

THE STATE OF EUROPEAN CITIES IN TRANSITION 2013

TAKING STOCK AFTER 20 YEARS OF REFORM

EXECUTIVE SUMMARY



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Foreword by UN-Habitat

It gives me great pleasure to introduce this first issue of *The State of European Cities in Transition*, the latest addition to UN-Habitat's rapidly-expanding series of regional reports on the state of cities, which already include the African, Arab States, Asia-Pacific and Latin America-Caribbean regions.

The current report is very timely, indeed. It gives an in-depth overview of twenty years' transformation efforts by the 23 countries and territories in northeast, central, east and southeast Europe that, in the early-1990s, embarked on a monumental transition from socialist centrally-planned economies to democratic and market-based systems. As this report shows, the transition has been a long and winding road with these countries now in various phases of completing their reforms.

The European transitional nations are a varied group of countries. Domestic populations in 2011 ranged from 68.9 million people in the Ukraine to as few as 632,000 in Montenegro. National urbanization levels also varied significantly in 2011: from 75 per cent in Belarus to 48 per cent in Moldova, averaging about 60 per cent region-wide. The latter figure would appear to indicate that the region is in the last phases of its urban transition. However, both recorded and projected figures indicate a trend of notable region-wide population declines and near stagnant urban population shares. Consequently, the region-wide urbanization level is projected to only slowly increase to 70 per cent by 2050 and, currently, more as a result of rural depopulation than actual growth of urban populations.

The challenges associated with this on-going historic political and economic transition process faced by the region's more than 200 million inhabitants are enormous and without precedent in modern history.

It involves, as this report shows, deeply unsettling and extremely complex governance reforms that affect all aspects of society.

But disquieting as major change often is, it can also bring new opportunities. Improving the human condition is one of the main aims of the current transition. But, while reform processes unfold, circumstances can be extremely painful by creating turmoil, suffering and deprivations in the short-term. The breaking up of the former Yugoslav Republic, for instance, brought conflict, war and significant loss of human lives. Likewise, throughout the region, the collapse of industries and manufacturing processes rendered uncompetitive by their sudden exposure to global markets had major impacts on the region's cities; especially those whose urban economies were insufficiently diverse, or worse, based only on a single industrial sector. Almost over-night, such cities saw their very economic *raison d'être* evaporate, while the subsequent rapid exodus of many young and entrepreneurial inhabitants left them with even weaker prospects for the future.

But worldwide, cities have a strong record as engines of growth, human development and prosperity. By carefully exploring the human ingenuity embedded in urban areas, together with cities' locational, agglomeration and other advantages - both as individual urban entities or as components of cooperating urban networks - economic revival can often be achieved.

With this report, UN-Habitat hopes to contribute to that revival process and help create a better urban environment for the citizenry of European countries in transition.

Dr. Joan Clos
Under-Secretary General of the United Nations
Executive Director UN-Habitat



Foreword by Poland

Cities – as areas with the highest ability to create economic growth – play an increasingly important role in regional and spatial development policy. Poland is an example of a country that, as a result of 20 years' transformation efforts, has registered significant economic growth which was clearly concentrated in its economically strongest and largest urban agglomerations. These vibrant cities have become key growth drivers of the national economy and contributed to the creation of new jobs, thereby becoming major areas promoting structural change.

The benefits from development of the largest cities do not remain confined within the municipal borders, but also radiate throughout the urban agglomeration and neighbouring areas. That is why the establishment of functional relationships between major cities and their surroundings, and rural-urban linkages in particular, are of crucial importance for increasing both domestic and regional territorial cohesion.

Simultaneously, albeit on a smaller spatial scale, poverty concentration, social problems and loss of economic functions continue to affect particular urban neighbourhoods, even in the most dynamic of cities. That is why urban development has now taken deep root in national policy agendas. Current and future challenges faced by cities highlight the need for promoting smarter, more sustainable and socially inclusive development of cities and their surroundings.

The State of European Cities in Transition 2013: Taking stock after 20 years of reform presents a comprehensive review of the key issues affecting cities, towns and villages in the 23 post-Socialist countries and territories in northeast, central,

east and southeast Europe and provides recommendations for elevating various urban issues on national and regional agendas.

The thematic areas covered in this report are all important ones, including urban growth trends, migratory and other demographic processes; the economic aspects of urban development, housing and social issues; environmental matters; the roles of cities in domestic and regional administrative systems; as well as the continuing need for further urban governance reforms and addressing key emerging issues.

I believe that this comprehensive assessment of European cities in transition will be a great input in the efforts to strengthen and complement the urban dimension in our national policies. Policies based on the principles of integrated, smart, sustainable and inclusive urban development are the best way to achieve greater economic growth and social cohesion in European cities, as well as improve citizens' quality of life now and in the future.

Minister for Regional Development
Elżbieta Bieńkowska



Foreword by Jan Olbrycht

UN-Habitat has successfully analysed different trends in cities in the world in its reports "State of cities" over the last years. With the newest edition of this series, the report "The state of European cities in transition. Taking stock after 20 years of reform", UN-Habitat is tackling for the first time the specific situation of cities in South-East Europe giving a comprehensive overview of a number of aspects related to the transformation in this region.

Cities in this part of Europe are affected by the same processes as cities in the rest of the world. They face the same problems such as economic crisis, missing infrastructure, social exclusion, poverty or demographic change. They need to address such issues as energy efficiency, urban mobility, shrinking cities or urban sprawl and adapt to the changing situation. In this respect they do not differ from cities in the rest of the world.

But the transition of those cities has got also another, additional meaning - the political and social dimension that in consequence leads to a new type of governing. Cities in this region went, to a greater or lesser extent, through democratic changes. This enabled them to build a new identity. It led to the decentralisation of power and to the reinforcement of local administration. But it resulted also in a number of processes that were supposed to be the negation of the previous system, which caused for example weakening of the programming or radical privatisation of the housing sector. Those processes put the local authorities in face of new challenges. "In transition" means therefore for this part of Europe also a change of mentality and awareness.

Part of the cities in South-East Europe is covered by the European Union policies that recognise more and more the importance of their urban dimension and urban policy itself. The participation in European Union's programmes forces multiannual programming, evaluation and partnership. Therefore, the EU membership is yet another aspect influencing their behaviour.

Cities in South-East Europe are affected by a number of issues, be it the global challenges, the effect of the transformation or the EU membership. Positively and suitably, the report shows the true face of the processes and calls them "cities in transition" and not "cities in decline".

Jan Olbrycht
Member of the European Parliament
President of the URBAN Intergroup

Note on the Report's Structure



The transitional European region covered in this report comprises 23 countries which, for the purposes of this report only, have been grouped in four subregions.

This geographic grouping was finalised after long deliberation. It reflects a degree of convergence within each group - despite their often highly different socio-economic, political and administrative status - that made analyses and discussion of the state of their cities more manageable.

For ease of reading, countries and territories are indicated by their popular name, rather than the formal one. Therefore, 'The Former Yugoslav Republic of Macedonia', for instance, has been shortened to 'Macedonia'. Also, despite its complex and sensitive political situation, wherever the term 'Kosovo' is used in this report, this should be understood to be a shortening of 'Kosovo (UN resolution 1244)'.

Key Findings



▲ Baku, the capital of Azerbaijan, is the second largest but fastest growing city in the region ©Dan Vojtech/Shutterstock

- At the beginning of transition there was widespread belief that local democracy and free markets would bring the solutions to all urban problems. This proved to be wrong, because change was, often by necessity, embarked upon in haste and not always based on reliable forward-looking policy, legislative and regulatory foundations. Today, the consequences of short-term governance are particularly clear in the fragmentation of regional and national policies and urban development. All transition countries require far more coherence between regional and national policies and policy documents addressing urban development strategy.
- In some countries, decentralization of political power occurred too rapidly for local authorities to learn and adjust, while lagging fiscal decentralization rendered them incapable of efficiently executing their traditional and new responsibilities. In other countries decentralization remained ineffective due to continued centralized administrative systems, with weak middle tiers and fragmented, non-integrated local governance.
- Housing privatization mostly occurred in the absence of adequate policy, legislation and regulation contexts. It generated significant numbers of house owners too poor for the upkeep and maintenance of shared facilities of their newly-acquired asset. Privatization left too few social housing and affordable rental units for vulnerable groups. Housing deficits and rising house prices are now starting to hamper labour mobility.
- Improved living standards and quality of life neither reached all strata of society nor all parts of countries. Inequality is increasing because economic growth is often concentrated in the capitals and their functional urban areas, as well as in some other larger cities, while many smaller cities cannot catch up. Rapidly-growing and concentrated geographical prosperity differentials have fuelled outmigration and declining fertility trends. Urban and rural depopulation in some economically-depressed regions is so severe that it may have left insufficient demographic capacity for renewed future population growth. Overall population trends also point at significant demographic aging due to out-migrations of the younger population. This will have important fiscal implications for elderly care, services and pension requirements.
- Despite overall shifts towards more environmentally-friendly policies, further awareness building on environmental issues is essential. Non-governmental organizations have potentially important roles but their involvement is still low. More effort and funding are needed for substantial improvements towards healthier urban environments.
- Urban and regional development is hampered by under-developed road and railway networks. Road expansion is also lagging behind motorization rates. More investment is required in integrated public transport networks to offer an attractive alternative to private vehicles.
- Few countries have a single, integrated and cross-sectoral policy document to drive urban strategies. Consequently, repeated interventions lacking territory-wide and/or forward-looking policy bases prevail. National urban policies must clearly define the desirable intra-regional structures and the roles of cities therein, together with supporting inter-regional cooperation for functional and supportive city clustering.
- The above is highly relevant since it implies urgent need for further institutional and legislative reforms to address the governance needs of highly-complex multi-nuclear, multi-municipal *regional* urban entities, including their relations with rural hinterlands as well as their interactions with other domestic urban regions and European urban networks.

Executive Summary

Over the past 20 years, all 23 transitional European countries have made great strides in their transformation from Socialist centrally-planned economies to democratic and market-based systems. Democratization, decentralization and privatization removed the main pillars of the Socialist city development model. With the reduction of central planning and development command, new market-related actors (land owners, enterprises and financial institutions) emerged as important players in urban decision-making. Cities became more independent in determining their spatial and demographic developments. However, changes have often and, perhaps, by necessity begun in haste and were not always based on reliable policy, legislative and regulation considerations. Driven by the desire to pass through the transitional phase rapidly, sound forward-looking policy has at times been compromised by much shorter political time horizons and opportunistic interventions.

The impacts of these early decisions now start to be felt with complex and daunting realities on the ground. With the broad reforms now mostly in place or being implemented in these transitional countries, there is a need to review critically the extent to which market forces alone should be allowed to remain the drivers of urban, housing and social issues in the region. More attention is required to delivering the regulatory frameworks and interventions that can address the undesirable exclusion, inequality and human suffering that followed the rapid transition.

Urban and Rural Population Declines

After 1990, when the politico-administrative barriers to internal population flows were eliminated, urban analysts expected an immediate increase in rural-urban migration. This, however, is not what unfolded.

Urban and rural population shrinkages are among the region's most noteworthy and worrisome demographic trends. Geographically-concentrated prosperity differentials have fuelled the region's recent and current migratory and fertility trends and resulted in decelerating city growth and, at times, significant depopulation of smaller cities and rural areas in almost all transition countries. Rural depopulation resulting from lack of access to viable livelihoods is particularly significant in this context and is the reason why many national urbanization levels in the region continue to rise despite nationally declining total urban populations. In other words, rural depopulation trends are so strong that the shares of urban dwellers in the total populations rise despite urban shrinkage.

However, it is important to understand that perceived urban shrinkage, especially where it concerns the larger cities, is to some extent a matter of definition rather than an urban population issue *per se*. Whereas population data based on cities' administrative area (the municipality or the city proper)



▲ A Kobzar singing to his own accompaniment in Kiev. Demographic ageing has put pressure on Ukraine's economy. ©Kavun Kseniia/Shutterstock

may indicate population losses, for almost all of the larger cities this is only part of unfolding broader trends.

Progressing urbanization processes due to increased mobility, connectivity and communications technologies produce new urbanization forms and new urban configurations in the region. The traditional mono-centric city defined within distinct municipal boundaries is an increasingly erroneous reflection of the realities on the ground. Rather, the city concept needs to be redefined as the total geographic area of the 'urban catchment basin' in terms of population, economic activities and urban services. The actual term used for this catchment area is irrelevant, whether one calls it the urban agglomeration, the (extended) metropolitan region or the functional urban area.

The new notions of 'city' and 'urban' needs to reflect that the urban areas of today and tomorrow are no longer 'free standing' entities but often rather functioning as a multi-nuclear, multi-municipal *urban regions* with intense interactions over a much wider geographical area than just the administrative territory of the core city. Increasingly, urban areas composed of clusters of municipalities of various sizes act as single demographic, socio-economic and political entities.

If this notion is taken into account, the suburban populations of the extended metropolitan region should be added to the 'declining' municipal populations. The resultant aggregate would in, almost all cases, translate into urban growth of the functional urban area, rather than a mere decline of the city proper. It is therefore important to acknowledge that perceived urban population declines are in many cases *de facto* urban growth scenarios if the larger urban region is taken into account.

Urban Policy and Governance

Although the transition introduced institutional reform and planning innovations, in many cases the governance modalities of former state control and closed decision-making processes have not been fully dismantled. *Ad hoc* interventions lacking coherent territory-wide and forward-looking policy bases still prevail too often. The enforcement of legal frameworks on urbanism also remains challenging because many problems have their roots in the fact that the legal framework for urban planning does not correlate with other laws in public administration.

In all transitional countries, more coherence is required between regional and national policies and policy documents addressing urban development. Few countries have a single, integrated and cross-sectoral policy document to drive urban strategies.

Where decentralization and the introduction of local self-governance and local autonomy has been rushed it has left many local authorities too little time to adjust to their new responsibilities, especially in intermediate and small cities. This is compounded by lagging or lacking fiscal decentralization to enable local authorities to perform effectively and execute their traditional and new responsibilities. Although there are tangible initiatives underway to improve urban administration, most transitional countries still have a long way to go in realizing decentralized societies and preserving the sustainability of their cities. It is widely recognized that Poland achieved comparatively more than other countries in the region because of simultaneous reforms of the territorial structure, local governance, and social services, health care and education.

Problematic horizontal coordination is near ubiquitous. The exception is Romania, where integrated rather than sector approaches and practices are now being developed. Improving twofold horizontal cooperation (between sectors and public enterprises and among neighbouring communities) should be a priority for most countries. Both are governance matters because the prevailing lack of cooperation is mostly due to either inadequate organization or unresolved power allocation and power sharing structures.

Clustering (networking) of municipalities is a clear and desirable possibility in most countries, with some initial steps



▲ The parliament building in Budapest, Hungary. All transitional countries have made progress in their transformation from Socialist centrally-planned economies to democratic and market-based systems. ©Renata Sedmakova/Shutterstock

in this direction under way in Bulgaria, Croatia, Poland, Romania and Serbia. Other countries are still largely without legal incentives for inter- or intra-regional cooperation and there is need for significantly stronger interventions with legal, institutional and economic incentives for city networking and clustering to become established practice. Municipal finance structures could be used to this end because municipalities are well-placed for various joint undertakings, if only as the start of further cooperation.

Urban Economies

Several of the region's larger cities have adjusted rather well and moved comparatively smooth through the transition in economic terms because their more diversified urban economies and concentrated availability of international investment capital positioned them better for European and global competition. Most of the region's capitals and other large cities can potentially compete in the European economy, but they still require further and deep modernization, urban governance capacity building, major infrastructure enhancements and environmental improvements. It is particularly important that national strategies and spatial plans are coordinated with legislative and local efforts to promote the role of these cities as engines of development and growth.

The potential to compete internationally is far more limited for many other cities, especially those in the region's non-EU member states as well as those whose undiversified (if not mono-functional) economies proved uncompetitive after their exposure to European and global competition.

The prospects of many secondary and tertiary cities therefore remain quite undetermined. Scores of these towns are registering declines in urban functions, especially in regard of their roles with respect to their rural hinterlands. Changing the specification of medium-sized and small cities and promoting their role in the national urban hierarchy is indispensable for changing urban economies. The key for these cities' development lies in expanding transportation infrastructures, development and accessibility of services as well as revitalization of the rural economy.

The benefits of small and intermediate cities' location in the vicinity of major trans-European corridors and other geographic advantages need to be better explored in tandem with enhancing their administrative capacities as factors that can contribute to their development. The agricultural and tourism potentials of small towns in rural areas require attention to further assist their positioning and development.

Many Croatian cities, for instance, have significant but quite unutilized advantages with their locations. Their well-diversified economies should be guided to connect them to mid-European and Mediterranean markets to arrest the current depopulation that is jeopardizing Croatia's still-dominant agricultural activities.

Throughout the region, rural dwellers are generally poorer than urban ones. However, as explicitly noted in the case of Albania and Romania, extreme poverty associated with social



▲ Zagreb, Croatia. ©Paul Prescott/Shutterstock

exclusion is mostly specific to urban environments. In all transitional countries, specific urban neighbourhoods are now emerging as areas of concentrated exclusion and characterized by more pronounced and extreme poverty than rural areas.

Housing

In most transitional countries, the housing privatizations of the 1990s took place fast and without clear and forward-looking policy, legislation and regulation contexts. Consequently, repeated legislative and programming modifications rather than a single, coherent, forward-looking long-term housing policy is now a key urban problem in many countries. This has caused three important trends:

In many cases, privatization has overshot its purposes and has generated significant numbers of house owners that are simply too poor to keep up their newly-acquired asset;

Privatization has also gone too far in the sense that it has left few, if any, social housing and affordable rental units for vulnerable groups; and

Many multi-family buildings are rapidly deteriorating in the absence of legal provisions to regulate the upkeep and maintenance standards of shared facilities previously managed by the public sector.

Low affordability of urban residential units is now widespread, with housing costs rising particularly rapidly in the more prosperous large cities. Simultaneously, large numbers of housing units remain vacant in smaller cities and in rural areas. Lack of urban housing supply is pushing up prices beyond affordability at a time when privatization has mostly wiped out national social housing stocks.



▲ Tbilisi, Georgia. An example of the proliferation of 'vertical slums' across the region's cities. ©Asaf Eliason/Shutterstock

There is a need to increase the supply of affordable urban rental housing throughout the region rapidly. Better articulated regional development policies could contribute to geographically-improved housing distribution with new or renewed policies and programmes for the social housing quantities in each country. In addition, well-functioning housing markets require responsive land markets but urban land supply is often problematic. Large tracks of urban land have unclear ownership while others are heavily polluted or have been abandoned.

Homelessness, including persons evicted due to housing restitution to previous owners and those evicted for non-payment of maintenance or other costs, is another area that requires policy interventions. Homelessness is an explicit indicator and not just of acute housing deficits. But homelessness is neither officially acknowledged nor monitored in many of the transitional countries. Although few people have no shelter whatsoever, the matter has to be institutionalized, monitored and addressed. Some initial efforts have been made, such as the Romanian national programme 'Combating social exclusion of homeless by creating social emergency centres' which ran between 2007 and 2012.

Housing and urban policy interventions, however, are highly country-specific given the various stages in which the transitional countries currently find themselves. In Macedonia, for instance, housing policy interventions require multi-dimensional participatory approaches to define the priorities whereas, in Montenegro, the priority should be the creation of housing funds at the local level. Poland needs to increase its number of units per capita rapidly as it is currently among the lowest of all OECD countries

in this respect. Serbia requires more definite and precise solutions to address innovative programming, evaluation and monitoring of its spatial development processes and property policies, incomplete land and ownership cadastres and illegal construction all over its territory.

Basic Services and the Environment

Although the region has made great strides in addressing air, soil and water pollution much remains to be done, especially at the local level. Further national policy reform is required in all countries to assist municipalities in achieving their environmental goals in air pollution, waste management and improved energy-efficiency. Not only do municipalities require more ownership over environmental processes, they also need to be enabled to increase inter-municipal cooperation for which national policies need to be established.

The targets of the EU 2020 strategy are to reduce greenhouse gas emissions by 20 to 30 per cent compared to 1990 levels; increase the share of renewable energy to 20 per cent; and achieve a 20 per cent increase in energy efficiency. As almost two-thirds of the population of the region is urbanized, all cities should be enabled to take part of the responsibility of meeting the EU 2020 targets and become more proactive in addressing the conditions that lead to climate change.

With rising oil and gas prices, energy consumption and efficiency are becoming strategic issues. Households are major users of energy because housing stocks are mostly old, energy-inefficient and equipped with energy-intensive appliances. Typical energy losses in district heating are 22 per cent at source, 25 per cent in transmission and 35 per cent at the end-user - adding up to a massive 88 per cent loss. But energy



▲ A water treatment plant in Prague, Czech Republic. The Czech Republic's water supply and wastewater treatment services are highly privatised. ©Chalabala/Shutterstock

consumption structures differ significantly from country to country. For instance, if Ukraine were to implement technically-possible improved standards, even though these are not the best available technologies, they could still lower overall energy losses to 38 per cent. Such savings would be critically important given Ukraine's dependency on imported natural gas.

Housing is the largest energy consumer in the Baltic States. Given the severe weather challenges, the energy efficiency potential of insulation of the housing stock should be more vigorously pursued.

Desirable higher energy efficiency in the construction industry, heating systems and transport sector, combined with pricing policies and the energy resources availability, requires responses at local, regional, national and trans-national levels. In Bulgaria, Croatia, Montenegro, Romania and Serbia this already features among basic goals in the development strategies, while in the other countries this still needs to be reflected in the policies for the near future.

Achieving the energy efficiency goals will need government at both state and municipal levels to play an active role in more efficient heat and energy production, reduction of losses in transmission and distribution of energy, promoting more economical vehicles and efficient public mobility, improving the energy performance of existing buildings, introducing more stringent energy standards for new buildings and establishing consistent tax policies for more efficient energy use.

Waste water and solid waste disposal is a serious problem in a large number of the region's cities. Combined with problematic water supply experienced by many local communities, prudent policy interventions are needed at

local and regional tiers. Given the generally weak capacities of municipalities, local community networking should be an intrinsic goal of such policy interventions.

Throughout the region, decentralization has made many small municipalities responsible for their own water supply and wastewater treatment. However, these local companies are too small to attract foreign private investments and participation. Integration by mandatory amalgamation or voluntary co-operation encouraged by legal and financial incentives could offer solutions.

Given chronic under-investments, local fragmentation, inefficiencies and the need to pursue economies of scale, a current trend is to promote regionalization of public services, in particular for water supply and wastewater management. Regionalization has so far been successful where there is a strong regulator, such as in Bulgaria. In many other countries significant legislative and regulatory changes are needed before effective regulation can be achieved.

Connections to public sewage systems fluctuate from country to country but are worryingly low at 39 per cent in Montenegro. Only about 82 per cent of the permanently-inhabited flats in Montenegro have a bathroom and only three-quarters of all housing units have toilets. Albania performs similarly poorly in this respect, with only 63.9 per cent of the dwellings provided with indoor toilet facilities.

Despite overall shifts towards more environmentally-friendly policies, further awareness-building on environmental issues is essential throughout the region. Non-governmental organizations have potentially important roles but their activity is still at a relatively low level. More effort and funding are still needed for substantial environmental improvements and healthier urban environments.

Mobility

Although the road infrastructure network is reasonably well-developed in the region, it is in need of major investments in upgrading and expansion, particularly the Pan-European transport corridors, to improve the flow of goods to and among cities. Intermediate-size cities are not always realizing their full potential due to transport infrastructures that insufficiently connect city clusters, cities or even neighbourhoods within cities.

Interurban connections are also hampered by underdeveloped or defunct railway networks. Large urban areas need better and faster transport infrastructures to connect among themselves and with the wider European city networks and markets to foster network economies. Urban areas with a (sub-national) regional development potential need to better connect with their nation's city network, rural hinterlands and cross-border urban areas.

Motorization is growing particularly fast in intermediate cities but road provision and improvement are increasingly lagging behind these motorization rates. The growth in motorization will increase car congestion in the future, even when taking into account the various urban road expansion projects currently undertaken. This growth could be mitigated by the establishment of public transport networks that offer an attractive alternative to private vehicles.

Culture

Culture is strengthening in countries with traditionally strong life in this area through the revitalization of institutions, despite many having disappeared during the period of transition. Whereas new cultural forms are emerging under the wave of mainstream world culture and alternative currents, others are reverting to national or ethnic identities. Festivals and minor cultural manifestations are taking place in large cities all over the region, while regional and local flavours are often nurtured in medium-sized and small towns. However, problems with disintegrating cultural heritage in non-EU member countries have remained unaddressed and are matters for attention since cooperation with European and global institutions is indispensable in terms of criteria, valorization and management.

The South Caucasus, once famous for its ethnic and cultural mosaic, has rapidly become a place of 'titular' ethnicities as minority groups lost population and became quite isolated and excluded from mainstream political and socio-economic processes. However, countries' ambition of significantly increasing their economic potential and attractiveness, as well as the intention of converting their cities in regional hubs and growth poles, will require more tolerance and acceptance of cultural diversity and otherness. This should be considered by policy-makers when determining national and local strategies of urban development.



▲ Ljubljana, capital of Slovenia. The international role of cities is mostly determined by their connection to major transport corridors. ©Benjamin Kralj/Shutterstock



▲ The Renaissance Sukiennice (Cloth Hall) in Krakow, Poland, is one of the city's most recognizable icons and a huge tourist attraction. ©Ratikova/Shutterstock

Competition and Cooperation

In the EU member States covered by this report the competitiveness of NUTS-2 and especially NUTS-3 regions represents challenges in the context of Europe as a whole. But many interventions are still required to realize the potential for significantly improved intra-regional (and particularly inter-city) cooperation. Clustering regions and municipalities can positively impact on their attractiveness; on integral approaches towards knowledge-based societies; and on the systematic boosting of competitiveness. But regional cooperation is still quite limited and, even for the region's EU member states, this is a new issue that requires further adaptation of legal, governance, macro-economic and financial systems. This is duly noted in EU "Territorial Agenda 2020": *"actions at the cross-border, transnational and inter-regional level have a pivotal role to play in the implementation of territorial priorities of the TA2020. European territorial cooperation has revealed a considerable mobilisation of potential of those cities and regions involved. Nevertheless, there remains room for improvement, especially to ensure that operations contribute to genuine territorial integration by promoting the sustainable enlargement of markets for workers, consumers and SMEs, and more efficient access to private and public services."*

For instance, there is a need for more proactive and creative use of the Danube's integrative potentials and resources for the development of large cities and for sustainable use

of energy-generation. But the basin is still dividing rather than connecting Bulgarian and Romania to the South and Serbia to the West. Likewise, the mountainous northern region of Albania is weak with poorly functioning urban settlements that require much attention to enhance this area's competitiveness. A similar condition applies to the two non-cooperating entities of Bosnia-Herzegovina, where lack of adequate vision on developing the future role of cities seriously affects their current and future competitiveness.

National policies throughout the region will first have to more clearly define the desirable intra-regional structures and the roles of cities therein, together with supporting inter-regional cooperation and defining functional and supportive municipal clustering. The present situation, with structural funds available for EU member countries that have the capacities to support urban issues, as well as IPA funds for non-EU member countries, offers all opportunities for better territorial cohesion.

Political, Economic and Spatial Dynamics in the EU and its Neighbouring Countries

Large and very large regional urban systems (depending on their scale often referred to as metropolitan regions, extended metropolitan regions, urban development corridors or mega-urban regions) are now emerging in Europe's transitional countries. All these configurations typically feature

uncontrolled urban sprawl encroaching on adjacent rural areas and absorbing the towns and villages that lie on their growth path.

A shared challenge among these urban configurations is the provision of adequate area-wide governance, planning and guidance to spatial developments, as well as holistic regional urban management. Worldwide, traditional governance structures such as municipal governments, provincial boards, federal district authorities etc. have, without exception, proven inadequate for holistic regional governance because their legal and institutional structures and tools are designed for single-municipality, mono-centric cities, rather than multi-municipal, multi-nodal regional urban systems. This view is supported by the flagship report of EU Regional Policy “Cities of tomorrow” which *“points to the need for integrated, coherent and holistic approaches across sectors, governance levels and territories”*.

The past 20 years of transition have clearly shown that market-driven urbanization alone is generally unable to reconcile short-term economic and political interests with the reforms required for long-term social, political and environmental sustainability. Local communities, by themselves, cannot provide the corrective mechanisms required for large-scale or urban region-wide challenges, while central control cannot effectively micro-manage the myriad of local needs. As cities increasingly overrun their administrative boundaries and turn into entirely new urban configurations, the need for fundamental change in the governance of these regional urban systems is beyond doubt.

Among economic trends of the region is rapid economic growth of large cities, with increasing inequalities between rural and urban as well as large and small cities. It is noted in the conclusion of “Cities of tomorrow” that *“if current trends continue, social exclusion and increasing spatial segregation will affect a growing number of regions and cities, including the richer ones. Pockets of poverty and deprivation already exist in the wealthiest of European cities and “energy poverty” hits the most vulnerable groups, especially in cities with poor or obsolescent housing stock.”* The EU-institutions are attempting to address the issues of polarization through economic, social and territorial interventions, including the EU Neighbourhood and Cohesion Policies.

The notion ‘polycentricity’ started to take a central place with the publication of the *European Spatial Development Perspective* (ESDP) in 1999 and is assumed to lead to improved or diminished regional social and economic disparities. Although this approach may, perhaps, be effective in EU-core countries, there is little evidence that pursuing polycentricity will be equally useful in Central and Eastern European countries. It can also be noted that polycentricity-based spatial and/or regional-economic policies in EU countries have so far neither drastically altered any spatial-economic structures nor addressed equality differentials.

By sheer lack of definition, the term polycentricity has caused confusion and lack of precise understanding of its purpose, aim and possibilities. That is apart from the fact that professional opinion remains divided over whether the polycentricity concept is actually effective for addressing geo-economic disparities in the first place.

The EU Cohesion Policy is a key instrument intended to address social deprivation and economic equality disparities through territorial interventions promoting polycentricity in, among others, those Central and East European countries that are EU member states. But, by concentrating near exclusively on polycentricity to achieve better economic benefits in lagging European subregions, the cohesion policy may very well be focusing on ineffective approaches for influencing territorial development. It is also to some extent inconsistent with the EU’s declared ideology of free movement of people. The European Commission notes that *“Strategies will have to take into account the diversity of cities: their development paths, their size, their demographic and social contexts, and their cultural and economic assets. For example, it will be important to examine the relevance of smart specialisation strategies in those cities or regions which face specific difficulties due to the convergence of demographic, economic and social difficulties.”*¹

Large urban areas hold the bulk of a country’s intellectual and educated human capital. They offer agglomeration advantages and economies of scale and are typically the location of choice for certain enterprises. Urban agglomerations, functional urban areas, extended metropolitan regions - or whatever other term is applied to the urban geographic concentrations of people, assets and capital in a context of modern technology, dense infrastructure and other specifically urban characteristics - make cities the engines of economic growth, innovation, resilience and human development. Vigorously strengthening the naturally strong nodes where economic and other opportunities appear to gravitate almost by themselves - at least as a temporary orientation - would seem to make more sense for promoting the integration of Central and East European countries in the European and global economies than pursuing territorial interventions that aim at enforcing the incorporation of lagging uncompetitive areas against the prevailing market forces.

The above would infer a choice between two different concepts of polycentrism: a) polycentric development that relies on regional development from a single core city outwards and b) polycentric multi-city regional processes whereby several major cities connect and grow with or without diffusion to other towns and cities. These two processes have different impacts and require different spatial interventions. But, given the Central and East European countries’ natural tendency of growth mostly occurring in the largest metropolitan area and the absence of sufficiently-connected groups of secondary cities, the first approach, at least in the short run, may prove more realistic in some of the countries.

¹ *Cities of tomorrow: Challenges, visions, ways forward* ©European Union, European Commission, Directorate General for Regional Policy 2011, ISBN: 978-92-79-21307-6



▲ Nysa City, southwest Poland, population 47,000. In Poland, polycentrism has successfully established urban areas of different sizes within the national urban network.
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From 1991 onwards, the EU had to review fundamentally its relations with European nations beyond its eastern boundaries. With the EU eastward expansion, the question arose of how to secure peace and stability at the EU's new periphery. Various policies came into being, including the European Neighbourhood Policy (ENP) and the European Security Strategy (2003).

The ENP prime goal was to enhance *bilateral* relationships with new neighbour countries. Eventually, the policy focus shifted towards one of 'adaptation to EU norms, standards and policies' prior to countries' accession.

Like the ENP, the European Security Strategy seeks deeper political relationships, economic integration and commitment to common EU values by neighbouring non-member states. It aims at security and stability and at preventing the potentially detrimental impacts of illegal immigration and 'importation' of environmental and economic crises.

Newly-emerging thinking beyond EU borders can be observed, as for example in 2007 new regulations on the use of various financial instruments pertaining to external cooperation came into effect. But successive cohesion policy adjustments, although mentioning cross-border cooperation with countries along the external borders of the EU, still remain mostly elusive on trans-boundary cooperation with third, non-EU countries.

It would perhaps make more sense to define the European neighbourhood in wider geographical terms along criteria of

functionality rather spatial proximity. 'Neighbourhood' could be defined on the basis of economic and other functional realities to help better institutionalize interactions with 'the outside'. Not only would this more directly involve current peripheral EU territories as full European Neighbourhood Policy actors but, indeed, place them as key EU agents at the core of a true neighbourhood policy.

Admittedly, the recent *Europe 2020 Strategy* recommends deploying external policy instruments to create new opportunities for both the EU and its non-member neighbours. Perhaps this proposal warrants further elaboration since the initiative may very well throw off greater results than the current cohesion policy.

Some of the most daunting challenges shaping the political agenda of the EU such as immigration, terrorism, people trafficking and energy shortages coalesce in the ring of countries that surrounds it. Europe's best alternative to avoiding a progressive but inexorable EU fragmentation is gradual and differentiated forms of integration with its many neighbours. The key to these policies' success lies not in exclusion. Rather, more openness and inclusion that foster better utilization of the inherent potential of cities, urban agglomerations and their intra- and inter-regional urban networks for increased cooperation within and beyond today's EU neighbourhood may very well be the most realistic option in today's relentlessly globalizing politico-economic environment.

Emergent key questions

1. Demographic trends in the transitional region indicate two important phenomena that are somewhat related: a) depopulation of rural areas and smaller cities and b) strong tendencies towards demographic ageing.

Given the agricultural potentials of much of the rural areas currently being abandoned, what interventions (and by whom) can reverse the rural depopulation? What role can international land outsourcing play in generating investments in declining agricultural areas in terms of restarting production, investment in road and agro-commerce infrastructures?

How can adequate provisions be made for the rapid ageing populations in the transitional region and how are such investments to be financed by current and future generations?

2. The desire to rapidly pass through the transitional phase has led, at times, to short-term governance interventions insufficiently based on reliable, forward-looking policy, legislative and regulatory foundations. Among others, this has led to misalignments of regional, national and local policies and strategies for urban development.

Which (and whose) interventions would be most suitable to effect early policy alignment for increased coherence among urban strategies at all levels and how can holistic, single, integrated and cross-sectoral policies be generated in the short-term to create desirable regional and national urban hierarchies in support of functional city clustering and networking for national and regional integration?

3. In many transitional countries, governance decentralization processes remain less than optimal. Decentralization either occurred too rapidly for local authorities to learn and adjust, or because centralization tendencies, especially in fiscal matters, continue to prevail. In both cases, multi-level governance has not or insufficiently been realized, middle tiers of governance developed insufficiently, and integrated local governance was mostly not achieved.

What options are available to improve urban governance and to:

- a. make decentralization efforts more effective,
- b. increase fiscal decentralization to the local level, and
- c. achieve effective multi-level governance?

4. Whereas significant improvements have been achieved over the past two decades of reform in the transition countries, the environmental record and especially the urban environmental record needs to be notably improved. Part and parcel of the areas to be addressed are urban brown-field rehabilitation, energy-efficiency improvements and extension of basic services.

What would be the most effective way to rapidly enhance the urban environmental record in transition countries, especially in key areas like:

- a. urban brown field rehabilitation to rapidly make valuable urban land available for development,
- b. energy-efficiency upgrading of existing housing stocks to reduce demand for urban energy,
- c. rapid boosting of municipal services extension, rehabilitation and more efficient management?

5. Rapid and wholesale housing privatization throughout the transitional region has generated significant numbers of owner-occupiers too poor to maintain their residential assets while it virtually wiped out the social housing stock at a time that urban housing costs are escalating.

Which public and/or private sector interventions in the national and local housing markets are best suited to address the dilemma of rapidly declining accessibility of urban housing, lack of affordable rental housing and lack of social housing?

6. The free-market ideology has promoted, and will continue to generate, new urbanization modalities, spatial patterns and configurations that may have an impact of how 'urban areas' are defined and managed. Conceiving sub-urbanization processes as resulting in declining sizes of the 'city proper' may theoretically be a correct interpretation but appears to ignore that the concept of 'urban area' is changing with increasing real and virtual mobility of citizen who spread over larger territorial areas for residential or commercial purposes while maintaining intricate linking with the 'core city'.

Are these 'metropolization processes' significantly strong to revisit the traditional notion of the city and replace it with one that recognizes the phenomenon 'metropolis', regional city or 'urban development corridor' for demographic and urban managerial purposes?



In December of 1991, as the world watched in amazement, the Union of Socialist Soviet Republics ceased to exist. The subsequent unfolding democratisation and reorganisation in the countries of Central and Eastern Europe and the South Caucasus covered by this report was far more than a transformation from macro-economically steered Socialist economies to democratic and capitalist market systems. Rather, the parameters and conditions which had governed these countries during the Soviet period were replaced by those of political, economic and social globalisation. But capturing the advantages of capitalism without losing those of Socialism proved neither an easy task, nor did anybody really know how to cushion exposure to the inevitable systemic shocks.

The workings of government had to be overhauled and adjusted to entirely new circumstances, including a sudden exposure to the realities of global competition. Experiences were particularly traumatic for cities whose economies were insufficiently diversified and which had, until then, relied on a single manufacturing sector protected with guaranteed markets within the community of Soviet Republics and the countries of the Soviet orbit.

As is often the case under severe economic hardship, fertility rates sharply declined, either through out-migration of the reproductive-age group or through consciously delayed parenthood awaiting better economic times. Consequently, many cities with declining working-age populations, collapsing urban economies and crumbling tax revenues suddenly faced significant fiscal shortfalls over and above their already daunting transitional challenges.

The State of European Cities in Transition 2013 offers an account of the great achievements made and the challenges remaining after 20 years of reform in Central and Eastern Europe and the South Caucasus. It explains why larger cities have generally done well and why some of them are today among Europe's fastest growing urban economies.

The report also highlights still significant well-being disparities among and within cities and countries. It analyses the way forward and the further actions required for more equitable access for all to livelihoods, adequate housing and physical and social services. It also illustrates the vast environmental improvements over the past two decades and the areas where there is still room for further improvements.

The transitional European countries are now in different stages of their transition to prosperous, just and democratic societies. As we look at the challenges of the future, *The State of European Cities in Transition 2013* offers insight and analysis to inform and enlighten.

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