



INVESTMENT IN URBAN HERITAGE

Economic Impacts of Cultural
Heritage Projects in
FYR Macedonia and Georgia



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URBAN DEVELOPMENT
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Heritage Projects in
FYR Macedonia and Georgia

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Executive Summary

Although World Bank projects in the cultural heritage field are subject to the usual assessments that are applied to any project implementation, little is known about the subsequent performance of these projects in the years post-completion. This study was undertaken to provide some empirical evidence for the economic impacts of cultural heritage investment. Two case studies were chosen for this purpose, in the historic town centers of Skopje, former Yugoslav Republic of Macedonia, and Tbilisi, Georgia, respectively.

The economic principles that are important for the analysis of cultural heritage investment decisions make use of concepts such as scarcity, opportunity cost, and public preferences. The relatively new economic theory of cultural capital interprets heritage as assets that yield both economic and cultural value in the flow of services they generate. An important component of the economic benefits of cultural heritage investment arises as public goods, and a considerable amount of empirical research has been carried out to develop means for measuring these cultural benefits and the community's willingness to pay for them.

Ideally, a retrospective economic impact evaluation should apply rigorous procedures to measuring the incremental trends in relevant variables as a means of quantifying a full ex post cost-benefit analysis of the project's effects. However, in most borrowing countries and for most heritage investment projects, such data will not be available. Thus, this study uses a simplified methodology involving the assembly of a series of economic and cultural indicators that can be used to infer before-project/after-project trends, and/or compare the project site with an alternative area that has not benefited from heritage investment.

The study confirms the positive impacts of the investments. In the Macedonian case, the project helped to stimulate an ongoing investment of US\$2.5 million in the project site, the Skopje Old Bazaar. Tourist numbers increased compared to the control site in Prilep; between 2005 and 2010, daily tourist numbers in the Skopje Old Bazaar increased by 90 percent compared to a slight decline in Prilep. Employment also grew more rapidly in the target site than in the control area. There was a 73 percent growth in employee numbers per business between the pre- and post-project periods in the Skopje site compared to a 21 percent increase in Prilep. In addition, 42 percent of the businesses in the Skopje site have expansion plans for the future compared to only 15 percent in Prilep.

Foreign visitors to the three main museums in the Skopje Old Bazaar area rose from 7 to 13.5 thousand between 2000 and 2007, while local visitors increased from 5 to 10.5 thousand over the same period. In a random sample survey of visitors to the Old Bazaar in Skopje, 84 percent of respondents agreed that they would be willing to contribute something to continue the restoration work.

In the case of the Georgia project, this study compared the target area of Zemo Kala with the control site of the Metekhi Plateau within Old Town Tbilisi. The indicators assembled pointed to an increase in tourism in the target area since the heritage rehabilitation. For example, the daily number of visitors to shops in Zemo Kala has increased by around 40 percent over the past 10 years, compared with an apparent decline in the control site. Foreign tourists in 2010 spent 90 GEL per person per day in shops in Zemo Kala, three times as much as locals, and more than twice as much as did foreign tourists in Metekhi shops.

In regard to housing, 42 percent of residents in Zemo Kala thought that their conditions had improved since 1998 compared with only 30 percent in Metekhi Plateau; 16 percent in the target site felt their conditions had worsened, whereas 30 percent in the control site believed they were worse off. The cultural and social benefits arising from the heritage revitalization were apparent in the survey of visitors to the Zemo Kala area. For example, 92 percent of respondents felt that restoring Kala had improved Tbilisi as a place to live, and 97 percent saw benefits of social cohesion generated in the area. The majority (89 percent) disagreed with the proposition that the old buildings of Zemo Kala should be demolished to make way for new development. Most respondents to this survey (92 percent) indicated they would pay something towards a fund for financing further heritage restoration in Zemo Kala.

Overall, although there were insufficient data to make a reliable and comprehensive estimate of the realized rate of return on the original investment in either of the case study cities, it can certainly be concluded that the economic, social, and cultural effects of the heritage investment as exemplified in both cities have been significant, and can be taken as the types of impacts that might be achievable from similar investments elsewhere.

This study leads to some lessons for the design of heritage projects and for the conduct of an ex post economic impact evaluation. The most important lesson for project design relates to the need to build in sound monitoring and evaluation mechanisms, in particular to track economic variables such as outputs, incomes, tourist numbers and expenditures, induced investments, and so on. If such mechanisms are in place, they should yield appropriate data so that a rigorous retrospective impact evaluation can in due course be undertaken. In the absence of such information, a retrospective study must rely, as in the present case, on newly collected primary data. Apart from surveying businesses affected by the project, data collection may include surveys to establish the extent to which beneficiaries perceive any cultural value flowing from the investment, and whether or not they are willing to pay for these benefits. In assessing the economic impacts on the project site, it is also important to ensure that a valid counterfactual is chosen (for example, a control site that is very similar to the target site but where no heritage investment has occurred) to allow the incremental effects due to the project to be inferred.



◀ Old Town Tbilisi, Sioni
Street renovation



Old Town Tbilisi, Chardin Street

1 Introduction

The Europe and Central Asia Region of the World Bank (ECA) has a rich and diverse cultural heritage. However, in numerous instances, this portfolio of cultural resources has been perceived as an impediment to development (in which case restoration and maintenance of them is considered as an expenditure of resources that would best be used otherwise), as opposed to contributing to development (in which case restoration and maintenance is considered as an investment in support of development). In this context, the World Bank has financed a variety of investment projects aimed generally at supporting the conservation, restoration, and maintenance of physical heritage in ECA countries. The overall objective of these investments is to promote employment, poverty reduction, and economic development more generally using cultural heritage resources as an asset. A review of the project portfolio implemented during the period FY1997 through FY2010 reveals that the size of the investments ranged from US\$150,000 to US\$240 million, with Learning and Innovation Loans (LILs) averaging approximately US\$5 million.

During the preparation stages of most World Bank projects, the project's expected net present value and internal rates of return are typically calculated. Of course, these are based on projections of project outputs, many of which will have only just begun to be realized by the time the project's Implementation Completion Report is written. In the case of cultural heritage investments, the economic impacts are seldom felt within this time frame. The aim of this study is to reassess the economic impacts of cultural heritage investments several years after project completion. Two projects were selected as subjects for an ex post economic impact analysis. The first project studied targeted heritage investment in the Old Bazaar of Skopje, FYR Macedonia, which formed part of the Macedonia Community Development and Culture Project (2002/2006). The sec-

ond included investments to revitalize the historic core of Tbilisi, Georgia, as part of the Georgia Cultural Heritage Project (1998/2003). In both cases, the initial Bank investment was followed by further heritage-related investments from a variety of sources. Because it is impossible to disentangle the separate effects of the different heritage-related investments, the assessment for each case study in this report evaluates the impact of the heritage-related investment program overall in the relevant target site; these programs were initiated in both cases by the original Bank funding.

Strictly speaking, a retrospective economic impact evaluation of an investment program should use a rigorous methodology to identify the actual impact of the program compared to what would have happened to the beneficiaries if the program had not taken place. Such an assessment requires a scientifically valid counterfactual (constructed scenario assumed to indicate what would have happened had the project not been implemented) against which actual experience can be compared. It will also depend on the availability of comprehensive and reliable data to which appropriate analytical methods can be applied. In the two case studies reported here, the quantity, quality, and reliability of the data available were insufficient to allow such a rigorous approach to be followed. Local statistical services could not supply the needed microlevel data relevant to the project sites over a reasonable amount of time to enable a time series analysis to be undertaken, and the collection of primary data was constrained by the time and the resources available for the study.

Therefore an alternative approach was adopted to produce the sought-after results. It used a simplified procedure involving both an assessment of before-project/after-project trends in relevant economic indicators, and a comparative analysis juxtaposing

economic data from the project area (target site) with an alternative area (control site) that possesses very similar characteristics but that had not benefited from a cultural heritage investment project. Focusing on employment- and income-generation effects, a set of indicators to measure the impact of cultural heritage investments on local economic development was devised. Aside from observing trends in employment levels and wages, data were also compiled pertaining to growth of the private sector through the volume of business start-ups and profitability of affected businesses, real estate values, visitor numbers and expenditures, the value of output of goods and services, and other variables.

The existing quantitative data received from local authorities were complemented by new quantitative and qualitative data obtained through on-site surveys and in-depth interviews of targeted stakeholders including providers of local tourism goods and services. In addition to assessing use values, an attempt was made to capture some of the less easily quantifiable values attributed to cultural heritage; issues pertaining to non-use values such as existence

values were addressed in the surveys so as to better understand the broader impact of investments. As noted above, this study does not conform to the requirements of a rigorous impact analysis; it is more appropriately described as an “assessment” of the economic effects of the investment projects under consideration. Nevertheless, it is possible to use the word “impact” in a somewhat looser sense to refer simply to the outcome of particular interventions, and such is the use adopted in this report.

The report is structured as follows: The next section provides a brief overview of the existing literature on the economics of cultural heritage and sets out an ideal analytical framework for the conduct of an analysis such as the present one. This framework puts forward several possible approaches for a retrospective assessment of the economic impacts of a cultural heritage project in an urban area. Chapters 3 and 4 present the findings of the Macedonian and Georgian case studies respectively. Finally, Chapter 5 provides a number of lessons and recommendations that may be used to guide similar analyses of this nature.

Tbilisi, Georgia ▼



2 The Economics of Cultural Heritage

The disciplinary field in which this study is placed is the economics of cultural heritage, an area that has only recently attracted the attention of economists. This chapter presents some of the underlying theory of cultural heritage economics, and provides a brief overview of some relevant empirical literature in the field. It then outlines an idealized approach to an ex post assessment of the economic impacts of cultural heritage investment.

2.1 An Analytical Framework

The evaluation of cultural heritage has numerous important economic dimensions. The first point of intersection between economics and heritage relates to decision-making on what is to be preserved and what is not. Arguments for heritage preservation are generally based on historical, archaeological, and cultural assessment. Hence conservation decisions have been largely the province of archaeologists, architects, urban planners, and others, either in their own right as cultural workers on heritage projects, or as expert advisers to governments or other agencies. Yet it is undeniable that there are significant economic dimensions to heritage decisions, even if one uses the word “economic” simply to denote “financial.” Resources for the maintenance of heritage buildings and sites are by no means unlimited. Choices must often be made when the demands of cultural conservation conflict with those of economic development. Whatever financial revenues are brought in by tourism, for example, must be offset against the problems caused by overcrowding and by the threat of damage to culturally significant property.

Several issues and concepts that are fundamental to economic analysis are helpful in looking at the conservation or restoration of cultural heritage (Schuster et al. 1997; Hutter and Rizzo 1997; Peacock 1998; Getty Conservation Institute 1999; Rypkema 1999; Benhamou 2003; Mason 2005). First, the sci-

ence of economics highlights the phenomenon of scarcity and the choices it necessitates. Accordingly, economists point to the scarcity of material and human resources available for allocation to heritage conservation. Not everything can be conserved and thus choices must be made. Second, resources are costly; if they are used for the maintenance and preservation of heritage and so are not available for other uses, they incur opportunity costs. The types of tangible and intangible costs that may result from heritage decisions are extensive and multifaceted. Third, the preferences of potential “consumers” of the cultural heritage matter; experts and enthusiasts may value a building, a site, or a monument highly, but if public funds are used in its restoration or upkeep, a question arises as to whether those providing the funds (that is, taxpayers) are willing to do so. There can be difficulties if taxpayers’ preferences are out of line with those of the heritage experts who are making decisions and spending money on their behalf.

Recent research in the application of economics to the analysis of cultural heritage is concerned mainly with providing a theoretical foundation for the economic interpretation of heritage (Rizzo and Throsby 2006). This work has included the development of the concept of heritage as cultural capital (Throsby 1999, 2001; Ulibarri 2000; Cheng 2006; Wang 2007), which can be defined in the following way. Consider the case of a historic building. It is appropriate to regard any building, historic or otherwise, as a capital asset that gives rise to a flow of services over time, and that will deteriorate (and hence depreciate) if the property is not maintained. But if the structure is a heritage building, it can be suggested that it embodies not just economic value (which could be realized by putting the building up for sale) but also cultural value, some intrinsic or assigned quality that stands apart from the property’s financial worth and reflects some evaluation of its

cultural significance. It is this cultural value attributable to such an asset that allows it to be classified as an item of cultural capital, as distinct from “ordinary” physical capital whose value can be fully captured in economic terms.

To put it more formally, one can define an item of cultural capital as being an asset that embodies or yields cultural value in addition to whatever economic value it embodies or yields. The phrase “embodies or yields” is used here to emphasize the distinction between the capital stock and the flow of capital services to which that stock gives rise, a distinction that is fundamental to analysis of any sort of capital in economics. In the case of a heritage building, the asset embodies value as a piece of capital stock, where that value is expressible in both economic and cultural terms. In turn, the building yields a continuing flow of services over time, such as the accommodation it provides for tenants or the benefits accruing to tourists who may visit it as a cultural site; these flows also generate both economic and cultural value, which can, at least in principle, be identified and measured. Moreover, these flows may include non-use benefits; that is, the building may be valued by people who do not use or visit it but who would nevertheless like to see it preserved, as discussed below.

Identifying cultural heritage as cultural capital in this way gives us a concept that can provide a coherent and rigorous framework within which both the economic and the cultural contributions of the cultural resource can be analyzed and assessed. For example, the restoration of a historic town center, as in the two case studies discussed in this report, can be interpreted as a process of investment in the cultural capital of the respective cities that is expected to yield a flow of services with both economic and cultural value. The economic impacts of the investment can be analyzed both *ex ante* and *ex post* using the familiar tools associated with cost-benefit analysis, and the cultural benefits generated by the

investment can also be evaluated as an essential component of the project’s overall effects.

In other words, an assessment of the impacts of an investment project involving cultural capital should account for both the economic and the cultural dimensions of the project’s benefits. How are these effects observed? Turning first to the economic value of heritage, a distinction is usually made, as with environmental assets, between use and non-use value. Use value refers to the direct valuation of the asset’s services by those who consume those services as private goods—the entry fees paid by visitors to historic sites, for example, or the imputed rent paid by tenants of historic properties. Non-use value refers to the value placed upon a range of non-rival and non-excludable public-good characteristics typically possessed by cultural heritage (Serageldin 1999). In brief, these non-use values may relate to the asset’s 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). Non-use values may also arise as beneficial externalities to be enjoyed, for example, by people passing by or traveling through a heritage site. None of these non-use values is observable in market transactions because no market exists for which the rights to them can be exchanged.

A classification of the economic benefits of heritage along the above lines parallels the interpretation of the benefits of environmental amenity and natural resources as studied in the field of environmental economics. Accordingly, much of the methodology developed for assessing environmental benefits has been directly adaptable for application to the evaluation of the economic benefits of cultural heritage (Pagiola 1996; Bennett 2001; Navrud and Ready 2002). Work in this field has expanded rapidly in recent years. Given that the non-market benefits

are often likely to outweigh the use benefits from the heritage under study, numerous studies have focused on the measurement of intangible benefits, using contingent valuation or discrete choice modeling methods to assess willingness to pay for the preservation or enhancement of specific heritage buildings, locations, and sites, as discussed further in the next section.

Although these types of studies have thrown considerable light on the economic and cultural benefits of heritage projects, existing methodologies are subject to criticism on the grounds that they do not fully capture the range of benefits that heritage projects typically generate (Massimo 1995; Bille Hansen et al. 1998; Avrami et al. 2000; Seaman 2002; Throsby 2003a). Little progress has yet been made by economists in taking a broader view of heritage values that may not be expressed in monetary terms—in other words, in identifying the precise dimensions of the cultural value that gives heritage and other forms of cultural capital their distinctive character. If it were possible to assess cultural value in objective terms, the relevant trade-offs between the achievement of economic and cultural objectives of a heritage investment project could be assessed. For example, in evaluating a development project where heritage is threatened with destruction, a systematic assessment of the cultural value lost could be set against the measured economic gains from an alternative use of the site. In this way, the trade-offs between the two sources of value, economic and cultural, could be quantified, indicating the cultural price that would have to be paid to achieve an economically desired outcome, or vice versa.

Moreover, taking a broader view of value also involves a consideration of the social benefits of heritage. It is well established in sociology that community cohesion develops from the formation of social capital (Dasgupta and Serageldin 2000)—the networks of social interrelationships and trust that bind community members together and help to express their shared identity. Heritage assets, both tan-

gible and intangible, play a key role in social capital formation, providing shared connections that promote the long-term continuity of the community (Throsby 2010: 44–45).

Finally it should be noted that the concept of sustainability is fundamental to any analysis of the long-term management of cultural capital, and so is integral to any assessment of heritage in the urban context. Cultural capital makes a contribution to long-term sustainability that is similar in principle to that of natural capital (Throsby 2003b). It is now well understood that natural ecosystems are essential to supporting the real economy and that neglect of natural capital through overuse of exhaustible resources, or unsustainable exploitation of renewable resource stocks, may cause such systems to break down. A parallel proposition can be applied to cultural capital. Neglect of cultural capital—by allowing heritage to deteriorate, by failing to sustain the cultural values that provide people with a sense of identity, and by not undertaking the investment needed to maintain and increase the stock of both tangible and intangible cultural capital—is likely to place cultural systems in jeopardy and may cause them to break down, with consequent loss of welfare and economic output.

The link between cultural heritage and sustainability is particularly important in the context of developing countries, where the contribution of culture to sustainable development has been recognized by the United Nations World Commission on Culture and Development (UNESCO 1994, 2000) and by the World Bank (Serageldin and Martin-Brown 1999; Wolfensohn et al. 2000). These concerns extend to cultural heritage in both tangible and intangible forms and at all levels of significance, from the preservation of local cultural expressions to the management of World Heritage sites as classified by the United Nations Educational, Scientific and Cultural Organization (UNESCO). Much of the attention, however, has focused on the renovation and restoration of heritage in historic town centers,

in pursuit of goals of urban renewal and poverty alleviation in the developing world (Taboroff 1992; Serageldin 1999; Rojas 1999; Cernea 2000, 2001).

2.2 Review of the Empirical Literature

As noted earlier, cultural heritage has only recently attracted the attention of economists; a brief examination of recent cultural heritage valuation studies reveals only a decade or so of empirical research. One type of empirical research pertains to estimating the impacts of a cultural heritage investment on visitors' overnight stays, on employment, and on incremental local fiscal revenues that may result from the increased economic (mostly touristic) activities. A prime example of this approach is offered by Plaza (2006) who estimated the impacts of the Guggenheim Museum Bilbao on overnight stays, employment, and fiscal revenues for the city of Bilbao. Based on a time series model (ARIMA), the author estimated that monthly overnight stays increased by 0.64 percent (representing approximately 61,000 additional monthly overnight stays) due to the presence of the museum, and that the investment created approximately 900 new full-time jobs. The author estimated a rate-of-return on investment of approximately 11 percent for the Municipality of Bilbao.

Along similar lines of research, Greffe (2004) estimated a model that developed a functional relationship between the number of visitors to museums and the number of new jobs created that are directly or indirectly due to the museum. According to these estimates, 10,000 visitors create 1.15 direct jobs (persons employed in the museum itself), and every direct job generates 0.62 indirect jobs (in the fields of interior architecture, conservation, and restoration), 3.84 induced jobs, and 2.59 jobs in the tourism sector (hotels, restaurants, tourist guides, and so on).

A different type of empirical research is that aimed at assessing the economic value (benefits) of invest-

ment in cultural heritage. Most research of this nature has focused on the economic valuation of historic or archeological sites. As is clear from overviews of this research, such as those compiled by Noonan (2003) and Mason (2005), the scope of these studies is vast. Projects reviewed range from the restoration or preservation of local sites to the valuation of UNESCO World Heritage sites, and from the conservation of individual buildings or monuments to the rehabilitation of entire heritage districts such as historic towns centers. Some studies look at the valuation of cultural landscapes and at environmental assets defined as cultural heritage (Lockwood et al. 1996; Laplante et al. 2005; Loureiro et al. 2008).

Empirical assessment of the use benefits of heritage is usually straightforward, being based on measurement of observable financial flows generated by market transactions. Revealed preference data can also be used to determine a range of use and non-use benefits through the application of travel cost and hedonic price methods. Examples of the former include the studies by Poor and Smith (2004), Bedate et al. (2004), and Alberini and Longo (2005), which apply travel cost analysis to evaluate the benefits of sites in the United States, Spain, and Armenia, respectively. Hedonic price studies of heritage values focus on real estate prices for listed property to ascertain the extent to which the heritage characteristics influence the market valuation; examples include studies by Deodhar (2004) in suburban Sydney, Ruijgrok (2006) in the Netherlands, and Noonan (2007) in Chicago.

Many empirical studies have used stated preference methods such as contingent valuation (CVM) and discrete choice modeling (DCM) to evaluate the welfare effects of cultural heritage investments by assessing the willingness of visitors, local residents, or other stakeholders to contribute toward the costs of preserving the site of interest. An example of a CVM application is the well-known study of the benefits of a proposed project to preserve and

restore the Fez Medina, a site in Morocco recognized in 1980 by UNESCO as a World Heritage city (World Bank 1999). A survey of 600 adult visitors was designed to determine the views of both tourists and those visiting for business or other purposes. Respondents were presented with information about the condition of the Medina as it stood before the project and were told rehabilitation would accomplish three things: improve the Medina's appearance by repairing and cleaning up buildings, streets, infrastructure, public spaces, and monuments; preserve the Medina's traditional character and cultural heritage for future generations; and ensure that the Medina would continue to be a productive and vibrant living city. To help pay for the proposed rehabilitation activities, visitors would be charged a special fee when they registered at their hotel. For non-visitors to Fez, the fee was presented as a departure fee. Visitors to Fez were found to be willing to pay as much as US\$70 each for efforts aimed at preserving and improving conditions in the Medina. Given the number of visitors each year, this is equivalent to an annual total of about US\$11 million. Other visitors to Morocco share an overall appreciation for the Fez Medina and their willingness to pay for its preservation is based on the value they place on its existence, and to some extent as an option value of a future visit. These visitors were found to be willing to pay about US\$30 each, resulting in a total annual benefit of about US\$47 million (Carson et al. 2002).

Another study of a similar nature was conducted in the context of a project to restore the historic core of the Croatian city of Split, listed as a UNESCO World Heritage site (Pagiola 1999). In this study, the analysis showed that tourists were willing to pay on average US\$44 for a project to restore the historic core of the city, with a 95 percent confidence interval between US\$37 and US\$51. It was also found that local residents had a significantly higher willingness to pay, ranging between US\$117 and US\$198, with a mean of US\$158. A further illustration of a local community's non-use demand for the preservation

of heritage sites in its neighborhood is provided by a study of residents' willingness to pay for the redevelopment of the Prinsep Ghat, a nineteenth-century landing place on the banks of the River Hooghly in Calcutta (Dutta et al. 2007). A CVM study was carried out that showed a median willingness to pay among the local population of around US\$10 per head to restore the cultural capital of the site, an amount that, the authors note, would be more than enough in aggregate to finance the redevelopment project, assuming some means of benefit capture could be found.

Other recent examples of the application of CVM to cultural heritage assets include a study of the economic value of Changdeok Palace in Korea, a World Heritage site (Kim et al. 2007), an assessment of the benefits of a nationwide conservation program for heritage sites in Armenia (Alberini and Longo 2009), and an evaluation of historic sites in the city of Valdivia in Chile (Montenegro et al. 2009). These studies provide further evidence on the usefulness of CVM as a means of assessing the non-use values of cultural heritage investments.

A considerable amount of methodological research over the last decade or so has led to improvements in experimental choice methods, resulting in an expansion of interest in the use of DCM as a technique for determining demand for different attributes of a heritage site, such as its beauty, its amenity, its entry price, and so on. For example, in a survey of Belfast residents, Alberini et al. (2003) applied conjoint choice experiments to assess the public's valuation of the aesthetic characteristics of alternative regeneration projects in a historic quarter of the city. Most applications have related to the demand by tourists for various characteristics of particular sites that can be the subject of tourism management plans. Recent examples include a study of preferences for two heritage sites in Crete (Alexandros and Jaffry 2005), a contingent rating study of demand for different attributes of tourism products in a town in Sicily (Cuccia and Cellini 2007), an assessment of

preferences for aspects of a visitor's site on Hadrian's Wall in the U.K. (Kinghorn and Willis 2009), and a choice modeling study of visitors' valuation of attributes of a heritage attraction in Canberra (Choi et al. 2010).

Whether CVM or DCM is chosen as the methodology for an empirical investigation aiming to value the non-use benefits of a specific cultural heritage site depends on a range of theoretical and practical considerations, including the cost and feasibility of survey administration. How do these evaluation techniques relate to one another? In a recent study, Tuan and Navrud (2007) applied both CVM and DCM to estimate the social benefits derived from the restoration and preservation of the same heritage site, the My Son complex of religious temples in the Quang Nam province of central Vietnam. They found that both methods produced very similar willingness-to-pay estimates, a result that the authors interpreted as a test of convergence validity.

Earlier examples of the empirical evaluation of the non-market benefits of cultural heritage using various methodological approaches include studies by Mourato and Danchev 1999; Kling et al. 2000; Santagata and Signorello 2000; Pollicino and Maddison 2001; contributors to Navrud and Ready 2002; and Salazar and Marques 2005. All of the studies discussed in this section demonstrate that cultural heritage restoration and preservation contribute significantly not only to human welfare but also to economic activities and financial sustainability of local authorities.

2.3 An Empirical Framework for Analysis

The present study applies the analytical approaches deriving from the economics of cultural heritage, as discussed above, to identifying and measuring the economic impacts of the cultural heritage investment projects undertaken in the old town centers of Tbilisi and Skopje respectively. In both of these centers, there has built up over a long period a stock

of historically important buildings, other structures, and streetscapes. The World Bank projects provided funds for restoration and renovation of the heritage and for other improvements to the two sites. When the projects commenced, the sites were generating a certain level of use and non-use benefits for the community. The objective of the economic impact analysis is to evaluate the net increase in these benefits over time brought about by the initial project investment.

From an economic point of view, the most appropriate methodology for assessing the economic desirability of a cultural heritage investment project, as for any other project, is a cost-benefit analysis (CBA) in which the aggregated present value of the net benefits yielded by the investment project is compared to the present value of the project's capital costs. When undertaken *ex ante*, the impacts of the project—and therefore the project's costs and benefits—are estimated by constructing and comparing a future hypothetical scenario with the project against a future hypothetical scenario without the project. When undertaken *ex post*, the economic analysis of the project's impacts are estimated by comparing the current situation as it now exists (with the project) with a constructed hypothetical scenario which it is assumed would have existed had the project not been implemented (sometimes referred to as a *counterfactual*).

However, a serious constraint on any attempt to undertake a comprehensive *ex post* CBA is likely to be a lack of data to make possible the identification of the full range of market and non-market benefits and costs over every year previous to and since project implementation. In these circumstances, a more practical approach may be to assemble a set of indicators of the economic impacts of the project, in which an indicator is defined as any statistic that bears on some aspect of the possible economic effects of the project. Because the cultural impacts of the project are likely to be an important consideration 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.

The following sections outline an approach to evaluating the impacts of cultural heritage investment by considering first the sorts of economic indicators that are relevant to the evaluation, followed by a discussion of selected cultural indicators. The section then summarizes the methodology that can be applied if a more formal ex post cost-benefit analysis of a particular project were to be possible.

2.3.1 Overall Considerations

(i) Stakeholders

The first step in considering which indicators might be sought in any given case is to identify who might have some interest in the heritage rehabilitation program, and who were or are its intended and/or actual beneficiaries. The range of stakeholders is likely to include some or all of the following:

- Commercial businesses located in the target area (the area where the heritage assets are located that were the object of the investment) such as shops, restaurants, hotels, guest houses, and tour and transport operators
- Commercial businesses located elsewhere, for example, in other parts of the urban area
- Residents, employees, and trades people in the target area
- Residents, employees, and trades people in the urban area generally
- Tourists, both domestic and foreign
- Public and nonprofit cultural institutions, enterprises, or nongovernmental organizations in or near the target area, such as museums, galleries, theaters, cooperative

markets for cultural goods and services, churches, mosques, shrines, archaeological sites, heritage buildings or sites open to the public, and cultural centers

- Public and semipublic authorities such as municipal or local government, and regional and national government
- Heritage experts with a professional interest in the project outcomes from a cultural perspective.

In some cases, it may not be possible to determine indicators that relate to all potential stakeholders, but it would be expected that at least those considered to be the major beneficiaries of the project (and, if necessary, the major groups adversely affected) should be covered.

(ii) Counterfactuals

The impact of a project must be judged in marginal terms, that is, the additional net benefits yielded over and above what would have been expected to happen had the project not been undertaken. To have a benchmark for assessing changes in economic variables brought about by the project, two approaches are possible, both of which might be used in a particular case.

First, indicators can be measured for time periods both before and after project implementation. Before-project trends, in particular, can be used to judge likely post-project trends that can then be removed from post-project data to obtain an indication of the net change attributable to the project. Alternatively other data may indicate trends that can be netted out of any project-specific time series; for example, increases in tourist numbers in a target site may be moderated by reference to growth in tourist numbers in the city or country as a whole.

Second, as a counterfactual, a control site might be found in an area in the city or in another city

that has similar characteristics to the target site in all respects except for the fact that heritage investment has not been undertaken there. In these circumstances, it can be inferred that trends in relevant economic indicators, as experienced in the control site over the period of time since the project in the target site was undertaken, are indicators of what the trends in the same variables in the target site would have been if the project had not been implemented. For example, if employment in the target site rose by 10 percent in the period following the project, and over the same period employment in the control site rose by 3 percent, the net increase in employment in the target site due to the project could be assessed at 7 percent, assuming everything else was constant.

(iii) Heritage Versus Non-heritage Components

It is notable, and of special interest to the international community, that this assessment centers on investment in cultural heritage. In other words, the investment under study here is not just in a conventional urban improvement project involving upgrading or renewal of water supply, sewerage, housing, transport, or other infrastructure, but rather is one in which rehabilitation of the cultural heritage in the city is the driver of urban development.

Some heritage projects focus solely on the restoration and maintenance of the heritage assets themselves; others may include associated nonheritage components -- for example, infrastructure renewal in the target area to improve the area's livability. In these circumstances, it may be impossible to distinguish between the separate impacts of the heritage and nonheritage components of the project. Nonetheless, it still would be appropriate to regard the project as a single entity for the purpose of gauging its impact; project design is likely to have foreseen the fact that the various components would be interrelated and thus support each other, such that regarding the project as a complete package built

around its heritage-related objectives would be a valid approach.

2.3.2 Economic Indicators

(i) Examples of Indicators

The primary economic impacts of an investment project in urban cultural heritage are likely to relate to the generation of new or additional outputs of cultural goods and services. The goods involved might include traditional works of art or craft such as paintings, ceramics, jewelry, leatherwork, and fabrics, while cultural services are those provided by museums, galleries, performing arts venues, cultural sites, cultural festivals, and so on. Relevant indicators covering these aspects of the economic impacts of a project may thus include

- volume or value output of goods and services;
- gross or net revenues, or profitability of affected businesses; and
- visitation/revenues to museums, cultural sites, and events.

In view of the significance that generally is attached to tourism as a revenue source to justify this sort of investment, a series of tourist-specific indicators is likely to be relevant, including

- overall number of tourists visiting the area;
- number of visitor nights in accommodation facilities such as hotels, guest houses, and bed-and-breakfast establishments in the target area and beyond; and
- tourist expenditures.

It would be appropriate to distinguish as far as possible between foreign and domestic visitors in specifying the above indicators; further division of domestic tourists into locals and out-of-town visitors may also be necessary.

In addition to the contribution to output growth in the urban economy, policy-makers are usually concerned with employment, in particular with job creation and skill transfers. Appropriate indicators may include

- numbers of employees in different types of businesses;
- wage and salary levels;
- improved training and skill development; and
- labor migration issues such as inflow of workers from other areas.

Indicators relating to real estate prices and rentals in the target area must be treated with caution. It is necessary to distinguish, in principle at least, between increases in property values and associated rental rates that arise as a purely pecuniary effect resulting from short-term increases in demand, and increases reflecting the capitalization of longer term real improvements in value driven by prospects of future productivity growth.

A heritage investment project may act as a stimulus to further investment. Relevant indicators may include

- further investment in heritage rehabilitation by public or private donors, lending institutions, aid agencies, and so on, induced directly or indirectly by the existence of the original project;
- investment in business expansion by private-sector enterprises in the target area or beyond; and
- new business start-ups.

Finally, one can point to a range of indirect indicators relating to public-sector revenues and expenditures affected by the project. These may include

- changes in local tax receipts; and
- changes in budget outlays by local

government caused by the existence of the project and its aftermath.

There may also be changes in staffing levels and structures in different areas of public administration brought about by the project.

(ii) Measurement of Indicators

Some indicators discussed above can be derived from secondary data sources such as official statistics; others must be gathered as primary data. In the latter case it is necessary first to identify the principal stakeholders of interest, and then to design survey questionnaires to be administered to random samples drawn from a particular group and/or to conduct structured interviews with representative personnel from the group. Businesses that participate in such a survey may be asked to provide details of growth in output, revenue, turnover, staffing levels, and other indicators over the period since before the heritage project was implemented.

The use of sample surveys to collect past time-series data is subject to the problem that respondents may not have kept accurate records over time, or may not be able to recall past events clearly. Thus it may be impossible to gather data for a complete series. Instead respondents may need to be given an alternative, by asking them to supply items of data for a “before-project” year and a “post-project” year (probably the present) rather than the full annual series.

2.3.3 Cultural Indicators

A heritage investment project will have cultural impacts that parallel the economic impacts described above. As well as being important in its own right, the cultural significance of the heritage resource (whose care was the project’s original motivation) is likely to be important in ensuring the sustainability of the project in the post-completion period.

The cultural benefits flowing from a heritage project can be described as an increase in the cultural value embodied in or generated by the site in question. Measurement of cultural value is problematic in the economics of heritage because no convenient unit of account is available that can be interpreted in the same way as a monetary metric is used for representing economic value. In practical terms, this means that it is necessary to rely on indicators, in this case any piece of quantitative or qualitative information that compares pre- and post-project assessments of any cultural dimension of the project's effects.

Cultural benefits accrue as

- Immediate benefits to local residents and visitors arising through increases in
 - aesthetic values—improved visual environment;
 - symbolic values—contribution of heritage to sense of identity;
 - social values—increases in community cohesion/tolerance/diversity/dialogue; and
 - educational values—usefulness in educating people about the past.
- Long-term benefits for present and future generations arising from the conservation of heritage through
 - preservation of buildings/objects for posterity;
 - maintenance of traditional skills, rituals, and cultural customs;
 - increased understanding of architectural/archaeological significance and scientific values for research; and
 - promulgation of narratives of identity and intercultural dialogue.

There is some debate in the academic literature regarding whose judgment should count in the assessment of the cultural significance of heritage—those of experts or those of the general public. In the present context, while opinions of heritage ex-

perts are by no means irrelevant, the focus of an impact evaluation such as the one under discussion here should properly be the effects as judged by the full range of stakeholders, among whom heritage professionals are just one group. Accordingly, it is appropriate to assess the extent to which individuals actually perceive benefits to themselves and the community from heritage-related urban renewal. These benefits, if they exist, may have a significant economic dimension if they are translated into positive willingness to pay (WTP) for continued heritage conservation.

2.3.4 Ex Post Cost-Benefit Analysis

As noted earlier, ideally, a full retrospective cost-benefit analysis (CBA) of a heritage project should be undertaken if a comprehensive view of its economic impacts is to be obtained. Applying standard CBA methodology to a cultural project is, in principle, no different from applying it to any capital investment project, although the detail of what is included will be specific to the cultural heritage-related nature of the project.

As with any rigorous investment appraisal using CBA, the extent of the economy to which it relates must be defined. An analysis applied in an urban setting may take the urban or regional economy as its base; in this case, financial and resource flows in and out of the region relative to the rest of the country or the rest of the world must be identified. For most World Bank projects, the primary focus is likely to be on the national economy, meaning that input and output movements between the project area and the rest of the country are regarded as transfers, and the only benefits of interest are those that can be counted as net additions to national output, incomes, exports, and other variables of interest. Nevertheless, the objectives of some projects might include the revitalization of a depressed region by bringing unused or underutilized resources into productive use; in such cases, the regional- and national-level effects would need to be distinguished.

In the standard CBA framework, the present value of the time stream of benefits generated by the project is compared with the present value of the time stream of costs to calculate the net present value of the investment project. For a cultural heritage investment, the main components of the CBA are outlined in the following sections.

(i) Capital Costs

Project financing generally comes from several sources, including the World Bank, the national government, and aid donors, among others. The important elements to be included as capital costs include all such amounts, together with any directly induced follow-on investments in the target area that have contributed to generating the impacts to be measured. The final capital cost used in the analysis should be an aggregate of all these investments; any incurred after the project's commencement date should be discounted to the initial year (year zero) using an appropriate discount rate.

(ii) Direct Benefits

The main direct economic benefits of a cultural heritage investment project are likely to encompass a range of effects, including

- increased net value of output of cultural goods such as artifacts, handicrafts, and other objects for sale, and of cultural services such as admissions to cultural sites;
- increased net value of services to local residents and businesses through improvements in amenity provided by the heritage project;
- increased net value of associated goods and services whose output is increased as a result of the project; and
- value placed on previously underutilized resources brought into productive use as a result of the project.

(iii) Indirect, Induced, or Secondary Benefits

Some proportion of the increased incomes resulting from an investment project is likely to be respent, generating further rounds of respending through the economy. These impacts can be summarized as multipliers. Their effects can only be included as a net regional or national benefit under certain conditions. It is usually assumed, for example, that investment in an alternative project would generate similar multiplier effects. Thus, in comparing project A with project B, it would be valid only to count additional multiplier effects as a net benefit if it were known that the multiplier values were greater in one case than in the other. For example, sometimes it is claimed that tourism multipliers are greater than those of other activities, and employment multipliers flowing from investments in the cultural sector are occasionally thought of as being greater than those in other sectors because of the high labor content of most cultural production. The use of multiplier effects in particular empirical situations will vary from case to case depending on the individual circumstances. Economists have pointed to a wide range of circumstances under which the use of multipliers is inappropriate.

(iv) Public-Good Benefits/Externalities

It was noted earlier that the non-market benefits arising from a heritage project are likely to be significant; accordingly, it is appropriate to include them in any comprehensive analysis of a project's costs and benefits, assuming their value can be measured. These benefits arise as public goods enjoyed in various ways by businesses, residents, and visitors both in the target area 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. In the latter case, the increased liveability is likely to be more diffuse in its origins; some of it might simply reflect the casual enjoyment of passers-by, in which

case it could be classified as a beneficial externality rather than strictly as a public good. Whatever the source of these benefits, however, the demand for them can be assessed as willingness to pay among the relevant group of stakeholders.

The standard approach for measuring the demand for public goods is to use contingent valuation or choice modeling methodology, involving the design of a questionnaire to be administered to a group of stakeholders through a sample survey. The extent to which respondents perceive the benefits in question is usually assessed by establishing their agreement or disagreement with a series of statements describing the relevant effects. The nature of their demand is then established through questions about their willingness to pay via some appropriate payment vehicle, such as an increase in their tax payments or a contribution to a voluntary fund. An aggregate benefit can be calculated for the entire population of the regional or national economy by using the mean willingness to pay, given the assumptions about the sample from which the mean was derived.

(v) Using the Benefit Transfer Methodology

Benefit transfer methodology has been used in environmental economics to estimate economic values of environmental goods or services by transferring available information from studies already completed in other sites and using these values, moderated if necessary, to apply to the problem under examination. The benefit transfer methodology is often used when it is too expensive or there is too little time available to conduct an original valuation study, yet some measure of benefits is needed.

The benefit transfer methodology will never yield better estimates than original (primary) studies. However, it may quickly provide some estimates which may be sufficient to make some decisions. If the original studies from which benefit or cost numbers are being transferred are not good or reliable, then the methodology will not yield reliable estimates of the costs and benefits for the site under study. A key objective should therefore be to increase the reliability

of the estimated costs and benefits based on numbers from earlier studies carried out elsewhere.

There have been few applications of benefit transfer methods to the evaluation of cultural heritage. This is partly because there are insufficient reliable primary valuation studies in this area from which transfer estimates can be made, and partly because the apparently wide variability of monetary values obtained for cultural projects makes the derivation of precise estimates for transfer hazardous (Riganti and Nijkamp 2007; Provins et al. 2008; Tuan et al. 2009)

(vi) Aggregation of Results

The first stage of any ex post cost-benefit analysis is to place the data collected under the above headings into the standard appraisal format. This allows calculation of the conventional statistics that indicate the economic viability or other aspects of the project, including net present value, the benefit-cost ratio, internal rate of return, and payback period. For the calculation of present values, an appropriate discount rate must be chosen which would normally be the standard rate used in Bank project evaluations; however, it might be advisable in the case of cultural heritage projects to use a somewhat lower rate than normal in view of the noncommercial nature of some of the projects' benefits and the extended period over which the benefits can be expected to accrue.

2.4 Conclusion

As noted earlier, the actual methodology that can be applied in any retrospective economic impact analysis of a cultural heritage investment will be determined by the availability of data. In many cases, it is probably not feasible to carry out a fully articulated ex post cost-benefit analysis along the lines described above. Nonetheless, a compilation of the types of indicators discussed earlier should be able to provide a useful picture of the project's effects, assuming that data relating to at least the most important impacts can be captured. Given the likely significance of non-market benefits in the overall pattern of heritage project impacts, particular attention should be paid to measuring them if possible.

3 The Economic Impacts of a cultural Heritage Project: Skopje, FYR Macedonia



3.1 FYR Macedonia: Geography and Economy

With the collapse of the former Yugoslavia, the market available for Macedonian goods shrank from nearly 70 million people to its current domestic market of 2 million. Coupled with the unrest in Kosovo, and an embargo levied by Greece over its claim to the name of Macedonia, the 1990s were a very difficult time for FYR Macedonia.

The first decade of the 2000s showed positive economic results, as shown by data from the World Bank and government sources. Growth averaged 4 percent per year during 2003–2006 and 5 percent per year during 2007–2008. FYR Macedonia has sustained economic stability with depressed inflation rates, but it has so far lagged in attracting foreign investment and creating jobs, despite making extensive financial- and business-sector reform. The

official unemployment figure is estimated to have reached nearly 35 percent. However, as the world economy recovers from the financial crisis that began in 2008, FYR Macedonia is expected to generate high economic growth, benefiting from its relatively low costs of production.

3.2 Project Background

In 2000 the Government of Macedonia asked the World Bank for assistance in improving the management and conservation of its cultural assets. These resources were deteriorating due to lack of investment in their conservation and management, overreliance on the public sector to maintain them, and lack of experience in transforming these resources into marketable assets. In an attempt to improve its operations and as part of the overall public-sector restructuring process, the Ministry of Culture reduced the number of staff in 1999, thereby ad-

▲ FIG. 3.1
Map of FYR Macedonia

addressing pressing financial matters. However further improvement was needed, notably in building the institutional capacity of the Ministry, which did not have the tools and resources necessary both to protect and to market its national heritage.

From the Bank's perspective, however, it was essential that investments target poverty reduction. Consequently, rather than emphasizing cultural heritage conservation per se, a community development dimension was introduced that encouraged the use of cultural assets as an engine for private-sector growth. As a result, in May 2001, the Bank approved a credit in the amount of US\$5 million (equivalent) for the Community Development and Culture Project in the FYR Macedonia. The project aimed to establish conditions that facilitate community-based socioeconomic development by leveraging the country's cultural assets (an untapped resource) to create culture-based industries (notably handicrafts and community-based tourism) in areas adjacent to cultural heritage sites, while improving the management of cultural assets.

The primary monetary benefits of the project were expected to come from increased tourist visits and expenditures on food and lodging (for example, new bed-and-breakfast establishments serving traditional cuisine), new activities (for example, guided monument tours), and new or revived production and sale of handicrafts and local products (for example, wood carving, engraving, knitting, leatherwork). Visits by both domestic and international tourists were expected to increase as site management plans were put in place and site promotion was enhanced.

The project essentially comprised two interlinked components designed to reinforce one another. The first component intervened at the local municipality level, while the second targeted national cultural institutions. The first, the Integrated Site Development component, was designed to develop sets of cultural industries in communities possessing assets of cultural importance; financing was earmarked

for priority investments, conservation measures, and local-level capacity building including teaching business management skills. The second component was dedicated to building the capacity of the Ministry of Culture and its six Institutes responsible for the protection of cultural heritage. In addition to making the national inventory of cultural sites more operational and supporting the formulation of an effective cultural strategy, this component focused on assessing the handicrafts and tourism sectors, and on developing an action plan for each to improve their performance in a market economy context.

In the original design of the project, Skopje had not been included as a beneficiary entity. However, about halfway through the project, a decision was made to conduct improvements in the area of the Old Town of Skopje known as the Old Bazaar for several reasons. For one thing, it provided visible evidence of the project's implementation in the most densely populated city and most important administrative center of FYR Macedonia. In addition, it was thought that project interventions would improve security perceptions in a neighborhood traditionally populated by a majority of ethnic Albanians, revive the city center suffering from noticeable emigration as a repercussion of the 2001 conflict, and maintain the multicultural quality of Skopje while enhancing peace-building efforts.

The World Bank project was key to raising stakeholders' awareness of the cultural resources in this part of the city. In the succeeding years, this has resulted in a wide range of new activities financed by national and municipal entities as well as by other donors that stimulated the private sector and revived small retail and commercial enterprises, notably in the hospitality sector.

3.3 Methodology

The economic impact analysis was undertaken to identify the socioeconomic benefits arising from the investments in cultural heritage in the target area

of the Old Bazaar in Skopje. Some background data were collected from various government and municipal sources, but the primary data for this project were derived from field research involving the conduct of a series of sample surveys administered to selected groups of stakeholders, as well as in-depth interviews with representatives from the municipalities, museums, and cultural protection organizations.

To gauge the impacts of the investments, data were collected covering periods before and after the project dates. In some instances, time series covering the period before and after the project's starting date of 2005 were available, but in most cases full-time series could not be obtained. Thus, it was necessary to rely on (a) identifying a given date just prior to the rehabilitation to indicate the pre-project situation, and (b) assuming that the current period was representative of the post-project circumstances (see further below).

As noted earlier in this report, a control site (serving as a counterfactual) was required as a baseline from which to assess changes in the target site. Ideally this should have been an alternative site that was similar to the target site in all respects at the project commencement date, and that had not experienced any heritage investment in the period under study. No such site could be found anywhere in Skopje, so it was necessary to look elsewhere. The control site chosen was the Old Bazaar in Prilep, a city of approximately 75,000 inhabitants located about 125 kilometers (80 miles) from Skopje. The Prilep Old Bazaar is quite similar in size, character, and usage to its counterpart in Skopje, but there has been no significant investment there in restoring its heritage assets. Maps of the Old Bazaars in both Skopje and Prilep are shown in figures 3.2 and 3.3, respectively.

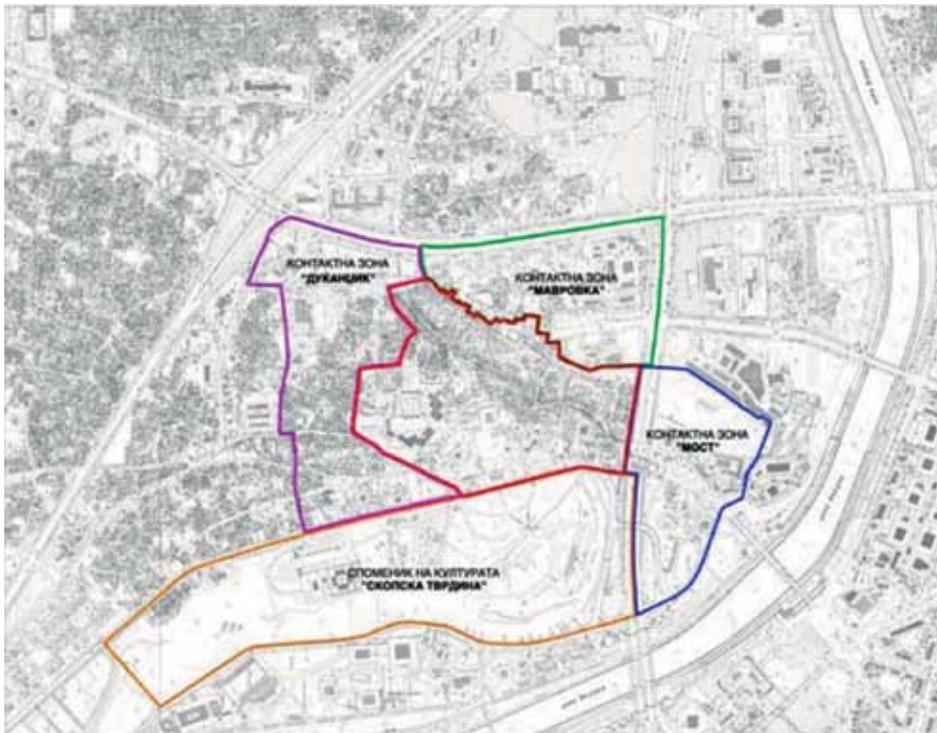


FIG. 3.2
Map of the Old Bazaar
in Skopje

- Skopje Old Bazaar
- Contact zone "Dukandzik"
- Contact zone "Mavrovka"
- Contact zone "Skopska tvrđina" (Skopje Fortress)
- Contact zone "Most" (Bridge)



< FIG. 3.3
Map of the Old Bazaar
in Prilep

- Prilep Old Bazaar
- Contact zone south
- Contact zone north
- Contact zone "Mala Carsija" (Small bazaar)
- Contact zone "Kej"
- Contact zone "Pazar" (Bazaar)

3.4 Stakeholders

Investment in rehabilitating the cultural heritage of the Skopje Old Bazaar can be expected to have had impacts on several groups of stakeholders, including

- Commercial businesses such as shops, restaurants, cafés, and hotels in the Old Bazaar area
- Cultural organizations such as museums, mosques, and churches
- Residents in the Old Bazaar area and in Skopje more generally
- Tourists and visitors from elsewhere in FYR Macedonia and from other countries
- Public and semipublic authorities, and nongovernmental organizations.

Taking into consideration the characteristics of the project site and the expected range of project beneficiaries, the surveys carried out to obtain primary data for this project focused on collecting information from samples drawn from four separate stakeholder groups:

- Restaurants, cafés, souvenir shops, hand-crafts and jewelry makers
- Hotels, guest-houses, hostels
- Museums, galleries, exhibition halls
- Domestic and foreign visitors.

In the surveys of businesses in the first two of these categories, a random sample was used, stratified to ensure sufficient representation of each type of business. The questionnaires were designed to establish the following indicators for before and after the heritage rehabilitation:

- Customer numbers
- Revenue or turnover
- Employment
- Wage levels
- Property and rental prices
- Business expansion plans
- Perceived cultural benefits of the heritage investment.

For museums and galleries, information was collected on some institutional characteristics as well as data for before and after the rehabilitation on

- visitor numbers;
- employment and salaries; and
- admission prices.

In regard to domestic and foreign visitors to the sites, the random sampling was carried out in different areas of the site on different days. In these surveys, the questionnaire sought information on

- perception of the cultural value of the heritage improvements;
- willingness to contribute financially to further heritage conservation work in the area and, if so, how much.

3.5 Time Period Covered

The use of sample surveys to collect data covering a long period of time is subject to the problem that respondents may not be able to access records from

past years or to recall distant facts and figures. In the present case, it would have been ideal to have been able to compile an annual time series of major indicators for the businesses over a roughly 10-year period (2000–2010). Although the templates for the questionnaires allowed for annual data series to be supplied, it was necessary to give respondents an alternative; instead of filling in figures for each year in the period, respondents could fill in only a figure for one specific base year. The “base year” was defined as any year in the period before restoration of the cultural heritage in the Old Bazaar in Skopje. The base year could be the year of the establishment of the business, the year of starting the business in the target area, the year of renovating facilities and/or purchasing equipment, or any other specific event before 2005, the year in which the district was renovated. In the case of the control site, the base year was defined as simply pre-2005. The team conducting the interviews clearly explained these options to respondents.



◀ Skopje 2000

Old Bazaar, Skopje,
2010 >

3.6 Capital Costs of the Heritage Rehabilitation

3.6.1 Bank Investments

The total amount of financing for the Community Development and Culture Project in the Former Yugoslav Republic of Macedonia at the close of the project in 2005 was approximately US\$5.9 million: US\$4 million from the World Bank, with the remaining contributions coming from the governments of the Netherlands and FYR Macedonia. Of the total project funding, the amount directed to works in the Skopje Old Bazaar that are the subject of the present study was US\$311,899.

3.6.2 Flow-On Investments

As noted above, the World Bank project that provided the initial financing for cultural heritage rehabilitation in the Skopje Old Bazaar was completed in 2005. In each of the subsequent years, further heritage investments totaling almost US\$2.5 million have been made in the area by a range of organizations and institutions. These investments included funding for reconstruction in one of the most important streets in the Old Ba-

zaar, conservation and restoration of several individual buildings and monuments, and some infrastructure works. A summary of these investments is given in table 3.1. Although it may not be valid to attribute all of this flow-on investment to the stimulus provided by the Bank project, there can be no doubt that, as the initial driver of heritage-based urban renewal in the Skopje Old Bazaar, the Bank played a crucial role in setting the scene for further development.

Moreover, the stimulus continues to have an impact, with further projects scheduled in the area in 2011–2013. Restoration projects will be carried out during that time at several sites in the Old Bazaar, financed by the Macedonian government, the European Union, and other authorities.

It should be noted that the rehabilitation of cultural heritage in the control site in Prilep has not been entirely neglected over the period covered by this study, although the amounts of investment are small. In the year 2000, the Municipality of Prilep financed the restoration of a plaza and monument, and in 2008–2009 it made further infrastructure improvements in

the area, all of which totaled less than US\$241,000 as shown in table 3.2. In parallel with this public-sector investment, there has also been some private investment in the reconstruction and revitalization of old handicraft shops. Overall, however, it can be concluded that the amount of activity has not been sufficient to affect the usefulness of the Prilep Old Bazaar as the control site for the present study.

3.7 Tourism Impacts

3.7.1 Tourism in the Macedonian Economy

In common with most heritage investment projects financed by the World Bank, a significant economic justification for the Macedonian cultural development project was the prospect of increased revenue from tourism. The tourism industry plays only a relatively small part in the Macedonian economy as a whole;

tourism earnings contributed just over 3 percent of the gross domestic product (GDP) in 2010. In September 2010, the country recorded tourist numbers of almost half a million, comprising 43 percent foreign visitors and 57 percent domestic. Foreign tourists tended to stay only a relatively short time during that month, averaging only around two nights per person compared to almost five nights for domestic tourists.

In regard to tourism in Skopje itself, the number of visitors has fluctuated over time. Table 3.3 shows the number of visitor nights spent in the capital from 2005 to 2009. Foreign tourists predominated and their numbers increased sharply in 2008 and 2009 compared to earlier years. These data provide the context in which the survey results of this study can be interpreted.

Nature of investment	Year of investment	Donor/Investor	Total amount of investment (incl. VAT)	Currency	Total US\$ equivalent
Heritage	2006	USAID	118,000	USD	118,000
Infrastructure	2006	ANVPAH & VSS	20,054	USD	20,054
Heritage	2007-2009	ANVPAH & VSS	11,000	EUR	14,706
Heritage	2007-2010	TIKA	1,500,000	EUR	2,000,000
Heritage	2008	Municipality of Chair	40,000	EUR	53,478
Infrastructure	2009	IPA	112,000	USD	149,739
Heritage	2009-2010	US Embassy	54,000	USD	54,000
Heritage	2010	Handicrafts Associations	25,000	EUR	33,424
Total:					2,443,401

Notes: ANVPAH & VSS: Association Nationale des Villes et Pays d' Art et d' Histoire et des Villes à Secteurs Sauvegardés et Protégés. TIKA: Turkish Government Agency. IPA: European Union Funds for Pre-assistance

Nature of investment	Year of investment	Donor/Investor	Total amount of investment (incl. VAT)	Currency	Total US\$ equivalent
Cultural heritage	2000	Municipality of Prilep	33,000	EUR	44,112
Infrastructure	2008-2009	Municipality of Prilep	74,000 + 73,000	EUR	196,533
Total:					240,645

	2005	2006	2007	2008	2009
Domestic	35,341	34,366	35,133	31,155	31,503
Foreign	166,639	161,308	187,541	227,096	215,052
Total	201,980	195,674	222,674	258,251	246,555

TABLE 3.1
Non-Bank Investments in Cultural Heritage Restoration in the Old Bazaar in Skopje: 2006-2010

TABLE 3.2
Non-Bank Investments in Cultural Heritage Restoration in the Old Bazaar in Prilep: 2000-2010

TABLE 3.3
Number of Nights Spent by Tourists in Skopje

3.7.2 Tourism in the Skopje Old Bazaar

There are no separate official data on the numbers of tourists specifically visiting the Old Bazaar, although it can be assumed that, because it is a major cultural site in the city, many if not most tourists would visit it at some time during their stay. Despite the lack of official data, one can nevertheless gain some impression of tourism impacts on the Old Bazaar because respondents to the surveys of businesses in this study were asked to distinguish between domestic and foreign customers when providing data on visitor numbers and expenditures. These data are mainly relevant to foreign tourism impacts because the category “domestic” included both residents of and visitors to Skopje, although the pedestrian survey data indicate that most of the domestic visitors were locals.

The number of foreign visitors to restaurants, cafés, and shops in the Skopje Old Bazaar appears to have almost doubled in the period since the rehabilitation works, as shown in table 3.4. By contrast, the numbers of foreign visitors in the control site in Prilep declined marginally over this time. Much of the tourism growth in Skopje Old Bazaar has arisen

in the off-season, although the off-season numbers are consistently less than in-season numbers. Some part of the annual increase is explained by the increased numbers of foreign visitors to the city as a whole over the period under study; these numbers have risen by roughly one-third over this period, as can be inferred very approximately from the data in table 3.3. Table 3.4 also shows the average daily expenditure of foreign visitors per business enterprise both before and after the rehabilitation. The daily amounts do not vary between the in- and off-season. There is evidence of some improvement in nominal terms in Skopje; note that the large increase in Prilep comes off a low base.

Overall, it is not unreasonable to conclude from these results that the improved conditions for tourism in the Skopje Old Bazaar have had a positive net impact on the numbers of foreign tourists and on their expenditures in the area. Because of its heritage characteristics, the site is currently featured prominently in tourist guides to Skopje, and foreign visitors are drawn there by the social ambience of the locality and the cultural experiences it offers.

TABLE 3.4
Foreign Tourists
Visiting Restaurants,
Cafés, Shops Before/
After 2005

	Skopje Old Bazaar			Prilep Old Bazaar		
	Pre-2005	Post-2005	% change	Pre-2005	Post-2005	% change
Number of foreign tourists per business per day						
(1) In-season						
Minimum	5	10	-	4	5	-
Maximum	25	35	-	22	20	-
Mean	13.7	21.6	58	11.5	10.4	-10
(2) Off-season						
Minimum	1	5	-	1	1	-
Maximum	15	45	-	3	4	-
Mean	5.5	15.4	180	2.1	2.2	
Average for year ^a	9.6	18.5	93	6.8	6.3	-7
Mean daily expenditure (USD) ^b	24	37	28	16	31	94

Note:

a. Assuming in-season and off-season are both six months

b. Daily expenditure was the same in-/off-season

For explanation of the time period covered in this and subsequent tables, see text.

3.8 Impacts on Businesses: Restaurants, Cafés, and Shops

3.8.1 Customer Numbers and Expenditures

The daily number of customers per business establishment in the Skopje Old Bazaar has increased by about 50 percent in the period since the heritage rehabilitation, as shown in table 3.5. Numbers in the off-season were less than in the busier times of year, but the seasonal difference appears to be diminishing over time. Daily customers to businesses in the control site in Prilep show the same pattern of seasonal variation, but numbers have increased very little over time. Daily expenditures by both locals and foreigners in Skopje have been broadly similar, with similar rates of growth. Combining the data for increased customer numbers and increased expenditure per customer during the study period suggests that daily turnover of businesses in the Skopje Old Bazaar increased in nominal terms by about 80 percent in this period.

When businesses were asked what they thought were the main reasons why visitors came to the Old Bazaar in Skopje, the three most frequent responses

were the pleasant environment, the availability of handicraft products, and the proximity to cultural monuments. It is thus apparent that the site's cultural heritage must be having a positive influence on the economic circumstances of these businesses.

3.8.2 Employment Effects

Has the heritage investment in Skopje had any effect on job creation and on wage and salary levels for workers in businesses in the area? It can be expected that the expansion in business activity over the period since rehabilitation, noted above, will indeed have had some positive effect on employment. This expectation is confirmed by the data in table 3.6, which compares the years defined in the data collection process as “pre-project” with the situation at the time of the survey in 2010. There has been an expansion in staffing levels that is more or less commensurate with the increase in business activity since the heritage rehabilitation. Employment in the control site in Prilep has increased in the same time but by a much smaller percentage. Likewise wage and salary levels in the Skopje businesses have risen in nominal terms more rapidly than in Prilep. Note

TABLE 3.5
Visitors (Foreign and Local) to Restaurants, Cafés, Shops Before/After 2005

	Skopje Old Bazaar			Prilep Old Bazaar		
	Pre-2005	Post-2005	% change	Pre-2005	Post-2005	% change
Number of visitors per business per day						
(1) In-season						
Minimum	15	25	-	14	20	-
Maximum	70	95	-	57	55	-
Mean	41.5	57.9	40	37.7	38.9	3
(2) Off-season						
Minimum	6	15	-	12	12	-
Maximum	50	60	-	37	42	-
Mean	21.4	37.9	77	26.3	28	6
Average for year ^a	31.5	47.9	52	32.0	33.5	5
Mean daily expenditure (USD)^b						
Foreigners	24	37	28	16	31	94
Locals	25	33	32	16	26	63

Note:

- Assuming in-season and off-season are both six months
- Daily expenditure was the same in-/off-season

TABLE 3.6
Employment in
Restaurants, Cafés,
Shops Before/After
2005

	Skopje Old Bazaar			Prilep Old Bazaar		
	Pre-2005	Post-2005	% change	Pre-2005	Post-2005	% change
Employee numbers per business						
In-season	3.1	5.3	-	2.6	3.0	-
Off-season	2.8	5.0	-	2.2	2.8	-
Average for year	3.0	5.2	73	2.4	2.9	21
Average monthly wage/salary levels (US\$)						
Managerial/admin	270	515	91	315	445	41
Service/selling staff	185	380	105	175	250	43

that businesses in both areas do not vary their staffing levels significantly between seasons, despite the variation in numbers of customers as noted above.

Data for individual enterprise types show that the employment increases in Skopje Old Bazaar have come particularly from the effects of expansion of accommodation facilities in the three hotels located in the area; the number of employees in these enterprises has risen more than fourfold since pre-2005. Employment in souvenir and handicraft shops in the area has doubled in the same time, in response to increased demand for their products particularly from tourists. In the control site, by contrast, there has been no change in the number of employees in souvenir and handicraft shops and only small increases in cafés and tea rooms; note that unlike in Skopje, there are no hotels in the Old Bazaar in Prilep.

Respondents to the survey of businesses were asked whether they had invested in improving the relevant skills of their employees since the heritage rehabilitation. A majority of the businesses surveyed in Skopje Old Bazaar (84 percent) indicated that they had made such investments, whereas only about half the businesses in the control site had done so. Although details of these skill improvements are not available, it can be assumed that at least some will have related to the handicraft skills involved in local production of cultural goods for sale in the shops.

3.8.3 Property and Rental Prices

Among survey respondents in Skopje, just over half of the business space is rented by local entrepreneurs and the rest is property owned by the business. By contrast, in the Old Bazaar in Prilep only about one-quarter is rented space, the majority there being inherited property. These figures suggest that entrepreneurial dynamism is likely to have been somewhat higher over recent years in Skopje Old Bazaar, where entrepreneurs have rented space in order to develop a business and stay in the area, and where institutional and private investors have put their capital in order to make the district attractive for tourists and visitors. In contrast, the Prilep Old Bazaar is predominantly inhabited by residents who have owned a space for generations and whose main occupation is related to an inherited tradition of handicraft activities; since the area of the Old Bazaar in Prilep has not experienced much investment, entrepreneurs do not perceive it as an attractive destination for business. It is uncertain how much of the entrepreneurial spirit in the Skopje Old Bazaar can be traced to the improvements brought about by the heritage restoration. However, evidence on business expansion plans discussed below suggests at least that a favorable climate for commercial activity has existed in the area since the rehabilitation program commenced.

A positive outlook for business is reflected in property values and prices for rental space. Data from the surveys together with the results of interviews with

local personnel in both the project sites indicate substantial growth in both property prices and rental rates in the Skopje Old Bazaar over the study period, compared to a largely static situation in Prilep. Detailed statistics on real estate prices in the Skopje Old Bazaar area are not available, although indicative data suggest that the price rose from about 700 euros per square meter pre-2005 to about 1100 euros per square meter in 2010. Such an increase no doubt reflects some capitalization of future returns based on favorable growth prospects in the area.

3.8.4 Business Expansion Plans

Business owners in the surveys in both areas were asked whether they intended to expand their operations. In Skopje, 42 percent of those questioned said they would like to expand, compared with 15 percent in Prilep. The main avenues for expansion were identified as increasing staff numbers, buying or renting additional space, or opening a new business. To some extent, the positive plans for the future among businesses in the Old Bazaar may reflect a more general optimism about business prospects in the city of Skopje as a whole. Nevertheless, there is doubtless some effect that could validly be attributed to the heritage rehabilitation program's impact on the Old Bazaar area.

3.9 Impacts on Museums and Galleries

Three important museums located in the Old Bazaar in Skopje were surveyed as part of this study:

- Museum of Macedonia
- Museum (Gallery) Daut Pasin Amam
- Museum (Gallery) Cifte Amam.

The last two are part of the National Gallery of Macedonia. The numbers of visitors to these institutions before and after the cultural heritage investments is shown in table 3.7 where the years referred to as “before” and “after” are 2000 and 2007, respectively. Trends in adult visitor numbers from 2000 to 2009 (not including school children) are shown in table 3.8. Substantial increases in numbers are apparent across all customer groups, especially foreign visitors, responding to the improved visibility of these institutions as venues offering opportunities to learn something about Macedonian culture. The time trend shows a jump in overall visitor numbers after 2005. Note that there is no museum in the Old Bazaar in Prilep, although the city does have a museum nearby which has experienced only gradual increases in its visitation in recent years.

Admission prices in the Skopje museums also increased from approximately US\$1 before the heritage rehabilitation to about US\$2 in 2010, with

	Foreign tourists	Scientific researchers	School children	Local citizens	Students	Others
Before cultural heritage investments (2000)	7,000	400	12,000	5,000	1,000	300
After cultural heritage investments (2007)	13,500	600	15,000	10,500	1,500	300

TABLE 3.7
Average Visitor Numbers per Year for Three Museums/Galleries in the Skopje Old Bazaar

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Local visitors	5,000	5,300	6,000	6,500	7,500	7,500	9,500	10,500	11,500	12,000
Foreign visitors	7,000	7,500	8,000	8,500	9,500	9,500	12,500	13,500	14,500	25,000
Total number of visitors	12,000	12,800	14,000	15,000	17,000	17,000	22,000	24,000	26,000	27,000

TABLE 3.8
Numbers of Adult Visitors to Three Museums/Galleries in the Skopje Old Bazaar: 2000-2009

half-price admission for children. As in most cultural organizations, prices are kept as low as possible so as not to deter visitation. During the period studied, these organizations had expanded their operations considerably, reflecting the substantial increase in the demand for their services. Staffing increased from a total of 13 employees in the period before revitalization to almost 50 in 2010, with a corresponding increase in the organizations' wages bill. However, these increased expenditures have been offset by a substantial growth in revenues, as implied by the rising trends in numbers and prices noted above.

3.10 Cultural Indicators

The *Implementation Completion and Results Report* for the project under review (Report No. ICR000074) notes that although the World Bank is not interested in cultural heritage preservation for its own sake, it is concerned about the instrumental value of heritage as a contributor to economic and social development. Apart from the sorts of business enterprises considered above, the ultimate beneficiaries of such development are members of the immediate community where heritage is located and others in the wider community whose well-being is improved in some way. To understand how heritage rehabilitation can have beneficial effects on communities, it is important to assess the extent to which individuals actually perceive benefits to themselves and the community from heritage-related urban renewal. These benefits, if they exist, may have a significant economic dimension if they are translated into positive willingness to pay (WTP) for continued heritage conservation.

One component of the research was aimed at assessing these perceptions among visitors in the Skopje Old Bazaar and integrating these perceptions with their measured WTP. This procedure was undertaken to seek some indicative value for the public-good component of the benefits arising from the heritage investment. The survey to quantify these effects was administered to a random sample of visitors in different parts of the site on different days. Because of

time and resource constraints, no pilot testing of the questionnaire was possible; however the survey instrument was based on questions that were adapted from previously validated studies. Respondents were asked the reasons for their visit, 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 sociodemographic characteristics. The sample size for the Skopje Old Bazaar was $n = 183$.

To obtain a benchmark from an unrenovated site, a similar questionnaire was administered to a random sample of visitors to the Prilep Old Bazaar. The sample size for this survey in Prilep was $n = 42$.

The great majority of the people visiting the Skopje Old Bazaar (89 percent) were residents of Skopje, the remainder being domestic or foreign tourists. The main reasons for their visit were social -- that is, meeting friends, going to a café or restaurant, and shopping. About 7 percent had come specifically to visit a cultural site. The mean amount of time spent in the area was approximately 1.5 hours and the mean level of expenditure per person was about US\$10.

With regard to the respondents' perception of the value of heritage in the Skopje case, measuring the cultural value of heritage is currently a matter of particular interest in the economics of heritage. One of the most useful approaches to this task involves disaggregating the concept of cultural value into its constituent elements—which might include aesthetic, historical, symbolic, social, and educational values—and then assessing respondents' valuations of these attributes. Assessment is conventionally effected according to a Likert scale measuring the strength of respondents' agreement or disagreement with a series of statements reflecting different elements of cultural value as they relate to the asset or assets in question. In adopting this procedure in the present study, the following statements were presented to respondents:

- The Old Bazaar is an important part of Macedonian culture
- Restoring the Old Bazaar improves Skopje as a place to visit or live in (improvement in liveability)
- Investing in improvements in the Old Bazaar is a waste of money
- The Old Bazaar is a place that helps people come together (social value)
- The renovated buildings of the Old Bazaar are beautiful (visual/aesthetic value)
- The Old Bazaar gives me a sense of Macedonian cultural identity (symbolic value)
- The Old Bazaar should be demolished and replaced with modern buildings
- I have learnt something about my cultural heritage from being here (educational value).

The respondents were then asked to indicate whether they agreed or disagreed. Table 3.9 shows the proportions of respondents agreeing or disagreeing with each statement. Table 3.10 summarizes the proportions agreeing with these statements (“Strongly agree” plus “Agree”) as indicators of the cultural value of heritage assets in the Old Bazaars of both Skopje and Prilep.

The results for Skopje in tables 3.9 and 3.10 indicate a positive attitude toward the heritage characteristics of the Old Bazaar. The role of the area and its heritage as important elements in 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

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
The Old Bazaar is an important part of Macedonian culture	79.2	13.1	5.5	2.2	0	100
Restoring the Old Bazaar improves Skopje as a place to visit or live in	23.0	61.2	10.9	4.9	0	100
Investing in improvements in the Old Bazaar is a waste of money	0	1.1	2.7	23.0	73.2	100
The Old Bazaar is a place that helps people come together	33.9	30.1	21.9	12.6	1.6	100
The renovated buildings of the Old Bazaar are beautiful	41.0	29.5	23.0	5.5	1.1	100
The Old Bazaar gives me a sense of Macedonian cultural identity	24.6	63.9	7.1	4.4	0	100
The Old Bazaar should be demolished and replaced with modern buildings	0	0	0	6.0	94.0	100
I have learnt something about my cultural heritage from being here	31.1	48.1	14.2	6.6	0	100

TABLE 3.9
Perception of Cultural Benefits by Visitors to Skopje Old Bazaar
percent

	Skopje Old Bazaar Total proportion agreeing (%)	Prilep Old Bazaar Total proportion agreeing (%)
Positive statements		
Part of Macedonian culture	92.3	83.4
Improvement in liveability	84.2	83.3
Visual/aesthetic value ^a	70.5	-
Social value	64.0	95.2
Identity/symbolic value	88.5	78.6
Educational value	79.2	59.6
Negative statements		
Heritage investment a waste of money	1.1	9.5
Should be demolished	0	21.5

TABLE 3.10
Agreement with Statements about Cultural Value of Heritage in Skopje and Prilep

Note:

a. This statement not included in Prilep survey

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 among survey respondents that the Old Bazaar is worth maintaining and that it should not be demolished to make way for modern development.

The value of heritage is also felt by visitors to the control site in Prilep, although given that it has not been subject to significant restoration, the sense of its importance is somewhat more muted than for Skopje. Indeed about one in five visitors to the Prilep Old Bazaar agreed with the statement that it should be demolished, although this still leaves a sizeable majority (76 percent) in favor of its retention. If it is true that the Old Bazaar areas in the two cities were more or less comparable in character in the period prior to the Skopje heritage rehabilitation project, one can infer that the apparent increase in cultural value now placed on the heritage characteristics of the Skopje Old Bazaar compared to Prilep can be taken as a broad indication of a net positive impact arising from the Skopje restoration.

3.11 Non-market Benefits

As noted in Chapter 3, the non-market or public-good benefits of an urban heritage restoration project can form a significant component of the economic benefits of the project. Rigorous estimation of these benefits requires a carefully controlled contingent valuation or choice modeling study that 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 requires research resources that typically are unavailable or cannot be easily mobilized in borrowing countries. In these circumstances the question arises as to whether it is possible nevertheless to undertake a purely exploratory exercise to identify whether or not any public-good effects are perceived and, if so, whether there is a positive or negative attitude toward paying for them.

For the Skopje case, this study used the visitor survey described above to assess respondents' willingness to contribute to further restoration work in the area. Altogether 90 percent of respondents said they would be willing to contribute; the majority indicated an amount of up to 500 MKD (roughly US\$10), as shown in table 3.11. When visitors to the Old Bazaar in Prilep were asked a similar question, a smaller though still significant proportion said they would contribute to heritage restoration there, again with a majority of them nominating an amount of up to 500 MKD.

TABLE 3.11
Visitors' Willingness to Make a One-Time Contribution to Heritage Restoration in the Old Bazaars in Skopje and Prilep
percent

Amount willing to contribute	Proportion of respondents	
	Skopje	Prilep
Zero	9.8	28.6
Up to 500 MKD	67.2	59.5
1000 MKD	16.4	11.9
1500 MKD	5.5	0
More than 1500 MKD	1.1	0
Total	100.0	100.0

The surveys that yielded these results and those concerning cultural impacts discussed earlier clearly do not meet the strict methodological requirements of a full contingent valuation study. Although a mean per capita willingness to pay can be calculated from these data under certain assumptions (around US\$6 per head for Skopje and about half that for Prilep), the range of variability attaching to such estimates is so wide that they could not be used as a means of deriving an aggregate non-market benefit.

Nonetheless, the results can be used as a basis for drawing at least some broad conclusions about the non-market effects of the project. The questionnaires used in the surveys provide some indication of relevant stakeholders' perceptions of cultural benefits and of 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 samples, though small, were randomly drawn from a defined group of beneficiaries. The results indicate an overall positive economic impact arising from the project's non-market benefits.

As a tentative conclusion concerning the usefulness of the empirical approach adopted here, it would appear that a simple data-gathering exercise such as this can demonstrate with reasonable confidence whether a project delivered some level of public-good benefits and whether these benefits can be positively valued in economic terms. Such an approach, however, is no substitute for a full-scale contingent valuation or choice modeling study.

3.12 Conclusions

The *Implementation Completion and Results Report* for the Community Development and Culture Project in the FYR Macedonia (ICR 000074, June 12, 2007) notes that the overall project “successfully established conditions to facilitate community-based socio-economic development by leveraging [the area’s] cultural assets to create culture-based industries, while improving

the management of cultural assets particularly at the local level. In so doing it furthermore raised local communities' awareness of the economic value of their heritage by demonstrating that [its] preservation could be efficiently associated with income generation.” The report further records internal rates of return of between 10 and 30 percent for all but one of the subprojects, pointing out that these rates are based on financial returns only and do not account for non-market benefits. This assessment of overall project success can be seen to apply in all respects to the Skopje component. Although investments were limited to street lighting improvements and the restoration of the building known as the “French Bank,” the transformation of the Old Bazaar from a largely derelict urban core to a vibrant social space in less than half a decade is remarkable.

In this study, it was not possible to carry out a comprehensive ex post cost-benefit analysis of the cultural heritage investment project in the Skopje Old Bazaar, but at least it was possible to assemble data on several indicators of the economic impacts of the investment. All of the indicators discussed in this chapter point to positive economic, social, and cultural benefits arising from the project, particularly the impacts on tourist numbers and expenditures, which have grown significantly in comparison to the control site. This is a reassuring result, given the emphasis on tourism, and given the fact that Skopje itself is not the most important destination for tourists visiting FYR Macedonia (Ohrid has twice as many tourist beds as Skopje).

The study findings also point to the improvement in the economic circumstances and outlook for businesses in the Old Bazaar area. These expanded commercial opportunities have resulted in increases in employment, skills, and salaries for workers in the site. The enterprises particularly benefitting from the heritage investment have been accommodation facilities as well as handicraft and souvenir shops, reflecting the tourism impacts discussed above. The other businesses that have expanded operations as a result

of the increase in the number of visitors (both local and foreign) have been cafés and restaurants. The private investment in these facilities since the project's completion is some indication of achievement of the government's objective to use the heritage rehabilitation in the Skopje Old Bazaar as an instrument for social change, replacing the previous unrest with a sense of multicultural harmony and peace-building.

This case study has also provided some quantitative evidence of the cultural benefits perceived by stakeholders and their WTP for heritage conservation through voluntary contribution. While there were not sufficient data to estimate the aggregate monetary value of the benefit accruing to the Macedonian population as a whole, one can at least say that, even on conservative assumptions, it is a substantial amount. Of course the relevance of this for the municipal authorities depends on the possibilities for benefit capture. Suffice it to say that the non-

market benefits of the project are important enough for them to be taken seriously in weighing up the overall economic impact of the Bank's investment.

Altogether it can be concluded that the economic and social effects of cultural heritage investments as exemplified by the Macedonian case study have been significant. The Bank played a critical role in ensuring this outcome through the immediate payoff to its initial investment and the stimulus that that investment provided to the further commitment of funds from other sources to continue the heritage rehabilitation program. For the future, the Old Bazaar in Skopje has potential to grow as a site for business and cultural activity, with benefits for municipal budgets, economic effects on employment, improvements in standards of living, growth in entrepreneurial incomes, and expansion in business opportunities, as well as considerable positive social impacts to the community at large.

Aerial view of Skopje,
FYR Macedonia ▼



4 The Economic Impacts of a Cultural Heritage Project: Tbilisi, Georgia



4.1 Georgia: Geography and Economy

Georgia is a small country (69,700 square kilometers) located south of the Caucasus Mountains, with the Russian Federation to the north and east, Azerbaijan to the southeast, Armenia to the south, Turkey to the southwest, and the Black Sea to the west (figure 4.1). The country is divided into nine regions, nine cities, and two autonomous republics (Abkhazia and Adjara). The country has a diverse terrain and is rich in natural resources. The population of Georgia is estimated at approximately 5.0 million with the following ethnic composition: Georgians (83.8 percent), Azeri (6.5 percent), Armenian (5.7 percent), Russian (1.5 percent), and others (2.5 percent). With net outward migration, the country's annual population is in decline (at a rate of -0.33 percent). Most of the Armenian and Azeri minorities live in the Samtskhe-Javakheti and Kvemo-Kartli regions in the south and southeast parts of the country.

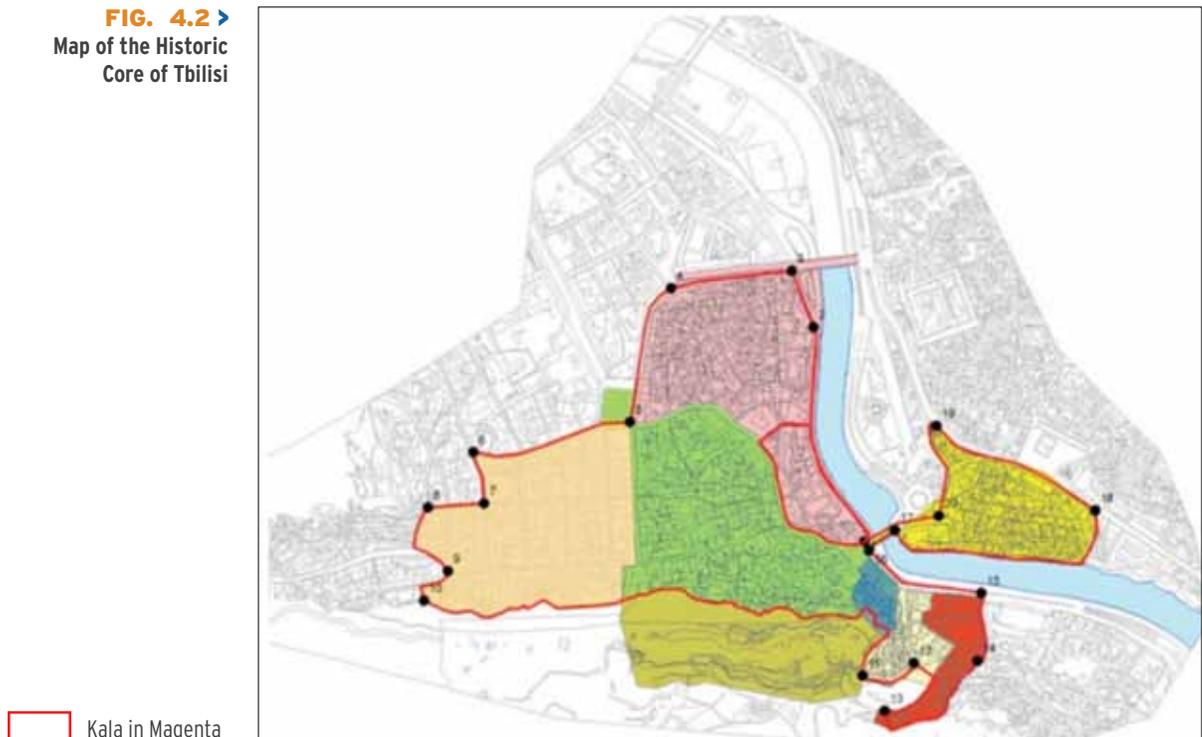
After the Rose Revolution in 2003, a new government with pro-Western orientation came to power and embarked on a large-scale mission of radical reforms encompassing every sphere of public activity. GDP growth, spurred by gains in the industrial and service sectors, remained in the 9–12 percent range in 2005–07. In 2006 and 2008, the International Finance Corporation (IFC) named Georgia the top reformer in the world. However, as a result of international political and economic events, Georgia experienced a severe economic downturn in 2008 and 2009, with the real GDP rate falling to 2.3 and -4.0 percent, respectively, in those years. As a result of the economic recession, the unemployment rate reached more than 16 percent in 2008 and 2009, from the earlier average rate of approximately 13 percent.

4.2 Project Background

Georgia's climate, ecological diversity, and ancient cultural sites, as well as its rich traditions in art, music, and cuisine, have made tourism a significant contributor to the country's economy. Prior to the disintegration of the Soviet Union, many of the republics of the South Caucasus were choice tourist destinations, mostly for citizens from the other republics in the Soviet Union. It is estimated that the numbers of visitors to Georgia was in excess of 800,000 in the late 1980s. However, the collapse of the Soviet Union in 1990 and the ensuing turmoil in the region brought tourism almost to a standstill. Nonetheless, by 1998 the political climate had stabilized and the country experienced an influx of tourists, particularly from Europe; the number of tourist arrivals to the region increased from 200,000 in 1995 to more than 460,000 in 1998. In the latter year, approximately 68 percent of arrivals to the South Caucasus were in Georgia, 25 percent in Azerbaijan, and 7 percent in Armenia.

To capitalize on this positive trend, the Government of Georgia requested assistance from the World Bank to provide a stronger cultural heritage dimension to its economic and social development program. Subsequently, on January 29, 1998, the Board of Directors of the World Bank approved a credit of US\$4.49 million to the Government of Georgia for the Georgia Cultural Heritage Project in the form of a Learning and Innovation Loan (LIL). Building on the success of an earlier Institutional Development Fund (IDF) grant from the World Bank, the project consisted of an investment component and a technical assistance component. The former component was designed to address urgent repairs needed to prevent further damage to priority cultural heritage sites. It financed a nationwide Emergency Rehabilitation Program (US\$1.3 million) that provided up to US\$75,000 in financing for subprojects through a competitive grant mechanism. In addition, the component funded interventions designed to help revive the once-flourishing tourism industry through activities aimed at the preservation/

FIG. 4.2 >
Map of the Historic
Core of Tbilisi



restoration of four pilot sites that were to serve as prototypes for future cultural heritage investments and public-private partnerships. The four pilot sites were Old Town Tbilisi, Signaghi, Uplistsikhe, and Shatili. Collectively these sites received US\$1.9 million. Of these four sites, it is Old Town Tbilisi that contains the area of Kala that is the subject of this evaluation (see figure 4.2).

Targeted investments undertaken to revitalize Old Town Tbilisi and preserve its architectural legacy included funding to renovate historic buildings and museums, restore facades, reset the cobblestone pavement, install street lights, and landscape public parks. By the end of the project, the conservation and restoration interventions included work undertaken at the National Baratashvili Museum, the Tbilisi History Museum, the Gobelin (Tapestry) Museum, and the Jvaris Mama Church. In particular, the project restored the facades, strengthened buildings, replaced roofs, and rehabilitated underground communication connections on several streets in Kala, notably those on Chardin Street (18 buildings), Erekle II Street (13 buildings), and Sioni Street (8 buildings).

To protect and prevent further deterioration of privately owned historic homes included in the registry of historic homes, the investment component also included the Neighborhood Fund, which financed up to US\$1,500 of exterior improvements for a single-family dwelling and US\$4,500 for a multiple-family dwelling. The Neighborhood Fund provided the financing to facilitate the repair of balconies, facades, roofs, staircases, windows, and doors of 36 historic homes in Old Town Tbilisi; an additional 42 such interventions were undertaken through the pilot sites investments mentioned above. Thus, by the end of the project, 78 buildings in Old Town Tbilisi had benefited from exterior and interior repairs.

The project to revitalize Old Town Tbilisi simultaneously included a Technical Assistance component that funded the drafting of an Integrated Conservation Master Plan of Old Town Tbilisi, intended to



establish conservation and cultural heritage preservation planning principles and guidelines. The plan was to serve as a blueprint for all future development in the heritage zone of Old Town Tbilisi. This intervention proved to be especially valuable because it initially raised public authorities' awareness of the Old Town (one of the city's most valuable assets), and subsequently allowed them to establish a framework for its development. In turn, the Conservation Master Plan set the stage for the 2005 Rehabilitation of Old Tbilisi Program, which was cofinanced by the Municipality of Tbilisi and the private sector.

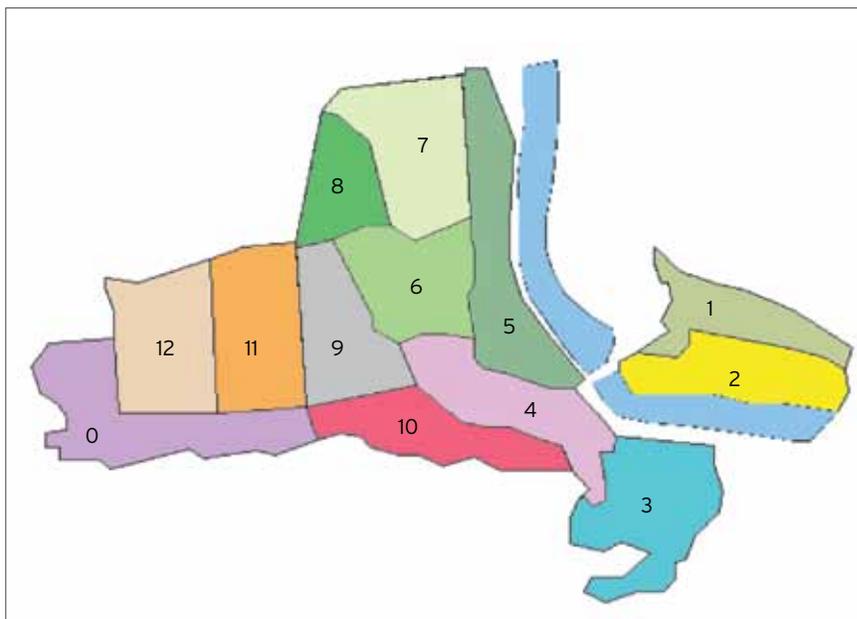
▲ Chardin Street, before (inset) and after

The 2005 program expanded on the work undertaken in the context of the World Bank project. An additional US\$10 million was leveraged through direct funds from the U.S. president's cabinet dedicated to the rehabilitation of Old Town Tbilisi's infrastructure. Since 2007, the presidential program has financed the rehabilitation of the water supply, sewerage, and drainage systems and other restoration work there. Finally, in 2010, the mayor of Tbilisi launched the New Life for Old Tbilisi Program to boost the construction industry, which was severely affected by the conflict with Russia and the global financial crisis.

FIG. 4.3 >**Historical Districts Evaluated for Project Intervention**

Showing the Chosen Target and Control Sites: Zemo Kala and Metekhi Plateau

0	Sololaki
1	Metekhi (Darejani)
2	Metekhi (Plateau)
3	Abanotubani
4	Kvemo Kala (Tsikhis ubani)
5	Zemo Kala (Sanapiro)
6	Kvemo Kala (Centraluri)
7	Zemo Kala (Erekles Moedani)
8	Zemo Kala (Verxclis Qucha)
9	Kvemo Kala (Gudiashvilis Moedani)
10	Kldis Ubani
11	Sololaki (kvemo)
12	Sololaki (Zemo)



4.3 Methodology

To finalize and validate the selection of the areas to be studied in this project, the local research team accessed data from the National Agency for Cultural Heritage Preservation of Georgia. This dataset comprised an evaluation of various historical districts of Tbilisi as depicted in figure 4.3. The terms of reference for this study suggested that the entire Kala district could be used as the target site. However, the systematic investigation of almost all streets of Kala revealed that the target area needed to be more narrowly defined because Kala itself is so heterogeneous. It comprises a rehabilitated section (Zemo Kala), which has experienced significant development, and Kvemo Kala, where most of the residential properties (with few individual exceptions) are still in very poor condition and where no significant economic activity has been observed. Therefore, Zemo Kala was selected to be the target area of interest.

As in the Macedonian case study, the assessment of the economic impacts of the cultural heritage project in Georgia compared the socioeconomic development of the target area with one having similar characteristics but not subject to the World Bank project

intervention (control site). The terms of reference suggested that the Avlabari district (also a historical part of Old Town Tbilisi) be used as a control site. Following a careful comparative analysis of the data, the research team narrowed its focus down to the Metekhi Plateau district because it shares more cultural heritage characteristics with Zemo Kala than any other district of Tbilisi but has not yet benefited from any cultural heritage investment project. Although the Metekhi Plateau district is noticeably smaller compared to the target area, it was considered to be of sufficient size for a comparison with Zemo Kala.

4.4 Stakeholders

The same categories of stakeholders were identified for the Georgia case study as were specified for the evaluation carried out in FYR Macedonia. These stakeholders in both the target and the control sites included businesses, residents, and visitors. The main types of businesses involved were restaurants, cafés, shops, hotels, museums, and galleries.

The research team developed draft questionnaires for the following groups of stakeholders:

- Households (target/control area)

- Pedestrians (target area)
- Museums (target area)
- Hotels (target/control area)
- Restaurants and cafés (target/control area)
- Shops (target/control area)
- Business centers (target/control area)
- Tourist agencies engaged in inbound tourism regardless of their location.

The draft questionnaires were tested with potential stakeholders and modified accordingly. The surveys in both the target and control areas were conducted by means of personal interviews during the period December 9–16, 2010. A total of 225 respondents were surveyed, as shown in table 4.1.

In terms of businesses, the surveys targeted

- All hotels/guesthouses located in Zemo Kala and Metekhi Plateau
- All restaurants and practically all shops in Zemo Kala and Metekhi Plateau
- All museums located in Zemo Kala. (Note that there are no museums in Metekhi Plateau.)

4.5 Time Period Covered

The use of surveys to collect data covering a long period of time (in this case an approximately 15-year period covering 1995–2010) is subject to the problem of respondents not being able to access records from past years or to recall distant facts and figures. Although the questionnaires allowed for annual data

series to be supplied, it was necessary to give respondents an alternative. As in the Skopje study, instead of filling in figures for each year in the period, respondents could fill in a figure for one specific base year. “Base year” was defined as any year in the period before restoration of the cultural heritage in Zemo Kala. The base year could be the year of establishment of the business, the year of starting business in the target area, the year of the renovation of facilities and/or purchase of equipment, or any other specific event before the project was completed. However, in practice, few survey respondents in Zemo Kala were able to provide even approximate data for the pre-investment years, limiting sample sizes for earlier statistics and making before/after comparisons in most cases impossible. Thus, greater weight rested on comparisons with the control site as a means of establishing indicators of relevant variables within and outside of the project parameters.

4.6 Capital Costs of the Heritage Investments

As noted above, the World Bank investment in the four pilot sites, one of which was Old Town Tbilisi, amounted to US\$1.9 million. In Zemo Kala alone, the total amount of World Bank funds invested was US\$898,948; the amount for the small repair program was US\$86,223. However, the research team was unable to access the exact amounts of non-Bank funding invested specifically in Zemo Kala in heritage restoration that might have been associated with or stimulated by the Bank’s contribution.

Zemo Kala	# of Interviews	Metekhi Plateau	# of Interviews
Households	80	Population	38
Pedestrians	36	Pedestrians	0
Museums	4	Museums	0
Hotels	6	Hotels	6
Restaurants	18	Restaurants	1
Shops	24	Shops	6
Business centers	1	Business center	0
Total	169	Total	51

TABLE 4.1
Survey Respondents
by Area and Types:
Old Tbilisi

4.7 Tourism Impacts

4.7.1 Tourism in the Georgian Economy

The increases in tourist numbers in Georgia during the 1990s, which were noted above as an important stimulus to the establishment of the Georgia Cultural Heritage Project in 1998, continued during the ensuing decade. Georgia had about 500 thousand visitors total in the year 2000; this grew to just over 1.5 million by 2006 and more than 2.7 million in 2010. The tourism business in Georgia is seasonal, with the high season lasting on average for seven months, from April to October.

Statistics provided by the Georgia Department of Tourism indicate that more than three-quarters of all visitors to Georgia spend some time in Tbilisi. Average length of stay in Georgia in 2010 was 11.2 days, with an average daily expenditure of US\$181.

4.7.2 Tourism in Tbilisi Old Town

The tour operators interviewed as part of this research indicated that most tourists in Tbilisi visit both Kala (including Zemo Kala) and Avlabari (including the Metekhi Plateau and the Holy Trinity Cathedral) during their time in the capital, and many stay overnight at one of the hotels in the area. Data on the usage of hotels and guesthouses in the target and control sites are shown in table 4.2. It is apparent that accommodation facilities for tourists are broadly comparable between the two areas.

Shops in Zemo Kala that provide goods and services for tourists include souvenir shops, bakeries, religious shops, and commercial art galleries. The surveys of shops in the target and control areas that were undertaken as part of this study provided data on the importance of tourist demand in the opera-

TABLE 4.2
Usage of Hotels and Guesthouses in Zemo Kala and Metekhi Plateau: 2010

	Zemo Kala	Metekhi Plateau
Number of hotels	8	8
Estimated total numbers of beds	224	208
Average length of stay (days)		
In-season	3	3
Off-season	3	2
Average occupancy rates (%)		
In-season	57	67
Off-season	47	34
Double room average daily rate (GEL)		
In-season	94	95
Off-season	88	84

TABLE 4.3
Visitors to Shops in Zemo Kala and Metekhi Plateau Before/After Project

	Average number of visitors per shop per day				Average daily expenditure
	1998-2002		2010		2010
	(no.)	(%)	(no.)	(%)	(GEL)
Zemo Kala					
Foreign	22	37	31.3	38	99
Local	38	63	52.1	62	33
Total	60	100	83.4	100	-
Metekhi Plateau					
Foreign	20	40	9.3	33	44
Local	30	60	19.2	67	34
Total	50	100	28.5	100	-

tion of these businesses. Table 4.3 summarizes some of these results. The proportions of foreign and local visitors to the two areas are quite similar. A little more than one-third of the income of shops in both the target and control areas comes from tourism, and this proportion has not changed greatly in the period since the heritage project's implementation. However, there are two differences between the two study areas based on the data in the table. First, although the ratio of foreign to local customers remained similar over the last 10 years for the target and the control areas, the absolute numbers of visitors per day, both foreign and local, increased markedly in Zemo Kala but appear to have declined in the Metekhi Plateau area. Second, the average spending per person in the target area was three times higher for international tourists than for locals; in the control area, foreigners spent only about 30 percent more per person than did locals.

Restaurants also benefit from the presence of tourists. Table 4.4 summarizes data for restaurants in Zemo Kala only, averaged over the three years 2008–2010. Note that only one restaurant was interviewed in the control area, so a comparison is not possible; moreover almost all of the 18 restaurants surveyed in Zemo Kala commenced operation after project implementation, so before/after comparisons could not be made. The data in table 4.3 show a similar foreign/local visitor pattern to that noted for shops above. However, whereas foreigners spend considerably more per person than locals in shops, they spend slightly less in restaurants. It is also noteworthy that the foreign visitor numbers (about 40

percent on average for the year) are more sensitive to seasonal variation than are the number for locals.

4.7.3 Impact of the Heritage Restoration on Tourism

Can one draw any inferences from the various items of survey data regarding the impact of the heritage restoration on tourism in the Zemo Kala area? The data assembled are incomplete and can therefore be only indicative. Nevertheless, some general points can be made. First, tourism is clearly a significant source of revenue for all the businesses in this study, and tourist numbers have apparently been increasing more rapidly in the target area than in the control zone. One cannot say how much of the differential growth rate can be attributed directly to the effects of the project, but it is possible to show that the heritage characteristics of the Zemo Kala area are influential in attracting tourists. For example, the survey data indicate that location in a historic setting was second only to the quality of food as a factor in attracting restaurant customers to Zemo Kala. With regard to shops, historical location and tourist concentration were cited alongside proximity of the city center as reasons influencing decisions to open a shop in this area, whereas these factors were scarcely mentioned by shops in the control area. More directly, three of the six hotels surveyed indicated specifically that the rehabilitation project had improved the infrastructure in the target area, increased the number of tourists, and stimulated employment, as well as making the area more beautiful. Likewise when restaurant owners were asked about the impact of the project on their

	Average number of visitors per restaurant per day						Average daily expenditure (GEL)
	In season		Off season		Mean for year ^a		
	(no.)	(%)	(no.)	(%)	(no.)	(%)	
Foreign	38	44	17.1	29	29.3	39	41
Local	49	56	42.4	71	46.3	61	45
Total	87	100	59.5	100	75.6	100	–

Note:

a. Assuming in-season of seven months

TABLE 4.4
Visitors to Restaurants in Zemo Kala: In-Season and Off-Season: 2010

business, the increased number of tourists was the most frequent of the positive responses recorded.

4.8 Impacts on Businesses: Restaurants, Cafés, and Shops

4.8.1 Business Conditions

Business conditions in Georgia have fluctuated over the years in line with economic and political trends. The number of business licenses issued declined during the latter years of the 1990s, but increased rapidly thereafter, to reach a peak of just over 50,000 in the year 2007. In the following years numbers fell back. These national trends were mirrored in broad terms in the specific area of Old Tbilisi. In this overall context, the hotels and restaurants sector has performed reasonably well, with employment levels and the turnover rising steadily during the decade up to 2009. Most of this growth occurred in the capital. This sector accounts for a significant proportion of foreign direct investment (FDI) in Georgia; the average annual proportion of hotels and restaurants in aggregate FDI in 2007–2009 was 10.9 percent.

Survey data assembled for this project appear to indicate a faster growth rate for both hotels and restaurants in the Zemo Kala area than in Tbilisi and Georgia generally; as noted above, the attractive environment created by the heritage characteristics of the area contributed to the establishment of new businesses over the period since project completion. Likewise the decision to open a shop in the area has been influenced by factors such as the historical lo-

cation, the concentration of cathedrals, and (for religious shops) proximity to the patriarchate.

4.8.2 Employment Effects

Employment data from the surveys are shown in table 4.5. These statistics relate to the most recent year available, 2010. No reliable data could be obtained for growth in employment for the surveyed businesses over earlier years. It appears that shops are somewhat larger in terms of employee numbers in Zemo Kala than in the control area, whereas the reverse is true for hotels. Wages and salary data for restaurants in Zemo Kala indicate a monthly wage of about 460 GEL for administrators/managerial staff and about 300 GEL for service staff. The corresponding figures for shops show a smaller differential between administrative and service staff; for both areas the amounts are approximately 275–300 GEL and 230–250 GEL, respectively. Statistics are not available to compare wage levels before and after the project.

It can also be noted that the heritage restoration project in Old Town Tbilisi (which, as noted before, restored facades of old buildings, reset cobblestone pavements, installed street lights, and landscaped public parks) encouraged private investors to renovate several of the city's most important old buildings. Many of the workers executing these private developments received their training from working on project-financed activities. By employing many workers with special skills, the project has helped to revitalize knowledge of traditional crafts and the

TABLE 4.5
Employment in
Businesses in Zemo
Kala and Metekhi
Plateau: 2010

	Average number of employees per business enterprise		
	Admin/management	Service	Total
Zemo Kala			
Hotels	4.0	7.0	11.0
Restaurants	2.3	8.8	11.1
Shops	2.2	2.6	4.8
Metekhi Plateau			
Hotels	4.0	15.0	19.0
Restaurants	n.a.	n.a.	n.a.
Shops	1.0	1.4	2.4

workmanship needed for preservation efforts. The spillover of this training to other activities is a particular external benefit generated by the original project.

The heritage qualities of the Zemo Kala area continue to make it an attractive place for commercial businesses to establish and for existing businesses to expand. In the latter respect, 44 percent of restaurants in Zemo Kala indicated that they would expand, mostly by increasing staff. A smaller proportion of shops were contemplating expansion (17 percent). None of the shops surveyed in Metekhi Plateau had plans to expand.

In conclusion, although it is clear that the heritage qualities of the Zemo Kala area make it an attractive location for businesses serving the local and visitor population, there is insufficient data on which to base a definitive judgment as to the effects of the heritage project on employment, wage levels, or business performance.

4.9 Impacts on Households

The survey team identified the population on selected streets in Zemo Kala and Metekhi Plateau, counting about 3,700 persons and 1,200 persons, respectively. These people have experienced changes over time in real estate values and rental prices for housing. The study tried to determine whether any such changes in the target area have been influenced by the heritage rehabilitation, and whether the living conditions of households in this area have been affected.

Data on property movements and real estate prices in the target and control sites are shown in table 4.6 for the period from 1998 to 2010. To smooth out short-term fluctuations, three year averages are shown for the beginning, middle, and end of the period. It is apparent that there is little significant difference both in the absolute levels and in the trends over time in the two areas. It would appear that the rehabilitation project has not significantly affected real estate values one way or the other.

On the other hand, more limited data series for rental prices do show some differences between the two areas. Between 2005 and 2010, the rental price per square meter for housing rose by 21.8 percent in Zemo Kala and by 12.3 percent in Metekhi Plateau. These growth rates (in current price terms) correspond to annualized growth rates of 4.0 percent and 2.3 percent, respectively. These figures suggest a somewhat stronger demand for rental housing space in Zemo Kala than in Metekhi Plateau, a result at least plausibly related to the improved attractiveness of the former area because of its heritage qualities.

In fact these speculations were tested somewhat more directly in the surveys when respondents were asked to rate their perceived benefit (if any) from the restoration project. On a scale from zero to 10 (in which zero = no benefit and 10 = maximum benefit), the highest mean score (5.7) was recorded for the benefit that the area became more prestigious as a place to live as a result of the restoration project. The next most significant reason, with a mean score of 2.7, was the general proposition that the area became more attractive. These are essentially noneconomic or quality-of-life benefits; outcomes

	Average value per square meter (USD) ^a	
	Zemo Kala	Metekhi Plateau
1998-2000	604	508
2003-2005	1024	1078
2008-2010	1624	1674

Note:

a. In current prices

TABLE 4.6
Trends in Real Estate Values in Zemo Kala and Metekhi Plateau: 1998-2010

relating to financial benefit accruing to households (increased income, employment opportunities for family members) rated close to zero.

Further evidence for the effect of the heritage project is provided by perceptions of housing conditions in the target and control areas at the time of the survey in 2010 compared with what they were in 1998. Table 4.7 shows that significantly more people saw an improvement in their housing conditions in Zemo Kala than in Metekhi Plateau, and significantly fewer felt conditions had deteriorated. It is not unreasonable to conclude that the heritage rehabilitation project had had some influence in bringing this outcome about.

4.10 Impacts on Museums and Galleries

Data from Georgia's National Statistics Office for 2009 indicate that there are 112 museums in Georgia, 28 of which are located in Tbilisi. There are five museums in the Kala district, four of which are in the target area. All of the latter museums were surveyed as part of this study.

In 2009 Georgia museums in aggregate attracted 616,200 visitors, of which 286,800 visited museums in Tbilisi. For the years 2007 to 2009 the numbers of visitors to the Kala museums were:

2007	36,851
2008	38,420
2009	34,557

In 2009 the Georgia museums as a whole, including those in Tbilisi, experienced a sharp increase in attendance. This increase was also noticeable in Kala,

but it does not show up in the Kala figures above because of renovation works in the Historical Museum (Caravanserai).

Of the four Zemo Kala museums, three are financed by the Municipality and also receive private donations, while one is privately funded. Only one is able to supplement its revenues through a café/souvenir shop; the other three hope to launch similar businesses on their premises in the future. Three of the museums in Zemo Kala indicated that the World Bank's cultural heritage project had had positive effects on their operations, while one did not recognize any particular impact. Of the positive effects stemming from the project, the main ones identified were the increased numbers of tourists and visitors drawn to the area by its improved heritage qualities, and a general sense of optimism in the community generated by the project. In addition, one museum (the N. Baratashvili Memorial Museum) benefited directly from the Bank's investment because the project funded repair of the foundations of the building.

4.11 Cultural Indicators

As in the Macedonian study, the evaluation project in Tbilisi was concerned with assessing to what extent the heritage restoration had provided cultural benefits for the community. Accordingly a random sampling of visitors to Zemo Kala were interviewed using a survey instrument similar to that used in Skopje. Respondents were questioned about the time and money spent during their visit to the area, their perception of the cultural value of the heritage, and their willingness to contribute financially toward further restoration of the site. Because of

TABLE 4.7
Residents' Perceptions
of Change in their
Housing conditions
in 2010 Compared to
1998 in Zemo Kala
and Metekhi Plateau
percent

	Zemo Kala	Metekhi Plateau
Proportion of residents believing that their housing conditions had		
Improved	42	30
Stayed the same	42	41
Worsened	16	30
Total	100	100

the relatively small sample size ($n = 36$), the results presented below must be interpreted with caution. Note that time and resources did not permit the application of a similar survey in the control area.

The majority of visitors to the Zemo Kala site were residents of Tbilisi (70 percent), while 10 percent came from elsewhere in Georgia. The remaining 20 percent were foreign tourists. The average total amount of money spent during all these visits was about 80 GEL, of which about 50 GEL was spent on food. The mean and median amount of time spent was 1.5 hours, with a minimum of 10 minutes and a maximum of 150 minutes.

The findings of the survey of visitors clearly indicate that the respondents considered Kala to be an important part of Georgian culture and national identity, as well as being a place where there was the possibility for bringing people together. None of the respondents agreed that investments in Kala rehabilitation were a waste of money. With few exceptions, the respondents considered the renovated buildings of Kala to be beautiful, and disagreed with the idea of replacing them with modern buildings. Table 4.8 shows details of the perception of cultural benefits arising from the site, following the same methodology as was described for the Skopje study earlier.

4.12 Non-market Benefits

The account of the Skopje study in the previous section of this report outlined the ways in which methods such as contingent valuation could be applied to the measurement of the public-good benefits arising from a heritage restoration project, and why a rigorous application of such methods could not be carried out in that study. The same arguments apply in the case of the Georgia study. As before, one can simply assess whether or not there is some positive willingness to pay among visitors to the site, but one cannot use these results to derive an aggregate valuation of these benefits covering the full population of potential beneficiaries.

When asked whether they would be willing to contribute to a fund to support further heritage rehabilitation in the Kala district, the great majority (92 percent) responded in the affirmative, although it was not possible to measure the actual willingness to pay in this case. Nevertheless, these results do provide a broad indication that, among the population of Tbilisi at large, there is a recognition of positive cultural benefits flowing from the heritage rehabilitation, and some evidence of a willingness among the population to express their valuation of these benefits in financial terms.

	Agree	Neutral/ No opinion/ Can't say	Disagree	Total	Mean rating ^a
Kala is an important part of Georgian culture	88.9	5.6	5.6	100	1.17
Restoring Kala improves Tbilisi as a place to visit or live in	91.7	5.6	2.8	100	1.11
Investing in improvements in Kala is a waste of money	0	2.8	97.2	100	2.97
Kala is a place that helps people come together	97.2	2.8	0	100	1.03
The renovated buildings of Kala are beautiful	86.1	2.8	11.1	100	1.25
Kala gives me a sense of Georgian cultural identity	77.8	2.8	19.4	100	1.42
Kala should be demolished and replaced with modern buildings	8.3	2.8	88.9	100	2.81
I learnt something from my visit	55.6	19.4	25.0	100	1.69

TABLE 4.8
Perception of Cultural Benefits by Visitors to Zemo Kala percent

Note:

a. Scale 1 = agree; 2 = neutral; 3 = disagree

4.13 Conclusions

The World Bank's Georgia Cultural Heritage Project had the objectives of improving the management and promotion of the country's rich cultural heritage to revive the once-dynamic tourism industry and engender social cohesion and national identity during the difficult economic transition. The project's objectives reflected the importance of Georgia's cultural heritage to citizens of the nation as they sought to recapture a national identity based on the country's diverse ethnic and cultural traditions.

The *Implementation Completion Report* of March 2004 concluded that the project had satisfactorily achieved its overall objectives. The report noted particularly (page 9) that the project had had a positive impact on the revitalization of Old Town Tbilisi through its stimulus to economic development, its encouragement of private investment in heritage conservation, and its effect on public awareness of the significance of cultural heritage to community life.

The present research has assembled some evidence on the economic and cultural benefits generated by the heritage rehabilitation in one area of Old Town Tbilisi. Although it has not been possible to carry out a comprehensive ex post cost-benefit analysis of the project, some economic and cultural indicators have been evaluated that enable some broad conclusions to be drawn.

Comparing the target area of Zemo Kala with the control site of Metekhi Plateau, one can make the following general observations:

- The numbers of tourists in Zemo Kala have increased over the past 10 years compared to the control site
- The expenditure of foreign tourists visiting the site is three times more than that of locals
- Customers for restaurants and shops are attracted to Zemo Kala by its historic location, and the heritage characteristics have been a positive inducement to the establishment of new businesses in the area
- Relatively more people in Zemo Kala than in Metekhi Plateau believe their housing conditions have improved since the period before the project
- Most of the museums in the Zemo Kala district noted a positive impact on their operations arising from the heritage rehabilitation
- The majority of residents surveyed recognized significant cultural benefits arising from the heritage rehabilitation, and there is evidence of a positive willingness to pay for further restoration work.

Overall it can be concluded that the economic, cultural, and social effects of the heritage revitalization initiated by the Bank's investment have been positive, although data limitations do not allow for precise quantification of the full range of impacts.

Bambis Rigi
(Cotton Row)
2003 left;
2010 right >



5 Conclusions and Lessons

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 more than a decade ago pointed to the importance of 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; Cernea 2001). Since that time, the Bank has financed numerous heritage investments aimed at physical heritage conservation, 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 local 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.

Although Bank projects in the cultural heritage field are subject to the usual assessments that are applied to any project implementation, little is known about the subsequent performance of these projects in the years post-completion. Accordingly, this study was undertaken to provide some empirical evidence of the economic impacts of heritage investment. Two case studies were chosen for this purpose, in the historic town centers of Skopje and Tbilis, respectively. This report has reviewed the disciplinary field of heritage economics, put forward a procedure for conducting an ex post economic impact analysis, and quantified a series of indicators and other measures to allow an assessment of the results of the two projects.

The results confirm the positive economic impacts of both case study projects. In the Macedonian case, the initial impact of the Bank investment was in the stimulus it helped to provide for the allocation of further funds from non-Bank sources for heritage restoration in the Skopje Old Bazaar in succeeding years. About US\$2.5 million was generated in this process, which continued the process of rehabilitation initiated by the original Bank project.

In comparison with the control site in the Prilep Old Bazaar, tourist numbers and expenditures in the Skopje target site have increased; between 2005 and 2010, the daily number of foreign tourists visiting businesses in the Skopje Old Bazaar increased by more than 90 percent compared to a slight decline in Prilep, and even though the mean expenditure per person increased more rapidly in the control site, the absolute levels of expenditure by both foreigners and locals has been greater in the target area.

Employment and skill levels have also been enhanced. For example, there has been a 73 percent growth in employment numbers per business between the pre- and post-project periods in the Skopje site compared to a 21 percent increase in Prilep. Moreover, 42 percent of the businesses in Skopje have expansion plans for the future, compared to only 15 percent in Prilep, reflecting the optimistic mood created by the rehabilitation of the target site. In regard to museums and galleries located in the Skopje Old Bazaar, the number of foreign visitors in the three main museums almost doubled, from 7 to 13.5 thousand, between 2000 and 2007, outstripping the growth in tourism numbers in Skopje as a whole; during this period, visitation by locals increased from 5 to 10.5 thousand.

The Skopje Old Bazaar plays an important role in creating a shared sense of cultural identity. This study has provided some quantitative evidence of

the cultural benefits perceived by stakeholders and their willingness to pay through voluntary contributions to a fund to continue the rehabilitation work. Altogether 84 percent of survey respondents agreed that restoration of the Old Bazaar improves Skopje as a place to live, and 90 percent indicated that they would be willing to contribute something to a fund to continue the restoration work.

In the case of the Georgia project, this study compared the target area of Zemo Kala with the control site of the Metekhi Plateau within Old Town Tbilisi. The indicators assembled pointed to an increase in tourism in the target area since the heritage rehabilitation. For example, the daily number of visitors to shops in Zemo Kala increased by around 40 percent over the past 10 years, compared with an apparent decline in the control site. Foreign tourists in 2010 spent 90 GEL per person per day in shops in Zemo Kala, three times as much as locals, and more than twice as much as did foreign tourists in Metekhi shops.

In regard to housing, 42 percent of residents in Zemo Kala thought that their conditions had improved since 1998 compared with only 30 percent in Metekhi Plateau; 16 percent in the target site felt their conditions had worsened, whereas 30 percent in the control site believed they were worse off. The widespread cultural and social benefits arising from the heritage revitalization were apparent in the survey of visitors to the Zemo Kala area. For example, 92 percent of respondents felt that restoring Kala had improved Tbilisi as a place to live, and 97 percent saw benefits of social cohesion generated in the area. The majority (89 percent) disagreed with the proposition that the old buildings of Zemo Kala should be demolished to make way for new development. Most respondents to this survey (92 percent) indicated they would pay something toward a fund for financing further heritage restoration in Zemo Kala.

Overall, although there were insufficient data to make a reliable estimate of the rate of return on the

original investments in either of the case study cities, it can certainly be concluded that the economic, social, and cultural effects of the heritage investment as exemplified in both cities have been significant, and can be taken as the sort of impacts that might be achievable from similar investments elsewhere.

Several lessons can be drawn from this research, relating both to the identification and design of cultural heritage investment projects and to the conduct of an ex post economic impact assessment some years after project completion.

First, in regard to project design, it can be noted that processes for identifying and appraising investment projects involving built heritage are becoming more securely established both within the Bank and in some borrowing countries' agencies. Such projects are usually associated with objectives of urban development, and may involve a comparison between adaptive reuse of existing heritage building stock and replacement with new construction. In this regard it is important to account for the fact that the beneficiaries from heritage rehabilitation extend beyond the immediate users; the present research has emphasized the significance of the non-market benefits of heritage, including the social and cultural value that heritage conservation generates, and these benefits need to be given appropriate weight in project appraisal.

The most important lesson for project design arising from the present research relates to the need for sound monitoring and evaluation provisions to be built into project implementation. It is essential that monitoring and evaluation systems are carefully designed to ensure that monitoring efforts produce data that are useful in assessing project outcomes and impact. If well-resourced monitoring mechanisms could be routinely included when heritage projects are being implemented, the tracking of post-project performance in economic, social, and cultural terms would be greatly facilitated, and the quantity and quality of data available for ex post

impact analysis would be increased. Economic variables of importance in this respect include the output of goods and services generated by enterprises located in the project site, household incomes and expenditures, trends in employment, tourist numbers and levels of spending, and induced investments attributable to the project. It may also be possible to include the means to track some social and cultural impacts.

Turning to lessons for conducting ex post economic impact assessments such as those reported here, it should be noted again that the primary constraint is likely to be the availability of data. If the sorts of monitoring and evaluation mechanisms described above have been in place, a sufficiently reliable, robust, and comprehensive dataset might be available to enable time series analysis of trends in major variables, for example, or hedonic estimation of heritage impacts on real estate prices, and so on. If such data are not available, an assessment must rely, as in the present study, on primary data collection. It cannot be emphasized too strongly that the gathering of data from relevant groups of stakeholders—including local businesses, residents, tourists, and so on—requires both time and resources to ensure that sample sizes in surveys will be large enough, and the range of data collected comprehensive enough, for useful analysis to be undertaken.

A further lesson from this research relates to the importance of choosing a valid counterfactual. If time series are available, it may be possible to infer structural changes in the trends in particular variables that can be attributed to the effects of the project under review. Even so, control data may still be necessary to account for any exogenous changes that may have influenced the variables being con-

sidered. For example, increases in tourist numbers to a heritage site over time need to be interpreted in the context of trends in tourist numbers in the city or country generally. Alternatively, a counterfactual may be found through reference to an area of similar character to the target site, as in the present research. It goes without saying that such a control site must be as close as possible in all respects to the target site, but without similar investment, if it is to be taken as a valid benchmark.

A final lesson to be drawn relates to the importance of the public-good output of heritage investment projects. It is well known that such outputs may turn out to be the major economic benefit of the investment. These effects can be evaluated through a full-scale contingent valuation or choice modeling study. If resources to undertake such a study are not available, a simpler approach may be possible (as used in the present study) that does not yield quantitative estimates of willingness to pay or of aggregate non-market benefits, but that at least can provide some evidence of the existence of such benefits. Alternatively it may be possible to infer the value of non-market effects by a benefit-transfer calculation using the results of another study. Whichever approach is used, any impact assessment should include this source of benefit in its compilation of the aggregate economic value generated by the project, despite the fact that the monetary amounts involved are not realized as a tangible revenue stream. Of course in some cases, some form of benefit capture is possible, for example via tourist taxes, entrance fees, and such; this is relevant especially when iconic or World Heritage assets are involved. Generally, however, the financing of this public-good output will remain a government responsibility in the post-project period.

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