This chapter outlines a conceptual framework that integrates various strands from the discussion of heritage economics and provides an interpretation of some of the major issues of concern. The chapter is structured as follows: first, the basic concept of heritage as asset is discussed, placing it clearly into the context of capital theory. This leads, in the section on sustainability, to a consideration of the parallels between heritage as cultural capital on the one hand and environmental resources as natural capital on the other. These parallels have implications for the sustainability of the cultural and natural resources involved. The central issue in heritage economics is the question of value, discussed in detail further in the section on value and valuation; the analysis here divides the value embodied in or generated by heritage assets into economic and cultural components, and considers the critical issue of measurement. In the next section, the framework is extended to the policy arena, with a discussion of the major economic instruments for the implementation of heritage policy. The final section describes a case study of the application of some of the principles of heritage economics to a cultural investment project developed in Skopje, capital of FYR Macedonia, assisted by a World Bank project.
Introduction

As a specialist area of interest to economists, the economics of heritage is of relatively recent origin. This is not to say, however, that earlier concerns with the conservation of heritage and with heritage policy ignored economic aspects. For example, heritage figured prominently in discussions about the links between cultural policy and economic development in UNESCO in the 1960s and 1970s. Further initiatives in the 1970s and 1980s, such as the establishment of the World Heritage Convention and the use of the Burra Charter for heritage significance assessment in many countries, recognized that resources would be required for the implementation of heritage protection measures. But it was not until the 1990s that discussion began about the possibilities for formal application of the theory and practices of economics to the analysis of heritage decisions.

A leader in arguing the case for the development of an economics of heritage has been the renowned British economist Sir Alan Peacock. In a paper first published in 1995, Peacock pointed to the simple economic principle of opportunity cost as a constraint on resource allocation to heritage projects. At that time, given the budgetary constraints, more often than not, heritage projects received lesser funds from administrators in comparison to other projects on the scale of priorities. Since in most cases it was public funds that were being deployed, Peacock argued that public preferences should be taken into account in the decision-making process. These suggestions drew a spirited response from the heritage profession, whose members feared that their expert judgments on the cultural significance of heritage items would soon be displaced by crude financial criteria and lowest-common-denominator popular opinion in decisions concerning the allocation of heritage resources (Cannon-Brookes 1996).

Since then, a clearer understanding has evolved about the uses and limitations of economics in the cultural arena, to the point where economists are now often brought into heritage decision-making processes, especially where resource constraints are critical. At the same time, research and scholarship in the economics of heritage have led to an ever-expanding body of theoretical and applied literature in the field (Hutter and Rizzo 1997; and Schuster et al. 1997; Throsby 1997a; Rizzo and Towe 2002; Mason 2005; Peacock and Rizzo 2008; Benhamou 2010). This chapter outlines a conceptual framework that integrates various strands from the discussion of heritage economics and provides an interpretation of some of the major issues of concern.

Heritage as Asset

In referring to cultural heritage as a component of lending projects, the World Bank often describes heritage as an asset, whether it exists in the tangible form of
buildings, sites, historic city cores, or open public spaces, or as intangible cultural phenomena such as festivals, dance, rituals, traditional knowledge, and so on. Such terminology is appropriate, considering that Bank lending projects in any area typically involve investment in capital facilities that are expected to be long lasting and to yield a rate of return over time.

The theoretical basis for treating heritage as an asset lies in capital theory, which has been fundamental to the interpretation of production processes in economics for more than two centuries. Capital can be defined as durable goods that give rise to a flow of services over time that may be combined with other inputs such as labor to produce further goods and services. Economists conventionally distinguish between different types of capital, including physical or manufactured capital, human capital, and natural capital. Recently, the concept of capital has been extended into the field of art and culture, in an effort to recognize the distinctive features of certain cultural goods as capital assets, and to capture the ways in which such assets contribute, in combination with other inputs, to the production of further cultural goods and services. Thus the economic concept of cultural capital has taken shape (Throsby 1999, 2001; Ulibarri 2000; Shockley 2004; Cheng 2006; Wang 2007; Bucci and Segre 2011).

Why should a heritage item such as a historic building be placed into this specific category of cultural capital, rather than being simply regarded in the same terms as any other capital asset such as a power station or a commercial office building? The answer lies in the types of value to which the heritage building gives rise. It may have a potential sale price as real estate and a non-market value measured, for example, by the willingness of people to pay to see it preserved. But these measures of its economic value may be incapable of representing the full range and complexity of the cultural worth of the building: It may have religious significance that cannot be expressed in monetary terms; it may have had an influence over time on the development of a new urban plan, an engineering concept, or an architectural style; it may serve as a symbol of identity or place; and so on.

All these and many more are elements of what might be termed the building’s unique cultural value, a multidimensional representation of the building’s cultural worth assessed in quantitative and/or qualitative terms against a variety of attributes such as its aesthetic quality, its spiritual meaning, its social function, its symbolic significance, its historical importance, its uniqueness, and so on. Many of these characteristics will influence the economic value of the building and of the services it provides, such that an economic evaluation would be expected to capture much of the cultural importance of its heritage qualities. However, there are likely to remain some elements of the cultural value of the asset that cannot reasonably be expressed in financial terms yet are important for decision-making. If this is so, a justification for the treatment of heritage as a particular form of capital asset, different in the above respects from other forms,
is established. In the section “Value and Valuation” below, a more detailed treatment of heritage value and valuation is presented.

As noted above, cultural heritage exists in both tangible and intangible forms; indeed there are now World Heritage conventions dealing with each type separately. Both tangible and intangible forms of cultural capital exist as a capital stock held by a country, a region, a city, or an individual economic agent. This capital stock could be assigned an asset value in both economic and cultural terms at a given point in time. The net effect of additions to and subtractions from the capital stock within a given time period indicates the net investment/disinvestment in cultural capital during the period, measurable in both economic and cultural terms, and determines the opening value of the stock at the beginning of the next period. Any holding of cultural capital stock gives rise to a flow of capital services over time which may enter final consumption directly, or which may be combined with other inputs to produce further cultural goods and services. Therefore, for example, a historic building may provide commercial office or residential space or may be a site providing cultural experiences for tourists.

Heritage investment projects typically provide for a range of activities; namely, the preventive maintenance, conservation, upgrading, or adaptive reuse of the heritage item or items involved. Economic evaluation of such capital expenditures can use standard investment appraisal techniques such as cost-benefit analysis. (See box 3.1.) The fact that the assets involved are items of cultural capital indicates that, in addition to its economic payoff, the project will produce cultural benefits whose value should also be assessed. The measurement concept and instruments in use are dealt with elsewhere in this chapter.

**Sustainability**

Interpreting cultural heritage as cultural capital has a clear parallel with the economic interpretation of natural heritage as natural capital (Throsby 2005; Rizzo and Throsby 2006). Both cultural and natural capital have been inherited from the past, will deteriorate or degrade if not maintained, and impose on the present generation a duty to care for the assets involved so they can be handed down to future generations. The long-term management of both cultural and natural capital can be cast in terms of the principles of sustainable development. When applied to natural capital, sustainable development implies management of natural resources in a way that provides for the needs of the present generation without compromising the capacity of future generations to meet their own needs; that is, the principle of intergenerational equity (World Commission on Environment and Development 1987). Another key element of sustainability in natural capital management is the precautionary principle that argues for a risk-averse stance in
BOX 3.1

Cost-Benefit Analysis Confirms the Cultural and Economic Value of Conservation in Zanzibar

**Tanzania, Zanzibar Urban Services Project** (Project number 111155)

Total Project Cost: US$38 million

Total Loan Amount: US$38 million

Approved: February 2011 – Ongoing

The government of Zanzibar and the World Bank have prepared a project that aims to improve access to urban services and help conserve Stone Town’s traditional seafront, thereby safeguarding its World Heritage status. The World Bank loan will support the rehabilitation of Stone Town’s sea wall and refurbishment of the adjacent Mizingani Road, which are both in danger of collapse. Investments also include improving key infrastructure below the roadbed and creating a pedestrian promenade with landscaping, street lighting, and street furniture along the sea.

Direct benefits are: (1) preserving the value of the historic sea wall and properties in the immediate area; and (2) avoiding replacement costs by preventing collapse of the sea wall, the road, and other key infrastructure. Indirect benefits are calculated based on the continued growth in revenue from Zanzibar’s tourism. The analysis estimates that investing US$8.3 million in this work yields a net present value of US$15 million at a discount rate of 12 percent. The internal rate of return, 47 percent, indicates that it is desirable to invest in the rehabilitation of the sea wall and road. Non-quantifiable benefits include the enhanced urban aesthetics due to improvements along the sea wall and promenade and the development of a dual-lane road that will reduce the likelihood of accidents.


decision making when irreversible consequences such as species loss are possible. Both of these principles are relevant to cultural heritage sustainability. Because the stock of cultural capital, both tangible and intangible, embodies the culture we have inherited from our forebears and which we hand on to future generations, it is inevitable that questions of intergenerational equity are raised; heritage decision making is constantly faced with the long-term implications of strategies for conservation, upgrading, and adaptive reuse of buildings and sites. Similarly, the precautionary principle can be invoked when demolition of a historic building is
threatened; once gone, such unique cultural heritage cannot be replaced (World Commission on Culture and Development 1995; UNESCO 1998; Throsby 2003).

Indeed, we can go further in drawing the parallel between the sustainability of natural and cultural capital by suggesting that the concept of ecologically or environmentally sustainable development (often referred to as ESD) has a counterpart in culturally sustainable development, a proposition that foreshadows the possibility of identifying culturally sustainable growth paths for the economy. When applied to heritage, cultural sustainability implies assessing conservation investment projects against a set of criteria that might include:

- Efficient generation of material and non-material well-being for stakeholders;
- Serving principles of intergenerational equity by taking due care of the heritage in the interests of future generations;
- Ensuring equitable participation in the benefits of the heritage among members of the present generation;
- Observing the precautionary and safeguard principles; and
- Paying explicit attention to the long-term maintenance of the cultural values inherent in the heritage and in the services it provides.

An important aspect of sustainability is the maintenance of capital stocks. In discussions concerning the sustainability of natural capital, the question of substitutability or replacement between different forms of capital has arisen. Can a decline in the stock of natural capital in the economy be compensated for by an increase in the stock of physical capital, such that the economy’s aggregate capital stock is maintained? If natural and human-made capital are perfect substitutes in the production of consumption goods and in the direct provision of utility for both present and future generations, it doesn’t matter if the present generation uses up exhaustible resources as long as sufficient new physical capital can be provided to future generations by way of compensation. This is termed “weak sustainability.” On the other hand, “strong sustainability” regards natural capital as being strictly non-substitutable for human-made capital; in other words, the strong sustainability paradigm assumes that the functions of natural capital are so unique to global air, land, and water systems that they cannot be replicated by any type of manufactured capital, no matter how spectacular future technological advances might be (Pearce and Turner 1990; Barbier et al. 1994; Neumayer 2003).

How do these sustainability paradigms apply to cultural capital? Using cultural heritage as our touchstone, we can see that the purely physical functions of heritage assets that generate the assets’ economic value could be readily provided by manufactured capital. For example, the services of shelter and amenity that are provided by a historic building could as well be provided by another structure that has no cultural content. However, since by definition cultural capital is distinguished from physical capital by its embodiment and production of cultural
value, one would expect that there would be zero substitutability between cultural and physical capital in respect to its cultural output, since no other form of capital is capable of providing this sort of value; the new building cannot replicate the historical content of the old. Thus, in regard to historic heritage, the strong sustainability principle would seem to apply.

Nevertheless, there may still be the possibility of sustainability within forms of cultural capital. For example, is new cultural capital substitutable for old? If so, the loss of heritage items by destruction or neglect could be substituted for by the creation of new cultural assets which themselves will embody or generate new cultural value in due course. For example, Baron Hausmann’s bold plan for the redesign of Paris in the mid-19th century involved the demolition of many buildings that would presumably have had some cultural value at the time of their disappearance, and would possibly continue to do so today if they were still there. Yet the urban complex resulting from Hausmann’s actions yielded a modern urban environment—with buildings set along broad tree-lined boulevards and a system of new parks—which, with the passing of time, are now regarded as having considerable cultural value in their own right. In addition, Hausmann’s successful urban renewal project for Paris soon became an international reference—an innovative model for modernizing old cores of important metropolitan cities, which was emulated by, among others, Barcelona, Buenos Aires, and Rio de Janeiro. The difficulty here, of course, is that a recognition of cultural significance may take some time to evolve; who is able to predict which urban interventions or modern buildings, large or small, will be regarded as culturally important a century or so from now?

Recent application of the sustainability principle in development programs is, in a way, how planners and economists deal with the value of tangible cultural heritage over longer periods of time. Moreover, heritage policies are being increasingly integrated with urban regeneration strategies, tourism activities, cultural industry, community education and participation in programs, and even in regional planning as in the case of London’s “Historic Environment” initiative. In this case, enhancing the sustainability of the natural and built environment, including important urban heritage sites, is sought through the formulation of a framework for action containing a coherent tourism and cultural strategy.²

**Value and Valuation**

The question of value is a core issue in heritage economics in both theoretical and practical terms. In the theory of cultural capital, it is the existence of cultural value that differentiates this form of capital from other forms. In the practical world of heritage decision making, assigning an appropriate value to heritage
assets and to the services they provide is an all-pervading problem, whether the value sought is economic, cultural, or a mix of the two.

The distinction put forward earlier between the economic and the cultural value of heritage can now be elaborated in more detail.

**Economic Value**

As is the case with valuation of natural environments, it is customary in identifying the economic value of heritage assets to distinguish between use and non-use values, that is, between the direct value to consumers of the heritage services as a private good and the value accruing to those who experience the benefits of the heritage as a public good. Sometimes these effects are referred to, respectively, as market and non-market value.

The *use value* of a heritage building is observed in several ways. The building may provide office, retail, or other space to occupants who use the building for commercial purposes, in which case the actual or imputed rents paid serve as an indicator of the building’s value in use. Likewise the heritage asset may be a domestic dwelling where again rental rates or their equivalent are a measure of the private-good value of the services provided. In the case of heritage buildings and sites that are visited by tourists, use values are reflected in the individual benefits that tourists enjoy as a result of their visit.

A monetary indicator is provided by the entry price paid, enabling aggregation of a total use value generated by the building or site over a given period of time. Although such a calculation yields an estimate of financial return, a complete account of the economic use benefits to tourists would need to include their consumer’s surplus as well. In addition, for many heritage sites visited by tourists, the use benefits would also include revenue from the commercial exploitation of the site via visitor centers where cafes, restaurants, and gift shops are located.

Occasionally, a distinction is drawn between active use of a heritage building or site, such as those uses discussed above, and passive use that arises as an incidental experience for individuals, such as when pedestrians enjoy the aesthetic qualities of a historic building or site as they happen to pass by. This type of benefit is classed as a positive externality. Although in principle a monetary value could be assigned to it, in practice it is usually ignored in any calculation of the economic value of cultural heritage because of difficulties in defining appropriate populations of beneficiaries and in identifying the willingness to pay (to protect or enjoy the asset) in valid terms.

Turning to *non-use value*, we can observe that cultural heritage yields public-good benefits that can be classified in the same ways in which the non-market benefits of environmental amenities such as forests, wilderness areas, marine parks, and so on are determined. Three types of non-rival and non-excludable
public-good benefits are presumed to exist for a cultural heritage asset, relating to its existence value (people value the existence of the heritage item even though they may not consume its services directly themselves), its option value (people wish to preserve the option that they or others might consume the asset’s services at some future time), and its bequest value (people may wish to bequeath the asset to future generations). These non-use values are not observable in market transactions, since no market exists on which the rights to them can be exchanged.

The similarity between environmental and cultural assets (in other words, between natural and cultural capital) has meant that the methodologies developed for estimating the non-use values for environmental assets have been readily transferable to the heritage context (Pagiola 1996; Navrud and Ready 2002). (See box 3.2.) In particular, applications of contingent valuation methods, and more recently discrete choice modeling techniques, to evaluation of the non-market benefits of cultural heritage investments have grown rapidly in the last five to ten years (Santagata and Signorello 2000; Pollicino and Maddison 2001; Alberini et al. 2003; Dutta et al. 2007; Kim et al. 2007; Kinghorn and Willis 2008).

**BOX 3.2**

**Environmental Economics Provides a Model for Estimating the Value of Investments in Heritage Conservation**

As early as 1996, a World Bank paper entitled *Economic Analysis of Investments in Cultural Heritage: Insights from Environmental Economics* drew on advances in the field to discuss cost-benefit analysis for Bank-supported projects at cultural heritage sites. Bank staff Stefano Pagiola describes methodologies for estimating the use and non-use values of cultural assets. The author discusses the application, data requirements and limitations of contingent valuation, travel cost, hedonic, and market-price methodologies for evaluating cultural heritage investments. Pagiola points out that the choice of technique depends on the specific problem being studied. He also states that: (1) except in very simple situations, it is likely that a variety of techniques will be necessary to estimate the full range of benefits; and (2) where substantial investments are contemplated, it may be desirable to cross-check estimates by deriving them from multiple sources.

These and other methods of assessing the economic value of heritage are discussed in detail in Peter Nijkamp’s chapter in this book.

**Cultural Value**

The economic values discussed above are relatively easy to measure, at least in principle. Cultural value, by contrast, has no such unit of account. So how is it possible to express it? An initial step in constructing a theory of cultural value can be made by recognizing that it is a concept reflecting a number of different dimensions of value; not all of them may be present in a particular case, and their significance may vary from one situation to another. If so, it might be possible to disaggregate the cultural value of some cultural good or service into its constituent elements. To illustrate, we could deconstruct the cultural value of a heritage building or site into the following components (Throsby 2001; Avrami et al. 2000; De La Torre 2002; Mason 2008. See also O’Brien 2010). (See box 3.3).

- **Aesthetic value.** The site may possess and display beauty in some fundamental sense, whether that quality is somehow intrinsic to the site or whether it only comes into being in the consumption of it by the viewer. Under the general heading of aesthetic value we might also include the relationship of the site to the landscape in which it is situated; that is, all the environmental qualities relevant to the site and its surroundings.

- **Symbolic value.** The site may convey meaning and information that helps the community in which the site is located to interpret that community’s identity and to assert its cultural personality; for example, the site may symbolize some event or experience of historical or cultural importance. The value of the site as a representation of meaning may be particularly important in its educational function, not just for the young but also for advancing the knowledge base and level of understanding of the whole community.

- **Spiritual value.** Spiritual value conveyed by the site may contribute to the sense of identity both of the community living in or around the site and also of visitors to the site. It may provide them with a sense of cultural confidence and of connectedness between the local and the global. Spiritual value may also be experienced as a sense of awe, delight, wonderment, religious recognition, or connection with the infinite. In addition, the realization that similar spiritual value is created by other sites in other communities may promote intercultural dialogue and understanding.

- **Social value.** The interpretation of culture as shared values and beliefs that bind groups together suggests that the social value of the heritage site might be reflected in the way it contributes toward social stability and cohesion in the community. The site may impinge upon or interact with the way of living in
the community, helping to identify the group values that make the community a desirable place to live and work.

- **Historic value.** This value, however it is received, is inarguably intrinsic to the site, and of all the components of cultural value it is probably the most readily identifiable in objective terms. Perhaps its principal benefit is seen in the way in which historic value assists in defining identity, by providing a connectedness with the past and revealing the origins of the present. This value is manifested by the celebration of the culture and its artifacts that we inherit from the past. As UNESCO points out: “Our cultural and natural heritage are both irreplaceable sources of life and inspiration.”

- **Authenticity value.** The site may be valued for its own sake because it is real, not false, and because it is unique. An important concomitant characteristic is
that the site has integrity, variously defined in different circumstances, which must be safeguarded. Protection of the site’s integrity, however interpreted, may be a significant constraint imposed on project decision making when cultural value is taken into account.

- **Scientific value.** The site may be important for its scientific content or as a source or object for scholarly study.

The above approach to identifying cultural value as a multidimensional concept is not unlike Lancastrian demand theory in economics, in which goods are defined as a set of characteristics that may take different weights in different people’s preference functions. It is plausible to propose that the various elements contributing to cultural value could be similarly weighted, providing a basis for aggregation to an overall indication of the cultural value of particular heritage assets or of the services they provide.

Nevertheless, difficulties of measurement need to be overcome. If one takes a lead from economic theory, one could propose that cultural value might be identified through both the revealed preferences and the stated preferences of individuals. In the former case, some indication of the overall cultural worth of a heritage item is expressed over time in the judgments of heritage experts and of members of the public. In due course, it may be possible to arrive at some aggregate consensus as to the item’s cultural value. Such a consensus underlies the assertion of the cultural value of iconic heritage assets nominated for inclusion on the World Heritage List. Similarly, judgments as to the significance of heritage items for inclusion on lower-level lists or registers reveal something of the items’ cultural value as assessed by the decision makers.

Alternatively, or in addition, stated preference methods might be applied, for example by asking individuals directly for their assessment of the value of a heritage item according to the various criteria of value listed above. This approach can be implemented using a Likert scale, which calibrates a respondent’s agreement or disagreement with a series of qualitative statements about the heritage item. Under appropriate assumptions as to the relative strengths of different levels of agreement/disagreement, a numerical score can be assigned to responses. If weights can be allocated to the various components of cultural value specified, a weighted aggregate cultural value measure can be obtained. Similar procedures, including conjoint analysis, can be used to derive rankings rather than ratings for the cultural value elements.

Finally in this discussion of cultural value, it should be noted that the interpretation has emphasized the positive aspects of the values yielded by heritage. Nevertheless it has to be acknowledged that from time to time heritage, as a symbol of a given culture, has been invoked to foment social and cultural intolerance and hostility, and its tangible forms even targeted for desecration and destruction.
The demolition of the Bamiyan Buddhas by the Taliban in Afghanistan in 2001 is a well-known recent example. Another case is the destruction of ancient Armenian burial monuments (khachkars) during the armed conflict in Azerbaijan in the 1990s (Maghakyan 2007). Despite these extreme acts arising from political intolerance, however, the role of cultural heritage in normal life circumstances indicates that it is the beneficial characteristics of heritage as described above that are of primary significance.

**Relationship between Economic and Cultural Value**

What can we say about the relationship between economic value and cultural value when both are defined in the above-mentioned terms? Because as a general rule the more highly people value things for cultural reasons the more they will be willing to pay for them, we would expect some relationship between some aggregated measure of cultural value and the assessed economic value of a particular heritage asset or of the services the asset provides. Indeed, an appeal to the standard neoclassical economic model of individual utility maximization in a general equilibrium framework might suggest that the relationship should be a perfect one, thus rendering a separate account of cultural value unnecessary.

However, broadening our view to a more comprehensive notion of value would indicate that the correlation between economic and cultural value over a range of heritage items is not at all likely to be perfect, since there are some aspects of cultural value that likely cannot be rendered in monetary terms. For example, a moment’s reflection would suggest that it makes no sense to use a financial yardstick to express the value of a sense of cultural identity to individuals or communities, or to measure the collective benefits of cultural diversity. Likewise, it is difficult to imagine that the spiritual value of a religious shrine could be adequately represented as a monetary amount.

If it is true that heritage yields these two distinct types of value, both of which are desired, the question arises as to how they are to be traded against one another in decisions for which more of one means less of the other. This is a familiar problem in the practical arena of heritage decision making. Some heritage buildings or sites may have high cultural value but relatively little economic value, even when the latter includes non-market benefits. Others may be exactly the reverse. In such a situation the choice between them, if there is a choice, entails some trade-off. How much economic value are we, as individuals or as a society, prepared to give up to secure a given level of cultural value, or vice versa? The answer depends on identifying the preference pattern for the individual or for society between the two types of value.

It is theoretically plausible to specify an individual or aggregate utility function with economic and cultural value generated by a heritage project as the
arguments, implying the existence of a set of indifference curves between the two items of value that would enable marginal rates of substitution to be identified. We are still some way from being able to apply such a theoretical proposition in practice, although research in health economics does offer some ideas on how this trade-off can be represented in practical terms. An indicator called QALY (Quality-Adjusted Life Years) has been developed to confront the problem of choice for an ill person between a longer life with lower quality of life or a shorter life at a higher quality. It may be possible in due course to devise an indicator similar to a QALY to encapsulate the equivalent trade-off between economic and cultural value in regard to alternative cultural projects (Mason et al. 2009; Smith et al. 2009; O’Brien 2010).

Heritage Policy

The economic ramifications of cultural policy have become more prominent in recent years as a result of the growth of interest in the cultural and creative industries as a source of innovation, growth, and dynamism in the macroeconomy. Heritage services are one component of the cultural industries’ outputs and as such are implicated in any consideration of the economic basis for cultural policy delivery (Throsby 2010). The range of activities that may be undertaken in regard to a heritage asset in public or private hands includes the following:

- **Preservation**: ensuring the continued existence of the asset;
- **Conservation**: caring for the asset and maintaining it in proper condition according to accepted professional standards;
- **Renovation or restoration**: returning an asset that has deteriorated to its original condition;
- **Adaptive reuse**: ensuring continuity of use through minimal changes to the asset; and
- **Area conservation planning and historic environment initiatives**: these ensure the value of historic buildings and sites to the economic buoyancy of whole areas, as is now receiving due attention in the United Kingdom through the London Historic Environment initiative.

Public authorities may undertake these activities on their own behalf, or may provide assistance or incentives to private individuals or firms to undertake them. They may also constrain private action in these areas in various ways.

The primary objectives of heritage policy are to promote efficiency in the production of both economic and socio-cultural benefits through heritage conservation, and to protect the public interest in regard to the various aspects of the public-good benefits of heritage. A number of different instruments are available for these purposes, including regulatory and fiscal interventions.
**Regulation**

Regulation is the most common form of government intervention in the heritage arena around the world. (See box 3.4.) Mechanisms include the setting of criteria to determine which heritage items are sufficiently significant to warrant some public control over their use, and the laying down of standards for the ways in which heritage buildings and sites can be protected, conserved, restored, altered, or adaptively re-used. A distinction can be drawn between “hard” and “soft” regulation when applied to the built heritage (Throsby 1997b).

Hard regulation comprises enforceable directives requiring certain behavior, implemented through legislation, and involving penalties for non-compliance. Such regulation includes preservation orders; constraints on the appearance, function, or use of buildings; land-use zoning; imposition of process requirements for development applications; and so on. Soft regulation on the other hand

---

**BOX 3.4**

**Regulatory and Legislative Initiatives Support Heritage in Albania**

**Albania Institutional Development Fund (IDF) Grant for Cultural Heritage**

Total Project Cost: US$172,000  
Total Loan Amount: US$172,000  
Approved: November 1993 – Closed: March 1996

This World Bank Institutional Development Fund Grant provided the resources required for Albania to take the critical first steps in preparing national legislation and decrees on cultural heritage protection, which were passed in 1994 and 1996, respectively. A major change under the new framework was that all ministries were required to report to the Ministry of Culture on any activity that might affect heritage sites. The grant also supported a national inventory, which registered some 20,000 items. The activities undertaken during the grant period helped create a consensus that conservation of cultural heritage deserves the full attention of the public sector and that it is appropriate to allocate public resources (according to national standards) for its protection. Since the project closed, Albania’s legislation and regulations have been expanded and revised several times and are now closer to compliance with requirements for integration into the European Union.

is not compulsory, but refers to unenforceable directives calling for or encouraging certain behavior, implemented by agreement, and not involving penalties. It includes treaties, conventions, charters, guidelines, codes of practice, and other instruments that operate through voluntary compliance rather than coercion (other than moral persuasion).

The obligations imposed by a public regulatory authority on those owning or managing heritage properties vary among and within countries, and may include:

- Restrictions on the extent to which the property can be altered;
- Requirements for maintenance of a property to ensure that it remains in good functional condition;
- A prohibition on demolition;
- Specification of types and quality of materials to be used in conservation or works for adaptive reuse; and
- Conditions attached to specific uses and functions of the heritage property, as well as restrictions on types of commercial transactions (rent, lease, or sale).

These public policies and regulations are usually legally binding, such that non-compliance will involve penalties. In some cases, public funding may be made available to assist private owners of heritage properties in their maintenance or restoration, in the form of incentives, as discussed further below.

As a policy device, regulation has a number of disadvantages familiar to economists. These drawbacks include the following:

- **Regulation may create inefficiency.** If a minimum amount of conservation is dictated by regulation that exceeds the private and social demand, a deadweight loss occurs. Moreover, regulation does not allocate resources between conservation projects in a way that would equalize the marginal benefits from each project.
- **Regulation involves administrative costs for formulating standards and for monitoring and enforcing them.** These are incurred by the public agency. It also involves compliance costs; that is, the expenditures incurred by firms and individuals to meet the regulatory requirements. The measurement of these costs may be elusive, since it may be that firms and individuals would have undertaken these expenditures anyway, and hence they could not be attributed directly as a cost of regulation.
- **Regulation offers no incentive to do better.** Although the specification of minimum standards of behavior (backed up by effective enforcement) provides an assurance that those minima will be met, regulation generally provides no incentive for firms and individuals to exceed requirements. This problem has been highlighted in the comparison between policy instruments in the environmental area, where it can be observed, for example, that maximum pollution limits for industry invite firms to pollute up to that level, and do not
encourage them to reduce their harmful emissions to lower levels than the specified maxima. In the urban conservation context, similar examples might be found; for instance, in the setting of maximum or minimum requirements for design standards, land or building usage, site coverage, and so on.

- **The regulatory process can be swayed by other influences.** Complaints are sometimes heard that heritage regulation processes can be subverted to serve sectional private interests rather than the public good. This may arise, for example, in the area of land-use zoning, where development controls may be weakened to allow demolition of centrally located heritage properties to make way for more lucrative new commercial buildings. Older buildings located in the historic city core, and occupying valuable parcels of land, have often in the past received rezoning to allow owners to recapture the market value of their property either through construction of new buildings or through participation in an urban renewal process.

Despite the interplay of advantages and disadvantages, regulation has some characteristics that make it attractive to heritage policy makers, including the following:

- **Heritage policy may involve all-or-nothing choices, such as the binary choice between preservation or demolition of a historic building.** In such circumstances, the use of instruments that allow gradations of behavior becomes inappropriate; the simplest way to ensure preservation of the building, if this is desired, is by the application of a regulation forbidding its demolition (provided, of course, that this is backed up with the power for monitoring and enforcement).

- **Regulations have the advantage of being direct and deterministic in their outcome.** In some cases, in the area of urban heritage preservation the social costs of individual action might be so great as to warrant outright prohibition of such action by regulation, rather than, say, allowing market forces to determine a solution. Regulation may also be indicated when the immediate public benefits from some action are judged to be so great relative to their costs as to warrant enforcing a regulation rather than simply encouraging the achievement of a goal. An example might be the requirement to provide certain levels of public amenities in urban redevelopment schemes involving heritage properties or precincts. Such amenities might be judged to provide such a high level of public benefit relative to their cost that it is more appropriate to secure them via regulation than to hope that other softer forms of intervention will yield the same result.

- **The previous justification for regulation is a particular case of a more general advantage; namely, the fact that regulation, provided it can be enforced, delivers outcomes with certainty.** In circumstances in which the public interest is best served by a clear and predictable outcome—not subject to negotiation, concession, or special dealing—then regulation may be indicated. This is relevant,
for example, in the area of design or safety standards governing public access to buildings and sites. In these situations, it may be desirable to leave nothing to chance, but rather ensure compliance for certain tough regulatory means.

- Another advantage of regulations is that they may be invoked and removed relatively speedily. Thus, direct controls may be a useful supplement to other measures, such as a system of charges, for the continuing maintenance of acceptable environmental conservation or preservation conditions. Their usefulness arises because of the inflexibility of tax rates and other instruments, and the relative ease with which certain types of regulatory controls can be introduced, enforced, and removed. Some crises can at best be predicted only a short time before they occur, and it may be too costly, for example, to keep tax rates sufficiently high to prevent such emergencies at all times. Therefore, it may be less expensive to make temporary use of direct controls, despite their static inefficiency. This point is acknowledged in the field of urban conservation through the use of temporary preservation orders; that is, controls that can be introduced at very short notice to forestall the demolition of historic properties until some due process of consultation or consideration can be pursued.

The principal regulatory device that governments or other public authorities use in the heritage arena is “listing”; that is, the establishment of lists of properties within a given jurisdiction—international, national, regional, or local—that are regarded as being of cultural significance. Criteria are generally laid down to specify the characteristics that define cultural significance such that any property meeting these criteria will be eligible for inclusion on a particular list.

In most jurisdictions, the inclusion of privately owned buildings or groups of buildings on an official, publicly sanctioned heritage list is compulsory, and the owners have no alternative but to comply with whatever requirements the list carries with it. In some cases, however, accession of properties to an official heritage list is voluntary; in these cases the representativeness and comprehensiveness of the list is dependent on the willingness of private owners to comply with the set of obligations the listing process imposes on them. In addition to lists maintained and enforced by public-sector agencies, there are often “unofficial” lists maintained by interest groups, nongovernmental organizations, and so on, such as National Trusts and local history societies.

**Fiscal Incentives**

Governments can also employ fiscal measures to implement heritage policy, using both direct and indirect means to do so. The most visible direct approach is through government financing of the conservation of heritage assets owned or controlled by public authorities at national or local levels, such as historic government buildings, public monuments, and so on. (See box 3.5.)
In regard to privately owned heritage, direct fiscal intervention occurs via the payment of subsidies to ensure that the provision of the public benefits of heritage is encouraged. The rationale for such intervention is the standard case for collective action in the face of market failure. Of course, such collective action need not be confined to the public sector; voluntary organizations in the nonprofit sector, for example, may also provide such assistance. (See box 3.6.)

The implementation of heritage policy by indirect fiscal means occurs through the tax system. Nonprofit organizations engaged in heritage conservation and management reap the benefits of their not-for-profit status via tax exemptions of various sorts, including those allowed to philanthropic donors who provide them with financial support. Private owners of heritage properties may also be granted tax concessions, for example through remissions of property taxes and rates. Such benefits accrue particularly to owners of heritage houses, and to organizations such as churches and schools that are custodians of historic buildings and sites. In addition, corporate sponsorship of heritage conservation projects may in some jurisdictions be encouraged through tax breaks of various sorts.

Eligibility for incentives or for favorable tax treatment in any of the above situations may be contingent on the property involved being listed on an officially

---

**BOX 3.5**

**Direct Government Support for Heritage Protection Creates Visible Results in Romania**

**Romania Cultural Heritage Pilot Project** (Project number 058284)

- Total Project Cost: US$6.9 million
- Total Loan Amount: US$5 million
- Approved: December 1998 – Closed: December 2004

One component of this project was designed to test pilot conservation efforts in selected historic Saxon villages in Romania’s Transylvania region. Works in the villages of Viscri, Biertan, and Mosna included emergency repairs to historic churches and surrounding fortified walls, rehabilitation of public squares and the facades of surrounding historic houses, and financing for community centers and information centers, as well as help for village museums. Based on a request from the government, project savings and further government contributions were used to complete additional conservation activities throughout the area.

Source: Romania Cultural Heritage Pilot Project Implementation and Completion Report.
recognized register. Occasionally, suggestions are made that listing of private properties should be voluntary, not compulsory, such that the eligibility for financial assistance could become a negotiated process between the owner and the regulatory authority. Such a process, it is argued, could provide a basis for determining the optimal amounts of financial assistance that owners could receive to help in their conservation efforts. A proposal for a negotiated procedure would rely on the well-known Coase Theorem, which requires three necessary conditions: that interested parties can be identified and property rights can be assigned; that transactions costs are negligible or zero; and that contracts can be enforced. It seems unlikely that a voluntary listing scheme would satisfy these conditions, because identifying the monetary value of the public interest via private negotiations would be hazardous, and the transaction costs of the whole process would be expected to exceed the costs of alternative ways of achieving the desired social outcome.

**From Policy to Practice: Heritage in Economic Development**

It has been known for some time that cultural heritage can play a significant role in economic development in many countries. Studies published by the World Bank and the Inter-American Development Bank pointed to the importance of

---

**BOX 3.6**

**A Comprehensive and Integrated Approach to Urban Regeneration in Vilnius**

**Lithuania, Vilnius Institutional Development Fund Grant**

Grant Amount: US$225,000  
Approved: June 1995 – Closed: December 1996

Working with the World Heritage City of Vilnius, the grant activities first developed an urban revitalization strategy which identified economic, social, cultural, and urban goals. The activity then helped organize the Old Town Development Agency to mobilize funds for the financing of revitalization projects, define priority investments for rehabilitation of essential infrastructure, and organize implementation. Guidelines were also developed for the role of private investment in building reconstruction, including taxes, special incentives, and architectural and building standards.

heritage in sustainable development and the potential role of heritage assets in contributing to the economic revitalization of historic urban centers (Serageldin and Martin-Brown 1999; Rojas 1999; Serageldin, Shluger, and Martin-Brown 2001; Cernea 2001). Since that time, the World Bank has financed numerous heritage investment projects aimed at physical heritage conservation, local economic development, public infrastructure improvements, community development, and institutional capacity building in heritage management.

Particular attention has been paid to the integration of heritage buildings and sites into urban development projects, often involving adaptive reuse of historic buildings rather than their demolition and replacement with modern structures. In many cases, tourism is seen as an important source of revenue, providing an economic payoff to the original investment. Promotion of localized cultural industries has also been important, generating opportunities for commercial initiatives, business expansion, and employment growth as well as providing increased incomes and widespread community benefits.

Not a great deal is known about the economic and cultural impacts of these various investments in the years following project completion. If information about the medium and long-term impacts of heritage investment were available, it would be useful for providing feedback to improve the management of existing projects and to enhance the design and planning of new ones. Application of the methods discussed in this chapter could yield results that would assist the work of operational staff in the Bank and in government and nongovernmental agencies in borrowing countries.

Ideally, a retrospective economic impact analysis of an urban heritage investment project should attempt to undertake an ex post cost-benefit analysis (CBA) of the project, based on known financial flows since the project completion date. However, a serious constraint on any attempt to undertake a comprehensive ex post CBA is likely to be a lack of data to enable identification of the full range of market and non-market benefits and costs over every year since project completion; these data are also necessary to enable estimation of likely financial flows into the future. In these circumstances, a more practical approach may be to assemble a set of indicators of the economic impacts of the project, where an indicator is defined as any statistic that bears on some aspect of the possible economic effects of the project. Since the cultural impacts of the project are likely to be an important consideration in affecting the post-project sustainability of the investment, a set of cultural indicators can also be compiled. Indicators do not impose stringent data demands because their measurement and coverage can be tailored to suit whatever data are available.

In a recent study financed by the Italian government and implemented by the Bank, a retrospective assessment was undertaken of the economic impacts of an urban heritage investment project, which illustrates some of the concepts
and principles discussed in this chapter (Laplante and Throsby 2011). The project involved the rehabilitation of heritage buildings in the historic center of the city of Skopje, FYR Macedonia, known as the Old Bazaar. Beginning in 2002, the World Bank provided funding of about US$4 million over four years to the government of FYR Macedonia for a wide-ranging project in community development and culture in all parts of the country. Further funds to the project were contributed by the Netherlands government. Of the total project funding, the amount directed to heritage-related works in the Skopje Old Bazaar was just over US$300,000. This injection of funds occurred in 2005 and it has resulted in further investments in heritage and infrastructure works in the site in subsequent years. Altogether an additional amount of more than US$2 million has been given by other donors following the initial stimulus provided by the Bank’s investment.

The aims of the heritage rehabilitation project in the Skopje Old Bazaar were both economic and social. The primary monetary benefits of the project were expected to come from a revival of economic activity in the site, a stimulus to handicraft production, and increased tourist visits and expenditures. Social benefits were expected to flow from improved security in this sector of the Old Town in a neighborhood traditionally populated by a majority of ethnic Albanians; it was hoped that the rehabilitation of the area would improve relations between communities and enhance the multicultural quality of Skopje.

In the study, primary data collection based on surveys of selected groups of stakeholders enabled a number of indicators to be compiled covering tourism impacts, employment effects, property and rental prices, business activity, and other factors. It is important to note that in any retrospective impact analysis, trends in variables such as these need to be benchmarked against what they might have been in the absence of the project, so that the marginal effects of the investment can be isolated. One means for such benchmarking is to standardize the results for the project site by reference to a control site chosen to resemble the project site as far as possible but where no heritage investment has been undertaken. In the Macedonian study, the Old Bazaar in another town, Prilep, was chosen for this purpose; the same categories of data were gathered for this site as were collected for Skopje.

The economic indicators compiled for this research showed a range of positive impacts flowing from the heritage investment. For example, the number of customers to restaurants, cafes, and shops in the Skopje Old Bazaar increased by about 50 percent in the period since the heritage rehabilitation compared to the control site. Numbers of employees in local business enterprises grew by about 70 percent and workers enjoyed significant increases in real wages compared with their counterparts in Prilep. Overall, the economic indicators gathered in the study showed that an optimistic climate for business expansion had been created by upgrading of the area as a result of the heritage revitalization.

It was noted earlier that tourism is frequently looked to as one of the potential revenue sources to justify investment in cultural heritage in developing
countries. In the Skopje case study, the numbers of foreign visitors to restaurants, cafes, and shops in the Old Bazaar almost doubled in the period since the heritage rehabilitation work, a faster rate of growth than experienced in the city as a whole; by contrast, numbers of foreign visitors in the control site in Prilep declined marginally over this time. Tourist expenditures per head per day also increased, indicating an improvement in revenues from this source. Because of its heritage characteristics, the Old Bazaar site is now featured prominently in tourist guides to Skopje; foreign visitors are drawn there by the social and cultural ambience of the site.

In addition to the economic indicators, an assessment was made of the cultural benefits produced by the project. In the section on “Cultural Value,” above, this chapter discussed an approach to measuring the cultural value of heritage services in particular situations. The approach outlined there was applied in a survey of visitors to the Old Bazaar site. The survey was administered to a random sample of visitors in different parts of the site on different days. Constraints on research resources made it impossible to conduct a survey of the whole population of Skopje, to test how far perceptions of improvements to the Old Bazaar had spread to other parts of the city.

Nevertheless, the main group captured in the survey as it was carried out was residents from elsewhere in the metro area who happened to be visiting or passing through the project site. Respondents were asked the reasons for their visit to the site, the amount of time and money spent, their perception of the cultural value of the site, their willingness to contribute financially to help restore the heritage further, and their socio-demographic characteristics. The eventual sample size for the survey in the Skopje Old Bazaar was $n = 183$.

To provide indicators of cultural value yielded by the heritage investment, the following statements were presented to respondents in this survey and they were asked whether they agreed or disagreed:

- Restoring the Old Bazaar improves Skopje as a place to visit, work, live, or invest in (improvement in city livability, attractiveness, city branding);
- The Old Bazaar is an important part of Macedonian culture (symbolic/identity value);
- Investing in improvements in the Old Bazaar is a waste of money;
- The renovated buildings of the Old Bazaar are beautiful (visual/aesthetic value);
- The Old Bazaar gives me a sense of Macedonian cultural identity (symbolic/identity value);
- The Old Bazaar should be demolished and replaced with modern buildings; and
- I have learnt something about my cultural heritage from being here (educational value).
Table 3.1 shows the proportions of respondents agreeing or disagreeing with each statement.

These results indicate a positive attitude toward the heritage characteristics of the Old Bazaar. The role of the area and its heritage as important contributors to defining and celebrating Macedonian culture is clearly implied by the responses. Correspondingly, investing in improvements in the area is viewed as a sound use of resources. It appears that the strongest sense of the Old Bazaar’s importance derives from its cultural relevance rather than from its visual appeal or its livability, although the latter factors are nevertheless seen in a positive light. There is unanimous agreement that the Old Bazaar is worth maintaining and that it should not be demolished to make way for modern development. This result can be compared with the views of visitors to the control site in Prilep, where no significant heritage investment has been undertaken; just over 20 percent of these visitors thought the Old Bazaar in that city should be demolished (Throsby 2012).

As already noted, conservation of cultural heritage assets in historic city cores is likely to give rise to significant non-market benefits. These benefits arise as public goods enjoyed in various ways by businesses, residents, and visitors both in the project site and in the wider urban environment. They may be related directly to the heritage assets themselves, or they may derive from a more general sense of improved amenity as a result of the project. In the former case, the non-market demand is likely to be based on perceptions of the existence, option, and bequest values of the heritage in question, as discussed earlier in this chapter. In the latter case, the increased livability is likely to be more diffuse in its origins. Whatever the source of these benefits, however, the demand for them can be assessed as willingness to pay among the relevant group of stakeholders.

Rigorous estimation of these benefits requires a carefully controlled contingent valuation or choice modeling study, which pays attention to:

- Defining the population of beneficiaries;
- Using appropriate procedures to ensure a valid random sample is drawn, if necessary stratified according to variables of interest;
- Designing a questionnaire that provides necessary information and realistic scenarios to respondents;
- Including questions that yield objective data on respondents’ perceptions of the strength of the external or public-good effects under consideration;
- Controlling for biases in soliciting respondents’ willingness to pay; and
- Specifying a feasible payment vehicle comprehensible to respondents.

Carrying out such a study would require research resources that typically are unavailable or cannot be easily mobilized in developing countries. It may nevertheless be possible to undertake a purely exploratory exercise to identify simply...
### TABLE 3.1
Perception of Cultural Benefits by Visitors to Skopje Old Bazaar, FYR Macedonia (percent)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Old Bazaar is an important part of Macedonian culture</td>
<td>79.2</td>
<td>13.1</td>
<td>5.5</td>
<td>2.2</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Restoring the Old Bazaar improves Skopje as a place to visit or live in</td>
<td>23.0</td>
<td>61.2</td>
<td>10.9</td>
<td>4.9</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Investing in improvements in the Old Bazaar is a waste of money</td>
<td>0</td>
<td>1.1</td>
<td>2.7</td>
<td>23.0</td>
<td>73.2</td>
<td>100</td>
</tr>
<tr>
<td>The Old Bazaar is a place that helps people come together</td>
<td>33.8</td>
<td>30.1</td>
<td>21.9</td>
<td>12.6</td>
<td>1.6</td>
<td>100</td>
</tr>
<tr>
<td>The renovated buildings of the Old Bazaar are beautiful</td>
<td>41.0</td>
<td>29.5</td>
<td>23.0</td>
<td>5.5</td>
<td>1.1</td>
<td>100</td>
</tr>
<tr>
<td>The Old Bazaar gives me a sense of Macedonian cultural identity</td>
<td>24.6</td>
<td>63.9</td>
<td>7.1</td>
<td>4.4</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>The Old Bazaar should be demolished and replaced with modern buildings</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6.0</td>
<td>94.0</td>
<td>100</td>
</tr>
<tr>
<td>I have learnt something about my cultural heritage from being here</td>
<td>31.1</td>
<td>48.1</td>
<td>14.2</td>
<td>6.6</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author.
whether any public-good effects are perceived and, if so, whether there is a positive or negative attitude toward paying for them.

This simplified approach was adopted in the Skopje study. The visitors’ survey described above was used to assess respondents’ willingness to contribute to further restoration work in the area. Interviewers asked them to indicate whether they would be willing to make a voluntary contribution to a fund to allow further heritage conservation work in the Old Bazaar to proceed and, if so, how much. Altogether, 90 percent of respondents said they would be willing to contribute, the majority indicating an amount of up to 500 Macedonian denar or MDen (roughly US$10), as shown in Table 3.2.

The survey that yielded these results and those concerning cultural impacts discussed earlier clearly does not meet the strict methodological requirements of a full contingent valuation study. Although a mean per capita willingness to pay of around US$6 per head could be calculated from these data under certain assumptions, the range of variability attached to such an estimate is so wide that it could not be used as a means of deriving an aggregate non-market benefit.

Despite this, however, the results can be used as a basis for drawing at least some broad conclusions about the non-market effects of the project. The questionnaire used in the survey did provide some indication of relevant stakeholders’ perceptions of cultural benefits and their willingness to contribute to further heritage restoration, even if the amounts involved could not be taken as valid estimates of willingness to pay. The questions covered some important cultural outcomes and were comprehensible to respondents. The sample, though small, was randomly drawn from a defined group of beneficiaries. The results indicate an overall positive economic impact arising from the output of non-market benefits from the project.

As a tentative conclusion concerning the operational usefulness of the empirical approach adopted here as a basis for evaluating the non-market benefits of

<table>
<thead>
<tr>
<th>Amount willing to contribute</th>
<th>Proportion of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>9.8</td>
</tr>
<tr>
<td>Up to 500 MDen</td>
<td>67.2</td>
</tr>
<tr>
<td>1000 MDen</td>
<td>16.4</td>
</tr>
<tr>
<td>1500 MDen</td>
<td>5.5</td>
</tr>
<tr>
<td>More than 1500 MDen</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author.
urban heritage projects in developing countries, it would appear that a simple data-gathering exercise such as this is capable of demonstrating with reasonable confidence whether a project has delivered some level of public-good benefits and whether these benefits are positively valued in economic terms. Such an approach is, of course, no substitute for a full-scale contingent valuation or choice modeling study, should one be possible in particular situations.

Altogether this case study of the application of an ex post economic impact evaluation to a Bank-financed heritage investment project in a borrowing country provides some quantitative evidence for the economic and cultural benefits arising from investment in cultural capital assets in historic cities. Although a full retrospective CBA was not possible because of data limitations, the indicators assembled showed positive impacts on the economic circumstances of the local businesses. A particular feature of this case study is its demonstration of the value of cultural impacts of the investment, with apparently significant non-market benefits. It can be noted that the observable willingness to pay could be converted into a tangible revenue stream for the municipal authorities or the national government if a suitable means for benefit capture could be found.

**Conclusion**

The aim of this chapter has been to draw together the principal strands of thinking in the application of economic theory and analysis to issues in heritage conservation. The fundamental concept of cultural capital as a means of representing the economics of heritage provides a means both for interpreting the properties of heritage as asset, and for identifying systematically the critical issues of valuation that attend any heritage-related decision. The non-market benefits of such assets are likely to be a significant component of the economic impacts of investment projects and should not be neglected in any evaluation. Much work remains to be done to develop robust assessment methods that can integrate economic and socio-cultural value into the appraisal of heritage investment projects such as those financed by the Bank in many parts of the developing world.

Nevertheless, the heritage valuation process in most countries is dealt with and circumscribed within the public policy realm. Societal agreement is of paramount importance in the identification and classification of cultural heritage assets to be preserved through the listing process and special administrative regulations. Tangible cultural heritage policies, regulation, and incentive instruments are meant to safeguard and protect the integrity of said assets; in turn, these can affect the performance of property markets and influence local development prospects and job creation opportunities. In investment operations, the economic outcomes are contingent on the adoption and proper use of a set of policy instruments (fiscal
incentives, access to special credit lines, property tax deferment, or other) that may produce optimal economic returns and, at the same time, protect and preserve the non-market legacy value of cultural heritage assets.

Notes

1. Note that the concept of cultural capital in economics differs from that occurring in sociology, following Pierre Bourdieu.

References


