

## PRESERVATION OF URBAN HISTORICAL AND CULTURAL SITES (MONUMENTA PROGRAM)

(BR0261)

### EXECUTIVE SUMMARY

<b>Borrower And Guarantor</b>	The Federative Republic of Brazil			
<b>Executing agency:</b>	Ministry of Culture (MinC)			
<b>Amount and Source:</b>	IDB:	(OC)	US\$	62.5 million
	Local:		US\$	62.5 million
	Total:		US\$	125.0 million
<b>Financial terms and conditions:</b>	Amortization Period:		20	Years
	Grace Period:		5	Years
	Disbursement Period:		5	Years
	Interest Rate:		variable	
	Supervision and Inspection:		1	%
	Credit Fee:		0.75	%
	Currency:		Basket of currencies	
<b>Objectives:</b>	The long term objectives ( <u>goals</u> ) of this program are (1) to preserve priority urban historical and cultural sites under Federal protection (2) to increase the Brazilian populations' knowledge and appreciation of its heritage, and (3) to improve the management of the heritage and set up preservation priorities. The immediate objective of this program ( <u>purpose</u> ) is to increase the economic, cultural, and social use of Project Areas.			
<b>Description:</b>	To attain the objectives, the program will include the following components:  1. <u>Integrated investment programs in Project Areas (US\$53.1 million)</u> . The program will finance investments necessary to increase the economic, social and cultural use of historic sites. These investments include (i) the restoration of National Monuments , (ii) improvements to streets, sidewalks, and parking that increase access for economic or leisure use, (iii) lighting, landscaping for public parks, signage and street furniture , (iv) minor repairs to water supply, storm and sanitary			

sewers to make the areas more usable, (v) support for targeted incentives to residents and businesses to repair the façade, roof, structure and electricity installations of privately owned buildings located on Urban National Historic Sites or in the surroundings of National Monuments in Project Areas, and (vi) historic interpretation and signage. In Project Areas declared World Heritage Sites by UNESCO, the Program will finance up to 50% of the cost of underground electric and telephone wiring. Also eligible are investments in Public Monuments under State or Municipal protection in Project Areas if they have a financial rate of return of 12% or more at constant prices.

2. Institutional strengthening (US\$8.13 million). The program will finance institutional strengthening for both the Instituto do Patrimônio Histórico Artístico Nacional (IPHAN), the Executing Agency and Municipalities. For IPHAN, the outputs include norms on conservation of different types of materials in historic structures; norms for adaptive use of heritage, computer equipment, software and training and a system for establishing preservation priorities. The outputs of the institutional strengthening of the Executing Agency will be recommendations for structural changes to reduce the overlap of jurisdictions of federal, state, and municipal governments, proposals for decentralizing the management of heritage, criteria for declaring heritage protected at different levels, a system for setting priorities for investment, and recommendations to improve the focus of fiscal incentives. The Municipalities will receive assistance for project design and execution and for establishing a Preservation Fund for maintaining rehabilitated Monuments.
3. Promotion of economic activities in Project Areas (US\$7.52 million). (a) The program will finance pilot activities to foster investment and involvement of private companies, residents, non- governmental organizations (NGOs), and other affinity groups in the economic use of urban heritage. The promotional campaigns, events and demonstration activities will be partially financed by contributions in cash or kind from private sector partners. The participating cities will compete for these resources, submitting proposals for activities, specifying the financial contribution of private sponsors, (b) tourism promotion activities in Project Areas in Brazil and abroad, and (c) seminars to promote public-private partnerships. Activities listed under (b) and (c) may be fully financed by the Program.
4. Training (US\$7.87 million). The program will finance the training of instructors and artisans in restoration techniques

including carpenters, stone masons, blacksmiths, stonecutters, stucco workers, and painters. In addition, it will finance the training of local cultural and tourism agents.

Educational programs about Brazil's heritage (US\$20.4 million).

The program will finance educational programs to inform the population about its historic and artistic heritage, its care, and its use. Four types of programs are envisaged: (i) Campaigns to promote awareness, conservation, investment in, and use of historic centers. These campaigns will appear on TV, radio, and press at the national, regional and local levels; (ii) videos for elementary schools. To teach about history and heritage. These videos will be shown in the 60 thousand public closed circuit classrooms of Educational Television (TVE); (iii) documentaries that emphasize different aspects of Brazil's historic, architectural, and artistic heritage. These programs will be made available without charge to broadcast and cable operators in the national market and Mercosul. In addition, video tapes will be made available for sale; and (iv) short introductory films for visitor centers in participating cities to explain the historic-artistic significance of the area, orient visitors, and encourage longer stays.

**Environmental/  
Social review:**

The Executing Agency evaluated the social and environmental impacts of the projects in the sample in accordance with Committee of Environmental and Social Impact (CESI) recommendations.

Because the program targets existing urban centers, it is expected to have no significant adverse environmental and social impacts, other than resettlement. Resettlement is not expected to be a significant problem, however. A maximum of 52 families have been identified for temporary resettlement in the representative sample. No permanent resettlement has been identified, but could become necessary later if private owners upgrade rental properties. The program should have positive long-term impacts on cultural/historic resources and the environment caused by improvements to drainage and sewer systems, solid waste collection, street cleaning, revegetation and stabilization of slopes, and landscaping. Public education in historic preservation will reinforce the positive environmental impacts.

Adverse environmental impacts of the program will be minimal and temporary. They will be managed by standard environmental controls for construction. Other potential impacts of the program include increased traffic congestion in some historic centers, where congestion and parking problems already exist. Traffic studies of the projects in the sample have generated design changes that mitigate these impacts.

The long-term social impacts of the program should be positive. The program will provide economic opportunities for residents of the historic centers. It will advance funds to low-income families so that they can adapt their homes for small scale commercial uses and remain in the area if they should choose to do so. Other project-specific mitigating measures will be identified in the environmental and social evaluation process.

**Benefits:**

The program has a number of benefits. It will preserve heritage for future generations. It will educate the population about its history and heritage and attempt to foster a national, rather than regional, consciousness. It will modernize the way the MinC administers the sector, making it more efficient and transparent, and improving its decisions on the allocation of resources. Finally, it will rehabilitate a number of deteriorated urban centers for new economic uses.

**Risks:**

This program implements a new system for the preservation of historical heritage. Being new, and coming at a time when Brazil is in a period of fiscal austerity and monetary repression, the program has significant risks. These risks are identified for each stage of program implementation in the Logical Frameworks. The most significant are that: (i) private participants (commercial and residential) may not invest in the area or may not make use of the funds provided to make the improvements targeted by the program; (ii) municipal legislators may divert the tax revenues assigned to the Preservation Fund for other uses; and (iii) municipalities may not provide the level of services (maintenance of parks and public areas, trash collection, public lighting, traffic control, security, and enforcement of IPHAN's norms for protection of heritage) that they agree to in their contracts with the MinC.

These risks have been addressed in project design. To reduce the risk of low private participation, the sub-projects have been selected after public sessions with the community to discuss the problems to be resolved and assess interest in participation. Each project includes free media campaigns that provide publicity for participants. In addition, approved private projects may qualify for federal tax deductions.

The risks associated with municipal non-compliance are real and not completely avoidable. In relation to revenues assigned to preservation there is no way to enforce the pledge of co-participation funds. The Constitution prohibits the retention, or use of, resources assigned to municipalities, except to recover a pre-existing debt owed by the municipality to the Union. The Program addresses the risks of municipal non-compliance by mobilizing stakeholders to care for heritage and to be its advocate through the political process. The Program does this (1) through education and

campaigns, (2) by giving the private sector (voters) a stake in the success of project areas, and (3) by putting articulate, interested citizens on the Council of the Preservation Fund to lobby the municipal government and alert the media and the public if municipal governments do not comply. These techniques are new to historic preservation, but have had success in the area of environmental protection. Good maintenance of monuments and public spaces will be supervised by IPHAN and the council managing the Preservation Fund. Deviation from agreed maintenance standards will be reported to the Central Management Unit so that corrective action is taken.

**Poverty-targeting  
and social sector  
classification:**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704) Furthermore, this operation does not qualify as Poverty Targeted Investment (PTI), (see ¶ 2.22). The borrowing country will not be using the 10 percentage points in additional financing

**Procurement:**

Procurement of goods, works and related services (specified in the Procurement Plan, Annex III-1) will be subject to the Bidding Procedures specified in Annex B and C of the Loan Contract. When the estimated value of goods and services is the equivalent of three hundred fifty thousand dollars (US\$350,000) or greater, and the estimated value of works is the equivalent of five million dollars (US\$5,000,000) or greater, the goods, services and works will be subject to international competitive bidding as specified in Annex B. Consulting services will be contracted in accordance with Annex C of the contract. All consulting contracts with amounts equivalent to two hundred thousand dollars (US\$200,000) will be subject to international competitive bidding.

**Exceptions to  
Bank policy:**

No exceptions to Bank policy are recommended

**Special  
Contractual  
Conditions:**

Prior to first disbursement, the contract will require:

- (i) evidence of implementation of the program's Operating Regulations prepared according to the version agreed with the Bank (see ¶ 3.13);
- (ii) evidence of the creation of a Central Management Unit (CMU) with appropriate staff and resources (including an environmental/social specialist to oversee the environmental and social management of the Program (see ¶ 3.7);
- (iii) a copy of a signed contract between the Executor and the Financial Agent stipulating the creation of a special account for the resources of the Program, the procedures for paying suppliers and contractors, and procedures for disbursing to

private owners who are restoring and adapting buildings in historic areas (see ¶ 3.18);

**Other Special  
Clauses:**

- (i) Each executor and sub-executor will submit standard bidding documents for the Bank's preliminary review; documentation for the first 20% of expenditures for each project, and any documents that deviate from standard bidding documents (see ¶ 3.24);
- (ii) Prior to disbursement of funds for the purchase of time or space in communications media, the executor will submit for prior approval: (1) the original media plan prepared by the publicity agency, (2) the media plan approved by MinC, and (3) the final media plan approved by the Secretaria de Estado de Comunicação (see ¶ 3.27);
- (iii) The executor will submit for approval by the Bank a revised list of priority projects based on a methodology acceptable to the Bank before the preparation of projects that are not included in the representative sample (see ¶ 2.15);
- (iv) The executor will submit to the Bank for review and approval all feasibility studies of projects not in the representative sample before they are eligible for disbursement (see ¶ 3.17);
- (v) During the execution of the Program, the Executor will present to the Bank, within the first 90 days of each calendar year, an Annual Report on the progress achieved in implementation and achievement of targets and agreed indicators of impact (see ¶ 3.36);
- (vi) During the execution of the Program, the Executor and the Bank will meet within 30 days of the presentation of the Annual Report to examine (1) the progress achieved in the implementation of the Annual Operating Plan and (2) the Annual Operating Plan of the next year and the indicators to be achieved. If review of the Annual Report and field inspection reveal that the indicators specified have not been achieved, the Executor will present to the Bank, within 60 days, the corrective measures it intends to adopt to adjust the schedule and budget of the Program (see ¶ 3.36);
- (vii) The Executing Agency will collect annually, during the execution of the Program, the data related to the indicators of goals and purpose identified on the Logical Framework. In the last year of execution the Executing Agency will present the results of an attitude and knowledge survey

related to cultural heritage using the same methodology applied in the survey completed during Program Preparation (see¶ 3.48).

**The Bank's  
Country and  
Sector Strategy**

This program is a first step in the modernization of the way IPHAN and the MinC preserve historical and cultural sites. It was developed in cooperation with the United Nations Educational, Scientific and Cultural Organization (UNESCO) which provided financial support to the MinC and technical advice.

The proposed program is consistent with Bank's strategy to support reform and modernization of the public sector. The program focuses on changing the strategy for preserving heritage to make it more effective. Through institutional strengthening the program helps systematize and make transparent the way the sector makes decisions on urban preservation projects. It sets up a rigorous inventory and classification system and establishes a system for assigning priorities for intervention. The program also finances a review of the organization of the sector to reduce overlapping jurisdictions, to encourage more participation of state and municipal governments, civil society, and the private sector, and to make tax incentives more cost-effective. The program emphasizes education with public awareness campaigns, education about heritage, and training skilled artisans. Finally it finances model programs to show how urban redevelopment and heritage can work together to revitalize urban areas and make heritage sustainable.

The proposed program is consistent with the sectoral strategy for conservation of urban heritage. It focuses on (i) a more rational allocation of public resources devoted to conservation to increase their impact, and (ii) the transfer of part of the effort to other social actors with the intention of attracting private sector management and investment and improving the prospects for sustainability.

The Bank's strategy and operative program for Brazil in the 1998-00 programming cycle are fully consistent with the objectives of the Eighth Replenishment, the government's focus on systematically eliminating the causes (and easing some of the social consequences) of chronic inflation, and the need to foster economic modernization.

## **I. FRAME OF REFERENCE**

### **A. The Problem**

- 1.1 Brazil has a number of historic monuments and cultural sites in urban areas that are deteriorating and may be irrevocably lost. The Instituto do Patrimônio Histórico e Artístico Nacional (IPHAN) estimates that, of the 800 individually declared national monuments (historic buildings), only 20% are in good condition. Ten per cent are in ruins, 40% are degraded, 25% are blighted by inappropriate modifications, and 5% need minor improvements. About 500 of the 800 individually declared monuments are in declared urban historic centers. These centers contain many buildings, each of which is accorded the same protected status as the individually declared monuments. Thus the total number of buildings with federally protected status far exceeds the number of individually registered buildings.
- 1.2 The deterioration of heritage is a reflection of a fundamental problem: most historic buildings do not have uses that justify maintenance expenditures consistent with the preservation of their historic and artistic characteristics. The problem of use is key. IPHAN estimates that only 32% of declared monuments are in uses compatible with preservation. Of the rest, 3% are abandoned, 45% are used in ways that may damage them, 20% are only partly occupied.

### **B. Causes of the problem**

- 1.3 There are five basic causes of the poor condition of heritage buildings. First, the uses given to them do not justify the maintenance appropriate to the preservation of their historic characteristics. Second, the public sector has been ineffective in maintaining heritage. Third, private owners make modifications that damage the buildings and the areas. Fourth, there are few contractors and artisans that know the proper techniques for working with historic buildings and materials. Underlying these four causes is a fifth: the Brazilian population has little knowledge of, or willingness to support, its heritage.
  1. Uses given to historic buildings do not justify maintenance appropriate for the preservation of their historic characteristics.
- 1.4 Most historic buildings are no longer suited for the purposes for which they were originally designed (functionally obsolete). Houses without easy parking, air conditioning, and yards are not attractive to the upper and middle classes that used to inhabit them. Commerce cannot prosper in areas without easy transport access, parking, large continuous space, public lighting and security. Cities of 100,000 inhabitants no longer need 50 churches for the faithful. As buildings become obsolete, they are put to low value uses, rented to lower income tenants, or abandoned. Convents that have become warehouses, mansions that have been subdivided as apartments for low income families and churches that no one attends do not require the attention that they would have required in their previous use. As a result of these uses, the urban areas in which historic buildings are located deteriorate and some become unsafe.
- 1.5 The process is a vicious spiral downward. The first step in arresting this process is government protection. Protection, however, only slows the natural process of destruction and replacement. To save historic buildings requires revitalization of the



areas where monuments are located and finding uses that pay for, or justify, appropriate levels of maintenance.

## **2. The public sector in Brazil is ineffective in maintaining historic buildings**

- 1.6 There are a number of reasons that the public sector in Brazil is ineffective in maintaining built heritage. First, it does not have the resources necessary. Second, its approach is flawed. Third, the institutional framework causes confusion and delays. Fourth, incentives are poorly designed.

### **a) The Federal Government cannot devote the resources necessary**

- 1.7 Brazil was early to recognize the importance of heritage. It has pioneering legislation and an institution to care for its heritage: IPHAN, which is the envy of many heritage organizations in Latin America.
- 1.8 Law 25 of November 20, 1937, established IPHAN as the federal institution charged with the regulation and control of Brazil's material heritage. IPHAN must give prior authorization for any actions in, or near, federally declared monuments which (a) impede visibility, (b) destroy or remove objects, or (c) degrade its appearance (the posting of signs or advertisements).
- 1.9 According to this law, private owners who have insufficient resources to maintain properties that are federally protected, are required to report this to IPHAN, which is responsible to have the maintenance or repair done at the expense of the Federal Government (FG) or see that the property is expropriated. IPHAN may undertake restoration and repairs, without being requested to do so, if it determines that such intervention is urgent.
- 1.10 IPHAN's mandate is broad, but its resources are small. Current expenses consume 95% of its budget, leaving roughly US\$3 million per year for investment. This sum is insignificant relative to the preservation requirements (estimated at US\$65 million per year for the next 15 years to bring deterioration under control and US\$20 million thereafter to maintain heritage). There is no prospect of increasing IPHAN's funding by that amount.

### **b) IPHAN's approach to conservation is flawed**

- 1.11 Faced with huge investment requirements and limited resources, IPHAN should logically set priorities and develop a strategy to get others to invest in the preservation of heritage. Unfortunately, it has neither data nor the criteria on which to base priorities, and it has not developed a strategy to involve other levels of government, the private sector, or non-governmental organizations (NGOs) in a significant way.

#### **(i) Data**

- 1.12 IPHAN has difficulty setting priorities and explaining its actions in a way that convinces outsiders, including those who determine its budget. IPHAN's interventions typically reflect considerations of urgency, but the determination of urgency is difficult because there is no up-to-date information on the different historic areas or their individual buildings. There is often no map of historic areas, no list of the use and physical condition of each building, and no assessment of relative importance. The absence of this information compromises IPHAN's ability to

achieve results with a limited budget and affects its ability to get funds to carry out its mandate.

**(ii) Classification and Criteria**

- 1.13 IPHAN's classification system makes setting priorities difficult. Although IPHAN is responsible for roughly 16,000 registered cultural objects, these 16,000 are in no way homogeneous. There are 985 registrations of cultural property. Within these there are 100 museum collections, prehistoric caves, individual objects of art, roughly 800 individually declared monuments, and 56 urban centers. Even these 56 urban sites reflect different realities: groups of buildings within a wall but without any urban context, the surroundings of one registered building, a group of buildings that were declared one by one, groups that have no buildings worthy of individual declaration but which represent a historic urban structure, a group that represents a type of housing of historic interest.
- 1.14 The criteria for declaration have changed with the evolution of thinking about urban structure and sometimes the very criteria for declaration have no clear practical content. The pressure of events and budget have often forced IPHAN to take the shortcut of declaring areas protected rather than going through the process of declaring monuments individually. At times, IPHAN has not declared buildings that are of obvious national interest solely because the buildings are protected by states or municipalities with proven capacity to protect them.
- 1.15 The system of declaration is itself a problem. There are four different books of registration ("livros de tombamento") three of which are relevant to built heritage. These correspond to different criteria for classification (historical, artistic, ethnographic, and cultural landscape) and a historic site can be registered in more than one of the books. It is difficult even to determine how many monuments have been declared because of double or triple counting. Worse still, there is no classification of sites by year of declaration, by the nature of the good (palace, church, house, statue, cave, etc.), by family of good (Franciscan, Jesuit, etc.) or by location (urban or rural).
- 1.16 The present system impedes analysis and confuses discussions because it does not originate in the historic, artistic significance of the monuments but in operational considerations (pressure to act fast or perception that a monument is threatened). Thus there may be individual monuments of equal or greater importance to ones with individual status without any declaration at all. On the other hand, there may be buildings in declared urban areas with little heritage value that are governed by rules that block reasonable use, modification, or even destruction. The absence of clarity makes it difficult to set priorities, plan, set standards, or organize protection efforts. The problem is compounded by the fact that IPHAN does not have a system to continuously update information on the current physical condition of heritage property or its present use.

**(iii) Strategy**

- 1.17 IPHAN has focused its limited resources on policing modifications rather than on finding compatible uses that will mobilize the resources and partners to preserve important sites that can not be maintained exclusively by the Federal Budget. This

strategy is not popular or good for IPHAN's image and has not effectively protected heritage.

**(iv) Control, norms, transparency, and vision.**

- 1.18 As mandated by Law 25 of November 20, 1937, IPHAN has prevented the destruction and disfigurement of heritage. IPHAN reviews all plans for construction and approves or denies authorization. Frequently, IPHAN must file court orders to stop work in process because the work varies from what was authorized or was not authorized at all. These actions often appear arbitrary. IPHAN has no written norms that indicate what interventions or uses of historic buildings are acceptable. Its actions are not transparent. Its judgments are final. It does not even have to explain its actions. IPHAN's emphasis on control makes historic heritage a burden that must be born rather than a resource to provide benefits. Various critics suggest that IPHAN would be more successful if it proposed alternatives that successfully reconciled its objective of preservation with the objectives of residents, developers, and municipal leaders.
- 1.19 Critics believe that part of IPHAN's problem lies in the classification system which fosters a lack of perspective. IPHAN's classification system treats all historic buildings within a protected area equally. Yet, most experts believe that the rules for modifications of buildings with different historic and artistic importance should not be the same. In fact, to make an area sustainable, it may be necessary to destroy buildings of marginal importance to permit uses (for example parking space) that would give a use and livelihood to more important ones. A number of critics argue that the strategy of protection employed has prevented any change at all. This has impeded adaptive uses that could contribute to preservation. Overprotection can be counterproductive. Restrictions tend to depress value of buildings and provide incentives to destroy heritage through (a) willful neglect in hopes that buildings will collapse and make the land available for redevelopment or (b) illegal actions such as arson.
- 1.20 IPHAN has focused its efforts on specific conservation problems rather than broader strategies to conserve the most heritage possible. IPHAN's focus on individual monuments appears to be necessitated by its limited expertise in urban centers and its limited resources. It is one thing to restore a building or a church, another to restructure and give life to the heritage in an urban area. To do this, IPHAN must look for partnerships with the municipal authorities. It must seek the support of foundations, NGOs, and private philanthropy, and ideally engage real estate investors and developers. Unfortunately, IPHAN's strategy has isolated the institution and given the impression that it does not want other institutions on its turf.

**c) The institutional structure causes conflicts and delays**

- 1.21 There are many stakeholders in the preservation of heritage: Ministry of Culture (MinC), IPHAN, the states with their respective secretariats, autonomous agencies and councils, and the municipalities with their own offices of culture and tourism. Law 25 of November 30, 1937, governs the process of protection and assigns the FG responsibility to preserve buildings when private owners do not have the money to fine those who damage heritage. This legislation has been duplicated at the state and

municipal levels leading to an overlap of jurisdictions, coordination problems, and conflicts.

- 1.22 Federal, state, and municipal governments can all declare a building or area protected. The laws do not establish criteria. Buildings can be protected by all three levels or, in some cases, IPHAN may not declare an item protected because it is already being protected by a state or municipality that it considers stable and competent. Such inconsistencies cause problems for classification and can adversely affect resource allocation.
- 1.23 Overlap of protection confuses assignment of responsibility. Whose standards apply? Which level of government is responsible for controlling alterations? Which level should pay for maintenance? Who applies sanctions for violations? These overlaps slow the process of response to threats. Sometimes each level waits for the other to take the action; sometimes one level blocks the other because it disagrees. It is the understanding of the majority of states and municipalities that IPHAN is responsible for controlling alterations. However, the municipality is responsible by law for regulation of land uses and buildings and for enforcing sanctions. This is a formula for ineffectiveness. Municipalities face other pressures and most are not as committed to preservation. This problem has been exacerbated by the Constitution of 1989, which passes most responsibility to the local levels without specifying in Article 216 who has the responsibility for registering and sanctioning threats to heritage.
- 1.24 IPHAN, once the model organization for heritage protection in Latin America, has itself been battered by political changes. Its budget was devastated by previous administrations; it was given responsibility for national museums; its flexibility in contracting specialized technical services was hamstrung by the law of Public Administration; it is unable to hold public competitions to fill vacant positions; its staff has decreased from 2,000 to 1,350; and only 30% are specialists in the preservation of heritage.
- 1.25 IPHAN is organized by functions: identification and documentation, protection, planning and administration, and promotion. This structure is repeated in its regional offices. It has been suggested that a structure, that organizes by themes (historic buildings, archaeological sites, non-material culture, etc.) might increase the efficiency of its actions. At present, IPHAN's actions seem slow and ineffective. It takes an average of six years to identify, document, and declare protected a monument. Violations of IPHAN's rulings are obvious. No one is satisfied with the coordination of actions in the sector.

**d) Incentives are poorly designed**

- 1.26 Many countries use tax incentives to encourage investment in, maintenance and use of, historic buildings. Brazil also uses incentives, but some are poorly designed. Federal Law 8313 passed in 1991 encourages business to support culture (including the preservation of historic sites) by allowing it tax deductions for expenditure for approved projects in culture. Enterprises can deduct between 60 and 80% of the amount of their cost from their federal taxes. In addition, many states have copied this legislation and also provide tax incentives which can reduce the final cost to corporate sponsors to as little as 10%.

- 1.27 Under this system of incentives, corporate sponsorship grew from US\$15 million in 1994 to US\$197 million in 1997. Most of the money has gone to cultural activities not related to built heritage. While MinC and IPHAN review the technical adequacy of proposals to sponsor activities in culture, there is no system to establish priorities. These corporate expenditures, which are now an important source of funding for culture, could be more effectively used. It is an open question if this system - which is an indirect expenditure of tax money - is more effective than direct budget allocations. It has been effective, at least in raising the public's consciousness about culture, as private donors publicize the importance of heritage and their contribution to it.
- 1.28 Some municipalities try to encourage owners to maintain properties by providing tax incentives. The usual mechanism is to provide incentives through the property tax. Often this is no incentive at all, since most people do not pay the property tax anyway. In two cities in this program, the compliance rate is less than 40%. Even if people paid the property tax, the structure of the incentive is often poorly designed. In many historic areas, owners are given an exemption so they can maintain their property. This exemption is not conditioned on behavior. The owner gets the exemption whether the property is maintained or not. It would be more effective to give a deduction for actual maintenance expenditure.

### **3. Private owners make modifications that damage heritage**

- 1.29 As indicated in ¶1.4, most historic buildings are functionally obsolete. To make adequate use of them, owners need to make modifications. These modifications can decharacterize or damage the buildings. Much of this damage is unintentional. The population has very little knowledge of its heritage and is particularly unaware of the technical aspects of architecture and old materials.
- 1.30 Some damage is intentional. Many historic buildings are on centrally located urban land. The value of this land could be much greater if its use were freed of IPHAN's restrictions. Some modifications are direct attempts to exploit the economic potential regardless of damage; some are criminal acts, such as arson, to free the land of restrictions. Other actions are more passive-aggressive: benign neglect in hopes of collapse. As indicated above legal sanctions for this behavior are not well codified in law and not well enforced.

### **4. Few contractors and artisans know the proper techniques for working with historic buildings and materials**

- 1.31 Few contractors or artisans know the proper techniques for working with historic buildings and materials. Even when the intention is preservation, the results can be prejudicial. For example, a well known private foundation got a manufacturer to donate paint for the facades of historic buildings. The paint was a modern latex based, rather than the traditional calcium based, and did not allow air to circulate inside stucco walls. Its use caused structural deterioration.
- 1.32 Because there has been little budget, there has been little demand for specialized labor. Calls for bids and contracts for restoration do not typically require technical certification. Present technical training in restoration (the "Oficina Escola") is treated as a social program to teach low income youth literacy and occupational skills rather than as specialized training for already skilled craftsman.

- 1.33 It was not always thus. Before the budget cuts, IPHAN had a corps of master craftsman that it could use to supervise or to execute highly skilled and technical restorations. With the budget cuts and reforms that required contracting out, this corps was disbanded, decentralized, and died off.

**5. The population has little knowledge of, or willingness to support, its heritage**

- 1.34 Underlying the problems of inappropriate use, ineffective public sector support and inappropriate modification, is a lack of knowledge about Brazil's built heritage. As part of the development of this program, MinC undertook a national survey of attitude and knowledge of built heritage. The survey covered 15 regions, 21 cities, and 1,800 families. The results showed a low index of general knowledge about the 21 items tested. On average people could correctly identify only 25.8% of the items tested. Knowledge varied significantly from city to city. Correlation with demographic factors showed that knowledge about history and heritage increases with years of schooling, age, and social class.
- 1.35 The results indicated regional insularity and perhaps provincialism. Brazilians know the history and heritage of their own region far better than people of other regions know it. On average regional respondents were three times more likely to know the history and heritage of their area than were people from other regions. In addition, there was a general tendency of the respondents to believe that the history and culture of their city were more representative of Brazil than respondents of other areas believed it to be.
- 1.36 The study also covered attitudes toward heritage. When asked, in an open-ended question, which city best represented the history and culture of Brazil, people chose Salvador (54%), followed by Ouro Preto (39%), Rio de Janeiro (34%), Olinda (18%) and Recife (15%). As to the physical condition of heritage: 19% thought it was well conserved, 54% thought it was more or less conserved, and 24% thought it was in a poor state of conservation.
- 1.37 The survey attempted to determine the degree of interest in heritage. During the past year, 60% had visited a historic monument, 56% had read newspaper articles about historic sites, and 40% had visited historic cities. Rio de Janeiro and São Paulo had the lowest percentage scores. Historic cities had the highest.
- 1.38 The survey attempted to determine attitudes toward heritage. The attitudes were surprisingly favorable. When asked whether they agreed or disagreed with statements such as "Schools should give more attention to culture, teaching students to appreciate historic sites", the average agreement, on a scale of 1 to 7, was 6.8. When presented the statement, "The principal responsibility for the conservation of historical heritage is with the citizen, who should care for collective things as if they were his own," the average agreement was 6.3. In contrast, when presented, "I think the entity that should be concerned with the preservation of historic buildings is the government," the average agreement was 4.7.
- 1.39 When it came to money, however, there was much less support for heritage. The average agreement was 4.5 for the statement, "I would be willing to contribute some of my free time to conserve historical heritage." But when the statement was "I would be willing to contribute money to preserve local heritage," the average score

was 3.9. When the same question was asked of national heritage, the score dropped to 2.7. Similarly, the average agreement with statements that the federal and municipal governments should spend money on heritage at the cost of existing programs was 3.1 and 3.0 (weak disagreement).

- 1.40 The upshot of the analysis is that people are better informed about the heritage of their region than they are about the heritage of other regions. They tend to believe that the heritage of their region is more representative of national culture and are more willing to spend their time, rather than their money in support of it. Finally, they are generally unwilling to contribute their money to support heritage in other regions and only slightly more disposed to letting the government spend money to do it, if it means reducing other programs.

**C. The link between the conservation of cultural heritage and social and economic development**

- 1.41 The preservation, promotion, and knowledge of national culture are essential to social development. Common understanding and appreciation of the different aspects of history and culture are important to social consensus and political cooperation. Cultural knowledge of shared symbols is essential to communication among citizens. Many of these shared symbols are historical references preserved materially in built heritage. As E. D. Hirsch Jr. states in his recent book, Cultural Literacy, "...all human communities are founded upon specific shared information. Americans are different from Germans, who in turn are different from Japanese, because each group possesses different cultural knowledge. In an anthropological perspective, the basic goal of education in a human community is acculturation, the transmission to children of the specific information shared by adults of the group, or polis .... a human group must have effective communications to function effectively .... Only by accumulating shared symbols, and the shared information that the symbols represent can we learn to communicate effectively with one another in our national community."
- 1.42 The preservation and promotion of material culture also have economic links. In addition to the promotion of social cohesion, without which there can be no economic development, preservation of historic sites located in urban centers can have significant urban development impacts. International experiences in Barcelona, Paris and Bologna demonstrate that heritage conservation can play a significant role in promoting the rehabilitation of the areas in which they are located. The restoration and adaptation of historic buildings for public or private uses (complemented with improvements in public areas and infrastructure) attracts economic activities (including tourism and cultural activities), permits higher valued economic use of buildings, generates employment, and has other backward linkages. These activities increase the likelihood that restoration and rehabilitation will be sustainable.

**D. The Bank's country and sector strategy**

- 1.43 The proposed program is consistent with Bank's strategy to support reform and modernization of the public sector. The program focuses on changing the organization of the sector and the strategy of IPHAN in order to make them more effective. Through institutional strengthening the program helps systematize and

make transparent the way IPHAN makes decisions on urban preservation projects. It sets up a rigorous inventory and classification system and establishes a system for assigning priorities for intervention. The program finances a review of the organization of the sector to reduce overlapping jurisdictions, to encourage more participation of state and municipal governments, civil society, and the private sector, and to make tax incentives more cost-effective. The program also emphasizes education, public awareness, and training skilled artisans. Finally it finances model programs to show how urban redevelopment and heritage can work together to revitalize urban areas and make heritage sustainable.

- 1.44 This program is a first step in the modernization of the way IPHAN and the MinC preserve historical and cultural sites. It was developed in cooperation with the United Nations Educational, Scientific and Cultural Organization (UNESCO) which provided financial support to the MinC and technical advice.
- 1.45 The proposed program is consistent with the sectoral strategy for conservation of urban heritage. It focuses on (a) a more rational allocation of public resources devoted to conservation to increase their impact, and (b) the transfer of part of the effort to other social actors with the intention of attracting private sector management and investment and improving the prospects for sustainability.
- 1.46 The Bank's strategy and operative program for Brazil in the 1998-00 programming cycle are consistent with the objectives of the Eighth Replenishment, the government's focus on systematically eliminating the causes (and easing some of the social consequences) of chronic inflation, and the need to foster economic modernization.

**E. Bank experience with the MinC and the heritage sector**

- 1.47 This is the Bank's first lending operation with the Ministry of Culture.
- 1.48 The Bank, however, has financed investments in heritage before. The Bank's experience has two distinct periods. During the first, the Bank focused on heritage preservation as a part of tourism development. Loans made for the Plan Copesco (Peru, 1974) included conservation and rehabilitation of heritage buildings in Cuzco; the Tourism Development Program (Panama, 1977) included rehabilitation and conservation of structures in the historic center of Panama City; the Northeast Tourism Development Program (Brazil, 1994) included rehabilitation of historic centers that are tourist attractions. The Environmental Management Program for the Matanza/Riachuelo River Basin (Argentina, 1998) included a component for urban heritage conservation in neighborhoods of Buenos Aires that attract tourists (La Boca, Isla Maciel and Barracas).
- 1.49 In the mid 1990s the Bank entered a new phase. It started promoting public-private partnerships to preserve historic centers. The first operation using this approach was the Historic Center of Quito (Ecuador, 1994) which rehabilitated the historic center. A mixed capital society, partially financed by the Bank, is rehabilitating historic buildings for resale. Other investments improve accessibility (restructuring traffic patterns and providing parking space), the quality of urban services (using historic buildings to house the Municipal Library and the City Museum) and the quality of public spaces (lighting, signaling and equipment). The most recent operation is the Urban Rehabilitation Program (Uruguay, 1998) which includes the recycling of the



Central Railway Station of Montevideo, an unused XIX Century terminal building that is registered historic landmark. It is expected that the private sector will develop a mixed-use (cultural, entertainment and commercial) project.

## II. THE PROGRAM

### A. Objectives

- 2.1 The long term objectives (goals) of this program are (1) to preserve priority urban historical and cultural sites under Federal Protection (2) to increase the Brazilian populations' knowledge and appreciation of its heritage and (3) improve the management of the heritage and set up preservation priorities. The immediate objective of this program (purpose) is to increase the economic, cultural, and social use of Project Areas.
- 2.2 Indicators: The program will attain its long term objectives (goals) when: (a) the project areas maintain their restored characteristics without requiring additional federal funds for maintenance, (b) there is an increase in public knowledge of, and improvement in attitude toward, the country's historic and cultural heritage, and (c) the strategy used in the development of this program is used to recover sites not in this program, either with or without further Bank participation.
- 2.3 The projects in the different cities will achieve their purpose if (a) the number of visits by students, state residents, and tourists increase, (b) the occupancy rates of buildings in project areas increase, (c) the funds established to pay for future conservation actions reach their projected levels, and (d) economic activity and employment increases in the areas. The goals, purpose, and specific indicators are summarized in the Logical Frameworks (Annex II-1).

### B. Description of program components

- 2.4 To attain the objectives, the program will include the following components: (i) integrated investment programs in Project Areas; (ii) institutional strengthening; (iii) promotion of economic activities in Project Areas; (iv) training of skilled artisans; and (v) educational programs about Brazil's heritage.

#### **1. Integrated investment programs in Project Areas (US\$53.1 million). (Addresses problems discussed in ¶ 1.4 – 1.5)**

- 2.5 \_The program will finance investments necessary to increase the economic, social and cultural use of historic sites. These investments include (i) the restoration of National Monuments , (ii) improvements to streets, sidewalks, and parking that increase access for economic or leisure use, (iii) lighting, landscaping, for public parks, signage and street equipment , (iv) minor repairs to water supply, storm and sanitary sewers to make the areas more usable, (v) support for targeted incentives to residents and businesses to repair the facade, roof, structure and electricity installations of privately owned buildings located on Urban National Historic Sites or in the surroundings of National Monuments in Project Areas, and (vi) historic interpretation and signage. In Project Areas declared World Heritage Sites by UNESCO, the Program will finance up to 50% of the cost of underground electric and telephone wiring. Also eligible are investments in Public Monuments under state or municipal protection in Project Areas that have a financial rate of return of 12% or more at constant prices.

**2. Institutional strengthening (US\$8.13 million) (addresses problems discussed in ¶ 1.11 – 1.28)**

- 2.6 The program will finance institutional strengthening for both IPHAN and Executing Agency. For IPHAN, the outputs include published norms on conservation of different types of materials in historic structures, and norms for adaptive use of heritage, and a system to set priorities. During the first year of execution of the Program, the Executing Agency will prepare a priority list of Project Areas which will include National Urban Historic Sites and Sets of National Urban Monuments. Priorities will be established using a methodology acceptable to the Bank. The list will be proposed by a working group whose members will be appointed by the Minister of Culture, observing the following criteria: (a) at least one third of its members should be independent cultural heritage specialists from universities, NGOs and foundations; (b) cultural heritage specialists from municipal and state institutions; and (c) up to one third can be central government specialists. UNESCO will be invited to send a specialist to join the working group. After the institutional strengthening is completed, IPHAN will
- i. distinguish buildings that are truly important from other buildings in protected areas;
  - ii. provide clear interpretations of how to comply with its norms and be able to help local interests develop proposals for adaptive use of buildings in declared areas;
  - iii. provide local interests with clear guidelines on what adaptations of buildings are permissible and approve them quickly;
  - iv. have the municipalities enforce norms that have been developed and agreed with IPHAN; and
  - v. identify the priorities of its actions based on regularly updated inventories of physical condition and use of monuments.
- 2.7 The outputs of the institutional strengthening for MinC will be recommendations for structural changes to reduce the overlap of jurisdictions of federal, state, and municipal governments, proposals for decentralizing the management of heritage, criteria for declaring heritage protected at different levels, a system for setting priorities for investment, and recommendations to improve the focus of fiscal incentives.

**3. Promotion of economic activities in Project Areas (US\$7.52 million) (addresses problems discussed in ¶ 1.4 – 1.5)**

- 2.8 (a) The program will finance pilot activities to foster investment and involvement of private companies, residents, NGOs, and other affinity groups in the economic use of urban heritage. The promotional campaigns, events, and demonstration activities (e.g. recreation of a historic Holy Week Processional in Olinda to attract tourism) will be partially financed by contributions in cash or kind from private sector partners. The participating cities will compete for these resources, submitting proposals for activities and specifying the financial contribution of the private sponsors. (b) Tourism promotion activities in Project Areas in Brazil and

abroad. (c) Seminars to promote public – private partnership Activities listed under (b) and (c) could be fully financed by the Program.

**4. Training (US\$7.87 million) (addresses problems discussed in ¶ 1.31 – 1.33)**

- 2.9 The program will finance the training in restoration techniques of instructors and artisans including carpenters, stone masons, blacksmiths, stonecutters, stucco workers, and painters. It will also finance the training of local cultural and tourism agents.

**5. Educational Programs about Brazil's heritage (US\$ 20.44 million) (addresses problems discussed in ¶1.29-1.30 and 1.34-1.40).**

- 2.10 The program will finance educational programs to inform the population about its historic and artistic heritage, its care, and its use. Three types of programs are envisaged: (1) Campaigns to promote awareness, conservation, investment in, and use of historic sites. These campaigns will appear on TV, radio, and press at the national, regional, and local levels; (2) videos for schools to teach about history and heritage. These programs will be broadcast on Educational Television's national network, to 60 thousand closed circuit classrooms throughout Brazil; (3) documentaries that emphasize different aspects of Brazil's historic, architectural, and artistic heritage. These documentaries will be made available without charge to broadcast and cable operators in the national market and Mercosul. In addition, video tapes will be made available for sale; and (4) short introductory films for visitor centers in participating cities to explain the historic-artistic significance of the area, orient visitors, and encourage longer stays.

**C. Eligible investments in conservation projects**

- 2.11 Conservation of monuments. The program will finance rehabilitation and adaptation of public buildings under Federal protection to permit sustainable uses. It will also finance the rehabilitation and adaptation of buildings under state or municipal protection if they are necessary to support the sustainable preservation of buildings protected by the FG. The program will finance emergency repairs of monuments protected by the FG outside of the project area, but in the immediate area of influence. Finance for emergency works will cover the minimum repair required to prevent collapse or irreversible damage.
- 2.12 Conservation of private residential or commercial buildings in the immediate area of protected monuments. The program will advance monies to private owners to undertake repair to structures, roofs and facades. The monies will be repaid to a "Preservation Fund" (see ¶3.41-3.43). If potential participants demonstrate inability to repay, the program will advance funds on the basis of concession of use, and recover the advance by renting (or selling part) of the properties transferred by the owners for that purpose.
- 2.13 Improvements to public areas close to the rehabilitated monuments. The purpose of these investments is to support economic, social and cultural use. Eligible investments include road resurfacing, sidewalks, parking lots, landscaping, park benches, signs, traffic signals, historic markers and public lighting. The program will finance the least cost solution that satisfies the requirements of the projects.

- 2.14 Improvements to infrastructure in the immediate vicinity of the protected monuments when infrastructure is causing conservation problems. Eligible investments include retaining walls, drainage and minor repairs to water, and sewerage systems.

**D. The representative sample**

- 2.15 .For the preparation of the Program, the Ministry of Culture prepared a sample of projects including Olinda, Recife, Rio de Janeiro and Ouro Preto. The amount of investment contemplated in the sample is US\$30.2 representing 24% of the program. The sample is representative of all eligible types of projects. Ouro Preto represents historic cities declared National Monuments under federal protection. Polo Alfândega in Bairro Recife and Olinda represent historic centers declared National Monuments that are contained within a larger city. Tiradentes Square in Rio de Janeiro represents a Set of National Urban Monuments located in the historic core of large cities. Before undertaking other projects MinC must develop a revised list of priorities.

**E. Costs of the program**

- 2.16 The total cost of the program is estimated at US\$125 million, distributed as shown in the following financial table.

**COST TABLE**  
(in thousands of US\$)

CATEGORY			IDB	LOCAL CONTRIBUTION	TOTAL PROGRAM COST	%
1.0	ENGINEERING AND ADMINISTRATION		0	14,600	14,600	11.7
	1.1	Administration and Supervision	0	7,700	7,700	7.2
	1.2	Studies and designs	0	6,900	7,900	5.5
2.0	DIRECT COSTS		36,695	16,405	53,100	42.4
	2.1	Integrated Investments <sup>1/</sup>	36,695	16,405	53,100	42.4
3.0	CONCURRENT ACTIVITIES		25,180	18,785	43,965	35.2
	3.1	Institutional Strengthening	6,600	1,530	8,130	6.5
	3.2	Promotion of Economic Activities	3,900	3,620	7,520	6.0
	3.3	Training of skilled artisans	4,080	3,790	7,870	6.3
	3.4	Educational Programs about Brazil's heritage	10,600	9,845	20,445	16.4
4.0	FINANCIAL CHARGES		625	12,710	13,335	10.7
	4.1	Interest	0	11,700	11,700	9.4
	4.2	Credit fee	0	1,010	1,010	0.8
	4.3	Inspection and supervision	625	0	625	0.5
	TOTAL COST		62,500	62,500	125,000	100.0
	Share of cost		50%	50%		100.0

2.17 The Bank will finance 50% of program's cost, or US\$62.5 million, from Ordinary Capital resources. The FG will be responsible for the local counterpart. Each participating municipality will contribute 20% of the total cost of its project. In addition, the private sector is expected to invest sizable amounts in adaptation of buildings and in new economic activities in project areas. In Recife, for example, the amount is expected to exceed the total cost of the project. These investments are not included in the program cost.

2.18 MinC has received various letters of intention from broadcast companies, corporations, and NGOs to finance or contribute free media time to the promotion and education components (categories 3.2 and 3.4 above). The Bank will consider these contributions, appropriately valued, as a substitute for federal counterpart. The value of media time will be estimated at the time each purchase order for media time is approved by the Secretaria de Estado de Comunicação do Governo.

<sup>1/</sup> The contingencies for the integrated investment projects are included in these costs.

**F. Social equity and poverty reduction classification**

- 2.19 The project does not specify explicit performance indicators to measure poverty reduction and social equity enhancement.

### **III. THE BORROWER, THE EXECUTOR, AND THE PLAN OF EXECUTION**

#### **A. Institutional Background**

- 3.1 The program proposed is very different from any program in heritage that Brazil has attempted before. IPHAN--an autarchy <sup>2/</sup> under the MinC--was in charge of the program at the outset. IPHAN, however, did not have much of the expertise needed to develop the program (urban development, finance, economics, social and environmental specialists), nor the resources to contract the expertise. In addition, IPHAN did not have the political strength to negotiate conditions of participation with the municipalities. For this reason, responsibility for the program was shifted to the MinC, which had budget to hire specialists and which provided the direct backing of the Minister for negotiation with municipalities.
- 3.2 In the course of preparation, it became clear that MinC did not have a structure in which management of the program would naturally fit. MinC was organized in four secretariats: Policy, Cultural Exchanges and Special Projects, Audiovisual Development, and Support to Culture. It also became clear that there were overlaps in responsibility between IPHAN and MinC and the federal and local levels (§ 1.21-1.25).
- 3.3 At the beginning of 1999, in response to these institutional problems and to the fact that MinC itself did not have a structure that could manage a program of the scope of the one envisaged, MinC carried out a reorganization. It replaced the four existing secretariats with ones related to function: Books and Reading, Music and Dramatic Arts, and Audiovisual, and created the Secretariat of Historic Heritage, Arts, and Museums (SHAAM). MinC gave SHAAM responsibility for (a) the formulation of policies for the protection of the historic and cultural heritage of the country, (b) the development of projects, and (c) coordination with state and municipal governments of actions concerning heritage. In this restructuring, IPHAN was freed of responsibility for national museums and Brazilian cinema, two functions that absorbed half its budget and which distracted it from its principal mandate: to document and preserve heritage. With the restructuring, IPHAN will specialize in the identification and documentation of heritage, developing and monitoring norms to protect heritage, and emergency actions.
- 3.4 Both MinC and IPHAN are in transition. Part of the program is a sector study (§ 2.7) which will help MinC decide the most efficient and effective way to assign management of the sector among itself, IPHAN, the many state and local heritage authorities, civil society and the private sector. At present the sector is in transition to a more efficient and responsive system of management.

#### **B. The Borrower**

- 3.5 The Federative Republic of Brazil will be the borrower.

#### **C. The Executor**

- 3.6 The executing agency will be a newly created Central Management Unit (CMU which reports to MinC.

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<sup>2/</sup> An autarchy has its own structure and capacity to administer resources, and receives donations and income



- 3.7 The staff of the CMU is comprised by an executive manager and specialists in architecture, engineering, law, public finance, economics, communications, environment, real estate finance, and representatives of IPHAN. At the end of second year of execution, the CMU and its specialists will be integrated into SHHAM unless the sector study concludes that it would be more appropriate to put them in IPHAN. The CMU will also use short term consultants as facilitators for participative planning (problem trees and logical frameworks) and to carry out real estate market studies. Evidence of the creation of the CMU with appropriate staff and resources will be a condition of first disbursement.
- 3.8 The CMU will; (i) execute all financial, administrative, organizational, and planning actions necessary to develop the program; (ii) coordinate the formation and supervision of municipal projects, reaching agreements with the federal, state, and municipal institutions involved; and (iii) request information and actions from institutions related to MinC for the preparation and implementation of the local projects.

**D. Sub-executors**

- 3.9 The sub-executors of the program will be the municipalities in which projects are located. Each municipality will establish a Project Executing Unit (PEU) that will prepare, coordinate, supervise, execute, and financially administer its project.
- 3.10 Each PEU will report to the Planning Department of the municipal government and will be headed by an Executive Secretary named by the mayor. The PEU will be staffed by a small technical and administrative staff that will work in close coordination with technical administrative staff of the municipality.
- 3.11 It is expected that the PEUs will be able to execute the projects without difficulty. The projects themselves are small, the largest being US\$8 million. The PEUs will use existing municipal departments which have experience in contracting for the type of works included in the projects. Municipal departments, such as the Departments of Public Works, of large cities (Rio de Janeiro, Recife), have a great deal of experience. In the smaller, less sophisticated cities (Olinda, Ouro Preto), the PEUs and municipalities will be supported by the CMU.

**E. Financial agent**

- 3.12 The Caixa Econômica Federal will manage the program funds as the financial agent (FA).

**F. Operating regulations**

- 3.13 The Operating Regulations establish the terms and conditions of the program, the relations between participants, objectives, components, selection and eligibility criteria, and execution and supervision rules. Presentation of the final Operating Regulations to the Bank's satisfaction and their approval will be a condition prior to first disbursement of Bank's financing.

**1. Eligible municipalities**

- 3.14 To be eligible municipalities must: (a) contain a National Urban Historic Set or an Urban Set of National Monuments included in the Program's priority list; (b) have the capacity to execute the investments and provide financial counterpart; (c) present

a proposal for a specific project based on participative meetings in which residents, the Chamber of Commerce, the local university, NGOs, municipal authorities and IPHAN identify the problems of the area and the objectives of the project and; (d) demonstrate the interest of the private sector in participating in the project.;

## **2. Eligible projects**

- 3.15 To be eligible projects must (a) have a total cost less than US\$ 1.0 million when they do not include an integrated investment component and less than US\$8 million in all other cases; (b) have a total cost per individually declared monument (or equivalent) no greater than US\$1.5 million; (c) identify the use to be given to the properties restored and demonstrate that the entity responsible has sufficient resources for its operation and maintenance; (d) make public an environmental impact statement; and (e) consult with the community in project preparation and resettlement and relocation plans; (f) legally constitute a Preservation Fund which will use the financial resources directly or indirectly generated by the project to cover the costs of conservation of the investments in individually declared federal monuments (or monuments warranting such declaration) in the project area.
- 3.16 Within priority historic cities or centers, eligible investments include: (a) restoration and adaptation of federally protected and owned historic buildings or other monuments for economic, social, or cultural use; (b) restoration of state and municipally protected buildings that are necessary to preserve the appearance and vitality of the area and that have a rate of return in constant prices greater than 12%; (c) economically justified improvements to the public space that promote the economic, social, or cultural use of monuments and their surrounding area. Such improvements typically include, widening of sidewalks, paving of streets, provision of parking, public lighting, landscaping of parks and provision of benches and trashcollection receptacles; (d) economically justified investments in the repair of water, sanitary, and storm sewers, and retaining walls within the direct area of investment; (e) advances of monies to private owners of residences and businesses in the project area for the restoration of facade, structure, and roofs. Advances of monies to low income families (less than three minimum wages) for internal modifications to undertake income earning activities; (f) emergency repairs of federally declared monuments (that are outside the project area but in the area of influence) that are about to collapse; and (g) promotional events and activities to increase the economic, cultural, and social use of the project area.
- 3.17 Program resources will be allocated among projects submitted by municipal authorities of priority sites. The CMU will invite these municipalities to submit proposals that comply with the Operating Rules of the program. The CMU will give priority to the projects that have committed private investment above the minimum eligibility floor ratio of US\$0.30 for each US dollar of public investment. The CMU will structure the program's financing agreements with the municipalities to link the disbursement of resources for public investments to the materialization of the proposed private investments. The Executor will submit to the Bank for review and approval all feasibility studies of projects not in the representative sample before these projects are eligible for disbursement.

### **3. Agreements and contracts for the transfer of resources**

- 3.18 Two types of agreements will be used to execute the program: (a) an agreement between the MinC and the Financial Agent (FA); and (b) an agreement between the MinC and each sub-executor. There may also be agreements between MinC and states, municipalities, and private participants when the states contribute counterpart or when the municipality does not own the property to be restored
- a. Agreement between MinC and the FA. The resources of the program that come from the Bank (50%), the counterpart provided by the FG (30%), and local counterpart from the sub-executor (20%) will be deposited in a special account of the FA. The sub-executor will request disbursement from the FA who will pay the suppliers and contractors directly on the basis of invoices that have been approved by the CMU and after having verified that the corresponding federal and local counterpart has been deposited.
  - b. Prior to the transfer of resources for a project an agreement should be signed between MinC and the sub-executor, with the participation of the FA. This agreement will stipulate the obligations of the sub-executor in accordance with the documents, schedules, and designs of the approved project.
- 3.19 There will be conditions prior to the signature of the Agreements, requiring that the municipality provide evidence that: (a) a Project Execution Unit has been established; (b) the local counterpart is available; (c) there is private sector involvement in the project, (d) the law creating the Preservation Fund has been approved; (e) the specific plan of accounts for project accounting have been established; and (f) commitment of the municipality to allocate funds for the execution of complementary actions not financed by the Program.

### **G. Status of program preparation**

- 3.20 The CMU prepared a sample of four projects for the appraisal of the program. The projects in Ouro Preto, Olinda, Recife and Rio de Janeiro require investments of US\$30.2 million, and comply with the objectives and the Operating Regulations of the program. The designs permit detailed cost estimates and allow the PEUs to call for bids as soon as the program becomes eligible. The CMU has advanced in the preparation of additional projects in Salvador and São Luis do Maranhão. The sample projects will be ready for bidding during the first year of execution, ensuring continuity of disbursement while additional projects are being prepared. Given the experience gained by the CMU in the preparation of the sample of projects, less time should be necessary to prepare future projects.

### **H. Execution and commitment periods**

- 3.21 Based on the sample of projects presented for appraisal, the estimated execution period for specific projects is two years. The commitment period will be three years. The total execution period is five years.

### **I. Recognition of expenses**

- 3.22 MinC has requested that the Bank recognize as counterpart up to US\$3.0 million for expenditures incurred since April 1998 in preparing the program. These expenditures

are related to the costs of preparation of the sample of projects and other components of the program.

**J. Rotating Fund**

- 3.23 A Rotating Fund of 5% of the total financing will be established and will operate according to the standard procedures of the Bank.

**K. Bidding procedures and schedules**

- 3.24 Each executor will submit standard bidding documents for the Bank's preliminary review. In addition, each executor will submit the documentation of the first 20% of expenditures for review by the Bank. All documents that deviate from the standard will be submitted to the Bank for prior approval.
- 3.25 Procurement of goods, works and related services (specified in the Procurement Plan, Annex III-1) will be subject to the Bidding Procedures specified in Annex B and C of the Loan Contract. When the estimated value of goods and services is the equivalent of three hundred fifty thousand dollars (US\$350,000) or greater, and the estimated value of works is the equivalent of five million dollars (US\$5,000,000) or greater, the goods, services and works will be subject to international competitive bidding as specified in Annex B. Consulting services will be contracted in accordance with Annex C of the contract. All consulting contracts with amounts equivalent to two hundred thousand dollars (US\$200,000) will be subject to international competitive bidding.
- 3.26 After the Country Office has reviewed the first twenty per cent of total project costs presented by each executor, the CMU can approve investment works of amounts less than the equivalent of one million five hundred thousand (US\$1,500,000) and purchases of goods and services of less than the equivalent of one hundred fifty thousand (US\$150,000) without the prior approval of the Bank, but with documentation and justification sufficient to submit to the Bank when required. The Country Office can modify these amounts, based on its evaluation of the performance of the CMU in its supervisory activities. The Bank reserves the right to not finance contracts or purchases that are not in accordance with Bank procedures.
- 3.27 No exceptions to Bank policy are necessary. However, it is clear that international companies will not be bidding to supply media time for educational programs and promotional campaigns because they do not broadcast on open channels in Brazil. The Project Team recommends that Brazilian law concerning procurement of media time be applied. These laws recognize that, given the good being purchased (access to a particular audience), a system of private bids is not possible. The procedure specified by Brazilian law requires (1) international public bidding to hire a publicity agency that will plan, negotiate and purchase media time on behalf of the Executing Agency, (2) preparation of a purchase plan of time in various media, (3) approval of the plan by MinC, (4) approval of the plan by the Secretaria do Estado de Comunicação do Governo (SECOM) and review of the prices obtained by the agency to ensure that the media have given the same volume discounts that they give to other government purchasers. The program will make approximately 8 purchases over a period of four years. The largest will be for approximately US\$6 million, the remainder will be for between US\$1.5 and US\$1.25 million. For any specific purchase, it is usual that more than one media company is used to reach targeted

audiences. The procedures specified by Brazilian law are consistent with the Bank principles that the process be transparent, non-discriminatory, and achieve the lowest price for service rendered reached. To monitor the fulfillment of these principles, prior to disbursement of funds for media, the executor should submit for prior approval (i) the original media plan prepared by the publicity agency, (ii) the media plan approved by MinC, and for no objection, the final media plan approved by SECOM.

#### **L. Resettlement**

- 3.28 No permanent resettlement needs have been identified for the projects in the representative sample. Most of the buildings that are likely to enter the program are unoccupied. Resettlement of low-income families and other occupants could be necessary if owners of occupied private buildings decide to upgrade or adapt them for higher value uses. Resettlement plans for these projects will be prepared and implemented in accordance with Bank policies and guidelines. These plans and their implementation will be closely monitored by the CMU and the Bank. Resettlement plans are designed to: (a) provide resettled households a standard of living at least equal to the existing one; (b) minimize disruption of social networks; and (c) ensure access to opportunities for employment and economic development. Every attempt will be made to relocate residents in or near the historic center, adequate housing will be provided, and social services will be made available. Planning will include socio-economic assessments and community participation. The cost of implementing the resettlement program will be included in project costs, and funds will be set aside at the beginning of the project for this use.
- 3.29 The possibility of temporary resettlement for a maximum of 52 families--who want to make major repairs or modification to their homes--has been identified in Ouro Preto. Temporary resettlement may also occur in future projects. This resettlement is completely voluntary. Preliminary plans for temporary resettlement will be prepared, as part of the environmental and social impact report for the project. The affected residents will be involved in the planning process, and arrangements with each resident will be completed prior to initiation of work. The costs for temporary relocation will be included in the project costs. Monitoring of the resettlement processes will be carried out by the CMU, who will keep the Bank apprized of progress.

#### **M. Social and environmental impact**

- 3.30 The Executing Agency evaluated the social and environmental impacts of the projects in the sample in accordance with the recommendations of the Committee of Environmental and Social Impact recommendations. The evaluations were made available for public review and comment between March and October of 1998. CESI approved the Environmental and Social Impact Report on May 10, 1999. It was submitted to the Public Information Center on May 27, 1999.
- 3.31 Because the program targets existing urban centers, it is expected to have no significant adverse environmental and social impacts, other than resettlement (§ 3.28 - 3.29). The program should have positive long-term impacts on cultural/historic resources and the environment caused by improvements to drainage and sewer systems, solid waste collection, street cleaning, revegetation and stabilization of

slopes, and landscaping). Public education in historic preservation will reinforce the positive environmental impacts.

- 3.32 Adverse environmental impacts of the program will be minimal and temporary. They will be managed by standard environmental controls for construction. Other potential impacts of the program include increased traffic congestion in some historic centers, where congestion and parking problems already exist. Traffic studies of the projects in the sample have generated design changes that mitigate these impacts.
- 3.33 The long-term social impacts of the program should be positive. The program will provide economic opportunities for residents of the historic centers. It will advance funds to low-income families so that they can adapt their homes for small scale commercial uses and remain in the area if they choose to do so. Other project-specific mitigating measures will be identified in the environmental and social evaluation process.

**N. Monitoring and supervision**

- 3.34 The municipalities will supervise the execution of the works according to each municipality's and IPHAN's norms for protected historic areas. Final acceptance of the works will follow the same procedures used for private investments or infrastructure.
- 3.35 Environmental control agencies will supervise compliance with requirements included in environmental licenses using their usual standard procedures.
- 3.36 The Bank will supervise execution of the program using the following procedures. During execution of the program, the Executor will present to the Bank, within the first 90 days of each calendar year, an Annual Report on the progress with respect to the achievement of targets and agreed indicators of impact in the implementation of the program. The Executor and the Bank will meet within 30 days of the presentation of the Annual Report to examine the progress achieved in implementation of the Annual Operating Plan and will review the Annual Operating Plan and indicators to be achieved for the next year. If review of the Annual Report and field inspection reveal that the indicators specified have not been achieved, the Executor will present to the Bank, within 60 days, the corrective measures it intends to adopt to adjust the schedule and budget of the program.

**O. Performance indicators**

- 3.37 Benchmarks have been developed for the monitoring of the program, as shown in the following table.

Category	Activity	Year 1	Year 2	Year 3	Year 4	Year 5
Integrated Investment	Project Identification	Call for proposals	Call for proposals	Call for proposals		
	Project Evaluation			At least 4 new projects meeting conditions for disbursement		
	Project Execution	At least 2 projects in the sample meeting conditions for disbursements	The 4 sample projects meeting conditions for disbursement	At least 6 projects in execution		
Promotion of economic activities	Identification and evaluation of proposals	Reception of proposals for cultural and economic promotional events	Reception of proposals for cultural and economic promotional events	Reception of proposals for cultural and economic promotional events		
	Execution		At least 2 cultural and economic promotional events in execution		At least 8 total accumulated cultural and economic promotional events in execution	At least 14 total accumulated cultural and economic promotional events in execution
Institutional Strengthening	IPHAN	Services contracted		Services concluded		
	Executing Agency	Services contracted		Services concluded		
Educational programs about Brazil's heritage	National campaign	National campaign being contracted	National campaign in execution			
	Regional campaigns	At least 2 regional campaigns being contracted	At least 2 campaigns in execution			
	Documentaries			Documentaries concluded		
	Dissemination clips		At least 40 dissemination clips on rehabilitated monuments under preparation	At least 40 other clips prepared	At least 40 other clips prepared	At least 40 other clips prepared
	TV programs for schools		20 programs prepared and available to schools throughout the country			
	Workshops		At least 30 workshops completed		30 more workshops completed	
Training	Train the trainers		18 instructors trained			
	Training of craftsmen		Biddings published for training centers in Rio, Recife and Ouro Preto	Training program initiated	Graduation of the first class of craftsmen	Graduation of the second class of craftsmen

## P. Financial statements of the program, the projects, and the Preservation Funds

3.38 The CMU and IPHAN will establish a specific chart of accounts to permit them to maintain separate financial records and prepare separate financial statements for the program. These accounts and statements will be audited annually by the Secretaria Federal de Controle do Ministério da Fazenda.

- 3.39 Each PEU will also establish a specific chart of accounts for separate accounting and financial reporting. These accounts and financial statements will also be audited annually by independent certified public accountants.
- 3.40 Each Preservation Fund will have a chart of accounts for separate accounting and financial reporting. The account and financial statement will be audited annually by independent certified public accountants and a summary published in the municipal paper with the largest circulation.

**Q. Preservation Fund**

- 3.41 After each municipal project is executed, it will be necessary to maintain the rehabilitated monuments and associated investments. To this end, each participating municipality will create a "Preservation Fund" to pay for the continuing preservation of property that is federally declared heritage, publicly owned, and does not generate sufficient revenue to pay for all necessary conservation work.
- 3.42 The Preservation Fund is a special account created by municipal law under the provisions of Federal Law 4320 and receives funds generated directly or indirectly by the investments and actions of the project. The resources of this fund will be maintained in a special bank account.
- 3.43 A Council will manage the Preservation Fund. Half the members of the Council will come from the public sector including MinC, IPHAN, state, and municipal governments. The other half of the members will be representatives of the private sector: civil society, business, universities, and other associations related to the conservation of historical heritage. The Operating Regulations specify how members will be named to the Council, how they can be removed, and the extent of their fiduciary responsibility. The Council will determine how the resources of the Preservation Fund will be applied.
- 3.44 If the resources of the fund should exceed the amount needed to preserve the works financed by the program and in the project area, the funds can be applied to the restoration and conservation of other federally declared monuments in the project area and subsequently in areas adjacent to the project area.

**R. Maintenance**

- 3.45 Private parties or public institutions owning, renting or using rehabilitated or protected buildings will be responsible for maintaining buildings to the standards defined by the municipality and IPHAN. The municipality will include these standards in the financing, rental or transfer agreements. The municipalities and public utilities companies will be responsible for the maintenance of public areas and infrastructure. Agreements signed with the utility companies, prior to the execution of improvements in infrastructure, will specify the obligation of the utility company to operate and maintain the infrastructure. The municipality will include resources for the maintenance of streets and public areas in its annual budget.
- 3.46 In order to generate better practices in maintenance and conservation of historic buildings, protected under the Federal Government, the Program will seek ways to encourage innovation in maintenance and conservation of historic buildings by



private citizens. One of such initiatives could involve annual competitions in which private owners of historic houses compete for a symbolic prize for best practices in maintenance. The award system and publicity generated by the annual event should heighten public interest and awareness in ways of protecting historic monuments.

- 3.47 The municipalities benefitting from the program are responsible for: (a) enforcing maintenance agreements with private beneficiaries, users, and public utilities; and (b) maintaining public buildings and public areas in accordance with the agreements reached with the CMU. According to Brazilian Legislation, IPHAN will supervise the level of maintenance of Historic Monuments and will require from owners and operators the necessary actions if they are not complying with the maintenance agreements. The council managing the Preservation Fund will fulfill similar functions for the public spaces and other investments financed by the program. During the execution of the program, the executing agency will submit annual reports to the Bank on maintenance activities and corrective measures implemented.

**S. Evaluation**

- 3.48 The Executing Agency will collect annually during the execution of the program, the data related to the indicators of goals and purpose identified in the Logical Framework. In the last year of execution the Executing Agency will present the results of an attitude and knowledge survey related to cultural heritage using the same methodology applied in the survey completed during Program preparation.

## **IV. FEASIBILITY OF THE PROGRAM**

### **A. Technical feasibility**

- 4.1 The program is technically feasible. The projects that will restore historic buildings in a technically appropriate manner and rehabilitate the urban surroundings to improve accessibility, safety, and aesthetics. Investments will protect heritage from damage from vibrations, erosion, and floods. Complemented by improvements in residences and promotion campaigns, the projects make the areas more apt for businesses to establish new economic activities and for middle-income households to move in. These new activities and households are critical for the long term sustainability of conservation.
- 4.2 All projects in the sample have been identified and designed by municipalities and have "local ownership". The stakeholders have participated in workshops that identified the problems and objectives. Some private investors have been involved in the rehabilitation projects from their conception, and the community will benefit from investments in infrastructure and public areas. This process contrasts with the top-down practices of past conservation efforts in Brazil.
- 4.3 The fact that municipalities prepare and execute their projects ensures better coordination among municipal and local private actions. The municipality takes the lead in identifying and executing actions to promote economic development.
- 4.4 The Operating Regulations for the program ensure that future projects financed by the program will follow the same principles as those in the representative sample. It is expected that MinC will retain these Regulations to guide extra-program investments in urban heritage conservation.

### **B. Institutional feasibility**

- 4.5 The program is institutionally viable. The CMU has the capacity to execute the program. The municipalities in the sample have created PEUs with the authority, personnel and municipal support to ensure they can execute their projects. The PEUs will contract, with resources of the program and by public bidding, contractual services and suppliers to execute the works and actions of each project.
- 4.6 The Preservation Funds created in each participating municipality, will be directed by a Council comprised by representatives of the private and public sector in equal proportions in order to ensure the appropriate management of resources to preserve federally protected heritage. Some of the funds have already been created by law.
- 4.7 The program will finance a study to improve the efficiency and efficacy of the sector and of IPHAN.

### **C. Financial feasibility**

- 4.8 The projects of the representative sample are in the municipalities of Ouro Preto, Olinda, Rio de Janeiro, and Recife. The analysis of budget execution and the financial projections indicate that these municipalities have the financial capacity to provide the 20% counterpart for their projects. The remaining 80% will be transferred to the municipalities as a donation by the FG, which will also service the debt.

- 4.9 The projection of income and expenses generated by the investments and actions of the program indicate that the annual cash flows will be sufficient to maintain the monuments in restored condition without future interventions by the FG. In addition, the funds will generate surpluses that will be reapplied to the preservation of federally declared historical monuments in the area of the project which were not restored in the program.

**D. Economic Analysis**

- 4.10 The proposed program to restore and conserve historic heritage is economically feasible as a whole. It is difficult to be as definitive about the individual sub-projects because the national contingent valuation does not allow fine distinctions among projects.

**1. The Benefits of Historical Preservation**

- 4.11 The economic analysis considers two benefits: (1) the increase in prices or rental values resulting from the rehabilitation of historic areas, and (2) citizens willingness to pay to maintain historic sites (non-market use and existence value).
- 4.12 The increases in rents and property values reflect the increased profits that can be generated by (a) the restaurants, shops, and hotels, that exist, or come into the area, and by (b) the improved residential services provided by improvements in houses, infrastructure, (public lighting, drainage, retaining walls, and street resurfacing), urban services (security, trash collection, traffic control), and urban amenities (parks and parking). The changes in property values are estimated in real estate studies. These studies are imprecise. Some of the increases in value may merely be economic transfers.
- 4.13 Non-market use value is the amount that people are willing to pay to visit historic sites. Existence value is the amount that people are willing to pay (a) to have the option of visiting the historic site sometime in their lifetime or (b) to make sure that the sites continue to exist and can be seen by others, including future generations. These benefits are measured by contingent valuation.
- 4.14 The questionnaire used in the contingent valuation was conservatively designed. It asked if households were willing to make a one-time payment of a specified amount to support seven projects tentatively identified for the program. The interviews were carried out at a time of economic crisis in which the dominant concern expressed by interviewees was unemployment. In such an environment, willingness to pay tends to be low.
- 4.15 The average willingness to pay per household ranged from US\$9.44 to US\$27.75, depending on the statistical method used. The average willingness-to-pay was about ten times greater than the median. This implies large benefits are enjoyed by a small number of people.
- 4.16 The results did not clearly distinguish the benefits for the individual projects presented. Therefore, it is not possible to attribute the willingness-to-pay to individual projects. Based on information in the knowledge and attitude survey (¶ 1.35 and 1.39), we used a conservative approach and attributed these benefits only to the six states in which described projects are located. The total benefits from the national contingent valuation have a present value in economic prices of between

US\$40.8 and US\$57 million. These benefits, when added to the increases in property values exceed the cost of the investment projects, and imply that the program as a whole is feasible.

- 4.17 Because of the imprecision of the CV results, it is important that each individual project be designed carefully and that buildings that are not federally protected be used in a way that guarantees their maintenance by owners.

## 2. Cost-Effectiveness

- 4.18 The proposed projects have two, interrelated effects. They restore and preserve significant historic buildings, and they rehabilitate urban areas. While both effects are desired, the goal of the FG is to preserve heritage. For that reason, the FG provides grants equal to 80% of project costs. The large grant element gives municipalities an incentive to propose large projects and to include urban infrastructure and other components that they would otherwise have to finance with their own budget. To try to control this tendency, the program introduces cost-effectiveness criteria to make sure that the program preserves as much heritage as possible per dollar invested.
- 4.19 While the principle of preserving the most heritage per dollar invested seems clear, it has conceptual problems. Historic monuments are not alike. They vary in importance, size, and physical condition. The analysis controls for importance by having first established the priority of each project. To establish standards of cost-effectiveness for the program, we divided the cost of each project by the number of individually protected federal monuments in the area, and we controlled for differences in size by analyzing cost per volume of the monuments being protected. The costs refer only to engineering, administration, and investment costs of municipal projects. They do not include the costs of educational and promotional campaigns, special events, or training. Because IPHAN does not always individually declare monuments that are considered worthy of Federal protection (§ 1.14), all monuments that IPHAN indicated were worthy of individual consideration were included.

**TABLE V-1**  
**COST-EFFECTIVENESS OF THE VARIOUS PROJECTS**  
(in US\$)

Project	Cost per Monument Protected	Cost Per Volume of Monuments Protected	Cost of Restoration of Monuments as a % of Project Cost
Olinda	465,700	55.5	22.4
Ouro Preto	741,700	40.2	22.9
Polo Alfandega	1,715,000	54.6 (116.1)	33.2
Tiradentes Square	1,864,000	271.8	40.0

- 4.20 There is a significant difference in project cost per monument protected: the least efficient costs four times as much per monument as the most efficient. The cost per volume protected appears to have a narrower range, but this is illusion because the cost of one of the large buildings in Polo Alfandega is not included as it is being restored by the private sector. If the cost were included the cost per cubic meter would jump from \$54.40 to \$116.13. The cost-effectiveness of both the Polo Alfandega and Tiradentes Square projects are questionable. The fundamental reason is that the less cost effective projects have fewer truly significant buildings in the project area. In addition, the buildings are in poorer condition and cost more to rehabilitate. Olinda and Ouro Preto, on the other hand, are best cases and may be unrepresentatively cost-effective. Both areas are exceptionally endowed with significant monuments.
- 4.21 It appears that proposals with a cost per monument of US\$750,000 are cost-effective. Since these areas are exceptional, it seems reasonable to raise the standard for acceptable cost by 100% and require that any proposal with a cost per monument above US\$1.5 million be submitted to the Bank for approval with special justification. This justification should explain why the project proposed, which maintains heritage indirectly by means of revenue received by the Preservation Fund, is better than having the FG directly maintain the monument

#### **E. Risks of the operation**

- 4.22 This program implements a new system for the preservation of historic heritage. Being new, and coming at a time when Brazil is in a period of fiscal austerity and monetary repression, the program has significant risks that affect the probability of achieving the goal. These risks are identified for each stage of program implementation in the Logical Frameworks (Annex II-1). The most significant are that.
- a. private participants (commercial and residential) may not invest in the area or may not make use of the funds provided to make the improvements targeted by the program;
  - b. municipal legislators may divert the tax revenues promised for the Preservation Fund for other uses;
  - c. municipalities may not provide the level of services (maintenance of parks and public areas, trash collection, public lighting, traffic control, security, and enforcement of IPHAN's norms for protection of heritage) that they agree to in their contracts with the MinC.
- 4.23 These risks have been considered in project design. To reduce the risk of low private participation, the sub-projects have been selected after public sessions with the community to discuss the problems to be resolved and assess interest in participation. Each project includes free media campaigns that provide publicity for participants. In addition, approved private projects in federally declared buildings may qualify for federal tax deductions.
- 4.24 The risks associated with municipal non-compliance are real and not completely avoidable. The Project Team investigated three possibilities: (1) earmarking revenues from property and service taxes for the Preservation Fund, (2) converting

the grants to loans, each payment of which could be forgiven if the municipality upheld its obligations, and (3) making municipalities guarantee compliance by pledging federal co-participation funds assigned to the municipalities. None of these actions turned out to be viable. Brazilian law prohibits earmarking of tax revenues because it interferes with the prerogatives of the legislature to allocate funds. The grants could not be turned into loans because the more important sites are in cities have no financial capacity to borrow. There is no way to enforce a pledge guaranteed by co-participation funds. The Constitution prohibits the retention, or use of, resources assigned to municipalities, except to recover a pre-existing debt owed by the municipality to the Union. The proposed operation is not a loan to the municipality, and does not give rise to a debt. For these reasons, the program addresses the risks of municipal non-compliance by mobilizing stakeholders to care for heritage and to be its advocate through the political process. The program does this (1) through education and campaigns, (2) by giving the private sector (voters) a stake in the success of project areas, and (3) by putting articulate, interested citizens on the Council of the Preservation Fund to lobby the municipal government and alert the media and the public if municipal governments do not comply. These techniques are new to historic preservation, but have had success in the area of environmental protection.

- 4.25 Municipal involvement in the design of sample projects tends to give preeminence to urban rehabilitation objectives over Federal historic preservation objectives. This bias may creep into projects that are not in the representative sample. This risk has been mitigated in the Operating Regulations by strict technical and economic eligibility criteria. Notwithstanding these safeguards, it is evident that the risk is inherent to projects for the preservation of urban heritage when the FG is providing the majority of the financing. One way of addressing this in the future is to establish a federal program to finance the heritage component of integrated urban rehabilitation projects that are financed by municipal and state governments. This approach will better balance the often competing objectives pursued by local and national levels with respect to urban rehabilitation and historic preservation.

## LOGICAL FRAMEWORK

### PRESERVATION OF URBAN HISTORICAL AND CULTURAL SITES

OBJECTIVES	INDICATORS
<b>Goal:</b> 1. Priority urban historic and cultural sites are preserved.	1a. Seven historic sites that participate in the project are attractive, well maintained, safe to visit, and have viable economic activities consistent with preservation of the areas.
	1b. Forty three monuments (28 in the representative sample and 15 in subsequent sub-projects) maintain their heritage characteristics without requiring additional federal funds for their maintenance
	1c. The other buildings and the public space of project areas are continuously well maintained by private owners and municipal governments.
	1d. The strategy of the program is applied to other historic sites not included in the program.
	1e. The number of works that IPHAN has file court orders to stop declines from an average of 207 per year in 1996-1998 to 100 per year in 2007 in the 20 cities where inventory and agreed municipal norms are implemented.
	1f. The number of submitted project plans that IPHAN has to reject declines from an average of 310 per year in 1996-1998 to 150 per year in 2007 in the 20 cities where inventory and agreed municipal norms are implemented.
2. The Brazilian population's knowledge and appreciation of its historic and cultural heritage increases.	2a. The average score on the follow up national survey of knowledge before last disbursement increases to 35% from 25.8% in 1998 for the nation as a whole and by fifteen percentage points for the cities with projects.
	2b. The weighted average attitude of respondents on the follow-up national survey of knowledge and attitude increases on the following questions:

	Question	Before	After
	Willing to contribute time.	4.5	5.0
	Willing to contribute money		
	For national heritage.	2.7	3.2
	Municipal government should		
	Spend to preserve heritage.	3.0	3.5
<b>Purpose:</b> The economic, cultural, and social use of restored areas increases.	1a. The number of visitors to restored areas increases (specific targets in logical frameworks of projects).		
	1b. Cash flow to Preservation Funds in each site meets specific targets by 2003 (specific targets in logical frameworks of projects).		
	1c. Number of vacant buildings in the area declines by 2003 (specific targets in logical frameworks of projects).		
	1d. Appraised value of private building in the area increases (specific targets in logical frameworks of projects).		
<b>Components</b>			
1. Ouro Preto Project	1. See logical framework of project		
2. Olinda Project	2. See logical framework of project		
3. Polo Alfandega Project (Recife)	3. See logical framework of project		
4. Tiradentes Square Project (Rio de Janeiro)	4. See logical framework of project		
5. Three or four other priority projects	5. To be determined during preparation		
6. Institutional Strengthening	6. See logical framework of institutional strengthening		
7. Promotion of economic activities of historic centers.	7. 14 special events to promote economic use of historic sites proposed and executed by the private sector are co-financed by the program.		
8. Training of skilled artisans	8a. Three groups of six instructors trained in restoration carpentry, stone masonry, stone cutting, blacksmithing, stucco work, and painting. 8b. 240 new skilled artisans certified in these fields.		
9. Educational programs about Brazil's heritage	9a. Campaigns at the national, regional and local level to promote awareness, conservation, investment in, and visits to heritage sites. 9b. 20 eleven minute videos to teach school students about Brazil's heritage. 9c. 6 forty-six minute documentaries for education/cultural marketing.		



PROGRAMA DE PRESERVACION DEL PATRIMONIO HISTORICO CULTURAL URBANO						
BR-0261						
PRINCIPALES LICITACIONES PREVISTAS						
ITEM	No. LOTES	MONTO TOTAL (US\$ MILES)	FINANCIAMIENTO		METODO (1)	FECHA DE PUBLICACION (SEM/AÑO) (2)
			BID	LOCAL		
<b>A. Proyectos de la Muestra</b>						
<b>OBRAS CIVILES</b>						
1. Olinda	7	3.275	70	30	LPN	II/00
2. Recife	8	4.722	70	30	LPN	II/00
3. Ouro Preto	8	5.160	70	30	LPN	II/00
4. Río de Janeiro	5	3.780	70	30	LPN	I/01
<b>B. Otros proyectos (por definir)</b>						
<b>OBRAS CIVILES</b>	21	13.463	70	30	LPN	I/02
<b>C. Consultorias y Estudios</b>						
Fortalecimiento Institucional IPAHN	2	5.000	63	37	LPI	II/99
Fortalecimiento Institucional Sector	1	3.000	63	37	LPI	II/99
Asesoría de media	1	610	63	37	LPI	II/00
<b>D. Otras licitaciones</b>						
Tiempo de media	8	15.000	63	37	LPN	I/00
Producción de programas p/ TVE	1	650	63	70	LPN	I/00
Prodcción de documentarios	6	1.410	63	70	LPN	I/00

LPI: Licitación Pública Internacional  
 LPN: Licitación Pública Nacional

(1) LPI será obligatoria para lotes cuyo valor exceda de US\$2 millones para obras y de US\$250.000 para bienes y servicios relacionados  
 (2) Fecha estimada

PROPOSED RESOLUTION

BRAZIL. LOAN /OC-BR. REPUBLICA FEDERATIVA DE BRASIL  
PROGRAM FOR THE PRESERVATION OF URBAN HISTORIC HERITAGE  
(MONUMENTA)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República Federativa de Brasil, as Borrower, to grant it a financing to cooperate in the execution of a Program for the Preservation of Urban Historic Heritage (MONUMENTA). Such financing will be for the amount of up to sixty two million five hundred dollars of the United States of America (US\$62,500,000), or its equivalent in other currencies, except that of the República Federativa de Brasil, which are part of the Ordinary Capital resources of the Bank and will be subject to the "Financial Terms and Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.