

Appendix 4

DEVELOPING INNER-CITY REVITALIZATION PROJECTS

This appendix lays out a generic strategy for inner-city revitalization projects based on experience thus far in Jakarta, Manila, and other locales. While the strategy presented specifically relates to formulation of an inner-city revitalization project suitable for financing by the Asian Development Bank (ADB), it can easily be adapted to the institutional framework of any international development agency.

Generally, successful urban revitalization strategies bring together public and private sector actors in a setting that highlights the benefits of specific revitalization projects likely to accrue to each participant. Initially, small-scale interventions are undertaken that serve as the foundation for a series of projects that ultimately result in broad coverage of the urban center in question. Such an incremental approach builds trust among participants and allows them to experience first-hand the benefits of urban revitalization in a nondisruptive way. Growing trust and acceptance among participants is key in expanding the number and scale of such interventions until the revitalization initiative is complete. Such an incremental, process-based approach to revitalization of historic urban areas has been found to be the most efficient path to revitalization of historic inner-city areas.

The initial goal is to develop a consensus-based revitalization strategy that emphasizes a private-public partnership approach to inner-city



revitalization, which is appropriate to financing vehicles such as those offered by ADB and other external development agencies. Recruiting assistance from such agencies broadens the base for financing the initiative in question, and can ultimately be used to establish an urban revitalization fund, which is a financial facility available to both private and public sector actors participating in the revitalization effort.

The overall components likely to require financing include: (i) construction and/or rehabilitation of relevant infrastructure and measures for improvement of the physical environment; (ii) upgrading of slum tenements; (iii) adaptive rehabilitation of existing buildings and construction of new commercial and housing complexes where appropriate; (iv) a support facility for small and medium-sized enterprises (SMEs) including tourism-related businesses; and (v) the building of institutional capacity for management of revitalization activities that inevitably involve both public and private entities and, as a result, require extensive consultation with, and participation by, stakeholders.

To be successful, any revitalization strategy must address the issues currently impeding revitalization. Perhaps the most important of these are factors constraining the financing of urban revitalization, regardless of whether their roots are legal, institutional, or financial. For example, the recycling of properties or investments from their current economic uses into new ones raises land ownership and management issues that can only be successfully resolved through consensus. Often, establishment of a historic city corporation that undertakes information campaigns and functions as a focal point for consultation is an important component of a successful strategy.

Overall, success in forming investment partnerships with the private sector requires both policies and projects that respond to the budget constraints of citizens and businesses currently active in the historic urban area in question, while at the same time promoting a commercial orientation to the conservation and revitalization effort. Specifically, projects based on private-sector mechanisms such as build-operate-transfer; build-operate-own; and build, finance, and transfer are likely to be important in successful implementation, provided that these can be modified to meet the requirements of the urban revitalization initiative in question.

Finally, successful urban revitalization cannot be expected without putting into place a legislative framework that both facilitates the overall revitalization effort and exposes participating entities to market forces. For example, the removal of rent controls

is likely to be key, since these have formed a major stumbling block to revitalization of Asia's historic urban centers to date. Open-minded city management that supports urban revitalization at all levels is likewise essential. Examples of such open-mindedness include not only the inclusion of urban renewal guidelines, but even provision of model documents and contracts as a means of both providing information as to the intent of city managers, and facilitating the completion of agreements necessary for moving specific projects forward. Such acts signal to investors the intent of city managers to support profitable initiatives that lead to revitalization of the historic urban core. At a base level, this reduces uncertainty and replaces it with investor confidence, the latter being key to stimulating the type of private investment necessary for equipping Asia's great cities to meet the globalization and environmental sustainability challenges of the 21st century.

Typically, the initial funding for formulation of an ADB-supported inner city revitalization project would be financed via a technical assistance (TA) grant, the output of which could be a lending proposal by the national government for urban revitalization. Should the lending proposal result in a loan to the country undertaking urban revitalization, the national government would in all likelihood become the executing agency (EA), and the local or urban government, the implementing agency (IA) for purposes of the loan.

SUPPLY-SIDE ANALYSIS

Activities under the TA would most likely begin with a review of relevant country and international experience in urban revitalization of historic city centers. This would be followed by analysis of the issues impeding urban revitalization thus far, as well as the factors that led to current or previous urban revitalization interventions. In particular, the analysis would detail the existing capacity of management agencies and financing mechanisms, as well as any relevant constraints facing the urban revitalization initiative. The TA would then define the legal, institutional, planning, and financial requirements of the overall urban revitalization initiative. This would include addressing issues relating to land ownership and management insofar as these either support or constrain adaptive reuse of heritage properties or investment in new construction.

Following this, the TA would assess the capacity of both the EA and IA to support the legal, institutional, planning, and financial requirements of the urban revitalization initiative as identified above, as well as the scope of participation by the private sector required for meeting these requirements. The TA would then review any changes in institutional arrangements relating to land acquisition or management necessary for ensuring that all tracts of land within the area to be revitalized are used as efficiently as possible within the scope of the revitalization initiative.

The TA would then assist the IA in establishing a historic city corporation. In general, the purpose of this entity would be to (i) act as a focal point for stakeholder information campaigns and consultations, (ii) prepare the urban revitalization plan, and (iii) prepare a subproject appraisal report identifying detailed investments that could be funded under an ADB-financed sector loan.

DEMAND-SIDE ANALYSIS

The TA would then assess any existing demand for investment in the historic urban area relating to (i) basic infrastructure development and improvement of the physical environment; (ii) rehabilitation of existing buildings, as well as construction of new commercial units and housing complexes; and (iii) SMEs operating in the historic center.

The TA would review the capacity of national, regional, and local financial institutions to provide financing for an urban revitalization fund. This review would include any areas in which subsidies might be necessary to ensure successful completion of the urban revitalization initiative, as well as any possibilities for cross-subsidies between revenue-earning and nonrevenue-earning components of the revitalization initiative. The review would likewise determine the degree to which land within or outside the historic area could be used as collateral for debt financing of specific projects to be undertaken under the overall initiative.

The TA would identify the role that national, regional, and local financial institutions might play in the financing the urban revitalization initiative. This would include mortgage finance and credit insurance as well as the roles of the IA and EA that relate to financing. Also included would be a description of the degree to which the overall revitalization initiative might link with other ongoing development efforts. The TA would then examine the viability of

using existing wholesale financial markets for providing long-term debt financing for the urban revitalization initiative, as well as any existing secondary mortgage facilities.

The TA would then further determine the most cost-effective means of providing access to financing SME development, including the strengthening of existing local community initiatives, business associations, or urban heritage committees currently or potentially providing financing for urban revitalization, and would also define the role of ADB in providing such finance.

STRENGTHENING NATIONAL, REGIONAL, AND LOCAL SYSTEMS FOR URBAN REVITALIZATION PLANNING, REGULATION, AND OVERSIGHT

The TA would formulate a policy matrix summarizing implementation of the overall revitalization initiative. This would include systems for supporting investment in the various projects that comprise the overall initiative. In particular, the policy matrix would describe support to the historic city corporation that would function as a principal promoter of the degree to which the revitalization initiative is successful. Support to the historic city corporation might include (i) identifying information systems required for its efficient functioning, (ii) identifying legislative or regulatory changes required for successful completion of the revitalization initiative, and (iii) assessing any financing or other requirements relevant to (i) and (ii).

Ultimately, the TA's output would be a fully formulated project suitable for ADB financing, including a subproject appraisal report and a feasibility assessment consistent with ADB policies and procedures. This would include the following: (i) a full project description; (ii) a detailed policy matrix including rationale for, and the expected outcomes and benefits deriving from the project, including a poverty impact analysis; (iii) a project logical framework; (iv) a description of the lending modality and subsidiary loan arrangements, if applicable; (v) an assessment of the capability of the executing and implementing agencies; (vi) estimates of the amounts of all inputs required as well as their associated costs; and (vii) a complete description of all implementation arrangements including a full implementation schedule. In addition, all project subcomponents would be analyzed as to their technical, financial, economic, social, environmental, and

institutional viability and sustainability. Finally, an assessment of both on-the-job and formal training requirements for national, regional, and local agencies assigned project planning, implementation, monitoring, and evaluation tasks would also be included.

The design of specific project subcomponents is indicated below.

- (i) For the subcomponent relating to basic infrastructure development and improvement of physical environment, the design would include (a) documentation of required off-site infrastructure investments, (b) a draft transport plan for the historic area, and (c) detailed project financing plans for the specific investments identified.
- (ii) For the subcomponent relating to rehabilitation of dilapidated housing, the design would include (a) the development framework for each community within the historic area, and (b) detailed project financing plans for the specific investments identified.
- (iii) For the subcomponent relating to rehabilitation of heritage buildings and construction of new commercial structures and housing, the design would include (a) documentation summarizing investments to be undertaken on specific sites, (b) draft administrative and financing guidelines, and (c) detailed project financing plans for the specific investments identified.
- (iv) For the component relating to support of SMEs, the design would include (a) a description of existing and potential small-scale livelihood activities within the historic area, (b) design of support activities for SMEs, and (c) detailed financing plans including agreements on the part of participating financing institutions intending to undertake the projects identified.
- (v) For the component relating to the building of institutional capacity for management of revitalization activities, the design would include (a) a brief policy document, (b) an operational plan for building the institutional capacity required for implementation of the project, (c) a description of benchmark project monitoring and impact assessment indicators, and (d) a financing plan indicating how the institutional capacity building activities are to be funded.

Where required under ADB procedures, each of the specific investments identified would be assessed as to their economic, financial, environmental, and social viability. IAs (including government agencies providing finance) and participating financial institutions would likewise be assessed as to their financial and organizational viability in accordance with ADB guidelines. Finally, the design would also include terms of reference for any consulting input required for implementation of the overall project.

About the author

Florian Steinberg is a senior urban development specialist of the Southeast Asia Department, Asian Development Bank. He has some 30 years of professional experience in urban management, urban planning and renewal rehabilitation, settlement upgrading, urban infrastructure planning, environmental management, and institutional development. He has published widely on these topics. He has an MS in architecture–urban planning from Berlin, Germany, and a PhD in urban planning from Hamburg, Germany.