulnerable. Underpinning these two priority areas is the crosscutting objective of more efficient public administration. The planned program activities are consistent with these objectives, especially point (i), because targeted actions will stimulate development of the downtown economy more in line with its chief potential of cultural tourism, as well as attract private investment.
- 1.33 The program is also in line with the Bank's strategy for urban development and housing (OP-751), which seeks to: (i) improve the socioeconomic status of the urban population; (ii) strengthen the national urban systems and improve the internal functioning of cities; and (iii) increase the effectiveness of the institutions responsible for the formulation and administration of urban development policies and programs. Specifically, the program fits with objectives (ii) and (iii). Revitalization makes the historic center more effective, and Quito as well, standing as it does at the heart and midpoint of the city. The semipublic corporation ECH is a model for operations in Ecuador and elsewhere.

F. The municipio's sector strategy

- 1.34 With support from the Junta de Andalucía, the Municipio of the Quito Metropolitan District has developed a special plan for Quito's historic center, mapping out a strategy for work there through 2010. It sets a series of priority objectives: (i) enhance the image of areas and symbols that establish and project Quito's status as the capital city; (ii) make the center livable again; (iii) create conditions conducive to cultural, leisure, and recreational activities; (iv) redirect and stimulate economic activity; and (v) strengthen the area's ability to support tourism. Private investment and recovery of the center as a residential area are seen as key factors to ensure the sustainability of what has been achieved so far. All these objectives are built into the program.

G. Program strategy

- 1.35 The historic center's economic and social development is at a critical juncture. The area has entered a new stage of development, following the municipio's efforts over the past decade, including the first program with the Bank. Cleaner streets after the relocation of street vendors, new businesses opening up, safer surroundings, reclamation of public spaces, and other factors have fostered a climate of trust and set the stage for an economic and social process that will benefit residents, help develop tourism and commerce, and protect cultural

heritage. Although this process is under way, Quito's historic center is still underutilized and has not fully reached its economic and social potential.

- 1.36 Getting this new stage in the center's development off the ground requires public-sector leadership for strategic focus, social sustainability, the elimination of negative and accentuation of positive externalities, continuity, confidence in the process, consensus-building, and institution-strengthening to ensure that development is ongoing.
- 1.37 Given limited resources, the proposed program strategy focuses on making the process now under way sustainable. The strategy is threefold: (i) prevent any reversal of socioeconomic progress being made at the heart of the historic center; (ii) strengthen and target the area's development to cultural tourism, mainly by supporting the public-sector activities necessary for sustainability and continued private investment; and (iii) strengthening the ECH as the cornerstone of an efficient development process.
- 1.38 A key part of point (i) will be action to keep the street and pushcart trade from taking back the streets. This must be done for the process to be perceived as stable, and sends an important signal that private investment in the center can continue and increase. The program will also support safety enhancement and social action under this point to assist vulnerable groups. Point (ii) seeks to create an enabling environment for private-sector participation through a fund to support existing small and medium-sized enterprises during this transition period, and to promote and prioritize new private-sector projects that involve public-private coinvestment. Priority public works will also be built under point (ii), to trigger development of certain subsectors. Point (iii) will support the ECH in its institutional transformation. Procedures under the other components will introduce innovative project execution methods to enhance institutional efficiency.
- 1.39 The Bank has an important role to play in this revitalization of Quito's historic center. It can bring to bear strengths or comparative advantages to help identify and coordinate what stakeholders put in and get out of the process, so as to maximize benefits. This is so, first, because the Bank is perceived as an impartial outsider, unaligned with special interests; second, because the rules governing operations lend transparency and credibility to the process; third, because of the Bank's relevant technical experience, which it makes available to the agencies conducting renewal activities. Lastly, the Bank's involvement as distinct from the administration holding office at any given time lends continuity and credibility to the process.

H. Coordination with other donors

- 1.40 A number of donor agencies have supported the historic center rehabilitation process. The operation's design was based on ECH studies done with support from the Italian Trust Fund (TC-0301023-EC). No international cooperation effort provides comprehensive support for the historic center rehabilitation process as the Bank project does. The program design makes allowance for several other, isolated international cooperation activities (European Union, Spanish Agency for International Cooperation), to ensure that they complement one another.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program objective is to help develop the economic, social, and cultural potential of Quito's historic center, reinforcing what has been accomplished so far and supporting key activities to usher in a new stage in its development.
- 2.2 The program will accomplish its objective through four components. Given limited resources, they are expected to act as catalysts for broader processes and to establish good practices. The program's four components are: basic infrastructure, social sustainability, economic development, and institution-strengthening.

a. Basic infrastructure component (US\$4.85 million)

- 2.3 The basic infrastructure component will continue the process of upgrading and better utilizing public spaces in Quito's historic center. It will involve technically viable works with financially viable externalities. Forty-two percent of investments under this component have been identified, studied, and selected. Investments to reduce traffic congestion and make the southern part of the center safer have been given priority.
- 2.4 Initially studied and selected were works totaling US\$2.1 million for the La Ronda 146-space parking complex with 17 business premises (US\$1,142,000), a 21-block lighting project in the southeast zone (US\$486,300), and a preinvestment study for two parking garages (US\$420,000). The remaining works will be selected in program year one with the Bank's prior approval.

b. Social sustainability component (US\$1.45 million)

- 2.5 The social sustainability component will help support the area's social development through three subcomponents: (i) support for sustainable retail trade; (ii) a campaign for community ownership of cultural values; and (iii) a competitive social fund to support citizen participation.
- 2.6 The first subcomponent (US\$311,000) will continue to support the relocation of retail trade from the streets to public market centers through: (i) a consulting assignment to help sellers gain a sense of ownership and better manage the public market centers, improve their merchandise, and design marketing strategies; and (ii) an education campaign to convince the center's residents and those who flock to it daily not to shop from street vendors.

- 2.7 The second subcomponent seeks to create greater community ownership of the cultural values and history that the center represents. This is expected to lead to greater citizen participation in cultural and historical preservation, and bring more Quito residents into the center for business and/or leisure activities. This will be done through a media campaign targeting the city's residents (US\$339,000).
- 2.8 The competitive social fund seeks to provide a transparent and efficient mechanism for getting civil society organizations involved in solving the center's social problems. The program will finance the first two years of a fund (US\$800,000) that will support projects by open competition to address issues of child labor, family health and domestic violence, public health, safety, illiteracy, displaced populations, and the environment.
- 2.9 One of the fund's objectives in supporting social projects by open competition is to introduce new players and new ways of dealing with social ills. Consequently, long-term sustainability is important; the fund is expected to demonstrate its effectiveness during the first two years and raise financing from other sources (the city government and/or private individuals) in order to continue operating. This means that the ECH must keep sector stakeholders informed and involved in the execution of this component from the start.

c. Economic development component (US\$2 million)

- 2.10 The central objective of this component is to support the center's economic development with an accent on cultural tourism through a fund for: (i) coinvestment with the private sector, and (ii) business transformation planning assistance to existing small or medium-sized enterprises.
- 2.11 The fund will support coinvestment with the private sector as a way of attracting private investment to economic areas just starting to develop in the center. It will fund financially viable business projects with the ECH as coinvestor for an average of three years, after which the ECH must sell its shareholding, striking a balance between its criteria of limited earnings-generation and investment efficiency and profitability. The ECH will contribute up to US\$250,000 per project, not to exceed 60% of the total cost. Two projects have been identified initially that qualify for such funding: the Santa Clara cultural and shopping center and the tourist express line to Quito's historic center.
- 2.12 The fund will also finance consulting support for existing businesses or, preferably, business networks in the historic center that wish to modernize in response to the area's transformation. These businesses must have operated in the center for at least one year and have US\$12,000 or less in monthly sales of products/services and 10 or fewer employees. Applications from businesses will be selected on a first-come, first-served basis. The nonreimbursable funding of up to US\$20,000 per project for businesses and US\$50,000 per project for business

networks will cover consulting costs for: (i) qualitative improvements to products or services; (ii) access to commercial credit; (iii) technical and institutional capacity building; and (iv) market development.

d. Institution-strengthening component (US\$300,000)

- 2.13 This component will continue to support the ECH as an efficient institutional manager for promoting the center's economic and social development. The program will help the ECH to modernize, prepare a strategic plan, and restructure and develop human resources in keeping with it. Systems and procedures will be introduced or enhanced for market research, project evaluation and management, reporting to shareholders, project accounting, budgeting, information technology, and monitoring and evaluation, with special emphasis on measurement of program performance indicators.

e. Program management, audits, and evaluations (US\$600,000)

- 2.14 Costs under this heading include: (i) the incremental program management cost to the ECH (US\$430,000); (ii) outside consultants for midterm and final evaluations of the program; and (iii) an outside independent audit firm for financial and accounting audits of the executing agency and the program.

B. Scope, cost, and financing

- 2.15 The total program cost will be US\$10 million. The principal constraint on the program's scope was the fiscal capacity of Ecuador's national government, which will guarantee the loan. Other factors considered were: (i) analysis of investment needs, based on a diagnostic assessment of the historic center; (ii) analysis of specific projects; (iii) the ECH's institutional capacity, and (iv) the municipio's fiscal capacity to contribute counterpart resources and repay the debt.
- 2.16 Table II-1 shows a program cost breakdown by source of financing.⁸ The total for the program does not include the private-sector contribution; private investors must contribute at least US\$1,257,000 in order to obtain financing under the program.

⁸ Financial expenses may be adjusted after negotiation, once the financing percentage is approved under the Intermediate Financing Facility (IFF) mechanism.

Table II-1
Program cost and financing
(in US\$ thousands)

Item	IDB		Local contribution		Total	
	US\$	%	US\$	%	US\$	%
I. Management	170	2%	430	22%	600	6%
1.1 Incremental costs of loan administration			430		430	
1.2 Program audits	100				100	
1.3 Midterm and final evaluations	70				70	
II Components	7,830	98%	770	38%	8,600	86%
2.1 Social sustainability	1,450				1,450	
2.2 Private investment stimulus	1,780		220		2,000	
2.3 Urban infrastructure	4,600		250		4,850	
2.4 Institution-strengthening			300		300	
III Contingencies		0%		0%	0	0%
IV. Financial expenses (interest, credit fee, inspection and supervision)		0%	800	40%	800	8%
Total	8,000	100%	2,000	100%	10,000	100%
%	80%		20%		100%	

III. PROGRAM EXECUTION

A. Borrower, guarantor, and executing agency

- 3.1 The borrower will be the Municipio of the Quito Metropolitan District, the guarantor will be the Government of the Republic of Ecuador, and the executing agency will be the Quito Historic Center Development Corporation (ECH). These three will enter into a substantive agreement to guarantee and govern the flow of funds among them. **Signature of such agreement will be a condition precedent to the first disbursement.**

B. Program execution and management

1. Executing agency

- 3.2 The Quito Historic Center Development Corporation (ECH) was founded on 23 June 1995 as a semipublic corporation under private law with its own assets. It is 90%-owned by the Metropolitan District of Quito. The ECH can enter into or perform any relevant contract in pursuit of its corporate purpose, including partnerships with other persons or corporations on projects consistent with that purpose.
- 3.3 ECH execution of Bank loan 822/OC-EC has been satisfactory, and it possesses the institutional capacity for the new program. Currently, the ECH has six executives and 33 technical and administrative staff.
- 3.4 The institutional assessment by the Bank and consultants engaged for program preparation identified specific areas where the ECH needs strengthening or adjustment to build institutional capacity and gear its structure to a new role for the transformation of Quito's historic center. These actions are all part of the institutional strengthening component, which will strengthen the ECH in strategic planning, IT and accounting systems, evaluation, and monitoring. Based on these assessments, agreement was reached with the borrower that, within 12 months after the program is declared eligible, the ECH's capital will be increased to US\$1.5 million by capitalizing local counterpart resources from the Rehabilitation Fund set up under loan 822/OC-EC, and its charter will be amended to make its operations more autonomous and expand private-sector representation on its board of directors.
- 3.5 The executing agency will: (i) administer the program financial resources and ensure adherence to the rules and procedures of the loan contract; (ii) ensure that annual work plans are followed and program targets met, based on the indicators in the logical framework; (iii) approve the program regulations and project technical, economic, financial, institutional, social, and environmental impact

studies; (iv) developing designs for works, terms of reference for consulting contracts, and requests for proposals and bidding documents for public tenders; (v) approve, award and contract for, and supervise program-funded works and consulting contracts; (vi) enter into partnership agreements and open joint trust fund accounts at fund management firms with private-sector companies to execute Bank-approved coinvestment projects; (vii) work with municipio agencies in complementary fashion in Quito's historic center, and coordinate project design and turnover of works to the municipio for subsequent operation and maintenance; and (viii) prepare and deliver project reports and annual and final evaluations to the Bank.

3.6 Moreover, the executing agency will:

- a. Prepare and deliver to the Bank (i) disbursement requests and supporting documentation for eligible program expenditures; (ii) half-yearly reports on movements in the revolving fund; and (iii) audited financial statements for the program and the ECH, and any other reports requested by the Bank; as well as (iv) maintain an effective system to store supporting documentation for eligible expenditures for review by Bank staff and external auditors.
- b. Maintain effective information systems for program financial management and management accounting, integrated with the ECH's official accounting, as well as a contract management and project oversight system with an internal control structure for managing Bank and local counterpart resources and those of other financiers in accordance with Bank requirements.
- c. Maintain separate bank accounts specifically to manage the loan proceeds and local counterpart funds.

3.7 Prior to the close of each year, the executing agency will prepare and deliver to the Bank, for review and approval, an annual work plan (AWP) with the activities planned for the following year. The AWP will contain a description of component activities and the disbursement schedule for the Bank loan and local counterpart contributions for each year. The Bank project team has approved the AWP for year one. Also approved as part of the AWP were the studies and terms of reference for projects and consulting services, training, and awareness campaigns totaling US\$2.9 million, equivalent to 29% of the total program cost.

2. Component-by-component execution

C. Basic infrastructure

3.8 The ECH will be responsible for issuing requests for proposals, awarding contracts, and supervising works under this component. For program year one, projects have been identified and approved totaling US\$2 million, equivalent to 42% of the total cost. For subsequent years, the ECH will identify projects and

develop feasibility studies and final engineering designs to be submitted to the Bank for approval. Requests for proposals, competitive bidding, and works execution will be in accordance with the standard Bank procedures used for loan 822/OC-EC. Prior Bank approval will be required for the remaining projects yet to be identified. The executing agency must submit studies and final designs, establish that it owns the land on which the works are to be built, and provide evidence of the consent of public utilities whose networks, facilities, or equipment may be affected.

- 3.9 The executing agency will provide a maintenance and operation plan for up to two years as a prerequisite to Bank approval of each infrastructure project. Public infrastructure works will be transferred to the municipio for operation and maintenance within 24 months after completion.

D. Economic development

- 3.10 This component will be conducted in accordance with the operations manual approved by the Bank for the economic development fund. The fund will finance technical assistance to modernize existing companies and coinvestment projects with private-sector entities. The technical assistance will include consulting for small or medium-sized enterprises operating in the center, to enhance their product quality, access to commercial credit, technical and institutional capacity, marketing skills, training, and communications.
- 3.11 The ECH will select businesses to receive advisory support based on proposals received and the selection criteria set out in chapter II of the operations manual. **The entry into force of the Operating Regulations will be a condition precedent to the first disbursement.** The beneficiary of the financing will be a private company operating in the center that wishes to modernize. To ensure that the funds are used for the intended purposes, the ECH will contract the firm providing the advisory services directly, based on the contract entered into between the firm and the private company. The contract will require prior ECH approval. Firms will be selected to provide advisory services in accordance with Bank rules, approved by the company receiving the services and the ECH, and sent to the Bank for its nonobjection. After program year one with Bank approval, these contracts may be sent to the Bank for ex post review.
- 3.12 In coinvestment projects with the private sector, the loan proceeds will be used to fund ECH capital contributions to joint projects with private-sector firms. Executing agency contributions will be capped at US\$250,000 per project. The ECH will remain a shareholder of such businesses for an average of up to three years, after which it will sell its shares. Although the private partner will have priority, the process of buying the shares will be open and transparent (see paragraph 2.11 for further detail).

- 3.13 The ECH will select projects on the basis of technical and economic feasibility studies. Projects will be declared eligible for Bank disbursements once the following requirements have been met to the Bank's satisfaction: (i) the feasibility studies have been approved, (ii) the partnership agreement between the ECH and the private investors for each selected project has been formally executed; and (iii) a trust fund has been set up, and all resources committed for the project have been deposited in accordance with approved timetables. The trust fund will be used to make disbursements for investment expenditures through the conclusion of the respective project. All procurements through trust funds will adhere to procedures acceptable to the Bank.

E. Social sustainability

- 3.14 Expenditures for consulting, training, and awareness campaigns will be funded under the subcomponents to support the relocation of retail trade from the streets to public market centers and to create greater community ownership of cultural values in the historic center. The ECH will contract consultants following standard Bank procedures similar to those used to authorize expenditures and disbursements for analogous activities under loan 822/OC-EC. The program will involve no resettlements.
- 3.15 The fund to support citizen participation will be governed by a Bank-approved operations manual. The ECH will be supported by a technical committee consisting of one representative each from the Central District administration, the manager of ECH or his representative, and one from the Central District municipal councils. The technical committee will select projects for each competition, monitor the subcomponent, and support ECH management in obtaining financing to make the fund sustainable.
- 3.16 The ECH will issue at least one open request for proposals each year, containing the technical guidelines for proposal submission and project selection. Projects will be selected on the criteria given in chapter II of this report and in the Operating Regulations. **The entry into force of the Operating Regulations will be a condition precedent to the first disbursement.** Funding will be capped at US\$40,000 per project and may not exceed 70% of the total project cost. Contracts will be drawn up with the selected entities through the ECH and sent to the Bank for its nonobjection. After the first competition, with Bank approval these contracts may be sent to the Bank for ex post review.

F. Institutional strengthening of the ECH

- 3.17 Consulting, equipment, and training costs to strengthen executing agency capacity in information technology, strategic planning, and monitoring and evaluation will be funded with local counterpart resources. Such consulting and equipment expenditures will follow standard Bank procedures.

G. Procurement

- 3.18 Works, goods, and consulting services will be procured in accordance with Bank procurement policies and procedures. The thresholds for international competitive bidding (ICB) will be US\$250,000 for goods, US\$2 million for civil works, and US\$200,000 for consulting services, awareness campaigns, and training. Tenders below these thresholds will be conducted in accordance with ad hoc procedures agreed with the Bank for Ecuador. Price may be used as a selection criterion for consulting services, pursuant to document GN-1679-3. Direct contracting for consulting services, training, and awareness campaigns will be permitted for amounts under US\$30,000.
- 3.19 Procurements in the following amounts will be subject to ex ante review: (i) works in excess of US\$500,000; (ii) goods in excess of US\$100,000; (iii) consulting, training, or awareness campaigns through consulting firms in excess of US\$100,000; and (iv) individual consulting contracts in excess of US\$50,000. Contracts below these thresholds will be governed by ex post review procedures with the exception of consulting assignments under the economic development component in program year one and contracts awarded in the first competition of the fund to support citizen participation, which will be subject to ex ante review by the Bank.
- 3.20 Annex II gives an itemized breakdown of program procurements. The executing agency will update the procurement plan as part of its semiannual reports.

H. Execution and disbursement timetable

- 3.21 The program has an execution period of four years, running from the effective date of the loan contract. Table III-1 shows the disbursement timetable for the program. The executing agency is not requesting reimbursement of prepaid expenses.

Table III-1
Investment disbursement timetable
(in US\$)

	1	2	3	4	Total
IDB	2,988,303	2,160,684	1,216,148	1,634,865	8,000,000
Local	830,099	525,000	319,901	325,000	2,000,000
Total	3,818,402	2,685,684	1,536,049	1,959,865	10,000,000
%	38%	27%	15%	20%	100%

- 3.22 The expected disbursement processing method is ex post review (OA-350). Accordingly, at least the first reimbursement must be processed with ex ante review, and the Country Office must provide an assessment of the executing agency's managerial capability to institute the ex post process with the Country Officer's approval in accordance with document AF-600.

I. Revolving fund

- 3.23 A revolving fund will be set up in an amount equivalent to 5% of the loan proceeds. Consistent with Bank policies (OA-345), however, it may be necessary to temporarily increase the amount set aside to 10% of the total loan in the second through fourth six-month periods, in order to execute the program as planned. The executing agency will deliver semiannual status reports on the revolving fund within 60 days after the end of each six-month period.
- 3.24 All loan proceeds will be allocated in a manner consistent with the Accountability, Stabilization and Fiscal Transparency Act governing the use of external debt resources. The local contributions will come from the budget of the municipio of Quito and the ECH's own equity capital resources.

J. Monitoring and evaluation

- 3.25 The Bank will conduct annual AWP reviews after the close of each calendar year and reach agreement on the AWP for the immediately following year.
- 3.26 A midterm and a final evaluation will be funded out of the loan proceeds. The midterm evaluation will be done in conjunction with the Bank and expand upon the lessons learned that were documented in the project completion report (PCR) for program phase I. The midterm evaluation will be done two years into the program or once 50% of the loan proceeds have been committed, whichever comes first. The final evaluation will be done 42 months into the program or once 90% of the loan proceeds have been committed, whichever comes first. The baseline set at the analysis stage for the logical framework indicators will be used for the midterm and final evaluations of the program. The final terms of reference for the consultants to be contracted for the midterm and final evaluations must be sent to the Bank for review and approval within the first 120 days of the program, running from the effective date of the loan. The ECH will gather, store, and retain all information necessary for the midterm and final evaluations and the PCR in accordance with document AF-600.
- 3.27 The borrower has also agreed to fund an ex post evaluation of the program with its own resources. The Bank will provide such advisory support as the borrower may request; the borrower will share the evaluation findings with the Bank.

1. Audits

- 3.28 During program execution, the ECH will submit annual financial statements on the program and the entity. A firm of independent auditors acceptable to the Bank will conduct the audit in accordance with documents AF-100 and AF-300, and under terms of reference previously approved by the Bank (documents AF-400 and AF-500).
- 3.29 The external audit will address finances and operations, for which an interim report will be deliverable within 60 days after the close of each six-month calendar period during program execution. Audited annual financial statements on the program and the entity will be deliverable within 120 days after the close of the fiscal year. Audited financial statements will be deliverable at program-end within 120 days after the last disbursement.
- 3.30 The audit firm will be selected and contracted using the procedures established in the bidding documents for the procurement of external audit services (document AF-200). External audit costs will be included in the project cost and financed out of the Bank loan proceeds.

IV. VIABILITY AND RISKS

A. Rationale

- 4.1 As noted above, the economic and social development of Quito's historic center is at a critical juncture that requires continued support from the public sector. The municipio has identified the revitalization of the historic center as one of its principal projects; this program is part of the process.
- 4.2 The Bank has an important role to play in this revitalization of Quito's historic center. It can bring to bear strengths or comparative advantages to help identify and coordinate what stakeholders put in and get out of the process, so as to maximize its benefits. This is so, first, because the Bank is perceived as an impartial outsider, unaligned with special interests; second, because the rules governing operations lend transparency and credibility to the process; third, because of the Bank's relevant technical experience, which it makes available to the agencies conducting renewal activities. Lastly, the Bank's involvement as distinct from the administration holding office at any given time lends continuity and credibility to the process.
- 4.3 The actions of the government and the Bank will help to consolidate what has already been achieved, attract more private investment, and breathe new life into civil society activities in the area. Discontinuing support would stall this process and might even cause it to backslide.

B. Institutional viability

- 4.4 The ECH gained valuable experience as executing agency on phase I of the Quito historic center rehabilitation program (EC-0169) and other, complementary operations for the municipio of Quito, making it the main implementation arm for the municipio's downtown renewal policies. Progress was also made during preparation on instituting a program/project accounting system, which is now up and running; exploring procedures for the ECH's future work with the municipio; and improving ECH financial planning and projections. The ECH worked to address the qualifications of the external audit and is finalizing turnover to the municipio of the works built in program phase I. The indicators proposed to measure program outcomes are based on existing sources of information.
- 4.5 The ECH's institutional capacity will be strengthened through program support for modernization and better strategic planning. The program will also help the ECH to restructure, develop its human resources, and enhance its systems and procedures for market research, project evaluation and management, reporting, accounting, budget, information technology, and monitoring and evaluation. Consequently, the ECH should be able to execute the program effectively, given

its experience, administrative fine-tuning, and the institutional strengthening it will receive under the proposed loan, which will enable it properly measure program outcomes.

C. Financial viability

- 4.6 Assessment of the financial condition and outlook of the municipio and the ECH indicates that the program is financially viable. No risks are anticipated as a result of the following: (i) The debt carrying capacity of the municipio of Quito is acceptable and within the limits set in the Accountability, Stabilization and Fiscal Transparency Act (law 2002-72, published in official gazette no. 589 of June 2002): the ratio of total liabilities to total revenues does not exceed the 100% specified in the Act in any year, and total debt service (amortization, interest, and expenses) in any year represents less than 18% of total revenues for that year and remains below the 40% specified in the Act. (ii) The local counterpart resources to be contributed by the municipio represent less than 1% of its annual current revenues during program execution. (iii) ECH projections show that it will have sufficient resources to execute its other programs and projects and cover their operating expenses. For these reasons the Ministry of Finance has given the program high priority, as reflected in its commitment to guarantee the proposed Bank loan.

D. Technical viability

- 4.7 The projects under the program are technically simple and of a type familiar to the institutions executing them. A sample of projects under each component was reviewed during program preparation. Most are eligible for program funding, inasmuch as they meet national standards and specifications, are technically viable, and offer least-cost solutions.

E. Environmental viability

- 4.8 The environmental assessment noted that the program will have a number of positive environmental impacts in the area. The most important will be sustainability of the current conditions achieved over the past decade, such as the relocation of street vendors, greater safety, less visual and air pollution, public health gains, and the rehabilitation of public spaces.
- 4.9 The data analysis generated by the Municipio of the Metropolitan District of Quito through the Quito Metropolitan Atmospheric Monitoring Network (REMMAQ) of the Quito Association for the Improvement of Air Quality (CORPAIRE) indicates that air quality in Quito's historic center (at the Radio Central measurement station) is satisfactory in terms of carbon monoxide (CO), nitrogen dioxide (NO₂), and sulphur dioxide (SO₂) levels. Measurements were taken in June 2003 and May 2004 as a baseline to evaluate this program's impact.

- 4.10 The new parking garages and express tourist transportation will reduce polluting emissions and traffic congestion. Support for the management of market centers and training their leaders, along with the campaign against shopping from street vendors, will help make the retail trade sustainable and keep it from moving back into the street. The social fund will support community initiatives on public health and the environment. The only adverse environmental impacts will be while the parking garages are being built. These are temporary and will be mitigated through the inclusion of constructive environmental measures in the respective bidding documents.

F. Social viability

- 4.11 The program should have substantial social support as part of a process that: (i) has allowed much of the population to regain their pride in the cultural and historical values represented, and now showcased, by Quito's historic center; (ii) has reinstituted and given new direction to a very promising process of economic development; and (iii) has got residents involved in addressing their problems, especially on such important issues as relocation of the street trade and, in this new phase, meeting the needs of vulnerable groups and managing the public market centers. A number of different civil society institutions and groups involved in the center's development were consulted during preparation through a workshop and bilateral dialogue. Their input influenced the program design.
- 4.12 The program will benefit vulnerable groups through the community participation fund, foster dialogue on how public property is to be managed, and help build a sense of community ownership of cultural assets. The program will involve no resettlements.

G. Economic viability

- 4.13 Ongoing support for efficient and effective recovery in the presence of sunk costs and multiple needs will mean that the benefits of proposed measures must outweigh their costs. The cost-benefit and least-cost economic analysis of program components addressed this concern. The following table presents the findings. For greater detail, see the [Summary of Economic Analysis](#).⁹

⁹ The socioeconomic analysis can be consulted in the RE3 technical files.

Table IV-1. Summary of economic analysis findings

Components and projects	Economic return			Financial return	
	Least cost*	NPV (US\$)	IRR**	NPV (US\$)	IRR**
1. Social sustainability component					
1.a Sustainable retail trade and community ownership of cultural values	n/a	61,000	15.0%	n/a	n/a
1.b Competitive social fund to support citizen participation		E(+)	E(>12%)	n/a	n/a
2. Basic infrastructure development component					
2.a La Ronda parking complex project	-14.2%	1,257,000	26.0%	692,700	22.1%
2.b Lighting project in the historic center's southeast zone	-3.2%	70,000	14.4%	n/a	n/a
2.c Feasibility study for two parking garages	n/a	130,500	31.0%	n/a	n/a
3. Economic development component					
3.a Support for private investment: technical assistance and coinvestment fund	n/a	31,600	>12%	n/a	n/a
3.b Potential coinvestment projects					
3.b.1 Tourist bus company	-2.1%	E(+)	E(>12%)	549,400	66.1%
3.b.2 Santa Clara center	-4.6%	E(+)	E(>12%)	19,900	24.3%
3.b.3 Cathedral museum (not accepted)	-5.8%	?	?	-719,000	<12.0%
4. Institution-strengthening component					
4.a Administrative and financial strengthening of the ECH	n/a	156.9	27.5%	n/a	n/a

Source: IDB, based on a study by the Italian Trust Fund.

n/a: "not applicable."

* The percent difference in cost between the most economical alternative and a comparable option.

** A 12% economic rate of return was taken as indicative of the opportunity cost of public funds. A 14% financial rate of return was used for projects with private participation.

Note 1: Financial analysis was favored on coinvestment projects, since a return higher than the opportunity cost of funds is essential to attract private investors. In the absence of reliable data for quantification, however, other feasible economic costs and benefits were analyzed. There is no strong evidence that the projects might not be cost-effective, even when not profitable from the perspective of a private investor.

Note 2: E(+) and/or E(>12%) indicate that benefits are expected to far outweigh costs, especially when the return on private investment is positive, since the factors not taken into account are generally positive externalities.

H. Poverty targeting and social equity classification

- 4.14 This operation does not qualify as a social equity enhancing project (SEQ), as described in the indicative targets mandated by the Bank's Eighth

Replenishment,¹⁰ nor does it qualify as a poverty-targeted investment (PTI). Yet it is important to note that 8% of the program resources (the competitive social fund) will directly benefit the poor and/or homeless of Quito's historic center. These resources will mushroom, as long as local commitment to finding alternative sources of funding remains strong. Moreover, the actions to make the retail trade sustainable (3% of total resources) target mainly low-income families.

I. Long-term sustainability

- 4.15 What needs to happen for the project to be sustainable is known. In addition to halting a downward social spiral that was steepening the historic center's decline (such as public spaces being taken over and misused), we are beginning to see, with program support, some very positive developments that are complementing and reinforcing one another. Especially noteworthy are: (i) growing private investment as the center is perceived as an attractive place for new ventures; (ii) Quito residents' commitment and pride in what has been accomplished; (iii) more experienced, stronger public institutions leading the urban renewal effort; (iv) an ongoing process, independent of which political party holds office in the municipio; and (v) increasing tourism and residency, driving diversification of the center's economy. All things considered, given political, economic and social stability it is difficult to see how these processes could be reversed.

J. Expected benefits

- 4.16 To varying degrees, all of the Quito historic center's over 50,000 residents, the over 350,000 daily visitors from the Quito area, and the roughly 300,000 tourists who visit each year will benefit from greater safety, public health gains, shorter travel times, and better business services and facilities, urban infrastructure, and environmental quality.
- 4.17 Sustainability actions will make more than 6,000 relocated street vendors more competitive (mainly women). Over 20,000 children will take part in the campaign for community ownership of the cultural values and achievements that the center represents. The social fund will potentially benefit the 40,000 poor inhabitants of the center through specific projects.
- 4.18 Some 40 small businesses will receive technical assistance and financial management support through the technical assistance fund. Both are essential to their efforts to improve product quality.
- 4.19 Over 500 drivers a day will have better parking facilities, saving time and vehicle maintenance. All of the center's residents and visitors will benefit indirectly from

¹⁰ Document AB-1704.

less pollution and traffic congestion. Those located on, or passing through, the 21 blocks that will receive street lighting will be safer with fewer crimes¹¹ and accidents.

- 4.20 Finally, the institution-strengthening component will train 43 ECH staff and place greater technical resources at their disposal, which should enable them to do better work and become more productive. This will give the municipio a stronger, modernized agency to efficiently and effectively lead renewal of Quito's historic center.

K. Expected outcomes

- 4.21 In addition to providing continuity,¹² the program activities will reinforce some beneficial processes that are just getting underway for renewal of Quito's historic center. Specifically, the program activities are expected to: (i) increase private sector investment in a stable, steady manner; (ii) free up more real estate that can safely be used for housing, businesses, and services; (iii) enable public space to be used more sensibly and efficiently; (iv) make the heart of the historic center more of a tourist attraction through a sound sector development strategy; (v) strengthen the ECH's strategic and operational capacity, and make its decision-making more transparent; (vi) prevent degradation of the city's cultural heritage; (vii) bolster the process of relocating street vendors to public market centers; (viii) make it easier to travel through the heart of the historic center; (ix) get the community more involved in solving social problems that affect the center; (x) make citizens prouder of their city center, so that the community is an effective instrument of continuity and will safeguard what has been achieved so far; and (xi) enhance product and service quality and diversity, mainly in relation to tourism.

L. Risks

- 4.22 The first risk is the long-term continuity and stability of the process. The municipio government exercises great influence over the ECH. This makes it highly dependent on whoever is in office at the time, which the private sector sees as an investment risk. Both the mayor and the ECH have expressly acknowledged this weakness and committed to restructure the ECH, so as to strike a better balance and lend greater continuity and stability to its work. This change will be supported by the institutional strengthening measures built into the program.
- 4.23 The second risk is an absence of mechanisms to secure investments with spillover effects, the recovery of resources, and their ongoing reinvestment to sustain the

¹¹ In 2004, 122 people reported being the victim of a crime in the target area for the lighting project.

¹² Recovery is very likely to halt, and even reverse itself, if no practical steps are taken in key sectors. This would be an enormous social and economic blow to the country, since numerous investments already made would go to waste.

process. Right now, there are no formal technical instruments that would provide incentives or assign priority for funding projects with great potential for success. The rules governing the private coinvestment fund, which is an important step in addressing this state of affairs, are expected to come into general use and last beyond this operation.

- 4.24 The third risk is a lack of consensus and coordination, such that the impact of investments in Quito's historic center cannot be leveraged to the fullest extent. The response is to strengthen the ECH, so that it can lead the renewal process and play an active role in forging partnerships with key stakeholders.
- 4.25 The fourth risk is Ecuador's political and macroeconomic stability. A program that is highly dependent on private investment needs a climate of stability and continuity. Otherwise, private participation will not be forthcoming.

LOGICAL FRAMEWORK
QUITO HISTORIC CENTER REHABILITATION PROGRAM - STAGE II
(EC-L1006)

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal			
G. To help develop the economic, social, and cultural potential of Quito's historic center, reinforcing what has been accomplished so far and supporting key activities to usher in a new stage in its development.	<p>G1. The number of private businesses providing cultural tourism services and other goods and services has increased by 15% by program end, and by 20% two years thereafter. Baseline: 343 establishments, year 2004.</p> <p>G2. The price of real estate at the heart of Quito's historic center has appreciated at least 20% more than in the rest of Quito by program end. This trend continues two years thereafter. Baseline: US\$88 per m² average at the heart of Quito's historic center (total González Suárez); US\$41 per m² average in southern Quito (Magdalena, Chilibulo, and Ferroviaria neighborhoods); US\$243 per m² average in northern Quito (Mariscal Sucre, Iñaquito, Rumipamba, and Jipijapa neighborhoods).</p> <p>G3. The number of tourists visiting the center has risen by 20% by program end, and by 25% in the two years thereafter. Baseline: approximately 300,000 tourists from Ecuador and abroad (Plan Q projections for 2005).</p>	<p>Cadastre of historic center properties, Municipio of the Metropolitan District of Quito.</p> <p>Property Assessment and Cadastre Office of the Quito municipio.</p> <p>Report of the specialist who repeats the analysis done during preparation of the operation.</p> <p>Program final evaluation.</p> <p>Admission statistics for museums in the historic center (Metropolitan Tourism Corporation).</p>	<p>Recovery of Quito's historic center remains a priority for the local and national governments.</p> <p>Political, social, and macroeconomic stability creates an enabling environment for development of the historic center.</p> <p>There is consensus among key stakeholders in the historic center recovery process on the type of development to be pursued.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>G4. The average property tax assessment per property assessed has increased by 15% by program, and by 20% two years thereafter. The average assessment per property was US\$47 in 2003.</p> <p>G5. The streets of Quito's historic center remain free of street vendors at program end, and in the two years thereafter.</p>	<p>Metropolitan Information Technology Office.</p> <p>Program final evaluation.</p> <p>Reports of the central zone manager's office. Program final evaluation.</p>	
Purposes			
<p>P1. To contribute to the process of making Quito's historic center socially sustainable.</p>	<p>P1.a. Management of the public market centers is in the hands of the merchants, who finance at least 50% of the operating and maintenance costs, by program end. Baseline: ECH-Municipio expenditures of US\$2.3 million from May 2003 to May 2004.</p> <p>P1.b. 75% of the population thinks it is better not to buy from street vendors in Quito's historic center by two years into the program (64% in 2003), 85% in 2008, and 90% by two years after program end.</p> <p>P1.c. At least 10 civil society and/or community organizations have executed new social-sector projects in Quito's historic center.</p> <p>P1.d. By program end, 65% of merchants in the public market centers consider them the best place to work, and the percentage rises gradually thereafter. Baseline: 66% of street vendors relocated to the public market centers consider the street a better place to work (2004 opinion survey).</p>	<p>Program executing unit reports.</p> <p>Program final evaluation.</p> <p>Opinion survey.</p> <p>Program midterm and final evaluations.</p> <p>Social fund records.</p> <p>Program midterm and final evaluations</p> <p>Monitoring system half-yearly reports.</p> <p>Opinion survey.</p> <p>Program final evaluation.</p>	<p>Society gains a sense of ownership of the process of rehabilitation and revitalization of the historic center.</p> <p>The work of the main entities involved in renewal of the historic center is coordinated effectively.</p> <p>There is continuity in the public market center sustainability policy.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>P2. To promote increased investment in the historic center.</p>	<p>P2.a. The number of applications from private investors to cofinance projects in the historic center each year has increased 50% by two years into the program, and at least holds steady in subsequent years. Baseline: 20 applications submitted, 2 implemented (2003).</p> <p>P2.b. At least 2 networks of merchants in the historic center are up and running by program end.</p> <p>P2.c. 60 micro and/or small enterprises in the historic center have obtained credit during program execution from formal institutions to upgrade their businesses (an average of 15 per year), and those numbers at least hold steady in the two years after program end.</p>	<p>ECH records.</p> <p>Program midterm and final evaluations.</p> <p>Monitoring system half-yearly reports.</p> <p>Technical assistance fund report.</p> <p>Program final evaluation.</p> <p>Private financial system statistics.</p> <p>Program midterm and final evaluations,</p> <p>Monitoring system half-yearly reports.</p>	<p>A consensus-based policy of tourism development for the historic center is maintained.</p> <p>Political, social, and macroeconomic stability creates an enabling environment for development of the historic center.</p>
<p>P3. To continue upgrades and improvements in the use of public space.</p>	<p>P3.a. At least 12,600 m² of public space has been lit and improved by program end.</p> <p>P3.b. After one year of project execution, the number of crimes committed mainly at night falls by at least 14% in the streets where work is done. Baseline: 122 crimes in 2004.</p> <p>P3.c. The environmental pollution level in Quito's historic center remains constant (at normal levels) by program end. Baseline 2004: nitrogen dioxide: 100 mg/m³; nitrogen dioxide: 8 mg/m³; and sulphur dioxide: 175 mg/m³.</p>	<p>Program final evaluation.</p> <p>Pichincha judicial police statistics.</p> <p>Program midterm and final evaluations.</p> <p>Monitoring system half-yearly reports.</p> <p>Environmental monitoring center measurements.</p> <p>Program final evaluation.</p>	<p>A consensus-based policy of recovering public space is maintained.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>P3.d. Real estate prices in the targeted area (southeast zone of the historic center) have risen at least 10% more than at the heart by program end. Baseline: US\$88 per m² average at the heart of Quito's historic center (total González Suárez); targeted areas, US\$31 per m² average for the San Sebastián neighborhood, and US\$90 per m² average for subzone 2 of the González Suárez neighborhood.</p> <p>P3.e. The average speed of vehicles driving through the historic center has increased 30% by program end, and 50% by two years thereafter. Baseline: 3 km/hour in 2003 (the average speed in the rest of the city is 25 km/hour).</p>	<p>Property Assessment and Cadastre Office of the Quito municipio.</p> <p>Report of the specialist who repeats the analysis done during preparation of the operation.</p> <p>Program final evaluation.</p> <p>Program final evaluation.</p> <p>Time studies repeating the February 2003 municipality's "Diagnostic assessment of the special plan for Quito's historic center."</p>	
<p>P4. To provide efficient institutional management that promotes the economic and social development of Quito's historic center.</p>	<p>P4.a. The time ECH staff spend on manual operations (such as accounting, financial analysis, etc.) is cut by at least 40% as a result of efficiency gains. Baseline: Financial department staff devote 58% of their time to such tasks (2004).</p> <p>P4.b. The program is executed within the planned timeframe. Baseline: Phase I execution took 33 months longer than expected.</p> <p>P4.c. The ECH is better able to build consensus among key stakeholders in Quito's historic center by program end: at least 8 partnerships for economic or social projects are signed.</p>	<p>ECH records.</p> <p>Program midterm and final evaluations.</p> <p>ECH records.</p> <p>Program final evaluation.</p> <p>ECH records.</p> <p>Program midterm and final evaluations.</p> <p>Monitoring system half-yearly reports.</p>	<p>The ECH's strategic objectives do not shift in the event of a changeover of government authorities.</p> <p>Political, social, and macroeconomic stability creates an enabling environment for development of the historic center.</p>

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Components			
C1. Strengthen the social sustainability of the process			
C1.1. Reinforce the process of redirecting informal commerce and make it self-sustaining.	<p>C1.1.a. Six workshops are held during program execution to train the managers of six public market centers in management, marketing, and maintenance.</p> <p>C1.1.b. A consensus-based plan has been designed by month 24 for the turnover of public market center management and operation to the merchants from the local government. 30 workshops have been held by program end to implement the plan.</p> <p>C1.1.c. An awareness campaign on the theme, "Don't buy from street vendors," has been designed by month 8, and implementation begins in month 12.</p>	<p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p> <p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p> <p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p>	A channel remains open for orderly, effective dialogue between municipio authorities and key social agents in the historic center.
C1.2. Strengthen a community culture that recognizes and defends the cultural values of Quito's historic center.	<p>C1.2.a. A campaign to disseminate achievements in the historic center has been designed and initiated by month 6.</p> <p>C1.2.b. To disseminate the historic center's historical and cultural values, the following will be organized during program execution: (i) at least 20 workshops at the city's main schools; (ii) a "best idea" contest and festival for the city's young people; (iii) 24 talks, workshops, and cultural events with social organizations and citizen groups.</p>	Program midterm and final evaluations. Monitoring system half-yearly reports.	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
C1.3. Stimulate citizen involvement in solving social problems.	C1.3.a. A competitive social fund has been set up by month 6 to finance social-sector projects targeting vulnerable groups in the historic center; civil society organizations execute at least 10 projects in the first two years.	Program midterm and final evaluations. Monitoring system half-yearly reports.	
C2. Strengthen and modernize the ECH			
C2.1. Restructure the ECH and amend its charter.	C2.1.a. A new charter is ready by month 12, redefining: (i) capitalization; (ii) the makeup of the board of directors and its rules of procedure.	Charter. Program midterm and final evaluations. Monitoring system half-yearly reports.	The local government supports the ECH's management and role.
	C2.1.b. Rules of procedure for the financial handling, execution, and transfer of works to the municipio are set by month 12.	Rules of procedure. Program midterm evaluation.	The ECH is very open to change.
	C2.1.c. A new organizational and functional structure responsive to the ECH's various lines of business has been designed and approved by month 12, and implemented by program end.	Program midterm and final evaluations.	
C2.2. Enhance human and operational resources.	C2.2.a. By month 12 the ECH employs modern methods and tools for: (i) strategic planning and control, (ii) accounting, (iii) budget, (iv) financial reporting, and (v) monitoring.	Program midterm and final evaluations. Monitoring system half-yearly reports.	
C2.3. Modernized equipment and systems.	C2.3.a. During program execution the ECH purchases, installs, and operates the equipment, hardware, and software necessary to run new financial analysis, accounting, and other tools.	Program midterm and final evaluations. Monitoring system half-yearly reports.	

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
C3. Stimulate and diversify private investment			
C3.1. Develop new tools to support the private sector.	<p>C3.1.a. A technical assistance fund for small businesses is up and running by month 6, providing advisory support to 2 business networks annually, each with an average size of 5 companies.</p> <p>C3.1.b. A coinvestment fund is up and running by month 6; the private sector invests at least US\$250,000 toward the total startup cost of projects financed jointly with the private sector.</p> <p>C3.1.c. The financial viability of at least 2 projects that could be supported through coinvestment has been studied by program start, and at least 2 coinvestment projects have been approved by the end of year 1.</p>	<p>Fund regulations.</p> <p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p> <p>Project financial evaluation.</p>	<p>Ecuador enjoys macroeconomic, political, and social stability.</p> <p>There is social stability in Quito's historic center.</p>
C4. Upgrade urban infrastructure			
	C4.a. A new 146-space parking complex with 17 business premises (La Ronda) is in operation by 3 years into the program.	<p>Feasibility studies.</p> <p>Fund regulations.</p> <p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p>	The comprehensive plan for traffic and transportation reorganization in Quito's historic center is implemented.
	C4.b. Feasibility studies on 2 parking garage projects for the historic center's southeast zone are ready by month 18.	<p>Feasibility studies.</p> <p>Program midterm evaluation.</p>	
	C4.c. Lighting has been built for 21 blocks of the historic center's southeast zone by program year 2.	<p>Program final evaluation.</p> <p>Monitoring system half-yearly reports.</p>	
	C4.d. At least 2 additional basic infrastructure projects have been evaluated and designed by month 18, and fully executed by program end.	<p>Program midterm and final evaluations. Monitoring system half-yearly reports.</p>	