

SECRETARIAT GENERAL

**DIRECTORATE GENERAL OF DEMOCRACY AND
POLITICAL AFFAIRS**

**DIRECTORATE OF DEMOCRATIC
INSTITUTIONS**



Strasbourg, 30 August 2010

(English only)

DPA/LEX 5/2010

**Appraisal of the Draft Concept of the State Programme
of Support for the Social and Economic Development of Small Cities in Ukraine
for 2011-2015**

The present expertise was prepared by the Directorate of Democratic Institutions, Directorate General of Democracy and Political Affairs, in co-operation with the Council of Europe experts Mr Paul Hildreth, UK, and Prof Pawel Swianiewicz, Poland.

1. Background

By the decision of the Governmental Committee on Regional Policy, Construction, Housing and Municipal Economy Issues dated 18 May 2010, the Government of Ukraine requested Council of Europe (CoE) assistance on the preparation of the Concept of the State Programme of Support for the Social and Economic Development of Small Cities in Ukraine for 2011-2015. The same requests were presented by the Minister of Regional Development and Construction of Ukraine in his letter of 24 June 2010 and by the President of the Association of Small Cities of Ukraine in his letter of 31 May 2010.

This appraisal provides comments and proposals on the Concept in the light of the CoE standards, and takes into account the results of the discussions held in the framework of the 5th Annual Forum of Small Cities of Ukraine (6-7 July 2010, Ukrainka). The paper also includes an Appendix providing evidence on the economic and social performance of small and medium-sized cities, which could be helpful in designing a Programme of support to small cities in Ukraine.

2. Introduction to concept

The opening section of the draft paper introduces the concept of developing a programme of support of social and economic development of small cities in Ukraine. It implies that the Programme will be compliant with the European Charter of Local Self-Government (ECLSG). Other European charters and conventions are also seen as being relevant to the development of this programme.

There is an absence of detail in the draft paper about the actual design of the Programme, which is acknowledged in the Options section and will be subject to further development work during Phase One. However, the following observations can be made about applying the relevant sections of the Charter to this Programme.

- The municipalities of small cities should be given a full role to play in the development and implementation of the Programme, within the framework of competencies devolved to them by the State. At the present time it is not clear who will be responsible for the development and implementation of the Programme and what respective roles will be played by State, Regional and local institutions (Articles 2, 3 and 4).
- The municipalities should be able to design their own administrative structures to respond to the needs and demands of the programme and take such steps as necessary to recruit and develop sufficiently high-quality staff to run their contribution to the delivery of the Programme (Article 6).
- Consideration should be given to the appropriate resourcing of municipalities of small cities to carry out functions devolved to them for the delivery of the Programme (Article 9).

- It is not clear to what extent there has been consultation with municipalities and local authority associations on the draft Programme (Article 4.6).

In short, it is not possible at this stage to establish how well the draft Programme is compliant to the requirements of the ECLSG. In this regard, it is also recommended to take into account the Council of Europe Experts' Report on the Implementation of the European Charter of Local Self-Government in Ukraine (July 2010).

The draft Concept is very declarative: it includes many objectives (sometimes very ambitious), but does not provide practical tools and mechanisms for their achievement. There are currently several state (sectoral) earmarked programmes in force, which refer to various aspects of development of small cities. In practice, these programmes are not connected or harmonised, which makes their comprehensive implementation rather difficult. In this regard, it would be reasonable to check the existing programmes, ensure their harmonisation with integral principles and main priorities of the development of small cities (development of municipal infrastructure, transport, construction of roads, improvement of municipal administration etc). It would also be important to integrate the development of small cities into more comprehensive strategies of national and regional development, ensuring sustainable development of small cities, elaboration of their general development plans, preparation of new land legislation (e.g. setting new boundaries of municipalities).

3. Issues to address

The paper sets out a list of causes and issues justifying such a programme. These include: the decline of economies of small cities; inadequate infrastructure investment in housing, water and energy supplies; slow pace of housing construction; low level of medical, education and social services; insufficient growth of new enterprises; inadequate choice and number of employment opportunities; weak transport infrastructure to connect villages and towns with cities and absence of strategic municipal plans to begin to address these issues.

However, even at this early stage some important issues are not addressed:

- *Definition of small city* – For the purposes of this draft Programme, what is a small city? This is not clear. A small city could be defined in different ways – population size, GVA performance, in relation to large cities in Ukraine. Small cities in some countries are large cities in others (e.g. China). It would be helpful to provide a clear definition at the start of the paper.
- *Scope of Programme* – Beyond a basic definition of 'small city', it would also be helpful to understand the potential scope of the Programme. Would it apply to the whole of the Ukraine? Would it apply to all small cities? Would it apply to poorer performing small cities? Given that resources are likely to be limited, what would be the priorities within the Programme and how would they be decided?

- *Position of Programme* - How does this proposed Programme fit in with Regional Policy and other relevant programmes in Ukraine? This is not made clear.
- *Different cities, different history, roles and potential* – In a Western European context, small and medium-sized cities frequently offer different histories, perform different specialist roles within their national urban hierarchy and present different challenges and economic opportunities for economic growth and development to one another (see Appendix for more details). It is acknowledged that the breadth of performance between small cities in Eastern Europe may not be so wide, with more small cities potentially being classified as under-performing, as the pressures for migration to and agglomeration in large cities are significant. Some small cities are in a better position to develop new industries. Others would be better focussed on improving the quality of life for their citizens. However, some consideration of differences ought to be taken account of in the draft Programme.
- *Small cities are not isolated states* – It is quite usual to draw up strategies for capital cities and large cities that focus primarily on the city itself. However, the smaller the city, the more its social and economic position, its ability to attract and retain firms and workers is likely to be shaped by the broader local, regional and national economic context. Any programme for small cities therefore needs to address economic relationships between small cities and any neighbouring larger ones, as well as their economic, social and trading interactions with the surrounding region.

The latter two issues are discussed in more detailed in the background Appendix.

Possible solutions

The next section of the draft paper provides a long list of the type of actions that would enable the socio-economic development of small cities to be achieved. This list is very useful and comprehensive.

However, at present the draft paper presents issues, problems and solutions as if universally impacting all small cities. In practice this is likely to be an over-simplification.

An alternative or parallel approach would be to focus on the design of a framework and the tools and instruments for implementing it to address the problems and opportunities of small cities. This is important since whilst a single framework can be established for all cities, different policy instruments and measures might be appropriate in different places. In this regard, it is recommended to make use of the innovative tools which could ensure creation of the centres of the development of respective territories on the basis of small cities (it also relates to rural areas), in particular:

- Application of cluster theory to ensure the development of small cities;
- Improvement of municipal administration according to the principles of the European Strategy of Innovation and Good Governance at Local Level;

- Development of cooperation between authority and community, promoting citizens’ participation in local public life (in particular, according to the Additional Protocol to the European Charter of Local Self-Government). This issue is extremely urgent especially for small communities where many local issues may be efficiently solved through by promoting citizens’ participation and “social mobilisation” tools;
- Promoting Intermunicipal Cooperation.

As indicated above, a key weakness to avoid is the potential treatment of small cities as ‘isolated states’. As stated above and outlined further in the Appendix, small cities are inter-dependent economically and socially on larger cities and their surrounding region. Modern growth theory and policy focuses on seeking to gain from endogenous advantages and opportunities within regions and city regions (see Figure One). It avoids the old approach of subsidies and State Aids. It is therefore important that small cities policy is designed within the context of regional policy, as well as other relevant State programmes, to create growth and social development opportunities. It should also offer effective coordination between different levels of government from the Municipal city up to the State. Rather than subsidising municipalities, it should seek to build-up effective capacity. Building up human capacity and skills is particularly important.

Figure One – Modern Regional Policy

<u>Modern Regional Policy</u>		
<p>The challenge: what form of regional, local and sectoral policies to:</p> <ul style="list-style-type: none"> • Improve economic performance of all areas, and • Address social inequalities? 		
	Traditional regional policies	Modern regional policies
Objectives	Balancing economic performance by <u>temporary</u> compensation for disparities	Tapping under-utilised regional potential for competitiveness
Strategies	Intervening to support industrial and/or relocate industrial sectors	Integrated development projects
Tools	Subsidies and state aids	Investing in soft (people) and hard infrastructure
Actors	Central government	Different levels of government working together, but with different roles
Unit of analysis	Administrative regions	Functional regions
	<p>→ Redistribution from leading to lagging regions</p> <p>Source: OECD</p>	<p>Building competitive regions by bringing together actors and targeting key local assets</p>

The way forward, which hopefully will be addressed in Phase One, is to go beyond this list to design a framework for small cities policy that fits in the context of regional policy.

Potential options for this framework are discussed further in Section 6 below.

4. The purpose of the programme

The stated goal of the programme is to create the organisational, legal and economic mechanisms that will deliver the economic and social development of small cities.

This goal is supported, with the caveats already set out above.

5. Options

The preferred option is to develop a comprehensive programme aimed at enabling small cities to improve their economic and social potential, with a list of ambitions for outcomes from this programme. Such a programme would be organised in two phases:

- *Phase One (2011-2013)* - The development and adoption of new and amending existing regulations on social and economic development of small cities and the improvement of territorial administration; and
- *Phase Two (2013-2015)* – Analysis of the first stage with further adjustments and implementation of the Programme

Milestones and deadlines specified by the Programme would be synchronised with phases of implementing local government reform, fiscal, taxation, land and reforms in housing.

As indicated above, there is a lot of work to do to develop a framework for a comprehensive programme. This framework needs to:

- Define a ‘small city’ for the purposes of this programme (see above);
- Set out how a Programme would fit within the aims of Regional Policy in Ukraine and other relevant State programmes;
- Define the tools and instruments that would come within the Programme;
- Address how it would be delivered and what the respective roles would be of the Municipalities of small cities, regional level and State;
- Set out what scope there would be for cross-border cooperation between Municipalities within functional economic areas. Indeed, in some countries such a programme would be run on a cross-municipal basis. The new government in the UK is currently exploring developing such an approach at the present time
- How the Programme would be funded;

- Propose investment in human capital in cities as a key factor in successful regeneration (see Appendix);
- Provide for capacity building of municipalities, their staff and political leaders;
- Clarify what evidence and statistical tools are available to support the Programme and its implementation; and
- Provide an approach to strategy development that understands that small cities are not 'isolated states' but part of their wider sub-regional and regional economy.

6. Results and effectiveness

It is stated that Programme will ensure that organisational, legal and economic mechanisms will be in place to ensure the delivery of social, economic and environmental objectives for the programme.

The previous section has set out some of the issues that will need to be addressed.

7. Financial, logistical and human resources

The draft paper implies that financial, logistical and human resources required for the Programme will be identified during phase one.

It is also made clear that the implementation of the Programme will require international technical and financial assistance.

These comments and the attached Appendix have sought to set out what some of these issues are and how they might be addressed.

8. Conclusions

The CoE experts recognise that this Programme is currently in a development stage. A good start has been made, particularly in identifying issues and problems, as well as possible approaches towards solving them.

However, comments have been provided on issues that are either currently missing in the present draft or need further development. The principles of the European Charter of Local Self-Government have been borne in mind. Section 6 provides a summary of the key issues that could very usefully be given further attention.

Appendix

Background note on small and medium-sized cities in relation to proposals for State programme of support to small cities in Ukraine

Prepared by Paul Hildreth

1. *Purpose*

This Appendix provides background information from studies on small and medium-sized cities. It draws on a paper written for the OECD by the author (Hildreth 2006a) and since has been adapted to be applied to English medium-sized cities (Hildreth 2006b) (Hildreth 2007). The principles outlined in the original study have been explored and tested in further research in the UK, particularly in addressing the impact of economic linkages between cities (Lucci and Hildreth 2008) (Work Foundation, SURF and Centre for Cities 2009 and 2010 (pending)). A further study is currently underway studying medium-sized cities in Denmark, which is due for completion in autumn 2010. Whilst some of this material is focussed on medium-sized cities, the principles and issues that it raises apply equally to smaller cities.

It is not suggested that the results from these studies would be exactly replicated in Ukraine. There are important differences, not least the relative strength of some industrial cities in Eastern Ukraine, compared with post-industrial cities in Northern England. But from observation of other Eastern European countries, some of the issues set out in this note may be of relevance to the design of policy for small cities in Ukraine.

The key learning points are:

- Cities are different in the challenges and opportunities that they face;
- That there is a significant level of inter-dependence of small cities within their regional economic context and with larger cities;
- That whilst it is important in a small cities policy to enable cities to contribute to the design and implementation of solutions appropriate to their circumstances, policy should operate in a wider sub-regional and regional context to realise the economic and social potential of small cities.

2. *Background*

Capital and large cities have been gaining growing attention internationally (World Bank 2009) and within national policy agendas. This is because capital and large cities are increasingly being recognised as drivers of national economic performance. There is evidence of a positive correlation between city size and economic performance, higher productivity and higher per capita incomes (Polèse 2005). They also tend to attract

concentrations of information and producer services firms that are important for both the city's and country's competitiveness in the global economy.

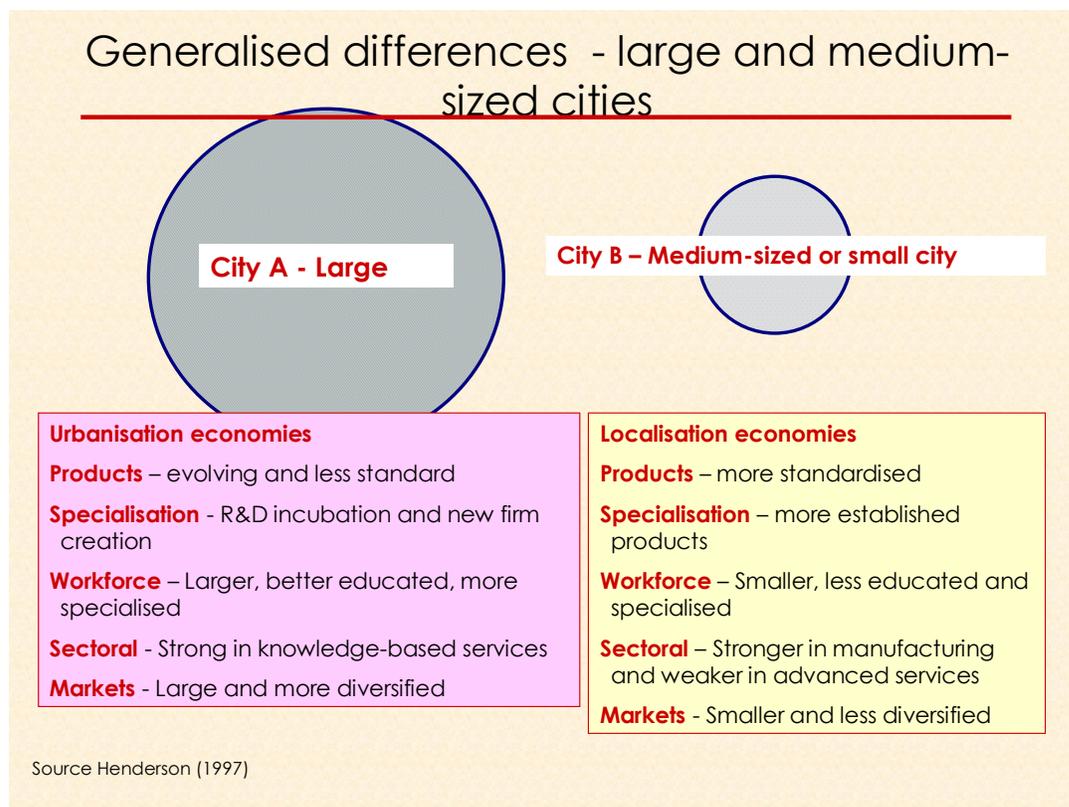
However, there are very many more small and medium-sized cities. Despite this and that they make an important contribution to regional and national economies, they have been more neglected in both policy and research agendas.

Part of the problem is that they need to be addressed differently. Unlike capital and other large cities, small cities cannot be approached as stand-alone places. They are not like islands, surrounded by open sea. Rather, they sit and operate within a wider regional and national urban hierarchy. Their success in attracting and retaining firms and workers, and generating jobs, depends as much, if not more, on the linkages that exist between them and other cities and with the surrounding region, as well as their own economies (Hildreth 2006a).

3. Generalised differences between large and smaller cities

Part of the reason for this is that they play a different role to large cities. This was explored in a classic paper by Henderson (1997), as shown in Figure One below.

Figure One – Differences between large and medium-sized/small cities (based on Henderson 1997)



In generalised terms, medium-sized and smaller cities tend in comparison with large cities to:

- Offer localisation economies (i.e. offer economies within one or two sectors, rather than across the whole urban area);
- Have firms that produce more standardised products;
- Contain a smaller, less educated and specialised workforce;
- Tend to be stronger in manufacturing and weaker in advanced producer services;
- Offer smaller and less diversified markets.

However, international experience suggests that the economic and social performance of different small and medium-sized cities varies. The issue becomes how to explain this, particularly taking into account the inter-dependence of small cities within their regional and national context.

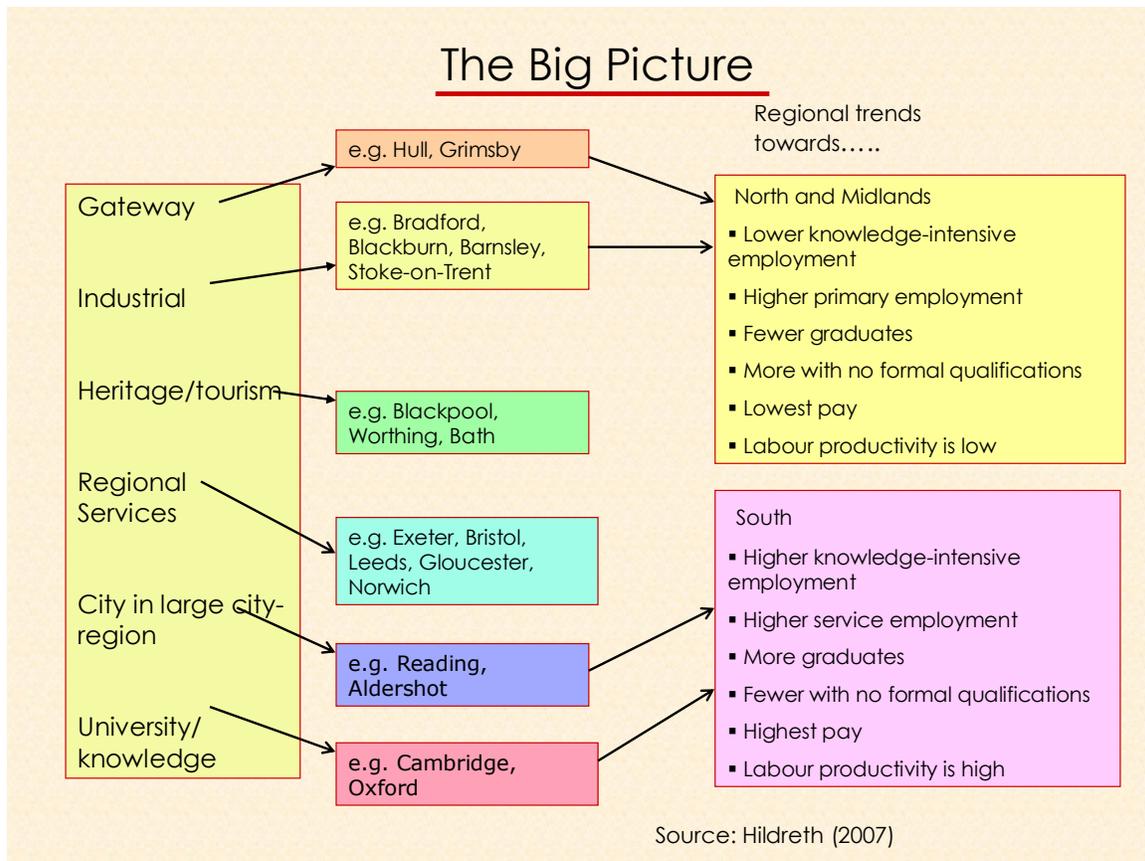
One way to get round this, which was addressed in the OECD paper, is to develop a typology of medium-sized/small cities (Hildreth 2006a). This approach sought to assign different roles for cities within a national urban hierarchy as follows:

- *An industrial city* – A city that historically had one or more dominant industrial sectors which may have developed as a consequence of physical geographic advantages (e.g. climate), proximity to raw materials (e.g. coal) or as a result of central planning regimes.
- *A gateway city* – A city that provides connections to the international economy (e.g. location of a port or airport).
- *A heritage or tourism city* – A city that attracts national and/or international visitors due to its advantageous position, natural assets or its historical, cultural and or architectural heritage
- *A university knowledge city* – A city that contains a leading university with expertise in science and/or technology, and the capacity to promote innovation and clusters of spin-off companies in the local economy.
- *A city in a capital city or very large city-region* – A city that benefits from its physical connection to, or position in, a capital or very large city-region, by specialising in complementary knowledge-intensive industries that give the capital or very large city its comparative advantage in the national or global economy.

- A regional services city – A city that has historically grown through supplying employment opportunities, retail and other services to its wider region.

This typology is described in more detail elsewhere, together with examples of each type (Hildreth 2006a) (Hildreth 2007). A health warning is necessary that a typology inevitably involves simplification. Many smaller cities have characteristics of two or more of the categories. However, in a study of English medium-sized cities there were clear patterns of difference in economic and social performance between the city types (see Figure Two). Gateway and industrial cities performed the worst. And not surprisingly, university knowledge and cities in a capital or very large city-region performed the best. However, furthermore, their economic and social characteristics were almost exactly opposite.

Figure Two – Outcome from typology applied to English cities



In an Eastern European context there is more likely to be a preponderance of smaller cities with industrial city characteristics (on the whole performing less well) (but with some exceptions in Eastern Ukraine) and regional services cities (performing better).

4. *City linkages*

However, the hypothesis is not just that smaller cities have historically developed characteristics that are different affecting their economic and social performance. Also, as stated earlier, they do not operate in isolation and as a consequence, their performance is impacted through the impact of economic linkages between smaller and larger cities and in a regional context.

This was explored in a study that identified ‘complementary’ and ‘less complementary’ economic linkages between cities (Lucci and Hildreth 2008). This is illustrated in Figure Three below as a relationship between two cities – City A - large and City B – medium-sized or small. In the first (top) case the relationship is complementary and in the second (bottom) case the relationship is less complementary.

Basically this study showed:

- A smaller city that is close to a successful large city with complementary sectors, better quality housing and a higher skilled workforce, was much more likely to benefit economically and socially from the growth of the larger city; and
- A smaller city that is close to a successful large city with more traditional economic sectors, poorer quality housing and a lower skilled workforce, was less likely to benefit economically and socially from the growth of the larger city.

Case studies were developed – London to Reading (complementary) and Manchester to Burnley (less complementary) which can be found in summary at <http://www.cabe.org.uk/strud/examples/city-links> and in full at <http://www.centreforcities.org/citylinks>. They are also illustrated in Figure Four.

Figure Three – Economic linkages between cities

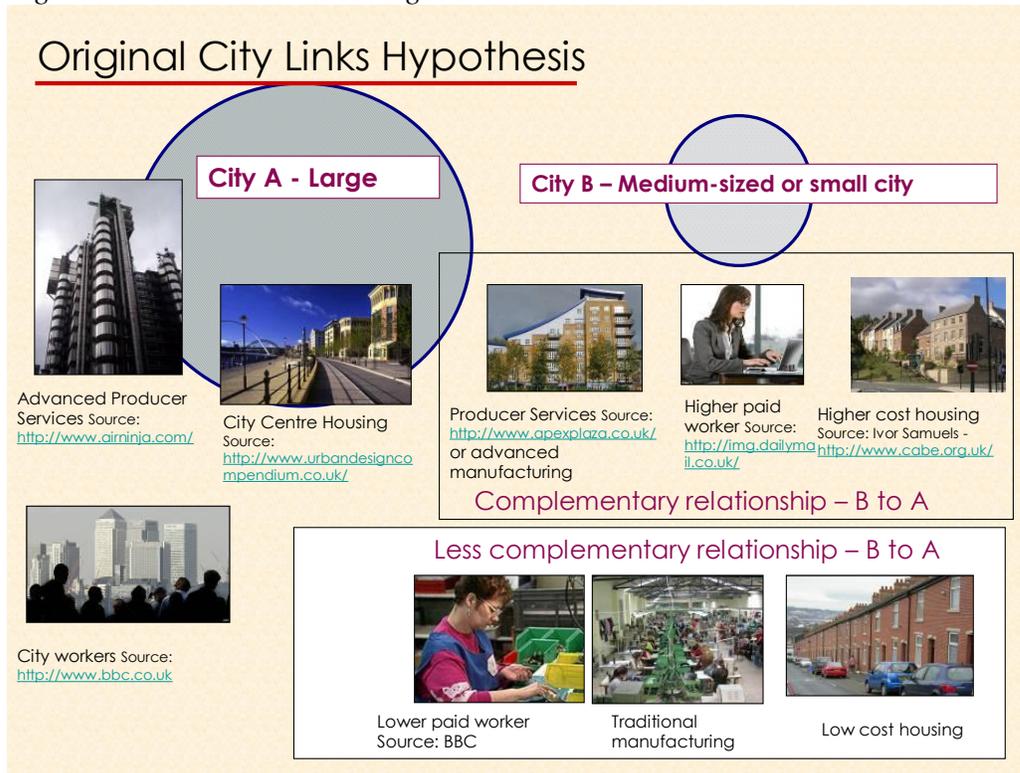
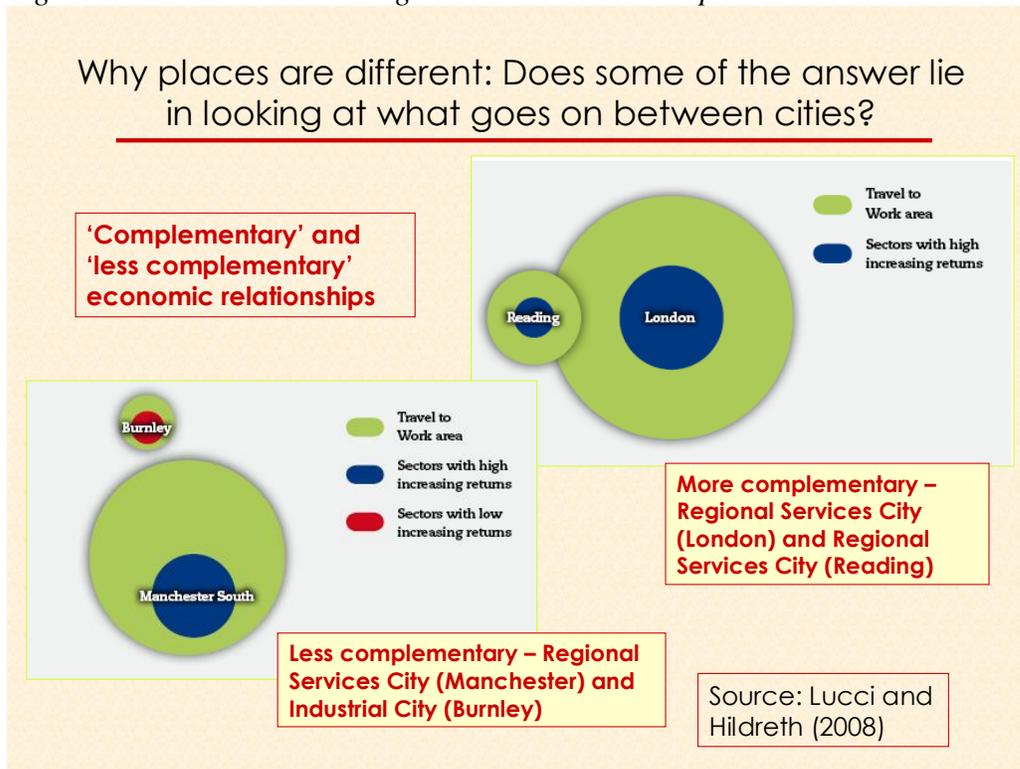


Figure Four – Economic linkages between cities examples



5. City Relationships

Two further larger studies have since been undertaken, involving a similar team, examining in more detail the economic relationships between smaller cities and larger cities in six city-regions in the North of England. This time the same methodology was applied across all six city regions:

- Liverpool
- Manchester
- Leeds
- Sheffield
- Tyne & Wear (Newcastle)
- Hull and Humber Ports

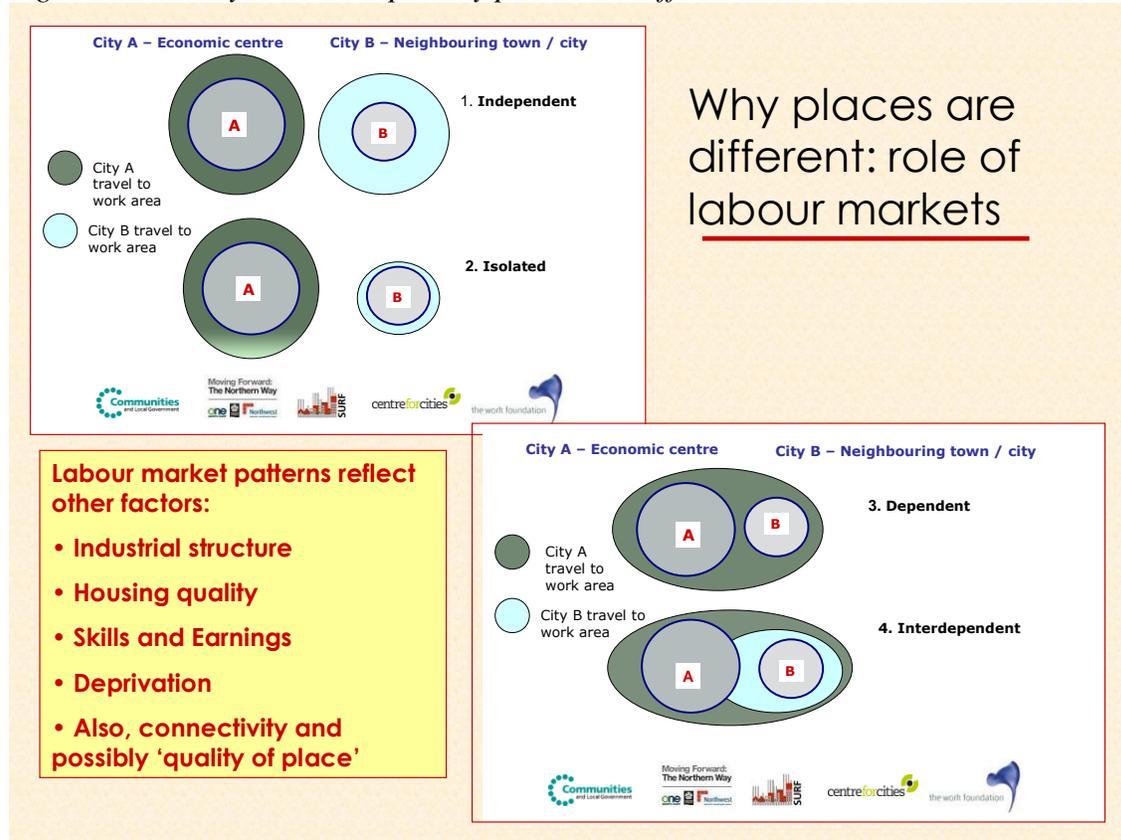
The study covering the first five city-regions can be found at:
<http://www.thenorthernway.co.uk/document.asp?id=766>.

The study of Hull and Humber Ports is due to be published shortly.

These studies confirmed the original hypothesis, but also provided much more detail. Instead of a simple pattern of ‘complementary’ and ‘less complementary’ relationships, this study identified a more complex picture founded on four relationships based on labour market patterns (see Figure Five below) (as well as variations on these which can be found within the study). However, the outcomes of this study were consistent with the earlier City Links paper.

- *Independent cities* are small cities with a highly skilled and educated workforce. They also tend to have a more modern industrial structure, better quality housing, higher wages, lower deprivation and are better connected within the region and beyond. Going back to the typology of cities – these are often regional services cities.
- *Isolated cities* are small cities with a lower skilled and educated workforce. They also tend to have a more traditional industrial structure, poorer quality housing, lower wages, lower deprivation and are more poorly connected to regional economies. Going back to the typology of cities – these are often industrial cities.
- *Dependent cities* are small cities that are largely dependent on the larger city for employment. They can have a highly skilled workforce, good quality housing etc and are therefore well integrated within the city-regional economy. Alternatively, they can have a low skilled workforce, poor quality housing etc and operate with similar characteristics to isolated cities.

Figure Five – City relationships: why places are different



- *Interdependent* cities are small cities with a highly skilled and educated workforce. They tend to have a more modern industrial structure, better quality housing, higher wages, lower deprivation and are better connected within the region and beyond. However, they are likely to be found with capital or very large city regions, where the degree of inter-dependence (or polycentricity) is greater.

The studies found that strengthening economic linkages between cities (particularly between smaller with larger cities) (and within regions) can help to benefit places and their populations.

The extent of complementarities between places is informed by a range of factors including:

- *Skills* is the most important, with cities with higher levels of resident skills tending to benefit more from links with neighbouring economic centres than those with lower levels of skills. The strength of a city's economy has a significant impact upon its economic relationships with neighbouring areas.
- *The 'pull' of the economic centre in shaping economic relationships* – Stronger economic centres tend to have stronger labour market and firm links with

neighbouring areas. Less strong economic centres tend to be more self-contained. The strength of a centre's economy has a significant impact upon its relationship with neighbouring areas including smaller towns and cities.

- Transport links affect labour market and firms links – Although having good transport links does not automatically lead to economic growth.
- The influence of *firm links* on the economic relationships between cities is largely dependent on the extent to which sectors are strongly embedded within a functional economic area, with high levels of employment at different points in the supply chain.
- *Industrial history and structure* shapes economic links, with more knowledge intensive industries being more likely to forge and benefit from economic links within a geographical area than others.
- *Quality of place* matters – areas with higher quality of housing, schools and quality of life are more likely to attract highly skilled individuals and more likely to have mutually beneficial economic relationships with neighbouring towns and cities. These cities will also benefit from the higher wages its residents bring home, of which a large percentage is often spend in the local economy.

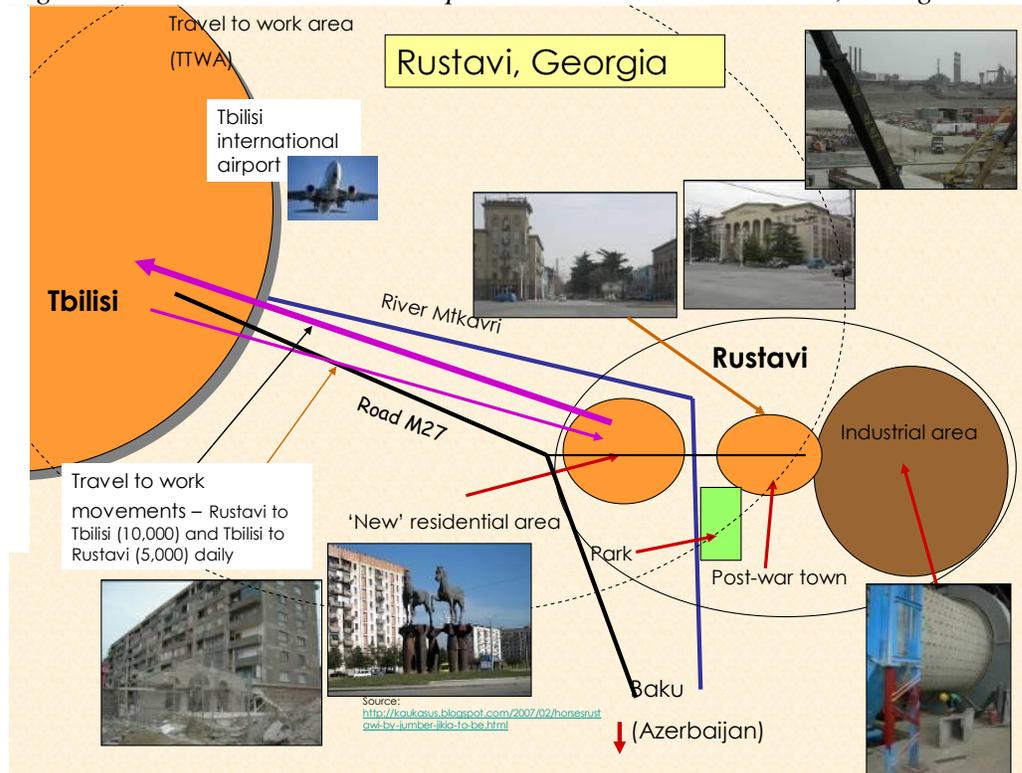
Thus these studies confirmed that different towns and cities have different roles within an economic area depending on these factors and the resulting nature of their labour market and firm links.

6. Two Eastern European Examples

This research and its results have not been tested specifically within an Eastern European context. However, two examples can be given which illustrate how the principles from this research might work in practice.

Rustavi was built as an industrial city around 35 kilometres outside Tbilisi, the capital of Georgia. Whilst much of its industrial capacity is no longer operational, it has attracted some recent investment. Because it is easily commutable to Tbilisi, it comes within the capital city's labour market and has developed a degree of an inter-dependent economic relationship with Tbilisi. Whilst Rustavi faces a lot of challenges, its economic and social situation is much better than it would be if it was further away from the capital city.

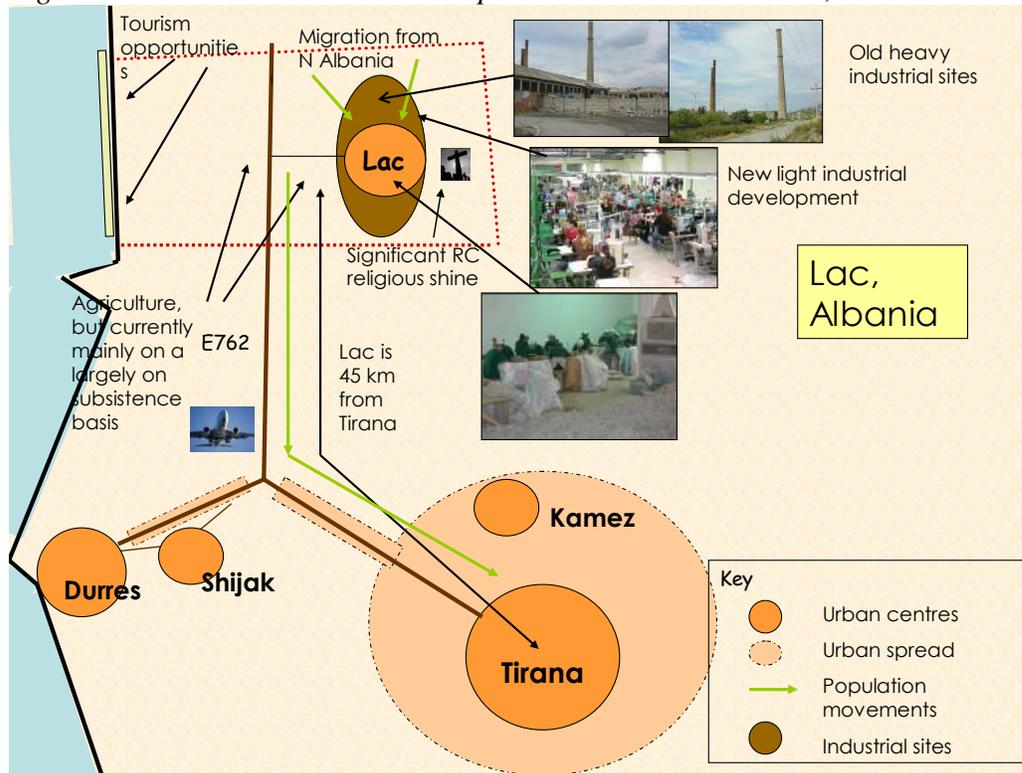
Figure Six – Economic relationships between Rustavi and Tbilisi, Georgia



Lac is a small city around 45 kilometres from Tirana, the capital of Albania. Like Rustavi, it was built as an industrial city. Much of the industry has collapsed, but there is some new investment in light manufacturing plants. Lac is largely outside the Tirana travel to work area, although some workers commute in daily. Lac has many characteristics of an 'isolated city' and is not benefiting significantly from wider economic relationships, even though it is not far from the capital city and the major port of Durres.

In both cases, a small cities policy that focussed just on the cities themselves would unlikely to be successful. Both depend, and will increasingly depend, on drawing on the wider economic and social opportunities that might be created within a city region or regional context.

Figure seven – Economic relationships between Lac and Tirana, Albania



7. Conclusion

This paper has sought to share content from recent research on small and medium-sized cities.

The key learning points for a small cities programme in Ukraine are:

- Cities are different in the challenges and opportunities that they face;
- There is a significant level of inter-dependence of small cities within their regional economic context and with larger cities;
- That whilst it is important in a small cities policy to enable cities to contribute to the design and implementation of solutions appropriate to their circumstances, policy should operate in a wider sub-regional and regional context to realise the economic and social potential of small cities.

These issues ought to be taken account of in the design of small cities policy and Programme.

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