THE STATE OF EUROPEAN CITIES IN TRANSITION 2013

TAKING STOCK AFTER 20 YEARS OF REFORM

UN HABITAT
FOR A BETTER URBAN FUTURE

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INSTITUTE OF URBAN DEVELOPMENT
INSTYTUT ROZWOJU MIAST
KRAKOW POLAND

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

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Old Government House in Baku, Azerbaijan. ▶
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THE STATE OF EUROPEAN CITIES IN TRANSITION 2013

Introduction

At the end of the Socialist era, most Central, Eastern and South-Eastern European countries entered in haste the transformation of their centrally-planned economies into market-based systems. This led to sudden decentralization, privatization and rapid urban change. The Baltic States, the Visegrád countries and some countries in the Eastern Balkans are today members of the European Union (EU). Others in the region are either candidates for EU membership or aspiring future members. Regardless of their current status, they are required to address the emerging urban agenda of the EU as exemplified by the Leipzig Charter and the debate over territorial cohesion. The *State of European Cities in Transition Report 2013* provides an overall stocktaking of trends and conditions after two decades of reform, describing the state of the cities and providing policy-sensitive recommendations for elevating urban issues on national and regional agendas.

In this part of Europe, urbanization levels were already relatively high at the start of the transition. The changing economic and social contexts, especially the ageing and declining populations that became associated with transition, had significant new impacts on urban developments. Large numbers of residents have in recent years relocated from cities to suburban areas where land and dwellings are available at lower costs, thus accentuating urban sprawl. Many inhabitants of former mono-functional cities left for places with better economic prospects, whether in their own country or abroad. Similarly, some rural areas in the Subregion experienced dramatic depopulation when rural economic prospects decreased. This report therefore looks at migrations and their impacts on urban development.

Cities continue to play a crucial role in delivering national economic development and services, especially to their surrounding areas and rural hinterlands. This report reviews the changes in the urban economies and appraises city typologies by highlighting shrinking, growing or newly-emerging cities and regional poles. It examines the increasing importance of innovation, education as well as research and development as engines of economic development.

Urban housing remains one of the main challenges throughout the region. There is significant incidence of 'vertical slums' in the form of deteriorating, poorly serviced high-rise

MAP 1.1: **SUBREGIONS' LOCATION**

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

housing estates. Meanwhile, many new high-rise buildings continue to shoot up, often unplanned. Rapid privatization of housing caught many new property owners unaware that the right to own a property comes with the responsibility to pay for maintenance and services. Consequently, several countries face the unique problem of homeowners who are too poor to take care of their newly-acquired assets, as well as cities that are becoming environments of growing deprivation, inequality and social exclusion.

Energy use in the region tends to be inefficient and heavily polluting. European figures show that it takes twice the amount of energy to produce the same manufacturing output in the Czech Republic or Hungary as in, for instance, France or Spain. Urban energy efficiency must improve, while greenhouse gas emissions can be brought down further. This report looks at major urban environmental challenges in terms of water, sanitation, waste management and urban mobility, as well as energy consumption and efficiency.

From the reviews in this report it becomes clear that the consequences of rapid transition were not always adequately taken into account from the outset, let alone planned for. Rapid decentralization overtook local-level capacities. Many local authorities still lack the necessary skills because they were given no time to learn how to manage towns and cities under radically different conditions. These new responsibilities were often not adequately supported by corresponding change in the fiscal arrangements. Unfortunately, decentralization without critical fiscal decentralization is still mostly the norm in this region.

Some countries face mushrooming informal settlements as well as unauthorized urban extensions. The challenges associated with the regularization and improvement of informal housing and settlements while, at the same time, attempting to correct past and current failures of urban development policies, remain among the key issues to be addressed. The report further reviews governance systems and the prevailing planning and decision-making processes, including the rapidly-changing roles of central and local government, public institutions, civil society and non-governmental organizations in the design and implementation of spatial and urban development policies within a context of integrated territorial approaches.

This report also analyzes some of the key emerging issues that loom particularly large for the short- and medium-term development of the region's urban systems.

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 and corresponding chapters in this report:

- Western Subregion - composed of the Baltic States (Estonia, Latvia and Lithuania), the Visegrád countries (the Czech Republic, Hungary, Poland and Slovakia) and Slovenia

- Eastern Subregion - Belarus, Moldova and Ukraine
- Southern Subregion - Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania and Serbia
- The South Caucasus countries of Armenia, Azerbaijan and Georgia.

This geographic grouping was finalised after long deliberation. It reflects a degree of conversion 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)'.

Note on Statistics and Other Data

It is important, from the outset, to point out the difficulties that occur when comparing correlated indicators of demographic development, especially when one wishes to make comparative analyses in time series. A general problem in some of the subregion's countries is lack (or inaccessibility) of statistical material, as well as the data coverage of various administrative-territorial levels. Similar difficulties occur in testing economic and social development indicators, as well as indicators monitoring environmental conditions.

Due to methodological differences among national systems for collecting and processing of statistical data, their unification proved difficult. Over time, methodological frameworks for conducting censuses have also changed, which often causes difficulties for comparing data due to sheer data incompatibility even *within* countries or cities. In addition, some countries have not conducted a census in the first decade of the 21st century. In others it was ongoing while this report was being prepared and only preliminary results were available. Some data had to be based on estimates or projections of varying reliability. Kosovo was especially poor in terms of its own data. Unless otherwise indicated, the data on Kosovo is included in that of Serbia.

Given the disparities in data collection methodologies, their interpretation and the definitions of what constitutes an 'urban area', all demographic statistics used in this report, unless otherwise indicated, are derived from *World Urbanization Prospects: The 2011 Revision*, prepared by the United Nations Department of Economic and Social Affairs (UNDESA).

The shortcomings of the UNDESA figures are acknowledged, especially their impreciseness if it concerns future projections based on national data from 'less than very recent' census rounds. In this report, this data has therefore been used only for general trend recognition purposes and the associated broad policy-sensitive messages that can safely be derived from them. In several tables, data for 2011 has been added and highlighted as these are the latest figures available.

▲ Zagreb, Croatia. Populations are ageing significantly across the region. **©Paul Prescott/Shutterstock**

Key Findings and Messages

- 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.

- 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.

- 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.

- 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.

- Perceived urban shrinkage among the larger cities is not a correct reflection of the reality. Population data based on municipal administrative areas or the city proper may indicate losses. But this does not take into account emerging new urbanization configurations and trends. If the functional urban area is taken as the basis for urban population data, almost all large cities in the region are experiencing actual and sometimes significant population growth.

- 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.

- Housing privatization mostly occurred in the absence of adequate policy, legislation and regulation contexts. This has generated three important trends: a) privatization has overshot its purposes and generated significant numbers of house owners too poor for their newly-acquired asset and who are now threatened with eviction; b) privatization has left too few social housing and affordable rental units for vulnerable groups; and c) many multi-family buildings are rapidly deteriorating by lack of legal provisions to regulate their upkeep and maintenance standards of shared facilities previously managed by the public sector.

- Lack of urban housing supply is making house prices unaffordable. Housing deficits and rising house prices are now starting to hamper labour mobility.

- 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 involvement is still low. More effort and funding are needed for substantial environmental 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.

▲ 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**

Executive Summary

Over the past 20 years, all 23 transitional European countries have made great strides forward in their transformation from Socialist centrally-planned economies to democratic and market-based systems. But 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

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) 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 notion 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 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.

The above is particularly relevant since it implies an urgent need for forward-looking urban governance and institutional adaptations that can address in a holistic and coherent manner the far more comprehensive governance needs of emerging and highly complex multi-nuclear, multi-municipal regional urban entities; these new urban configurations' relations with their rural hinterlands; their interactions with other urban regions and, indeed, the wider European urban networks.

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.

Rushing both decentralization and the introduction of self-governance and local autonomy 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 truly decentralized societies and preserving the sustainability of their cities.

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 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 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.

Shrinking Cities

Achieving balanced urban development at both regional and national levels is critical for promoting more local, national and inter-regional coherence. Realizing the declared aim of polycentricity towards hierarchically-established settlement networks hinges on critical economic and demographic stimulation of secondary and tertiary cities. However, at present, declining economic competitiveness and population losses mostly occur in precisely the city-size classes that need demographic and economic reinforcement.

Additional implications of current depopulation processes could be that, in the near future, cities in economically-depressed and poorer regions may have insufficient demographic capacity left for renewed urban growth. More financial, political and human capital (especially youngsters in the productive and reproductive ages) has to be directed there to counter these trends and reverse depopulation. Strategies for mitigating complex urban population shrinkage should concentrate on redefining the economic base as the start of the recovery policy.

To achieve this, there are two broad intervention options: *a)* interventions that directly stimulate the urban economy of these shrinking cities; and *b)* stimulating the economies of nearby economically-stronger urban cores to promote the outwards spread of economic activity through improved connectivity between these larger urban centres and shrinking smaller cities.

The likelihood of success for the first category of interventions largely depends on full exploitation of any and all location-specific advantages, availability of investment capital and investment in local infrastructures to integrate these lagging settlements in national and regional urban

networks. The latter option would go with the prevailing market forces, banking on current economic strengths of the larger urban cores. However, this approach is likely to worsen geographic disparities in the short term before improvements may occur. It would also require interventions for a significant improvement in mobility to facilitate commuting between cheaper residential options in secondary and tertiary cities - utilizing the large number of vacant units there - and the income opportunities in the economically more successful large urban cores.

Smaller mono-functional cities (settlements of around 50,000 residents where economic activity is defined by one or two prominent branches of the economy) will have to be especially active in seeking investors if they wish to change their circumstance. But shrinking cities should also consider the alternative of adapting their current over-capacities (such as housing and public services) and downsize.

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 their 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.

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 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, reducing 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 ethnical 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.

Competition and Cooperation

The competitiveness of NUTS-2 and especially NUTS-3[1] regions in all of the region's countries represents challenges in

Vilnius, Lithuania. Festivals and cultural events are taking place in large cities across the region. **©alexkatkov/Shutterstock**

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.

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[2] funds for non-EU member countries, offers all opportunities for better territorial cohesion.

1.1 Subregional Summaries

Warsaw, Poland. The capitals remain the most successful cities in the Western subregion. **©Pablo77/Shutterstock**

The Western Subregion

At the beginning of the transition from socialism to capitalism, the Western subregion was in a comparatively privileged position among the post-Socialist countries. These countries were relatively more developed and some even had a degree of experience with change towards market economies.

The restructuring of the political systems and the economies was executed quickly and fairly successfully in the course of the 1990s. Further opportunities arrived in 2004 when these countries joined the European Union as member states.

The Western subregion has now more or less completed its transition and living standards have increased substantially, despite its rollercoaster past of fast growth periods followed by deep recession. Currently the Western Subregion has one of the most stable and fastest growing economies of the EU despite the financial and Euro crises. However, the development of the subregion is still a mixed picture.

Improved living standards and quality of life are neither reaching all strata of society nor all parts of these countries. Inequalities, even between cities, have increased. Economic growth is concentrated in the capitals and their functional urban area as well as in some emerging cities, while the smaller cities in the countryside have great difficulties in catching up.

The economic structure of several countries became somewhat mono-centric (e.g. car manufacturing, chemical industry) and the innovation rate is low with only minor investments in Research & Development. Unemployment remains relatively high at around 6-12 per cent.

Since 1990, demographic processes across the subregion have been unfavourable. By 2050 Poland will be among the top OECD countries in terms of aged population and plummeting fertility rates will lead to a doubling in elderly dependency rates by 2050. Low fertility rates and departure of significant shares of the working- and reproductive-age population has led to overall population declines in most countries. The countries in this region should anticipate migration of the elderly from rural areas, small and intermediate cities to the large cities where facilities better match elderly needs, medical care, transportation and accessibility.

The decline of population is severe in rural areas and even more so in the less-developed parts of the Western subregion.

Besides these problems, nationwide consequential difficulties arise in labour markets and welfare systems with shrinking populations less able to finance pension payments and old age services.

Low-educated and low-skilled labour is the greatest loser from the transition and restructuring. Low-skilled people, previously employed in the Socialist state-run industries, have lost their jobs with little chance of re-employment. The financial crisis has led to cuts in social benefit systems affecting many of these vulnerable groups. Roma minorities are particularly badly affected by the transition and are highly vulnerable in most countries due to increasing societal exclusion and spatial segregation. Roma is probably the most critical social issue in the Czech Republic, Hungary and Slovenia.

The privatization of the public housing stock has been completed in most countries, resulting in large-scale private ownership and owner-occupation as well as significantly increased private investments in housing. Housing shortages have disappeared in most countries (except Poland) and maintenance of the housing stock is gradually improving. But with privatization, the share of social housing became extremely low, making housing affordability a new social issue.

The financial crisis has laid bare vulnerabilities that can result from ownership-dominated housing systems. In some of the countries, substantial numbers of households took out foreign currency-based mortgages against lower interest rates. Many are now in financial difficulties due to unfavourable currency exchange rate developments that have pushed up monthly payments by as much as 30-40 per cent in some cases. Consequently, numerous households are now facing eviction from the housing they acquired so recently.

The environmental sector is one of the areas of relative success in the post-Socialist countries, largely as a consequence of the high standards and generous financing by the EU. Today's most pressing environmental need is improved energy efficiency, requiring large interventions in energy-oriented renovation of entire prefabricated housing estates and their related district heating systems.

The main cities of the subregion are well connected to the other parts of the EU, since the air and highway networks have been developed substantially. Much less investment went to the quite extensive railway networks which have continued to deteriorate, except for the main lines.

Public transport is experiencing a decline in both quality and popularity except in some innovative, forward-thinking cities.

At the beginning of transition there was a widespread belief that local democracy and the free market would bring solutions to all urban problems. Though development and improvement in most areas of life is undeniable, this belief proved to be wrong, among others because the fiscal and political power decentralization remained limited and centralized administrative systems with weak middle tiers and fragmented non-integrated local governments do not perform very well in the restructuring of many of the different policy areas.

Territorial development differentials within countries did not decrease because the dominant positions of capitals within the urban structures strengthened and the gap between the capital cities and secondary cities increased. Not even the environmental sector could ensure geographically and socially just allocation of new developments despite acquiring the largest (mostly EU-funded) financial support in the restructuring process.

The capitals remain the most successful cities of the subregion. Some medium-size regional centres are also doing reasonably well (**Brno** in the Czech Republic and **Győr** in Hungary), as are a number of secondary cities in Poland (**Gdansk**, **Krakow**, **Poznan** and **Wroclaw**). The capitals and successful secondary cities were able to surpass the EU average GDP per capita substantially.

The major losers are those cities that did not succeed in industrial transformation or which are in unfavourable locations far away from the western borders and/or Pan-European infrastructures. This exposed the relatively poor performance of the public sector in controlling the market-oriented transition and its inability to ensure improved living conditions for lower-income groups and in more deprived areas.

Urban change followed the patterns of the western countries in their car-dominated development periods. Explosive increases in car ownership have facilitated accelerating urban sprawl, private car-based commuting and consequential congestion in inner cities in particular. Integrated planning approaches are required for more balanced development. Unfortunately, integration requires precisely the strong public leadership and cross-sectoral interventions that were largely missing in the post-Socialist cities. Instead, the markets dominated and opportunity-led processes prevailed.

Cross-territorial cooperation is still weak and little progress has been made in city-region (metropolitan area) thinking and in developing cross-border cooperation. Few examples exist of good cooperation between different tiers of government or between public and private actors.

From the above it follows that, after more than two decades, the transition countries and their cities still have a lot to do to improve their position. The key lies in enhancing the performance of the public sector towards more integrated planning, based on cooperation among municipalities across functional urban areas and among urban systems, whether domestically or internationally. The EU is insufficiently addressing the application of integrated approaches and also needs to pay more attention to its peripheral areas.

In the larger post-Socialist countries the different phases of urban development such as urbanization, sub-urbanization, exo-urbanization, de-urbanization and re-urbanization, can all be observed at the same time, though in different parts of their systems. Urbanization is continuing but remains statistically hidden because suburbs are not considered to be an integral part of the functional urban area of the 'host' cities.

Mass intra-urban migration (from smaller towns and settlements to the larger ones) should be considered an indirect form of urbanization because rural populations shrink when migrants move to the country's larger cities or emigrate and,

in this manner, increase the urban share of the population even if the total urban population does not grow in absolute terms.

Return migration becomes increasingly relevant too and, after an initial brain-drain (the emigration of the educated layer of the society) and brain-waste (emigrants not working in jobs fitting their qualifications), the new opportunity of brain-gain opens up, bringing enhanced knowledge and experience. The spatial aspects of this, however, are not yet clear. Will returning migrants move to the capital or other large cities of their country or will they return to their settlements of origin?

The Eastern Subregion

The countries of the Eastern subregion (Belarus, Moldova and Ukraine) are experiencing three negative demographic trends: low birth rates, increasing death rates and negative net migrations.

Ukraine's demographic ageing and population decline started in 1986 in combination with a sharp decline in GDP in the mid-1990s for the entire Eastern subregion. At 30 per cent annually, Moldova's GDP decline was the steepest. GDP began to increase in Belarus in 1996 but continued to decline in Ukraine and Moldova, albeit at a slower pace.

GDP did, however, grow at more than 10 per cent annually from 2000 until the onset of the global financial crisis. Comparisons of GDP per capita in US Dollars at purchasing power parity calculations show substantial differences within the subregion. In 1990, Ukraine had the highest GDP per capita while that of Belarus and Moldova was, respectively, 81 and 57 per cent of Ukraine's. This changed in 2009, with the GDP per capita (PPP) of Belarus being more than twice that of Ukraine and more than four and a half times that of Moldova.

The competitiveness of the national and urban economies in the Eastern subregion is low compared to Western Europe and the countries of Central Europe that gained independence around the same time as those in the Eastern subregion. While Belarus and Ukraine are important transit countries for natural gas to Western Europe and also export agricultural produce, neither of these attributes will translate into the development of competitive economies. The continuing burden of the impact of the Chernobyl disaster also places a strain on the competitiveness of both countries.

In Ukraine, a particular problem is the inflexibility of mono-functional cities which implies when a particular industry contracted or became unprofitable, the city could not adjust. In Moldova, competitiveness is hampered by the low level of rural development.

Climate change poses a significant challenge to the future development of the economies. In 2008, Moldova accounted for only 0.02 per cent of the global emission of CO_2, ranking it 119th in the world; Belarus was 50th but Ukraine was 20th. Moldova is recognized as especially vulnerable to drought and desertification. The three countries have set ambitious targets for reduction of greenhouse gases yet these efforts will be inadequate without significant investment in adaptation to climate change. For example, the quality and quantity of water resources in Moldova are sensitive to climate change. According to estimates, available, surface water resources will diminish by 16 to 20 per cent in the 2020s. Thus, according to different water-demand scenarios, national economic development in Moldova will already be threatened in the current decade.

The three countries face important issues related to their weak urban economies, as seen in public service infrastructures, the existence of shadow economies and geographically uneven development. Public infrastructure in the three countries is underdeveloped, not only compared to Western European countries, but also to Central European countries that gained independence about the same time. The shadow economy presents a particular challenge to development of the urban economy since it does not contribute taxes, and therefore budget revenues, for the development of public infrastructures and services. The three countries have very large shadow economies, with estimates for Ukraine of between 40 and 60 per cent of GDP, Belarus of 21 to 25 per cent, and Moldova of 25 to 30 per cent. Moldova's economy is also heavily reliant on remittances from abroad. The three countries further endure significant geographic differentials.

Corruption is a significant problem in all three countries. This is clear from meta-analyses, such as that conducted by the Freedom House – in which all three countries received poor scores for corruption – and in specific cases, such as the rampant corruption in the development of the city of Kiev.

The presence of oligarchies hampers the development of innovative industries and dynamic cities and municipalities. In Ukraine in particular, privatization has led to the concentration of capital in several large financial groups whose oligarchic interests are openly supported by the government. As a result, there are a few huge industrial groups which, due to their economic strength, have direct and overriding impacts on the economic, political, privatization and investment processes in Ukraine.

Policy interventions are needed to handle the problems of mono-functional cities. In Ukraine, these present a particularly difficult challenge to the establishment of competitive urban economies. In dealing with the development of such cities, the importance of leadership is evident in the fact that **Donetsk** has found a role as an important regional city whilst **Luhansk** remains marginalised.

"East-West" problems cause uncertainty in the future development of cities. Ukraine is divided along "east-west" lines both in terms of development and culture. The emerging challenge for Ukraine is the continuing development of a Ukrainian national identity when many of its citizens identify with Russia. This is particularly the case in the Eastern parts of the country and cities such as **Sevastopol**, where ethnic Russians account for more than 70 per cent of the population. In Moldova, the issue is whether the country will ultimately become an independent country aligned with the West, as part of Romania, or as part of the East with strong ties to Russia.

Kiev, Ukraine. Ukraine has the highest GDP per capita in the Eastern subregion. **©beerlogoff/Shutterstock**

With respect to the development of urban economies and public service infrastructure, one of the most important problems remains the incomplete and ineffective territorial division of the three countries of the Eastern subregion. In Moldova and Ukraine, the population numbers of many towns are too small to generate sufficient revenue and technical skills for the mandated public services. Local governments are essentially forced to combine their efforts through regionalization to provide services.

The public sector is weak, as is particularly evident in its inability to provide adequate public services, both in terms of capital investments and of tariff and user fees collection. The inability of the public sector to raise adequate funds – as these are set through political processes rather than the costs of services provision – retards the development of cities and towns in the three countries.

Both administrative-territorial and fiscal decentralisation have not been achieved. While occasionally it is mentioned as a policy objective in Ukraine and Moldova, the actual implementation of the policy reveals that it is a low priority. As a result, cities are unable to generate funds for the development of communal infrastructure, such as water supply and wastewater infrastructure, as well as housing for low-income groups.

Challenges in the housing sector relate to overall shortages, lack of maintenance and absence of social housing. Past housing shortages have led to the construction of large quantities of often substandard prefabricated high-rise apartment blocks. For this reason, the cities of the Eastern subregion are dominated by five-storey buildings in the centre and huge housing estates on the outskirts. The buildings are of low quality and are poorly maintained and, although they are provided with all the necessary utilities (water, sewage, electricity), the services are prone to malfunctions and breakdowns. More recent higher-quality buildings often have limited access to services.

Finally, in Moldova, the effective loss of the Transnistria region has had a deleterious effect on the overall economy, as this region produced one-third of Moldova's industrial output and more than half of its consumer goods. There are two distinct cleavages in the conflict: linguistic (Russian/Moldovan) and ideological (Socialist/Western democracy). The interest and interventions of Ukraine and Russia are evident in Transnistria.

The Southern Subregion

The intrinsic task for all the non-EU member countries of the Southern subregion is the implementation of urban planning with legal, fiscal and financial support to developing cities either as growth poles, development poles or district centres, together with their role in clustering and organizing action-areas (city-regions).

Horizontal coordination remains a problem. The exception is Romania and, to a lesser extent, Bulgaria where integrated instead of sectoral approaches and practices are becoming more common. Twofold horizontal coordination is one of the crucial issues for the other countries, namely cooperation between sectors and public enterprises and coordination with neighbouring communities. The desirable clustering of municipalities needs stronger state intervention with legal, institutional and economic incentives.

Budgeting in the subregion's cities is still generally traditional, without adequate programming and planning coordination, and without clear distinction between current (annual) and capital (mid-term) budgets. This frequently renders urban planning unreliable and obsolete in long-term decision making.

Urban governance in the subregion's cities is as much an issue of public expenditures as of effectiveness and reliability. Traditional decision making in closed circles of government offices is now confronted with a need for more transparency, participation, strategic know-how and reliable decision making which would go a long way towards satisfying all the needs of decentralized societies, the open market, democracy and the sustainable development of cities.

More collaboration in spatial and urban planning in many cases will require deep restructuring linked to actual political and economic realities. Despite some exceptions, the lack of skilled planners is obvious and cities often remain without adequate planning responses to generate new investments, environmental improvements and better social cohesion.

The political status of the subregion's countries affects national and urban economies in three broad areas: national macro-economy policies, attractiveness for foreign investment and the dynamism of structural changes. All three have short-term and long-term consequences for urban economies.

The role and potential of secondary and large cities for competing in the global economy are limited in the countries of this subregion. The decay of numerous industries and the number of cities reliant on them means that the restructuring, modernizing or revitalizing of economic activities, spurred by national, regional or local incentives and support will be indispensable for regeneration.

Today, the more attractive areas for settlement are the capitals and towns with natural-geographic resources such as cities along the Adriatic and Black Sea coasts or at the foot of mountains.

Strategic documents for city and regional development are required to tackle the subregion's competitiveness challenges in the wider European context. This requires further adaptation of legal, governance, macro-economic and financial systems. Developing cross-border growth poles with their economic and cultural cooperation is essential for the future.

Trans-European corridors are of utmost importance for cities in the subregion as the backbones of their development. There is a concentration of economic activity and population along these corridors with cities as poles of super-concentration. This contributes to national development but can also jeopardize regional balance. The weak and obsolete railway systems throughout the subregion create crucial problems for large cities in particular, and their upgrading should be priority projects in countries' EU accession.

Economic and social development of the Southern subre-

Budapest, Hungary. A demonstration calling for human rights for the gypsy population. **©posztos/Shutterstock**

gion depends on inter-regional cooperation of its cities. National policies will have to define more clearly the roles of cities, supporting intra-regional and inter-regional cooperation and the functional clustering of municipalities. The non-EU member status of most of the subregion's countries is a major obstacle for better harmonization of these policies in line with European ones.

Accessibility is becoming more and more critical for the development of cities and regions. The clustering of municipalities and strengthening of functional urban areas is an increasing factor in attracting investment.

The unification of classifications in all the countries in this subregion is an important task for the near future to allow for statistical and economic analyses and data compatibility with EU member countries.

The research and development (R&D) share of GDP in this part of Europe is too low. R&D investment is generally concentrated around capitals and some secondary and large cities. The share for R&D and distribution of investments should be seen as a matter of national strategic importance.

The diverse national and regional identities, different grand cultures of the past and emerging geographical, ethnical or religious specificities could be intrinsic factors for the future of cities in the subregion, if not misused for nationalistic confrontations. Better cooperation with European and global institutions is indispensable for criteria setting, evaluation and management of the natural, cultural and landscape heritage.

With the collapse of state enterprises and their lack of skills, low educational levels and widespread discrimination, Roma minorities dropped into extreme poverty during the transition period. A vicious circle of poverty-producing illiteracy and low educational levels intensified their marginalization in society. This should be one of the priorities in social policies for those countries where Roma issues are acute - Bulgaria, Macedonia, Romania and Serbia.

Although the transition started at the same time throughout the subregion, the way it took effect differed due to previous experiences, the local context and demographic trends. Privatization of housing went quite smoothly with opportunities for tenants to acquire their units for low prices because contributions made during the working lifetime were recognized as lifelong investments in housing.

Housing policies throughout the subregion have seen a radical withdrawal of the state over the past two decades. This led to housing sectors without proper institutional and human resources and consequential lowered access to residential space for a majority of the citizens.

Low affordability of housing is highly prevalent in cities, especially the large ones. On the other hand, a large quantity of housing units remains empty in smaller cities and in rural areas in particular. Regional development policies could contribute to better housing distribution with new and renewed policies for social housing needed in each of the countries in this subregion.

Housing construction today combines public and private investment. But public investment in construction has significantly decreased compared to the period before transition. Private investment is slowly increasing with some differences

among countries in terms of banking support, credit and loan policies and national subsidies.

To regulate illegal housing, countries should be more actively committed to solving the problem by legalizing and improving these informal settlements in sustainable ways and by preventing their further proliferation.

Homelessness is neither officially acknowledged nor monitored yet and although very few people have no shelter whatsoever, the matter has to be institutionalized.

Public transport throughout the subregion depends to a large extent on the capacities of cities and local communities and their ability to restructure urban systems and traffic modes. The largest cities such as **Bucharest**, **Sofia** or **Belgrade** require state support in constructing, modernizing and integrating public transport systems such as underground and overground railway systems.

Energy is becoming a progressively dominant question in all the countries of the subregion not only because of scarceness and economic reasons but also because of environmental impacts. The major challenge for governments of all tiers is to reconcile economic weakness and low financial capacities with energy reorientation. A majority of governments, especially those in economically-lagging areas, think short-term in spite of existing international, national or even local strategies and policies and this results in serious tasks for future government(s).

Energy efficiency in the construction industry, heating systems and the transport sector, combined with pricing policies and availability of energy resources, make for a complex issue that demands new responses from local, regional and national governmental tiers. There are advantages to be achieved in organized use of the decentralized production of thermal and electric energy that should be taken into account.

The decline of industrial activities in East European countries was somehow an environmental-friendly step, although it was not intended. Nevertheless, increased and diversified energy consumption represents an environmental threat. National institutions, local authorities and other actors in the Southern subregion face a range of significant environmental challenges that require increased awareness.

In cases of private energy provision with public oversight, the standards for the level and quality of services are either weak or not properly enforced while low fee collection rates have had negative impacts on the quality of public services.

Generally, urban waste water and solid waste disposal is inadequate. Combined with problematic water supply in many local communities, it needs prudent policies at local and regional tiers with local communities' networks an intrinsic part due to the lack of capacity among municipalities for solving the problem.

Air quality also remains an important environmental challenge. Traffic is a main source of urban air pollution but so is industry. The impact of industrial pollution is less accentuated due to the decline in industrial activities since the beginning of transition.

To achieve EU membership, all non-member countries of the Southern subregion would have to reduce their impact on climate change and pursue greener economies by modernizing. Cities will have an important role in adapting and restructuring industries, communal systems, traffic infrastructure and regulation.

Diverse modes of cross-border cooperation have been intensified since the year 2000, opening multifarious ways to cooperation instead of conflict and thus establishing new patterns for enhancing environmental, economic and social situations in formerly lagging areas.

Multi-culturalism in the subregion requires prudent approaches from all ethnical or religious groups and benchmarking against the best practices in Europe. Without adequate solutions many problems could remain open-ended, threatening the future of these countries both in the European Union as well as their general status as modern societies.

The South Caucasus

The development of urban systems in the South Caucasus nations is determined by lines of division along boundary closures of the past two decades, violent ethno-political conflict and war. Consequently, a high degree of spatial fragmentation has resulted between and within these countries. Combined with under-developed national urban policies, this obstructs sustainable development of hierarchical urban systems in the subregion.

Largely as a result of this fragmentation, the South Caucasus lags in terms of economic development, cross-border cooperation, accessibility and efficient use of natural and human resources. Some recent cooperation between Georgia and Azerbaijan cannot compensate for this lack of synergy and, therefore, the South Caucasus countries remain both regionally and internationally uncompetitive.

The South Caucasus subregion is confronted with a range of challenges that require policy interventions:

Armenia and Georgia have deeply unfavorable demographic conditions with very low, if any, natural growth and negative migration trends that have caused distorted age-sex structures and rapid demographic ageing.

Shrinking city populations are closely linked with economic problems because old, degraded or defunct industrial monofunctions have not been replaced with new economic bases for development. Primate capital metropolitan areas overshadow all other settlements, adding inefficiency and inefficacy of the urban systems to the domestic economic difficulties.

Unemployment and underemployment remain major urban problems throughout the subregion even though official statistics indicate significant recent unemployment reductions in Armenia and Azerbaijan. Other sources, however, point out statistical anomalies and still consider urban unemployment to be one of the most urgent problems to be addressed.

There are obvious gaps between education and market demand since higher education does not supply the professionals needed by local labour markets. Policies for resolving the problem either do not exist or are in an early phase of implementation, such as in Georgia.

Despite a decelerating trend, poverty levels are still high due to unemployment and economic underdevelopment, as well as relatively high numbers of IDPs, refugees and other vulnerable persons. No effective policies for poverty eradication are currently in existence in any of the South Caucasus countries.

Shortages in adequate and affordable housing remain acute, in part because national housing policies are basically non-existent. The share of deteriorated housing stock typically amounts to more than 20 per cent and the current supply of new housing does not appear likely to radically change this situation. Informal and illegal housing is still a notable problem in Azerbaijan but less so in Armenia and Georgia.

Housing maintenance has recently improved in Armenia and Georgia due to the establishment of house owners' associations but they are still a long away from operating optimally and efficiently.

Transport, utilities and other communal services, are developing fast in the capital cities through private sector interventions but remain problematic outside. There are no policies for improving communal services in smaller cities and towns, seriously hampering urban services equality between the capitals and the secondary cities.

Attempts to establish good governance, sometimes quite successful at the national level (Georgia), significantly suffer from weak local government capacities due to poor fiscal decentralization, lack of skilled human resources and imbalanced power distribution between central, regional and local tiers.

Key governance shortcomings include under-developed spatial and urban planning and the resultant lack of adequate national urban hierarchies.

Environmental conditions are worsening throughout the subregion. Although these do not generally reach dramatic levels, except for few places of natural resource extraction such as the oil wells in the Apsheron Peninsula, the major environmental threat is the continued operation of the Armenian Nuclear Power Plant, located in a seismic area near the town of Metsamor. Non-cooperation within the subregion and with neighbouring countries, due to political and other tensions, prevents the resolution of Armenia's energy security problems through alternative sources of energy and the shutting down of the Metsamor nuclear plant.

Yerevan, Armenia. Shortages in adequate and affordable housing remain acute in The South Caucasus.**©Ruzanna/Shutterstock**

1.2 Historical Perspectives

Volkspolizei at the opening of the Brandenburg Gate, 1989. **Source: US Military/Public domain**

Although a comprehensive analysis of the past would go beyond the scope of this publication, an overview of the key historic phases and their impacts on urban development over a relatively long period would be helpful for understanding the complexities of the transitional region's heterogeneity.

Early history - The Balkan Peninsula

The Balkan Peninsula was the gateway through which the agricultural revolution spread to Europe from Anatolia and the Near East. Archaeological evidence from Durankulak, Provadia and Yunatsite in Bulgaria[3], as well as sites in present-day Ukraine, shows that late-6th millennium BC Copper Age cultures founded Europe's first settlements in the Balkans. These would develop into a first European civilization with a relatively dense early settlement network based on proto-industrial production and trade with prehistoric Europe and Asia.[4]

In Classical times, the Balkan Peninsula became the heart of the Greco-Roman civilization with Greek classical culture establishing a system of colonies, settlements and trade routes between 700 and 300 BC. By the end of the 4th century BC, Greek language and culture were dominant in the Balkan Peninsula, including European Russia whose urban life had its inception in Greek colonies (Olbia, Cherson and Panticapaeum) along the Black Sea. Other peoples of the Balkan Peninsula had organized themselves in tribal unions ruled by sometimes commanding kings. In the 4th century BC, for instance, the Illyrian kingdom became a formidable local power and founded the cities Scodra (present-day Shkodra, Albania) and Rhizon (Risan, Montenegro).[5]

By the 1st century AD the entire Balkan Peninsula was under Roman control and had become one of the Empire's most prosperous and stable regions. Vibrant commerce was conducted along the Via Egnatia, a major East-West land route that led from Dyrrhachium (modern Durres, Albania) through Macedonia to Thessalonica (Thessaloníki, Greece) and on to Thrace.[6] This Roman legacy, apart from the ancient origins of many of today's cities and roads, is still evident in numerous monuments and artifacts scattered throughout the Balkans[7], as well as in the Latin-based languages used by almost 25 million people.

MAP 1.2: **THE BALKAN PENINSULA**

The Dark Ages

In the 4th century CE, the Western Roman Empire started to disintegrate and plunged Europe into the 'Dark Ages'. Most European territories regressed culturally and economically as trade demised under Germanic invaders.[8] But the Eastern (Byzantine) Roman Empire persisted, even though the network of trading, administrative and cultural centres in South-Eastern Europe gradually lost their function[9] or even disappeared as the Balkans became a conduit for 'barbarian' invaders, most of whom did not leave a lasting state.[10] The Balkan Peninsula and, indeed, Europe started to de-urbanize when road networks disappeared and native populations retreated to isolated mountains, forest areas or consolidated in the larger settlements.[11]

After the Migration period of 300 to 700, Scandinavia entered the Viking Age while Slav proto-states arose and became dominant in Central-Eastern Europe: in 833 Great Moravia was formed, in 882 Kievan Rus and Poland in 966.[12] This was also the period of the first city-building of any real consequence in European Russia, with the establishment of Kiev, Novgorod, Rostiov and other towns.[13] Slavic tribes also moved into what are now the Czech Republic and Slovakia as well as south towards the Adriatic and Aegean, where their separate development as Slovenes, Croats, Serbs, Macedonians and Bulgarians would later make the Balkan Peninsula one of the world's most politically-complex regions.[14]

But the Dark Ages were essentially a period of major European decline and de-urbanization. De-urbanization was especially harmful as it reduced the scope of education and, by the 6th century, learning had moved to clerical institutions that became the sole European custodians of knowledge and development. But these religious-administrative centres - often established on older Roman sites - would soon thereafter become ringed by settlements of merchants and artisans, laying the first seeds for Europe's major towns.[15] As the guardians of learning, the clerical institutions preserved the Classical knowledge that would play an important role in European social and political development during the Renaissance.

Mediaeval Europe

The 10th century marked a return of urban life, thriving economies and development, especially for Western and Southern Europe - often through city-states. Somewhat isolated from mainstream Europe, urban and other developments in Central-Eastern Europe up to the 15th century happened far slower, despite the emergence of a powerful Slavonic nobility in present-day Poland, Bohemia, Moravia and north-western Hungary.[16] The proto-urban cores that emerged around these nobility's fortified homesteads[17] and around religious establishments, however, would prove viable and sustainable and set the framework for the future development of a network of permanent Slavic, Hungarian and Polish settlements.

Various combinations of endogenous urban growth and especially Germanic colonization further spurred an upsurge of settlement foundations in Central-Eastern Europe from the mid-1100s onwards.[18] Mediaeval Germanic colonization became the region's greatest single political, legal and economic transformation[19] and, by the 14th century, an extensive system of agriculture- and trade-based settlements had formed and stabilized[20] with ethnic Germans constituting significant minorities in the territories of (today's) Poland, the Baltics, Slovakia, the Czech Republic, Hungary and Romania.[21]

The Middle Ages saw notable demographic growth resulting from agro-technological improvements, as well as the rise of feudal power. Increasing commerce further fuelled European city growth, wealth and ideas that would help build the Renaissance culture. As trade increased and moved inland along major trade routes, it brought new prosperity and settlements along the navigable Danube, Rhine, and Rhône rivers and around the North and Baltic Seas. Wherever these towns were located, they became the growth poles of a post-medieval and more diversified European economy that up to then had been dominated by the primary economic and political relationships between landowners and their tenants.[22]

But European urbanization was geographically uneven. Whereas Northern Italy and the Low Countries were rapidly urbanizing, Northern and Eastern Europe still had no large towns due to the predominance of agrarian subsistence economies, the lack of road infrastructures and a cellular structure of small isolated political domains.[23] The 15th century, therefore, saw an increasing socio-political development distinction between Western and Eastern Europe and their respective urban systems. While in Western Europe the nobility started losing economic and political power to merchant and artisan classes, Eastern Europe slipped deeper into feudalism, declining middle classes, serfdom and urban stagnation[24], partly as a result of increasing Ottoman influences.

Catherine Palace, St. Petersburg, Russian Federation. Catherine II reformed the administration of Russian 'guberniyas' and many new cities and towns were founded on her orders.
©Simfalex/Shutterstock

The Era of the Empires

The Ottoman Empire built on the disintegrating Byzantine Empire but brought neither the skills nor the knowledge needed to transform the rule of feudalism and the religious establishments into socio-political modernization of Eastern and South-Eastern Europe. Although the Turks attempted to introduce a bureaucratic centralized state, they achieved that only partially because they did not sufficiently develop the physical and institutional infrastructures to effectively administer it. The Ottomans, however, did introduce major land and property legislation[25] and also started to regulate street widths and the use of urban construction materials but implementation was uneven throughout the territory.

Although Ottoman regulation influenced physical urban form and structures, it did not allow for establishment of autonomous municipalities because that contradicted their power-centralization model.[26] In the Balkans, Ottoman rule would last until the end of the 19th century, continually challenged by the Russian and Habsburg Empires. Prolonged wars decimated urban populations to the extent that Eastern and South-Eastern Europe's medieval urban structures and networks would remain largely unchanged until the late 19th century.[27]

Simultaneously, capitalist production started replacing European medieval economic activities, with technological changes accelerating both industrialization and urbanization. The myriad of small, independent European principalities became increasingly politically untenable. Consequently, North and Central Europe moved towards political association in constitutional monarchic unions which led to the establishment of the Prussian and Austro-Hungarian Empires, which also embarked on modernization, industrialization and infrastructure developments. Towns grew with new urban working classes, rural population inflows and all the ills that went with it.[28] Consequently, the aristocracy and land-based gentry increasingly started to face political pressures from a bourgeoisie made prosperous by trade and industrialization that sought political power in the aftermath of revolutions in Europe. Backed by industrialists, bankers and businessmen, representatives from civil society began to be elected to the parliaments.

But whereas the Prussian Empire to some extent had a culturally fairly homogenic population, the multi-linguistic, multi-ethnic and multi-cultural inhabitants of the Austro-Hungarian Empire proved less easy to unify. The Prussian Empire would ultimately lead to the establishment of a unified Germany, whereas the Austro-Hungarian Empire disintegrated in a multitude of statehood claims.

Meanwhile, Imperial Russia had decided that it should

BOX 1.1: THE RISE OF THE MODERN NATION-STATE: THE POLITICAL ECONOMY OF IDENTITY

The 18th century saw Central-Eastern Europe confronted by the politics of the emerging industrialized modern nation-state. By comparison with more-developed Western Europe, Central-Eastern European societies were backward, largely illiterate and lacking middle strata. Successive attempts of the empires to modernize the state ran into obstacles because they ignored the rationalities of society. Whereas the monarchies in Western Europe were heading for constitutional configurations, the Central-Eastern European Empires continued to reserve vital sovereign powers for themselves and sought only partial political modernization. Consequently, imperial development remained heavily skewed towards the political and economic centres such as Vienna, Prague, Budapest or Saint Petersburg.

Historically, the concept of the nation-state had existed in Central Europe as it had in the West. New societal middle strata emerged in the West from the merchant and artisan classes who espoused the idea that nationhood was the property of all within a given state territory. In Central-Eastern Europe, where statehood was claimed by Empires, the Western nation-state concept had to be adapted. Some conversion of dynastic into bureaucratic power occurred in the 18th and 19th centuries but the power transfers were limited and therefore never particularly successful. Civic identities basically remained underdeveloped because the imperial state had a different concept of citizenship, given that it based its own legitimacy on pre-modern dynastic concepts that excluded the bulk of the population from political processes and, more importantly, from prosperity.

Peter the Great's attempts to 'purchase' national development for Russia failed, because he paid insufficient attention to economic development as a population-based and territory-wide economic and socio-political process. Unlike cities in the West, small and fragile Eastern towns basically continued to generate revenues for the centre and produce for themselves or one another, without developing an urban economy of any consequence. (Even throughout the Soviet period, urban and territorial economic development would largely remain locked in a semi pre-modern phase of internal production and consumption. Consequently, many of their industries were wiped out when they became exposed to global competition during the transition period of the late 20th century.) But when city economies remain inert and provincial, they cannot pull their weight and cease to be the economic counterparts of the advancing primate cities. The primate city then has little option but to subsidize them under the pretence of stimulating development. These subsidies, being unearned, do not create self-sustaining growth and simply become an interminable financial drain.

Central-Eastern Europe in the 19th century continued to experience socio-political struggles because the empires mostly held off demands for political and economic power sharing. But these skewed power structures increasingly led to political and identity formation around ethno-nationalism, as in the case of Germany while Russia tried to create a single Slavic identity for unity in Eastern Europe but lacked the capacity and consolidation power to make it work.

The heavily multi-ethnic, multi-linguistic and multi-cultural Austrian-Hungarian Empire, however, did not have that option and could only disintegrate into a host of territories seeking identity and statehood on their own. The subsequent Hungarian model of modernity encountered its most catastrophic failure in 1918, also overwhelmingly because it could not effectively unite its multi-ethnic population. Subsequent attempts to define Hungarian modernity (1945-1947 and 1956) were both suppressed by Socialism. Likewise, the inter-war Czechoslovak model remained undermined by its inability to cope with the multi-ethnic state and by the belief that it had the capacity to impose a Czech model on all non-Czechs, who made up somewhere over half the population. Likewise, after 1918, the new Polish state had to accommodate three different types of Polish identity (Prussian, Austro-Hungarian and Russian), each with visions that ultimately proved incompatible. Thus in Poland, too, identity played a key role in explaining the inability to create an effective model of centralisation and assimilation.

All the major European models of identity politics were problematic because they relied on the hegemony of the most numerous ethnic component in the state to impose a common model of modernity on the overall population. These models proved disastrous because no dominant ethnic group enjoyed an overwhelming demographic superiority.

Socialism attempted to do away with ethnicity altogether and to create class-driven identities that were designed to transcend nationhood and ethnicity. This proved to be illusory, but the attempt had far-reaching consequences for the Central-Eastern and South-Eastern European subregions that are still marked by the experience today.

▲ Lenin statue in Kharkiv, Ukraine. The October Revolution in 1917 resulted in the establishment of the Russian Socialist Federative Soviet Republic, the world's first constitutionally Socialist state. **©itislove/Shutterstock**

There are, perhaps, lessons to be learned from this history. The European Union's encounter with Eastern and South-Eastern Europe was a difficult one, especially the disintegration of Yugoslavia. In response to 'turbulence' at its South-Eastern boundaries, the EU attempted to marginalize ethnicity and impose what it believed to be a non-ethnic approach to the exercise of power. But the EU is not without ethnicities itself. It had constructed its own images and discourses about communities in Central and South-Eastern Europe who had their own cognitive models of themselves and so misunderstanding were inevitable.

The transmission of Western concepts of democracy and its reception in transitional Europe took place without much mutual understanding of the cultural baggage both with which it arrived and in the recipient countries. The outcome had unintended consequences; the least of which being that EU institutions can, perhaps, not function in the transition countries as they do in the matured EU member states. Unless these cultural contexts are better understood, there is every chance that the eastward enlargement of the EU will turn out to be yet another externally-inspired semi-modernization for transitional Europe, apart from the likelihood of interventions becoming an interminable financial drain.

Sources: Jacobs, J., *Cities and the Wealth of Nations,* New York, 1984; G. Schopflin & J. Monnet, *Central Europe: Defining a thought-style,* http://www.ssees.ucl.ac.uk/schopflin.pdf

MAP 1.3: **THE AUSTRO-HUNGARIAN EMPIRE IN 1914. ©MJS**

unite all Slavic peoples. Therefore, by the middle of the 17th century, when the Russian Empire had achieved most of its outward expansion, its European territories included most of today's Belarus, Moldova and Ukraine (Dnieper Ukraine and Crimea) and a significant portion of Poland, besides Armenia, Azerbaijan, Georgia, Estonia and Latvia.

With the growing authority of the Tsar, forces of political centrality began to shape Russian settlement hierarchies, submitting them to the imperial military, administrative and especially fiscal needs. The concept of 'service cities' emerged, primarily making cities a source of tax revenue for the centre.[29] Under Peter the Great, urban reform was forcefully implemented towards a transformation of the Russian economy. Drawing on Western technology, the Empire encouraged citizens to lead new economic development but these interventions mostly reflected a continuity of past political relations based on central control and maximizing urban revenues. Therefore, the Russian modernization effort mostly failed (see also Text Box 1.1).

Under Catherine II, further attempts of urban reform were undertaken. Apart from being the prime source of revenue, towns also became a governance unit in a somewhat decentralized administrative apparatus - outposts of royal authority. Catherine's attempts to establish more participatory urban governance failed, however, as Russian towns were too deeply stratified into segregated social estates. Reform was further impeded by conflicts between legislative intention and administrative and social realities and therefore seldom produced the anticipated results. Moreover, economic development had started to move from towns to the countryside because urban economic progress could not take off in towns inhabited more by peasants than merchants and artisans.[30]

The 1846 Municipal Statute, first applied in Saint Petersburg, established a representative municipal administration based on five socio-economic classes of urban dwellers, but since it excluded the urban peasantry, it typically empowered less than 2 per cent of the population. New social forces were unleashed with the emancipation of serfs. The latter were at the root of very rapid urbanization in Imperial Russia that would generate new and increasing demands by towns on the imperial budget. Ultimately this would lead to the reforms of 1870 which, for the first time, granted Russian cities some measure of autonomy and self-government. But in 1892, political power was recaptured by the centre, fully reinstating the historic role of Russian cities as mere revenue-generators for the Empire. Once more, Imperial rule had shown incapable of offering its citizens an acceptable share of prosperity, a fairly competent administration and relatively uncorrupt politics. Neither was it capable of effectively guiding and regulating the social and economic forces that had been at the very foundations of a rapidly- industrializing Western Europe.[31]

From Empires to Socialism

Socialism attempted to create state modernity through class-driven identities. Socialism was exceptionally reductionist in its vision of modernity, especially in its determination to establish simple, easily controllable structures and systems while simultaneously generating greater societal complexity. Views of the model city, urban form and desirable urban hierarchies were based on the ideological drivers of 'Socialist urbanization' and the 'Socialist city'. (For an elaboration of these concepts, see section *2.1 Socialist and Post-Socialist Urbanization)*.

If compared to the market-driven urbanization and urban models of the West, the paternalistic Socialist approaches generated a distinctively different logic to the spatial distribution of populations, urbanization and urban form. Directed urbanization and population distribution, enforced by restrictions on freedom to migrate, became part and parcel of facilitating overall industrial and agricultural policy. Urban-based industrial activities were located in places that differed from those that capitalism would have assigned to them, while many industries were kept operational long after they would have collapsed under market conditions to avoid the negative impacts associated with increasing declines in industrial activity.[32]

For those who lived under it, Socialism represented the moral order of the day against which identities, meanings and life strategies were defined. Above all, Socialism created a predictable existential security, despite its arbitrary and discretionary nature.[33] But it offered little that was concrete in terms of political power, other than a symbolic sense of community, often seen as simultaneously alien and oppressive. The Socialist approach to modernization and statehood was deeply contradictory and, eventually, became the victim of the very complexity it unintentionally had created, but denied.

BOX 1.2: **WAR IN THE FORMER YUGOSLAVIA 1991-1999**

The results of bombing in Sarajevo. **Source: US Military/Public domain**

The former Yugoslav Republic was a Socialist state created after the German occupation during World War II and a subsequent bitter civil war. It was a federation of six republics: Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia that brought together Albanians, Bosnian Muslims, Croats, Serbs, Slovenes and others under a comparatively relaxed regime led by Marshal Josip Broz Tito.

Tensions between these groups were successfully suppressed under Tito's leadership but they re-emerged after his death in 1980. Calls by several nationalist groups for more autonomy within Yugoslavia led, in 1991, to declarations of independence by Slovenia and Croatia. In response, the Yugoslav army lashed out, first in Slovenia and then in Croatia. Thousands were killed in a conflict which was temporarily halted in 1992 under a United Nations-monitored ceasefire. (See also Text Box 4.1)

In 1991/2, Bosnia, with its volatile mix of Croats, Muslims and Serbs, was the next to vie for independence. But Bosnian Serbs resisted and were backed by Serbs from elsewhere in Yugoslavia. Despite European blessing for the cessation, war erupted and more than a million people were driven from their homes in ethnic clashes. The capital, Sarajevo, was besieged and shelled. United Nations peacekeepers were ineffective and international efforts to stop the war failed. The United Nations was left humiliated and more than 100,000 people died.

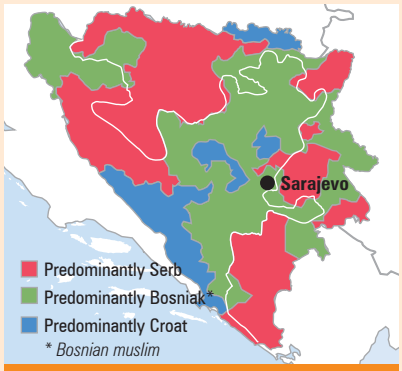
The war ended in 1995 after NATO intervened. A USA-brokered peace divided Bosnia into two self-governing entities - a Bosnian-Serb republic and a Muslim-Croat federation - lightly bound by a central government.

In August 1995, the Croatian army stormed areas in Croatia under Serb control, prompting thousands to flee. Soon both Croatia and Bosnia claimed full independence. By that time, Slovenia and Macedonia had already gone. Montenegro left in 2006.

Kosovo's ethnic Albanians fought Serbs in another brutal independence war. Although the Kosovo War had important consequences, the status of Kosovo remained unresolved. International negotiations began in 2006 to determine the level of autonomy, but these negotiations failed. Kosovo came to be under UN resolution 1244 and Serbia ended the conflict alone and independent.

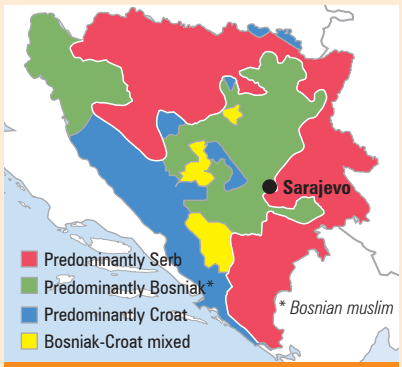
Source: http://www.bbc.co.uk/news/world-europe-18081930 downloaded 16 May 2012

THE FORMER YUGOSLAV REPUBLIC SHOWING KOSOVO (UN RESOLUTION 1244)



BOSNIA-HERZEGOVINA, 1991

BOSNIA-HERZEGOVINA, 1995



BOSNIA-HERZEGOVINA, 1998

1.3
The Region's Largest Cities

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

Without exception, the capitals of the transitional European countries constitute these nations' largest urban agglomeration. In many cases, the metropolitan region (urban agglomeration or functional urban area) of the capital is quite primate, hosting a significant and sometimes disproportionately large share of the nation's urban population, as shown in Table 1.1. That is especially the case for the capitals of small countries, such as **Yerevan**, which has more than half of Armenia's total urban population. Likewise, the metropolitan region of **Tbilisi** with 1.1 million inhabitants is equivalent to almost half of Georgia's total urban population, while the Latvian capital **Riga**, with 0.7 million inhabitants in 2011, is also dominant when compared with the country's 1.5 million urban and 2.2 million total population.

In 2011, **Kiev** was the region's largest urban agglomeration with 2.8 million inhabitants, followed by **Baku's** 2.1 million. They are only two urban agglomerations in the region which exceeded two million inhabitants. In the coming years, these two cities will remain the largest in the region while, in the foreseeable future, only **Bucharest** (2021) and **Minsk** (2022) are projected to pass the two million inhabitants' mark.

Urban population data for cities exceeding 750,000 inhabitants show significant growth diversity (see Tables 1.2, 1.3 and 1.4). **Baku**, **Kiev**, **Minsk** and **Warsaw** have grown steadily and without interruption since 1991. **Baku's** significant expansion from 1991 onwards, both in relative (22 per cent) and absolute terms (383,000), particularly stands out. Over the decade 2011-2021, Baku is projected to see an average annual growth of 2.75 per cent, bringing an additional 583,000 people in this city by 2021. This is a notable expansion given that **Minsk**, **Kiev** and **Warsaw** are projected to 'merely' grow by 132,000, 120,000 and 80,000 additional inhabitants over that period. **Krakow** is experiencing a temporary population stagnation that started around 2003 but the city is projected to start growing once more from 2014 onwards.

The urban agglomerations of **Bucharest**, **Budapest**, **Krivoi Rog**, **Odessa**, **Prague**, **Sofia**, **Tbilisi** and **Yerevan** experienced population declines from around 1991 onwards. These urban declines refer to absolute population reductions of the entire agglomeration, including both the core city and peripheral areas. Population shrinkages were particularly strong in the cases of **Budapest** and **Tbilisi** - both more than 10 per cent, but all these shrinking cities commenced a renewed and fairly steady growth trend between 2001 and 2006 (see Table 1.3).

Prague and **Krivoi Rog** experienced the most rapid recovery and had regained their 1991 population levels by

TABLE 1.1: **THE REGION'S URBAN, RURAL AND CAPITAL CITY AGGLOMERATIONS POPULATIONS, 2011**

	Population (thousands)			Urbanization level (%)	Capital	Capital population (thousands)	Share of capital in total urban population (%)
	Urban	Rural	Total				
Albania	1,718	1,498	3,216	53.4	Tirana	419	24.4
Armenia	1,987	1,114	3,100	64.1	Yerevan	1,116	56.2
Azerbaijan	4,830	4,282	9,111	52.9	Baku	2,123	44.0
Belarus	7,174	2,386	9,559	75.0	Minsk	1,861	25.9
Bosnia-Herzegovina	1,811	1,942	3,752	48.3	Sarajevo	389	21.5
Bulgaria	5,445	2,001	7,446	73.1	Sofia	1,174	21.6
Croatia	2,541	1,855	4,396	57.8	Zagreb	686	27.0
Czech Republic	7,734	2,800	10,534	73.4	Prague	1,276	16.5
Estonia	932	409	1,341	69.5	Tallinn	400	42.9
Georgia	2,371	2,098	4,282	53.1	Tbilisi	1,162	49.0
Hungary	6,922	3,044	9,966	69.5	Budapest	1,737	25.1
Latvia	1,518	725	2,243	67.7	Riga	701	46.2
Lithuania	2,219	1,088	3,307	67.1	Vilnius	546	24.6
Macedonia	1,223	840	2,064	59.3	Skopje	499	40.8
Moldova	1,690	1,855	3,545	47.7	Chisinau	145	8.6
Montenegro	400	232	632	63.3	Podgorica	156	39.0
Poland	23,307	14,992	38,299	60.9	Warsaw	1,723	7.4
Romania	11,318	10,118	21	52.8	Bucharest	1,937	17.1
Serbia	5,555	4,299	9	56.4	Belgrade	1,135	20.4
Slovakia	2,995	2,477	5	54.7	Bratislava	434	14.5
Slovenia	1,015	1,020	2	49.9	Ljubljana	273	26.9
Ukraine	31,124	14,066	45	68.9	Kiev	2,829	9.1

Sources: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012; http://www.stat.gov.az/source/demoqraphy/ap/indexen.php#001; http://www.geostat.ge/cms/site_images/_files/yearbook/Yearbook_Geo_2011.pdf

MAP 1.4: **CAPITAL CITIES AND CITIES WITH A POPULATION OF OVER 750,000**

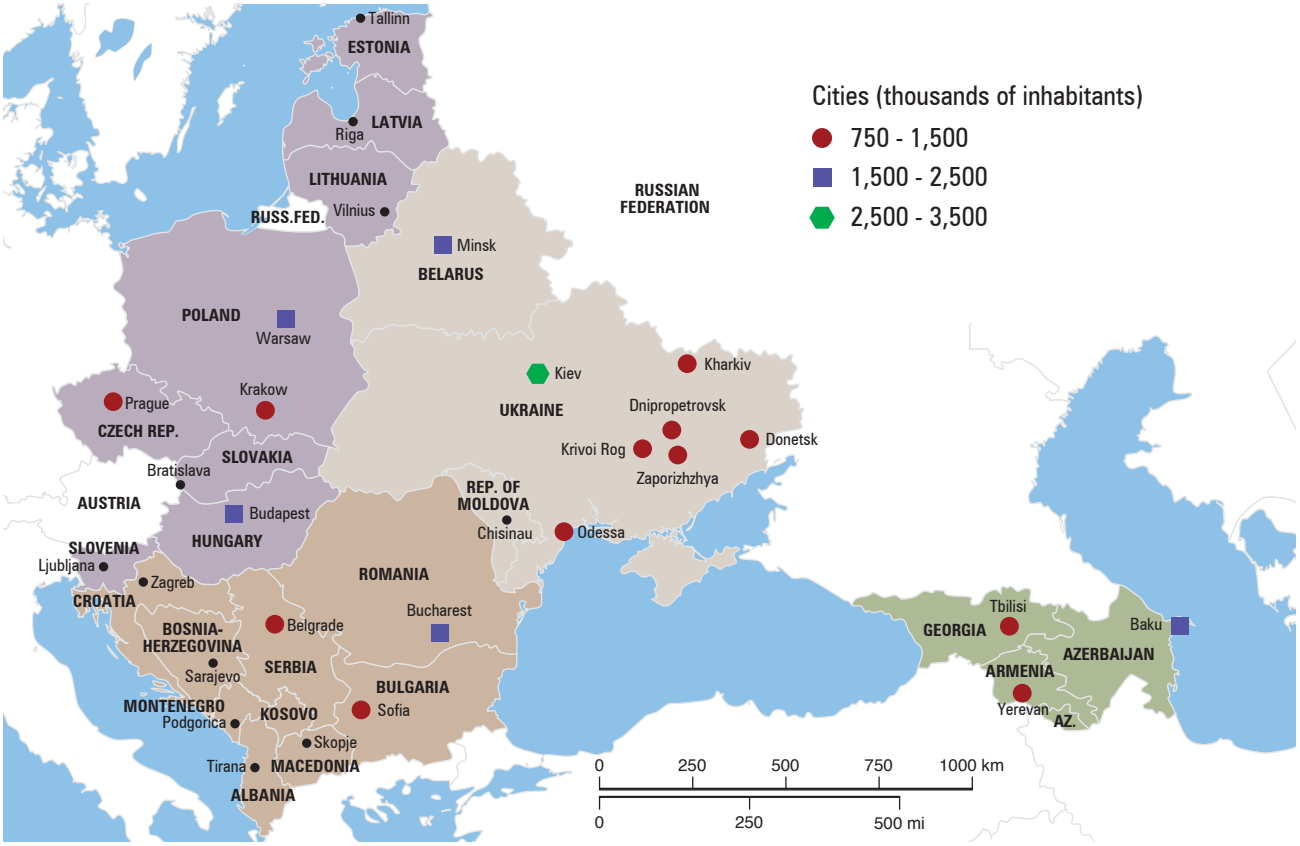


TABLE 1.2: **GROWING CITIES EXCEEDING 750,000 INHABITANTS, DECADE INTERVALS, 1991-2021**

	Populations in Thousands				Average Annual Growth (%)		
	1991	2001	2011	2021*	1991-2001	2001-2011	2011-2021*
Baku	1,740	1,818	2,123	2,706	0.448	1.678	2.746
Kiev	2,577	2,610	2,829	2,949	0.128	0.839	0.424
Krakow	738	757	756	778	0.257	-0.013	0.291
Minsk	1,625	1,715	1,861	1,993	0.554	0.851	0.709
Warsaw	1,635	1,669	1,723	1,803	0.208	0.324	0.464

* Projections
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

TABLE 1.3: **URBAN POPULATION LOSSES/GAINS OF CITIES EXCEEDING 750,000 INHABITANTS, 1991-2025**

City	Country	Population loss (%)	Period	Average annual loss (%)	Population growth (%)*	Period	Average annual growth (%)*
Bucharest	Romania	-6.17	1991-2006	-0.41	6.01	2006-2025	0.32
Budapest	Hungary	-14.23	1991-2005	-1.02	12.59	2005-2025	0.63
Krivoi Rog	Ukraine	-4.56	1991-2001	-0.46	23.43	2001-2025	1.67
Odessa	Ukraine	-7.27	1991-2005	-0.52	4.57	2005-2025	0.23
Prague	Czech Rep.	-3.38	1991-2001	-0.34	22.01	2001-2025	1.57
Sofia	Bulgaria	-5.88	1991-2001	-0.59	8.21	2001-2025	0.59
Tbilisi	Georgia	-10.49	1991-2002	-1.05	8.06	2002-2025	0.62
Yerevan	Armenia	-5.57	1991-2004	-0.43	12.24	2004-2025	0.61

* Projections
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

2005 and 2006. Yerevan and Sofia are projected to return to their 1991 population numbers by 2018 and 2020, respectively. **Budapest**, **Bucharest**, **Odessa** and **Tbilisi**, however, if current trends persist, are projected to regain their 1991 population levels only after 2025.

Unlike **Kiev** which is on a steady urban population growth trend, and **Odessa** which started growing again in 2007, four large Ukrainian cities (**Dnipropetrovsk**, **Donetsk**, **Kharkiv** and **Zaporizhzhya**) all experienced a sustained declining urban population trend that started around 1991 (see Table 1.4) because the economic base of these mono-functional cities' industrial activities was rendered uncompetitive by the transition to market economies and exposure to the global markets. Significant outflows of people, especially the better-educated youngsters seeking livelihoods elsewhere, have affected these cities' age-sex pyramids and, consequently, their natural growth and population replacement capacities. Unless viable new economy orientations can be established for these cities and the outflow of demographically important sections of the population reversed, highly unfavourable combinations of demographic ageing, lack of reproductive population cohorts and out-migration will continue to feed the downward demographic trends of these cities.

Similarly to Ukraine, significant differences in urban population dynamics are evident within Poland, where a number of urban areas, notably in the north and east of the country, have also been losing population rapidly.

The three Baltic States (Estonia, Latvia and Lithuania) as well as Bulgaria and Romania, experienced overall population declines during the first decade of the millennium. Hungary and the Czech Republic recorded lower *overall* population falls but their urban areas suffered more heavily from population losses than most cities in Western Europe. It should be noted, however, that under conditions of overall population decline, core cities commonly experience faster rates of decline than their surrounding areas because growth of suburbs and exurbs (sub-urbanization outside the borders of the agglomeration) can occur as, for instance, around Budapest in Hungary and in north-eastern Romania.

In these cases, urban population declines could, to some extent, be viewed as a mere geographical redistribution of urban populations in the expanding functional urban area of the metropolis. A redefinition of urban statistical boundaries would be desirable to reflect dynamic urban growth processes and, at the same time, shed a clarifying light on the nature of *actual* urban growth processes. With adjustments to administrative

TABLE 1.4: **SUSTAINED URBAN SHRINKAGE, CITIES EXCEEDING 750,000 INHABITANTS, (1991-2021)**

	Population in Thousands, Urban Shrinkage in Per Cent							
	1991	2001	Decline (%)	2011	Decline (%)	2021*	Decline*	1991-2021 Decline*
Dnipropetrovsk	1,153	1,069	-7.29	994	-7.02	905	-8.95	-21.51
Donetsk	1,090	1,019	-6.51	959	-5.89	899	-6.26	-17.52
Kharkiv	1,575	1,474	-6.41	1,451	-9.59	1,429	-1.52	-9.27
Zaporizhzhya	867	817	-5.77	771	-11.07	729	-5.45	-15.92

* Projection
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

TABLE 1.5: **POPULATION EVOLUTION AND PROJECTION MAJOR URBAN AGGLOMERATIONS, 1991-2025 (IN THOUSANDS)**

Urban Agglomeration	Country	1991	1995	2000	2005	2010	2011	2015*	2020*	2025*
Yerevan	Armenia	1,168	1,142	1,111	1,104	1,113	1,116	1,142	1,189	1,238
Baku	Azerbaijan	1,740	1,766	1,806	1,867	2,062	2,123	2,371	2,655	2,899
Minsk	Belarus	1,625	1,654	1,700	1,775	1,847	1,861	1,918	1,982	2,031
Sofia	Bulgaria	1,190	1,168	1,128	1,169	1,175	1,174	1,175	1,194	1,212
Prague	Czech Republic	1,213	1,194	1,172	1,213	1,265	1,276	1,319	1,373	1,430
Tbilisi	Georgia	1,211	1,160	1,100	1,096	1,117	1,162	1,134	1,149	1,167
Budapest	Hungary	1,982	1,893	1,787	1,700	1,731	1,737	1,770	1,838	1,914
Krakow	Poland	738	748	756	758	756	756	756	773	803
Warsaw	Poland	1,635	1,652	1,666	1,689	1,718	1,723	1,748	1,792	1,850
Bucharest	Romania	2,058	2,018	1,949	1,931	1,935	1,937	1,952	1,991	2,047
Belgrade	Serbia	1,133	1,128	1,122	1,125	1,133	1,135	1,146	1,185	1,243
Dnipropetovsk	Ukraine	1,153	1,119	1,077	1,052	1,003	994	957	913	872
Donetsk	Ukraine	1,090	1,061	1,026	997	965	959	935	905	877
Kharkiv	Ukraine	1,575	1,534	1,484	1,464	1,453	1,451	1,442	1,431	1,420
Krivoi Rog	Ukraine	702	689	673	701	749	758	787	809	827
Kiev	Ukraine	2,577	2,590	2,606	2,673	2,805	2,829	2,901	2,943	2,969
Odessa	Ukraine	1,086	1,064	1,037	1,007	1,009	1,010	1,017	1,034	1,053
Zaporizhz	Ukraine	867	847	822	797	775	771	754	733	713

* Projections
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012; http://www.geostat.ge/cms/site_images/_files/yearbook/Yearbook_Geo_2011.pdf

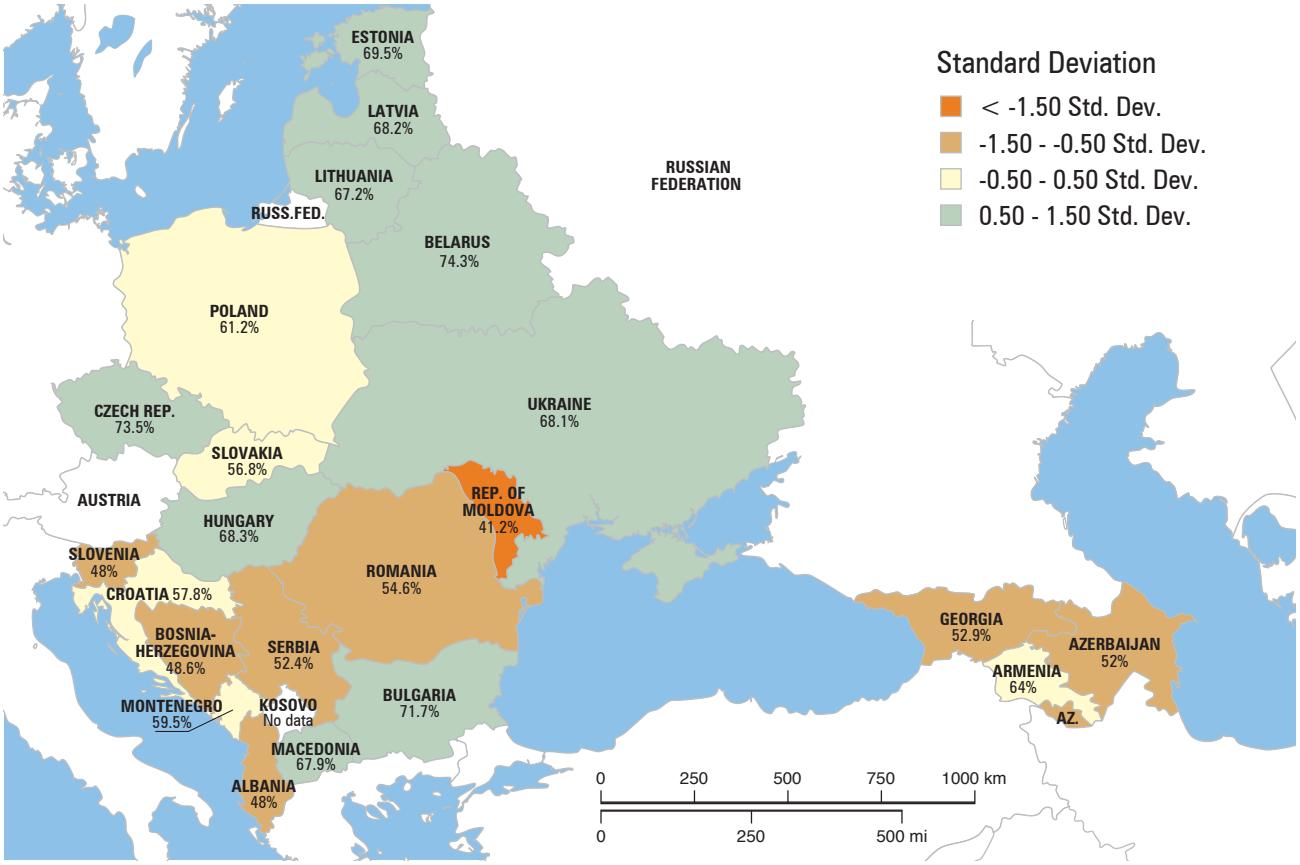
municipal boundaries, actual urban population losses may prove to be significantly less if the geographically larger urban catchment areas, rather than just the agglomerations or city proper, are taken into consideration.

Other countries in the subregion record a seemingly contradictory increasing level of urbanization while their urban populations decline. This is due to even larger rural depopulation which causes the relative share of the urban population in the total population to increase despite urban populations declining in absolute terms.

As is clear from the foregoing, the changing economic and social contexts in transitional Europe have had significant impacts on urban demographic developments. Broadly speaking, both large and small cities have been affected by population losses, including some of the capital cities. But there is need for further specification of this general observation, since urban population declines do neither and necessarily affect all areas of the same city in a similar manner, nor at the same scale.

But intra-urban differentials of population dynamics remain hidden in city-wide figures because neighbourhoods are rarely considered separately in urban data. Urban economic challenges in particular can be quite localized and stem from concentrations of comparatively disadvantaged groups in certain urban neighbourhoods, while the related mismatches between the available human skills and those required by increasingly knowledge-based economies can further add to very localized economic distress.[34] But economic declines are

MAP 1.5: **SHARE OF URBAN POPULATION**



Source: Janusz Jezak, *Institute of Urban Development*

not the sole explanation for shrinking cities in the transitional region, because some city populations declined despite strong economic growth rates.

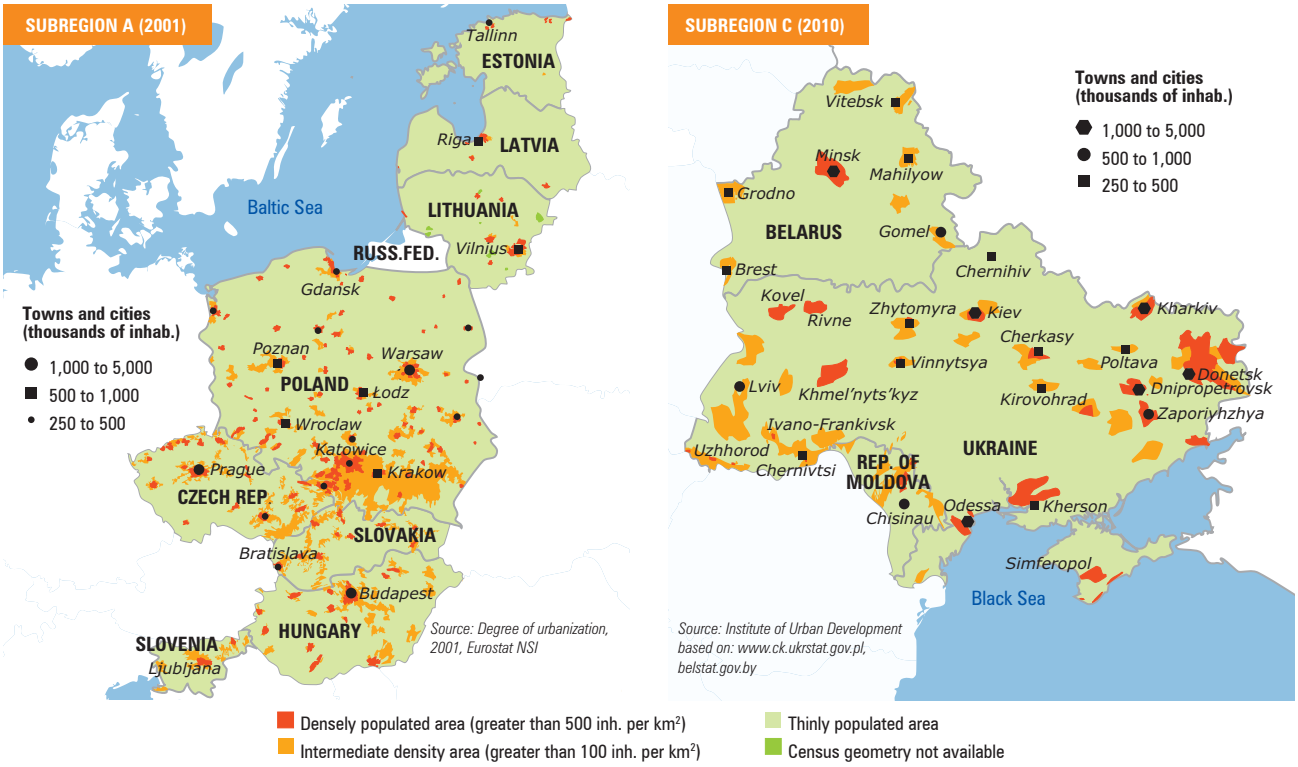
Urban populations can also be deeply affected by broader demographic factors, such as stagnating natural population growth. A considerable fall in the share of the productive-age population and an increase in the elderly population (>65) is evident in many transitional cities. The core cities in Central and Eastern Europe, for instance, faced sharp declines in the number of children born between 1996 and 2001.[35] However, according to the EU's Urban Audit, several cities in Central and Eastern Europe combine the peculiar phenomenon of comparatively low shares of elderly residents, high proportions of children but, nevertheless, a declining total population. This appears to hint at psychological and social factors under which the reproductive-age population has postponed childbirth or even abandoned the notion of parenthood altogether. These family decisions can be based on perceived poor economic prospects, environmental conditions like those in the wake of the Chernobyl disaster, or other considerations. Therefore, the relationship between age structure and urban population change is neither always nor necessarily a straightforward one.

Many Central and Eastern European cities have a fairly large share of young residents due to the comparatively high birth rates during the late-1980s. However, this proportion is now showing signs of rapid deceleration as birth rates have since fallen significantly. This is one of the more influential underlying causes of overall and urban population losses experienced.

Increasing residential mobility also plays a clear role in urban shrinkage. There is an apparent trend of counter-urbanization in numerous transitional cities with residents leaving the urban core for the suburbs (or beyond) on a relatively large scale. Although this process is particularly strong in Poland,[36] it is an important cross-cutting phenomenon elsewhere in the region too, especially for cities in the new EU member states - from **Budapest** and **Prague** to **Tallinn** and **Warsaw** - that at times takes the form of unplanned and unregulated urban sprawl. The latter is now increasingly recognized as a significant threat to the sustainable development of these metropolitan areas.[37]

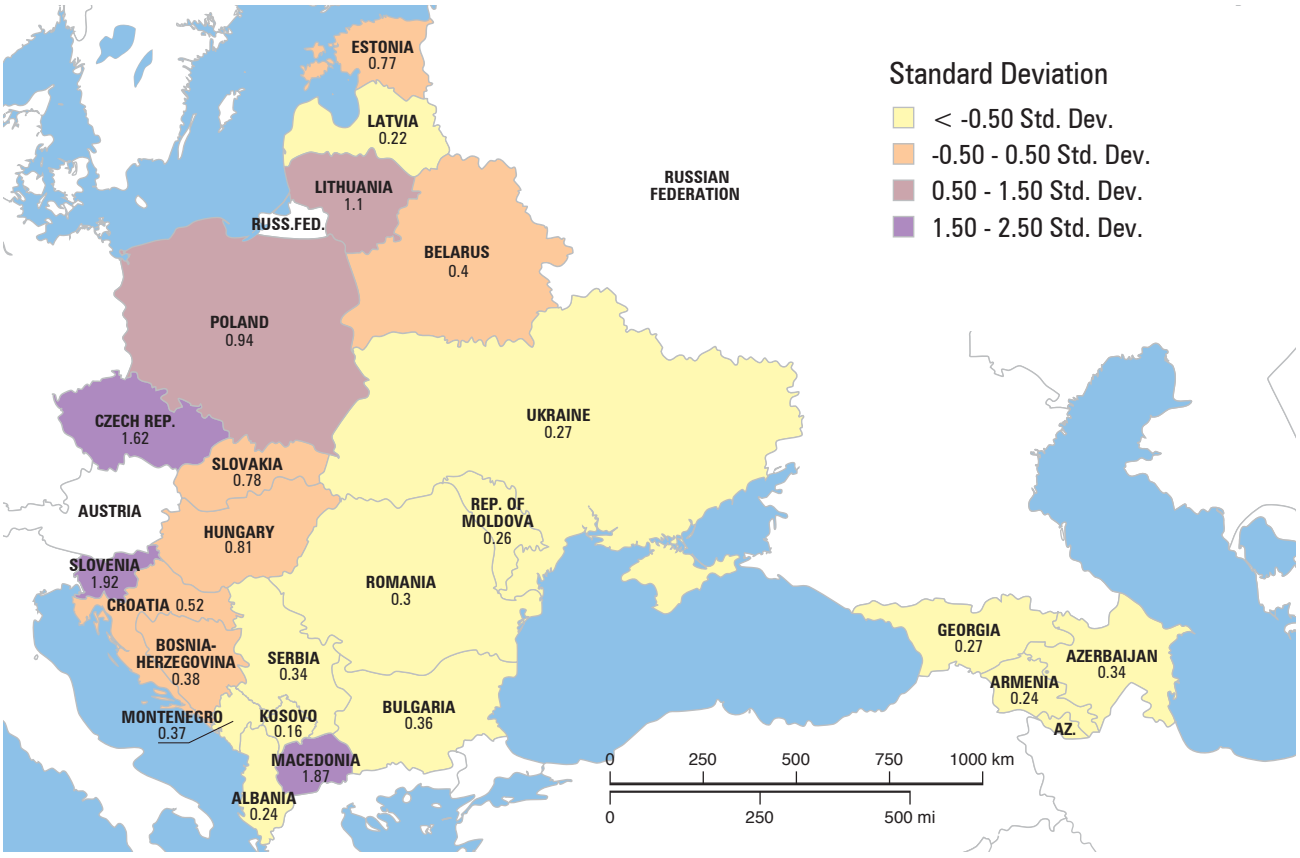
The current demographic dynamics of transitional cities, whether growing, stagnating or declining, are not yet fully understood. They are related to a host of economic, social, housing, mobility and other factors. The correct interpretation of these urban population dynamics require a far better comprehension of their underlying factors, as detailed in the following chapters.

MAP 1.6: **POPULATION CONCENTRATIONS IN SELECTED SUBREGIONS**



Source: Janusz Jezak, *Institute of Urban Development*

MAP 1.7: **ROAD DENSITY IN COUNTRIES OF SELECTED SUBREGIONS**



Source: Janusz Jezak, *Institute of Urban Development*

14
Regional Cities and Regional Urban Systems

The city of Donetsk, adjacent to the city of Makiivka, along with other surrounding cities, forms a major urban conurbation in Eastern Ukraine. **©Fedorov Oleksiy/Shutterstock**

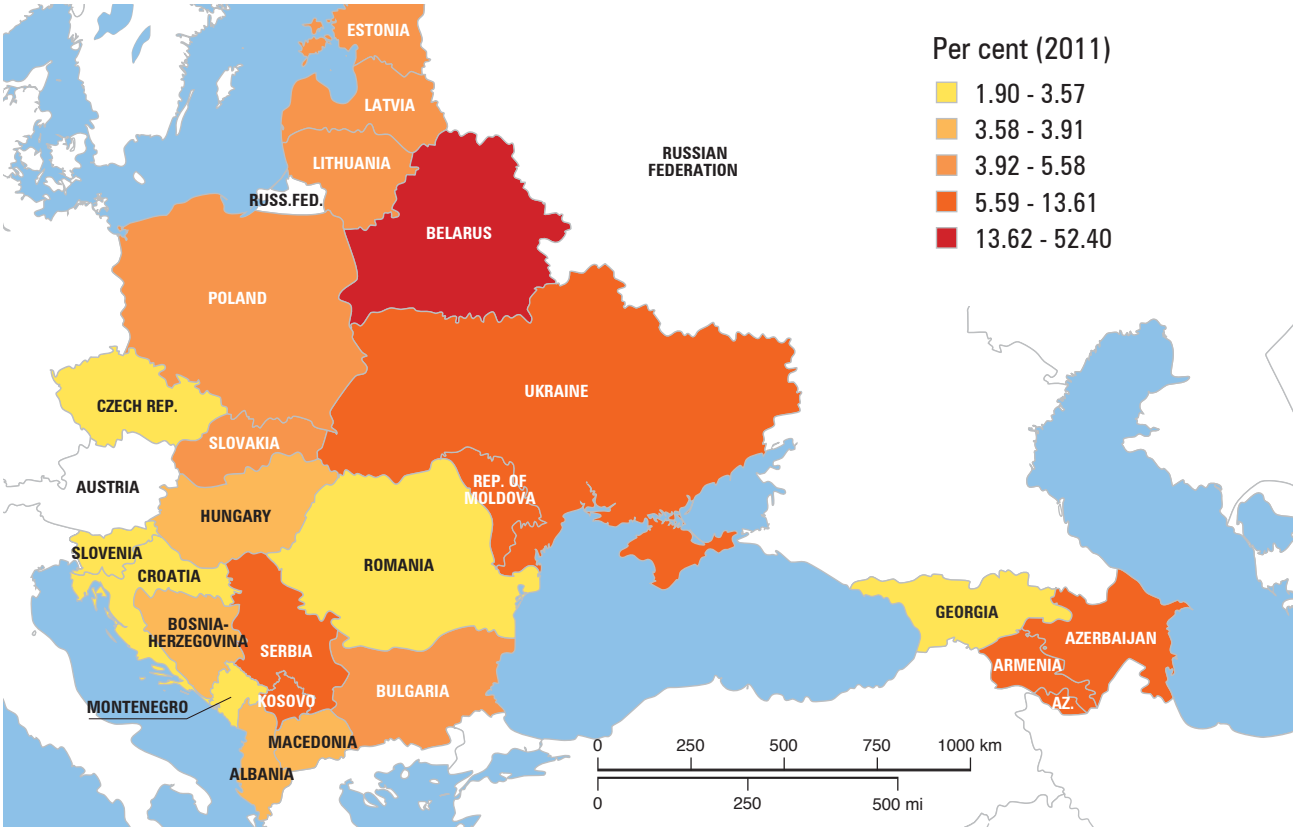
Under the demographic, migratory and economic components of transition, new and different urbanization configurations have started to emerge in all transitional countries. Rural-urban and urban-urban migrations, suburbanization and ex-urbanization processes and concentration of economic activities and populations have caused the urban spatial growth of the more prosperous cities to spill over municipal administrative boundaries. Where this occurs, the notion of the traditional mono-centric city within clearly-defined territorial boundaries is increasingly at variance with the realities on the ground. Rather, these 'cities' take on a supra-territorial form that encompasses the core city, suburbia, exurbia and adjacent towns and villages, as well as *de facto* 'urbanized' rural lands.

From a governance perspective, it is no longer practical to view these newly emerging regional urban configurations as a core city that is administratively and functionally separate from its entire urban catchment area. The intense functional interactions within and among these urban elements should be viewed for what it truly represents: a network of integrated urban administrative territories that are linked through shared functions to a regional scale. The functional, economic and social interactions are so strong that the 'regional city' warrants being viewed as a single, networked urban system in need of a holistic governance and management structure. This applies in particular to the economically more dynamic or fast-growing large cities that have already clearly grown into metropolitan or regional entities such as **Budapest, Kiev, Krakow, Minsk, Prague and Warsaw** but it also applies to conglomerations of smaller cities such as those of the Upper Silesia Cities Association, for example.

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.

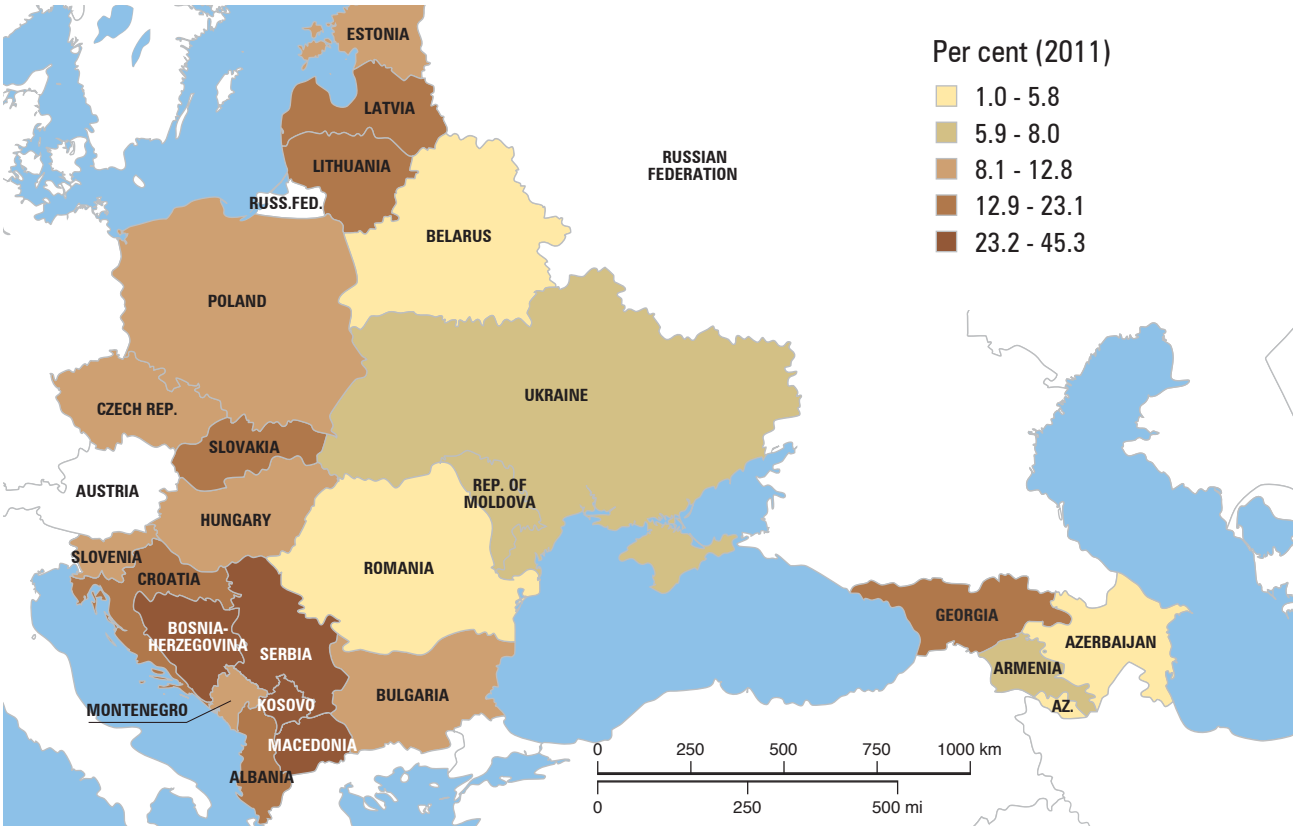
A shared challenge among these urban configurations is the provision of adequate area-wide governance, planning and guidance to spatial developments, as well as holistic regional

MAP 1.8: **INFLATION RATE**



Source: Janusz Jezak, *Institute of Urban Development*

MAP 1. 9: **UNEMPLOYMENT RATE**



Source: Janusz Jezak, *Institute of Urban Development*

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.

Many attempts have been made around the world to provide holistic, regionalized planning and management for supra-municipal urban systems through either cooperative or coordinating structures. These approaches have usually failed because they were neither able to address the uncertainties in legal and spatial definition nor the autonomy overlaps and authority gaps that invariably undermine clear articulation or allocation of public functions and authority.

Friction in regional city governance is therefore common and typically due to unresolved authority conflicts among or within three major groups of stakeholders. These are central government; local authorities and interest groups from civil society. Since many city regions are also the national capital, there tends to be interference from the central government (whether directly or through ministerial departments) in urban governance at the expense of local autonomy. This is supporting the notion that generally the model of centralized governance is still prevailing in transitional European cities in spite of declared decentralization policies. At the lower levels, provincial, municipal and neighbourhood councils of the independent cities, towns and villages that make up the regional city often pursue conflicting agendas with overlapping jurisdictions and functions. Moreover, the private sector and civil society also increasingly demand decision-making roles in urban policies and governance, adding to the confusion.

The sheer multiplicity of the parties at play with their different institutional structures, divergent levels of power leveraging and their frequently antagonistic agendas combine to make the delivery of coordinated area-wide management, infrastructures and urban services in regional urban systems fraught with difficulties. As these stakeholders simultaneously seek to influence urban governance processes, there is a clear need for new approaches that provide unambiguous authority and management tasks for different governance levels within extended urban configurations.

Although worldwide blanket governance and management models for regional urban configurations do not seem to be available, five basic steps appear to be applicable and have a fairly general degree of practical relevance.

A first step should be to create workable mechanisms for region-wide urban planning coordination and development control. As they grow, the increasing complexity of city regions tends to shift important metropolitan issues and responsibilities either to the higher level (national) or to the lower levels (municipality, neighbourhood and community). Rather than simply centralizing or decentralizing these complex spatial management matters, responsibility and authority should ideally be allocated to a range of cooperating macro-, intermediate- and micro-levels to maintain supervision, integration and coordination at the regional scale while maximizing responsiveness and political participation at the local level.

Regional cities are typically in a constant state of spatial flux. Policies should therefore allow for the flexibilities of continuous adjustments to functional authority and administrative boundaries. Such adaptable arrangements may be difficult to put in place and operate but would provide the plasticity required to devise strategies that remain accommodating to ongoing and newly-emerging developments.

Centralized authority over a city region only tends to work for truly area-wide matters. Whereas it may be tempting to assign control of a city region to a metropolitan government body, centralized authority should be reserved only for truly region-wide matters such as overall road and traffic management, integrated public transport planning, water and electricity provision, waste management services and so on. Other functions should be organized under various forms of coordinated multi-level urban management which, for the sake of legitimacy, must be based on local control through decentralization, democracy and participation.

While centralization of area-wide regulatory authority can lead to better coordination, genuine grassroots participation will be required to address area-specific problems. That can only happen effectively through strengthened middle- and lower-tier decision making powers. In the face of ever-expanding, ever more complex metropolitan and regional urban systems, with often dwindling municipal revenues, participation and community self-help can facilitate cost-effective responses to local issues.

It is essential to reassess centralized bureaucratic structures and make lower-tier decision-making more responsive and effective. Local initiative and control enhance self-reliance and sustainability for many urban functions while steering the burden of micro-management away from higher governance levels. Well-guided local enablement also allows for more responsive mobilization of the local private and community sectors.

Apart from the above institutional choices, extended metropolitan regions, regional cities and regional urban systems also face two major substantive challenges: matching political and fiscal decentralization to local needs while, at the same time, providing much-needed area-wide management of public works and services and addressing complex processes of socio-spatial segregation that cause substantial intra-metropolitan differences and inequality in service provision.[38] Addressing these challenges will require a closer look at options offered by multi-level governance.

Multi-level Governance

Both advanced and developing economies have experimented with ideas on how to best plan and govern urban regions that encompass multiple municipalities by drawing from different government traditions, constitutional frameworks, planning approaches, historical circumstances, socio-economic conditions and national political cultures. The experience over several decades has yielded four broad types of area-wide governance structures[39]:

Opole, Upper Silesia, Southwest Poland. The Silesian Metropolis emerged in 2007 as a voluntary inter-borough association composed of 14 adjacent cities and based on the principle of confederate regional governance. **©Mariusz Szczygiel/Shutterstock**

(1) Autonomous Local Authorities

In some city regions, authority and power are embedded in local authorities that enjoy high degrees of autonomy, including spatial planning, policy development and legislation. This type of area-wide governance is suitable to countries with a tradition of strong local autonomy and municipal governance but less so where central government is predominant. This form of governance may, for instance, be less suitable to post-Socialist countries.

The 'autonomous local authority' approach, however, is the least invasive and easiest to deploy. But experience has shown that it tends to result in fragmented and uncoordinated regional outcomes because there is little to prevent individual municipal authorities from pursuing their own agendas regardless of wider-ranging regional needs. Mitigating these shortcomings with monitoring and evaluation will be difficult in the absence of a specific and authoritative body reviewing individual municipal decisions and outcomes or dictating mandatory course corrections.

(2) Confederate Regional Government

Under this governance configuration local authorities enter into voluntary cooperation and agree on which regional-level functions must be carried out by a dedicated apex authority (such as a metropolitan development authority) with clearly detailed mandates and powers. This regional-level body should comprise the chief executives of all local authorities in the city-region so that any decisions are informed by their views. The real power, however, remains with the local authorities.

The effectiveness of this governance arrangement clearly depends on the degree of effective power lodged in the regional authority. This approach can only succeed if all local authorities in the city region participate in, and adhere to, the regional body's decisions. Because this 'confederate' approach allows for substantial control by the participating municipalities over the regional authority, consensus may at times be difficult to achieve. The regional authority may prove powerless and ineffective if the participating local authorities cannot reach consensus. A monitoring and evaluation system would also have to be agreed upon, with peer pressure applied for corrective action.

(3) Mixed Systems of Regional Governance

Under mixed systems of regional governance, the higher tiers of government (national, state/provincial) share power with local authorities in the delivery of specific public functions. These are defined under a variety of flexible arrangements based on prevailing political conditions. Clearly, the degree of success of this approach depends on specific local conditions, the nature of the agreements reached and the ultimate adherence by all to the decisions.

One major drawback of this approach is that local authorities must negotiate with a higher tier of government they are not part of. This implies that they must hand over a degree of autonomy to that higher authority. Monitoring, evaluation and any corrective action are left to that higher government tier.

(4) Unified Regional Governance

Under this approach, one single government entity, typically a fully-fledged ministry, is responsible for an entire city region. Planning, plan implementation, monitoring and evaluation are all lodged in this central body. Local authorities only exercise power over a limited number of clearly defined lower-level assignments within an overall framework set by the higher authority.

Given the significant reduction in autonomy of individual local authorities within the city-region, this type of area-wide governance is more suitable to countries with a tradition of strong, dominant central government. Unsurprisingly, region-wide outcomes under unified regional governance tend to have better overall coherence and coordination. Given the dominance of central government in the Socialist period of the transition countries, unified regional governance could be the preferential option, if only as an interim governance structure. When local authorities have come to grips more effectively with the governance responsibilities of the post-Socialist era, a gradual transition to mixed systems of regional governance could be considered.

The above review of existing practice suggests that the ultimate choice of best broad governance structure for city regions clearly depends on national and local political circumstances. The four alternatives outlined above all aim to overcome the negative impacts of fragmented urban governance. The past 20 years of transition have clearly shown that market-driven urbanization 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.

The Urban Geography of Domestic and Trans-boundary Regional Cities

Post-transitional urban governance and planning call for radical review of the forces that shape them, the need for adapting to urban geographies based on land values and uses dictated by the land markets as well as demands for adaptations in spatial and social form. But, foremost, they dictate new governance requirements for effective and responsive urban management.

Consequently, it is for national and local authorities to consider carefully the options for reform of urban governance practice and institutions. The demands of newly-emerging urban geographies and configurations are not just a matter of extending existing arrangements to larger cities or geographic areas. Rather, a political, legal and institutional redesign of the very structure of urban governance is in order. The aim is to counter the urban fragmentation that almost inevitably results from attempts to govern multiple-entity urban configurations with obsolete and ineffective management mechanisms and practices designed for mono-centric cities within clearly-defined municipal administrative territories. That is all the more so as partial, intermittent or opportunistic interventions in regional urban systems have invariably proven deleterious to longer-term economic, environmental and social urban sustainability.

When regional urban systems transcend national boundaries, urban governance matters can become even more complex. The entry of the eight new countries into the EU in 2004 and joining the Schengen space[40] made cross-border functional interactions more likely and mutually advantageous. Cities with a substantial labour market, and which are close to a national boundary, tend to create 'suburban areas' across these boundaries. Some of the examples include **Košice** in Slovakia and its suburban area in Hungary, **Győr** in **Hungary** and its suburban area in Slovakia and Polish **Szczecin** and its suburban area in Germany. Similar cases can be identified in Romania and Bulgaria with their neighbouring cities along the Danube such as **Giurgiu** and **Ruse** or **Vidin** and **Kalafat**, whose functions and interests will in the future be more efficiently connected through bridges.

A quite large trans-boundary urban clustering involving seven million inhabitants is growing on the Upper Silesia area that straddles south-western Poland and the eastern part of the Czech Republic (see Map 2.3). This rapidly-emerging economic space includes the cities of **Czestochowa, Katowice, Krakow, Opole and Ostrava**. Although a metropolitan bill has not yet been enacted, the Silesian Metropolis emerged in 2007 as a voluntary inter-borough association (on the principle of confederate regional governance outlined above) and is composed of 14 adjacent cities in Silesia. It now plays an important role in promoting cross-border cooperation between Upper Silesia and Northern Moravia.

Another example of trans-boundary urban space is the Centrope Region: the area between **Vienna** (Austria), **Bratislava** (Slovakia) and **Győr** (Hungary). Commuter trains of the Austrian railway company (Euro-region trains) have scheduled lines and preferential tariffs from Vienna to **Tatabánya** and **Szombathely** in Hungary and to the border regions of Slovakia and the Czech Republic. Thus, Slovakia and Hungary provide labour for Austria, while the Austrian and Hungarian border areas serve as a suburban housing area for **Bratislava**.

But since these two examples concern interaction within the Schengen space where the typical problems associated with economic, social and political space transcending national boundaries remain limited to administrative matters that can comparatively easily be resolved as an internal EU matter. More complex are the trans-boundary interactions with non-EU member states of the European neighbourhood, as explained in the following section.

1.5
The Politics of Inequality

▲
Bratislava, Slovakia. Bratislava has one of the highest sustained GDP growths in the EU but, in 2004, its per capital GDP was 2.7 times higher than the Slovak rural average.
©EUROPHOTOS/Shutterstock

The Cohesion, Polycentricity and Neighbourhood Policies

Europe has entered a phase in which the near-continuous and seemingly-endless trend of economic and prosperity growth since 1945 has changed into one of stagnation or decline. Globalization, downward demographic trends and the 2008/9 financial and subsequent Euro crisis are now all taking their toll on countries and cities across the European continent.

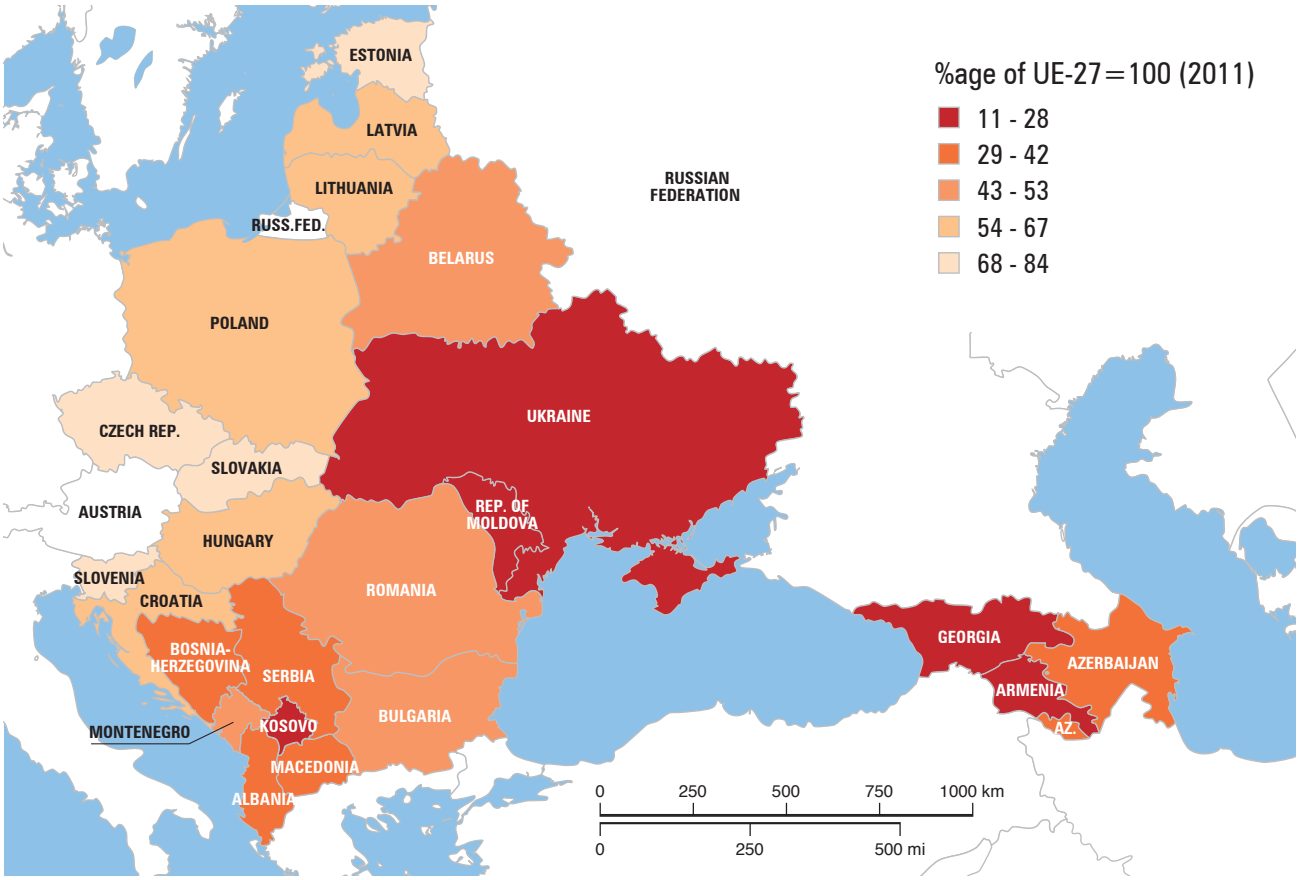
Transitional European nations currently face, besides the above difficulties, additional challenges associated with their systemic conversion to market-based economies and democratic governance systems. All are now in different phases of reconciling their domestic and urban economies with the highly-competitive global and EU economic environments. They are also in widely varying stages of adapting their governance systems, structures and practices to the new and evolving circumstances.

That would be complex enough in itself, but many cities in the transition countries face additional and daunting combinations of collapsed urban economies, out-migration of the working-age population, demographic ageing and declining municipal revenue-bases in a context of rising demand for urban services.

Whereas a number of larger urban agglomerations - notably the capitals of the Visegrád countries[41] - are doing comparatively well, the outlook for many other cities and towns is rather gloomy and regional disparities in well-being are on the rise. EU institutions, however, are attempting to address these inter- and intra-regional differentials and inequalities through economic, social and, more recently, territorial interventions, including the EU Neighbourhood and Cohesion Policies. Simultaneously, the EU has embarked on integrated approaches to urban development by taking more account of urban agglomerations, urban clusters and city networks, acknowledging that cities' geographically larger functional areas (rather than just the city proper) play crucial roles as domestic and regional economic engines and as places of intense connectivity, human creativity and innovation.

A study by the Globalization and World Cities (GaWC)

MAP 1.10: **GDP PER CAPITA**



Source: Janusz Jezak, *Institute of Urban Development*

Research Network[41] on eight major Visegrád cities **(Bratislava**, **Budapest**, **Krakow**, **Lódz**, **Poznan**, **Prague**, **Warsaw** and **Wroclaw)** showed that, at the turn of the millennium, one of the more notable European economic trends was the rapid economic growth of these large cities. The research further showed that this growth had dual consequences. On the one hand, economic inequalities among these eight cities and others in the city network of the EU gradually decreased but, while that took shape, urban-rural and large-small city dichotomies *increased* within the Visegrád countries.

In 2004, the EU-wide per capita GDP of cities was 1.5 times higher than that of rural areas. In Visegrád countries the average urban advantage was 2.5. Per capita GDP in **Bratislava** was 2.7 times higher than the Slovak rural average. For **Budapest** it was 2.6, for **Prague** 2.4 times and for Polish cities it was, on the average, 2.3 times higher. All Visegrád capitals saw particularly strong economic development during the first years of the new millennium, with **Warsaw**'s per capita GDP, for instance, even reaching three times the Polish rural average.

Among the elementary factors behind this urban economic growth was that these large Visegrád cities could compete better with other European cities than the smaller ones through their more-developed infrastructures, relatively superior transport and communication networks and skilled labour forces. They also had more privileged access to capital and business services because local banks had become attractive targets for takeover by foreign financial institutions. Since these foreign banks had a tendency to focus their activities on large borrowers, they predominantly located in the capital cities.[43]

These eight large cities had a share of only 12 per cent in the total Visegrád population but a 26 per cent share in the GDP. Empirical studies showed that it was rapid growth of the tertiary sector, enabled by the urban advantages, which gave the required economic push. With only so few cities at the EU peripheries experiencing real dynamic development, the polarization - especially in rural-urban relations - soon started to increase and continues to do so today.

Addressing Regional Disparities through Polycentricity

Within economic, social and territorial restructuring processes attempting to address geographic equality differentials, the notion 'polycentricity' started to take a central place with the publication of the *European Spatial Development Perspective* (ESDP) in 1999. Polycentricity, even though not actually defined in this publication and clearly open to interpretation, is assumed to lead to improved or diminished regional social and economic disparities. To this end, the ESDP proposed a more polycentric Europe as

Nysa City, southwest Poland, population 47,000. In Poland, polycentrism has successfully established urban areas of different sizes within the national urban network.

the key to transnational integration and counter-balancing the economic domination of Western Europe in the EU.[44] 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.

Poland, with a decades-long development evolving towards polycentricity has seen steady population redistribution towards its larger cities without any single urban agglomeration dominating national economic performance today.[45] This process has concentrated more people in exactly the larger cities that did so much better in economic terms in the post-2004 period and Poland is today one of the EU's best-performing economies. In Poland, polycentrism was useful in establishing urban areas of different sizes that perform specialized and complementary economic activities within the national urban network. This appears to underscore that polycentric approaches can indeed be supportive towards creating balanced national urban hierarchies which, in turn, generally allow for better economic performance.

However, the polycentric concept is not new and there is further experience in Northern and Eastern Europe. Polycentricity was already experimented with in some of the Baltic States in the 1950s but, after some initial successes, it ran into difficulties in the 1970s. Besides Poland, other Visegrád countries also adopted polycentric approaches in the 1970s but, again, without much tangible result. In Hungary, for instance, polycentrism actually exacerbated the very geographic differentials it was supposed to address. Also, despite Poland having clear polycentric arrangements, poverty is still a common feature in small and intermediate Polish cities. This may indicate that polycentric approaches may

not necessarily be the right tool to address regional equality disparities. That is, not just polycentrism on its own and/or in the context of the current development levels of many transitional countries.

Despite these varied past experiences, in recent years it has once more been argued that polycentricity should become the entry point for addressing regional disparities in the EU because the traditional mono-centric model (whereby, in simplified terms, a principal city offers labour demand and the surrounding territory supplies labour) is increasingly becoming an inaccurate reflection of the political, economic and social realities. The underlying rationale for renewed attention for polycentric approaches was that firms and households increasingly locate outside the principal city and create new centres while maintaining linkages with the original urban core. The desirable outcome of these developments is spatially and functionally integrated city-regions with multiple centres at the supra-local scale.[46]

But current polycentric development approaches remain all too often a rather fuzzy concept, employed loosely and in a variety of ways. Lambregts[47], for instance, correctly distinguishes three very distinct aspects of polycentricity that recognize it as:

(1) a normative planning strategy applied at metropolitan, national and transnational scales;

(2) a spatial process of outward diffusion of urban functions from major centres to smaller nearby centres;

(3) the spatial outcomes of this process.

These three distinctively different interpretations all refer to 'polycentric' in various connections to such territorial concepts as 'city', 'urban region', 'metropolitan area', 'megacity region' and 'global city region'. Moreover, in practice there are also greatly diverging interpretations of what makes territories polycentric and how polycentricity can be measured.

Burger and Meijers[48] point out an additional distinction between 'morphological' and 'functional' polycentricity, whereby the morphological dimension considers the spatial distribution *outcomes* of urban centres across a territory - linking polycentrism to more balanced urban size hierarchies, while functional polycentrism focuses on achieving balanced *relations* between the various urban nodes of a territory.

Under these interpretations of polycentricity, six broad (either interlinked or diametrically opposed) categories of polycentric policy objectives can be identified:[49]

(1) Developing more spatial balance and equity towards diminishing regional disparities.
This is the most common polycentricity objective in the EU, seeking balanced territorial spread of economic growth and preventing further marginalization of lagging and/or deprived areas;

(2) Strengthening the competitive position of urban regions.
Selectively promote enhanced economic competitiveness of individual urban agglomerations rather than countries as a whole, which is the opposite of (1) above;

(3) Development of urban networks.
Increase competitiveness of urban regions by stimulating urban agglomerations and seeking bi- or multi-polar cooperation for increased critical mass (i.e. the Polish 'duo-pols');

(4) Counterbalancing (over-)concentrations.
Reduce geographically unbalanced development and the overconcentration of population, employment and/or economic growth that leaves other areas under-utilized;

(5) Prevention of rural exodus.
Stop the outflow of the working-age and reproductive population cohorts by stimulating, among others, economic and development opportunities in rural areas;

(6) Avoidance or slowing of urban sprawl.
The objective is (often long-term) spatial planning interventions to prevent disorderly urbanization and sub-urbanization.

Although some of these six categories and their related policy objectives are possibly mutually exclusive, combinations of policy objectives could perhaps be encountered over time. The problem, however, is that by sheer lack of definition, the term polycentricity has caused confusion and lack of precise understanding of its purpose, aim and possibilities.

In other words: polycentricity has at times gained a somewhat 'cure-all' status serving too broad a variety of goals and meanings. This carries the risk that polycentricity could become rather meaningless. 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. In this context, it should 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.

Regardless of the validity of the polycentricity concept for reducing geographical equality differences, many accession countries - where disparities are typically the worst - will be unable to pursue polycentric policy at the regional level because they lack the required governance capacities. In addition, in some countries there may be a policy domain advocating polycentric development but this particular domain does not have the supporting policy instruments.

Addressing Regional Disparities through the EU Cohesion Policy

Around the year 2000, among others due to the (until then) under-estimated complexities of intra-European social and economic assimilation, more EU attention went to the geographies of social and economic deprivation that had emerged. The resultant EU Cohesion Policy is a key instrument intended to address social deprivation and economic equality disparities through territorial interventions promoting polycentricity in, among others, Central and East European countries. But, by concentrating near exclusively on polycentricity to achieve better economic benefits in lagging European subregions, the cohesion policy may very well be

Poznan, Poland. Central and East European countries' natural tendency of growth occurs in the largest metropolitan areas. Perhaps policies that vigorously strengthen the naturally strong nodes rather than territorial interventions that aim at enforcing the incorporation of weaker areas might be more fruitful. **©Pawel Kielpinski/Shutterstock**

focusing on ineffective approaches for influencing territorial development. It is also to some extent inconsistent with the EU's declared ideology of free movement, as will be explained later.

Through its overwhelmingly spatial focus, the polycentricity orientation would appear to isolate itself from combinations of interventions from associated policy areas such as migration, transportation, trans-boundary urban cooperation and many others that could help establish more holistic and multi-pronged approaches to resolving geographic inequalities. This shortcoming is, perhaps, in part an outcome of the EU's internal governance fragmentation and thematic compartmentalization into Directorates of the European Commission. Moreover, and paradoxically, the Cohesion Policy principally prefers the larger cities and in some countries therefore actually reinforces rather than reduces regional inequalities.

Where it comes to regional disparities and territorial interventions, it is also important to realize that:

(a) Not all social, economic and territorial aims can necessarily be achieved simultaneously or through parallel interventions because some goals may be conflicting or even mutually exclusive. Therefore, prioritized and phased approaches may be inevitable, even though these could imply that some lagging and/or structurally weaker regions or subregions would by necessity become further marginalized in the short run. This approach would be implicit to the second polycentric objective above.

(b) Many inter- and intra-regional disparities in the EU are the impacts or outcomes of EU-directed economic policies aiming at enhancing the overall European economy rather than promoting subregional or local economies.

(c) The EU's implicit support to unhindered movement of labour, capital and goods inevitably results in market-determined preferential concentrations of economic activity, people and investments. This process particularly affects Central and East European countries where the agglomeration economies, infrastructures, communication networks and skilled labour forces of the larger metropolitan areas are far more conducive to entrepreneurial activity, human creativity and innovation than those of smaller urban concentrations. Freedom of movement, at least theoretically, thus supports a sustained mobility of companies, labour and capital *towards* metropolitan areas at the expense of the weak and deprived rural areas, villages, towns and smaller cities.

Therefore, whereas current European territorial cohesion policy aims at reducing geographic equality differentials, although laudable in its commitment to eradicating inter- and intra-regional disparities, it seems instead to pursue outcomes that are at variance with the EU's declared concept of free movement. Local decisions on where conditions are best for entrepreneurs and, by extension, inevitably leading to spatial disparities, should be left to the markets if the EU's declared free movement philosophy is to prevail. From the latter perspective, currently proposed territorial interventions under the cohesion policy could, perhaps, be questioned as lacking a sensible rationale; being too expensive; and not necessarily leading to the assumed positive outcomes, because what may work in the mature economies of Western Europe does not necessarily work in the context of institutionally far less mature transition economies.

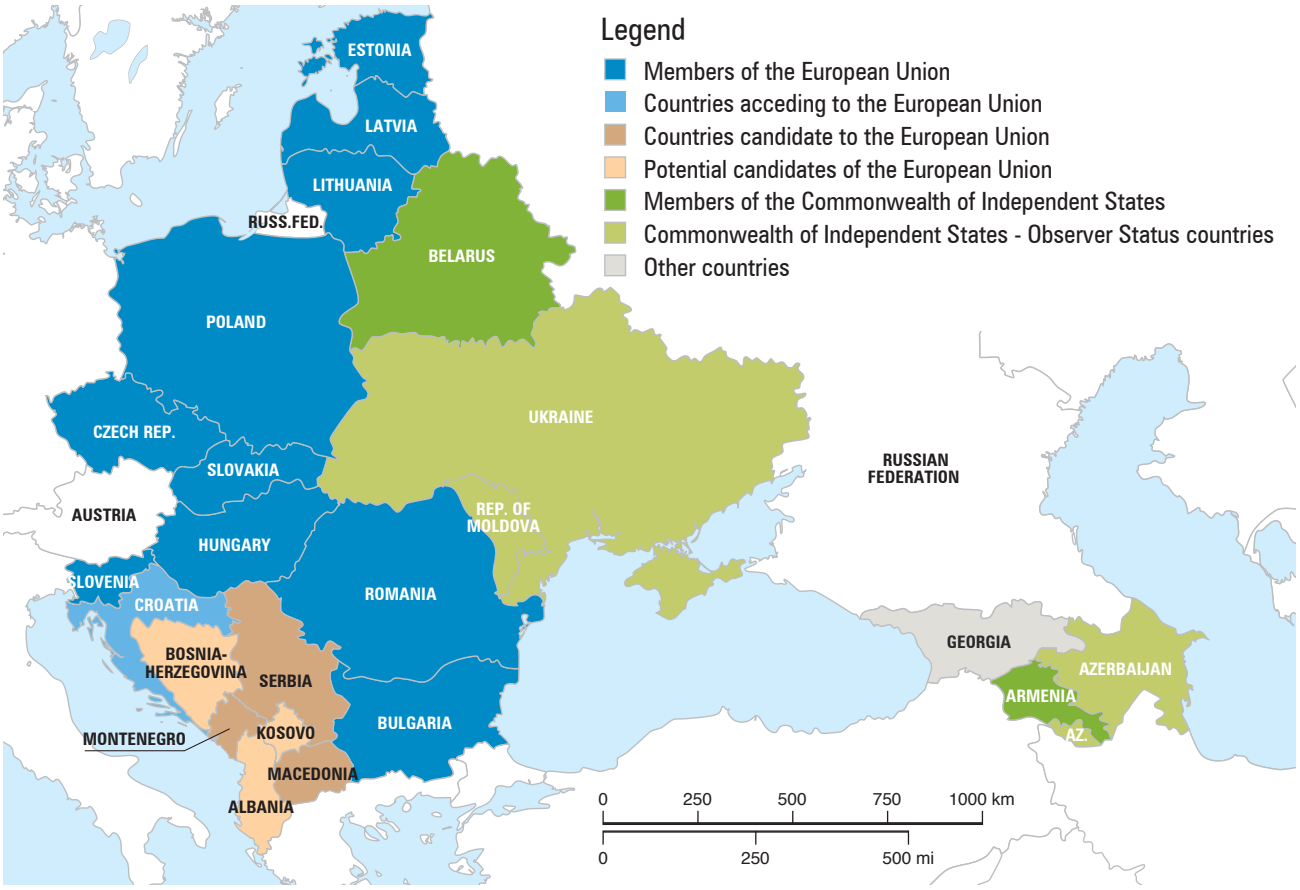
Large urban areas hold the bulk of a country's intellectual and educated human capital. They offer agglomeration advantages and economies of scale and are typically the location of choice for certain enterprises. Urban agglomerations, functional urban areas, extended metropolitan regions - or whatever 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. The validity of this argument is further strengthened by the currently rapidly rising ranking of some Central and East European cities in terms of their connectivity to the global cities network.

Nevertheless, geographical inequity-reducing interventions may be *politically* advantageous. But this advantage is often only valid within the comparatively short political time horizons and should therefore be applied with great caution. Short-term political gain is rarely the most sensible basis for medium- and longer-term eradication of domestic disparities and promoting enhanced national territorial cohesion.

Some experts question the social, economic and environmental attributes of polycentric development. Certainly, the alleged impacts of polycentrism in the EU appear to lose credibility the further one moves eastwards and away from the EU core countries. This could very well be a remnant of Western Europe's traditional inward-looking perspectives. Regional and spatial thinking of the 1980s and 1990s perceived Europe by and large as a closed system and

MAP 1.11: **STATUS OF THE SUBREGION'S COUNTRIES AND NEIGHBOURING COUNTRIES**



contemporary perspectives were highly Euro-centric and exclusive, lacking significant attention to developing in-depth relations with neighbouring countries. But no territory is immune or isolated from what happens to its neighbours. The post-1991 period has made abundantly clear that the EU is no exception this this, as explained below.

European Neighbourhood Policy

From 1991 onwards, the EU was forced to review fundamentally its relations with European nations beyond its eastern boundaries. In the run up to the accession of ten new member countries in 2001 it had to start addressing the challenges associated with eastward EU expansion, a consequential 'wider European sphere', and new non-member neighbour countries. Challenges included the question of how to secure peace and stability at the EU's new periphery. This was perceived as necessitating an externalization of EU norms and governance concepts to 'neighbourhood' non-member states. Subsequently, various policies came into being, including the European Neighbourhood Policy (ENP) and the European Security Strategy (2003) as part of an EU normative framework for a 'New Europe' and as a toolkit for fostering cooperation with EU neighbourhood countries in Central and Eastern Europe, Northern Africa and the Middle East.[50]

The ENP prime goal was to enhance *bilateral* relationships with new neighbour countries. It also sought to guide political reform and economic transition in these third countries without necessarily offering future EU membership or participation in EU decision-making processes.[51] Other policies aimed at *regional* arrangements, such as the Single Economic Space in Eastern Europe and Central Asia, construed for those neighbouring states which, the EU assumed, were neither seeking political/economic integration nor necessarily subscribing to the EU's supranational character.

But these policies underestimated both neighbour countries' aspirations to become EU members and the rapidly emerging 'enlargement fatigue' among some core EU states. However, resistance to further enlargement is a far weaker sentiment among the newer EU member states for whom further EU enlargement could revive relations with their own neighbourhood countries of the past. Because the European Neighbourhood Policy fostered neighbour relations below the level of EU membership for Northern Africa and the Middle Eastern nations, it did not necessarily nor adequately cater for neighbourhood countries aspiring to closer inclusion. Consequently, the policy focus next shifted more towards compromise, if only to escape difficult new inclusion-exclusion choices. The initial overarching ENP

aim of becoming a modern foreign policy beyond traditional 20th century European diplomacy, shifted towards one of 'adaptation to EU norms, standards and policies' prior to countries' accession.

Parallel to and partly as an extension of the European Neighbourhood Policy, the European Security Strategy is a core EU instrument aiming at security and stability in a geopolitically grey zone of 'turbulent' neighbours. Like the ENP, it seeks deeper political relationships, economic integration and commitment to common EU values by neighbouring non-member states. This aspect is largely governed by EU wish that European Neighbourhood Policy countries voluntarily converge to the EU normative model, if only to avoid deconstruction of the EU's painstakingly developed internal agreements among pre-2004 member states. However, it also appears to aim at preventing the potentially detrimental impacts of illegal immigration and 'importation' of environmental and economic crises.

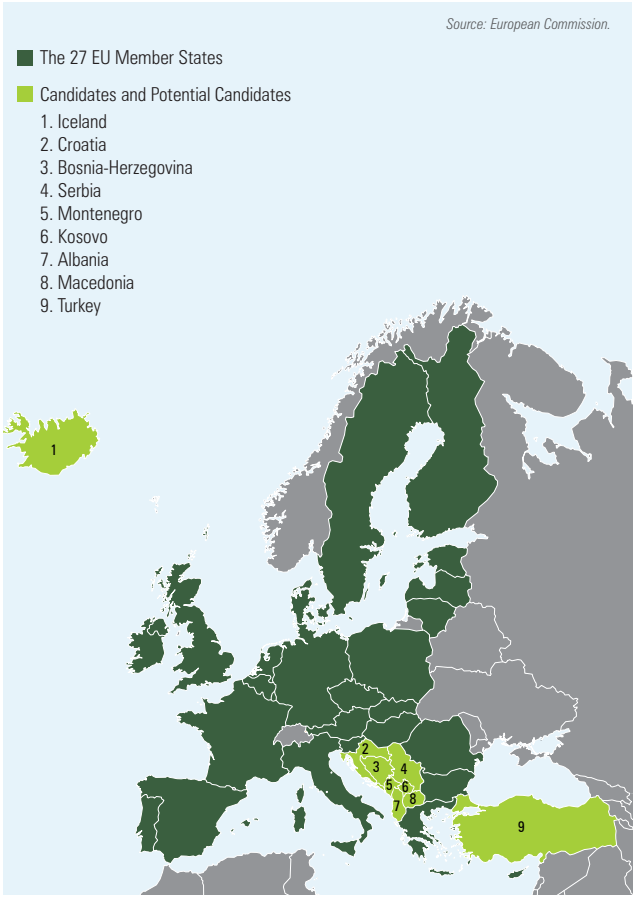
Over time, the EU supra-regional level and relations slowly became better articulated and the 2007 ESPON[52] publication: *Europe in the World* is an example of the newly-emerging thinking beyond EU borders. In 2007, new regulations on the use of various financial instruments pertaining to external cooperation 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'. This could help overcome both current and future obstacles and strengthen the development of the eastern peripheral European region that traditionally had strong ties and connections to their own neighbourhood and the territories beyond. 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.

The EU's external border population is currently about 181 million people, equivalent to 37 per cent of its total population. Given its commitment to territorial interventions under the cohesion policy, it is hard to understand why action plan documents like those on EU-Ukraine or EU-Moldova relations, for instance, are silent on territorial cooperation and regional development.

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 better elaboration since the initiative may very well throw off greater results than the incomplete, possibly ineffective and definitely geographically restricted and ideologically inconsistent terms of the current cohesion policy.

MAP 1.12: **THE EU AND NEIGHBOURING COUNTRIES**



The situation on Europe's periphery is reflecting the EU's identity crisis, its institutional paralysis, its ineffectual foreign policy and its now morbid fear of migrants and multi-culturalism. But some of the most daunting challenges shaping the political agenda of the EU such as immigration, terrorism, people trafficking and energy shortages coalesce precisely 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 ability to meet this challenge will not only test Europe's still-unfulfilled aspirations but may be crucial to its very survival.[53]

However, it should be acknowledged that the EU's polycentricity, cohesion and neighbourhood policies, as well as its security strategy, are all still evolving. All the same, one thing should be clear: 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.

ENDNOTES CHAPTER 1

1 The Nomenclature of Territorial Units for Statistics (NUTS) is a hierarchical classification system for the collection, development and harmonization of EU regional statistics; socio-economic analyses; and framing of EU regional policies. It distinguishes between NUTS 1 (major socio-economic regions); NUTS 2 (basic regions for the application of regional policy); and NUTS 3 (small regions for specific diagnoses).

2 The Instrument for Pre-Accession Assistance (IPA) offers assistance to countries engaged in the accession process to the European Union (EU) for the period 2007-2013. The aim of the IPA is therefore to enhance the efficiency and coherence of aid by means of a single framework in order to strengthen institutional capacity, cross-border cooperation, economic and social development and rural development.

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23 Sjoberg, G., The Preindustrial City, New York, 1960: 281.

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25 [3]http://staff.lib.msu.edu/sowards/balkan/lecture3.html.

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30 Ibid, 168-169.

31 Ibid.: 170-172.

32 Pacione, M, Urban Geography: A global perspective, Oxon, 2005, p. 109.

33 Schopflin G, Monnet, J., Central Europe: Defining a thought-style (http://www.ssees.ucl.ac.uk/schopflin.pdf).

34 European Commission, State of the European Cities Report, Brussels, 2007: iv. :

35 Ibid.: 16.

36 Ibid.: 13.

37 Ibid.: 27.

38 Brennan, E., Policymakers' Needs, seminar on New Forms of Urbanization: Conceptualizing and Measuring Human Settlement in the 21st Century, Bellagio, Italy, 11-15 March 2002.

39 Laquin, A., The Governance of Mega-Urban Regions, in McGee, T., Robinson, I., The Mega-Urban Regions of Southeast Asia, Vancouver 1995, pp. 215-241.

40 The Schengen Treaty was signed in 1985 and enables the citizens and companies of the 26 signatory countries (22 EU member states and 4 non-EU member states) to travel inside the Schengen area without any checking at frontiers.

41 An alliance of four Central European states - the Czech Republic, Hungary, Poland and Slovakia - for the purposes of cooperation and furthering their European integration.

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52 The European Spatial Planning Observation Network (ESPON) aims at policy development towards territorial cohesion and a harmonious development of the European territory by: a) providing comparable information, evidence, analyses and scenarios at the city and regional levels on territorial dynamics; and b) identifying regional and territorial development potentials that can contribute to European competitiveness, territorial cooperation and a sustainable and balanced development.

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part two
02

Warsaw, Poland. Between 1995 and 2010, ▶ Warsaw's population has grown by 6 per cent.
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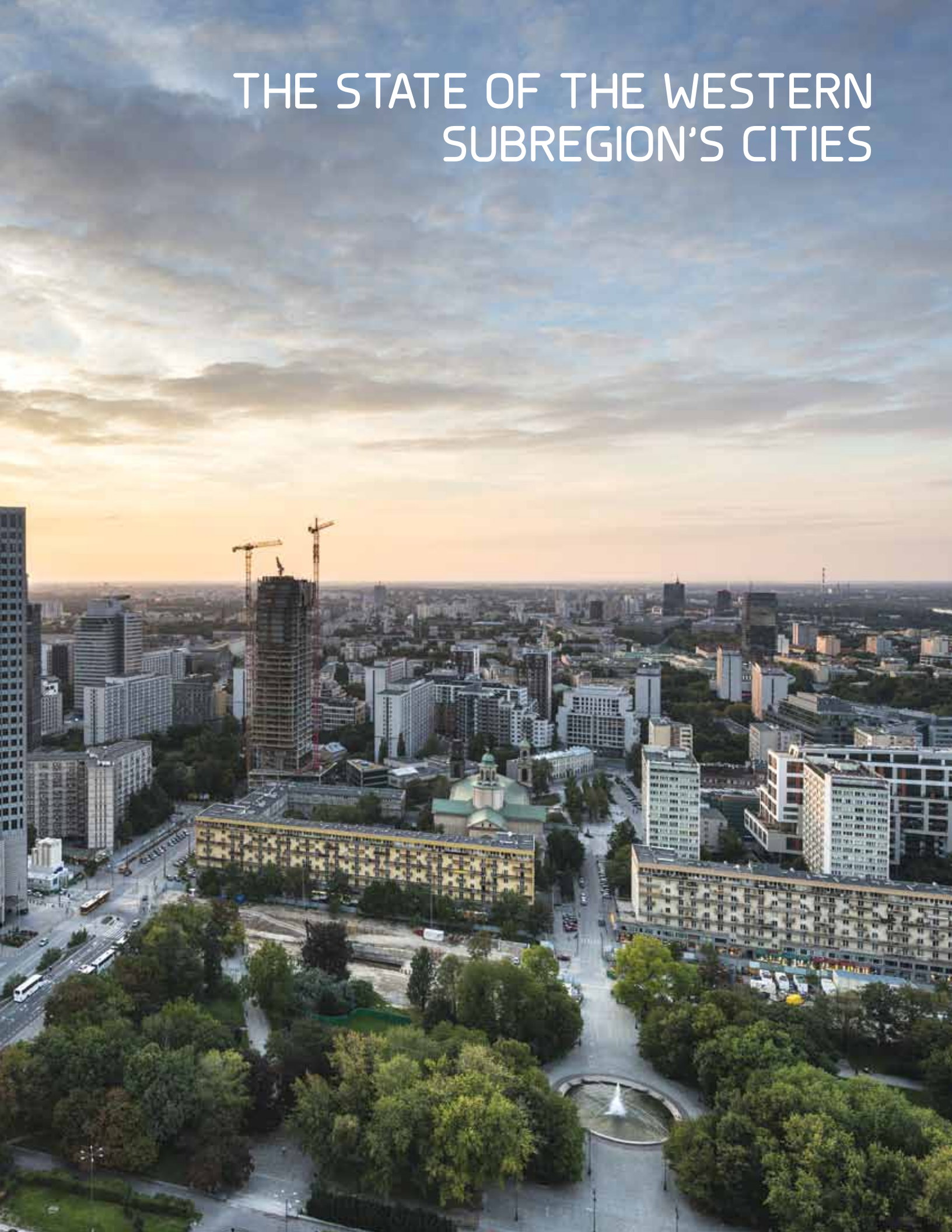
THE STATE OF THE WESTERN SUBREGION'S CITIES



Introduction

The Western subregion, for the purposes of this report, encompasses the eight post-Socialist countries that became EU members in 2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. As 'path-dependency' is important to understanding the development of these countries and their cities, a distinction is made between three groups: the Baltic States of Estonia, Latvia, Lithuania which lost their independence in 1940 through incorporation into the Soviet Union, but which regained independence once more in 1991; the Visegrád (V-4) countries of the Czech Republic, Hungary, Poland and Slovakia, forerunners in the EU enlargement and finally Slovenia, independent from Yugoslavia since 1990.

The Baltic States and Slovenia are small countries with 2011 populations between 1.3 million and 3 million. The Visegrád countries are larger: 5-10 million inhabitants in 2011 as well as the subregion's only large country, Poland, whose 38.3 million inhabitants constitute more than half of the western subregion's 2011 population.

The Western subregion went through dramatic changes during three main periods. From the late 1940s until 1989/90 a Socialist system with a one-party, top-down political order and centralized planning determined all aspects of development; the 1990-2000 decade, when the Socialist system collapsed and political and institutional change towards democracy and free-markets was established, and the early-2000s with its countries' accession to the EU and 'Europeanization'. EU membership became reality by 2004 for all countries of the Western subregion and brought further fundamental development changes.

MAP 2.1: **THE WESTERN SUBREGION**

Source: *UN-Habitat (2012)*

'Welcome to the EU' signboard, Hrebenne, Poland. **©EC**

2.1
Population and Urbanization

Riga, Latvia. The population of the Baltic States has reduced by 12.7 per cent between 1990 and 2010. **©Mark Henley/Panos Pictures**

The demographic developments over recent decades and the forecast for the next two reveal a clear trend of demographic decline in the countries of the Western subregion which started around 1990 (see Table 2.1). OECD data is even less optimistic about demographic developments than those from UNDESA and Eurostat. According to the OECD projections, the Western subregion will only have 69.9 million inhabitants by 2030.

Within this broad trend, the three groups of the subregion show differentiated population developments, both in the past and as projected for the next 20 years. The Baltic States, as a group, lost 12.7 per cent of their total population between 1990 and 2010. This trend is expected to continue and the Baltic States are projected, by 2030, to have lost almost 18.7 per cent of their combined 1990 population.

The Visegrád countries are different. Hungary reached its highest population in 1980 and then entered a decreasing population trend that is expected to continue in the foreseeable future. Similar population peaks were reached by the Czech Republic around 1990 and in Poland around 2000. In the latter countries a new, albeit temporary, population increase is expected for the 2010s with Poland projected to continue its growth into the 2020s before it decreases again. The figures for Slovakia indicate modest growth until 2020 after which the population is projected to stabilize. Slovenia shows a picture similar to Slovakia, with population increase through 2020 and stabilising population numbers by 2030.

Whereas the total European demographic projection shows a growing population up until 2020-2030, the Western subregion as a whole has a declining population trend that may result in a 2030 population approximately 2.1 per cent smaller than that of 1990. The major causes of this decline are low fertility rates and outmigration.

This subregion has seen dramatically dropping fertility rates. Although these rates were only slightly under reproduction level in 1990 (1.8 to 2.05 per cent), in 2000 they fell to about 1.3 per cent. By 2009, however, a slight rebound was recorded, indicating that these rates might be temporary. In

TABLE 2.1: **NATIONAL POPULATIONS, 1960 - 2030, (DECADE INTERVALS AND 2011, THOUSANDS)**

	1960	1970	1980	1990	2000	2010	2011	2020*	2030*
Estonia	1,216	1,365	1,473	1,568	1,371	1,341	1,341	1,329	1,296
Latvia	2,132	2,366	2,513	2,664	2,385	2,252	2,243	2,169	2,073
Lithuania	2,770	3,137	3,430	3,696	3,500	3,324	3,307	3,190	3,068
Baltic Countries	**6,118**	**6,868**	**7,416**	**7,927**	**7,256**	**6,917**	**6,891**	**6,688**	**6,437**
Czech Republic	9,522	9,789	10,262	10,303	10,243	10,493	10,534	10,741	10,798
Hungary	9,983	10,315	10,699	10,376	10,211	9,984	9,966	9,825	9,644
Poland	29,033	32,529	35,577	38,056	38,302	38,277	38,299	38,375	37,835
Slovakia	4,094	4,509	4,962	5,270	5,405	5,462	5,472	5,545	5,547
Visegrad-4	**52,631**	**57,143**	**61,499**	**64,005**	**64,161**	**64,215**	**64,271**	**64,486**	**63,824**
Slovenia	1,580	1,670	1,832	1,927	1,985	2,030	2,035	2,066	2,059
Western subregion	**67,745**	**65,681**	**70,747**	**73,859**	**73,402**	**73,162**	**71,162**	**73,240**	**72,320**

* Projections
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

TABLE 2.2: **URBANIZATION LEVELS, 1960-2030, (DECADE INTERVALS AND 2011, % OF THE TOTAL POPULATION)**

	1960	1970	1980	1990	2000	2010	2011	2020*	2030*
Estonia	57.5	64.9	69.7	71.1	69.4	69.5	69.5	70.3	72.5
Latvia	52.9	60.7	67.1	69.3	68.1	67.7	67.7	68.1	70.1
Lithuania	39.5	49.6	61.2	67.6	67.0	67.0	67.1	68.4	70.8
Poland	47.9	52.1	58.1	61.3	61.7	60.9	60.9	60.9	62.9
Czech Republic	59.5	64.4	75.2	75.2	74.0	73.5	73.4	73.6	74.9
Slovakia	33.5	41.1	51.6	56.5	56.2	54.8	54.7	54.9	57.5
Hungary	55.9	60.1	64.2	65.8	64.6	69.0	69.5	73.4	76.8
Slovenia	28.2	37.0	48.0	50.4	50.8	50.0	49.9	50.3	53.0
Europe	**57.0**	**62.8**	**67.3**	**69.8**	**70.8**	**72.7**	**72.9**	**74.9**	**77.4**

* Projections
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

the Czech Republic, Estonia, Lithuania, Slovakia and Slovenia the number of live births started to increase in the course of the 2000s and is now substantially higher than it was around 2000. However, women now give birth to their children at much higher ages than before.

In the Socialist period (1945-1990), the countries of the Western subregion were 'closed' societies with no significant international migration. The only exceptions were trainees, workers and students from Socialist developing countries who came for studies to the Czech Republic and Hungary[1]. After the collapse of Socialism, these migration dynamics suddenly changed, especially in countries that acquired independence such as the Baltic States, where Russians who had arrived after 1945 left by the hundreds of thousands.

From the mid-1990s onwards, emigration trends (mostly for economic reasons) stabilized following new EU labour movement regulations but outmigration continued all the same. Migration *within* the East-central European countries was very low in comparison to outmigration. Immigration of any significance *among* East-Central European countries was only recorded in some of the economically-stronger countries such as the Czech Republic, Hungary and Slovenia. A common characteristic of these intra-subregion immigrants was that they often belonged to ethnic minorities, sharing a common language or originated previously from there and are therefore not 'real third country migrants'.

Emigration to economically more successful West Europe dominated the migration flows. This particularly affected the shares of economically-active population: 5-7 per cent in Latvia, 8-10 per cent in Poland and also high shares elsewhere in the subregion. However, a fair share of these should be considered temporary migrants, expected to return after some years and bringing back knowledge and capital.

Urban Population Trends

Table 2.2 shows the changes in the share of urban populations in the subregion for the period 1960-2010.[2] It shows relatively low national urbanization levels[3] (if compared with the European average), with gaps of 5-10 per cent for most countries. Poland, Slovakia and Slovenia all remained

significantly below the European average of 72.9 per cent in 2011. Only the Czech Republic persistently stayed above the European average but around 2015 this country is projected to fall below it.

Most countries reached an urbanization level peak around 1990, followed by stagnating or even decreasing urban population shares until the end of the 2000s. This was due to suburbanization[4] and de-urbanization. Projections predict an end to this and urbanization is expected to increase again in the 2010s and 2020s.

But current urban population trends are more complex than would appear from the above. Perceived stagnating or decreasing urban populations in the subregion may well be incorrect and hint at larger processes of urban population growth that are increasingly spilling over cities' administrative boundaries. The urban populations in the region's larger cities are not truly stagnating or decreasing. Rather, if sub-urbanization was included in the growth figures of the core city, an altogether different picture arises.

Urban populations should be conceived as the total number of inhabitants of the entire urban agglomeration, the extended metropolitan area or the functional urban area, rather than just the city proper. Increasingly, the notion of these newly-emerging regional urban configurations should be taken into account, whereby multi-municipal regional urban systems should be recognized for what they really are: extended areas of sheer continuous urban fabric that in demographic, economic, social and other terms act as single entities. Enumerating urban populations on the basis of hopelessly outdated and impractical urban administrative boundaries that reflect the mono-centric cities of the past are an increasingly unrealistic reflection of the actual realities on the ground.

Socialist and Post-Socialist Urbanization

The Socialist period (1945-1990)

Cities were the backbone of the Socialist system. The Socialist city was designed according to a theory and realised according to a plan with the state in charge of all the means to implement it. The most important characteristic of the Socialist, centrally-planned system was that it did neither provide for free choice nor differentiated supply options. The state determined the income of the citizens, defining it on a low level while eliminating various individual or household expenditures by providing free services (education, housing, health care).[5] An economy based on price controls was the tool in the enforcement of political goals, with the state controlling virtually all means of production and centralised investment decisions.[6]

The outcome was a planned economy with high primacy of the industrial sector. Social services were predominantly provided by state enterprises with generally low standards while universal access was only ensured for education and health care. Other services, like housing provision for instance, fell far short and scarcities were 'managed' through supposedly merit-based allocations which were in reality political status and personal contacts.

In the early Socialist period, rural-urban migrations were sped up both by push (forceful collectivisation of agriculture) and pull factors (development of urban-based heavy industries). Numerous new towns were created around mining or industry investment localities. Consequently, between 1945 and 1990 urbanization rates (see footnote 3 on the previous page) grew steadily in all of the subregion's countries.

Urban development under Socialism was further determined by decisions of institutions and strategies of the people. This inter-play was the foundation of the phenomenon 'under-urbanization' so typical of pre-reform Socialist economies[7], which means relatively high urban-based industrial growth without a parallel growth of urban populations. The starting point was concentrated industrial development in urban centres. But the workers in these new urban enterprises could not settle in the city because real estate was too expensive in relation to wages and, in many cases, special permission was needed for housing application or purchase.

To overcome this deficiency, workers commuted between their rural residency and the urban industrial employment by well-developed and cheap public transport. Alternatively, they settled within the wider urban agglomeration or metropolitan region, in localities where real estate was cheaper and no administrative barriers existed to settlement. Consequently, population increases were most significant in the urban agglomerations' low-density settlements beyond the city borders. This urban agglomeration process, whereby the source of rapid suburbanization was not residents moving out of the core city but rather rural dwellers willing to move into the city but not allowed, is frequently referred to as 'Eastern European urbanization'.[8]

It should be noted that Eastern European under-urbanization did not imply that city populations were not increasing. From the 1970s onwards, the development of urban areas accelerated rapidly, mainly through the construction of prefabricated large housing estates with high population densities. Also, many rural settlements were granted urban status and existing cities were enlarged by annexation of their neighbouring villages, a process often referred to as '*in situ* urbanization'.[9]

The Post-Socialist Period: Slowing Urbanization, Growing Suburbanization

The political transition terminated overall control and top-down, long-term central planning. The previously decisive factors of urban development (decision-making, ownership of the means of production, and ownership of urban housing and land) all changed suddenly around 1990. Therefore, the transition period became a particularly turbulent phase of development for transition countries' cities.

Some countries had already embarked on economic transition before the political changes occurred. The most notable case was Hungary, where the first economic reforms commenced in the late-1960s and where, in 1986, central planning was eliminated for local government financing and for the housing

BOX 2.1: **SUBURBANIZATION AROUND PRAGUE**

The development of the city of Prague was artificially restrained for 45 years and new residential construction was permitted only in the form of apartment housing estates. This led to a distorted development whereby one-fifth of the population owned a weekend house, of which 60 per cent were located in the Prague suburbs.

Following the changes of the early 1990s, the better-off families had the opportunity to move out of the city. The Master Plan of Prague remained cautious with regard to planning for suburban growth even though the projections for the metropolitan area suggested fast outmigration. The projects of the suburban areas themselves reflected enormous development potentials with expected short-term population growth ranging between 100 and 1,000 per cent. Thus the vision at the middle of the 1990s was that Prague was threatened by rapid and uncontrolled suburbanization. This perception proved to be valid since then, both concerning housing and other facilities such as hypermarkets and retail parks.

▲ The Jahodnice housing estate in Kyje, Prague. **©Packa.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license.

Source: *Suburbanisation in Prague Metropolitan Region (housing aspects)*, paper prepared for the Internationales Symposium Prozesse und Perspektiven der Stadtentwicklung in Ostmitteleuropa *[International symposium on processes and perspectives of urban development in east-central Europe], Budapest, 1996*

sector. Likewise in Slovenia, where economic, monetary and enterprise reforms had already commenced in 1987.

Democratization, decentralization and privatization removed the main pillars of the Socialist city development model. With the disappearance of central planning and development command, new market-related actors (land owners, landlords, enterprises and financial institutions) emerged as important urban decision-makers. Cities became more independent in determining their spatial and demographic developments and many experienced emerging differentiation between urban neighbourhoods.

Despite strong post-1945 urbanization, in the 1980s, all Socialist countries were still well behind Western European and North American urbanization levels: around 63 per cent in East-Central Europe against almost 80 per cent in Western Europe and 75 per cent in North America. 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.

Many of the state-owned, urban-based industries proved uncompetitive after exposure to global competition and subsequently closed, leading to drastically-increased urban unemployment, although this applied to a lesser degree to the largest cities because these had more diversified urban economies. Due to extensive housing privatization, the prices of urban residential real estate increased fast and even faster in metropolitan suburban areas.

The near total elimination of the public housing stock rendered access to public social housing negligible. Urban public transport fares also started to rise. Consequently, the predicted rural-urban migration flow did not materialize. Rather, many unemployed and retired workers left the expensive cities and returned to their home villages. Today, residents of rural areas move to cities mainly for educational purposes and for work and current urban inflows, on the national scale merely balance population losses due to emigration and urban depopulation resulting from suburbanization.

It has to be noted that, from the perspective of urban agglomerations, extended metropolitan areas or functional urban regions, suburbanization does not mean the decrease of city populations. Large cities should be measured and considered in conjunction with their metropolitan, agglomeration or functional urban area. If this notion is applied, the perceived population declines of East-Central European metropolitan areas are clearly virtual and merely based on the administrative concept of what constitutes the city.

Migration and urbanization processes resulted in dissimilar population movements in the main cities of the subregion. In Latvia, earlier commuting to the larger cities was replaced

by emigration. Domestic migration then stabilized and suburbanization increased. Population concentration in **Riga**'s metropolitan region has increased with the arrival of migrants from other Latvian areas and of suburbanized commuters who retained their jobs in the capital.

In Lithuania, only **Vilnius** had positive migration rates from 2002 to 2009. Since emigration from medium-sized and smaller cities was much more intense than the positive demographic migration factor of Vilnius, the overall population declined.

In Poland, the winners of migration processes were the metropolitan areas of the five largest cities: **Warsaw**, **Krakow**, **Trojmiasto** (Gdansk-Gdynia-Sopot), **Poznan** and **Wroclaw**. Secondary cities' populations decreased, although not as acutely as in the smaller cities. Some provincial cities such as **Bydgoszcz**, **Katowice**, **Kielce**, **Lublin**, **Opole** and **Rzeszow** experienced significant outmigration, mainly due to the collapse of their economic base. However, small cities close to metropolitan areas or along main transport routes (especially the A4 highway) developed rapidly. Cities with specialized functions benefitted from new investments and were also doing well: **Lubin-Glogow-Legnica** in the copper basin, **Belchatow** near brown coal mines, and the tourist destinations **Zakopane**, **Rabka**, **Nowy Targ** and **Mielec-Tarnobrzeg**. Cities outside metropolitan areas and without specialized functions were all affected by rapid depopulation.

The metropolitan area around the Slovenian capital **Ljubljana** also grew, as did the second-largest Slovenian city **Maribor**. Suburbanization is occurring since both cities have experienced much less growth than the smaller cities around them. Smaller cities along traffic arteries provide good accessibility to working places and services and their lower housing costs, combined with living close to nature, further stimulate suburbanization.

Urban Population Dynamics and City Size

The countries of the Western subregion have different urban hierarchies. Measured by the share of the capital city in the total urban population, Estonia and Latvia are primate; Hungary and Lithuania less so, while Poland and Slovakia have no urban primacy whatsoever (see Table 2.3).

The population dynamics in the subregion's different city categories is illustrated in Table 2.4. It reveals a mixed picture. Capital cities like **Prague**, **Warsaw** and (in a relative sense) **Vilnius** grew faster than both the secondary cities and overall populations. Capitals such as **Bratislava**, **Budapest**, **Ljubljana**, **Riga** and **Tallinn** grew slower than their country average and the secondary cities. This, however, has to be interpreted with some caution.

There is a general view that all East-Central European capitals are doing well. Their economic development typically exceeds both that of the country as a whole and that of the secondary cities, as evident from per capita GDP data. The reason that population numbers do not necessarily correspond with these economic data is simple: if the capital city's population dynamics are slow or even negative this is mostly due to suburbanization, which is typically at its highest in these cities. If population data was aggregated on the basis of the urban agglomeration, extended metropolitan region or functional urban area this would show the dominance and further growth of the capital city's population and economic development. But data for the urban agglomeration or the extended metropolitan area is not available.

In the 1970s, the concept of polycentric settlement development had been introduced to create more balanced national urban hierarchies by slowing down the development of the largest cities and to promote the development of regional centres. These attempts mostly proved unsuccessful because, despite interventions, the largest cities continued to absorb major shares of the urbanizing population.

TABLE 2.3: **CITY CATEGORIES AND SHARE IN THE TOTAL POPULATION, 2010 (THOUSANDS)**

2010	Primary city (capital)	Secondary cities	Tertiary cities	Other cities	Total urban (percentage of total)	Total Population ('000)
Estonia	29.9	12.7	11.8	14.6	69.0	1,340
Czech Rep.	11.8	8.1	7.2	44.4	73.7	10,491
Hungary	17.1	8.3	12.1	29.8	67.3	10,023
Latvia	31.4	8.4	11.3	16.9	67.9	2,239
Lithuania	16.5	16.0	9.1	25.4	67.0	3,329
Poland	4.5	12.2	9.2	33.2	63.0	38,200
Slovakia	8.0	8.9	5.9	32.3	55.0	5,425
Slovenia	13.4	8.0	13.7	5.6	48.9	2,050

Sources: *National Statistical Yearbooks; OECD Factbook 2010;* www.citypopulation.de

TABLE 2.4: **POPULATION CHANGE 1990-2010 IN PRIMARY AND SECONDARY CITIES**

	1990 ('000s)	2010 ('000s)	Change (%)
Baltic States			
Estonia	**1,565**	**1,340**	**- 14,4**
Tallinn	***478***	***400***	***- 16,3***
Tartu	113	103	- 8,9 %
Narva	83	66	- 20,5 %
Latvia	**2,666**	**2,248**	**- 15,6 %**
Riga	***910***	***706***	***- 22,5 %***
Daugavpils	125	103	- 17,6 %
Liepaja	114	84	- 26,3 %
Lithuania	**3,674**	**3,329**	**- 9,4 %**
Vilnius	***576***	***548***	***- 4,9 %***
Kaunas	418	348	- 16,7 %
Klaipéda	207	183	- 11,6 %
Visegrád-4 Countries			
Poland	**38,609**	**38,200**	**- 1,1 %**
Warsaw	***1,635***	**1,720**	***+ 5,2 %***
Krakow	745	756	+ 1,5 %
Lodz	823	737	- 10,5 %
Poznan	581	552	- 5,1 %
Wroclaw	642	633	- 1,4 %
Gdansk	463	457	- 1,3 %
Szczecin	v418	406	-3,0 %
Bydgoszcz	386	356	- 7,7 %
Lublin	355	349	-1,7 %
Katowice	352	307	- 12,7 %
Czech Republic	**10,360**	**10,251**	**- 1,04 %**
Prague	***1,212***	***1,257***	***+ 3,7 %***
Brno	387	371	- 4,1 %
Ostrava	331	307	-7,3 %
Plzen	175	170	- 2,9 %
Slovakia	**5,274**	**5,435**	**+ 3,1 %**
Bratislava	***442***	***438***	***- 1,4 %***
Kosice	235	233	- 0,1 %
Presov	88	91	+ 3,4 %
Zilina		85	
Hungary	**10,374**	**10,014**	**- 3,4 %**
Budapest	***2,016***	***1,721***	***- 14,6 %***
Debrecen	212	207	- 2,4 %
Szeged	175	170	- 2,9 %
Miskolc	196	169	- 13,8 %
Pécs	170	158	- 7,1 %
Győr	129	130	+ 1,0 %
Slovenia			
Slovenia	**1.913**	**2.050**	**+ 7,2 %**
Ljubljana	***268***	***274***	***+ 2,2 %***
Maribor	118	109	- 7,6 %
Koper-Piran-Izola	51	55	+ 7,8 %

Sources: *National Statistical Yearbooks; OECD Factbooks 2010;* www.citypopulation.de; own calculations

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

The collapse of the Socialist ideology and planned economy was followed by a 'no policy' decade (1990-2000) during which the markets (i.e. the decisions of investors) were the leading factors determining territorial development. Consequently, urban growth patterns became more driven by cities' individual characteristics, their geographical location and local policy. Therefore, from the 1990s onwards, cities experienced drastic changes mainly prompted by a combination of socio-economic and market forces but also through locally-generated interventions.

Interestingly, existing centralization tendencies did not change. Despite eventual population decline due to suburbanization and emigration, the capital cities remained the nations' sole large urban centres. This would result in heightened regional disparities rather than more balanced urban hierarchies.[10] The creation of 'new countries' (the Baltic States, the Czech Republic, Slovakia and Slovenia) in the early 1990s, however, *did* result in some more polycentricity as a by-product of eight rather than the previous four capital cities.

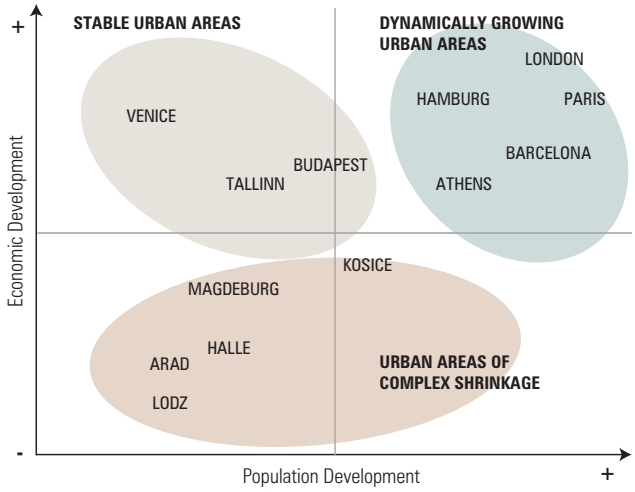
In 1990, Lithuania's second-largest city, **Kaunas**, was similar in size to **Vilnius**. That changed when **Vilnius** assumed a leading role as the national capital. Secondary cities started to develop slower according to their administrative functions. But **Kaunas** and **Klaipeda**, though developing slower, or rather, shrinking faster than **Vilnius**, had locational advantages as regional centres compared to other intermediate and smaller cities in Lithuania that are now rapidly losing population and economic, social and other influence both in absolute and relative terms.

In Poland, the populations of secondary cities like **Katowice** and **Lodz** are rapidly decreasing due to industrial collapse. Other secondary cities are doing better, especially those riding the potentials of tourism or service industry such as **Krakow**, **Wroclaw** and **Gdansk**.

During the 2000s, new national and regional territorial policies were developed in the Western subregion, including interventions guided by the EU Cohesion Policy. Even so, all the East-Central European countries remained focused on strengthening their national capitals as the cornerstone of national territorial development. Consequently, the subregion's urban development patterns did not change significantly with capital cities consolidating their political, social and economic dominance in their respective nations, so that the gap between the primary and secondary cities remained huge and is often increasing through 'informal' centralization activities of national governments.

New political systems and economic development models *did* bring changes for secondary and tertiary cities. Some lost their previous development vectors while others gained momentum through newly-acquired administrative roles or other development-stimulating factors. As a result, the general winners of the transition are the larger cities, especially if viewed from the perspective of the functional urban area (metropolitan region or urban agglomeration), since the largest metropolitan areas continue to concentrate most of the economic and population potentials and remain, therefore, better positioned to attract investments.

FIGURE 2.1: **CITIES DEMOGRAPHIC AND ECONOMIC PERFORMANCE**



Source: *Hungarian Presidency of the Council of the European Union (2011)*

East-Central European Cities in European Urban Development Trends

The long-term development trends of European cities hinges on combinations of demographic and economic performance. The economic parameters are essential, because the real challenge for the future is not demographic change *per se*, whether growth, stagnation, shrinkage or ageing but rather the underlying economic and social causes of these demographic changes. Based on these considerations, three main categories of European cities can be distinguished: dynamically growing, stable and complex shrinking.

Dynamically-growing urban areas

Despite demographic stagnation or decline in most of the European countries in the long run, some cities will experience strong population increases due to their economic power. These are mostly the larger cities in Western Europe whose mature economies are connected to the world economy. As the performance of urban economies is the most relevant factor in retaining working-age population and attracting migrants (who are usually younger and have a higher fertility rate), these cities are likely to experiences growing populations. But such cities are also likely to face tensions associated with multi-culturalism and integration of migrants besides the challenges of meeting additional demand for housing, infrastructures and public services, while dynamic urban population growth may also result in increasingly-dense built environments and/or uncontrolled urban sprawl.

In a strict sense, no such city exists in East-Central Europe today, although **Warsaw** perhaps comes closest, depending on the future dynamism of Polish economic development and the possible return of emigrants. Between 1995 and 2010, for instance, **Warsaw**'s population increased by 6 per cent. In a country with a slightly-shrinking overall population and a declining share of the urban population (partly because of the statistical exclusion of suburbanization) **Warsaw**'s growth could be labelled 'dynamic'. At the broader European level, however, this growth is certainly not extremely dynamic. Moreover, there is a strong argument in Poland for more urban population dispersal and development of its secondary cities.

Stable urban areas

Most of the larger European cities have relatively strong economic backgrounds and either a slowly shrinking, a stable or a slightly increasing population. Population shrinkage in itself should not be considered a serious problem unless it significantly affects the local economy. Gradual population loss in a city may actually be advantageous as economic output is divided among fewer residents.

Stable urban areas, however, will have to prepare for the consequences of demographic ageing, which involves redesign and adaptation of the urban environment, transportation and services according to the new needs. Most East-Central European capitals and large secondary cities belong to this category.

Urban areas of complex shrinkage

Complex shrinkage refers to combined demographic and economic decline. Economic decline in this sense does not necessary mean output decline in net terms. Rather, it refers to economic stagnation or slower development than the national average. Such urban areas are mostly located in the eastern part of Germany, Hungary, in the eastern regions of Bulgaria, Poland, Romania and Slovakia while some peripheral areas of Western Europe are also affected. The main cause of complex shrinkage is economic restructuring: the city loses population because it is unable to provide sufficient jobs.

Strategies for mitigating complex shrinkage should concentrate on redefining the economic base as the start of economic recovery policy. These cities must also adapt their current over-capacity of housing and public services whereby cities may need to downsize to reach a new equilibrium on a smaller scale. For the already smaller shrinking cities, connectivity to large urban centres and access to high-quality services will be of importance. In East-Central European countries, this type of urban areas is found in the mining and steel industry regions, as well as among medium-size and smaller cities in poorly-accessible remote regions.

In eastern Lithuania the demographic situation is particularly critical. Mortality rates are high and birth rates low, unfavourably affecting the age structure of population. Medium-size and small cities are shrinking fast due to closing industries, emigration and natural population decreases.

Three Polish regions - Dolnoslaskie, Lodzkie and Slaskie - encountered severe deurbanization. These regions represent 91 per cent of Poland's total urban population decrease, which was as high as 600,000-people in the period 1995-2010. Lodzkie shows that its regional population decrease is highly dependent on the central city, **Lodz**, where the

Lithuania's capital Vilnius is a dynamic city that has progressed rapidly in the least-developed part of the country to the benefit of the region as a whole. **©Bokstaz/Shutterstock**

traditional textile industry had collapsed. The Dolnoslaskie region's decline followed depopulation of 33 small cities in the Sudety Mountains and its surroundings near the Polish-Czech border.

The East-Central European countries also have many relatively dynamic cities in economic terms that are not among the most dynamically growing cities of Europe. The main reason is that highly-educated third country migrants do not view the subregion or their capitals as attractive migration destinations. With this lack of immigration, the development of even the more successful cities in East-Central Europe can only be slow, especially as emigration to Western Europe continues to remove much human potential.

The extent to which the success of a city is determined by local and internal urban factors and what role regional territorial factors play remain central questions. What is being asked is whether cities can be successful in depressed regions and the answer depends to a large extent on national and local circumstances as the following two examples show.

In Lithuania, regional level factors have little influence on cities. For example, the capital **Vilnius** is located in the least-developed part of the country. Its relatively dynamic development is not so much influenced by the surrounding region but rather by the development of Lithuania as a whole combined with global factors. This appears to indicate that a robust city can succeed in an otherwise depressed region. Recent rapid development of **Vilnius** has actually made significant positive impact on the surrounding region, showing once more that cities are nations' economic engines and that dynamic cities can drive economic development of geographically a much wider region.

The population growth or crisis of Polish cities is strongly connected to regional development trends, especially the success of the regional capital cities. Intensively-growing cities are mostly found in dynamic agglomerations: **Warsaw** (Mazowieckie), **Krakow** (Malopolskie), **Poznan** (Wielkopolskie), **Gdansk-Sopot-Gdynia** (Pomorskie), **Rzeszow** (Podkarpackie), **Białystok** (Podlaskie), and **Wroclaw** (Dolnoslaskie). The smaller cities in depressed regions can only boost their development chances with good accessibility, outstanding local governance and/or development of locational advantage, such as tourism.

This appears to indicate that large cities depend less on their immediate region and more on their relations with similar cities in Europe, while medium-size and smaller cities depend more on the performance of their immediate region, especially that of the regional city.

2.2
The Economic Role of Cities

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

With transformation from the Socialist model to market economies, many cities in the Western subregion succeeded in producing substantial economic growth (5-10 per cent annual GDP increase) in spite of serious transition difficulties. However, many unresolved problems continue to threaten the development of the subregion's cities. The low-wage production sector, one of the pillars of the Socialist economic model, no longer proved competitive as a result of outdated technologies. In addition, the transformation of this sector to a modern production scheme with low-wage workers did not prove competitive because international investment capital preferred the even lower wages in Asia over those of the Western subregion. Therefore, employment generation for lower-educated workers formerly employed in the heavy industries remains one of the most important challenges.

Other major challenges are the dramatic domestic economic disparities between the capitals and some dominant secondary cities, on the one hand, and lagging smaller cities and rural areas on the other.

Although the data on the size of the informal economy in the Western subregion is scarce, informality should be considered a major challenge too with the size of the shadow economy estimated at 20 per cent of GDP[11]. The existence of a significant informal economy is a sign of a weak state and often a result of inefficient welfare programmes.

The Western Subregion's Cities in the World System

With the exception of Poland, all countries of the Western subregion are relatively small, which implies that only the Polish capital would theoretically be capable of playing a substantial role in the European economy. However, the economic contribution of the smaller countries' capitals to their national economies is high. As Figure 2.2 shows, these cities produce between 25.3 and 57.3 per cent of the GDP with only 12.3 to 31.4 per cent of their national populations.

This phenomenon characterizes the economies of the subregion's capitals but not the other large cities and is the result of the concentration of public administration,

suburbanization processes that decrease population but add workforce and the higher concentration and productivity of services. Among the eight capitals, only **Budapest**, **Prague** and **Warsaw** exceed the one million population threshold. These three capitals could possibly be of European significance. The other capitals would only play an important role at subregional and national levels. Some capitals have a transmitting function, creating a bridge between two regions of Europe such as **Budapest** between the Balkans and Western Europe, **Warsaw** between countries of the former Soviet Union and Western Europe, **Vilnius** between Belarusia/ Ukraine and Europe and **Tallinn** between the countries of the former Soviet Union and Scandinavia.

Some non-capital cities have a specialized economic or functional role, such as port cities (**Gdansk-Gdynia** in Poland, **Klaipeda** in Lithuania and **Koper** in Slovenia); cities with important touristic attractions (**Tartu** in Estonia, **Cēsis** in Latvia, **Kaunas** in Lithuania, **Krakow** in Poland; **Karlovy Vary**, **Telč** and **Česky Krumlov** in the Czech Republic and **Bled** in Slovenia) or smaller cities with rich a cultural heritage or natural resources.

The international role of cities, however, is mostly determined by their connection to major transportation corridors. In this context, the Western subregion's countries entered the EU and a new economic era with underdeveloped and ageing transport infrastructures. Few major motorways existed, while the extensive railway network - built mostly a century ago - suffers technological, maintenance and investment deficiencies because the railway corridor improvements of the 1980s had mostly focused on the Soviet Union.

Pan-European transport corridors were defined in 1994 and 1997. Corridors I, II, III, IV, V, VI, VII and X cover the main transit routes of the subregion and massive investments have been made in many sections of these transit corridors but at the exclusion of other existing networks that, consequently, declined further. The designated corridors cover almost all major cities but since the network is still incomplete, several cities continue to lack accessibility. Improvements co-financed with EU funding take a long time and, in some cases, under-spending on maintenance causes rapid amortization of these new infrastructures.

As a general rule, good accessibility by road and rail is a prerequisite for economic development. But accessibility in itself does not guarantee the inflow of investment capital. It is crucially important whether the highway reaches the city as a final destination or whether it continues to other important destinations across national borders. Some cities are still lagging in development even though they are linked up with highways because, as final destinations, they have limited access to the transnational economic processes. The correlation between transport links and economic development, however, is not always obvious.

East-West railway connections between Russia and the Baltic ports - used mainly for bulk transit of oil products - are important and the main reason for the relatively high share of Baltic railways in freight transport. But the railway network is broad-gauge and of low density with minimal passenger traffic. Motorways are scarce in the Baltic except for around major port cities such as **Tallinn**, **Klaipeda**, **Riga** and **Ventspils**.

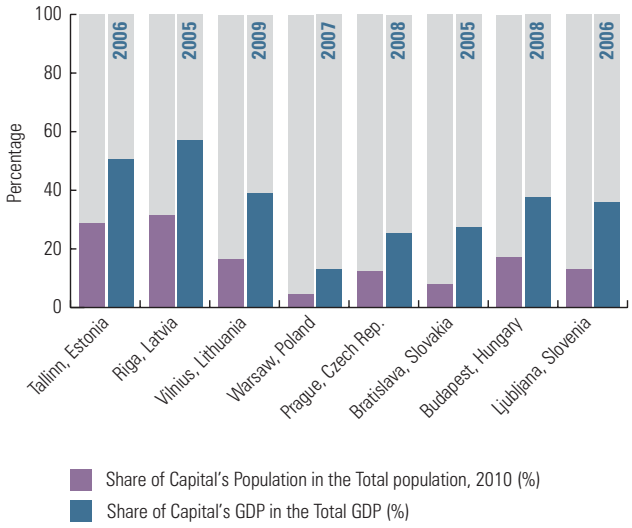
The designation of future corridors in Poland reflects the more polycentric and hierarchical urban structure of the country. However, the existing highways do not support this structure yet. The Polish railway network is in a poor condition and many secondary lines were closed down after the transition while new highway development progressed only slowly until recently. Improved accessibility through Corridor III in Southern Poland (**Dresden-Wroclaw-Katowice-Lviv**) has shown a measurable positive impact and motorway A4 connecting **Legnica**, **Wroclaw**, **Opole**, **Gliwice**, **Katowice** and **Krakow** to Germany has been finished.

The Czech Republic features a very dense, developed and well-maintained railway network compared to most other countries of the subregion. Domestic transport policy prioritized the upgrading of the main railway corridors - in many cases to a maximum speed of 160 km/h - over road developments. Corridor IV (Dresden/Nuremberg-Prague-Brno-Bratislava) - which includes the busiest domestic route Prague-Brno and the Western branch of Corridor VI (Brno-Ostrava-Katowice) form the backbone of the Czech railway and highway networks with **Prague** and **Brno** the key junctions. These developments were effective because, after a drop in the 1990s, the number of rail passengers has grown since 2000.

Bratislava, the capital of Slovakia, has good international connections through both rail and motorways. However, domestic connections, especially with the Eastern parts of the country, are only developing slowly.

Hungary is crossed by four pan-European corridors in **Budapest**. Their designations reinforce the already overly-

FIGURE 2.2: **CAPITAL'S POPULATION AND GDP SHARES (%)**



Source: *Multiple separate sources*

MAP 2.2: **MOTORWAYS OF THE WESTERN SUBREGION**

Source: *TEN-T Executive Agency for base map and own data collection*

dominant role of the capital in the national economy. The last decade saw a rapid development of the highway network, from 500 km to 1,300 km. The development of the main railway lines is progressing slower while both primary and secondary lines lack maintenance.

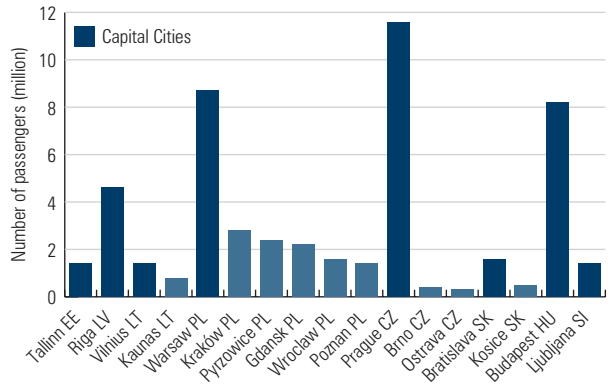
In Slovenia the main East-West corridor was finished first, while the two North-South links with junctions in **Ljubljana** and **Maribor**, respectively, have also been constructed. The railway network is of good quality but plays a secondary role. **Ljubljana** is the most important node of the transport networks, which considerably influences its competitiveness.

Economic development and EU accession boosted air traffic in the subregion during the last decade, until the economic crisis hit the sector in 2008. Due to its central location, **Riga** could develop into the main airport for the Baltic States with 4.6 million[12] passengers, followed by **Tallinn** and **Vilnius** with 1.4 million each. Lithuania has an important secondary airport in **Kaunas** (0.8 million passengers in 2010).

The main air transport hubs of the Western subregion are in large capital cities: **Budapest, Prague** and **Warsaw** with between 8 and 11 million passengers annually. **Bratislava** (1.6 million) has a special status as it also serves as a secondary airport for **Vienna**. The main international airport of Slovenia is Ljubljana Airport with 1.4 million passengers.

Regional and secondary airports have shown rapid development due to the expansion of low-cost carriers. But the only country with a truly strong network of regional airports is Poland, reflecting and reinforcing its polycentric urban structure. However, it is also a reflection of Poland's relatively underdeveloped road network. In the Czech Republic **Brno** (0.4 m) and **Ostrava** (0.3 m) are the busiest regional airports, while **Kosice** in Eastern Slovakia serves around 0.5 million air passengers annually.

FIGURE 2.3: **PASSENGER VOLUMES OF THE BUSIEST AIRPORTS OF THE SUBREGION (MILLIONS, 2010; DARK BLUE: CAPITALS)**



Source: *Wikipedia*

Changes in the Urban Economy

The Western subregion has experienced extremes in economic growth and decline during the past 20 years. The first half of the 1990s was characterized by a serious drop in GDP with economic declines in all countries such as -33 per cent in Latvia and -21 per cent in Estonia (1992). Dynamic growth was observed over the last years of the 1990s and in the 2007-2008 period, such as +11 per cent in Estonia and +12 per cent in Latvia (2006). However this growth was dramatically interrupted by the financial crisis of 2008-2009. Countries which GDP had grown most before this crisis declined the most after the crisis, especially the Baltic States. Latvia suffered an 18 per cent GDP decrease and Estonia some 14 per cent. All countries of the subregion suffered from GDP losses over this period, except Poland[13]. The Baltic States, where unemployment rates had been constantly high during the transition period, reached a 20 per cent unemployment level.

The future is still uncertain. Slight GDP increases have been recorded in 2010-2011 but the impact of the financial crisis is not over yet and, at the time of writing, decrease or stagnation in 2012 GDP is still forecast for some countries of the subregion. Whether countries in the subregion can catch up may be heavily linked to their debt burden. Public debt to GDP ratios in 2010 were 38 per cent for Slovenia, 38.2 per cent for Lithuania, 38.5 per cent for the Czech Republic, 41 per cent for Slovakia, 44.7 per cent for Latvia, 55 per cent for Poland, 66 per cent for Estonia and 80.2 per cent for Hungary.

Economic growth rates are also closely connected to foreign direct investment (FDI) inflows, although these are not necessarily connected to the pace of privatization as could be seen from the results of early-privatizing countries such as Estonia, Hungary, Latvia and Poland. In Slovenia, however, as much as 40 per cent of corporate capital is estimated to still be state-owned. In Lithuania, local capital plays a more important role in the urban economy than in the other Baltic States. The Czech Republic has privatised most of the former state-owned heavy industries by voucher privatization, which means that the shares were sold to the employees for a moderate price. However, FDI could flow to green-field developments as well, and that is why its dynamism is not correlated with the process of privatization.

The advantages of the Western subregion in attracting FDI included its well-educated but still cheap labour force and the fast transformation of their economic systems (legal background, financial institutions etc.). However, there were serious disadvantages of growing FDI flows, especially since some sectors, such as parts of the food processing industry, were bought up simply to be eliminated by their new owners to diminish competition. This contributed to rising unemployment in both urban and rural areas.

Moreover, FDI inflows seemed to be even more territorially concentrated than population and GDP. The vast majority of FDI remains in the capitals and their metropolitan regions: approximately 85 per cent of the national amount in **Riga**,

80 per cent **Tallinn**, 60 per cent in **Bratislava**, **Budapest** and **Vilnius**, 53 per cent in **Prague**, 50 per cent in **Warsaw** and 46 per cent in **Ljubljana.**

With the economic transition, the structure of the economies in the subregion has changed significantly. The share of agriculture has reduced while the share of the tertiary (services) sector has increased. Not only has the share of the secondary sector (industry and construction) declined, its content (heavy industry) has also changed with the introduction of new technologies. Industry has lost more employment than GDP share and therefore became more efficient. Agriculture lost fewer employees than GDP and therefore lost efficiency.

These national trends had important impacts on urban areas. The growth rate of the services sector in East-Central European cities has been faster than anywhere else.[14] Its share in the capital cities reached 73-79 per cent, while industry declined to 20-21 per cent. However, in the most-developed European cities the tertiary sector is 80-90 per cent and one of the transition challenges is to further increase the service sector by providing work for low-skilled workers. This is more likely to occur in the larger urban areas.

The decline (or restructuring) of the agriculture sector had great impacts on small rural towns, while the collapse of the Socialist industries continued to have dramatic consequences in medium-sized or larger cities. In the Socialist period, one of the most relevant tools for urban development was 'Socialist industrialization', as explained in section 1 of this chapter, and which resulted in significant rural-urban migration. The artificial strengthening of urbanization back-fired after the transition when these heavy industry and poorly accessible mono-functional cities were the major losers. These include Polish cities in the Silesian conurbation; **Miskolc**, **Ózd**, **Salgótarján** in Hungary; **Ústí nad Labem** and **Most** in the Czech Republic, **Michalovce** and **Šariš** in Slovakia, **Maribor** in Slovenia and hundreds of small cities all over the subregion.

Cities with a significant urban region, on the other hand, were often able to recover from economic decline over quite short periods if they had good accessibility such as being located in the western part of their countries, having a highly-qualified and adaptive labour force, existing industrial infrastructures, high-quality public services and/or a specialty such as architectural heritage or port capacities. **Dąbrowa Górnicza**, **Gliwice**, **Poznan**, **Sosnowiec**, **Tychy** and **Wroclaw** in Poland; **Győr** and **Tatabánya** in Hungary; **Plzen** and **Brno** in the Czech Republic; **Jonava**, **Kedainiai**, **Mazeikiai** and **Visaginas** in Lithuania and **Celje** and **Kranj** in Slovenia are examples.

The larger cities are the clear winners of transition since these were better placed to take advantage of new economic opportunities. However, some claim this is only temporary because more-developed urban centres were merely advantaged in the initial stage (temporarily increasing regional disparities), but a regional equalisation process should start thereafter. Indeed, the higher a European country's GDP, the lower its dual index.[15] The highest urban-rural indices are now found in the new EU member states.[16] While the EU27 average is 1.5, in the new member states it is 2.5.[17] The sustainability of rural centres will heavily depend on the development of financially-sustainable agriculture, tourism and small scale industry.

In Estonia, rural employment losses could only be compensated for to a limited extent (30-40 per cent) and rural-urban migration remains strong today. In Latvia, the initial geographic economic imbalance started to decrease slightly when economic growth spread from cities to their peripheral municipalities and next to wider regions. In Lithuania, some geo-economic equalisation occurred since 2000 but the relative advantages of the capital **Vilnius** continue to grow.

In Poland, the urban share of GDP increased but decreased in rural and intermediate areas, which are regions where the urban population share ranges from 50 to 80 per cent.

TABLE 2.5: **CHANGES IN GDP STRUCTURE IN THE WESTERN SUBREGION (PERCENTAGE, VARIOUS YEARS)**

	GDP structure right after the transition			Structure of the GDP in 2010		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
BALTIC STATES						
Estonia	15.4 (1992)	42.5 (1992)	42.1 (1992)	2.7	29.1	68.2
Latvia	9.1 (1995)	30.3 (1995)	60.6 (1995)	4.0	21.8	74.2
Lithuania	11.0 (1995)	31.5 (1995)	57.5 (1995)	3.4	28.0	68.6
VISEGRÁD COUNTRIES						
Poland	14.0 (1990)	36.0 (1990)	50.0 (1990)	3.4 (2010)	33.0	63.5
Czech Republic	8.0 (1990)	56.0 (1990)	36.0 (1990)	2.9 (2008)	38.7 (2008)	58.7 (2008)
Slovakia	8.0 (1990)	56.0 (1990)	36.0 (1990)	3.9 (2010)	34.5	61.6
Hungary	12.0 (1990)	32.0 (1990)	56.0 (1990)	4.7 (2008)	30.2 (2008)	65.1 (2008)
SLOVENIA						
Slovenia	5.3 (1992)	39.9 (1992)	54.8 (1992)	2.0	34.0	64.0

Source: http://www.indexmundi.com; national statistics and World Development Report 1992

BOX 2.2: **RECOVERY EFFORTS IN THE CZECH REPUBLIC**

Ostrava, Czech Republic. **©Mino Surkala/Shutterstock**

The industrial region Moravia-Silesia with the city Ostrava became one of the most-depressed regions of the Czech Republic because of significant declines in production and employment in the heavy industries from the Socialist period and a persistently poor environmental condition (contaminated land).

In recent years, however, new industrial clusters emerged in the region based on the traditional steel and metallurgy industries. Moravia-Silesia was the first Czech region to carry out a study on industrial clusters (2002) and established the first one in the country: the Moravian-Silesian Engineering Cluster (2003). This was converted late in 2008 into a national engineering cluster.

Clustering is generally defined as a process of firms and other actors co-locating within a concentrated geographical area, cooperating around a certain functional niche and establishing close linkages and working alliances to improve their collective competitiveness.

The Moravia-Silesia region started intensive restructuring activities by attracting foreign direct investment and by the support of diversification of the regional economy in new industries and also with the promotion of clustering activities. The emergence of new innovative automotive, ICT and other industries connected with nine cluster initiatives supported by regional authorities and universities have started new dynamism in the economic development of the region. As a result of its highly developed industrial base, its extensive education system and range of initiatives supporting research and development (the most important one funded by the EU), the region has now become the Czech Republic's leader in applying the cluster concept to support local economic development. The region was the one with the fastest economic growth in the Czech Republic in the four years before the outbreak of the world economic crisis.[18]

Warsaw experienced extraordinary economic growth although some larger cities such as **Krakow**, **Poznan** and **Wroclaw** are now catching up. But the rapid development of these cities happens at the expense of smaller subregional centres which functioned well with local industries during the Socialist period but are now experiencing declines. Only subregional centres located along major transportation routes such as **Gliwice**, **Katowice**, **Legnica and Opole,** are able to maintain and develop their economic position.

In the Czech Republic, the transformation started in the mid-1990s with two distinct development paths. While the capital **Prague** saw accelerated GDP growth after 2000, other regions experienced economic decline which culminated around 2002-2003 but then turned to growth. Unfavourable transition impacts were most noted in the old industrial regions of Moravia Silesia and North-West Bohemia, although recent interventions have improved conditions (see Text Box 1.2). In Slovakia the east and south-central are the most economically-depressed regions. In the east only the metropolitan area of **Kosice**, the largest city in this region, could be considered an exception based on its industrial heritage.

In Hungary the problematic areas are in the more remote regions of the eastern and south-western part of the country where only the regional centres and county seats could perhaps be considered potential growth poles and where the smaller cities are stagnating or declining. However, the importance of the capital and some cities in western Hungary appears to be increasing.

In Slovenia, geographic features, different transport accessibility and consequent geographically-unbalanced economic growth continue to increase the inter-regional disparities creating weaker and more developed areas.

▲ Kaunas, Lithuania is categorised by the EC as a 'transformation pole'. Its strong industrial heritage has recently been complemented by vibrant information technology and electronics sectors. **©Raimundas/Shutterstock**

The Western Subregion's Urban Typology

The State of the European Cities Report, published by the European Commission in 2007, created a new system of city identification based on size, economic structure and key drivers of competitiveness using the data of the Urban Audit[19]. The structure contained the following typology relevant for the cities of the Western subregion:

(i) *International Hubs:* well-known international centres operating at the European and/or the global level:
- Re-invented capitals that are champions of transition, engines of economic activity in the new Member States

(ii) *Specialised Poles:* cities with a (potentially) important international role in some aspects of the urban economy, including:
- National service hubs essential in the national urban hierarchy that fulfil key national functions and often some capital functions within the (public) services sector
- Transformation poles with a strong industrial past and that are well on their way to managing, changing and developing new economic activities
- Gateways that include larger cities with dedicated port infrastructure, handling large flows of international goods and passengers
- Modern industrial centres with platforms for multinational and local companies exporting abroad; high levels of technological innovation
- Visitor centres handling large national or international people flows with a service sector geared towards tourism

(iii) *Regional Poles,* the pillars of Europe's regional economies, including:
- De-industrialised cities with a strong (heavy) industrial base, which is usually in decline or recession;
- Regional market centres fulfilling a central role at the regional level particularly in terms of personal, business and financial services, leisure and hospitality
- Regional public service centres that fulfil a regional role in the areas of government administration, health and education.

This categorisation is based on measurable indicators, complemented by qualitative evaluation. In spite of some weaknesses (availability and comparability of data and lack of metropolitan data) the report came to some important observations:

One could distinguish between cities with difficult industrial recovery (de-industrializing cities) and those that had already achieved some important structural changes (modern industrial centre, transformation centre). It was also able to distinguish between cities with an international role (reinvented capitals, visitor centre, gateway cities) from those with mere subnational importance (regional market centre, national service hubs). However, it did not specify the different position of capital cities. Whereas the reinvented capitals were the fastest-growing European cities around the 2000s, it is still not clear which of them would become so-called 'knowledge hubs' (important European cities with high innovation potential) and which would remain 'established capitals' (i.e. well-functioning capital cities with national importance only).

TABLE 2.6: **CITY CLASSIFICATION IN THE STATE OF THE EUROPEAN CITIES REPORT (2007)[44]**

	Identification in the State of the European Cities Report - 2007	Specialty in the national documents (National – occasionally spatial - Development Plan)
Baltic States		
Estonia		
Tallinn	Re-invented capital	Real urban area (>40.000 inhabitants)
Tartu	National service hub	Real urban area (>40.000 inhabitants)
Narva		Real urban area (>40.000 inhabitants)
Latvia		
Riga	Re-invented capital	International Urban Growth centre
Daugavpils		National and Regional Urban Growth centre
Liepaja	Regional public service centre	National and Regional Urban Growth centre
Lithuania		
Vilnius	Re-invented capital	International metropolitan centre
Kaunas	Transformation centre	International metropolitan centre
Klaipéda		National centre
Visegrád Countries		
Poland		
Warsaw	Re-invented capital	Capital city
Krakow	Visitor centre	Regional capital
Lodz	National service hub	Regional capital
Poznan	Modern industrial centre	Regional capital
Wroclaw	Modern industrial centre	Regional capital
Gdansk	Gateway	Regional capital
Szczecin	Modern industrial centre	Regional capital
Bydgoszcz	Modern industrial centre	Regional capital
Lublin	Regional public service centre	Regional capital
Katowice	De-industrialised city	Regional capital
Czech Republic		
Prague	Re-invented capital	International metropolis of a lower degree (main development pole)
Brno	National service hub	Regional metropolis of a higher degree
Ostrava	De-industrialised city	Regional metropolis of a lower degree
Plzen	Transformation centre	Meso-regional centre of a higher degree
Slovakia		
Bratislava	Re-invented capital	Centre of supreme significance
Kosice	De-industrialised city	Innovation growth pole
Presov		Innovation growth pole
Zilina		Innovation growth pole
Banska Bystrica	Regional market centre	Innovation growth pole
Nitra	Regional market centre	Innovation growth pole
Hungary		
Budapest	Re-invented capitals	Metropolitan region
Debrecen		Development pole
Szeged		Development pole
Miskolc	De-industrialised city	Development pole
Pécs	Regional market centre	Development pole
Győr		Development pole
Slovenia		
Ljubljana	Re-invented capital	Cities are not classified in national plans if they have a very strong suburban character. (NUTS 3 territories are objects of development policies)
Maribor	Transformation centre	
Koper-Piran-Izola		

The Baroque library hall inside the Clementinum, Prague. The Czech Republic has one of the subregion's highest R&D/GDP ratios and Prague's Charles University ranks 25th in Europe's top 100.

Human Capital, Culture and Innovation

According to the Global Innovation Index (2011)[20] the countries of the Western subregion took the following ranking among the 125 countries under evaluation: Estonia (23), Hungary (25), Czech Republic (27), Slovenia (30), Latvia (36), Slovakia (37), Lithuania (40) and Poland (43). However, slightly different rankings emerge if taking a different perspective, such as the position of the country in connection with innovation is highly correlated with the expenditure on Research and Development (R&D), although several other factors were also evaluated.

As Table 2.7 shows, countries at the top of the innovation lists are the ones who were able to significantly increase their GDP share for R&D (Czech Republic, Estonia and Slovenia), while those with constantly low or declining R&D shares (Latvia, Poland and Slovakia) did not manage to notably restructure their economy towards a new knowledge-based system. The more successful countries did not merely rely on state-funded R&D but also internalised the research capacities of the private sector (mostly multinational firms). R&D capacity is very much centralised in the capital cities as these host the main universities and research organisations. Even so, the subregion's universities do not score too well with only five among Europe's top 200 and the Charles University of Prague scoring the best with 25th place.

TABLE 2.7: **SHARE OF R&D EXPENDITURES IN GDP (%)**

	R&D/GDP around the transition	Current R&D/GDP
Estonia	0.6 (1995)	1.29 (2008)
Latvia	0.42(1996)	0.61 (2008)
Lithuania	0.43 (1995)	0.84 (2009)
Poland	0.88 (1990)	0.56 (2007)
Czech Republic	0.95 (1995)	1.53 (2010)
Slovakia	1.63 (1990)	0.47 (2007)
Hungary	1.46 (1990)	0.97 (2007)
Slovenia	1.34 (1998)	1.66 (2008)

Source: Multiple sources, country by country

European cities were analysed according to their innovation potential and the most innovative cities were ranked according to several indicators.[21] The most innovative of the Western subregion among the European top 100 were **Prague** (17), **Budapest** (37), **Gdansk** (74), **Warsaw** (87), **Ljubljana** (92), **Tallinn** (92), **Bratislava** (96), **Katowice** (97) and **Krakow** (98).

In general, the countries of the western subregion proved reasonably successful in changing their economic systems to market-oriented ones, albeit that some leading countries of the 1990s, such as Hungary, lagged by 2010. The Baltic States and Slovakia suffered major losses right after the transition but accomplished radical structural changes in relatively short time. Others only experienced progress in the past decade such as Slovenia and the Czech Republic. But the stability of the economic system is again under pressure due to the global financial and Euro crises which exacerbate the structural problems in transition economies through continued high unemployment (especially in the Baltic States), few sectors with high added value, low levels of R&D investments, above-average to high public debt (Hungary) and rising inter-regional disparities.

2.3
Social and Housing Issues

Growing up in a poor neighbourhood of Katowice, Poland. **©Piotr Malecki/Panos Pictures**

Major Changes in the Housing Sector

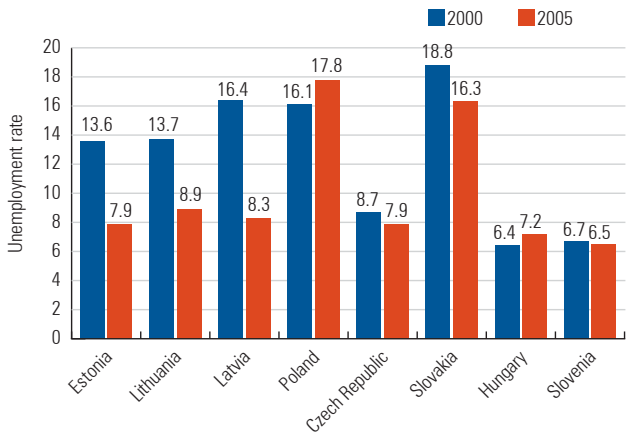
Social Inequality, Exclusion and Spatial Segregation

After the political changes, the economies of the countries in the region went into a deep recession which, although specific to the region, was as serious as the Great Depression in terms of GDP declines. It lasted for five to ten years and caused sharply dropping living standards. Recovery did not start until some years after the turn of the century. Next, the financial and Euro crises started their impact, especially on the living standards of the new middle classes who had taken out housing mortgages between 2002 and 2008.

Unemployment, an unknown phenomenon in the Socialist period, became one of the most difficult social and economic problems. Around 2000, the Baltic States, Poland and Slovakia all had unemployment rates exceeding 13 per cent. These started to improve in the Baltic States around 2005 but remained high in Poland and Slovakia, where informal economies consequently started to increase. Official employment rates decreased between 1989 and 2005 due to the early retirement schemes with which some countries attempted to hide their sharply growing numbers of unemployed.

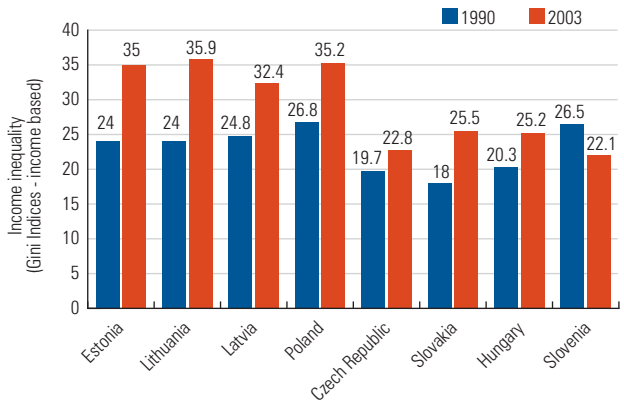
Consequently, during the 1990s, poverty became a major social problem. With falling average incomes, income inequalities increased dramatically in the early-1990s but then stabilized. For example, in Hungary the ratio of the average

FIGURE 2.4: **UNEMPLOYMENT RATE (%)**



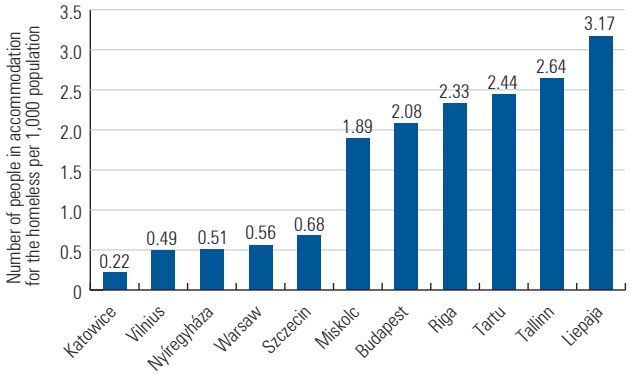
Source: Eurostat

FIGURE 2.5: **INCOME INEQUALITY (GINI INDICES)**



Source: Leitner, S., Holzner, M., *Economic Inequality in Central, East and Southeast Europe, The wiiw Balkan Observatory, Working papers 074, 2008* (http://balkan-observatory.net/wp/2008%2002%20wiiw%20bo%20wp%20074.pdf)

FIGURE 2.6: **PEOPLE IN ACCOMMODATION FOR THE HOMELESS PER 1,000 POPULATION, 2004, SELECTED CITIES**



Source: *Urban Audit*

incomes of the lowest to the highest percentiles increased from 4.6 in 1987 to 7.6 in 2004. Between 1990 and 2008, (income) Gini Index values increased almost everywhere in the subregion, but especially in the Baltic States and Poland. Only in Slovenia did inequality decline (see Figure 2.5).

Ethnic factors influenced poverty and inequality. Special attention is required for Roma minorities as their vulnerability to unemployment and poverty is especially high in the Czech Republic, Hungary and Slovakia[22]. In the Baltic States, the Roma minority is small (around 1 per cent) compared to the Czech Republic (about 2.5 per cent) or in Hungary (at least 5 per cent) while in Slovakia this figure is between 9 and 11 per cent. Although poverty is not exclusively an urban issue, after the transition, the clearest poverty incidence is found in the larger cities with rising numbers of homeless people and beggars.[23] The Roma, whose position became critical after two decades of increasing exclusion, do not concentrate exclusively in urban areas (see Table 2.8).

Housing Conditions

The housing privatizations of the 1990s dramatically changed tenure structures and made access to social housing very difficult. Between 62 and 96 per cent of the public housing was privatized to sitting tenants (see Table 2.9). In most countries, privatization took place in the absence of a clear and efficient legal framework for the operation of multi-family buildings, which led to rapid deterioration of these buildings because of fragmented maintenance and/or unprofessional maintenance companies.

Around the year 2006 there were still some countries with relatively large public rental sectors in comparison to other new EU member states such as the Czech Republic (10 per cent), Poland (12 per cent) and Latvia (11) but privatization continues.

Co-operative housing in the region represents, in principle, an intermediate tenure form between public rental and owner-occupation. During the Socialist period, there were only minor differences between cooperative and state rental units because construction, allocation and financing were all managed by the same organisations under direct state control. Cooperatives had an important role in Czechoslovakia and Poland where, before 1990, they constituted 17 and 24 per cent of the housing stock, respectively. In the post-Socialist period, the cooperative sector has disappeared or has been transformed into owner cooperatives, which are basically a form of owner-occupation.

Housing restitution, or the return of expropriated property or assets to those who had been forced to sell, only played an important role in the Czech Republic and Estonia where about 5 to 7 per cent of the total dwellings stock were returned to their former owners. Restitution did not create a substantial sub-market but it influenced the operations of the sector because it led to uncertain property rights. It also caused social tensions because sitting tenants faced difficulties if the new landlords would raise the rent to market levels.

In general and despite plummeting new construction, housing conditions improved over the past 20 years because of emigration and low demographic pressures on the stock. But it took 20 years to get close to the pre-transition level of housing investments. In 2009, Slovakia and Poland had the lowest number of housing units (326 and 345 respectively) per 1,000 inhabitants, which was an indicator of quantitative shortage. In other countries the figures were closer to 400 or above.

Table 2.11 shows that housing conditions are quite favourable in Hungary and Slovenia, the two countries which were most open to quasi-market mechanisms prior to 1989. The share of multi-family units in the stock is much lower and average floor space higher in these countries.

TABLE 2.8: **BASIC DATA ON ROMA POPULATIONS IN BULGARIA, CZECH REPUBLIC, HUNGARY, ROMANIA AND SLOVAKIA**

	Bulgaria	Czech Republic	Hungary	Romania	Slovakia
Size of total population	7.9 million	10.3 million	10.2 million	21.7 million	5.4 million
Size of Roma population (unofficial)	700,000-800,000	250,000-300,000	550,000-600,000	1.8-2.5 million	480,000-520,000
Approx. Roma population*	9-10 per cent	2-3 per cent	5-6 per cent	8-11 per cent	9-10 per cent
Fertility/mortality	Larger family size, lower life expectancy than non-Roma, in Hungary with decreasing fertility, but still higher than of non-Roma				
Roma Urban/Rural Shares	50-60 per cent in urban areas, high concentration of rural Roma population in north-west	Basically urban, majority of Roma in north-west	Rural 60 per cent and urban 40 per cent Highest concentrations in north-east and south-west	Rural 60 per cent and urban 40 per cent but even in rural areas many Roma live in outskirts	Rural 40 per cent and urban 60 per cent, most Roma live in the east, very few are in large cities
Education	High dropout rates, illiteracy is more than 8 per cent, many segregated schools, many Roma children with mental/health problems	Many segregated schools, many Roma children in special education schools	Many segregated schools, very low participation in secondary, basically no representation in higher education	Segregated schools, high drop-out rates, only 40 per cent of Roma children go to primary school	High levels of incomplete primary education, more severe in segregated neighbourhoods (up to 40 per cent)
Labour market	Approx. 70 per cent unemployed, if employed then mostly as unskilled workers	Approx. 60 per cent unemployed (non-Roma: 9 per cent)	High unemployment rate	Approx. 23 per cent of the respective age group is active in the labour market	Low access to labour markets, high dependence on welfare with very small replacement ratio
Health conditions	Worse health conditions and lower life expectancy than of the average population due to severe poverty and unhealthy living conditions, generally low access to health services, partly because few Roma have health insurance				
Housing conditions**	Low services supply, majority of the Roma in segregated large urban ghettoes, neighbourhood ghettoes. The ghettoes in large cites tend to be on the outskirts and 70 per cent of all Roma housing is reported to be illegal.	Approx. 60-80,000 Roma live in segregated neighbourhoods, many in municipal housing, poor conditions, and large problem of arrears. Spatial exclusion of surveyed 310 MRCs: 54 per cent relatively integrated, 23 per cent partially excluded, 23% evidently excluded (isolated, peripheral)	Poor housing conditions, approx. 6 per cent of Roma in spatially segregated settlements, approx. 1,600 segregated neighbourhoods housing 300,000 of which: 14 per cent isolated and 66 per cent peripheral Plus 100 ghettoized villages and 200 villages becoming ghettoized.	One million in 2,000 ghettoes, very poor infrastructure and housing conditions, spatial segregation of ghettoes: 37 per cent isolated, 52 per cent peripheral, 57 per cent mono-ethnic, 6 per cent delimited by natural or artificial barriers	787 identified segregated Roma neighbourhoods with approx. 150,000 people of which 21 per cent inner part of municipality 43 per cent peripheral, 36 per cent isolated, 30 per cent of housing illegal in segregated areas, 14 per cent live in shacks, overcrowding

Note: National data are indicative, compiled from different databases within countries and not comparable.

Sources: Field interviews,; census data Bulgaria: NSRF, World Bank Report 2001, FRA Raxen Report, Decade Reports; Czech Republic: NSRF, FRA Raxen Report, Decade reports, background reports for the Social Inclusion Agency; Hungary: *Assessment of the Roma Settlement Integration Report,* FRA Raxen Report, Romania: EUROMA cross-country report on housing issues, NSRF, FRA Raxen Report; Slovakia: FRA Raxen Report, Decade Reports, UNDP Report of 2007 on *Roma living conditions.*

Most of the NSRFs use national statistical data, e.g. Census Data. The 2002 UNDP Regional Report is a useful resource for further detailed information.

* Mean unofficial size of Roma population to size of total population (http://www.policy.hu/olmazu/StatisticnumberRoma.pdf)

** Countries' data are of indicative nature, compiled from different databases even within countries, thus not comparable

In the Baltic States the average share of housing lacking a bath/shower is well over 30 per cent as is the share of multi-family units, while their average usable area is the lowest in the Western subregion. These all underscore the legacy of lower housing standards in the Soviet Union.

The residential conditions for households 'at poverty risk' (those below 60 per cent of the median household income) are much worse than for those with incomes above the 60 per cent of the median ('not at risk'), as shown in Table 2.12.

There are common patterns in the genesis of today's housing exclusion of the Roma minorities, including forced (re)settling during the post-World War II years and, more recently, the stronger impacts of economic changes on them, including various degrees of housing exclusion across the transitional region.

In Hungary and Slovakia, spatial segregation of Roma minorities results from the flight of non-Roma from and migration of Roma to the smaller villages and towns. Before the transition, 60 per cent of the Roma lived in urban areas but only 40 per cent after the transition. Also, the number of villages with Roma majorities has increased substantially since the transition. In Slovakia, the Roma are concentrated in the south-East with ongoing further segregation in the surrounding larger cities such as **Kosice**. In Romania, poverty and segregation of Roma minorities goes together with strong deprivation from access to services, with more than half of the Roma population living in segregated, poorly serviced settlements. In the Czech Republic, most Roma live in urban areas where they are less harshly isolated from services and have more interactions with the majority population. Generally, worse conditions, including dilapidated housing, insecure tenure and unclear legal arrangements, are common to the Roma minorities in all countries of the subregion, albeit that the emphasis varies regionally.

The post-transition period also brought significantly accelerated downward mobility for many Roma households who, as a group, were the most vulnerable to the negative impacts of social and economic change in the entire region. The lack of adequate housing for Roma is a result of inter-connected elements. Current social housing policies - even where integrated with other measures - are often hampered by lack of political will, institutional disinterest and inadequate or absent financial support by the national governments. Elements of exclusion comprise affordability, habitability,

TABLE 2.9: **HOUSING PRIVATIZATION, 1990-2006 (%)**

	Public rental, percentage of the total stock		Privatized since 1990
	1990	Around 2006	(estimates, %)
Estonia	61	4*	93
Latvia	59	11	78
Lithuania	61	2	96
Poland	32	12	62
Czech Republic	39	10	74
Slovakia	28	4	86
Hungary	23	3	87
Slovenia	31	6*	90

Source: Dol, K., Haffner, M. (editors), *Housing Statistics in European Union*, The Hague: Ministry of the Interior and Kingdom Relations, 2010
* 2004 data

TABLE 2.10: **TENURE STRUCTURE, 2006 (%)**

	Total number of units (*1,000)	Cooperative housing	Public rental	Private rental	Owner-occupied	Others	Total
Estonia	624		4*	6*	84		100
Latvia	967	2	11		87		100
Lithuania	1,292		2	1	97		100
Poland	12,683	28.6	12	13	46.4		100
Czech Republic	4,336	12.4	10.2	13	60.6	3.8	100
Slovakia	1,711	7	4	1	88		100
Hungary	4,134		3	3.3	93.7	0	100
Slovenia	798		6*	2*	90	1	100

Source: Dol, K., Haffner, M. (editors), *Housing Statistics in European Union*, The Hague: Ministry of the Interior and Kingdom Relations, 2010
* 2004 data

quality and adequacy of housing such as security of tenure, availability of basic services and other infrastructures, accessibility and locations offering access to work, school, health services and so on. The deregulation of the housing market and the withdrawal of the state from direct housing provision are the central underling elements of exclusion. These are further exacerbated by housing discrimination through spatial segregation and exposure to hazards.

Housing Supply and Affordability

As a consequence of the post-1990 recession, new housing construction decreased fast. By 1995, output was around 15-35 per cent of the pre-1990s levels but started to increase again only after 2000. Even during the 2005-8 housing boom, new constructions hardly reached pre-1990s levels. But there was major variation among countries with Hungary and Slovenia representing the less-volatile ones, while the Baltic States, the Czech Republic and Slovakia experienced extreme fluctuations in construction outputs between 1990 and 2000. Nearly all saw a strong upswing after 2000 but, since 2008, housing output has decreased again.

After the transition, housing-related costs have increased much faster than household incomes, putting huge burdens on both owner-occupiers and the shrinking public sector. Energy and utility prices increased particularly rapidly, partly due to price liberalization and partly to monopolistic public sector companies pursuing their institutional interests. The share of housing and related cost in the household budget typically increased from 10 to 20 per cent at a time when income differentials also increased. Consequentially, a relatively large share of households faced arrears in water, district heating, electricity and communal services fees, and - in the public rental sector - rental payments. The problem in privatized multi-family buildings became even more complex because the burden of non-paid utility costs had to be shared among all occupants.

The above raised the need for housing allowance systems. Different income benefit programmes (including housing allowance programmes) were introduced in most of the subregion's countries to assist low-income households. However, because of limited resources and lacking institutional capacities, these programmes could not bridge the widening gaps between housing cost and incomes and the number of households facing payment difficulties continued to increase.

TABLE 2.11: **HOUSING CONDITIONS, 2009**

	Bath/shower in dwelling (as % of total housing stock)	Share of multi-family units in total housing stock	Average usable area (m^2)	Vacant conventional[24] dwellings (% of total dwelling stock)	Units per 1,000 inhabitants, (2000)
Estonia	67.1	70.3	59.4	8.0	454
Latvia	60.3	71.4	55.4	8.6	398
Lithuania	71.1	61.2	60.6	3.7	375
Poland	86.9	63.1	69.5	5.3	307
Czech Republic	95.5	56.5	75.6	12.3	427
Slovakia	92.5	51.5	56.1	11.1	310
Hungary	91.3	33.6	77.0	5.6	399
Slovenia	92.3	28.4	74.9	10.1	358

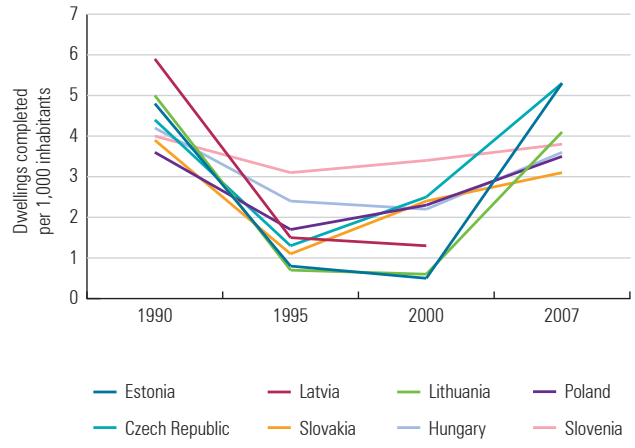
Source: Cecodhas Housing Europe, *Housing Statistics in the European Union*, 2010 (http://www.housingeurope.eu/publication/housing-statistics/statistic-reports)

TABLE 2.12: **HOUSING CONDITIONS AND POVERTY RISK, 2007**

	Overcrowding (%)		No bath, shower and toilet (%)		Leaking roof (%)		Dwelling too dark (%)	
	Not at risk	At risk	Not at risk	At risk	At risk	Not at risk	At risk	Not at risk
Estonia	41.0	44.8	9.7	24.2	17.7	38.1	6.2	11.1
Latvia	59.0	55.8	11.6	40.4	21.7	39.5	9.7	14.4
Lithuania	48.9	53.6	13.3	37.4	23.0	38.6	11.2	15.1
Poland	47.5	67.2	3.7	14.8	33.4	56.9	8.1	14.1
Czech Republic	27.8	50.4	0.3	3.1	14.1	30.0	3.7	10.5
Slovakia	41.3	55.5	0.8	6.0	5.5	11.2	3.2	7.9
Hungary	45.8	65.7	2.6	15.1	17.4	32.2	9.5	17.2
Slovenia	38.4	47.2	0.3	3.4	15.8	30.5	9.0	14.9

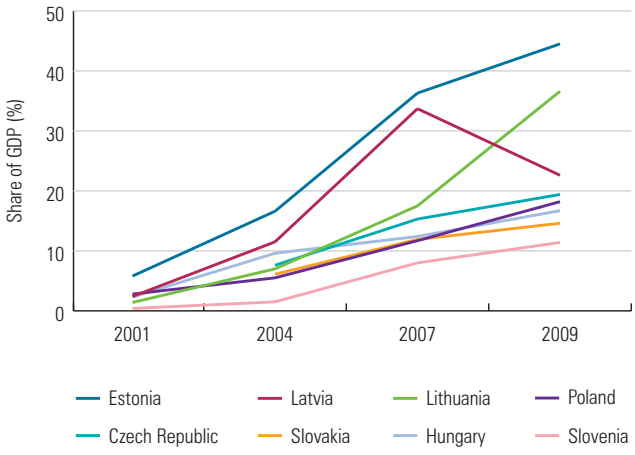
Source: EU Statistics on Income & Living Conditions (EU-SILC), Eurostat, 2007 (http://www.eui.eu/Research/Library/ResearchGuides/Economics/Statistics/DataPortal/EU-SILC.aspx)

FIGURE 2.7: **NEW DWELLING CONSTRUCTION PER 1,000 INHABITANTS: 1990, 1995, 2000, 2007**



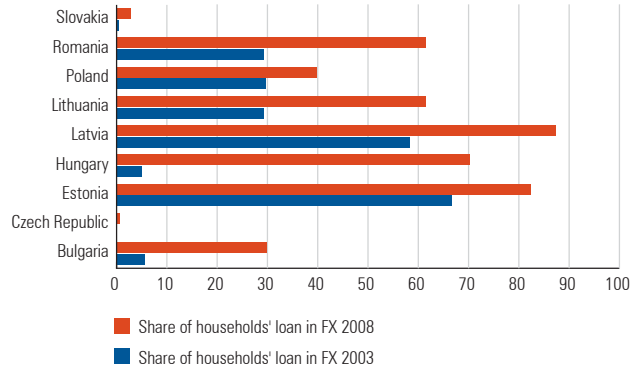
Source: Housing Statistics of Europe (2010)

FIGURE 2.8: **RESIDENTIAL MORTGAGES AS A SHARE OF THE GDP, (%) 2001-2009**



Source: European Mortgage Federation Eurostat; National Central Banks; EMF and the IMF; Hypo Bank (http://www.hypo.org/Content/Default.asp?PageID=414)

FIGURE 2.9: **THE SHARE OF FOREIGN EXCHANGE (FX) LOANS IN RESIDENTIAL MORTGAGES, 2003 & 2008**



Source: Hungarian National Bank

Housing allowance programmes were not efficient because governments set the income eligibility ceiling too low and many households were not reached. Resultant households' survival strategies included applying for additional programmes with income benefits such as childcare benefit and medicine grants, and informal employment or help from the family. Those not able or willing to use such options ended up with accumulated debts. One of the possible consequences of accumulated arrears is that households must sell their property, move to a cheaper home and use the equity balance to pay off the debt to keep utility companies from starting foreclosure procedures. This type of 'downward mobility' was a totally new phenomenon in transition countries. At the end of the 1990s, the Hungarian government introduced a debt consolidation programme for households with accumulated arrears.

Housing Finance

The state-dominated housing finance system of the Socialist period collapsed in 1990 and it took ten to 15 years for mortgage-based housing finance systems to develop. The privatized banking system started lending for housing after 2000 and the mortgage loans to GDP ratio increased rapidly and substantially. However, in Estonia, Latvia[25] and to a lesser extent Lithuania, mortgage finance development was influenced by speculative housing demand. In the Czech Republic, Hungary, Poland, Slovakia and Slovenia the growth of the market was also fast but more balanced.

In most countries in the Western subregion, foreign currency-based mortgages such as Euro or Swiss Franc have been popular since interest rates on loans were lower than on national currencies. From early 2000, household indebtedness increased very fast[26] but remained well below the EU zone average (CEE countries average of outstanding loans to GDP is 7 per cent compared to 38 per cent in the EU zone). House prices increased rapidly as they were fuelled by the emerging mortgage markets, globalizing financial systems and foreign currency loans, especially in the capital cities and with property-price bubbles in some countries. But the potentially severe exchange rate risks of foreign currency-denominated loans became rather obvious with the 2008/9 financial crisis (see Text Box 2.3).

Housing Policy

After 1990, governments in the Central-East European (CEE) region worked under constant fiscal pressure due to the social and economic costs of their bankrupted Socialist economies.[27] As national economies went into deep recession, the state withdrew from the housing sector in most CEE countries. The operation of the social rental sector generated losses for landlords (municipalities or state companies) because the low rents did not cover operation and maintenance costs. Meanwhile, extensive tenure rights remained, allocation principles were not transparent and problems of rent arrears had emerged. The social rental housing sector was typically limited and, more importantly, the social and financial sustainability of the social housing

BOX 2.3: **FOREIGN CURRENCY-DENOMINATED MORTGAGES**

Soviet-era apartment blocks in Tallinn, Estonia. Estonia has the subregion's highest ratio of housing loans to GDP. **Source: Dmitry G/Public domain**

In the 2000s, the mortgage-loan-to-GDP ratio increased substantially in almost every transition country, except for Bulgaria and Romania where the development of the market only started around 2004. Mortgage finance developments were influenced by speculative demand based on rapid house price increases (especially in Estonia, Latvia and to a lesser extent Lithuania), generous home ownership subsidies (in Hungary until 2005) and by the low interest rates of foreign currency-based loans (Hungary after 2004). In the Czech Republic, Poland, Slovakia and Slovenia the growth of the markets was fast but soon became balanced. By 2007, housing loans had risen above 10 per cent of GDP in the more-developed transitional countries (see table).

Loans in Euros and Swiss Francs were popular in the Baltic States, Croatia, Poland and Romania because their interest rates were lower than those in national currencies. Households' indebtedness in foreign currencies increased very fast after 2000 as housing privatization continued. But all exchange and interest rate risks remained with the households.

Then, after September 2008, the financial crisis set in and mortgage markets changed dramatically, creating huge difficulties for countries with loose fiscal policy and substantial foreign currency loans. The costs of financing the deficit increased and, because of worsening exchange rates, the loan payment of borrowers in foreign currencies increased. This raised the risk of default because the financial crisis also increased unemployment and decreased GDP.

In Hungary, for example, the weakening Hungarian Forint (HUF) caused a radical 30 to 40 per cent increase in mortgage repayments for borrowers with FX-denominated loans, which increased the probability of arrears. Moreover, the vast majority (85 per cent) of the mortgage loans issued between 2004 and 2008 were at variable rates and the repayment burden therefore increased both through the exchange rate and increased default risk that the banks started to price in.

In the Baltic States, the Scandinavian (predominantly Swedish) banks had near indiscriminately offered mortgage loans in local and foreign currencies to whoever applied, leading to massive problems once the bubble burst. In March 2010, the price index was 40 per cent below peak in nominal terms and 46 per cent down in real terms.

Another important factor for the growing number of defaults was increasing unemployment. Due to the general economic recession with increasing unemployment and decreasing household incomes, the probability of arrears was growing and, by 2012, had already reached 10 to 12 per cent. According to the European Commission, from 2007 to 2008 the number of foreclosures on mortgage loans almost doubled to a 7.83 default rate in Bulgaria and more than tripled in Latvia to a 15.95 default rate in 2009.

HOUSING LOANS TO GDP

	Housing loans to GDP (%)	GDP per capita (USD)
Estonia	32.7	17,364
Latvia	28.9	14,232
Lithuania	19.2	11,665
Croatia	15.3	12,373
Hungary	11.4	14,624
Poland	8.3	11,694
Ukraine	7.1	3,297
Bulgaria	7.0	5,946

Source: World Bank, Lietuva: *Vartotojų teisių apsaugos ir finansinio raštingumo diagnostinė apžvalga, II dalis, Gerosios praktikos palyginimas, 2009 (*http://siteresources.worldbank.org/INTECAREGTOPPRVSECDEV/Resources/Lithuania_CP_Vol2_Lt.pdf)

BOX 2.4: HUNGARIAN RENTAL HOUSING CONSTRUCTION, 2000-2004

The Hungarian housing policy launched in 2000 included a grant programme for local authorities supporting five housing areas: the rental sector, energy-saving renewal, rehabilitation, land development and renovation of housing owned by churches. The most important element was support for the public rental sector. Local authorities were eligible for a grant of up to 75 per cent of the costs of investments for social rental, cost-based rental (see below), housing for young families and retirement homes. Between 2000 and 2004, several hundred local governments took part in the programme. The total investment amounted to HUF 60 billion (USD 186 million to 336 million depending on the exchange rates in the respective years) and close to 12,800 units were built (8,900 rental units and 3,900 special accommodation units in retirement homes, assisted living homes and temporary homes for young couples).

The cost-based option was introduced to ensure long-term cost recovery with rent levels higher than existing social rents but lower than market rents. The regulations set the minimum annual rent at 2 per cent of the construction cost. Although this cost rent approach did not guarantee long-term cost recovery, in the first years the actual operational and maintenance costs of the units were considered to be lower than the rent. The cost rent was about 40-60 per cent of the market rent.

The high level of interest in the rental sector programme is an indication of the commitment of local authorities to solving the housing problem. Before the launch of the programme, the Hungarian Government's Housing Policy Committee was concerned that local authorities would not be able to participate because most of them would not be able to afford the 25 per cent contribution required of them but the demand for the fund exceeded the budget resources. In fact, only 45 per cent of the amount requested by local authorities could be funded. The programme had several weaknesses, one being that average costs were considered to be very high even though one of the most important selection criteria was the average cost per square meter. Allocation criteria for new tenancies were not regulated and local politics played a role in discretionary allocation. The cost rent was considered too high for poor people but not enough for long-term cost recovery. Moreover, during the period of operation of the scheme, the privatization process continued, thus local authorities privatized 25,000 units but built, bought or renewed only 8,900 rental units. In 2004, the government stopped the social rental programme because of fiscal pressure, citing the high cost per unit.

Source: Hegedüs, J., *Social housing in Hungary: Ideas and plans without political will, in:* Hegedüs, J., Lux, M., Teller, N.: *Social Housing in Post-Socialist Countries,* New York, 2012.

stock was weak. This led to subsidy cuts for public and private new construction, privatizing the building and construction materials industries, price liberalization in housing services, privatization of public housing and the banking sector and so on. In the process, the negative by-products of economic restructuring (including rising regional and social inequality, declining living standards and affordability problems) all raised the need for new housing policies.[28]

As a consequence of the low level of social housing stock and serious affordability problems, inter-generational funds transfers, such as family savings and inheritance, took an increasing role in access to housing in the subregion. This is the only way to explain how housing markets could exist in the context of high price-to-income ratios and low housing affordability indices. Sociological surveys also showed that inter-generation transfers played an important role in housing finance which is best illustrated by the case of Hungary where 50 per cent of the households who recently moved received financial help from their family.

To compensate for the increasing gap between income and housing cost a new safety net policy was introduced in most countries to assist vulnerable households in paying housing-related cost through different income supplementation programmes (including housing allowances). However, these programmes were far from efficient: allowances were both less than what was needed and poorly targeted, in part due to the incapability of the state to integrate the informal economy into the formal one in terms of measuring incomes.

After the economy stabilized in the second half of the 1990s, new market-based housing finance systems had to be created to render access to housing more affordable for the middle classes. Countries in the subregion chose different institutional solutions and these included specialized mortgage banks, commercial banks, quasi-public housing funds, contract saving banks, all of which had different levels of subsidy. In the second half of 2000, mortgage markets grew very fast, which inevitably increased vulnerability to house price bubbles and high shares of FX-based loans in the national mortgage portfolio.

New housing policies in the subregion needed to strengthen the social housing sector, especially the expansion of the social rental stock and the establishment of low-income housing programmes, as well as the renewal and modernization of the existing housing stock. Some elements of the new housing policies have been carried out at different speeds and in varying ways across countries in the Western subregion. However, a general trend was development of mortgage markets with support from the private sector (construction companies, developers and banks), while social programmes (safety nets and access to housing) typically functioned as short-term shock absorbers.

The economic crisis of 2008 reached the region in its transitional stage but affected countries differently. In several transition countries the emerging housing price bubble was exceptional (as in the Baltic States) and often localized in capital cities (such as Bucharest) or in popular resort places (the maritime coast shores in Croatia and Bulgaria). The high amount of foreign currency loans, accompanied with high national budget deficits made some of the subregion's countries vulnerable including Estonia, Hungary and

BOX 2.5: **STATE SUPPORT FOR SOCIAL HOUSING CONSTRUCTION IN THE CZECH REPUBLIC**

Houses of the Rotavská Housing Cooperative, Prague. **©ŠJu.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license.

The Czech government supported the construction of new public rental housing since 1995 through grants amounting to equivalent of €16,000 (USD 20,841 using current exchange rate) per housing unit built (in the late 1990s that was equal to around one-third of the construction cost of a housing unit).

This subsidized housing construction formed a sizeable portion of new housing output between 1995 and 2002. In total, around 70,000 state-supported flats were built in this period. However, this programme was not targeted at low-income households.

The programme allowed for the formation of housing cooperatives between the municipality and participants (future 'tenants'). Moreover, there is pressure from coop members to become full homeowners sooner than allowed by the programme (i.e. after 20 years from the time of dwelling completion).

Since 2003 the cooperative form has been banned, cost and income ceilings have been introduced and the level of subsidy increased. However, the volume of new subsidized housing construction sharply decreased. A new social housing programme introduced in 2009 allocates grants from the State Fund for Housing Development for the construction of social rental flats to all investors. The construction is supported with a grant of a maximum of €25,000 per dwelling. Additionally, an investor may receive a grant of 2,000 if the flat is accessible to people with disabilities or can easily be converted into such a flat. The social dwelling must retain the status of social rental housing for a period of ten years; again the principle of cost rent applies and there are income caps on qualifying for allocation of a flat under the programme.

However, only a small number of social dwellings have been constructed under this programme to date. Because the grant is relatively small (in relation to the low rent ceiling), private investors and even NGOs are not interested in it.

Source: Lux, M., *Locked between municipal and social housing: Czech Republic,* in Hegedüs, J., Lux, M., Teller, N., *Social Housing in Post-Socialist Countries,* New York, 2012

Romania. The expected economic hardship caused by the recession drastically affected the housing markets, partly in terms of affordability of housing-related energy, utility and rental costs and partly regarding mortgage payments. The housing and social policy responses to this crisis will determine the future housing model in the subregion.

Policy has now moved towards a housing and welfare regime whereby the state plays a decreasing role in public housing supply and management. Social institutions have neither the capacity nor resources to operate an efficient safety net under the new circumstances of high unemployment rates and an expanding informal economy. Social institutions now provide help only to the most needy of households. Within this context, the housing sector contributes to the reproduction of social inequalities both through institutional mechanisms with deficiencies in legal frameworks and market processes through the discriminatory behaviour of housing market agents.

BOX 2.6: **SLOVAK SOCIAL HOUSING PROGRAMME**

Bratislava, Slovak Republic. **©Lisa S/Shutterstock**

The Slovak Government provided grants for the development of social rental housing and, between 2001 and 2010, spent a total of 377.9 million in subsidies for the construction of more than 30,000 new dwellings through the Slovak Social Housing Programme. Grant recipients had to guarantee that only eligible tenants would use the housing and 10 per cent of the flats were allocated to households with a disabled family member (if no eligible person applied for the housing, it could be rented to other applicants but only with a one-year lease). Subsidised social housing must serve the purpose of social rental housing for at least 30 years, during which time the flats cannot be sold to their tenants or other persons. The municipality signs a lease with tenants for a three-year term, or ten-year term if the tenant is disabled, and the lease can be repeatedly extended.

The government supports the development of two categories of housing. One is a 'common standard' flat in which the floor area may reach up to 60 m^2 and the grant ranges between 20 and 30 per cent of the construction costs. The other provides a greater degree of assistance, where 70 to 75 per cent of costs are covered for 'lower standard' flats of up to 55 m^2 with fewer amenities and below the standard otherwise required for residential buildings. Such low standards probably do not qualify as 'adequate housing' according to the definition of the International Covenant on Economic, Social and Cultural Rights (CESCR) because this requires the availability of facilities essential for health, security, comfort and nutrition and the habitability of the unit, which must provide the inhabitants with adequate space and protect them from cold, damp, heat, rain, wind and other threats to health (UN Committee on Economic, Social and Cultural Rights 1991). The minimal requirements set by the government for amenities in lower-standard housing would probably not satisfy these requirements.

Source: Hojsík, M., *On the way to the stable social housing concept: Slovakia,* in Hegedüs, J., Lux, M., Teller, N., *Social Housing in Post-Socialist Countries,* New York, 2012

24
Urban Environmental Challenges

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

Transformation of the Sector

Main Impacts of Decentralization: Water, Sanitation and Wastes

The Baltic States, Visegrád countries and Slovenia started to decentralize their water sectors in the 1990s. Decentralization was justified as throughout the Western subregion similar problems were evident: low cost recovery levels, difficulties in financing capital investments, problematic maintenance and replacement, need for more efficiency and rapid cost increases in water and wastewater treatment. The key features of successful water sector reforms were autonomy and accountability of water utilities; incentives for reform; progressive performance standards and cost-recovery tariffs.

In all the subregion's countries, local authorities own the assets (the physical infrastructure) while the regulating and supervising ministry (usually the Ministry of the Environment) has no direct control over these local governments. Regulatory functions are usually a shared responsibility, with economic regulation (pricing, promotion of efficiency and customer interests) the responsibility of local authorities, while technical regulation (monitoring and enforcement of legal obligations, service levels, and target setting) is a central responsibility.

Lithuania and Slovakia have central regulatory agencies for price regulation. In the Czech Republic local governments set rates with the Ministry of Finance supervision. Poland has a nationwide methodology to calculate the rates. In the other countries local governments have full responsibility for price regulation. Financing investments is usually a shared responsibility between central and local governments with central grants, local government resources, subsidized national loans, EU support and private funds being the main sources.

Decentralization and privatization policies have led to different service provision modalities. The Czech Republic has 100 operating companies (51 international and 49 domestic) of which 85 per cent are private utilities and 15 per cent municipal companies or departments. International operators are exclusively found in large cities, while local operators cover the smaller settlements. Estonia has more than 200 enterprises. One large waterworks (**Tallinn**) was privatized

TABLE 2.13: **WATER AND SEWAGE SERVICES IN EAST CENTRAL EUROPE (VARIOUS YEARS)**

	Length of water pipe (km)	Water supply (million m^3)	Apartments with water supply (%)	Length of sewage system (km)	Collected waste water (million m^3)	Apartments with sewage (%)
Baltic States						
Estonia (2004)	3,100	40.7	77.0	3,280	..	77.0
Latvia	..	..	..	..	..	..
Lithuania	..	..	..	..	..	..
Visegrád Countries						
Poland	..	..	..	..	..	..
Czech Republic (2008)	73,448	667	92.7	40,902	508	81.1
Slovakia (2006)	26,637	217	86.3	8,016	205	57.5
Hungary (2008)	62,000	530	92.6	32,000	510	61.0
Slovenia						
Slovenia (2008)	..	88.6	92.9	..	156	53.0

Source: *National Statistical Yearbooks (various years)*

and the remainder are either municipal departments or production enterprises providing water services.

Hungary and Poland have fragmented water provision systems with hundreds of operators under different organizational arrangements (mostly budgetary organization, companies and private businesses). In Slovakia, privatization is still rare and water systems are operated by a few municipal enterprises. Lithuania has highly-decentralized arrangements with the National Control Commission for Prices and Energy pushing the concept of five water utilities, rather than one operator for each municipality. In general, with the exception of the Czech Republic and to some extent Hungary, water and sewerage services in the Western subregion are provided by public companies with private sector participation.

In the Czech Republic, Estonia, Hungary and Lithuania decentralization made a large number of small municipalities responsible for their own water supply and wastewater treatment. Consequently, they have the right and responsibility to decide both on the form of service provision and private sector involvement. However, most of the companies are too small to attract foreign private investors. Decentralization has therefore led to a slowdown in private sector participation. Integration by mandatory amalgamation or voluntary co-operation encouraged by legal and financial incentives would have been a solution to this problem but there are no good examples of either option in the subregion.

Privatization[29]

The Visegrád countries all had similar starting positions at the beginning of their transition. Despite these similarities, they have ended up with different degrees of private sector participation, with the Czech Republic the clear leader, followed by Hungary and Slovakia. The level of private sector participation in Poland is relatively small considering the country's size and population (four cases of full privatization, one concession, two leases and one management contract). The reasons for this can be found in legal and financial restrictions, as well as municipalities' unwillingness to seek such partnerships (municipalities often fear that privatization will reduce their possibilities to control the operation of service providers). Several private sector participation contracts were renegotiated in Hungary due to problematic management fees, investment finance and price-setting mechanisms. In every country in the subregion, opponents view foreign companies as exploitative rather than operating in the best interest of the country.

Throughout the subregion, the total number of inhabitants supplied with drinking water from public water supply network increased over the previous decade. However, public water supply network development remains regionally unbalanced (see Table 2.13). The largest population shares serviced are in the large urban areas (close to 100 per cent in all countries). Rural areas fall behind, especially in Latvia, Poland and Slovakia.

Despite a general trend towards higher real-cost domestic water pricing throughout Europe in the 1990s, wide variations remain in water charges both within and among countries. A range of factors determine local water prices, including political decisions on full or part cost recovery, expenditures on water treatment and supply, sewage treatment and environmental damage. In the Western subregion, water prices were heavily subsidised before 1990 and significant price increases during transition led to much lower water use. In Hungary, for example, water prices increased 15-fold after subsidies were removed and led to some 50 per cent water use reduction, clearly showing how pricing policies can influence environmental outcomes.

Although price setting is usually a role of local authorities, price calculations are conducted centrally in Poland and Slovakia. In the Czech Republic and Hungary the law only stipulates what kind of cost-elements should be included in tariff setting, while in Slovakia the regulator determines the maximum price.

BOX 2.7: THE EUROPEAN GREEN CITY INDEX

The European Green City Index measures and rates the environmental performance of 30 of the continent's leading cities. It takes into account several indicators and a range of environmental areas, including water consumption and waste management. The indicators for water include consumption, systemic losses and wastewater treatment as well as water efficiency and treatment policies, municipal waste production, waste recycling, waste reduction and green land use policies.

Annual per capita water consumption and shares of waste recycled have no real correlation with GDP; it rather reflects city management strategies and degree of national legislation enforcement. However, there is a strong correlation between city size and the index: small cities both in the Central-East European area and other EU countries perform better than larger ones. In most cases there are major discrepancies between waste production and recycling. But here too, the index probably reflects more a national and/or city strategy than a wealth correlation. Tallinn, Prague and Warsaw perform very well in recycling while Budapest, Ljubljana and Vilnius have a poor recycling and reuse index.

The EU is said to be effective concerning water policies and management. However, despite huge investments over the past ten to 16 years, new member states still need further investments in water and sewage, especially in rural areas. It is, however, argued that EU quality standards are unjustifiably ambitious and deepening affordability problems.

Underground recycling bins for paper, plastics and glass in Prague, Czech Republic. **©Lůdek Kővár.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported, 2.5 Generic, 2.0 Generic and 1.0 Generic license.

Source: Economist Intelligence Unit, Siemens, *European Green City Index research project,* 2009 (http://www.siemens.com/entry/cc/en/greencityindex.htm)

Cost recovery depends on technological factors and governance. Whereas water tariffs in this subregion usually cover operation and some amortization and profit margins, they rarely cover maintenance and development investments. Cross-subsidization between domestic and non-domestic users is typical, as well as cross-sector subsidizing such as in Estonia.

Urban Mobility

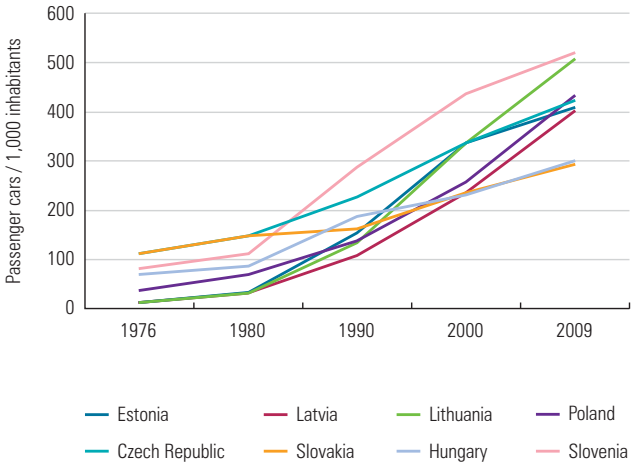
The Western subregion inherited urban transport systems from the Socialist period with good modal splits supported by extensive and affordable public transport systems, while the number of private cars remained low. However, during the transition the responsibility for the generally not very well maintained public transport was transferred to the municipalities, which were usually unable to prevent further deterioration of both infrastructures and rolling stock. Consequently, public transport could hardly withstand the growing competition of private cars whose number increased dramatically.

Thanks to EU funds, reconstruction and development projects were started in many cities but the financing of operation and maintenance has still not been solved in many cases. Concessional fares set by governments often do not fully cover the costs. Some cities and regions made progress with the integration of services, partial privatization of operations and investment in new technologies.

Local public transport exists in most of the larger cities of the Western subregion. In many cases only buses are provided. **Budapest**, **Prague** and **Warsaw** also have metro systems. Tramways exist in Estonia (**Tallinn**), Latvia (3 networks), Poland (14), the Czech Republic (7), Slovakia (2) and Hungary (4). Trolleybuses operate in Estonia (**Tallinn**), Latvia (**Riga**), Lithuania (**Vilnius** and **Kaunas**), Poland (**Gdynia, Lublin** and **Tychy**), the Czech Republic (13 networks), Slovakia (5 networks) and Hungary (**Budapest**, **Debrecen** and **Szeged**).

In Estonia, only **Tallinn** has an extensive urban public transport system with tram, trolleybus and bus. The Tallinn Department of Transportation sets the routes and timetables and contracts operators for five-year periods. Tram and trolleybus services are operated by a municipal company. The bus service is in a large part run by another municipal company, although a private enterprise is responsible for about 10 per cent of the service. Regional bus services are contracted by Harju County Public Transportation Center and operated by about 15 private companies. Commuter train services are provided by the state company Elektriraudtee. Local and regional public transport each has different ticketing systems but 30-day joint tickets are available.

FIGURE 2.10: **MOTORIZATION RATE (NUMBER OF PASSENGER CARS/1,000 INHABITANTS)**



Source: Pucher, J., Buehler, R., *Transport Policies in Central and Eastern Europe, in Button, Hensher: Transport Strategy, Policy and Institutions, Oxford, 2005.* (http://policy.rutgers.edu/faculty/pucher/PDF%20of%20chapter.pdf); Eurostat

BOX 2.8: **PRAGUE'S INTEGRATED TRANSPORT**

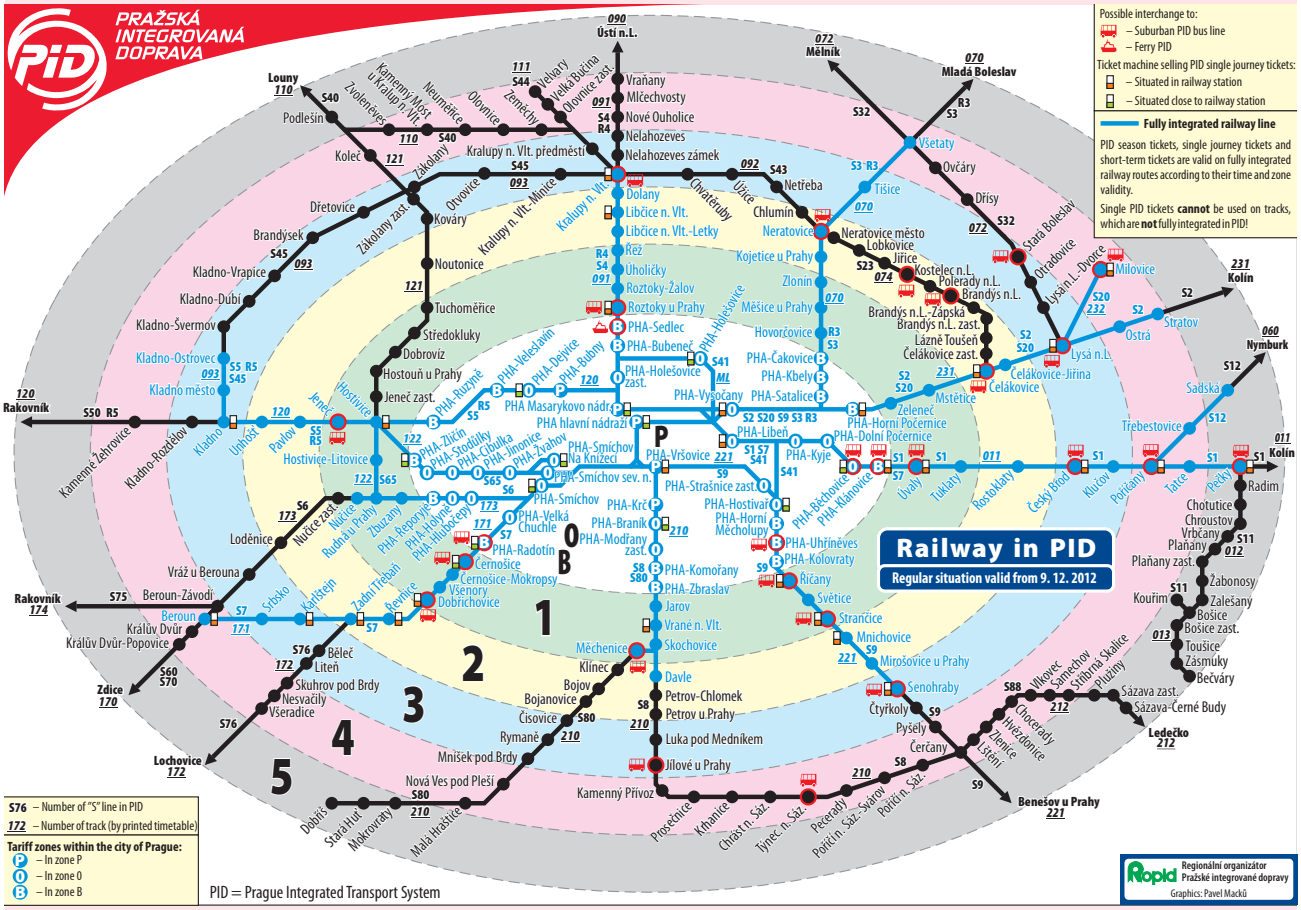
Since 1992, the Prague agglomeration has gradually developed an integrated transport system (Pražská Integrovaná Doprava – PID) comprising the local public transport network of the capital (metro, tram, bus, funicular and ferry) as well as regional buses and 'Esko' commuter trains operated by the national railways (CD).

The public transport system is being integrated gradually in Prague, Prague-East, Prague-West and other neighbouring districts with strong ties to the capital. PID's aim is to provide a public transport system that can compete with private car use. Transport policy prioritises railways, metro and tram while buses play a feeder role. Combined transport is made possible by park & ride facilities. The tariff system integrates all services. Opening up the public transport market for competition supports cost-effectiveness, while coordination and quality control ensure a truly integrated service.

The network is organised by Regional Organiser of Prague Integrated Transport, an organisation of the City of Prague responsible for determining, organising and procuring the public transport service. It is commissioned by state and municipal authorities responsible for public transport in the city and the region. Its tasks include planning and organisation of the service, financing of the system (including proposals for the tariff system), agreements with the relevant authorities, tendering the operators and operating the public transport information system.

©William Perugini/Shutterstock

MAP OF RAILWAYS AND TARIFF ZONES IN THE PID AREA (SOURCE: ROPID)



Source: *ROPID* (http://www.ropid.cz)

BOX 2.9: **PUBLIC TRANSPORT IN OLOMOUC**

DPMO Tram in Olomouc. **©Michal Maňas.** Licensed under the Creative Commons Attribution-Share Alike 2.5 Generic license.

Olomouc is a Czech university city with 100,000 inhabitants and relatively short travel distances. Its tram network survived, whereas other cities closed theirs. The development plans of the city favour public transport; infrastructure for car traffic plays a secondary role. Olomouc and its surroundings have an integrated public transport system (IDSOK) since 2003, managed by the KIDSOK authority of the Olomouc region. It is responsible for the common tariff system covering all modes and operators, as well as for the coordination of timetables. This integrated system encourages residents of neighbouring municipalities to use public transport.

Ticket prices are relatively low: single and monthly tickets cost approx. €0.56 and €14 (2012) and are a reason for the popularity of public transport. Ticket sales provide 36 per cent of the revenues, 49 per cent is covered by the City of Olomouc and the remainder by other sources.

The most important operator is DPMO, Olomouc's public transport company. The rolling stock of six tram and several bus lines is mixed, consisting of both new, low-floor vehicles and older ones. A fleet renewal programme is underway, with tram and bus procurements co-financed by the EU. Financing buses by such funds is possible due to the Czech interpretation of EU law, while in Poland and Hungary this is not allowed.

Between 2001 and 2008, passenger numbers of DPMO have grown by 27 per cent and kilometre output of the service by 17 per cent.

The example of Olomouc shows that, despite imperfect rolling stock and limited budget resources, a well-organised public transport system can remain competitive. The main success factors are the integrated tariff system with reasonable prices, good passenger information and public transport priority.

Source: *Szymanska, 2008; KIDSOK / Olomouc region* (www.kr-olomoucky.cz/integrovany-dopravni-system-olomouckeho-kraje-idsok-cl-36.html); DPMO annual reports *from www.dpmo.cz*

In Latvia, urban public transport is a municipal responsibility. They provide infrastructure and services through their own companies. Private companies provide minibus transport, especially in the larger cities. They are licensed by the municipality for a definite period and are free to determine the fees. Timetable coordination and, occasionally, cooperation with municipalities occurs.

Lithuanian municipal public transport companies provide and maintain services in all large and medium-size cities. Private companies compete with the public ones. Municipalities set ticket prices for public companies and minimum prices for private companies. There is no cooperation between the city and municipalities in surrounding areas.

Municipalities are also responsible for local transport in Poland. The only metro line is in **Warsaw**. In all major cities, municipal enterprises provide public bus or tram services. Privatization is rare and is limited to vehicle procurements co-financed with EU funds because this is not possible for private companies. **Warsaw** and **Gdynia** tendered out parts of the bus service. Public transport companies usually extend their services to surrounding towns if local governments of these towns cover part of the costs. Suburban and regional train services are organised by the regional governments.

The most extensive Czech public transport system is in **Prague**, including three metro lines and one of the world's busiest tram networks. Local public transport is the responsibility of municipalities, while regional authorities manage the regional bus and train services. In many urban regions, integrated transport systems have been established whereby municipalities and regional administrations delegate the management to transport organizers, such as Regional Organiser of Prague Integrated Transport (ROPID) in the region of **Prague** (see Text Box 2.8). Newly-established bus routes are tendered in **Prague** and private companies operate in addition to the municipal public transport company.

Local public transport in Slovakia is provided by municipal operators in the major cities, while in other towns regional bus companies, some of which are private, provide the service. The **Bratislava** and **Kosice** regions have integrated transport systems.

Budapest has by far the most extensive public transport network in Hungary with three metro lines, local railways, tram and trolleybus lines and a bus network covering all parts of the city. Most services are operated by the municipal-owned BKV Zrt., while a small part of the bus services is operated by private companies as subcontractors. **Debrecen, Kaposvár, Miskolc, Pécs** and **Szeged** have their own municipal transport companies. In other cities the public transport is operated by state-owned Volán regional bus companies. In some smaller cities the services were tendered out and have been awarded to private operators.

Slovenia has varying ways of providing urban public transport. In **Ljubljana**, it is organised by a public company owned by the city. In **Maribor**, buses are owned by the city

but the service is provided by a private company under a ten-year concession; in future the city plans to also take charge of the service with its own company. In all other small cities public transport is privately provided but through contracts with the city authorities. There is almost no cooperation between the cities and surrounding communities.

Municipalities usually struggle to finance their public transport operations. In **Budapest**, for example, operations are ensured through loans and various temporary financial arrangements. As a consequence, underspending on infrastructure and rolling stock is typical. Financing problems also affect secondary and tertiary cities, especially those with extensive track-bound transport systems. Although EU funds offer options to finance development, they do not solve operation and maintenance problems. Even so, network coverage and frequencies are generally still better than in many Western European cities.

Integrated solutions for city-regions exist in some cases. Tendering of local bus services is still not a general rule; cities such as **Warsaw** and **Gdynia** in Poland are playing a championing role in this respect and achieved more economic bus transport as a result. **Olomouc** in the Czech Republic shows that well-organised, prioritised and reasonably priced public transport can compete with private car use, even if financial resources are scarce.

The negative effects of growing private car use are most obvious in the largest cities and their agglomerations where congestion causes significant air pollution and time losses. Besides development of public transport, the regulation of private vehicle use (traffic restrictions, parking management, congestion charges and so on) is also important. The cities of the Western subregion are generally lagging behind Western European cities in this respect, not primarily for financial reasons but rather because general inclinations still lean towards private car use. However, many cities are gradually adopting various transport and mobility management tools. Smart, healthy and inexpensive solutions such as cycling-friendly road networks are being taken into account.

Despite the numerous unconstructive tendencies described so far, public transport is an important urban mobility provider in the largest cities of the Western subregion. According to comparative data,[30] the yearly public transport supply relative to population (1,000 seat-based kilometres offered/capita) in 2007 was 16 in **Prague**, 13.5 in **Budapest** and 10 in **Warsaw** and **Bratislava**, compared to only 4.5 in **Brussels**, 6 in **Leipzig**, 8 in **Cologne** and 8.5 in **Vienna.**

Energy Consumption and Efficiency

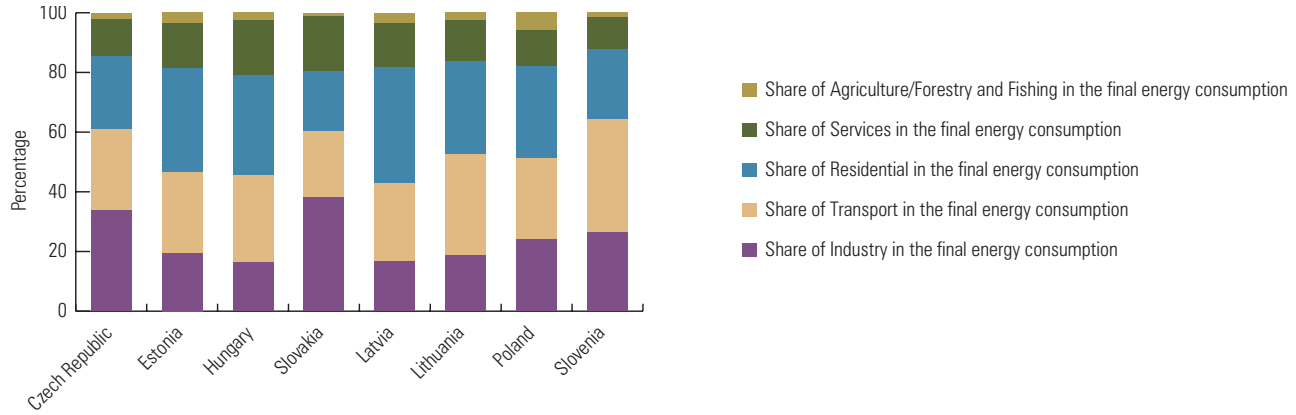
Energy consumption and efficiency is becoming a strategic issue in the subregion because oil and gas prices continue to rise. Per capita energy consumption in the Western subregion is slightly lower than the core EU member states' average, in part because of lower levels of industrial activity since the collapse of the heavy industries. Consumption for housing, such as energy use per flat, however, is higher because of inefficient equipment and poor insulation. But energy consumption structures differ from country to country.

In the Czech Republic and Slovakia the energy share of industry is historically the higher one while housing tends to be the largest consumer in the Baltic States where the weather challenges are more severe. However, the potential of insulation of the housing stock is high.

Energy efficiency investments accelerated in the subregion's EU member states after their accession, in line with EU requirements. Following the Kyoto Agreement, a new source of funding became available through tradable CO_2 quota. Most countries of the subregion have surplus quota that can be sold and used for energy efficiency measures.

As a result of both European and national efforts, various national programmes for energy efficiency were introduced in the subregion, including investments in energy-efficiency for public buildings and the housing stock mostly through grants, instalment rate subsidies or tax reimbursement. However, the impacts vary. In the Baltic States only pilot projects were implemented, on the other hand, programmes did have significant impacts in the Visegrád countries. Currently, the

FIGURE 2.11: **ENERGY CONSUMPTION BY SECTORS, 2009**



Source: *EUROSTAT* (http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database)

linking of energy efficiency with renewable energy resources seems to become increasingly popular.

The share of renewable energy still varies: Latvia 29.8 per cent, Estonia 18.9, Slovenia 15.1, Lithuania 14.9, Slovakia 8.3, Poland 7.8 the Czech Republic 7.2 and Hungary 6.6 per cent (2008).[31] Hydro power plants in Latvia and Slovenia, wood waste in Lithuania and biogas in the Czech Republic and in Poland were the most popular renewable energy sources while nuclear energy also plays a key role in Hungary and Slovenia by providing approximately 40 per cent of those countries' power. Lithuania, Hungary and Poland plan to increase their share of nuclear energy.

Although energy strategy and efficiency belong mostly to the competence of the nation state, cities have some room to manoeuvre. Several cities have local energy strategies in which they examined the energy consumption of different sectors - putting great emphasis on public buildings - and setting priorities for increasing energy efficiency and encouraging private investments.

Environmental Protection as a Challenge

The subregion inherited both positive and negative aspects in its environmental legacy from the Socialist period. Low energy costs prior to 1990 led to high energy consumption and air pollution levels prevailed in manufacturing due to heavy industry and in housing and public buildings because of coal-based heating. The problem of contaminated industrial and military lands is most acute in the Baltic States but also occurs elsewhere in the subregion. On the positive side, the subregion inherited relatively well-developed urban public transportation systems and urban district heating covering the large housing estates.

With transition came investments to reduce energy consumption in residential and public buildings for some countries, while new construction now meets significantly higher energy-efficiency standards throughout the subregion. Domestic heating systems have been modernized, phasing out coal as their fuel.

Despite positive change, the quality of urban air remains a matter of growing concern. After the heavy industry went bankrupt and ceased being the most important factor in air pollution, transportation became the major source, especially due to the age of the vehicle stock. Motorization has increased dramatically and with that the incidence of PM_{10} and other particles which are mainly produced by diesel engines.

Most of the larger cities suffer from air pollution caused by transportation. Air quality is also still an acute matter in industrial areas such as the Moravia-Silesia Region in the Czech Republic. In Slovakia, urban air contains ten times more dust particles than rural areas, while SO_2 concentrations are five times higher, CO_2 concentration ten times higher and CO is 25 times higher. Critical are the **Bratislava** agglomeration and the zones of the Trenčín, Žilina and Trnava regions. In Hungary, Poland and Slovenia the main problem is excessive NO_x, CO, small particles, NMVOC, greenhouse gases and ozone in warmer or extremely cold parts of the year. In the Baltic States air pollution is not a crucial problem as a result of their coastal location and the relatively small residential concentration.

With rapidly-increasing motorization, the modal split in most of cities of the regions has worsened, further encouraged by the more intensive car use associated with suburbanization. In the past 20 years new bypasses have been built around cities to divert transit traffic but as a side effect these promoted further suburbanization and increased road traffic.

The relatively high share of district heating in the heating supply remained more or less stable. District heating still covers 40 per cent of the residential units in the Czech Republic (57 per cent in urban and 10 per cent in rural areas), approximately 40 per cent in Poland[32] as well as some 40 per cent in Slovakia, 16 per cent in Hungary (28 per cent in **Budapest**), and 15 per cent in Slovenia. It has a dominant share in all Baltic States, representing between 30 and 70 per cent.

The impact of climate change also became evident through rising average air temperatures. The countries of the region are differently affected: it has a kind of positive effect in the Northern countries by increasing average temperatures. Floods could theoretically be dangerous for the territories located in the Northern Coastal Zone of the region, however high levels of erosion, like at the Mediterranean coasts, do not occur significantly there. In the Baltic Sea, in fact, coastal accumulation exceeds erosion (EUROSION, 2004). Nevertheless, in 2010, the **Riga** City Council started implementing the 'Integrated Strategy for Riga City to Adapt to the Hydrological Processes Intensified by Climate Change Phenomena' - the first strategy of that kind in the Baltic region.

Poland is not sufficiently focused on the impact of climate change on urban areas and urban development. Although, due to quite frequent floods, there are flood-risk simulations for the coastal zones, none have been undertaken for inland locations. In Slovenia, climate change is also not the focus of attention. **Koper**, a city in the south-west of Slovenia, could be at a higher risk as it has already very high average temperatures. Climate change may affect most Hungarian cities since the country is located in a basin and is already warmer and drier than before.

In general, radical shifts for the region due to climate change are not yet expected. Although some simulation exercises are currently being undertaken, cities do not appear interested because they do not feel any direct threats. On the other hand, the first target of the EU 2020 strategy[33] is to reduce greenhouse gas emissions by at least 20 per cent compared to 1990 levels or by 30 per cent if the conditions are right; increase the share of renewable energy in our final energy consumption to 20 per cent and achieve a 20 per cent increase in energy efficiency." As 60 to70 per cent of the population of the region is urbanized, all cities should take part of the responsibility to meet the EU 2020 targets and be proactive in improving the conditions that lead to climate change.

2.5
Urban Governance Systems

The City Hall in Gdansk. Poland is the only country in the subregion with elected strong regional governments. **©Agnieszka Guzowska/Shutterstock**

Decentralization and Local Government Systems

After the 1989 regime changes, Central and Eastern European countries started to introduce reforms towards more decentralized public administration. Actual decentralization processes varied depending on national political structures but the Western subregion countries shared a substantial degree of consensus about the aims of reform. After an initial wave of enthusiasm, decentralization processes soon started to slow down because of the complexity and diversity of political forces at work. Central governments kept most of their powers rather than sharing them. Public support for decentralization also declined because it lacked strong institutional capacity and firm and transparent rules to regulate intergovernmental relations.

Forcing sub-national governments to provide adequate levels of services and maintaining a sustainable decentralized system posed a formidable challenge. The restructuring's resultant administrative layers are very different across the East Central European countries (see Table 2.14). In the Czech Republic, Poland and Slovakia a new regional tier of self-government was introduced at the beginning of the 2000s. In Hungary, political relations blocked administrative reform because the large political parties could not come to an agreement to change the regions into directly elected self-governments, thus the regions remained weak planning units.

Table 2.15 groups EU27+2 countries by type of territorial governance structure. Poland is the only country with elected strong regional governments and can therefore be labelled 'decentralized'. Latvia, Lithuania and Slovenia are centralized unitary countries with integrated and powerful[35] local authorities. The Czech Republic, Hungary and Slovakia are centralized unitary countries with powerful but non-integrated (and therefore fragmented) local authorities.

TABLE 2.14: **DIFFERENT TIERS OF GOVERNMENT[34], 2004**

	Subnational tiers	Top tiers (region/ province/county)	Average population	Lowest tier (town/municipality)	Average population
Estonia	2	15	96,000	247	6,000
Latvia	1	n.a.	n.a.	118	19,211
Lithuania	2	10	371,000	56	66,000
Poland	3	16	2,419,000	2,483	16,000
Czech Republic	3	14	740,000	6,292	1,700
Slovakia	3	37	145,100	2,834	1,900
Hungary	2	19	538,400	3,177	3,200
Slovenia	2	n.a	n.a.	147	13,600

Source: Dabla-Norris, E., *The Challenge of Fiscal Decentraliation in Transition Countries, in Comparative Economic Studies, Vol. 48, 2006, Issue 1: 100-131.*

TABLE 2.15: **DRAFT TYPOLOGY OF TERRITORIAL GOVERNANCE STRUCTURES IN THE EU27+2 COUNTRIES**

Government structure	Classic unitary	Centralized unitary, strong, non-integrated local authority level	Centralized unitary strong, integrated local authority level	Decentralized unitary, strong local and regional level	Regionalized unitary	Federal states
EU-15 and EFTA countries	Greece Ireland Luxembourg	Portugal	Denmark Finland Netherlands Sweden Norway	France United Kingdom	Italy Spain	Austria Belgium Germany Switzerland
New member states		Bulgaria Czech Rep. Hungary Romania Slovakia Cyprus Malta	Estonia Latvia Lithuania Slovenia	Poland		

Source: Based on Tosics, I. and Dukes, T., *Urban Development Programmes in the Context of Public Administration and Urban Policy,* in: *Tijdschrift voor Economische en Sociale Geografie Vol. 96, No. 4, Oxford/Malden, 2005: 390- 408; with alterations based on ESPON 3.2*

Urban Management at the Regional and Local Levels

Decentralization in the Western subregion gave priority to large cities and dramatically changed the relationships between central governments and the capitals. Central governments were left trying to maintain control over urban issues while the capitals remained under constant pressure from different power groups.

The relationship between the regions and their large cities remains a key question mirrored in the debates over the governance structure of large cities and their peri-urban and rural areas. Typically, large cities have the same rights as regions (such as with **Prague**) while some are part of a region (as with **Warsaw** and **Budapest**) which raises questions about metropolitan governance of the city proper and the region excluding the large city. Three basic approaches can be distinguished with respect to capital *vis-a-vis* region-capital city governance:

From 2002 onwards, **Warsaw** represented the first type, with the city itself part of the newly-formed urban region, the *Mazowieckie voivodeship* (NUTS 2)[36]. This region includes more than five million inhabitants, whereas the city of **Warsaw** (NUTS 3) has a 1.6 million population within its administrative borders and an estimated 2.5 million if the commuting area was included. This can be described as a conflicting relationship between two elected governments. The second type is represented by **Budapest**, which is also part of a NUTS 2 region - the Central Hungarian Region, including **Budapest** and the surrounding Pest county. The regional level is weak with only some EU planning rights. The third type is represented by **Prague**, which is both a region and a municipality governed by the Act on the Capital City of Prague (2000). As **Prague** is not part of the urban region, this is sometimes referred as a 'hole in the doughnut' case.

Although the administrative relations between the capital city and the surrounding region differ in these three cases, there

is also a strong commonality. None of the three holistically addresses the metropolitan territory (functional urban area). Consequently, the capital city, the suburban municipalities and the regional administrations are in constant conflict.

The internal structure of the capitals reflects a strong path-dependency element as districts existed in the Socialist system but had very different functions from now. The districts of **Budapest** (known as 'sectors' in **Bucharest** and 'quarters' in **Zagreb**) existed before the transition. Under the new political system the functions of the districts have changed. The legal format and political content of inter-municipal relations is a result of political negotiation while no participatory decision-making is applied to the choice of governance form.

The three capital city models can be differentiated by the relative weight of the sub-municipalities:

- Two-tier government with strong districts (as in **Budapest**): Budapest has 23 district governments that enjoy the same status and rights as other local governments in Hungary. The city government's responsibilities (citywide services such as public transportation, district heating, water etc.) differ from those of a district government (which includes housing, basic health services, education). There is no hierarchical relationship between city and district governments. Districts have their own directly-elected mayors and councils, budgets and revenues (including certain local taxes). A revenue-sharing scheme eradicated horizontal inequality among districts; first a decision is taken (by a national level law) on which share of the sources belongs to the municipal level and which share to the district level - a division between the two tiers - and then the share of the individual districts must be calculated from the general budget allocated to all districts.
- Two-tier government with weak districts (as in **Bratislava** and **Prague**): Prague has a complicated system of sub-districts. By law, the City of Prague has the right to decide on the city's administrative structure. Prague has 22 administrative districts (since 2001) and 57 municipal districts[37] (since 1990) but the districts' responsibilities and revenues are defined by the Council of Prague. Prague's internal structure represents an asymmetric decentralization model with different districts having rights according to special contracts.
- Unitary governments (as in **Riga, Vilnius** and **Warsaw**): All important decisions are made at municipal/city level. Districts are administrative (deconcentrated) units of the city government with limited autonomy. Districts may have nominated councils (as in Tallinn) and the relationship between the city government and its districts is regulated (in this case, by the Tallinn Statute). The districts' budgets are part of the city budget, as with any other city-level budgetary department.

National Policies for Urban Issues[38]

In 2004, the European Institute for Comparative Urban Research (EURICUR) undertook an analysis[39] of EU countries' national urban policies which, for the states that joined the EU in 2004, resulted in a general conclusion that in these countries no explicit urban policies exist, with the potential exception of Slovenia.

Indeed, the development of national urban policies started significantly later in these new EU members than in Western European countries. Analysis shows that integrated planning approaches - which require strong public leadership and interventions - were largely absent because of the negative connotations of planning in the Socialist period. Consequently, urban development in the Western subregion became dominated by opportunity-led market forces rather than public control.

This has been described[40] as one of the potential ways for urban governments to sustain capital inflows since relaxing regulations is the easier response to increasing pressure by private stakeholders. But the withdrawal of public control has inevitably led to serious problems in the development of urban areas.

Current differences between Eastern and Western Europe will not last forever. In the course of the 2000s increasing numbers of pilot programmes were introduced at the neighbourhood level in the East-Central European countries to ensure integrated urban development. Likewise, larger urban development programmes (such as *Poland 2030*) are based on territorial cooperation around urban metropolises.

BOX 2.10: ASSOCIATION FOR INTERCOMMUNITY DEVELOPMENT, ROMANIA

Examples of national urban strategies of any kind emerged only in the second half of the 2000s, mainly connected to EU accession. One of the interesting cases is the Romanian growth pole programme, initiated on the recommendation of the EU as a joint initiative with the Romanian Ministry for Development.

Seven growth pole cities had to establish their functional urban area. The government did not prescribe any criteria other than spatial continuity and that it must contain at least three additional municipalities. For each growth pole an Association for Intercommunity Development (AID) was created comprising the city, the municipalities in the functional urban area and potentially the county councils. The AID also had to establish a decision-making mechanism for the growth pole area and prepare an integrated development plan, including economic, environmental and social aspects according to given proportions, for the functional urban area. The plan had to be approved by the city and all other municipalities, as well as the ministry.

The Romanian growth pole programme was a relative success. Strong conditionality in the allocation of financial resources through the Structural Funds was the main reason for its success since EU funding was only accessible for growth pole cities complying with the prescribed functional urban area organizational form. On the basis of strong financial interests, cooperation was enforced between municipalities that otherwise would not have happened.

BOX 2.11: **MODERNIZING URBAN GOVERNANCE AND PLANNING**

▲
Katowice, in the Upper Silesia region of Poland. **©Bartosz Koszowski/Shutterstock**

When the East-Central European countries joined the EU in 2004, they were significantly behind their Western European counterparts in terms of integrated planning approaches, due in part to slow modernization of local level public administrations. The following are selected examples of innovative urban governance and planning modernization efforts.[41]

Poland is in the forefront of regional discussions on city regions and functional urban areas, both at the national and the regional levels. The Polish National Spatial Arrangement Policy 2030 (in preparation) will be based on linking functional urban areas into the hierarchy of the national polycentric settlement structure, arguing for the establishment of regional development structures for four metropolitan areas, like in the interesting example of the Metropolitan Association of Upper Silesia (MAUS), in the self-governed Silesia region: MAUS has been established, functionally linking Katowice and 13 other cities. The mayors of the densely populated urban region around Katowice - the Polish equivalent of the German Ruhrgebiet - gradually developed urban region principles amongst themselves. The MAUS board consists of seven mayors elected by the Assembly. The latter comprises two representatives per city, the mayor and another delegate, while Katowice has three representatives. MAUS covers 10 per cent of the area of the region, 43 per cent of its inhabitants and 67 per cent of the regional GDP. The Silesian regional vision includes an Extended Silesia Metropolitan Area, growing to encompass 24 cities. In 2007, MAUS was endorsed in the registry of voluntary associations. But there are serious problems to be addressed, including declining urban populations (projected at 20-30 per cent in some of the settlements over the next decade). There are at least two or three other cities which would like to join MAUS in future but this may take several years to achieve due to bureaucratic constraints.

In Hungary, the Integrated Urban Development Strategy was made compulsory in 2007 for cities applying for structural funds for urban renewal (ROP 2007-2013). One of the real novelties of this strategy was that cities had to prepare plans to address spatial segregation. Such plans had to show the delimitation of segregated areas and areas threatened by deterioration and segregation (on the basis of precise indicators fulfilling prescribed benchmark values); status assessment of the delimited areas and assessment of the impacts of the envisaged development and individual sectoral policies on these segregated areas. Anti-segregation interventions had to be prepared, including a vision whether the degraded areas would be eliminated or reintegrated into the urban fabric through rehabilitation, and the main directions of interventions determined.

But the 2000s saw a substantial ideological shift towards neo-liberalism among EU national governments. Together with the 2008/9 financial crisis and subsequent Euro crisis, this has led to a general retreat from neighbourhood-based regeneration policies addressing deprived urban areas. Instead, policies shifted more towards supporting opportunity-based interventions in cities or their functional areas.

It is not easy to draw clear conclusions from these changes as cities have simultaneously become losers and winners. There is now much less national level attention for addressing problematic urban neighbourhoods but cities' chances to obtain support for economic development have increased.

The financial balance of these changes is not necessarily negative, especially if private funding triggered by public investments is taken into account. These changes, however, have a clear ideological orientation with less national support for lagging social groups and their urban geographies and more support for efficiency building in urban areas with superior development opportunities.

Towards Collaborative Urban Planning and Development

National spatial planning policies can be evaluated along many different aspects. The Peri-urban Land Use Relationships (PLUREL – one of the European Union's 7th framework research projects[42]) aimed at exploring whether and to what extent supra-local policy can influence spatial planning policies, urban sprawl and land-use change decisions of the local government level. The outcome was a classification of EU countries along the spatial planning factor. The finding was that the majority of East-Central European countries are among the weakest in terms of higher-level public control over urban sprawl through spatial planning. The exception is Lithuania, where a strong planning tradition is based on the presence of former Western Soviet centralized planning institutions, and to a certain level Latvia is also an exception.

The Estonian planning system is at the same time hierarchical (the lower-level plan should be compliant with higher-level plans) and flexible (higher-level plans *can* be adjusted while preparing lower level plans). The Planning Act does not draw a clear line between different types of plans: it is possible to prepare a joint comprehensive one for multiple municipalities or one for a part of a county. The plans are scrutinised by higher-level authorities and can only be adopted if approved by the supervising authority. However, scrutiny only concerns legal conformity with other valid plans.

In Latvia, plans define spatial development opportunities, directions and the planning restrictions of any region. The municipality's spatial plan is considered to be a comprehensive land use plan. It depicts existing land use and defines permitted land use and restrictions; the Minister of Regional Development and Local Authorities has veto power. The meso-level can submit objections to the Minister and participate in the preparatory process for comprehensive local plans but less so in detailed plans prepared at the local level.

In Lithuania, the county territory master plan is prepared in two stages. First, the concept of the plan is formulated, a strategic assessment of its solutions prepared and the solutions of the concept detailed. The master plan consists of drawings reflecting the solutions and a narrative. The drawings must be illustrated in a 1:100,000 scale. Protected territories (natural and cultural heritage) are an element of master and detailed plans. The county administration and the Ministry of Environment supervise lower-level preparation of planning documents.

In Poland, *Voivodeships* (regions) prepare regional plans but local municipalities have strong planning sovereignty. In principle, local governments have to take the regional plans into account but competence in this respect is weak. *Powiats* (counties), a governance level between the regions and the local municipalities, do not prepare such plans. In addition to spatial plans, cities also prepare other strategic documents which often are not mandatory.

The most important non-mandatory urban planning documents are development strategies. These integrate local pro-development planning: a programme of promotion, a cultural development plan, pro-investment policy, housing policy, public investment, social programmes and others. For the most degraded areas, which are usually downtown, cities prepare urban regeneration programmes which become the basis for EU co-financing applications. Given the voluntary nature of these documents, they are strongly identified with individual city authorities and are often modified or newly prepared from scratch after local elections.

In the Czech Republic, municipal government has high spatial planning autonomy and powers and is the most influential territorial development level. Regional authorities provide protection and value to the development of a region. They can intervene in local authority activities only as stipulated by law and in matters of supra-local importance - such as infrastructure development or natural protection - or when local plans do not abide by regional spatial development principles or national spatial development policies.

In Hungary, the regulatory plan at the county level (a self-government level between the administrative regions and the local municipalities) serves as the framework for spatial planning at the lower level. It can designate protection areas important from an ecological or infrastructural point of view. However, land use changes belong to the competency of the municipal level. Higher-level regulations are usually set loosely. Interventions are possible only if local governments do not abide by higher-level regulations.

In Slovakia, the Territorial Planning Act regulates all three planning levels (national, regional and local). The current territorial planning document covering the country is the Slovak Spatial Development Perspective of 2001. Since 1998, all regions have approved and regularly updated regional spatial plans. The regions enjoy significant powers in spatial planning due to the reforms of 2003-2004. Nevertheless, the municipality is by far the strongest physical planning actor.

In 2004, Slovenia adopted its Spatial Development Strategy mainly as a steering framework for sectoral policies in the territories and for guiding spatial development at lower levels. In practice, this has had little influence on sectoral projects and mainly assists planners designing local spatial development

plans while providing cross-sectoral coordination when implementing spatial structures of national importance.

Cross-border Cooperation

The EU strongly promotes cross-border, transnational and inter-regional cooperation and is mainstreaming national operational programmes through structural funds in the framework of the Interregional Community Initiatives of 2000-2006 and 2007-2013. Projects vary from infrastructure investments to exchange of experience and are of different scales. The strength of cooperation depends, however, on mutual advantages and, in many cases, on historic linkages between urban regions. Three main types of cross-border cooperation are of major importance: urban clustering, connecting urban economic spaces and cross-border suburbanization.

Urban clustering concerns city cooperation based on contribution to the same industrial or service sector. The best example of large-scale cross-border cooperation for renewed heavy industry is the Upper Silesia Cities Association, involving Poland and the Czech Republic. A new trans-boundary economic space will be created inside the territory which boundaries are demarcated by a line drawn between **Krakow**, **Ostrava**, **Opole**, and **Czestochowa** (see Map 2.3). This area concentrates the 7-million population of the Upper Silesia Cities Association.

The best example of connecting urban space is the Centrope Region: the area between **Vienna** (Austria), **Bratislava** (Slovakia) and **Győr** (Hungary). Commuter trains of the Austrian railway company (Euro-region trains) have scheduled lines and preferential tariffs from **Vienna** to **Tatabánya** and **Szombathely** in Hungary and to the border regions of Slovakia and the Czech Republic. Thus, Slovakia and Hungary provide labour for Austria while the Austrian and Hungarian border areas serve as a suburban housing area for **Bratislava**.

Cross Border Suburbanization

Cities with a substantial labour market may create suburban areas across national boundaries. Some of the examples include **Košice** in Slovakia and its suburban area in Hungary, **Győr** in Hungary and its suburban area in Slovakia and Poland's **Szczecin** and its suburban area in Germany. The entry of the eight Western subregion countries into the EU in 2004 and also joining the Schengen space[43] made cross-border cooperation more likely and mutually advantageous. It has also had major impacts on the emergence of the trans-boundary city region whereby cities, towns and other settlements become part of a common trans-boundary economic, social and political space that reflects, perhaps better than anything else, the true meaning of the united economic space within the European Union.

MAP 2.3: **THE UPPER SILESIA CITIES ASSOCIATION CROSS-BORDER AREA**

Source: *Connecting Urban Economic Space*

2.6
Emerging Issues

Lajos Kossuth University, Debrecen, Hungary. The higher education sector in the subregion cannot compete against the best performing American and North-Western European institutions.
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The demographic future of the Western subregion is not promising. Compared to the population developments of the EU-27, which show growing populations up to approximately 2030, major parts of the subregion have seen population declines since the middle of the 1990s. The demographic characteristics are also very unfavourable from a labour market perspective - extremely low fertility rates lead to shrinking populations while growing life expectancies increase demographic ageing and demand for pension payments and old age services. For these reasons, expansion of the reproductive population cohorts would be important for these countries. Even so, no expressive migration policies exist which could shape migration patterns towards more positive outcomes. Conservative, dissuasive national migration policies, the economic problems and the lack of cultural openness of the population stops highly educated developing nations' migrants from choosing the countries of the Western subregion when considering migration to Europe.

The rapid transformation towards market economies has triggered increases in economic performance and efficiency in most countries of this subregion. Some sectors of the economy, such as car manufacturing show particularly rapid increase. However, a problem for the forthcoming decades is that the higher education sector cannot become competitive against the best performing American and North-Western European universities. It remains to be seen to what extent the knowledge-intensive economy will spread in this subregion, while labour intensive sectors face the low-wage Third World economies.

The economic cooperation within the region - which was strong in the Socialist era - immediately broke down as a result of transition. The countries of the region became each other's strongest competitors for foreign direct investment, thus a sharp struggle started using methods such as lowering company taxes or providing tax exemptions that sometimes were in conflict with EU regulations.

The quick economic restructuring brought high social costs

Pensioners in Budapest, Hungary. Demographic ageing will result in a heavy social welfare burden across the subregion. **©Mark Henley/Panos Pictures**

and there were many losers. The most serious socio-economic problems emerged among low-educated people employed in the industrial sector during the Socialist era. How to create jobs for this sector of society remains an unanswered question. Due to the Asian domination of low-wage manufacturing industries, such jobs could only be based on transition countries' internal demand and financing which are low in these market economies.

The Roma minority experiences considerably worse-than-average living conditions, dilapidated housing, insecurity of tenure and unclear legal arrangements in all countries. Despite differences where these problems concentrate - urban in the Czech Republic, peri-urban or deep rural in Hungary and Slovakia - after two decades of growing exclusion from mainstream society the situation of the Roma population has become critical.

Developments over the past two decades in the transition countries have shown the vulnerabilities in ownership-dominated (privatized) housing systems. In this regard, one of the emerging issues is the need for a much larger social and other affordable-rent housing sector to tackle the most serious social problems but also to enable the very housing mobility needed to achieve more dynamic economic developments.

The combination of growing economic polarization and the lack of social housing leads in many countries of the Western subregion to growing spatial segregation: besides the West-East slope of the countries there is also the socio-spatial divide of the cities. Strong and well-designed public interventions would be needed to reintegrate the marginalized areas and groups into mainstream society.

The Western subregion is not among those areas which are the most endangered by climate change. Much more acute is energy insecurity as the subregion heavily depends on energy imports. This circumstance could push the subregion more rapidly towards the development of green economic solutions and to more subregional cooperation although it is yet unclear how these (recent and very limited) developments will shape in the future.

Although the subregion's urban infrastructures improved considerably in the past two decades, one of the remaining problems is the relatively-high urban energy dependence on district heating. The large housing estates, quite dominant in the stock of the medium and larger cities, are all based on low-efficiency district heating systems that are deteriorating more and more and depending on imported fuels.

The main transport transit routes of the subregion are part of the Pan-European transport corridors which were defined in the 1990s. Whereas during the past two decades there has been massive investment in these transit corridors, domestic feeder road networks have declined in most countries. The designated corridors cover almost all the important cities but as the network is not yet fully completed, several cities still lack good accessibility. Investment went almost exclusively into highways at the expense of the extensive rail networks which have deteriorated, except for the main lines. The lack of cooperation between the Central-Eastern European domestic airlines, their indebted financial structures and generally lower demand means that none of the subregions' airports would, in the foreseeable future, develop into a substantial international hub comparable to those in Western Europe.

Mobility within urban areas has changed substantially over recent years with dramatic increases in the number of cars and the relative deterioration of the extensive public transport systems inherited from the Socialist era. Urban mobility has become affected by road congestion as the development of multi-modal solutions remains slow and limited. Addressing further motorization and prioritizing public transport and other sustainable transport modes would require large investments and changes in public actors' approaches. The former is challenging for the public finances so developing smart and inexpensive solutions is of extreme importance.

Low Performance of the Public Sector

After the collapse of Socialism, the East-Central European countries introduced radical reforms in their public administration, moving towards more decentralized systems. Local municipalities acquired varying degrees of independence in decision making, which is the corner stone of all democratic administrative systems. At the same time, however, in many countries the local government system became too fragmented as preference was given to local autonomy over efficient service provision. In these 'non-integrated' administrative systems local governments are typically small. Besides, in most post-Socialist countries (except Poland) strong, directly-elected, politically-powerful middle tiers of administration were not established - instead, artificial territorial units were formed, as NUTS 2 regions, with delegated political leadership. All this means that decentralization remained limited as central governments retained substantial power that was not shared with any lower levels.

The sectoral parts of this report show that the subregion's centralized administrative systems with weak middle tiers and fragmented, non-integrated local governments did not perform very well in the restructuring of different policy areas. Territorial differentials within countries did not decrease, dominant positions within the urban structures remained unchanged and were in fact further strengthened as the gaps between the capital cities and secondary cities have increased. Inequalities between different social strata of society have also increased and turned into spatial polarization with the emergence of ghettoes. The privatized housing systems further increased inequalities. Not even the environmental sector, acquiring the most, largely EU-funded, financial means in the restructuring process, could ensure territorially- and socially-just allocation of new developments. All these expose the post-Socialist countries' relatively poor public sector performance that has not being able to ensure that public interests (lower-income groups and more deprived areas but also higher education, knowledge intensive development) get the needed emphasis in the restructuring processes.

For more balanced development, better integrated planning approaches would be required. Unfortunately, in the transition period, integration (which would require strong public leadership and cross-sectoral interventions) was largely missing. Instead, market-driven preferences and opportunity-led processes prevailed. Cross-territorial cooperation also proved to be weak and there was little progress in city-region (metropolitan area) thinking, in cross-border issues and only rare examples of good governance cooperation between different tiers of government emerged. Finally, the weakness of the public sector also showed in the lack of cooperation between public and private actors.

From all this it follows that, after more than two decades of change in their political and economic systems, the transition countries and their cities have still a lot to do to improve their position. The key aspect is to improve the performance of the public sector towards more integrated planning, based on cooperative multi-level and cross-sectoral governance, especially the cooperation of municipalities across the functional urban areas and across national borders.

The subregion's nations and the EU should become more proactive in applying real integrated approaches and the EU should pay more attention to the peripheral areas of the European Union. In response to the economic crisis the EU seems to move towards more integration among the Euro countries (but only Slovakia, Slovenia and Estonia from the Western subregion), this will strengthen notions of a 'two speed' Europe, further increasing the gap between the more and less affluent EU member states. The large countries of the Western subregion could easily find themselves again on the periphery if they fail to speed up their development in the next decade.

ENDNOTES CHAPTER 2

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12 All airport traffic data from 2010 Source: Wikipedia

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15 The Dual Index is the GDP in urban areas divided by the GDP in rural areas.

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31 Europe's Energy Portal.

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33 Europe 2020: A European strategy for smart, sustainable and inclusive growth (commonly named as EU 2020 Strategy) is the strategy of the European Union that creates a coherent framework of the desired development of the EU till 2020.

34 The planning tiers such as seven planning regions in Hungary are not considered as part of the governmental system.

35 The distinction between integrated and non-integrated administrative systems was introduced by Page and Goldsmith (1987). In the former, the size of local government units is typically larger as it is determined on the supposed optimal size for effective provision of public services (Anglo-Saxon and Scandinavian systems, where local government reforms of the 1970s led to amalgamations of local governments, significantly reducing their numbers). In the non-integrated administrative systems, preference is given to local autonomy over the aspect of service provision. Local governments are typically small so that most settlements have their own municipality and integrative institutions ensure the coordination for public services, as in France and the South European countries. Here local governments have a narrower range of functions.

36 NUTS (1-3): The Nomenclature of Territorial Units for Statistics (NUTS) is a hierarchical classification system for the collection, development and harmonization of EU regional statistics; socio-economic analyses; and framing of EU regional policies. It distinguishes between NUTS 1 (major socio-economic regions); NUTS 2 (basic regions for the application of regional policy); and NUTS 3 (small regions for specific diagnoses).

37 In general municipal districts manage public property (housing, roads, parks and so on). They were grouped into administrative districts in 2001 and some municipal districts provide certain services for the whole administrative district (such as issuing licences). The council of all 57 districts is elected as is the head of the City of Prague.

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43 The Schengen Treaty was signed in 1985 and enables the citizens and companies of the 26 signatory countries (22 EU member states and 4 non-EU member states) to travel inside the EU without any checking at frontiers.

44 European Commission, State of the European Cities Report, Brussels, 2007.

part three
03

Panorama of the city of Kiev, Ukraine. ▶
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THE STATE OF THE EASTERN SUBREGION'S CITIES

Introduction

For the purposes of this report, the Eastern subregion includes Belarus, Moldova and Ukraine. These are grouped together because they previously formed part of a single nation together with other Soviet Republics, they all gained independence after the collapse of the Soviet Union in 1991; and they are neither European Union member states nor close to achieving that status. As a group, they are bordering the EU member states Latvia, Lithuania, Poland, Slovak Republic, Hungary and Romania and fall within the European Neighbourhood Policy area.

While Belarus, Moldova and Ukraine have commonalities, there are also significant differences. Ukraine is by far the largest, both in territory and population. Belarus is just over one-third of Ukraine's size and has a low overall population density and few large cities. Nevertheless, it has the subregion's highest urbanization level.[1] Moldova - the smallest of the three countries - both in terms of territory and population - has the lowest urbanization level and the weakest economy.

Ukraine shares borders with Belarus, Poland, Slovakia, Hungary, Romania, Moldova and Russia. It is 603,620 km^2 and had a total 2011 population of 45.2 million, averaging 75 inh./km^2.

Ukraine is divided into 24 regions, one autonomous republic (Crimea) and two cities with special status: the capital **Kiev** and **Sevastopol.**

Belarus is a 207,600 km^2 landlocked country, bordering Russia, Latvia, Lithuania, Poland and Ukraine. The 2011 population was 9.6 million, averaging 46 inh./km^2. Belarus is divided into six regions *(oblasts)* - Brest, Gomel, Grodno, Minsk, Mogilev and Vitebsk. **Minsk** is its capital and largest city. After Minsk, the main regional cities are the country's largest. Regions are subdivided into 188 districts (*raions*).

Moldova is 30,300 km^2 and landlocked between Romania and Ukraine. It had a 2011 population of 3.6 million, averaging 118 inh./km^2. **Chisinau** is Moldova's capital and largest city. Despite its relatively small size, Moldova has 32 regions, one autonomous region (Gagauzia) and five cities: **Balti, Bender, Chisinau, Komrat** and **Tiraspol** (Bender and Tiraspol are part of the break-away territory Transnistria (see Text Box 3.1). The territories on the left bank of the Dniester River are disputed after Transnistria declared itself the independent Pridnestrovian Moldavian Republic with Tiraspol as its capital.

MAP 3.1: **THE EASTERN SUBREGION**

Source: http://usaidmd.u2.com.ua/uamap.shtml

Parliament building on Independence Square in Minsk, Belarus.
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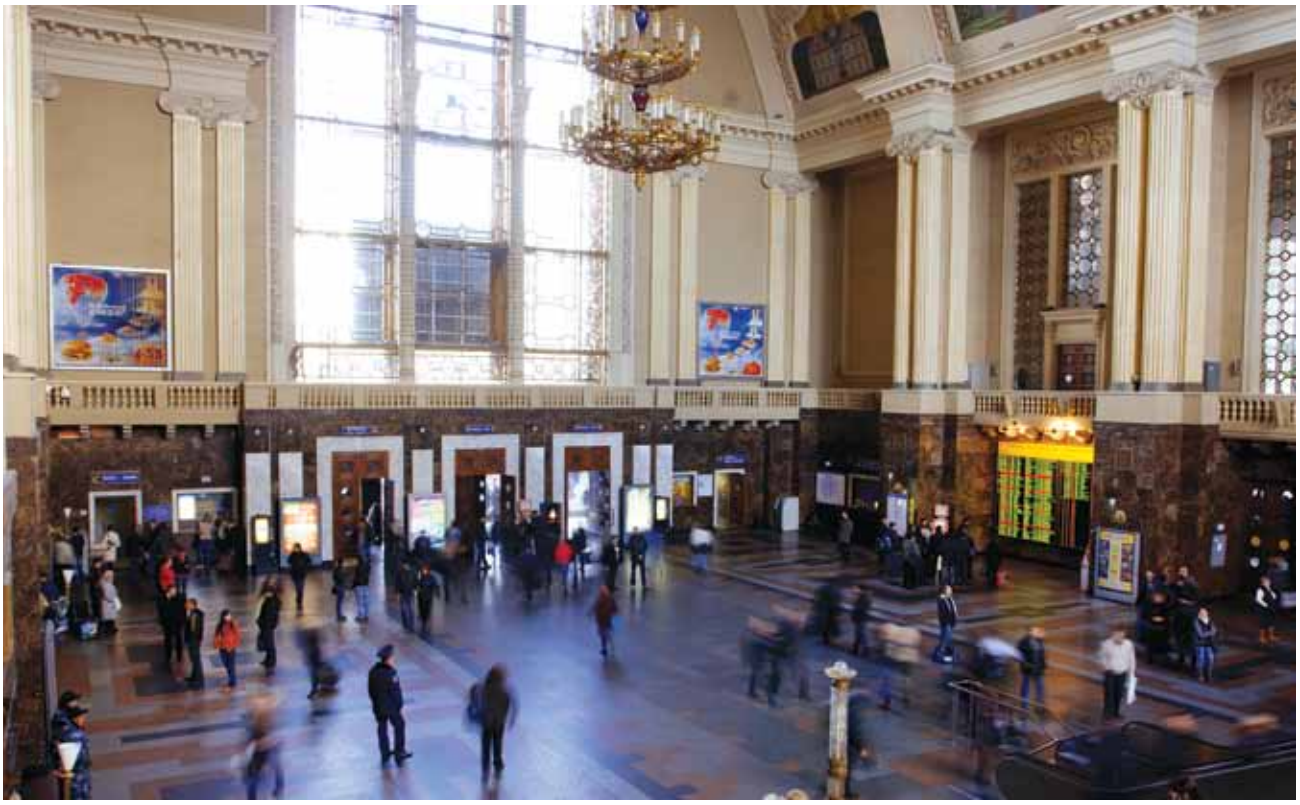
3.1
Population and Urbanization



Kiev Central Railway Station. **©Radiokafka/Shutterstock**

The subregion's population declines are predominantly the result of ultra-low birth rates and high death rates. Ukraine is a good example of this (see Fig. 3.1), with 100 deaths over 67 live births in January 2011. This is due to smoking, accidents at work and high incidence of suicides, all particularly affecting men. In 2011, life expectancy at birth in Ukraine was only 69.5 years, compared to 78.6 in the EU. In addition, the net (official) migration rate was mostly strongly negative between 1995 and 2001.

Whereas low fertility rates are often associated with an ageing society, as in Western Europe for instance, this is not the case in the Eastern subregion. The elderly ratio (the number of persons older than 65 over the 15-64 age group) in Ukraine, for example, actually decreased from 23.3 per cent in 2006 to 21.7 per cent in 2011.[2] Economic factors play an important role in the low fertility rates because falling disposable incomes render more than one child increasingly unaffordable, while the closure of many childcare institutions since 1991 also did not help.[3]

Urbanizations Trends

Urbanization levels in both Belarus and Ukraine are now stabilizing with rates of urbanization projected to decelerate towards 0.3 per cent annually by 2050 (see Fig. 3.1 and 3.6). In Moldova, urbanization rates steadily declined since 1950 and even reached negative figures from 1990 to 2005. The latter was to some extent the result of territorial disintegration and the exclusion of Transnistria from the statistics (see Text Box 3.1 and Fig. 3.4). The Moldovan urbanization rate next shot up from an annual average of -0.65 between 2000 and 2005 to +1.68 per cent in the 2005-2010 half decade but that was a brief peak rate.

Moldova is now on what looks to be a steady and long-term urbanization rate deceleration to around 0.68 per cent annually by 2050. But despite this, the Moldovan urban population continues to grow in *absolute* terms.

The urban transition point when Moldova will reach, for the first time ever, a national urban population majority is projected for 2015. From then onwards the urbanization

BOX 3.1: **MOLDOVA'S TERRITORIAL DISINTEGRATION**

Source: MJS/UN Cartographic Department

The Transnistria region, located between the Dniester River and the border with Ukraine, broke away by unilateral declaration in 1990. This led to a military conflict in March 1992 that was halted by a ceasefire in July 1992. Since then, Transnistria, governed as the Pridnestrovian Moldavian Republic (PMR), claims the territory east of the Dniester River, as well as the city of Bender and its surrounding localities on the river's west bank. Moldova does not recognize the secession; neither do any other United Nations member states.

The ceasefire of 1992 led to a three-partite agreement (Moldova, Russia and Transnistria) whereby it was agreed that a Joint Control Commission supervises security arrangements in a demilitarized zone covering 20 localities on both sides of the Dniester River. Armed confrontations have not occurred since.

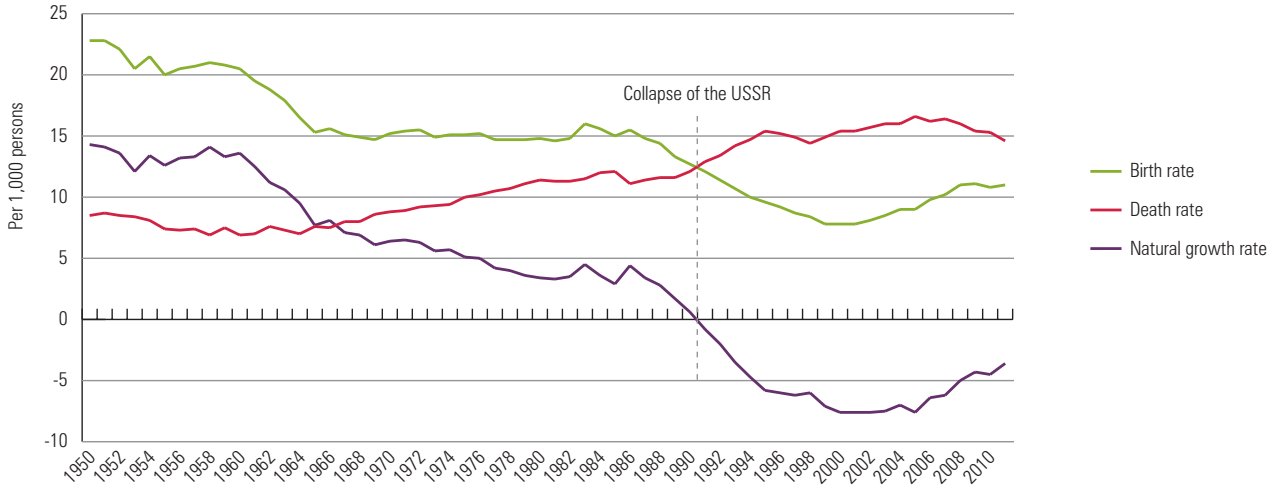
Although Transnistria remains internationally unrecognized, it nevertheless functions like an independent republic with its own government, parliament, military and police forces, postal system and currency. It has adopted a constitution, flag, national anthem and a coat of arms. Transnistria has recognized other post-Soviet secession zones, such as Nagorno-Karabakh, Abkhazia and South Ossetia. The latter two, in return, have recognized Transnistria as an independent state and have established mutual diplomatic relations.

Most inhabitants of Transnistria have Moldovan citizenship, while many others have Russian or Ukrainian citizenship. A 2005 agreement between Moldova and Ukraine stipulated that all Transnistrian companies seeking to export goods across the Ukrainian border must be registered with the Moldovan authorities.

Source: Golubock, D, Wilson, J., *Moldova: Divided on the edge of Europe* (http://www.sras.org/moldova)

House of Soviets, Tiraspol, Transnistria. **©Attila JANDI/Shutterstock**

FIGURE 3.1: **UKRAINE DEATHS, BIRTHS AND POPULATION DECLINE, 1960-2008, PER 1,000 INHABITANTS**



Source: Based on USSR census and statistical yearbooks

TABLE 3.1: **NATIONAL POPULATION TRENDS, DECADE INTERVALS (INCLUDING 2011), POPULATION IN THOUSANDS**

	1990	2000	2010	2011	2020*	2030*	2040*	2050*
Belarus	10,260	10,058	9,595	9,559	9,282	8,883	8,438	8,001
Moldova	4,364	4,107	3,573	3,545	3,338	3,147	2,905	2,661
Ukraine	51,645	48,892	45,448	45,190	43,047	40,515	38,100	36,074

* Projections
Source: *World Urbanization Prospects: The 2011 Revision, UNDESA, New York, 2012*

TABLE 3.2: **NATIONAL URBANIZATION TREND LEVELS, DECADE INTERVALS (INCLUDING 2011), AS PERCENTAGE OF TOTAL POPULATION**

	2000	2010	2011	2020*	2030*	2040*	2050*
Belarus	70.0	74.6	75.0	78.4	81.2	83.3	85.2
Moldova	44.6	46.9	47.7	53.9	59.8	64.8	69.6
Ukraine	67.1	68.7	68.9	70.8	73.4	76.2	78.8

* Projections
Source: *World Urbanization Prospects: The 2011 Revision*, UNDESA, New York, 2012

level of Moldova will continue rising - with average annual urbanization rates double to those of Belarus and Ukraine - to a projected near 70 per cent urban population share by 2050. Belarus already reached an urban majority in 2000 and Ukraine is projected to reach it before 2020 (see Table 3.2).

In the late 1950s, Belarus was only 30 per cent urban. But a strong rural-urban migration trend began in the 1960s with annual rates of urbanization peaking at 3.25 per cent around 1965, after which Belarus commenced a long-term and steady annual urbanization rate deceleration trend to around 0.6 per cent in 2010.

In 1970 Belarus had a 57 per cent urban majority, growing to 70 per cent by 2000. By 2011, Belarus had 9.6 million inhabitants, of which 7.2 million were urban (75.0 per cent) and 2.4 million rural (25.0 per cent). Due to decelerating annual urbanization rates, steadily declining to 0.22 per cent by 2050, Belarus's 75.0 per cent urbanization level of 2011 will have only slowly increased to a projected 85 per cent. The population of the capital, **Minsk**, has however increased by 10 per cent over the past 15 years.

In combination, Figures 3.2 and 3.3 reveal that rural populations have decreased much faster than city populations have grown. This implies that rural depopulation contributes more to the rising urbanization level (the share of urban dwellers in the total population) than actual city growth.

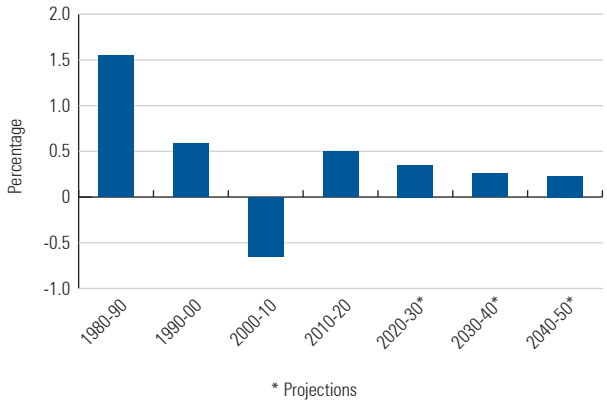
Minsk, with a 2011 population of 1.9 million, is the country's sole urban settlement of European importance, a multi-functional city with developed industry, social and technical infrastructures and a population of more than 500,000. Its international importance stems from trade,

TABLE 3.3: **LARGE URBAN AGGLOMERATIONS AND CAPITALS SHARE OF TOTAL POPULATION (%), 1950-2025**

City	1950	1960	1970	1980	1990	2000	2010	2011	2015*	2020*	2025*
Minsk	3.7	6.7	10.3	13.7	15.8	16.9	19.2	19.0	20.3	21.4	22.3
Kiev	2.2	2.7	3.5	4.4	5.0	5.3	6.2	6.0	6.6	6.8	7.1
Kharkiv	2.0	2.3	2.6	2.9	3.1	3.0	3.2	-	3.3	3.3	3.4
Krivoi Rog	0.8	1.0	1.2	1.3	1.4	1.4	1.6	-	1.9	2.0	0.8
Odessa	1.4	1.6	1.9	2.1	2.1	2.1	2.2	-	2.3	2.4	2.5
Dnipropetrovsk	1.4	1.6	1.8	2.2	2.3	2.2	2.2	-	2.2	2.1	2.1
Donetsk	1.6	1.7	1.9	2.1	2.1	2.1	2.1	-	2.1	2.1	2.1
Zaporizhzhya	0.8	1.1	1.4	1.6	1.7	1.7	1.7	-	1.7	1.7	1.7
Chisinau	5.7	7.6	9.9	13.3	16.7	17.5	19.9	19.0	20.7	21.3	21.9

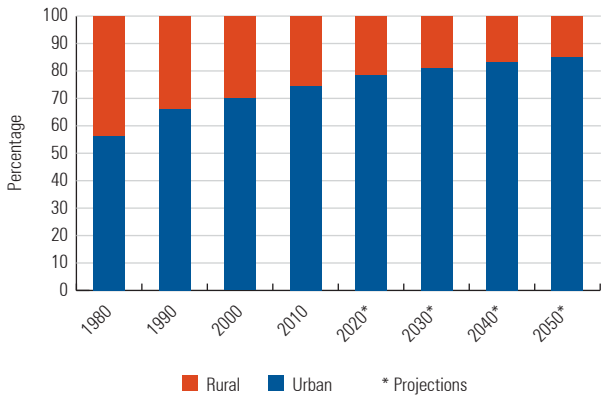
** Projections*
Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

FIGURE 3.2: **AVERAGE ANNUAL URBANIZATION RATES, BELARUS, DECADE INTERVALS (%)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

FIGURE 3.3: **URBAN AND RURAL POPULATION BELARUS, 1980-2050, (THOUSANDS)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

innovative enterprises, financial institutions and higher education. Urban settlements of national importance (multi-functional cities with developed services, culture and art centres and with populations between 200,000 and 500,000) include the five regional centers: **Brest, Gomel, Grodno, Mogilev** and **Vitebsk.** Urban settlements of regional importance (industrial cities and regional administrative centres with populations of up to 100,000) include towns with a role at the regional level. Human settlements of local importance include industrial, cultural, tourist and recreational centres or rural settlements of up to 20,000 inhabitants.

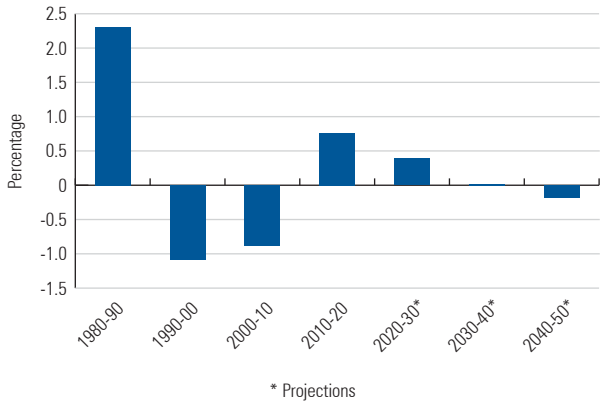
In 1950, Moldova was only 16.5 per cent urban. Twenty years later, the level had almost doubled to 32.1 per cent and continued to rise steadily to 46.8 per cent in 1990, until a sharp population growth drop due to the breaking away of Transnistria. The impact of the transition caused an urbanization level decrease through 2005 to 43.2 per cent.

In 2011, Moldova had an estimated 3.6 million inhabitants, split between 1.7 million urban (47.7 per cent) and 1.9 million rural (52.8 per cent). However, in the 2010-20 decade, the Moldovan average annual urbanization rate is sharply accelerating but these rates are projected to start declining once more after 2020. Moldova is heading for a steady, long-term trend of increasing urbanization levels projected to lead to an urban population share of about 70 per cent by 2050 (see Figs. 3.4 and 3.5).

As with Belarus, Figures 3.4 and 3.5 in combination show that rural depopulation in Moldova after the year 2000 exceeded urban population growth on a decade-to-decade basis, implying that, from 2010 onwards, rural depopulation will be the more important contributing factor in the Moldovan urbanization level, rather than the actually decelerating growth of urban areas.

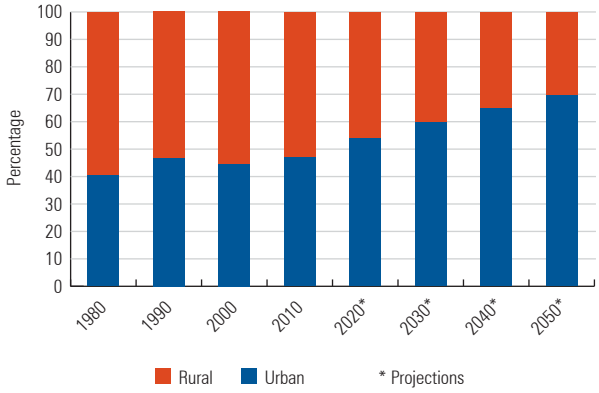
The capital **Chisinau** had a 2011 population of 677,000 and was the country's largest city. In 2011, Moldova had 1,681 localities, comprising 60 cities, seven municipalities (of which two localities were within cities), 917 villages and 659 localities within communes.

FIGURE 3.4: **AVERAGE ANNUAL URBANIZATION RATES, MOLDOVA, DECADE INTERVALS (%)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

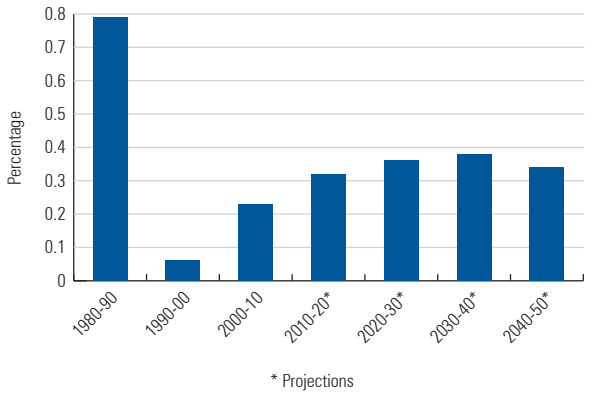
FIGURE 3.5: **URBAN AND RURAL POPULATION MOLDOVA, 1980-2050, (THOUSANDS)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

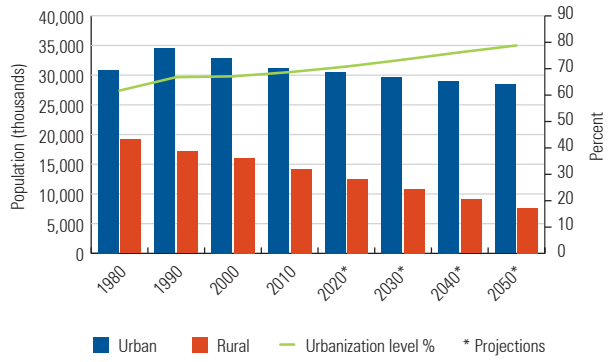
▲
The *Gates of Chisinau*. In Moldova, the average annual urbanization rate is accelerating. **Source: Zserghei/Public domain**

FIGURE 3.6: **AVERAGE ANNUAL URBANIZATION RATES, UKRAINE, DECADE INTERVALS (%)**



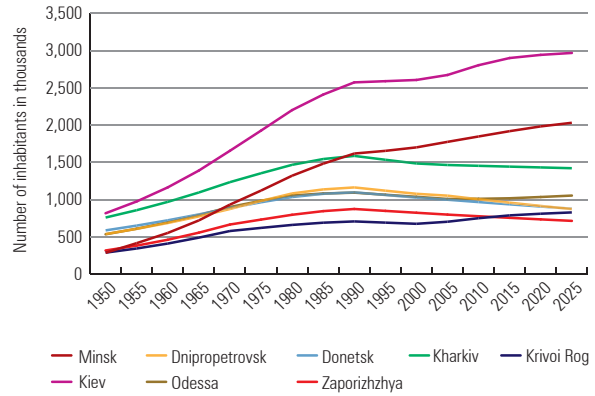
Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

FIGURE 3.7: **URBAN AND RURAL POPULATION UKRAINE, 1980-2050, (THOUSANDS)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

FIGURE 3.8: **CAPITALS AND URBAN AGGLOMERATIONS EXCEEDING 750,000 INHABITANTS, 1950-2025 (THOUSANDS)**



Source: *World Urbanization Prospects: the 2011 Revision,* UNDESA, New York, 2012

Ukraine rapidly urbanized between 1950 and 1980, despite annual rates of urbanization steadily decelerating from 3.1 to 1.1 per cent over that period. Urbanization rates turned negative in the 1990-2010 period, averaging -0.5 per cent annually. These rates are projected to remain negative through 2050 with average annual values of around -0.2 per cent.

Ukraine had about 45.2 million inhabitants in 2011, of whom 31.1 million were urban (68.9 percent) and 14.1 million were rural (31.1 percent) and its urban population is now more than double the rural population - a reversal of the situation of 1950. Given that the rural population is declining at average annual rates of about -1.5 per cent, Ukraine too is experiencing rising urbanization levels despite its negative urban growth rates.

Population densities vary geographically. High densities in East Ukraine resulted from the many industrial cities that were established there in the 1960s and 1970s and that were at the basis of today's urban clusters such as **Donetsk-Makiivka** and **Horlivka-Enakievo**. The population in the Dniepropietrovsk, Donetsk and Luhansk regions is now 80-90 per cent urban and these three regions represent around 25 percent of Ukraine's total urban population. Urban population also converged in the Kharkivska region (now 79 per cent urban). In addition, historic events such as the world wars, the Great Famine of 1932 and 20th century deportations affected current population distributions in Ukraine.

Urban Agglomerations

Analysis of the subregion's capitals and urban agglomerations exceeding 750,000 inhabitants reveals that these urban areas all grew until around 1990 but are now in decline or projected to stagnate in demographic terms. The **Chisinau** agglomeration, capital of Moldova with 677,000 inhabitants in 2011, follows a similar pattern. The Belarusian and Ukrainian capitals, **Minsk** and **Kiev**, divert from this trend (see Fig. 3.8), as do **Odessa** and **Krivoi Rog** due to combinations of rural-urban migration and emigration. With 19 per cent in 2011, both Minsk and Chisinau concentrated the highest share of the national population in a single urban agglomeration, compared to only 6 per cent for Kiev.

In the three countries, population differences between the city proper and the urban agglomeration are generally small. The **Kiev** agglomeration amounted to 3.22 million inhabitants in 2011, only 14 per cent more than the City of Kiev's population of 2.83 million. Other cities exhibit similarly low differences: **Kharkiv** 9.5 per cent, Odessa 10.5 per cent and **Minsk** 1.3 per cent. For comparison, the **Berlin** and **Paris** agglomerations are 25.3 and 378.8 per cent larger than the city proper, while for the Polish-Czech **Katowice-Ostrava** agglomeration it is 693.6 per cent. Only the **Donetsk** (43.6 per cent) and **Dnipropetrovsk** (34.5 per cent) urban agglomerations resemble anything approaching EU conurbations. Although **Kiev** has expanded territorially in the past, this spatial growth has now halted and new expansion is neither envisaged under *The Draft Strategy Kiev 2025* nor an urban priority for the next ten or 15 years[4].

Demographic Change

Population censuses were conducted in Belarus in 1999 and 2009 (and in the Belarusian Soviet Socialist Republic (SSR) in 1939, 1959, 1970, 1979 and 1989). The demographic situation of Belarus is worrying. Natural population growth rates have remained negative for the past ten years due to a negative rural death-birth rate ratio, particularly in areas contaminated by the Chernobyl disaster. Although urban births still exceed urban deaths, they are insufficient to generate a positive urban population growth rate. The total Belarusian demographic change (also taking into account net emigration) is only just positive, as illustrated in Fig. 3.10. The age distribution is similar to that of Ukraine and, hence, demographic problems should be anticipated.

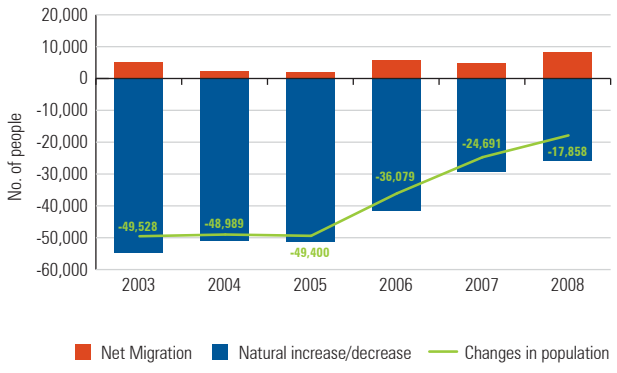
Censuses in the Moldavian SSR were conducted in 1959, 1970, 1979 and 1989. The first population census in the new Republic of Moldova took place in October 2004. Data from the left-bank part of the country and the **Bender** municipality were excluded. According to the 2004 census, the most urbanized areas (in terms of the size of urban population) were the municipalities of **Balti** and **Chisinau.**

Fig. 3.11 illustrates the Moldovan population trends of urban and rural areas with a slightly upward trend starting in 2007 with urban births outnumbering urban deaths. In rural Moldova population continues to decrease, albeit this decline is decelerating from 2005 onwards. The large decline of 2004 was a 'one-off' result reflecting the secession of Transnistria.

The country's overall natural population decline is exacerbated by permanent emigration. Whereas Moldova has a somewhat better age structure than Belarus and Ukraine, its migratory balance is significantly worse. Indeed, Moldova remains one of the world's leading countries for emigration[5] (see Fig 3.12). Forecasts project a further decline in population and shrinking shares of working-age persons, with significant demographic consequences.

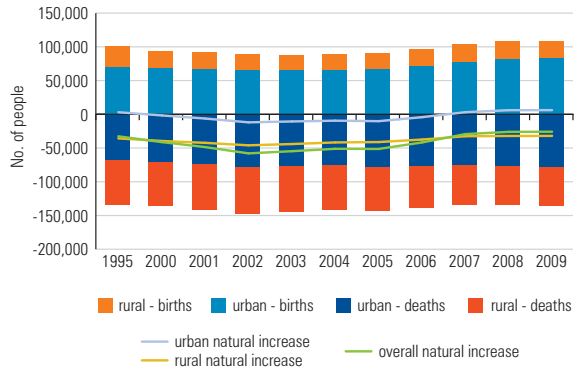
Population censuses have been conducted in Ukraine (before 1991 'the Ukrainian SSR') in 1913, 1926, 1959, 1970, 1979, 1989 and 2001. The 2012 census data could not be included in this report.

FIGURE 3.9: **BALANCE OF DEMOGRAPHIC CHANGES IN BELARUS, 2003-2008**



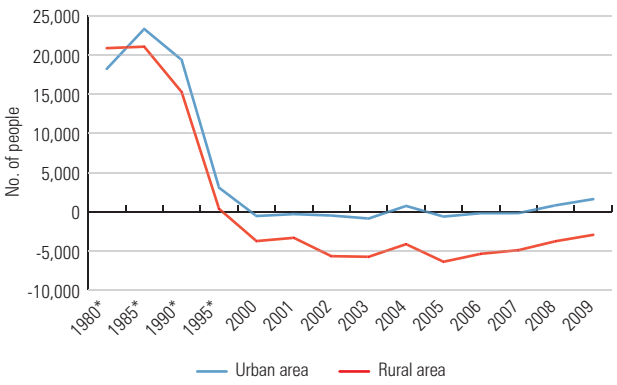
Source: National Statistical Committee of the Republic of Belarus, Regions of the Republic of Belarus 2010, Minsk; http://belstat.gov.by/homep/en/indicators/population.php (10 Jan. 2012)

FIGURE 3.10: **NATURAL INCREASE, DECREASE (-) OF POPULATION OF BELARUS, 1995-2009**



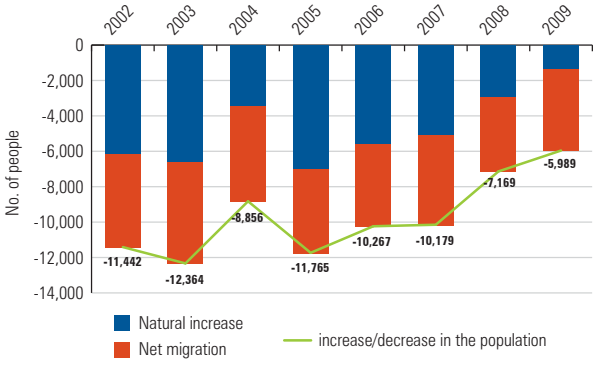
Source: National Statistical Committee of the Republic of Belarus, *Social conditions and living standards of population in the Republic of Belarus,* Statistical book, Minsk, 2012: 41 (http://belstat.gov.by/homep/en/publications/house/2012/about.php)

FIGURE 3.11: **ANNUAL BALANCE OF BIRTHS & DEATHS, MOLDOVA, 1980-2009**



Source: Based on http://www.statistica.md/public/files/serii_de_timp/populatie/miscarea_naturala/2.2.1.xls (7 June 2011)

FIGURE 3.12: **BALANCE OF DEMOGRAPHIC CHANGE, IN MOLDOVA, 2002-2009**



Source: Based on the Statistical Yearbook of Moldova, 2010

Demographers worry about Ukraine's declining population, its life expectancy trends and the associated distortions in age and sex structures. With birth declines persisting for more than four decades, generational replacement has been arrested and demographic ageing is increasing. This is compromising population renewal and causing significant total population decreases. These trends are the accumulated results of historic and more recent events, varying from forced collectivization and repressions between 1930 and 1950, to the more recent **Chernobyl** disaster, and population outflows following the economic crisis of the 1990s.

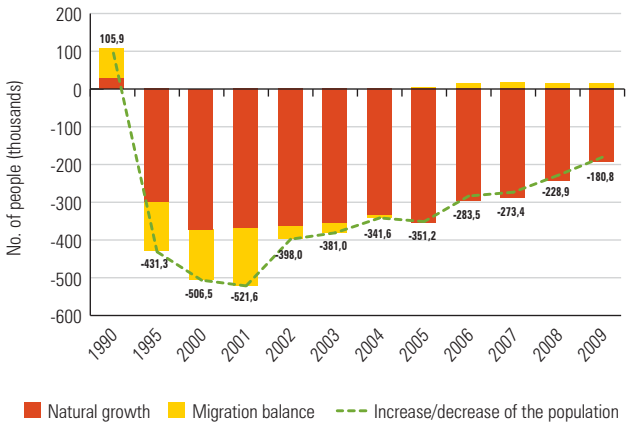
Free international movement *before* the 1990s had already stimulated systematic outflows of young professionals to Russian cities, another factor that affected Ukraine's demographic composition.

Demographic ageing has had impacts on Ukraine's economy through pressure on the state budget from pensions and in terms of changing economic behaviour of the labour force. Whereas a decision to raise the retirement age could keep more older people working, this is likely to have a generally negative impact on the work force's ability to use and accept innovation and new technologies at work.

The higher standards of living in Western Europe caused a consistent post-1990 outflow of mostly young people from Belarus, Moldova and Ukraine. For some Western European countries these flows made up for population and labour replacement or even produced actual demographic growth. In more recent years, however, Ukraine has recorded a small positive net in-migration (see Fig. 3.13) but the added population proved insufficient to compensate for the overall strongly negative natural growth. The long-term demographic prospects are therefore not optimistic with the likelihood of Ukraine achieving even mere population replacement in the short or medium-term remaining low[6].

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

FIGURE 3.13: **DEMOGRAPHIC CHANGE IN UKRAINE, 1990-2009 (THOUSANDS)**



Source: Based on Ukrainian statistical yearbooks

Migration Dynamics and Impacts on Cities

Internal Migration

In the 1960s, many jobs were created through the development of Belarusian industrial cities such as **Navapolatsk**, **Salihorsk** and **Svetlogorsk**. Consequently, these cities experienced population increases over the 1959-1970 period: Svetlogorsk 35,000, Salihorsk 40,000 and Navapolatsk 40,000. The 1986 **Chernobyl** disaster in Ukraine heavily exposed Belarus to the fallout and influenced domestic migration to safer areas (see Text Box 3.2). Today, domestic migration in Belarus is characterized by continuing rural-urban but also urban-urban flows from collapsed mono-industrial cities to more economically prosperous ones because of job opportunities and higher wages associated with better developed urban infrastructures and urban-based industries.

Domestic migration in Moldova has been difficult to track, because the country's authorities no longer obtain reliable statistics on Transnistria. However, it is thought that the latter experiences permanent emigration rather than internal migration into Moldova[7].

Declining small town populations and increasing migration to large cities were the two main characteristics of Ukraine's urbanization in the 1990s. For many years, population flows were also recorded from Ukraine's western and central rural areas to the south and to **Kiev**. The **Chernobyl** disaster exacerbated this process with people resettling in relatively clean areas in the south (see Text Box 3.2).

The population of **Kiev** continues to grow with the migration flows from other parts (and cities) of the country but these inflows are decelerating while natural growth has recently turned positive (see Fig. 3.14). Domestic migration statistics of 2010 reveal that **Metropolitan Kiev, Odessa** and, to a lesser extent, the Crimea remain the main recipients of rural-urban population flows. The large industrial agglomerations of **Donetsk** and **Kharkiv** lost population after industrial closures and lay-offs.

Trans-national Migration

Many professionals left Belarus in the 1990s and early 2000s in search of employment. Germany, Russia, the United Kingdom, Ukraine and the USA were the main destinations. According to a recent survey, up to 43 per cent of occupationally-active Belarusians expressed intent to go abroad for work. Most trans-national migration *into* Belarus originates from Russia and Ukraine (annually about 4,000 and 1,000 persons for the past five years respectively). There is a marginal number of immigrants from other countries with the majority coming from China (550 persons in 2009).

In Moldova, official migration statistics are at variance with the reality. Officially, Moldova received 2,010 immigrants in 2009, mostly from Ukraine. Also officially, 6,663 persons emigrated from Moldova in 2010, mostly to Ukraine and Russia. But these figures exclusively reflect those who formally declared their intent to migrate whereas currently about one in four Moldovan adults works abroad. While these may theoretically return at some point in time, an unknown share will remain abroad. Moldova has one of the largest emigration rates in the world. Mass outflows commenced in the 1990s and reached a peak in 2005 with an estimated 400,000 to 750,000 persons leaving the country.

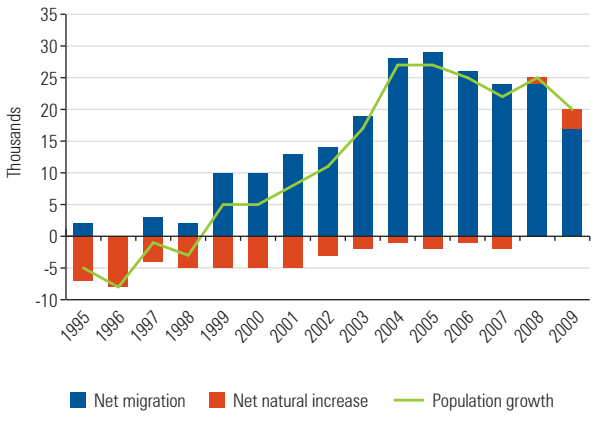
Ukraine experienced emigration waves in the early 1990s and between 2000 and 2002. More than 6.5 million people have left Ukraine since 1990, representing 14.4 per cent of the population, mainly for economic reasons. Italy, Poland, Russia and the USA were the most popular destinations. Western Europe and the USA attract immigrants with their high wages while Russia is popular because of the combination of visa free travel, cultural similarities and job opportunities. The number of migrants into Ukraine since 1990 exceeded 5.2 million (11.6 percent of the population), mainly from Belarus, Kazakhstan and Russia. Ukraine also serves as a transit base for third-country nationals travelling to Western Europe, some of whom stay in Ukraine. The Ukraine-Russia corridor is the world's third largest migration corridor after the Mexico-US and Russia-Ukraine corridors.

City Size and Domestic Population Distribution

The countries of the eastern subregion differ significantly in their city sizes and population distributions. With the exception of the three capital cities, most of the subregion's large cities are located in Ukraine.

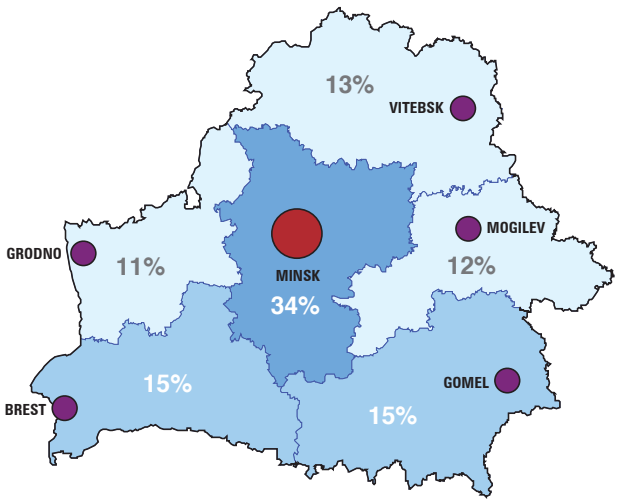
Belarus has a very uneven population distribution, with almost 34 per cent living in the centre of the country where **Minsk**, the capital and Belarus's largest city, is found. Population is otherwise fairly evenly distributed across the regions. The **Gomel** region in South-Eastern Belarus had the second-largest share of the urban population in 2010, with more than 1 million people living in cities.

FIGURE 3.14: **NATURAL GROWTH AND IN-MIGRATION FOR KIEV, 1995-2009 (THOUSAND PERSONS)**



Source: Kyiv 2025 Development Strategy, Draft, May 31, 2011 (http://eternityclub.kiev.ua/pdf/EN_Strategy_Kyiv2025-8June2011.pdf; access: September 2011)

MAP 3.2: **BELARUS POPULATION DISTRIBUTION, 2010**



Source: National Statistical Committee of the Republic of Belarus, *Regional Statistics* (http://belstat.gov.by/homep/en/indicators/regions/r1.php)

BOX 3.2: **THE CHERNOBYL DISASTER AND MIGRATION**

The abandoned city of Pripyat, Ukraine. Almost 50,000 people left the city days after the Chernobyl disaster. **©Oliver Sved/Shutterstock**

A nuclear disaster occurred on 26 April 1986 at the Chernobyl Nuclear Power Plant in Ukraine (then the Ukrainian SSR), when an explosion and fire led to the release of massive amounts of radioactive contamination into the atmosphere. The prevailing winds spread the contamination over much of the western USSR and Europe. Chernobyl was the worst nuclear power plant accident ever and one of only two ever level-7 events on the International Nuclear Event Scale (the other being the 2011 Fukushima Daiichi nuclear disaster). According to official post-Soviet data, about 60 per cent of the fallout landed in Belarus.

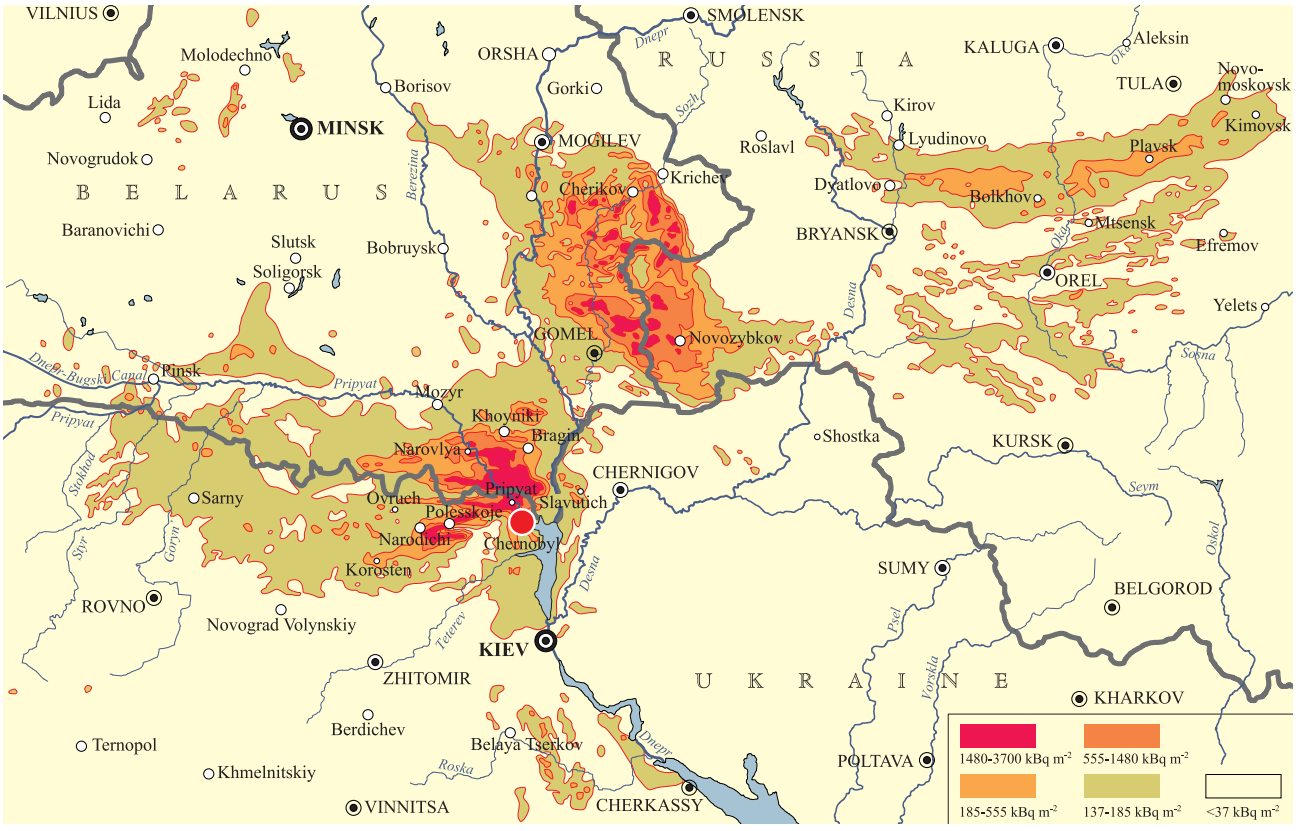
Coping with the impacts of the disaster placed a huge burden on national budgets. In Ukraine, five to seven per cent of government spending each year is still devoted to Chernobyl-related benefits and programmes. About seven million people in Belarus, Russia and Ukraine receive social benefits related to the effects of Chernobyl[8]. In Belarus, government spending amounted to 22.3 per cent of the national budget in 1991, declining gradually to 6.1 percent in 2002. The total spending by Belarus between 1991 and 2003 is estimated at more than USD 13 billion, while Belarusian losses over 30 years are estimated at USD 235 billion.

There were two migration waves for environmental reasons after the disaster: the first from April 1986 to 1990 (evacuation of people living in a 30 km exclusion zone around the reactor) and the second from 1991 until today. From 1986 to 2000, more than 350,000 people were evacuated and resettled from the most severely contaminated areas of Belarus, Russia and Ukraine. Migrations contributed to a chain reaction of geo-demographic, social and economic change.

Belarus, Russia and Ukraine have been burdened with the continuing and substantial decontamination and health care costs of the Chernobyl accident. The International Atomic Energy Agency examined the environmental consequences of the accident. Thirty-one deaths are directly attributed to the accident, all among the reactor staff and emergency workers. Estimates of the potential total number of deaths resulting from the accident vary enormously. The United Nations Scientific Committee on the Effects of Atomic Radiation estimates the total confirmed deaths from radiation to be 64 as of 2008. The World Health Organization suggests it could reach 4,000. A 2006 report predicted 30,000 to 60,000 cancer deaths as a result of Chernobyl fallout. A Greenpeace report puts this figure at 200,000 or more. A Russian publication concludes that 985,000 excess cancer cases occurred between 1986 and 2004. The 2011 report of the European Committee on Radiation Risk calculates a total of 1.4 million cancer incidents worldwide over a 50-year period are expected to result from the Chernobyl disaster.

A routine health examination to check for radioactive contamination in the village of Novoe Mesto, Bryansk. Most of the rural population eats food grown in highly polluted soil.
©Stefan Boness/Panos Pictures

MAP 3.3: **SURFACE DEPOSIT OF CEASIUM-137 RELEASED IN THE CHERNOBYL ACCIDENT (IN KBQM-2)**



Source: http://www.unscear.org/unscear/en/chernobylmaps.html

TABLE 3.4: **THE LARGEST CITIES IN BELARUS, 1979-2010 (THOUSANDS)**

	1979	1989	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Minsk	1,276	1,589	1,666	1,688	1,699	1,713	1,726	1,741	1,766	1,781	1,797	1,815	1,837	1,864
Gomel	394	512	477	477	480	482	481	481	482	482	481	484	488	501
Mogilev	297	357	366	359	361	363	364	365	367	368	369	371	372	361
Vitebsk	301	357	357	341	342	342	343	342	343	344	345	346	348	362
Grodno	195	271	300	304	307	310	312	315	317	319	322	326	338	338
Brest	177	258	292	289	291	294	296	298	300	301	303	315	318	316

Source: http://www.webgeo.ru/db/1979/belorus.htm; http://www.webgeo.ru/db/1970/belorus.htm (September 2011); http://demoscope.ru/weekly/ssp/sng89_reg1.php (September 2011)

Minsk stands out for its population growth, increasing threefold over the past 50 years. More than 19 per cent of the country's total and 26 per cent of its urban population lives in the capital and, if Minsk's suburbs are taken into account, these figures would go up to 22 and nearly 30 per cent, respectively.

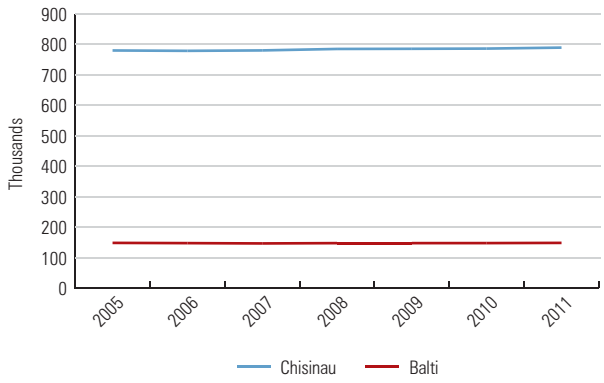
Belarus' second largest city, **Gomel**, is situated in the south-eastern part of the country. Its population grew rapidly from 1980 to 1990 but then stagnated at around 480,000 inhabitants until 2009 when slight growth was again recorded.

Mogilev and **Vitebsk** vie for the position of third-largest Belarusian city. The latter is possibly in the better position to gain that ranking as Mogilev's population has been stagnant over the past two decades while Vitebsk has recorded modest but steady growth.

Chisinau is the capital and largest city of Moldova. In 2011, the city proper had a population of 677,700 while the agglomeration area had 789,500 inhabitants. Chisinau is the most economically prosperous locality in Moldova and the country's largest transport hub. There is an international airport which handled 847,900 passengers in 2008. The city serves also as a railway hub between **Istanbul** and **Moscow.**

With a population of 144,000, **Balti** is Moldova's second-largest city if **Tiraspol** in the unrecognized territory of Transnistria is not taken into account.

FIGURE 3.15: **POPULATION OF MOLDOVA'S LARGEST URBAN AGGLOMERATIONS, 2005-2011 (THOUSANDS)**



Source: *Statistical Yearbook of the Republic of Moldova,* 2011

Ukraine recognizes the following settlement categories: city/town - a locality exceeding 10,000 inhabitants with a majority of the inhabitants employed in industry and services; urban-type settlement - a locality exceeding 2,000 inhabitants, with less than half of the population employed in agriculture or forestry and village – a locality of less than 2,000 inhabitants with more than half the population engaged in primary activities. Depending on their population size, cities/towns are divided into small <50,000 inhabitants, medium 50,000-100,000 and large >100,000.

According to its 2010 statistical yearbook, Ukraine had 459 cities and towns that accommodate 68 per cent of the total population, including four cities with a population of more than one million: **Kiev, Kharkiv, Dnipropetrovsk** and **Odessa** (excluding the small and medium-sized cities within their agglomerations). Other important cities are **Donetsk** (968,000), **Lviv** (734,000) and **Zaporizhia** (781,000). Forty-four per cent of the urban settlements in Ukraine are small towns with an average population of 16,000. There are also two ghost towns, **Pripyat** and **Chernobyl**, whose inhabitants were evacuated after the Chernobyl accident.

The capital of Ukraine, **Kiev**, is the subregion's largest city. In 2011, it had a population of 2.9 million officially registered inhabitants but the actual number is estimated at 3.12 million. **Kharkiv**, the capital of the Ukrainian SSR from 1918 to 1934, is Ukraine's second-largest city today and remains an important cultural and scientific centre. **Dnipropetrovsk**, capital of the Dnipropetrovsk region in Central-South Ukraine is the third-largest with a population of one million[9]. Because of its military-industrial function during the Soviet era it was then a closed city. The ban on entry of foreigners was lifted in 1989. It is now one of Ukraine's main industrial, cultural and scientific centers. **Odessa** is the capital of the Odessa region in southern Ukraine and the country's fourth-largest city. It hosts Ukraine's largest seaport and navy base and is a railway hub of importance.

Donetsk, the capital of the Donetsk region in Eastern Ukraine, is a major industrial centre. The city saw rapid population growth after a 1947 decision by the Council of Ministers of the Soviet Union that young people from across the country be recruited to work there. Consequently, the region received annual inflows of between 20,000 and 50,000

TABLE 3.5: **POPULATION DATA FOR UKRAINE'S MAJOR INDUSTRIAL REGIONS (THOUSANDS)**

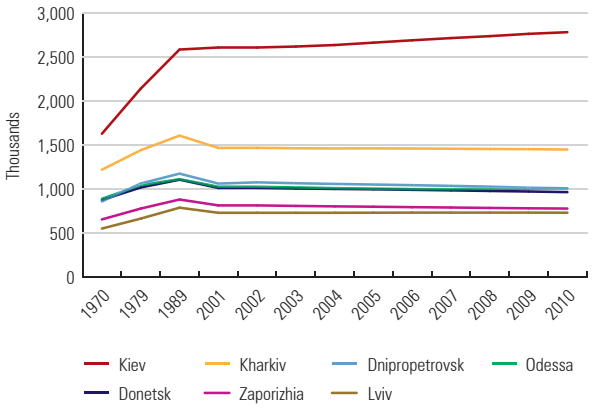
	1959			1970			1979			1989		
Oblast	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**	**Total**	**Urban**	**Rural**
Donetsk	4,262	3,656	606	4,892	4,276	616	5,161	4,599	562	5,332	4,815	517
Luhansk	2,452	1,977	475	2,751	2,271	480	2,787	2,357	430	2,863	2,473	390
Dnipropetrovsk	2,704	1,907	798	3,343	2,549	794	3,639	2,928	712	3,881	3,231	650

Source: The Soviet Union's censuses 1959, 1970, 1979, 1989

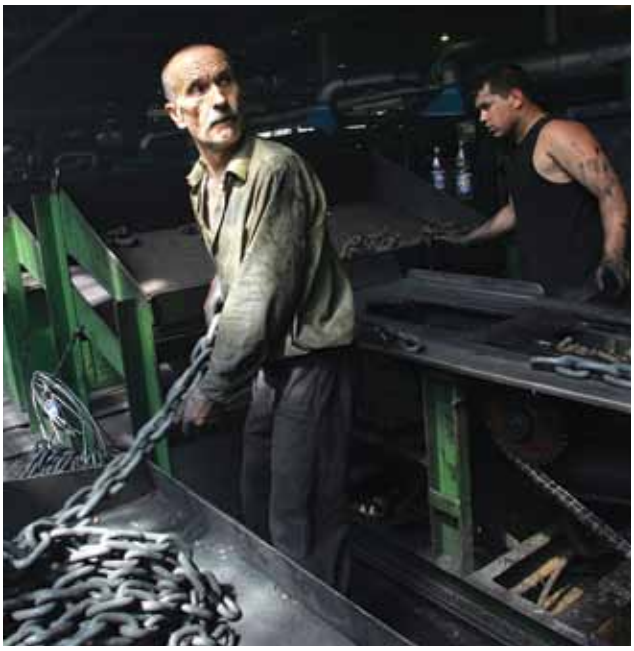
youngsters. Geographically, the Donetsk Basin consists of two regions: Donetsk and Luhansk. Over 90 per cent of inhabitants of the Donetsk and more than 80 per cent of the Luhansk regions are urban and, together, they host around 25 per cent of Ukraine's total urban population. The industrial concentration and high population levels led to the emergence of several urban agglomerations, such as **Donetsk-Makiivka** and **Horlivka-Enakievo**.

Zaporizhia, with a 2010 population of 781,100, is the capital of the Zaporizhia region and an important industrial centre (steel and cars) in South-Eastern Ukraine. **Lviv** is an important industrial and transport hub. The historic city centre of Lviv has been on the UNESCO World Heritage List since 1998 as an outstanding example of the fusion of Eastern European architectural and artistic traditions with those of Italy and Germany. The city is among Ukraine's top academic and cultural centers. It is unofficially referred to as the capital of Western Ukraine.

FIGURE 3.16: **MIGRATION POPULATION CHANGE IN MAJOR CITIES, UKRAINE (THOUSANDS)**



Source: *Statistical Yearbook of the Republic of Moldova,* 2011



Steel workers create linked chain at the CJSC Vistec steelworks in Donetsk, Ukraine.
©Northfoto/Shutterstock

MAP 3.4: **THE LARGEST CITIES IN THE EASTERN SUBREGION**

Source: *Statistical Yearbook of Ukraine 2010*

3.2
The Economic Role of Cities

Electric suburban train at Uzhorod station, Ukraine. **©Leonid Andronov/Shutterstock**

Cities in the European System

Economic links between the subregion's cities and the larger European system depend largely on the intra-regional transport infrastructure connecting neighbouring countries and the entire European Union. Given historic relations the links with the Russian Federation's transport infrastructure, the subregion's eastern neighbour, must also be taken into consideration.

Air Transport

The largest airport in Belarus is Minsk National Airport (formerly Minsk-2). **Minsk's** other airport (Minsk-1) and airports in Gomel, Mogilev and Brest have little significance for domestic flights and serve neighbour countries by small aircraft.

Chisinau is the only airport in Moldova of significance for international transport and handled 937,000 passengers in 2010. It has promising prospects but has yet to make its mark on passenger traffic.

Ukraine has 193 airports but the largest civilian and cargo airports are the most important. **Kiev** is a local hub for several airlines with three airports (international, domestic and cargo) in its agglomeration. The Kiev International Airport has links with almost all the key airports in Europe, the Caucasus, the Middle East and Central Asia. Unsurprisingly, given the country's continuing strong economic links with Russia, the airport also serves **Moscow** and many other Russian cities. Airports in the other capital cities of the subregion handle around one million passengers a year, much fewer than most regional airports in Europe.

Road Transport

Although the road infrastructure network is well developed in the eastern subregion, it is mostly in a poor condition. Since population density is lower than in Western Europe so is the flow of goods between cities and there is relatively limited trade with EU countries. While the TEN-T[10] network does not cover the Eastern subregion, a report on Pan-European transport corridors marks its existing transport links as 'routes in Central and Eastern Europe that require major investment'.

MAP 3.5: **PAN-EUROPEAN TRANSPORT CORRIDORS IN THE SUBREGION**

Source: MJS/UN-Habitat

Pan-European transport corridors are the main links between the subregion's cities and the European road system. These routes connect the subregion with **Moscow** (Minsk-Orsha-Moscow or Kiev-Moscow), **Vilnius** (Minsk-Vilnius), **Warsaw** (Minsk-Warsaw), **Krakow**, and with Germany and Western Europe (Lviv-Krakow), **Bucharest** (Chisinau-Bucharest) and further with the Balkans and Italy.

There is an important transport corridor linking **Uzhhorod** with Slovakia and Hungary and further with Western and Southern Europe. Transport links within the subregion are to some extent dependent on Pan-European transport corridors, although there is only one such link between Ukraine and Belarus and one between Ukraine and Moldova (see Map 3.5).

Railways

Rail transport plays an important city-linking role both within the subregion and with Russia. Due to differences in rail gauge, rail links with Hungary, Poland, Romania, Slovakia and, hence, Western Europe are developing at a much slower pace. In addition to time-consuming passport and customs checks, converting railcars from one gauge to another takes two to three hours, making rail travel less efficient and consequently only two daily connections exist between **Lviv** in Ukraine and Poland.

Changes in the Urban Economy

The entire Eastern subregion experienced a sharp decline in GDP in the mid-1990s. At 30 per cent a year, this decline was the steepest in Moldova. GDP began to increase in Belarus in 1996 but continued to decline in Moldova and Ukraine, albeit at a slower pace. GDP in Belarus grew by more than 10 per cent annually from 2000 until the onset of the global financial crisis.

Comparisons of GDP per capita in US Dollars at purchasing power parity show substantial differences within the subregion. In 1990, Ukraine had the highest GDP per capita while that of Belarus and Moldova were 81 and 57 per cent that of Ukraine, respectively. This changed in 2009, with Belarus' GDP per capita (PPP) exceeding Ukraine's by two times and Moldova's by 4.6 times.

The Human Development Index (HDI) is as an alternative to comparing national development. In HDI terms, the countries of the subregion lag behind their neighbours but differences are less pronounced than in GDP terms. Whereas they perform relatively well in health, the subregion's countries' overall HDI is mostly weighed down by low incomes. Ukraine's index is driven up by education, in which it performs much better than the other two countries.

When regaining independence in 1991, Ukraine inherited a poorly developed, centrally managed economy, with outdated infrastructures and unprofitable, debt-laden state-owned enterprises. Over time, the situation only worsened. In 1991, Ukraine's GDP decreased twice and most enterprises did not have the funds to meet ongoing commitments and almost no capital investments were made.

In early 1992, the government launched a three-phase privatization programme to convert state-owned enterprises into private companies. Moreover, Ukraine has rich farmland and generous mineral resources and could become a leading European economy. However, GDP per capita lags due to complex laws and regulations, poor corporate management, weak enforcement of contract law by courts and, particularly, corruption.

Economic developments in the late 1990s impacted negatively on the urban economies and people increasingly migrated from secondary and smaller towns to the large cities in search of jobs as the number of private businesses based in big cities was increasing. **Kiev** has the largest share of private businesses in Ukraine, with nearly 19 per cent of all private firms registered in 2010. With only 6 per cent of the country's population, Kiev contributes 19 per cent of GDP and attracts 34 per cent of the foreign direct investment (FDI). The total of FDI in Ukraine has increased considerably in recent years, reaching a level of about USD 40 billion in 2010. Despite these positive developments, according to the *Draft Strategy of Kiev up to 2025*, Kiev is 10 to 15 years behind other Eastern European capitals in terms of economic development.

Ukrainian foreign direct investment, in turn, totaled USD 6.2 billion, of which USD 5.78 billion in Cyprus - one of the most popular tax havens for Ukrainian companies. Cyprus serves not only as a means for transferring capital but also as an effective tool for stabilizing payments, leasing purposes, self-financing, settlement with business partners, copyright transfers and export contract payments. Cyprus is also used as a base from which to purchase real estate abroad and carry out foreign investments. Ukrainian businesses can freely circulate money in Cyprus without compliance with the regulations of the National Bank of Ukraine and independently of Ukraine's fiscal policy.

BOX 3.3: **SHADOW ECONOMIES**

Shadow economies play a significant role in the region. While shadow economies exist all over the world, they are considerably larger in the eastern subregion than in neighbour countries.

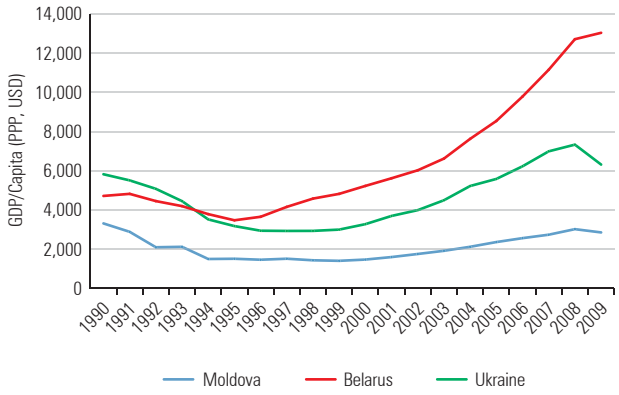
According to recent studies,[11] the shadow economy is divided into two parts: undeclared work (two-thirds of the European shadow economy) and under-reporting (especially in cash-based businesses). These practices reduce tax revenue inflows to the state budget which put further pressure on public finances. In 2010, the shadow economy of the EU-27 was 20 per cent of the official GDP, from a low of 8.7 per cent in Austria up to 32.9 per cent in Romania.

Whereas the shadow economies of the Eastern European EU-27 countries are higher than the EU average, the very large shadow economies of the three countries of the eastern subregion exceed the highest relative shares among the EU-27 countries. It is estimated that Ukraine's shadow economy accounts for 40 to 60 per cent of GDP (http://www.un.org.ua). Research by the Ukrainian newspaper *Delo* revealed that the country's shadow economy represents 45.4 percent of GDP, or UAH 420 billion (approx. USD 52.5 billion). Spending per capita is higher than income. This is explained in part by the statistical average calculation methodology but also because employees receive unofficial pay in addition to official wages.

For Belarus the estimates are slightly lower due to a higher degree of state control but the role of the shadow economy in some sectors nevertheless varies between 21 and 25 per cent of GDP.

In Moldova, the average has remained between 25 and 30 per cent for most of the past 10 years[12]. But, Moldova's economy also relies heavily on transfers from abroad (remittances) and the value of these remittances as a percentage of GDP was 36.2 per cent in 2007 and, in 2010, represented 31 percent of GDP.[13] Moldova is consistently in the top-10 countries in the world for receipt of remittances as a share of GDP.

FIGURE 3.17: **THE EASTERN SUBREGION GDP/CAPITA (PPP, USD), 1990-2008**



Source: Based on data from the World Bank, http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD (10 September 2011)

Geographically Uneven Development

During its Soviet period, Belarus produced armaments, cars, tractors, machinery, electronics and instruments which all contributed greatly to the country's GDP. The services sector, however, was underdeveloped. After Belarus had regained independence, there was a huge labour gap in the supply of specialists. Those left jobless by liquidation of factories were forced to retrain or look for jobs in other sectors of the economy. The Belarusian economy is characterized by a predominance of state-owned industry, agriculture and banking. Consequently, private participation is very low, although the retail and wholesale sectors are mostly private.

The Belarusian capital **Minsk** plays an important role in the economy and offers the highest wages. Minsk also has the highest share of people at work: more than 23 per cent of the country's total occupationally-active population. Unemployment in Minsk is just 0.3 per cent and is evidence of the city's high potential. The city continues to provide employment opportunities for workers from other regions. Economic growth allowed for rising wages in 2001-2008 but did not justify the wage increases in later years. The combination of wage increases and the economic crisis seriously weakened public finances, contributing to the 55 per cent devaluation of the Belarusian currency in 2011.

Moldova has the worst performing economy not only in the Eastern subregion, but in all of Europe. It is Europe's poorest country in terms of GDP per capita. The capital **Chisinau**, with its industries and services, is Moldova's economically most developed city. Practically the entire non-agricultural economy of Moldova is located in Chisinau, including more than half of all retail trade[14].

Ukraine's economic development is characterized by significant geographic differentials with each region developing at a different pace. The industrial structure of the regions did not change in the first decade of the 21st century, with many continuing to rely on only one or two sectors. For example, 16 regions focus on agricultural and food production, while **Dnipropetrovsk, Donetsk** and **Zaporizhia** specialize in iron and steel. The Eastern Ukrainian regions (Dnipropetrovsk, Donetsk, Kharkiv, Kiev, Luhansk, Połtawa and Zaporizhia) are the most developed and produce more than 60 per cent of the national industrial output. By contrast, the western regions (Chernivtsi, Kherson, Kirovohrad, Sewastopol, Tarnopol, Volhynia and Zakarpattia) produce less than one per cent of the national industrial output.

Human Capital, Culture and Innovation.

Ukraine inherited substantial research and development potential from the Soviet era. Many scientific and technological establishments remained in Ukraine after the collapse of the Soviet Union and continued to provide employment. This situation changed dramatically in the early 1990s when the

BOX 3.4: **MONO-FUNCTIONAL CITIES IN EASTERN UKRAINE**

Donetsksteel metallurgical plant. **©Fedorov Oleksiy/Shutterstock**

Foreign direct investment in the Donetsk region, however, is concentrated in the large cities, especially in the city of Donetsk itself, due to: transportation access (airport, roads, rail network), available land, buildings, structures, good services (electricity, gas, water, wastewater and solid waste), ease of access to city administration and a friendly investment environment.

Smaller mono-functional cities (settlements of around 50,000 residents where economic-activity is defined by one or two prominent economic sectors) will have to be especially active in seeking investors if they are to change their prospects. The closure of key enterprises has exacerbated mono-functional cities' problems and has transformed them into depressed regions. Presently, 122 small urban communities have such a mono-functional structure. Problems include narrow production specialization dependent on the operations of one or two enterprises, lack of qualified management staff, low rates of residential and social infrastructure, limited numbers of professions, insufficient employment opportunities, an underdeveloped services sector, low household incomes and underdeveloped municipal infrastructures. Even though mono-functional cities now try to diversify their economy, they are not attractive for investors and therefore only play a supporting role in their region which tends to perpetuate their outdated economic structures.

Eastern Ukraine had developed its heavy industry sector with particular emphasis in the Donetsk and Luhansk regions. These regions are characterized by high levels of capital investments in local enterprises and Ukraine's highest average wages. The Donetsk *oblast,* however, may be termed 'over-industrialized' with concentrated investments in metal and chemical industries but with little emphasis on higher-end technologies.

Foreign direct investment flows into Ukraine are focused on a few regions with Kiev and its surroundings receiving over one-third of the total. The Dnepropetrovsk, Donetsk, Odessa, Poltava and Zaporozhe regions together account for another third, which leaves less than one-third for the remainder of the country.

research institutions closed down one by one. Nevertheless, education is stronger in Ukraine than in the other countries of the subregion, which translates into strong human capital and, indirectly, innovation potential.

Kiev has the highest share (nearly 39 per cent) of those employed in science and new technology and the highest number of research & development institutions. But brain drain affects Ukraine and more than 200,000 people with higher education left in the 2005-2008 period alone.

Innovative enterprises are mostly located in big cities, particularly in academic centres such as **Kiev** (136 enterprises), **Kharkiv** (135 enterprises) and **Lviv** (106 enterprises). In 2009, 26.2 per cent of the enterprises registered in Kiev were engaged in innovation, compared to a national average of 12.8 per cent. **Dnipropetrovsk, Donetsk** and **Zaporizhia**, due to their continued focus on heavy industry, are not leading in terms of innovative enterprises. Ukrainian enterprises mostly finance innovations with their own funds (85-90 per cent). Loans and private investor funds account for only 10 per cent. Although Ukraine has large potential for innovation, it lacks mechanisms for transferring the results to the economy.

In Belarus and Moldova, the level of education is much lower and, in consequence, innovation is much lower and limited to the capital cities.

3.3 Housing

Soviet era apartment blocks in Kiev, Ukraine. **©Brendan Howard/Shutterstock**

Major Changes in the Housing Sector

Until the collapse of the Soviet Union, the housing sectors in the subregion were similar. There was practically no real estate market until 1990s as housing was mostly provided by the state, which acted as investor, contractor and owner all combined into one. Home ownership, particularly in urban areas, was discouraged. Housing allocations were administered through 'waiting lists' maintained by municipal housing authorities and housing was kept affordable with subsidies and price regulation.

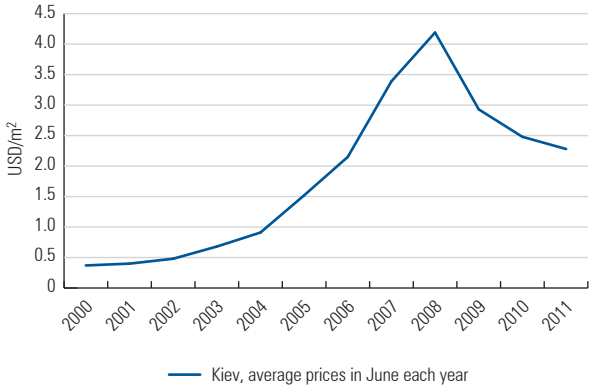
The cities of the Eastern subregion are dominated by high-rise apartment buildings in the centre and huge housing estates on the outskirts of urban areas. One of the overwhelming housing types provided from 1958-1985 was known as *khrushchyovka* - Soviet cement-panel or brick apartment buildings. *Khruschyovkas* usually were five-storied and, right from the start, widely ridiculed for their cramped living space.

The Ukrainian real estate market has undergone substantial changes in the past 20 years due to the introduction of market rules governing trade in real estate, particularly apartments. The state thus ceased to be the sole player on the real estate market. This state withdrawal, however, was not fully offset by private investments. Rather, upon independence, apartments were simply privatized on a massive scale.

After 1989, the housing stock in Ukraine expanded only slowly. Progress with privatization faltered because a sizable share of the housing stock was in very poor condition and because the remaining number of state-owned apartments with relatively low rents did not meet needs.

In 1990-1992, a new policy for housing construction was established to provide for quality differentiation: lower-quality apartments for low-income households and high-quality apartments for high-income families. The minimum area of a one-room apartment became 33-38m^2 and 103-109m^2 for a six-room apartment. Today, there is no area ceiling for

FIGURE 3.18: **KIEV AVERAGE APARTMENT PRICES, USD THOUSAND/M²**



Source: Based on year-to-year June prices, provided by http://blagovist.ua/realtystat/show.lisp (10 January 2012)

apartments. However, in 2005, 1.5 million Ukrainians were still waiting for apartments.

In the period 2005-2008, Ukraine experienced a housing price boom, fuelled in part by foreign buyers but also by the strong economic growth of 2000 to 2007. House prices increased by 562 per cent during that period. All the same, this boom was insufficient to alleviate the housing shortage and, with the subsequent economic downturn, the total value of construction in Ukraine fell by about 52 per cent from 2008 to 2009[15].

After the collapse of the Soviet Union, most of the housing stock in Belarus was privatized and by the beginning of 2008, 84 per cent was in private hands with the remainder under state ownership. The total housing stock has not grown dramatically. The 200.5 million m² of total floor space in 1995 had only increased to 237 million by 2011[16]. In 2008, the price of a new flat in state-constructed units was USD 800/m², whilst the price of a private sector constructed flat was about USD 2,000/m².[17] Floor space per inhabitant increased from 19.7 m² in 1995 up to 25.0 m² per person in 2011.

After gaining independence in 1991, housing production declined in Moldova. Whilst private dwellings were not unusual in Moldova, the privatization of housing stock began in 1993 with a free of ownership transfer to the sitting tenants for apartments below the authorized per capita space utilization. After a peak in state housing construction in the mid-1980s - reaching 2.1 million m² of new floor area in 1987 - housing starts fell in the 1990s and the private sector replaced the public sector as the main investor.

In 1990, the Moldovan public sector accounted for 49 per cent of the 23,600 new units constructed. By 1992, there were just 14,000 units under construction, of which 43 per cent came from the public sector. In 1996, housing output was down to 4,000 units, of which 10 per cent was from the public sector[18]. A shortage of building materials was a major cause of this fall. By 2000, there existed 75 million m² in about 1.3 million units[19]. In 2011, there were 79.8 million m² of housing surface area[20]. In terms of new construction, in 2000 there was 214,000 m² of new living space. During the 2000s, this figure increased each year up to 2008 (with small dips in 2002 and 2007). In 2011, 589,000 m² of new living space was completed, essentially all by the private sector[21]. But living space tends to be small and while, in 2009, Germany had 42.9 m²/person of useful dwelling stock, Moldova had just 22.1 (for comparison, Romania had 15.0)[22]. Housing prices also peaked during the 2000s at about €910/m² as a result of economic growth and foreign investment (remittances). Housing prices dropped in 2010 to €630/m². Prices have only slowly recovered since then.

Housing Conditions

A large share of the building stock that dates back to the Soviet era, mostly *khrushchyovkas*, was of poor quality to start with and badly maintained on top of that. Conditions are different for housing constructed over the past 10 years. While high-rise housing estates still predominate, they are no longer built with prefabricated materials and the quality of workmanship has also improved.

One of the key objectives of post-1990 housing policy in Belarus was the privatization of state property. The *1993 Law on Denationalization and Privatization of State-Owned Property in the Republic of Belarus* was adopted as the legal framework for privatization of housing and state-owned enterprises. This law has allowed citizens to acquire housing certificates that give them the right to buy the housing they previously rented from the state. As a result, by 1 January 2008, privately-owned housing stock accounted for 84.4 per cent of the total, as compared with 53.5 per cent in 1990.

The state programme *Development of Regions and Small and Medium Towns for 2007–2010*, developed to revitalize various small urban centres across the country, also covers housing issues. House or flat acquisition is typically more convenient in small- and medium-sized cities because of lower prices and shorter waiting lists for access to subsidized housing, but while the urban housing stock has grown rapidly (comprising 66.2 per cent of total housing stock as of 1 January 2008), rural housing development is lagging.

In Moldova, the housing stock transferred to the sitting tenants was generally in poor condition. A substantial share of urban units lacked basic infrastructure services, such as water supply, sanitation and central heating.

Today, the following three types of housing condition classifications exist in Moldova and Ukraine:

- Low-quality and poorly-maintained buildings from the Soviet era that are provided with all the necessary utilities (water, sewage, electricity) but which are prone to malfunction and breakdown
- High-quality buildings constructed in recent years but often with limited access to services
- High-quality urban individual housing produced at small scale

Currently, there are 10.1 million housing units in Ukraine with a total floor area of over 1,072 million m², of which 250,000 (114 million m²) are communal property[23]. Due to low funding (8-10 per cent of what is needed) and lack of renovation, every third building requires complete

TABLE 3.6: **HOUSING STOCK, BELARUS, 2008**

Type of ownership	Number of units	Floor area [thousand m²]	Percentage
State owned:	**101,846**	**35,800**	**14.8**
Republic	17,228	5,296	15.2
Municipal (communal)	84,618	29,503	84.8
Private owned:	**1,510,097**	**187,844**	**76.6**
Physical persons	1,423,214	169,444	90.2
Non-state juridical entities	72,598	14,948	8.0
Joint ownership	14,285	3,452	1.8
Foreign owned	**79**	**10**	**0.0**
Total housing stock	**1,612,022**	**222,654**	**100**

*Note: Includes 3,856 hostels - effectively social housing for disabled and poor.
Source: UNECE, *Country Profiles in the Housing Sector,* Belarus, 2008

TABLE 3.7: **HOUSING STOCK, UKRAINE (FLOOR AREA, MILLION M²)**

	2000	2003	2004	2005	2006	2007	2008	2009
Total housing stock	1,015	1,035.7	1,040	1,046.4	1,049.2	1,057.6	1,066.6	1,072.2
Urban housing stock	643.2	661.7	664.5	669.9	671.3	677.6	684.3	688.8
Rural housing stock	371.8	374	375.5	376.5	377.9	380	382.3	383.4
Average/urban citizen, m²	19.3	20.4	20.5	20.8	20.9	21.2	21.4	21.6
Average/rural citizen, m²	23.5	24	24.4	24.6	25	25.4	25.8	26.1

Source: *Statistical Yearbook of Ukraine, Housing Construction in Ukraine 2000-2009*

TABLE 3.8: **POPULATION REGISTERED FOR IMPROVEMENT OF HOUSING CONDITIONS, BELARUS (YEAR-END, THOUSANDS AND %)**

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of individuals (families) registered for improvement of housing conditions	623.8	568.8	558.8	555.9	522.2	525.0	564.8	623.1	717.5	701.0	793.1	855.6	849.2
Number of individuals (families) who improved their housing conditions	32.0	24.2	25.9	20.0	19.3	25.6	31.3	34.0	38.5	30.8	41.6	48.9	47.7
As a percentage, individuals (families) registered for improvement of housing conditions	4.9	4.2	4.6	3.6	3.5	4.9	6.0	6.0	6.2	4.3	5.9	6.2	5.6

Source: National Statistical Committee of the Republic of Belarus (http://belstat.gov.by/homep/en/indicators/house.php; accessed 20 March 2012)

Heating pipes enter the ground next to an apartment block in Krivoy Rog. **©George Georgiou/Panos Pictures**

refurbishment or major maintenance. Some 53,600 buildings with a total floor area of 4.8 million m^2 are qualified as requiring urgent repairs. The situation is worst in the regions around **Dnipropetrovsk, Donetsk, Kharkiv** and **Zhytomyr**, as well as in the city of **Odessa.**

In Ukraine, the average floor area per inhabitant has increased slightly in the recent years from 19.3 to 21.6 m^2 for urban and from 23.5 to 26.1 m^2 for rural dwellers.

The percentage of urban flats in Ukraine connected to various utilities reached almost universal coverage in 2009: water supply 98.9 per cent, sewage 98.9 per cent, central heating 99.3 per cent, hot water supply 97.3 per cent and an indoor bathroom 98.0 per cent. Gas connections declined from 81.3 per cent in 1995 to 70.2 per cent in 2009.

However, at the national scale only 58.8 per cent of all flats are connected to running water, 55.6 per cent to sewage treatment, 59.6 per cent to central heating and 83.1 per cent to a gas supply. Even fewer flats (41.3 per cent) are connected to a central hot water supply. In general, most units which are not connected to water supply or sewage disposal systems are in rural areas. Moreover, Ukraine experiences systemic water losses of 30-40 per cent which ranks it among the worst in Europe. Ukraine's wastewater is another reason for concern. There are many ineffective and outdated sewage treatment plants that require major repairs and nearly 5 million m^3 of sewage is discharged untreated into rivers daily.

Housing Supply and Affordability

Belarus encountered significant housing supply problems after the **Chernobyl** disaster, as around 330,000 persons had to be relocated. Targeted subsidies are provided for Chernobyl resettlement, priority groups (such as young couples, families with more than three children, disabled persons and people living in unhealthy housing) and people entitled to special status such as professional soldiers and military veterans. Resettlers can receive owner-occupied housing free of charge, while other groups may receive subsidized loans and housing vouchers. Utilities and maintenance costs are supported through non-targeted, means-tested subsidies from the state budget to the maintenance companies or utility providers[24].

Support to young families and those with a large number of children led to some fraudulent claims - such as mock marriages and families - to obtain housing subsidies or outright allocations. Compared to 2006, the official list of people in need of improvement of housing conditions had increased by more than 50 per cent in 2012. This, in addition to the 2011 economic crisis, led to subsidized loan approvals being suspended in June 2011, only to reappear in April 2012 after the President cut the list of state-supported persons more than twice[25]. As can be seen in Table 3.8, up until the end of 2011, the list was not shrinking and the spike in applications after 2005 shows the effects of these support policies.

In the past, Moldovan state enterprises were responsible for housing construction but, since the reforms of the

1990s, the private sector produces most units. The private sector in this respect includes developers (private institutions or individuals), financial institutions, the private-sector construction industry and individual housing consumers. The private sector is also increasingly involved in housing stock maintenance and rehabilitation.

The most recent Moldovan housing construction data shows that, during the first half of 2011, 945 flats (138,400 m^2) were put into use, representing an increase over the previous year of nearly 130 per cent.[26] Significantly, private joint ventures with domestic and foreign capital constructed all the housing units over that period. Table 3.9 shows that the total area per 1,000 inhabitants brought into use over the past decade is still low, even though it has doubled with a peak in 2008 (6,800 units constructed or 1.9 units per 1,000 inhabitants).

As of 1 January 2011, 97 per cent of the housing stock in Moldova was in private hands, followed by public ownership at 2.9 per cent and mixed private-public capital holding the remainder. The total stock was nearly 80 million m^2, of which 38 per cent in urban and 62 per cent in rural areas[27].

Most of the Ukrainian urban population lives in apartment blocks because individual housing is expensive relative to floor area and land costs. Just 33 per cent of young families are owner-occupiers compared to an average of 56.3 percent for all families. Eleven per cent of young families live in multi-family apartments (with shared bathroom and kitchen facilities), 14 per cent live in rented flats, 10 per cent in student hostels and 1 per cent in non-residential premises. It is estimated that around 800,000 of Ukraine's 2.5 million young families need improvements in their housing conditions.

In 2009, the number of mortgage loans for apartments and houses decreased by 94 per cent to just 11,600 (down from 180,000 in 2008) due to the collapse in the dollar exchange rate and consequential 117 per cent rise in housing loan values. Interest rates on US Dollar- and Euro-denominated loans increased significantly, which is particularly harmful as housing loan interest is usually fixed for the loan term.

According to the 2010 World Bank *Ease of Doing Business* report, Ukraine was ranked 181st out of 183 countries for ease of obtaining construction permits[29]. Project documentation includes town planning permission, other documentation, as well as start-of-construction and construction permits.

New urban developments are typically dominated by two to three companies, whose management is directly linked to the local authorities, leaving little doubt about procedural transparency and fairness. In **Kiev**, nearly 70 per cent of the new residential buildings are built by companies that belong to the KyivMiskBud holding company in which the Kiev City State Administration has a large stake.

In 2007, Ukrainian housing investments were lowest in the **Kirovohrad** region of South-Central Ukraine (UAH 164 million) and highest in **Kiev** (UAH 8,891 million). Correspondingly, most flats were built in Kiev (1,401,000 m^2) and the fewest in Kirovohrad (121,000 m^2). The investment average was UAH 570 million.

A new residential building in Chisinau. Housing construction is increasing significantly year on year in Moldova's capital. **©Serghei Starus/Shutterstock**

TABLE 3.9: **NEW HOUSING STOCK BROUGHT INTO USE, MOLDOVA, 2000-2010 (THOUSANDS OF UNITS AND UNITS PER 1000 INHABITANTS)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total brought into use, m^2/1,000 inhabitants	59.0	83.0	70.0	79.0	95.0	128.0	162.0	156.0	190.0	140.9	153.3
Urban areas, m^2/1,000 inhabitants	100.0	155.0	124.0	142.0	177.0	252.0	327.0	314.0	396.0	290.0	317.0
Rural areas, m^2/1,000 inhabitants	30.0	33.0	32.0	36.0	38.0	41.0	46.0	45.0	45.0	36.0	37.0
Units constructed/1,000 inhabitants	0.6	0.8	0.6	0.6	0.8	1.1	1.4	1.4	1.9	1.4	1.3
Units constructed, all sources of funding (thousands)	2.3	2.9	2.3	2.3	2.8	4.0	4.9	5.0	6.8	4.8	4.9
of which, using own means and credit	1.4	1.6	1.6	2.0	1.9	2.4	2.7	2.5	2.3	1.8	1.7

Source: National Bureau of Statistics of the Republic of Moldova (statbak.statistica.md; accessed 24 February 2012)[28]

TABLE 3.10: **FLOOR AREA OF FLATS BUILT, UKRAINE, 1990-2009 (THOUSAND M^2)**

	1990	1995	2000	2004	2005	2006	2007	2008	2009
Ukraine	17,447	8,663	5,558	7,566	7,816	8,628	10,244	10,496	6,400
Crimea	621	451	179	274	283	370	522	416	387
Kiev	1,157	410	859	1,050	1,201	1,301	1,401	1,431	948
Sevastopol	124	99	62	70	65	91	100	83	152

Source: *Statistical Yearbook "Regions of Ukraine" 2010*

Housing Management and Housing Finance

In Belarus, the Ministry of Housing and Communal Services sets overall housing management policy. State housing companies, homeowners' associations, housing construction cooperatives, non-governmental enterprises and public-private entities are involved in housing maintenance and management. Some 600 municipal companies supply services.

Nationwide tariffs and fees are set by the Council of Ministers. Housing fees and public utilities tariffs are established by the Ministry of Housing and the Ministry of the Economy. Housing maintenance activities were often neglected and reached their lowest levels during 1995-1998. As housing fees pay only for 40 per cent of the maintenance, the balance is now covered by subsidies.

The housing stock in Moldova has largely been transferred to the private sector and new housing starts are now predominantly the domain of private investors. Maintenance of the housing stock still falls upon municipal companies. In **Chisinau**, for instance, the municipality is responsible for the maintenance of more than half of all privatized multi-family dwellings. That is a significant burden because about half the housing stock is more than 35 years old and suffers from major outstanding maintenance.

The first generation of housing blocks, dating from the 1960s, is reaching the end of its economic life and in need of major rehabilitation and improved energy efficiency. Mandatory condominium maintenance associations are only slowly emerging. They still have little capacity, including financial management, building administration and the hiring of maintenance companies. Therefore, housing services remain dominated by municipal companies. But these are operating without performance indicators or accrual-based accounting and management principles. They rely on municipal approval of fees to match their costs rather than striving for greater efficiency and profit. Since the allocation of fees is a political decision and a *de facto* instrument of municipal social policy, fees typically do not match operating cost and the maintenance companies' solvency depends on open or hidden additional municipal subsidies. Consequently, maintenance and services delivery declined when subsidies were lowered. Despite more than 90 amendments to the *Law on Housing Stock Privatization*, responsibility delineation between homeowners, service providers and local governments remains problematic.

In Ukraine, management and maintenance of the housing stock is a combined responsibility of municipal and private companies. Ukraine has a housing stock of 10.2 million units (1,067 million m^2) of which 2.3 per cent is municipal property. But one in four city dwellers lives in old housing in poor condition. Until recently, low rents and low maintenance and utility fees were charged. Consequently, the services sector cannot match operating expenses, let alone undertake asset repairs, introduce new technologies or offer improved services.

BOX 3.5: *FIRST HOME PROGRAMME,* MOLDOVA

In 2010, the *First Home Programme* was established in Moldova to enhance purchase of residential property, increase lending, boost construction activity and facilitate economic growth.

In Chisinau, the programme was launched in September 2010. The project's aim was to provide opportunity to purchase apartments at reduced prices for those who had not previously owned a home, with commercial bank loans guaranteed by the city of Chisinau. Construction companies were excluded from the programme.

Nine months into the programme, 895 apartment applications had been approved by City Hall and submitted to the bank. At the same time, the Mayor had issued letters of guarantee for families who had purchased housing under the programme. In cooperation with two commercial banks, negotiations had begun with two more to lend at an interest rate less than 9 per cent annually. The number of contracts enabled banks to lend at lower rates (7-8 per cent). The program has also helped re-initiate construction on sites where it had been halted due to the domestic economic crisis.

Limitations on the programme were that it was only for those residing or working in Chisinau and who had not owned a living space before, while the unit could not exceed 12 m^2 of living space per family member. For a studio apartment, a family required a monthly income of MDL 4000 (USD 322 - rate at the time of writing), which was above the national average. Potential lenders were permitted, however, to also utilize remittances to qualification for the loan. Nevertheless, the minimum monthly income requirement remains a major obstacle to growth of the program. Short loan periods are another obstacle with banks in Moldova unable to provide loans with a 20-25 year tenure.

The dearth of capital and lack of investments have led to the decline of fixed public assets, with 50 per cent of all assets in need of replacement. Since housing maintenance cost recovery is politically difficult, municipal companies either provide marginal upkeep or defer maintenance. Given the aging housing stock, this has led to a significant shortage of adequate housing.

Maintenance and renovation fees are high in privately-managed new housing estates and include the upkeep of green space, common areas and security services. Old housing estates, even if privately managed, have low levels of financing due to the fee structure. Consequently, common areas remain neglected and considered unsafe as long as repairs are deferred.

Local authorities in Ukraine set tariffs and rates. Economically-justified tariffs apply only to luxury communal apartment complexes or housing that exceeds the norms set by the local authorities. The collection rates for municipal services are high, 95.7 per cent in 2007, for instance.[30] From 2007 to 2009, tariffs did not fully cover all operating costs and communal enterprises' debt levels grew. This was one of the reasons why the International Monetary Fund provided further financial assistance contingent, among others, upon increasing tariffs for gas and communal services.[31]

Other reasons for the systemic crises affecting municipal enterprises include:

- high energy consumption (the share of energy costs in heating supply costs is about 55 per cent and in water supply nearly 20 per cent)
- systemic water network losses are on average 31.6 per cent and heating networks up to 24.3 per cent
- local authorities do not monitor and control how enterprises use their physical and financial resources
- excessive politicization of housing tariffs

Housing Policy

In Belarus, municipalities are responsible for social housing distribution among eligible citizens as set out in the 2005 *Provision on the Procedure for Registering Citizens in Need of Improving Living Conditions, and for Distributing Living Space from State Housing Stock*. Social housing cannot be privatized and tenants pay communal fees subsidized by the State (through the municipality). Social housing complexes are constructed together with additional social infrastructure. Since 1999, the state is no longer engaged in the construction of rental social housing.

The main housing policy instrument in Belarus is subsidy through preferential loans. Soft loans cover 90 per cent of the total construction cost. Residents pay off the loans at a five per cent interest rate over 20 years. For families with many children, living and working in settlements up to 20,000 inhabitants, loan conditions are even more favourable: three per cent interest over 40 years, covering 95 per cent of the construction costs. In 2011, however, the future of the housing policy became uncertain due to the impacts of the financial crisis on state finances and the devaluation of the Belarusian Ruble.

Housing policy reforms in Moldova[32] have focused on reducing budget deficits by moving from sectoral regulation and direct subsidies toward a market orientation. The first post-1990 policies promoted privatized public assets, deregulation, an increased role for the private sector, and reduced public expenditures. Housing reforms underwent a 'trial-and-error' period of dealing with problems as they arose rather than through planned interventions. In 1994, Moldova developed a *National Housing Concept* and in 1999 a *Housing and Real Estate Market Strategy* which provided guidance for a legal and institutional framework for the housing sector. In 2004, **Chisinau** also adopted a housing strategy but its implementation has been erratic.

Privatization in Moldova saw the transfer of housing to sitting tenants for free or against a nominal charge. Although this has shifted wealth into private hands, poorer households are still on housing waiting lists, while those who acquired dwellings are faced with significant outstanding and current maintenance costs because subsidies have been phased out. Those of more means have used the cheaply acquired housing

Waiting for a bus outside a modern housing estate in Minsk, Belarus. **©Stefan Boness/Panos Pictures**

for renting out or resale at market prices.

Housing policy in Moldova falls under the Building and Territorial Development Agency, responsible for public works, construction, regional development and spatial planning. Still, there are many departments and line ministries dealing with different aspects of the housing sector. The Ministry of Economy and Commerce has a decisive role in the allocation of resources for the sector, either through the state budget process or the transfers to local governments. The National Agency for Energy Regulation holds regulatory authority over tariffs for communal services, including water, sewerage, heating and gas supply.

Local governments are responsible for urban planning and management, environmental protection and the budgeting, maintenance and development of communal activities. Although Moldovan law does provide for the establishment of homeowner associations, these have been slow to develop.

In Ukraine, the Ministry of Regional Development, Construction and Housing and Communal Services is responsible for the implementation of the housing policy. It also participates in its formulation, apart from regulating district heating, water supply and sanitation. The overriding challenges include housing shortages (particularly in urban areas), overcrowding and low housing standards. Privatization in the 1990s transferred more than 70 per cent of the existing public housing stock - typically free of charge - to sitting tenants.

In June, 2009, the Parliament of Ukraine approved a national housing development programme for 2009-2014. The state controls, regulates and provides incentives and technical support. Local governments plan housing and infrastructure and ensure the efficient use of local government property. Reforms assume equal access to housing, priority for the provision of social housing and accessibility of home mortgages. Public-private partnerships in the construction and reconstruction of housing stock are encouraged.

3.4 Urban Environmental Challenges

Municipal landfill for household waste in Kharkiv, Ukraine. **©Steshkin Yevgeniy/Shutterstock**

Transformation of the Sector

Belarus, Moldova and Ukraine are all trying to make up for decades of underinvestment in the urban environment. Planned investments in **Kiev's** basic services, for instance, now total nearly €4 billion and if transport infrastructure is included this would increase to €6 billion. These amounts are indicative of the scale of investments required.

Public utilities in Belarus continue to be government-owned. The *Concept for the Development of Housing and Communal Services in the Republic of Belarus until 2015*, however, calls for investment, increased efficiency, as well as cost recovery in the utility sector.

Public utilities in Moldova are owned by local governments. A current trend is to promote regionalization of public services, in particular water and wastewater, given the chronic underinvestments, local fragmentation and inefficiency, and the need to pursue economies of scale. Regionalization in the transitional region has been successful where there is a strong regulator, such as in the case of Bulgaria. In Moldova, a regulator for the energy sector does exist and its responsibilities extend to water and wastewater but its control and impact is weak. It may prove difficult to regionalize water utilities in Moldova without first effecting significant legislative and regulatory changes.

Decentralization has transferred the responsibility of managing water and sanitation services to municipalities in Ukraine. Water utilities were transformed into communal enterprises but since budget subsidies were eliminated, attempts at regionalization of municipal services has remained limited. Legal frameworks allow for the private operation of water infrastructures through management contracts, leases and concessions but the main assets must remain as municipal property since infrastructure privatization is prohibited by law.[33]

Water, Sanitation and Waste Management

Belarus has sufficient water resources to meet both current and foreseeable future demand with total water use declining and industrial use having fallen by 17 per cent since 2000.

BOX 3.6: **PRIVATIZING SERVICES DELIVERY**[34]

Selling drinking water in Lviv, Ukraine. ©Моя страничка. Licensed under the Creative Commons Attribution 3.0 Unported license.

In Odessa, the water company needed money for investment since systemic leakage was 45 to 60 per cent. Negotiations started with the European Bank for Reconstruction and Development (EBRD) for a loan of USD 64 million. The EBRD proposed a much larger loan (USD 200 million) but under the condition that Odessa gives a concession to the multinational company Suez-Lyonnaise des Eaux. Two years of secret negotiations took place between Suez-Lyonnaise and the Mayor, excluding both local community groups and the water company itself. A women's group promoting improvements to the water system, MAMA-86, repeatedly asked for information about the proposed loan conditions, for a transparent process, public participation and an open tender. Finally it organized a public meeting to inform the media that the process must either be made transparent or abandoned. In the end, partly as a result of this pressure, the negotiations broke off between Suez-Lyonnaise and Odessa.

In contrast, in 1999, the EBRD agreed to a €28 million loan to the city of Zaporizhzhia, selected by the EBRD on the basis of its openness to reforms and its constructive approach to the financing and provision of municipal infrastructure and services. An explicit aim of the project was to introduce private sector participation through a turnkey contract, involving the extension and operation of the company's largest wastewater treatment plant. To that end, a €20.9 million contract was awarded to WTE Wassertechnik (now a subsidiary of the Austrian utility EVN).

A concession contract between the city of Berdyansk and Chysta Voda-Berdyansk was one of the first contracts involving a private partner in Ukraine's water sector. The operator had been selected through a tender and a 30-year contract was signed in December 2008. The contractor's main responsibilities include management, operations and maintenance of the utility as well as modernization and development of existing infrastructures. The bulk of the commercial risk and all capital and investment risks are down to the operator (UAH 120 million during the first 15 years of the contract or USD 14.7m at rates at the time of writing). The operator also pays a concession fee. The service area covers the town of Berdyansk and one additional village, representing about 50,000 customers for water supply and about 36,000 for sanitation services. The Berdyansk water utility is experiencing financial difficulties as tariffs do not cover operation and maintenance costs, despite being among the highest in the country. The concession contract does not include any performance indicators beyond the operator's mandatory annual investments[35].

In September 2008, following the *Law on Concessions*, the municipality of Kupyansk announced a tender for a concession for the water utility in the town. This was the second tender as the first was cancelled because only one company sent its bid, which rendered the tender invalid. Two companies participated in the second tender. A tender committee, headed by the Deputy Mayor, was set up and the winner selected. The 49-year concession contract was to be concluded with All-Ukrainian Energy Systems-Kupyanskvoda[36].

In general, these are promising developments as they address three key issues in the sector. First, chronic underinvestment in the water and sanitation sector has led to deterioration of infrastructure and thus services. Second, while water and sanitation services are viewed as poor, doubts remain about customers' ability and willingness to pay. By engaging a private sector operator and manager of the sector, incentives can be implemented to encourage operational savings. At the same time, however, seeking government subsidies for needed infrastructure rehabilitation and expansion reduces the pressure to increase tariffs. Third, once the existing infrastructure has been replaced or rehabilitated, or new infrastructure introduced, a private operator can ensure that operation and maintenance is efficient while training local experts and workers on proper facility management, operation, and maintenance.

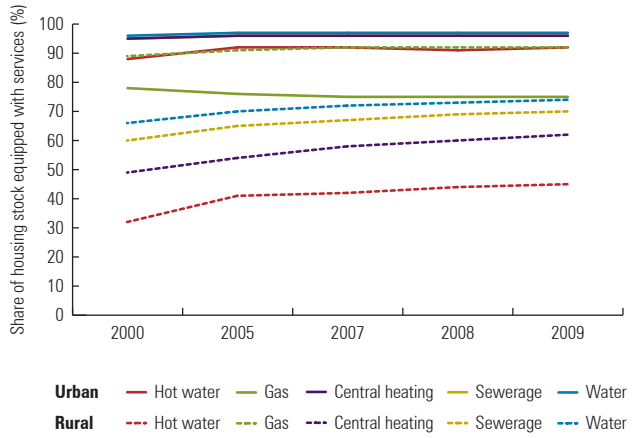
Water and sanitation services are nevertheless unsatisfactory due to service interruptions, high systemic losses and high operational costs due to aging infrastructure and lack of maintenance. Residents of rural areas who use wells for water supply remain exposed to health risks due to the contamination of the water supply from untreated wastewater.

Belarus suffers from uncontrolled waste dumping, poorly sited and designed solid waste landfills, and outdated waste management technologies that risk groundwater contamination. The government has advanced a national programme of municipal solid waste management to increase separation at source, recycling and the development of a waste processing network to increase materials recovery and decrease landfill volumes.

Public utilities are owned by the government with local governments possessing the assets and a local public service provider delivering the services. The current tendency is to promote regionalization, in particular in the water and wastewater sector, given the massive chronic underinvestment of the past.

In 2010, Moldova had 690 water supply systems, of which 545 units were publicly owned, 138 privately owned and seven of mixed ownership. Of these, 611 were operational; a significant increase from the previous year's 49 operational

FIGURE 3.19: **BELARUS UTILITY COVERAGE, END OF YEAR 2000-2009, (%)**



Source: *Statistical Yearbook of Belarus, 2010*

systems. Water production was 115.1 million m^3 with 93.1 per cent for urban use[37]. In 2010 there were 106 operational sewage systems in the country and 63 defunct ones. The total amount of wastewater collected in 2010 was 72.0 million m^3, of which 54.8 per cent was received from the public[38].

About 70 per cent of the Ukraine population has access to a central water supply system, while cities have more or less universal access. But in more than 260 towns, drinking water quality fails to meet national standards. About one-fourth of water treatment plants and pumping stations need to be replaced. Systemic losses are 40.4 per cent nationwide, with cities like **Sevastopol** loosing a staggering 94.8 per cent, **Lviv** 61.7 per cent and **Odessa** 60.2 per cent. [39]

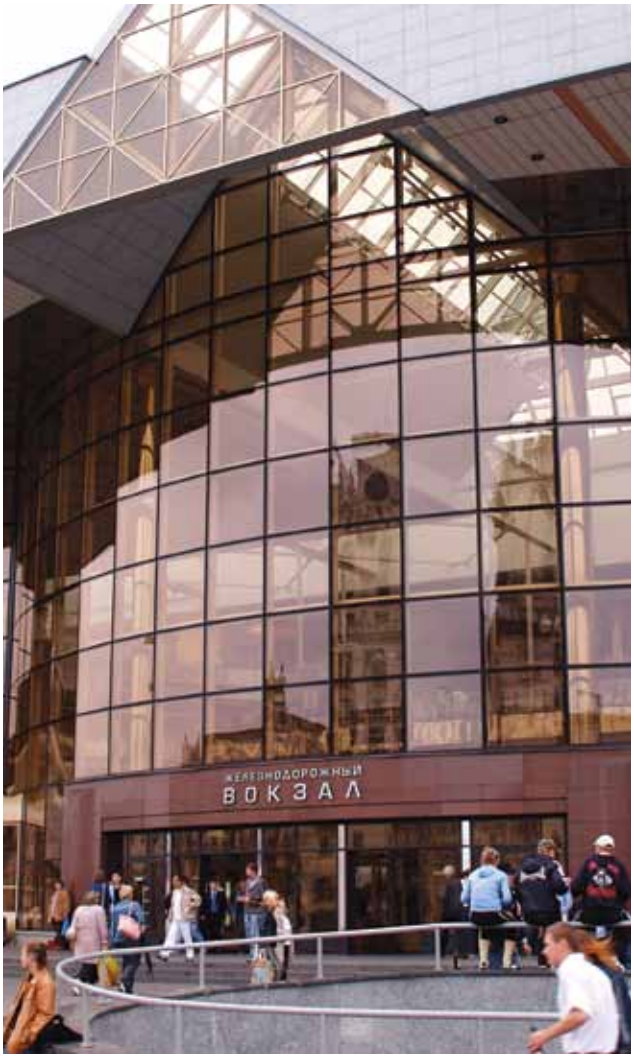
About 96 per cent of Ukrainian cities, 56 per cent of the towns, and 2.6 per cent of all rural settlements have centralized wastewater collection. However, nearly one-third of urban-type settlements have no sewage treatment system and, in about one-sixth of those that do, the treatment is ineffective. Consequently, five million m^3 untreated wastewater is deposited into the environment daily. Few new treatment plants have been built or commissioned despite a rapidly-increasing water supply. Investments are aimed primarily at reducing systemic losses through the replacement of water networks and improving the financial and operating performance of water utilities. Private sector participation, including leasing and concessions, is actively promoted in Ukraine.

As economic prosperity in Ukraine grew, so did the volume of household solid waste per capita. More than 50 million m^3 of solid waste is generated annually and only about three per cent is recycled even though, by law, local governments 'shall provide for collection and disposal of solid waste and waste segregation at source'. The remainder is placed in landfills that are not environmentally compliant. Due to inadequate systems for solid waste collection and disposal, illegal dumping is a serious problem with an estimated 3,300 illegal dumps appearing annually. In 2004, the *National Program on Solid Waste Management* was introduced to stimulate full collection, transportation, recycling or disposal of solid waste while limiting the impacts on the environment and human health. However, the programme was not implemented successfully.

Urban areas have high coverage of water supply and sewerage. Rural areas vary between 70 and 74 per cent.

Mobility and Urban Transport

In Belarus, the main types of transport are railroad, buses, air and inland water. Of a total of 25,989 million passenger-kilometres travelled in 1995, railways and buses accounted for 48 and 36 per cent, respectively. Air (4.8 per cent), inland water (0.01 per cent) and other modes (11 per cent) accounted for the remainder. The number of passengers transported increased in the early 2000s and peaked at 32,449 million passenger-kilometres in 2000. Total passengers transported hit a low in 2009 at 19,818 million passenger-kilometres.



▲ Minsk Train Station. In Belarus, railways account for almost half of the passenger miles travelled **©Dave Proffer.** Licensed under the Creative Commons Attribution 2.0 Generic license.

BOX 3.7: **THE *MARSHRUTKA* TAXI**

A *Marshrutka* bus in Kiev, Ukraine. **©Norbert A./Shutterstock**

Marshrutka (from *marshrutnoye,* meaning routed taxicab) are privately-owned shared taxi companies in Ukraine and other CIS countries. The *marshrutka* is similar to the minibus except that standing passengers are not permitted. The practice grew due to demand for faster and more versatile public transit for which riders were willing to pay a premium compared to the regular service provided by municipal transportation systems.

At first, most *marshrutkas* followed well-established public transit routes. Concerns about safety led to toughened standards and licensing requirements, as well as positive discrimination such as mandatory free transportation for disabled passengers and package deals in route licensing whereby the privilege of driving a profitable route is attached to the provision of services along less-profitable routes. Eventually, the market became dominated either by large companies or by unions of owner-operators of individual minibuses. Some municipal public transportation companies began to compete along the same lines and prices dropped due to increased competition. Steps are still needed to ensure that the vehicle fleets meet pollution emission standards.

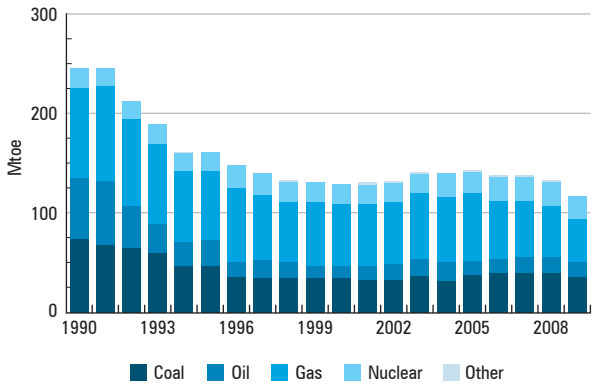
In 2011, the total of passenger-kilometres was lower than 2005 by about 10 per cent (at 23,585 million passenger-kilometres) and buses supplanted railways as the main provider. Of the total passenger-kilometres, 34 per cent was by railway transport, buses made up 42 per cent, air seven per cent, inland waterways less than one per cent and 17 per cent by other modes of transport.

Moldova's mobility infrastructure includes public transport, rail transport and public roads. The density of railways for public use increased from 33.7 km per 1000 km^2 of the country in 2000 up to 34.2 km per 1000 km^2 in 2011. The total length of public roads declined slightly from 307.7 km in 2000 to 306.8 in 2011. Of this number, 288.1 km was hard-surfaced road in 2000 and this figure has remained essentially unchanged at 289.6 km in 2011[40]. The total passengers transported by main transportation modes - railway, buses, taxis, trolley buses, river and air - was 326 million in 2000; this figure dropped by 28 per cent to 236 million in 2011. In 2000, trolley buses accounted for 76 per cent of total passengers transported, followed by buses at 22 per cent and railways and others at 1.5 per cent. In 2011, trolley buses (48 per cent) gave way to buses (49 per cent), followed by rail at two per cent and others[41]. In terms of passenger-kilometres, buses went from 1,020 million passenger-kilometres (42 per cent of the total) in 2000 up to 2,685 million passenger-kilometres (63 per cent) in 2011. Rail accounted for 13 and 8 per cent of passenger-kilometres in 2000 and 2011, respectively. Air transport accounted for 10 and 20 per cent of passenger-kilometres in 2000 and 2011, respectively.

Ukraine's mobility infrastructure includes public transport, rail transport and public roads. The total complement of railroad tracks has declined slightly over the past 30 years but the share of electrified tracks has increased. The total length of roads has remained unchanged over that period, but about 30,000 km have been improved with a hard surface. Trolleybus and underground lines have also increased, but the length of tram lines is virtually the same as 30 years ago.

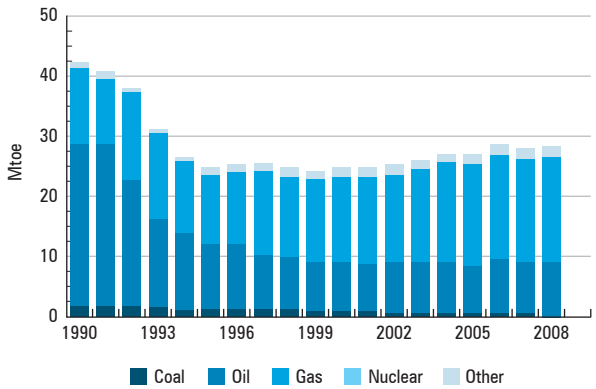
The role of electricity-powered city transport decreased since the 1990s due to the introduction of private public carriers. Sometimes electric transport depends on the mayor with trolleybus or tram lines simply being closed down

FIGURE 3.20: **ENERGY CONSUMPTION, UKRAINE**



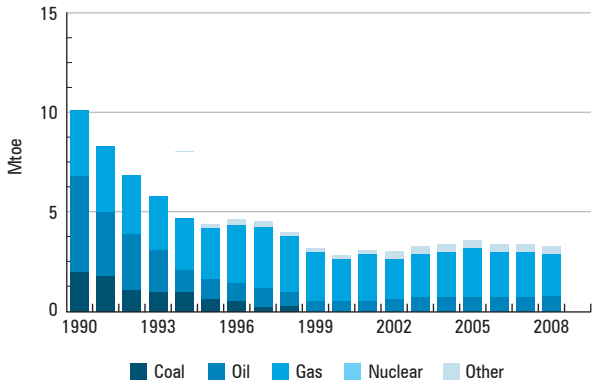
Source: http://yearbook.enerdata.net/energy-consumption-data.html

FIGURE 3.21: **ENERGY CONSUMPTION, BELARUS**



Source: http://yearbook.enerdata.net/energy-consumption-data.html

FIGURE 3.22: **ENERGY CONSUMPTION, MOLDOVA**



Source: http://yearbook.enerdata.net/energy-consumption-data.html

as for example, in **Makajewski and in Dzerzhinsk**. The construction of new trolleybus systems has been put on hold apart from the city of **Kiercz** where trolleybuses were introduced in 2004.

Energy Consumption and Energy Efficiency

Neither Belarus, Moldova nor Ukraine is self-sufficient in its energy needs and imports are required[42]. The consumption of Belarus is mainly met by oil and gas. In 2008, Belarus was a net importer of energy exceeding 25 million tons of oil equivalents (TOE).

Energy consumption in Moldova, as in Belarus and Ukraine, has fallen dramatically since 1990 (see Figures 3.20, 3.21 and 3.22). Nevertheless, due to its negligible primary energy production, Moldova too continues to be a net importer of energy - about 3 million TOE in 2008 with natural gas the main component.

Similarly, Ukraine is a net importer of energy - to the tune of 45 million TOE in 2008. The country's consumption is mainly met by natural gas, with coal, oil and nuclear energy contributing.

Of the three countries, only Ukraine has appreciable primary energy production. Figure 3.20 presents the production of primary energy (in million tons of oil equivalents) by type of source[43].

In Belarus, oil continues to be the main primary energy source, accounting for more than half of total primary energy need. However, the share of biomass and other renewables has increased in recent years. In Ukraine by contrast, coal and gas are the primary energy sources, although its relative share has fallen slightly together with the drop in total primary energy needs since 1990 (see Figure 3.20).

In Belarus, the Ministry of Energy determines the policy for energy supply, transit gas from Russia and electricity imports and exports. The state-owned production association Belenergo manages the country's energy system and incorporates six regional supplying companies. While Belenergo is responsible for the energy system development and project financing, regional supply companies are investing in power engineering. Similarly, a state company manages the Belarusian gas supply system in cooperation with seven state enterprise operators. Belenergo supplies about half of the thermal energy consumption in Belarus, with the balance covered by municipal-owned district heating systems.

The energy sector in Moldova is also characterized by high energy intensity. In addition, the sector is plagued by chronic non-payment, massive uncollected debt and barter transactions, tariffs below cost recovery, power outages and poor financial condition among energy supply enterprises.

Acknowledging its energy problems, the Government of Ukraine proposed, in 2010, a draft act on thermal insulation of apartments with the costs borne by local authorities, private investors and occupants. Some city authorities, like **Kiev**, have adopted their own thermal insulation programmes.

Households are a major user of energy, which exacerbates systemic inefficiencies because the housing stock is old, energy-inefficient and equipped with energy-intensive appliances. Typical energy losses in district heating are high: 22 per cent at source, 25 per cent in transmission, and 35 per cent at the end-user, adding up to massive 82 per cent losses.[44] If Ukraine were to implement its technologically possible standards, even though these are not among the best available, it could still lower overall losses to 38 per cent[45]. Such savings would still be critically important given Ukraine's dependency on imported natural gas.

The Challenge of Environmental Protection

In all three countries of the subregion, pollution and degradation of the natural environment are serious concerns with various forms of pollution affecting the health of the populations in many areas with, in the cases of Belarus and Ukraine, the primary environmental challenge being the impacts of **Chernobyl**.

Other major environmental concerns in Belarus are air and water pollution, as well as solid waste management. Air pollution from stationary sources (sulphur dioxide (SO_2) emissions), after declining in the 1990s, rose sharply again in 2009. Carbon monoxide (CO) emission has fallen significantly over the past few years. Ammonia (NH_3) appeared to increase dramatically, but this improved due to changed measurement methodologies.

The main volume of pollutant emissions from stationary sources is associated with industry (including energy production). Housing and communal services on average contributed 70 and 14 per cent respectively to the emissions total. With respect to each pollutant in Table 3.11 - with the exception of hydrocarbons (50 per cent from housing and communal services) - more than half originated from industry. With respect to pollutants from mobile sources, the capital **Minsk** is the main contributor. Changes in mobile air emissions mirror changes in the overall economic climate, with the economic crisis of 2008/9 causing drops in both economic activity and total pollutants.

The total volume of untreated wastewater deposited into the rivers of Belarus increased from 990 million m^3 in 2008 to 996 million m^3 in 2009. Housing and communal services accounted for about 60 per cent of this volume, followed by agriculture at 24 per cent and industry 16 per cent. The total discharge of many pollutants in all water bodies in Belarus and the total discharges of key pollutants into the main water bodies are provided in Table 3.12.

From 2005 to 2009, Belarus produced 3,248 tons of municipal solid waste annually. During the past decade, daily solid waste generation in kilograms/person increased from 0.485 to 0.877, approaching values found in EU countries (0.85-1.70 kilograms/person/day). During the same period, about 35,000 tons of industrial waste was generated annually, 53 per cent of which was mineral and 35 per cent was organic wastes. The remainder is composed of wastes from hospitals and chemical processes (5 to 6 per cent each) and process water wastes (1.4 per cent).

The amount of industrial waste recycled rose from 21 per cent in 2005 up to nearly 43 per cent in 2009. Organic wastes were nearly fully recycled and about 70 per cent of mineral waste was used for backfilling quarries and other lands. Belarus has a total of 164 municipal solid waste landfills where about 90 per cent of municipal solid waste is disposed. From 2007 to 2009, the amount of waste disposed at municipal landfills increased by 35 per cent.[46]

Climate change is one of the concerns of Moldova. The effects are expected to be seen through frequent severe weather events (floods and droughts) as in 2010-2011. In the summer of 2010, the Sirauti hydrometric station recorded about 130 per cent of the normal annual flow, while the summer of 2008 saw only 60 per cent. Any low water levels are problematic because of Moldova's small water-storage capacity.

TABLE 3.11: **AIR EMISSIONS FROM STATIONARY AND MOBILE SOURCES, BELARUS, 2005-2009**

Pollutant – stationary sources	**2005**	**2006**	**2007**	**2008**	**2009**
Sulphur dioxide, thousand tons	73.80	87.80	80.70	64.0	139.50
Nitrogen oxides, thousand tons	67.38	69.94	65.30	65.00	65.38
Ammonia, thousand tons	7.08	7.64	8.28	16.65	19.61
Particulates, thousand tons	43.90	45.80	45.10	47.50	46.20
Carbon monoxide, thousand tons	103.90	107.70	94.40	88.40	74.60
Non-methane volatile organic compounds, thousand tons	75.43	72.99	74.38	77.33	71.76
Cadmium, tons	0.030	0.030	0.035	0.013	0.002
Lead, tons	4.230	3.950	4.317	3.644	3.244
Mercury, tons	-	-	-	0.002	0.004
Pollutant – mobile sources					
Sulphur dioxide, thousand tons	1.3	1.5	1.5	1.6	1.4
Nitrogen oxides, thousand tons	94.2	107.1	106.6	116.4	109.8
Particulates, thousand tons	29.9	34.2	34.3	38.2	34.0
Carbon monoxide, thousand tons	698.6	780.4	768.5	815.2	777.8
Non-methane volatile organic compounds, thousand tons	189.9	214.3	212.4	229.2	214.4

Source: Ministry of Natural Resources and Environmental Protection of the Republic of Belarus and State Scientific Establishment 'Institute of Natural Management National Science Academy of Belarus', *State of the Environment in the Republic of Belarus,* Minsk, 2010

▲
Volunteers collecting garbage during *Hai Moldova* in 2011 in Chisinau, Moldova. 6,000 volunteers collected 200 tonnes of garbage. **©Cristian Lisii/Shutterstock**

TABLE 3.12: **DISCHARGE OF POLLUTANTS IN WATER BODIES, BELARUS, 2006-2009**

Compound	Units	Year				
		2005	2006	2007	2008	2009
Organic matter (BOD_5)	Thousand tons	9.0	8.9	8.3	8.1	7.9
Petroleum products	Thousand tons	0.2	0.20	0.2	0.1	0.1
Particulate matter	Thousand tons	13.8	14.6	13.6	12.0	12.6
Sulphates	Thousand tons	63.7	62.7	59.5	60.7	63.5
Chlorides	Thousand tons	73.9	74.4	71.3	72.8	72.9
Ammonia nitrogen	Thousand tons	6.0	6.4	6.0	5.6	5.4
Nitrogen nitrite	Thousand tons	0.59	0.34	0.25	0.2	0.2
Nitrate nitrogen	Thousand tons	2.9	3.7	3.4	3.7	3.7
Copper	Thousand tons	9.0	9.8	10.0	7.6	6.7
Other metals (iron, zinc, nickel, chromium)	Tons	415.0	518.0	449.0	438	421.1

Source: Ministry of Natural Resources and Environmental Protection of the Republic of Belarus and State Scientific Establishment 'Institute of Natural Management National Science Academy of Belarus', *State of the Environment in the Republic of Belarus,* Minsk, 2010

The water quality of the major Moldovan rivers complies with national indicators for classes II-III water: 'clean to moderately polluted'. Water quality improved at nearly all monitoring stations compared to 2009. It is mostly the smaller rivers downstream from population centres that now require pollution attention. The concentration of pollutants in surface waters varies seasonally. However, as the result of pollution and land uses, the self-cleaning capacity of many surface waters, already low, is being overtaxed.

Moldovan wastewater treatment and purification systems have become obsolete after 25 to 30 years without rehabilitation. Whereas 304 wastewater treatment plants functioned in 1990, currently less than 50 are still operational. The *Water Supply and Sanitation Programme of Moldova up to 2015* calls for the modernization and rehabilitation of existing water supply and sewage systems besides the construction of new ones to achieve the Moldovan Millennium Development Goal on increasing access to drinking water and adequate sanitation.

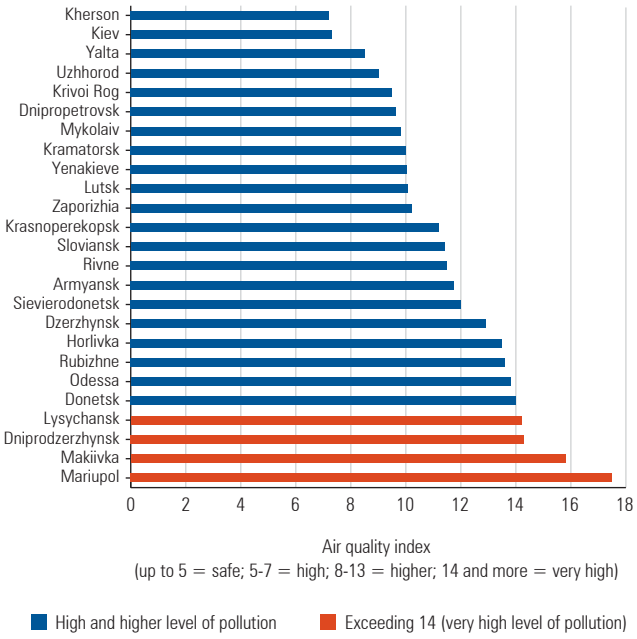
The sources of air pollution in Moldova are automobiles (88.6 per cent), especially older models, followed by stationary source emissions (11.4 per cent), of which 5.36 per cent comes from thermal power plants. Over the last five years, Moldova has also increasingly been affected by trans-boundary pollution. Excessive average annual concentrations of suspended solids have been registered.

The annual amount of household waste generated per person in Moldova is 540 kg - slightly above the European average of 522 kg; nearly all of it (99.9 per cent) classified as non-hazardous. But the volumes of waste generated increased 1.8 times from 2005 to 2009 and total land surface devoted to waste storage is increasing. Moldova has 1,500 authorized landfills and double that number in unauthorized sites. Whereas EU countries recycle, on average, 23 per cent of their waste, Moldova recycles less than 1 per cent.

Ukraine faces serious air, groundwater and aquifer pollution in its industrial regions in the east which impact upon many urban water sources. According to a 2007 list published by the Blacksmith Institute, **Chernobyl** is among the most polluted cities in the world (due to radiation after the 1968 accident). In 2010, the Ukrainian Central Geophysical Observatory examined pollution in 240 locations and 373 boreholes. Water bodies are usually polluted with heavy metals, nitrogen compounds, sulphates and phenols. The condition of freshwater bodies was found to be unsatisfactory. The water quality of the Black Sea and the Sea of Azov varies from 'clean' to 'polluted' with pollution generally high in the vicinity of ports.[47]

Air pollution is high in 25 Ukrainian cities due to high concentrations of formaldehyde (CH_2O), nitrogen dioxide (NO_2), carbon monoxide (CO) and hydrogen fluoride (HF). Industry and transport are the two sources of pollution most responsible for the poor urban air quality. Far stronger efforts are required quickly to achieve better urban air quality.

FIGURE 3.23: **AIR POLLUTION LEVELS IN UKRAINIAN CITIES**



Source: Ukrainian Central Geophysical Observatory (http://eco.com.ua/sites/eco.com.ua/files/lib1/konf/3vze/zb_m/t1/tom_1_s02_p_198_201.pdf; accessed January 2012)

3.5
Urban Governance Systems

Minsk, Belarus. In Belarus there is a comprehensive National Plan of Spatial Development. **©ppl/Shutterstock**

The main cities in the subregion generally either have a separate status within their respective country – such as regional or other special status - or represent an additional level of government just below the regional level.

National Urban Policies

Belarus focuses on sustainable development of its urban and rural settlements, transport system, engineering and technical infrastructure, social amenities, recreation and health care systems, and on preservation and efficient use of its historic, cultural and natural endowments. Spatial planning is targeted at developing both settlements and territories with high potentials and those with stagnant economic and/or population growth. Spatial planning is also seeking to bring development in settlements and on territories with crucial ecological value and to achieve the protection of territories endowed with historic and cultural heritage, as well as those with natural and recreational potential.

There are three levels of spatial and territorial planning in Belarus. The national level covers matters affecting the whole territory that concern two or more regions, the regional level covers the three regional territories (north, central and south) as well as groups of administrative districts and the local level covers single administrative districts, settlements or parts thereof, which may or may not include suburban zones.[48]

In Moldova, the primary concern of national urban policies is regional development, which falls under the responsibility of the Ministry of Regional Development and Construction (MRDC). The MRDC is responsible for the implementation of national policies on spatial planning, architecture, design, construction, housing and regional development. The Ministry ensures, *inter alia*, development and implementation of the *National Spatial Development Plan*. The Ministry approves general urban development plans and supports and supervises their implementation, including urban construction, water supply and sanitation, major recreation areas, as well as supervising pilot projects in the development and spatial planning. It also develops, monitors and evaluates the implementation of the *National Strategy for Regional Development* and manages the National Fund for Regional Development.

The Ministry prepares the methodology for regional development strategies and operational plans. It monitors developments and proposes interventions, including the

guidance of funding mechanism for regional development and for attracting financing for implementation the National Strategy for Regional Development. The MRDC manages the Regional Development Fund, and has developed programming documents, project cycle management guidelines, application procedures for project financing plus a handbook for prospective beneficiaries.

In Moldova, spatial development plans exist principally at the national level, the regional level (zoning plans, spatial plans for **Chisinau** Municipality, *raion* spatial plans), and the local level (spatial plans of inter-municipal territory and municipal spatial plans). However, there are preparations towards supra-national planning or spatial planning in the context of the EU and CIS regions and principles of spatial planning in cross-border regions.

A problematic issue is that, despite Moldova's clear-cut planning levels, there is no clear distinction between the competencies of these three levels of governance. There is a decidedly centralized approach and a consequential need for better local government participation in the determination of higher level spatial plans.[49] Also, the enforcement of legal frameworks on urbanism is 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.[50] The Parliament is formulating a national legal framework on spatial planning through the *Law on Urbanism and Spatial Planning* and is responsible for the approval of the *National Spatial Development Plan*.[51]

Among the factors that hamper the economic development of Ukrainian regions are the poor transportation and energy infrastructures, outdated and energy-intensive industries, lack of funds for investments in municipal enterprises, urban pollution and, particularly in the smaller cities, the lack of professional skills in local job markets.

The Ukrainian Parliament passed the *National Programme for the Socio-economic Development of Ukraine* in 2012, which set out the priorities for regions and cities and is aimed at increasing competitiveness and attracting investments by making more effective use of existing natural and economic potentials. The programme also promotes the development of transportation infrastructures at the local level, in particular in densely-populated areas. It also aims at environmental protection with a focus on industrial areas. Finally, the programme aims to increase control over municipal enterprises to prevent unjustified increases in prices and tariffs for services.

In 2012, Ukraine intends to finance priority projects by transferring funds from the state budget to local governments for promoting sustainable socio-economic development in the regions and to reduce development differentials. These include social projects – such as repairs of communal property and resettlement of families who are in apartments which are in extremely poor condition – and economic programmes, such as the expansion and modernization of municipal transportation and other infrastructures to increase the attractiveness of cities for investment, construction and expansion of roads of national importance along international transportation corridors and modern border infrastructure, introduction of energy savings technology and development of small- and medium-sized enterprises.

In 2010, the *Support for Socio-economic Development of Small Cities, 2011-2015* programme targeted cities of up to 50,000 inhabitants. The objectives include infrastructure development and increasing the quality of municipal services. The programme is also aimed at preparing general urban development plans and organizing documentation on land. The value of the programme - totaling UAH 1.7 billion (USD 216 million) - is to be financed on the basis of 91 per cent by the state and the remainder by the municipalities.

Decentralization and Local Governance Systems

Belarus, Moldova and Ukraine have made attempts to reform and restructure their governance systems, including local self-governance and local autonomy.

At the first level of government below the state, Belarus is divided into six *oblasts* plus the city of **Minsk**. The second level is the *raions*. Below that are towns of either *oblast* or *raion* subordination. Local councils operate on three levels: regional (*oblast* - Regional Council of Deputies), basic (towns and regional councils), and primary (villages and towns). There are 133 towns/municipalities in Belarus.

Formerly, members of Local Councils of Deputies were selected by regional governors who themselves were selected by the President of Belarus. Today, local councils are elected by citizens. Deputies are elected for a four-year term to deal with local issues in the areas of health, education, social welfare, trade and transportation. Local Councils of Deputies pass decisions on local matters within the framework of national legislation. However, despite these changes, fiscally and politically Belarus remains a centralized state, and elections are widely viewed as 'not free' (see also Text Box 3.8).

The Belarusian State maintains firm control over services delivery and local government finances. Incentives for local governments to raise revenues are weak as they do not benefit from any increase in the local tax base because additional local government revenues are offset by a reduction in shared revenues, effectively functioning as a tool to keep local governments fiscally dependent on the state. Further, local governments collect only about six per cent of local revenues themselves. Revenue-sharing is discretionary and changes occur from year to year.

Local governments, consequently, are reluctant to promote and finance local development projects. The system of intergovernmental relations in Belarus has been called 'market-hampering federalism' in that local revenues are independent of local economic prosperity. Central and regional administrations have the authority to regulate local revenues and ensure the local governments' dependence on them[52]. In conclusion, the situation in Belarus is that local governments have low funding levels to finance development according to local priorities, hampering the declared local self-governance and autonomy.

BOX 3.8: **FREEDOM HOUSE INDICATORS OF SOCIETAL AND DEMOCRATIC PROGRESS**

Voting at one of the polling stations in Kiev during the 2010 presidential elections in Ukraine. **©Telekhovskyi/Shutterstock**

Freedom House publishes indicators on the development of civil society and democracy. The findings for Belarus, Moldova and Ukraine are summarized below. The ratings range from 1 to 7 with 1 being the most and 7 the least democratic.

The Belarus indicators for electoral processes have never been better than 6.75. Similarly, the indicators for civil society, independent media, national democratic governance, local democratic governance, as well as the judicial framework and independence have never scored below 6.0. Corruption is the sole indicator that has gone below 6, albeit only for the beginning of the current decade. The Belarus democracy score has always been above 6 and even reached 6.68 in 2012.

Moldova fared significantly better than Belarus in the evaluation with 2012 scores of 4.00 for electoral process, 3.250 for civil society, 5.00 for independent media, 5.75 for national democratic governance, 5.75 for local democratic governance, 4.50 for judicial framework and independence, 6.00 for corruption, and an overall democracy score of 4.89. Moldova's decentralization reform has brought the opposite effect, with fragmentation of local governments into units that cannot possibly finance their operations and who need higher government levels for financing.

Ukraine fared rather better than both Belarus and Moldova in the Freedom House evaluation, with 2012 scores of 3.75 for electoral process, 2.75 for civil society, 4.00 for independent media, 5.75 for national democratic governance, 5.50 for local democratic governance, 6.00 for judicial framework and independence, 6.00 for corruption and an overall democracy score of 4.82. The fact that Ukraine is the most democratic of the three countries in the subregion, however, is not a cause for celebration as negative trends are likely to continue in 2013.

Source: http://www.freedomhouse.org/report/nations-transit/nations-transit-2012

Moldova is divided into 37 first-tier units below the central government, which includes 32 *raions*, three municipalities (**Chisinau, Balti** and **Bender**), one autonomous territorial unit (Gagauzia) and one territorial unit (Transnistria). The latter is neither under the control of Moldova nor formally recognized as independent. Below this, Moldova has 982 incorporated localities, of which five have municipal status, 60 have city status and 917 are villages with commune status. In addition, there are 699 villages too small for a separate administration and which fall under the administration of villages with commune status. The first level (rural community and small city councils) and second-level (*raions*) administrative-territorial units have many overlapping tasks[53] as was explained in the section on National Urban Policies above.

In 1994, Moldova incorporated the *European Charter* principles on self-determination into its new Constitution, although these principles were never implemented. Rather, Moldova has undertaken four separate but unsuccessful attempts to reform its local self-government system while

a fifth is now underway. Moldova has not succeeded in consolidating local autonomy and effective decentralization because:

- central government interferes as under the former command-and-control system
- no clear division of power and competencies exists between local self-governance (LSG) bodies and state authorities who subordinate local authorities directly or indirectly
- there is a lack of implementation mechanisms for decentralization and deconcentration of public services
- local self-governance has not been enabled through fiscal decentralization[54]

As a result of the incomplete decentralization in Moldova, local self-governments are plagued by similar difficulties as Belarus and Ukraine, in particular lack of funding for public investment, lack of mechanisms and incentives to increase local budget revenues, and lack of creditworthiness to access financial markets to finance investments. As they are unable to self-finance investments, local self-governments rely on national funds such as the newly-created Rural Development Fund and donor programmes.

Ukraine continues to struggle with its economic and political transition and remains highly centralized both politically and fiscally. The system of local government includes the state administration and local self-governance councils. Indeed, up to 80 per cent of local powers are duplicated by local state administrations. There are three major politico-territorial subdivisions: *oblast*, *raion*, and *rada* (council). The President of Ukraine appoints the *oblast* and *raion* executives. Below these levels, citizens elect the top city officials and heads of local councils.

The division of responsibilities among the different governance levels is imprecise and financial independence at the local level is compromised by heavy dependence on *raion* budgets. Conflicts between locally-elected self-governance authorities and centrally-appointed local administrations highlight the systemic shortcomings. While strengthening local self-government is a stated policy objective, concrete reform strategies have been slow to emerge. Many decentralization opportunities have been missed, with political factions investing too heavily in existing power distributions to consent to anything but incremental change.

This ineffective decentralization has meant that Ukrainian cities and municipalities face obstacles in financing their development. This is seen in the amount of money available at the local level, lack of funds to provide public services, and lack of capacity to access debt financing for development of public services.

A 2008 white paper *Public consultations on reforming local government in Ukraine and public awareness campaign, Phase 2* revealed inaccessible and poor-quality public services. Many towns neither have the human nor the financial resources to perform the allocated functions. There are also large differentials in development and economic conditions among municipalities and regions, with most communities lacking the resources to even cover day-to-day needs, let alone new investments. Local taxes and fees are reported to be so difficult to administer that local administrations lost interest in collecting them. Further, Ukraine has no property tax, which in many countries is a major source of revenue for local budgets and fiscal viability.[55]

Urban Management at Regional and Local Levels

Local government finance operates in a similar fashion in the countries of the subregion and several common traits can be identified. Local governments below the *rayon* level generally receive inadequate funding to carry out their mandated tasks.

In Belarus, balancing local budgets has changed little since Soviet times and focuses on expenditures on education, healthcare, social security, culture and mass media. Subsidies (transfers) are provided if expenditures in non-productive areas are lower than costs using a budgetary provision formula. In other words, if the local government can only disburse funds below the calculated *required* expenditures, it receives a funds transfer to meet the assumed level of expenditure. These funds come from the Administrative-territorial Units Financial Support Fund, which is part of the national budget, as well as from regulatory (distributed) taxes that are part of the *oblast* budgets. Expenditures in non-productive areas are based on a per capita budget norm approved annually. The level of subsidies to equalize the costs of non-productive areas is calculated as the difference between formula-based expenditures and those actually planned by the administrative-territorial units in non-productive areas.[56]

In Moldova the smallest territorial units are hard-pressed to muster the resources to provide services. This compromises local abilities to manage and pay for infrastructure provision and maintenance. The national government exacerbates this problem by further increasing the number of local governments, creating even more territorial micro-units unable to execute their responsibilities. Moreover, the central government allegedly discriminates against mayors from opposition parties[57]. Therefore, foreign donors now invest directly in local public service infrastructures, sidelining the national government. The small size of local governments has motivated donors to advocate for regionalization of some public services in Moldova.

In Ukraine, inter-governmental level finance is similarly top-heavy with local levels receiving only a fraction of the required total public funds. District (*raion*) government has seen its role in services provision increased without additional resources. The *oblast* budgets, however, account for more than 80 per cent of consolidated expenditures, with less than 20 per cent spent at the *raion*, community and village levels combined.

Ukraine has a system of 'upward' transfers from the villages, communities and towns to the rayon council, which then re-distributes the funds to the subordinate budgets in the form of inter-budgetary transfers. This upward transfer system renders budgetary policies at the village, community and town levels essentially impossible and also snubs any incentives for local self-government units to increase their tax base and

revenue collection. Whereas, according to the Budget Code, local authorities can cooperate to address service provision problems, this is not yet a common practice.

Towards Collaborative Spatial Planning and Urban Development

Spatial planning in Belarus needs to take into account the ecological diversity of the country, since forest and protected natural areas amount to 36 per cent of the total territory. Also, 20 per cent of the territory was contaminated by the 1986 **Chernobyl** disaster, further complicating spatial planning and human settlements development.[58]

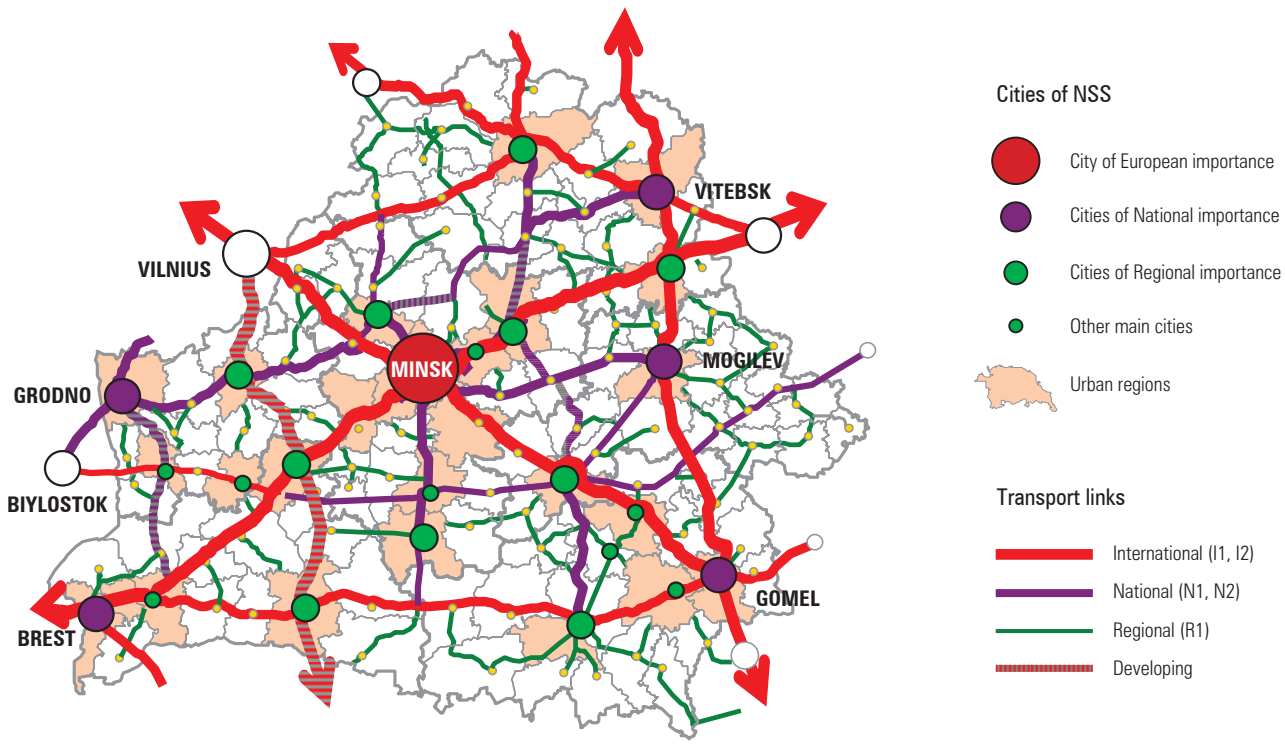
Figures 3.24, 3.25 and 3.26 shows the actual and schematic spatial planning regions in Belarus, including the core transportation corridor intended to stimulate development; areas of urban and environment development; the **Minsk** agglomeration; and the area affected by the **Chernobyl** disaster.

Along the Trans-European corridor, Belarus is pursuing a development-stimulation strategy (including the cities of **Brest, Vitebsk, Baranovitchi, Orsha** and **Kobrin**) to attract investments for international standard infrastructure and services development and industrial orientation on external markets. The **Minsk** agglomeration strategy focuses on limiting expansion of suburban areas, restructuring industries, modernization of public services, implementing a housing policy and developing infrastructures.

For those cities of national importance affected by the **Chernobyl** disaster (**Gomel, Retchitsa, Svetlogorsk** and **Zhlobin**), a development strategy is being pursued that involves shifting enterprises to more effective, ecologically friendly and sustainable production, developing social infrastructure, and developing corporate responsibility. An urban environmental improvement strategy is pursued for **Bobruisk, Grodno, Kalinkovitchi, Lida, Mogilev, Mozyr, Pinsk, Polotsk-Novopolotsk, Slutsk** and **Soligorsk** which, besides addressing urban environmental matters, focuses on improvements in social infrastructure, city marketing and industrial modernization. It seeks to improve urban capacities as service centres for the surrounding urban and rural areas.

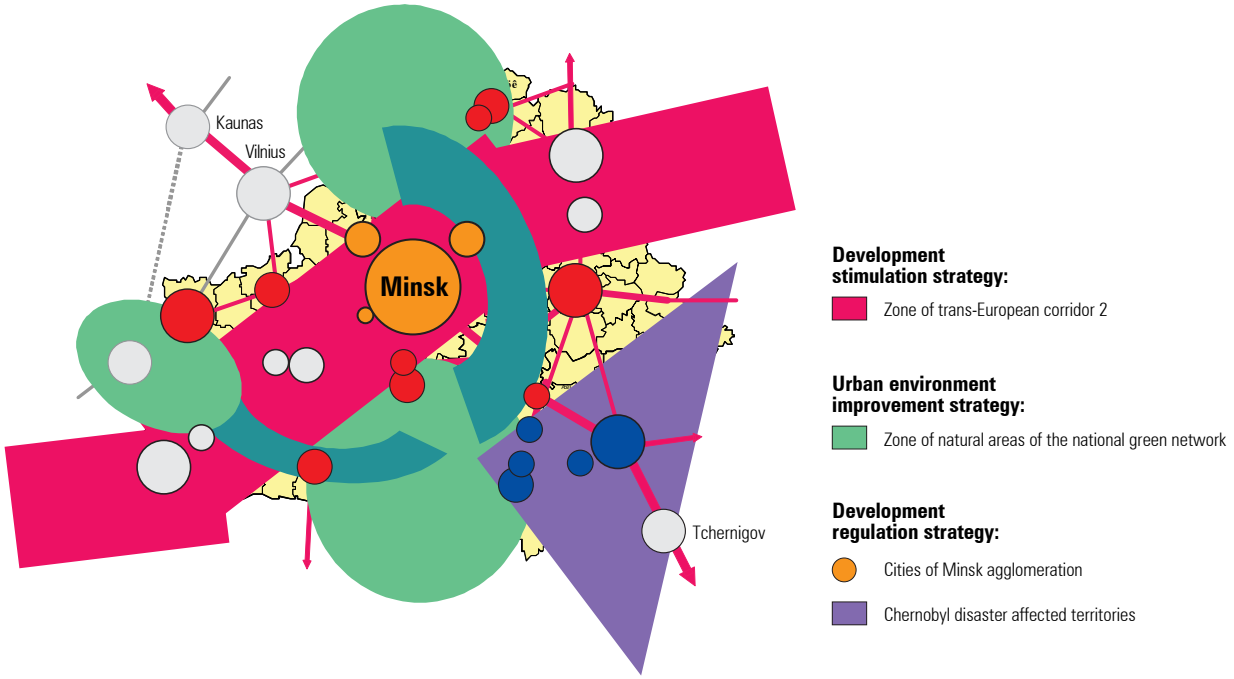
Belarus has created an interconnected network of natural areas (see Figure 3.27) that plays an important role in maintaining environmental balance. These include the Pripjatskoye Polessje with the Pripjat River's alluvial plain; the Berezinsky Biosphere Reservation zone; Belavezskaja Pushcha National Park (a joint national park with Poland); West Dvina River alluvial plain; Surazhsky Forest; the north and central part of the Polotskaya lowlands including Rossonskaya and the Oswejskaya group of lakes; the forest and backwater area of the Elnja and Braslav basin; the Neman River bottomland with Nalibokskaja and Grodnenskaja Pushcha and also the Dnepr River bottomland.

FIGURE 3.24: **BELARUS MAIN CITIES, URBAN REGIONS AND TRANSPORTATION NETWORK**



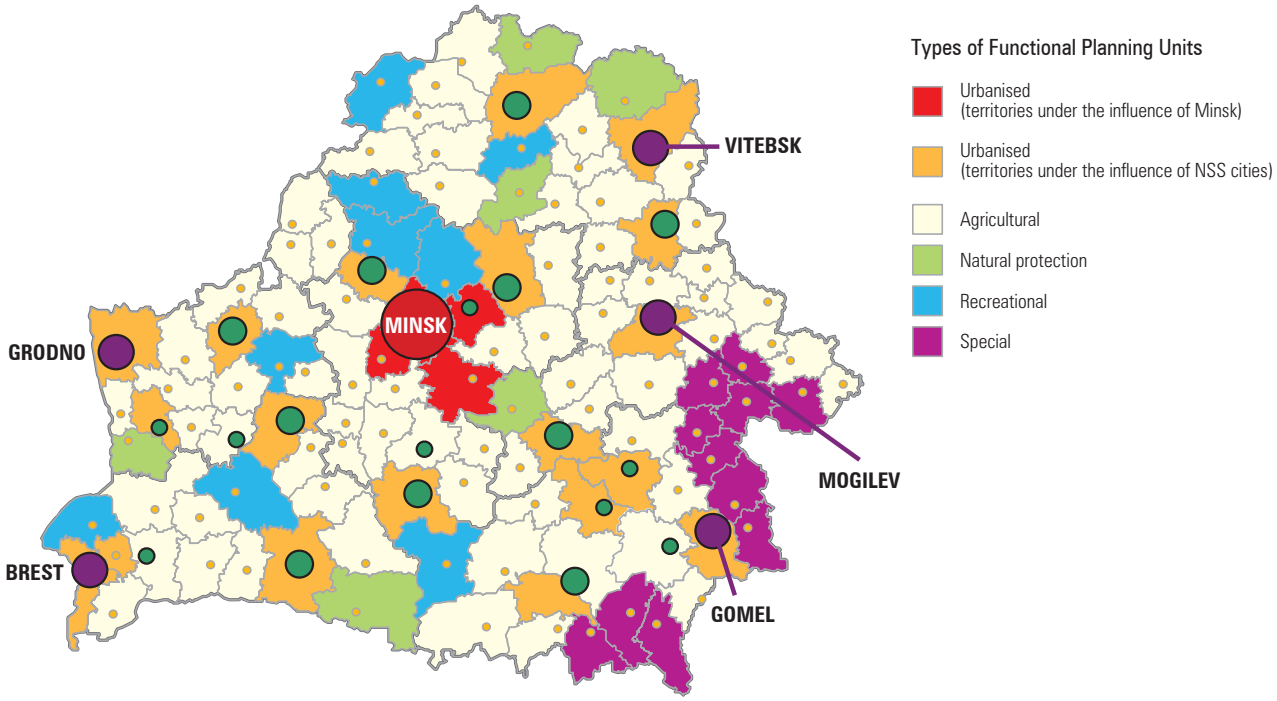
Source: BSR INTERREG III B project *'Promoting Spatial Development by Creating COMon MINdscapes'*, Republic of Belarus, II. Planning System of Belarus

FIGURE 3.25: **SPATIAL PLANNING BELARUS (SCHEMATIC)**



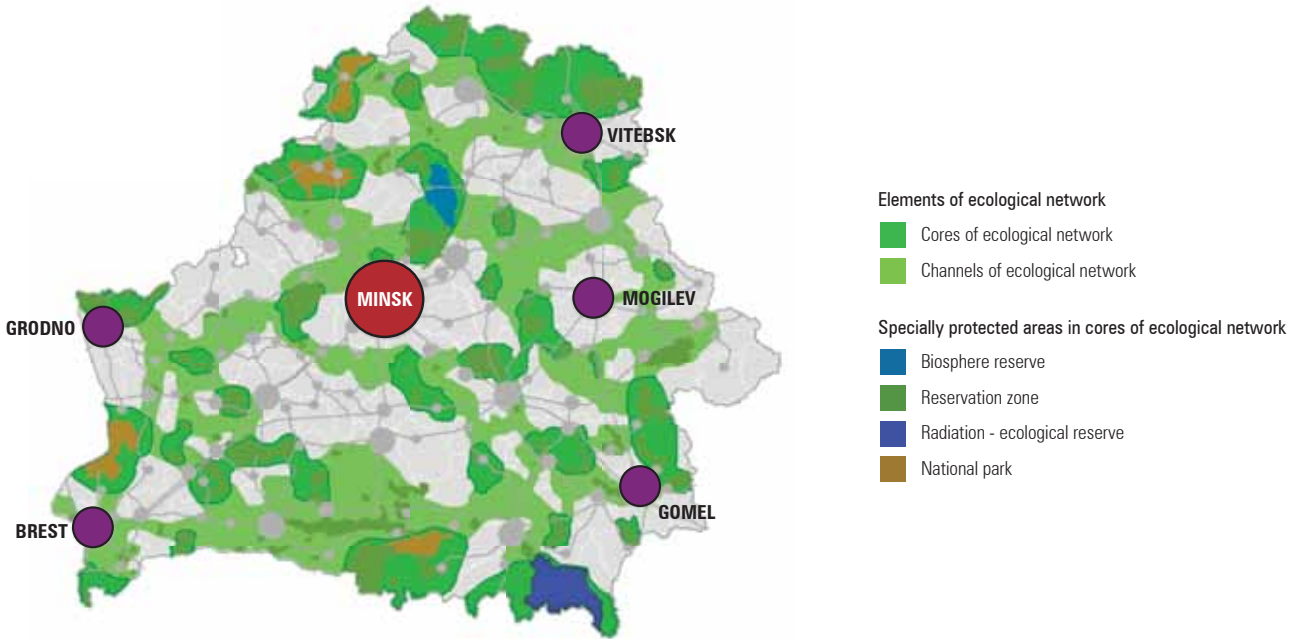
Source: BSR INTERREG III B project *'Promoting Spatial Development by Creating COMon MINdscapes',* Republic of Belarus, II. Planning System of Belarus

FIGURE 3.26: **FUNCTIONAL PLANNING UNITS OF BELARUS**



Source: BSR INTERREG III B project *'Promoting Spatial Development by Creating COMon MINdscapes',* Republic of Belarus, II. Planning System of Belarus

FIGURE 3.27: **ECOLOGICAL NETWORK BELARUS**



Source: BSR INTERREG III B project *'Promoting Spatial Development by Creating COMon MINdscapes'*, Republic of Belarus, II. Planning System of Belarus

In Moldova, the spatial planning framework exists across three levels:

- Supranational (including the European Conference of Ministers Responsible for Regional Planning (CEMAT), the CIS Inter-ministerial Committee, and cross-board spatial planning agreements). At this level informal agreements and recommendations on spatial planning are exchanged and the principles of spatial planning in cross-border regions shared.
- National level (including the Moldovan Parliament and the Ministry of Regional Development and Construction of Moldova). At this level the national framework is formulated through the law on urbanism and spatial planning and approval of the National Spatial Development Plan.
- Local level (including local public administration). At this level, local general urban plans (master plans) are developed.

For the shortfalls in these Moldovan arrangements, see the National Urban Policies section above.

Almost all Ukrainian cities have in place a comprehensive urban development plan (spatial management plan). These are key documents setting out directions for spatial planning and urban development over the course of 15 to 20 years. The Act of 20 April 2000 No. N1699-III (further referred to as the 'N1699-III Act') lays down standards, definitions and procedures related to the development, adoption and implementation of comprehensive urban development plans. In most cases these plans are not available for public scrutiny. In other words, comprehensive urban plans exist only for internal use by municipal authorities. A 2010 monitoring exercise by the NGO Eastern-Ukrainian Center for Civic Initiatives revealed that none of the 196 Ukrainian cities monitored offered a full copy of the comprehensive plan with texts and maps. Rather, an overwhelming majority of local authorities refused to provide access to their plans as these are stamped 'For Official Use Only' or 'State Secret'.

Further examples of comprehensive urban development plans exhibit the same characteristics. The city of **Lviv** produced its first comprehensive plan in the 1980s. Amendments to the plan were adopted in 1993 in what was clearly an act of inertia, considering that the 1980s plan reflected the realities of the Soviet centrally-planned economy while circumstances had changed substantially over the course of the intervening years. A new 15-year plan was developed in 2010 in accordance with concepts adopted by the City Council in 2005 and a similarly comprehensive plan for the city of **Kharkiv** was adopted by the City Council in 2004 for the period until 2026. It is a fairly extensive document that addresses the most important aspects of the city's life such as transport, communications, environment and economic development.

Dnipropetrovsk, in contrast, is a planned city that did not evolve naturally over the course of history. A comprehensive 20-year plan for Dnipropetrovsk was adopted by its City Council in July 2007. In accordance with the new plan, the city will not be expanding outside its current borders and high-rise buildings will compensate for the resultant shortage of residential land-use. The main areas addressed in the plan are: the city centre, development of dormitory suburbs, addressing transport problems and the relocation of factories outside the city.

BOX 3.9: **CORRUPTION IN KIEV**[61]

Kiev City Council. **©Dmitrydesign/Shutterstock**

Corruption is rampant in the development of the city of Kiev. Since land frequently changes hands free of charge, the city loses around USD 3 billion annually or nearly one-fifth of its 2010 budget of USD 16.5 billion. For perspective, these diverted funds could have financed, six times over, the reconstruction of Kiev's outdated tram system.

Several schemes are used to transfer land to the wealthy and influential for free. Kiev City Council members appear complicit to these schemes by supporting amendment after amendment to the city's Comprehensive Plan to the personal benefit of influential citizens.

According to the then Interior Minister Yuriy Lutsenko, 2007 saw the transfer into private hands of about 1,500 ha of land through corrupt schemes. The new landowners were 400 students of Kiev Universities who each received 10 acres of prime Kiev real estate, often without their knowledge. Students' personal data had been derived from lists of campaign volunteers in recent parliamentary elections. The land was next transferred to designated persons for 'a small consideration'.

The existence of corruption among public officials in Ukraine is confirmed by Transparency International reports and the Global Corruption Survey, according to which 'Ukraine has highest level of corruption among the Newly Independent States'[62].

Kiev's experience is illustrative of the vagaries of Ukraine's spatial planning. Its '*Comprehensive Urban Development Plan until 2020*', adopted in 2002, is already out-of-date. While some of the plan's targets and assumptions have been achieved, others - particularly those relating to social targets and the city's road network, sewage disposal and water supply systems - need to be updated, as does the projected population size. The city's comprehensive plan has, therefore, long lost its relevance.

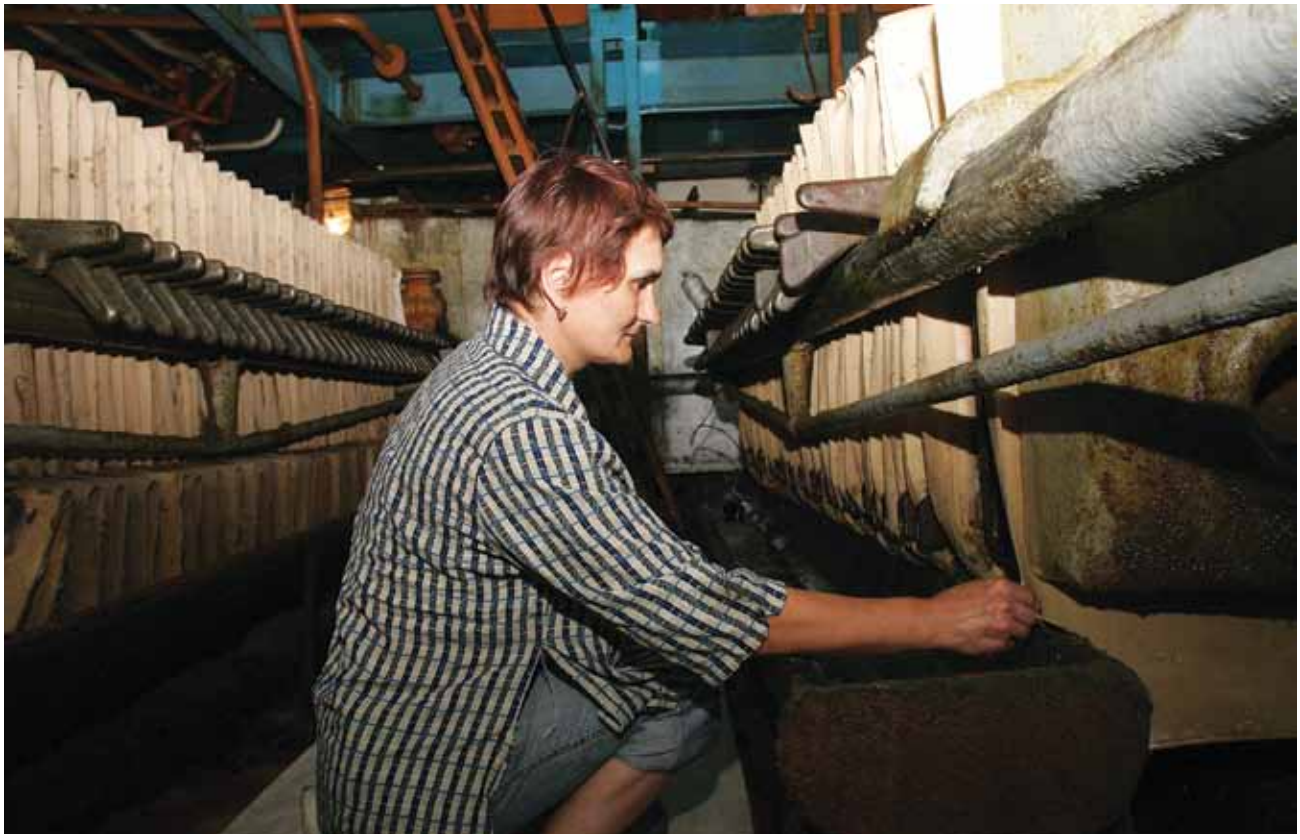
In a context of widespread abuse of public office implicating **Kiev** City Council members, it is perhaps not surprising that 1,440 plan amendments were adopted over a period of four years, depriving Kiev of some of its parks and forests while the size of the unique biosphere reserve Zuevskiy was decimated. Rapid economic development in 2000-2008 and a liberal bank credit policy caused Kiev real estate prices to increase nearly tenfold. In December 2000, one square metre of living space in Kiev cost USD 350 on average. By late 2007, this had increased to USD 3,500 and even higher amounts applied in the centre of Kiev, where apartments would fetch USD 5,500-6,000/m^2 or more[59]. Likewise, the land market has many legal loopholes, profusely exploited with public officials' assistance. In the words of the new mayor Oleksandr Popov: "*(…) From 2007 to June 2010, the city lost 3,500 hectares of land. Whereas its real value was UAH 75 billion, only UAH 4 billion made it to city budget (…)*"[60]

A new comprehensive city development plan for **Kiev** until 2025 was prepared by a project consortium comprising private consultancy companies, public agencies and academic institutions. The project is managed by a civic council of central and local government officials, private sector representatives, international organizations and journalists. The plan sets out eight strategic directions for the city's development, including urban infrastructure, new technologies and increased funding for culture and health. It is projected that €82 billion will be spent on the programme through 2025, including €1.5 billion on new communications, €810 million on upgrading the water supply, €223 million on improving electricity grids and €220 million on rehabilitating buildings and structures. Transport, parking space, the expansion of underground stations and construction of tunnels and bridges are other areas on which the project concentrates. However, a draft law on town planning, introduced in 2011, provoked public discussion. Ukrainian intellectuals mobilized since, in their view, the new draft law reduced the public role in development. The President of Ukraine subsequently vetoed the law.

Cross Border Cooperation

The EU finances cross-border cooperation through its *European Neighbourhood and Partnership Instrument (ENPI) 2007-2013*, which provides a framework for cooperation, among others between the regions and cities of Belarus, Moldova and Ukraine and their neighbours. With a 2007-2013 budget of €11.8 billion, of which 95 per cent for national and multi-country programmes and five per cent for cross-border cooperation, technical assistance and administrative cooperation can be financed, as well as investments and micro-projects. Under some circumstances, budget support can also be financed, as can the implementation of sectoral and macroeconomic policies. However, despite the huge sums involved, the overall effect on development is minimal.

3.6
Emerging Issues



Changing a filter made from sail cloth on a production line at the Svatorskoe Maslo sunflower oil factory in Svatovo, Ukraine. Ukraine is the world's leading sunflower oil producer and exporter.
©Northfoto/Shutterstock

Competition and Cooperation

The lack of resource endowments and infrastructure of the countries of the Eastern subregion, coupled with years of development neglect, have hampered their ability to compete with Western Europe. While Belarus and Ukraine export agricultural produce and are important transit countries for natural gas, neither of these translates into the development of competitive economies. The continuing burden of dealing with the impacts of the **Chernobyl** disaster also places a strain on the competitiveness of both the Belarusian and Ukrainian economies.

The World Economic Forum[63] classifies the development levels of Moldova and Ukraine as Stage I and transitioning from Stage I, respectively. Stage I denotes 'factor-driven economies' with a GDP per capita below USD 2,000. A factor-driven economy is one whose share of exports of mineral goods in total exports (composed of goods and services) is 70 per cent or more, with competition based on unskilled labour and natural resources. To be competitive at this level, the critical pillars are strong institutions (especially in the management of public finances), infrastructure, macroeconomic development, as well as health systems and primary education. Ukraine is classified as 'in transition between a factor-driven and an efficiency-driven economy'. The overall competitive score of Ukraine is 3.90 (out of a possible 7) for a world rank of 89. Moldova scored 3.86 and ranks 94th in overall competitiveness. There is no score for Belarus.

In Moldova, overall competitiveness is hampered by low levels of rural development. The Moldovan Government, through the Ministry of Regional Development and Construction, is attempting to address this with the adoption of a new regional development plan and a regional development structure. The Ministry has initiated projects aimed at regional development in the north, central and southern parts of Moldova, as well as in the autonomous Gagauzia region. Transnistria is essentially left 'until later'.

The Government of Moldova finances projects aimed at reducing regional development differentials by improving access to water and sanitation, as well as encouraging economic development. Regional development offices have been established to assist in the preparation of the projects.

In Ukraine, mono-functional cities present a particularly difficult challenge to the establishment of competitive urban economies because the inherent economic inflexibility of such cities prevents their regeneration once the original industry contracts or collapses.

Accessibility to the Region

Accessibility to the countries of the subregion is limited by both political and physical constraints. In terms of political accessibility, most travelers to Belarus require a visa, even for tourism, with the exception of those from the former Soviet Union. Except under exceptional circumstances, visas can normally not be obtained at the border except for at Minsk Airport. Access for business travel requires a written invitation from a Belarusian legal entity officially registered in the Republic of Belarus.

Travel to Ukraine has become easier in recent years, as tourist visas are available to citizens of many western and Asian countries, as well as the Commonwealth of Independent States (except Turkmenistan). For other citizens, visas have to be obtained by visiting a Ukrainian consulate with a letter of invitation from a hotel or contact in Ukraine.

Citizens of many countries - including from those of the European Union, United States, Canada, Switzerland, Norway, and the countries of the Commonwealth of Independent States - do not require visas to visit Moldova. For other travelers, visas have to be obtained by visiting a Moldovan consulate with a letter of invitation from a hotel or contact in Moldova, or at the Chisinau Airport border crossing.

In terms of physical access by plane, Ukraine is the most connected of the three countries, as there are many daily flights to and from western cities to **Kiev**. International carriers also offer direct flights to **Dnipropetrovsk, Donetsk, Kharkiv, Lviv** and **Odessa.**

In Belarus, the Minsk airport has daily flights to key cities in the CIS, as well as **Paris, Rome** and **Vienna**. Frequent flights are available to many European capitals and Central Asia as well.

Moldova is accessible by plane, as there are connections to **Chisinau** from **Bucharest, Budapest, Istanbul, Moscow, Munich, Timisoara**, and **Vienna**.

Road connections with other countries and domestic roads connecting cities are in poor condition and border crossing procedures take notoriously long. Moldova also has a ferry service between **Giurgiulesti** and **Istanbul**. Crossing into Moldova from Ukraine involves travel into Transnistria, which does not have a formal border crossing from Transnistria to Moldova. Thus, such travelers would not have an entry stamp into Moldova. The three countries also have train connections with east and west.

Climate Change

Belarus and Ukraine are Annex I countries to the *United National Framework Convention on Climate Change* that should receive financial assistance from Annex II parties (OECD Annex I countries, not in transition) to undertake emission reductions and adapt to the impacts of climate change. Annex II parties should also 'take all practicable steps' to promote the development and transfer of environmentally friendly technologies to EIT (European Institute of Innovation and Technology) parties and developing countries.[64] Moldova is a Non-Annex I party, as it is recognized as an especially vulnerable developing country prone to drought and desertification.

In 2008, Belarus produced 62,816 thousand metric tons of CO_2, ranking it the 50th-largest in the world. Moldova emitted 4,744 thousand metric tons (0.02 percent of the global emission), ranking it 119th. Ukraine, however, with 323.5 million metric tons contributed 1.07 percent of the world's total, ranking it 20th.

Another measure of the contribution to climate change is per capita greenhouse gas emissions. In 2005, Moldovan per capita CO_2 equivalent emission was 3.2 tons; Belarus emitted 8.5 tons per capita and Ukraine 10.3 tons per capita. Between 1990 and 1998, Belarus and Ukraine have reduced their greenhouse gas emissions (45.7 and 52.2 per cent respectively[65]), mainly due to the steady abandonment of their most energy intensive economic sectors. Moldova's reported data from 1990 to 2005 showed that the emission of CO_2 equivalent fell by about 72.3 percent.[66] However, this was due essentially to economic collapse rather than targeted interventions. Further, Moldova's 2005 reporting has enhanced significantly over its 2000 report with vast improvement in the system of collecting and processing statistical data.

The three countries have set ambitious targets. For example, Belarus aims to derive 25 per cent of its energy from local fuels and alternative energy by 2012.[67] Moldova identified measures and investments worth MDL 34 billion (€2.1 billion) between 2009 and 2013, against an annual GDP of €7.4 billion, to improve its energy policy and security through: interconnection with neighbouring countries, a national gasification programme, increasing renewable energy sources by up to 20 per cent by 2020 and extending its *National Energy Conservation Program for 2003-2010*. Ukraine has submitted a second national communication providing information on: energy saving potential, emission reduction due to energy efficiency and renewable energy measures in different sectors of its economy. Ukraine also elaborated policies and measures to reduce greenhouse gas emissions and mitigate the effects of climate change.

Yet, the above efforts will be inadequate without significant investment in adaptation to climate change, as the three countries of the region will be disproportionately affected. For example, water quality and quantities in Moldova are sensitive to climate change. Different GHG emission scenarios and climate modeling all agree that changes

The hydroelectric power station in Dubossary, Moldova. **©Serghei Starus/Shutterstock**

to be expected will be negative in any case. According to estimates,[68] available surface water resources will diminish by 16 to 20 per cent by the 2020s. Thus, according to different water-demand scenarios, national economic development in Moldova will be threatened already in the current century. Yet, in designing the national development goals, water resources and climate change were not taken into consideration.

Multi-cultural Societies

Each of the three countries of the subregion has large minority populations. In Moldova and Ukraine, these affect the identity of the country as a whole.

In Moldova, only 78.2 per cent of the population is actually Moldovan. The Ukrainian minority there represents 8.4 per cent, Russians 5.8 per cent, the Gagauz 4.4 per cent, Bulgarians 1.9 per cent and others 1.3 per cent[69]. Moldova has serious internal disputes with the ethnic Slavs of the Transnistria region but no solution of the unilateral Transnistrian cessation is foreseeable in the short term.

The *de facto* loss of the Transnistria region had deleterious effects on the economy of Moldova, as the region produced one-third of Moldova's industrial output and more than half of its consumer goods. Moldova also received most of its raw materials and energy from **Tiraspol**. **Dubossary** has the largest hydroelectric power station in South-Eastern Europe, **Rybnitsa** has the most modern steel plant in the ex-USSR and Transnistria has the largest cognac factory of Moldova[70].

The Transnistria conflict is complicated. Neither **Chisinau** nor **Tiraspol** characterizes the dispute as ethnic,[71] but rather one of two distinct cleavage lines: language and political ideology.[72] Many Russian-speaking Moldovan policemen fought on the Moldovan side, while Transnistrian separatists were predominantly Russian nationalists. The Moldovan population of Transnistria did not support the *de facto* statehood that ultimately emerged.

The challenges for Moldova with respect to a multi-cultural society lie in the prospects of whether Moldova will ultimately become a country aligned with the West, part of Romania, or part of the East with strong ties to Russia. A federal solution for Moldova, Transnistria and Gagauzia is still being discussed. Moreover, Bucharest's policy of granting foreign nationals of Romanian descent the right to become citizens of Romania has led to a surge of citizenship applications after Romania joined the EU.[73]

Ukraine is home to about 130 nationalities/ethnic groups, of which the largest are Ukrainian (77.8 per cent) and Russian (17.3 per cent). The emerging multi-cultural challenge for Ukraine is the continuing development of a Ukrainian national identity when so many of its citizens identify with Russia, in particular in the Eastern parts of the country and in **Sevastopol** where ethnic Russians account for more than 70 per cent of the population.

Like elsewhere in Europe, a truly multi-cultural society in the countries of this subregion, where people live together in peace and harmony has not yet been fully achieved.

ENDNOTES CHAPTER 3

1 Confusion between the level and rate of urbanization is common. The urbanization level is the share (often expressed as a percentage) of the urban population in the total population at a given time. The rate of urbanization is the annual increase or decrease in the urbanization level (also mostly expressed as a percentage).

2 http://blog.euromonitor.com/2012/05/ukraines-population-in-rapid-decline.html

3 http://Database.ukrcensus.gov.ua/Pxweb2007/eng/press/2011/p2011.asp

4 http://news.sevrugin.com/node/21619

5 World Bank, *Migration and Remittances Factbook, 2011,* Second Edition.

6 Institute for Demographics of the Ukrainian Academy of Sciences, Professor Libanova, E. (ed.), *Comprehensive Demographic Projections for Ukraine for the period up to 2050,* National Academy of Sciences, Kiev: Ukrainian Centre for Social Reforms, 2006, p. 138.

7 Stemmer, A., *The Republic of Moldova and the Migration: Migration and its Risks and Opportunities for the European Union,* Konrad-Adenauer-Stiftung, 2011.

8 International Atomic Energy Agency, *Chernobyl's Legacy: Health, Environmental and Socio-Economic Impacts and Recommendations to the Governments of Belarus, the Russian Federation and Ukraine, The Chernobyl Forum: 2003–2005,* Second revised version.

9 http://dneprstat.gov.ua/statinfo/ds/2011/ds1_m04.htm (Main Statistical Office of the Dnipropetrovsk Region).

10 TEN-T (trans-European transport network) is a programme of the EU aimed at improving the mobility of persons and goods, as well as promoting the economic, social and territorial cohesion of the EU by establishing an efficient trans-European transport network. The TENT-T network requires about EUR 550 billion until 2020 and seeks strengthening of coordination of network planning and development at the European level, in close collaboration with national governments.

11 Schneider, F., *Size and Development of the Shadow Economy of 31 European Countries from 2003 to 2010* (www.econ.jku.at/members/Schneider/files/publications/LatestResearch2010/ShadEcEurope31_October2010_RevisedVersion.pdf); Schneider, F., *The Shadow Economy in Europe, 2010: Using electronic payment systems to combat the shadow economy* (http://media.hotnews.ro/media_server1/document-2011-05-8-8602544-0-shadow.pdf).

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14 World Bank, *Migration and Remittances Factbook, 2011*, Second Edition.
National Bureau of Statistics of the Republic of Moldova.

15 State Statistics Committee of Ukraine, Statistical Yearbook of Ukraine for 2009, Kiev, 2010.

16 *National Statistical Committee of the Republic of Belarus.*

17 UNECE, *Country Profile on Housing, Republic of Belarus, 2008*.

18 UNECE, *Country Profile on Housing, Republic of Moldova, 2002.*

19 Ibid.

20 National Bureau of Statistics of Moldova. The Bureau does not publish the number of units.

21 National Bureau of Statistics of Moldova.

22 *Housing Statistics in the European Union, 2001* and National Bureau of Statistics of Moldova.

23 http://ibud.ua/?cat=news&it=8378&lng=3

24 UNECE, *Country Profile on Housing, Republic of Belarus, 2008.*

25 Firsava, D., *The Rise And Fall Of Affordable Housing in Belarus,* Belarus Digest, 1 October 2012. (http://belarusdigest.com/story/rise-and-fall-affordable-housing-belarus-11515).

26 Data for the first half of 2011; Retrieved from http://www.statistica.md/libview.php?l=ro&id=3510&idc=168.

27 Retrieved from http://www.statistica.md/newsview.php?l=ro&idc=168&id=3484.

28 Excluding data from left bank districts (Transnistria) and Bender.

29 http://www.doingbusiness.org/data/exploreeconomies/ukraine.

30 http://jkg.com.ua/ukr/ukraine.php?mu_pid=3.

31 http://mignews.com.ua/ru/articles/64781.html

32 This section is based on Tsenkova, S., L*ost in Transition: Housing Reforms in Moldova,* International Conference on Sustainable Urban Areas, 2007.

33 OECD, *Guidelines for Performance-based Contracts between Water Utilities and Municipalities, Lessons learnt from Eastern Europe,* Caucasus and Central Asia, 2011.

34 Hall, D., Popov, V., *Privatization and restructuring of water supply in Russia and Ukraine,* Moscow 2005.

35 From OECD, *Guidelines for Performance-based Contracts between Water Utilities and Municipalities, Lessons learnt from Eastern Europe,* Caucasus and Central Asia, 2011.

36 Ibid.

37 National Bureau of Statistics of the Republic of Moldova.

38 Ibid.

39 Statistics from the Ministry of Housing and Communal Services of Ukraine and the State Statistics Committee of Ukraine.

40 National Bureau of Statistics of the Republic of Moldova.

41 National Bureau of Statistics of the Republic of Moldova.

42 All charts on energy consumption are derived from http://yearbook.enerdata.net/2009/energy-intensity-GDP-by-region.html#/energy-consumption.html

43 All charts on primary energy production are derived from http://yearbook.enerdata.net/2009/energy-intensity-GDP-by-region.html#/energy-primary-production.html

44 Presentation on the General Overview of the USAID project *"Municipal Heating Reform Project in Ukraine"*, April 2011, citing Ministry of Construction, Architecture, Housing and Communal Services data reported in the International Energy Agency, Energy Policy Review of Ukraine, 2006.

45 Ibid.

46 Ministry of the Environment of the Republic of Moldova, State of the Environment Report, 2007-2010, Chisinau, 2011.

47 http://www.cgo.kiev.ua/index.php?fn=3&f=ukraine/data-zabrud&p=txts

48 http://www.commin.org/h

49 Vitorovic, Z., *The legislation and analysis of the implementation of spatial and urban planning in Albania, Kosovo, Macedonia, Moldova, Republika Srpska and Turkey as compares to the case of Denmark,* Ljubljana 2009, p.33-35

50 Ibid. p.73.

51 http://www.see-vito.eu/index.php/publications/cat_view/44-public-publications/88-2nd-transnational-meeting-teramo-20th-21th-may2010?start=10.

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53 Bordey, L., *The Local Public Administration System of the Republic of Moldova,* Open Society Institute, 2008.

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55 As citied in: Chumak, V., *Local Government Functioning and Reform in Ukraine. An overview of analytical studies of local government system and local services provision in Ukraine,* Joint Report of the NIBR/ICPS, 2009.

56 Slukhay, S., Honcharenko, O., *Financial Equalization at the Sub-national Level in Ukraine, Republic of Belarus, and the Kyrgyz Republic,* Open Society Institute, 2008.

57 http://lgi.osi.hu/country_datasheet.php?id=200.

58 This section is based on BSR INTERREG III B project, *"Promoting Spatial Development by Creating COMon MINdscapes", Republic of Belarus, II. Planning System of Belarus.*

59 http://blagovist.ua/realtystat/show.lisp

60 http://www.kyivpost.com/news/city/detail/101334/.

61 http://www.segodnya.ua/corruption/14159958.html; "Bribes in Kiev – one-sixth of the budget".

62 http://www.kyivpost.com/news/nation/detail/42729/#ixzz1R2PYE85M

63 World Economic Forum, T*he Global Competitiveness Report 2010-2011,* 2010.

64 http://unfccc.int/parties_and_observers/items/2704.php

65 The inventory includes the greenhouse gases: CO2 Carbon dioxide; CH4 Methane; N2O Nitrous oxide; PFCs – Perfluorocarbons; HFCs – Hydrofluorocarbons; SF6 Sulfur hexafluoride; and indirect greenhouse gases such as SO2, NOx, CO and NMVOC (non-methane volatile organic compounds).

66 National Inventory Report, *Greenhouse Gas Sources and Sinks in the Republic of Moldova, 1990-2005.*

67 It is believed that using peat (Belarus has abundant resources) and wood, the the country can meet 25 per cent of its total energy needs. While official data are not yet available on the progress toward meeting this goal, it is possible that the goal has been redefined as 'share of own energy resources in the balance of boiler and furnace fuels', which already stood at 20.3 per cent in 2009. So defined, it is possible this target has been met.

68 United Nations Development Programme (UNDP), *National Human Development Report 2009/10, Republic of Moldova,* Chisinau, 2010.

69 The 2004 Census, as referenced in the *CIA Fact Book*.

70 Ibid.

71 Ibid.

72 Ibid.

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part four
04

The Palace of the Parliament in Bucharest, Romania, is the world's largest civilian building with an administrative function. **©petrovichlili/Shutterstock**

THE STATE OF THE SOUTHERN SUBREGION'S CITIES

Introduction

The Southern subregion[1] encompasses nine European countries grouped on the basis of geography, rather than a common political or administrative status. A shared theme for these countries, however, is their current transition from a Socialist and centrally-planned system to democracy and free market economies and human rights as the basic principles. Legislative systems are now adapting to the EU *acquis communautaire*, with Bulgaria and Romania far ahead of the others.

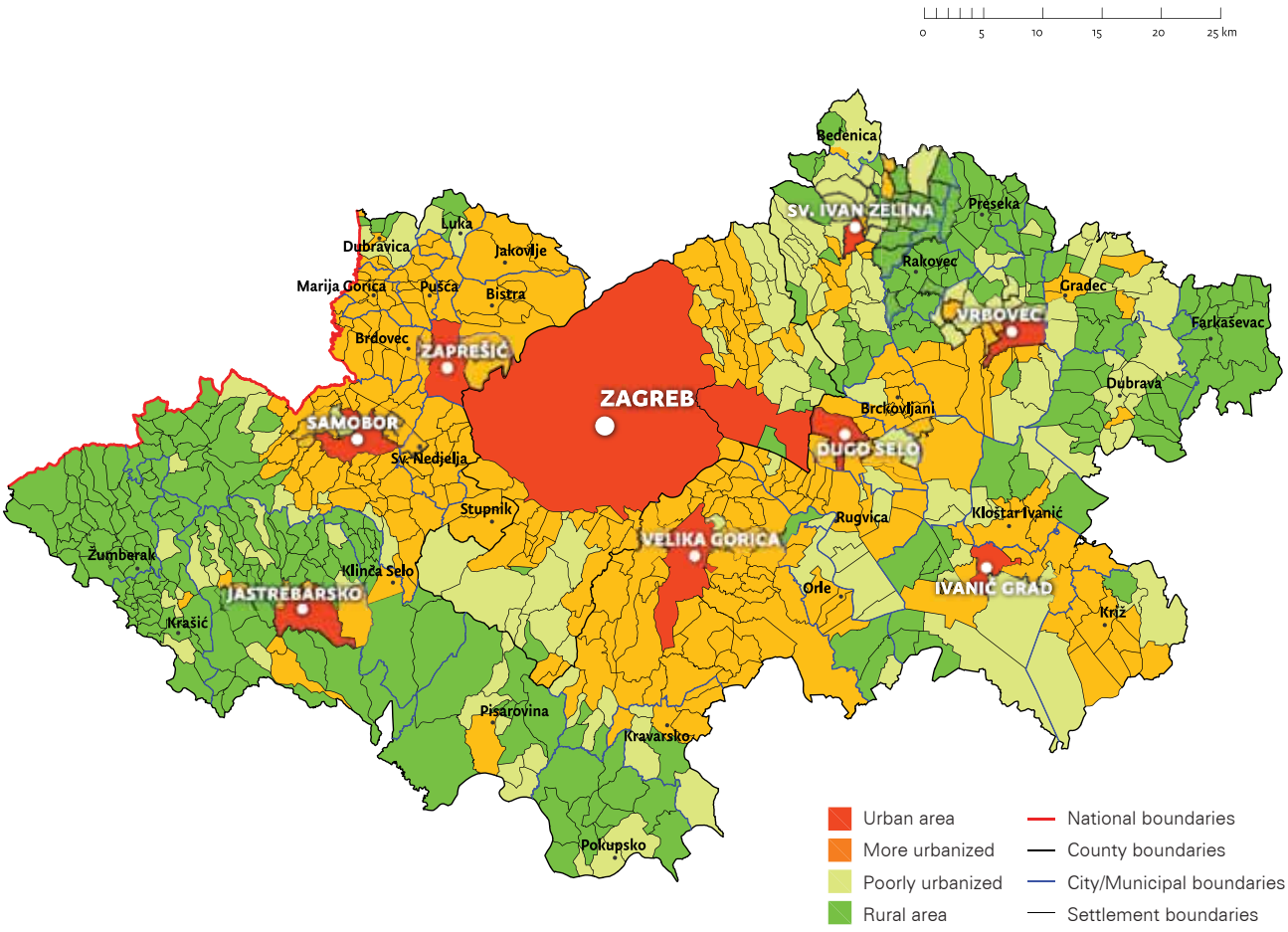
Accordingly, new legal systems are now emerging throughout the subregion, albeit with different degrees of progress depending on countries' political status. Bulgaria and Romania are full members of the European Union. Croatia will access EU-membership in 2013, while Macedonia, Montenegro and Serbia are candidate members.[2] Albania is anticipating its candidate status. Bosnia-Herzegovina is in a preliminary phase of joining the EU, while Kosovo is still under UN Resolution 1244.

When monitoring urban development and urbanization in this subregion, difficulties are encountered due to frequent administrative-territorial changes, especially on the level of settlements, that create obstacles to inter-territorial comparisons of indicators in time series. Problems also occur when recording urban populations due to imprecise or unclear demarcation between urban and rural settlements. The latter usually occurs in urbanized zones located near the

MAP 4.1: **THE SOUTHERN SUBREGION COUNTRIES, CAPITALS AND PAN-EUROPEAN CORRIDORS**

Source: MJS/UN-Habitat based on information from national reports prepared for this subregion

MAP 4.2: **SUB-URBANIZATION OF CITY OF ZAGREB**



Source: Grad Zagreb, *Gradski ured za strategijsko planiranje i razvoj Grada br. 3, 2009*

larger urban areas or where these zones have merged with the nearby urban core, as well as in areas whose population is statistically registered as rural rather than urban. Therefore, in some countries, reliable evaluation of the degree of urbanity is not possible.

Approaches to defining urban population include methodologies based on place of residence without taking activities into account, the shares of population engaged in primary and non-primary activities and three distinct variables, namely share of population predominantly engaged in non-agricultural production, share of predominantly agricultural activities and those employed in all activities. The last methodology is particularly appropriate for estimating the rate of sub-urbanization in large cities' functional (metropolitan) regions. By applying the latter methodology, Map. 4.2 shows the changes within the **Zagreb** metropolitan area and an intensive process of sub-urbanization and transformation under Zagreb's impact.

The evident statistical problems within this subregion can only be solved through unification along European standards. Countries lagging behind with their census and with poor data bases should enhance their statistics system as a matter of priority for their consolidation in the European framework.

4.1
Population and Urbanization

Veliko Tarnovo, Bulgaria. In 2011, Bulgaria was the subregion's most urbanized country (73.1 per cent) and will remain so for the foreseeable future. **©vicspacewalker/Shutterstock**

Urbanization Trends

The subregion had a total 2011 population of 52.8 million, with 30.0 million (56.8 per cent) living in areas classified as 'urban' and 22.8 million in rural areas. Romania had by far the largest 2011 national population in the subregion (21.4 million), followed by Serbia (9.8 million) and Bulgaria (7.5 million). Montenegro, with a mere 632,000 inhabitants, has the smallest population. Noteworthy is the current trend of declining populations, both subregionally and at the country level. Only Albania and Macedonia are still experiencing population growth, albeit decelerating and projected to turn into negative growth starting in 2020 for Macedonia and 2025 for Albania. Kosovo is included in Serbia as separate figures are not available for all indicators used in this report.

The population declines in the Southern subregion are, to a large extent, a by-product of faltering urban and rural economic performances that have triggered consequential and at times significant population migrations. Years of turmoil and conflict have exacerbated these declining figures, not only through conflict-driven population movements but also by affecting demographic reproduction, as explained later.

It must be kept in mind, however, that reviewing the state of the Southern subregion's cities and their demographic, socio-economic, environmental and urbanization processes is complex because of the different roles and positions of these cities in the European network, the many methodological inconsistencies of data collection systems, the varying levels of urbanization, social turbulence and conflict, as well as highly-uneven environmental performances.

Specific historic conditions in the Southern subregion delayed urbanization. There were few large cities in 1950, except for **Bucharest** (652,000), **Sofia** (522,000) and **Belgrade** (432,000), the capitals of Romania, Bulgaria and Serbia, respectively. After WWII, state capitals and other comparatively large cities saw the most rapid growth, but the subregion's more intensive urbanization phase only began after the 1950s, mostly through spontaneous and uncontrolled rapid growth of urban populations and cities.

TABLE 4.1: **NATIONAL POPULATION TRENDS, DECADE INTERVALS (INCLUDING 2011), POPULATION IN THOUSANDS**

Country or area	2000	2010	2011	2020*	2030*	2040*	2050*
Bulgaria	8,006	7,494	7,446	7,001	6,455	5,935	5,459
Romania	22,192	21,486	21,436	20,970	20,291	19,458	18,535
Albania	3,072	3,204	3,216	3,294	3,290	3,179	2,990
Bosnia-Herzegovina	3,694	3,760	3,752	3,647	3,473	3,237	2,952
Croatia	4,506	4,403	4,396	4,311	4,185	4,024	3,859
Montenegro	633	631	632	636	633	621	604
Serbia	10,134	9,856	9,854	9,718	9,479	9,177	8,797
Macedonia	2,009	2,061	2,064	2,073	2,043	1,976	1,881
Total	**54,246**	**52,895**	**52,796**	**51,650**	**49,849**	**47,607**	**45,077**

* Projections

Source: *World Urbanization Prospects: The 2011 revision,* UNDESA, New York, 2012

According to the respective 2011 censuses, Serbia's population was 7,186,862 and Kosovo's 1,739,825 (not including an estimated number of 50,000 in the municipalities of Leposaviq, Zubin Potok, Zveçan and Mitrovica North which did not take place in the census). Sources: http://webrzs.stat.gov.rs/WebSite/userFiles/file/Aktuelnosti/Press%20release_Book7_Economic%20Activity.pdf; http://esk.rks-gov.net/rekos2011/?cid=2,1

TABLE 4.2: **AVERAGE ANNUAL RATE OF CHANGE OF THE URBAN POPULATION 1950-2000 (%)**

Country or area	1950-1955	1955-1960	1960-1965	1965-1970	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-2000
Bulgaria	3.78	3.78	5.03	3.36	2.45	1.84	1.01	0.23	-0.66	-0.53
Romania	4.95	3.24	2.61	2.59	2.17	2.34	1.96	1.81	-0.25	-0.72
Albania	7.91	5.78	3.33	2.98	2.94	2.77	2.80	2.88	0.40	0.96
Bosnia-Herzegovina	5.39	4.81	4.94	4.48	3.80	3.42	2.16	1.75	-4.26	3.01
Croatia	3.69	3.33	3.34	3.01	2.76	2.60	1.30	0.86	0.97	-0.46
Montenegro	5.44	5.52	5.31	3.95	4.40	4.00	2.79	3.64	3.20	1.52
Serbia	5.08	4.47	4.05	3.71	2.50	2.29	1.65	1.46	1.82	0.33
Macedonia	5.79	4.15	4.66	4.22	2.76	2.49	1.18	1.61	1.22	0.34

Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York 2012

The trigger was the post-WWII transformation to Socialist systems that brought ideologically-inspired fast development of urban-based industries through the establishment of new and reconstruction of old industrial facilities, strong support for smaller urban settlements development as well as the establishment of new towns that later grew into larger urban centres. In combination, these factors resulted in increased rural-urban population migrations, as well as the connection of new territories and their merging with cities.

The social order of the Socialist era and the rules it introduced played an important role in the subregion's conversion from rural to predominantly urban societies. All countries in the subregion were rapidly oriented towards industrialization and collectivization of agriculture, causing not only the first significant transformations in domestic activity structures but also stimulating rapid urbanization, especially in the period 1950-75 (See Table 4.2). Residential areas were built around cities in which new industrial zones were located, such as, for instance, the Levski Quarter in **Sofia**. The concentration of administrative and executive power in these larger cities - a form of political centralization characteristic for most countries of the Southern subregion - also boosted urban population growth. Continued growth of urban populations was stimulated by the agglomeration processes of major cities and the urban and other settlements that surrounded them.

In 2011, Bulgaria was the subregion's most urbanized country (73.1 per cent) and will remain so in the foreseeable future. Montenegro follows with 63.3 per cent, while the others all hover around 55 per cent, except for Bosnia-Herzegovina's 48.3 per cent. Albania is projected to be the fastest urbanizing country over the decades to come, rising from 53.4 per cent in 2011 to a projected 77.1 per cent by 2050, increasing its current urban population by almost 45 per cent over that period. Bosnia-Herzegovina should also anticipate solid urban growth with a projected urban population growth of 20.6 per cent until 2050 (See Table 4.3). The other countries are expected to have much slower urban growth, hovering around an average of some 0.35 per cent annually until 2050. Estimates place Kosovo currently at 40 per cent urban, making this area (after Liechtenstein's 14.4 per cent) the least urbanized on the European continent.

In the short run, urbanization will be primarily driven by migration except for Bulgaria, where the rural demographic reserves have now mostly been depleted and migration will contribute only marginally to urban growth. It should be noted, however, that rising urbanization levels in the Southern subregion are not just the outcome of growing cities. In some countries, the increasing share of urban over rural populations is an outcome of sheer rural depopulation and therefore relative growth of the cities.

TABLE 4.3: **NATIONAL URBANIZATION TRENDS, DECADE INTERVALS (INCLUDING 2011), PERCENTAGE OF TOTAL POPULATION**

Country or area	2000	2010	2011	2020*	2030*	2040*	2050*
Bulgaria	68.9	72.5	73.1	77.6	81.0	83.3	85.2
Romania	53.0	52.8	52.8	53.5	56.1	60.4	64.7
Albania	41.7	52.3	53.4	62.2	69.1	73.4	77.1
Bosnia-Herzegovina	43.0	47.7	48.3	53.2	58.7	64.0	68.9
Croatia	55.6	57.5	57.8	60.7	64.8	68.8	72.5
Montenegro	58.5	63.1	63.3	65.2	68.0	71.2	74.3
Serbia	53.0	56.0	56.4	59.6	63.7	67.8	71.7
Macedonia	59.4	59.2	59.3	60.9	64.5	68.2	71.8

* Projections
Source: *World Urbanization Prospects: The 2011 revision,* UNDESA, New York, 2012

More important than annual rates of urban growth is the manner in which urbanization is occurring in the subregion. Asymmetrical relationships between large cities, on the one hand, and their gravitation zones and other parts of national territories, on the other, increasingly generate uneven national population distributions, imbalanced urban hierarchies, regional disparities and rural de-population. These patterns are visible not only in poorly-developed domestic urban networks and geographically-uneven settlements distributions, but also in skewed population densities (See Map 4.3). Some areas in the subregion lack large cities and suffer under an under-developed national urban network. Areas void of large cities are today especially found in parts of Albania, Bulgaria, Montenegro, Romania and Serbia.

Domestic migration was initially from village to city, but later also inter-city relocation and, in Romania, even in the opposite direction (urban-rural), as will be explained later. Urbanization was further influenced by migrations between the subregion's countries, albeit with periodic oscillations. In the 1980s, rural-urban migration started to decrease but it became particularly intense again as the result of armed conflicts during the 1990s.

Today, all the subregion's countries have imbalanced urban hierarchies to one degree or the other, depending on their urbanization level. The consequential relatively large urban development poles constitute the major, if not sole centres of national and local development. Although several factors caused the disproportionate growth of these cities, inflows of migrants was the most important one, especially in the 1990s for countries and territories directly or indirectly exposed to armed conflict: Bosnia-Herzegovina, Croatia and Kosovo.

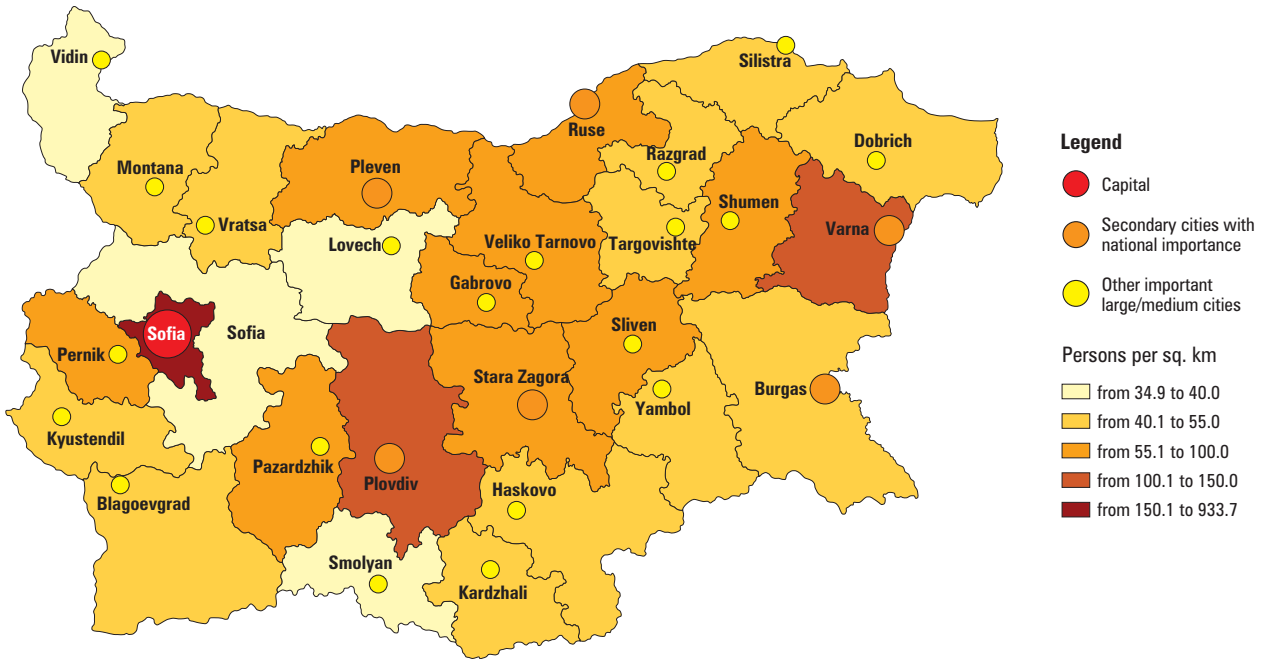
The absence of effective policies towards generating more balanced urban hierarchies, or those preventing uncontrolled urban sprawl, have caused geographically unevenly-spread but high-density urban population concentrations. For example, in 2002, the **Belgrade** administrative area covered only 3.6 per cent of the Serbian territory but accommodated 17.3 per cent of the national population. This tendency of spatial-demographic imbalance is projected to persist in the future and, in 2030, Belgrade will be more than 4.5 times more populous than **Novi Sad**, the second-largest city of Serbia. Such urban size discrepancies (primacy) will also become emphasized among other settlements if unplanned and chaotic urbanization is allowed to continue. Future urban hierarchy imbalance reduction will largely depend on the effectiveness of national as well as subregional interventions that require coordination of national *and* subregional spatial policies.

Despite a lack of accurate data, it is clear that Kosovo has experienced accelerating annual rates of urbanization, as evident from suburbanization and urban sprawl around (among others) the capital **Pristina**. The bulk of post-1999 suburbanization resulted from migrations from rural areas and other parts of Kosovo. These migrants, in their quest for better economic opportunities, mostly occupied cheap land without infrastructures at or beyond the urban periphery. At the same time, more wealthy urban strata, in search of peaceful living accommodations, moved to newly-built satellite communities outside the city. The latter trend is still ongoing in other towns, albeit at lower scales. But due to this intense and often uncontrolled settling, combined with an often irrational use of space, some of the larger cities are now faced with shortages of basic infrastructure.

City networks in the Southern subregion are emerging along development axes such as infrastructure and transport corridors. These represent the physical backbone along which urban areas and areas with higher population density started developing as nascent urban development corridors. The dominant development axes, such as the Trans-European corridors, increasingly connect the largest urban centres - the subregion's demographic and economic growth poles. Studies of the territorial distribution of population in Serbia, for instance, show that more than 50 per cent of the total population is concentrated in the zone of Corridor X (See Map 4.1).

New urban agglomeration patterns along infrastructure corridors are emerging with some in their early phases, while others are more advanced. They result from the spatial growth and eventual merging of two or more settlements,

MAP 4.3: **POPULATION DENSITY (INH/KM²) OF BULGARIA (2010)**



Source: National Statistical Bureau of Bulgaria, 2010

typically along the main transportation routes and, if urban growth continues, that will ultimately produce urban development corridors along these axes. This process is more prominent in the smaller countries, because the shorter distances between adjacent cities and towns makes it easier for them to join into a continuous urban fabric. Some of these emerging urban corridor forms are becoming evident in, for instance, Montenegro, along the roads of **Podgorica-Tuzi-Crikvenica-Golubovci**; **Herceg-Novi-Tivat-Budva** and **Petrovac-Sutomore-Bar-Ulcinj**.

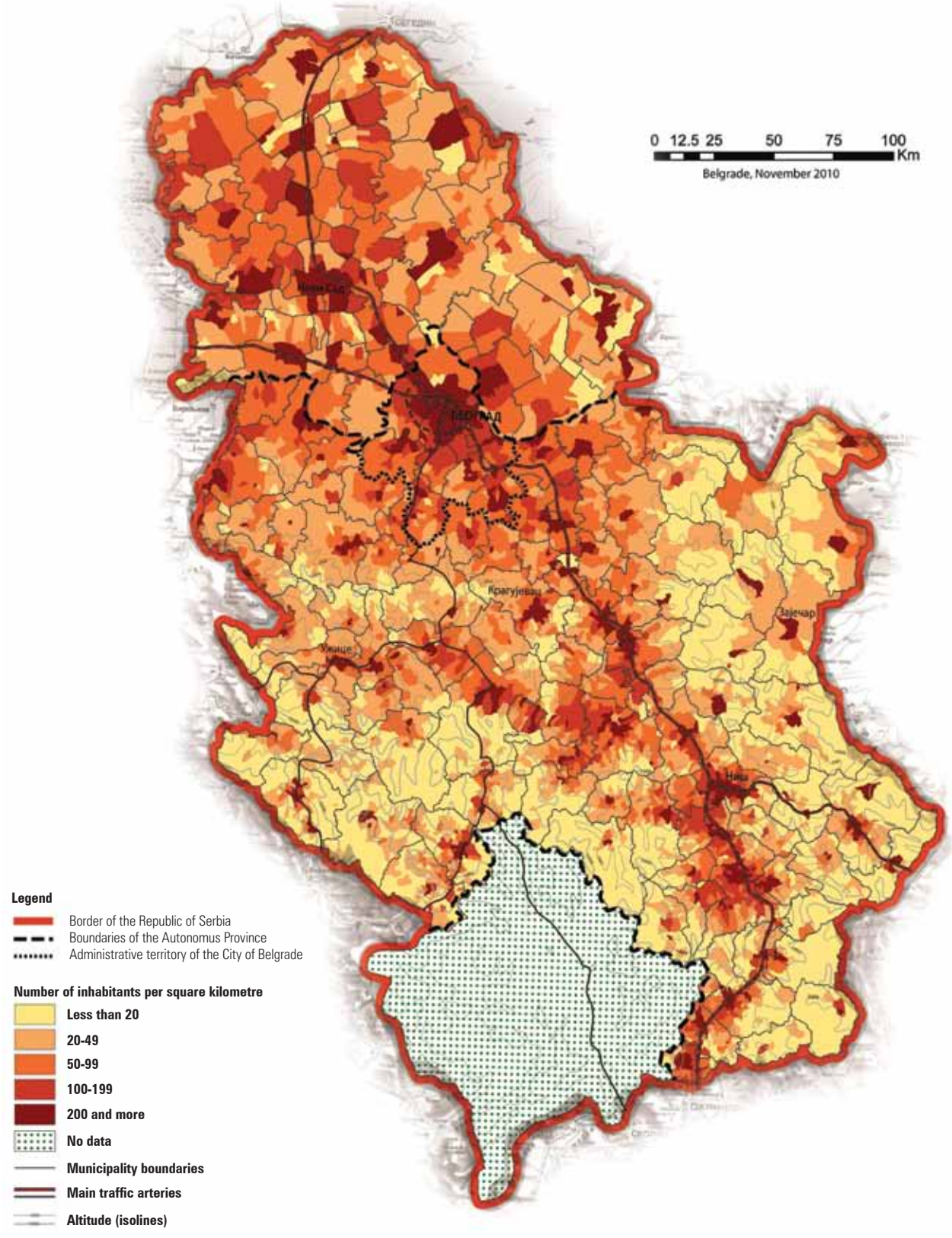
The economic stagnation since 1994 has caused greatly slowed urban growth or decelerating urbanization rates. In Macedonia, for instance, both the urbanization *rate* (the annual change in urban growth) and the *level* of urbanization (the share of urban population in the total population) have declined. One of the implications of these processes could be that, in the near future, cities in economically-depressed and poorer regions may have insufficient demographic capacity for renewed urban growth. More financial, political and human capital, especially youngsters in the reproductive ages, may have to be directed there to counter these trends.

The Adriatic coast is very attractive for settlement and tourism-related construction. In recent years, there has been a relatively strong expansion of a network of (mainly smaller) urban centres. Apart from the capital **Zagreb** and the County of Lika-Senj, the more-developed Croatian urban areas are now found along the Adriatic coast. Montenegro's Adriatic coast has also seen significant urban settlement expansion in recent years, oriented almost exclusively to summer tourism.

MAP 4.4: **URBAN SETTLEMENTS AND CORRIDORS OF MONTENEGRO**

Source: *Spatial plan of Montenegro 2020*

MAP 4.5: **POPULATION DENSITY OF SERBIA (2002) (INH/KM²)**



Source: *Spatial Plan of the Republic of Serbia 2010-2020*

Kotor, Montenegro. Montenegro's Adriatic coast has seen significant urban settlement expansion in recent years. **©JM Travel Photography/Shutterstock**

Whereas the level of urbanization of coastal Montenegro is theoretically satisfactory, a domestic population imbalance is obvious if one considers that the central part of the country with the capital **Podgorica** is home to more than 80 per cent of the country's urban population. Current urban population and spatial growth in Montenegro mainly occurs through agglomeration processes - construction of private houses close to urban centres - and through the transformation of rural settlements into urban settlements. But the latter process - most prominent along Montenegro's Adriatic coast - has led to the emergence of isolated residential areas with wasteful land use, poorly-developed infrastructure services and the associated negative environmental impacts.

Many urban centres in Romania have growth potential that could contribute to more balanced national development and help overcome the currently sparse economic links between urban centres and their surrounding areas. The importance of rural-urban linkages was not taken into account. Consequently, when faced with financial shocks, many Romanian small and medium-sized mono-industrial towns experienced difficulties with their economic development because the prevailing transport systems obstructed more interactive rural-urban relationships. As a result, there is no regional labour market and people migrate from these mono-industrial cities to rural areas in the same county. The migration towards other, more developed urban centres is much lower. Some urban centres (generally the county seats) have fair potentials to attract workers from neighbouring communes and towns.

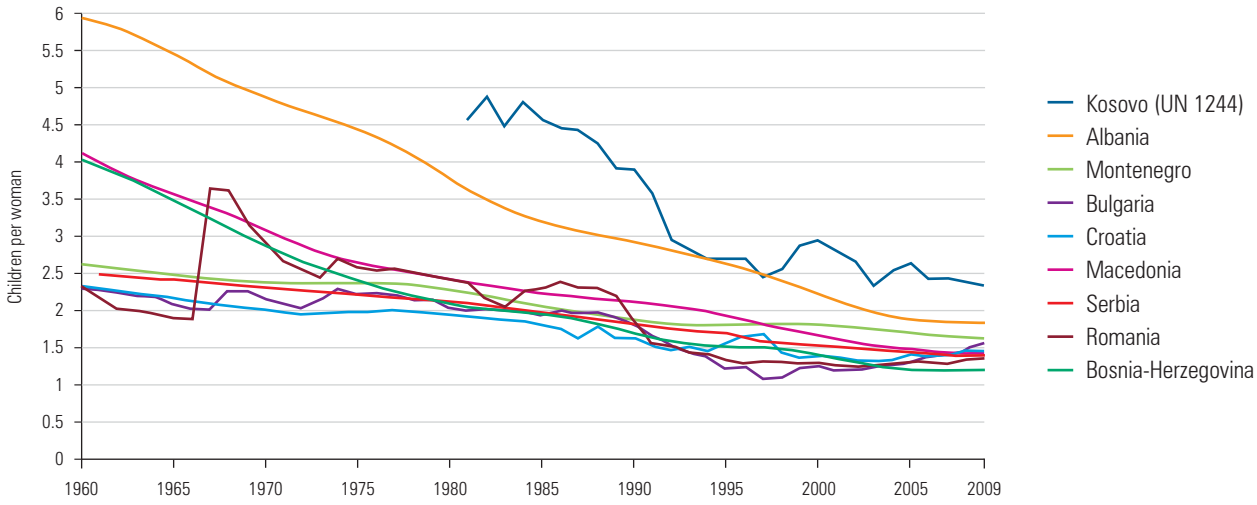
Demographic Change

The demographic evolution of the Southern subregion was particularly influenced by the turbulent socio-political conditions and socio-economic change. The latter was mostly felt during the 1990s and affected the quality of life and standards throughout the subregion. With few exceptions, countries have experienced negative demographic trends: rapidly declining birth rates, demographic ageing and emigration of mostly young, work capable and highly educated people.

More recent times, however, saw Bulgarian economic growth (1999-2009) that impacted positively on demographic developments, in particular halting emigration. Also, improving health care systems in the subregion led to rapid reductions in mortality differentials - especially child mortality in Albania, Kosovo and Macedonia - and increasing life expectancies in all countries. Nevertheless, the past two decades saw continuing decreases in total fertility rates (TFR), except for Albania and Kosovo where the fertility transition started later and which are still experiencing slightly larger numbers of children per woman.

The global crisis of 2008/9 influenced TFRs in most of the subregion's other countries. Despite large fertile contingents in the capital cities, the TFR remained very low. In **Sofia**, for example, the fertile contingent is 26.2 per cent while TFR is only 1.39. This reflects the causality between urban births and economic and psychological factors rather than biological problems or lack of human resources for restoring urban populations.

FIGURE 4.1: **TOTAL FERTILITY RATE (TFR) IN THE SOUTHERN SUBREGION, 1960-2009**



Source: *World Development Indicators,* 2011, World Bank

Throughout the region's subnational territories, population decreases of varying degrees have been recorded, except for those containing the capital city. The 1981-1991 decade still recorded relatively high urban growth rates but a decelerating population growth trend set in thereafter. The urban population in Serbia, for instance, increased by only 2.1 per cent in the period 1990-2000, down from a 7.7 per cent jump a decade earlier. Romania dropped from an average annual growth of 2.1 per cent between 1980 and 1990 to a decline of 4.8 per cent annually between 1990 and 2000.

Bulgaria also recorded an overall urban population decrease of some nine per cent between 1990 and 2000, and 3.9 per cent over the 2000-2010 decade.[3] Nevertheless, some urban population growth was registered in the largest cities - **Plovdiv**, **Sofia**, **Varna** and **Veliko Tarnovo**. Sofia recorded sustained urban growth from 1950 through 1990. Then negative growth (averaging -0.54 per cent per annum) set in until 2000, followed by renewed growth (averaging 0.4 per cent per annum) through 2010. An average annual growth of 0.16 per cent in total population decline is projected for the 2010-2020 decade.

Progressive demographic development of cities in this subregion will depend on further stabilization of the political situation and prevalence of peace. It is also dependent on improvement of economic conditions and living standards, as well as further European integration.

Migration Impacts

Migration - internal, inter-state and international - has decidedly influenced the demographic developments of the subregion and, by extension, its cities. The more attractive areas today are the capitals of Bulgaria, Montenegro, Romania and Serbia but also areas with natural-geographic potentials for economic activity, especially tourism in coastal areas (the Adriatic and Black Sea coasts of Albania, Bulgaria, Croatia and Montenegro) and mountain ranges.

These areas contrast with isolated, peripheral regions with less favourable conditions for settlement and economic activity. The populations of poor and more depressed cities are constantly decreasing (Eastern Serbia, Northern Montenegro, the Carpathian region in Romania and Northern Albania). In addition to permanent emigration, other negative impacts include decelerating natural population growth and demographic ageing. The labour force quality in depressed regions also deteriorates as the young, most educated and qualified people are usually the first to leave, which makes these cities even less attractive for new investments.

Over the past two decades, all countries in the subregion faced problematic emigration and loss of human capital. Between 500,000 and 700,000 Bulgarians have emigrated since the 1990s, with negative impact on the country's labour markets. The largest outflow of Romanians occurred in 1990, with almost 100,000 departures; since then, the outflow has gradually reduced. Massive rural-urban migration in Albania is the outcome of famine, poverty and difficult rural living conditions, besides various disasters (floods and crop failures). According to surveys among squatters in the peri-urban Breglumas Appr neighbourhood of **Tirana**, almost half the migrants had moved to escape disasters or because agricultural land was no longer sufficiently productive. About one million Albanians emigrated since 1990, due to economic instability - especially after the financial collapse of 1996/7 in the wake of crashing pyramid savings (Ponzi) schemes.

Conflict-related refugees and internally displaced people (IDP) also significantly contributed to the subregion's migrant population in the last decade of the 20th century and added to transformations in both the composition and structure of urban populations. That was especially the case for the Autonomous Province Vojvodina and **Belgrade** in Serbia but also in Bosnia-Herzegovina and Croatia, whose territories were affected by armed conflict. According to the

Conflict-related refugees and IDPs contributed significantly to the subregion's migrant population. **©Northfoto/Panos Pictures**

2002 Census, every tenth Belgrade citizen was a recorded refugee or war-affected person. In the period 1991-2002, 165,000 people settled in Belgrade and this indicates the magnitude of the migration flows.

Simultaneously, large outflows of people occurred elsewhere in the subregion. These were mostly young, fit-for-work, educated people searching for livelihoods and settlement abroad. About 5.9 per cent of the central Serbian population (344,000) and 3.4 per cent of AP Vojvodina (71,000 individuals) is now living abroad.

Liberalization of visa regimes stimulated emigration to Western Europe. The most-affected cities are those in border regions such as Romania's Transylvania and Banat. In recent years, Romanian small- and medium-sized cities as well as mining-based urban areas, such as **Dorohoi**, **Onesti**, **Roman** and **Vaslui**, have all experienced negative migration balances because of reduced labour demand.

Romania is a special case in the subregion in the sense that, due to the collapse of the economy during the 1990s, there was an inversion of migration flows - from cities to rural areas - primarily because of the lower rural costs of living. But rural areas did not provide jobs and, consequently, dynamic commuting systems therefore emerged.

BOX 4.1: **SOUTH EAST EUROPE DIVIDED**

▲ Keeping the peace in a tense region. A UNPROFOR soldier in Sarajevo, Bosnia-Herzegovina in 1993.
©Northfoto/Shutterstock

Created in the aftermath of World War I, Yugoslavia was first known as the 'Kingdom of Serbs, Croats and Slovenes'. The name 'Yugoslavia', or 'Southern Slavs', was adopted only in 1929. After World War II, Josip Broz Tito - a partisan leader in the resistance against the Nazis - was elected to lead the newly-created 'Socialist Federal Republic Yugoslavia' (SFRY). The SFRY was conceived as six republics, five of which were 'homelands' of nations officially recognized by the Yugoslav Government: Croatia, Macedonia, Montenegro, Serbia and Slovenia. Bosnia-Herzegovina had no singular nation.

Rivalries between Serb, Croat and Muslim communities in Yugoslavia date back centuries but Tito ruled with an iron fist, keeping ethnic tensions in check. When Tito died in 1980, a series of economic crises broke out, the standard of living deteriorated, unemployment rose and hyperinflation seemed unstoppable. The regime was corrupt and the political system was soon exhausted. The long-simmering tensions that had only been submerged shallowly beneath the unity imposed under Tito started to emerge again.

Utilizing nationalism, politicians built on people's fears during these economic hard times. The glue that had held together the diverse, mutually-antagonistic ethnic groups started to give way and the dissolution of the SFRY began in 1991 when, one after the other, four of the six republics declared their independence: Slovenia, Croatia, Bosnia-Herzegovina and Macedonia. The fifth, Montenegro, declared independence in 2006.

The government in Belgrade, however, wanted either to prevent these republics' independence or keep large parts of the territory of the former SFRY united. The resultant wars were complex and characterized by bitter ethnic conflicts, mostly between Serbs (and, to a lesser extent, Montenegrins) on the one hand, and Croats and Bosniaks and, to a lesser degree, Slovenes on the other; but also between Bosniaks and Croats in Bosnia (in addition to a separate conflict fought between rival Bosniak factions in Bosnia). (See also Text Box 1.1)

Theories explaining the war accuse political elites of provoking conflict by using ancient antagonisms to consolidate their power in Yugoslavia's successor states. Serbian leaders, such as Slobodan Milosevic, shaped the issues of alleged Albanian mistreatment of Serbs. The Serbian and Croatian war propaganda machinery was fuelled by respectively Serbian myths of genocidal Croats and Croatian myths of Serbs plotting to subjugate the Croats.

Ethnic tensions also had also underlying religious causes. Since the Middle Ages, these societies had been divided into Orthodox Christians, Roman Catholics and Muslims. This division continues to provide rough edges today even though the citizenry tries to find ways to get along without conflict. Bosnia-Herzegovina is the most diverse of the republics with one-third of its residents Muslim, one-third Orthodox Christians (mostly Serbs) and one-fifth Roman Catholic (mostly Croats).

Centuries-old mutual distrust and antagonism have also become embedded in the language. South-Slavic Serbo-Croatian is the primary language of Bosnia-Herzegovina, Croatia, Montenegro and Serbia. Its variants differ but insufficiently so to consider them different languages. Serbo-Croatian had served as the official language of the Kingdom of Yugoslavia and later of the SFRY. The dissolution of Yugoslavia affected language attitudes so that, today, socio-linguistic concepts also separate people along ethnic and political lines.

Sources: Hajdinjak, M., *The root causes of instability in the Balkans: Ethnic hatred or trans-border crime,* International Centre for Minority Studies and Intercultural Relations, Sofia, 2004; Szayna, T., *Ethnic conflict in Central Europe and the Balkans. A framework for U.S. policy options.* Santa Monica, California, 1994; CNN World News, *The Balkan Crisis: A brief history* http://edition.cnn.com/SPECIALS/1997/bosnia/history/, accessed 25.10.2012; *History of the Balkans Conflict,* projects.jou.ufl.edu/ktrammel/projects2/ethnicity/balkans1.htm (accessed 30.10.2012)

City Size and Population Distribution

The Southern subregion's disproportionate population concentration in its larger urban centres is a development barrier for most countries. Economic and human capital have been absorbed at the expense of former industrial cities that economically collapsed before and during the transition, as well as towns that are geographically isolated due to poor transport and accessibility.

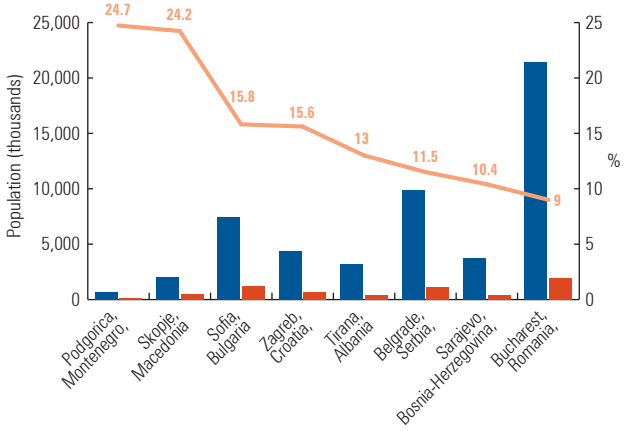
While in some countries significant demographic disparities exist between the capital and other major cities, in others these disparities are much smaller, indicating a greater balance of urban systems of the latter. Montenegro (24.7 per cent) and Macedonia (24.2 per cent) have high population concentrations in their capitals. **Sofia** (15.8 per cent), **Zagreb** (15.6 per cent) and **Tirana** (13.0 per cent) also represent far too high urban primacy. The lowest figure is found in Romania, with less than one-tenth of the population living in **Bucharest** in 2011.

While rapidly-growing small- and medium-sized cities experienced tremendous demographic and socio-economic benefits during the Socialist period, they became major losers with the transition. In Bulgaria, cities such as **Burgas**, **Pleven**, **Plovdiv**, **Ruse**, **Stara Zagora** and **Varna** saw population decreases of up to nine per cent between 1990 and 2010, while some relatively important large- to medium-size Bulgarian cities experienced decreases of up to 22 per cent. Whereas small town populations in Serbia increased slightly (around two per cent) over the last inter-census period (1991-2002), predictions for 2002-2009 indicate a decline of 2.4 per cent. Serbian secondary cities of national importance saw slight population increases (around one per cent).

Countries of the Southern subregion differ significantly in their spatial and functional organization. While spatial-demographic disparities are evident in all, some have somewhat better balances and symmetries in their urban system. Serbia, despite its comparatively widespread network of urban settlements, still suffers from hierarchical urban imbalance and asymmetry. After the capital **Belgrade**, it has only four cities with between 100,000 and 200,000 inhabitants and evidently lacks a uniform distribution of cities with populations between 200,000 and 500,000 to support the macro-regional functions required for balanced domestic development. Cities of that size typically are primary poles of demographic and economic growth with strong impacts on domestic and regional spatial development. If located near or at international borders, such cities would constitute major connection nodes to help integration with other European urban and economic networks. Romania's spatial-demographic urban balance with 24 cities of between 100,000 and 400,000 inhabitants is much better established than that of Serbia.

Broadly speaking, the subregion's medium-sized cities were the most exposed to negative transitional impacts and demographically the most vulnerable. Since they mostly encompass industrial centres, their future development is directly dependent on national (and subregional) economic restructuring. In Macedonia, however, medium-sized cities (50,000 to 100,000 inhabitants) have the strongest absorption power and, consequently, are recording demographic growth. But more than 60 per cent of Macedonia's urban and more than 35 per cent of its total population is concentrated in only five cities: **Bitola**, **Kumanovo**, **Prilep**, **Skopje** and **Tetovo**. The 80 medium-sized towns in Romania represent 25 per cent of the total number of urban localities and are important in the national urban network with 16 of them being county seats with administrative coordination functions.

FIGURE 4.2: **POPULATION OF CAPITAL CITIES AND SHARE IN TOTAL (POPULATION, %)**



Source: *World Urbanization Prospects: The 2011 Revision,* UNDESA, New York, 2012

Seeking a more polycentric spatial organization is a stated priority for the subregion. A true polycentric spatial organization would allow for medium-sized and small settlements to adopt more functions according to their centrality level, especially those in areas of low population density or beyond the main urban transport corridors. Polycentricity is possibly the most suitable option to mitigate socio-economic territorial disparities, for activating local natural resources and for reducing migration flows. But most importantly, it can provide the key to enhanced complementarity between urban and rural functions for economic development, if correctly defined and understood.

Urban development and spatial distribution of urban populations in the subregion depend on better use of locational advantages, accessibility and proximity to the capital city. On the discouraging side are economic crises, population declines, structural unemployment and low housing standards. Achieving balanced urban development in the subregion, based on polycentric, hierarchically-established settlement networks, hinges on critical economic and demographic stimulation of the smaller cities, with a view to promoting more local, regional, national and inter-regional coherence.

4.2
The Economic Role of Cities

Belgrade, Serbia. Belgrade's modern infrastructure and excellent transport links help to enable its economic integration with Europe and the rest of the world. **©krutenyuk/Shutterstock**

Cities in the European System

The development of urban networks in the Southern subregion is closely related to its transport corridors. The largest cities, primarily the capitals, are found along the most important road infrastructures, with a paramount role for the Trans-Europe Network corridors.

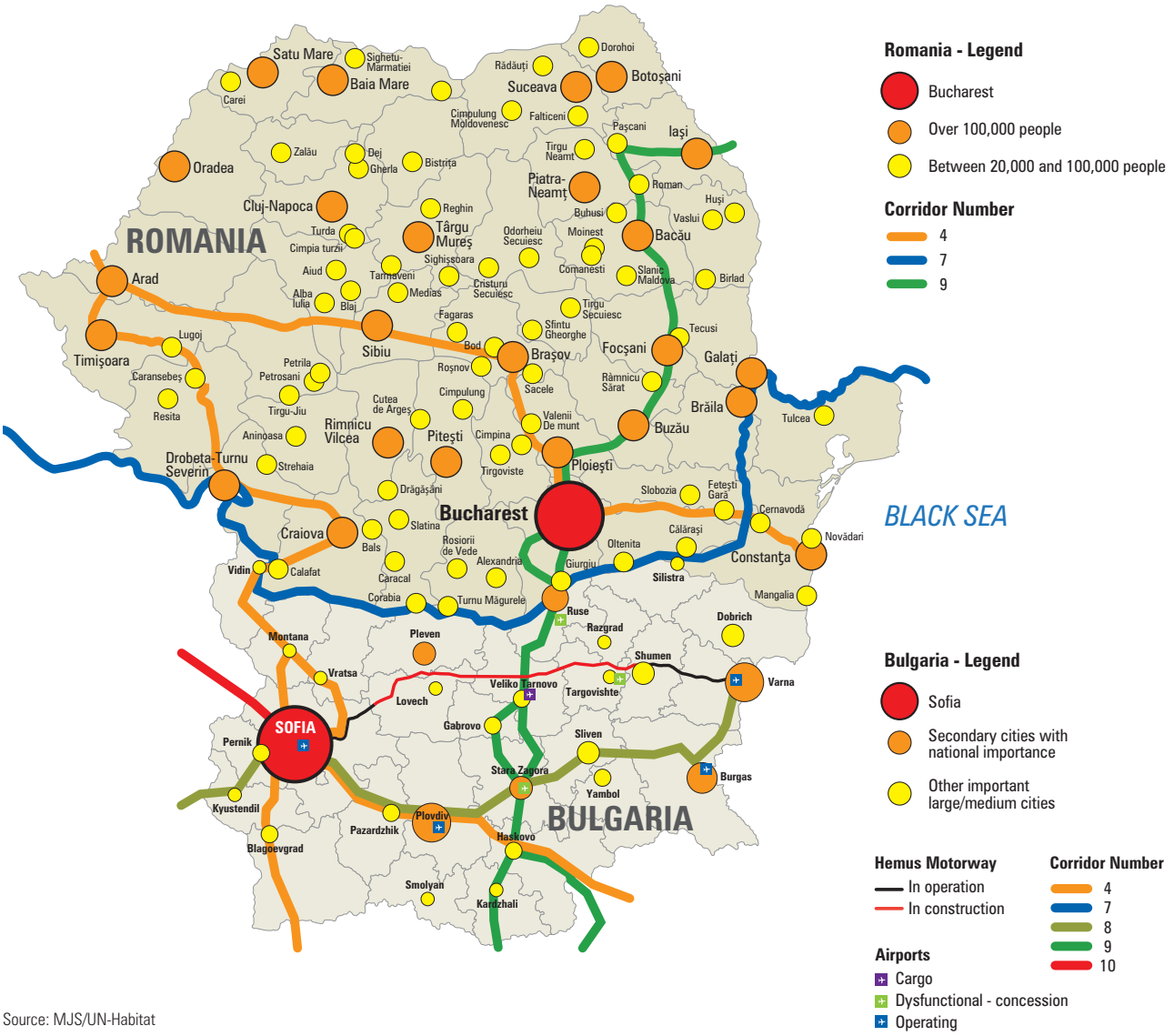
But only few cities are able to fully integrate into the European and world economies. These are the capitals **Belgrade**, **Bucharest** and **Sofia** (MEGA-4 cities) that satisfy many of the prerequisites for competing with European and world cities and that have good future prospects, even though many social and environmental issues still have to be resolved through further modernized governance, enhanced local governance efficiency and reliability, openness and transparency in decision-making and improved participation.

Podgorica, **Pristina**, **Sarajevo**, **Skopje** and **Tirana** can, potentially, also compete in the European economy, but they require even deeper modernization interventions, infrastructure enhancement and environmental improvements. It is important that national strategies and spatial plans, together with legislative and local endeavours are coordinated to promote the role of these cities as 'engines of development and growth'.

But the potential of many of the subregion's other large and secondary cities to compete internationally is limited, especially for those in non-EU member states. Decay and collapse hamper the development of cities whose dominant economic activity during the Socialist period was industrial. Many large and medium-sized cities in Bosnia-Herzegovina, Croatia, Macedonia, Montenegro and Serbia are such former industrial centres which, from 2000 onwards, undertook structural changes to shift the economic emphasis to service activities such as tourism in the case of historic or cultural assets and patrimony, or specific activities like ports, logistic centres, mining industries and spas for others.

Dubrovnik, **Rijeka** and **Split** in Croatia; **Brcko** and **Mostar** in Bosnia-Herzegovina; **Prizren** and **Peja/Pec** in Kosovo; **Smederevo**, **Sremska Mitrovica** and **Subotica** in Serbia; **Ohrid** in Macedonia, and **Bar** and **Herzeg Novi** in Montenegro are among the cities that could possibly compete within the European context but only after significant restructuring, modernization and renewal.

MAP 4.6: **BULGARIAN AND ROMANIAN CITIES ALONG PAN-EUROPEAN CORRIDORS**



Source: MJS/UN-Habitat

Trans-European and other major corridors are of utmost importance for these cities. Corridors IV, V, VII, VIII, IX and X with their legs, are key logistics backbones of development for the countries through which they pass. Economic activities and population are concentrating along these corridors with urban centres as nodes of super-concentration.

Although this contributes to national development on the one hand, it jeopardizes domestic balance on the other. Clear examples are found in Macedonia and Serbia where cities along corridor X (**Novi Sad**, **Belgrade**, **Kragujevac**, **Nis**, **Leskovac** in Serbia, and **Kumanovo**, **Skopje**, **Veles** in Macedonia) are opportunistically draining population, economic activity and investments from other domestic areas. Lack of appropriate national and regional development policies is exacerbating the problem.

Bosnia-Herzegovina lies along corridor Vc (under construction), connecting **Doboj**, **Zenica**, **Sarajevo** and **Mostar** with **Ploce** in Croatia. Without significant new investments and economic development beyond mere logistics centres along this corridor the full potentials of corridor Vc will be difficult to achieve.

Three corridors (X, Vb and VII) pass through Croatia, apart from some additional, lesser transport corridors. Croatia also has ports along the Adriatic Sea that contribute to the geographical spread of economic opportunity and population while also providing the basis for more polycentric spatial organization and a more balanced distribution of cities.

Important cities in Albania and Kosovo will be connected by the future corridor VIII. The construction of the **Durres-Kukes** motorway has been completed and it now connects

MAP 4.7: **KEY URBAN AREAS IN CENTRAL AND SOUTH EAST EUROPE (TREND SCENARIO 2020)**

Source: *Project PlaNet CenSE,* 2006

Albanian cities with **Pristina** in Kosovo. Corridor VIII allowed for Durres, the second-largest Albanian city, to develop its international port and offers future prospects for **Vlore**, Albania's second-largest port.

Montenegro, the only state in the subregion without a European transportation corridor, is developing its domestic transport system towards achieving more polycentrism. But Northern Montenegro lacks urban functional specialization and economic activation, leaving the cities there without bright prospects. An unfavourable morphology complicates the realization of two important domestic corridors from the Montenegran port of **Bar** to the Adriatic-Ionian highway and to **Belgrade** in Serbia. Without these two corridors, as well as a better railway system, it will be difficult for Bar to position itself inter-regionally *vis-à-vis* Europe, other than merely through the maritime connection with **Bari** in Italy.

Bulgaria and Romania have a reasonably well-spread network of large and secondary cities, albeit with their respective capitals, **Sofia** and **Bucharest**, located at geographic extremes in their respective countries. The Bulgarian capital Sofia and the large cities of **Burgas**, **Pleven**, **Plovdiv**, **Ruse**, **Stara Zagora** and **Varna** - regional centres located along Corridors IV, VII, IX and X and with defined regional policies - all have trans-boundary economic potential. A so-called 'urbanization ring' is emerging along the two national development axes of **Sofia-Pleven-Shumen-Varna** and **Burgas-Sliven-Yambol-Plovdiv-Pazardjik**, concentrating more than 70 per cent of the population and economic capacities.

Romania is expecting more competitiveness on the European scale for the metropolitan areas of **Brasov**, **Cluj-Napoca**, **Constanta**, **Craiova**, **Iasi**, and **Oradea**, as well as the future metropolitan areas of **Bacau**, **Bucharest**, **Galati-Braila**, **Ploiesti** and **Timisoara**. Cities in the vicinity of pan-European corridors are mainly situated in the southern part of Romania, with 74 of them close to the transnational rail corridor and 20 near the Danube (corridor V7). This type of locational advantage is clearly essential to their future development.

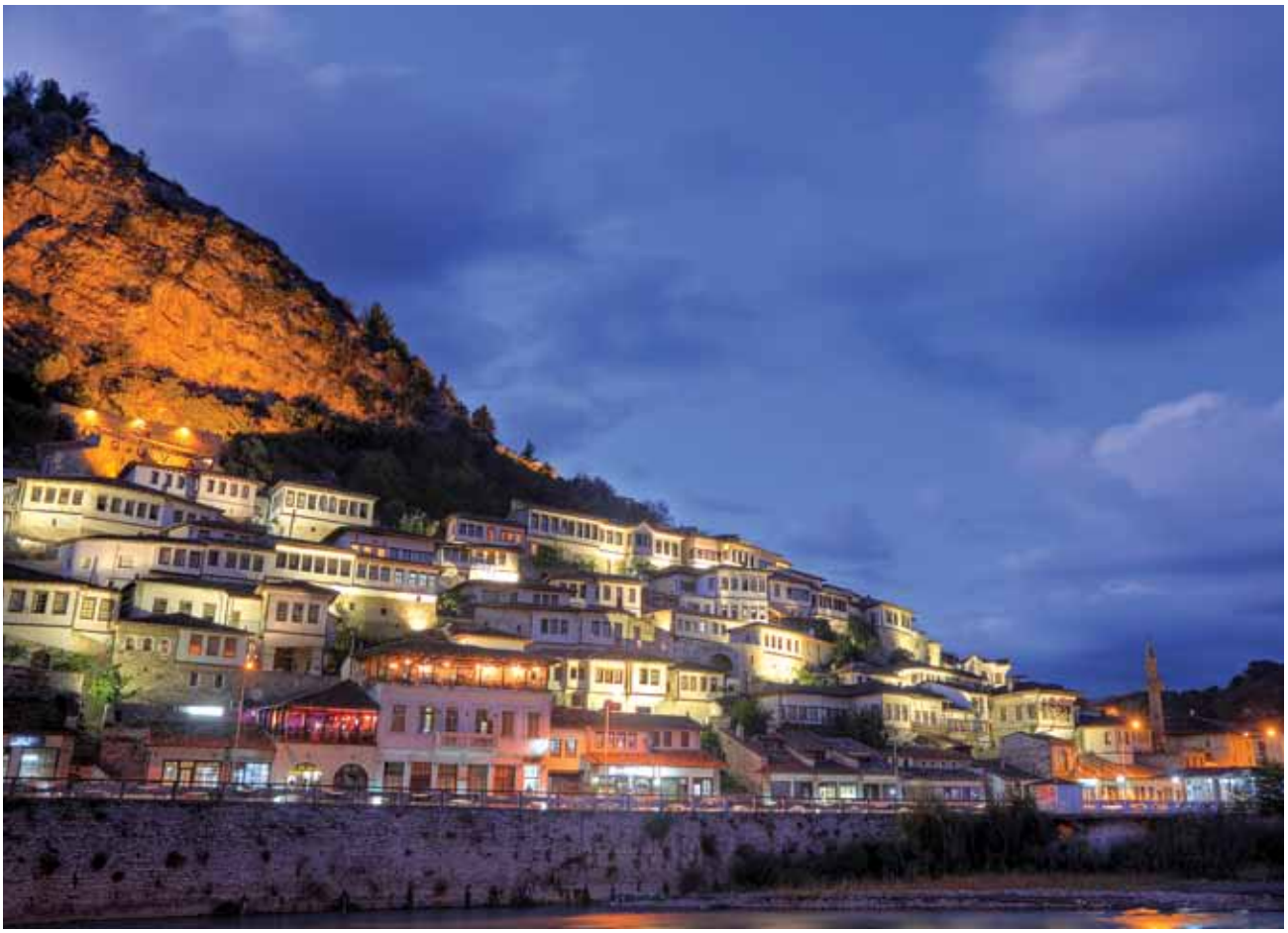
Whereas air transportation is presently being upgraded throughout the subregion through improved and additional connections to the European network, the subregion's weak and obsolete railway system still presents a major transportation obstacle, especially affecting the larger cities' economies. Upgrading of the rail system should be a priority and one which is particularly important to non-EU member states.

Changing Urban Economies

The subregion has been in transition for more than 20 years now. Some countries have done fairly well, such as Bulgaria and Romania with their accession to the EU. Others are now EU-candidate countries such as Croatia, Macedonia and Montenegro. Albania and Serbia are approaching candidacy status. Bosnia-Herzegovina is lagging and Kosovo's status remains unfinished. The rather different political status of these countries obviously reflects on their national and urban economies, their potential and their future prospects.

Transition implied three key challenges: reform of national macro-economic policies, promotion of privatization and bringing structural economic change. All three strongly impact on cities and their economies in particular. The physical structure and quality of any city is a direct reflection of urban governance and the urban economy. In the subregion, these impacts of governance are, for instance, clearly expressed in the quite diverse results achieved in both the levels and quality of urban renewal. While cities in Romania (and, to some extent, Croatia) delivered a significant performance, this is far less true in Bulgaria. Partial results were achieved in Macedonia, Montenegro and Serbia but mainly in their largest cities. Albania, Bosnia-Herzegovina and Kosovo are lagging far behind in this respect.

Albania and Serbia have profoundly restructured their economies since 1990. Albania shifted its economy which was most based on agriculture to higher productivity activities such as services and construction. Trade and services have been dominant in the national GDP growth since the early-1990s. Wholesale and retail trade now accounts for more than half of all registered companies, generally located in the



Berat, Albania - known as 'The City of a Thousand Windows' - is a popular tourist destination. In 2008, the old town (Mangalem district) was inscribed on the UNESCO World Heritage List.
©Martin Lehmann/Shutterstock

capital **Tirana** and several large and medium cities like **Berat**, **Durres**, **Elbasan**, **Gjirokaster** and **Shkoder**. Tourism is growing fast with new investment, mostly along the Adriatic coast and the construction industry is now booming in Tirana. The fast growth of **Tirana** is expected to be replicated in Durres, Elbasan, Gjirokaster and **Vlore** due to these cities' strategic and locational advantages. Nevertheless, in 2004, agriculture still accounted for 24 per cent of GDP and 58 per cent of those employed. Many of Albania's medium-sized and small cities are struggling for a better future.

In post-2000 Serbia, privatization and structural reforms had both positive and negative impacts. On the positive side was a small reduction (from 2.2 per cent in 2002 to 2.1 per cent in 2009) in privatized companies' share in total liabilities, losses, accumulated loss, and decreasing GDP losses. Most of these private companies are, however, located in the metropolitan areas of **Belgrade** and **Novi Sad**. The negative effects included fewer employed people, many unsuccessful privatizations (more than 40 per cent), and few actually restructured and modernized enterprises. Structural reforms and privatization also did not significantly affect change in the still quite labour-intensive and resource-based Serbian industrial structure.

Regional disparities deepen as economic activities concentrate in Serbia's more developed regions and around the large cities along major transport corridors with a super-concentration between **Belgrade** and **Novi Sad.** As shown in Table 4.4, Belgrade is totally dominant in the Serbian economy and accounts for 40.6 per cent of all enterprises, 38.5 per cent of all employment, 57.8 per cent of the assets and 54 per cent of profits.

EU-membership candidate countries Croatia, Macedonia and Montenegro experienced relatively few impacts of the recession of the 1990s due to their more efficient economies and structural adjustments. Although some foreign direct investment inflows were recorded (primarily towards manufacturing companies), they were insufficient to stabilize national and urban economies at higher levels. More recently, internationally-traded services, such as software development, have been targeted by Croatia. Montenegro focuses investments on tourism, mostly along the Adriatic coast, while Macedonia concentrates on catering and tourism, as well as financial and information services.

Despite privatization, or perhaps because of it, industrial unemployment levels rose and all three countries experienced migration to their larger cities. It caused super-concentration

TABLE 4.4: **SERBIAN URBAN ECONOMIC DEVELOPMENT INDICATORS, 2007**

	Percentage of enterprises	Percentage of employees	Assets (per cent)	Capital (per cent)	Revenue (per cent)	Profit (per cent)	Loss (per cent)
Republic of Serbia	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Belgrade	40.6	38.5	57.8	55.8	47.8	54.0	42.0
Subotica	3.2	2.2	1.2	1.0	1.8	1.8	1.5
Zrenjanin	1.2	1.4	0.6	0.7	1.1	0.7	1.1
Pancevo	1.7	1.5	1.3	1.4	1.9	1.6	1.7
Sombor	0.9	1.0	0.5	0.5	0.7	0.5	0.5
Novi Sad	8.4	7.7	9.3	10.2	13.7	10.9	8.5
Sremska Mitrovica	0.7	0.7	0.3	0.3	0.4	0.4	1.2
Loznica	0.8	0.7	0.3	0.2	0.4	0.5	0.4
Sabac	1.3	1.2	0.6	0.6	1.2	1.2	0.6
Valjevo	1.3	1.2	0.6	0.7	0.7	0.6	1.0
Smederevo	0.9	1.2	0.8	0.8	1.8	1.2	0.5
Pozarevac	0.7	1.0	1.2	1.3	0.6	0.2	4.9
Kragujevac	1.5	2.7	1.8	1.3	1.6	1.2	3.4
Jagodina	0.8	0.9	0.5	0.3	0.5	0.4	0.5
Zajecar	0.4	0.5	0.2	0.3	0.2	0.1	0.2
Uzice	0.9	1.1	0.6	0.6	0.8	0.7	0.2
Cacak	1.7	1.4	0.6	0.6	1.1	1.0	1.2
Kraljevo	1.3	1.5	1.2	1.4	1.2	0.8	3.8
Novi Pazar	1.0	0.6	0.2	0.2	0.3	0.3	0.1
Krusevac	1.1	1.6	0.6	0.8	0.9	0.9	0.7
Nis	3.2	3.4	1.8	1.8	2.4	2.4	3.6
Leskovac	1.1	1.1	0.4	0.4	0.5	0.3	0.6
Vranje	1.0	1.5	0.6	0.6	0.7	0.4	0.6

Source: *Regional Development, Spatial Plan of Serbia 2010.*

in the Macedonian capital **Skopje**, where the 2011 population was 24.2 per cent of the country's total. Skopje holds an equally-disproportionate share of all economic activities (service activities, industry and construction). Medium-sized cities such as **Gostivar**, **Kavadarci**, **Kicevo**, **Kumanovo**, **Kocani**, **Prilep** and **Veles** lack investment and are searching for feasible new economic profiles. Moreover, the lack of adequate agricultural policies is causing rural areas and small cities to fall behind with consequential outmigration of the skilled population.

Montenegrin cities hold different positions in the economic restructuring. The capital **Podgorica** is growing fast and the sea port **Bar** has clear potentials. **Budva**, **Herzeg-Novi**, **Kotor**, **Tivat** and **Ulcinj** are major tourist resorts and therefore have specific roles in the developing tourism economy. Minor roles as tourist centres in the mountainous area of Montenegro exist for **Kolasin**, **Mojkovac**, **Savnik** and **Zabljak** but the economic future of regional centres such as **Berane**, **Bijelo Polje**, **Niksic** and **Pljevlja**, as well as that of smaller cities, remains unclear.

Croatia, the most advanced candidate EU-membership country, has a relatively diversified manufacturing sector that generates around one-fifth of the GDP and almost 70 per cent of the total value of merchandise exports. Tourism revenues are increasing and the sector is becoming an ever-more important value-added economic activity. But unemployment remains problematic in Croatia with the highest 2011 unemployment levels found in the capital **Zagreb** (13.6 per cent), the Counties of **Split** (12.8 per cent) and **Osijek** (10.9 per cent). However, by connecting the Danube Valley with Adriatic Sea, Croatian cities have significant locational advantages and their diversified economies could connect to mid-European and Mediterranean markets. Currently, all agricultural and rural areas in Croatia are suffering from depopulation, jeopardizing Croatia's still-dominant agricultural activities.

The key to revitalizing the rural economy is development and accessibility of services, as well as expanding transportation infrastructures. Specifying and promoting the role of medium-sized and small cities, especially their relations with rural hinterlands, is essential for profiling their urban economies.

Bulgaria and Romania saw large investment inflows after their EU accession, with **Sofia** and **Bucharest** the dominant recipients. But Sofia's share of foreign direct investment has steadily declined, from 80.4 per cent in 1992 to 66.3 per cent in 2000 and 61.4 per cent in 2009 in favour of other large

BOX 4.2: **URBAN ECONOMIES: BOSNIA-HERZEGOVINA**

▲
Sarajevo, Bosnia-Herzegovina. **©Orhan Cam/Shutterstock**

Bosnia-Herzegovina, with its two entities - the Federation of Bosnia-Herzegovina (B&H) and the Republic of Srpska - is illustrative of the urban economic collapse of the Southern subregion's countries in the wake of transition and conflict. The process of privatization started late and slow and has, by and large, still not been completed. Foreign direct investment (FDI) is arriving hesitantly due to political instability and lack of reliability and coherence of macro-economic policies and strategies for economic restructuring. Between 2000 and 2010, the total FDI flow into Bosnia-Herzegovina was about €3.5 million, mostly concentrated in the four largest cities with relatively better prospects: Banja Luka, Sarajevo, Mostar and Zenica[4]. While the dominant national economic activity in 1990 was industry, employing just over one million persons (42.3 per cent of the total), in 2010 industrial activities employed a mere 696,000 (31.4 per cent of the total). However, the tertiary sector of trade and services increased from 16.5 per cent in 1990 to 30.3 per cent in 2010 and administration from 20.4 per cent in 1990 to 35.2 per cent in 2010.

The City of Sarajevo registered an employment rate in industry of 21.4 per cent; trade and services 31.6 per cent and administration 45.9 per cent (up from 20.3 per cent in 1990). But Sarajevo is one of only a tiny number of large and medium-sized cities in Bosnia-Herzegovina that appears to be able to overcome the collapse of their traditional economic mainstay. Many large or medium-sized cities are likely to face further economic collapse, while most small cities in rural areas are also confronted with declining economies. The economic gap between Sarajevo and other cities (except Banja Luka, Bijeljina, Brcko, Doboj, Kiseljak and Trebinje) is expected to increase significantly.

Therefore, Bosnia-Herzegovina is likely to see renewed migration, both from rural areas and economically-depressed towns to the more prosperous larger cities, with all the consequential impacts of rural depopulation and declining urban populations in the depressed areas.

Source: Federal Office of Statistics, *Statistical Yearbook of Federation of Bosnia and Herzegovina 2010,* Sarajevo, 2010

BOX 4.3: **URBAN ECONOMIES: KOSOVO**

Pristina, Kosovo. **©Arild Vågen.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license

A somewhat different set of conditions applies to Kosovo, whose economy entirely collapsed during the 1990s under the impacts of conflict, devastated infrastructures, decimated industrial capacities and complete lack of investment until 2000. However, despite its extremely sensitive political situation, Kosovo may steadily improve its economy, drawing on several cities' potentially promising futures.

The capital Pristina leads in attracting new investments, with a share of 60 per cent in the total, due to its good infrastructures, human capital and developed markets. Other large and medium-sized cities are now starting to recover through capturing the remainder of the total investments: Gjilan 23 per cent, Peja/Pec 7 per cent, Prizren 5 per cent, and (Kosovska) Mitrovica 5 per cent. Obviously, FDI is almost exclusively oriented to locations with superior infrastructures, vicinity of transport corridors, population concentration and markets.

While the services sector is dominant in Pristina and (Kosovska) Mitrovica, trade and small industries prevail in Gjilan, Peja/Pec and Prizren. The remainder are (with significant public support and subsidies) still oriented on agriculture and food/wine industries. But cities such as Gjakova and (Kosovska) Mitrovica, despite their human capital, will have difficulty in recovering even partly due to the unclear status of Northern Kosovo and the position of (Kosovska) Mitrovica and three other municipalities there. The majority of small and medium-sized cities will struggle to keep up with the more prosperous cities. However, Lipjan, Suha Reka and Fush-Kosova are exceptions due to their vicinity to major transport corridors and the airport.

Source: *The importance of FDI on economic development of Kosova*, Paper available from: *http://lexetscientia.univnt.ro/download/203_lesij_es_XV_2_2008_art_4.pdf*

cities (**Bourgas**, **Pleven**, **Plovdiv**, **Stara Zagora** and **Varna**). These attracted from 18.7 per cent in 1992, to more than 25 per cent in 2000 and 21 per cent in 2009. Romanian cities had slightly less unequal foreign direct investment distributions with 50 per cent going to the **Bucharest-Ilfov** region.

In both Bulgaria and Romania, the services sector share has increased in overall GDP, while it decreased for industry and agriculture over the past 20 years. The share of employment in public service in **Sofia** increased from 45.2 and 36.7 per cent in 1992 to 62.7 and 52.0 per cent in 2008 respectively. But there were dramatic employment decreases in Romania's agriculture and industry: from 9.5 per cent in 1990 to 2.3 per cent in 2008 in the primary sector and from 47.2 per cent in 1990 to 31.1 per cent in 2008 in industry. The services sector saw increases from 34.7 per cent in 1990 to 57.6 per cent in 2008. In Romanian cities, the number of employed in industry decreased from 62 per cent to 40 per cent between 1992 and 2002 (Census), except in the large industrial centres of **Baia Mare** and **Satu Mare**.

Due to the new political and economic status of Bulgaria and Romania, the larger cities have generally overcome their transition problems, either by privatization or by introducing foreign know-how. While many traditional industries folded, new modern manufacture, supported by the services sector, emerged. The most promising Romanian cities today are **Braila**, **Bucharest** and **Galati**. Far less hopeful cities in this respect include **Drobeta-Turnu Severin**, **Calafat** and **Giurgiu** along the Danube, as well as cities along the Black Sea from **Navodari** to **Vama Veche**.

The prospective cities in Bulgaria are **Bourgas**, **Sliven**, **Sofia**, **Stara Zagora**, **Varna** and **Veliko Turnovo**, as well as several smaller NUTS-3 centres[5]. A number of medium-sized and small formerly industrial towns will probably suffer in the future. The gap between Sofia and other cities in Bulgaria is likely to become larger with further domination by the capital (and potentially Varna), while the gap between **Bucharest** and other cities in Romania is likely to diminish as a result of new investments in **Cluj-Napoca**, **Timisoara**, the port city **Constanta** and the industrial city **Craiova**. The prospects of smaller towns in Romania are undetermined by and will depend on their functional specialization, accessibility and quality of governance. The same applies to small towns in Bulgaria.

Both countries registered declines in urban functions among small towns, especially their role with respect to their rural hinterlands. The agricultural and tourism potential of small towns in rural areas require attention to assist their positioning and development. In both Bulgaria and Romania, the advantages of cities' vicinity to corridors, other locational advantages and their administrative capacities need to be better explored as factors that can contribute to their development.

TABLE 4.5: **ECONOMIC PERFORMANCES INDICATORS OF THE SUBREGION'S LARGE CITIES**

	City	Population (thousands)		No. of employees (thousands)		Unemployment (%)		GDP	
		1990	2010	1997	2009	1997	2010	1997	2009
Romania	Bucharest	2,127	1,944	706	887	5.6	2.3	3,598[1]	117,289[1]
	Galati-Braila	574	501	161	209	13.6	8.5	1,141[1]	17,786[1]
	Brasov	364	277	139	99	8.1	7.1	877[1]	16,822[1]
	Cluj-Napoca	329	306	134	129	9.1	4.9	908[1]	19,989[1]
	Constanta	355	301	138	122	6.1	5.7	1,193[1]	20,637[1]
	Craiova	317	310	116	101	7.1	9.8	718[1]	13,574[1]
	Iasi	347	310	124	118	10.4	6.9	749[1]	15,071[1]
	Ploiesti	259	227	115	970	9.7	8.4	915[1]	1,982[1]
	Timisoara	351	311	127	140	4.0	3.7	1,037[1]	22,315[1]
	Oradea	229	205	80	94	4.0	5.8	711[1]	13,751[1]
Bulgaria	Sofia	1,141	1,175	499	689	4.77	2.9	3,592,153[3]	27,180,058[3]
	Plovdiv	379	348	110	151	9.9	4.6	1,446,451[3]	5,143,451[3]
	Varna	315	322	99	145	12.6	7.1	952,031[3]	4,468,117[3]
	Burgas	205	194	75	88	9.8	5.5	1,138,944[3]	3,293,249[3]
	Pleven	173	156	56	71	15.5	6.3	533,829[3]	1,731,425[3]
	St. Zagora	165	140	47	50	15.4	5.4	1,195,110[3]	3,197,770[3]
Serbia	Belgrade	1,602[a]	1,639[b]	523	614	9.7	8.1	….	….
	Novi Sad	266	306	111	143	13.4	12.5	….	….
	Nis	248	256	88	73	22.2	18.9	….	….
	Kragujevac	180	181	62	41	12.2	19.1	….	….
	Leskovac	162	161	39	24	16.4	21.0	….	….
	Pančevo	125	132	39	35	19.3	12.8	….	….
	Smederevo	116	117	28	25	13.8	10.0	….	….
	Subotica	151	152	49	43	12.8	10.4	….	….
Kosovo	Pristina	….	198	….	….	….	….	….	….
Croatia	Zagreb (county)	778	793*	329	379	….	….	56,312[2]	106,620[2]
	Rijeka (county)	166	129*	72	64	….	….	11,929[2]	20,411[2]
	Dubrovnik (county)	52	43*	33	33	….	….	4,733[2]	9,705[2]
	Split (county)	201	178*	113	114	….	….	15,521[2]	29,314[2]
	Osijek (county)	130	108*	77	78	….	….	11,196[2]	20,545[2]
Macedonia	Skopje	445[a]	457[b]	….	….	….	….	….	….
	Podgorica	152	187	….	65	….	….	….	….
	Nikšićć	75	73	….	19	….	….	….	….
	Herzeg Novi	28	31	….	12	….	….	….	….
	Bar	37	43	….	12	….	….	….	….
	Bijelo Polje	55	47	….	1	….	….	….	….
Albania	Tirana (pref.)	354	800	….	….	….	….	….	….
	Durres (pref.)	….	310	….	….	….	….	….	….
Bosnia-Herzegovina	Sarajevo	….	353	….	….	….	….	….	….
	Banja Luka	….	179	….	….	….	….	….	….

[a] 1991
[b] 2002
** Preliminary census 2011 data*

[1] - mil. Lei
[2] - mil. HRK
[3] - thousand Leva

Source: National reports of subregion's countries, 2010

Typology of the Subregion's Cities

Due to different political positions within the Southern subregion, some countries classify their cities according to the typology of the *State of European Cities Report 2007*[6] (Bulgaria, Kosovo, Romania and Serbia) while others (Albania, Bosnia-Herzegovina, Croatia, Macedonia and Montenegro) classify cities by their respective national spatial planning documents and by expert studies, mostly leaning towards the ESPON[7] classification of cities and their functional roles.

Clearly, such classification differences are impractical at best and complicate both subregional and European continental city comparisons. An early conversion of urban typology definitions would be conducive to more coherent subregional stock taking, comparison and management of urban areas, if only to facilitate better urban interventions.

Reinvented Capitals

According to the 2007 European Cities Report, the 'reinvented capitals' in the subregion are **Belgrade**, **Bucharest**, **Pristina**, **Sarajevo** and **Sofia**, as well as **Banja Luka** (the secondary Bosnia-Herzegovinian capital). These cities are the largest in their respective country/territory in terms of population, economic activity and new investments over the period 2000-2010. But different national laws defining the administrative form of cities produce different territorial and administrative scopes and urban management structures. For instance, while Bucharest and Sofia comprise one large settlement with several satellites, Belgrade is more pragmatically defined as the urban centre Belgrade, seven medium-sized and small urban centres and 134 villages.

MAP 4.8: **CITY TYPOLOGY (EUROPEAN CITIES 2007 CLASSIFICATION)**

Legend:

- Principal metropolises
- International hubs (over 200,000)
- Regional centres
- Specialized centres
- Non CADSES countries
- Southern Subregion
- State border

Source: MJS/UN-Habitat

The metropolitan areas of capital cities are classified depending on the extent of their urban functions and their relation to the surrounding large cities (Re-invented capitals comprise more than one municipality.) Population size, urban assets, human capital and other criteria define the ranking in the ESPON classification. Consequently, **Belgrade**, **Bucharest**, **Sofia** and **Zagreb** are MEGA-4 cities, **Sarajevo** and **Pristina** are functional urban areas of international importance. **Banja Luka** is a functional urban area of national importance.

Other Capital Cities

The classification of **Podgorica**, **Skopje** and **Tirana** is based on planning and administrative criteria, with their position and roles defined by their respective national constitutions. The territory and structure are defined by national legislation. According to the ESPON functional classification, these capital cities are functional urban areas of international importance. However, given its dynamic urban development, Tirana, unofficially with one million inhabitants, could become a MEGA-4 city in the near future.

Transformation Poles

Cities with an industrial past but now changing and developing, have been registered under the EU classification as 'specialized poles', 'regional poles', 'de-industrialized cities', 'gateways' and so on.

Romania defined **Arad**, **Cluj-Napoca**, **Giurgiu**, **Oradea**, **Targu Mures**, **Timisoara** and **Sibiu** as specialized poles and **Alba Iulia**, **Bacau**, **Braila**, **Calarasi**, **Craiova** and **Piatra Neamt** as regional poles.

Bulgaria defined **Plovdiv** as a specialized pole (a national service hub), **Pleven** as a transformation pole, **Burgas** and Pleven as gateway cities and **Varna** as a visitor centre. Among regional poles they define **Vidin** as a de-industrialized city.

Serbia has three national service hubs: **Kragujevac**, **Nis** and **Novi Sad**. Nis and Novi Sad are functional urban areas of international importance and Kragujevac one of national importance. There are six regional public service centres with an essential role in administering wider regional areas. Regional market centres are **Loznica**, **Sombor**, **Sremska Mitrovica** and **Subotica**, providing public and business services but also trade. De-industrialized cities are **Krusevac**, **Pancevo**, **Pozarevac**, **Smederevo**, **Valjevo**, **Vranje** and **Zrenjanin**, while **Jagodina** is Serbia's only transformation pole.

In Kosovo, transformation poles with an industrial past are **Ferizaj/Urosevac**, **Peja/Pec** and **Prizren**. De-industrialized cities are **Gjakova/Djakovica** and (**Kosovska**) **Mitrovica**. Prizren is a regional market centre.

Bosnia-Herzegovina with its two entities has two different classification methods. They could be aggregated for the purpose of this report as follows: **Sarajevo** and **Banja Luka** are the primary and secondary capital, respectively. The secondary cities of **Mostar** and **Tuzla** are transformation poles, **Zenic** is a de-industrialized city while **Bihac** and **Istocno** are regional public service centres.

The above countries, which are outside the EU system, also have other classifications based on statistics or spatial planning documents.

In Albania, classification is based on a package of criteria: morphology, function, structure, urban dynamics and institutional capacities. **Tirana** and **Durres** could develop into a joint metropolitan area while **Berat**, **Elbasan**, **Fier**, **Korca** and **Vlore** are cities with central (prefecture) functions and **Shkodra** with undeveloped services.

Croatia follows the ESPON classification with cities selected for the Urban Audit Database: **Zagreb** is the capital; **Osijek**, **Rijeka**, **Slavonski Brod** and **Split** are secondary cities and there are 15 large and medium-sized NUTS-3 cities at the county tier.

Cities in Macedonia are defined according to national criteria. Centres of macro-regions with populations exceeding 45,000 are **Bitola**, **Shtip** and **Tetovo**. Centres of mezzo-regions are **Gostivar**, **Kavadarci**, **Kicevo**, **Kocani**, **Kumanovo**, **Ohrid**, **Prilep**, **Veles** and **Strumica** as they all have populations exceeding 30,000. There are further 21 centres of micro-regions with populations below 30,000.

Montenegro does not have a formal classification of urban centres at all, but the *Spatial Plan of Montenegro* offers a relevant classification. Besides the capital **Podgorica**, **Cetinje** is a national centre of special importance, **Bar-Ulcinj**, **Bijelo Polje-Berane**, **Budva**, **Herzeg Novi, Kotor, Tivat**, **Niksic** and **Pljevlja** are centres of regional importance and there are nine centres of municipal importance.

From the above it is clear that the Southern subregion applies a bewildering range of methodologies, criteria, definitions and scales to classify or typologically order its urban areas. Establishing more classification uniformity constitutes a critical step towards creating better insights in the characteristics and potentials of the separate elements in the subregion's urban configurations and networks.

Without more unity in the typology definition of urban areas, critical national and subregional efforts to better integrate existing and emerging urban networks and to deliberately create new economic nodes could become as disjointed as the underlying definitions. Effective promotion of subregion-wide social and economic progress can only occur in a coherent and mutually supportive manner if these seek full utilization of urban networks' potentials on the basis of true and comparable information. Urban networks and the urban nodes within them can only be understood if their characteristics can be compared and evaluated. These critical processes are made unnecessarily complex by the current diversity in the definitions of its components.

Human Capital, Culture and Innovation

The developed and diversified scientific activities of the Southern subregion have passed through structural and financial reform in the past two decades. Compared to the more advanced EU countries, the share of R&D in this part of Europe is low or oscillating. In Romania, the 2008 share of R&D was not more than 0.8 per cent of GDP, as in Croatia, and 0.5 per cent in Serbia. In other countries, R&D investments are either minimal or not recorded, as in Bosnia-Herzegovina, Kosovo, Macedonia and Montenegro.

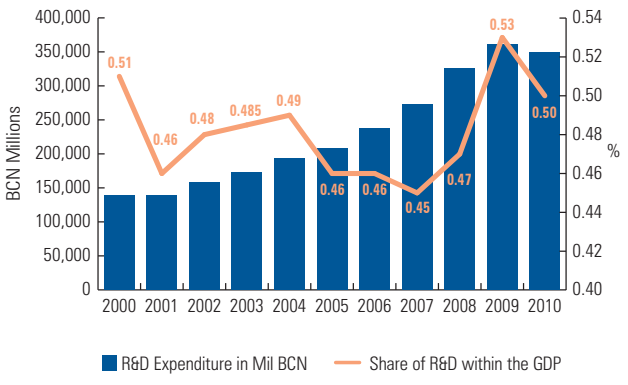
R&D investments are typically concentrated in the capital and a few secondary cities, with small shares deconcentrated to other cities or regions. Bulgaria, however, is an example of redistributed science and technology investments (10 per cent) from its south-western region around **Sofia** to the less-developed south-central and north-eastern regions. Nevertheless, in 2009, Sofia still enjoyed 70 per cent of all R&D investments, **Varna** 6 per cent and **Plovdiv** 5 per cent.

Budgeting for science is predominantly guided by the needs of business, government and, to a smaller extent, industry. All countries in the subregion have quite well-developed systems of higher education and the University of **Zagreb**, for instance, is listed amongst the Shanghai 500.

Universities are mainly public. The largest universities are located in the subregion's capitals **Belgrade**, **Bucharest**, **Podgorica**, **Pristina**, **Skopje**, **Sofia**, **Tirana** and **Zagreb**, but many large cities and even some smaller ones also have universities or branches of central universities. Enrolment is growing in all countries, with social sciences dominating and decreasing interest in technical sciences – indicative of technological lagging. Although the sciences are mostly found at universities, some new institutes in high technology are coming up in Bulgaria, Croatia, Romania and Serbia.

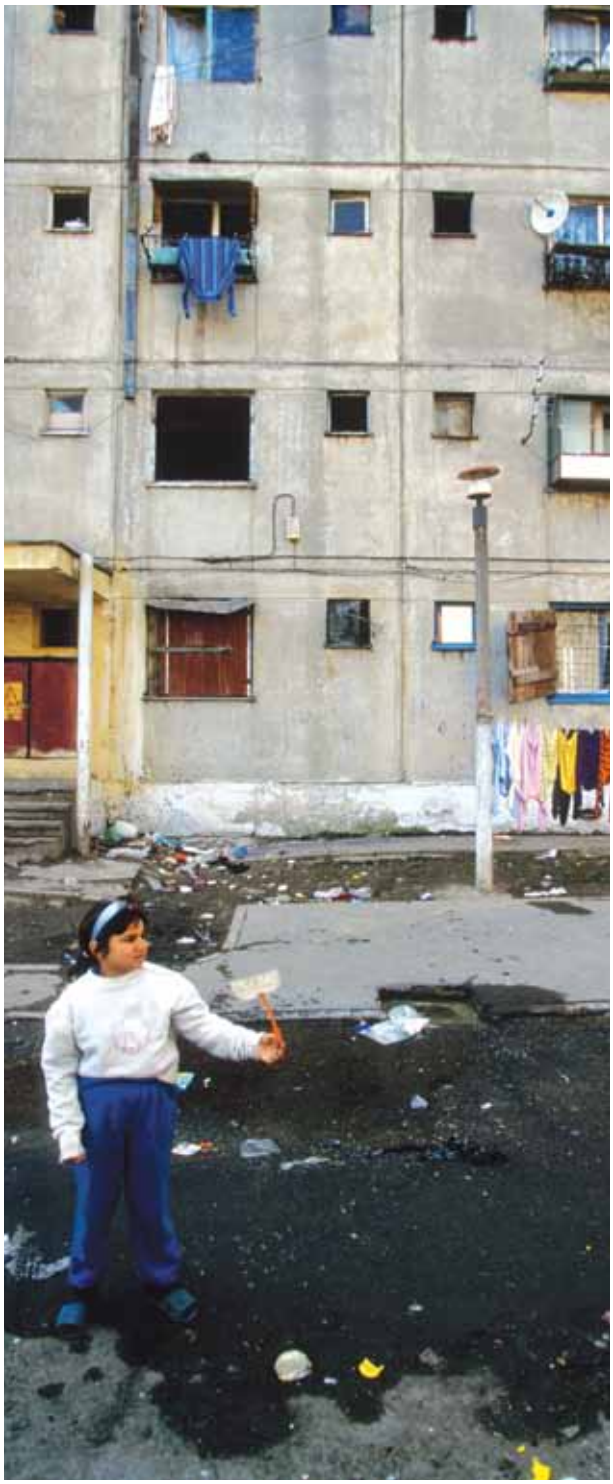
Culture is strengthening in countries where it has traditionally been strong such as Bulgaria, Croatia, Romania and Serbia through the revitalization of institutions, despite many disappearing in transition. Whereas new cultural forms are emerging under the wave of mainstream world culture and alternative currents, others are reverting to national or ethnical identities. Cultural manifestations in film, music, theatre, literature or visual arts are taking place in subregional capitals. Events with international significance and foreign visitors are common in the subregion. However, problems with disintegrating cultural heritage in non-EU member countries have remained unaddressed and are matters for the future since cooperation with European and global institutions is indispensable in terms of criteria and management.

FIGURE 4.3: **R&D EXPENDITURE AND SHARE IN GDP, BULGARIA**



Source: Innovation. Bulgaria, 2011

4.3
Social and Housing Issues



A run-down council estate in Bucharest, Romania. **©Chris Sattlberger/Panos Pictures**

Major Changes in the Housing Sector

Although the transition started simultaneously in the countries of the Southern subregion, the way it took effect in the housing sector reflects differences in experience, transitional contexts, and demographic trends. Before the transition, public ownership of the housing stock was complete in all countries of the subregion, except for Bulgaria where, since the 1950s, private ownership prevailed with about 90 per cent. Therefore, this aspect of transition has not led to major structural change in Bulgaria and, over the past 20 years, private home ownership increased by only three per cent.

In most of the subregion's countries, privatization was realized through enacting laws which contained new definitions of ownership. The difference between these countries was the form of this legislation and the speed of their application. In Romania, ownership has changed radically since 1990 when all tenants became owners by law. Any collective dwelling is now owned by as many people as it had tenants before privatization.

Albania faced major legal and practical challenges in 1991 with the conversion of its largely state-owned property into private property. In addition to privatization of the public housing stock in 1992-93, legislation was introduced providing land registration and restitution to the original owners of property nationalized or confiscated after 1945. The latter two processes, unlike the privatization of public housing, have proceeded slowly and have given rise to disputes and litigations.

In Serbia, privatization of the housing stock was introduced by the Housing Law of 1990. However, this law was insufficiently precise on purchase criteria and was, therefore, replaced by the Residence Law of 1992, which is still in force. Privatization mostly concerned urban tenants and urban housing stock.

Prior to the transition, public ownership of housing also prevailed in the countries of the former Yugoslavia. The ownership transformation during the last decade of the 20th century went quite smoothly with opportunities for sitting tenants to acquire their housing units at low prices because payments made during the working lifetime were recognized as investments in housing. Today, only a very small percentage of the stock remains in public ownership (not more than two per cent, except Croatia where it is slightly more).

As a result of war and conflict, over the past 15 years a modest number of social housing units was built in Bosnia-Herzegovina for families of war casualties and war invalids, as well as for people in collective refugee accommodation. War damage had contributed to the erosion of housing in Croatia where 135,000 dwellings were destroyed between 1991 and 1994, worsening the living conditions especially for the numerous displaced persons and refugees. In Kosovo, a small number of public units

have been built over the past decade to settle post-conflict returnee households. Privatization has so far been unable to solve problems with unfairly allocated public housing and the sale of nationalized and confiscated properties.

Social Inequality, Exclusion and Spatial Segregation

In the Southern subregion, rural dwellers are generally poorer than urban ones. In Montenegro, for example, the 2008 urban poverty rate was 2.4 per cent and the rural one 8.9 per cent. Likewise, poverty levels are higher in Bulgarian villages (17 per cent) than in cities, especially the capital where it is only 4.3 per cent. In Bosnia-Herzegovina the absolute urban poverty rate in 2010 was 10 per cent compared with 21 per cent in rural areas. However, as explicitly noted in the case of Albania and Romania, extreme poverty associated with social exclusion is specific to urban environments. In all cities poor intra-urban areas are emerging, characterized by more pronounced and extreme poverty than in rural areas.

Data for both Croatia and Serbia show that the 'at-risk-of-poverty' threshold is increasing. Relative poverty indicators are increasing in Croatia but decreasing in Serbia as a whole despite their increase for particular households. In comparative perspective, the 2009 relative at-risk-of-poverty gap for Croatia and Serbia was roughly at par with the EU27 average for 2008 of 21.9 per cent: 22 per cent in Serbia and 23 per cent in Croatia but significantly higher in Bulgaria (27 per cent) and Romania (32.3 per cent).

In Albania, poverty was reduced everywhere in 2008 if compared to 2005 levels (from 13.0 to 16.2 per cent), with the exception of the mountainous region. In the central region, which has experienced the greatest reduction in poverty, 10.7 per cent of the population was poor in 2008, compared to 21.2 per cent in 2005. The coastal region also experienced significant poverty reduction.

Although the overall share of poor population decreased, the gap between Albanian regions widened. **Tirana** has the lowest level of both urban and rural poverty among the four regions. Whereas poverty is more pronounced in rural than in urban areas (2.6 versus 1.9 per cent in 2008), rural poverty everywhere has decreased faster than urban poverty: a reduction of 51 per cent from the 2005 level, compared to 17 per cent for urban areas.

Some countries are using the Gini Index - the most commonly reported measure of inequality worldwide. In Bosnia-Herzegovina it is 0.33, in Croatia 0.29 and in Kosovo 0.30. Groups with a higher risk of social exclusion (and therefore vulnerability) in the subregion include children in the state care system, young people over 18 who have left care institutions, the Roma population, disabled people, ex-prisoners, ethnic minorities, refugees and IDPs, low-income groups, long-term unemployed, single-parent families and families with more than two children. Ethnicity-based frictions between communities in Bosnia-Herzegovina and Kosovo are still an obstacle for development.

Social segregation is evident in Serbia through urban space differentiation according to social status. The areas associated with higher socio-economic strata are usually more diverse in terms of public utilities, green areas, construction density, architectural design and so on - the more prestigious residential areas of the rich. They contrast sharply with neighbourhoods with prefabricated blocks of flats inhabited by low, very low-income and marginalized households. This phenomenon mostly takes place in larger towns where more social differentiation exists. Because segregation regularly occurs along ethnic lines and since vulnerable social and ethnic groups are typically geographically clustered (whether in peripheral or central urban areas or in rural areas), problems often become associated with a single ethnic group and locality (such as Roma people). Although other forms of segregation exit, they do not constitute any particular trends.

In many Romanian cities urban poverty is ethnicity-specific. **Bucharest** hosts the most extensive areas of vulnerable social and ethnic groups, with the Rahova and Ferentari neighbourhoods emblematic in this sense. Areas of **Barlad**, **Cluj-Napoca**, **Galati**, **Hunedoara**, **Iasi**, **Ploiesti** and other major cities in Romania are also facing socio-ethnic problems, especially in mono-industrial cities where poverty is high. Vulnerable ethnic groups are common in the poorer urban areas and, in recent years, are increasingly also found in central urban areas.

Despite poverty, Albanian cities are very safe by European standards. Due to an abundant street life and relatively tight social networks, random street violence is still comparatively rare. Even the capital **Tirana**, the largest and the most populated city, is notably safe, day and night. However, violence (mostly gang-related) and theft - from which Albania was immune during Socialism - are growing features of urban life. Unfortunately, Albania has obtained a terrible reputation as a result of a three-month period of anarchy in 1997, which followed the collapse of a pyramid investment (Ponzi) scheme and consequential huge losses suffered by many. Another reason for its poor reputation is Albanians' role in organized crime abroad.

The lingering reputation of Albanian cities as insecure and violent, which has no connection with reality, has discouraged foreign investment and tourism, placing Albania at a competitive disadvantageous with its neighbours Croatia, Greece and Turkey.

Housing Conditions

The age of the housing stock varies throughout the subregion but dwellings generally date from the period 1945-1990, apart from Albania, where most housing units are relatively new with only 7.7 per cent built prior to World War II. During the 1990s, a construction boom took place in Albania in which about one-quarter of the current housing stock was built. In Romania, houses are mostly old and in poor condition, with 52.7 per cent of total stock built before 1970. In Bulgarian towns, 7 per cent of the housing stock was built before 1945, 11 per cent between 1946 and 1960, 46 per cent between 1961 and 1980, 31 per cent between 1981 and 2000, and 5 per cent after 2001. As of 2009, the Bulgarian category 'for demolition' comprises about 5.3 per cent (roughly 130,000

BOX 4.4: **THE ROMA**

Skopje, Macedonia.These nine Roma gypsy children live, together with their father, in this one room on the outskirts of Skopje. **©Jan Banning/Panos Pictures**

During the Socialist period, improvements in housing, education, health care and social services of the Roma were evident. In the cities they worked in construction, public services or produced handicrafts. In the past, the Roma provided handicrafts, kept musical traditions alive and served as important intermediaries between the urban and rural markets. With the collapse and closure of state enterprises in the transition period, and also due to discrimination, their lack of skills and low educational levels, the Roma people moved from relative well-being into extreme poverty. This downfall has created a vicious circle of poverty and exclusion, which produced declining literacy and lowered educational levels among Roma, exacerbating their marginalization in society.

Since the early 1990s, international institutions, including the Council of Europe, OSCE, various UN agencies, and the Soros Foundation, have engaged in programmes and projects to reverse the declining socio-economic conditions of the Roma population. In Albania, the *'National Strategy for the Improvement of Living Conditions of the Roma Minority'* was drafted in 2003 in consultation with Roma NGOs.

The Roma population in Romania also faces a wide range of problems, including lower educational attainment, lack of housing and poor living conditions or lack of land ownership among those living in the countryside. The 2002 Census showed that the number of Roma in Macedonia was 53,879 (2.7 per cent of the total population) compared to the 1994 Census, when their number was 43,707 (2.2 per cent of total population). Despite an increase in the absolute number, their share in the total population decreased. However, some Roma organizations suggest that the actual number is much larger than the official one, and may even amount to 80,000 (or 3.9 per cent).

Most of the urban Roma are found in poor areas (ghettos) or in suburban areas but with below-adequate living standards. They often neither have secure tenure nor access to social infrastructures, even though they do no longer live a nomadic life.

The Macedonian government had an active role in the Roma Decade, a 2005-2015 initiative of 13 European countries to improve the socio-economic status and social inclusion of the Roma minority across the region. Many activities, financed by the government, resulted from public strategy to address the problems of the Roma population. One such programme financed urban plans for areas populated with Roma people in several cities (Bitola, Prilep and Skopje).

Out of 593 registered Roma settlements in Serbia, 52.7 per cent are within cities, with 21.7 per cent of the total number of Serbian Roma settlements in in the urban areas known as *mahala*, and 31 per cent in sub-urban areas.

Source: *Federal Office of Statistics, Statistical Yearbook of Federation of Bosnia and Herzegovina 2010,* Sarajevo, 2010

FIGURE 4.4: **NUMBER OF DWELLINGS AND TOTAL POPULATION (MILLIONS)**

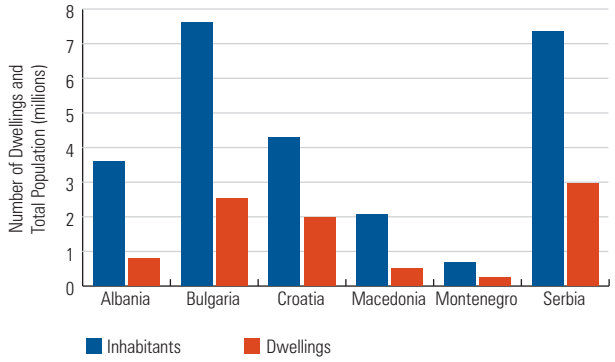
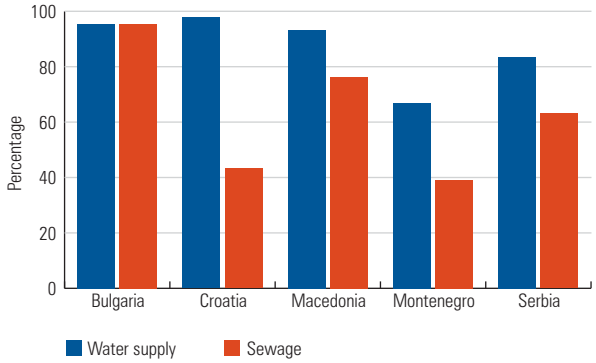


FIGURE 4.5: **PERCENTAGE OF URBAN HOUSEHOLDS CONNECTED TO PUBLIC WATER SUPPLY AND SEWAGE**



Source: National Bureaus of Statistics and National Reports of the Southern Sub-region Countries

dwellings) of the total urban stock. Some 770,000 dwellings (31.9 per cent of the stock) is classified 'for renewal', and 62.8 per cent as 'new'. In Serbia, more than 50 per cent of the stock dates from between 1946 and 1980, but a building boom from 1981 to 1990 created the construction of 18 per cent of the current total stock. In Montenegro, about 20 per cent of all flats are older than 50 years, and about 39 per cent were built after 1980.

The situation in Bosnia-Herzegovina is specific due to the war from 1992 to 1995. According to the 1981 census, 34.6 per cent of the urban housing stock was built after 1970. By 1991 (based on the growth of housing stock and rates of amortization[8]), this share had grown to approximately 59 per cent. By the end of the war (1995), around 452,000 units (34.87 per cent of the total residential stock) had been destroyed or damaged but 260,388 units (57.9 per cent) were restored between 1996 and 2005. The number of housing units in Bosnia-Herzegovina was estimated at around 1.3 million units in 2011, with approximately 73.5 per cent of the urban housing stock constructed since 1970. Of these, about 20 per cent (1991) were flats in multi-family, prefabricated buildings. According to the *2007 Household Budget Survey*, 75 per cent of all households lived in individual housing units.

Throughout the subregion, as a result of population decline, the housing stock grew in relative but not in absolute terms, implying an increasing share of unoccupied units. Nevertheless, there are still housing shortages in Albania. The average number of rooms per dwelling in Albania is between 2.3 with 1.9 persons per room on the average. Overcrowding particularly occurs in more centrally-located cities while a large share of the vacant units is found in other, less desirable cities.

The number of rooms per dwelling in Serbia is 2.5 and the average number of persons per room ranges from 1.16 in **Belgrade** to 1.45 in **Užice**. The average floor area per person is 18 m^2 in Bulgaria, 28 m^2 in Croatia, 22 m^2 in Montenegro and 21 m^2 in Serbia. Montenegro had 3.6 inhabitants per housing unit in 1991 and 2.4 in 2003, indicating a significant improvement in the general housing situation and rising numbers of housing units.

Housing-related infrastructures, including water and electricity supply, sanitation and heating, are varying. Electricity supply is near universal with coverage of more than 99 per cent except for Albania where, according to 2005 data, approximately 71.5 per cent of the population experienced power cuts averaging eight hours per day. Even **Tirana** had daily power cuts until 2008. Water supply is also problematic in Albania, since only 53.1 per cent of the population has indoor running water facilities and 16.0 per cent supply outside the dwelling. Population without running water either inside or outside the dwelling is 30 per cent. In Montenegro, about 88 per cent of housing units have water supply with about 67 per cent connected to public water supply. In Serbia, 83.61 per cent and in Macedonia 93.15 per cent are connected to public water supply. In Croatia, 6.3 per cent of inhabited dwellings have no water supply.

Connections to public sewage systems fluctuate: 76.3 per cent in Macedonia, 63.2 per cent in Serbia and a worryingly low 39 per cent in Montenegro. In Montenegro, only about 82 per cent of the permanently-inhabited flats have a bathroom and more than 76 per cent 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.

Central heating is virtually non-existent in Albania. The majority of the population (58.1 per cent) uses fuel wood for heating; gas is the second-most important source (25.4 per cent) and electricity third (13.5 per cent). While 81.3 per cent of the rural households use wood as the main source of heating, urban households use primarily gas (39.3 per cent) and electricity (25.4 per cent). In Serbia, the central heating and gas supply are lower than other public services supplied (less than 40 per cent for central heating and less than five per cent for gas in the total stock). In Montenegro, about 3.7 per cent of the housing units have central-floor heating, while one per cent of the flats have no heating installations.

Data for Bulgaria exist only for urban settlements, indicating that 95.4 per cent of the dwellings have water supply utilities and 95.4 per cent are connected to a sewage system.

▲ Built in 1974, Mamutica is the largest building (by volume) in Zagreb and Croatia, as well as one of the largest apartment blocks in Europe. **©Branko Radovanović.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license.

Housing Supply and Affordability

Public investments in housing have significantly decreased in all the subregion's countries if compared to the Socialist period. In Bosnia-Herzegovina, public investments have been terminated altogether, apart from accommodation for families of war victims and veterans, as well as vulnerable people in collective accommodation for refugees. In Kosovo, apart from publicly-provided accommodation for returnee households after the 1999 conflict, housing provision is private. In other countries, public housing provision is also almost non-existent, except for sporadic new attempts in Croatia and Serbia.

In Albania, urban housing construction began to flourish soon after the fall of Socialism because privatization and remittances brought buyers with down-payment capital onto the market. While construction contributed only six per cent to GDP in 1991, by 1994 it had risen to 14 per cent. By 2005, private sector construction supplied 60 per cent of the entire housing production. Currently, there are about 750,000 housing units in Albania with almost one-third built since 1990. Tirana accounts for 113,000 of these new units (15 per cent of the national total), the bulk of which are condominiums.

In recent years, housing construction in Croatia has declined due to the economic recession. The state also terminated most of its housing construction. According to some surveys there is no overall shortage of housing units but there is evidence of both overcrowding and a shortage of housing in large cities. The housing shortfall in **Zagreb** is estimated at about 45,000 units.[9]

Activity in the housing sector in Serbia was very low at the beginning of the 1990s. Then the first organized construction entrepreneurs appeared, entering the market at the expense of large public construction companies but achieving neither the volumes nor the qualities of their predecessors. Housing construction slowly increased after 2001 and, by 2009, private investors supplied two to three times more units than the public sector. The most recent state intervention to boost the construction industry in Serbian cities initiated large public housing projects with, for instance, 4,000 housing units at one location in **Belgrade** and new locations under preparation.

In Romania, the new housing stock is supplied by the private sector for individual dwelling, by developers private ensembles, and by the ANL.[10] During the past 18 years, 1.46 units per 1,000 inhabitants have been built - the lowest rate of construction among the former Socialist countries except Bulgaria.

In Bulgaria, due to inertia in the construction sector, an anticipated decline in new housing output began two years after the first signs of the last economic crisis. Then new construction grew once more, reaching an output of 4.1 units

Architect's rendering of the new Harmony Apartments complex in Belgrade, capital of Serbia. **©www.harmonyapartments.rs**

per 1000 in 2009 but then dropped again in 2010, down by 28 per cent to 2.9 units per 1000 (considered sufficient for stock reproduction).

Two major programmes by the Government of Macedonia aim at making housing more affordable. One is a social housing programme by the Ministry of Transport and Communication, responsible for distribution of dwellings according to social criteria while another one targets young families.

Social housing is mostly a new form of housing provision that emerged when differentials in quality of life and living standards increased. With transition, the formerly omnipresent public investment in housing was replaced by minimal public involvement in housing support and social housing. In Bulgaria social housing never exceeded 10 per cent as the 'right to buy' existed even during state Socialism. Consequently, little has changed in Bulgarian social housing provision, except for reduced volumes.

Montenegro has a nationwide 'Foundation for Solidarity in Housing Development' in which the Government, employers' unions and the Union Association of Montenegro take part. This Foundation functions through private-public partnerships between local government and investors (the 1,700 members of the Foundation). About 30 per cent of the project value is financed by local governments through provision of free urban parcels and exemption from land regulation fees. This created incentives for private-public partnerships that are now recognized as one of most important forms of housing financing. Since its establishment, the Foundation for Solidarity in Housing Development realized 7,927 m^2 and about 34,357 m^2 more is currently under construction.

Housing allowances are part of the social care system in Croatia and are the responsibility of local authorities, while regional authorities subsidize the costs of heating fuel. In total, approximately 2.4 per cent of the larger cities' households in Croatia are allowance recipients.

Homelessness is an explicit indicator and not just of acute housing deficits. Unfortunately, homelessness is neither officially acknowledged, nor monitored in the subregion. Although very 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 between 2007 and 2012.

Housing Management and Housing Finance

Housing management is usually assured by the local government, Macedonia being the exception since there all matters regarding housing management and housing finance are market-led. It has neither a local nor a national government policy nor are there public sector interventions.

In Albania, policy makers assumed that privatization of the housing stock would result in growth of private housing management businesses providing and improving housing maintenance. In reality, privatization led to rapid quality deterioration in the housing stock and significant funding is required to bring it back to an acceptable standard. The first law on condominium maintenance in Albania was adopted in 1993 but not implemented. After years of negligence the Albanian Government approved a new condominium maintenance law in 2009.

For a large number of housing units in Montenegro no management bodies have been established in accordance with the law. Maintenance of flats by municipalities is generally unsatisfactory. To increase maintenance, the Montenegrin Government founded the Agency for Housing and established an 'Improvement of Living Conditions' project that finances 50 per cent of the estimated value of maintenance works on the communal parts of housing while the remaining 50 per cent is paid by the flat owners.

In 2001, Croatia introduced a government-supported social housing construction programme (POS) jointly-financed by state and municipal budgets to optimize the use of public and other funding, to ensure repayment and to enable the financing of housing purchases on terms more favourable than market conditions. To increase the social housing stock in Romania, local municipalities introduced programmes such as the 'Medium-term Investment Programme' that provides housing solutions to evicted tenants, returnees and other vulnerable groups; the 'Regional Operational Programme' (**Cluj-Napoca** and **Brasov**) funded through the EU; programmes managed by the Ministry of Regional Development and Tourism; the (rental) 'Housing Programme for Young People' and social housing for tenants evicted from units returned to former owners.

The ministry in charge of housing in Serbia has various programmes; for example it currently funds the construction of social housing in seven cities for single mothers, people with disabilities, and other vulnerable citizens.

The Bulgarian housing mortgage market offers a classical set of mortgage products, usually with annuity installments and indexed interest rates. There was an intention in the late-1990s to introduce the German contractual loans system but the banking society opposed it effectively. With a stable share of about 20 per cent of all credits, housing finance continuously grew until 2009. Then it dropped about 30 per cent in a year, reaching a €1,450 million equivalent in 2010.

In Romania, the most important source for housing construction and rehabilitation finance is mortgage credit. The 1999 Law on Mortgage Credit established criteria for mortgage-providing institutions and persons eligible for loans. Thus, mortgages can now be granted by the National Housing Agency, banks and other financial institutions authorized by law.

Housing finance through organized financial intermediaries was not sufficiently developed in Serbia. Over the past five years, however, a more organized system of financing through commercial banks has been established. With the introduction of foreign banks in Serbian financial markets, the first mortgage loans with single-digit interest rates appeared but housing loans through commercial banks are still not affordable to most households.

Interest payments are currently the largest household expenditure in purchasing an apartment through credit. Average annual interest rates on housing loans decreased in 2005 because of insurance of housing loans through the National Mortgage Insurance Corporation, introduced by the Serbian Government to encourage development of the housing market. As of 2009, interest rates on housing loans are decreasing, primarily due to a decline of EURIBOR[11]. Housing financing through commercial banks is supplemented by public sector measures to increase the availability of loans by reducing interest rates through the insurance of loans and later through subsidized interest rates. The National Housing Loan Insurance Corporation, established in 2004, is in charge of the implementation of these measures.

Given that the majority of the housing stock in the subregion is relatively old there are a number of programmes dealing with its renovation. In Bulgaria in 2005, the Council of Ministers adopted the 'National Program for Renovation of Residential Buildings' targeting multi-family structures and aiming to prolong their physical life span, guaranteeing their safety, improving energy efficiency and raising their market value. This is part of the National Housing Strategy and supported in the Regional Development Operational Program.

Housing Policies

Housing was not a Bulgarian political priority throughout the transition. Political will and allocated resources proved neither sufficient to generate visible practical actions nor the desired impacts described in the 2004 National Housing Strategy and the 2005 National Program for Renovation of Residential Buildings. However, local housing programmes have now become an obligatory element of the Integrated Urban Development Programmes under the Regional Development Operational Programme.

Romanian housing-related matters that require policy intervention are homelessness and urban homeless shelters, persons evicted due to non-payment of maintenance costs or house restitutions, social housing in City Hall administrations, applications for social housing made since 1990, households receiving heating assistance and those disconnected from heating, households with maintenance debts and people in units at risk of floods and landslides.

In Macedonia, housing policy requires multi-dimensional participatory approaches to defining its priorities and interventions. Therefore, the Government adopted a National Housing Strategy in 2007 that should guarantee objective identification of needs and actions as a stepping stone towards formulating a consistent housing policy.

In post-2000 Serbia, the following housing-related strategies were adopted: the National Strategy for Refugees and Internally Displaced Persons; the Strategy for Poverty Reduction; the Strategy for Young People and the Strategy for Sustainable Development and its Action Plan. These

Podgorica, Montenegro. A first draft of the National Strategy on Housing Policy in Montenegro was prepared in 2011. **©Dalibor Sevaljevic/Shutterstock**

strategies can become integral parts of the future housing policy. Supporting legislation adopted so far includes the 1992 Law on Housing; the 1995 Law on Managing and Maintenance of Housing Buildings and the 2009 Law on Social Housing which, together, established the strategic and institutional elements. Other relevant legislation includes the Law on the National Housing Loan Insurance Corporation, regulating insurance and brokerage of housing loans; the Law on the Spatial Plan of the Republic of Serbia, to address illegal construction and social housing, and the Law on Planning and Construction, to allow for cessation of public buildings and land for social housing.

In Montenegro, a sector for the development of housing was established in 2008 (then under the Ministry of Spatial Planning and Environmental Protection and now under the Ministry of Sustainable Development and Tourism) for the development of institutional infrastructures and public sector capacity towards the creation and establishment of a housing policy. The three departments within this sector have the jurisdiction for realizing housing projects through the *Action Plan 2005-2008.*

A first draft of the *National Strategy on Housing Policy* in Montenegro was prepared in 2011. Multiple stakeholders were involved in its creation, management and realization: the central government through the sector for the development of housing (as a part of the Ministry in charge) and other state bodies; local government units; the Montenegrin Foundation for Solidarity in Housing Development (CFSSI) and housing cooperatives. At the national level, the ministries in charge of labour, social policy, finance, economy and local government were also engaged, as well as other state institutions such as the Real Estate Administration and the Statistical Office of Montenegro (Monstat) to ensure full coordination.

Recently, an important number of units has been built, especially for vulnerable groups, funded through NGOs with credit arrangements from banks. Only a few municipalities have established institutions for housing policy development or management of housing funds. There is urgent need for the creation of housing funds at the local level, as indicated the Action Plan for Housing 2005-2008.

Albanian housing policies centred on programmes for the homeless during the 1990s. High government priority was given to assisting the approximately 10,000 homeless households that resulted from dwelling restitution to the original owners. A 1995 law on state assistance to homeless families outlined the new approach: instead of constructing and selling homes to eligible households, the government started to provide grants for home or land purchases or towards rental payments. Although the government recognizes the need for a social rental sector, particularly for the poorest households who cannot afford purchase, only minimal steps have so far been taken.

On the basis of the *National Housing Strategy Action Plan 2001,* the government drafted legislation in 2004 on urban social housing programmes. A World Bank social housing project for low- and medium-income families started in 2008 and an interest rate subsidy programme in 2009.

In Kosovo, the Housing and Property Directorate was established in 2000 (replaced by the Kosovo Property Agency in 2006) dealing with housing and other property matters.

In Croatia, a comprehensive housing reform programme and reassessment of housing rights commenced in the 1990s. Housing contributions for employed people were cancelled, as was the role of companies in employee housing. Withdrawal of the state from housing, with deregulation, privatization and strengthening of free markets were the chief housing policy traits in Croatia during the 1990s. From 1998 onwards, many changes and new programmes were introduced in the absence of a long-term national housing policy. After 2008, housing construction slowed down and cities received lower revenues, reducing their capacity to invest in housing programmes and subsequently decreasing housing affordability. Since housing allowance systems in Croatia are part of its social care policy and, on the whole, the responsibility of local and regional authorities, this is not a positive development.

Generally, the key problem in cities of the subregion is continuous legislative and programming modifications rather than coherent, forward-looking long-term housing policies. Low affordability of urban residential units is widespread, especially in the large cities where populations concentrate. On the other hand, a large number of housing units remains vacant in smaller cities and in rural areas. Regional development policies could contribute to better housing distribution with new and renewed policies and programmes for the social housing ultimately needed in each of the countries in the Southern subregion.

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Urban Environmental Challenges

Copsa Mica, an industrial town in Transylvania, Romania, was known in the 1990s as the most polluted town in Europe with lead levels reaching more than 1000 times the allowable international limits and life expectancy nine years shorter than the national average. The pollution was caused by two factories: Carbosin (closed in 1993) which produced carbon black for dies and tyres; and Sometra, a nonferrous smelter still operational today.

Transformation of the Sector

Environmental matters in general and the urban environment in particular, are gaining prominence as the transition unfolds. This does not imply that environmental issues were not considered in the subregion before but in a different manner, scattered over sectoral activities or marginally executed.

The decline of industrial activities in the subregion was somehow an environmental friendly step, even though that was not its purpose, whether economically unjustified or not. The Kyoto Protocol, which came about in 1997, entered into force in all countries of the subregion between 2005 and 2008. Since the Southern subregion faces a range of significant environmental challenges, increased awareness has to be further developed. Non-governmental organizations have potentially important roles but their activity is still at a relatively low level. European institutions and instruments strongly support environmental activities.

The EU-member states Bulgaria and Romania are slightly more active in environmental matters than other countries in the subregion. The support of the EU can be noticed in Western Balkans countries, either as a part of accession or *acquis communautaire* environmental criteria. The Instrument for Pre-Accession has five components for allocating funds to candidate countries, of which environmental concern is one.

The urban environment is the responsibility of local communities. Local environmental action plans are being adapted to the context of transition countries on the basis of the Local Agendas 21, many of which are addressing urban environmental matters. These documents are usually adopted by local institutions with the official status of local environmental strategy. Consequently, air pollution, land contamination, transport-related pollution, noise, the impacts of climate extremes and environmental change and so on are increasingly present themes at the local and regional tiers in the subregion.

Water, Sanitation and Waste Management

In most countries of South-Eastern Europe, public utilities are the responsibility of local authorities, except for Bulgaria

where the national level is responsible and in Albania and Croatia, where it is shared between central and local governments.

Albanian cities experience severe water problems, including inefficient utility operations and unsatisfactory services provision. The water quality is poor, while systemic leaks and illegal connections are frequent. Water and sewage services, although an exclusive function of local governments since 2002, are still managed as a shared local and central government function. According to the 1999 Decentralization Law (effective since 2002), water utilities together with local governments have the right to take all decisions on operations, investments and tariff-setting for cost recovery.

Progress has been made towards a reasonably strong legal framework for fiscal decentralization but its implementation is slow due to political and bureaucratic obstacles. Although local governments have gradually gained representation in water companies' supervisory councils, particularly in cities with privately-managed utilities, these councils still remain under the control of central government.

Since decentralization, many water enterprises have achieved a collection rate of 75 and some as much as 97 per cent. In 2005, Albania adopted laws on norms relating to effluent discharge and on classifying waste. According to the first, no business which discharges wastewater effluents will be issued with a permit to operate unless it installs a water purification facility. Two wastewater treatment plants have become operational, work on a third one has been completed and three more are under construction.

The Ministry of Environment has completed a feasibility study on tackling problems at the contaminated former industrial site of Porto Romano near **Durres** where pollution is affecting the health of the population. Technical work to address the problems of a former PVC factory site in **Vlore** has also begun. Work continues with EU assistance on the elimination of pollution from an ammonia plant in **Fier** (arsenic disposal) and the Ballshi oil refinery (oil pollution). In **Tirana**, a hot spot is the Sharra solid waste landfill. The construction of new landfills is underway. Rehabilitation of toxic hot spots has progressed and 35 new untreated hot spots have been identified. However, legislative development is dragging behind. A strategy for waste management has not yet been established.

In Bulgaria, the regulation of water supply and sewage services (WSS) is the role of the State Energy and Water Regulatory Commission. Established under the Energy Act, it regulates the prices and quality of services delivered by WSS operators, irrespective of ownership and type of management.

The WSS is either state or municipal-owned. The Minister for Regional Development and Public Works coordinates the administration of the systems at the national level and through WSS associations, with the participation of the state and one or more municipalities wherever WSS ownership within the borders of a territory is divided between them. Twenty-eight water associations have been established on a regional basis to administer the assets. Administration, maintenance and exploitation of WSS facilities, as well as the supply to consumers against payment, is carried out by operators and regulated by the Water Act and the Water Supply and Sewerage Services Regulatory Act.

WSS operators are either a state or municipal trade company – a legal entity that has signed a contract with the relevant association or the Mayor of the municipality for administration, maintenance and exploitation of systems and for supplying services within a single territory or several territories. The WSS industry is presently under reform in accordance with Water Act amendments. This includes the transfer of infrastructure assets to state or municipal ownership. This will provide an opportunity for associations and municipal councils to manage the systems and for WSS operators to exploit them under contract.

According to current legislation, waste management is a municipal function in Bulgaria. Municipalities grant concessions to companies for cleaning, household waste collection and transportation. According to the last amendments in the Waste Management Act, municipalities are responsible for waste separation after collection and temporary conservation of biodegradable waste, submitting, recycling, utilization or neutralizing. Regional Inspectorates of Environment and Water deal with the aftercare at landfill sites. These activities are funded from municipal taxes and fees.

Water supply services in Bosnia-Herzegovina are the responsibility of local governments, with the exceptions of the Sarajevo Water Utility owned by the **Sarajevo** Canton, as well as the water utilities in **Banja Luka** and **Mostar** which are owned by the respective city. There are approximately 140 municipalities, each controlling a public water utility company or a similar form of water or wastewater organization. In **Brcko** District, for example, the Water and Wastewater Divisions of the Municipal Utilities Department are in charge of water supply for a range of users (households, public institutions, small business, industries and so on). Consumers not covered by the municipal water supply systems depend on their own water supply systems or individual wells.

Two to three million tons of solid waste is generated annually in Bosnia-Herzegovina and is mainly deposited at some 1,100 illegal garbage dumps due to lack of proper sanitary landfills. Municipalities' exclusive jurisdiction represents a huge obstacle for improving the waste sector. No more than 60 per cent of the larger urban municipalities provide such services, while the situation is even worse in smaller municipalities. Non-economic prices of waste management services represent a particular problem. However, a national-level solid waste management strategy has been prepared through World Bank projects and is now in the implementation stage. The future policy of solid waste disposal is defined on a regional waste management basis through inter-municipal waste management organizations and disposal at regional landfills.

Municipalities in Kosovo (UN 1244) receive water from seven regional water companies based on the number of households billed for water services by them. Despite having

In Gjilan, Kosovo the Swiss Government has been supporting the municipality in the improvement of their water supply systems since 1999. Many regions of Kosovo suffer from water scarcity and poor drinking water quality. **©Toksave.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license.

sufficient water resources, securing water has become a challenge for companies and few municipalities have 24/7 supply. Around 44 per cent of the population, mainly in urban areas, has access to public water supplies. In rural areas, the percentage is lower and the main supply there is from wells and village water supplies. There are no wastewater treatment facilities, although some areas have septic tanks without leach fields. As in some secondary and smaller cities, complete neighbourhoods are not linked to any water network (**Gjilan/Gnjilane, Ferizaj/Urosevac** and so on). Due to water shortages there are regular service cuts in the capital **Pristina**, as well as in secondary cities, for up to 18 hours a day. Systemic and administrative water losses amount to 50 per cent and about 64 per cent of the rural population uses unsafe well water.

In Romania, the decentralization of public services (water supply, sanitation, sewage and wastewater treatment and public local transport) and increased local authority responsibilities for the quality of services provided are stipulated by the 2006 Law on Community Services of Public Utilities. The same law provides regulators with the ANRSC (National Regulatory Authority for Community Services of Public Interest) as an autonomous public institution of national interest with legal status operating in coordination with the government. ANRSC is financed entirely by the state through the budget of the Ministry of Administration and the Interior. According to the ANRSC Activity Report for 2010, there were 42 regional water supply operators serving 83 per cent of the total population. Regional operators arose from the need for technically- and economically-strong operators to implement EU-funded investment projects. The regionalization of public water services has been completed, establishing 42 operators (one in each county) and servicing 955 cities (30 per cent of the total).

In Croatia, the state is responsible for hazardous waste management and waste incineration. The government prescribes the waste management conditions and measures. Counties and the City of **Zagreb** are responsible for the implementation of these governmental stipulations and are, therefore, responsible for the management of all waste (except hazardous waste) and incineration. The law enables collaboration between counties in the implementation of separated collection management. Expenditures for waste management are calculated according to the criteria of waste quantities and properties, subject to the application of the 'polluter pays' principle. For municipal household waste other calculation criteria may be applied in accordance with the regulations governing utility services.

Waste water and solid waste disposal is critically problematic in a large number of the subregion's cities. Combined with troubled water supply in many local communities, it asks for prudent policies at local and regional tiers, with local communities networking as an intrinsic issue of these policies due to the weak capacities of municipalities.

▲
Tirana is the only city in Albania with an extensive public transport (bus) system. **©Gertjan R.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license.

Mobility and Urban Transport

Buses are the mostly-used mode of urban transport in the Southern subregion's cities. The only two cities with a metro system are **Bucharest** and **Sofia**. There are tram systems in **Belgrade**, **Sarajevo**, **Sofia**, **Zagreb** and **Osijek**, as well as in several Romanian towns. Trolleybuses operate in four countries – in more than ten towns in Bulgaria and Romania, respectively, and in Sarajevo and Belgrade. The other modes of intra-urban public transport are buses, minibuses and taxis. Public transport has been partially privatized since the beginning of transition.

Tirana is the only city in Albania with an extensive public transport (bus) system. The privatization of public transport in the capital was completed around 2006 and benefitted both users and the public sector - the former through improved services at low cost and the latter though drastically reduced disbursements for urban mobility. However, users are largely dissatisfied with the current service, partly due to high expectations of better quality systems. Also, bus companies have made no joint-efforts to promote their systems, although an association of public transport operators exists.

Service quality lags behind that of other European counterparts. One part of the problem is uncertainty about how profitable private bus companies really are. Without a substantially better level of economic transparency and policy formulation, the pricing and standards of public transport remains obscure.

In Bulgaria, urban transport is fully privatized in **Plovdiv** and **Stara Zagora**. The urban transport system in **Sofia** comprises three large municipal companies and three privately-operated bus lines. In **Varna** there is a municipal company and a few private transport companies. Bulgarian Municipal Councils determine mass urban municipal transportation pricing within the municipal territory and regulate ticket prices of private transport companies within the municipality.

In Romania, public transport mainly remained in the state administration after 1990, accumulating huge state debts. In parallel, private urban mobility has developed in some large cities, generally by taxi services. In most cities, autonomous transport companies have been established in the 1990s, transformed from the former Socialist transport enterprises. The state, however, retains responsibility for the purchase of new means of common transport and modernization and establishment of new transport lines. Urban and suburban public transport services changed after 1990 with a rehabilitation period (1990–1995), followed by stagnation until 2000. After 2001, service diversification occurred, mainly due to the decentralization of all services and their acquisition by local councils. In 2003, public transportation services had been ensured for 160 cities.

Romanian cities face problems maintaining existing local public transport systems due to funding shortfalls resulting from lack of fiscal decentralization and insufficient institutional knowledge. This resulted in deferred investments

in both infrastructure and vehicle maintenance. Local councils are trying out several new approaches, including the purchase of vehicles and transferring their management to private operators while canceling tariff differences, as well as promoting cooperation between municipal and private operators with lowered tariffs for social protection. The results are generally enhancing but with different performance outcomes. Large cities are all improving their public transport services.

In Croatia, trams and buses for public urban transportation are owned by the cities. For example, in the capital city, the Zagreb Municipal Transit System is a branch of Zagreb Holding for public transport within **Zagreb** and a part of Zagreb County. However, bus transportation can also be offered by private entities under concessional agreement. By law, the city government decides the lowest level of the concession fee, unless differently specified in the concession contract.

In Serbia, public transport is best organized in **Belgrade**. An integrated tariff system has been implemented, integrating all transportation by public transport and private carriers. Pre-paid passes with monthly coupons are issued for different categories of passengers: at full price for employees and at reduced prices for pupils, students, the unemployed, retired, disabled, refugees and elderly. Free passes are issued to those aged 70 years and over.

Public transport in **Belgrade** includes a city railway which is part of the Serbian railway system. It provides mass-transit services within the Belgrade metropolitan area. One of the best-organized public transport system is found in **Novi Sad** (bus lines only), managed by a public company. The company also provides suburban and long-distance traffic. Here, too, there are privileged users of public transport (15 categories) and fares depend on zones (five zones in total). In **Kragujevac**, public transport is organized and regulated by a public company under municipal patronage and currently managing two transport companies (one private and one public). A public company provides transport in **Nis** as of 2006. During 2006, the public transport system gradually included other private carriers. A current initiative in Nis is the reintroduction of rail transportation.

Macedonia has organized public transport (buses) through a city-owned company operating only in the capital. Management of the public and private companies is a responsibility of the city of **Skopje**. Transport in other cities is organized through private companies. Some municipalities organize transport for schoolchildren by contracting private companies. A similar situation is found in the capital cities of Bosnia-Herzegovina (**Sarajevo** and **Banja Luka**) and Kosovo where public transport companies progressively include the services of private operators.

Public transport in all these countries depends to a large extent on the capacities of local communities and cities, as well as their ability to restructure urban systems and traffic modes, with many weaknesses so far. **Belgrade**, **Bucharest** and **Sofia** require state support in constructing or modernizing the larger public transport systems such as subways or city railway systems.

Energy Consumption and Energy Efficiency

Energy is progressively becoming a dominant issue in all countries of the subregion, not only for scarcity and economic reasons but also from environmental perspectives. Desirable higher energy efficiency in the construction industry, heating systems and transport sector, combined with pricing policies and the energy resources availability is making for a complex issue requiring coordinated responses from local, regional, national and trans-national levels. In Bulgaria, Croatia, Montenegro, Romania and Serbia this already features among basic goals in the development strategies and, for the other countries in their policies for the near future.

With regard to electricity, Albania was a net power exporter in the early-1990s but, by 1998, had become a net importer. This was due to a combination of growing demand, low generation capacity, billing and fee collection deficiencies and the apparent inability to address electricity theft. This was further compounded by transmission and interconnection constraints that limited electricity imports, as well as financial constraints and inflexible electricity import procedures. As a result, the country has suffered annual load shedding of 400 to 900 GWh since 2000.

To address the supply deficiencies, the government unbundled and privatized electricity distribution. A new electricity company was created as a separate legal entity in early 2008 with the existing employees, assets and liabilities transferred shortly thereafter. In March 2009, the International Finance Corporation (IFC) concluded the second infrastructure transaction in Albania: the privatization of KESH - the national electricity company. The Czech Republic's Cez Group was the winning bidder for the acquisition of 76 per cent of the shares of the electricity distribution business.

Priority directions in Bulgaria's Energy Strategy 2020 are the security of energy supply through encouraging the production of energy from renewable energy sources (RES), use of the heat from power production, improving energy efficiency and establishing a more competitive energy market. Another national policy priority is to achieve more than a 16 percent share of RES in national gross energy consumption by 2020 through applying national hydro, wind, solar, geothermal and biomass potentials on the supply side. To achieve this goal, both state and municipal levels will also have to play an active role in more efficient heat and energy production, reducing losses in transmission and distribution, 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.

In Romania, the major electricity consumers are industry, public lighting and households but in urban areas there are significant differences in terms of large energy consumers. Renewable energy represents 35 per cent of all electricity consumed (hydro, wind and biomass). The highest potential

for wind energy is the region of Dobrogea where many foreign companies have already invested. Renewable energy use and technologies in Romanian cities are still few, but new programmes funded by local, national and European funds have been approved.

Croatia has no data on energy consumption at the local level. However, national energy consumption data by sector show that households had the highest share from 2004 to 2009. Renewable energy accounted for 20.1 percent of the total energy consumption in 2009 according to the Energy Institute Hrvoje Pozar (11 percent according to EUROSTAT). The total electricity production was 12.7 GWh in 2009, with 54 per cent coming from renewable sources.

Montenegro's energy development strategy seeks to increase the share of renewable energy through energy plans for towns and local communities as part of local sustainability strategies and to improve energy transfer and distribution systems to decrease losses significantly, as well as through the development of locally-centralized supply of heating for residential and business areas.

In Serbia, industry is the smallest energy consuming sector (20-26 per cent), followed by transport (24-30 per cent) and others which include households, public and commercial activities (40–56 per cent). Serbia has a potential for 4.3 billion tonnes of oil equivalent annually in renewable energy generation (biomass, solar, wind, hydro and geothermal), equivalent to about a quarter of the current primary energy consumption. The 2010 supply share by large scale hydropower plants was 8.8 per cent at the national level.

The energy sector in Macedonia is characterized by high-energy intensity, low efficiency and lack of domestic renewable energy sources. According to 2007 data, renewable energy sources constituted 10 per cent of the total supply. As the country tenders for EU-membership, Macedonia has committed itself to approaching the binding target of 20 per cent by 2020.

Hydro energy, the only ecologically-acceptable source of energy in Bosnia-Herzegovina, provided 7 per cent of the primary energy demand.[12] The total energy consumption in 2005 was 45.3 per cent from coal and cokes, 9.6 per cent hydro-power, 21.1 per cent liquid fuels, 5.6 per cent natural gas and 20.5 per cent wood.

Environmental Protection as a Challenge

The main environmental challenge in most of the subregion's countries is the various forms of pollution. Traffic is recognized as a major source of air pollution in urban areas, as is industry. The impact of industrial pollution is less accentuated with industrial decline since the beginning of the transition. In Bosnia-Herzegovina the main concerns are wastewater (urban household and industrial discharges) and solid waste but also the need for orientation towards renewable energy sources. Although local NGOs advocate for and raise awareness on environmental and sustainable transport issues, this has not yet created the critical mass for societal transformation in line with the environmental agenda.

The main air-polluters in Montenegro operate without or with outdated devices to filter exhaust gases. Natural factors such as thermal inversions in karst fields (Cetinjsko and Niksicko) and in valleys (Beranska, Bjelopoljska and Pljevaljska) prevent dispersal of polluting substances. Among the most significant industrial air polluters in Serbia are the oil refineries in **Novi Sad** and **Pancevo**, chemical plants in **Krusevac**, **Pancevo** and **Sabac**, and steel mills in **Smederevo**. The highest air pollution is from combustion of low-quality lignite (Lazarevac and Obrenovac near **Belgrade** and **Kostolac**) and motor fuels.

Environmental quality is a basic criterion in Serbia's sustainable development aims for 2020. The present situation is far from satisfactory due to unresolved solid and liquid waste disposal, deforestation and the high level of pollutants in large and some industrial cities (**Bor**, **Pancevo**). Only 35 per cent of the households is connected to a sewage system and 87 per cent of the liquid waste is discharged without treatment. **Belgrade**, **Nis** and **Novi Sad** continue to be major river polluters, affecting the Danube and the Nisava, despite foreign-funded attempts to resolve the problem. Serbia is now preparing new laws in line with EU standards

FIGURE 4.6: **INVESTMENTS IN THE ENVIRONMENT, SERBIA 2010**

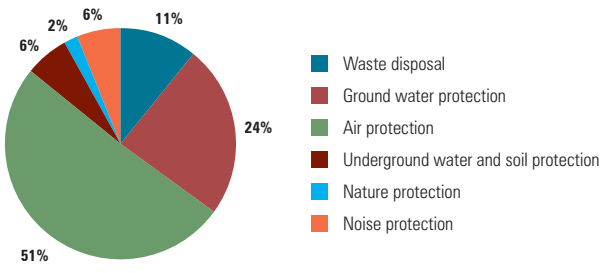
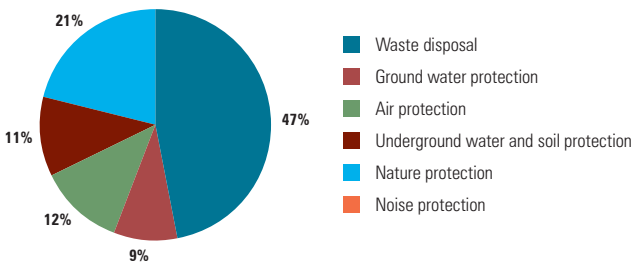


FIGURE 4.7: **CURRENT EXPENDITURES FOR THE ENVIRONMENT, SERBIA 2010**



Source: *Environmental Protection and Enhancement, The Report on Spatial Development Strategy of Serbia,* 2009

Bucharest, Romania. Traffic is recognized as a major source of air pollution in the region's urban areas. **©Radu Bercan/Shutterstock**

and is undertaking action to clean the country of solid waste as well as to further environmental awareness building and education.

During the Kosovo conflict of 1998-1999, unspecified environmental damage occurred as bombing impacted on air, water and soil contamination, forestry damage and so on but it is claimed that current contamination levels do not exceed those of the 1980s. The key issues to be dealt with are air and water contamination, whereby the former is heavily polluting urban areas while the latter shows increased levels of pollution in both urban and rural areas.

The Kyoto Protocol was ratified by all South-Eastern European countries and entered into force between 2005 and 2008. In Romania, urban authorities are aware of climate change but actions to reduce its impacts are few. The Ministry of the Environment has launched several programmes, including national vehicle fleet renewal, replacement of traditional domestic heating with renewable energy systems, promotion of the recycling industry, reforestation campaigns, creation of green spaces and so on. The specific objective is to limit the economic and social costs and long-term environmental impacts. Urban environmental challenges in Romania are related mainly to noise pollution and atmospheric pollution due to intense urban traffic or, in some cities, due to the industrial sector. Regions such as Banat, Dobrogea, East Muntenia and Southern Moldova face desertification. In Bulgaria, the *National Action Plan against Climate Change* for the period 2013-2020 is being developed with national and local funding and guided by the Kyoto Protocol.

Some cities in Croatia have protected areas but, between 1981 and 2009, **Zagreb**'s Medvednica Park, for instance, decreased by more than 21 per cent in size due to urban population pressures.

In Albania, the principal factor in urban air quality deterioration has been the increase in private car use, especially in **Tirana**. Most Albanian cities, even Tirana, could alleviate urban transport problems without substantial costs due to their relatively small size and compactness. However, the institutional and public context for addressing problems related to transport and the environment makes the generation of solutions difficult. The most polluted beaches are near **Durres**, **Saranda** (**Çuka**), **Kavaja** (**Golem**) and **Vlore**. The water of Lake Pogradec is of excellent quality, while that of Lake Shkodra has an average quality, especially near the urbanized area.

The *2008 Covenant of Mayors* concerns the mainstream European movement involving local and regional authorities through voluntarily committing to increasing energy efficiency and use of renewable energy sources to meet (and exceed) the EU-prescribed 20 per cent CO_2 reduction objective by 2020. In 2012 in the subregion, 152 local authorities endorsed and signed the Covenant (67 in Romania, 39 in Croatia, 14 in Bosnia-Herzegovina, 17 in Bulgaria, seven in Serbia, six in Montenegro, one in Macedonia and one in Albania).Under this covenant, the city of **Banja Luka** in Bosnia-Herzegovina has committed itself to increasing the share of renewable energy to 20 per cent by 2020, while Banja Luka established a Council on Climate Change and adopted an action plan for sustainable energy development.

The major challenge for governments of all tiers in the subregion is the dilemma of current economic weakness, low financial capacities and the need to promote environmentally sound approaches for better long-term impacts. A majority of governments, especially in areas lagging behind, hesitate on implementing politically difficult short-term actions, despite existing adopted international, national or local policies, and rather leave these to future governments.

4.5
Urban Governance Systems

Arad Townhall, Romania. In Romania, 41 counties plus Bucharest have county councils as the established local public authority to coordinate the activities of communal (municipal) and city councils. **©Rechitan Sorin/Shutterstock**

In countries with former Socialist governance systems, the transition necessitated intense local administration education for adaption to new governance modes. The long tradition of governing in closed circles of central and local administration has left deep traces in almost all these countries and their cities. The transition led to reconsidering the role of cities and metropolitan areas as centres of decision-making and control, as concentrations of business and large scale enterprises, as important institutions and as political decision-making arenas.[13] New governance modes demanded new decision-making modalities, new policy-making structures, more prudent negotiations with stakeholders and society through participation, more flexibility and increased transparency.

Political systems in the subregion are generally still centralized with slow transfer of responsibilities and powers to lower administrative tiers. More entrepreneurial approaches to municipal governance[14] have emerged only in a few large cities, but the majority of city governments lack the know-how to transform their decision-making processes and simply perpetuate the governance *modus operandi* of the past. The changing role of cities, however, is now emerging as a major consideration in national and regional policies. Nevertheless, actual and effective changes on the ground, in this respect, still elude many countries in the subregions.

National Urban Policies

The EU member states from this subregion are advanced in terms of their urban legislative, institutional and financial systems and in implementing integrated urban development policies. Bulgaria and Romania both have national plans or strategies with urban development policies that define the new developmental roles of cities. They support balanced national urban hierarchies through legislative frameworks and governmental decisions that regulate growth poles and urban development poles. The emphasis is on integrated urban development, supported by programming documents to 2013 (Romania) and 2015 (Bulgaria).

Croatia and Serbia are behind in terms of implementing urban policies defined through their national spatial plans

or integrative strategies. Through its spatial plan, Serbia has defined principles of polycentrism, functional integration of municipalities and renewal of its cities, opening the planning vision of functional clustering of cities and municipalities to the year 2020, and incorporating the planning ideas to the *Program of Spatial Plan of Serbia Implementation 2011-2015* with a set of measurable indicators, and a set of regional plans. The additional planning idea is to functionally connect the largest metropolitan areas into three action areas (as defined by the PlaNet CenSE project 2006). The main problem is with specifically undefined jurisdictions, rights, duties and responsibilities of cities in the legislative frame. Croatian cities perform almost the same tasks as municipalities, as in Serbia. Counties (NUTS-3) have the responsibility for economic and social development. Cities in this country have access to financial markets for credit and receive 81.8 per cent in grants from the state budget. Large cities (more than 35,000 inh.) have some additional duties in comparison to municipalities.

Macedonia is tackling urban matters through planning documents like the *Spatial Plan of Macedonia*, and through the Ministry of Self-Government, the Council for Planning Regional Development and municipal entities in charge of preparing regional development plans. The problem of implementing planning ideas of city development, however, remains an open issue.

Other countries in the subregion have no specific urban policies due to, for instance, political instability and institutional incoherence (Bosnia-Herzegovina) or inadequate treatment of urban matters so far (Albania). Nevertheless, all these countries have, to one degree or another, national development acts or ideas on the desirable roles of their cities. Bosnia-Herzegovina and Kosovo were encouraged to prepare a regionalization vision under the European Union Regional Development Program (EURED) in cooperation with regional development agencies. They did so while providing co-funding and being supported by the Instrument for Pre-Accession Assistance (IPA) programme for their implementation. In Bosnia-Herzegovina the Minister of Finance can authorize municipal borrowing upon a written request by the major which has been approved by the local assembly.

The intrinsic task for all countries in the subregion, especially non-EU member states, will be the implementation with adequate legal, fiscal and financial support of urban planning visions based on clustering and city-region development, either as regional growth poles or urban development poles (as in Romania), or as district (county) centres (as in Croatia and Serbia). Small urban centres and villages should be part of these policies. Additional education on the clustering of local communities and the role of cities in that process would be of utmost importance for enhancing the economic and social situation.

Decentralization and Local Governance

Under the impacts of EU regulations, all countries in the subregion now have similar forms of territorial organization, excluding Kosovo due to its specific status, as well as Bosnia–Herzegovina, due to different and, at times, opposing policies among its two entities.

Both Bulgaria and Romania have a four-tier system: national (NUTS 0 and 1), regional (NUTS-2) county/district (NUTS-3) and local (LAU 1/2). Whereas during the 1980s and 1990s Bulgaria had nine regions (*oblasts*) and 264 municipalities, it now has 28 districts (de-concentrated state administration covering a set of municipalities) for implementing national policies - without elected government and financed by the state budget. In Romania, 41 counties plus **Bucharest** have county councils as the established local public authority to coordinate the activities of communal (municipal) and city councils.

Cities and municipalities in Bulgaria may borrow up to 25 per cent of local revenues through loans from commercial banks and international financing institutions or through municipal bond issues. Romanian cities and communes may take internal or external loans for local investments or to refinance local government debt.

In both Bulgaria and Romania, the NUTS-2 level has been introduced for planning and statistical purposes. Bulgaria has six NUTS-2 regions (*raions*) with regional councils in charge of regional development, while Romania has eight NUTS-2 regions with a regional development council each, but without administrative capacities lodged in them. Local revenue structures are similar in Bulgaria and Romania: own revenues, state transfers, state subsidies and grants. The responsibilities of local units in Romania are based on a decentralized system with local autonomy in terms of administration, finances and public services. Cities, communes and counties have their own financial resources and assets of public and private property.

Albania is reforming and decentralizing its system but is not yet in line with EUROSTAT nomenclature and EU principles. Before 2000, Albania had 36 districts and 12 regions. The number of local units remained the same after 2000, i.e. 65 municipalities and 309 communes, with 48 per cent of these smaller than 5,000 inhabitants. Twelve regions are in charge of public services, common interests of local units and alignment of local, regional and national priorities, with regional councils composed of representatives from local councils. **Tirana** has 11 boroughs under an elected city council. By law, Albanian cities are charged with provision of infrastructure, public services, land use guidance, economic development and patrimony protection. Local units, however, are demanding more power and autonomy over financial resources.

Bosnia-Herzegovina is a two-entity country with the EU Governance Accountability Project providing assistance towards strengthening democratic local governance and the ability of municipalities to serve their citizens through accountable and democratic governance. Local communities have minor financial jurisdictions but recently with rights to operate a bank account.

Kosovo operates in a two-tier system composed of central and local governments with seven administrative districts (**Pristina** plus six large cities and their surroundings). A key change from the previous administrative system is the ongoing deep decentralization processes to strengthen the role of local

TABLE 4.6: **MANDATORY RESPONSIBILITIES OF LOCAL AND REGIONAL GOVERNMENTS IN CROATIA**

Municipalities and Towns	Large Cities and County Centres	Counties
Community and housing planning Physical planning and zoning Utility services Child-care Social welfare Primary health care Primary school education Culture, physical culture, and sports Consumer protection Protection and improvement of the natural environment Fire protection and civil defence Local transport	Community and housing planning Physical planning and zoning Utility services Child-care Social welfare Primary health care Primary school education Culture, physical culture, and sports Consumer protection Protection and improvement of the natural environment Fire protection and civil defence Local transport Public roads maintenance Issuing of building and location permits	Education Health care Physical planning and zoning Economic development Traffic and transport infrastructure Planning and development of the network of educational, medical, social and cultural institutions Issuing location and building permits and other documents for construction in the county area, excluding the area of urban centre

Source: Jurlina Alibegović, D. and Slijepčević, S., *Decentralisation in Croatia: Problems and Possible Solutions*, paper presented at the research seminar "On the way to EU membership: present and future challenges for candidate and potential candidate countries", organised by The University Institute of European Studies (IUEE), 2010

TABLE 4.7: **THE NUTS CATEGORIZATION IN THE SOUTHERN SUBREGION**

Country	NUTS-0/1	NUTS-2	NUTS-3	LAU-1/2
Albania	/1	-	12	374
Bosnia-Herzegovina	/1	2 (Federation of Bosnia-Herzegovina and Republic of Srpska – Brcko district)	6 (Fed.) Cantons and group of cantons +5 (RS) unofficial regions with Brcko district	144 (80 FBH + 63 RS + Brcko district)
Bulgaria	/1	6	28	264
Croatia	/1	3	20 + City of Zagreb	555
Kosovo	-	1	7	28
Macedonia	/1	-	8	1860
Montenegro	-	-	1	19 + Podgroica, Cetinje
Romania	1/4	8	41 + City of Bucharest	3181
Serbia	/2	4 (excluding Kosovo)	22 + City of Belgrade	122

Source: National Bureaus of Statistics and National Reports of the Southern Subregion Countries

government. Still open is the autonomy issue of four northern municipalities, predominantly populated by Serbs.

Croatia, Macedonia and Serbia are in a similar process of territorial realignment in line with EU regulations. Macedonia has one unit each of NUTS-0, -1 and -2 levels; eight regional units (NUTS-3), 84 municipalities (LAU-1) and 1,776 settlements (LAU-2). All regions have bureaus for regional development and centres for development of planning regions. Local self-government units were established by law in 2004, determining their territories and jurisdiction. Municipal financing is based on own revenues (local taxes, charges and fees), state grants and other sources. Municipalities can borrow from domestic and foreign capital markets and control their own revenues. Montenegro, as the smallest country in the subregion, is classified as NUTS-3 with 19 municipalities (LAU-1/2), besides the capital **Podgorica** and the old royal capital **Cetinje**. Geographically and functionally, Montenegro has been divided into three: Northern (high mountains), Central (plain) and Southern (coastal). Montenegran municipalities are self-governing and financially autonomous.

Croatia has a two-tier system with 429 municipalities and 20 counties. Any town with a population of more than 35,000 inhabitants can take over part of the jurisdiction of its county. The City of **Zagreb** has both local and regional level status. Croatia has three NUTS-2 statistical regions enabling development of regional statistics and development planning. Municipalities and towns perform tasks of local significance and large cities (more than 35,000 inhabitants) perform the same with additional tasks in roads maintenance and issuing building permits. Former state administration has been transferred to local and regional governance through special administrative departments. Tax revenues remain at the local tiers to fund their territorial responsibilities (municipality, town and large city).

Novi Sad, Serbia. Novi Sad is the largest city and administrative center of the Autonomous Province of Vojvodina. **©Aleksandar Todorovic/Shutterstock**

Serbia is still centralized with constitutionally-defined autonomous provinces Vojvodina and Kosovo and Metohija, 122 municipalities and 22 cities besides **Belgrade**. AP Vojvodina and Belgrade jointly compose a NUTS-1 area while the remainder of Serbia makes up another NUTS-1. Five regions are NUTS-2, with Kosovo an open question from the Serbian perspective, and 22 city districts are NUTS-3. A total of 150 municipalities are LAU 1/2. Despite its joint NUTS-1 status, the City of Belgrade is also a NUTS-2 area with the status of both region and local community, with 17 city municipalities - an awkward administrative arrangement to be cleared up sooner rather than later.

Serbia has two basic governance tiers: national and local, having AP Vojvodina autonomous and **Belgrade**, as the capital, having special legal status. Four regions (five, if including Kosovo) are statistical units and 22 districts (*okrug*) have a role in transmitting central authority to smaller territorial units, but (and not by coincidence) covering the same territory as functional urban areas defined under the *Spatial Plan of Serbia* as a mode of clustering municipalities around joint projects and interests. The 2009 Law on Regional Development introduced a new legal definition of smaller regions (*oblast*) for 22 territories but without clearly defining responsibilities. Cities and municipalities still had no right of ownership but the state transferred the right of property use. City and municipal budgets are based on transfers from a central institution collecting all fiscal proceeds (except property taxes and other local taxes and fees). Decentralization and real estate ownership is now under scrutiny with some deconcentrated systems already operational.

Urban Management at Regional and Local Levels

The regional level is generally a new issue for most countries in the subregion. Bulgaria and Romania are more advanced in this respect but not all that far in terms of governance reforms when compared to other EU countries. Urban matters are managed at the local level and strategically at the national level of all countries. Accordingly, large cities are still not recognized as growth poles, except in Romanian legislation and partially in Croatian, Macedonian and Serbian planning practice. Conforming with EU statistical practices along territorial classification is also still an open issue almost throughout the subregion.

Bulgaria, Croatia and Romania pay particular attention to the urban aspects of district and local levels. The district is not only a statistical unit in Croatia but also a key level for development control and monitoring of mandatory functions (education, health care, planning, economic development etc.) that often centres around large cities and other urban concerns. In Bulgaria, districts are basically 'deconcentrated state administrations' and, as in Serbia, supervising legal decisions of local authorities and participating in regional planning activities, especially where it concerns growth pole roles of cities.

Elsewhere in the subregion, the NUTS-3 level is a mere statistical category, if it exists at all. Albania, Bosnia-Herzegovina, Kosovo, Macedonia and Montenegro address their urban matters only through the local tier with some hints in their national spatial plans.

Problematic horizontal coordination is ubiquitous throughout the subregion. The exception is Romania, where

TABLE 4.8: **BULGARIAN FDI FLOWS AND AGGREGATE FDI (% OF NATIONAL TOTAL INVESTMENTS), 1992-2000 AND 2009**

NUTS 3 regions	1992	1993	1994	1995	1996	1997	1998	1999	2000	1992-2000 Total	2009 Total
1. Sofia	**80.4**	**81.1**	**89.4**	**36.5**	**40.3**	**21.1**	**51.8**	**35.4**	**66.3**	**48.9**	**61.4**
2. Secondary cities with national importance	**18.7**	**5.1**	**6.1**	**42.1**	**11.6**	**39.2**	**22.5**	**34.7**	**25.0**	**27.1**	**21.0**
Varna	0.5	2.4	0.7	0.4	3.4	34.7	9.4	6.2	7.7	10.9	8.0
Plovdiv	18.1	0.3	3.4	7.4	3.7	0.7	6.3	5.9	6.6	5.0	4.2
Bourgas	0.1	2.2	0.9	3.8	1.2	3.0	1.9	14.7	8.1	6.3	4.1
Stara Zagora	0.0	0.2	0.4	18.8	0.3	0.2	0.2	0.2	0.1	1.0	2.1
Rouse	0.0	0.0	0.4	0.0	0.5	0.1	4.1	1.4	1.8	1.5	1.7
Pleven	0.0	0.1	0.1	11.7	2.5	0.6	0.5	6.3	0.6	2.3	0.8
3. Other important, large/medium cities	**0.9**	**13.7**	**4.6**	**21.3**	**48.1**	**39.7**	**25.7**	**29.9**	**8.7**	**24.0**	**17.7**

Source: Bulgarian National Statistic Institute (NSI)

integrated rather than sector approaches and practices are now under development. Two-fold horizontal cooperation should be a priority for the remainder of countries: cooperation between sectors and public enterprises, and cooperation among neighbouring communities. Both are governance matters and the current lack of cooperation is mostly due to either inadequate organization (still predominantly sector oriented) or unresolved power-allocation or -sharing structures.

Clustering (networking) of municipalities is a clear and desirable possibility in Bulgaria and Romania. Some initial steps in this direction are under way in Croatia and Serbia. Other countries are still without any legal incentives for inter- or intra-regional cooperation whatsoever, and there is need for significantly stronger interventions with legal, institutional and economic incentives for clustering to become an established practice. Municipal finance structures in Bulgaria, for instance, could be used to this end, because municipalities are well-placed for various joint undertakings, if only as a start to cooperating among themselves.

Vertical coordination is mainly achieved through planning practice and institutional structures at the national, regional and local levels. In some countries, such as Serbia, vertical coordination in planning is obligatory by legislation. In programming the new spatial plan of Serbia (an integrated methodology and ESPON criterion), vertical and horizontal coordination is a novelty that will, hopefully, contribute to reliability, transparency and effectiveness in realizing the planning visions over the mid-term.

The system of county and local units clustering in Romania is an activity-coordination instrument of regional importance controlled by the state, while cities can address matters of special local interest. Vertical coordination in other countries in the subregion is matter of formal routine, with state entities controlling planning documents' harmonization but with still weak implementation.

Budgeting in cities is rather traditional throughout the subregion without adequate planning and programme coordination and without distinction between current (annual) and capital (mid-term) budgets. Croatia and the City of **Belgrade** are now addressing this accounting problem. In the absence of this differentiation, urban and regional planning visions become unreliable, if not obsolete. Local budgeting is regulated by legal acts in all countries, based either on traditional or foreign models, like in Kosovo and Bosnia- Herzegovina. In all the subregions' countries, state transfers support local revenues and, in the case of Serbia, the state is even financing local road infrastructure.

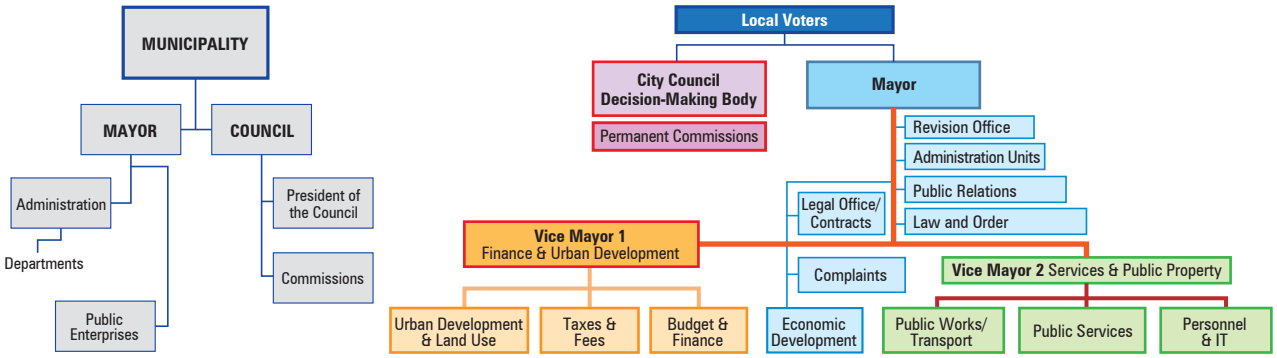
This illustrates the still rather limited scale of decentralization. State transfers and subsidies account for more than 50 per cent in Bulgaria, 40 per cent in Serbia and other sources like equalization funds and conditional grants in Montenegro or grants and donations are existing in Bosnia-Herzegovina, Croatia and Macedonia. Actual local self-government expenditures are a matter of local government decision-making, with some state control in Serbia and full autonomy in Macedonia and Montenegro.

In a majority of the subregion's states, cities are allowed to borrow funds on the capital markets or to complement local resources through loans. Exceptions are Bosnia-Herzegovina and Kosovo where mayors and city assemblies need to apply for state approval in order to borrow.

Information on annual city budgets in Bulgaria, Croatia, Romania and Serbia is provided through public information systems but only Belgrade's budget is open to public discussion.

Municipal budgeting is supervised in countries or cities with more centralized system of governance. **Belgrade** is now introducing a separate budgeting structure for capital and current expenditure, with three-year programming (or five) for integrated and sector long-term spatial and urban plans.

FIGURE 4.8: **LOCAL GOVERNMENT STRUCTURES IN ALBANIA AND MACEDONIA**



Source: National reports of Albania and Macedonia

Improvement of Municipal Administration

Urban governance in the subregion is as much a matter of public expenditures as of effectiveness and reliability. Traditionally closed decision-making processes are now facing a need for more transparency, participation, strategic thinking and accountability. Limited funds are often used as the excuse for mistakes and missed opportunities but a lack of know-how, reliable information systems and professional equipment, as well as unrealistic strategies, are the actual missing prerequisites in many cases.

The Socialist system with state-dictated interventions is being replaced by attention to pluralistic interests and transfer of competences to lower administrative levels to help address lagging city governance, especially in those cities with inadequate or lacking urban development plans and strategies. Foreign advisors in Kosovo and Bosnia-Herzegovina (Governance Accountability Project, Phase II) are training local administrations in the new modes of governance, as well as in many cities in Albania, Croatia, Montenegro and Serbia. Macedonia is transferring competences and resources under a detailed plan outlining the rights and responsibilities of public institutions in different sectors.

Bulgarian and Romanian administrations have already passed the first phase, partially modernizing their governance systems with new initiatives that follow EU regulations on integrated planning and development, governance of metropolitan areas, city clustering and participatory financing. In the larger Romanian cities it is particularly important to address prolific corruption and impunity. **Bucharest** tries to reduce the number of traffic accidents and fatalities while Romania has an ongoing project to broaden inclusion in the context of planning and urban development in its large cities.

Serbia's large cities are preparing, or have already prepared, local development strategies in line with legislation introduced in 2011. **Belgrade** is now redesigning its budgeting and programming in line with its strategic and planning documents. The large bureaucratic structure of Serbia's urban administrative bodies remains clearly problematic.

In Croatia, the local and regional levels are introducing participatory planning approaches and development strategies in coordination with budget planning. On the other hand, few Croatian cities have tried to truly involve their citizens in the local budgeting process, apart from **Crikvenica** with its reforms under the Local Government Reform Project financed by USAID. The city of **Rijeka** has sought methodological assistance from independent consultants in preparing its urban development programmes.

To conclude, although there are tangible initiatives to improve urban administrations, most countries in the subregion still have a long way to go in realizing decentralized societies, based on free market orientation and democratic institutions, to preserve the sustainability of their cities.

Towards Collaborative Spatial Planning and Urban Development

The subregion's former systems of state control and closed decision-making used urban and spatial plans to flag their political successes. But the planned economy often presented the realities incorrectly and with over-optimistic future projections. During the transition, planning innovations from the West were introduced but in many cases traditional methodologies remained in place.

Serbian spatial planning is quite advanced, combining new and traditional methodologies in its national and regional spatial plans as integration tools. Nevertheless, Serbia requires more definite and precise solutions to address its significant number of unsolved ecological, infrastructural, socio-economic and other problems. In particular, it requires innovative programming, evaluation and monitoring of its spatial development processes and property policies, property restitution (under discussion in Parliament), incomplete land and ownership cadastres and illegal construction all over its territory. Legislation is under permanent review and change in an attempt to cope with these problems.

Like Serbia, Croatia also has integrated national and regional plans, but planning there is more focused on improving the physical aspects with urban renewal an important issue at both the county and urban levels. It has representative regional and local bodies but public participation, however,

Skopje, Macedonia is undergoing a dramatic facelift dubbed 'Skopje 2014'. Pictured is the construction of the Museum of Archeology and the Financial Police Building. **©www.colinsnotes.com**

only takes place at the end of planning processes and is frequently hampered by a lack of socio-economic analyses.

Bulgaria is better integrated at the lower planning practices of city and municipal tiers than at its regional levels despite efforts seeking better integration of physical and socio-economic planning. The physical plans should become mandatory, based on elaborated socio-economic development plans as the success formula for integrated national planning processes. The Integrated Urban Development Plans, under the 'Operational Program Regional Development' (OPRD), are a potential tool for achieving more integrated approaches during the programming period 2007-2013.

Montenegro has a national spatial plan and Macedonia has both national and regional plans with developed practice in urban planning, national priorities and with a specific position in urban planning. Macedonia's national and local urban planning documentation, however, gives rise to serious doubts about local jurisdiction in land-use and land development decisions. There are, however, positive participatory experiences in **Skopje** where a body consisting of the city administration, urban planning experts and civil society shares views and opinions on citizenry and businesses' needs to inform planning directives.

Strategic spatial planning in Kosovo is supported by UN-Habitat expertise, introducing new planning approaches and finding new ways for managing complex economic and political challenges, uncontrolled and illegal construction practices, environmental degradation, poor management of resources and lack of investments. UN-Habitat is also assisting in the preparation of the *Kosovo Spatial Plan* and the development of other strategic, flexible and responsive interventions to promote sustainable and integrated spatial development.

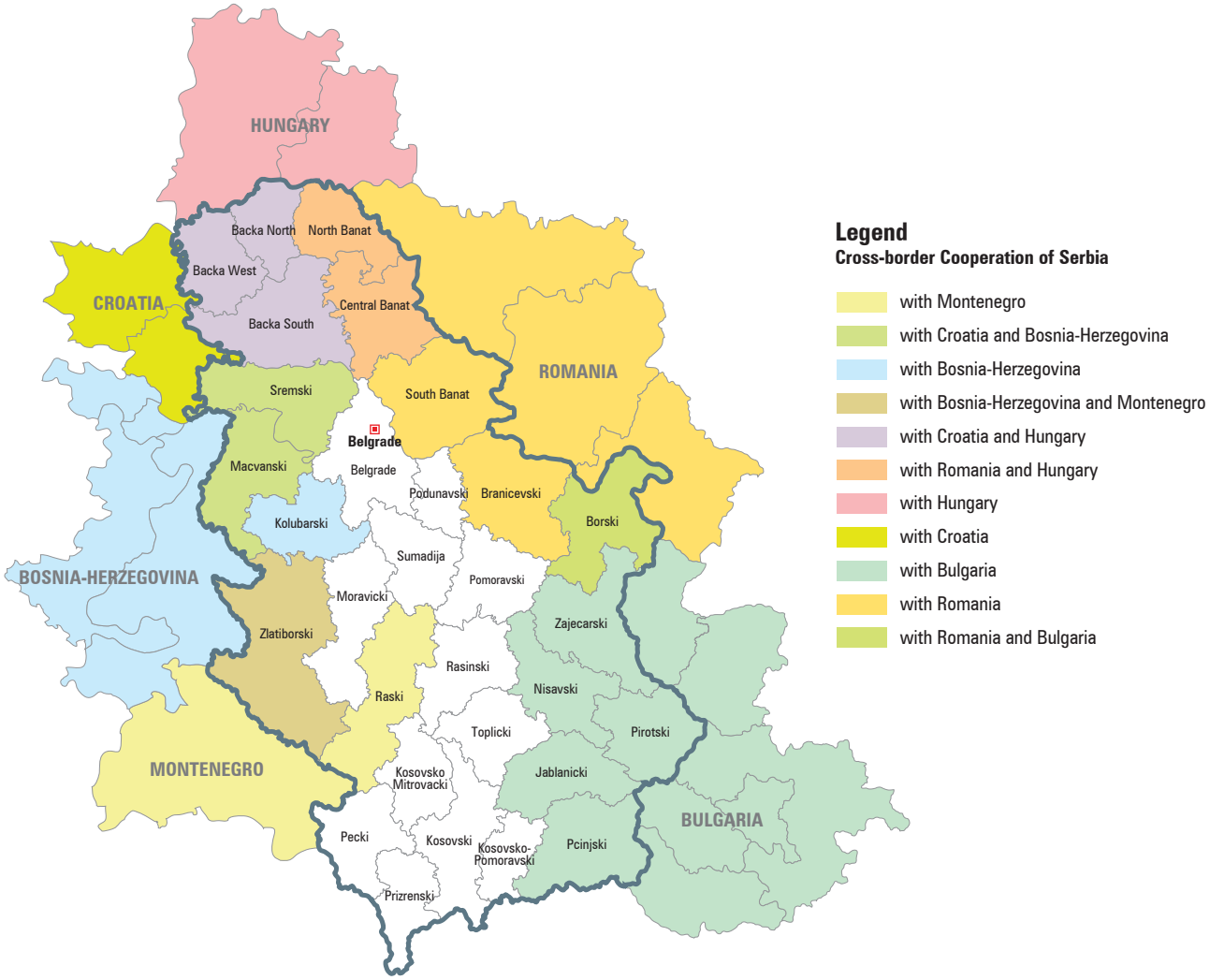
Bosnia-Herzegovina has different planning experiences in its two entities. While the Republic of Srpska has its spatial plan, the Federation Bosnia-Herzegovina has only just adopted the draft of its future plan. Four of ten cantons in the Federation Bosnia-Herzegovina have adopted spatial plans, while the Republic Srpska has regional plans without the regionalization idea yet defined. Horizontal planning coordination between the two entities does not exist, while vertical coordination cannot take place since the State has no planning jurisdiction.

Cross-border Cooperation

The end of the 20th century was an era of dramatically changing borders in the Southern subregion. The dismantling of the former Yugoslavia resulted in six new countries and Kosovo, whose final status is still under discussion. New countries meant new borders that further strained already struggling municipalities and cities. Spurred by the Instruments for Pre-Accession Assistance (IPA) program and other EU initiatives, cross-border cooperation among cities and municipalities in the subregion has intensified in the 21st century and opened multiple ways for cooperation, rather than conflict, and, more than anything else, establishing new modes to enhance social, economic and environmental opportunities in the border areas which are usually lagging behind. However, without an explicit national policy and incentive structure, and with insufficient understanding of the benefits of cooperation, local governments tend to perceive each other as competitors for funding and influence rather than as partners in cooperation.

Serbia has the largest number of external borders (eight) and, consequently, has the largest territory classified as 'cross-border area' (60,086 km^2 or 68 per cent of the total territory) under the IPA programme. Serbian cities in these border areas cooperate with cities and regions in Bulgaria, Croatia, Hungary and Romania with many projects implemented so far. Cooperation with cities in Bosnia-Herzegovina, Macedonia and Montenegro has been postponed to the next programme period 2013-2017.

MAP 4.9: **CROSS-BORDER COOPERATION OF SERBIAN AND NEIGHBOURING REGIONS (LEVEL NUTS 3)**



Source: *Spatial Plan of the Republic of Serbia,* 2010-2020

Bulgaria and Romania have developed cross-border cooperation under the Association of European Border Regions (AEBR). The cooperation of cities located in border areas with Bulgaria and Romania is somewhat marginal with **Giurgiu** the only city that has initiated and implemented significant projects in the Giurgiu-Rousse Euro Region. Construction of a bridge over the Danube between **Vidin** in Bulgaria and **Calafat** in Romania will help in promoting further infrastructure cooperation between these cities and their surroundings. Croatia is involved in six cross-border cooperation programmes with Bosnian, Hungarian, Montenegrin, Serbian and Slovenian border-area cities and municipalities with prospects for further expansion of cooperation. Both Croatia and Serbia are nurturing city-twinning all over Europe, establishing cooperation in culture, education, economy and other themes.

Macedonia is nurturing city-twinning and is fully engaged in cross-border cooperation with Albania, Bulgaria and Greece, implementing the new European Territorial Cooperation objective, supported by IPA funds. The area covered by the Cross Border Cooperation (CBC) programme is 19,969 km^2 with special attention to cooperation between the NUTS-3 regions of Albania and Macedonia. Beneficiaries of the programme range from state and local institutions to private companies and NGOs. Albania feels that lack of guidance and regulation of institutional arrangements for inter-municipal cooperation, as well as lack of know-how on legal procedures, hamper cooperation in border areas.

Cross-border cooperation by cities in Bosnia-Herzegovina is still in an initial phase but has started to increase with Croatia, Montenegro and Serbia. This is similar to Montenegro, where eight cross-border cooperation zones have been delineated by the *Spatial Plan of Montenegro* but are not in operation yet.

With Croatia as an EU member state of the near future (2013), the subregion's area will enter a new phase with even more cross-border cooperation benefitting the underdeveloped border areas.

4.6
Emerging Issues

Sitnyakovo Boulevard, Sofia. Sofia is a gateway city along three corridors and is therefore a leader in attracting foreign investments.

Competition and Cooperation

The competitiveness of NUTS-2 and especially NUTS-3 regions in all of the subregion's countries, except for Bosnia-Herzegovina, represents challenges in the context of Europe as a whole. Even for the EU member states of Bulgaria and Romania this is a new issue that requires further adaptation of legal, governance, macro-economic and financial systems. Regional cooperation is still quite limited if compared to other EU countries with only few cooperation projects in Sofia, Bucharest and a few other large cities[15].

Bulgarian cities have a relatively good position within their polycentric network of large settlements and along the European transport corridors. With such a level of accessibility and primary infrastructure provision, and with ample natural and human capital, it is, perhaps, not surprising that Bulgarian large cities have the highest rate of GDP in the subregion. **Sofia** is a gateway city along three corridors and is therefore a leader in attracting foreign investments with 61.4 per cent of the 2009 FDI invested on its territory, towering above the amounts going to **Varna** (8 per cent), **Plovdiv** (4.2 per cent), **Bourgas** (4.1 per cent), **Stara Zagora** (2.1 per cent) and **Pleven** (1.7 per cent).

Bulgaria's problem area is its economic structure as the industrial sector decreased from 44.8 to 26.8 per cent between 1990 and 2010. The European corridors, as axes of development, however, are expected to enhance manufacturing and processing industries in Bulgaria's large and medium cities by increasing the level of their accessibility. Tourism along the Black Sea coast of Bulgaria is another competitive area with potential for further enhancement.

The Danube River - Pan-European corridor VII - is an important axis in national and European strategies but has seen low performance among the cities and municipalities in its basin so far. Some districts with urban poles are in the fourth group out of four, classified as depressed regions in the INTERREG IIIB project Donauregionen (2008), while a group of Romanian districts and cities is in the third group, classified as stagnant regions.[16] The reasons for Romanian cities and districts' stagnation are insufficient economic change during the transition, weak human capital, lack of

infrastructures and consequential low accessibility. There is need for more proactive and creative use of the Danube's integrative potentials and resources for the development of large cities and for sustainable energy-generation. But the basin is still dividing rather than connecting Bulgaria and Romania to the South and Serbia to the West.

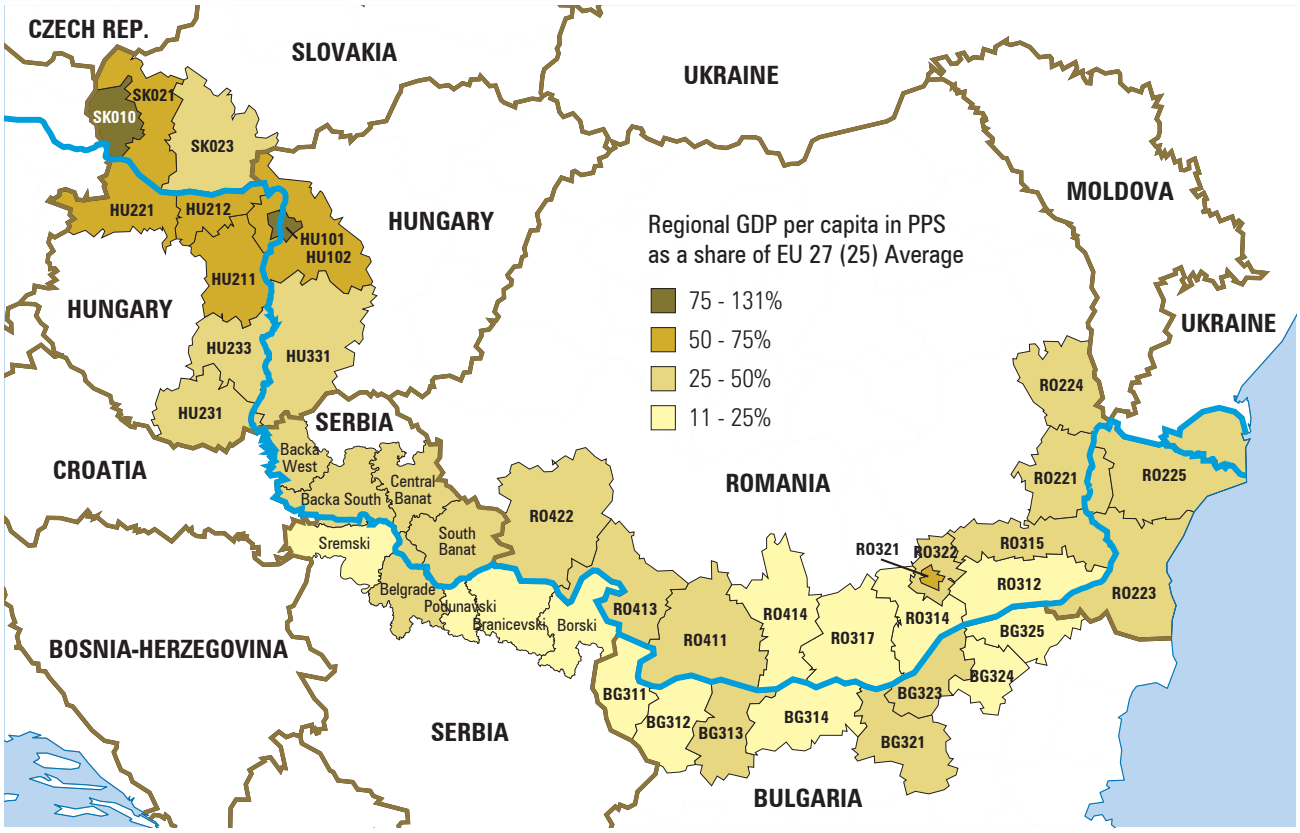
Developing cross-border growth poles in these countries, their inter-connection and economic and cultural cooperation is a *sine qua non* for the future. Romania, through European programmes such as URBACT II, supports the development of cities exceeding 20,000 inhabitants by building up their sustainable development strategies. A partnership in the tourism sector promotes connections between maritime and mountain tourism, both already reasonably well-developed in Romania. But generally, cooperation among Romanian cities is still low due to traditional sensitivities and lack of integration of the urban agendas pursued.

The delay in achieving a consolidated urban system for **Braila-Galati** that could revitalize South-East Romania is a direct consequence of lack of cooperation. Another missed opportunity is the economic development pole of **Arad-Timisoara** which, potentially, could be a competitor of **Bucharest**. A more collaborative Black Sea coast would favour **Constanta** - the gateway to cities in Armenia, Azerbaijan and Georgia.

Furthermore, few Western Balkan countries and cities at the European doorstep are so far able to compete. **Belgrade**, **Bucharest** and **Sofia** are the only MEGA-4 cities with good potential. **Pristina**, **Sarajevo**, **Skopje** and **Tirana**, some of which are located along European corridors, have potentials to become hub cities and compete in service activities (Tirana and Pristina), industry (Skopje) and tourism (Sarajevo). The realization of this potential will depend on development of transport and other infrastructures. For Kosovo, the exchange of experiences and ideas is a key to better urban development. Corridors linking Kosovo with Albania, Bulgaria, Macedonia and Serbia are still missing. The corridor between Pristina and Skopje, extending further to the West (**Gostivar-Kichevo-Ohrid**-Albania or **Bitola**-Greece) and to the East (**Kumanovo-Kriva Palanka**-Bulgaria), offers good future prospects for cities located along them. The corridor from Skopje to the South (**Veles-Negotino-Gjevgjelija**-Greece) and the parallel corridor Skopje-**Shtip-Strumica**-Bulgaria offer opportunities for development poles (Shtip, **Negotino-Kavadarci** and Veles).

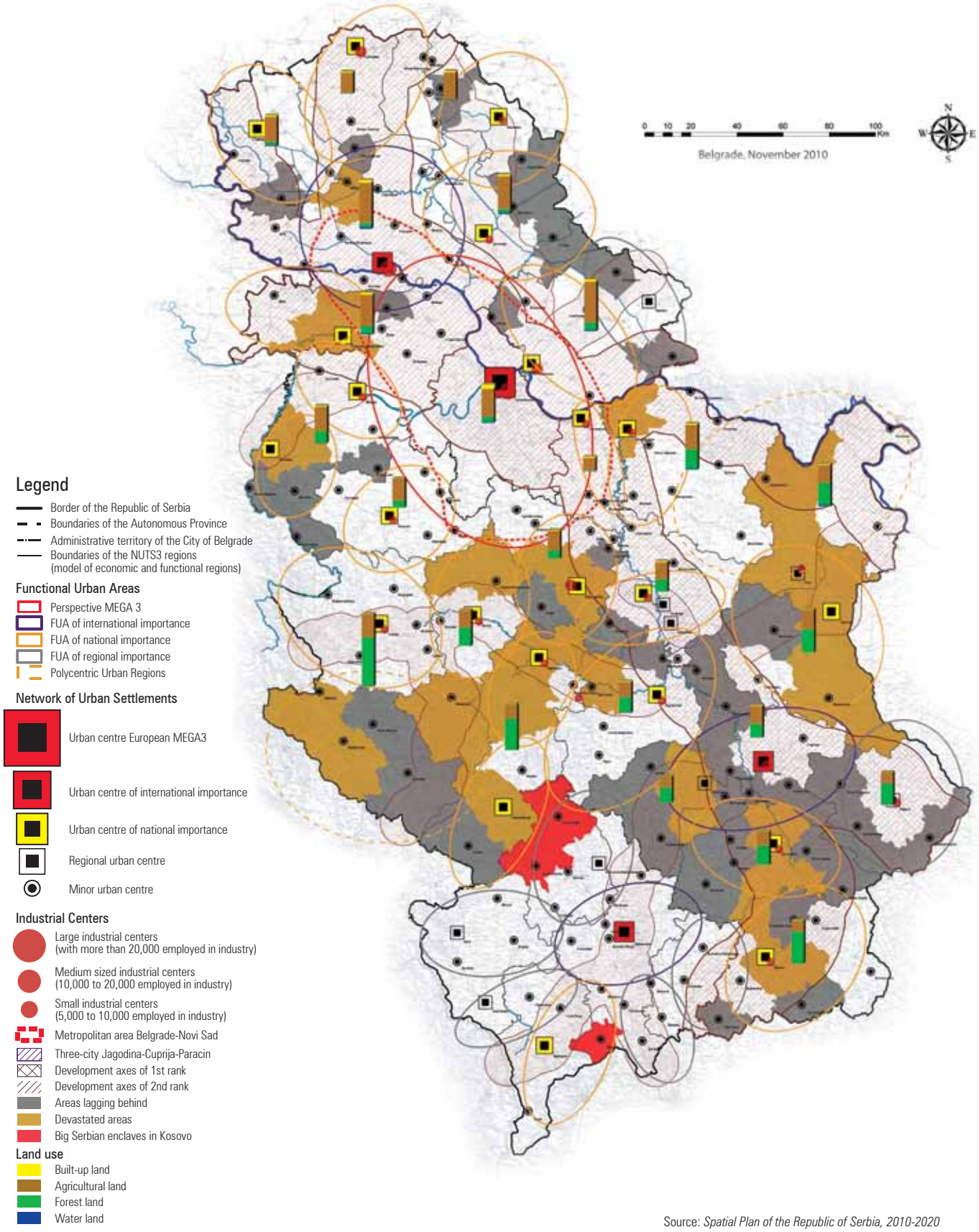
In terms of overall development trends and prospects, three broad and economically-dynamic regions exist in Albania. The central region, anchored to the capital **Tirana** and the port city **Durres**, is an economic engine based on the Tirana-Durres-**Fier** corridor that concentrates 60 per cent

MAP 4.10: **REGIONAL GDP PER CAPITA IN PPS AS A SHARE OF THE EU27 AVERAGE, DANUBE BASIN**



Source: *INTERREG IIIB Project Donauregionen, 2008*

MAP 4.11: **FUNCTIONAL URBAN AREAS AND DEVELOPMENT CORRIDORS IN SERBIA (MODEL 2020)**



Source: *Spatial Plan of the Republic of Serbia, 2010-2020*

of all Albanian enterprises in this most energetic region. The mountainous Northern region of Albania is weak with poorly functioning urban settlements that require much attention to enhance this region's competitiveness. Finally, the Coastal Zone shows potential in tourism and agriculture. The Coastal Zone includes **Shkodra**, **Malësi e Madhe**, **Lezha** and **Kurbin** in the north as well as the prefectures of **Fier** (3 districts) and **Vlore** (3 districts) in the south and the Elbasan prefecture (3 districts) bordering Tirana. With a strong agricultural base, most cities in this broadly defined region have agrobusiness as an established pillar of the local economy, with untapped potential to supply the domestic and international markets.

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. Although **Banja Luka**, **Mostar** and **Sarajevo** have their traditional roles and identities, sheer lack of cooperation among both entities and lack of comprehensive vision for cities like **Bijeljina**, **Trebinje**, **Tuzla** or **Zenica** is not conducive to a prosperous future. The spatial plan of Republic Srpska and the *Spatial Development Concept* of the Federation Bosnia-Herzegovina alone do not guarantee an adequate way forward.

Accession of Croatia to the EU by 2013 is currently being prepared with emphasis on pooling funds into sectors that can help increase the competitiveness of the country's cities in the global markets and through promotion of regions and cities as economic growth poles. Clustering regions and municipalities can positively impact on their attractiveness, on integral approaches towards knowledge-based societies and on the systematic boosting of competitiveness. Tourism nodes along the Adriatic coast such as **Dubrovnik**, **Sibenik** and **Zadar**, combined with the port-based urban gateways of **Rijeka** and **Split**, provide a promising urban network for Western Croatia, while **Karlovac**, **Osijek**, **Pozega**, **Sisak** and **Vukovar** provide a network cluster in the East with economic potential in agricultural and manufacturing industries, construction and tourism. The North-Western area, with its urban constellation around **Zagreb** along European corridors V, VII and X can help Croatia to be competitive in a European context.

Through spatio-functional analyses, Serbia has concluded that the Danube and its urban border settlements offer good opportunities for cross-border cooperation between **Apatin**, **Bac** and **Sombor** in Serbia and **Dalj**, **Osijek** and **Vukovar** in Croatia. The Danube Basin is one of Serbia's three development axes linking **Belgrade**, **Novi Sad**, **Pancevo** and **Smederevo**) and scores of less-developed municipalities. Corridor 10 is another important development axis benefitting the more-developed Serbian cities **Subotica**, Novi Sad, Belgrade, Smederevo, **Kragujevac**, **Leskovac** and **Nis**. A third (future) development axis is the East-West corridor **Pirot-Krusevac-Kraljevo-Cacak-Uzice** but many interventions are required to realize its potential.

An important innovation is the definition of 22 functional urban clusters and three metropolitan action areas connecting them to much wider action areas in the North (**Belgrade-Novi Sad**), in the Centre (**Kragujevac-Jagodina-Knic)**, and in the South (**Nis-Prokuplje-Leskovac**). Serbia would benefit from the development of smaller urban clusters around **Sabac**, **Uzice** and **Novi Pazar** in the West and **Zajecar** and **Pirot** in the East.

Competition and cooperation can be critical development tools but they are still hampered by unsupportive policies and lack of agreement over the different status of the subregion's countries, preventing harmonization in line with European policies as a consequence. Achieving the potential of the subregion will also depend on significantly improved cooperation between regions and particularly cities. But for this to materialize, national policies will first have to define more clearly 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 the EU member countries Bulgaria and Romania who have the capacities to support urban issues, eligibility for URBAN II and other assistance programmes for the accessing countries Croatia, Macedonia and Montenegro, as well as IPA funds for non-EU member countries, all offer opportunities for better territorial cohesion of the Southern subregion.

Accessibility of the Southern Subregion

Accessibility is increasingly becoming a critical issue for successful urban and regional development for many countries in the Southern subregion. National territorial cohesion critically depends on accessibility as the key factor for attracting investments, for clustering of municipalities and for functionally strengthening its urban areas. Transportation times are increasing with heavy traffic volumes on overloaded roads in the largest cities, while rural areas have trouble connecting to cities.

The accessibility index for Bulgaria and Romania is low compared to other EU states. For many of the subregion's countries the index is less than 80 per cent of the EU 27 average[17]. The situation is relatively better in the capitals and a few large cities with multimodal accessibility but accessibility remains very low in the remainder.

Motorway densities are still lagging behind the European average, although Croatia significantly improved its network and other transport infrastructures. Despite plans for network extension, many critical motorways are still missing due to lack of capacity to construct new or modernize existing ones.

A major problem is the subregion's utterly obsolete rail-based transportation system, with missing North-South links and complete lack of improvement strategies in Albania, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro and Serbia that all exacerbate the low accessibility of capitals such as **Belgrade**, **Bucharest**, **Podgorica**, **Pristina**, **Sarajevo**, **Sofia**, **Tirana** and **Zagreb**.

Air transportation is improving in the subregion's EU member countries with rising passenger numbers in **Bucharest** and **Sofia**, and to a smaller degree in **Skopje** and **Zagreb**.

Other countries are still struggling with modernization of their airports and opening new ones close to regional centres, especially in areas with very low accessibility.

Multimodal logistic centres are lacking compared to more-developed European cities. Maritime centres along the Black and Adriatic Seas have some potential to increase capacities, while centres in the Danube Basin require far more proactive public policy.

Climate Change and the Green Economy

Capacities for climate change adaptation are weak in the subregion. Kosovo states that adaptation has not started. Harmonization of national legislations with EU standards, adaptation of institutional frameworks and human resources, as well as funding, are all too limited to address this demanding issue meaningfully. The same challenges exist in Albania where climate change is visible and increasing, despite per capita emissions well below the averages of advanced industrial countries. Climate change knowledge remains low in Albania with attendant insufficient policy attention. International support is required to raise overall awareness, not only in Albania but also in Bosnia-Herzegovina and Montenegro.

Cities in Romania, however, have commenced their environmental regeneration with several projects under implementation in **Bistrita**, **Brasov**, **Fagaras**, **Giurgiu**, **Ploiesti** and **Vatra Dornei**. Local authorities are taking a leading role in promoting behaviour change within their communities and their ability to intervene is increasing with new legislation in compliance with EU standards.

Croatia and Serbia are changing their climate change legislation since drought, floods, forest fires and rising sea levels threaten urban, tourist and rural areas but many further steps are required. Serbia's new legislation in concordance with EU standards for greenhouse gas emissions, industrial energy consumption reductions and renewable energy is almost completed. Policies have been incorporated in national and regional planning documents and strategies. Adopting practical implementation approaches should be the next step.

Towards Multi-cultural Societies

Multi-culturalism is still an important issue in the Southern subregion and the underlying factor of former conflict and ethnic tension. In Croatia, legal acts have been adopted to regulate minorities' cultural autonomy, education languages, proportional representation in governance and also increase cross-border cooperation among ethnical minorities. Establishing a truly multi-cultural society is a long-term process, however, and political tensions over minorities' rights still exist.

Achieving a functional multi-cultural society is still a challenge not only in Croatia but also in Serbia. Political tension and contention over minorities' demands for more political power hamper a clear vision of the Serbian multi-cultural society. The greatest hindrance in Serbia is the relationship between Serbs and Albanians and the still unresolved definitions of Kosovo and Metohija in the Serbian Constitution, in the Constitution of Kosovo and in UN Resolution 1244.

In Bosnia-Herzegovina, unresolved relations between three ethnic and religious groups prevent its EU membership. Albania, Macedonia and Montenegro appear to be in the process of resolving their multi-cultural tensions.

Bulgaria and Romania, with their long multi-ethnic histories, have peacefully cohabitating ethnic groups in their cities and are strengthening their multi-cultural societies, albeit that the Roma population is still an open question.

ENDNOTES CHAPTER 4

1 For the purposes of this report, the Southern subregion comprises: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Kosovo (under UN resolution 1244), the Former Yugoslav Republic of Macedonia (in further text Macedonia), Montenegro, Romania and Serbia.

2 At the time of writing, Croatia was still an EU-candidate country. Its EU accession on 1 June 2013 affects all parts of the report where Croatia's status is referred to, hence these should be read accordingly.

3 World Urbanization Prospects: The 2011 Revision, UNDESA, New York, 2012.

4 The data on economic performances in Bosnia-Herzegovina are not available at city level.

5 The Nomenclature of Territorial Units for Statistics (NUTS) is a hierarchical classification system for the collection, development and harmonization of EU regional statistics; socio-economic analyses; and framing of EU regional policies. It distinguishes between NUTS 1 (major socio-economic regions); NUTS 2 (basic regions for the application of regional policy); and NUTS 3 (small regions for specific diagnoses).

6 European Commission, *State of the European Cities Report*, Brussels, 2007.

7 The European Spatial Planning Observation Network (ESPON) aims at policy development towards territorial cohesion and a harmonious development of the European territory by: a) providing comparable information, evidence, analyses and scenarios at the city and regional levels on territorial dynamics; and b) identifying regional and territorial development potentials that can contribute to European competitiveness, territorial cooperation and a sustainable and balanced development.

8 Census 1991.

9 Tepuš, Mladen Mirko, *Modeli stambenog financiranja*, Albatros media, Zagreb, 2005.

10 ANL stands for the national housing agency, established in 1998 under the Ministry of Public Works but currently operating under the Ministry of Regional Development and Tourism.

11 An international non-profit association founded in 1999 with the launch of the Euro and based in Brussels. Its members are national banking associations in the EU Member States in the Euro zone.

12 Energy Efficiency and Renewable Energy Bosnia and Herzegovina 2007.

13 TB. Mueller, *Networking in Metropolitan Areas as a Challenge and a Chance*, in *Metropolitan Networking in CADSES* (ed. B. Stojkov), Faculty of Geography, University of Belgrade, 2006.

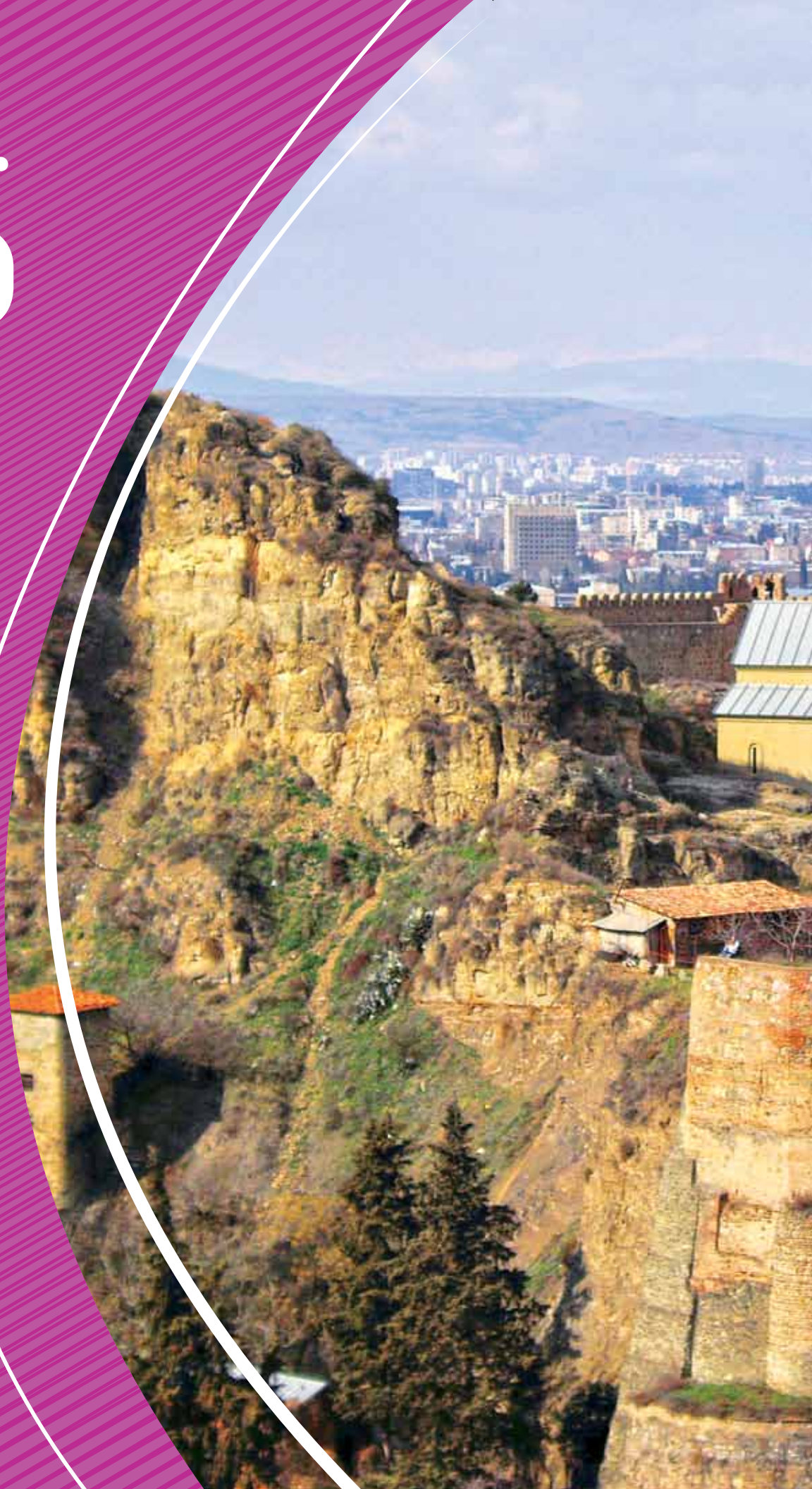
14 Hirt, S. and Stanilov, K. (2008) *Revisiting Urban Planning in the Transitional Countries,* unpublished regional study prepared for the *Global Report on Human Settlements 2009*, www.unhabitat.org/grhs/2009.

15 *Territory Matters for Competitiveness and Cohesion*, ESPON synthesis report III, 2006.

16 The typology is from INTERREG IIIB project Donauregionen, Bratislava, 2008.

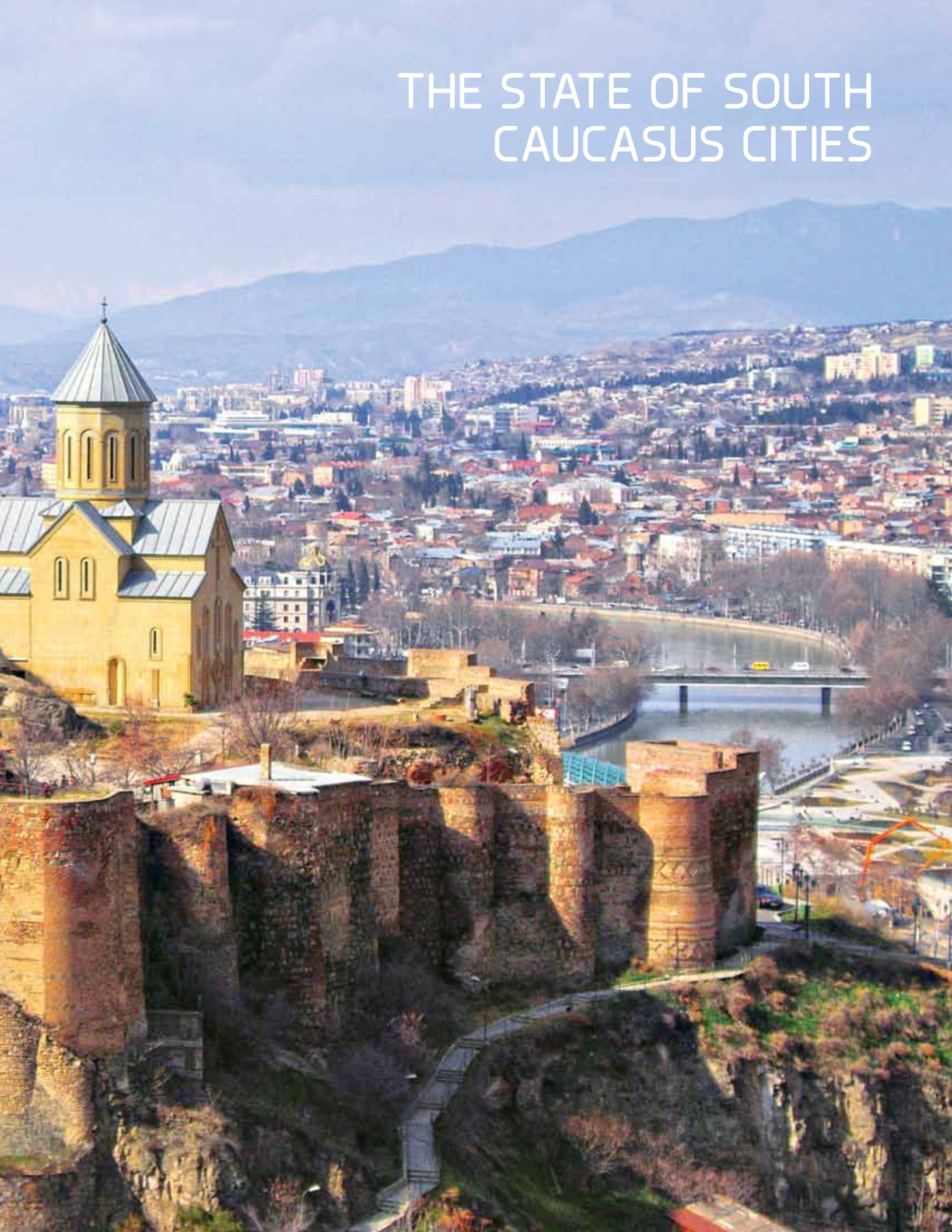
17 The Land Use and Public Transport Accessibility Index is an innovative planning tool that seeks to measure how easy it is to access common destinations. Criteria for this are formulated in ESPON studies on accessibility.

part five
05



Tbilisi, Georgia with the Medieval castle of Narikala in the foreground.
©Anna Bogush/Shutterstock

THE STATE OF SOUTH CAUCASUS CITIES



Introduction

For the purposes of this report, the South Caucasus subregion includes Armenia, Azerbaijan and Georgia. The South Caucasus is a geographically well-defined area, situated on the fringes of Europe and Asia between the Greater Caucasus Mountains in the North, the Black and Caspian Seas in the West and East, and the Lesser Caucasus Mountains in the South. The subregion borders three large neighbours: the Russian Federation, Turkey and Iran.

MAP 5.1: **ARMENIA, AZERBAIJAN AND GEORGIA**

Source: MJS/UN-Habitat

The South Caucasus was part of the Russian Empire from the 19th century until its collapse in 1917. A short period of independence ended in 1921, ushering in a 70-year era during which Armenia, Azerbaijan and Georgia were part of the Soviet Union, initially as a united Transcaucasian Socialist Federative Soviet Republic (1922-1936) then, until 1991, as separate Soviet Socialist Republics.

The demise of the Soviet Union in 1991 brought back independence for the three countries but this was not accompanied by stability and prosperity. Violent ethno-territorial conflicts affected two of the three countries and, today, almost 20 per cent of the Azerbaijan territory (Nagorno-Karabakh) and of Georgia (Abkhazia and South Ossetia) are beyond effective central state control (see Box 5.1).[1]

In spite of their long common history and similar intentions to establish democratic states and free market economies, the three countries of the subregion neither show much homogeneity in their political and socio-economic development nor in their transition trajectories. Strong mutual hostility persists between Armenia and Azerbaijan, despite their memberships of the Commonwealth of Independent States (CIS). Georgia left the CIS in 2008 after armed conflict with Russia and has expressed aspirations of joining Western alliances such as the European Union and NATO.

BOX 5.1: **THE PROBLEMATIC TERRITORIAL INTEGRITY OF AZERBAIJAN AND GEORGIA**

Many areas within the subregion experienced armed conflict in the 1980s and 90s. **©Jonathan Alpeyrie.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license

The Soviets renamed the republics of the South Caucasus region *'Transcaucasia'* and created two autonomous republics (Abkhazia and Adjara); one autonomous district in Georgia (South Ossetia); one autonomous republic in Azerbaijan (Nakhchivan) and one autonomous district (Nagorno-Karabakh).

Immediately after the demise of the Soviet Union in 1991, violent ethno-political conflicts emerged in three of these autonomous units. Conflict between Armenia and Azerbaijan over Nagorno-Karabakh began in 1987 and escalated into an undeclared war between 1992 and 1994 which saw ethnic cleansing of Azeri population from Karabakh and adjacent Azerbaijan territories. Today, 20 per cent of the territory of Azerbaijan is occupied by Armenia and this has resulted in hundreds of thousand internally displaced persons (IDPs). Nagorno-Karabakh is not recognized as an independent state by any UN member state.

Abkhazia and South Ossetia broke away from Georgia in the aftermath of dissolution of the Soviet Union. A wide-scale exodus of Georgians - the largest ethnic group in Abkhazia - followed. The armed conflict in South Ossetia in 2008 provoked a new wave of refugees resulting in tens of thousands of new IDPs appearing in Georgia and in Russia.

Nauru, Nicaragua, Tuvalu, Venezuela and the Russian Federation recognize Abkhazia and South Ossetia as independent states. Other UN Member States consider them *de-jure* parts of Georgia.

Source: Independent International Fact-Finding Mission on the Conflict in Georgia (IIFFMCG - CEIIG), September 2009, Volume I (http://www.ceiig.ch/pdf/IIFFMCG_Volume_I.pdf)

5.1
Population and Urbanization

Baku, Azerbaijan is by far the most populous city in the subregion with over 2 million people. **©Iexan/Shutterstock**

Urbanizations Trends

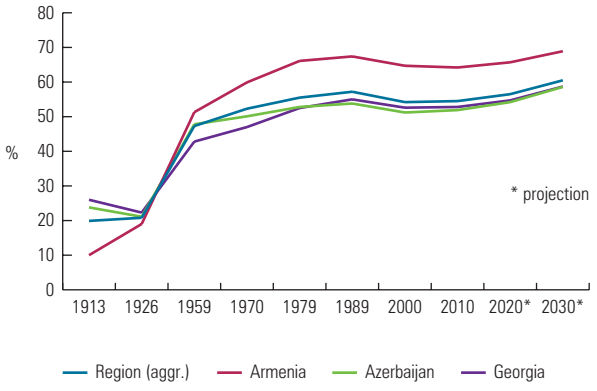
Until the 20th century, the South Caucasus was largely rural. Full-scale urban growth occurred only at the beginning of the Socialist period through industrialization, Soviet military presence expansion and establishment of new urban settlements. Between 1926 and 1959 the urban share of the population almost doubled in Georgia, more than doubled in Azerbaijan and almost tripled in Armenia due to rural-urban migration, high rates of natural population increase and in-migrations from other Soviet republics.

Urban growth continued until the end of the Soviet era, albeit at lower rates from 1950 onwards. Since the 1970s, natural growth rates have relatively declined and migrations from other Soviet Republics have reversed. Hence, rural-urban migration remained the main source of urban growth, especially for the larger cities. By the end of the 1970s, more than half the population lived in urban settlements in all three countries.

The subregion experienced urban population decreases after independence in 1991 as significant numbers of mostly urban dwellers fled to safety when political turmoil and civil tensions turned into numerous armed conflicts and to more secure economic and living conditions abroad when economies started to collapse after the guaranteed all-Soviet market for goods and commodities disintegrated. Continued rural-urban migrations could not make up for these outflows. (See Fig.5.2).

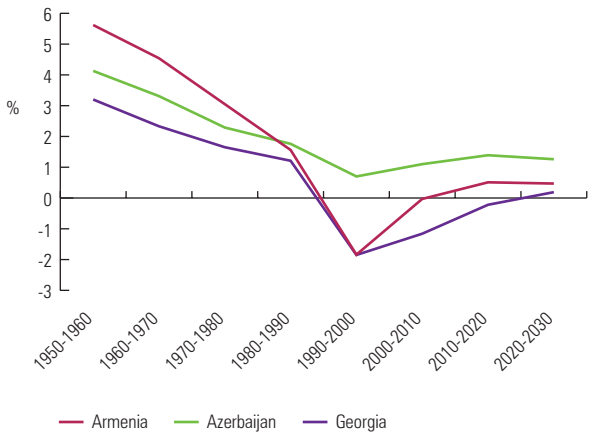
The dramatic drop in urbanization levels in the 1990s has now stabilized and even turned into slight growth up to 2010 in Azerbaijan and Georgia, and more rapid growth in Armenia. Although urban population growth is predicted to continue over the 2010-20 decade, it is not expected that Azerbaijan and Georgia will reach 60 per cent urban populations before 2030, while Armenia's rate may then be almost 69 per cent.

FIGURE 5.1: **PERCENTAGE OF URBAN POPULATION IN SOUTH CAUCASUS SUBREGION AND COUNTRIES**



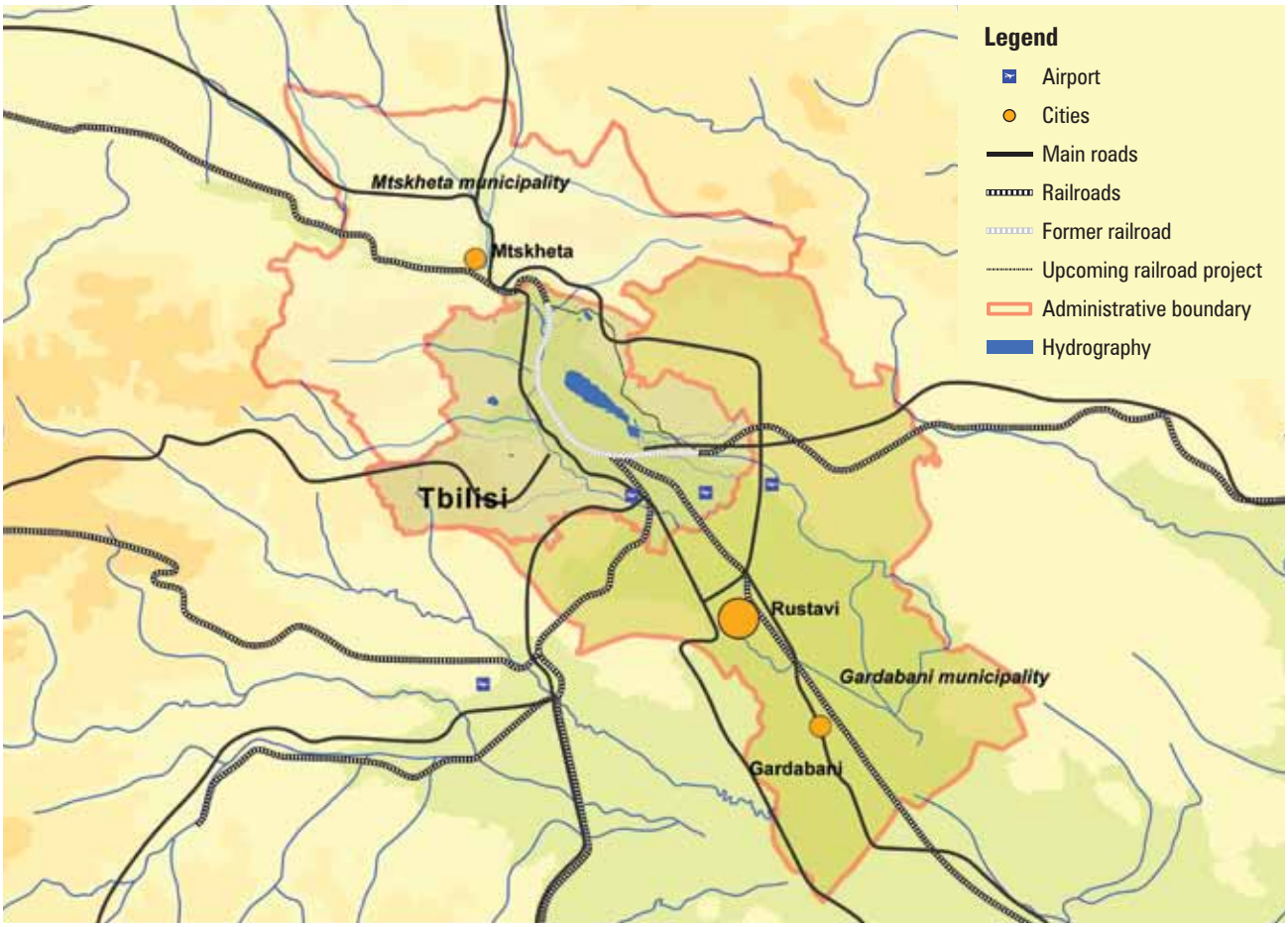
Sources: Afandiyev, V., *Urbanization and Urban Settlements of Azerbaijan*. BSUN Series on: "*The City & Urbanization in the Black Sea Region*". Constanța: Ex Ponto2004.; *Sakartvelos geografia [Geography of Georgia]*, Part II. Social-Economic Geography. Tbilisi, 2003; UNDESA *World Urbanization Prospects, The 2009 revision*; http://www.indexmundi.com/facts/indicators/SP.URB.TOTL.IN.ZS/compare?country=am (for 1960 and 1970)

FIGURE 5.2: **AVERAGE ANNUAL URBAN POPULATION GROWTH RATES**



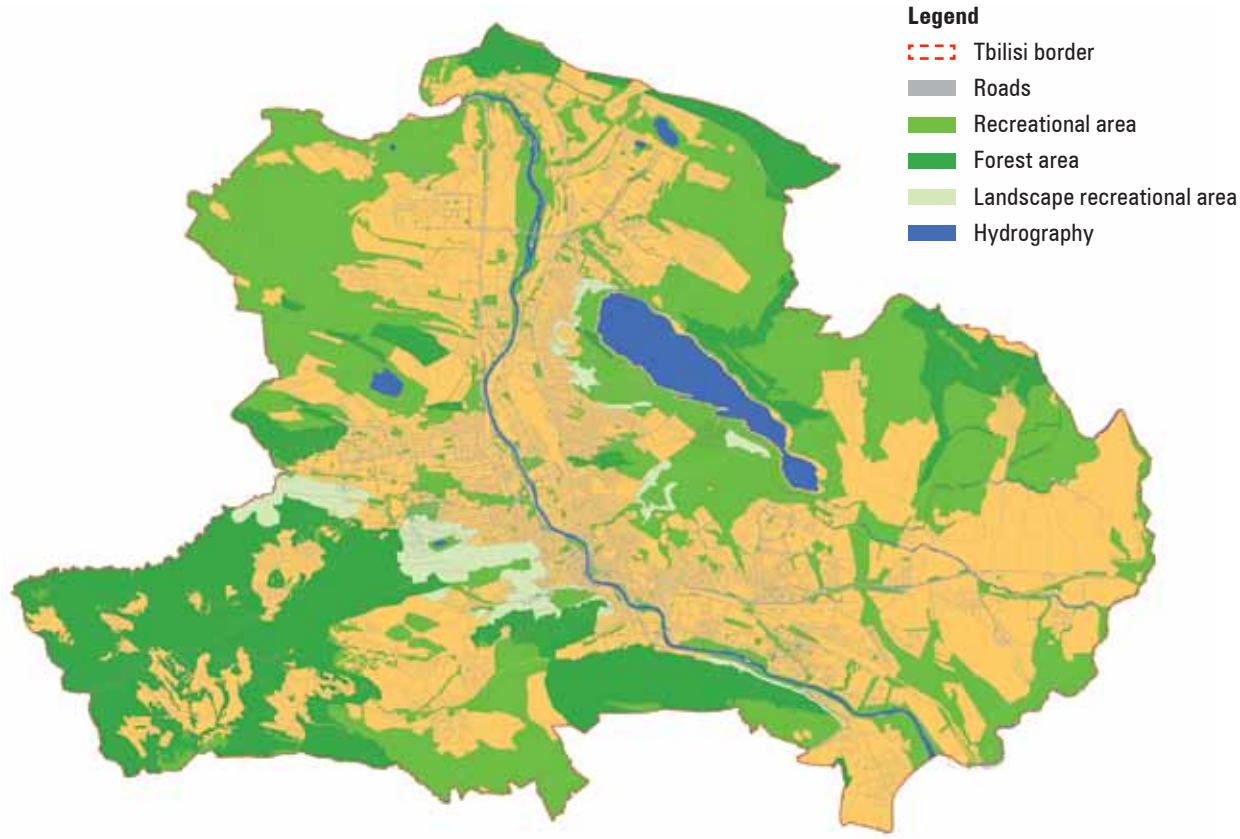
Source: *World Urbanization Prospects: The 2011 Revision*, UNDESA, New York, 2012

MAP 5.2: **TBILISI METROPOLITAN AREA**



Source: Tbilisi City Hall, 2011. *City Development Strategy – Vlm I: Tbilisi City Profile and SWOT*. p. 31

MAP 5.3: **TBILISI'S BUILT-UP AND GREEN AREAS**



Source: Planning Department of the City of Tbilisi

Despite similar urbanization trends over recent decades, there are clear national differences. Armenia, the least-urbanized of the three countries at the start of 20th century, became the most urbanized in the 1950s, doubling its urban population between 1913 and 1926 and further tripling over the following 40 years. In the 1980s, Armenia's urbanization level exceeded by almost 15 per cent those of Azerbaijan and Georgia because the latter two retained an agricultural economic orientation whereas Armenia developed a predominantly urban-based industrial economy. The current urbanization gap is likely to narrow to approximately 12 per cent by 2020 and 10 per cent by 2030.

Only 10 cities in the subregion have populations exceeding 100,000 inhabitants: four in Georgia and three each in Armenia and Azerbaijan. The three capital cities have become urban agglomerations that include urban and rural settlements. For instance, in 1974 the **Tbilisi** agglomeration covered 4,700 km^2, included eight cities and five townships, and had a total population of 1.46 million, of which one million lived in Tbilisi proper. The Tbilisi agglomeration continued to grow until the demise of the Soviet system.

Agglomeration processes have continued and established new urban systems for the three capital cities. Daily commuting patterns suggest that the **Baku** geographical agglomeration covers 2,300 km^2, four million residents and more than 50 urban settlements.[2]

The **Tbilisi** municipality has recently started to institutionalize a Tbilisi Metropolitan Area, including **Rustavi** and the adjacent municipalities **Mtskheta** and **Gardabani** and further towns and rural settlements. More effective management of its economic, social, environmental, housing and mobility problems should be major concerns for the Tbilisi Metropolitan Area.

Urban settlements in the three countries typically cover less than three per cent of the national territory, the lion's share of which is taken up by the capitals' metropolitan areas. But of the 500 km^2 administrative area of **Tbilisi** not more than one-third is built up or otherwise urbanized. The remainder comprises recently incorporated villages or suburban settlements, vacant land, forests and agricultural parcels. Likewise, a substantial part of **Baku's** 2,200 km^2 is not urbanized. Huge urban administrative territories are characteristic of many former Soviet Republics' urban agglomerations and metropolitan areas: an inheritance based on combinations of the absence of land and real estate markets and centralized urban management. The inevitable outcome was geographically-uneven urban development, large urban land reserves, significant urban sprawl, comparatively low urban densities and overcrowded central urban areas. The

recent attempts of the South Caucasus Governments to address these spatial problems by elaborating national and urban development plans, however, provide important steps towards urban improvements.

Demographic Change

Unlike somewhat similar urbanization trends in the subregion, national demographic processes are quite distinct. In the first half of 20th century, all three republics experienced high birth rates and significant population growth. The loss of life during World War II next negatively affected population reproduction but substantial growth rates re-emerged in the post-war decades.

Until the mid-1960s, Georgia remained the most populous country in the subregion and its capital **Tbilisi** was the largest city. The transition to moderate demographic growth patterns occurred much earlier in Georgia than in Armenia and Azerbaijan. Already in the 1960s, Georgia's birth rates dropped below 25/1000 and its natural growth rate below 20/1000. Consequently, Azerbaijan's population soon overtook that of Georgia while Armenia saw a reduction of the population gap with Georgia.

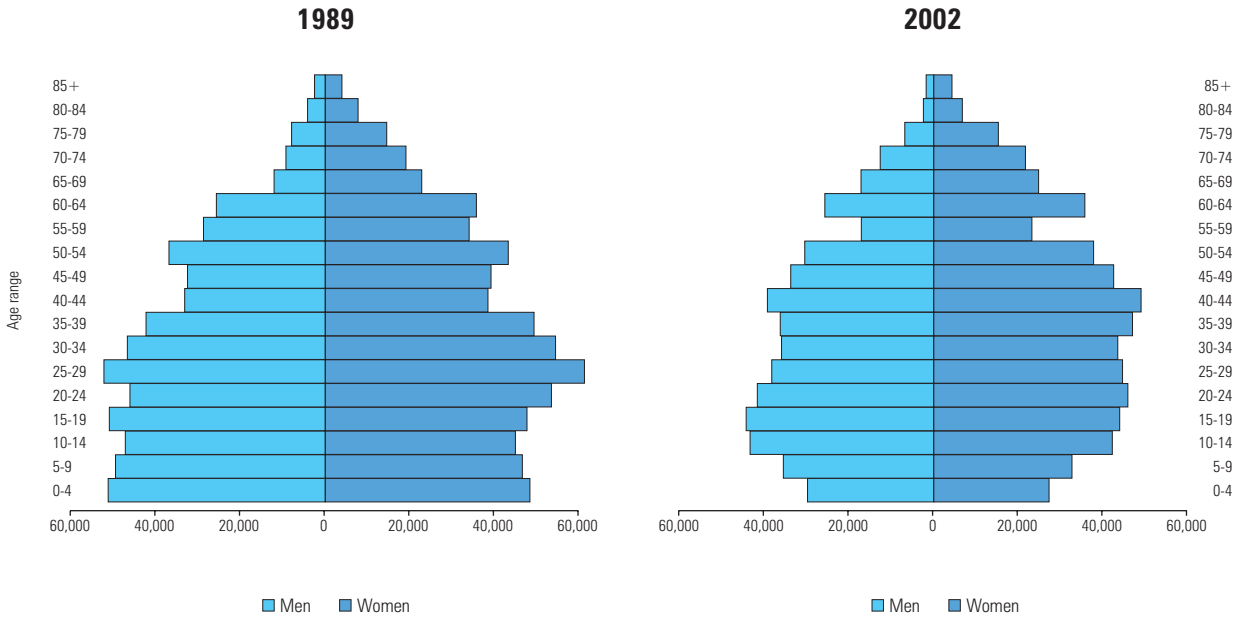
Over the past two decades, all three countries' population growth rates have declined but from different starting points and to different levels. The greatest absolute declines occurred in Azerbaijan but, because its population started at vastly higher growth rates, it still has higher fertility rates: 2.04 per woman per lifetime, compared to 1.36 for Armenia and 1.44 for Georgia. While none of these numbers guarantees a replacement of the population, Azerbaijan is in a better position to maintain its population size.

Losing some 20 per cent of its population between 1990 and 2005, Georgia is the second-ranking European country (after Serbia) in terms of population losses.[3] Armenia lost around 10 per cent, while Azerbaijan *gained* almost 20 per cent in the same period.

The future prognosis for Georgia and Armenia is not good in terms of population structures. Forecasts for 2030 envisage a 10.3 million population in Azerbaijan, 3.8 million in Georgia and 3.2 million in Armenia.[4] The relative reduction in the <15 years age group and growth of the elderly (>65) share implies significant demographic ageing.

Shifts in natural growth and age/sex structures caused dramatic changes in urban population structures. Fig. 5.4 reflects the very rapid and serious age-sex structure distortion of **Tbilisi** between the censuses of 1989 and 2002. However, since 1994 the Georgian average urban birth rates, although very low, have exceeded those in rural areas which have been depleted as large numbers of young people migrated to the cities or abroad. It could be assumed that similar changes have occurred in other Georgian and Armenian cities and perhaps in Azerbaijan, too. Azerbaijan's population will remain the youngest in the subregion in the foreseeable future, while Georgia's will remain the oldest. Demographic ageing may become a serious urban problem in both Georgia and Armenia.

FIGURE 5.3: **CHANGES IN AGE-SEX STRUCTURE OF TBILISI POPULATION BETWEEN TWO CENSUSES**



Source: Meladze, G., *Periods of Demographic Development in Tbilisi*, in Salukvadze, J., Van Assche, K., Shavishvili, N. (eds.), *Tbilisi in Times of Change: Socio-Cultural Dimensions of Urban Space and Urban Planning*, Tbilisi State University Press, 2010: 15-37

FIGURE 5.4: **NET TRANS-NATIONAL MIGRATION OF THE POPULATION IN THE SOUTH CAUCASUS COUNTRIES (1990-2010)**

Source: National Statistics Office of Georgia (GeoStat); National Statistical Service of the Republic of Armenia (Armstat); The State Statistical Committee of the Republic of Azerbaijan (Azstat); Meladze, G., *Sakartvelos demograpiuli gamotsvevebi [Demographic Challenges of Georgia]*, Tbilisi, 2007: 95

Migration Dynamics and Impact on Cities

Although migration processes traditionally played a major role in South Caucasian cities, they have become even more important since the early 1990s with increasing trans-boundary migrations. The South Caucasus republics had a moderately negative trans-boundary migration balance by the time of the demise of the USSR, because Soviet politics encouraged younger people in densely or 'overpopulated' areas to move Union-wide to industrial and economic areas in remote and sparsely-populated parts. Others voluntarily migrated to more centrally-located and prospective places of the Union, especially **Moscow** and other large cities, seeking career growth and better economic conditions.

The 1991-2001 decade saw dramatic population outflows from the South Caucasus, especially from Georgia. Despite a lack of precise migration data, it is assumed that net-emigration from Georgia exceeded one million individuals between 1990 and 2006.[5] The prevalent positive annual balances during the most recent seven years have not compensated for these huge losses, although they give hope for improvements in years to come. Outflows were also significant in Armenia but much less in Azerbaijan (See Fig.5.4), which only experienced a small negative balance until 2009.

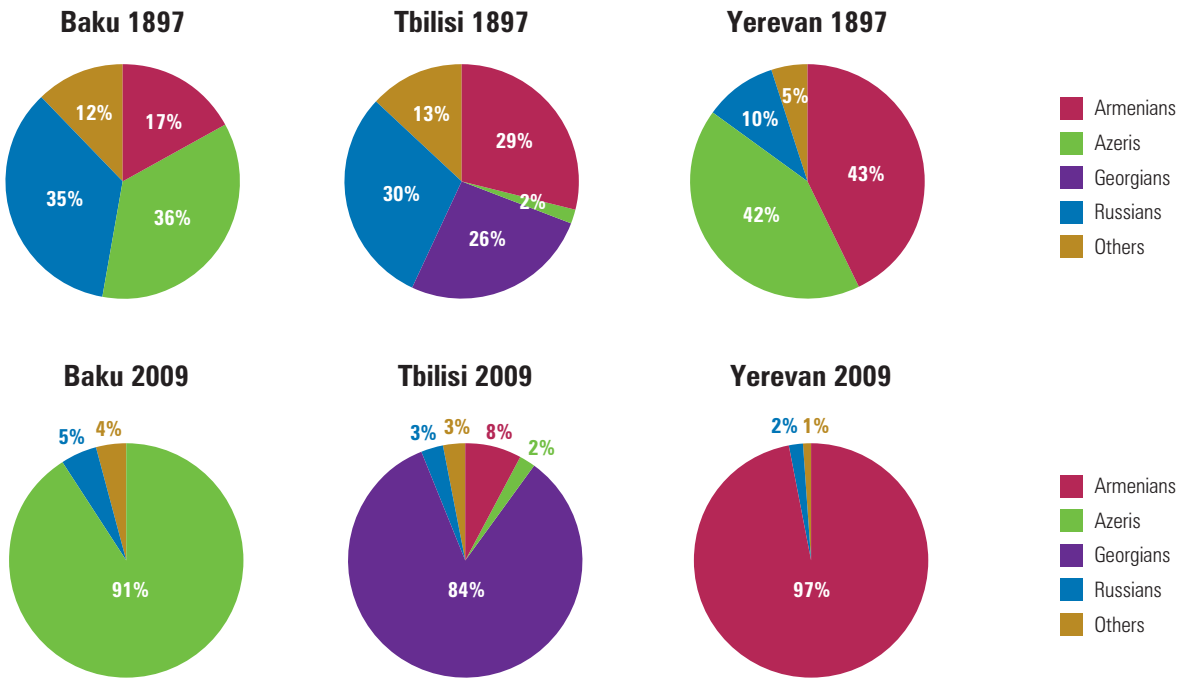
Urban dwellers constituted the great majority among the migrating population in all three nations. The main destination was the Russian Federation, although this appeal has declined in the mid-2000s due to rising political tensions and, later, armed conflict between Russia and Georgia. The population census of 2002 shows that 64.5 per cent of Georgian emigrants tried to settle in Russia.[6] Since then the migrant flow from Georgia has shifted mostly to the EU, Turkey and the USA. For Armenia and Azerbaijan, Russia still remains the most attractive destination. These outflows constitute a *brain drain* that had a particularly negative influence on human capital in urban areas. Whereas rural-urban migration made up merely partially for urban population losses, it compensated even less for the deficit in qualified urban labour.

Domestic migration has always played a decisive role in urban growth and, during the Soviet period, rural migrants were the main source. Migration from smaller towns and cities to large cities and metropolitan regions was also a distinct trend that continued after independence, mostly feeding the capitals **Baku**, **Tbilisi** and **Yerevan** - the three nations' largest labour markets.

Over the past two decades, the subregion generated significant numbers of refugees and internally displaced persons (IDPs) due to violent tension and armed conflicts. The largest cities host the bulk of these. **Baku**, **Ganja** and **Sumgayit** accommodated 40 per cent of all IDPs in Azerbaijan. **Tbilisi** alone accounted for almost 38 per cent of the registered Georgian IDPs.[7] Other major IDP concentrations emerged

▲ Georgian refugees from South Ossetia outside the Georgian parliament in Tbilisi. **©Håkan Henriksson (Narking).** Licensed under the Creative Commons Attribution 3.0 Unported license

FIGURE 5.5: **CHANGES IN ETHNIC STRUCTURES OF THE CAPITAL CITIES OF SOUTH CAUCASUS**



Source: GeoStat; Armstat; Azstat

in **Zugdidi** and other small towns and in Georgia's second-largest city of **Kutaisi**. IDP concentrations in the subregion all exceed 10 per cent of their host town population, while for Zugdidi it is close to 30 per cent. Approximately 12.5 per cent of Armenian refugees live in **Yerevan**.[8] These inflows turned the South Caucasus into one of the world's highest concentration of forced migration per 1,000 inhabitants.

Migration processes, especially trans-national ones, can dramatically change the ethnic composition of countries and cities. Under the Russian Empire, the territories of modern Armenia, Azerbaijan and Georgia were settled by different groups and the share of Armenians, Azeris and Georgians in their total population varied between 55 and 70 per cent. The then administrative centres (currently the capitals) had even smaller shares of nationals, so that in **Tbilisi**, for instance, Georgians were only the third-largest ethnic group (26 per cent) after Russians (30 per cent) and Armenians (29 per cent). In **Yerevan**, Armenians exceeded Azeris only by 1 per cent (43 and 42 per cent) and in **Baku** Azeris outnumbered Russians by only one per cent (36 and 35 per cent).

In the mid-1920s Armenia, both country-wide and in **Yerevan**, Armenians comprised well over 80 per cent of the population. Georgia and Azerbaijan saw more gradual ethnic homogenization of the population, including their capital cities. But by the time of the collapse of the Soviet Union, 'titular' nationalities in all three countries and their capitals significantly prevailed over other ethnic groups.

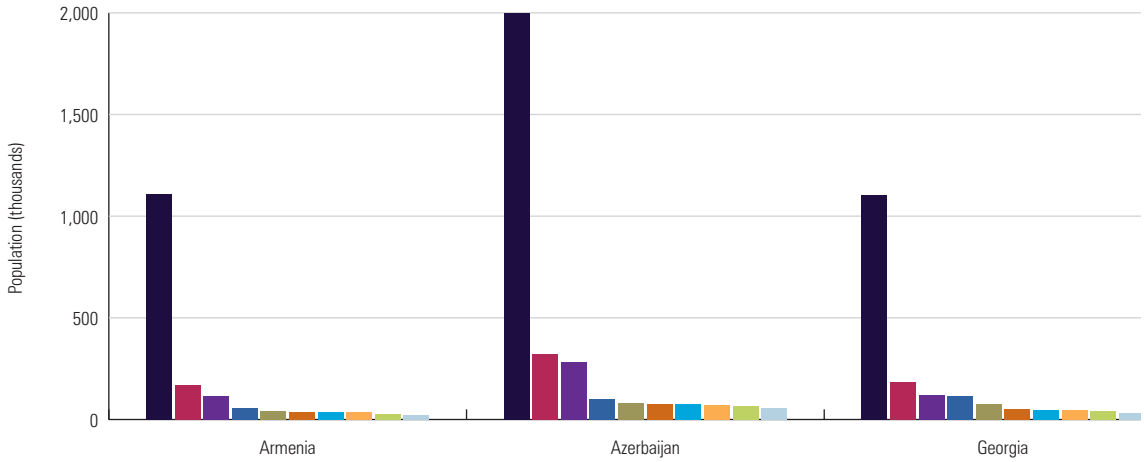
The post-independence ethno-political conflicts, civil war and rapidly deteriorating living conditions resulted in population homogenization at the urban and national levels. While trans-national migration trends have now stabilized or reversed, the impact of the mass emigration of 1990s will remain problematic and affect urban development through demographic ageing, low shares of economically-active population and associated difficulties of attracting new and maintaining existing businesses.

City Size and Population Distribution

National urban hierarchies are seriously imbalanced in the South Caucasus. The most pronounced discrepancy is the degree of urban primacy of national capitals that started emerging in the late 19th and early 20th centuries and that was strongly reinforced throughout the Socialist period. In Soviet times, capital cities and metropolitan regions were the disproportionate recipients of investments to promote urban growth and agglomeration, usually at the detriment of smaller settlements. Unrestrained encouragement of these growth poles in support of Soviet industrial development resulted in imbalanced urban hierarchies and has now escalated to the point that it should be a matter of concern to the governments of all three republics.

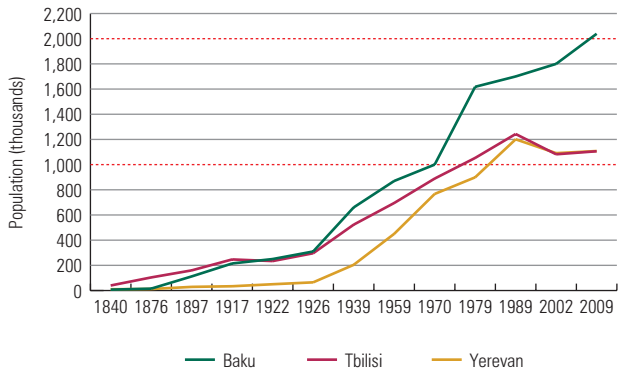
Fig. 5.6 illustrates the relative population sizes of **Yerevan**, **Baku** and **Tbilisi** in their respective countries. Yerevan represents 56 per cent of the total urban population; Baku and

FIGURE 5.6: **RANK-SIZE DISTRIBUTION OF TOP-10 CITIES (2009)**



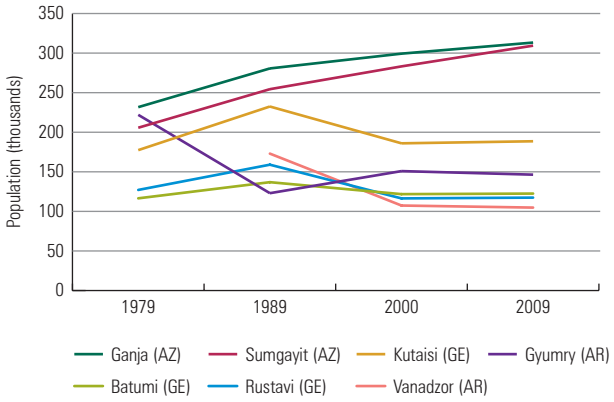
Source: National statistical agencies

FIGURE 5.7: **SOUTH CAUCASUS CAPITAL CITIES' POPULATION GROWTH DYNAMICS**



Source: GeoStat; Armstat; Azstat
Note: The stars mark the one million inhabitant point

FIGURE 5.8: **POPULATION CHANGES IN LARGER CITIES OF SOUTH CAUCASUS**



Source: GeoStat; Armstat; Azstat. Note: The abrupt population decrease of Gyumri in 1989 was due to a devastating earthquake in 1988

Tbilisi 53 and 48 per cent, respectively. The subregion lacks intermediate cities of 500,000 to 1 million inhabitants and has only seven cities in the 100,000 - 500,000 inhabitants group of which only **Ganja** and **Sumgayit** exceed 300,000. Trends indicate further undesirable strengthening of urban primacy over the years to come.

Although urban primacy sustained these capitals after independence despite economic crises and population outflows, they negatively affect national and subregional distribution of human capital, economic strength and infrastructure development. The subregion basically consists of three relatively large metropolitan areas in an otherwise rural context. It is extremely unlikely that any form of balanced urban hierarchy can emerge in the foreseeable future, which should be another area of major concern.

Population growth of the capital cities (see fig. 5.7) reflects huge difference between **Baku** and the two other capitals starting from 1970. The three capitals reached one million population levels in 1970s but then developed radically differently: During the 1980s, Baku continued to grow very fast. From 1990, **Tbilisi** and **Yerevan** started to decline while Baku kept growing, albeit more moderately. This was mostly because Baku received more refugees and IDPs, had significantly higher natural growth and lower out-migration rates, received more domestic migrants and benefitted from a stable, oil-based national economy.

The capital cities' growth trends are fairly representative for other cities and towns in these countries. Fig. 5.8 shows that Azerbaijan's cities over 100,000 all grew continuously during the past two decades, whereas they shrank in Armenia and Georgia. Recently, the South Caucasus public stimulation of non-capital cities and regions has been stepped up and may, perhaps, represent a policy trend. Nevertheless, they still lack well-defined, systematic spatial and social policies for urban and regional development.

5.2
The Economic Role of Cities

The port city of Batumi, Georgia. Georgia's gateway to the Black Sea means it is an important transport hub for the entire subregion. **©Zaur Margiev/Shutterstock**

Cities and Regions

The South Caucasus is the most remote and the least connected part of contemporary Europe. The subregion does not have common land boundaries with any other European country apart from European Russia, and all land connections with Europe go via Turkey or Russia. Georgia is the exception, as the Black Sea enables maritime access to Bulgaria and Romania. However, Georgian maritime transport is far from fully developed. Furthermore, maritime connectivity cannot completely compensate for the inadequate road and rail infrastructures.

Since the demise in around 1400 AD of the Silk Road, South Caucasian cities have never regained their importance in the global or continental context. Even in Socialist times the fast-growing cities of the Caucasus Union Republics were mere peripheral regional centers, because all external relations were conducted exclusively by **Moscow**. Consequently, at independence in 1991, the subregion found itself in a dead-end corner of the former Soviet space, with closed boundaries to adjacent but hostile Turkey - a NATO member state - and strained relations with the Islamic Republic of Iran. These boundaries have since reopened but the borders with the post-Soviet space, which had been open or even non-existing, soon closed due to ethno-political conflicts and war.

The geographic location of the South Caucasus makes it a promising region for connectivity with Western and Northern Europe, Russia, Central Asia and the Middle East. Therefore, in the mid-1990s, an international transport cooperation programme Transport Corridor Europe-Caucasus-Asia (TRACECA) was initiated (see Map 5.5). TRACECA, with its permanent Secretariat in **Baku**, covers maritime, air, road and rail transport matters under the *Baku Initiative 2011*. Integrating the TRACECA Corridor with trans-European transport networks is a declared development priority for Azerbaijan and Georgia - a position shared by the European Commission. TRACECA facilitates major road, rail and energy (oil and gas) transportation projects: a new railway connection Baku-Tbilisi-Kars (BTK) is now being implemented in the context of the European Neighbourhood Policy, connecting the subregion to the EU space (See also Box 5.2).

MAP 5.4: **OPEN AND CLOSED BORDERS OF THE SOUTH CAUCASUS**

Source: Compiled by Salukvadze, J.

By default, aviation is the subregion's main cargo and passenger transport mode to Europe. In recent years, destination coverage of direct flights has increased but statistics reveal that the subregion's major airports are still mostly domestic transport nodes and that the subregion lacks a distinct regional transportation hub.

Rail transport, once a leading logistics mode, has contracted both in importance and capacity. By 2007 Azerbaijan's railway traffic volume had dropped to less than half that of 1991. The closure of the Armenian-Turkish border in 1997 caused an estimated 30 per cent volume reduction. Despite the privatization of railway management in Georgia and the current BTK initiative, rail transport is likely to remain far below its potential.

The road network in the subregion - traditionally poor and which deteriorated even further during the 1990s – is now improving. Although many roads are still in a state of poor maintenance in all three countries, road reconstruction and highway construction are increasing. Improved rail and road infrastructures can increase the regional gateway role of Georgian port cities such as **Poti** and **Batumi** as transit hubs for freight to Azerbaijan and oil to landlocked Armenia. Although Poti and Batumi lag behind the more established Black Sea ports of **Burgas**, **Constanta**, **Illichivsk**, **Novorossiysk** and **Odessa**, their importance for the subregion is increasing. Poti has good prospects as part of Georgia's new free economic zones. The Azeri Caspian Sea ports **Baku** and **Dyubendi** could become important for transporting Central Asian natural resources to Europe through the South Caucasus transport corridor which is rapidly picking up in significance and showing perspectives for further growth.

Typology of the Subregion's Cities

South Caucasus cities, like other post-Soviet urban settlements, do not fit EU city classification. However, Soviet-time classification based on employment structure provides both a reasonable description and differentiation of urban settlements. By this system, the following can be distinguished:

MAP 5.5: **TRACECA TRANSPORTATION CORRIDOR**

Source: World Bank, http://lnweb90.worldbank.org

MAP 5.6: **ROUTE OF THE BTK RAILWAY**

Source: Forrest, B., *The New "Silk Road"*, National Geographic, August 2010; http://www.molokane.org/places/Turkey/2010_National_Geographic/index.html

BOX 5.2: **THE BTK PROJECT AND ITS POLITICAL IMPLICATIONS**

The BTK railroad agreement was signed in 2007. It will connect Baku and Tbilisi with Kars in Turkey. There are plans to extend the railway to Europe through the Marmaris Project once the tunnel under the Bosphorus becomes operational. It follows the East-West oil and gas corridor (see Map 5.6) and aims at ensuring a future continuous railway connection between Baku and Tbilisi on the one hand and Turkey and the EU cities on the other. The BTK project includes constructing a 29 km segment in Georgia and a 76 km segment in Turkey. A 160 km section of the Akhalkalaki-Marabda-Tbilisi railway in Georgia will be reconstructed to improve its carrying capacity to 15m cargo tons annually. The project costs are estimated at USD 422m and, if also taking into consideration the accompanying infrastructure, the total cost will amount to USD 600m.

The envisaged BTK rail and the Bosporus tunnel would be the connecting link between the Trans-European and Trans-Asian railway networks. Together with the construction of a new sea trade port at Alat in Azerbaijan, this would create a fast rail connection to transport goods from Asia to Europe and vice versa. According to forecasts, the BTK railroad will start by carrying about 1m passengers and 6.5m tons of cargo annually. By 2030, this should have increased to 3m and 17m tons respectively.

Besides clear economic objectives, the project also has political implications. Armenia opposes any transportation corridor that would continue its isolation and reinforce its current logistical dependence on Georgia and the Islamic Republic of Iran. Armenia insisted that utilizing the existing railway between Kars and Gyumri in north-east Armenia would offer a better option. But Azerbaijan and Turkey are currently opposed to Armenian participation in any regional projects until Armenia withdraws its troops from Azerbaijan. This political deadlock prevents cooperation.

Source: Suleymanli, A., *The Baku-Tbilisi-Kars railway connection as an important section of the Trans-European Railway network.* Workshop "Rail transport between Europe and Asia", Istanbul, 2009.
http://www.otif.org/fileadmin/user_upload/otif_verlinkte_files/03_news/02_Ausbildungskurs/02_1_Workshop_Istanbul/04be_Baku-Tbilisi-Kars_railway_connection.pdf

- Multi-functional cities are the most developed and include, besides the capitals, other large cities with relatively diversified economies, such as **Batumi** and **Kutaisi** in Georgia and **Gyumri** in Armenia;
- Industrial cities with 40-50 per cent of the labour force employed in industry/mining include **Ganja**, **Khankandi**, **Mingechevir**, **Nakhchivan**, **Shaki**, **Shirvan**, **Siyazan** and **Sumgayit** in Azerbaijan; **Chiatura**, **Gardabani**, **Gori**, **Rustavi**, **Senaki**, **Tkibuli**, **Zestafoni** and **Zugdidi** in Georgia and **Alaverdi**, **Hrazdan** and **Kafan**, in Armenia;
- Transport cities with railway nodes and ports employing 15-20 per cent of the population in logistics include **Khashuri**, **Poti** and **Samtredia** in Georgia;
- Mixed cities are smaller urban centres with a combination of relatively minor and non-dominating spheres of the economy. These include **Aghdra**, **Goytapa**, **Khojavand**, **Khudat**, **Liman** in Azerbaijan; **Akhaltsikhe**, **Gurjaani**, **Khoni**, **Marneuli**, **Mtskheta**, **Ozurgeti** and **Telavi** in Georgia and **Ijevan** in Armenia;
- Resort or tourism cities with 15-20 per cent employed in tourism and recreation activities include **Hajikand** and **Naftalan** in Azerbaijan; **Abastumani**, **Bakuriani**, **Borjomi**, **Kobuleti**, **Manglisi** and **Tskhaltubo** in Georgia and **Jermuk** and **Tsakhkadzor** in Armenia; and
- Administrative cities comprise a large number of small cities and towns, carrying limited industrial (mostly food and light industries) sometimes agricultural and tertiary (commerce, lower level/scale services) activities and performing the role of administrative centre for the surrounding areas and settlements such as municipalities.

Changes in economic and political conditions over time strongly influenced functional transformation of many settlements, especially so for industrial cities. Mono-functional Georgian industrial cities like **Rustavi**, **Tkibuli** and **Zestafoni** or **Gavar** in Armenia lost population. Efforts to revitalize economic and industrial sectors or introduce new functions, assisted by limited flows of foreign direct investment, have only partially improved the economy over recent years.

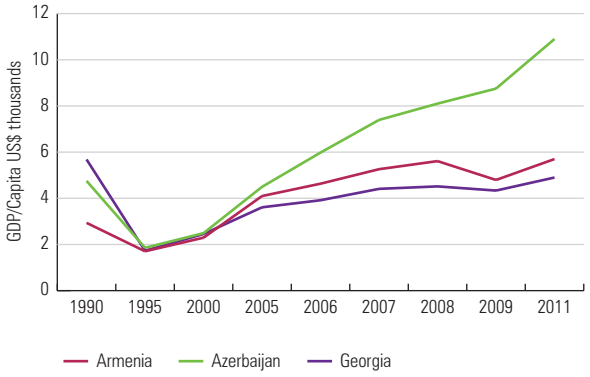
Changes in the Urban Economy

As in other post-Socialist countries, the mass privatization of land, housing, and other economic sectors became prime transition features in the South Caucasus. Although degrees of libertarianism are different – higher in Georgia and lower in Azerbaijan – the shifts towards private ownership and entrepreneurship did not always translate into economic growth and prosperity.

Rising fossil fuel prices assured Azerbaijan of higher income and stable economic growth but the two other countries gradually began to fall behind (see Fig. 5.9). The cities' and capital's metropolitan areas in particular, have played key-roles in determining socio-economic trends. For instance, **Tbilisi** alone generated more than 40 per cent of Georgia's GDP in 2010.[9] The shares of the other two capitals in their national GDP are between 40 and 50 per cent. The aggregate share of cities in generating the domestic GDPs varied between 66 and 75 per cent.

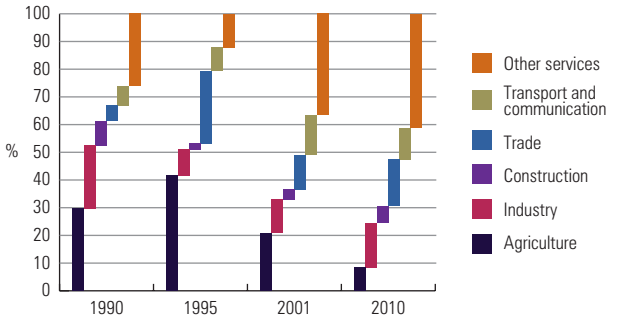
As Fig. 5.9 and 5.10 show, Georgia experienced its worst economic blows immediately after the collapse of the USSR and the country is yet to fully recover. The share of Georgia's industries fell dramatically because they were strongly tied up with Soviet Union enterprises. Mass privatization of agricultural land briefly stimulated

FIGURE 5.9: **GDP/CAPITA , ARMENIA, AZERBAIJAN AND GEORGIA (IN USD THOUSAND PPP)**



Source: *Human Development Report 2011; Georgia – GDP per capita*, IndexMundi, 2011. http://www.indexmundi.com/facts/georgia/gdp-per-capita

FIGURE 5.10: **CHANGES IN GDP STRUCTURE, GEORGIA**



Source: *Sakartvelos geografia [Geography of Georgia]. Part II. Social-Economic Geography*, Tbilisi, 2003; GeoStat

production in this sector, bringing a relative increase in its share of the economy.

The collapse of industrial volumes catastrophically worsened socio-economic conditions, especially in the mono-functional industrial cities. Significant shares of the urban population of these cities either emigrated or tried, mostly in vain, to establish other businesses. Mono-functional industrial cities such as **Chiatura**, **Rustavi**, **Tkibuli** and **Zestafoni** lost up to one-third of their population. A limited industrial rebound since 2005 has not compensated for these population, employment and income losses. But Georgia soon started the revitalization of its old enterprises and introduced new ones and 2010 saw a significant reduction of the GDP share of agriculture in favour of the urban-based services and some recovery of urban-industrial activities.

A drilling rig at a producing oil field near Baku, Azerbaijan. The oil sector contributes more than 55 per cent to Azerbaijan's GDP. **©Northfoto/Shutterstock**

Likewise, Armenia's economy contracted by 60 per cent from 1989 to 1994 but then started to recover rapidly due to political stabilization and continued linkages with the Russian economy and Russian investment capital. However, the narrow export base make Armenia's economy very susceptible to external shocks.

Azerbaijan's economic recovery took almost 15 years and began to sky-rocket after 2000 on the back of rising oil prices. Between 2003 and 2008, Azerbaijan's GDP grew an astonishing 2,600 per cent and it still grows, albeit less rapidly. The oil sector constitutes more than 55 per cent of this growing economy.

The disproportionate economic development and role of the South Caucasus capitals in the GDP is fully reflected in their shares in the economy. **Yerevan**-based urban enterprises produce 43 per cent of the total industrial production of Armenia. Almost 55 per cent of Azerbaijan's industrial employees are concentrated in **Baku**, while the second and third industrial centres, **Sumgayit** and **Ganja**, host less than eight and less than five per cent of the industrial workers, respectively. Likewise, **Tbilisi** contributes two-thirds of the national product in Georgia, engaging 58 per cent of the labour force. The adjacent Kvemo Kartli region with the city of **Rustavi** and a few other smaller industrial towns such as **Bolnisi** and **Gardabani** make up another 10.7 per cent of domestic output. If one takes into account that Tbilisi and Rustavi constitute the Georgian capital's metropolitan area, while Baku and Sumgayit do the same for Azerbaijan, it should be clear that territorial concentration of economic activities in these countries is even higher than the above statistics indicate. It is therefore not surprising that capital investments and foreign direct investments are primarily directed at these urban economic poles.

Georgia has been heavily dependent on foreign direct investments (FDI) as the driving factor behind its economic growth since 2003. FDI grew from less than USD 200m in the early 2000s to more than USD 1.5bn in 2007 because of its continuously-reforming economy and improvements to its business environment. Georgia now ranks among the world's top 20 best countries for doing business and is the best among East and Central European countries.[10]

Azerbaijan's economy depends significantly on the energy sector and attracted much larger FDI flows than its two neighbours during 1995-2004.[11] FDI hit USD 3.4bn in 2007 but was less than USD 1 bn in 2009 and 2010. Nevertheless, it is assumed by Standard & Poor that FDI flows to Azerbaijan will soon increase again. USD 10 bn is expected for developing the giant Azeri-Chirag-Gunashli oil fields in the Caspian Sea and USD 20 bn for the Shahdaniz gas field.[12]

Armenia, despite high growth rates in FDI, still lags behind Azerbaijan and Georgia. These flows have amounted to between USD 0.5 and 1 bn over the past few years and focused on communications, power supply and transportation. More than half comes from the Russian Federation, making the Armenian economy more vulnerable than the more diversified sources of Azerbaijan and Georgia.

During recent years, the subregion has seen new stimuli to cities and regions beyond the capitals but these interventions are still not adequately defined and institutionalized in policy documents. Georgia may be the subregional leader in decentralization but remains without a consistent and targeted policy orientation towards building a more balanced urban hierarchy. The domestic dominance of **Tbilisi** will not be challenged in the near future. This applies even stronger to **Baku** and **Yerevan**.

Urban Poverty

In Soviet times, Armenia and Georgia had sufficient human resources and capacities for developing modern branches of the economy (electronics, chemical industries and biotechnology), but the subregion never became a place of concentrated innovation and R&D in the Soviet space. The more traditional branches of industry (metallurgy, textile and food processing) and services prevailed. Scientific centres and innovative enterprises were strongly connected with the Soviet military-industrial complex but after the collapse of the USSR those links were cut and funding terminated. The qualified labour (engineers, software developers and physicists) either changed occupation or emigrated, dramatically reducing both the quantity and quality of the innovative human capital and badly affecting national economies.

In the immediate post-Socialist era, unemployment rates rose to between 15 and 30 per cent. Although these figures have somewhat improved in recent years, Georgian unemployment still remains high. Armenia, however, claims that its unemployment rates dropped from 31.6 per cent in 2004 to 7.1 per cent in 2007, while Azerbaijan claims an unemployment reduction from 16 per cent in 2003 to just 1.1 per cent in 2004. Azerbaijan and its hydrocarbon economy has better arguments to claim such dramatic unemployment reductions than Armenia but even the Azeri claim of near overnight elimination of unemployment should raise at least a degree of doubt.

Employment statistics in all three countries consider any rural dweller with agricultural land to be self-employed. As a result, Georgia's 2007 official unemployment rate for rural areas was just above 4 per cent, compared to 26 per cent in urban areas and 30 per cent in **Tbilisi**. It should therefore be assumed that present unemployment data interpretations could be at significant variance with the reality.

Poverty trends are very different among the three countries. National poverty is significantly lower in Azerbaijan than in the two other countries. Azerbaijan claims a spectacular poverty reduction from 49.6 per cent in 2001 to 15.8 per cent in 2008 and explains this by its fast-growing GDP, which is more than twice that of Georgia and Armenia. Azerbaijan's urban areas experienced more rapid poverty declines than rural areas: from 55.7 per cent in 2001 to 14.8 per cent in 2008 for urban areas and from 43.5 per cent in 2001 to 17 per cent in 2008 in rural ones. Consequently, 51 per cent of the Azeri poor now live in rural areas. However, intra-urban disparities remain large and have grown, particularly between **Baku** (9.3 per cent in 2008, down from 49 per cent in 2001) and other Azeri urban settlements (around 20 per cent in 2008).

After 2008, poverty notably increased in Armenia and reached almost 36 per cent with more than four per cent of the population in extreme poverty. The 2008 economic crisis hit the Armenian economy hard and the key factor behind the increased poverty between 2008 and 2010 was a 14 per cent economic decline in 2009 which, together with increasing income inequality, contributed to decreased consumption. Armenian poverty levels reached 27.1 per cent in **Yerevan** but are even higher in other urban areas (45.5 per cent). However, because of its high share of the total population, Yerevan nevertheless hosts 34.2 per cent of the nation's poor.

The global recession and the war with Russia resulted in increased poverty incidence and severity in Georgia. Poverty increased from 22.7 per cent in 2008 to 25 per cent in 2010. The poverty rate in **Tbilisi** is significantly lower than the country's average.

Poverty, even where diminishing, still remains acute in the subregion and governments should and could do much more towards its eradication. Vulnerable groups include refugees, IDPs, the disabled, street children, pensioners, long-term unemployed and large families. Despite social security programmes, many of the subregion's households suffer from lack of income. Systematic social support by the public sector makes vulnerable groups even more vulnerable to worsening socio-economic exclusion. Refugees and IDPs are particularly deprived because of their very limited access to adequate housing.

5.3
Social and Housing Issues

Soviet-era public school and residential blocks in the southeast Tbilisi suburbs of Varketili and Vazisubani. **Source: Kober/Public domain**

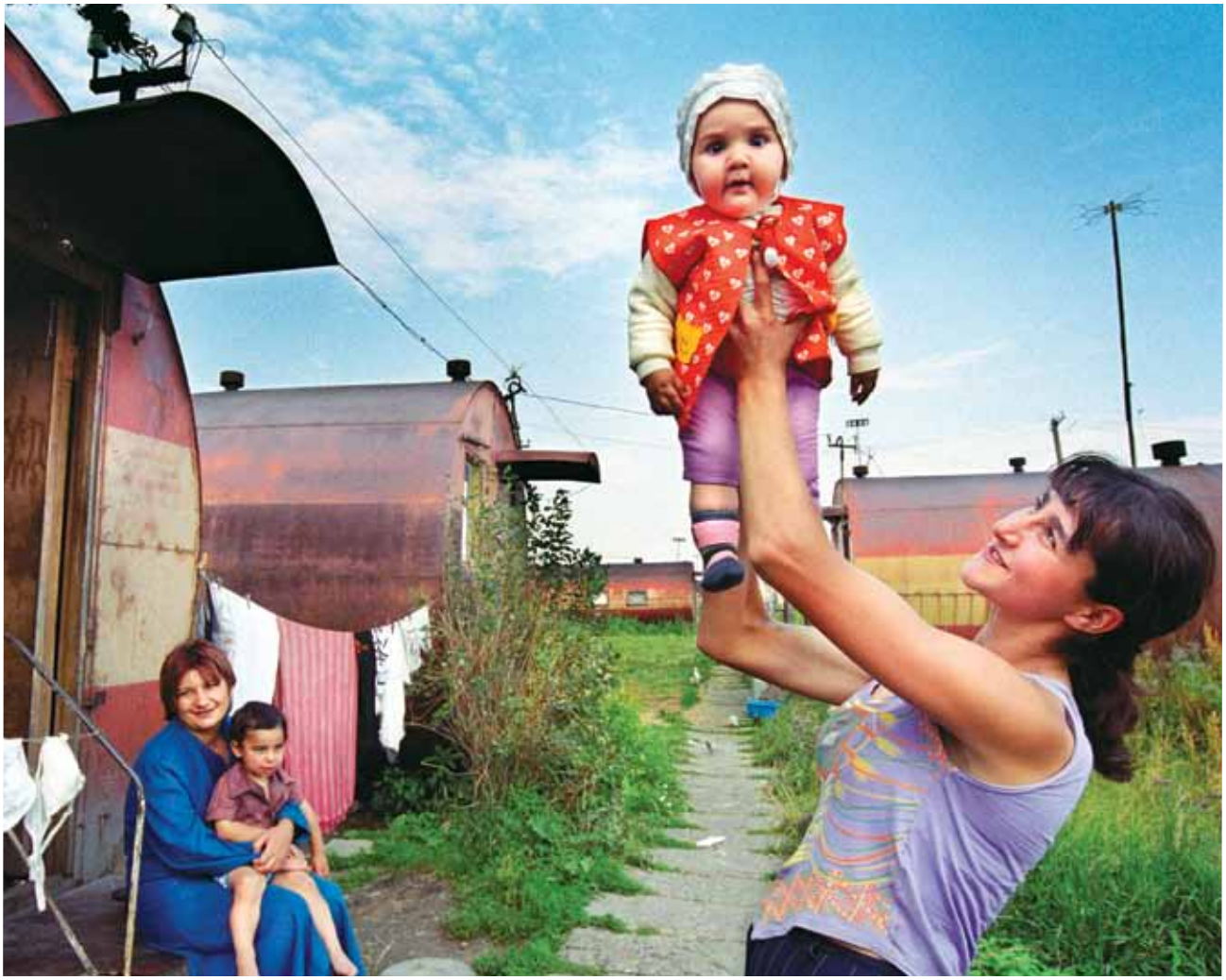
Major Changes in the Housing Sector

Land and real estate, including housing, were nationalized immediately after the Socialist Revolution of 1917. The early decrees of Sovietized Russia such as *The Decree on Land* of 1917 and *On Abolition of Private Ownership of Real Estate* of 1918 aimed at the expropriation of real estate from 'the enemies of the proletariat' (the aristocracy, bourgeoisies, wealthy farmers, traders and businessmen) and its redistribution among the working class. These legal acts promoted 'communalization' of the housing stock and envisaged delivery to the citizenry of a minimum individual residential living space (usually less than 9 m^2) with collective use of domestic facilities such as kitchens, lavatories etc. The prescribed publicly-controlled limitations of living and personal space assured a social stratification of access to housing as desired by a regime that aimed at creating a *homo sovieticus*.

As a newly-incorporated part of the Soviet space, the South Caucasus countries embraced the above processes, albeit only from 1920/1 onwards. Consequently, constitutional provisions in place in 1921, such as individuals' rights of free movement and settlement and illegality of forced expropriation in Georgia, for instance, were replaced by these new regulations.

The communalization of dwellings, despite providing relative relief to mass homelessness, did not solve existing housing problems. Urban-based mass industrialisation and increasing rural-urban migration kept urban housing shortages unresolved for many decades, including throughout the Stalin period (1930-50s), because the relatively few good-quality housing units were built only in the capitals and larger cities.

A breakthrough occurred after the 1960s with the introduction of mass housing programmes targeting the ever-growing urban populations and the escalating housing needs in all large Soviet cities. These interventions resulted, initially, in rapid proliferation of low-quality, standardized apartment blocks known as '*khrushchevkas*'. From the 1970s onwards, more elaborated pre-fabicated multi-apartment residential units were delivered but even these mass housing



Stepanavan, Armenia. Mothers and children outside their home in an oil tank in 2004. In 1988 an earthquake destroyed almost every house in the region and for many people oil containers became their permanent homes. **©Tim Dirven/Panos Pictures**

programmes could neither cater for timely delivery of sufficient numbers of residential units for escalating urban populations nor satisfy the growing demand for higher residential living standards.

Cohabitation of several generations in a single dwelling started to become less and less acceptable, even though this coincided with declining average family sizes in the subregion. Therefore, urban housing remained an acute social problem with long waiting lists for new flats in almost all urban settlements. In the largest cities, waiting times of a decade or more were common.

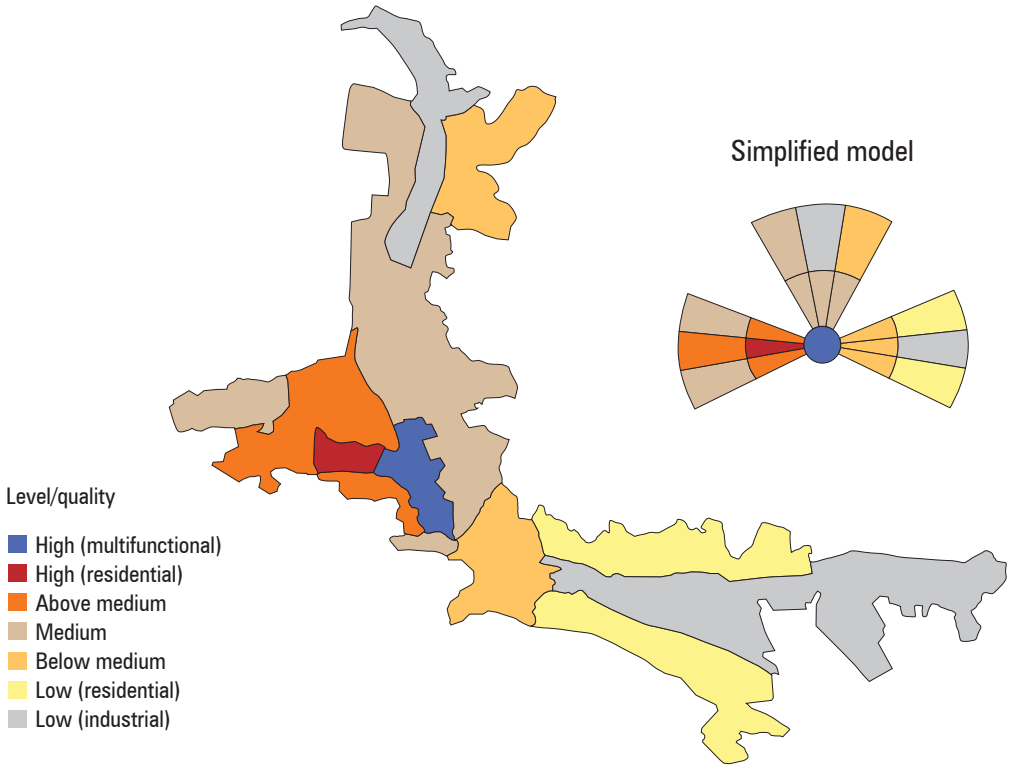
Nevertheless, at independence, the South Caucasus countries did not have a significant homelessness problem. The real problem was a massive need for upgrading housing and living conditions. In Armenia, the situation was aggravated by a devastating earthquake in 1988, when the town of **Spitak** (16,000 inhabitants) was completely leveled and the country's second largest city, **Gyumry** with a 250,000 population, lost 80 per cent of its housing. The first decade of independence also saw dramatic drops in housing construction in all three countries due to political unrest and economic decline.

Land reform and property privatization introduced in the 1990s have significantly changed the legal status of housing. Housing privatization was launched in Armenia, Azerbaijan and Georgia with the adoption of legislation in 1993. Armenia and Georgia privatized their housing stock free-of-charge, while Azerbaijan applied symbolic fees. About 96 per cent of the housing stock in Armenia and 95 per cent in Georgia had been privatized by 2000. In Azerbaijan it took until 2009 for 85 per cent of the houses to be transferred to private ownership. Consequently, the South Caucasus now has heavy strata of owner-occupants.

Social Inequality, Exclusion and Spatial Segregation

Despite privatization, or perhaps because of it, housing is still not equally accessible to every citizen in the South Caucasus. Although the Soviet ideology propagated social equality and welfare, spatial equality differences have always

MAP 5.7: **ENVIRONMENTAL QUALITY DIFFERENCES IN TBILISI, 1990**



Source: Salukvadze, J., 2009, based on multifactor analysis research directed by Gegeshidze, A.,1985, and public opinion polls of 1990 by Gachechiladze, R.

occurred. The largest cities in the South Caucasus, like all other large cities of the Soviet Union, provided many examples of significant intra-urban differences in quality and prestige that became criteria of social segregation. Segregation was, perhaps, not as deep as in Western (Capitalist) cities but it clearly existed throughout the Soviet period and generated black market prices for apartments and land. Although officially there were no land and housing markets, house price differentials among neighbourhoods could be quite significant.[13] In cosmopolitan cities such as **Tbilisi**, a degree of ethnic segregation also occurred, such as the Avlabari neighbourhood settled mostly by Armenians, Puris Moedani inhabited by Jews or Abanotubani where (mostly Azeri) Muslims dominated.

Political and industrial vested interests with access to central control played a decisive role in the social and spatial stratification of cities such as **Rustavi** and **Sumgayit** by allocating employee housing to the preferential urban districts. Since social and spatial segregation officially remained mostly unrecognized in Soviet urban studies, some researchers used indirect inequality indicators like environmental quality, land-use patterns, quality of social infrastructure and prevalent levels of crime to describe stratifications in urban space.[14]

Map 5.7 shows such a qualitative geography for **Tbilisi**, where environmental quality declined both from the centre to the peripheries and clockwise from west to south-east. In Soviet times, there was a clear spatial correlation between social hierarchy and environmental quality. Additionally, an equally striking geographic distribution of the share of non-Georgians - from less than 15 per cent in the prestigious western neighbourhoods to almost 50 per cent in the less-attractive eastern districts - could be observed.

Housing Conditions and Typology

The subregion's urban housing stock could be classified as follows:

(i) Pre-Soviet housing (pre-1920), mostly in the central parts of larger historic cities;
(ii) Early-Soviet housing (1920-1950s), predominantly in the areas surrounding the city centre;
(iii) Mass housing of the late-Soviet era (1960-1980s), multi-storey apartment blocks in mid-city areas, early suburbs and peripheral areas;
(iv) Post-Soviet (1990-2010), multi-apartment housing mostly found in central districts until the mid-2000s and more recently all over the city; and
(v) Individual houses of different periods and types (mostly detached) found everywhere in the city depending on their age but mostly in the suburbs, exurbs[15] and on mountain slopes.

Although there is no information on the exact proportion of each of these categories in the total housing stock, the Soviet-era mass housing estates, due to the tremendous

BOX 5.3: **APARTMENT BUILDING EXTENSION (ABE) IN GEORGIA**

ABEs in Tbilisi, Georgia

In 1989, the last Socialist Government of Georgia issued a legal act permitting residents to expand their domestic living area by enclosing balconies, loggias and verandas or adding extensions to their apartments, provided they submitted the plans for building permission. This act dramatically transformed many housing districts through the sheer number of apartment building extensions (ABEs). Numerous structurally and aesthetically questionable extensions were constructed in this highly seismic region. The average amount of additional space amounted to over 60 per cent of the original living space and was therefore quite an attractive option but buildings acquired a makeshift look with structural extensions that sometimes even exceeded the existing buildings original dimensions. Many of these extensions were carried out without permission or appropriate safety standards and many remain unfinished.

The emergence of a favourable political context for the construction of ABEs in Georgia was predicated on the chronic shortage of housing and the historically low residential mobility in the USSR. The construction boom in the wake of the relaxation of planning regulations shows that ABEs are directly linked to lack of dwelling space in Georgia and that the primary reason for their expansion lies in the need for *in situ* adjustments to the size and functions of the home.

Interviews with households revealed that the rise of the ABE phenomenon was also fuelled by cultural factors, as families who had recently migrated from rural areas felt a strong emotional attachment to the cohabitation of the extended family. Having adapted to their urban apartments, they preferred to increase the size to cater for multi-generational cohabitation.

The sheer desire for some additional residential space drove a significant share of, for instance, the Tbilisi population to forego safety, health and the image of their living place. This reveals a global phenomenon that moving to the city does not automatically turn people into *homo urbanus*. There is a tendency, especially among new arrivals, to carry over their distinct rural traits and cultures to the city and transform these into pseudo-urban behaviour and cultures.

By significantly enlarging apartment sizes where such alterations are difficult to implement safely (and therefore rare in other post-Socialist states where planning controls are stricter), ABEs have provided a major tool for *in situ* housing adjustment that has helped to 'improve' urban living conditions. Since the ABE phenomenon is also widespread in Baku, Yerevan, Ganja and other cities of the South Caucasus the authorities in the subregion should correctly interpret the message embedded in these household strategies and informal practices as a loud demand for mass interventions in the residential sector and for broad transformation of current housing conditions.

Source: Bouzarovski, S., Salukvadze J., Gentile. M., *A Socially Resilient Urban Transition? The Contested Landscapes of Apartment building extensions in Two Post-communist Cities*, Urban Studies, Volume 48, issue 13, 2011: 2689-2714

volumes built, dominate the cityscapes of South Caucasian cities.

During the 2000s, post-Soviet high-rise blocks started to occupy significant areas of capital and other large cities, and their share in the housing stock grew everywhere. In the smaller cities, estates of individual housing units constituted the largest share.

After independence, the 9 m^2 norm for individual living space established throughout the Soviet era was significantly increased in the South Caucasus. However, today's actual rates still lag behind those of European cities. The largest average per capita floor space is found in Armenia (26.7 m^2), the lowest in Azerbaijan (12.5 m^2). In **Tbilisi**, the per capita average is 16.1 m^2, which allows for a country-wide estimate of about 20 m^2. Per capita living space is larger in the rural areas of all three countries (in Armenia 35 *versus* 22 m^2).

In 2010, the total Armenian housing stock was 86.5 million m^2, in Azerbaijan 109.4 million m^2 and an estimated 90-100 million m^2 in Georgia. Most units are multi-storey apartments (e.g. 68 per cent in Armenia). In Azerbaijan, 30 per cent of the total housing stock is found in **Baku** where the share of multi-apartment blocks is very high (no figures available) as in other large Azerbaijani cities. In Georgia, 67 per cent of the urban households live in flats, whereas 94 per cent of the rural dwellers have detached single-family houses.

Given the prevalence of old Soviet multi-apartment urban housing units, housing problems are similar throughout the subregion. If compared to the Slavic and Baltic States, the quality of Soviet era housing was lower in the South Caucasus, it had less unit variety, and had been built cheaply and quickly to accommodate mushrooming urban populations. Housing quality was also lower because theft of construction materials by contractors was rife (for illegal reselling or for the construction of *dachas* or summer-houses). From the late-1970s onwards, mass housing in non-capital cities and in the capitals' urban peripheries often received poorly-operating or incomplete utilities and physical infrastructures.

Since the late-1980s, and especially after independence when national economies and incomes declined, increasing residential space through extensions became a major urban housing activity. The construction of extensions was legal in Georgia and, until 1991, executed by state building companies applying prescribed norms. However, after abolition of these state building companies and removal of controls in the 1990s, apartment extension became an informal and chaotic mass phenomenon. Added to existing apartment units by non-skilled labour or the occupants themselves, these extensions not only significantly deteriorated the appearance of cityscapes, they also dramatically brought down safety and the creation of 'vertical slums'[16] (See Box 5.3).

Housing Supply and Affordability

By the early 2000s, the subregion faced significant unmet housing demand, both in terms of volumes and quality. The relatively-improved economic situation generated increased demand for new and better quality housing. With the privatization of real estate, commercial housing projects began to emerge in significantly increasing volumes on a year-to-year basis, providing more spacious and comfortable housing types non-existent in the Soviet times and which were particularly attractive to young families and the better-off urbanites. Construction booms rapidly unfolded when banks showed increasing willingness to finance these housing developments. This triggered both heavy competition for the best urban sites for multi-apartment housing and significantly higher housing prices.

During the construction boom from 2004 to 2008, house prices in Armenia increased 250 to 300 per cent. Apartments in central **Yerevan** jumped from USD 400 to 500/m^2 in 2004 to USD 1,500/m^2 in the city centre by 2008 and USD 1,000/m^2 in other parts of the capital. In Azerbaijan, the price of one square metre in the center of **Baku** had risen to AZN 5,000 (USD 6,500) by 2008. The situation in Georgia was not much different: between 2004 and 2008, central **Tbilisi** apartment prices tripled from USD 400 to USD 1,300/m^2 and from USD 250 to USD 850 in other parts of the city. Moderate bank credit availability in Georgia allowed regularly employed citizens to buy an apartment. But many flats were purchased through remittances as speculative investments by expatriate absentee-owners who mostly did not rent them out, leading to very high vacancy rates (e.g. more than 1 million m^2 country-wide in Azerbaijan).

These increased housing prices - excessive relative to the low average incomes – also rendered housing unaffordable for many citizens and, according to local real estate experts interviewed in 2011, only 10 to 15 per cent of the population of Georgia can now afford a flat in the new housing estates and large segments of the population remain unserved.

To expand the market, developers in the South Caucasus offer less costly *shell-and-core* projects, only providing the main structure of the apartment and leaving internal design and finishes to the new owners. In **Baku** these now comprise 95 per cent of all new housing delivered.[17] It was only recently that the share of fully-completed apartments in the new housing stock started to grow again and a few gated communities have appeared in the larger cities.

A matter of some concern, however, is the quality of this new housing. In Azerbaijan, for instance, imported and locally-produced construction materials are neither standardized nor certified. Construction equipment mostly dates from the Soviet period, while the construction sector also lacks local professionals.[18] Azerbaijan is clearly not an exception in the subregion in this respect.

Another matter of some concern is that new housing construction took place mostly in the capitals - first in the central parts, next in the areas adjacent to the centre and, later, at the urban outskirts. Between 2004 and 2008, 80-90 per cent of all Armenian new housing developments were located in **Yerevan**. Likewise, 60-70 per cent of Georgia's new housing construction was concentrated in **Tbilisi**.

Between 2004 and 2008, 80-90 per cent of all Armenian new housing developments were located in Yerevan. **©Chubykin Arkady/Shutterstock**

The picture is even worse at the region-wide scale, because **Baku**, **Batumi**, **Ganja**, **Gyumri**, **Sumgayit**, Tbilisi and Yerevan capture almost the entire new housing stock. The main reason for this is that construction of such housing in other cities was not profitable for developers because of much lower solvency in secondary cities, while an abundance of vacant houses in depopulated settlements also did not help.

Services and Utilities

The provision of utilities and other amenities is generally better organized in urban housing estates, as they are constructed to meet the demands of customers. However, many cities, even the capitals, still remain short on essential services and utilities. By 2008, only **Tbilisi** provided 24-hour water supply, while **Baku** and **Yerevan** achieved just 18 hours. Other cities in the subregion perform even worse.

Electricity is now supplied 24 hours/day, or close to that, in almost all cities, but apart from the capitals, residential heating remains problematic. District and neighbourhood heating has disappeared from most cities, including some areas of **Tbilisi**. Sewerage, gas and hot water are provided in the capitals but delivery is problematic or absent in many other cities.

Azerbaijan's urban services delivery and its networks are still incomplete. Water supply reaches 89.8 per cent of multi-family houses, heating 68.1 per cent, gas 87.4 per cent and hot water only 11.7 per cent. Drinking water quality is also not up to standard. Water and sanitation systems are of low quality and suffer from damage. Overall communal service provision is considered below standard.[19] Utility services in the majority of Armenian and Georgian cities clearly remain problematic. Services provision has been privatized at a larger scale in Armenia and Georgia than in Azerbaijan. These private companies invest more in systemic upgrading but inevitably charge significantly more.

Given the large number of privatized apartments, the Armenian rental market is relatively small. The largest category is public rental of units transferred to local governments (approximately four per cent of the apartment stock). The private rental market is very small too and mostly found in **Yerevan**. There is no rent control. Landlords set the rents and most private leases are concluded informally without notarization and state registration. Rents in the private market in the early 2000s varied from USD 50 per month at the low end to between USD 250 and USD 400 per month at the top end; the latter mainly rented to companies or expatriates.

The rental market in Georgia is weak and mostly unofficial. During the housing boom-bust cycle, rental prices rose and then declined only moderately if compared to purchase prices.

Tserovani IDP settlement, a colourful assortment of identical single dwelling houses that the Georgian government erected to house over 2,000 families who had to leave South Ossetia in 2008. **©International Crisis Group.** Licensed under the Creative Commons Attribution-Share Alike 2.0 Generic license

Informal Housing and Homelessness

Informal housing is still widespread in all three South Caucasus countries, adding to the problems of their respective housing sectors and hindering effective operations of property markets. Squatting in state and municipal structures and absence of proof of ownership, building permission and cadastral reference are the most common causes of informality. In fewer cases, informality is the result of unsafe structures and locations or extension of existing buildings without permit and/or in violation of norms and standards.[20]

Informal housing incidence is highest in Azerbaijan with an estimated 800,000 structures, 500,000 of which just in the **Baku** region. IDPs are the leading cause of this informality (90 per cent)[21] as many IDP families built without permission on vacant land or in dangerous areas.

In Armenia, according to the Ministry of Urban Development, the number of homeless households and households in need of improved housing conditions exceeds 66,000 or 8.4 per cent of the population. Of these, 30,000 (3.8 per cent) are homeless and live in *domics* (temporary metal, wooden or stone structures) in public buildings or in temporary shelter. The government tries to resolve informality mostly by simply declaring them legal and it is not common for improvements to precede legalization.[22]

In Georgia, IDPs are also the major cause of low-quality and informal settlement in **Tbilisi**, **Rustavi**, **Zugdidi** and other cities. IDPs occupy former public buildings or squat on land. Other causes of illegality are questionable extensions or unsafe housing conditions. The major part of Georgia's housing stock - regardless of tenure - requires rehabilitation if not reconstruction. In some districts of Tbilisi, entire housing estates have deteriorated into urban slums, while the 2002 earthquake resulted in more than 20,000 badly damaged houses.

There is an obvious and significant shortage of adequate social housing throughout the subregion. The fragmented interventions and unrealistically small-scale social housing provision projects have little impact. Armenia, however, approved a government concept for social housing in 2010 under which the government established a social housing fund for refugees and socially disadvantaged families.[23]

Housing Management and Finance

The effective management of housing estates, especially multi-apartment buildings with individual privatized flats, remains unresolved in the subregion. In Soviet times, the housing stock was managed and maintained by public housing management units which no longer exist in Armenia and Georgia. In Azerbaijan they do because the surrounding land and common property of multi-apartment dwellings belong to the State or municipality and

their management remains their responsibility. Apartment dwellers, regardless of the legal status of the property, should pay annual maintenance fees (from AZN 0.01 to 0.02 per m^2). They usually don't because efficient collection is lacking. Also, there is no maintenance tradition, as the bulk of the multi-apartment structures have never, even during the Soviet era, benefitted from any maintenance whatsoever. Leaking roofs, broken elevators, lack of thermal insulation, neglected common areas and structural problems have all become endemic and, in some cases, have rendered buildings unsafe.

Over the past 15 years, the majority of multi-family housing estates in Azerbaijan have also not been repaired or renovated. Lack of knowledge on housing stock rehabilitation and renewal investment, combined with inefficient management have exacerbated deterioration of the multi-family housing stock, both in **Baku** and in provincial cities.[24]

Unlike Azerbaijan, there is a 'Condominiums Law' in Armenia, adapted in 2000. In Georgia, a 2007 'Law on Homeowners' Associations' was adopted to help manage multi-family housing complexes. But the transformation to new management systems was not smooth. Reportedly, only 20 per cent of the registered condominium associations are effective, as most owners do not accept responsibility for common property. There is a lack of resources, lack of competition among service providers and maintenance companies, nonpayment of service fees by local governments, lack of knowledge and information by residents and low managerial skill levels among management bodies.[25]

In Georgia, however, the creation of homeowners' associations has significantly improved maintenance, especially in **Tbilisi**. Buildings managed by such associations are eligible to municipal co-financing for repair of common (roofs, staircases) and public spaces (courtyards). Between 50 and 90 per cent of the costs are covered by the municipalities. In 2007 there were already 2,600 such associations in Tbilisi and their number is rising.

The banking sector in all three countries started to play a significant role only during the housing boom. Recently-established mortgage markets quickly became significant in **Baku**, **Tbilisi** and in **Yerevan** but not in other cities where property markets remain underdeveloped because of low solvency levels.

The housing boom from 2000 up to the 2008 crisis, especially in the prestigious central parts of capital cities, saw developers selling apartments at 30-40 per cent discount rates prior to the start of construction. In Georgia this phenomenon was popularly called 'selling air' because it offered no legal protection whatsoever. Consequently, during the 2008-2009 housing market crisis, many depositors suffered when developers went bust with the drying up of this pre-financing mechanism.[26] In **Tbilisi**, housing projects were frozen for undetermined periods until the municipality stepped in and mediated between banks and developers in 2011. The intervention led to a win-win situation whereby pending flats could be delivered to the municipality at USD400/m^2, significantly below average market prices but still covering developers' expenditures while simultaneously resolving banks' exposure to illiquid properties and negative equity.

Housing Policy

Despite the subregion's huge transformations in the housing sector, several matters remain unresolved. Lack of comprehensive national housing policies is a leading cause of piecemeal and fragmented interventions, *ad hoc* public decisions and inappropriate priority setting.

Although Armenia has adopted several laws and regulations, these do not close the gaps in housing legislation and leave serious governance voids. Armenia lacks clear policies on housing strategy development; state social housing responsibilities; authority and responsibility allocation among central and local levels; private-sector involvement in housing provision and finance; improvement of eviction, foreclosure and bankruptcy mechanisms and implementation and enforcement of acts, laws and regulations.[27] Recent social housing achievements in Armenia nevertheless include numerous successful interventions providing housing to vulnerable groups, including earthquake-displaced and refugee households, young families, and people with disabilities or partial mobility. However laudable these interventions may be, they remain *ad hoc*, creating new inequalities and lacking predictability due to their non-systemic nature.[28]

Azerbaijan does not have any state institution responsible for national housing policy and associated activities. Housing is regulated through normative acts, but legislation is unclear and incomplete. However, some government documents - the *'State Programme of Social-Economic Development of the Regions of the Republic of Azerbaijan (2009–2013)'* and the *'State Programme on Poverty Reduction and Sustainable Development'* - indirectly envisage enhancement of living conditions through improved utilities and public infrastructures, developing a sustainable social protection system, and improving the living conditions of IDPs. The adoption of an *Urban Planning and Construction Code* for Azerbaijan was under consideration in Parliament in 2012.

Georgia also lacks a long-term housing strategy and essential legislation, including for social housing. Many housing activities are carried out through *ad hoc* projects. The more recent housing developments in **Tbilisi** and many other cities in Georgia generally lack investment and upgrading elements. Maintenance remains problematic, sometimes in spite of a generally good cooperation between the municipalities and now mushrooming house owners' associations.

Despite improvements in the housing sector of the subregion in recent years, the establishment of well-elaborated housing polices is still required for providing decent housing conditions in the three countries of the region and in their urban areas in particular.

5.4
Urban Environmental Challenges

▲
The Mingachevir reservoir in northwestern Azerbaijan is the largest reservoir in the Caucasus supplying water to the Upper Karabakh and Upper Shirvan channels. The reservoir is fed by the Kura River, of which pollution is a major problem. The largest hydroelectric power station of Azerbaijan is located on the reservoir. Source: **NASA/Public domain**

Transformation of the Sector

During Soviet rule, the provision of public utilities, mobility and transport services had been weak points in urban environmental governance throughout the Soviet space and, by extension, also in the South Caucasus. The prioritization of industrial development over environmental matters was beyond doubt, contributing further to urban environmental deterioration. The rapid dissolution of Soviet urban management and financing system, combined with overall political and socio-economic hardship in the subregion perpetuated low environmental priorities.

However, the past decade's spectacular economic growth and the subregion's aspiration to seek compliance with EU standards generated remarkable transformations. One of the most noteworthy was 'destatization' of many utility and transport services. Armenia and Georgia applied the most liberal reform and in Georgia, for instance, almost all urban utility systems are now under private management and/or ownership. Due to cultural, political and institutional specificities, Azerbaijan achieved lower degrees of privatization in the utility and transport sectors. More effort and funding are still needed for substantial environmental improvements and towards healthier urban environments.

Water, Sanitation and Waste Management

The utility systems of South Caucasus countries, already incomplete, poorly managed and obsolete by the time of the demise of the USSR, have seen further deterioration since independence. However, all three countries have recently started renovation of their utility provision concepts and systems.

Water resources in Azerbaijan are scanty and unevenly distributed. Water supply and sewerage systems are obsolete, damaged and in some places dysfunctional. **Baku**, **Ganja** and **Sumgayit** have around 95 per cent access to water supply, but for other cities it is in the low 80s and in rural places about 11 per cent.[29] Overall, only 50 per cent of

TABLE 5.1: **DETERIORATING SERVICES COVERAGE IN MULTI-FAMILY HOUSING IN AZERBAIJAN (%)**

	2004	2005	2006	2007	2008
Piped water	94.3	92.8	92.4	92.3	89.8
Waste water	92.6	90.9	90.6	90.5	85.6
Heating	76.7	73.1	72.6	72.3	68.1
Gas	93.8	92.8	92.5	92.6	87.4
Hot water	19.2	18.2	16.9	12.3	11.7

Source: UNECE, *Azerbaijan: Country profiles on the housing sectors*, New York and Geneva, 2010

Azerbaijan's population is supplied with potable water, out of which just 15 per cent comes through central water supply. Eighty per cent of all urban settlements use ground water. Systemic losses are significant and daily water supply is ten hours for urban and seven for rural areas, on the average. Sewerage systems cover 40-45 per cent of Azerbaijan's urban population but only five per cent in villages. Of the 17 sewerage and wastewater processing stations only seven are currently operational.

Local governments are responsible for water and sewerage services, but regulations for the quality of utilities are weak and Azerbaijan continues to face problematic water supply. Water and sanitation systems suffer from physical damage and are of low quality, gradually deteriorating further to the point of dysfunctionality in the older urban housing stock (see Table 5.1).[30] New construction activities are not always followed by the provision of adequate utilities, while existing systems gradually deteriorate and become dysfunctional in the older housing stock.

Since 2003, the Government of Azerbaijan has been undertaking, with international assistance, a national water supply and sanitation project that aims at improving the water supply of the capital and several other cities. Other projects are rehabilitating water supply networks in **Ganja** and **Shaki**, and sewerage systems in **Agdash**, **Beylagan**, **Goychay** and **Nakhchivan**.

Waste management in Azerbaijan, run by either state or private companies, faces many problems. Some parts of the Caspian Sea urban coastline are *de facto* garbage dumps. Landfill is the only form of waste disposal throughout the country.

In Armenia**,** the coverage of cities and especially villages by water and sewerage systems declined from independence until the mid-2000s. Despite an abundance of water resources, water was available only intermittently with low pressures, poor quality and high systemic losses. Water and wastewater services, by legislation, are community-owned and, until the mid-2000s, two public enterprises were responsible for urban water provision. Government policy implemented since 2006 in cooperation with international donors and foreign enterprises succeeded in significantly enhancing water quality and the supply hours in the capital and other urban areas (See Text Box 5.4). Currently, Armenia is on target to achieve the MDG for water and sanitation by 2015.

The Armenian Ministry of Nature Protection provides policy and strategies on waste management despite lack of supporting legislation and even though solid waste management is by law the responsibility of local governments. Most Armenian municipalities, however, lack the human, technical and financial capacities to address waste management. About 85 per cent of the total volume of municipal solid waste is household waste; the remainder is nonhazardous industrial waste. Garbage collection tariffs are mostly set without economic justification, while many urban garbage companies do not have service provision contracts with the residents and fee collection does not cover the costs. In nearly all cities, landfills do not meet minimum sanitary standards and recycling practices do not exist.[31]

In Georgia, the Soviet legacy of water and sanitation systems and environmentally-harmful landfills dictate the urgency of rehabilitation and reconstruction. **Tbilisi** has the best services provision. Its former district heating system has been abandoned and gas is now the source of domestic heating.

Despite Georgia's abundant water resources, water supply remains troubled. By the mid-2000s, approximately 60 per cent of the pipes were faulty, resulting in 40 per cent systemic loss.[32] Sanitary conditions were also unsatisfactory and this frequently caused water contamination. Recently, with international support, the situation has changed and 92 per cent of the urban and 51 per cent of the rural population has piped water supplied to their premises or yard while eight per cent of the urban and 45 per cent of the rural population has access to other improved water resources.[33]

Drinking water in Georgia is mainly drawn from the ground and reportedly safe but many intakes remain unprotected and water often does not comply with epidemiological standards. All cities and districts have central water systems connected to a total of 150 major water intakes and a capacity of 3.1 million m^3 per day. Nevertheless, the majority of Georgian settlements receive water only intermittently. In **Rustavi** and **Kutaisi** water is supplied only eight and six hours per day, respectively. The situation has somewhat improved recently but urban water problems have not yet been fully resolved.

BOX 5.4: **ARMENIA: IMPROVEMENT OF WATER AND SANITATION SYSTEMS**

Until 2006, two public enterprises were responsible for the provision of water in urban Armenia. The Yerevan Water and Sewerage Enterprise (YWSE) covered about 1.3 million people in the metropolitan area. The Armenia Water and Sewerage Enterprise (AWSE) covered many of the larger municipalities outside Yerevan. The remaining small settlements were serviced by self-operating systems. These arrangements had proven quite inefficient and the government embarked on the Municipal Development Project (1998-2006); the Municipal Water and Wastewater Project (2004-2009); and the Yerevan Water and Wastewater Project (2005-2011).

The government effected significant organizational changes. In Yerevan, a ten-year lease contract was awarded to a French company in 2006. The government has put its second largest water utility, AWSC, on the same path as Yerevan. These measures dramatically improved the situation in Yerevan where daily water supply increased from about seven to 18.5 hours while more than 70 per cent of the city now has 24-hour service. Outside Yerevan, 16.5 per cent of the population in the serviced area of a second water utility now also has 24-hour water supply. Payment has increased from 20 to 79 per cent over the past ten years. Water quality has improved and is better monitored, while energy consumption has decreased by about 48 per cent through gravity-powered water sources. Increased efficiency occurred with booster pumps for high-rise apartments and the reduction in systemic water losses amounts to 35 per cent. Metering is now near universal in Yerevan.

Additionally, decentralized water management has been established in the Armavir Marzes, Lori and Shirak districts, with management provided by companies jointly-owned by the German Kreditanstalt für Wiederaufbau (KfW) and the government. In Lori and Shirak, service is provided by Lori and Shirak CJSC; in Armavir Marz, by 'Akunk' CJSC. All three companies are managed jointly by the state, AWSC and KfW. Fifty-one percent of the shares are held by the government and 49 percent by the communities. About 600 communities, including the cities of Kajaran and Nor Hachn, provide their own water and wastewater management.

Source: International Development Association (IDA), *More reliable water for Armenia's Capital and municipalities* (http://go.worldbank.org/B8XN4P7CQ0)

Wastewater discharge systems operate in only 41 Georgian cities or districts, 30 of which have wastewater treatment plants with a total design capacity of 1.6 million m^3 per day. Nevertheless, only 74 per cent of the total volume of the **Rustavi** and **Tbilisi** wastewater is treated. In **Kutaisi**, the second-largest city, there is no wastewater treatment whatsoever. **Khashuri** is the only settlement in Georgia with 100 per cent wastewater 'treatment'. But most of its facilities are in poor condition or even dysfunctional. Consequently, water is now the main reason for endemic intestinal and infectious disease in Georgia.[34]

In 2010 more than 43 per cent of the Georgian population was connected to a sewage network (non-shared toilet with flush to piped sewer). This figure comprised almost 80 per cent for urban households and almost 95 per cent for Tbilisi, while less than 20 per cent of rural populations had access to a similar sewer facility. Instead, the big majority (almost 80 per cent) of rural households used pit latrines which were cleaned periodically.[35]

Mobility and Urban Transport

Since independence, transport systems and facilities have significantly changed. The ecologically cleaner trolleybuses and trams have disappeared from **Baku**, **Rustavi** and **Tbilisi** because, due to lack of maintenance, fleets and facilities became obsolete. Consequently, public transport lost out to private transport, especially private cars, as the dominant intra- and inter-city transport mode. The Tbilisi city government, however, plans to reintroduce a modern tram system in the coming years.

The subregion's capital cities all have subways which are of great importance to intra-city mobility even though the networks and numbers of stations are relatively limited. In **Yerevan**, the metro serves some 60,000 passengers daily; **Tbilisi** 300,000 and **Baku** 1.8 million. In Yerevan the metro is operated by the Ministry of Transport and Communication. In Tbilisi a municipal enterprise is responsible for coordination and management of all public transportation in the city.

Nevertheless, private cars are the dominant mode of passenger conveyance in **Tbilisi**. About half of all Georgian passenger cars are registered in the capital: about 275,000 vehicles in 2008 which infers an average car ownership of about 200 vehicles per 1,000 inhabitants. The ongoing growth in motorization will increase congestion, even when taking into account the various urban road projects. Traffic congestion, obsolete second-hand cars and low-quality gasoline are the cause of 80 per cent of Tbilisi's air pollution. The situation is worsened by the topography as polluted urban air remains trapped by the surrounding hills.[36] Current motorization rates can only be mitigated by the establishment of a public transport network offering an attractive alternative. In other cities of Georgia the main public transport modes are buses and *marshrutkas* (shared minibus taxis). In smaller settlements, the latter is almost the sole transport facility, together with private cars.

Transportation and mobility conditions are similar in the non-capital cities of Armenia and Azerbaijan with buses, *marshrutkas* and private cars the main carriers. Increased motorization has worsened air quality, noise levels, congestion and the loss of urban green areas. The great majority of secondary and smaller cities has seen no major urban infrastructure investments for years and has poor roads, inefficient urban transport systems and is suffering rising traffic congestion and pollution.

Baku's passenger traffic is dominated by the metro and buses, as trams were abandoned in 2004 and trolleybuses in 2007. At the same time, the number of private cars more than doubled between 2000 and 2010 and their share in passenger traffic is now significant.

The metro of **Yerevan** accounts for only 8.2 per cent of total public transport as 85 per cent of the mobility demand is served by unsubsidized private microbuses despite expensive fares. While minibuses spared Yerevan a severe transport crisis in the 1990s, they now contribute to a chaotic traffic situation that has pushed out large- and medium-size buses. The service quality is poor because of overloading and congestion. Like in the two other capitals, the Yerevan-based fleet of private cars has grown by 40 per cent since 2004, including taxis.

The Armenian Government and the **Yerevan** Municipality have invested more than USD10 million in urban infrastructure to energize the local economy. Another investment programme targets urban connectivity and mobility improvements in all parts of Armenia; it aims to improve transport efficiency, reliability and safety and reduce congestion.

Energy Consumption and Energy Efficiency

The USSR's public energy provision was socially-oriented and all Soviet republics received cheap electricity and fuel. Energy issues, therefore, only became acute in the South Caucasus upon independence. Azerbaijan, due to its rich oil and gas deposits, did not suffer from deficiencies but in Armenia and Georgia energy provision became a major problem by the mid-2000s.

The South Caucasus countries, therefore, have quite different energy production and consumption patterns. Georgia is highly dependent on imported gas and oil. Russia was the main gas provider but deteriorating political and economic relations forced Georgia to import from Azerbaijan and Iran instead. Georgia's provision and consumption of energy is characterized by seasonal imbalances: hydro-energy supply significantly exceeds domestic demand in the summer, while during winters it needs considerable fuel imports to operate heating stations. Due to public policies, especially elimination of corruption in the energy sector, Georgia became self-sufficient on energy and, in 2011, even started exporting excess energy. Today, 80 per cent is clean and renewable hydro energy. The remaining 20 per cent is produced in heat plants.

Azerbaijan exports oil, gas and energy. Only 12-15 per cent of the energy it consumes is derived from renewable sources although that share is predicted to rise to 20 per cent in coming years.

Armenia produces more than 6 billion KWH annually. Forty per cent comes from a single nuclear plant some 30 km from **Yerevan** (See text box 5.5). The remaining 60 per cent is supplied by heat and hydro-energy plants. While Armenia exports 300-400 million KWH of energy annually, it also imports 1,700 million m^3 of gas, mostly from Russia and Iran, of which 500 million m^3 is used for energy generation.

Energy systems in the three South Caucasus countries suffer from structural and technical inefficiencies, high losses and ineffective use. Recent energy losses in Georgia, for instance, amounted to 45 per cent. In Armenia, experts claim that 15 per cent of the energy consumed could be saved.

Georgia plans to build more hydro-energy plants to increase its energy exports, minimize its dependence on imported fossil fuel and reduce environmental threats. In urban areas, significant energy savings could be achieved by installing more energy-efficient lighting and thermal insulation in buildings, promoting efficient use of fuel for heating and changing current energy consumption cultures.

In 2009, Azerbaijan established the Agency of Renewable and Alternative Energy Resources under the Ministry of Industry and Energy. The agency has constructed two mini-hydro stations and intends to build more before 2015. Other measures include replacement of obsolete technical facilities, insulation and heating systems. Pilot wind energy plants have also been established.

Armenia's industrial sector consumes 40 per cent of the energy generated, followed by transport with 24 and housing 15 per cent. Energy saving in all three sectors is essential and feasible. The Armenian government intends to implement energy-efficiency measures similar to the other two South Caucasus countries. However, in Armenia's case the main problem and environmental threat is the Metsamor nuclear power plant, built on highly earthquake-prone terrain (See Text Box 5.5)

Environmental Protection as a Challenge

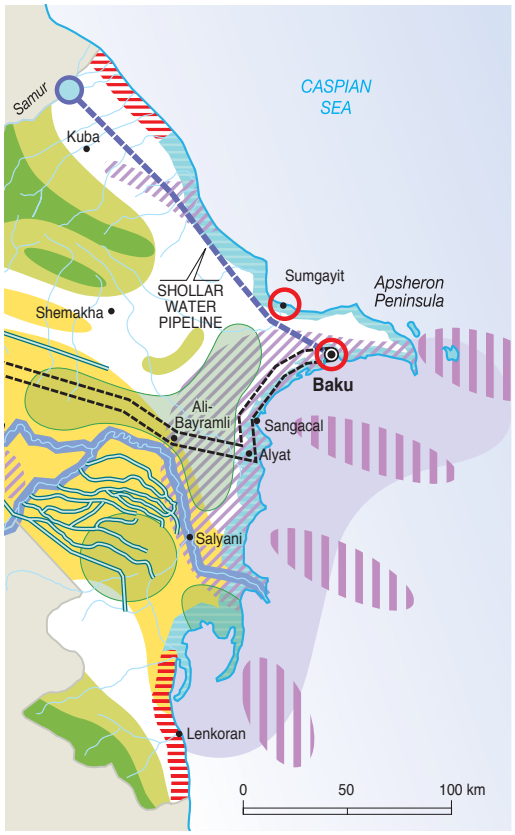
In the South Caucasus, environmental problems such as air and water pollution, soil degradation and deterioration of the ecological equilibrium have become acute. At the same time, the countries have their own priorities and specificities in environmental protection and, hence, different agendas and policies.

The rapid development of the oil and gas sector in Azerbaijan has led to increasingly-negative environmental impacts and inefficient use of natural resources. Despite measures by the government to enhance the situation, the following problems have emerged:

- Pollution of water resources, including transnational pollution
- Low-quality water supplies, huge systemic water losses and insufficient development of sewer systems
- Air pollution from industry and transportation
- Degradation of soils (erosion, desertification)
- Ineffective regulation of solid waste management, including hazardous wastes
- Declining biological diversity
- Declining forest reserves and fauna

In the densely populated Apsheron Peninsula, oil is the main source of pollution from hundreds of abandoned oil

MAP 5.8: **OIL POLLUTION IN AZERBAIJAN**



Land degradation

Soil degradation and erosion: pollution due to pesticides and/or heavy metals. Salinisation due to poorly maintained irrigation system and rise of water table

Area affected by deforestation

Pasture degraded by overgrazing

Summer pasture

Winter pasture

Pollution due to oil production and industrial activities

Soils contaminated by pollution from oil production

Obsolete Soviet drilling platforms threatened by Caspian Sea level rise.

Dispersed oil pollution

Large ageing Soviet industrial complex still generating pollution (mines, chemical and cement factories, thermal and metallurgical plants). Significant heavy metal contamination (soil and water).

Water issues

Transboundary polluted waters

Caspian Sea level rise

Coastline already submerged (destruction of certain infrastructure)

Coastline at risk of flooding

Drinking water canal

Tension between Russian Federation and Azerbaijan due to diversion of water from Samur River

Decaying Soviet irrigation infrastructure damaging soil

Transportation and communication

TRACECA (Transport Corridor Europe Caucasus Asia): Renovated or new multimodal transportation corridor (road, railroad, pipeline) and BTC (Baku-Tbilisi-Ceyhan): main oil pipeline route

Source: Map by Philippe Rekacewicz. UNEP/GRID-Arendal, 2004

wells. There are reports of major oil spills into water sources killing wildlife and fish. Thousands of hectares of soil are contaminated and no longer suitable for agricultural use.

Power plants are among the major sources of air pollution in Azerbaijan. Approximately 80 per cent of the electricity is generated in thermal plants using heavy residual fuels or natural gas. The bulk of the pollutants consist of NO_2, SO_2 and unburned hydrocarbons due to low efficiency and lack of maintenance of equipment. But Azerbaijan is taking remedial actions. Table 5.2 reflects significant reductions in pollutants emitted by stationary sources between 1990 and 2000 as a result of the closure of industrial plants.

Pollution is especially troublesome in **Baku** and **Sumgayit** due to petrochemical plants, oil refineries, aluminum smelters and cement production. Despite the reduction of pollutants since the 1990s, there are still significantly-elevated levels in a vast range of toxic air pollutants posing a threat to human health. Consequently, Sumgayit is one of the world's top ten polluted cities.[37]

To improve its troubled environment, a network of protected areas has been established in Azerbaijan with three national parks, 16 state natural reserves, 22 state restricted areas, one coastal national park and one historic natural state reserve. However, these measures are insufficient for solving Azerbaijan's urban environmental problems.

Armenia started environmental protection in 1994 when the Law on Environmental Protection, the Basic Law on the Environment and the Law on Mineral Resources came into effect. However, no comprehensive environmental protection programme emerged and decisions on environmental policy were made on *ad hoc* bases. In 1998 and 2008, the Government elaborated and approved the first and the second National Environmental Action Programmes. In accordance with these policies a significant number of legal acts have been adopted in protection of the environment, natural resources, biodiversity and to reduce pollutions of all kinds.

In **Yerevan** and other Armenian cities, air pollution is 97 per cent attributable to the large increases in the number of vehicles. Poor-quality petrol causes unacceptable concentrations of formaldehyde and benzene in Yerevan. Because of changes in the type of heating system in Armenia the level of indoor air pollution has also increased. Moreover, in almost every town in Armenia, the average annual concentration of dust exceeds the allowed maximum standard by two or three times. Carcinogens and toxic substances such as dioxins, lead, nitrogen oxides, and benzopyren emitted through uncontrolled industrial processes cause a 15 to 20 per cent increase in adult death rates.[38] The Alaverdi Copper-Smelting plant emits more than 40 tons of SO_2 annually, up to 11 times the allowable levels.

In Georgia, air pollution is also a major environmental problem with transport the dominant source. More than 75 per cent of the cars are environmentally-unfit second-hand imports from West Europe that produce high concentrations of harmful exhaust gases. Low-quality fuel, containing lead, manganese, benzene and sulphur also contribute negatively to human health. In all Georgian cities where monitoring is

▲
Sumgayit, Azerbaijan. Female workers walking between industrial pipes. **©Andy Johnstone/Panos Pictures**

TABLE 5.2: **TOTAL AIR EMISSIONS FROM STATIONARY SOURCES IN AZERBAIJAN**

	1990	1995	2000	2001	2003	2004	2005	2006	2007
Particulates/dust	148	22.7	19.2	28.3	34.1	43.5	28.2	23.7	28.4
Aerosols (liquids, gases) of which:	1,960	855.9	496.2	548.8	391.8	496.3	529.7	320.5	357.5
SO_2	90	50.0	35.1	14.7	15.5	13.2	13.8	12.4	9.6
CO	71	21.6	26.3	27.9	25.4	42.5	26.1	16.0	25.3
NO_2	59	31.6	24.2	27.1	24.2	25.2	25.8	29.3	23.1
Total	**2,108**	**878.6**	**515.4**	**577.1**	**425.9**	**539.8**	**557.9**	**344.2**	**385.9**

Source: Mansurov, A, *Air pollution in Baku and Sumgayit*, 2009 (http://ecocaspian.com/gpage1.html); based on Azstat 2006, 2008

conducted, concentrations of the primary pollutants (SO_2, NO_2, CO and MnO_2) exceed the allowable limits. The most acute situation is in **Tbilisi**, where almost one-third of the total transport fleet is based. In spite of these threats, neither Tbilisi nor other cities have proactive and preventive air pollution policies.

Since 1996, Georgia has had a Law on Environmental Protection and the Ministry of Environment Protection and Natural Resources implements programmes on climate change, air, water and soil protection, biodiversity and waste management. The country has a Biodiversity Strategy and Action Plan (2005) while certain cities implement environmental projects and participate in different international cooperation programmes.

BOX 5.5: THE ARMENIAN METSAMOR NUCLEAR POWER PLANT – A TEST FOR SUSTAINABILITY AND COOPERATION?

▲ Cooling towers of the Armenian Nuclear Power Plant in Metsamor

An old, Soviet-era VVER-440 reactor, known as the Armenian Nuclear Power Plant (ANPP) operates in the town of Metsamor, about 30 km from the capital Yerevan and less than 20 km from the Turkish border. Two model V-230 reactors of 407.5 MWe gross (376 MWe net) each supplied power from 1976 and 1980, respectively.

The Metsamor power station is one of a mere handful of nuclear reactors in the world built without primary containment structures. ANPP is a type of nuclear plant designed for seismic areas. The two reactors were modified in the 1980s and plans for two new units were abandoned after the 1986 Chernobyl accident. In December 1988, a powerful earthquake occurred in north-western Armenia. The Metsamor nuclear power plant, 75 km from the epicentre, continued operating without damage but both units were shut down in 1989 due to concerns regarding their seismic vulnerability. Due to energy shortages shortly after independence, the Armenian Government decided to reopen the plant and one reactor was brought back into operation in 1995. Since its reopening, the plant's fuel supply and operations have been performed by the Russian companies RAO, UES and Rosenergoatom, as part of an arrangement to help ANPP pay for the fuel supply.

Meanwhile, the international community has repeatedly expressed deep concerns about the potentially horrendous contamination dangers of continued ANPP operations. Western governments and experts qualify the power plant as 'ageing and dangerous' (USA government) and 'a danger to the entire region' (EU envoys). Azerbaijan, Georgia and Turkey have also expressed their deep concern about possibly devastating outcomes in case of any damage to ANPP. In the wake of Japan's earthquake and tsunami-triggered Fukushima Daiichi crisis, the Armenian Government faces renewed questions from those who say the potentially-fatal combination of design and location rank Metsamor among the world's most dangerous nuclear plants (Lavelle and Garthwaite, 2011). The International Atomic Energy Agency (IAEA), which has participated in safety improvements at the plant since its reopening, reported the power plant to be sufficiently safe if compared to other nuclear power plants worldwide. Backed by this position, the Armenian Government turned down an EU loan of €200 million for ANPP's closure.

Armenia's energy strategy (2007) continues to focus on nuclear and renewable energy sources to assure its energy security. In August 2010, an agreement was signed with Russia providing for the construction of another VVER-1000 reactor and supply of nuclear fuel. Construction costs are estimated at USD 5 billion (ARKA News), of which Russia agreed to finance 50 per cent. The latest date for commissioning is 2019-20.

Although several Armenian experts and NGOs are alarmed by the dangers associated with ANPP, a majority of the local population tolerates its operation because of the power shortages that would arise if the plant was closed. This has encouraged the government not to close the plant, as scheduled, before the new unit is commissioned.

Armenia's undisputed right to energy security requires international cooperation and support. Azerbaijan and Turkey - currently in a political confrontation with Armenia - are blocking safe trans-boundary energy supply even though, in the case of any accident at Metsamor, both countries, along with Georgia, would reap tragic outcomes. Continued operation and development of nuclear power plant(s) exposes the subregion and areas beyond it to a huge threat.

International political frictions should be put aside to secure Armenian energy security, avoid a possible catastrophe and assure environmental security sustainability of the wider region. Making common sense prevail over temporary enmity is the challenge put to Armenia, Azerbaijan, Turkey and the international community.

Sources: *Nuclear Power in Armenia*, 2012 (http://www.world-nuclear.org/info/inf113.html);
ARKA News Agency, *Russia, Armenia seal agreement on cooperation in nuclear unit construction*, 21 August 2010; Lavelle, M., Garthwaite, J., *Is Armenia's Nuclear Plant the World's Most Dangerous?*, in National Geographic: Daily News, 2011 (http://news.nationalgeographic.com/news/energy/2011/04/110412-most-dangerous-nuclear-plant-armenia/)

5.5
Urban Governance Systems

▲
The Cascade, Yerevan, Armenia. Though inaugurated in 2009, construction actually began in 1971 during Soviet rule, but stopped with the chaos that accompanied the collapse of the USSR. **©Haakon S. Krohn.** Licensed under the Creative Commons Attribution-Share Alike 3.0 Unported license

Soviet governance has left a legacy of resistance to transformation. Despite privatization of land and real estate, introduction of market-based construction, implementation of different modes of financing and budgeting and new institutional arrangements many urban governance characteristics remain unchanged or were insufficiently reformed. Despite legal provision, centralized urban management and decision-making, powerful vested interests influencing urban processes and non-participatory urban development have all conspired to resist real change in the South Caucasus countries (See Text Box 5.6).

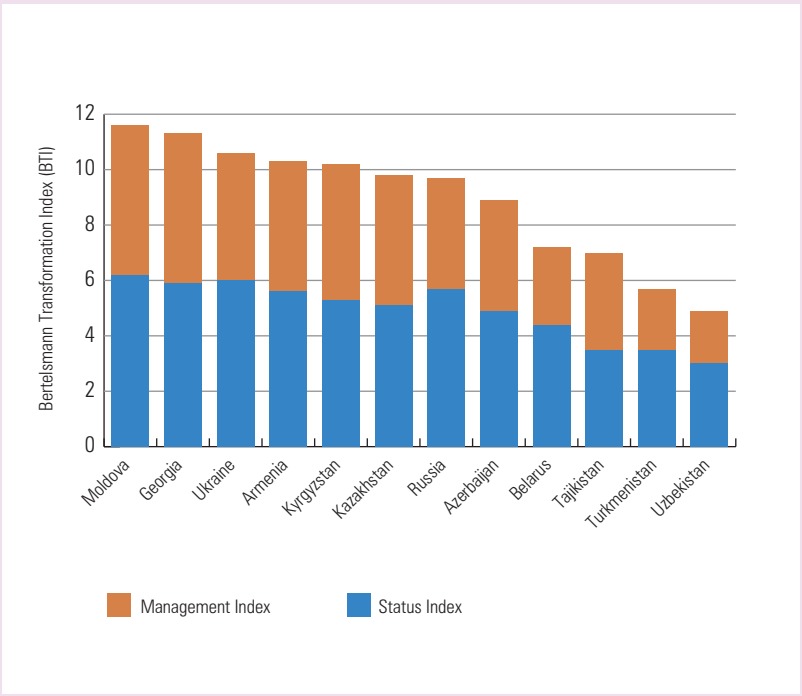
National Urban Policies

After independence, urban affairs did not become strategic priorities in any of the South Caucasus countries. None of them has elaborated comprehensive, nationwide, mid- or long-term domestic policies or strategies for urban development. Nonetheless, urban development programmes and projects *are* being carried out and their number and complexity increased over time. But these are mostly *ad hoc* and fragmented interventions, often unnecessary or without outcome assessments. Consequently, it is not always clear how these interventions fit in mainstream national urban processes.

In Armenia, the Ministry for Urban Development is the authorized body for urban planning, development of state policy on urban planning, architecture, construction, spatial planning and for the coordination of urban planning in specially-regulated areas. Key challenges include: a) balancing the national settlement hierarchy to overcome uneven territorial development; b) ensuring multi-nodal spatial development structures, security and development of urban planning systems; c) promoting sustainable settlement development, rehabilitation of historic-cultural environments; d) promoting green urban planning; e) ensuring harmonious and complementary development of natural and cultural landscapes and f) maintaining the spiritual and cultural traditions of the national architecture.

BOX 5.6: **TRANSFORMATION INDEX OF GOVERNANCE, FREEDOM, CORRUPTION AND BUREAUCRACY**

▲
A series of mass protests against alleged electoral fraud were held in Yerevan, Armenia in the wake of the Armenian presidential election of 19 February 2008.
Source: Serouj/Public Domain



Source: Bertelsmann Stiftung – Transformation Index (BTI): http://www.bti-project.de/

The degree of transition towards democracy and free market economies can be used as an indicator of socio-economic change by illustrating actual shifts in governance patterns. This applies also to urban governance systems.

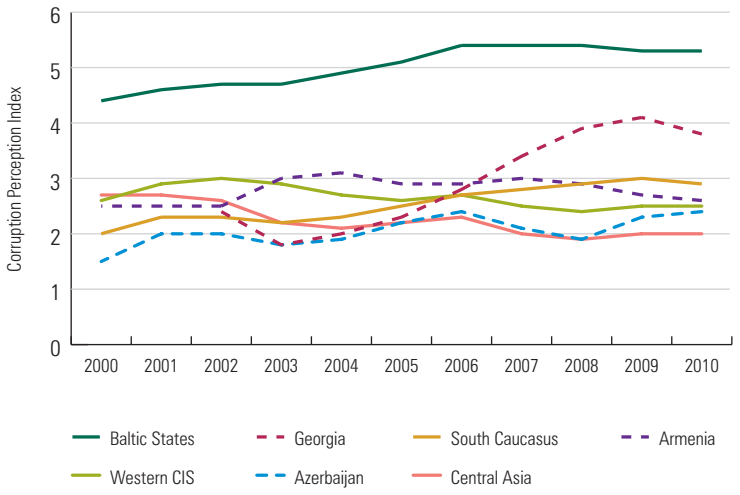
The Bertelsmann Transformation Index (BTI) was developed as a measure of transformation in transition economies and developing countries and provides country comparisons on the advance made. The index is an indirect measure of improvements in and adjustment of post-Soviet governance modes.

The Status Index (SI) shows progress in democracy and implementation of a market economy, while the Management Index (MI) shows the complexity of management conditions and the quality of performance. These indices reveal the advantages of Georgia and the better standing of Armenia over most other ex-Soviet countries.

The influential Freedom House survey (see *Freedom in the World 2012*) does not rate highly the achievements of the South Caucasus countries in implementing freedoms. It places Armenia and Georgia in the 'Partly Free' category and Azerbaijan among 'Not Free' countries. None of the subregion's countries is considered an electoral democracy'. Given that corruption is one of the worst constraints to good governance, the situation does not look very promising although it is not worse than the entire former Soviet space, excluding the Baltic countries.

As the graph on the left shows, due to its successful anti-corruption interventions in recent years, Georgia is halfway between the less corrupt Baltic region and the more corrupted remainders of the former Soviet space. The entire South Caucasus subregion scores somewhat better than other non-EU post-Soviet subregions, but the South Caucasus countries are still far from corruption-free.

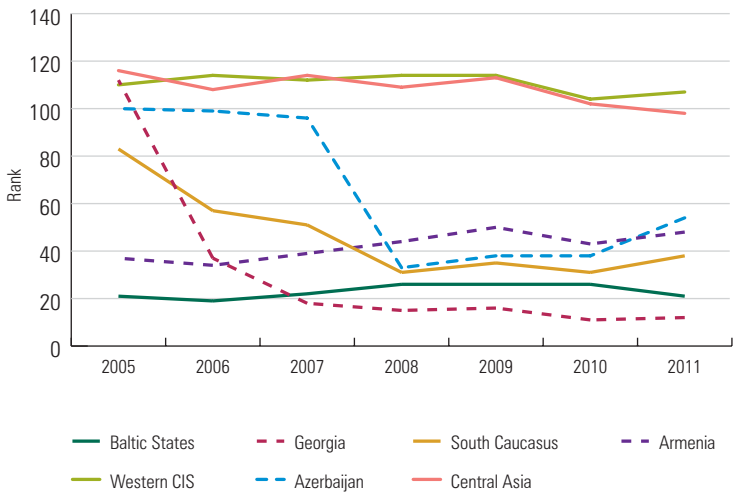
CORRUPTION LEVEL IN THE POST-SOVIET SUBREGIONS AND SOUTH CAUCASUS COUNTRIES (CPI IN 2000-2010)



Another aspect indicating governance efficiency and advance is the level of bureaucracy and client friendliness of public service systems. The annual survey *Doing Business* reviews regulations that enhance or constrain business activity, presents quantitative indicators on business regulations and the protection of property rights, and compares these across more than 180 countries. It reviews the regulations affecting businesses' life cycle: starting a business, construction permits, property registration, access to credit, investor protection, taxes, trading across borders, contract enforcement and business closure.

Source: Salukvadze & Medvedkov 2011, based on *Transparency International 2000-2010* (datasets); average indices for the regions are calculated by the authors.
Notes: (i) CPI – Corruption Perception Index; (ii) the Western CIS include the countries of the Eastern subregion according to this report and Russian Federation

RANKING DYNAMICS BY CONVENIENCE AND SECURITY OF BUSINESS ENVIRONMENT (2005-2011)



The graph on the left shows the business environment progress in the South Caucasus during the past seven years, which puts it close to the well-positioned Baltic States. Georgia's leading role in the region remains unchallenged. This could be explained by reforms in Georgia harmonizing its governance with European analogues. It ranks the highest worldwide in the ease of registering property. It also has an impressive top-ten ranking in dealing with construction permits (4th), starting a business (7th) and credit (8th). The two other countries of this subregion are also fair-ranking in Doing Business, especially in comparison with the trailing ex-confederates – Western CIS and Central Asian countries.

The ratings, although not reflecting the role and position of cities per se, reflects the overall rating of urban governance because, as argued before, it is difficult to separate corruption and bureaucracy in urban areas from those elsewhere, as well as to expect that good practices in urban governance would coexist with poor and corrupt systems in rural places and *vice versa*.

Source: Salukvadze & Medvedkov 2011, based World Bank and IFC, *Doing Business 2005-2011* (http://www.doingbusiness.org/); ranking for the subregions are calculated by the authors.
Notes: (i) The vertical axis shows rank (standing) of a country, and/or an average standing of a subregion's countries (so the South Caucasus countries' rank/standing = sum of ranks of the three countries divided by 3 and so on); (ii) the Western CIS includes the Russian Federation and the countries of the Eastern subregion according to this report; (iii) Turkmenistan (Central Asia) is not covered by the survey

Regional territorial government includes *Marzpetarans* (regional administrations), departments or divisions of culture, urban planning and architecture. Municipalities and village administrations are the local self-government bodies and include urban planning and architectural departments within their structures.

Since 2007, Azerbaijan's State Committee for City Building and Architecture is the public agency for regulating urban construction and development. The Committee is responsible for participating in the development of a state policy on urban planning and architecture and coordinating its implementation; cooperation with other organs to preserve historic city structures and the national architecture; creating normative methodologies for the state urban planning cadastre; and improving the quality and sustainability of architectural design.

Spatial planning is not among the first priorities in Azerbaijan's broader transition. Consequently, forward-looking urban planning is rare and even the fast and large-scale development of the capital city region (**Baku** and the Apsheron Peninsula) and other urban localities are not backed by planning or other regulatory documents. This underlies the current chaotic manner of urban growth. The last master plan for the city of Baku - one of the fastest growing cities in the former Soviet space - was adopted back in the 1980s and although it only expired in 2005, it had already become obsolete in the 1990s. A new master plan is being developed and could provide relief to the further aggravating situation in this rapidly-growing city.

In Georgia**,** urban development was the responsibility of the Ministry of Urbanization and Construction until the Rose Revolution. Legislative power, however, was scattered among several parliamentary committees.[39] Legal acts on urban issues were issued periodically but most failed due to financial constraints, lack of implementation capacities and weak political will. In 2005, the Ministry was absorbed into the Ministry of Economics and Sustainable Development. The Department of Spatial Planning and Construction Policy at this Ministry is in charge of a huge range of urban-related issues.[40] It is questionable whether this small department can resolve the vast array of complex, nationwide urban problems.

However, Georgia is relatively active in policy-making and has, since the mid-2000s, established a new legal framework for urban development. It is implementing large-scale spatial planning and construction projects, including reconstruction of the city of **Batumi** and the rehabilitation and renovation of Old **Tbilisi**, **Kutaisi**, **Signaghi** and **Mestia**, among others. The adoption of a new Master Plan for Tbilisi (2009), almost 40 years since the previous one, also illustrates shifts in governmental approaches towards urban issues.

The Government of Georgia recently adopted the *'Strategic 10-Point Plan for Modernization and Employment: 2011 – 2015'.*[41] For the first time since independence,

MAP 5.9: **ADMINISTRATIVE-TERRITORIAL ARRANGEMENT OF GEORGIA**

Source: MJS/UN-Habitat

Renovations in Tbilisi's Old Town. **©Anna Bogush/Shutterstock**

strategic governmental programmes include urban and regional development as prioritized issues through which the Government can address urban and regional development disparities. It intends to support the creation of development and employment hubs, improve inter- and intra-regional accessibility, improve rural infrastructure and help decentralize development and economic structures.[42] Although some criticize the programme as superficial and lacking tangible implementation steps[43], it deserves careful analysis for determining the changing trends towards urban issues in the country.

In summary, the South Caucasus lacks the very governmental policies to resolve its acute urban problems. Moreover, the public sector's lack of systematic approaches obstructs the aim of achieving sustainable urban settlements development.

Decentralization and Local Governance

The South Caucasus countries' post-Soviet attempts to democratize and decentralize governance systems have achieved different levels of success. The European governance pattern is formally accepted as the target and the countries have joined the European Charter of Local Self-Government.

In Azerbaijan a system of local self-government was established in 1999. In 2004, Azerbaijan adopted the 'Law on the Status of Local Self-Government'. In 2006, a national association of urban, rural and township municipalities was established. Reforms in 2009 resulted in the amalgamation of some municipalities and a reduction of their number to 1,718.

Municipal roles include collection of local taxes and duties, approval of local budgets, decisions on the use and disposal of municipal property, implementation of local programmes on social protection and promotion of social and economic development. However, the main role of local authorities is to provide decent public services and quality settlement management to the population, as outlined in the Governmental Programme for Reduction of Poverty and Economic Development of the Republic of Azerbaijan for 2008-2015.[44]

The Constitution and the Law on the Administrative-territorial Division of the Republic of Armenia (both from 1995) divide the country into ten regions (*marzer*). The capital **Yerevan** is accorded regional status. *Marzer* are further divided into rural and urban communities and Yerevan into districts. The government appoints (and dismisses) regional governors to implement regional policy; coordinate regional agencies of the state administration; mediate between central and local governments; and regulate inter-community matters within their competence.[45] Local self-government is exercised only within the community unit, i.e. the municipality. Each urban or rural municipality

can consist of one or more settlements. Hence, in Armenia a single-level local government system has been implemented.

The National Assembly adopted the Law on Elections to Local Governments (1996) and the Law on Local Self-government (2002). Currently there are 915 municipalities country-wide, of which 49 are urban. **Yerevan** has local self-government with the Mayor appointed by the President of Armenia, upon nomination by the Prime Minister. Yerevan's 12 city districts functioned as units of local government until their amalgamation into a single community in 2009.[46]

The main functions of Armenian municipalities are collecting local taxes and fees, providing public services (water, sewerage, community improvement and maintenance of the public property), approving local budgets and managing local programmes. But reviews of the local public sector have revealed low qualifications among many council members, lack of transparency in municipal operations, incompatibility of responsibilities and financial capacities, as well as lack of independence from regional and central governments as prevalent shortcomings.

Generally taken, communities' autonomy is further limited by weak financial resources. The central government has authority over budgetary loans, credits and guarantees. It also establishes procedures for the collection and distribution of local taxes. A Ministry of Territorial Administration, created in 2005, exercises control over regional governors.[47]

In Georgia, decentralization started in the late 1990s. Before this reform three sub-national levels of governance existed: nine regions and two autonomous republics; 65 districts (*rayons*) including five big cities not under district administration and about 1,000 municipalities (villages, communities, towns). The division of competences among local self government and regional branches of central authorities was ambiguous. Numerous fragmented municipalities did not enjoy real political or financial independence and operated within administrative directives and financial transfers from the centre.[48]

The Law on Local Self-Governance 2005 eliminated the lowest tier of sub-national governments and consolidated it into 65 municipalities, representing the former administrative districts (*rayons*). Cities formerly directly subordinated to the central government were given the status of municipality. The capital **Tbilisi** has the status of both region and municipality.

Reform outcomes in Georgia have been assessed differently. Some criticize the abolition of the lowest tier of self-governance that was purely elective[49]; others report decreased fiscal independence after reform because central government amalgamated some local taxes and imposed significant exemptions on property tax. On the other hand, prior to the reforms, only 51 municipalities (fewer than five per cent) managed their own budget. All others were totally dependent on grants from the district (*rayon*) while all communal and public services were until then provided by district administrations.

Current local government systems throughout the subregion reveal shortcomings that have undermined citizens' trust in public governance. Local governments therefore still require more and deeper reforms, especially in the fiscal and human resources domains.

Urban Governance at Regional and Local Levels

Urban and community management in the subregion shows strong vertical but weak horizontal vectors. Centralized decision-making is an objective of central government to maintain political control and prevent consolidation of opposition forces at the local level. Less attention is paid to governance efficiency and enhanced services provision associated with local self-governance. On the other hand, high degrees of central control could, perhaps, be defended under conditions of severe municipal fragmentation and lack of finances and human resources.

Georgia, after the governance reforms in 2005 which abolished the lower tier of subnational government, has centralized social care, education and health. The responsibilities of subnational governments now consist principally of providing urban water supply and district heating, public transportation, maintenance of public housing and municipal roads. The collection of income taxes was reassigned to the central government, leaving local governments with property taxes, fees, charges and income from rents, leases, or sale of public real estate, apart from a newly-created 'equalization transfer'[50], introduced to equalize fiscal disparities between rich and poor municipalities, so that central government can guarantee a minimum of 70 per cent of the expenditure of poor municipalities from the incomes of wealthier ones.

Regional executives are appointed by the President (Trustees of the President of Georgia) but this level is not regulated by legislation. Local level executives are elected indirectly. The mayors of cities and districts are elected by local councils which, in turn, are directly elected by the voters. Practice shows that regional authorities dominate the municipal level as they have direct support from the President and the central government.

Local self-governance reform in Georgia has made several achievements. The Mayor of **Tbilisi** is now an elected official and more power is vested in other elected local officials too. Local governments can appeal decisions by central authorities that contradict constitutional provisions on local self-governance. A Regional Development Strategy has been endorsed by the cabinet. Local budgets have increased five times compared to 2002 levels and public investments in local infrastructure increased significantly as a result. Nevertheless, shortcomings and problems still prevail over these achievements and require further reform, such as improving municipalities' still-limited fiscal autonomy and own revenues, enhancing the qualifications of municipal servants, improving local economies and employment rates

City Hall, Baku, Azerbaijan. **©Svetlana Jafarova/Shutterstock**

and promoting political pluralism in local councils. Despite attempts to involve the citizenry in municipal planning, budgeting and decision making, popular participation still remains weak in all three countries.

In Armenia, the degree of local government autonomy is low, illustrated by a 2009 average share of about 43 per cent own revenues in the total revenues. Although the figures are higher than those of many other countries, including the subregional neighbours, they still indicate heavy fiscal dependence upon the central government. According to the Constitution, powers delegated to local self-governments are subject to mandatory financing from the state budget (Article 106). But, too few delegated powers are financed by the state. Some therefore are either not implemented or local self-government bodies finance these themselves. Municipal spending amounts to only 5.2 per cent of the total public expenditures and just 1.6 per cent of GDP in 2009, emphasizing the very low degree of fiscal decentralization in Armenia.

Whereas administrative-territorial reform continues to remain a governmental priority, attempts to improve legislation do not appear to promote public participation in any detail. Community heads and community elders have the right to initiate decisions while residents may submit draft resolutions and attend council sessions with the permission of the local council. Nevertheless, public participation remains very low because most citizens are poorly informed about both local authority responsibilities and local government procedures. Lack of financial resources, ill-defined legal frameworks, minimal NGO advocacy and overall organizational difficulties further contribute to low participation levels. Although the Armenian Constitution provides for direct democracy, including referenda, public hearings and Town Hall meetings, they have rarely been used at the local level.

Azerbaijan is the only Council of Europe member state whose capital is not governed by an integrated local self-government institution such as an elected council. Pursuant to the recommendation by the Council of Europe a Law on the Capital City, envisaging establishment of an integrated elected local administration covering the entire capital city, will be adopted.

The financial capacity of Azerbaijani municipalities is completely inadequate. Locally-generated funds and taxes are limited while there are also no precise and transparent procedures for state transfers. Currently, Azerbaijani municipalities, despite a much higher national GDP compared to the other South Caucasus countries, are the lowest in the subregion in terms of financial capacity. The Council of Europe stresses that the powers of Azerbaijani municipalities are too restricted, with some self-governance aspects incompletely legislated and leaving uncertainties about the power divisions between municipalities and the executive.

In the subregion, restrictions to local self-governance and financial autonomy, despite clear constitutional

BOX 5.7: **STRUCTURE AND ESSENCE OF THE SOVIET-ERA SPATIAL PLANNING**

During the Soviet era, spatial planning was entirely centralized and financed from state budgets. Legal-normative acts applied to the entire USSR territory through the following spatial planning documentation:

- *Macro-territorial level* (the entire Soviet Union) - A General Scheme of USSR Settlement for the whole country and Regional Settlement Schemes for all the Union Republics;
- *Mezzo-territorial level* - Regional Planning Schemes and Regional Planning Projects; and
- *Micro-territorial (local) level* for settlements of different range and size - Master Plans for settlements, dwelling districts and city centers; Detailed Planning Projects for neighbourhood development projects.

All these plans were linked in a strictly hierarchical order, connected and coordinated to the region planning process, and implemented according to five-year Socio-economic Development Plans (Gerkeuli *et al* 2007).

There are contradictory opinions on the strengths and weaknesses of Soviet spatial and territorial planning.

Spatial planning for large Soviet cities, as an essential part of the planned economy, was introduced mostly in the form of master plans. In the absence of housing and land markets, these master plans established concepts of spatial development as well as rules and guidelines for city growth that could bypass competition among different land uses, economic appropriateness and market mechanisms. Spatial planning was a matter of the State, not the citizen. The Soviet state formulated rules and goals for itself and urban planning was therefore prescriptive with the master plan the spatial constitution of the city - a supreme legal document on urban development. These planning practices were quite different from the Western experience where urban and spatial planning is generally restrictive rather than prescriptive.

In practice, none of the Soviet master plans was ever fully implemented. Partial or complete failure of master plans often occurred and, therefore, the main legacy of the Soviet period was not so much city plans but failure to achieve what the planners had hoped to achieve (French 1996: 51). Master plans were often only followed during their first few years and, as time went on, many lost their power to control because circumstances changed or developments unforeseen by the planners occurred.

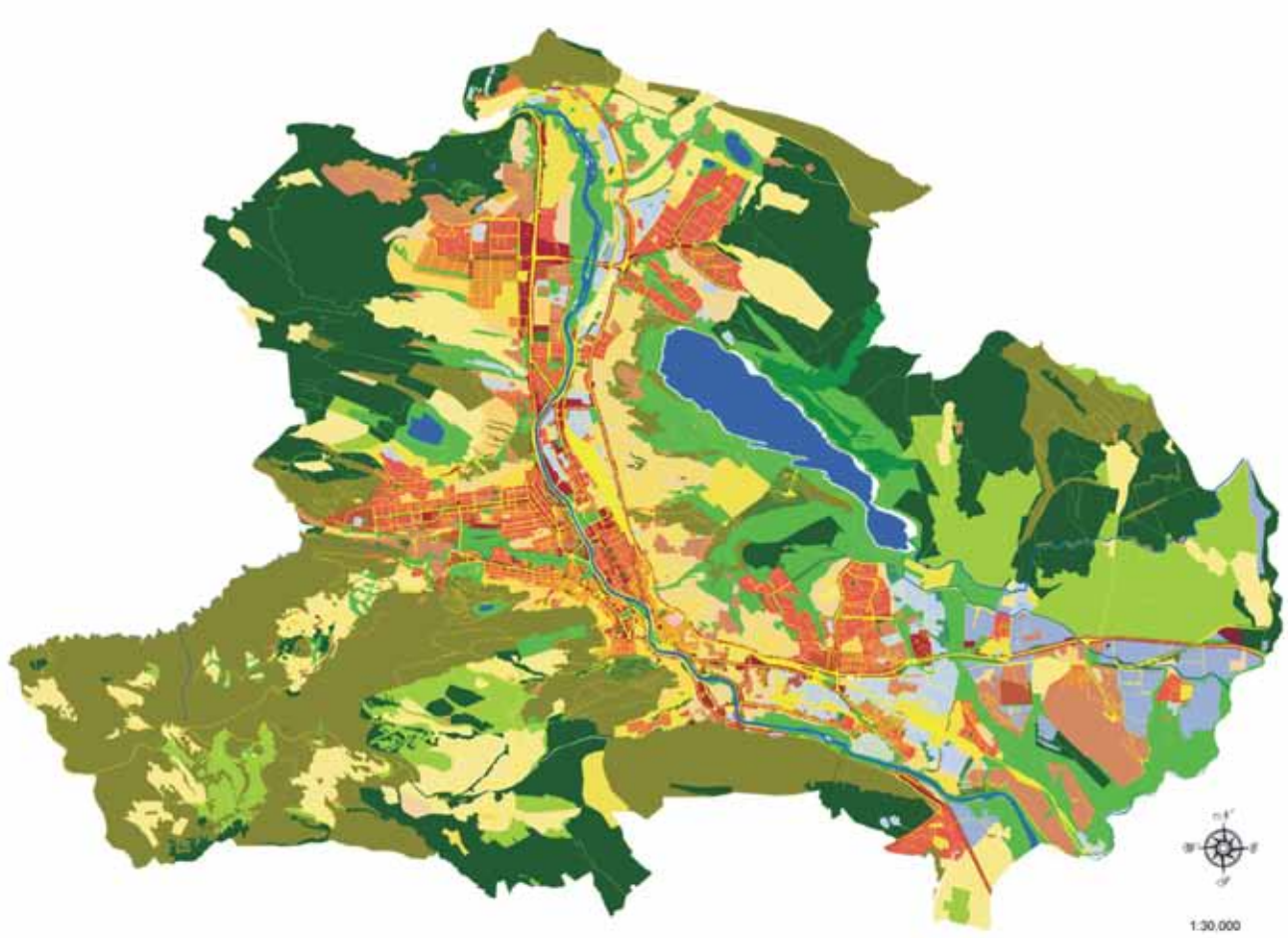
After independence, the countries of the South Caucasus tried either to abandon the former Soviet spatial planning system (Georgia), modify and adjust it to the present circumstances (Armenia) or preserve it almost unchanged (Azerbaijan). However, so far no effective spatial planning systems are implemented in the South Caucasus.

Sources: French, R., *Legacies and lessons of the Soviet period or city planning in the post-Soviet lands. Economic, social and political aspects of urban and regional change*. Proceedings of the second British-Georgian geographical seminar (28 June–5 July 1995, Oxford – Birmingham - London), 1996. Gerkeuli, N., Mirziashvili, P., *Municipal Assets Management in Georgia: Case of Mtskheta Municipality*, 2007

MAP 5.10: **ARMENIA: TERRITORIAL ORGANIZATION AND DEVELOPMENT**

Source: Urban Development Ministry of Republic of Armenia

MAP 5.11: **THE MASTER PLAN OF TBILISI (2009)**



Functional Zones

- Landscape-recreational Zone (LRZ)
- Residential Zone (RZ)
- Residential Zone 1 (RZ-1)
- Residential Zone 2 (RZ-2)
- Residential Zone 3 (RZ-3)
- Residential Zone 4 (RZ-4)
- Residential Zone 5 (RZ-5)
- Residential Zone 6 (RZ-6)
- Cultic
- Industrial Zone 1 (I-1)
- Industrial Zone 2 (I-2)
- Sanitary Zone (SanZ)
- Recreational Zone 1 (RecZ-1)
- Recreational Zone 2 (RecZ-2)
- Recreational Zone 3 (RecZ-3)
- Agricultural Zone (AgrZ)
- Transportation Zone 1 (TZ-1)
- Transportation Zone 2 (TZ-2)
- Transportation Zone 3 (TZ-3)
- Forestry
- Public-Business Zone 1 (PBZ-1)
- Public-Business Zone 2 (PBZ-2)
- Public-Business Zone 3 (PBZ-3)
- Special Zone (SpecZ)
- Special Zone 1 (SpecZ-1)

Source: Planning Department of the City of Tbilisi

guarantees, clearly remain obstructed by undesirable power relationships between the centre, the regions and localities. Underdeveloped participatory approaches to municipal planning and management are another significant obstacle to governance reform in the subregion.

Towards Collaborative Spatial Planning and Urban Development

In Armenia, the Law on Urban Planning (1998) regulates urban development. The key objectives of spatial development and implementation are reflected in planning documents at national, territorial and local levels. The national level elaborates settlement distribution and territorial organization. The regional level deals with territorial planning for the *marz*, communities and the micro-regional level. The local level controls communities' general plans and zoning. By law, urban planning documents are divided into two groups – urban (or spatial) planning and architectural construction documents.[51]

Since independence, only 60 local plans (6.6 per cent of all local communities) have been elaborated, out of which 50 had been financed by the state. Both the quantity and quality of these plans has been criticized.[52]

In Azerbaijan the general spatial organization framework remains the one inherited from the Soviet era. Development of long-term spatial planning and urban development has been slow or non-existent. This has undermined the implementation of legislation and standards for new construction, exacerbating the lack of urban development control. Despite recent prioritization of master planning, the focus is mostly on land use without much attention being paid to environmental, communal and local economic development aspects. Looking ahead, policymakers should not only update long-standing master plans, but do this through open, transparent and participatory processes that encourage feedback from local communities.[53]

Georgia's post-Soviet progress with spatial planning is less than impressive. During the past two decades no comprehensive updated scheme of the national settlement system has been compiled. Uncertainties about territorial integrity and the correspondingly unclear territorial-administrative arrangements of the country are a seemingly permanent excuse for inaction. Urban master plans have been produced sporadically but the process was re-activated in the past four to five years, when settlements such as **Batumi** and **Signaghi** started infrastructure development and spatial (re)organization projects. Renewed interest in planning and project implementation often appears to be based on central government decisions to enhance the tourism attraction of selected cities. The Georgian capital **Tbilisi** got a new master plan (Map 5.11) only in 2009, after the German GIZ (Gesellschaft für Internationale Zusammenarbeit) had co-financed the elaboration of a comprehensive land-use plan a year earlier which then served as the basis for the new master plan.

Cross-Border Cooperation

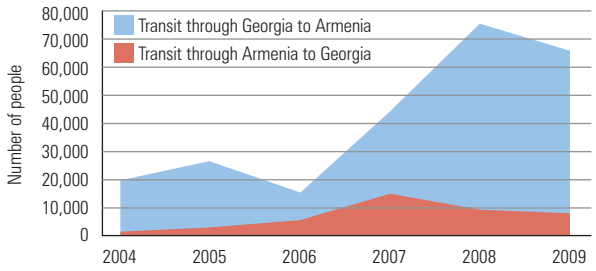
Regional cross-border cooperation is largely determined by international political relations and the degree of openness of boundaries. Accordingly, cross-border cooperation between Armenia and Azerbaijan has ceased since the 1990s. Deep-rooted socioeconomic hardships and introspective attitudes have also significantly contributed to the currently poor state of economic cooperation.

Cross-border cooperation between Georgia and Armenia is crucial for landlocked Armenia, especially since its border with Turkey is closed (see Map 5.4), while it also has no diplomatic relations with Azerbaijan. Although free trade, taxation, customs and other agreements have been signed between Georgia and Armenia, regional economic cooperation remains underdeveloped. Limited infrastructure and high levels of corruption were among the main obstacles. Some recent improvements occurred but, in spite of Armenia's interest in building relations with the adjacent (mostly Armenian-settled) border province Javakheti of Georgia and its main city **Akhalkalaki**, direct economic relations have not increased substantially. In contrast, enhancement of transport infrastructures in Georgia has benefited growth of traffic through Georgia to Armenia (See Fig. 5.11).

Georgian-Azerbaijan cross-border cooperation and joint projects (often with Turkish participation) are much more extensive. Currently, Azerbaijan is among the top-three economic partners of Georgia and Azerbaijan State Oil Company investments in Georgia reached USD 470m in 2011. **Tbilisi**, **Rustavi**, **Gardabani** and **Marneuli** are receiving ever-increasing numbers of visitors from and economic interactions with Azerbaijan, especially the city of **Ganja** and the provinces Akstafa, Gazakh and Qakh. The Georgian Black Sea and mountain resorts are also increasingly attracting Azerbaijani and Armenian tourists and business people.

Cross-border co-operation is an important priority in the European Union's Neighbourhood Policy and the Eastern Partnership proposed 'to support sustainable development along both sides of the border, to help decrease differences in living standards across these borders, to promote trade and investments, and to address the challenges and opportunities

FIGURE 5.11: **TRANSIT BETWEEN GEORGIA AND ARMENIA**



Source: Greyan, L., *Poverty Issue in Post-Soviet Georgia and Armenia*. Master's thesis. Tbilisi, 2012

'Good Luck' in Azerbaijan! Sign at the Georgian-Azerbaijani border crossing at Matsimi, Georgia. Azerbaijan is among the top-three economic partners of Georgia. **©hitchhikershandbook.com**

arising from proximity between local regions'.[54] Armenia, Azerbaijan and Georgia are all members of these EU projects.

In 1998, the Eurasia Partnership Foundation (EPF) launched the South Caucasus Cross-Border Programme, an initiative designed to address shared regional challenges through common approaches and exchange of experience and innovative ideas among engaged citizen groups in the South Caucasus. Since then, this programme has invested more than USD 6m in grants and technical assistance to Armenia, Azerbaijan, and Georgia, supporting more than 150 trilateral projects in media strengthening, economic development, environmental protection and public policy development. The EPF's Cross-Border programme promotes confidence building across the South Caucasus subregion by leveraging regional economies of scale, exchanging regional and international best practices, sharing innovative ideas and fostering cooperative networks among civil society, media, and businesses.

CARE International in the Caucasus, in cooperation with the Austrian Development Agency, is implementing the project 'Poverty Reduction and Confidence-Building in Border Areas of Georgia and Armenia by Strengthening Civil Societies in Sustainable Rural Development' (STAGE II) in border areas of Georgia and Armenia: **Samstkhe-Javakheti** and **Kvemo-Kartli** (Georgia) and Lori, Tavush and Shirak regions (Armenia).

There is also an extensive network of town-twinning and sister cities with participation of many urban settlements both in the subregion (Armenian-Azerbaijan city twinning) and at the wider international level. However, only few of these proved to be as systematic and effective as the **Tbilisi-Saarbrücken** partnership.

5.6
Emerging Issues

Baku White City will be one of the largest modern projects in the world. It is being built entirely on an ecologically reclaimed industrial zone, known as the Black City - a piece of urban heritage from the first oil boom. ©**www.bakuwhitecity.com**

Competition and Cooperation

In the first decade of independence, the cities of the subregion all tried to address their numerous problems, seeking survival and stabilization rather than competition for regional, country-wide or local leadership. This situation changed once the economies started to grow and selected cities, mostly the capital city regions, started competing for leading regional roles. These included mostly the settlements that had by then successfully re-defined their economic bases for growth and competitiveness in the new socio-economic and political environments.

These strategies largely depended on national priorities and strategic visions, although strategy-defining documents are still few and of questionable quality. Consequently, most new urban development projects to increase urban competitiveness are launched on *ad hoc* bases.

Azerbaijan relies on its fast-growing oil-based economy and, along with ordinary infrastructure, housing or renovation projects, implements or envisages expensive and ambitious mega projects. These include the 'White City' area in **Baku** and the 'Azerbaijan Tower' on the soon-to-be-created artificial Khazar Islands in the Caspian Sea (see Text Box 5.8). Although these development projects embrace several areas and settlements of Azerbaijan, the focus is mainly on Baku and the surrounding Apsheron Peninsula. In its attempt to diversify the national economy, Azerbaijan is focusing on tourism as one of the main new branches to develop. Hence, many projects, including mega projects, are oriented on promoting both in-migration and large numbers of foreign visitors and investors.

Armenia's development plans count on foreign investments (mostly from Russia and the wealthy Armenian diaspora). The landlocked country does try to improve its communication and transportation infrastructures, connecting Armenia to neighbouring Georgia with new highways to achieve better connectivity with the Black Sea coast. It also tries to enhance communications internally. Besides some extracting and manufacturing industries, Armenia considers tourism the economic sector with most promise and believes it could attract wealthy foreigners of Armenian origin and others.

Ancient Armenian church of Khor Virap overlooked by Mt. Ararat, 30kms south of Yerevan. Armenia considers tourism the economic sector with the most promising outlook.

Consequently, **Yerevan**, along with several historical sites outside the capital city and resort settlements such as **Jermuk** and the Lake Sevan area, is seen as a major pole of economic growth.

Georgia's aspiration of joining the EU and NATO has stimulated the country into undertaking radical administrative and political reforms to harmonize its institutional, legal and socio-economic environment with EU countries. Such attempts foresee the elimination of 'petty corruption', easing of bureaucratic mechanisms and other attractive and transparent conditions for businesses and investors. The conversion of Georgia in the post-Soviet region and beyond as a 'reform exporter' and the most investor-friendly country, is to some degree compensating for its limited state budget and lack of strategic natural resources. Hence, Georgia is well on the way for more systemic changes than Armenia and Azerbaijan.

Another remarkable shift in Georgia's urban development is the Government's decentralization effort. Since the mid-2000s, Georgia has been reducing the overwhelmingly commanding role of its capital **Tbilisi** as the seat of all official power and decision-making in the country. The relocation of the Constitutional Court to **Batumi** and of the Parliament to **Kutaisi** has started a process of functional dispersion. The impacts of diverting functions to other settlements are considered somewhat of a risky experiment with the results evident only in the coming years. Nevertheless, a sustainable economic base for the development of most Georgian and other South Caucasian cities should be determined and enforced in the nearest future. In some cases, this might involve revitalization of decayed industrial profiles such as in **Sumgayt, Rustavi, Zestafoni** and so on. In other cases it concerns finding new, mostly tertiary and quaternary functions.

The existing lack of domestic and regional coordination and cooperation among cities makes balanced and efficient urban settlement development doubtful. Having almost each individual city and town of the subregion attempting to become a tourist centre shows a low level of economic diversification and a high degree of duplication.

BOX 5.8: **URBAN MEGA PROJECTS IN THE SOUTH CAUCASUS – CHALLENGING THE FUTURE?**

Architects' rendering of the Azerbaijan Tower on one of the islands of the artificial Khazar Archipelago in the Caspian Sea. **©khazarislands.com**

Architects' rendering of the Georgian government's planned city 'Lazika'. **©www.youtube.com**

In the past few years, the South Caucasus has become a place of planning interventions and several ambitious and extraordinary city construction and infrastructural projects.

In 2010, the world's longest cable car line was opened in Armenia. The 5.7 km ropeway over the Vorotan River Gorge connects the capital Yerevan with the ancient Tatev monastery near the border with Iran. The link allows year-round access to one of the county's most important religious centres, which is expected to become a major tourist attraction. The USD 18m cable car line received much of its funding from private donations, according to the National Competitiveness Foundation of Armenia which oversaw the project. At its highest point over the gorge, it travels 320 metres above ground level. Through this project Armenia, keen to develop its tourism industry, showcases its ancient history and old Christian traditions.

Azerbaijan is seeking a global first by planning the 189-floor, 1,050m high 'Azerbaijan Tower' on the one of the islands of the artificial Khazar Archipelago in the Caspian Sea. The islands will serve as a new commercial and residential hub. The tower alone is expected to cost USD2 bn, while the surrounding city - designed to house one million residents and containing hospitals, parks, shopping and cultural centres, universities and more than 150 schools, plus a Formula One racetrack - is estimated at USD100 bn. The start of construction of the Azerbaijan Tower is scheduled for 2015 with a planned 2018/19 completion date. The Khazar Archipelago is due for completion by 2022. (Quick, D., 2012; Iliafar, A. 2012).

At the end of 2011, Georgia's government announced a plan to build the new 'instant city' Lazika on a stretch of marshy land of the Anaklia Region in north-west Georgia, close to the conflict zone with Abkhazia. Inspired by the Chinese urban and economic boom, this project should propel Georgia into the world market with the economic trade hub that its geographic location warrants. The plans, which are not yet fully released, indicate a development of primary and secondary highways, an airport, multiple seaports and railways that will connect the new city, providing accessibility for transport and trade of cargo. The city is subdivided into a processing centre in combination with a transportation hub and logistics area; a business district, which will cover three million square metres; residential areas varying from small homes to the modern high-rise and expansive mansions. The centre of the city is devoted to a large amusement park and wildlife preserve. The north-eastern coastline will be developed into a tourist region with world-class hotels.

The project is expected to be completed by 2020 and will accommodate up to 500,000 residents. Costs have been estimated between USD 600m to 900m, which the Georgian government hopes to fund mainly through foreign investments. The project is causing lots of questions and controversy. Criticism comes from those who question whether people will be willing to move to the new city given Georgia's small population and negative demographic trends. In addition, many look at this project as a waste of resources when most of the cities in the country are losing population and struggling with poverty. In response, the government states that it is a poverty alleviation strategy as the city is envisioned as an economic engine that, within ten years, will be "a leading Black Sea trading hub". (Vinnitskaya 2012, Barry 2012, *'Instant city' plans 2012*).

The recent mega projects for new cities in the South Caucasus show many similarities with urban development approaches in wealthier parts of the post-Soviet area such as Russia or Kazakhstan and some developing countries. The applied methods and concepts certainly reflect competition strategies and policies for gaining a place in regional and global urban hierarchies. However, it is still unknown how successful such approaches will prove in reality.

Barry, E., *On Black Sea Swamp, Big Plans for Instant City*. The New York Times, 2012.

Iliaifar, A., *$2 billion Azerbaijan Tower to usurp Saudi Arabia's Kingdom Tower as world's tallest* (http://www.digitaltrends.com/lifestyle/2-billion-azerbaijan-tower-to-usurp-saudi-arabias-kingdom-tower-as-worlds-tallest/).

Quick, D. 2012. *World's tallest building proposed for Azerbaijan*.

Vinnitskaya, I., *Instant City: New City Lazika, Anaklia Region, Georgia*, 2012 (http://www.archdaily.com/228980/instant-city-new-city-lazika-anaklia-region-georgia/)

The past few years have shown a growing interest among South Caucasus countries in developing urban and infrastructural mega projects envisaged at adding to their international image and, hence, these measures could be seen as 'city or place branding'. All in all, South Caucasian cities currently are in the process of re-defining and re-inventing themselves within the new regional and global circumstances. Their current competitiveness is still very limited in comparison with many Eastern European cities. However, an overall underdevelopment of the urban systems in the subregion, as well as in the adjacent North Caucasus, Central Asian and Middle Eastern areas, may provide opportunities for some of cities in the South Caucasus to claim a role as regional leaders if efficient development policies are implemented in the years to come.

Accessibility to the Region

The main reasons of limited accessibility to and within the subregion are the high degree of internal spatial separation and lack of cooperation. Closed boundaries cause territorial fragmentation, isolation and underutilization of the favorable macro- and mezzo-geographic location. The subregion's internal transport system is almost non-existent and communications mostly have an occasional rather than systematic character. Lack of coordination hinders efficient and mutually beneficial communication to and from the subregion. For example, the air transport routes, by which the main part of overseas connections is established, especially for passenger mobility, are duplicated by the three main airports – **Baku**, **Tbilisi** and **Yerevan** with flights to the same destinations rather than diversifying. This keeps the main air gateways of the South Caucasus far outside the subregion, mostly in **Istanbul** or **Moscow**.

Other modes of transport are also underdeveloped and play an insufficient role in establishing intensive international connections. An additional accessibility inconvenience is the different visa regimes. Georgia is visa free for most of the world, while Armenia and Azerbaijan require visas, sometimes involving complicated procedures for citizens of non-CIS countries.

Azerbaijan and Georgia find mutual interests in implementing joint projects towards increasing their connectivity with the outside world using each others' locational advantages and resources. Such cooperation embraces oil pipelines, railways and road projects aiming at reaching Western European countries and Central Asia through the Black Sea and Turkey's territory and the Caspian Sea. Consequently, Armenia, due to ongoing political tension and closed boundaries with Azerbaijan and Turkey, remains excluded as its relations and connections with Georgia only partially compensate for the derived losses.

At the same time, all three countries, especially their capital cities, are in competition for establishing themselves as regional hubs. Georgia's approach is somewhat different as it tries to diversify and redistribute gateway functions among several cities. The ongoing construction of modern international airports in **Kutaisi** and in the Poti-Anaklia region to attract budget airlines, together with the planned new port of **Lazika** and expending the existing **Poti** port, emphasizes the desire to create alternative regional hubs closer to the Black Sea shore and, hence, European cities.

Climate Change and Green Economy

The Constitution of Georgia (1995) states: 'Everyone shall have the right to live in a healthy environment and enjoy natural and cultural surroundings' (Article 37). The right to live in a healthy environment is guaranteed by constitutional and legal acts of Armenia and Azerbaijan, too. However, in reality, the implementation of proactive environmental and ecological policies in all three countries is lagging.

Environmental problems rank low among other priorities. Along with relatively low socio-economic development and low personal incomes, this could be explained by the low environmental culture of the Soviet legacy. But the South Caucasus is facing many environmental threats, like urban air pollution from traffic and industry, deforestation, soil degradation and water pollution. At the same time, the severity of almost all these problems is not unusual for most of the other transitional countries. Generally, most are still manageable through targeted policies. The greatest efforts are needed to stabilize and improve the situation in oilfields in Apsheron (Azerbaijan), as well as in the areas of extraction of different mineral resources such as **Alaverdi** (Armenia), **Kazreti** (Georgia).

The countries of the subregion have signed global and regional environmental agreements resulting in international obligations for improving ecological conditions. They also have access to the required scientific and technological knowledge and funds, raising confidence in the possibility of tackling and improving the situation (at least partially) over the coming years.

However, the extremely threatening and urgent matter of the operation of the Armenian Nuclear Power Plant (ANPP) remains unresolved (see Text Box 5.5). This could be seen as a central matter for testing the political will and readiness for cooperation and implementing constructive relations within the subregion, on the one hand, and the problem solving capacity by the international community, on the other. Hence, the ANPP should become a matter of priority for responsible policy-making towards political and environmental sustainable development of the subregion.

Multi-cultural Societies as an Emerging Issue

The South Caucasus' violent ethno-political conflicts from the late 1980s to the early 1990s seriously discredited the idea of multiculturalism in the subregion. Rather, the years of independence have witnessed an ethnic homogenization in the South Caucasus countries, especially in their capitals and other urban settlements.

The share of Azeri population in Azerbaijan grew from 82.7 per cent in 1989 to 90.3 per cent in 1999; the share

18th-century Caucasian embroidery. Once famous for its ethnic and cultural mosaic, the subregion has become increasingly monoethnic. **©www.davidmus.dk**

of Armenians in Armenia changed from 93.3 per cent in 1989 to 97.9 per cent in 2001 and the share of Georgians in Georgia increased from 70.1 per cent in 1989 to 83.8 per cent in 2002. Similar changes towards more mono-ethnic population compositions occurred in the capitals. For example, in **Tbilisi** the share of Georgians grew from less than 70 per cent in 1989 to more than 80 per cent in 2011.

Hence, the South Caucasus, once famous for its ethnic and cultural mosaic, rapidly became a place of 'titular' ethnicities, as minority groups lost population and became quite isolated and excluded from mainstream political and socio-economic processes. However, the countries' ambition of significantly increasing their economic potential and attractiveness, as well as the intention of converting their cities into regional hubs and growth poles will definitely 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.

ENDNOTES CHAPTER 5

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Statistical Annex

TABLE 1: **TOTAL POPULATION BY MAJOR AREA, REGION AND COUNTRY, 1950-2050 (THOUSANDS)**

Major area, region or country	1950	1960	1970	1980	1990	2000	2010	2020*	2030*	2040*	2050*
Eastern Subregion	**47,384**	**53,977**	**59,951**	**63,712**	**66,269**	**63,056**	**58,617**	**55,686**	**52,545**	**49,444**	**46,736**
Belarus	7,745	8,190	9,040	9,659	10,260	10,058	9,595	9,282	8,883	8,438	8,001
Republic of Moldova	2,341	3,004	3,595	4,010	4,364	4,107	3,573	3,358	3,147	2,905	2,661
Ukraine	37,298	42,783	47,317	50,044	51,645	48,892	45,448	43,047	40,515	38,100	36,074
Southern Subregion	**39,649**	**44,552**	**48,871**	**53,341**	**56,227**	**54,244**	**52,897**	**51,649**	**49,849**	**47,608**	**45,077**
Albania	1,215	1,611	2,136	2,671	3,289	3,072	3,204	3,294	3,290	3,179	2,990
Bulgaria	7,251	7,867	8,490	8,862	8,819	8,006	7,494	7,001	6,455	5,935	5,459
Bosnia-Herzegovina	2,661	3,180	3,564	3,914	4,308	3,694	3,760	3,647	3,473	3,237	2,952
Croatia	3,850	4,045	4,169	4,377	4,517	4,506	4,403	4,311	4,185	4,024	3,859
TFYR Macedonia	1,230	1,392	1,568	1,795	1,909	2,009	2,061	2,073	2,043	1,976	1,881
Montenegro	399	467	519	576	609	633	631	636	633	621	604
Serbia (including Kosovo (UN1224))	6,732	7,583	8,173	8,946	9,569	10,134	9,856	9,718	9,479	9,177	8,797
Romania	16,311	18,407	20,253	22,201	23,207	22,192	21,486	20,970	20,291	19,458	18,535
South Caucasus Subregion	**7,777**	**9,921**	**12,398**	**14,330**	**16,216**	**15,933**	**16,632**	**17,457**	**17,672**	**17,766**	**17,695**
Armenia	1,354	1,867	2,518	3,096	3,545	3,076	3,092	3,146	3,105	3,036	2,931
Azerbaijan	2,896	3,894	5,172	6,161	7,212	8,111	9,188	10,231	10,807	11,274	11,578
Georgia	3,527	4,160	4,707	5,073	5,460	4,746	4,352	4,080	3,760	3,456	3,186
Western Subregion	**53,565**	**60,329**	**65,680**	**70,747**	**73,859**	**73,402**	**73,162**	**73,241**	**72,320**	**70,064**	**67,969**
Czech Republic	8,876	9,522	9,789	10,262	10,303	10,243	10,493	10,741	10,798	10,676	10,638
Estonia	1,101	1,216	1,365	1,473	1,568	1,371	1,341	1,329	1,296	1,258	1,233
Hungary	9,338	9,983	10,315	10,699	10,376	10,211	9,984	9,825	9,644	9,415	9,243
Latvia	1,949	2,132	2,366	2,513	2,664	2,385	2,252	2,169	2,073	1,977	1,902
Lithuania	2,567	2,770	3,137	3,430	3,696	3,500	3,324	3,190	3,068	2,931	2,813
Poland	24,824	29,033	32,529	35,577	38,056	38,302	38,277	38,375	37,835	36,372	34,906
Slovakia	3,437	4,094	4,509	4,962	5,270	5,405	5,462	5,545	5,547	5,406	5,241
Slovenia	1,473	1,580	1,670	1,832	1,927	1,985	2,030	2,066	2,059	2,029	1,994

* Projections

Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

TABLE 2: **URBAN POPULATION BY MAJOR AREA, REGION AND COUNTRY, 1950-2050 (THOUSANDS)**

Major area, region or country	1950	1960	1970	1980	1990	2000	2010	2020*	2030*	2040*	2050*
Eastern Subregion	**15,659**	**23,376**	**31,075**	**37,950**	**43,287**	**41,697**	**40,053**	**39,565**	**38,828**	**37,943**	**37,095**
Belarus	2,032	2,654	3,978	5,457	6,769	7,038	7,160	7,277	7,213	7,028	6,813
Republic of Moldova	386	704	1,153	1,620	2,041	1,831	1,677	1,809	1,881	1,884	1,851
Ukraine	13,241	20,019	25,944	30,873	34,477	32,828	31,216	30,478	29,735	29,032	28,430
Southern Subregion	**9,357**	**14,301**	**20,055**	**25,515**	**29,752**	**29,586**	**29,924**	**30,739**	**31,427**	**31,876**	**31,890**
Albania	249	495	678	902	1,198	1,282	1,677	2,049	2,272	2,335	2,306
Bulgaria	2,000	2,919	4,440	5,503	5,854	5,516	5,435	5,434	5,231	4,943	4,654
Bosnia-Herzegovina	364	605	970	1,391	1,691	1,589	1,795	1,941	2,039	2,071	2,036
Croatia	858	1,220	1,676	2,191	2,441	2,504	2,534	2,617	2,712	2,768	2,798
TFYR Macedonia	288	474	738	960	1,103	1,193	1,220	1,263	1,317	1,348	1,350
Montenegro	51	88	139	212	292	370	398	415	430	442	448
Serbia (including Kosovo (UN1224))	1,367	2,204	3,248	4,128	4,822	5,369	5,523	5,794	6,035	6,224	6,308
Romania	4,180	6,297	8,166	10,228	12,350	11,763	11,343	11,226	11,391	11,745	11,991
South Caucasus Subregion	**3,171**	**4,800**	**6,354**	**7,960**	**9,271**	**8,655**	**9,183**	**10,002**	**10,730**	**11,535**	**12,201**
Armenia	546	958	1,508	2,045	2,390	1,989	1,981	2,044	2,094	2,148	2,166
Azerbaijan	1,323	2,051	2,586	3,251	3,876	4,168	4,906	5,740	6,469	7,241	7,921
Georgia	1,302	1,791	2,260	2,663	3,005	2,498	2,295	2,218	2,168	2,146	2,114
Western Subregion	**22,793**	**29,891**	**35,807**	**43,499**	**47,304**	**46,777**	**46,614**	**47,179**	**48,147**	**48,962**	**49,713**
Czech Republic	4,809	5,670	6,304	7,713	7,750	7,579	7,709	7,902	8,091	8,247	8,457
Estonia	547	700	887	1,027	1,115	951	932	935	939	947	962
Hungary	4,951	5,581	6,201	6,867	6,832	6,593	6,885	7,211	7,406	7,483	7,571
Latvia	905	1,127	1,436	1,686	1,845	1,623	1,525	1,477	1,453	1,443	1,442
Lithuania	739	1,093	1,555	2,098	2,498	2,345	2,227	2,182	2,173	2,164	2,156
Poland	9,517	13,904	16,956	20,665	23,317	23,639	23,328	23,387	23,807	24,177	24,441
Slovakia	1,031	1,370	1,851	2,562	2,977	3,039	2,995	3,046	3,187	3,333	3,446
Slovenia	293	446	618	880	971	1,008	1,014	1,038	1,091	1,167	1,238

* Projections

Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

TABLE 3: **PERCENTAGE OF POPULATION RESIDING IN URBAN AREAS BY MAJOR AREA, REGION AND COUNTRY, 1950-2050**

Major area, region or country	1950	1960	1970	1980	1990	2000	2010	2020*	2030*	2040*	2050*
Eastern Subregion	**26.1**	**34.2**	**43.6**	**52.9**	**59.8**	**60.6**	**63.4**	**67.7**	**71.5**	**74.8**	**77.8**
Belarus	26.2	32.4	44.0	56.5	66.0	70.0	74.6	78.4	81.2	83.3	85.2
Republic of Moldova	16.5	23.4	32.1	40.4	46.8	44.6	46.9	53.9	59.8	64.8	69.6
Ukraine	35.5	46.8	54.8	61.7	66.8	67.1	68.7	70.8	73.4	76.2	78.8
Southern Subregion	**20.8**	**29.1**	**38.2**	**45.5**	**50.7**	**54.1**	**57.7**	**61.6**	**65.7**	**69.6**	**73.3**
Albania	20.5	30.7	31.7	33.8	36.4	41.7	52.3	62.2	69.1	73.4	77.1
Bulgaria	27.6	37.1	52.3	62.1	66.4	68.9	72.5	77.6	81.0	83.3	85.2
Bosnia-Herzegovina	13.7	19.0	27.2	35.5	39.2	43.0	47.7	53.2	58.7	64.0	68.9
Croatia	22.3	30.2	40.2	50.1	54.0	55.6	57.5	60.7	64.8	68.8	72.5
TFYR Macedonia	23.4	34.0	47.1	53.5	57.8	59.4	59.2	60.9	64.5	68.2	71.8
Montenegro	12.7	18.8	26.9	36.8	48.0	58.5	63.1	65.2	68.0	71.2	74.3
Serbia (including Kosovo (UN1224))	20.3	29.1	39.7	46.1	50.4	53.0	56.0	59.6	63.7	67.8	71.7
Romania	25.6	34.2	40.3	46.1	53.2	53.0	52.8	53.5	56.1	60.4	64.7
South Caucasus Subregion	**41.0**	**49.0**	**52.6**	**57.1**	**58.7**	**56.2**	**56.7**	**58.5**	**61.7**	**65.7**	**69.6**
Armenia	40.3	51.3	59.9	66.1	67.4	64.7	64.1	65.0	67.4	70.8	73.9
Azerbaijan	45.7	52.7	50.0	52.8	53.7	51.4	53.4	56.1	59.9	64.2	68.4
Georgia	36.9	43.1	48.0	52.5	55.0	52.6	52.7	54.4	57.7	62.1	66.4
Western Subregion	**40.0**	**46.9**	**53.7**	**61.9**	**64.6**	**64.0**	**64.0**	**65.0**	**67.3**	**70.6**	**73.7**
Czech Republic	54.2	59.5	64.4	75.2	75.2	74.0	73.5	73.6	74.9	77.2	79.5
Estonia	49.7	57.5	64.9	69.7	71.1	69.4	69.5	70.3	72.5	75.3	78.0
Hungary	53.0	55.9	60.1	64.2	65.8	64.6	69.0	73.4	76.8	79.5	81.9
Latvia	46.4	52.9	60.7	67.1	69.3	68.1	67.7	68.1	70.1	73.0	75.8
Lithuania	28.8	39.5	49.6	61.2	67.6	67.0	67.0	68.4	70.8	73.8	76.7
Poland	38.3	47.9	52.1	58.1	61.3	61.7	60.9	60.9	62.9	66.5	70.0
Slovakia	30.0	33.5	41.1	51.6	56.5	56.2	54.8	54.9	57.5	61.7	65.7
Slovenia	19.9	28.2	37.0	48.0	50.4	50.8	50.0	50.3	53.0	57.5	62.1

* Projections
Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

TABLE 4: **AVERAGE ANNUAL RATE OF CHANGE OF THE URBAN POPULATION BY MAJOR AREA, REGION AND COUNTRY, 1950-2050 (PER CENT)**

Major area, region or country	1950-1960	1960-1970	1970-1980	1980-1990	1990-2000	2000-2010	2010-2020	2020-2030*	2030-2040*	2040-2050*
Eastern Subregion	**4.27**	**4.18**	**2.77**	**1.86**	**-0.39**	**-0.40**	**0.23**	**0.02**	**-0.16**	**-0.23**
Belarus	2.67	4.80	3.16	2.16	0.39	0.17	0.16	-0.09	-0.26	-0.31
Republic of Moldova	6.00	4.05	3.40	2.31	-1.08	-0.88	0.76	0.39	0.01	-0.17
Ukraine	4.13	3.45	1.74	1.10	-0.49	-0.50	-0.24	-0.25	-0.24	-0.21
Southern Subregion	**4.82**	**3.74**	**2.85**	**1.82**	**0.43**	**0.59**	**0.53**	**0.35**	**0.15**	**-0.04**
Albania	6.84	4.18	2.86	2.84	0.68	2.68	2.01	1.04	0.27	-0.12
Bulgaria	3.78	4.98	2.15	0.62	-0.59	-0.15	0.00	-0.38	-0.57	-0.60
Bosnia-Herzegovina	5.10	4.14	3.61	1.95	-0.62	1.22	0.78	0.49	0.16	-0.17
Croatia	3.51	4.00	2.68	1.08	0.26	0.12	0.32	0.35	0.21	0.11
TFYR Macedonia	4.97	4.98	2.62	1.40	0.78	0.22	0.35	0.42	0.23	0.01
Montenegro	5.48	4.68	4.20	3.21	2.36	0.73	0.40	0.36	0.28	0.14
Serbia (including Kosovo (UN1224))	4.78	3.33	2.40	1.55	1.07	0.28	0.48	0.41	0.31	0.13
Romania	4.10	3.00	2.25	1.89	-0.49	-0.36	-0.10	0.15	0.31	0.21
South Caucasus Subregion	**4.40**	**4.17**	**2.33**	**1.51**	**-0.99**	**0.25**	**0.51**	**0.40**	**0.43**	**0.28**
Armenia	5.62	3.79	3.05	1.56	-1.84	-0.04	0.31	0.24	0.26	0.08
Azerbaijan	4.38	2.61	2.29	1.76	0.73	1.63	1.57	1.19	1.13	0.90
Georgia	3.19	2.55	1.64	1.21	-1.85	-0.85	-0.34	-0.23	-0.10	-0.15
Western Subregion	**2.78**	**1.83**	**2.23**	**0.89**	**-0.42**	**-0.12**	**0.08**	**0.18**	**0.19**	**0.19**
Czech Republic	1.65	1.82	2.02	0.05	-0.22	0.17	0.25	0.24	0.19	0.25
Estonia	2.46	1.77	1.47	0.82	-1.59	-0.21	0.04	0.04	0.09	0.15
Hungary	1.20	1.84	1.02	-0.05	-0.35	0.43	0.46	0.27	0.10	0.12
Latvia	2.20	3.19	1.60	0.90	-1.28	-0.63	-0.32	-0.17	-0.07	-0.01
Lithuania	3.91	3.03	3.00	1.75	-0.63	-0.51	-0.20	-0.04	-0.04	-0.04
Poland	3.79	2.76	1.98	1.21	0.14	-0.13	0.03	0.18	0.15	0.11
Slovakia	2.84	3.34	3.25	1.50	0.21	-0.15	0.17	0.45	0.45	0.33
Slovenia	4.18	1.73	3.54	0.98	0.37	0.06	0.24	0.49	0.68	0.59

* Projections

Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

TABLE 5: POPULATION OF URBAN AGGLOMERATIONS WITH 750,000 INHABITANTS OR MORE IN 2011, BY COUNTRY, 1950-2025 (THOUSANDS)

Country	Urban Agglomeration	1950	1960	1970	1980	1990	2000	2010	2020*	2025*
Eastern Subregion		**4,112**	**5,647**	**7,717**	**9,609**	**10,707**	**10,425**	**10,606**	**10,751**	**10,761**
Belarus	Minsk	284	551	932	1,320	1,618	1,700	1,847	1,982	2,031
Ukraine	Dnipropetrovsk	536	684	872	1,081	1,162	1,077	1,003	913	872
Ukraine	Donetsk	585	721	886	1,033	1,097	1,026	965	905	877
Ukraine	Kharkiv	758	968	1,233	1,466	1,586	1,484	1,453	1,431	1,420
Ukraine	Krivoi Rog	286	408	577	658	706	673	749	809	827
Ukraine	Kyiv (Kiev)	815	1,163	1,655	2,201	2,574	2,606	2,805	2,943	2,969
Ukraine	Odessa	532	693	899	1,054	1,092	1,037	1,009	1,034	1,053
Ukraine	Zaporizhzhya	315	459	664	795	873	822	775	733	713
Southern Subregion		**1,606**	**2,348**	**3,163**	**4,012**	**4,360**	**4,199**	**4,243**	**4,369**	**4,502**
Bulgaria	Sofia	522	708	888	1,074	1,191	1,128	1,175	1,194	1,212
Serbia (including Kosovo (UN1224))	Beograd (Belgrade)	432	638	878	1,073	1,130	1,122	1,133	1,185	1,243
Romania	Bucuresti (Bucharest)	652	1,002	1,396	1,865	2,040	1,949	1,935	1,991	2,047
South Caucasus Subregion		**1,850**	**2,261**	**2,950**	**3,706**	**4,132**	**4,017**	**4,292**	**4,993**	**5,304**
Armenia	Yerevan	341	538	778	1,042	1,175	1,111	1,113	1,189	1,238
Azerbaijan	Baku	897	1,005	1,274	1,574	1,733	1,806	2,062	2,655	2,899
Georgia	Tbilisi	612	718	897	1,090	1,224	1,100	1,117	1,149	1,167
Western Subregion		**3,660**	**4,403**	**4,901**	**5,500**	**5,580**	**5,381**	**5,469**	**5,776**	**5,997**
Czech Republic	Praha (Prague)	935	1,001	1,076	1,179	1,212	1,172	1,265	1,373	1,430
Hungary	Budapest	1,618	1,811	1,946	2,057	2,005	1,787	1,731	1,838	1,914
Poland	Kraków (Cracow)	339	472	578	699	735	756	756	773	803
Poland	Warszawa (Warsaw)	768	1,119	1,300	1,565	1,628	1,666	1,718	1,792	1,850

* Projections
Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

TABLE 6: AVERAGE ANNUAL RATE OF CHANGE OF URBAN AGGLOMERATIONS WITH 750,000 INHABITANTS OR MORE IN 2011, BY COUNTRY, 1950-2025 (PER CENT)

Country	Urban Agglomeration	1950-1960	1960-1070	1970-1980	1980-1990	1990-2000	2000-2010	2010-2020	2020-2025*
Eastern Subregion		**2.75**	**3.18**	**2.06**	**0.96**	**-0.38**	**0.03**	**-0.01**	**-0.10**
Belarus	Minsk	6.61	5.26	3.48	2.03	0.50	0.83	0.71	0.48
Ukraine	Dnipropetrovsk	2.44	2.43	2.15	0.72	-0.77	-0.71	-0.94	-0.94
Ukraine	Donetsk	2.08	2.06	1.54	0.60	-0.67	-0.61	-0.64	-0.64
Ukraine	Kharkiv	2.45	2.42	1.73	0.79	-0.66	-0.21	-0.15	-0.15
Ukraine	Krivoi Rog	3.55	3.46	1.33	0.69	-0.47	1.06	0.77	0.43
Ukraine	Kyiv (Kiev)	3.55	3.53	2.85	1.56	0.13	0.73	0.48	0.18
Ukraine	Odessa	2.64	2.60	1.59	0.36	-0.52	-0.27	0.24	0.37
Ukraine	Zaporizhzhya	3.77	3.68	1.80	0.94	-0.60	-0.59	-0.56	-0.56
Southern Subregion		**3.75**	**2.93**	**2.26**	**0.81**	**-0.35**	**0.15**	**0.30**	**0.61**
Bulgaria	Sofia	3.05	2.27	1.90	1.03	-0.54	0.41	0.16	0.31
Serbia (including Kosovo (UN1224))	Beograd (Belgrade)	3.90	3.19	2.00	0.52	-0.07	0.10	0.45	0.95
Romania	Bucuresti (Bucharest)	4.31	3.31	2.89	0.90	-0.45	-0.08	0.28	0.56
South Caucasus Subregion		**2.43**	**2.77**	**2.33**	**1.11**	**-0.40**	**0.50**	**1.16**	**0.96**
Armenia	Yerevan	4.54	3.70	2.92	1.20	-0.55	0.02	0.66	0.81
Azerbaijan	Baku	1.14	2.37	2.11	0.96	0.41	1.32	2.53	1.76
Georgia	Tbilisi	1.60	2.23	1.95	1.16	-1.07	0.15	0.28	0.31
Western Subregion		**2.96**	**1.66**	**1.74**	**0.31**	**-0.33**	**0.25**	**0.69**	**1.01**
Czech Republic	Praha (Prague)	0.68	0.73	0.91	0.28	-0.34	0.76	0.82	0.80
Hungary	Budapest	1.13	0.72	0.56	-0.26	-1.15	-0.32	0.60	0.81
Poland	Kraków (Cracow)	3.30	2.03	1.89	0.50	0.28	0.01	0.21	0.78
Poland	Warszawa (Warsaw)	3.77	1.50	1.86	0.40	0.23	0.30	0.42	0.64

* Projections
Source: United Nations, Department of Economic and Social Affairs, Population Division (2010). *World Urbanization Prospects: The 2011 Revision*

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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