



## **Challenges of Small and Medium-Sized Urban Areas (SMUAs), their economic growth potential and impact on territorial development in the European Union and Latvia**

*Research report to support the Latvian EU Presidency 2015*

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## List of Abbreviations

CEF	Connecting Europe Facility
CF	Cohesion Fund
CLLD	Community Led Local Development
CPR	Common Provisions Regulation
CSB	Central Statistical Bureau of Latvia
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EIB	European Investment Bank
EIT	European Institute for Innovation and Technology
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ESPON	European Observation Network for Territorial Development and Cohesion
ETC	European Territorial Cooperation
EU	European Union
FEI	Financial Engineering Instruments
FI	Financial Instruments
GNI	Gross National Income
HF	Holding Fund
ICT	Information and Communication Technology
INEA	Innovative and Networks Executive Agency
ITI	Integrated Territorial Investment
JESSICA	Joint European Support for Sustainable Investment in City Areas
JRC	Joint Research Centre
LEADER	“Liaison Entre Actions de Développement de l'Économie Rurale”, meaning 'Links between the rural economy and development actions'
MA	Managing Authority
MS	Member State
NGO	Non-governmental organisation
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
PPP	Public Private Partnership
RDP	Rural Development Programme
R&D	Research and Development
RIS3	Research and Innovation Strategies for Smart Specialisation
SME	Small and medium-sized enterprise
SMST	Small and medium-sized town
SMUA	Small and medium-sized urban area
SRDA	State Regional Development Agency, Latvia
UDF	Urban Development Fund

## **Member States abbreviations**

<i>Country code</i>	<i>Country</i>
BE	Belgium
BG	Bulgaria
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
EL	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom



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## Executive Summary

The aim of this report is to provide a basis for formulating policy relevant conclusions and recommendations about the economic performance, development challenges and preconditions of Small and Medium-Sized Urban Areas (SMUAs).

For decades SMUAs have been at the core of urbanisation in Europe. Europe is an urban continent but unlike other continents the urban pattern of Europe is more polycentric with relatively small cities. About 70% of Europe's population is living in urban areas, but about 66% of Europe's urban dwellers are residing in urban areas with less than 500,000 inhabitants. This is considerably more than in other world regions, especially Northern America, where only one third of the population lives in smaller cities.

While SMUAs are prominent in EU territory they are largely unexplored in terms of social, spatial and economic trends because of the lack of comparable data and relative political disregard. This investigation sheds light on their main challenges, barriers and potentials for economic development and shows how local, regional, national and EU policies can strengthen the economic development of SMUAs, including their contribution to territorial development.

EU member states use different methods of defining cities, and towns within the hierarchies of urban areas according to population size, density, functional roles and historic status. This report does not have the intention to advance a single definition of SMUAs. However, a clear-cut definition is required for statistical purposes. For these purposes, the research is limited to small and medium sized urban areas (SMUAs) as urban areas with 5,000 to 50,000 inhabitants.<sup>1</sup> This definition is based on a combination of the OECD-EC Degree of urbanisation classification and the European wide research project "TOWN - Small and medium sized towns in their functional territorial context" carried out within the ESPON Programme.

According to the TOWN research 24.2% of the European population lives in 8,350 SMUAs, that are unevenly distributed across Europe, with a concentration of SMUAs in the area stretching from northern England towards the southern Rhine valley and northern Italy. This is the most highly urbanised corridor in Europe. Other large concentrations of SMUAs can be found in South-Eastern Germany, Poland and in the Mediterranean coastal area. The proportion of population living in SMUAs varies across the Member states, ranging from 50% in Belgium to 10% in Lithuania.

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<sup>1</sup> More precisely: *small* and *medium* sized urban areas are defined as "continuous urban clusters with a population above 5,000 and a density above 300 inhabitants/km<sup>2</sup> that are not considered "High Density Urban Clusters" (HDUC) as according to the Degree of Urbanisation for Local Administrative Units (DEGURBA) definition (Eurostat Labour Market Working Group, 2011) (KU Leuven and ESPON, 2014, 7).

SMUAs are different from larger cities. Generally SMUAs have an older working population, higher proportion of retirees, and higher share of school age children. SMUAs show a greater share of employment in manufacturing and have a working force that is more self-employed; they are less diverse in terms of sectoral mix, they have a higher economic activity rate but also a smaller proportion of service sector employment. Many SMUAs are attractive tourist destinations and have a larger stock of second homes.

There is a wide variety of SMUAs, depending on their spatial location and social-economic, institutional, regional, and national characteristics. Case studies selected for this report and synthesized findings from existing research show that SMUAs can be important for territorial development in several ways:

- SMUAs are important centres of jobs, public and private services, hubs of local transport, as well as centres for schooling, education, innovation and infrastructure for a large share of European population.
- SMUAs play a role in ensuring the wellbeing and livelihood not only for their inhabitants but also to rural populations of surrounding areas, thus creating a vital intersection between large urban areas and rural areas.
- SMUAs help to avoid rural depopulation and urban drift, promoting more balanced overall regional development, and they contribute to development of metropolitan areas or fulfil urban functions in a polycentric network.



Evidence shows that the class of regions with SMUAs as a prevailing type of settlement has experienced higher GDP growth rates than more urbanized areas, compared to the EU average. There are clusters of SMUAs in the core of the European continent, which contributes, to the largest share of its GDP.

SMUAs contribute to the EU common strategic goals, especially regarding employment, climate change and energy sustainability, fighting poverty and social exclusion. In many countries SMUAs appear to have lower unemployment levels than in larger urban areas. This indicates that SMUAs have employment potentials. Furthermore, in countries with relatively high income-levels, SMUAs appear to have a higher median income than large urban areas, while the trend reverses in member states with lower income levels. Housing is on average more affordable in SMUAs.

Many SMUAs face similar challenges as larger cities, but they are less equipped to respond effectively to these challenges because of the limited size of their economies and human capital, less connectivity and limited capacity. Many SMUAs are dependent on public funds, which make them vulnerable to austerity measures in times of crisis. In general SMUAs face ageing infrastructure and insufficient connectivity. The lack of new investments makes old infrastructure particularly difficult and costly to maintain.

## ADVANTAGES of SMUAs

## CHALLENGES of SMUAs

	
<ul style="list-style-type: none"><li>✘ <b>ECONOMIC:</b> Regions with SMUAs often show higher economic performance despite lower population growth.</li><li>✘ <b>UNEMPLOYMENT:</b> On average SMUAs show lower unemployment rates compared to larger urban areas.</li><li>✘ <b>POVERTY:</b> SMUAs outperform both large urban and rural areas by lower poverty levels in a number of member states.</li><li>✘ <b>HOUSING:</b> SMUAs perform better than large urban areas in providing affordable housing.</li></ul>	<ul style="list-style-type: none"><li>✘ <b>ECONOMIC:</b> Greater impact of de-industrialisation.</li><li>✘ <b>DEMOGRAPHIC:</b> Outflow young and educated to larger cities.</li><li>✘ <b>SERVICES:</b> Erosion of public and private services. Dependency on funds national governments, vulnerability to austerity measures</li><li>✘ <b>INFRASTRUCTURE:</b> Out-dated infrastructure. Poor connectivity.</li></ul>

For decades SMUAs have been experiencing population growth, but since the last decade of the twentieth century the population growth has been concentrated in large metropolises. Many SMUAs experience declining and aging populations, as a result of outflows to larger cities. Loss or decline of industrial activities throughout Europe has had adverse impacts on SMUAs that are dependent on these productive activities. At the same time, there are many differences between individual SMUAs. Some SMUAs with a well-developed industrial and knowledge based sector and close to large urban areas are experiencing population growth, while in other remote SMUAs population decline has been substantial.

Challenges of SMUAs differ according to the geographical (or spatial-functional) position of SMUAs within a region. One should be careful to adopt a 'one-size fits all approach' towards SMUAs, since their profiles are determined by complex territorial and economic contexts.

Among key preconditions for the development of SMUAs are:

- *Social and economic preconditions*
  - *Overall performance of the region* in which the SMUA is located, and the national policy context. Economies of many SMUAs are strongly shaped by national policies and public investments, including EU funds.
  - *Policies that are aimed at strengthening different assets* of SMUAs (natural assets, human, social, cultural and economic capital etc.).
  - *The mix of economic activities and sectors.* The potentials for development differ for SMUAs that are primarily residential, productive or knowledge-based economies. In general, knowledge-based economies seem more resilient to economic changes than the productive economy.

- *Territorial preconditions*
  - *Geographic and functional location* of SMUAs (within commuting networks, near larger cities, etc.).
  - *Connectivity* through spatial proximity to larger cities or other SMUAs, ICT and transport networks play an important role.
  - *Rural-urban cooperation* can help to utilise opportunities for balancing economic activity and quality of life aspects in urban and rural regions. Cooperation between SMUAs, rural areas and urban areas should be developed on basis of complementarity of the potentials of these areas and the existing ties.
- *Institutional preconditions and governance*
  - *Institutional developments* such as decentralisation processes and multi-level coordination and territorial cooperation determine the development opportunities of SMUAs.
  - *The role of territorial governance and flexible institutional setting* are vital in areas of co-ordinating actions of actors and institutions, integrating policy sectors, mobilising stakeholder participation, being adaptive to changing contexts, and realising place-based/territorial policies.
  - *Financial instruments*. On European level the specific development challenges and potentials of the SMUAs are seldom recognized in policy documents, except the ones on balanced territorial development (TA2020). However, in EU funding programmes and regulations of financial instruments there are hardly any formal obstacles to their eligibility to benefit of EU funds.

Regarding development directions SMUAs need to combine inward and outward looking strategic outlooks to unlock their development potential.

- *Outward looking strategies* enable SMUAs with limited means to respond effectively and implement strategies aimed at acquiring new markets. Many SMUAs are actively working towards attracting external investments and implementing place marketing strategies that could benefit not only urban but also surrounding areas. Outwards looking strategies can be effective if national policies provide significant supporting incentives.
- The aim of *inward looking strategies* is to identify and to develop local assets in a targeted way. Building development on existing potentials, through smart specialisation processes may be a promising strategy. At the same time SMUAs should reduce their dependency on a few firms and diversify their markets.
- *Alternative strategies*. SMUAs facing rapid depopulation without the external support from national governments should remain open to alternative approaches, such as strengthening of economic resilience of local and regional economy. Possible measures in these strategies are: restructuring local economy, introducing new forms of housing, creating new green areas,

introducing creative solutions to ensure the quality of services run by citizens themselves. The alternatives to growth-oriented scenarios require strong collaborative and inclusive community leadership and involvement.

Based on the synthesis of relevant research, some key policy recommendations can be drawn:

*In general terms:*

- SMUAs may be able to retain their functions, achieve higher connectivity while maintaining their cultural and historical identities, by tailor-made support mechanisms and policies that build on their strengths. This implies an integrated territorial strategy, making use of the place-based approach.

*At EU level:*

- EU policies and strategies, including the Europe 2020 strategy and EU Macro Regional Strategies and financing instruments should recognise the actual and potential role of SMUAs. EU policies to support urban and territorial development should however consider SMUAs and should take into account the specific needs and potentials of SMUAs.

*At national and local level:*

- SMUAs should receive due attention in each country's priorities for urban and territorial development. Local governments should be involved in the elaboration and implementation of the operational programmes to secure sufficient financial resources to regional priorities.
- National and regional governments should support SMUAs to be represented in the decision-making processes that shape regional strategies.
- National and regional policies should support territorial cooperation among SMUAs and surrounding areas, in order to build critical mass.

Developing effective territorial and place-based approaches requires learning from each other and knowledge exchange within and between countries. National and regional governments should therefore encourage mutual learning and exchange of knowledge between urban areas including SMUAs.

## 1. Introduction

Europe is an urban continent with approximately 70% of its population – 350 million people - living in urban areas of more than 5,000 inhabitants (EC DG Regio 2011). Yet these areas are very different in terms of their size, functions and impact. Policy attention has shifted gradually towards large metropolises as main drivers of development and growth that provides a boost to trade, investment and local development, although historically secondary cities, and towns have played an important role in providing balanced development of urban and rural regions (DG Regio, 2011). The large number of small and medium-sized cities already constitutes a motive to pay more attention to the economic development of these cities. According to the recent European wide TOWN research project “Small and medium sized towns in their functional territorial context” carried out within the ESPON (European Observation Network for Territorial Development and Cohesion) Programme, there are 8,350 urban settlements in the EU that can be classified as small and medium-sized urban areas (abbreviated in this report as SMUAs), inhabiting about 24.2% of the EU population (KU Leuven and ESPON 2014b: iv).<sup>2</sup>

Small and medium-sized urban areas are confronted with economic development challenges that are – partly – different from those that larger cities face. Just as primary and larger cities, small and medium-sized urban areas experience the pressures of globalisation though they are less prepared to cope with globalisation challenges. Unlike large cities and metropolitan areas, smaller urban areas often lack the capacity to participate in the knowledge economy and are less integrated in the world export and finance markets. As a result many of them struggle with problems of job creation, diversification of the economy, attraction of investment, maintenance of infrastructure and fighting poverty. The transition to a knowledge-based economy opens additional opportunities for SMUAs but it also creates significant strains for those SMUAs based on industrial production or agriculture increasing the unemployment and outmigration risks. This trend, as well as urban policies with a big-city bias, reinforces the gap between central urban regions and peripheral regions.

SMUAs are far from being an homogenous category. Some are flowering, others are declining. Some SMUAs have their own advantages in comparison to large cities. In general, SMUAs play a role in ensuring the wellbeing and livelihood of many people, not only to their inhabitants but also to rural population of surrounding areas, thus creating vital intersection between large urban areas and rural areas which enhances territorial cohesion. Furthermore, many SMUAs show high, economic growth rates, lower poverty levels, and create less negative externalities such as lack of affordable housing, traffic congestions, urban sprawl, and pollution.

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<sup>2</sup> These entities (SMUAs) are referred to as small and medium sized towns (SMSTs) in the TOWN research project (KU Leuven and ESPON 2014a/b). SMSTs are defined as settlements that have a population density between 300 and 1,500 inh./km<sup>2</sup> and/or between 50,000 and 5,000 inhabitants. Later in this introduction (section 1.3) the choice of the term SMUAs will be explained.



There is insufficient awareness and understanding on the economic growth challenges and potentials of small and medium-sized urban areas in relation to their specificities, and their functions within national and territorial development. This lack of knowledge is related to the tendency of studies on regional and economic development to focus on larger cities. How to improve economic performance of small and medium-sized urban areas taking into account their specific assets is a significant challenge given their important position in the European urban landscape

### **1.1 Aim and Relevance of the Study**

The aim of this report is to synthesise available knowledge on the economic performance, development challenges and preconditions for development of Small and Medium-Sized Urban Areas (SMUAs) in Europe, as a basis for formulating policy relevant conclusions and recommendations. This report is intended to support the Latvian EU Presidency by serving as basis for discussion during the NTCCP-UDG and DG meetings during the Latvian Presidency and as a source for formulating conclusions for the informal ministerial meeting on urban and territorial development. Engendering a debate on the role, challenges, potentials and development preconditions of SMUAs in Europe can be regarded as the Latvian Presidency contribution to EU-level debate on the European Urban Agenda.

This report highlights the development potential and preconditions of SMUAs in the achievement of the Europe-2020 goals by emphasising the positive and functional role of SMUAs. The Ministers responsible for spatial planning and territorial development underlined in the Territorial Agenda of the EU 2020 (2011) the importance of the integrated place-based approach to policy making on territorial issues “to unleash territorial potential through development strategies based on local and regional knowledge of needs, and building on the specific assets and factors which contribute to the competitiveness of places”. Because of the important role of SMUAs in territorial development in Europe, the place-based approach involving a combination of actions and measures at local, regional, national and EU level should take into consideration the characteristics and potential of European SMUAs.

This report focuses on economic growth (or more in general, economic development) because this is one of the essential conditions for the development of cities in other domains. Economic growth (and development) is broadly defined, including demographic, educational, institutional and other conditions.

### **1.2 Research questions and objectives**

The central question of this study is: What are the main challenges, barriers and preconditions for economic growth in small and medium- sized urban areas in Europe? And how can local, regional, national and EU policies strengthen economic growth of SMUAs in their territorial context?

Sub questions this study intends to answer are:

- What is the place and function of SMUAs in Europe and what are general trends in Europe?
- What are the main economic growth challenges of SMUAs and how do they differ from those of larger cities and metropolitan areas?
- How can SMUAs contribute to sustainable territorial development? And how can SMUAs contribute to the Europe 2020 goals?
- What are preconditions for development and what are promising development directions of SMUAs?
- How can local, regional, national and EU policies contribute to the economic growth of SMUAs in their territorial context?

### **1.3 Terminology: defining SMUAs**

The European urban panorama is very diverse, because urban areas vary significantly in size, economic profile and development potential. Population size and urban density are key variables of defining cities and towns. In addition, administrative and functional approaches are used. There are three common types of definitions of or perspectives on cities: morphological, administrative and functional definitions (KU Leuven and ESPON 2014b: iii).

- Morphological definitions refer to an urban settlement as a compact built up area with a certain minimum population size and density.
- Administrative definitions refer to urban municipalities: settlements with urban administrative status where local government holds urban administrative duties and responsibilities within clear-cut boundaries (KU Leuven and ESPON 2014b: iii). Administrative definitions of towns and cities are mentioned in national legislation and are commonly used by policy makers for policy planning and implementation.
- Functional definitions refer to urban settlements as places containing a concentration of jobs, services and other functions for the municipality and its hinterland. The functional approach emphasises the role of a larger functional area around an urban core. This core constitutes a gravitational area of jobs, services and other functions attracting commuters and visitors from the wider periphery.

Different ways of defining urban settlements in Europe makes it difficult to arrive at common urban typology. Morphological definitions are widely used, but each member state uses different criteria for different types of cities. Many follow the

threshold of 50,000 inhabitants to distinguish between larger cities and small cities with less than 50,000 inhabitants (See, **Box 1**). However, there is no consensus about the upper limit of medium-sized cities and urban areas. For example, a frequently quoted figure on the number of inhabitants in small and medium-sized cities departs from a publication of the Committee of the Regions: that “56% of urban population – or 38% of Europe’s population as a whole – live in cities and towns of between 5,000 and 100,000 inhabitants” (Committee of the Regions 2012). Eurotowns – a network of ‘medium-sized European cities’ defines these as cities with a population between 50,000 and 250,000 inhabitants; complementing the EUROCITIES network of large cities, that are an important regional centre with an international dimension, having a population of at least 250,000 inhabitants. The report on “The new OECD-EC definition” on cities in Europe (Dijkstra and Poelman, 2012) discerns small, medium-sized and various types of larger cities (L, XL, XXL and global cities), defining small and medium-sized cities as urban centres with a population between 50,000 and 100,000, and between 100,000 and 250,000 respectively. In short, there is currently no consensus on single definition of small and medium-sized cities in Europe.

The purpose of this report is not to advance a single definition for small and medium-sized urban settlements, but to acknowledge that definitions might serve different purposes. It is important to maintain flexibility of different definitions and criteria that are used by member states as those are usually based on complex historical paths, specific settlement patterns and national contexts.

Even though it is not the intention to impose a common definition, the use of statistical data requires a more precise definition of SMUAs to allow a cross-country comparison. Our starting point for a country comparison of SMUAs is the Degree of urbanisations (DEGURBA) classification of the OECD and Commission (DG Regio). The Degree of Urbanisation (DEGURBA) classification is a morphological classification that indicates the urban character of an area. The New Degree of Urbanisation classification uses as a spatial base unit a database of more than 2,000,000 grid cells of 1 km<sup>2</sup> produced by GEOSTAT and the associated population data in year 2006. Based on the share of local population living in urban clusters and in urban centres, it classifies local administrative units level 2 (LAU2) into three types of area (Eurostat, 2013a):

- *thinly-populated area* (alternative name: rural area): more than 50 % of the population lives in rural grid cells - DEGURBA 3;
- *intermediate density area* (alternative name: towns and suburbs or small urban area): less than 50 % of the population lives in rural grid cells and less than 50 % lives in high-density clusters - DEGURBA 2;
- *densely populated area* (alternative names: cities or large urban area): at least 50% lives in high-density clusters; in addition, each high-density cluster should have at least 75% of its population in densely-populated Local Administrative Units (LAU-2) - DEGURBA 1.

### Box 1: Diversity of definitions of small and medium-sized urban areas

Each country has its own method of defining a city and a hierarchy of cities based on a variety of criteria, often including population size and density, but also more functional roles or historic status or having received city rights through a charter in the past (Dijkstra & Poelman 2012). EU member states use different interpretations of urban areas. Some emphasize functional role of urban areas (e.g. Austria), while most refer to certain population size (e.g. Croatia, Czech Republic, Finland, Portugal and Spain):

- In Croatia medium-sized urban areas include from 10,000 to 35,000 inhabitants, whereas small urban areas have up to 10,000 inhabitants.
- In Czech Republic medium sized urban areas contain 50,000 and more inhabitants whereas small urban areas are those with 20,000 inhabitants.
- Finland applies a threshold of less than 50,000 inhabitants.
- In France medium-sized urban areas range from 30,000 to 200,000 inhabitants whereas small urban areas are those with less than 30,000 inhabitants.
- In Portugal SMUAs range from 50,000 to 200,000, however there is no legal definition of SMUAs. Legal criteria of population size and other criteria is applied for cities and villages.
- In Spain the category of small urban areas refers to areas with population size between 20,000 and 50,000 inhabitants.

Additional criteria such as urban area's functional role, regional importance and administrative status are also taken in the account. In Austria, for example, functional role of SMUAs is regarded as more important criteria than population size. Heavy emphasis is also placed on the accessibility to all services and institutions so that all daily needs are addressed within a reasonable and adequate time.

Source: Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014

Although it is not the intention of this report to advance a single definition for small and medium-sized urban areas, it inevitably makes use of a precise definition for statistical analysis. The statistical analysis of this report is based on two (related) sources: the EUROSTAT database classified according to the degree of urbanisation and the ESPON TOWN database (and report). The ESPON TOWN project departs from the degree of urbanisation classification. According to this definition, small and medium-sized urban areas are defined as: urbanised areas between 5,000 and 50,000 inhabitants. More precisely: *small* and *medium* sized urban areas are defined as “continuous urban clusters with a population above 5,000 and a density above 300 inhabitants/km<sup>2</sup> that are not considered “High Density Urban Clusters” (HDUC) as according to the Degree of Urbanisation for Local Administrative Units (DEGURBA) definition (Eurostat Labour Market Working Group, 2011; KU Leuven and ESPON, 2014b, 7).

However, this report will refer to “small and medium-sized urban areas” (SMUAs), instead of using the term “small and medium sized towns” (SMSTs) used in the ESPON TOWN project. The term ‘town’ can cause confusion, stemming from different understandings of the term “town” in different national contexts. Furthermore, the report emphasizes the importance of the functional role of small and medium-sized cities for the cities themselves and the hinterland, and therefore prefers the term ‘urban area’ to ‘cities’ or ‘towns’.

We are aware that this interpretation of 'small and medium-sized urban areas' for statistical purposes implies a crude reduction, focussing on relatively small urban areas. However, this choice is defensible because of the complexity of the theme of small and medium-sized urban areas in Europe and the limitations of available Eurostat data (only three types of areas base on the DEGRUBA classification; thus we had to restrict our statistical analysis to Intermediate density areas) and relevant studies (esp. the TOWN report).

In parts of the report that are not based on the ESPON TOWN and EUROSTAT data sets we will employ a more broad definition of SMUAs, especially, regarding the upper limit of the number of inhabitants, for instance in the literature review and examples.

## **1.4 Research Approach**

This synthesising report is based on existing research reports and databases. The main research approaches are:

- Literature review evaluating last 5 years of published international key studies and reports.
- Analysis of statistical data for the last 5 years. Statistical data is analysed in order to compare and evaluate the role of small and medium-sized urban areas in the national and regional economy. Statistical analysis uses as sources both EUROSTAT data (Degree of Urbanisation classification) and the ESPON TOWN Project Database, which consists of NUTS3 level data on key structural and evolutionary characteristics. See the annex for more information on this part of the research.
- Case studies of several European SMUAs based on the methodology used in the ESPON TOWN study. In-depth case study analysis focuses specifically on SMUAs in Latvia analysing their territorial contribution to economic growth, ensuring urban - rural linkage, provision of services, and application of smart solutions.
- Assessment of EU and other foreign financial instruments, which are directed to solve problems and stimulate the development of SMUAs.

## 1.5 Structure of the report

The Report is structured into four parts:

1. The second chapter presents general EU level trends illustrating the position and diversity of SMUAs in the European landscape.
2. The third chapter provides an overview of challenges, preconditions and promising development directions of SMUAs.
3. The fourth chapter outlines some of the strategies, policies and funding possibilities to tackle barriers and to utilise potentials for development of SMUAs.
4. The fifth chapter summarises the main policy relevant conclusions and provides recommendations for strengthening the role of SMUAs in European and national policy agendas.

In-depth findings from Latvian case study, data tables and templates are presented in the Annexes.

## 2. SMUAs in Europe: characteristics and trends

### 2.1 Urban Europe

#### *Urbanisation in Europe*

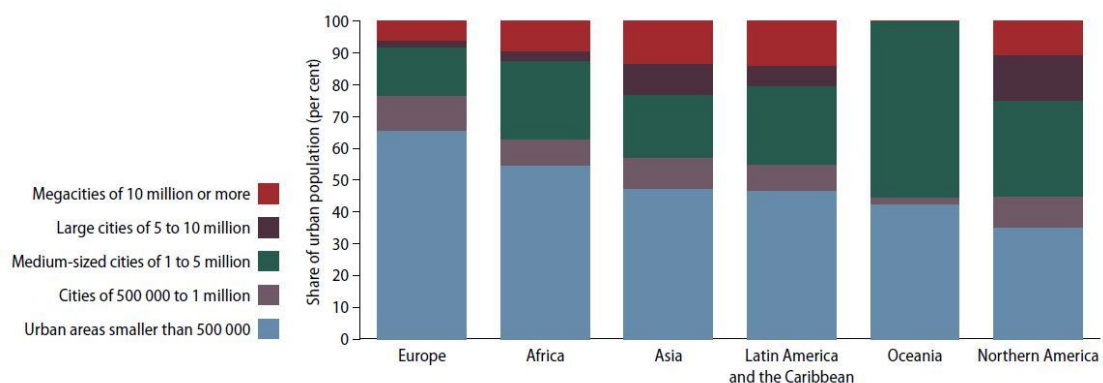
Urbanisation in Europe consist of diverse patterns, due to geographical constraints, different historical urbanisation processes of each country and re-emerging pre-national state patterns due to the weakening of national borders (KU Leuven and ESPON, 2014). Urban Europe includes different urban systems, ranging from two global cities (London and Paris) to a series of functionally connected polycentric metropolitan areas and a wide variety of small-and medium-sized urban regions (EC 2011, Cities of Tomorrow report).

Despite national differences, Europe presents some striking examples of polycentric structures, especially in the Central European area. Differences between countries also have historical and institutional roots, from “centralized” states leading to the emergence of large national capitals concentrating most economic and administrative functions and more federal states characterized by polycentric arrangements.

#### *A global perspective*

Compared to the USA or China, Europe is characterised by a more polycentric and less concentrated urban pattern. Europe has fewer very large urban agglomerations and a higher number of cities spread across the continent (ESPON Territorial Observation No. 13, 2014). Urbanisation has different characteristics around the globe. Relative scales are different and thus also what is referred at as smaller cities or urban areas. At a global level, smaller urban areas can be considered those with up to 0,5 million inhabitants, while such scales are considered large ones at European level. It is important, therefore to bear in mind the specificity of the European urban structure. Figure 1 allows us to understand some of the specificities of urban Europe within a global context.

**Figure 1: Population distribution by city size (2014)**



Source: UNDESA, World Urbanisation Prospects 2014 Revision.

According to UN estimates global population in cities accounts for more than 53 % of the global population. Population growth in urban areas is concentrated in the cities of Asia, Africa, Latin America and the Caribbean. The world's urban population (3,7 billion) is expected to double by reaching 6.3 billion in 2050. Current global urbanization rate averages for 1 % a year, but it is different for regions and cities of different sizes. The proportion of global population living in megacities (>10 million) is predicted to increase by 13.6% at an average rate 4% per year by 2025 (UN Urban Development Prospectus, 2011). However, the highest growth is expected in so called secondary cities with population size of 1-5 million. The proportion living in these cities is expected to grow by 24.3% at average rate 2.67% per annum. The population of small cities (<0,5 million) will also grow but at a slower pace - from current 1 % to about 0.5% a year by 2025 (UN Urban Development Prospectus, 2011).

Compared to other regions of the world in Europe the proportion living in mega cities is smaller than in Asia and Latin America/Caribbean and considerably larger share of population is living in smaller cities. It is expected that proportion living in these cities will decline but the proportion living in megacities will increase, but not to the extent as in other regions of the world. The proportion of population living in medium sized cities and cities of 0.5-1 million will also increase in Europe by 2025 (UN Urban Development Prospectus, 2011).

The growth of cities will have enormous impact on land consumption, water, food, housing, infrastructure and jobs. Preserving European polycentric and less concentrated urban pattern provides conditions for sustainability and better quality of life in decades to come. The role of small cities and SMUAs is therefore important in providing a balanced territorial development pattern that will be able to absorb pressures of overly concentrated populations.

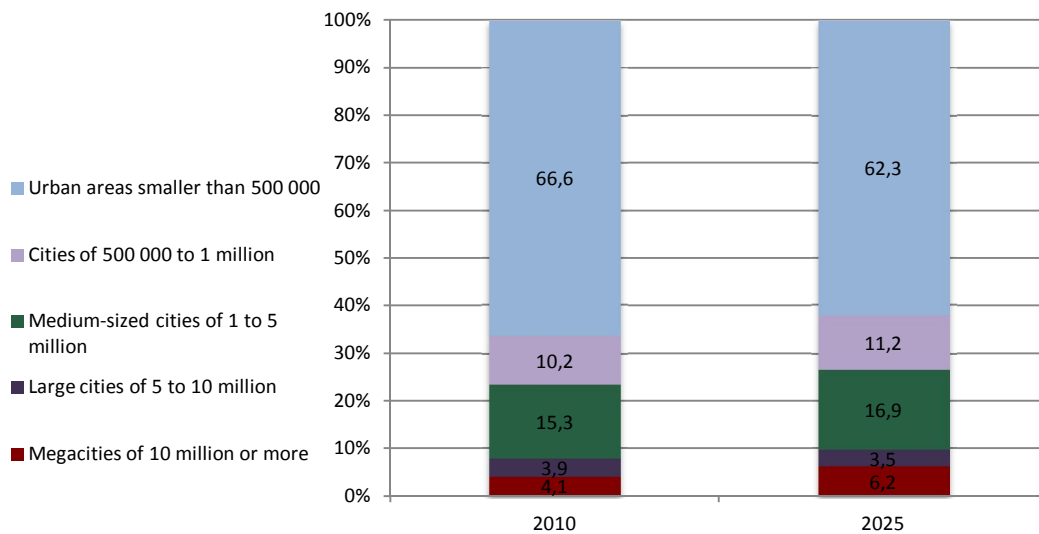
**Table 1: Percentage of population living in cities by city size 2010, 2025 (estimated)**

	>10mil		5-10mil		1-5mil		0.5-1 mil		<0.5mil	
	2010	2025	2010	2025	2010	2025	2010	2025	2010	2025
World	9.9	13.6	7.5	8.7	21.4	24.3	9.9	11.1	51.3	42.4
Africa	5.4	7.5	2.1	9.1	26.0	26.9	9.6	9.4	56.8	47.1
Sub Saharan Africa	3.6	6.6	2.8	8.9	28.7	30.5	10.3	9.3	54.6	44.7
Asia	11.4	15.8	9.5	9.2	19.1	23.5	10.3	11.8	49.7	39.7
<b>Europe</b>	<b>4.1</b>	<b>6.2</b>	<b>3.9</b>	<b>3.5</b>	<b>15.3</b>	<b>16.9</b>	<b>10.2</b>	<b>11.2</b>	<b>66.6</b>	<b>62.3</b>
Latin America/Caribbean	14.0	17.8	6.2	5.4	23.7	27.3	9.0	9.1	47.1	40.3
Northern America	11.8	15.4	11.3	17.0	33.8	31.4	9.9	12.4	33.2	23.9
Oceania			-	17.8	56.4	41.3	4.2	11.6	39.4	29.2

Source: UN Urban Prospectus (2011)



**Figure 2: European population living in cities by city size 2010, 2025 (estimated)**



Source: UN Urban Prospectus (2011)

## 2.2 SMUAs in Europe: characteristics and diversity

### *Distribution across Europe*

For decades SMUAs have been at the core of urbanisation in Europe. In the period 1960-1990 their population growth exceeded that of large metropolises, but in recent decades their growth rate has been superseded by higher growths rates of large cities (Turok & Mykhnenko, 2007).

According to the ESPON TOWN research (KU Leuven and ESPON, 2014), 24.2% of the population in Europe lives in SMUAs, while 46.3% of the population lives in High Density Urban Clusters (HDUCs)<sup>3</sup>. The distribution of SMUAs in the EU space is uneven. As highlighted by KU Leuven and ESPON TOWN research (2014), three different groups of countries can be identified according to the prevalent typology of urban area:

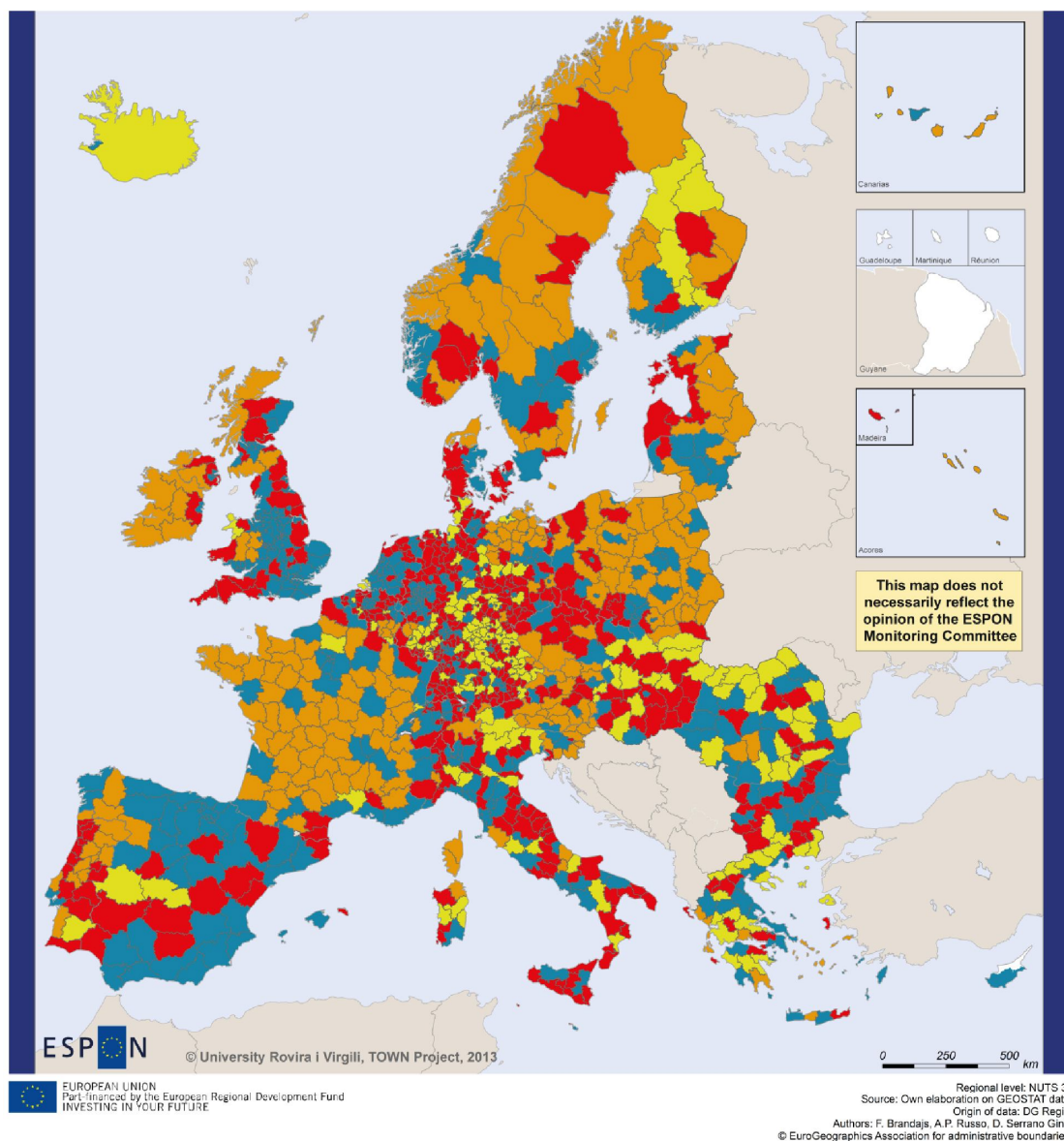
- Belgium, Greece, the Netherlands, Spain, the UK, Malta and Cyprus have a prevalent urbanized population clustered in high-density urban centres;
- In France, Hungary, Ireland, Lithuania, Luxembourg, Norway and Slovakia there is an overrepresentation of population settled in smaller urban areas.

<sup>3</sup> HDUCs are defined as areas with a population more than 50,000 and a population density of more than 1500 inh./km<sup>2</sup>; SMUAs those with a population density between 300 and 1500 inh./km<sup>2</sup> and/or between 5,000 and 50,000 inhabitants (KU Leuven and ESPON, 2014).

Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Finland, Italy, Latvia, Poland, Portugal, Romania, Sweden and Slovenia present a more balanced distribution of the population between high-density urban clusters and small and medium-sized ones.

**Map 1** shows the overall distribution of SMUAs across countries in terms of prevailing settlement typology per NUTS 3 region. The area stretching from England in the North towards the southern Rhine valley and northern Italy not only concentrates the HDUCs but also a large share of SMUAs. Other large concentrations of SMUAs can be found in South-Eastern Germany and Poland and in Mediterranean coastal areas.

**Map 1: The Distribution of Small and Medium Sized Towns in Europe – KU Leuven and ESPON 2014**



**Prevailing population settlement type**

- High Density Urban Clusters as the prevailing type of population settlement
- Small and Medium Towns as the prevailing type of population settlement
- Very Small Towns as the prevailing type of population settlement
- Other population settlements as prevailing type
- NO DATA

*Functional and regional characteristics*

A general socio-economic trend emerging from KU Leuven and ESPON TOWN (2014) analysis is that regions with a prevalence of SMUAs are characterized by the presence of declining industrial activities. Productive activities tend to concentrate to larger urban areas or relocate outside the EU. Therefore, SMUAs activities are shifting towards being more dedicated to residents and tourists.

Some exceptions to the general de-industrialisation trend of SMUAs can be found in central Spain, Poland, Finland and southwest Ireland. Overall, knowledge-intensive activities are present, but still not a major trend. However, it is worth noting that the de-industrialisation trend is a common element across all typologies of urban areas, but is having a stronger impact on SMUAs where productive activities were the core of local economic systems.

### 2.3 Comparison and relation of SMUAs with larger cities and rural areas

European countries present different features regarding their population distribution among different categories of settlements. If we classify EU population by “Degree of urbanisation”, SMUAs tend to be concentrated in intermediate density (or degree 2) areas, with around one third of EU population living in SMUAs, less than in large urban (or degree 1) areas but more than in rural (or degree 3) areas.

According to the Eurostat Degree of Urbanisation categorisation, large shares of population live in SMUAs in Belgium, Malta, Italy, Germany and Netherlands, while SMUAs host lower shares of the population in Lithuania, Estonia, Cyprus, Latvia and Denmark (see, [Figure 4](#)).

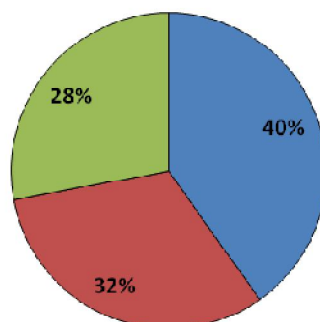
In many cases SMUAs have a larger share of elderly people compared to large urban areas, particularly in Nordic and North-Western European countries (left hand side of [Figure 5](#)). On the other side, in virtually all EU countries SMUAs have shares of elderly population lower than in rural areas. In general, SMUAs are different from large cities on a range of measures (KU Leuven and ESPON, 2014):

- *Social dimensions*: older working population, more pensioners, higher ‘non-foreign’ population, higher share of school age children;
- *Economic dimensions*: greater proportion employment in manufacturing, more self-employment, more likely to be net exporter of labour (dormitory city), a less diverse in sectoral mix, a higher economic activity rate and a smaller proportion of service sector employment
- *Housing issues*: more second homes for instance, making them attractive as tourist destinations.

## SMUAs and larger cities

**Figure 3: Population distribution by degree of urbanisation, EU-28 (2013)<sup>4</sup>**

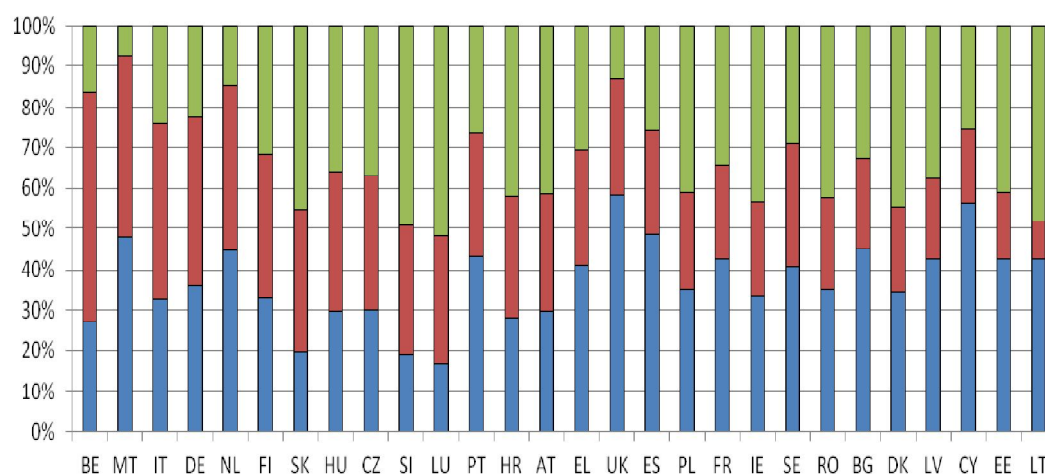
■ Large Urban Areas ■ SMUAs ■ Rural Areas



Source: Eurostat

**Figure 4: Population distribution by degree of urbanisation, EU 28 countries (2013)**

■ Large Urban Areas ■ SMUAs ■ Rural Areas

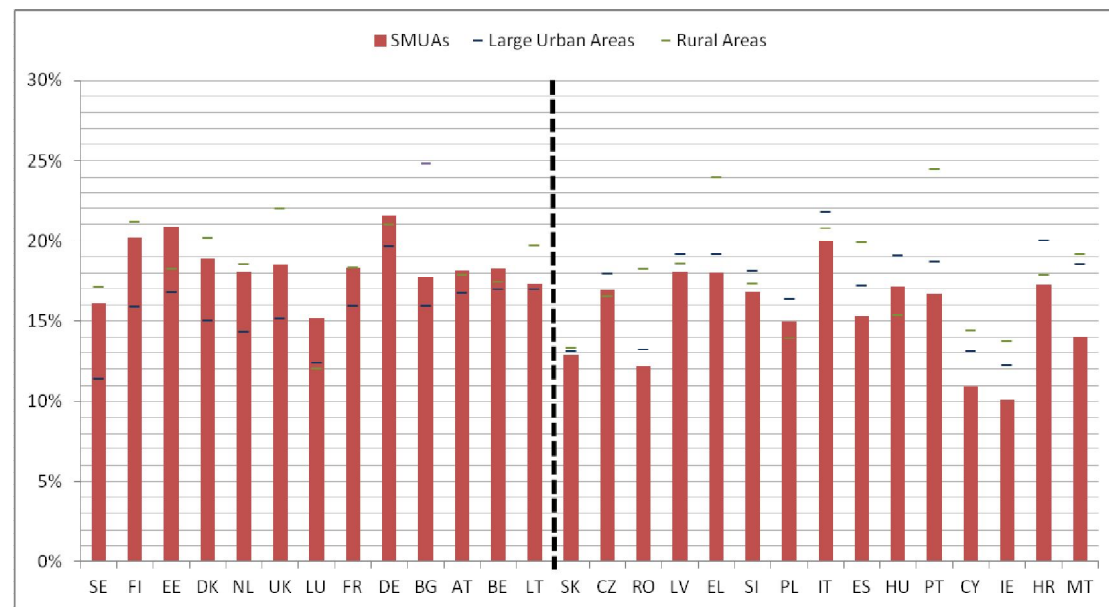


Source: Eurostat

<sup>4</sup> Based on the Degree of Urbanization (DEGURBA) methodology:

- on the *High-density cluster/urban centre*: contiguous grid cells of 1 km<sup>2</sup> with a density of at least 1 500 inhabitants per km<sup>2</sup> and a minimum population of 50 000;
- *Urban cluster*: cluster of contiguous grid cells of 1 km<sup>2</sup> with a density of at least 300 inhabitants per km<sup>2</sup> and a minimum population of 5 000;
- *Rural grid cell*: grid cell outside high-density clusters and urban clusters. Local administrative units (LAU2) are then classified to one of three type of areas:
- *Densely populated area* (alternative names: cities or large urban area): at least 50 % lives in high-density clusters; in addition, each high-density cluster should have at least 75 % of its population in densely-populated LAU2s; this also ensures that all high-density clusters are represented by at least one densely-populated LAU2, even when this cluster represents less than 50 % of the population of that LAU2;
- *Intermediate density area* (alternative name: towns and suburbs or small urban area): less than 50 % of the population lives in rural grid cells and less than 50 % live in high-density clusters;
- *Thinly populated area* (alternative name: rural area): more than 50 % of the population lives in rural grid cells. Full description of the methodology is available at: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Degree\\_of\\_urbanisation\\_classification\\_-\\_2011\\_revision](http://ec.europa.eu/eurostat/statistics-explained/index.php/Degree_of_urbanisation_classification_-_2011_revision). Accessed: 25.02.2015.

**Figure 5: Share of the population aged 65 or more by degree of urbanisation, EU 28 countries (2013)**



Source: Eurostat

A functional analysis of SMUAs suggests that size matters in employment: larger urban areas present higher growth rates of employment compared to SMUAs. Also, location has an effect: being located in the proximity of larger urban centres negatively influences job growth. SMUAs located beyond the hinterland of large metropolitan areas habitually have commuting networks focused on cars, with inadequate public transport connections (Alpine Space, 2011). Proximity to larger urban areas can benefit SMUAs (borrowing-size effect), while those located in the periphery of Europe are often the “relative losers of globalization” (Kunzmann, 2010). SMUAs tend to have less urban functions compared to larger urban areas, and are subject to an “erosion of public and private services” (Kunzmann, 2010) in favour of large metropolises.

## Box 2: Growing SMUAs. The example of Letterkenny, Ireland

Depopulation due to natural and/or migration is seen as important challenge for many SMUAs. While it is more common for Central and Eastern Europe, other SMUAs are experiencing population growth due to positive migration balance. One such example is Letterkenny - a town located in County Donegal, which lies at the North West corner of Ireland in the proximity of border with Northern Ireland. Since 1981 the settlement has almost tripled in size. In 2011 it was home to 19,588 inhabitants having grown by 28% from 15,231 persons in 2002. The population is expected to grow to 25,700 by 2022. Letterkenny comprises a youthful population, with 57% of the population under the age of 35.

The challenge facing Letterkenny is to consolidate the older and newer areas into one cohesive core. Planning and Development Act 2010 obligated Planning Authorities to introduce plan led Core Strategies into all development plans which would coordinate the zoning of lands proportionate to housing demand from population projections. This resulted in the introduction of a coordinated zoning framework for Letterkenny to develop all unused lands and encourage the take up of vacant property and the regeneration of stagnant areas of the town. Overtime this framework will strengthen and consolidate the neighbourhoods as well as regenerating and increasing cohesiveness in the town centre.

The existing economic base in Letterkenny is diverse which contributes to vitality and resilience of local economy. While there has been a decline in the manufacturing base since the eighties, and construction after property market collapse caused by global financial crisis, employment has grown significantly in the services sector. The town comprises a range of foreign investment companies: A&M Belting Company Ltd., Kirchhoff Ireland Ltd., Philips Medisize Ireland Ltd., Pramerica Systems Ireland Ltd., Letterkenny Readymix, SITA PTS, United Healthgroup and ZEUS Industrial Products (Ireland Ltd.) The growth of a digital cluster in Letterkenny is emerging through the increasing number of companies such as Pramerica, SITA, Keyedin, Colab locating and expanding in the centre. The North West Science Park promotes a collaborative, cross border strategy built on science, technology and innovation to support the continued development of a knowledge based regional economy. This initiative will also support the development of research collaboration in an all island context and boosting the commercialisation of the research capability of the Northwest. Initiatives undertaken by the business community in conjunction with chamber of commerce and local government such as Shop Lk, which is expanding the retail catchment and driving the attractiveness and of Letterkenny as a prime retail centre in the North West.

Source: Information provided by Donegal County Council, Ireland.

As evidenced by the KU Leuven and ESPON TOWN research (2014), while per capita GDP growth of areas characterised by the presence of SMUAs, compared to national performance, is positive on average, it also shows different trends:

- Growth in per capita wealth in SMUAs regions appears to have outperformed the one of metropolitan regions in Belgium, Germany and Austria,
- In Slovakia, Hungary, Poland, Bulgaria and Greece, GDP per capita growth of SMUAs regions appears to have occurred at the expenses of remote rural areas.
- Peripheral regions, which are tourist destinations in EU15 countries, are among the best performers.

- Re-equilibrium of wealth in the West and the Centre, with rural peripheries and regions containing SMUAs doing better than large urban areas.
- Polarisation in South-eastern Europe, where the better performing regions are the metropolitan ones.

Overall across Europe, evidence gathered by KU Leuven and ESPON (2014) shows that the class of regions with SMUAs as a prevailing typology has experienced higher GDP growth rates than more urbanised areas, compared to the EU average. SMUAs across Eastern Europe have experienced the higher positive GDP growth deviation from EU average, while SMUAs in the UK, Germany and Italy have shown less dynamic performances. The macro trend over the 2000s decade shows an overall convergence, with Eastern European and less economically developed areas of the EU in general performing better than the EU core. It appears that SMUAs fit well in this trend.

**Table 2: Average per capita GDP and population growth of NUTS3 regions as classified by degree of urbanization in EU context (2001-2011)**

	Mean Population Growth	Mean per Capita GDP growth
Regions with SMUAs	0.55%	41.63%
Intermediate Regions	3.84%	42.46%
Highly Urbanised Regions	3.38%	20.74%

Source: TOWN, KU Leuven and ESPON 2014<sup>5</sup>

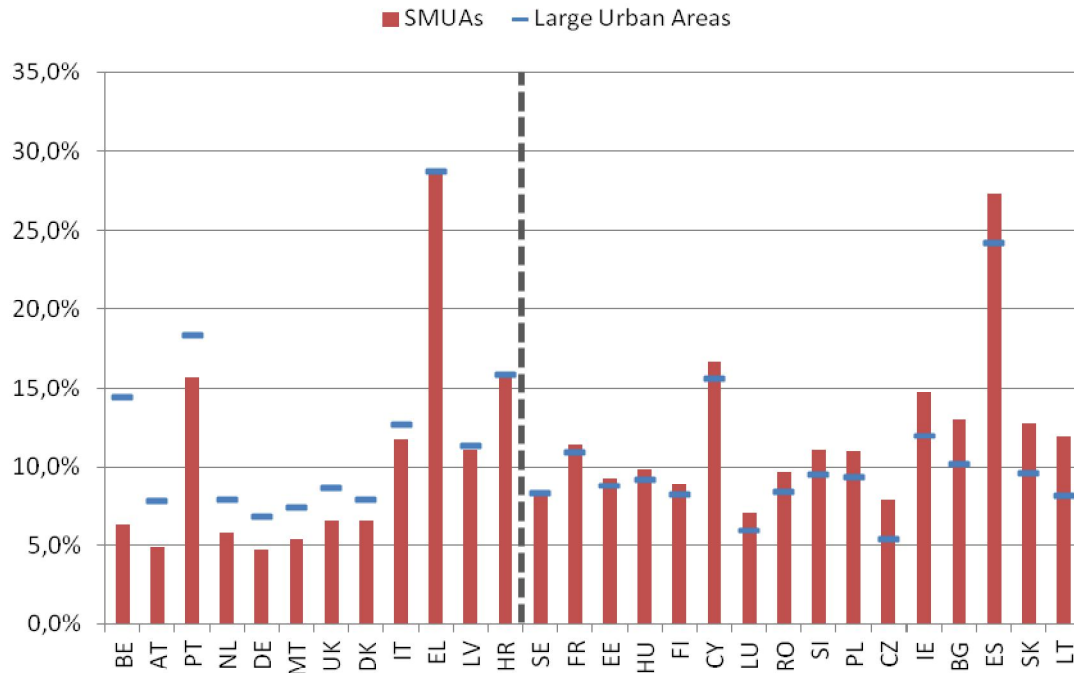
The evidence from [Table 2](#) shows higher economic performance of European regions containing SMUAs, compared to other typologies, despite a lower performance in terms of population growth. As also highlighted in the ESPON TOWN report, these figures can be explained by a relocation of fewer wealthier households to SMUAs, while the migration towards large urban areas is composed mainly by less affluent ones.

<sup>5</sup> The three classes of this table represent:

- Regions with SMUAs refer to the regions where less than the 30% of the population lives in HDUC; thus, more than 70% of population lives in smaller population settlements, including – but not exclusively – SMUAs.
- Highly urbanised regions refer to the regions where more than the 70% of the population lives in HDUC, thus they are mostly ‘urban’ (metropolitan regions).
- Intermediate regions refer to the regions where the HDUC population is between 30% and 70% - thus regions that do not have a well-defined population structure by type of settlement. The data in this table is a combination of table 4 (p. 231) and table 5 (p. 234) from the TOWN scientific report (KU Leuven and ESPON 2014, 220).



**Figure 6: Unemployment rate by degree of urbanisation, EU 28 countries (2013)**



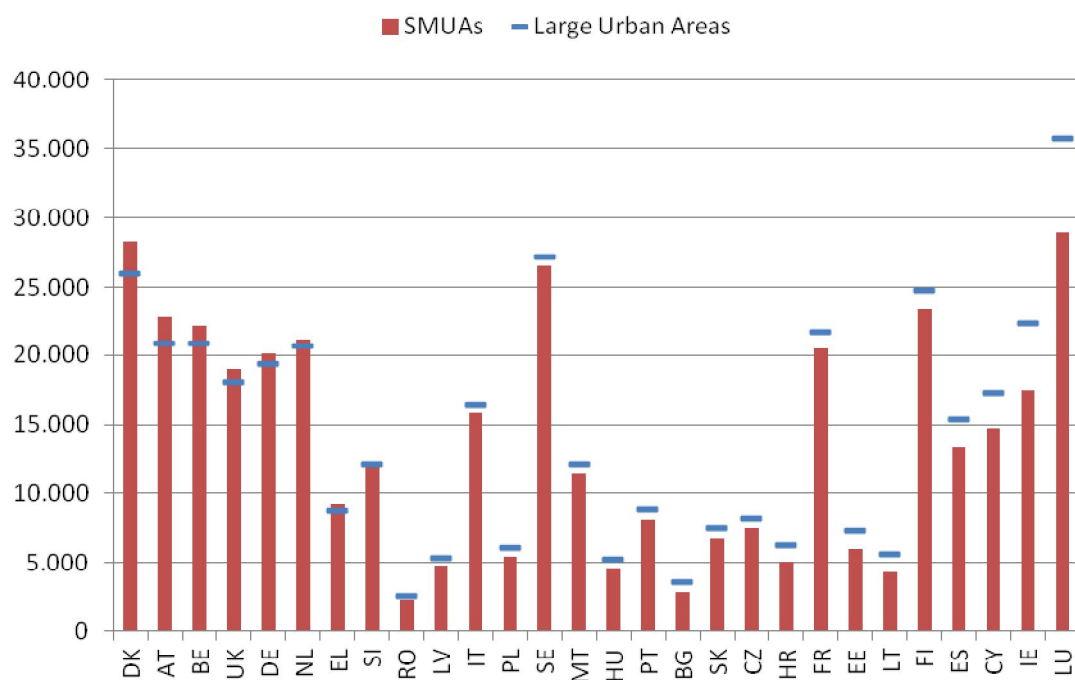
Source: Eurostat

Looking at labour aspects (Figure 6), in some countries SMUAs on average have lower unemployment rates compared to larger urban areas (left hand of the dashed line). In particular, significant lower average unemployment rates in SMUAs can be found in BE, AT, NL, DE, UK. On the other side, higher unemployment rates of SMUAs are found in LT, SK, ES, BG, IE, CZ. Unemployment rates have increased during the financial crisis in both large urban areas and SMUAs (as well as in rural areas) between 2007 and 2011 with 3 to 4 percentage points.<sup>6</sup>

Regarding large urban areas, Spain, Greece, and Latvia had the most affected regions, with more than 10% increase in unemployment rates. Bulgaria, Denmark, Estonia, Ireland, Croatia, Cyprus, Lithuania, Hungary, Portugal Slovenia and the UK experienced an increase in rates between 3-9%. SMUAs were also experiencing the greatest increase among regions of Spain and Greece, with 12% and 16% of increase, respectively. Bulgaria, Denmark, Hungary, Portugal and Slovenia had moderate, 3-6% growth of unemployment rates. In rural areas, unemployment grew by 11-14% in Ireland, Spain, and Lithuania. Moderate increase (3-9%) can be perceived in Bulgaria, Denmark, Estonia, Greece, Cyprus, Latvia, Hungary, Portugal and Slovenia.

<sup>6</sup> Unemployment rates in EU-28 countries have increased by 3% (from 7% to 10%) from 2007 to 2011 in large urban areas, and by 3% (from 6% to 9%) in SMUAs. Rural areas faced the highest increase in unemployment 4% (from 6% to 10%). However the data is not comparable with the data from 2013, due to a revision of the definition of "degree of urbanization" in 2011. Therefore the data before and after 1 January 2012 are not comparable for many member states. Furthermore, data for 2007-2011 is incomplete; thus the average for EU-28 is not based on data of all 28 Member States.

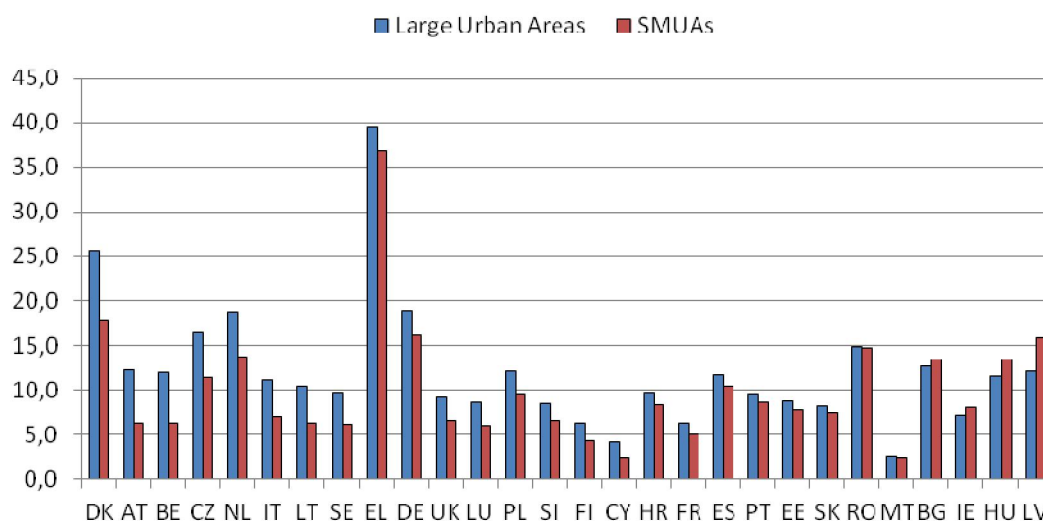
**Figure 7: Median income by degree of urbanisation, EU 28 countries (2013)**



Source: Eurostat

Analysing median income (Figure 7), it appears that some countries on average have higher median income in SMUAs than in large urban areas (DK, AT, BE, UK, DE), while in others (IE, CY, ES, FI, LT) large urban areas show higher median income than SMUAs (Luxemburg in this sense can be considered an outlier).

**Figure 8: Housing cost overburden rate by degree of urbanisation (2013)**

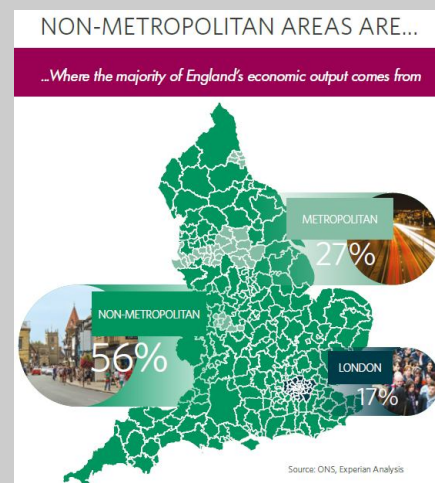


Source: Eurostat

SMUAs, on average perform better than large urban areas in providing affordable housing (Figure 8). In most EU28 countries the housing cost overburden rate<sup>7</sup>, is lower in Degurba 2 (Degree of urbanisation 2) areas, and in the few countries where expenditures are higher in SMUAs differences are limited. This evidence supports the view of SMUAs as places where housing is more affordable.

### Box 3: How the Other Half Grows: The Future Of Prosperity And Public Services In Non-Metropolitan England

England hosts the largest metropolitan area in the EU and one of the most powerful global cities - London. Despite its importance, it is reductive to look at a country's development only focusing on its most important metropolis. Moreover, beyond London, England hosts other metropolises with national relevance such as Manchester, Liverpool and Birmingham. However the report by Independent Commission on Economic Growth and the Future of Public Services in Non-Metropolitan England shows that the majority (56%) of the country's economic output actually comes from non-metropolitan areas. Such areas, hosting smaller settlements are particular strong in the manufacturing sector, showing higher average labour productivity than metropolitan areas. Areas with smaller urban settlement are rich in skilled labour force and have been able to create a large amount of jobs in recent years, hosting headquarters of globally competitive companies.



This report shows that despite good performance over a number of socioeconomic indicators, non-metropolitan areas face challenges related to the provision of adequate transport and ICT infrastructure, increasing housing prices, severe spending cuts and inefficient governance settings.

Source: Independent Commission on Economic Growth and the Future of Public Services in Non-Metropolitan England (2014). *How the Other Half Grows: The Future Of Prosperity And Public Services In Non-Metropolitan England*.

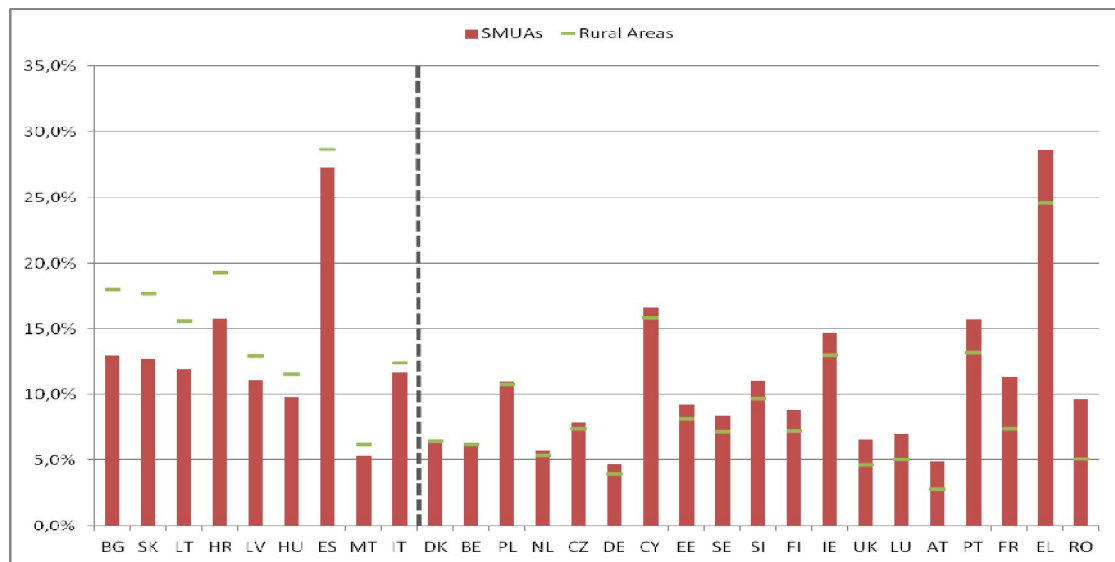
The analysis of data based on the Degree of Urbanisation categorisation, gives us a very varied picture of state of SMUAs across Europe. Firstly. The population living in SMUAs varies across EU member countries, ranging from 50% in Belgium to 10% in Lithuania. Secondly, unemployment levels appear to be lower than in larger urban areas in a number of countries, showing the existence of employment potentials. Thirdly, in countries where income is higher, SMUAs appear to have higher median

<sup>7</sup> Percentage of the population living in households where the total housing costs ('net' of housing allowances) represents more than 40 % of disposable income ('net' of housing allowances).

income than large urban areas, while the trend reverses in member states with lower income levels. Finally housing is on average more affordable in SMUAs.

### *SMUAs and rural areas*

**Figure 9: Unemployment rate by degree of urbanisation, EU 28 countries (2013)**



Source: Eurostat

In terms of median income, SMUAs have in nearly all EU28 countries a better performance than rural areas, with the exception of UK and Ireland (Luxemburg can be considered an outlier) (Figure 10).

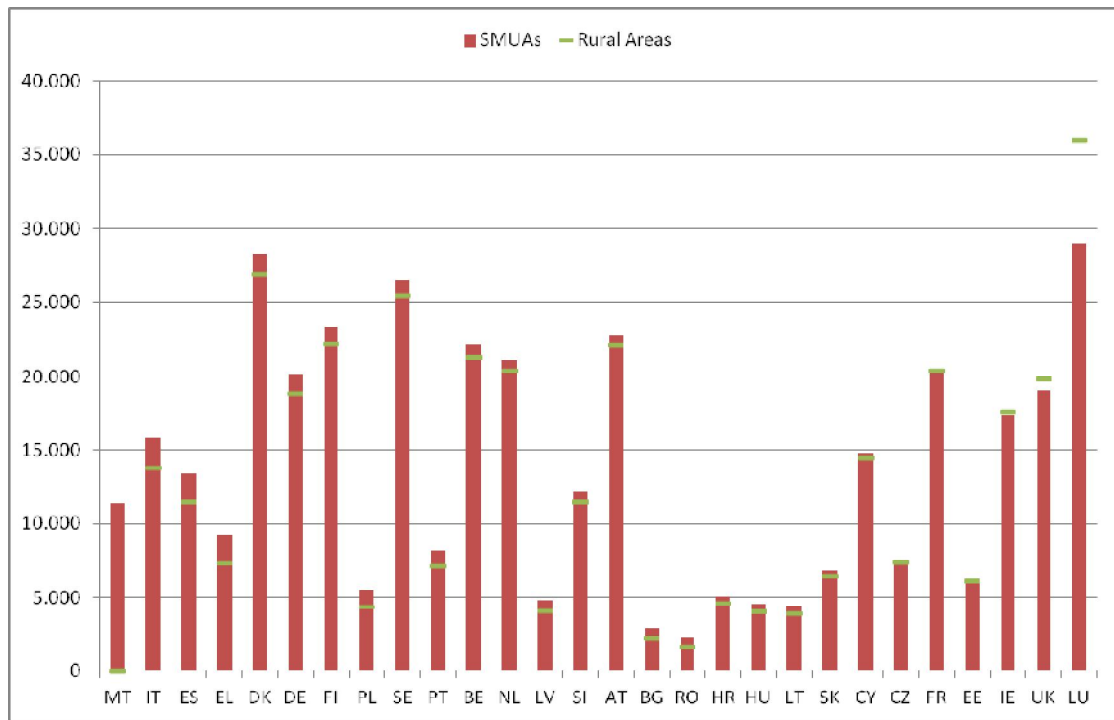
The function of SMUAs as providers of public services is of crucial importance for performing its role as pole in a polycentric network or its territorial role in a rural region; in addition, quality services are important to attract new residents and skilled labour.

As highlighted by KU Leuven and ESPON TOWN research (2014), the presence of examples of rural SMUAs “punching above their weight” in terms of presence of socio-economic functions, strengthens the necessity for SMUAs to develop networks of collaborative relationships. This is of particular importance in order to provide services to surrounding rural areas.

We can conclude that the financial crisis affected the at risk of poverty rate in both large urban areas and SMUAs, and in general the increase was stronger in SMUAs. Between 2007 and 2011 the unemployment rates increased in all types of areas, but strongest in rural areas and least strong in SMUAs.

Regarding unemployment, in some countries – mostly from central/eastern Europe - SMUAs perform significantly better than rural areas (BG, SK, LT, HR, LV, HU), while in other cases (RO, EL, FR, PT), rural areas appear to offer better employment opportunity than SMUAs.

**Figure 10: Median income by degree of urbanisation, EU 28 countries (2013)**



Source: Eurostat

## 2.4 SMUAs and development: economic profiles of SMUAs

In terms of economic structure KU Leuven and ESPON (2014) proposed a categorization of SMUAs according to three main dimensions – the key sectors that found the local economies of SMUAs - deriving from historical patterns of institutional structures and strategic choices. These three socio-economic profiles are ideal types, while the real profiles to be investigated are combinations of the three types.

The first socio-economic profile, the “residential economy”, is the one of the local economy that “mostly relies on local activities that meet the need of people in an area”.

- Firstly, cities within this dimension can originate from working places becoming separated from living places, with a “decentralization of traditional families” (Turok and Mykhnenko, 2007) in search of better quality of life. Secondly, this type of city may originate from an increasing number of retirees relocating to areas, which offer more appealing lifestyles and climates. Thirdly, the presence of tourism can represent an important foundation for local economic activities.

- The residential economy dimension favours activities in retail, hotels and catering and other sectors servicing permanent or temporary residents.
- The residential economy plays a stabilizing role for the local economy, generating jobs not directly influenced by international competition, but relying heavily on the presence of amenities and natural characteristics.

The second socio-economic profile is the “productive economy”, based on the production of traded goods and services for consumption outside of the local context (KU Leuven and ESPON, 2014). This aggregative profile is a combination of the manufacturing sector, but also of food industry/agriculture related activities, such as distribution etc.

- This dimension used to be the dominant one, with SMUAs depending on the presence of manufacturing estates in their territory, following a Fordist spatial division of labour. More recently, mainstream economic urban policy based on regional competition has so far favoured the economic growth of large metropolises (Kunzmann, 2010).
- This dimension has proven to be not resilient to economic changes caused by globalization, especially as SMUAs are less capable of linking with global networks (DG Regio, 2011). As SMUAs face increasing competition from large metropolises, they often lack resources, market size and organizational capacity to develop diverse economic sectors (Giffinger et al., 2007).
- Specialisation in a specific sector based on existing potentials and exploitation of the competitive advantages represent a strategy to revitalize the productive economy of SMUAs (Bell and Jayne, 2009; Giffinger et al., 2007). Good transport connections and the presence of a skilled labour force, represent other important features explaining the success of SMUAs characterized by the productive economy dimension, as such areas can more easily attract investments in the manufacturing sector.

The “knowledge economy” represents the third socio-economic profile for SMUAs. Knowledge and innovation create a long term opportunity for the development of SMUAs (Demazière et al. 2013; KU Leuven and ESPON, 2014).

- SMUAs with higher quality of life compared to large metropolitan areas, can attract population segments such as “talented young families, career changers and active retirees” (INTELI, 2011).
- In order to thrive, the knowledge economy relies on existing features or on investments in cultural and R&D facilities, elements that might not be easily available for SMUAs.
- Strategies might either focus on quality of the built environment or of the natural and social environment (INTELI, 2011), on the revival of local cultural

and know-how (Kunzmann, 2010) or on a strategic choice to target a specific sector.

SMUAs often present a mix of these three socio-economic profiles; and for instance, SMUAs are rarely only a knowledge economy. Furthermore, there are other relevant factors including specific historic, national and regional ones.

This categorization is just one of the many available ones. Another classification is presented in the State of European Cities Report (ECOTEC and European Commission, 2007) . It proposes the following categorization for “regional poles” was proposed:

- *De-industrialised cities* – having a strong (heavy) industrial base, which is in decline or recession;
- *Regional market centres* – fulfilling a central role in their region, particularly in terms of personal, business and financial services, including hotels/trade/restaurants;
- *Regional public service centres* – fulfil a central role in their region, particularly in administration, health and education;
- *Satellite towns* – small urban areas that have carved out particular roles in larger agglomerations.

This typology is an example on how to combine the three socio-economic profiles into functional types of urban areas. The socio-economic profiles are based on employment specialization, while the categories of the 2007 State of the European Cities report are more based on functional roles. The de-industrialisation cities are related to the change of employment in the productive economy profile. The two regional roles of cities (regional market centres and public service centres) can be described through specific compositions of the three profiles. Finally, the satellite town (SMUA) is a typical small urban area with a mono-residential profile.

#### Box 4: Growth by economic specialisation. The case of Food Valley Wageningen

Some SMUAs have adopted unique economic specialisations by combining productive and knowledge-based profiles. The example of Wageningen specialising in agro food is one such example.

Wageningen is a student town located in Gelderland province, NL. It is home for 38,000 inhabitants, many thousand of whom are students (including international students) and staff affiliated with Wageningen University and Research Centre. The University and Research Centre is considered world-class in the field of agricultural science.

Known also as The Food Valley the area is the home of a large number of food multinationals. In the valley about 15,000 professionals are active in food related sciences and technological development. Far more are involved in the manufacturing of food products. Food Valley is major hub of knowledge for international food industry. Companies, knowledge institutes and local, regional and national government work together to attract international students, knowledge workers, companies and capital to the Food Valley. This brings benefits for the region and companies. On the crossovers of different subsectors in the agro-food sectors (and sometimes with help of EU or national funds) new innovations arise.



Several lessons can be learned from the case study of Wageningen:

- Wageningen has developed a combined economic profile. The town combines the elements of productive (food production) and knowledge-based economy (university, research)
- There is a spill-over of manufacturing activities across the administrative borders and different sectors. Thus, Wageningen plays the role of a hub in regional development
- Urban-rural cooperation is vital part of local production system that involves agricultural production, new product development and research.

Source: information provided by Ministry of Infrastructure and the Environment, The Netherlands.

## 2.5 Contribution of SMUAs to national and European development

If taken individually, SMUAs have a limited impact of the development of EU, but on aggregate scale SMUAs have a strong weight in terms of population and GDP growth.

Moreover, SMUAs can play an important role for the development of surrounding rural areas. In Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia (2014), the contribution of SMUAs to



national development of member states have been regarded as important in terms of:

- Providing administrating functions and development as centres of labour market activity and public services.
- Renewing business activity, as well as maintaining and building economic connections and networks.
- Providing residential, recreational, tourism and environmental functions that significantly improve the quality of life.
- Stabilizing and linking urban and rural areas into wider territorial system.
- Sustaining and developing non-metropolitan territory.
- Equalizing regional disparities (Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014. See, [Box 5](#)).

**Box 5: The role of SMUAs in common territorial development from the viewpoint of the member states**

In Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014 the member states were asked to provide their assessment about the role of SMUAs.

- **SMUAs are important in maintaining territorial cohesion and stabilizing and binding urban and rural areas into wider territorial system.** Similar conclusions are made by Croatia and Czech Republic, which indicates that SMUAs have a crucial role in attempting to **equalize the regional disparities** and **acting as mediators between metropolitan areas, large urban centres and rural areas**. Spain emphasizes that SMUAs could be considered as development centres and driving forces, because they help to **maintain relations between urban and rural territories**. Linking different territorial areas as the important task of SMUAs is relevant in France, highlighting the fact that SMUAs are vital in balanced territorial planning. In Germany and Portugal SMUAs also take a role of anchor points for regional development.
- Many SMUAs are also **administrative and development centres** for their surroundings and have significant role in broader functional regions. They are **centres of labour market and public services**.
- Finland views SMUAs and their role in **renewing business activity, building connections and networks**, and it has also started a sub-regional policy to develop SMUAs.
- Small urban areas have important **residential, recreational, tourism and environmental functions**. They are also important in **sustaining and developing non-metropolitan territory**, which has been not only their historical role, but still remains an important necessity (France).
- SMUAs can become **innovation and knowledge centres**, attracting and integrating individuals with high degree of education and promoting an active role in development process (Portugal).

Source: Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014.

The role of cities and urban areas within the Europe 2020 strategy for Smart, Sustainable and Inclusive growth has been highlighted by a number of studies and reports most notably by ESPON (2013), Committee of the Regions (2012) and URBACT (2010). In order to be achieved, Europe 2020 targets need to be addressed at the local level by clearly targeted strategies, within a framework of multilevel governance. SMUAs can play a major role in territorial development on European scale, by helping to achieve Europe 2020 goals of promoting *local development, inclusive society and sustainable development*.

#### *Local development*

SMUAs are anchor points of local and regional development. Despite smaller population growth they show considerable economic performance in terms of GDP growth rates. Data show smaller population growth in SMUAs compared to large urban and rural areas, their GDP growth over the 2001-11 period has been higher. As highlighted also by ESPON TOWN research (KU LEUVEN and ESPON, 2014), the presence of clusters of SMUAs in the core of the European continent, which contributes to the largest share of its GDP, implies their importance in the realisation of the Europe 2020 strategy for smart, sustainable and inclusive growth. SMUAs are providers of public services not only to its inhabitants and businesses but also to residents of rural areas. Thus, SMUAs provide more balanced distribution of growth, which is instrumental in achieving the aim of Polycentric Europe - a principle that has been an aspiration of spatial plans and development visions of EU and the member states, including also ESDP (European Spatial Development Perspective, 1999) and Territorial Agenda 2020.

#### *Inclusive Society*

SMUAs face different challenges depending on their territorial, economic and institutional context. In high income countries they show higher performance while lower income countries SMUAs can be socially vulnerable. In countries with higher median income SMUAs tend to be associated with better quality of life. Their per capita income is higher than in large urban areas. SMUAs represent a location where poverty rates tend to be lower, at least in richer member states (EUKN, 2014). Therefore regarding the Europe 2020 goal of poverty reduction, SMUAs appear to be faring better than larger urban areas. In many cases SMUAs have lower unemployment levels than large urban areas, meaning that they have the potential to be important job creation centres also for surrounding areas. In SMUAs housing costs are typically lower than in urban areas making them a more affordable place to live.

### Box 6: Italy's Policy of Inner Areas

Italy's territorial system is characterized by a small number of metropolitan areas and many medium small and very small urban areas. Italy's policy of Inner areas recognizes the role of SMUAs not only in terms of providing economic growth but also sustainable development, conservation and inclusion. The national strategy about the Inner Areas is focused on the operations on schools, healthcare, mobility and transport. The three main objectives of the policy are:

#### 1. Territorial Conservation and Public Security

These policy interventions are focused to safeguard of the ground, natural resources, water channels, woody areas, cultivated and uncultivated zones, historical burgs, villages and paths. The territorial safety measures are necessary and they are possible only if there is a local support from citizens formulating their collective needs. This means that citizens become a sort of "territory guardians" who act proactively and learn by themselves how to protect their places.

#### 2. Promotion of Natural and Cultural Diversity and Polycentrism

Biodiversity is a peculiarity of Italy's territory and population. It has provided rich heritage in food, traditions, dialects, climate, and urban designs. Biodiversity is considered a potential factor to contrast the negative effects of globalization. To use the potential of biodiversity the state has to find and develop a new economic and social model to help Inner Areas and to provide them with the same opportunities and services as in larger centers.

#### 3. Promoting New Processes of Development

Territorial conservation, public security, polycentrism and promotion of natural and cultural diversity can make the difference and create new opportunities of growth. Moreover they are the only right tools to guarantee the future of these areas making them more attractive to citizens, to investments and to development. The emphasis of development in case of Italy is not only economic growth but also social inclusion and higher quality of life for larger part of population. This calls for good services and opportunities. The valorization of Internal Areas and their forests, valleys, rivers, mountains, hills and burgs can bring new jobs and production opportunities by combining skills and innovation - in different sectors: tourism, social services, agriculture, revitalization and valorization of ancient professions. To be efficient these efforts should be supported by good educational and health services.

Source: Information provided by Italy's Ministry of Infrastructure and Transport, 2015.

### *Sustainable Development*

SMUAs present more favourable environmental conditions than those of larger metropolitan areas, due to proximity to green areas and lower congestion levels. Ecosystems are enhanced by promoting SMUAs and rural areas based on good stewardship of the land yet too fragmented territorial structure could lead to increasing fragmentation of the landscape due to less dense and more diffused land development. Small urban areas are capable of taking decisive steps towards increasing energy efficiency and security in strategic way. To adapt to energy costs, many SMUAs have implemented comprehensive strategies aimed at resource efficiency, energy security, and reduction of CO2 emissions (see, [Box 7](#)).

Potential for economic growth is mainly concentrated in large urban areas therefore redistributive approaches are not always seen as effective. However, as future

territorial forecasts for 2050 show, European long-term average growth is not considerably reduced by redistributive policies. Economic growth mostly depends on technological changes leading to increases in productivity, and on public policies such as fiscal and monetary (ESPON, 2014b, 10). If this scenario is correct, the role of SMUAs and rural areas would be equivalent to metropolises and secondary cities. In longer run cooperating polycentric territorial structures might even induce more balanced distribution of growth (ESPON, 2014b, 11).

#### Box 7: Energy policy for SMUAs

**Small urban areas are capable of taking decisive steps towards increasing energy efficiency and security.** This is the case of Dzierżoniów - a town in South Western Poland with a population of 33,500. Today is a centre of industry represented by different sectors, and important transportation hub. Historically the town has been associated with the textile industry, and after the WWII electronics industry developed. For many years, Dzierżoniów has undertaken numerous actions in the area of rational management of energy resources. Since 2010 town is a member of the Covenant of Mayors. From 1996, the municipality has been a member of the Association of Municipalities Polish Network "Energie Cités" and participates in numerous environmental projects promoting the energy-saving solutions and the use of renewable energy. Dzierżoniów was the first town in the Lower Silesia region that implemented numerous innovative activities, such as modernisation of street lighting, town's heating system wastewater treatment plant using the obtained biogas for heating and electricity production (co-generation).



Apartment buildings in Dzierżoniów before and after the thermo insulation.

Annual energy policy is an important part of implementing energy policy in Dzierżoniów. The energy audits and energy performance certificates of buildings are used to estimate current and future energy needs of facilities and determine the indicators of energy carrier consumption per unit of surface area and per cubic capacity of the building, for individual buildings and structures. Based on incoming data, the Inspector for Energy makes comparisons and identifies the areas and units with significant energy consumption. Significant deviations from the fixed average value of energy indicators are discussed with the heads of units and measures are taken to improve the energy performance. Based on the energy performance review, the inspector for energy of town's council files a request to the Mayor for modernisation projects.

The benefits from town's energy policy are:

- optimization of processes in terms of energy savings;
- increased employees' awareness about the energy costs;
- savings due to more efficient use of energy;
- image of an environmentally-friendly town;
- integration of the Energy Management System (EMS) with other systems;
- reduction of the risk related to energy security.

Source: Based on information provided by City Council of Dzierżoniów, Poland, 2015. More information about town's energy management system can be found at: <http://www.dzierzonow.pl/pl/page/eko-dzier-oni-w>

### 3. Challenges, preconditions and directions for development of SMUAs

What are the main economic growth challenges of SMUAs? What are the preconditions for territorial and economic development and what are (promising) development directions of SMUAs? This chapter addresses these questions.

#### 3.1 Development challenges of SMUAs in Europe

As emerged from previous sections, there is a significant diversity among SMUAs regarding their economic performance, related to a combination of factors, including the geographic position, macro and regional trends, socio-economic specialisation, and how policy actors have dealt with historical developments.

SMUAs in Europe face a range of challenges to their territorial development. Some are related to demographic challenges faced by some SMUAs: shrinking and ageing populations as a result of outflows of young and educated people towards larger metropolitan areas (Alpine Space, 2011; DG Regio, 2011; Eurostat, 2014), which in turn leads to decreasing property prices and reduced public services. Typical economic challenges are the reduction of historical industrial activities and a lack of competitiveness (Alpine Space, 2011; Giffinger et al., 2007). SMUAs also suffer generally from higher vacancy rates and poor quality housing stocks. The high cost of brownfields mitigation is an additional challenge faced by SMUAs as they are looking for new development opportunities. Another economic challenge is the dependence of SMUAs on public funds, which make them vulnerable to austerity measures in time of crisis. Some typical institutional challenges are: insufficient service provision, insufficient administrative capacity, decrease of tax income due to outmigration and ageing, and challenges of cooperation between municipalities. Furthermore, SMUAs face territorial challenges, including an ageing infrastructure and insufficient connectivity. The lack of new investments makes old infrastructure particularly difficult and costly to maintain.

Development challenges in SMUAs differ depending on various variables. Challenges remain tied to each specific EU country context and even within the same country each SMUA has its own preconditions determined by historic, cultural, geographical and social structures. Moreover, challenges will differ according to their geographical (or spatial-functional) position within a region (autonomous, networked and agglomerated SMUAs<sup>8</sup>) (OIR and ESPON, 2014).

Declining and aging populations are some of the most common features among European SMUAs, and especially among autonomous SMUAs. These SMUAs that

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<sup>8</sup> Autonomous SMUAs are usually found in peripheral rural regions, networked are those embedded in polycentric structures, agglomerated are those closely related to larger agglomerations. These are functional types of urban areas identified in ESPON TOWN project.

have low functional exchanges with surrounding areas and presents isolated characteristics are confronted with an old labour force, increase in the number of retirees as well as with an increasing migration of young, skilled and highly educated labour force which impacts SMUAs competitiveness and attractiveness for new businesses. The main challenge faced by autonomous SMUAs remains the limited options for integrating in other networks and polycentric regions. Whether this limitation is due to a lack of connectivity, transportation infrastructure or a remote location, it only contributes to the aggravation of the above challenges.

SMUAs which are closely related to a larger metropolitan area network (agglomerated SMUAs), and which have experienced a significant urban growth in the last two decades, benefitting from suburbanisation processes, face a different set of challenges. These challenges can be attributed in some European countries to a lack of capital investments in infrastructure, transportation networks or public services. Most SMUAs located within the vicinity of a metropolitan area saw their function shift to become mainly residential, turning them into dormitory towns with very little employment opportunities and economic activity.

#### Box 8: Challenges of SMUAs in Europe

At glance some common challenges of SMUAs across Europe can be identified. SMUAs especially in remote regions **suffer from the population loss and out-migration of skilled labour**. They find it challenging to attract and keep skilled labour force in the long run due to lack of financing and **lack of attractiveness of the workplaces** and urban area as such. The trend is common but is not limited only to Eastern Europe, as exemplified by Austria and Finland

**Development and maintenance of infrastructure is another challenge** for SMUAs. In addition some SMUAs face serious capacity constraints. They are typically seen as having fewer options and lacking resources for implementing solutions.

Another significant challenge is related to **transformation of the economy**. France, for example, emphasizes the restructuring of employment basins that have traditionally been industrial, thus aiming to renew **link between employment and training**. Similarly, Portugal is challenging stagnant rural based, industry based or real estate based economies.

**Financing of the infrastructure** and the **right to mobility and accessibility** is also a concern, because it is an important factor in integrating these territories into the national and international urban system. **Connectivity** at every level is also one of priorities for balanced development of SMUAs, as outlined by Portugal.

SMUAs are **losing their functional capacity due to on-going centralisation processes and concentration of public services** in larger cities (e.g. in Austria and Portugal) The concentration of public services and creation of single contact points is also a challenge for many SMUAs (e.g. Czech Republic).

Although, challenges of SMUAs may seem similar it is important to treat generalizations with caution.

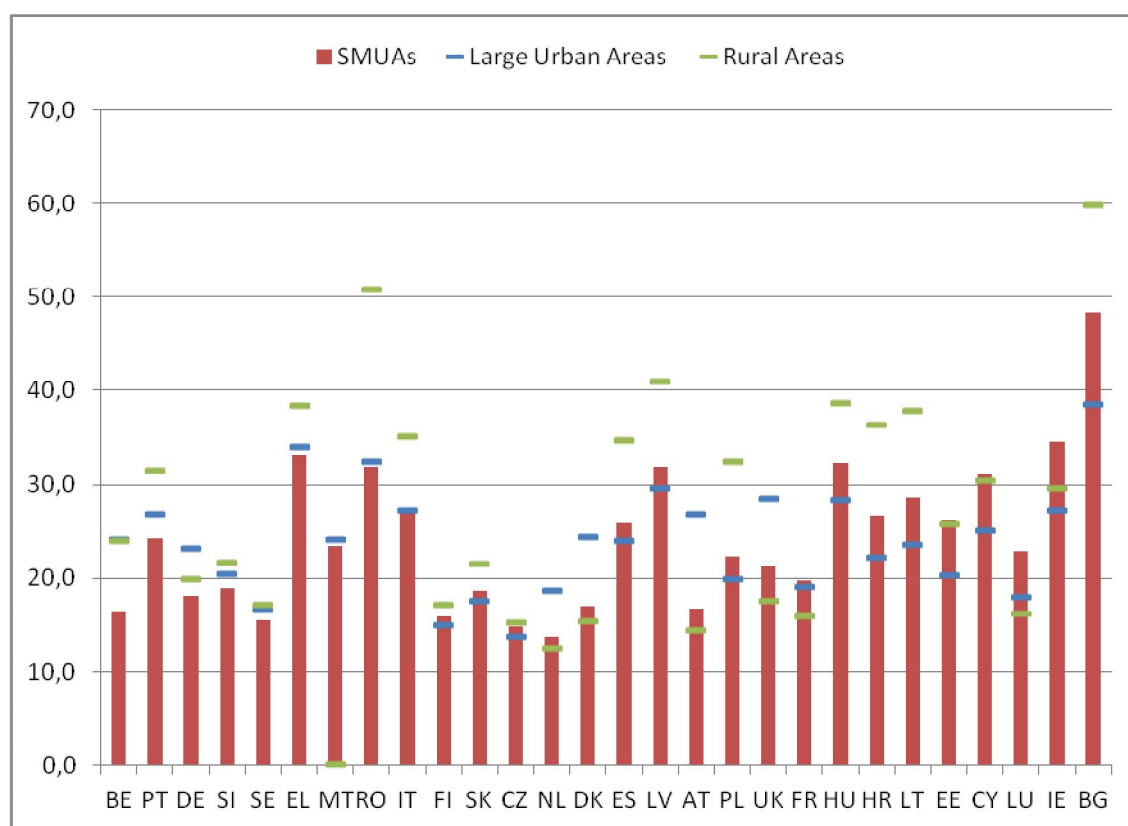
Source: Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014

Other economic challenges are related to the size, location but also the history of each SMUA. Most SMUAs tend to rely on a single basic economic activity, whether industrial or artisanal and therefore have little to no economic diversity. Loss or

decline of these industrial activities throughout Europe in general had led to a decline in median income in these areas as well as high unemployment rates as most businesses operating in SMUAs fall within the category of small or self-employed.

In a number of countries (left hand side of Figure 11) SMUAs appear to outperform both Large Urban and Rural areas by lower poverty levels. However it is also worth noticing that while in some member states differences among urbanisation levels are small, in other cases strong differences exist, especially with regards to rural areas. In general, the at risk of poverty rate increased more strongly in SMUAs than in large urban areas between 2007-2011.

**Figure 11: People at risk of poverty or social exclusion by degree of urbanisation, percentage of total population, EU 28 countries (2013)**



Source: Eurostat.

Overall, the financial crisis affected the at risk of poverty rate in both large urban areas and SMUAs. In general the increase of this risk was higher in SMUAs. The average percent of at risk of poverty in EU-28 countries from 2007 to 2011 have increased by 2 percentage points in SMUAs and by 1 percentage point in large urban areas. Rural areas were less affected, and at risk of poverty decreased by 1% although in general the risk of poverty were higher in rural areas.<sup>9</sup>

At risk of poverty rates have increased in both large urban areas and SMUAs. Large urban areas suffered an increase of the risk of poverty mostly in Spain, Austria, Sweden, Lithuania, and Slovenia. SMUAs were affected by the crisis in Spain, Latvia, Greece, Bulgaria, and Hungary. In rural areas Bulgaria and Sweden faced the highest increase among EU-28 countries. Other countries experienced less than 3% increase in at risk of poverty rates, or none at all.

### **3.2 Preconditions for development of SMUAs in Europe**

Demazière et al., (2013) identify three main categories of features determining the development, in terms of population growth and job creation, of SMUAs: geographical (or spatial-functional) factors, institutional settings and socio-economic dynamics. Among the geographical factors, connectivity through spatial proximity and the characteristics of transport networks play an important role in explaining the performance of SMUAs (Kunzmann, 2010). In general, urban areas that are part of a polycentric network, are more dynamic than the autonomous or isolated urban areas. Although relevant, these functional differences alone are not a sufficient predictor of performances for SMUAs (KU Leuven and ESPON, 2014).

Furthermore, the preconditions for development will differ according to the main characteristics of local economy: their socio-economic profile as mainly residential, productive or creative and knowledge economy, or a combination of these profiles.

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<sup>9</sup> An increase from 13% to 14% between 2007 and 2011 in large urban areas, and from 13% to 15% in SMUAs, while this risk decreased from 20% to 19% in rural areas. However, these data is not comparable with those for 2013, due to the revision of the definition of “degree of urbanization” in 2011. Furthermore, data for 2007-2011 is incomplete; thus the average for EU-28 is not based on data of all 28 Member States.



### Box 9: Preconditions and development directions for development of SMUAs

It is commonly assumed that SMUAs play subservient role to large cities and they depend on cities for jobs and investment. Therefore good connection to cities is often seen as requirement for the development. In the same time some EU member states also emphasize the role of internal resources to pursue internal (endogenous) strategies of development. **In the end a combination of inward and outward looking strategic perspectives is needed to unlock the potential for the development of SMUAs.**

In survey of member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014, Croatia highlighted the **role of the qualified workforce** in helping to reach territorial objectives, whereas Austria pays attention to **local innovation and support for employment and culture.**

**Information communication technologies (ICTs)** play an important role in development of small-scale economies. High-speed broadband bridges physical distance thus eliminating major hurdles of connectivity and providing the access to new markets. Finland has emphasized the **importance of connectivity with major national and international centres.** ICTs not only enable growth of knowledge-based economy and encourage new forms of work, but also open up additional channels for small entrepreneurs of traditional economic sectors by allowing small companies to market their products and services online.

**Strategic and institutional conditions** are important in promoting the development of SMUAs. Examples include pursuing a **smart growth strategy, synergies between actors of excellence, orientation towards sustainable and inclusive growth.** In case of Finland SMUAs must be able to adopt smart specialisation strategy and position themselves in the context of **innovation policies.** France also considers SMUAs as crucial in promoting innovative business streams and energy efficiency. In several SMUAs market players are concentrated in specific niches, therefore it is important to seek the dialogue with such companies and move towards specialisation of regional system.

Attention should also be paid to **resource efficiency, which includes the re-organisation of infrastructure and services with high potential for reduction of CO2 emissions,** as emphasized by Austria. The contribution of SMUAs to sustainable development strategies is also demonstrated in Spain with several positive examples of collaboration and involvement of SMUAs in national level networks.

Source: Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014.

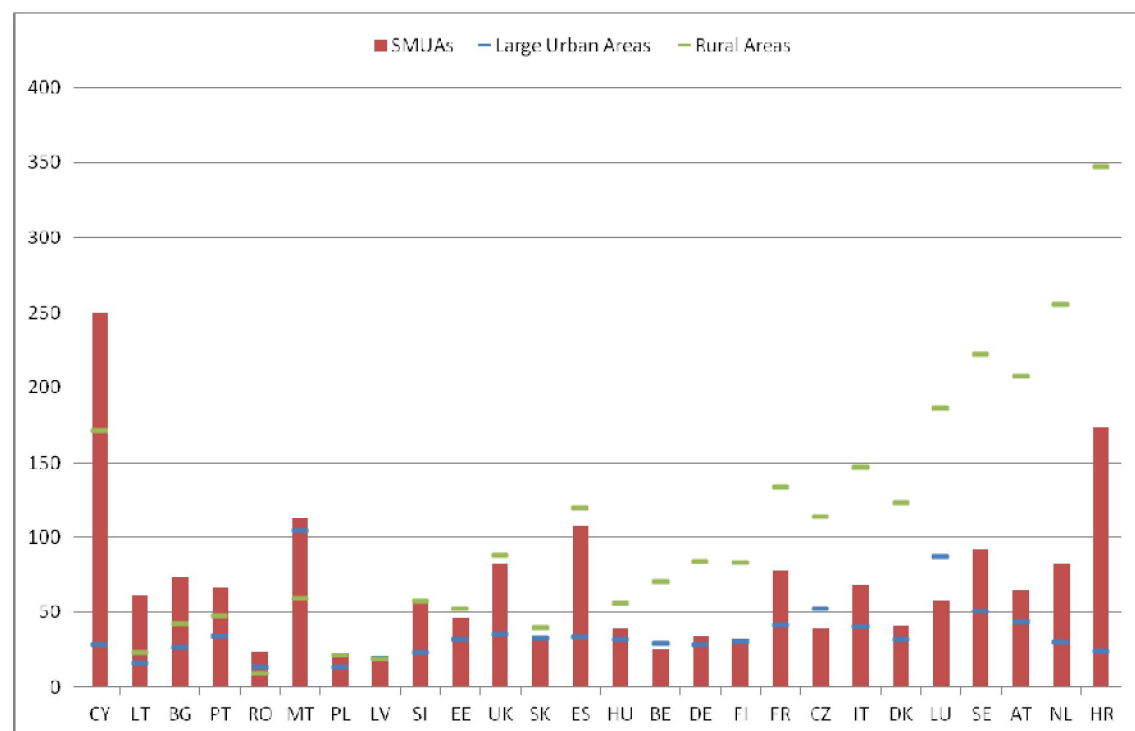
### *Social and economic preconditions*

SMUAs may be able to retain their functions, achieve higher connectivity while maintaining their cultural and historical identities, by tailor-made support mechanisms and policies that build on their strengths. Different combinations of different elements are key for enhancing the growth of SMUAs.

Attraction of human capital is one possible precondition by taking benefit of the reverse geographical mobility trends of more and more people moving out of densely populated areas. SMUAs could profile as places that offer a better quality of life. Furthermore, (attracting and retaining) institutions of vocational and higher education provide for entry of human capital.

As highlighted by the ESPON TOWN study, tourism and leisure activities can represent a fundamental driver for economic development of SMUAs (KU Leuven and ESPON 2014). The presence of a thriving touristic sector can lead to the development of a number of services. In this sense statistical data shows that on average SMUAs are better equipped than Large Urban Areas (LUAs). However, it is also evident that on per capita terms, rural areas are in most cases better equipped than SMUAs.

**Figure 12: Number bed-places per capita by degree of urbanisation, EU28 Countries (2013).**



Source: Eurostat (No data available for EL, IE)

Economies of agglomeration play an significant role in the economic development of agglomerated SMUAs: although the economies of agglomeration tend to work against them, they can benefit from being a cheaper location to live, work and run a

business in comparison with large cities, (Kunzmann, 2010; Turok and Mykhnenko, 2007, KU Leuven and ESPON 2014).

SMUAs with changing economic structure have particular complex challenges to solve in order to attract residents and businesses. Low income and declining infrastructure and industrial jobs are strong push factors. To reverse these factors, some SMUAs have taken up ambitious projects by targeting specific sectors or regenerating areas (see the example from Sain-Chamond in France, [Box 10](#)). Others are still reinventing their identity and positioning (see the example from Kranj in Slovenia, [Box 11](#)). In both instances the policies supporting economic transition and regeneration have to be continuous and provide several cycles of investments.

#### **Box 10: The Case of Urban Renewal of Saint-Chamond in France**

Saint-Chamond is an average-sized town of 36,000 inhabitants, located in the greater Saint-Étienne area, specifically in the Gier valley that links up the Cities of Saint-Étienne and Lyon. It is a multi-pole commune that is part of a greater urban area. The town of Saint-Chamond has 36,000 inhabitants (a population density of 654 inhabitants per km<sup>2</sup>).

For 20 years, the Saint-Étienne urban area with its strong industrial tradition has carried out an economic and urban transformation process that continues to this day with the reconversion of the last great classical industrial production sites (in particular weapon industries). This historic and symbolic site, now called NOVACIERIES, initiated a strategic restructuring operation in 2008. The programme provides for the creation of 200 new homes: the project is to create a new city district in an industrial production area in which industries will still continue to function and thrive. The strength of the NOVACIERIES eco-district is to opt for functional diversity by integrating housing, shops and services and public space developments in the immediate vicinity of industries with the whole recreating a social and economic fabric in the heart of the town of Saint-Chamond. This ambition is particularly strong and symbolic given that the site has always been closed off to the public and to the city because of its weapons manufacturing industries.

By recognising the former Saint-Chamond steelworks as a strategic site on the scale of the city, a strong partnership between the Town of Saint-Chamond and the Saint-Étienne Métropole Urban Community was established. The project was the winner of the call for regional projects "Sustainable neighbourhoods in Rhône Alpes" in 2010, thus receiving the support of the Rhône-Alpes Region. Then the project was distinguished nationally when it was recognized by the Agency for the Environment and Energy Management in 2012 for its innovative approach to managing polluted soils.

In the process of restructuring:

- Account is taken of the specific features of the territory to offer it solutions appropriate to its current and future condition.
- Multi-partnership governance has produced efficiency under the direction of a pilot community with a dedicated project team.
- Integrated approach to the 20 ambitions of the "Eco-district" label grid from the Ministry of Housing, Territorial Equality and Rural Policy

Based on information provided by Saint-Étienne Métropole, Construction, Development, Heritage Department, 2015.

### Box 11: Searching for new urban identity. The case of Kranj in Slovenia

**SMUAs need continuous policy of economic transition and regeneration for major changes of urban economy to become visible on the ground so that the new identity of the town takes root among the citizens.**

In past two decades the town of Kranj (55,764) in Slovenia is facing a tremendous restructuring from an ex-industrial and job-providing centre to a service and a living area. Labour intensive industries have been affected by recent economic crisis significantly downsizing the existing electronics, ICT as well as rubber industry. Over 2000 jobs were lost between 2008-2012 and more than 100 ha of brownfield sites were left behind.

Due to vicinity of the national capital Ljubljana (30 minutes drive), the international airport (10 minutes drive), two highway exits, railway, mountains and alpine tourist resorts as well as Austrian border, Kranj has always been an attractive place for investors and people to settle. Comparing to other Slovenian regional centres Kranj shows steady population growth over the last 10 years. It remains among “the youngest cities” in the country with demographic indicators below the national average. The national municipality competitiveness index ranks Kranj as the town with the “highest quality of life” in Slovenia.

Kranj is in the search for new identity. An industrial excellency that characterised and drove the town for over 100 years has to be replaced with a new vision and town's positioning based on the innovative (creative) potential and extreme love for sport (action, moving).

Main challenge of the local development of Kranj is the search of town's role in the economic restructuring and brownfield regeneration. Although the town's government strives for investor attraction and job creation, maintaining a consistent strategy is an on-going challenge. While the shopping sites on greenfield belt are irresistible to many investors, the brownfield sites owned by collapsed companies are of no interest while the town itself has no resources to buy and revitalise these areas.

Additional challenges of Kranj consist of:

- Moving towards the smart medium urban are based on the ICT sector. Kranj has the highest concentration of ICT companies in Slovenia.
- Exploring the potential of city tourism and culture.
- Addressing urban – rural conflicts by creating a municipal committee to encourage dialogue between the town and surrounding municipalities.

Main directions for ensuring sustainable development are:

- Reduction of energy consumption.
- Movement towards zero waste.
- Securing qualitative drinking tap water for future generations.
- Improving internal and external connectivity.
- Enabling green areas for all.

In conclusion there are two key factors that drive the local urban development in Kranj:

- Importance of social engagement: setting priorities and designing policies in close liaison between city government and people's needs.
- Concentration and efficient use of resources: concentration of different sources of funding, human resources of different stakeholders and measures at specific territory in need (or topic) instead of dispersion of funds and resources.

Source: Based on information provided by City Municipality of Kranj, Slovenia (2015).

Another pattern of encouraging social and economic activity of SMUAs is the active use of national economic policy incentives encouraging different business activities in peripheral areas, such as lowered taxes and special economic zones. The type and level of these incentives depends highly on national policies.

The level and diversity of business incentives and supporting structures are important conditions for the development of the economies of SMUAs. Policies and actions aimed at business development have become more sophisticated as forms of businesses have become more diverse.

Because of available space, land and premises for business is particularly essential part of local development. Supporting measures range from allocation of premises for various traditional forms of entrepreneurship (factory, industrial estate, trading estate), premises for R & D related enterprises (innovation centres, research parks, science-technology parks) and less conventional forms of enterprises (community workshops, working communities, home-based industries), as well as distinctive types of service industry premises (call centres, teleworking centres) (Ratcliffe et. al, 2004).

#### **Box 12: Free Economic Zones: The Case of Rēzekne in Latvia**

##### **National incentives, such as free economic zones can have profound impact upon development of SMUAs**

As of 2014 there were 87 free economic zones in the EU, some of them having regional offices (EU Commission, December 2014). One of the goals of free zones is to strengthen international competitiveness. An organisation fDi Intelligence has created annual ranking of Global Free zones each year. The winner for the 2014 - Lodz Special Economic Zone in Poland was considered the best zone for small and medium sized enterprises in Europe (fDi Ranking, 2014).

In Latvia there are four free zones that provide tax relief for businesses. Free zones are established in centres of national development significance, including Rīga. Free zones of Liepāja, Ventspils and Rīga are located in harbour towns, but Rēzekne is an international transport hub located in Latvia's Eastern border area with railways connecting it with Moscow and St. Petersburg. In 2012, Rēzekne free zone employed 700 people - 25% of total manufacturing employees, but in 2014 the number of employees increased by 75 people. Overall, 17 companies are active at the free zone in Rēzekne. The main sectors of companies are wood, metal, logistics and food manufacturing. Rēzekne has attracted 5.1 million EUR of foreign direct investment, 89% directly in companies working in the free zone (October 2013, Lursoft Ltd). In 2014 there were long-term investment 23 million EUR. In 2014 companies with the largest turnover of Rēzekne were located in the free zone. Personal income tax payments of the free zone companies amounted for 4.2% of the total income tax generated by Rēzekne town and municipality. Tax revenues continue to increase.

Source: Development plan of Rēzekne free economic zone 2014-2020 (2013). Authority of Rēzekne special economic zone in cooperation with "Projekti3i" Ltd.

In some member states municipality administrations have been granted more powers to trade or lease its premises and take use of various financial instruments, while in others the role of municipalities in supporting business activities is more limited.

Many SMUAs are confronted with shrinking markets and are actively working towards attracting external investment. This strategy can be possible if national legal framework provides significant incentives.

**Box 13: The importance of external investment in case of Alba Iulia in Romania**

**Town of Alba Iulia in Central Romania presents an example of pro-growth oriented growth strategy that concentrates on attracting external investment, improving connectivity and attractiveness for residents and businesses. Town is also actively pursuing CO2 reduction measures and implementing inclusive social programs.**

Alba Iulia is a town in Central Romania with the population of 63,536 (2011), which is shrinking mainly due to low birth rate. Town is a rail junction and distribution center for a winemaking region, where grain, poultry, and fruit are raised. The city's light manufactures include leather goods, furniture, and footwear. Alba County is crossed by Pan-European Corridor IV transport route that will provide a quick link between East and Middle Europe, and significant part of county will benefit from the construction of the Trans-European Transport Network (TEN-T).

Alba Iulia is the first municipality in Romania rated by Moody's International Agency with Ba1 rating, the same as the cities Budapest and Zagreb. The purpose of this rating is to get a secured bank credit and to reduce credit costs, in order to be able to co-finance European funding projects. Alba Iulia is one of the most active municipalities in accessing the stock market by issuing bonds.

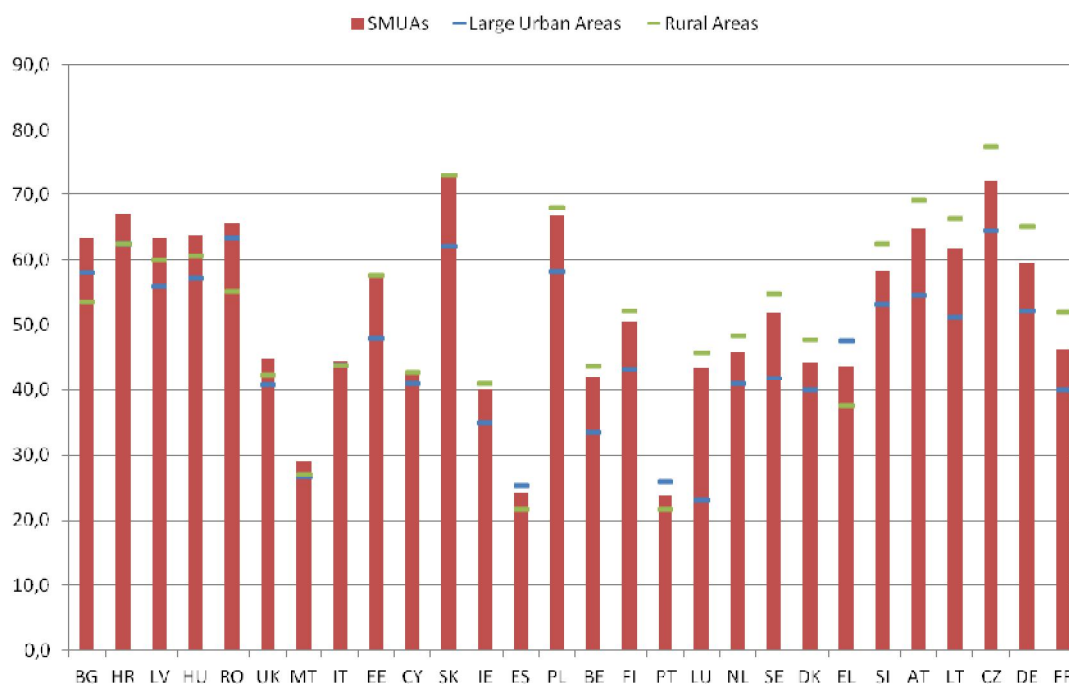
The municipality has implemented projects with a total value of over 200 million Euros, mostly from non-reimbursable European and international funding, which was used for the historic conservation, valorization and promotion of the Alba Carolina Vauban Citadel and also for infrastructure and development projects.

The town strives to provide the means and instruments needed for attracting long-term investors in order to create new working places for people. Municipality has made available a 40 ha plot in the Economic Development Area that is connected to highway section. The land is provided for free by Alba Iulia Municipality during the operation of an efficient investment in production, services or logistics. The local administration also provides the necessary utilities and the access to the land. The investor has to open a work point in Alba Iulia and submit a business plan that is evaluated by a Committee of the City Council, with certain guarantees of the investment financing capacity and economic viability. Since 2011 Economic Development Area has attracted two major investors: *Supremia Group* company which opened one of the most modern spices production unit in South Eastern Europe and *VCST Automotive Production Alba* - Belgian company specializing in components in automotive industry.

Based on information provided by Alba Iulia town administration, 2015.

Building development on excising potentials, through smart specialisation processes has been identified by member states as a key strategy. Moreover, higher education and research institutions also play a key role for SMUAs, both as direct and indirect providers of employment and as contributors to the competitiveness of these areas.

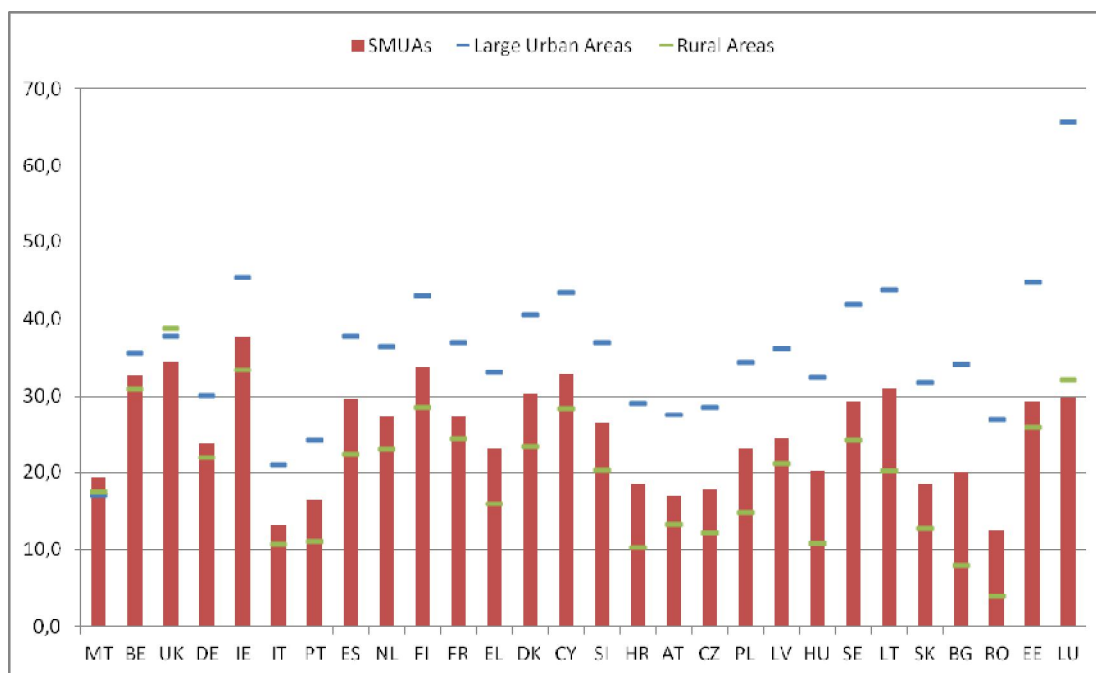
**Figure 13: Percentage of population with secondary education, EU 28 Countries (2013)**



Source: Eurostat

Figure 13 shows that in SMUAs percentages of population with secondary educations are generally higher than in Large Urban Areas. In few countries, mostly in central and Eastern Europe (BG, HR, LV, HU, RO), SMUAs perform better than all other settlement typologies in this area.

**Figure 14: Percentage of population with tertiary education, EU 28 Countries (2013)**



Source: Eurostat

With regards to tertiary education levels, [Figure 14](#) shows a completely different picture. While on average SMUAs across Europe outperform rural areas, the percentages of population with tertiary education is significantly lower than in Large Urban Areas. It appears that on average SMUAs are less attractive locations for highly educated people, which tend to migrate to larger urban areas. One possible explanation is that SMUAs present lower employment opportunities for people with higher education levels, who can also afford the higher living costs of Large Urban Areas.

SMUAs, more than larger agglomerations, need to be placed on the map. In this sense place marketing strategies play an important role, not only for the urban areas themselves but also for the surrounding rural regions.

#### *Geographical preconditions and territorial cooperation*

Physical connectivity and spatial proximity are important features determining the development of SMUAs. In this sense SMUAs are very different, some might be located in regions with limited physical accessibility, while others can benefit from being located along major transport routes.

While geographical placement of urban areas definitely plays a role in their overall development dynamics, there is no conclusive evidence that their placement in close proximity of agglomerated metropolitan areas alone does determine their economic growth or decline (Meijers and Burger, 2010: 138, KU Leuven and ESPON, 2014, 41). It seems that some SMUAs benefit from being networked or agglomerated, while some SMUAs take use of being autonomously placed. This depends on various factors: what these neighbouring cities or agglomerations have to offer and whether it fits with the potential of the SMUAs, and how strongly they are connected by networks. Proximity or accessibility are not in themselves decisive but the actual interaction between urban areas is. The more neighbouring cities are integrated, the more they can benefit from their 'borrowed size' (Meijers, 2015). Thus, in addition to agglomeration advantages (advantages of labour market and of matching, sharing and learning) the strength of networks between urban areas is crucial.

Accessibility to services is another important precondition for development, and a major factor in attracting residents, tourists, and businesses. In today's world accessibility is not synonymous with physical proximity. In order to compete with urban areas it is necessary for SMUAs to explore creative ways of providing services, including shared service delivery, centralisation of services, introducing mobile services and e-services. The importance of connectivity and accessibility to service provision, employment and education functions has been highlighted by a number of the consulted member states according to the Survey of EU member states conducted by Ministry of Environmental Protection and Regional Development of Latvia, 2014 (MERPD, 2014).



**Box 14: Can SMUAs develop as knowledge and creative economies? A case of City of Aveiro, Portugal**

Since the 1980s Europe has experienced growth of knowledge-intensive industries with globalization providing opportunities to exploit advantage created by innovation on global scale. In knowledge economy firms are no longer tied to a single place for the supply of the raw materials and they can easily relocate to more attractive places. Skilled labour is also more mobile and therefore the emphasis becomes attracting and holding on to talented people, which has been the focus the city of Aveiro in Portugal.

The Municipality of Aveiro is located in the “Região Centro (NUTS 2)” and capital of the “Baixo Vouga” district (NUTS 3). With a population of 73,626 inhabitants on a total area of 199,7 km<sup>2</sup> As dynamic medium sized city Aveiro offers its inhabitants much of what big city life has, but without the urban chaos. As focal point of an industrially developed region, Aveiro is also a city of commerce and services and a growing centre of leisure and culture offering cinema, theatre, music, arts, sport and nightlife. Aveiro is known as “City of Innovation” for its projects in the area of information society and of its University (established in 1973). The university attracts yearly about 14,000 students and provides research space where innovative products and solutions are developed in the field of Science and Technology. There are headquarters of ICT cluster companies with national firms and their R&D units (including PT-Inovação, Siemens and NEC). An important ceramic cluster represents about 30% of the Industrial activity. The tertiary sector is the main sector of the city and it has been growing in detriment of the primary and secondary sectors. 43% in the secondary and 57% in the tertiary sector. Between 1991 and 2001 the population grew by 10% and the municipality has experienced economic growth in the past 20 years, which is uncommon for SMUAs in Portugal.

Local companies emphasize the need to invest in company workers and develop socially responsible practices/ Staying innovative requires continuous investment in research and new technologies to offer new and added value products. In Aveiro comprehensive set of activities aimed at encouraging entrepreneurship at every stage of life exists. The plan of support to small and medium sized companies “Aveiro Entrepreneurial” defines five strategic axes: Support to SMEs, Business Incubation, Fostering entrepreneurship in schools, Fostering an Entrepreneurial Culture, and Communication under single visual identity. Set of activities which have lead to success of Aveiro are:

- **European level exchange of experience** in designing integrated Local Action Plans and general opportunity to exchange experiences between urban areas of various countries.
- **European branding.** Being a partner in a projects recognised by European programmes provides legitimacy in contacting local stakeholders to form partnerships and convincing them to participate in projects.
- **Comprehensive support packages for start-ups:** covering the fields of incubation, SME support, fostering entrepreneurship in schools and fostering entrepreneurial culture.
- **Decisive role of universities** in fostering an entrepreneurial attitude among students. For example, for example, PREBIZ programme provided an important bridge between university laboratories and research institutions and the business world.
- **Development of strategic alliances.**
- **Access to expertise** through external expert pools.
- **External communication of the City of Aveiro** as part of the comprehensive SME support package “Aveiro Entrepreneurial”, as well as the importance of internal strategic communication.
- **Raising awareness under umbrella events** to ensure critical mass of people and stakeholders.
- **Teaching entrepreneurship in schools** and raising awareness among young people.

Sources: Based on information provided by dgTerritorio, Portugal. Urbact, FIN-URB-ACT project.

An important typology of connectivity is represented by ICT infrastructure and services. In many cases coverage, usage and quality of ICT is lower outside large urban areas. However, it is also clear that ICT can play a major role in fostering the development of SMUAs: on one side they can reduce the need for physical proximity, thus reducing needs for individuals and companies to be located in physical proximity, on the other side they can be a tool contributing to existing economic activities, allowing local products and services to gain access to wider markets. Table 3, from a study by JRC and DG Connect (2014) shows that among better performing regions in the ICT sector, there are a few ones with SMUAs as prevailing settlement type (Cambridgeshire, Leuven, and Oxfordshire), while others are Large Urban Areas. While data show lower overall performance of SMUAs, it also shows smaller urban areas capable of competing with larger urban areas. The presence of poles of excellence in higher education is a common feature of successful SMUAs in the ICT sector, stressing the capacity of such areas to attract investments and educated population.

**Table 3: Best 20 NUTS 3 Areas according to ICT sector performance**

EIPE Rank	Nuts 3 Name	EIPE Composite Indicator
1	Munchen	100
2	Inner London - East	97
3	Paris	95
4	Karlsruhe	80
5	Cambridgeshire	78
6	Stockholms lan	77
7	Darmstadt	73
8	Uusimaa	70
9	Southeast-North-Brabant	70
10	Greater-Amsterdam	64
11	Arr. Leuven	61
12	Milano	59
13	Hauts-de-Seine	59
14	Bonn	59
15	Berlin	58
16	Dublin	57
17	Delft andn Westland	55
18	Aachen	55
19	Edinburgh	51
20	Oxfordshire	51

Source: JRC-IPTS / DG CONNECT (2014).

In terms of physical connectivity, SMUAs often present deficiencies in transport infrastructure compared to larger urban areas. SMUAs have often commuting patterns based on cars and limited public transport infrastructure (Alpine Space,

2011). With regards to freight transport, SMUAs often lack adequate logistics infrastructure (Allen and Huschebeck, 2004). Good transport infrastructure for freight can stimulate the economic development of SMUAs with strong productive economy dimensions. Good connections for passenger transportation are also likely to favour SMUAs with preeminent residential economy dimensions. Lack of capacity at local level is also a constraint to the development and management of sustainable mobility strategies in SMUAs.

### *Urban-rural relations*

SMUAs are seen as an important element in establishing good urban-rural relations (INTELI, 2011). In urbanised Europe, the rural population lives close to cities while urban people regularly visit rural areas, or they move to rural areas to commute to work in urban areas.

**Table 4: Types of rural-urban linkages**

Type of rural-urban linkage	Subtype	Possible purposes of rural-urban partnership	Challenges	Observed examples in case studies
<b>Demographic linkages</b>	Urbanisation	Relocating public services in rural areas; helping capacity building	Dealing with demographic decline of remote areas	Rennes (France)
	Counter-urbanisation and enlargement of commuting space	Improving transport connection within labour market areas	Coping with decline of old urban centres Developing better connections	Nuremberg (Germany) Prague (Czech Republic)
<b>Economic transactions and innovation activity</b>	Productive relations	Fostering supply chains (e.g. agro-industry)	Boosting activities with a high territorial multiplier	Forti-Cesena (Italy)
	Knowledge diffusion and innovation links	Fostering links between SMEs and universities and research centres	Boosting competitiveness in remote areas	Forti-Cesena (Italy) Nuremberg (Germany)
<b>Delivery of public services</b>	Public service (education, health, waste, etc.)	Developing information and communication technology (ICT) for service provision	Ensuring access to basic services and combating depopulation in remote areas	Central Finland (Finland)
	Public transport	Co-ordinating investments in transports within functional areas	Ensuring access to both urban and rural resources	Nuremberg (Germany) Rennes (France)
<b>Exchange in amenities and environmental goods</b>	Consumption links of urban amenities	Improving accessibility (transport) Better spatial planning and landscape preservation	Ensuring complex consumption for rural residents/quality of life	Rennes (France) West Pomerania (Poland)
	Rural amenities and ecosystem services	Co-ordinating utility providers and local providers (e.g. water)	Ensuring regional environmental sustainability and quality of life	West Pomerania (Poland) Forti-Cesena (Italy)
<b>Other “governance” interactions</b>	Joint planning	Setting a common development plan	Improving the efficiency of public policy	Geelong (Australia) Rennes (France)
	Co-ordination among local authorities	Building a common voice in dealing with higher government	Increasing political relevance and access to funds	Geelong (Australia) Brabant (Netherlands)

Source: OECD (2013: 55)

Urban-rural relations considerably expand the opportunities of SMUAs in production of public goods, achieving economies of scale improving public service provision, coordinating decisions, increasing capacity of partnership, or developing completely new economic opportunities (OECD, 2013: 16). Although there are many good examples of rural-urban partnerships throughout the Europe, it is still not a widely spread development approach (Artmann, et.al, 2012). Administrative boundaries of SMUAs and rural areas play a role in providing motivation for stakeholders, and the cooperation needs certain conditions to develop.

Cooperation between SMUAs should develop on basis of complementary and similarity of potentials and the existing linkages. Although autonomous SMUAs might suffer from the lack of cooperation with other SMUAs, they usually develop stronger relationships with their surrounding rural territories. There is a strong interdependence between SMUAs and surrounding rural areas when local economies are based on the exploitation of natural resources (OECD, 2013). Proximity to rural areas and natural environment leads to better living environment for residents of SMUAs. Moreover rural areas are an important attractive force for some tourism-related activities. Cooperation between urban and rural areas sometimes emerges out of necessity to increase potential of local economy (See, [Box 15](#)).

**Box 15: Urban-rural interaction creates sustainable food system**

After completion of the administrative territorial reform in Latvia, several urban municipalities acquired rural territories. This new form of local governments promotes the urban – rural cooperation. Tukums municipality is an SMUA with adjoining 10 previously rural territories. It is the first in Latvia which developed its Food Strategy (2014-2020). The main objective of the Food Strategy is to build sustainable food system to stimulate local economy development, health and clean environment. The strategy is the first step towards a sustainable agriculture, food production and consumption in the municipality.

Source: *Food Strategy of Tukums Municipality (2015-2020)*.

Urban-rural interactions can have different characteristics and implications on the basis of the type of functional region where they occur. In the OECD report, three spatial categories of regions are identified:

- *metropolitan regions*: rural areas as service providers for the urban regions and urban areas supporting and providing services to rural surroundings;
- *networks of small and medium-sized cities*: rural Areas act as semi-autonomous growth poles but depend on urban centres for specialised services and for accessing larger markets;
- *sparsely populated areas with market towns*: rural Areas are the engine of growth. The regional economy depends on resources located in rural areas with small towns acting as market points (OECD, 2013).

Urban-rural linkages can cross over into several dimensions. There are demographic linkages, economic linkages, linkages of public service delivery, exchanges in amenities and environmental goods, and interactions in governance.

Cooperation between urban areas appears to be more difficult when there are large differences in size, resources and capacity between urban and rural areas. Establishing cooperation takes time and it happens step by step. The factors that are detrimental to effective rural-urban partnership are regulatory and political barriers, lack of trust and policy fragmentation. The factors with a positive effect include clearly defined objectives, understanding of the interdependence of rural and urban areas, democratic participation and leadership (OECD, 2013). Informal factors, such as good relationship between individual stakeholders play a crucial role in developing partnerships among urban areas (See the example of cooperation between Amsterdam and Delfzijl in [Box 16](#)).

Complex social, ecological and economic challenges cannot be solved by individual cities or SMUAs. Therefore the cooperation between SMUAs should be encouraged also in national level by offering subsidies and other incentives to municipalities who would like to work jointly to cope with consequences of demographic and structural changes. See, the example of promoting inter-municipality cooperation in Germany (see,

Box 17).

#### Box 16: Responsible metropolitan area cooperation in case of Amsterdam and Delfzijl, Netherlands

**Cooperation between large and small urban areas can lead to mutual benefits for both parties, as shown in case of Amsterdam and Delfzijl in Netherlands.**

The municipality of Delfzijl counts a population of 25,651 inhabitants. Located at the extreme northern border of the Netherlands with Germany, Delfzijl is separated from the prosperous Amsterdam region by a distance of 208 km and many growth challenges. Like many shrinking SMUAs across Europe, Delfzijl suffers from a population decline due to an aging population coupled with the departure of its younger residents to the larger cities. To offset the shrinking effects, the city is struggling to recreate an identity for itself and to maintain a good quality of life and living environment. Its efforts are however hindered by the high overhead costs of restructuring projects and the lack of capacity of its local government.

In this context, the current mayor of Amsterdam Eberhard van der Laan proposed to initiate Amsterdam Responsible capital: a cooperation between the city of Amsterdam and the municipality of Delfzijl plus two other small municipalities, Heerlen and Sluis. This cooperation aims at sharing knowledge and expertise between the two cities, and on the long-term assist Delfzijl in reaching its development objectives.

This partnership focuses on two areas:

- **Increasing Delfzijl administrative capacity through the sharing of Amsterdam civil service knowledge and expertise.** This is made possible through the adoption of a government-to-government approach. On demand, Amsterdam organizes master classes, arranges peer-to-peer assistance and connects practitioners and councillors from both cities.
- **Facilitating and stimulating private initiatives, which aim at enhancing the attractiveness and the sustainability of the living environment in Delfzijl.** Few examples of the activities proposed within the frame of this cooperation are the organization of cultural and artistic performances by Amsterdam based institutions in Delfzijl, the development of exchange programs between Amsterdam and Delfzijls creative industries and educational institutions, the development of food networks and the enhancement of accessibility and connectivity through ICT.

This approach aims at achieving mutual benefits for both parties and at building a balanced partnership through 1) open dialogue, 2) respect towards local interests and problems, 3) looking for joint solutions, 4) achieving consensus and 5) making choices acceptable.

Source: METREX/Ministry of Economy, Transport and Innovation City of Hamburg (2011) Urban-rural relationships in metropolitan areas of influence:

<http://www.amsterdam.nl/gemeente/organisatie/ruimte-economie/ruimte-duurzaamheid/ruimte-duurzaamheid/making-amsterdam/projects/urma/>

### Box 17: Promoting inter-municipal cooperation in Germany

#### **In Germany Federal government programme encourages inter-municipal cooperation so that local governments can effectively solve common problems**

Small and medium-sized urban areas play an important role as residential and business locations in Germany. Over 61% of all inhabitants of Germany live there. 55% of them have jobs there. Yet, more than 40% of all SMUAs in Germany are shrinking and have to deal with the decline in population, infrastructure and jobs. The central concern of urban development policy, therefore, is to support local authorities in their development and to strengthen them as regional anchor points.

One core component in National Urban Development Policy is the programme "Smaller towns and municipalities - inter-community cooperation and networks", launched in 2010 by the federal government and the states. The objective of the programme is to strengthen small and medium-sized urban areas as business, social and cultural centres. Especially in thinly-populated areas SMUAs are crucial in providing the necessary availability of job opportunities and public services to residents and surrounding areas.

The programme focuses on inter-municipal cooperation. Within the framework of integrated, inter-municipal development concepts, strategies are devised for coping with the consequences of demographic and structural changes. Joint goals for development have to be defined. On the basis of these integrated concepts specific support for strategic networks for local cooperation (including participation of citizens and other stakeholders) and investments for urban renewal and improvement of public infrastructure is provided. In this respect, the programme contributes to developing and strengthening small and medium-sized urban areas as anchor points for regional development and centres of public services. During the first five years the programme has gained nationwide relevance: Today more than 400 urban areas and inter-municipal cooperation are supported. 70 million euro per year are provided for this programme by the Federal Ministry.

Based on information provided by: Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, Germany, 2015.

Funding mechanisms can provide finance to develop and maintain partnerships on a broad range of topics, such as e.g. social services, basic infrastructure, economic development, management of natural and cultural resources. However, these instruments have been targeted more towards the sectoral approach and towards the functional areas (Artmann et.al., 2012).

As movement towards integrated territorial development strategies and establishing governance according functional areas becomes more widespread, functional approach in urban development can provide stronger basis for technical and financial support for urban-rural partnerships.



### Box 18: Growing importance of functional approach in urban development in Poland

#### Functional approach to urban development has become important in Poland

Functional urban areas (FUAs) are composed of different administrative units under the responsibility of the individual local authorities or municipalities (in the case of voivodeship cities these are cities with poviat status - cores of functional areas, as well as small suburban municipalities, located within its zone of influence). The concept of functional areas was formally introduced to the legal system in the Act on Spatial Planning and Development, and the work on establishing FUAs started already during previous planning period of 2007-13.

It is planned that partnership of local governments in urban areas will be able to carry out functional integrated projects (combining the activities financed by the ERDF and the ESF). In Poland, the ITI will be carried out mainly in *voivodeship* cities and areas functionally related within the Regional Operational Programmes. It is planned to establish 17 ITIs for those areas.

The aim of the projects in the formula of ITI is the realization of different themed packages, but interrelated and complementary projects. The idea is that the authorities from lower than regional level, that are well aware of local conditions, will be able to prepare projects that respond to their development needs. Possible set of directions of interventions to be implemented under the ITI Strategy will be:

- The development of a sustainable, efficient transport connecting the city and its functional area
- Restoring the socio-economic functions of degraded functional urban areas
- Improving the environment conditions in the functional urban area
- Promoting energy efficiency and low-carbon strategies
- Strengthening the development of symbolic functions that build international character and regional status of functional urban area and improve the access and quality of public services in the whole functional area
- Strengthening research, technological development and innovation

Source: Information provided by Polish Ministry of Infrastructure and Development, Department of Spatial Development Policy, 2015.

### *Institutional preconditions*

Institutional settings also play an important role in determining the development of SMUAs. Flexible institutional setting can frame patterns of behaviour, enables reasonable alternation of legal framework, shift balance between power structures, encourage new modes of behaviour and interaction of local agents.

Since many SMUAs have limited powers and capacity, they are dependent on support by higher-level authorities. This dependency on national funding has had negative impacts on the financial situation of SMUAs due to austerity policies. Due to decentralisation processes the power and responsibilities of local and regional governments has increased in many member states. This increases the local capacity to act. However there is also evidence from macro level studies suggesting that too fragmented governance structures are associated with lower levels of productivity. The OECD report on productivity of cities suggests that for a given population size, a metropolitan area with twice the number of municipalities is associated with around six per cent lower productivity; an effect that is mitigated by almost half by the existence of a governance body at the metropolitan level (Ahrend, 2014: 1).

Literature related to the role of institutional factors on regional and economic development has been substantial. SMUAs have limited capacities to shape institutional framework by acting alone:

- Both urban and regional governments need to be engaged in the planning process, as smaller urban areas may lack capacity to develop strategic planning processes (Kunzmann, 2010). Strategic initiatives in SMUAs can bring about favourable conditions for innovation and the creative industry, built over traditional economic and cultural activities.
- Being at lower levels of administrative hierarchy SMUAs also have weaker voice in representing their individual and collective concerns in national level. The activity of regional and sub-regional organisations and associations of SMUAs can improve their chances in getting heard.

On the other hand flexible institutional framework provides SMUAs with opportunities:

- Because of their small size and relative institutional flexibility SMUAs can be platforms of policy innovation and experimentation for implementing pilot projects in service delivery, citizen participation and other areas. If successful, these pilot projects can be replicated on larger scale.
- Building development on excising potentials, through “smart specialisation” processes has been identified by member states as a key strategy. Moreover, higher education and research institutions also play a key role for SMUAs, both as direct and indirect providers of employment and as contributors to the competitiveness of these areas.

The evidence about the role of institutional preconditions on regional development and territorial cooperation is mainly based on case studies. ESPON applied research project “TANGO - Territorial Approaches to New Governance” (2013) examined the importance of institutional factors and synthesized findings from 12 different level case studies in five dimensions:

- 1) coordinating actions of actors and institutions;
- 2) integrating policy sectors;
- 3) mobilising stakeholder participation;
- 4) being adaptive to changing contexts;
- 5) realising place-based/territorial specifics and impacts.

One of the most relevant governance challenges for SMUAs is the coordination of policy measures beyond local administrative borders. SMUAs often do not possess the capacity to coordinate their local policies with those of neighbouring administrations: this requires a facilitative role of other national/sub-national government levels. All these dimensions are relevant to achieving territorial cohesion (ESPON TANGO, 2013: 6).

**Box 19: SMUAs as platforms for policy innovation. Establishing single contact point centres in Latvia**

**SMUAs can be useful platforms of policy innovation and experiment to test new policy concepts and tools**

Different pilot projects have been carried out in areas of public service delivery, strategic management, citizen participation, and other areas since the beginning of 90s. An example of such pilot approach in Latvia was the establishment of unified client service centres in two SMUAs (Daugavpils, Valmiera), two smaller settlements (Roja, Auce) and the capital - Rīga in 2014. Service centres were located in single premises where residents could conduct their transactions and consult with staff. Several offices such as State Social Insurance Agency, State Revenue Service, Land Register and others became easier accessible one-stop shops. Before the project there were about 2000 state and municipal services offered in more than 900 locations in Latvia. Providing access to services is becoming more challenging and costly because of sparse settlement pattern, depopulation and relatively large distances between the SMUAs. Following the pilot phase, a White Paper About Public Services was adopted by Latvian Cabinet of Ministers in 2015 to establish a nationwide network of single contact point service centres. In larger SMUAs the centres will be established on the basis of existing municipality services centres. To use SMUAs as polygons of experiment, national legislative framework needs to be flexible and policies should be tailored to avoid one-size fits all approach.

Source: Unified State and Municipality Client Service Centre, Latvia, [www.vvkac.lv](http://www.vvkac.lv).

**Table 5: Territorial governance dimensions for SMUAs**

Dimensions	Checklist of questions relevant for SMUAs	Facilitating approaches and instruments
<b>Co-ordinating actions of actors and institutions</b>	<p>Which actors at all levels are needed to organize and deliver the territorial goal at stake?</p> <p>What types of existing platforms or forums are available to facilitate coordination?</p> <p>Do existing platforms/forums have the capacity and legitimacy among actors and institutions to achieve the territorial goal at stake?</p> <p>What is the formal and informal distribution of power / room for manoeuvre?</p> <p>What types of territorial knowledge do actors and institutions have?</p>	Cohesion policy instruments, such as CLLD built on LEADER Community Initiative
<b>Integrating policy sectors</b>	<p>Which policy sectors are needed to be able solve the issue at hand?</p> <p>What are the potential or real sectorial conflicts?</p> <p>Who is able to discuss the topic? Who has a stake in this?</p> <p>What are the potential synergies that could be realized by inter-sectorial cooperation?</p>	Horizontal Actions of Operational Programmes Territorial Impact Assessment tools
<b>Mobilize stakeholder participation to involve the appropriate actors</b>	<p>Have all relevant groups been considered (e.g. inhabitants, policymakers, interest groups)?</p> <p>How can new or previously excluded groups be included in participation processes?</p> <p>How could stakeholders be encouraged to participate?</p> <p>How are stakeholders given insight into territorial governance processes?</p> <p>Are there processes or mechanisms in place to use the territorial knowledge gained through stakeholder participation?</p>	<p>Bottom-up principles and place based schemes implemented Cohesion Policy Partnership contracts</p> <p>Benchmarking of best involvement and participation mechanisms. The examples include Eurocities network, URBACT programme, and LEED programme of OECD</p>
<b>Be adaptable to changing contexts to pursue a shared understanding of the changing context</b>	<p>How can individual and institutional learning be encouraged?</p> <p>How can forward-looking and/or experimental decisions be made?</p> <p>In which ways can new territorial knowledge be integrated into the process? Have contingency plans been made, and what is the scope of flexibility?</p>	Alignment of national and regional programming systems Studies of best practice
<b>Realise place-based/territorial specificities and impacts to adopt a multi-scalar vision</b>	<p>What are the place-based specificities that are most relevant for the issue?</p> <p>How has the area of intervention been defined? Are the boundaries “soft” or hard?</p> <p>How can territorial knowledge (expert or tacit) be utilized in achieving the goal?</p> <p>How are the territorial impacts of policies, programmes and projects evaluated?</p>	<p>Integrated Territorial Investment (ITI)</p> <p>Integrated Sustainable Urban Development principles</p> <p>Ex-post evaluations</p>

Source: adapted from ESPON TANGO, 2013: 13-16.

## 4. Strategies and policies for development of SMUAs

What are promising strategies for development of SMUAs? How can governments at various levels support these strategies, by better coordination, regulation and funding? These are the questions that will be addressed in this chapter.

### 4.1 Development directions and strategies

Economic growth of SMUAs and territorial development of regions shows a high degree of path dependency because of limitations imposed by small-scale economies and structural conditions. So, while local actions are important, regional and national responses are predominant. Development directions of SMUAs are shaped by a complex mix of social, economic, demographic and political factors at international, national and sub-national level. These directions depend on:

- *Contextual factors*, such as demographic change, ageing, migration and tourism trends, climate change, economic disparities at European and national level, emergence of new technologies, global trade patterns, and energy prices. SMUAs need to consider these factors to maintain economies of scale that would allow them to provide services of general interest to the population with a changing demographic profile.
- *EU level policy responses*, especially territorial policies targeting SMUAs. According to territorial vision of Europe for 2050 elaborated by ESPON, three European scenarios can be outlined (ESPON, 2014b). Each scenario presents certain consequences for SMUAs:
  - The *Market based growth scenario* favours global connectivity and large metropolises (there are around 76 existing Metropolitan European Growth Areas or MEGAs in Europe), reducing the amount of Cohesion and Agricultural funds and transport investments. This scenario is not particularly beneficial to SMUAs (ESPON, 2014b: 8).
  - The *Secondary city networks scenario* would concentrate investments in national and regional capitals leading to geographic reorganisation and specialisation of global gateways. The scenario assumes that Cohesion and Structural investment funds mostly target cities - national and regional capitals in areas of urban renewal, re-urbanisation, R&D investments, regional and inter-regional networks. In this scenario SMUAs and rural areas become increasingly dependent on larger cities, and migration to large cities increases. (ESPON, 2014b: 8-9) In this scenario the rural-urban, and urban-urban linkages and partnerships become especially relevant.
  - The *Small cities and less developed regions scenario* would directly benefit SMUAs but it would also increase budgets for EU policies. In

this scenario, which is largely expressed in the Territorial Agenda of the EU 2020 (2011), SMUAs would assume the role of centres for economically resilient regions. Policies would focus on reinforcing the social and economic balance of Europe at the regional level in a strong place-based approach promoting endogenous development and empowering regional institutions. As a result consumption patterns would become more sustainable but environmental policies more strict. Energy networks based on renewable energy would become more decentralised (ESPON, 2014b: 10).

*National level policy responses including sectoral policies (e.g. education policy) and cross-sectoral policies (e.g. transition to green economy, reduction of poverty).* National policies that are especially relevant for SMUAs include the support for the restructuring of industries, improving critical infrastructure and accessibility. Examples of such national policies are the Latvian policy to support polycentric development (see,

Box 20), and the Italian policy to improve the accessibility to basic services in relatively isolated areas (the strategy for 'inner areas') (see, previously Box 6).

Shrinking SMUAs especially in Central and Eastern Europe require complex policy solutions involving job creation, mobilising inward investment and developing and strengthening diaspora relations in order to counteract emigration and shrinking tendencies.

#### Box 20: Latvia's place-based support for polycentric development 2014-2020

**In 2014-2020 Latvia decided to continue its place-based support for polycentric development approach and to have more EU funded support programs for municipalities (mostly municipalities with SMUAs)**

Place-based measures in 2014-2020 are going to have stronger emphasis on promotion of entrepreneurship in order to increase impact of this support on economic development in regions and specific support for optimisation of public services networks taking into account decrease of population in regions. Thus, it is intended as a multi-sectoral territorial support. Most of investments will be concentrated in 30 development centres (cities and towns) majority of which are SMUAs. Investments are going to be provided for improvement of public (municipal) infrastructure.

Main preconditions are:

- projects have to be **based on local development programs**;
- projects for economic development have to be **based on needs of entrepreneurs** (existing gaps in municipal infrastructure that are significant for business development in municipality);
- projects for **public services have to be based on coordination of national, regional and local priorities, demographic trends in municipality, potential settlement structure and characteristics and development potential of spaces of national interest** defined in Sustainable Development Strategy of Latvia until 2030, current results of sector policy in regions, specific trends and issues in regions.

Latvia is already working on preparing for this change, including considering terms for application of state aid rules in these support programs, as well as building capacity and skills of municipalities in cooperation with entrepreneurs. Integrated Territorial Investments (ITI) tool is to be used for nine largest urban areas. This instrument will support six support measures that these municipalities face, while also developing functional links between the surrounding area and the city or town.

Source: Information provided by Latvian Ministry of Environment Protection and Regional Development, 2015.



Based on previous analysis of preconditions and challenges of SMUAs some promising development strategies can be identified: (See Sumners 2009; Kunzman n.d.)

#### *Social and economic dimension*

- 1) *Invest in skills.* Skills are key to the success of SMUAs. They are needed to facilitate local development processes and provide administrative and technical expertise. In the long run skills lead to increase of the productivity of local economy. SMUAs should therefore:
  - invest in increase of supply of workforce skills and stimulate demand for higher level skills amongst local employers;
  - foster educational institutions and state agencies;
  - develop a strategy to attract and grow private sector knowledge-intensive services firms, jobs and individuals;
  - support small and diversified businesses (Sumners, 2009).
- 2) *Make use of the knowledge,* the competence, the skills and qualifications of the inhabitants.
- 3) *Provide responsive, efficient and open public service, secure quality services.*
- 4) *Enhance quality and attractiveness of the place* that provides opportunities for the development of tourism and it attracts new residents.
- 5) *Protect local production, and support local innovation* to encourage a local entrepreneurial culture.
- 6) *Target the young generation* (Sumners, 2009).

#### *Territorial dimension*

- 1) *Ensure co-development* by working across administrative boundaries to invest in economic development by following the principles of integral / place-based approach, and investing in smart specialisation.
- 2) *Secure connectivity* by providing critical infrastructure to improve connectivity, transport connections and accessibility to services.
- 3) *Build local and regional partnerships* to maximise economic development:
  - connecting local stakeholders;
  - forming alliances with nearby urban regions;
  - promoting cooperation within regions and with larger cities, including sharing services;
  - work together with surrounding sub-regions to maximise competitiveness;
  - create agglomeration effects by forming polycentric urban regions and/or by adapting “borrowed size” strategies;

- invest in networks and territorial and multi-level cooperation (Sumners, 2009).

**Box 21: Building attractiveness by inclusion and sustainable development. The case of Velenje**

**Increasing attractiveness of SMUAs is a complex endeavour. The example of Velenje in Slovenia - an SMUA with more than 34,000 inhabitants shows that the attractiveness can be achieved by historically strong social commitment towards social inclusion and sustainable environment, as well as developing social services.**

**Sustainable development**

Sustainable development course of the town began even before it became the policy buzzword. It all started in the year 1987 when citizens of Velenje started the initiative for improvement of heavily polluted Velenje lakes and the river Paka. Artificial lakes emerged as a consequence of coalmining industry. The lakes were used for deposition of toxic ashes from the nearby Thermal power plant in Šoštanj. The results were heavily polluted, dead lakes and the river Paka. This public initiative is also one of the first bottom-up initiatives and democratization impulses in former Yugoslavia. Local government, citizens and local economy initiated so called Environmental rehabilitation / recovery program. It was set in motion in early nineties and today Velenje lakes and the river Paka are boosting with life, the bathing quality waters and beautiful lake surroundings are being used for water sports activities, recreation, leisure and presents new opportunities for tourism development. The environmental protection programme wasn't terminated with water quality management. It is continued today with air quality improvement measures, integrated sustainable space management etc. Velenje was the first Slovenian city that joined the Covenant of Mayors initiative. Public buildings are continuously being refurbished to reach near zero emission standards, these measures are being upgraded by installation of Photovoltaic plants on the public rooftops.

**Inclusion**

Velenje is multicultural town. Massive migration to Velenje from former Yugoslav republics and other countries happened due to excessive workforce needs in coalmine and developing processing industry in 60's and 70's in previous century. Today different nationalities and cultures are coexisting in peace and harmony and have done so even in most turbulent times after the disintegration of Yugoslavia.

**Services**

The high level of quality of living is accountable also to high quality of public services which surpasses the offer of other cities. Citizens of Velenje have available many services free of charge, namely: free of charge public transport with unique real time passenger information system, city bike rental system, WiFi internet access, parking spaces, energy consulting, legal consulting, architectural consulting, public kitchen and health care for economically disadvantaged citizens, city cashier for paying the bills without commissions, etc.

Source: Information provided by Ministry of the Environment and Spatial Planning in Slovenia, 2015

### *Institutional dimension and governance*

- *Identify and build on local assets.* SMUAs should create and carry out a strategic plan which takes into consideration:
  - territorial profile of the urban area (isolated, networked, agglomerated, industrial, tourist city, knowledge city, regional service centre etc.);
  - builds and develops local assets and territorial capital (PWC, 2005). Six main types of territorial capital can be discerned: intellectual and social capital (people and knowledge); democratic capital (participation and consultation); cultural capital (values, behaviours and public expressions); environmental capital (natural resources); technical capital (man-made capital and infrastructure); and financial capital (money and assets);
- *Strengthen collaborative and inclusive community leadership.* In many EU member states local governments enjoy more trust among citizens than national governments since local authority is located closer to people. Community leaders and representatives can capitalise on trust vested in them and implement the initiatives that mobilise community, and strengthen its social capital. This involves:
  - working across boundaries, sectors and professions;
  - working with public, private and third sector organisations towards a long-term vision (a vision built on a realistic assessment of the assets and its geographic place (in the region, country, etc.) and a strategic plan);
  - building a strong social infrastructure;
  - engaging the local civil society (Sumners, 2009).

### *Alternative directions of development*

The financial crisis has made it difficult to capitalise on growth potentials in many lagging European regions. Although SMUAs are less embedded in global networks, they are vulnerable to global economic and financial fluctuations by being directly affected by national policy responses. In most member states the responses to solving the financial crises have lead to shrinkage of the public domain, which imposes limits to growth-oriented strategies. Austerity policies were meant as reactive responses of coping with the immediate crisis and recovering balances in public finances and employment, but they did not ensure longer-term transformative adaptation and sustainable change.

During the economic recession different alternatives to economic growth oriented policies captured wider public attention. For urban areas in continuous decline

controlled decline strategies of "re-growing smaller" or "smart decline" strategies were suggested as alternative. These strategies called for:

- restructuring of the local economy;
- downsizing the housing market and introducing new forms of housing;
- creating new green areas after the demolition of housing objects;
- introducing flexible and creative solutions to secure the quality of public services, for instance multifunctional accommodations, e-health and local services run by citizens (Geroházi et al. 2011: 97-98; Haase et al. 2012; Wiechmann 2006).

Improving the resilience of regions became another alternative to growth. At its simplest understanding, resilience refers to ability of a system to “bounce back or recover to its pre-shock position. The faster the economy returns to its pre-shock position the more resilient it is (ESPON, 2014). Resilient systems are able to stabilise adverse economic pressures, and build absorptive, adaptive and transformational capacities.

Little is known about territorial aspects of resilience. It seems that the presence of an urban centre, particularly second-tier centres, is positively linked with resilience. In contrast, regions that are more remote from major urban centres proved less resilient (ESPON, 2014). Equally, regions with higher levels of accessibility to peripheral locations tend to be associated with more resilient outcomes. Higher levels of broadband availability are also positively related to resilience. A high quality natural environment is an asset that many SMUAs capitalise on by providing higher standard of living, with potential positive implications for the resilience of a region (ESPON, 2014). Main conditions leading to greater resilience are presented in [Table 6](#).

**Table 6: Conditions leading to greater resilience**

Businesses, economy and business environment	People and population
Diverse economic structure ...but also dependence on some sectors, such as financial services, high-tech, knowledge intensive industries and niche production Higher levels of innovation and entrepreneurial culture Broadband	Highly qualified population Labour market flexibility (e.g. by reducing working hours as alternative to unemployment)
Place-based characteristics	Community and societal characteristics
Importance of secondary tier cities Better connectivity High quality natural environment	Business networks, and inter-firm capital Social capital networks Collective bargaining and social contracts between firms, state and workers Strong localist agendas, such as buy local campaigns Integrated governance structures aimed at risk sharing

Source: Based on: ESPON (2014), *Territorial Dynamics in Europe. Economic Crisis and the Resilience of Regions*, Territorial Observation No. 12.

Increasing resilience is not always a matter of abandoning conventional solutions, but a matter of reorienting existing policies and expanding the view. Building resilience is about:

- *Shared approach.* The resilience should be a shared approach taken up together by multiple stakeholders in civil society, business, and public sectors.
- *Adaptable governance solutions.* The studies have found strong correlation between the quality of government and the capacity for resilience. Readiness to learn and to adapt is the main quality on resilience scoreboard (ESPON, 2014).
- *Economic diversity.* More diverse economies tend to be more resilient, therefore policies that reduce dependency of SMUAs on a few firms and economic strategies promoting diversification of markets should be considered. In some cases dependency on specific sectors, such as financial services, high-tech and knowledge intensive industries and niche production, strengthens the resilience (ESPON, 2014).
- *Green economy.* Although there is no convincing evidence that regions with green economies have proven more resilient after the financial crisis, local sources of renewable energy and sustainable food systems contribute to greater resilience in the longer run (ESPON, 2014).
- *National policies aimed at strengthening of the resilience* While local measures of building resilience are important, the effect of national policies is predominant. Two types of policies are needed to achieve greater resilience:
  - *Preventing "fire breaks"* - the ability to insulate the wider economy from the spill-over effects of a downturn in any single part of economy. The examples of "fire-break" preventing policies are community energy schemes, bartering systems and local food growing initiatives.
  - *Risk sharing* - the ability of the public sector to share risks with private sector and civil society by creating independent mechanisms of support in case formal mechanisms are overloaded or ineffective. These mechanisms can be sectoral (e.g. association of local firms) or communal (volunteering and charitable activities), and their main purpose is to replace services that are lost in case of crisis (ESPON, 2014).

Development policies and practices depend on whether the market can provide the kind of development that stakeholders want. In the so-called pro-growth scenarios local markets are strong and can deliver public goods, but in de- / non-growth scenarios markets and state agencies are too weak to deliver equitable and inclusive development (Hague, 2011). In these cases urban areas have to rely increasingly on local social assets, and most importantly - social and communal organisations, such as cooperatives, churches, local business associations, neighbourhood groups, and one-issue groups.

SMUAs need to be realistic about their development ambitions and abstain from simply imitating the approaches taken by large urban areas. SMUAs that experience steady decline over a prolonged period should investigate alternative solutions that are aimed at controlled decline and increasing resilience.

## 4.2 EU policies and funds

Small and medium-sized urban areas receive little specific attention in EU policies. Some of the strategic EU documents on urban and territorial development make reference to the challenges and potential of SMUAs; especially the Territorial Agenda 2020, but also the Leipzig Charter and Toledo Declaration. In general the specific development challenges and potentials of the SMUAs are seldom recognized in EU documents, except the ones on balanced territorial development (see Annex 8).

Of the various existing EU funds and financial instruments (FIs), few target directly SMUAs. However, by placing balanced territorial development at the core of its objectives, EU regional policy integrates systematically SMUAs in its programs and projects.

EU funds regulations (i.e. Common Provisions Regulation (CPR) and Regulations for the European Regional Development Fund (ERDF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and Cohesion Fund (CF)) do not include requirements or specifications related to the size of participating municipalities or public territorial authorities. The only differentiation between eligible territorial areas, used in EC communications, reports and publications, is based on their typology: *urban* or *rural*.<sup>10</sup> This distinction is built on two criteria:

- a population density threshold (300 inhabitants per km<sup>2</sup>)
- a minimum population size threshold (5, 000 inhabitants)

Areas with population sizes and densities below these thresholds are categorized as rural. Areas with populations meeting or exceeding the above thresholds are categorized as urban.

The CPR defines eleven thematic objectives that should be supported by each European Structural Investment Fund (ESIF):

1. strengthening research, technological development and innovation;
2. enhancing access to, and use and quality of, ICT;
3. enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF);
4. supporting the shift towards a low-carbon economy in all sectors;

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<sup>10</sup> See: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Urban-rural\\_typology](http://ec.europa.eu/eurostat/statistics-explained/index.php/Urban-rural_typology)

5. promoting climate change adaptation, risk prevention and management;
6. preserving and protecting the environment and promoting resource efficiency;
7. promoting sustainable transport and removing bottlenecks in key network infrastructures;
8. promoting sustainable and quality employment and supporting labour mobility;
9. promoting social inclusion, combating poverty and any discrimination;
10. investing in education, training and vocational training for skills and lifelong learning;
11. enhancing institutional capacity of public authorities and stakeholders and efficient public administration.

These objectives are translated into investment priorities specific to each fund (See Annex 4 for more details).

European funding programmes, which make funds and resources available for SMUAs to address development challenges fall within two categories:

*(1) Funds managed by national or regional authorities:*

These funds consist of four of the five European Structural Investment Funds: ERDF, ESF, CF, EAFRD. To access, implement and manage these funds, the European Union (EU) has made available a number of tools and Financial Instruments (FIs) that managing authorities can use to develop projects and capitalise on available funding opportunities. These funds are allocated based on the investments priorities outlined by each EU MS national/ Regional Operational Programme (OPs).

ERDF specifically provides funding for most European Territorial Cooperation (ETC) programmes, which address some of the highly relevant issues to SMUAs, namely polycentric development and urban-rural relationships.

*(2) Funds managed by the European Commission (EC):*

Only two programmes in this category respond directly to SMUAs challenges; Horizon 2020 and Connecting Europe Facility (CEF) programmes. Horizon2020 calls often include the development and implementation of lighthouse projects, which involves local public authorities' participation. Despite the fact that SMUAs do not take part directly in CFE projects structures, CFE funding objectives serve SMUAs interests by improving accessibility, enhancing connectivity and developing multimodal transportation infrastructure. Other programmes such as LIFE, Creative Europe and the EU Programme for Employment and Social Innovation (EaSI) which address respectively environmental, cultural and social issues can also be relevant for SMUAs when addressing development challenges related to these areas. These funds do not however address issues directly related to territorial development but might contribute to the co-financing of projects with a clear stake in achieving the objectives of these programmes, ensuring synergies between different European funds.

SMUAs are not directly addressed in EU funding programmes and FIs regulations but there are hardly any formal obstacles to their eligibility to benefit of EU funds and FIs. The inclusion of SMUAs as a component of territorial development programmes and projects is in fact critical to achieve EU's Cohesion Policy goals. However because of their specificities, SMUAs might not benefit of European funding opportunities using the same approaches adopted by larger urban areas. Some special articles, clauses and open definitions in EU funds regulations can allow SMUAs to gain better access to EU funding opportunities:

- ERDF which is the most prominent fund dedicated to urban and regional development allocates a specific assistance to areas which are naturally disadvantaged from a geographical viewpoint (remote, mountainous or sparsely populated areas) in order to facilitate their participation in ERDF funded projects (ERDF Regulation 2013, para 22). This clause particularly benefits isolated SMUAs.
- SMUAs can capitalise on smart specialisation strategies when seeking ERDF, ESF and EAFRD funding since Research and Innovation Strategies for Smart Specialisation (RIS3) became a condition for the use of EU financial support through the structural funds within the 2014-2020 Cohesion Policy.
- SMUAs can take advantage of the European Commission (EC) intention to concentrate public investment on a limited number of growth areas by focusing on a limited number of development directions. For example culture based projects are specifically mentioned as an investment priority of the ERDF (ERDF regulation, art 5). These projects can be a drive for SMUAs economic development to create a tourism-based economy considering their great cultural and historic potential.
- Since the description of urban and rural areas used by EC is not consistent with descriptions and definitions used in all EU MS, some areas categorised as small urban areas in some MS will be categorized as rural areas when seeking EU funding and will thus be eligible to benefit of projects funded by the EAFRD. EAFRD is the only fund, which addresses specifically rural areas' economic and social issues and challenges. Many rural areas challenges are also common to small urban areas (e.g. population decline and reliance on agriculture as the main economic activity).

The EU has also developed several implementation tools and FIs to assist Managing Authorities (MAs) with the delivery of the objectives of their national/ regional OPs.

The new Community-Led Local Development (CLLD) and Integrated Territorial Investment (ITI) tools as enacted by the ESIF CPR for the 2014-2020 period offer a great opportunity for Member States to develop strategies that include SMUAs and assist their development. Individual medium sized urban areas with a population size between 10,000 and 50,000 can particularly benefit of the development of CLLD strategies. Smaller SMUAs that form a coherent territorial unit and that are facing



similar issues can also develop together a CLLD strategy to address their common problems. SMUAs can also particularly play an important role in the development of urban-rural partnerships through the use of CLLD even if their role is not clearly identified in EU's rural development policy. Along with CLLD strategies, ITI can be used by networked SMUAs sharing an integrated territorial development strategy to deliver integrated actions and steer economic growth (CPR, art 36).

These opportunities can however be fully utilised only if Member States partnership agreements succeed in translating the guidelines of the Common Strategic Framework (CSF) regarding territorial development into concrete actions, engaging both local governments and funds MAs. OPs are also key to guaranteeing that SMUAs access ESI funds and ensure their inclusion in national and regional strategies of territorial development. This is critical in order to reduce territorial disparities between metropolitan areas and small urban areas remain prominent and where the attention of central governments is sometimes more focused on the development of large urban projects and infrastructure, which have more visibility and impact on the short term.

**Box 22: Supporting regional development with EU structural funds in Slovenia for 2014-20**

Within the last programming period 2007-2013 Slovenia has strongly supported territorial development of regions as part of Operational Programme for strengthening regional development potentials. More than 600m EUR were allocated directly to NUTS 3 regions. Regional councils had the possibility to propose projects in several investment areas. Significant investments have been undertaken in the field of environment infrastructure, renewal of historic urban centres, business, tourism, cultural and social infrastructure across the country regardless of the type of settlement.

In 2014-2020, sustainable urban development will be implemented through the implementation of the ITI mechanism that will notably receive support under investment priority with support from the ERDF. The mechanism will be used to maximise the investments made and make the most of them. The investments will combine investment priorities for urban renewal, sustainable mobility, and energy efficiency. Investments will be identified and selected by the cities in accordance with the city's Sustainable urban strategies (SUS) and will have to show a contribution to at least two of the three specific objectives. Priority will be given to the projects that will demonstrate an integrated approach to achieving the development objectives of the city and that will include various sources of funding. In the forefront are also the projects which will contribute to new jobs and improving the environmental conditions. The ITI mechanism will be implemented in 11 urban municipalities. To implement the ITI mechanism the municipality will have to meet the following criteria: sustainable urban strategy prepared in high-quality manner, implementation of investments by using various sources of funding and capacity to manage integrated territorial investments. Upon fulfilment of the conditions by all eligible urban municipalities, Slovenia will have the potential to implement eleven integrated territorial investments.

Support to urban municipalities in their preparation process is provided through the territorial dialogue that has been conducted by the Ministry of the Environment and Spatial Planning since March, 2014.

Source: Information provided by Ministry of the Environment and Spatial Planning in Slovenia, 2015.

Most FIs directed towards urban development, such as the Joint European Support for Sustainable Investment in City Areas (JESSICA, during the 2007-2013 Programming Period), Urban Development Funds (UDFs) and Holding Funds (HFs) do not target SMUAs specifically. Small and medium-sized municipalities do not have the same capacity and expertise as larger and more powerful local governments, such as metropolitan regions. Few of them are able to manage or implement EU programs using FIs and FEIs (FEIs were specific for the 2007-2013 Programming Period; we will use the term FIs in this report to refer to both FIs and FEIs), which require advanced knowledge of financial engineering. The high overhead costs of establishing development funds might also be disadvantageous for small regions. The large scale of the projects targeted by FIs might also discriminate against SMUAs where large urban projects rarely take place.

Horizon2020 calls do not enclose measures to facilitate SMUAs applications either. Despite the presence of calls that are relevant to SMUAs, especially those addressing topics such as smart specialisation and local scale cultural and social challenges, the capacity, expertise and costs required to prepare proposals and build partnerships to apply to H2020 grants might be dissuasive for most SMUAs. A SMUA is more likely to benefit of grants only if it is already engaged in a project qualifying as a lighthouse project for a Horizon2020 call.

European Territorial Cooperation is the third objective of EU Regional Policy. With a funding of €10.2 Billion for the 2014-2020 programming period, its programmes are some of the most important tools to achieve territorial cohesion in Europe. The two main programmes involving directly SMUAs are INTERREG and URBACT.

### *INTERREG*

The INTERREG Community Initiative programme aims at advancing cooperation between regions in the EU. As one of Europe's most important tools for regional development, it is meant to raise awareness, promote the European polycentric vision of territorial development and forge new networks and institutions in practice.

Since its inception, INTERREG had been split in three strands however under the current programming period, the first two strands, A and B, are not part anymore of the Community Initiative:

- INTERREG A, for cross-border cooperation, focuses on the development of joint projects and strategies for sustainable territorial development in cross-border regions. 56 cross-border regions have benefitted of this strand's funding between 2007 and 2013. During the 2014-2020 programming period, €6.6 billion are dedicated supporting cross-border cooperation projects.
- INTERREG B, for transnational cooperation, supports joint projects between neighbouring countries and regions covering an area of distinct geographical characteristics. INTERREG IVB has identified thirteen cooperation areas. The

projects developed under this strand should address innovation, environment, accessibility and sustainable urban development within their areas of intervention. INTERREG VB has received an EU funding of €1.8 billion for the 2014-2010 programming period.

- INTERREG C, for inter-regional cooperation, allows public authorities and other stakeholders from different European regions to engage in joint projects, set up networks and undertake studies to address specific common issues. This strand aims at the identification, analysis and dissemination of good practices to improve the effectiveness of regional and local policies. INTERREG IVC had focused on the areas of innovation, knowledge economy, environment and risk prevention and competitiveness. Under the 2014-2020 programming period this strand is renamed INTERREG EUROPE and will be allocated a budget of €359 million.

Each eligible region should submit OPs proposals to be approved by the EC. Under INTERREG IV, 66 OPs were approved; 52 for IVA, 13 for IVB and one for IVC. The funding priorities of these programs are based on the eleven thematic objectives defined by the CPR. During the 2014-2020 programming period, INTERREG Europe focuses on four of these thematic objectives, ensuring that the total available ERDF funding (94%) is allocated to these objectives. During the 2007-2013 programming period, INTERREG IVC projects activities were co-financed by the ERDF at a rate of 75% or 85% depending on the Member State (MS).

Available evaluation reports and literature on INTERREG II and INTERREG III programmes show that INTERREG projects have a positive record in creating networks of cities and regions and bridging the gap between research and practice. INTERREG IIIB sought to put ideas about polycentric development and new urban-rural relations into practice. It had offered local authorities a chance to access European Funds, build networks to work and experiment with innovative governance and strategic development approaches. INTERREG has also a significant socio-economic impact in their areas of intervention. INTERREG III projects created directly or indirectly about 115,000 employment opportunities and nearly 5,800 start-ups and businesses (Panteia, 2010).

Projects funded through INTERREG IIIB have mainly focused on polycentric spatial development strategies, urban complementarity and new urban-rural relations. Small and medium-sized cities were strongly involved in rural-urban relationships projects during INTERREG III, unlike larger Functional Urban Areas (FUAs) and Metropolitan European Growth Areas (MEGAs), and have thus benefitted of a significant amount of funding. The projects developed within this strand tend however to focus on second tier cities rather than MEGA cities (i.e. networked urban areas). The participating second tier cities tend to be always connected with MEGA cities which have excluded EU countries which have few or no large metropolises from benefitting of INTERREG projects (INTERACT, 2007).

Some projects which had operated under the framework of INTERREG IIIB, had specifically argued for the integration of small and medium-sized cities in regional development and the building of a regional polycentric urban system (RePUS, 2007; POLYREG, 2011.) INTERREG IIIB working groups have also insisted on the need for small local authority units to collaborate in order to increase their capacity in engaging in transnational cooperation (NWE ENO, 2005.)

INTERREG IIIC had a strong focus on sustainability, rural services and urban-rural accessibility. The projects developed under INTERREG IIIC programmes addressed topics that are highly relevant to SMUAs such as innovation, culture and tourism and agriculture. Some strand C projects during the 2007-2013 programming period were completely dedicated to addressing issues in small and medium-sized cities (e.g. MMOVE, TRANSURBAN, FLIPPER).

### URBACT

During the 2007-2013 programming period, URBACT II was intended to support a total of 46 thematic networks and 14 working groups with a total budget of about €68 million of which €53 million is funded through the ERDF. This represents about 12% of EU investments dedicated to interregional cooperation and networking programmes under the European territorial cooperation goal of Cohesion Policy. National Governments contributed €5,173,880 to URBACT II funding (ex-ante) while local governments contribute €9,324,825 to the total budget.

In URBACT II OP, SMUAs are described as important components of Europe's polycentric territorial structure. Despite assimilating SMUAs to large urban areas in terms of challenges and issues, the OP states that their size and scale of intervention will lead to different sets of priorities and implementation strategies.

Even if SMUAs are not mentioned as a direct target of URBACT II projects, almost 25% of urban areas, which participated to the first and second call of URBACT II had a population size between 5,000 and 50,000 inhabitants. The participation of these SMUAs in the second URBACT II call projects was significantly higher than in the first call with Some URBACT projects are completely dedicated to addressing challenges of SMUAs (e.g. OP-ACT). More than 40% of benefitting urban areas in URBACT II had a population size ranging between 5,000 and 50,000 inhabitants.

**Table 7: Participation of different size urban areas in URBACT II projects**

URBACT Call	Population of urban areas		Number of projects	Urban area is a lead partner
	5,000 – 50,000			
Call 1	29	15.85%	15	2
Call 2	40	42.11%	11	4
Call 1 + Call 2	69	24.82%	26	6
50,000 – 250,000				
Call 1	81	44.26%	27	8
Call 2	45	47.37%	12	3
Call 1 + Call 2	126	45.32%	37	11

Source: URBACT programme

SMUAs with population sizes between 5,000 and 50,000 were present in a total of 26 thematic networks and working groups, including two fast track networks, which represents more than 75% of the 34 total of the URBACT II first and second calls projects. However, out of these 26 projects, only six were led by a city that has a population between 5,000 and 50,000 inhabitants.

Larger urban areas with population size ranging between 50,000 and 250,000 inhabitants were more represented in URBACT II working groups and thematic networks constituting almost half (45.32%) of the participating urban areas. They were significantly more represented in URBACT II first call projects (44.26%).

It is worth mentioning that URBACT II first call projects average budget was €498,549.86 (Median budget €625,425.54) while URBACT II second call projects average budget was €71,021.25 (Median budget €625,425.54)

Reports from some of the projects (LINKS, Active Travel Network, TOGETHER) list the lack of human and financial resources as a major obstacle regarding the implementation and follow up of the Action Plans and the engineering of various financial instruments (EU, national and local) in participating SMUAs with populations between 5,000 and 50,000. These reports insist also on the necessity of involving local government in the elaboration and implementation of the OPs to secure sufficient financial resources to successfully implement projects (HerO, Urbanenergy). The question of financial instruments and funding is present and is addressed in the majority of the 26 consulted URBACT projects reports. Even if final solutions are not always found, the exchange of experiences and expertise within each network or working group brings new insights on how urban areas can manage resources, deal with financial hurdles and develop alternative strategies to finance their projects.

Technical assistance and support either from regional and national authorities or directly at the EU level are critical to allow better access of SMUAs to FIs. Many case studies and evaluation reports assessing the use of financial instruments in the EU present exclusively projects managed and implemented by major urban areas, metropolitan regions or national agencies (ESPON, 2014; PWC, ARUP, 2013; FMDV, 2014; MAZARS, 2013). The creation of SMUAs' networks and coalitions with shared visions at the regional and national level can reinforce SMUAs capacities to develop joint projects and enable them to benefit of the use FIs.

## 5. Key Findings and Policy Recommendations

### 5.1 Key Findings

What are the main challenges, barriers and preconditions for economic development of small and medium sized urban areas in Europe? And how can local, regional, national and EU policies strengthen the economic development of SMUAs, including their contribution to territorial development? These are the key questions this report intends to answer.

Compared to other regions in the world, a considerably larger share of the population in Europe lives in smaller urban areas. In that context it is remarkable that not only policy but also scholarly attention is primarily focused on the economic challenges and potentials of the larger cities and metropolitan areas. The sheer fact that Europe is a continent composed of a large number of small and medium-sized urban areas (SMUAs) constitutes by itself a motive to pay more attention to SMUAs. These areas have the potential to contribute to the EU2020 targets at all relevant levels: regional, national and European.

In this report, the main questions are answered on the basis of an analysis of available data and sources supplied by the KU Leuven and the ESPON TOWN database. These data were supplemented by EUROSTAT data and desk research. In addition, case studies are presented throughout the report and in the Annex (Latvian case study) to illustrate the main findings.

#### ***Characteristics and trends***

What is the place and function of SMUAs in Europe and what are general trends in Europe?

Europe is characterised by a predominantly polycentric geography and by less concentrated urban patterns than other regions in the world. Compared to these other regions, a considerably large share of the population in Europe lives in smaller urban areas. For decades SMUAs have been at the core of urbanisation in Europe. In the period 1960-1990 the population growth of SMUAs exceeded that of large metropolises, but in recent decades their growth rate has been superseded by higher growth rates of large cities.

The following characteristics and trends are typical for the European SMUAs:

- SMUAs in Europe constitute an important element of urban Europe. According to the TOWN research 24.2% of the European population lives in SMUAs. If we consider the Eurostat data on urbanisation degrees, 32% of the European population lives in intermediate density areas (towns and suburbs or small urban areas).

- SMUAs are unevenly distributed across Europe, with a concentration of SMUAs (but also of HDUCs) in the area stretching from northern England towards the southern Rhine valley and northern Italy. This is the most highly urbanised corridor in Europe. Other large concentrations of SMUAs can be found in South-Eastern Germany, Poland and in the Mediterranean coastal area.

There is a great variety of urban areas in Europe. When comparing the broad statistical categories of large urban areas and SMUAs, SMUAs are in general different from larger cities in three main areas: social, economic, and housing:

- *Social*: SMUAs have in general an older working population, more pensioners, a higher 'non-foreign' population, and a higher share of school age children;
- *Economic*: SMUAs show a greater share of employment in manufacturing and have a working force that is more self-employed; SMUAs are more likely to be net exporters of labour (becoming dormitory towns), they are less diverse in terms of sectoral mix, they have a higher economic activity rate but also a smaller proportion of service sector employment;
- *Housing*: SMUAs have a larger stock of second homes, making them attractive as tourist destinations.

However, the category of SMUAs covers a large variety of small and medium-sized urban areas across Europe, urban areas that differ by spatial location and social-economic, institutional, regional, and national characteristics.

### **Importance of SMUAs**

What is the role of SMUAs in territorial development? How can SMUAs contribute to sustainable territorial development? And how can SMUAs contribute to Europe 2020 goals?

SMUAs constitute an important element of urban Europe. They form the backbone of Europe's territory and have an important role to play for territorial development and cohesion. They also have a huge potential to contribute to the achievement of the EU 2020 targets. The presence of clusters of SMUAs in the core of the European continent, which contributes to the largest share of its GDP, shows their importance regarding the realisation of the Europe 2020 strategy for smart, sustainable and inclusive growth.

The analysis of data based on the Degree of Urbanisation classification, presents a very varied picture of the state of SMUAs across Europe in comparison with densely populated or large urban areas. Firstly, the population size living in SMUAs varies across EU member countries, ranging from 50% in Belgium to 10% in Lithuania. Secondly, unemployment levels in SMUAs appear to be lower than in larger urban areas in various countries across Europe. This indicates that SMUAs have employment potentials. Thirdly, in countries with relatively high income-levels,

SMUAs appear to have a higher median income than large urban areas, while the trend reverses in member states with lower income levels. Finally housing is on average more affordable in SMUAs.

SMUAs are of great importance for a more balanced territorial development. They have an important role in stabilising their surrounding territories. Often, SMUAs are administrative and development centres for their surrounding region and fulfil a significant role in broader functional regions. They are centres of labour markets and public services. The function of SMUAs as providers of public services is of crucial importance for performing their role as poles in polycentric networks or their territorial role in a rural region. In addition, they present more favourable environmental conditions than larger metropolitan areas, due to proximity to green areas and lower congestion levels. This is an important factor in their attraction of human resources.

### **Challenges**

What are the main economic growth challenges of SMUAs and how do they differ from those of large cities and metropolitan areas?

The development challenges of SMUAs in Europe are largely different from those of larger cities.

Declining and aging populations are some of the most common features among European SMUAs, and especially among autonomous SMUAs, as a result of outflows to larger cities.

Most SMUAs show a decline in historical industrial activities and a lack of competitiveness. The general de-industrialisation trend in Europe impacts on all types of urban areas, but it has had a stronger impact on SMUAs where productive activities were the core of local economic systems. Most SMUAs located within the vicinity of a metropolitan area saw their function shift to become mainly residential, turning them into dormitory towns with very little employment opportunities and economic activity.

Most SMUAs tend to rely on a single basic economic activity, whether industrial or artisanal. Loss or decline of these industrial activities throughout Europe has had adverse impacts on SMUAs dependent on these productive activities.

Notwithstanding some general challenges, one should be cautious with generalising on SMUAs. Some SMUAs show many similarities with the challenges of larger cities within the same region. At the same time, there are many differences between individual SMUAs. Challenges will differ according to their geographical (or spatial-functional) position within a region and they will differ between autonomous, networked and agglomerated SMUAs. Other economic challenges are related to the size, location but also the history of each SMUA.



### ***Preconditions and future development directions of SMUAs***

What are the preconditions for economic development of SMUAs? And what are (promising) development directions of and strategies for SMUAs?

Geographic factors, institutional settings and the socio-economic dynamics (the sectoral profile) determine the potentials and barriers for development of SMUAs.

The potentials for economic performance of SMUAs is related to the assets of SMUAs (natural assets, human, social, cultural and economic capital etc.), the location of SMUAs (within commuting networks, near larger cities, etc.), the performance of the region in which the SMUA is located; and, the mix of economic activities (the mix of sectors) located within the SMUA. The potentials for development differ for SMUAs that are primarily residential, productive or knowledge-based economies. In general, knowledge-based economies are more resilient to economic changes than the productive economy. Of the geographical factors, *connectivity* through spatial proximity to larger cities or other SMUAs and transport networks plays an important role. In addition, the potentials of SMUAs are determined by the regional territorial context.

Institutional developments such as *decentralisation* processes and *multi-level coordination* and *territorial cooperation* determine the development opportunities of SMUAs.

Rural-urban cooperation can help to utilise opportunities for balancing economic activity and quality of life aspects in urban and rural regions. Cooperation between SMUAs, rural areas and urban areas should be developed on basis of complementary of the potentials of these areas and the existing ties.

Cooperation is easier to achieve with smaller differences in size, resources and capacity. Factors with positive effect on territorial cooperation include clearly defined objectives, partnership, and understanding of the interdependence of rural and urban areas, democratic participation and leadership.

The role of territorial governance and flexible institutional setting are vital in areas of co-ordinating actions of actors and institutions, integrating policy sectors, mobilising stakeholder participation, being adaptive to changing contexts, and realising place-based/territorial policies.

### ***Contribution of policies***

How can local, regional, national and EU policies contribute to the economic development of SMUAs in Europe?

The specific development challenges and potentials of the SMUAs are seldom recognized in EU documents, except the ones on balanced territorial development (e.g. TA2020). But also on member state level, attention in many cases focuses on larger and metropolitan areas. Still, there are member states with specific policy

focus on development of SMUAs or urban-rural relations. The policentric development strategy of Latvia (

Box 20) and Italy's policy of inner areas (Box 6) is largely a policy for development of SMUAs. Due to a trend of decentralisation, SMUAs gain more responsibilities, but often in combination with reduced competences and tax-raising powers. Furthermore, administrative and functional definitions of SMUAs are often at odds, hampering the implementation of effective policies. On local level, various trends reduce the capacity of urban areas to develop effective policies, including the integration into agglomerations or the declining populations of autonomous SMUAs.

There are a number of promising strategies for SMUAs:

- Strategic planning, building on and developing local assets and territorial capital. Strategies to support the development of SMUAs should build on their strengths, and include social and economic, territorial and institutional dimensions.
  - *Social and economic dimensions*: investing in skills; make use of knowledge; creative ways of providing quality services; smart specialisation; protection of local production and supporting innovation; support of small and diversified businesses; enhancing the quality of the place and its attractiveness (for the tourism sector) and target the young generation.
  - *Territorial dimensions*: collaborate across administrative boundaries, improving ICT and physical connectivity, improving accessibility to services, territorial cooperation and partnerships with rural areas and/or neighbouring cities, create agglomeration effects and invest in networks.
  - *Institutional dimensions and governance*: develop and implement strategic plan, build on local assets and territorial capital, collaborate with public, private and third sector organisations, build a strong social infrastructure and engage the local civil society.
- A facilitative role of national and regional government levels to support coordination and cooperation at local level. One of the most relevant governance challenges for SMUAs is the coordination of policy measures beyond local administrative borders. SMUAs often do not possess the capacity to coordinate their local policies with those of neighbouring administrations.
- Integration in transnational networks can help SMUAs to gain better visibility in the global space so that they can better promote their achievements especially in such areas as culture, sports and education. Because of geographic positioning their voices are not well heard. Therefore SMUAs need to establish connections beyond their regions and nations. This can be done by networking, using EU funds for territorial cooperation and relying on institutional capacity of transnational organizations.

SMUAs face several dilemmas in their development directions and they should be selective in imitating growth-oriented strategies of large cities. They should remain open to alternative approaches when markets clearly fail to deliver the results that stakeholders want. Alternative directions to growth-oriented strategies, such as “smart decline” and strengthening resilience strategies can be considered. Resilient systems are able to stabilise adverse economic pressures, and build absorptive, adaptive and transformational capacities. Building of resilience should be shared approach taken up by multiple stakeholders.

### **EU-Funds**

Of the various existing EU funds and Financial Instruments (FIs), few target directly SMUAs. However, by placing balanced territorial development at the core of its objectives, EU regional policy integrates systematically SMUAs in its programs and projects.

European funding programmes, which make funds and resources available for SMUAs to address development challenges fall within two categories:

1. *Funds managed by national or regional authorities*  
These funds are allocated based on the investments priorities outlined by each EU MS national/ regional Operational Programme (OPs). ERDF specifically provides funding for most European Territorial Cooperation (ETC) programmes, which address some of the highly relevant issues to SMUAs, namely polycentric development and urban-rural relationships. OPs are key to guarantee SMUAs access to these funds and ensure their inclusion in national and regional strategies of territorial development
2. *Funds managed by the European Commission (EC)*  
Only two programmes in this category respond directly to SMUAs’ challenges; Horizon 2020 and Connecting Europe Facility (CEF) programmes.

SMUAs are not directly addressed in EU funding programmes and FIs regulations but there are hardly any formal obstacles to their eligibility to benefit of EU funds and FIs. The inclusion of SMUAs as a component of territorial development programmes and projects is in fact critical to achieve EU’s Cohesion Policy goals. However because of their specificities, SMUAs might not benefit of European funding opportunities using the same approaches adopted by larger urban areas.

The EU has also developed several implementation tools and FIs to assist Managing Authorities (MAs) with the delivery of the objectives of their national/ regional OPs.

- The new Community-Led Local Development (CLLD) and Integrated Territorial Investment (ITI) tools as enacted by the ESIF CPR for the 2014-2020 period offer a great opportunity for Member States to develop strategies that include SMUAs and assist their development.

- Most FIs directed towards urban development, such as the Joint European Support for Sustainable Investment in City Areas (JESSICA, during 2007-2013 Programming Period), Urban Development Funds (UDFs) and Holding Funds (HFs) do not target SMUAs specifically. SMUAs do not have the same capacity and expertise as larger and more powerful local governments, such as metropolitan regions. Few of them are able to manage or implement EU programs using FIs, which require advanced knowledge of financial engineering. The high overhead costs of establishing development funds might also be disadvantageous for small regions. The large scale of the projects targeted by FIs might also discriminate against SMUAs where large urban projects rarely take place.

European Territorial Cooperation (ETC) is the third objective of EU Regional Policy. ETC programmes are some of the most important tools to achieve territorial cohesion in Europe. The two main programmes involving directly SMUAs are INTERREG and URBACT.

- It was not possible to investigate systematically the participation of SMUAs to INTERREG projects, but some reports show that SMUAs were strongly involved in INTERREG III projects, focussing on relevant themes for these SMUAs.
- SMUAs were also well represented in URBACT II projects, although larger cities with populations ranging between 50,000 and 250,000 inhabitants were more represented in URBACT II working groups and thematic networks. Reports from some of the projects list the lack of human and financial resources as a major obstacle regarding the implementation and follow up of the Action Plans and the engineering of various financial instruments (EU, national and local) in participating SMUAs.

## 5.2 Recommendations

Based on the current research some policy recommendations can be given, depending on the relevant policy level:

### *General recommendations*

- SMUAs may be able to retain their functions, achieve higher connectivity while maintaining their cultural and historical identities, by tailor-made support mechanisms and policies that build on their strengths. This implies an integrated territorial strategy, making use of the place-based approach.

### *Recommendations at EU level*

- EU policies and strategies, including the Europe 2020 strategy and EU Macro Regional Strategies should recognise the actual and potential role of SMUAs in the realisation of the Europe 2020 Strategy. Conversely, the EU2020 strategy should address also challenges of SMUAs.
- SMUAs constitute an important element of urban Europe. For this reason, a EU Urban Agenda should cover all types of cities, including SMUAs.
- In addition, the role of small and medium-sized urban areas in regional development context should be recognised in key documents at EU-level, because of their importance for sustainable territorial development.
- It should be ensured that European (and national) sectoral policies are articulated within an territorial approach (KU Leuven and ESPON 2014).
- It is not possible or desirable to agree on a particular set of actions on EU level to support SMUAs, because of the wide variety of national and regional situations and types of SMUAs. EU policies to support urban and territorial development should however consider SMUAs and should take into account the specific needs and potentials of SMUAs.
- EU policies that impact urban development should respect the principles of subsidiarity and proportionality, and take into account the need for flexibility in acknowledging the huge diversity of local situations.
- At EU-level information should be gathered on EU financial instruments supporting measures and their compatibility with small and medium-sized urban challenges and development opportunities.
- Various European Funds can be utilised to support the development of SMUAs. Especially new instruments, such as ITI and CCLD offer possibilities for MS and Managing Authorities to develop a more integrated and territorially focused approach with a bottom-up component. The EU could ensure that a range of national, regional and local stakeholders are involved in identifying the relevant national and regional priorities in drawing up Partnership Agreements for European Structural and Investment Funds (KU Leuven and ESPON 2014).
- Exchange of knowledge and experiences within and between countries on successful strategies for local and regional development and cooperation

should be supported and facilitated at EU-level. Existing EU-level networks (e.g. URBACT) can play (and already play) a role in this process.

#### *Recommendations at national level*

- SMUAs should receive due attention in each country's priorities and policies for urban and rural development. Relevant authorities (national, regional) should recognise the significant role that SMUAs play in their regional contexts. National and regional authorities are advised to develop an overarching territorial framework that recognises the role and functions of SMUAs in their regional context and that is sufficiently flexible to accommodate the differences between SMUAs and their development directions (KU Leuven and ESPON, 2014).
- National and regional governments should support SMUAs to be represented in the decision-making processes that shape regional strategies.
- Due to the large number and diversity of SMUAs, national strategies to improve the performance of SMUAs have to make choices. There are good reasons to focus national policies on SMUAs that are economic and functional centres of micro-regions. SMUAs are nested in a wider territorial system, and thus national policies should focus on the relationships of SMUAs with other cities (clusters of SMUAs), with larger urban areas, or with their rural hinterland (KU Leuven and ESPON, 2014).
- Developing effective territorial and place-based approaches requires learning from each other and knowledge exchange within and between countries. National and regional governments should encourage mutual learning and exchange of knowledge between cities (including SMUAs).
- National states have a crucial role in the process of programming of European Funds. Since many European Funds are managed at the national/regional level of each member state, Operational Programs remain key to ensure the inclusion of SMUAs in national strategies of territorial development. SMUAs should receive due attention in each country's priorities for urban and territorial development. Local governments should be involved in the elaboration and implementation of the OPs to secure sufficient financial resources to regional priorities.
- Technical assistance and support either from regional and national authorities or directly at the EU level are critical to allow better access of SMUAs to FIs. The creation of SMUAs' networks and coalitions with shared visions at the regional and national level can reinforce SMUAs capacities to develop joint projects and enable them to benefit of the use FIs.

#### *Recommendations at local level*

- Cooperation is essential for the development of SMUAs, with other urban areas, larger cities and with rural areas. However their capacity to cooperate is often limited. National and regional policies should support territorial cooperation among towns and surrounding areas, to build critical mass, in order to make them more attractive (KU Leuven and ESPON, 2014). And to

support SMUAs joining forces in development, providing services, and “borrowing size” from other regions. EU and national funds can provide financial incentives for cooperation and partnerships (KU Leuven and ESPON, 2014).

- Cooperation between SMUAs within the same region and between regions is crucial because of the limited capacities of SMUAs and because challenges and opportunities go beyond the boundaries of municipalities. For the same reason, cooperation with larger cities (agglomerated SMUAs) and rural municipalities is crucial. Cooperation and being part of a network of cities or SMUAs are beneficial as such, for it increases peer learning opportunities.
- An integrated approach to urban development is as important for SMUAs, as it is for larger cities.
- An overarching polycentric vision and planning framework is of crucial importance for a long-term strategy. Because of the limited capacities of SMUAs, regional authorities have to develop such a vision in cooperation with relevant SMUAs (KU Leuven and ESPON, 2014).
- Cooperation with private sector and civil society can help, to compensate for the limited resources and capacities of SMUAs. Public authorities should consider innovative forms of cooperation to include a wide range of stakeholders.



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## Annex 1: Latvian case study

This Annex presents summary of the key findings of several academic studies, research reports about socioeconomic, functional and institutional aspects of the development of SMUAs in Latvia. Several SMUAs are selected for in-depth analysis to provide illustration of different challenges, contextual factors and policies that influence the development of SMUAs

### *General characteristics and trends of SMUAs in Latvia*

Latvia's administrative territorial division is made up of 119 local governments – 9 republic cities and 110 *novads* municipalities. This division was formalised after implementing lengthy administrative territorial reform that was completed in 2009. According to classification of settlements there are 76 cities and towns. Among these 9 are republic cities whose territory takes the whole of local authority's territory. In addition there are 67 towns, which are settlements and territorial divisions inside municipalities. 60 of them are administrative centres of municipalities, as 60 municipalities have at least one town. 5 of those municipalities have several towns, for example Talsi municipality has 4 towns in its territory.

The share of urban population according to formal classification of settlements (republic cities and towns) in 2014 was 58.8%. It was 59.1 in 2004. The largest city of Latvia – state's capital Rīga with its population over seven hundred thousand belongs to large (metropolitan) cities category with high population density. The population of capital city accounts for 32.2% of the total population of the country (it was 31.7% in 2004). All other 75 cities and towns in Latvia as they are classified in the settlements groups formally also are urban areas and their population accounts for 45.3% from urban population (46.4% in 2004) and 26.6% from total population of country (27.4% in 2004). The size of those Latvian urban areas varies and they could be divided into different groups based on their population size, density, and significance for other territories. Not all of them fall into category of SMUAs.

Using the criteria of town's formal status and the typology used in ESPON TOWN project formal criteria (see, **Table 8**) in Latvia there are 3 large SMUAs - Daugavpils, Liepāja and Jelgava, 3 medium sized SMUAs – Jūrmala, Ventspils and Rēzekne, 28 small SMUAs and 41 very small urban areas with population less than 5,000.

Thus, most of Latvian urban areas fall into the category of very small urban areas and in some cases one can doubt about categorizing them as urban areas at all, and their role as urban areas can be debated. Only 4% of all population is living in these very small SMUAs. However it is outside the scope of this report to address this issue. At the same time there are settlements especially in Rīga hinterland (Pierīga) that formally have a status of village, but in fact they are growing urban areas with population more than 5,000. 63.8% of Latvian population lives in 35 SMUAs with population over 5000 inhabitants.

**Table 8: Number and types of urban areas in Latvia according to ESPON TOWN criteria**

Urban area category according TOWN project	Number	City representation in group	Average population size of group, thousand	Significance according to national functional hierarchy system	Share of group population in country, %
High-density urban cluster	1	Rīga	643	Capital. National + international	32.2
Large SMUAs	3	Daugavpils, Liepāja Jelgava	72.2	National. National + international	10.8
Medium SMUAs	3	Jūrmala Ventspils Rēzekne	38.8	National. National + international	5.8
Small SMUAs	28	Valmiera, Jekabpils, towns	10.7	Regional + municipal	15.0
Very small (micro) SMUAs	41	Only towns	2.0	Municipal, local	4.0

Source: grouping by authors according to CSB data for 2014.

Latvian spatial landscape is dominated by balanced distribution of settlements of different size. Sustainable Development Strategy of Latvia till 2030 (2010) and Regional Policy Guidelines (2013) defines a hierarchy of urban areas – development centres, and distinguishes 9 national development centres (4 of them with international significance), followed by 21 regional development centres. Locations of development centres are evenly distributed across the country and functional territories of development centres cover almost the entire territory of Latvia. On average the reach of functional area is about 50 km with few exceptions. Decision about municipality level and local level status of populated areas is left to planning regions and local governments.

Using combination of formal approach of city/town status, defined significance (scale of development centre) in national development planning documents and ESPON TOWN project methodology, more appropriate grouping of Latvia urban areas, except capital Riga, could be created: (see Table 9):

- Large SMUAs – 3 (Daugavpils, Liepāja, Jelgava);
- Medium SMUAs – 5 (Jūrmala, Ventspils, Rēzekne, Valmiera, Jēkabpils);
- Small SMUAs – regional centres – 21 (Ogre, Tukums, Cēsis, Kuldīga, Sigulda, saldus, Dobele, Talsi, Bauska, Krāslava, Ludza, Gulbene, Madona, Līvāni, Limbaži, Aizkraukle, Alūksne, Preiļi, Balvi, Smiltene, Valka);
- Other small SMUAs – 5 (Salaspils, Olaine, Ikšķile, Lielvārde, Baloži - growing SMUAs located in Rīga hinterland);
- Very small (micro) SMUAs – 41.

According to this classification 10.8% of Latvia's population live in large SMUAs, 8.2% - in medium SMUAs, 10.3% - in small SMUAs – regional centres, and 2.3% in other small SMUAs, that does not have regional significance (Table 9).

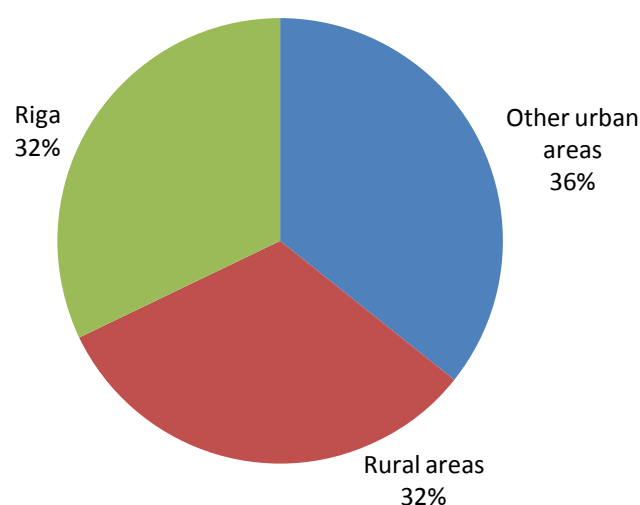
**Table 9: Number and types of urban areas in Latvia according combined classification by size, status and significance**

SMUA category according TOWN project	Number	City representation	Average population size of group, thousand	Significance of according to national functional hierarchy system	Share of group population in country, %
High-density urban cluster	1	Rīga	643	Capital. National + international	32.2
Large SMUAs	3	Daugavpils, Liepāja Jelgava	72.2	National.	10.8
Medium SMUAs	5	Jūrmala Ventspils Rēzekne, Valmiera, Jekabpils,	32.7	National + international	8.2
Small SMUAs – regional centres	21	towns	9.8	Regional	10.3
Other small; SMUAs	5	towns	2.3	Municipal	2.3
Very small SMUAs and Riga satellites	41	towns	2.0	Municipal, local	4.0

Source: grouping by authors according CSB data for 2014.

For some data Central Statistical Bureau (CSB) of Latvia offers a breakdown in urban and rural groups. For example, the breakdown of the country's population in urban population and rural population is based on their permanent place of residence. In this classification urban population refers to those persons who live in cities and towns with at least 2000 inhabitants. In 2014 67.8 % of country population was living in urban areas (the same proportion in 2004), 35.7% live in urban areas outside Rīga (see Figure 15).

**Figure 15: Share of population in Riga, other urban areas and rural areas in Latvia in 2014 according CSB classification**



### *Challenges of Latvian SMUAs*

Latvia's Partnership Agreement for the European Union Investment Funds Programming Period 2014 – 2020, points to main challenges of Latvia's nine development centres (Riga and 8 large and medium SMUAs). The analysis was based on their local development programs. These challenges are:

- *Demographic*: shrinking population, emigration of qualified workers, ageing, necessity to review services at municipal level;
- *Economic* (unemployment, lack of working places, low business activity, insufficient business infrastructure, low capacity of labour);
- *Social*: unemployment, poverty, and insufficient provision of social services;
- *Environmental*: deprived and polluted former industrial zones; out-of-date water management infrastructure, insufficient use of water management services during flooding and heavy shower etc;
- *Climate related* (low energy efficiency in public and private buildings, insufficient conditions with heating mains, which creates losses of heat etc.) (Latvian Cabinet of Ministers, 23.07.2014).

### *Note on data availability*

When analysing data about urban areas one has to take into consideration, that in Latvia only 9 urban areas take up administrative territory of the local authority and accordingly all data that are gathered on municipalities are available on these urban areas (besides Rīga, which is a NUTS 3 level statistical region). It is problematic to acquire data about the towns of municipalities, as few statistical data are available for territorial units smaller than administrative territory. Therefore, the analysis of the SMUAs of municipalities could only be based on data of whole municipality. 60 municipalities with town or towns presents 33.4% from all population of Latvia, the share of urban population within them is 50.1%, but variations of those municipalities' population's shares living in urban area ranges from 4.4% (Valdemārpils in Talsu novads) to 91.8% (Cēsis in Cēsu novads).

### *Population*

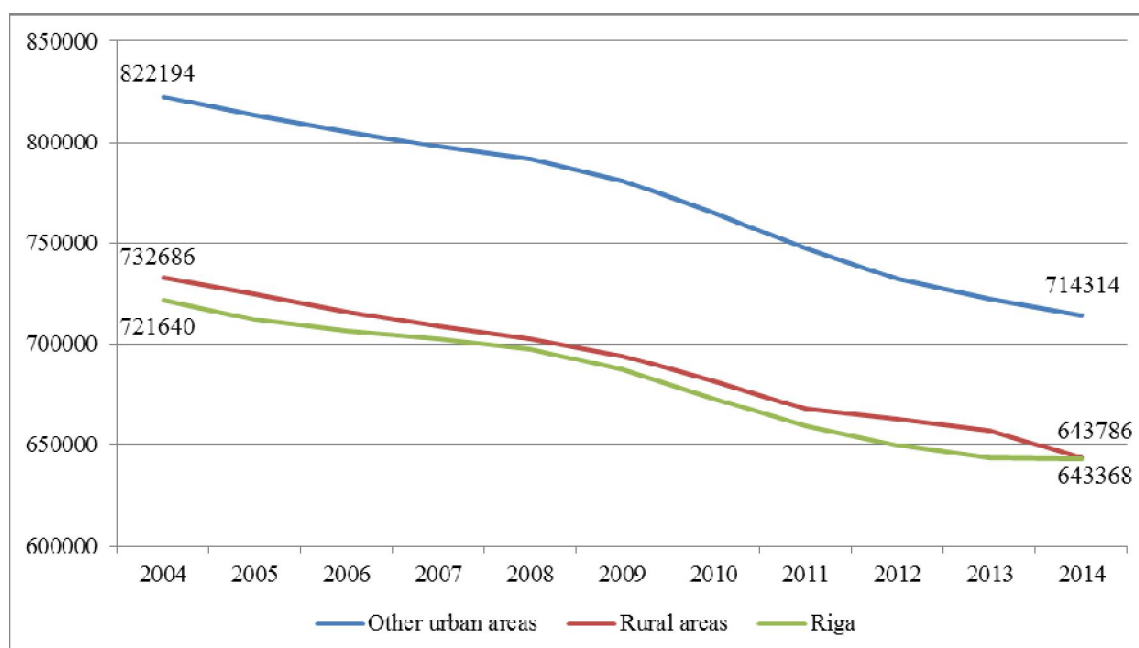
At the beginning of 2014 the total number of population of Latvia was 2,001,468 (CSB). Over time the size of population has decreased considerably due to natural demographic trends and outmigration. Since 2004 substantial 12.1% decline (275,052 inhabitants) has been observed. The number of residents has decreased in most SMUAs during last three years, except those located close to Rīga (Bulderberga, 2014:106). Demographic burden is lower in municipalities near Rīga.

During the last 10 years rapidest decrease was in group of urban areas outside Rīga (-13.1%), then follows rural areas (12.1%), but in Rīga the decrease was slower than



average of Latvia. In Figure 16 the decrease of population in Riga, other urban areas and rural areas (according CSB classification) is reflected.

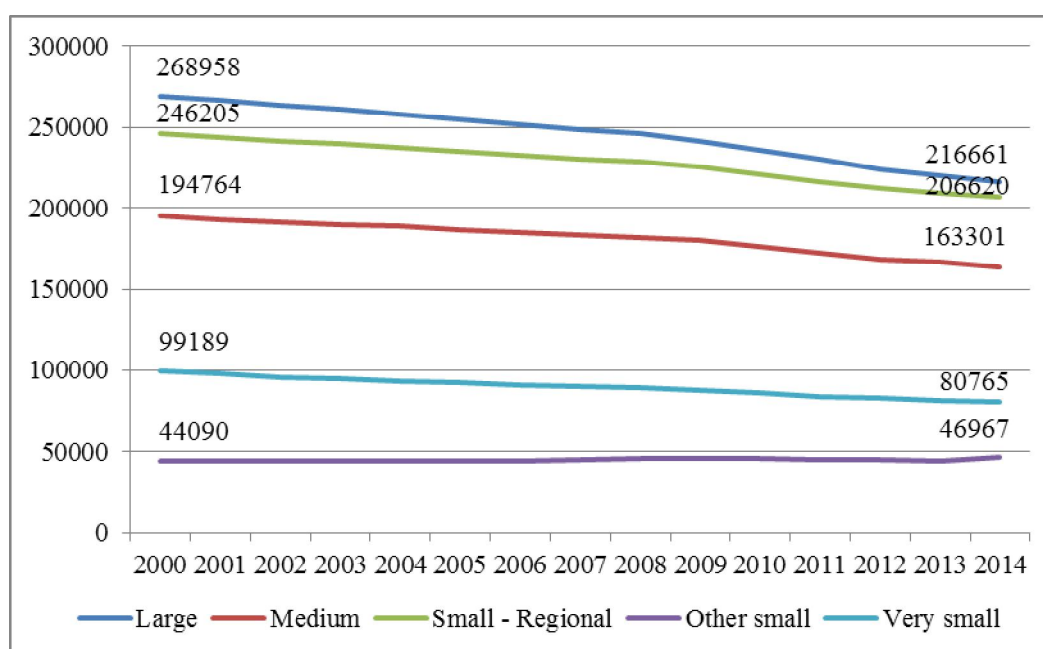
**Figure 16: Population change in Rīga, other urban areas and rural areas of Latvia, 2000-2014**



Source: Central Statistical Bureau, Latvia

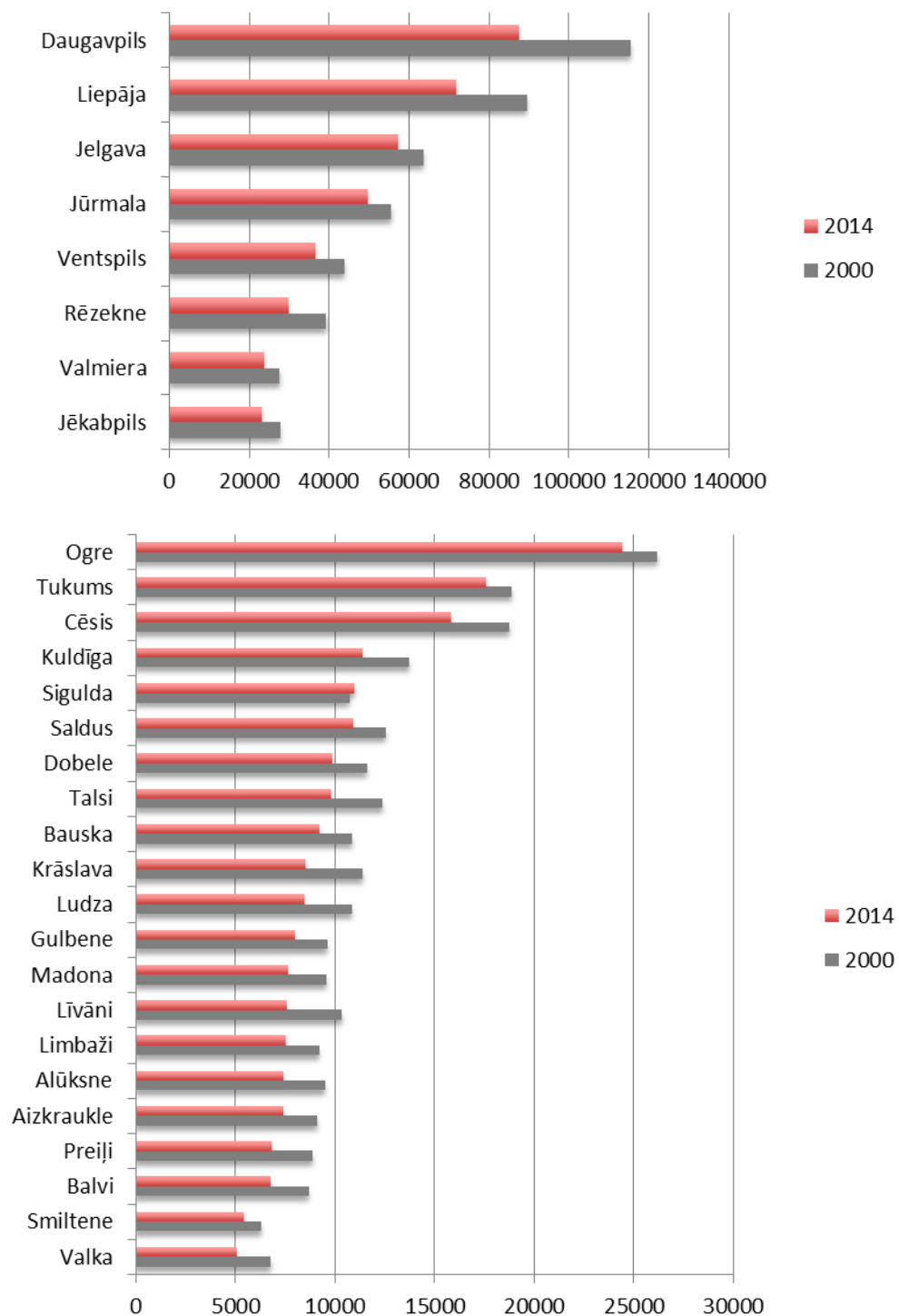
Comparing population change in SMUAs groups according combined classification (Table 2) one can observe (Figure 17) the most significant decrease in the group of large cities (-16.1% during last 10 years), but in the group of other small SMUAs, what consists from 5 SMUAs close to Riga the increase of population (5.9%) is observed. In other SMUAs groups population decreased by 13% in last ten years.

**Figure 17: Population change in Latvian SMUAs 2000-2014**



Source: Central Statistical Bureau, Latvia

**Figure 18: Population change in Latvian SMUAs (large, medium and small – regional centre) 2000-2014**



Source: Central Statistical Bureau, Latvia

In the group of three large SMUAs of Latvia - Daugavpils as the second largest city in Latvia has experienced highest population decline in the group - by -20.3%, in the group of medium SMUAs of Latvia highest population decline during previous 10 years was in Rēzekne (-19.4%) (both above mentioned cities are located in Latgale planning region). Regional development centres show similar trend. Largest decline is experienced in in Līvāni (by -21.3%), Krāslava (-21.0%) (Latgale planning region) and Valka (-21.0%) (Vidzeme planning region). At the same time Sigulda has experienced population growth by +2.3% (Riga planning region). Municipal development centres also experience population decline with some exceptions (for example, Ikšķile, Lielvārde, Baldone and Kandava where population has increased. It has to be emphasized that these settlements are part of Rīga agglomeration, which is the only one experiencing population growth. Slight population reduction is observed also in smaller settlements, with the exception of Baloži, Durbe and Sabile showing positive demographic trends.

Urbanisation in Latvia is taking place as significant size of population is migrating from the rural areas to the (usually) more developed towns, and primarily the capital of Rīga (Zobena, 2009:19). Latvia has a clear mono-centric population, traffic and economic growth structure, although the promotion of polycentric policy framework of development has been advanced as a precondition to overcome significant regional discrepancies in Latvia (Haite, 2013: 67) The established legal basis is a precondition for stimulating the polycentric development process, while the method for evaluation of polycentricism implementation has not yet been developed.

### *Economy*

Expected positive correlation between population size, proximity to large cities, and various indicators of economic performance has been confirmed by several studies in Latvia. Indicators, such as population size dynamic do show higher results in SMUAs considered national development centres.

- Zaļūksne (2014) has concluded that in addition there is a strong correlation between population and number of enterprises. If urban area concentrates larger population initially, the presence of enterprises is likely to increase in greater numbers. Similar conclusions were drawn earlier by Vītola and Hermansons (2010) who assessed socio-economic development of Latvia by correlating data about income level, unemployment rate, population density and the overall urban development level, and development pace as reflected in changes of territorial development index. Vītola and Hermansons (2010) showed that in terms of personal income level and growth rates Rīga and SMUAs located within 50km proximity as well as Valmiera, Cēsis and Talsi, take leading positions. Combining personal income, unemployment, population density and pace of development assessment indicators, Rīga and cities located within 70km area, shows higher of economic development in overall (Vītola, Hermansons, 2010: 155) A few SMUAs such as Kuldīga and Ventspils score higher on overall level of economic development, but demonstrate lower pace of development.

- Over time there has been an evolution of the economic profile of Latvian cities. Transition from the low-tech industries to the high-tech industries is observed in several towns. This has been the case for Dobeles, Ogre and Talsi (Zaļuksne, 2014: 154-156).
- At the same time different towns already have a stable economic profile, which means that they have located their economic specialisation, for example, Liepāja (light industry), Preiļi (food processing).
- One of the issues identified is duplication of the urban economic profiles. Situation in which more than one town in the region is developing the same industry in parallel can give positive effect to the formation of the clusters, but can also have negative effects when many single-sector companies co-exist in isolation and have a small chance of becoming a part of the leading industry (Zaļuksne, 2014: 162).
- The results of popular survey done by Zaļuksne (2014) show that people prefer living in large towns where jobs are highly paid and with more comfortable living space. However, higher wages are more likely to be offered in technology-intensive and knowledge-intensive sectors. Thus, urban areas where such industries exist could be more attractive for both living and business.
- Growth potential clearly is not necessarily concentrated in larger SMUAs. It is also found in smaller urban areas where high or medium-high technology industries are already well developed such as Dobeles, Ogre and Talsi (Zaļuksne, 2014: 160-161). On the downside, industries that provide urban economic growth often cause harmful environmental consequences, and they loose in terms of attractiveness for residents (Zaļuksne, 2014).

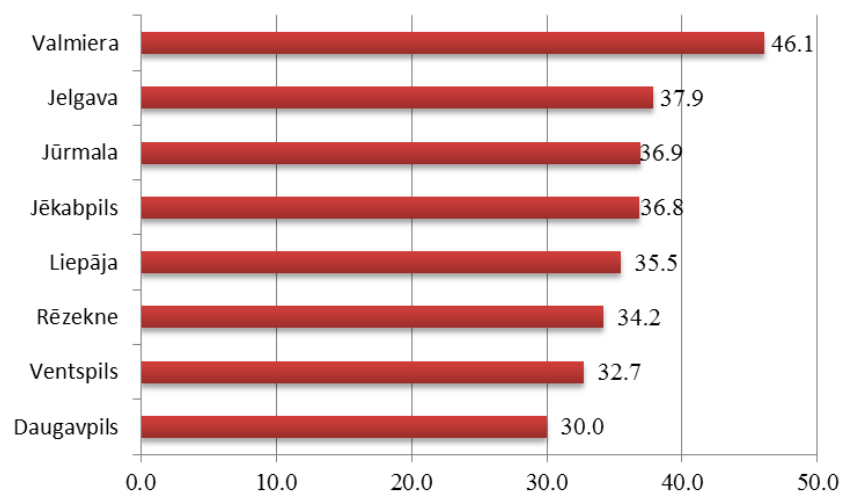
Different properties of economic structures of nation's capital Rīga and SMUAs are reflected in different patterns of employability. Rasnača (2010) has analysed employability in SMUAs in public, private and non-governmental sectors. She concluded that:

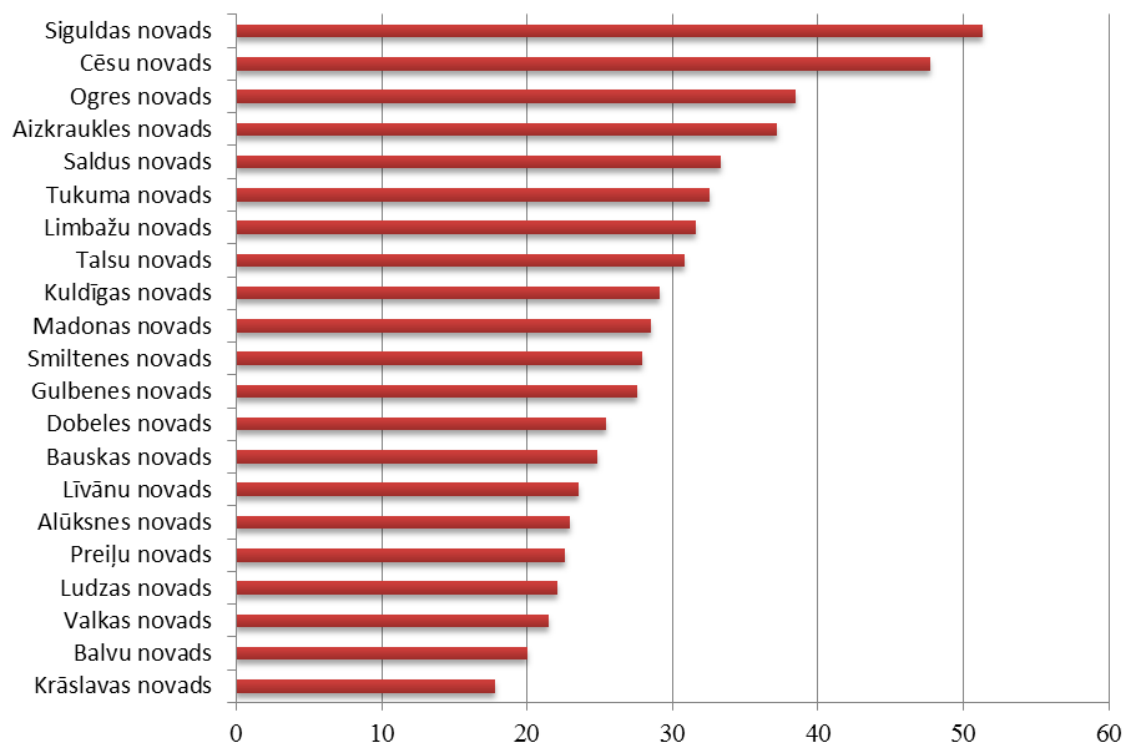
- Commercial companies are the dominant entrepreneurial form in Riga and other large cities of Latvia, while SMUAs there are more self-employed individuals and farms.
- Public sector institutions are more often concentrated in Riga and other cities that are former district centres, followed by large cities and rural areas.
- Local government is important employer in territories with small population – very small towns and rural areas.
- Non-governmental organisations are more represented in Riga and small urban areas, less frequently in large towns and are very rare in rural areas (Rasnača, 2010: 133).

Most importantly statistical analysis of Rasnača (2010) demonstrates that economic activity in small towns is concentrated in primary economic sectors: agriculture, forestry and fishery and infrastructure sector that includes supply of electricity, natural gas and heating. Least represented sectors of economic activity in towns are information and communication services, financial and insurance activities, professional, scientific and technical services, administrative and maintenance services (Rasnača, 2010, 121-122).

55% of Latvia 93.8 thousand enterprises (commercial companies and individual merchants) are located in Riga city, but in 8 large and medium SMUAs – 14.2%, and in 21 small SMUAs – 12.8% of enterprises. Because of high concentration of enterprises in Rīga (80 per 1000 capita), number of enterprises in SMUAs are lower than average in Latvia (47) – in 8 large and medium SMUAs it is 35 enterprises per 1000 capita, but in 21 SMUAs it is 30 per 1000 capita. The variation of the amount of enterprises per 1000 capita in groups of large, medium SMUAs and small SMUAs – regional centres is reflected in Figure 19.

**Figure 19: Number of enterprises per 1000 capita in Latvian large and medium SMUAs and in municipalities with small SMUAs – regional centres in 2014**



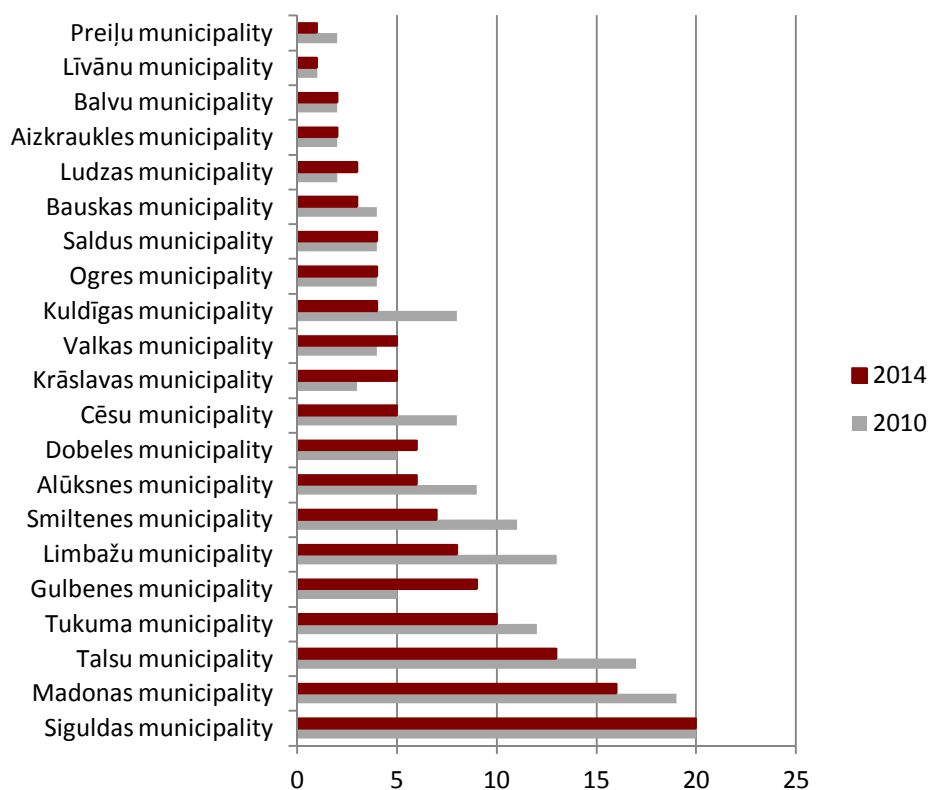
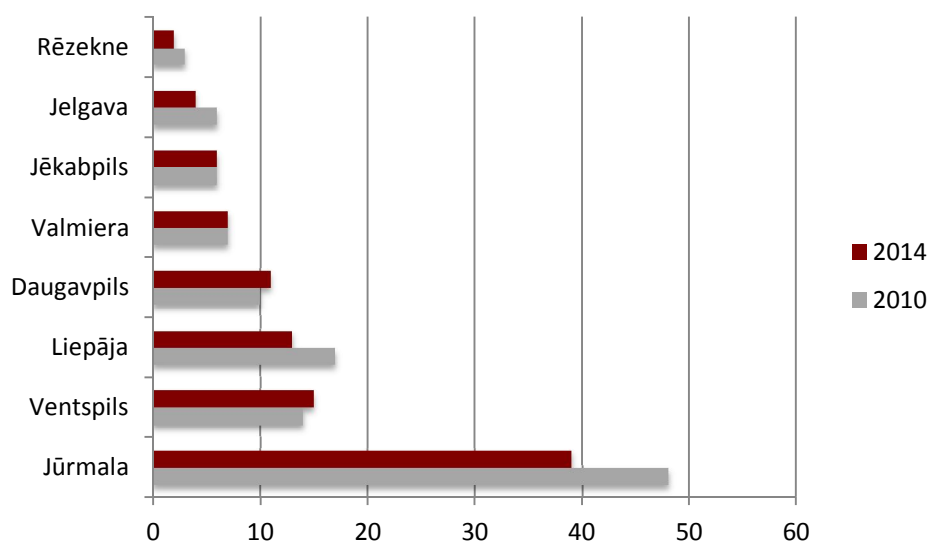


Source: Calculations of CSB data

Latvian urban areas have devoted more and more attention to visitors' attraction. Out of 544 hotels and other tourist accommodations establishments 97 are operating in 8 large and medium SMUAs and 134 in small SMUAs – regional centres, share of both groups forms 42.5% of all hotels. In hotels and other accommodations of 8 large and medium and 21 small SMUAs are located 37% of all beds, in Riga city – 41.5%. In large and medium SMUAs hotels' and other accommodations' beds' place concentration is higher (19.1 per 1,000 people) than in average in the country (16.7 per 1,000 capita), but in small SMUAs it is lower (12.8 per 1,000) than in average.

Figure 20 shows the disparities between the number of beds in hotels and other tourist accommodations, what could be considered as the indicator of significance of tourism sector for urban areas.

**Figure 20: Number of beds in hotels and other tourist accommodation establishments per 1000 capita in capita in Latvian large and medium SMUAs and in municipalities with small SMUAs – regional centres in 2014.**



Source: Calculations of CSB data

Many small SMUAs are offering Bed&Breakfast options, but these premises are not included in the statistics of hotel beds. B&B in Latvia are mostly operated by families and the income from business is usually reinvested locally. Hotels, on the other hand, are mostly operated by investors (including international investors) and their

profit is not always reinvested locally. Financial support instruments are vitally important for small-scale businesses in Latvian SMUAs.

After economic crisis the number of hotels and the number of beds in hotels and tourism accommodations decreased in several urban areas, especially in the group of medium SMUAs. However, some large and medium SMUAs (such as Ventspils and Daugavpils) managed to increase the number of entities and beds for tourism development.

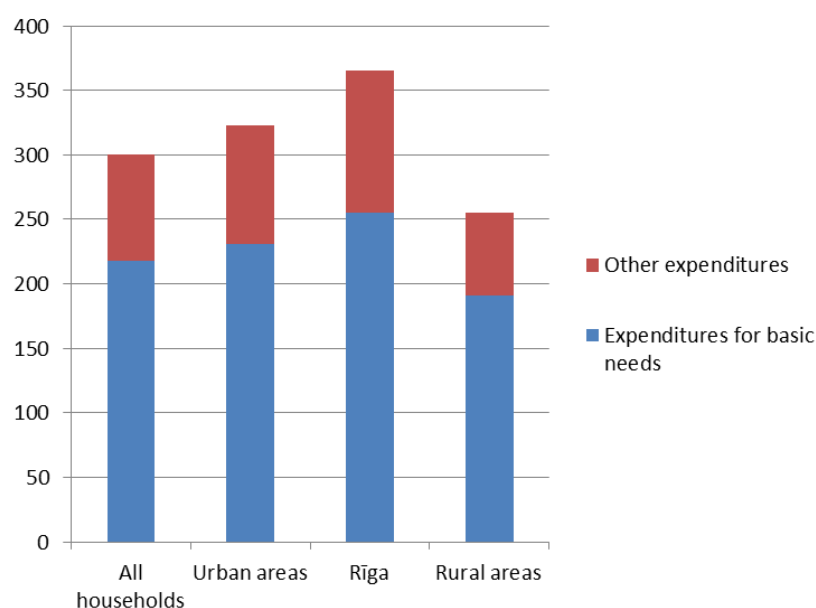
#### *Residents income, expenditures, unemployment and education level*

In 2014 the average net salary in Latvia was 554 EUR. In Riga it was 629 EUR, in all large and medium SMUAs and municipality with small SMUAs – regional centre the average net salary is lower than in Rīga, and only in Ventspils it was higher than average net salary of the country. In group of 8 large and medium SMUAs average net salary varied from 602 EUR (Ventspils) to 388 EUR (Daugavpils), but in the group of small SMUAs – regional centre municipalities it varied from 515 EUR (Dobele) to 357 EUR (Krāslava). During last five years the highest increase of salary was in Dobele municipality (20.6%), but Kuldīga municipality was the only SMUA where salary decreased (-1.9%).

Data of household budget analysis of CSB shows, that in urban areas total expenditures and expenditures for basic needs (food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, household equipment and routine household maintenance, health, transport, communications) per person are higher than in rural areas and on average in Latvia, in Riga they are higher than in other urban areas (Figure 21). The share of basic expenditures in total in urban areas (71.5%) is lower than in rural areas (75%)



**Figure 21: Amount and structure of consumption expenditure average per household member per month in Latvia, in urban, rural areas and in Riga in 2013, EUR.**



Source: Calculations of CSB data

Unemployment level in large and medium SMUAs at the beginning of 2014 varied from 5.0% (Valmiera) to 13.4% (Rēzekne), in 4 republic cities of this group it is lower than average in Latvia (7.6%), but in all it is higher than in Rīga (4.6%). In group of 21 municipalities with small SMUAs – regional centres only in 5 it is lower than average in Latvia, the highest was in Līvāni (17.9%).

According to census of 2011 data in the largest city Rīga the education level of population is highest - data shows, that 31.4% of residents in age above 15 has higher education (in Latvia 22.8%), in large and medium SMUAs it is higher than average in the country 22.1% and it varies from 28.5% (in Jūrmala – SMUAs near Riga) to 16.8% (Jēkabpils). In municipalities with small SMUAs – regional centres average share of population with higher education is lower than in average in the country – it is 16.7% and the variety is from 24.6% (Sigulda municipality – SMUAs close to Riga) to 13.4% (Līvāni municipality). The share of residents in age above 15 with professional secondary or vocational secondary education in SMUAs is larger than average in Latvia (30.2%) while in Riga it is lower (29%), and in the group of large and medium SMUAs it is higher (32.0%) than in group of small SMUAs – regional centres municipalities (30.5%). The share of population with professional secondary education varies from 35.1% (Daugavpils) to 27.7% (Kuldīga municipality).

### *Functionality*

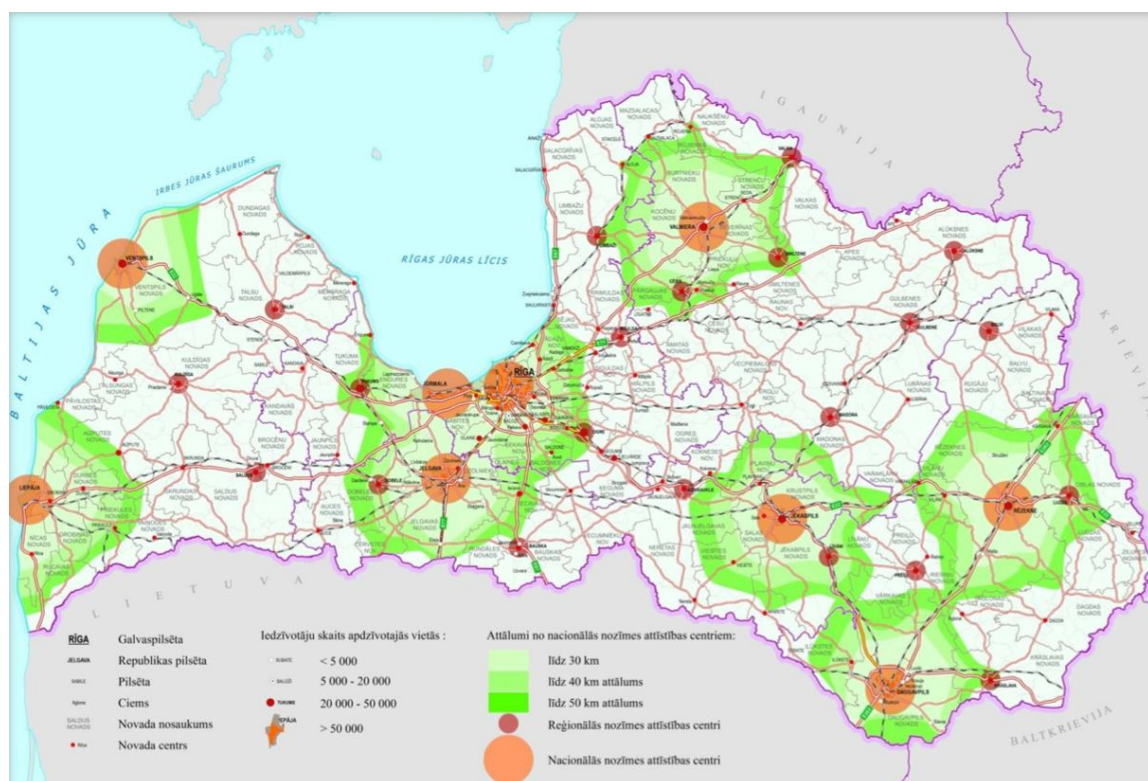
Only recently functional perspective of spatial and urban development has gained ground in regional studies in Latvia. The results show that Riga and eight SMUAs - national development centres substantially influence their surrounding areas and

the impact is determined by a several factors such as infrastructure, the roads and traffic, availability of public services. Overall, urban hierarchy in terms of economic activity and population is strong in Latvia.

Research report about influence areas was commissioned by State Regional Development Agency of Latvia (SRDA) sheds light on functional dimension on SMUA development in Latvia. The study finds that:

There are seven pronounced functional territories with the largest one encompassing Rīga metropolitan area including SMUAs of Jelgava and Jūrmala (see, [Map 2](#)).

**Map 2: Functional areas of Latvian republic cities - large and medium SMUAs**



Source: Valsts reģionālās attīstības aģentūra. (2013) *Attīstības centru ietekmes areālu noteikšana un analīze. Plānošanas reģionu, republikas pilsētu un novadu pašvaldību attīstības raksturojums.*

- All functional territories stretch over administrative areas and sometimes overlap.
- The influence of Riga is dominant in almost all functional areas in terms of employment, services and different activities. Significant gravitational effect because of social and educational services is also pronounced in Rēzekne, Liepāja and Valmiera.
- More significant economic differences are observed among development centres of national significance, whereas, differences between regional significance development centres are less pronounced.

- All national development centres provide all necessary services to population in surrounding (VRAA, 2013). However, there are also exceptions. The role of Jūrmala as a national development centre is less significant in terms of it's area of it's influence.
- Weaker gravitational effect is observed also in cases of regional development centres, such as Līvani, Valka and Ogre (VRAA, 2013).

Due to ever growing polarisation of rural areas and larger towns coupled with demographic challenges, the importance of urban-rural interactions in Latvia have been repeatedly emphasized in several policy documents. Benefits from the urban-rural interactions could be increased employment opportunities for citizens, better availability of the services and improved satisfaction of the residents with the quality of life in their place of residency.

The cooperation between urban and rural areas is currently non-mandatory and most often takes place in education, culture, sports, and as general knowledge exchange (Bulderberga, 2014: 105-107). Bite (2012) in her study about cooperation of local governments in Latvia examines factors influencing cooperation/non-cooperation between municipalities. She assesses forms of cooperation rather critically, and concludes that major hurdles to closer cooperation involve cultural, social and systemic / institutional factors (Bite, 2012: 219).

Effective Policy instruments that encourage more integrated cooperation and maintenance of relations among administrative territories need to be developed. *Regional Policy Guidelines 2013-2019* provide favourable conditions for implementation of joint projects of municipalities and for investments by development centres in neighbouring municipalities in order to achieve shared objectives. In addition, cooperation of municipalities is defined as one of the solutions for more cost-efficient provision of public services in municipalities. In 2014-2020 along with the general place-based measures a specific territorial support measure is going to be implemented in Latgale planning region in which support will be provided mainly to joint projects of development centres and other municipalities.

Research about commuting and internal migration patterns that support functional interaction patterns has been limited. The findings confirm patterns that are common to urbanization processes:

- Based on study of public transportation routes based on schedules it is possible to identify six patterns of flows that are mainly directed to Rīga and national development centres. Two high intensity patterns where it are localised in Rīga agglomeration. Other four patterns were localised in functional areas (Zaļūksne, 2014)
- Krūzmētra (2011) analysed development of peri-urban areas and republic cities of Latvia – Rīga, Jelgava, Ventspils, Liepāja, Valmiera, Jekabpils,

Rēzekne, and Daugavpils. Studies based on sample surveys confirm that young people, people with higher level of education, higher incomes and desire to improve housing conditions do indeed migrate to agglomerations.

- Main migration motives are family reasons, job opportunities and living environment.
- People of pre-retirement age are more likely to engage in suburbanisation, so are people who are looking for a cheaper living conditions. Poorer inhabitants are sometimes forced to migrate to rural areas in order to overcome economic difficulties (Bērziņš, 2011, 84-85).
- One of identified issues is the “periphery stay out of the sight” risk. In other words there is a serious risk for the centres of local level to isolate. These centres often face difficulties in ensuring wide array of services or lack resources for their delivery. Consequently it is lowering access of the urban population to the social infrastructure such as health care and transport services (Zaļūksne, 2014:159-162).

### *The role of institutions*

Latvian institutional system has allocated significant powers to local governments, whereas the role of regional planning authority is relatively weak. Two factors have significantly shaped development of urban system during recent years. In 2009 the administrative territorial reform was finished within which the amalgamation of local governments were implemented. The aim of the reform was to strengthen local governments' administrative and development capacity. Major impact on the development of urban economies was the access to EU's structural funds from which considerable amounts were invested in developing polycentric spatial structure. In her research Zaļūksne (2014) shows that most of the projects were dedicated to the reconstruction of the street and road network and improvement of cities and urban territories. Urban projects were focused on addressing primary and most obvious issues of infrastructure, but not enough on targeted job creation. According to calculations of Zaļūksne (2014), thematic distribution of EU co-funding contracts over the period of 2009-2014 favoured street and road network construction (44%) and infrastructure and urban landscape (15%), as well as cultural infrastructure (15%) (Zaļūksne, 2014: 32).

Despite significant powers of local governments, there has been a move towards centralisation of administrative functions and finance, which has stiffened some local initiatives. Necessary funding is received in the form of a state's transfers, but there is a lack of motivational factors for the municipalities to engage in the activation of business environment. Current taxation system does not stimulate convergence of a regional development, because tax relief for businesses is mainly determined by the sectorial principle and currently is not sufficiently linked with the regional development (Pūle, 2014: 44). There are four special economic zones in Latvia (in Rīga, Liepāja, Ventspils and Rēzekne), which provide tax relief for businesses. Besides

the support program for specially supported territories that was implemented until 2012 involved tax relief for businesses in these areas.

Since urban areas are small, they are affected most directly by public policies regarding certain sectorial aid or funding cuts. For instance, liquidation of the sugar industry (Jelgava, Liepāja, Jēkapils) or temporary closure of state guaranteed joint stock metal company *Liepājas Metalurģs* in absence of other strong employer may result in a structural changes in the urban system in five to six year perspective (Zaļūksne, 2014: 158)

### *Summary of findings*

- Overall, most of the Latvian urban areas have experienced decline of the population during the past ten years. Latvian SMUAs have many common development challenges, such as shrinking population, ageing, and loss of jobs. However, it appears that SMUAs (both regional and national development centres) retain population on behalf of rural areas. This might be because people from rural areas are initially looking for jobs in the closest urban area.
- Latvian SMUAs show cumulative growth pattern in which SMUAs continue to grow based on concentration of jobs and services. There is strong positive correlation between population size and number of enterprises in all groups of SMUAs (Zaļūksne, 2014). Migration to agglomeration dominated by young, educated in search of higher income and housing (Krūzmētra, 2011, Bērziņš, 2011).
- Such indicators as unemployment level, average net salary, education level of population in Rīga are higher than in SMUAs of Latvia. The same can be said about the number of enterprises.
- The presence of medium and high-tech sector in SMUAs is precondition for high economic development. Economic growth is observed in smaller SMUAs (Dobele, Talsi) and medium SMUAs (Ogre) because of presence of high, medium-high technology industries.
- European funds have been instrumental for development of infrastructure, but targeted investments are needed to encourage creation of jobs.
- Institutional framework which shapes development of urban systems in Latvia, has developed a hierarchical urban system urban groups and subgroups (such as national, regional and municipal centres). Institutional framework has to be adapted to encourage more integrated forms of cooperation between urban areas in service delivery and development planning. Mitigating measures should be implemented in order to avoid “periphery out of the sight” risks. Decentralisation of administrative functions and greater autonomy and flexibility could be recommended.

### *Case studies*

To ensure the representativeness of 11 case studies the following criteria were taken in consideration:

- 1) Existing hierarchy of Latvian urban areas. At least two SMUAs of each hierarchy of Latvian urban areas had to be selected:
  - National significance development centres (total number - 9);
  - Regional significance development centres (total number - 21).
- 2) Planning region in which SMUAs is located. At least one case from each Planning region (total number -5, NUTS III level) had to be selected.
- 3) Geographic location based Latvian national functional areas types (EU external border, EU internal border, coastal area, inland).
- 4) Selected urban areas had to represent different economic profiles.

**Table 10** contains the selected SMUAs according to mentioned criteria:

**Table 10: Latvian SMUAs selected for detailed study**

Latvian hierarchy settlements/ ESPON TOWN typologies:	Vidzeme region	Zemgale region	Kurzeme region	Latgale region	Rīga region
<i>Status</i>					
Large SMUA / Centre of National significance		Jelgava			
Medium SMUA / Centre of National significance	Valmiera		Venstpils	Rēzekne	
Small SMUA / Centre of Regional significance	Cēsis Smiltene	Bauska	Saldus	Krāslava	Tukums Limbaži
<i>Geographical location</i>					
Border area		Bauska (municipality)		Krāslava (municipality)	
Coastal area			Ventspils		Limbaži (municipality)
Inland	Valmiera Cēsis Smiltene	Jelgava	Saldus	Rēzekne	Tukums
<i>Economic profile</i>					
Manufacturing	Valmiera	Jelgava	Ventspils	Rēzekne	
Chemical industry	Valmiera				
Transit cargo			Ventspils		
Tourism	Cēsis	Bauska	Ventspils		Tukums
Health	Valmiera				
Food processing	Valmiera Cēsis Smiltene	Jelgava Bauska	Saldus	Krāslava, Rēzekne	Tukums, Limbaži
IT, communication	Valmiera		Ventspils		
Construction			Saldus		Limbaži
Creative arts and entertainment	Valmiera Cēsis				
Sports	Valmiera	Jelgava	Ventspils		
High technologies			Ventspils		
Retail		Jelgava			
Agriculture		Bauska	Saldus		Tukums
Fishery			Ventspils		
Education	Valmiera	Jelgava	Ventspils	Rēzekne	
Real estate			Ventspils	Rēzekne	Tukums

Source: authors

The results of the case studies show that SMUAs are using their advantages of geographical location, natural resources, industrial traditions, higher education institutions and other endogenous resources to pursue long-term development goals. Each SMUA has elaborated its long-term development strategy.

Findings show that in almost all cases SMUAs have set specific goals and plan of actions in their strategic documents. Social and educational infrastructure, including schools and universities is important for the development of SMUAs. From eleven case studies higher education and research institutions are established and located in Jelgava, Valmiera, Ventspils and Rēzekne. Vocational education schools are located in national and some regional significance development centres.

Institutional factors also deserve some attention in the analysis. Jelgava, Ventspils and Rēzekne already before the administrative territorial reform were considered cities of the republic and in former two level local government system they were

considered first and second level local governments. Valmiera received the status of republic city only after the administrative territorial reform. Before this it was a district centre town, like Bauska, Cēsis, Krāslava, Limbaži, Saldus and Tukums. Smiltene before the administrative territorial reform was not a district center, but now it has a status of regional centre.

- SMUAs face similar challenges such as shrinking population, which adds to the pressure of maintaining the infrastructure, and providing services of general interest.
- Larger SMUAs with developed industrial and knowledge economy sectors seem more successful in maintaining population levels and are able to attract rural population from surrounding areas based on available jobs, educational opportunities and services.
- There is increasing competition among SMUAs for attracting young people and families.
- Natural and cultural heritage has become an important asset for the development of SMUAs without industrial heritage.
- SMUAs show diversity in economic structure. In SMUAs with industrial heritage there is orientation towards the smart specialisation approach.
- Despite limited opportunities to promote entrepreneurship, SMUAs have adopted innovative strategic approaches towards encouraging local business activity by developing the infrastructure, offering internal grants etc. However, the success rate of attracting external investments currently is low.

Table of Annex 2 contains statistical data for 11 selected SMUAs. The following description highlights the challenges and development directions of Latvian SMUAs - Jelgava, Ventspils, Rēzekne, Valmiera, Tukums, Cēsis, Saldus, Bauska, Krāslava, Limbaži, Smiltene), their challenges and development objectives.

### *Bauska*

Bauska town is the administrative centre of the Bauska municipality, what consists of 9 territorial units (a town and 8 parishes). Before the conclusion of the administrative territorial reform Bauska was the centre of a district. Bauska is situated 68 km from Riga, 19 km from the border of Latvia - Lithuania. Town covers an area of 6.1 square kilometres, what is 0.8% from total area of the Bauska municipality. Bauska's population is 9,200 (2014 CSB) and it is more than one third (37%) of municipality's population. The size of population is declining – during last ten years the population decreased by 12.4%. The unemployment level in the municipality is close to Latvian average, but the average monthly net salary in Bauska municipality is lower then on average in Latvia.

Bauska town is a regional education, health, culture and sports centre - driving force for Zemgale planning region and Lithuania border area. The main areas of entrepreneurship in Bauska municipality are agriculture and processing of



agriculture products. Other areas include tourism and associated services; transportation and logistics.

EU policy and funds have significant contribution in Bauska town and municipality growth for different fields and sectors. During previous four years more than 100 projects with EU co-financing are implemented in the Bauska municipality – now improved and developed infrastructure forms base for favourable business environment. Developed infrastructure and historical heritage promotes municipality's name and reputation outside its borders.

The responsible units for business development are municipality's Development and Planning Division and Bauska Tourism Information Centre. In addition, business organisations - Business Consulting Council and Club "Bauska 97" operate in the municipality. For business promotion within cross-border project "Business library" seven support libraries in the town and parishes were equipped with new working places and information resources for entrepreneurs. These could be used as remote working places.

According the Bauska municipality Strategy of Sustainable Development (2012-2030) key issues, with what the future is connected, are: Bauska historical centre as Latvia tourism Southern gate; international and national tourism, sports and leisure centre; place for conferences, seminars etc; regional and national industrial and logistics centre; food processing centre.

Main challenges for Bauska are: 1) The maintenance and development of historical heritage; 2) Transit corridor (TEN-T road); 3) Investment attraction – using it's location as a transport node for industrial and logistics park; 4) Residents daily commute within Riga area for work; 5) Relationships of Bauska town and its surrounding villages – formal and functional town area; 6) Significant objects as spatial connectors and dividers - three rivers and transit corridors; 7) Bauska – as service centre for neighbouring municipalities; 8) Developing green territories of „Natura 2000”.

### *Cēsis*

Cēsis is a town within Cēsis municipality, which has a status of regional significance development centre. The town is located in the Vidzeme Planning Region, 90 km from Riga. Cēsis was first mentioned in Livonian chronicles in 1206. In medieval times Cēsis just as Valmiera was a member of the Hanseatic City League.

Cēsis covers an area of 19.3 square kilometres. The size of population according to the Central Statistical Bureau (2014) was 15,828. During the past ten years Cēsis has experienced a population decrease by 14.2%. Outward migration from Cēsis and population ageing significantly affect future development perspectives of the town. Population density in the city is 820 inhabitants per square kilometre. Demographic burden is 635, which is higher than in Latvia on average. The share of persons below

working age is higher than in Latvia on average and draw up 14.7% of the population. Major challenges relate to the decrease of the population. Town's council implements a wide range of activities to foster economic development and increase the attractiveness.

- Cēsis is on the forefront among Latvian SMUAs in maintaining relationships with diaspora of former residents living abroad. Besides using cultural events and conferences as annual meeting venues, Council leadership also visits communities of émigrés.
- Encouraging entrepreneurship. In 2015 town Council allocated separate budget line for grants that are aimed at implementing business ideas. Municipality is keen organiser of interesting forums and seminars that are aimed at entrepreneurs, providing them with networking opportunities. The seminars have helped to identify unused free space for new businesses. In addition the services of the business consultant are offered to provide support for entrepreneurs. Main institution that is responsible for business development in Cēsis are City Municipality's Development Unit, business incubator, Cēsis Business Club and Junior Achievement student companies. There is an on-going cooperation with Latvian Employers' Confederation of Latvia and Latvian Chamber of Commerce and Industry.
- As most SMUAs in Latvia also Cēsis is focused on attracting external investments. In order to attract foreign investment and new businesses to Cēsis, the Council cooperates closely with the Investment and Development Agency of Latvia. Even though opportunities for attracting new business have been used, thus far it has not yielded significant success. The main reason for it is compact size of local population, lack of adequate industrial and service buildings, complex ownership of buildings, the lack of educational opportunities for specially trained professionals.
- Cēsis Council has directed special attention to youth. There have been initiatives that aim at providing job opportunities for students during the summer period. One of the recent achievements is the establishment of the first Students' business incubator in collaboration with Rīga Technical University.

In 2015 Cēsis adopted Sustainable Development strategy 2030. According to the development strategy there are three main strategic development directions - 1) strong and competitive business environment, 2) high quality of life that ensures accessible and good quality of education, 3) health and housing, unique cultural and natural environment which is preserved and developed.

Cēsis is socio-economic driving force of industry and services, national and regional level service centre. Thanks to vital cultural life organisation and high quality infrastructure (such as newly built concert hall) Cēsis has developed as creative cultural, educational centre in creative and technical areas and health centre. The town is also important tourism destination in national and international scale, therefore faster connectivity to country's capital Rīga is important.

Natural environment of Cēsis town municipality is a prerequisite for tourism development in the region. Cultural and historical heritage, cultural activities, natural territories and recreation facilities are the main tourism resources. The range of tourism services and products is expanded every year and the number of tourists is increasing. Tourism industry was negatively affected by the economic crisis in 2008. Nevertheless, after overcoming economic difficulties the increase of tourists has been noticed.

There is a potential for cooperation with neighbouring SMUAs - Valmiera un Smiltene which together constitute a single functional area in a shape of triangle where most region's residents live and work. First meetings among the three councils have been held regarding the coordination of activities in sports and professional education.

### *Jelgava*

Jelgava is one of 9 centers of national development significance founded in 1265. It is situated in central part of Latvia, 40 kilometres from Riga. It is at the crossroads of railroads going from North to South and from East to West. Jelgava is encircled by a ring road that connects it to highways leading to Rīga, Lithuania and further to Western Europe.

The urban area of Jelgava covers 60.5 square kilometres, and it's population size is 57,332 (2014 CSB). It is the fourth largest town in Latvia. The size of population is declining but during last ten years the decrease (-10.1%) was not so high as on average in the country. The population of the city is younger and more educated than on average in the country. The social infrastructure – education, culture, sports, leisure infrastructure provides services both for the city residents, and also for larger territory.

Jelgava has historically been one of the centres of science and research in Latvia because of the first higher education establishment in the territory of Latvia (Academia Petrina, 1775) and the Latvia University of Agriculture, whose main building complex is located in the Baroque style Jelgava Palace.

Economic sectors with historical significance are auto construction, machine building, wood processing and food processing. Jelgava positions itself as an industrial city and many international companies have opened factories here because of Jelgava's location, industrial heritage and the availability of train construction specialists needed for industry. Jelgava Business Park is currently the largest industrial park in Latvia with total area of 23 ha and area of rented premises of more than 111 thousand sq.meters. It plans to become one of the largest and most modern industrial parks in the Baltics. Local government of Jelgava offers the consultations for new businesses free of charge. In ranking of best place for business among SMUAs of three Baltic countries (urban areas outside capitals) done by magazine Forbes (2013, 2014) Jelgava was ranked number 5<sup>th</sup> in Latvia.

According to Jelgava city long-term Development Strategy (2007-2020) the development priorities of Jelgava are - educated, competitive, healthy, socially active and creative people; economically developed knowledge, technology and innovation centre; a town with modern and sustainable living environment.

According to specialisation Jelgava aspires to be knowledge, technology and innovation centre with specialization in food processing, wood processing, auto industry and metal working sectors; education, culture, tourism and sport centre with European scale significance university, regional significance vocational education and life long learning centre, international and national significance culture and sports objects and events; international and national significance logistic centre on the node of European TEN-T road and railway with high mobility possibilities.

### *Krāslava*

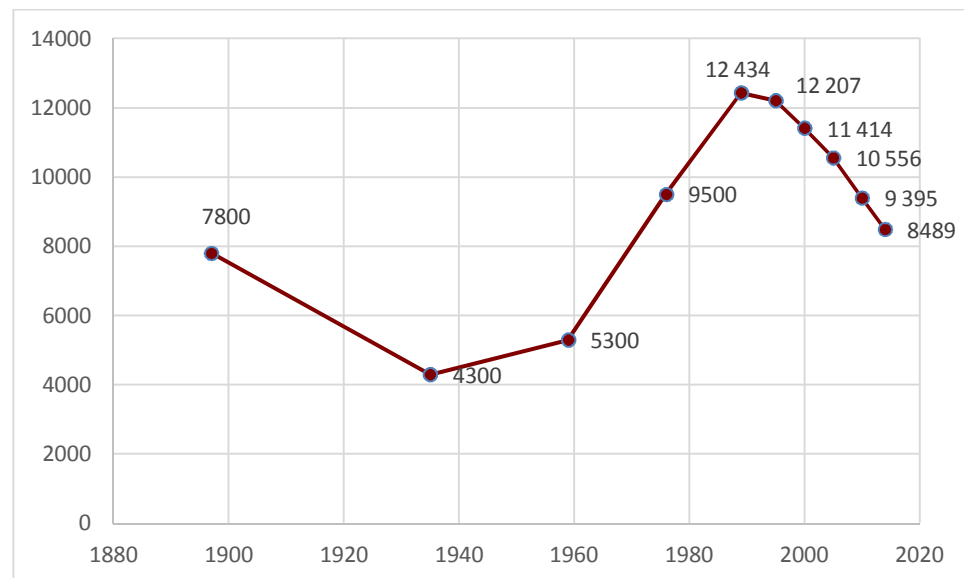
Krāslava is known as settlement from the 10<sup>th</sup> century, but it gained town rights only in 1923. Krāslava is one of 21 regional centers of Latvia. It forms united municipality *novads* with eleven parishes - *pagasts*. The main administration of municipality is located in Krāslava, on the river Daugava, in the south east of the country and is sometimes called the Switzerland of Latgale. It is situated on the ancient trade route along the river which is a gateway to neighbouring Belorussia. Krāslava has a status of border area that sets specific rules for locals to cross border with traffic permissions. Krāslava is linked to national significance development center - Daugavpils 44km apart.



Geographically, Krāslava is a meeting place of five countries according to this there were implemented many cross-border projects with Lithuania, Estonia, Belorussia and Russia, for example *Euroregion "Country of Lakes."* Euroregion "Country of Lakes" is Latvian, Lithuanian and Belarusian Association of border Local Governments and Administrations, established in 1998. Currently Euroregion brings together 30 members – 15 municipalities from Latvia, 7 municipalities from Lithuania and 8 Administrations from Belarus.

The area of the Krāslava city is 9.1 sq. km. The population is 8,489 (2014 CSB) and it is declining more than national average, during last ten years the decrease was 25.6% (vs average 12.1%) and in last five years was decrease 12.4% (against the national average of 7.5%). Due to historical reasons, there has been dramatic reduction of population in Krāslava in last hundred years.

**Figure 22: Fluctuating population size of Krāslava, Latvia (1900-2020)**



Source: Central Bureau of Statistics, 2015. Latvijas padomju enciklopēdija. galv. red. P. Jērāns 1984. Rīga: Galvenā enciklopēdiju redakcija.

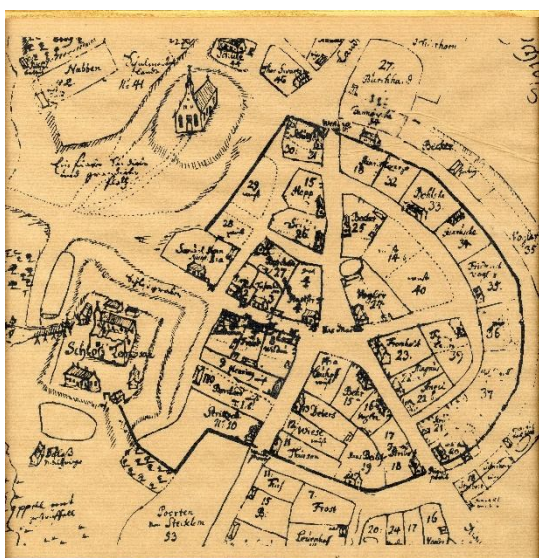
The population with higher education in Krāslava is 14.4% which is the lowest indicator among all eleven case studies as well as below national average 22.8%. Population with professional education comprises 32.8% which is above average in the country (30.2%). The main sectors during 1960 to 1989 in Krāslava were clothing manufacturing, handicrafts, flax industry, wood processing, industry of dry milk and bakery. In this period town experienced growth of population due to the industry. Main industries by turnover in 2013 were manufacture (12.4 million EUR) from which 9.2. million EUR come from food processing, construction (6.1 million EUR), wholesale and retail trade; repair of motor vehicles and motorcycles (5.7 million EUR). The largest sectors by number of employees in 2013 are clothing manufacturing (305), food processing (293), retail trade, except motor vehicles and motorcycles (219), human health activities (213).

EU funds constitute a significant resource for development. By support of ERDF program of Urban Development and cross border cooperation program between Lithuania and Latvia and Latvia- Lithuania-Belorussia the project “Improvement the image of Krāslava historical centre” (2.3 million EUR) has been implemented. Projects for improving traffic infrastructure (streets, pedestrian ways, bicycle zones), as well as by Climate change mitigation program, ELFLA Leader, ESF, Latvia – Switzerland program, Latvia – Lithuania program are invested in social infrastructure – education, culture institutions provides services for population. At the same time municipality needs to seek solutions how to use, manage and complete the partly renovated Castle of Count Plateru.

The unemployment level in Krāslava is 15.5% -higher than average in Latvia and the highest among 11 case studies. The most significant challenges are to promote employment for local residents taking into account their competencies, to create new working places by support of entrepreneurship. The average monthly salary is considerably low and not competitive. Krāslava is now focusing on programs of support of business infrastructure. The idea is to create a border centre of logistics which will provide toll services, industrial zone, terminal of traffic and truck parking. The planned area is located in a green field. The development of project is based on four stages. The first stage will be created as an anchor object that will provide opportunity to operate it independently from other stages.

### *Limbaži*

Limbaži is a town within Limbaži municipality which includes seven parishes and the town has a status of regional significance development centre. Limbaži town is located in the Rīga Planning Region, 90 km from Riga. The town was first mentioned in 1223. In medieval times Limbaži was a member of the Hanseatic City League. The historical centre of Limbaži is unique with its planning of radial street network formed in 1385 after the town’s defensive wall was built. The historical centre of the town is a state protected monument of urban building.





Town covers an area of 9.1 square kilometres. The population size according to the Central Statistical Bureau (2014) was 7,537. During the past ten years Limbaži has experienced a population decrease by 14.7%.

Limbaži attracts financial resources from external sources around one fourth from the current budget. It provides opportunity to invest in infrastructure and events. Since 2009 municipality has attracted 14 millions EUR for town development. Municipality is organising project competitions for different activities that provides opportunity to local residents to implement their own ideas. Municipality supports NGOs with co-financing for different programs. Municipality announces the project competition every year with a total budget 10 000 EUR with minimum and maximum of 70 EUR and 700 EUR accordingly. The project activities must be implemented in municipality or the beneficiaries of the project implementation must be local residents. In 2015 municipality supported 18 projects, for example the project "Become Young engineering scientist". The main goal of this project was to organise the event for school children and their parents about mini robotics and mini-cars to provide deeper interest in the engineering.

Historically in Limbaži there was not significant presence of manufacturing industry. Surrounding environment is rich in natural resources and unpopulated. Limbaži is located in North Vidzeme Biosphere reserve on a lakeshore. The Folk art studio "Dzilnas" operates for 50 years in Limbaži. The folk art studio takes part in exhibitions, learning events. The studio encourages people to take up the folk art while living a busy lifestyle. Specialisations of municipality are construction, food manufacturing, agriculture, forestry, wood processing as well as transport and logistics, extraction of natural resources and tourism.

Recently established museum of Living Silver is a popular place for locals and visitors. Town is positioned as silver town with wide products and services that gives originality and identification among other places. Foundation "Silver Limbaži" is established with aim to create and popularize town's image.

### *Saldus*

Saldus is a town within Saldus municipality including 15 parishes and the town has a status of regional significance development centre. The farthest parish is located 65 km from the town and the closest - 6km. It is a challenge for Saldus to maintain a linkage between urban and rural areas.

Town covers an area of 10.1 square kilometres. The area is already intensively used. This is a reason why allotments in closest areas to the town are considered for possible expansion. The population size according to the Central Statistical Bureau (2014) is 10,895. During the past five years the population has decreased by 8.6% (average 7.5% in country). However, population size remains largely unchanged due to rapid inflow of population from surrounding rural areas. The inflow is related to high demand for flats in town, which private sector is currently unable to provide.

Local municipalities in Latvia are limited in their opportunities to provide reasonable housing support for working families by law, which gives preference to other categories of inhabitants like poor families. Population density in Saldus is therefore high by Latvian scale - 1,079 inhabitants per square km. In order to respond to growing needs the municipality runs public database of free properties and lands.

Main industries by turnover are wholesale and retail trade, repair of motor vehicles and motorcycles 60.8 million EUR, agriculture, forestry and fishing 44.5 million EUR and construction 41.45 million EUR in 2013. It is important to emphasize that Saldus is one of the six towns outside the Riga with foreign investments. In 2014 foreign investors invested in 78 companies a total amount of 1,26 mil EUR. Main countries for foreign direct investment inflow are Lithuania and Norway, which invested in industrial park "Sandes" in Jets Vacuum LTd (Lursoft, 2015). The average monthly net salary is 413 EUR – lower than on average in Latvia. Unemployment level in Saldus is 7.5% but the number of business enterprises continues to rise.

Traditional industries in Saldus are wood processing, processing of agricultural, food processing, road construction, manufacture of textile, but at the same time there are successful examples of metal production, manufacturing of equipment for ships. Several businesses have been nominated or have received Award of Innovation in Latvia by Ministry of Economics.

Success of town development is related to originality of different events organized by the municipality, for example, scholarship "Medusmaize" for students with high academic achievements from Saldus municipality, annual awards in business, annual exhibition "Made in Saldus" etc. Civil society is taking active role in development processes of town and surrounding territories. NGOs. Each year the municipality allocates funds for small social projects (max size 1,500 EUR).

The investments in education infrastructure (Music and Art Schools) are significant because they provide activities for education in specific fields, as well as create new offers for lifelong learning. Saldus municipality is a member in several NGOs, for example the Development of Saldus district, with aim to attract resources for development activities. Saldus municipality has also signed the Covenant of Mayors of CO<sub>2</sub> reduction. Municipality has a long term partnership with Professional Secondary School of Saldus, entrepreneurs, sector associations, ministries and outcome of this partnership is established a new training programs which are valuable for stakeholders.

Municipality is carrying out an annual assessment of employees. This motivates to achieve results and increase efficiency of administration.



### *Smiltene*

Smiltene is located 40 km from the border with Estonia and 135 km from Riga. It covers an area of 7.2 square kilometres. Population according to the Central Statistical Bureau (2014) is 5,424. During the past ten years the population has decreased by 14.2%. Population density is 753 inhabitants per square kilometre. Demographic burden is 580 – lower than in Latvia on average. 15.0% of population consists of persons below working age. 94.4% of city's residents are Latvians.

Natural resources are one of the most significant development resources for Smiltene. Largest part of municipality territory is covered by forest (45-50%). Taking into account the natural resources, forestry and agricultural production are regarded as important economic sectors. Main industries by turnover are manufacturing, agriculture, forestry and fishing. Main services by turnover are trade, transportation and storage, construction. Main countries for foreign direct investment inflow are Estonia and United Kingdom.

Most significant challenges of Smiltene municipality are related to the decreasing population, environmental preservation and development, improvements in infrastructure and creation of jobs. To tackle these issues town has developed and implemented several initiatives. Provision of the support to the entrepreneurs has contributed to the increase of the turnover of the enterprises. In addition there has been support to producers of biological food. Measures aimed at increasing town's attractiveness include improvements in road infrastructure, public spaces and energy efficiency measures.

In 2014 Smiltene city council adopted Sustainable development strategy, 2030. Midterm planning document is Smiltene City Development Programme 2012-2018. According to its development strategy Smiltene aims to be the most Latvian municipality with developed and competitive production sectors. The strategy also focuses on education, culture and sports traditions and development of attractive living environment for citizens who are expected to be intelligent and educated. Economic specialization is based on traditional sectors – agricultural production and processing, forestry, woodworking and construction.

Main institution that is responsible for the business development is Municipality's Development and Planning Unit and Economic activity Unit. Significant role is also taken by financial institutions who administer lending programmes for businesses.

### *Rēzekne*

Rēzekne is one of 9 republic cities of Latvia, and it has a status of national significance centre. Rēzekne is not only historical and spiritual centre of the region of Latgale, but it is also geographical centre. Therefore, the town is called "the heart of Latgale". Rēzekne is situated in the crossing of two strategically important transportation roads and a railway (Riga-Moscow and Petersburg-Warsaw). This creates good preconditions for successful development. Rēzekne covers an area of 18 square kilometres. 70% of the city's territory is built up, 13% is green area but

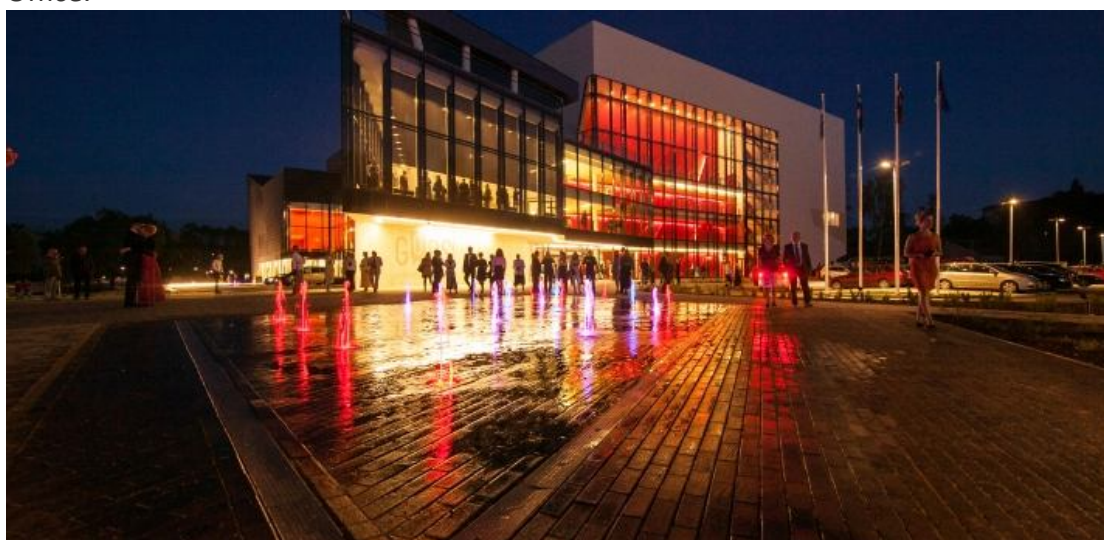
15% - industrial zone. The size of population was 29,948 (2014 CSB data) and it is declining – during last ten years the population has decreased by 19.4%. Rēzekne is multi-ethnic town. 46% of city's residents are Latvians which is considerably less than in Latvia on average (61.4%).

From historical point of view during the Soviet era Rēzekne was a centre of specific type of manufactures and only few of them still to operate nowadays. The key challenge is to attract investors for business development.

Since 1997 the “Law on Rezekne Special Economic Zone” is applied in Rēzekne and tax rebates are applied to the enterprises holding the Rēzekne Special Economic Zone (RSEZ) status. This status provides crucial advantage for Rēzekne to attract foreign and local investors. The total amount of foreign investments in RSEZ companies has doubled in 2014 in comparison with 2013 to reach 23 million EUR. The largest companies in RSEZ are VEREMS (Birch plywood), NewFuels (wood pellets), LEAX Rēzekne (metal working), Rebir (electrical instruments), “Rēzeknes Dzirnāvnīks” (grain receiving).

In 2014 during annual exhibition “Rezekne Entrepreneur” Rezekne City Council awarded NewFuels with the recognition of “Socially most responsible enterprise of the year and export contributor”. This is one amongst many awards received by RSEZ companies. Other largest industrial enterprises in Rezekne: “Larta 1” (milking clusters), “Rēzeknes Gaļas kombināts” (meat processing), “Nook Ltd” (circular saws and planes), “Rēzeknes autobusu parks” (passenger transportation). The average monthly net salary in town is the lowest among the eleven case studies and it is 396 EUR. Unemployment level is 13.4% - twice higher than average in Latvia, and it remains one of the challenges.

With the support of structural funds several projects were implemented. GORS, the Embassy of Latgale in (2013) consists of two acoustic concert halls. GORS, the Embassy of Latgale, also houses many rooms for corporate events, a Civil Registry Office.



The new Embassy of Latgale GORS already has showed that such cultural infrastructure is important not only for the town but for the whole region.

For the support and improvement of the business environment the several institutions function in Rezekne, including the Rezekne Special Economic Zone; the Science and Technology Park; the Latgale Engineering Technology Centre; Latvian Trade and Industry Chamber Rezekne branch etc. In 1993 with support of Rēzekne municipality Rēzekne higher education institution was founded. This provides more opportunities for young people to stay in the region.

### *Tukums*

Tukums town is the administrative centre of the Tukums municipality, which consists of 11 territorial units (a town and 10 parishes). Tukums is situated 70 km from Riga, and it is connected with the capital by road highway and electric train. The size of Tukums town's population is 17,606 (2014 CSB) and it is more than half (60.3%) of the municipality's population. In total numbers the size of population is declining, but not as fast as in Latvia on average 10 and 5 years ago.

In ranking of best place for business among SMUAs of three Baltic countries (urban areas outside capitals) done by magazine Forbes (2013, 2014) Tukums town earned the 6<sup>th</sup> rank in Latvia, even ahead of some larger towns.

The unemployment level in Tukums municipality is lower than on average in Latvia.



The main sectors for municipality's specialization are transportation and logistics; production (food production; light industry; wood processing; metal processing; production of construction materials); agro-business; tourism and leisure. The

responsible for business development unit in administration of the municipality is Tourism Information Centre and since 2014 also the deputy of executive director on business support issues.

In 2014 municipality's Council approved Sustainable Development Strategy 2033. The priorities of the strategy are: contemporary education; diversified housing supply; convenient transport infrastructure and services; active different scale cooperation; favourable business environment and high employment.

Tukums municipality is the first local government in Latvia which has elaborated and approved Municipality Food Strategy (2015-2020) aimed at creating sustainable food system based on principles of promoting the development of local food producers, population health and improving the quality of the environment. The strategy is the first step towards a sustainable agriculture, food production and consumption in the municipality. The priority areas of the Food Strategy are: high quality food; healthy nutrition and it's promotion; local farmers food; organically grown food.

### *Valmiera*

Valmiera is one of the 9 republic cities of Latvia. The town is located 50 km from the Estonian border and 107 km away from Riga. The first written evidence of Valmiera is found in 1323 once mentioning its magistrate. In medieval times Valmiera was a member of the Hanseatic City League.

The town covers an area of 18.2 square kilometres. According to the data of Central Statistical Bureau of Latvia (2014), the size population is 23,657. Population size has decreased by 14.9% in the past ten years. Population density is 1,302 inhabitants per square kilometre. Demographic burden is 636, which is more than in Latvia on average. 15.6% of population consists of persons below the working age and 21.4% of the population over 15 have obtained higher education.

As national significance development centre Valmiera plays a vital role as administrative, economic, industrial, trade and service centre. Therefore services and infrastructure provided by Valmiera are essential for town residents and for population from surrounding rural areas.

Main challenges that are faced by Valmiera is relatively small area of town's administrative boundaries that limits further development and expansion. This goes hand in hand with a need to ensure the balance between business development and environmental quality. There is a limited supply of housing stock. Finally, the lack of necessary preconditions for young people with higher education gained in Rīga or abroad to return to Valmiera. The unemployment level is 5.0% and is significantly below the national average.





Valmiera is an industrial town with relatively high number of large industrial enterprises. Taking into account the proportion of enterprises, their sustainability and competitiveness in foreign markets Valmiera could be considered the business centre of the Vidzeme Planning Region. Main industries by turnover are manufacturing, agriculture, forestry and fishing. Main services by turnover are trade, construction, electricity, gas steam and air conditioning supply. At the end of 2013 Valmiera ranked 11th in Latvia by amount of foreign direct investments. Main countries for foreign direct investment inflow are Germany, Sweden, the Netherlands, the Russian Federation and Estonia.

Main preconditions of entrepreneurial activity in Valmiera are:

- Favourable geographical position, availability and quality of necessary resources (human capital, adequate infrastructure, governance and financial resources) as well as the efficient use of the natural advantages.
- Supportive approach of the municipality to business development by granting real estate tax reliefs, support for marketing, construction of entrepreneurial infrastructure.
- Stakeholder cooperation. Advisory councils have significant role for business development. Important supporting structures are Valmiera Business and Innovation Incubator, Valmiera Technical School and Vidzeme University of Applied Sciences. The aim of cooperation with these and other stakeholders is to ensure link between education and business sectors and foster development of knowledge based industries.

In Forbes ranking that evaluates best cities for business in Latvia outside capital Valmiera ranks no. 4. Valmiera also leads the first national e-index measurement (2014) which identified it as the most digitally advanced municipalities in Latvia.

In 2014 Valmiera city council adopted Sustainable Development Strategy and Valmiera City Development Programme 2015-2020. According to the development strategy the overarching goal is welfare of the people. Strategic goals include development of human capital; business development; functional, aesthetic and natural values inclusive urban environment; social and physical security of the population.

### *Ventspils*

Ventspils is one of 9 republic cities of Latvia. Ventspils city is located on the coast of Baltic sea. Its Castle first was mentioned in documents in 1290. In medieval times Ventspils was a member of the Hanseatic League, an economic alliance of North German trading cities.

Ventspils covers an area of 58 square kilometres and it's population size is 36,677 (2014, CSB). During the last ten years population has declined by 16.5%. The main overall objective of Ventspils local government set in the City's Sustainable Development Strategy till 2030 is to increase the size of population.

The social infrastructure of the city – education, culture, sports and leisure entities provides services for the town's residents, and also for the residents of larger territory. In 1997 with the significant effort and support of Ventspils city council the Ventspils University College was founded. In 2013 the Ventspils University College acquired the status of state scientific institution. Although it is a state institution the city council contributes in its operation and development as the university is very important driving force of town and regional development.

Ventspils is a port town, in past - famous port of oil transportation. The principal business area in Ventspils is transport and storage. Location in the East-West transit connection and the TEN-T transport network allows all types of logistical operations. Main advantages from the development of transit area is the development of transport infrastructure which is constantly being improved and the investments to improve business friendly conditions in Ventspils Free Port, which is one of four Latvian special economic zones.



For long time economic sectors connected with the port were homogenized. Today Ventspils economy is more diversified and can be considered a multi-sector economy. To avoid dependence from oil transportation Ventspils already in 90's started purposeful movement towards changing of image and development of new sectors – industrial production, tourism, higher education, and in last years also ICT. In previous 7 years the number of ICT companies has increased more than 5 times. Ventspils was the first town in Latvia which developed it's city marketing strategy. The city marketing strategy is directed to three main client groups - residents/citizens, business and visitors. Today town of Ventspils besides the port is well known as nice place to visit and live.

In ranking of best place for business among SMUAs of three Baltic countries (urban areas outside capitals) done by magazine Forbes (2013, 2014) Ventspils has the 5<sup>th</sup> rank, but in Latvia it is the first. One of the fastest growing industries in Ventspils is tourism and associated services. Since 2009 number of hotels and other accommodations has increased by 23%, number of bed places – by 13%. The multiple tourist attractions and recreation sites contribute to success and performance of the industry. Tourists and other visitors like not only the clean, well-organized urban environment and the Beach of Blue Flag, but also the regularly organized public events. The average monthly net salary in city is highest among the eight large and medium SMUAs of Latvia. Unemployment level is 6.4% - lower than on average in Latvia.

In 2014 the Council approved Sustainable Development Strategy 2030 and Development Programme 2014-2020. The responsible for business development unit in city administration is Economic division, Development division and Tourism Information centre. Crucial to business development are Ventspils Freeport

Administration (state and local government institution with special status) and a foundation “Ventspils High Technology Park”.

The Industrial Zone of Ventspils Freeport and the city itself are equipped with high-quality and high-capacity utilities. Infrastructure support can be adapted to the investor’s business plans. Since 2014 the Ventspils substation fulfils the function of 330 kV electric power transfer within the city and to industrial enterprises. Currently, the Freeport of Ventspils has more than 700 ha designated for new industrial projects. Production start-ups can lease ready-made areas of 1 to 200 ha with option of expanding them if necessary. For the development of the industrial facilities Freeport offers long-term cooperation – land lease contracts of up to 45 years with the option of extending them. Premises are equipped with all the necessary utilities. In some cases, to speed up launching of production, Freeport can construct customized industrial buildings and transfer them to a company for use on favourable lease terms.

Ventspils High Technology Park is a place for the development of dynamic and innovative business. The park is home to more than ten companies representing electronics, IT and other industries. More than 100 enterprises have received support from the Business Incubator what is the unit of the Ventspils High Technology Park.



## Annex 2: Data about SMUA's selected for Latvian case study

Town	Jelgava	Ventspils	Rēzekne	Valmiera	Tukums	Cēsis	Saldus	Bauska	Krāslava	Limbaži	Smiltene	Latvia	Data source
<b>General</b>													
Administrative territorial status	republic city	republic city	republic city	republic city	town within novads municipality	town within novads municipality	town within novads municipality	town within novads municipality	town within novads municipality	town within novads municipality	town within novads municipality	119 LG : 9 rc; 110 m	Law
Significance within regional policy	National	National/Inter-national	National	National	Regional	Regional	Regional	Regional	Regional	Regional	Regional		Latvija 2030; Regional policy guidelines
Year of foundation/city's rights	1265./1573.	1290.	1285./1773.	1283./1323.	1795.	1206.	1253./1856.	1443./1609.	1923.	1233.	1427./1920.		City/town
<b>Demography</b>													
Number of population (2014)	<b>57332</b>	36677	29948	23657	17606	15828	10895	9200	8489	7537	<b>5424</b>	2001468	CSB
In novads - share of case town population within municipality, %	rc 100%	rc 100%	rc 100%	rc 100%	60.3	91.8	44.5	<b>37.4</b>	52.1	43.7	42.3		calculation of CSB data
Changes of population during last 10 years, %	-10.1	-16.5	-19.4	-14.9	<b>-6.8</b>	-14.2	-11.3	-12.4	<b>-25.6</b>	-14.7	-14.2	-12.1	calc. of CSB data (2004; 2014)
Changes of population during last 5 years, %	-8.1	-9.8	<b>-13.1</b>	-10.4	-6.9	-10.3	-8.6	-8.2	-12.4	-8.7	<b>-5.3</b>	-7.5	calc. of CSB data (2009; 2014)

Town	Jelgava	Ventspils	Rēzekne	Valmiera	Tukums	Cēsis	Saldus	Bauska	Krāslava	Limbaži	Smiltene	Latvia	Data source
Demographic burden (2014)	596	626	591	<b>636</b>	614	635	584	<b>570</b>	623	620	580	598	CSB Census 2011
% of persons in age below working age	16.1	14.4	14.5	15.6	<b>16.5</b>	14.7	15.8	15.3	<b>12.3</b>	14.3	15.0	14.7	
% of population over 15 with higher education	<b>23.7</b>	19.4	21.8	21.4	16.6	21.9	15.6	15.2	14.4	16.3	<b>15.1</b>	22.8	
% of population over 15 with professional education	29.6	31.5	<b>34.3</b>	29.4	<b>27.8</b>	29.7	27.9	29.2	32.8	30.8	34.1	30.2	
% of Latvians	58.9	57.4	46.0	83.1	84.5	86.2	86.6	76.8	<b>45.5</b>	89.2	<b>94.4</b>	61.4	
<b>Territory, location</b>													RAIM
Area, km <sup>2</sup>	<b>60.5</b>	57.9	18.0	18.2	13.4	19.3	10.1	<b>6.1</b>	9.1	9.1	7.2	64573	
Population density	948	<b>634</b>	<b>1664</b>	1302	1312	820	1079	1508	929	828	753	31	CSB
In novads - share of case town area within municipality, %	rc 100%	rc 100%	rc 100%	rc 100%	1.1	11.2	<b>0.6</b>	0.8	0.8	0.8	0.8		calculation of RAIM data
Distance between town and Riga, km	45	190	240	110	70	90	120	70	265	90	135		<a href="http://www.della.lv">www.della.lv</a>

Town	Jelgava	Ventspils	Rēzekne	Valmiera	Tukums	Cēsis	Saldus	Bauska	Krāslava	Limbaži	Smiltene	Latvia	Data source
<b>Local government</b>													
Number of councillors	15	13	13	13	17	17	17	17	15	15	15	9-17; Riga-60	Law
Number of candidate lists in elections	9	6	11	5	6	6	6	6	3	6	3	589; average 5	CEK
Local election turnover (2013)	40.3	40.9	47.5	42.8	34.3	42.3	35.5	32.3	36.5	39.1	42.7	46.0	CEK
<b>Budget</b>													
Budget revenues 2014, EUR	59840937	43662281	31294578	27513137	30351893	24427986	26808262	28655751	16745586	17706505	12438269	2191260484	Treasury, Report De 2014
Budget revenues per capita	1044	1190	1045	1163	1040	1417	1094	1164	1028	1026	971	1095	Treasury, Report De 2014
Tax revenues	38956254	28829859	14639359	16552140	15789339	10690812	12566175	12972095	5412790	8796694	6978010	1307112878	Treasury, Report De 2014
Share of tax revenues, %	65.1	66.0	46.8	60.2	52.0	43.8	46.9	45.3	32.3	49.7	56.1	59.7	Treasury, Report De 2014
Tax revenues per capita	679	786	489	700	541	620	513	527	332	510	545	653	Treasury, Report De 2014
Increase of tax revenues in 5 years	25.2	26.3	15.6	20.1	23.1	20.6	26.7	23.7	25.0	25.1	32.8	26.0	Treasury

Town	Jelgava	Ventspils	Rēzekne	Valmiera	Tukums	Cēsis	Saldus	Bauska	Krāslava	Limbaži	Smiltene	Latvia	Data source
Budget expenditures 2014, EUR	<b>65558511</b>	40302918	32263000	24069847	33246615	26948571	28540858	32473319	15874606	17668176	<b>11552053</b>	2282637221	Treasury, Report Dec 2014
Budget expenditures per capita	1143	1099	1077	1017	1139	<b>1563</b>	1165	1319	974	1024	<b>902</b>	1140	Treasury, Report Dec 2014
Capital expenditures	<b>17814813</b>	4450047	8064361	2022027	8258863	9413347	4211292	10643889	3738861	4305460	<b>2050907</b>	475875988	Treasury, Report Dec 2014
Share of capital expenditures	27.2	11.0	25.0	<b>8.4</b>	24.8	<b>34.9</b>	14.8	32.8	23.6	24.4	17.8	20.8	Treasury, Report Dec 2014
Share of capital expenditures in 5 years	25.7	25.2	<b>41.6</b>	23.6	21.0	32.0	25.4	22.1	30.9	<b>18.8</b>	29.6	21.9	Treasury, 2010-2014
Capital expenditures per capita	311	121	269	<b>85</b>	283	<b>546</b>	172	432	230	249	160	238	Treasury, Report Dec 2014
Average capital expenditures per capita in 5 years	260	298	<b>509</b>	268	212	437	296	212	284	<b>180</b>	294	225	Treasury, 2010-2014

Town	Jelgava	Ventspils	Rēzekne	Valmiera	Tukums	Cēsis	Saldus	Bauska	Krāslava	Limbaži	Smiltene	Latvia
<b>Economic development and structure</b>												
Number of enterprises	<b>2172</b>	1200	1023	1091	949	822	816	611	<b>290</b>	358	546	93775
Number of enterprises per 1000 capita	38	33	34	46	33	<b>48</b>	33	25	<b>18</b>	22	28	47
Number of NGO	<b>251</b>	176	124	160	132	89	139	72	<b>56</b>	60	109	10199
Unemployment level	6.3	6.4	13.4	<b>5.0</b>	6.9	6.8	7.5	7.7	<b>15.5</b>	10.3	6.4	7.6
Average monthly salaries (neto), EUR	444	<b>602</b>	396	503	431	457	413	422	<b>357</b>	397	449	554
Number of beds in hotels	268	<b>1175</b>	259	217	362	143	233	285	<b>79</b>	252	398	32311
Best cities for Business by Forbes	5	<b>1</b>	9	4	6	-	-	-	-	-	-	10 Latvia
<b>Ddevelopment planning</b>												
Sustainable development strategy	2007.	2014.	2014.	2014.	2014.	2015.	2013.	2012.	2012.	2013.	2013.	
Development programme	2014-2020	New 2014-2020	2014-2020	2015-2020	2011-2017	2013-2019	2013-2020	2012-2018	2012-2018	2011-2017	2012-2018	
Other specific development documents		City marketing strategy; ICT strategy			Food Strategy; Strategy of Energetics							

Data source

calculation of (individual companies+co calculations of data

CSB

Jan 2014; SEA

CSB 2013

CSB, end 2013

Forbes Jun 2014 ranking in Latv

Legend:

Above average

Below average

**Bold** – higher and lower values

## **Annex 3: Template for identifying good practices in SMUAs**

**Country:**

**Name of the respondent:**

**Institution, position:**

**Contact information:**

**1. Are EU structural funds and/or national regional policy funding of planning periods of 2007-2013 and 2014-2020 utilized to support the specific needs, opportunities and challenges of SMUAs within their regional and national context? Please describe briefly the investment areas, differentiation between various urban areas regarding terms of funding availability, preconditions for receiving this support, achieved results in 2007-2013 planning period (if information is already available).**

### **Example about Latvia:**

During the 2007-2013 planning period Latvia implemented a EU funded place-based support program „Polycentric development” for municipalities as addition to traditional support tools according to sectoral approach, in which 35 largest municipalities (mostly municipalities with SMUAs) had the opportunity to implement investment projects according to priorities of their development strategies (covering investments in several sectors like transport, education etc.).

In 2014-2020 Latvia has decided to continue this approach and to have more EU funded support programs for municipalities (mostly municipalities with SMUAs) according to place-based approach.

Place-based measures in 2014-2020 are going to have stronger emphasis on promotion of entrepreneurship in order to increase impact of this support on economic development in regions and specific support for optimisation of public services networks taking into account decrease of population in regions. Thus, it is intended as a multi-sectoral territorial support. Most part of investment in these measures is going to be concentrated in 30 development centres (cities and towns) majority of which are SMUAs. Investments are going to be provided for improvement of public (municipal) infrastructure.

Main preconditions are:

- projects have to be based on local development programs;
- projects for economic development have to be based on needs of entrepreneurs (existing gaps in municipal infrastructure that are significant for business development in municipality);
- projects for public services have to be based on coordination of national, regional and local priorities, demographic trends in municipality, potential settlement structure and characteristics and development potential of spaces of national interest defined in Sustainable Development Strategy of Latvia until 2030, current results of sector policy in regions, specific trends and issues in regions.

Latvia is already working on preparing for this change, including considering terms for application of state aid rules in these support programs, as well as building capacity and skills of municipalities in cooperation with entrepreneurs. Latvia is also going to use the new EU tool - Integrated Territorial Investments - for nine largest urban areas. This support will cover six support measures under several thematic objectives that are going to finance integrated actions to tackle economic, environmental, climate, demographic and social challenges that these municipalities face, at the same time developing also functional links between the surrounding area and the city or town.

## 2. Best practice

Please share one good practice example of small or medium sized urban area that has successfully developed - demonstrates significant economic development potential and achievements in terms of economic growth and quality of life as a result of actions of municipality and local stakeholders.

1. Name of the town.
2. Short description of the town:
  - a. Role in national urban hierarchy (ex., regional development centre);
  - b. Administrative status (ex., administrative unit, territorial unit – part of larger administrative unit, etc.);
  - c. Number of inhabitants and (if possible) a demographic profile (declining, ageing, affected by migration, etc.);
  - d. Area, km<sup>2</sup>;
  - e. Average gross monthly wages and salaries (if possible);
  - f. Specialisation – main economic sectors;
  - g. Territorial context (socio-geographic characteristics, regional typology, main spatial features, main connections, such as road/railway/port/airport).
3. Description of the main challenges affecting the town and its surroundings. The topic should be presented in relation to the following point(s).
4. Description of achievements in the following domains related to EU2020 strategy:
  - a. **Local development** (e.g. new forms of economic development and attractiveness of the place; affected sectors and/or production of specific products - eventually via smart specialisation, etc.);
  - b. **Inclusive society** (e.g. wider participatory processes, shared strategies, innovative forms of access to services and integrative practices, social entrepreneurship, innovative ways of inverting problematic demographic trends, such as ageing population and/or drain of younger generations, etc.);
  - c. **Sustainable development and practices** (reduction of CO2 emission, green economy initiatives, investment in public transport and green mobility, energy, innovative activities etc.).

(If possible, please provide few but significant quantitative evidences, such as changes in employment rates or in entrepreneurial activity, etc.),

5. Describe the target group that primarily benefits from this practice (ex., general population, residents, commuters, tourists, farmers, creative class, business actors, innovative firms, small companies or other stakeholders.).
6. Set of activities which led to success (success factors) (ex., original, innovative solutions; efficient use of resources; partnership, available funding etc.).

### ***Possible factors indicating a successful story:***

***Originality:*** *unconventional solutions and new approaches to promotion of sustainable development practices in the municipality and/or in its wider territory, strengthening identity and promotion of territorial and social cohesion.*

***Topicality:*** *Needs-based solutions, which have been designed and implemented in the particular municipality, or ideas for implementation of which have been taken over from other municipalities of the same country or foreign practice, successfully adapting them to local conditions.*

**Efficient use of resources:** solutions for territory development that are based on local resources (or on integration of diversified funds) and values and that help in the long term to solve the identified problems without significant financial investments, including mainly with own resources;

**Importance for society (bottom-up processes):** solutions that are initiated and/or supported by the local community and that have a positive impact on the local community in the long term by activating and engaging the local population and creating the basis for increase of prosperity and well-being.

**Openness:** solutions that confirm openness and support for new ideas in the municipality, as well as tolerance to different social groups.

**Partnership:** solutions that have promoted cooperation and joint action and interaction by employed in various fields and sectors in addressing territory development issues, showing the ability of municipality to work as a team and involvement of local population.

**Integrated cross-sectoral approach:** solutions that provide cross-sectoral coordination, ensuring that solutions of one sector influence and complement development of other sectors, thus ensuring addressing of territory development issues in a complex manner.

**Integrated territorial approach:** solutions that required coordination among municipalities, ensuring that solutions were addressed at the right scale, providing forms of territorial cooperation tailored on functional areas. The cooperation was either enabled by an upper administrative level (regional or national) or by bottom-up dynamics with interaction with public or private actors.

7. Whether and how the process was supported by EU policies, national policies and by local municipality?
8. What are the main institutions responsible for economic development and business support in selected town and have they played an active role?
9. Link to resources.
10. Contact person whom we could contact to learn more about the case.

Thank you for your contribution



## Annex 4: EU data analysis approach

The data analysis is used to answer some of the research questions. Below we present the method that has been used.

The identification of a common definition of SMUAs is beyond the scope of this research; however a common framework for the collection of data was needed. ESPON TOWN (KU Leuven and ESPON, 2014, p. 7) defines SMUAs or SMSTs as “continuous urban clusters with a population above 5,000 and a density above 300 inh/sqkm that are not “High Density Urban Clusters” (HDUC) as according to the DEGURBA definition”. The Degree of Urbanisation (DEGURBA) criteria for different typologies of areas are the following (Eurostat, 2013a):

- *thinly-populated area* (alternative name: rural area): more than 50 % of the population lives in rural grid cells; DEGURBA 3
- *intermediate density area* (alternative name: towns and suburbs or small urban area): less than 50 % of the population lives in rural grid cells and less than 50 % live in high-density clusters; DEGURBA 2
- *densely populated area* (alternative names: cities or large urban area): at least 50% lives in high-density clusters; in addition, each high-density cluster should have at least 75% of its population in densely-populated Local Administrative Units (LAU-2); this also ensures that all high-density clusters are represented by at least one densely-populated LAU2, even when this cluster represents less than 50 % of the population of that LAU2. DEGURBA 1

**Table 11: Criteria for settlement typology according to ESPON TOWN research**

Population threshold (inh.)	Density criterion (inh./km <sup>2</sup> )		
	<300 km <sup>2</sup>	>300 and 1500 km <sup>2</sup>	>1500 km <sup>2</sup>
<b>Under 5,000</b>	OTHER SETTLEMENTS	VST (very small towns)	VST (very small towns)
<b>Between 5,000 and 50,000</b>	OTHER SETTLEMENTS	SMST (small, medium sized towns)	SMST (small, medium sized towns)
<b>Over 50,000</b>	OTHER SETTLEMENTS	SMST (small, medium sized towns)	HDUC (high-density urban clusters)

Source: KU Leuven and ESPON, 2014.

Another source is the ESPON TOWN Database, which consists of NUTS3 level data on key structural and evolutionary characteristics. This data is obtained through the intersection of 1x1 km grid-based information, LAU2-based information and NUTS3-based information. Moreover, Eurostat data by degree of urbanisation<sup>11</sup> has been collected and analysed, allowing a comparison of various indicators between countries and between degrees of urbanisation (i.e. Large Cities vs. SMUAs). This kind of data is highly comparable and is mostly available for all EU member states.

<sup>11</sup> See, [http://epp.eurostat.ec.europa.eu/portal/page/portal/degree\\_urbanisation/introduction](http://epp.eurostat.ec.europa.eu/portal/page/portal/degree_urbanisation/introduction)

The available data enables a comparison of SMUAs between countries, over the years and a comparison with larger cities. However the EUROSTAT data make it not possible to classify and compare SMUAs by their location (near to large cities or in sparsely populated areas). Comparable EUROSTAT data on SMUAs regarding FDIs, migration and commuting patterns is not available for SMUAs. Urbanisation trends can be analysed at national level, but are subject to the quality of the available Eurostat data.

## Annex 5: EU funds

### *European Funds Managed at National and Regional Level ESIF (European Structural and Investment Funds)*

Fund	Overview and characteristics	How does it benefit SMUAs?
<b>European Development Fund (ERDF) – Regional Policy</b>	<p>The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. The ERDF focuses its investments on several key priority areas known as ‘thematic concentration’:</p> <ul style="list-style-type: none"> <li>• Innovation and research;</li> <li>• The digital agenda;</li> <li>• Support for small and medium-sized enterprises (SMEs);</li> <li>• The low-carbon economy.</li> </ul> <p>Allocated ERDF resources depend on the category of the region.</p> <ul style="list-style-type: none"> <li>• In more developed regions, at least 80 % of funds must focus on at least two of these priorities;</li> <li>• In transition regions, 60 % of the funds should be dedicated to thematic concentrations;</li> <li>• In less developed regions 50 %.</li> </ul> <p>Furthermore, some ERDF resources must be channelled specifically towards low-carbon economy projects:</p> <ul style="list-style-type: none"> <li>• More developed regions: 20%;</li> </ul>	<ul style="list-style-type: none"> <li>• Areas, which are naturally disadvantaged from a geographical viewpoint (remote, mountainous or sparsely populated areas), which is the case of many SMUAs, benefit from specific assistance from ERDF.</li> <li>• SMUAs can capitalize on smart specialisation strategies to gain more access to ERDF and ESF as Research and Innovation Strategies for Smart Specialisation (RIS3) became a condition for the use of the Cohesion policy in 2014-2020.</li> <li>• SMUAs can take an advantage of the EC intention to concentrate public investment on a limited number of growth areas by focusing on a limited number of development directions.</li> <li>• Culture based projects may also be</li> </ul>

**Europe Social Fund (ESF) –**  
Employment, Social Affairs  
and Inclusion

- Transition regions: 15%; and
- Less developed regions: 12%.

At least 5 % of the ERDF resources are set aside for sustainable urban development through ‘integrated actions’ managed by cities.

Applications for ERDF must be made to a specific Operational Program (OP) and the outputs of any project must be delivered within the eligible area of that OP.

The ESF is Europe’s main tool for promoting employment and social inclusion.

The ESF investments cover all EU regions. More than €80 billion is earmarked for human capital investment in Member States between 2014 and 2020, with an extra of at least €3.2 billion allocated to the Youth Employment Initiative.

For the 2014-2020 period, the ESF will focus on four of the cohesion policy’s thematic objectives:

- Strengthening employment and mobility.
- Promote social inclusion
- Improve education & training
- Improve the quality of public services.

20 % of ESF investments will be committed to activities improving social inclusion and combating poverty. ESF strategy is implemented through 7-year operational programs.

ESF funding is available through the Member States and regions and is granted to a wide range of organizations – public bodies, private companies and civil society.

The ESF should be used in synergy with the ERDF, to support

financed through ERDF. The ERDF regulation states in article 5 that one of the fund’s investment priorities is “conserving, protecting, promoting and developing natural and cultural heritage”. These projects can be a drive for SMUAs economic development and create a tourism based economy considering their great cultural and historic potential.

	measures related to employment, education, social inclusion and institutional capacity, designed and implemented under the integrated strategies.	
<b>Cohesion Fund</b> Regional Policy	<p><b>(CF)</b> – The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development and is subject to the same rules of programming, management and monitoring as the ERDF and ESF through the Common Provisions Regulation.</p> <p>For the 2014-2020 period, the Cohesion Fund concerns Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.</p> <p>The Cohesion Fund allocates a total of €63.4 billion to activities under the following categories:</p> <ul style="list-style-type: none"> <li>• Trans-European transport networks, notably priority projects of European interest as identified by the EU. The Cohesion Fund will support infrastructure projects under the Connecting Europe Facility;</li> <li>• Environment: the Cohesion Fund can also support projects related to energy or transport, as long as they clearly benefit the environment in terms of energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc.</li> </ul>	
<b>European Agricultural Fund for Rural Development</b>	The EAFRD, aims at strengthening the EU's rural development policy and simplifying its implementation. In line with Europe	EAFRD is the only fund which addresses specifically rural areas' economic and social issues

**(EAFRD)** – Common  
Agricultural Policy (CAP)

2020 and the overall CAP objectives, three long-term strategic objectives for EU rural development policy in the 2014-2020 period can be identified:

- fostering the competitiveness of agriculture;
- ensuring the sustainable management of natural resources, and climate action; and
- Achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

The policy will be implemented through national and/or regional rural development programs (RDPs) which run for seven years.

Member States will have to build their RDPs based upon at least four of the six common EU priorities:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing the viability / competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
- promoting food chain organization, animal welfare and risk management in agriculture;
- restoring, preserving and enhancing ecosystems related to agriculture and forestry;
- promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
- promoting social inclusion, poverty reduction and

and challenges. Many rural areas challenges are common to SMUAs (e.g. population decline and reliance on a single economic activity).

Since the description of urban and rural areas used by EC is not consistent with descriptions and definitions used in all EU MS, some areas categorized as small urban areas in some MS will be categorized as rural areas when seeking EU funding and will thus be eligible to benefit of projects funded by the EAFRD.

economic development in rural areas.

In turn, each rural development priority identifies more detailed areas of intervention (“focus areas”). Within their RDPs, Member States / regions set quantified targets against these focus areas, on the basis of an analysis of the needs of the territory covered by the RDP.

## *EU Funds Management and Implementation Tools and Financial Instruments*

Tool or FI	Overview and characteristics	How does it benefit SMUAs?
<b>Operational Programs (OPs)</b>	<p>OPs set the priorities and objectives, which will be supported by ESIF for each region. Areas of impact must be identified for each fund and specify the amount of the requested funding, how resources will be used and the expected results.</p> <p>Operational programs must be consistent with their National Strategic Reference Framework, the partnership agreements between their respective countries and the European Commission. Operational programs are prepared and presented by each member state and need to be approved by the Commission before they become effective. Traditionally, OP resources have provided Grant funding to organizations or projects to achieve objectives and outputs in line with the relevant priority within the OP. In order to increase the impact and sustainability of EU funds within Cohesion Policy, under General Regulation EC Regulation 1083, MS can also decide to establish FIs using all or part of their Structural Fund allocation within the current programming period, 2007-2013.</p>	Operational Programs remain key to understanding whether access to ESI funds is made possible for SMUAs. Since they are developed at each Member State level, their relevance for SMUAs depends on each country's priorities for urban and territorial development.
<b>Community Led Local Development (CLLD)</b>	<p>CLLD is a method for involving partners at local level including the civil society and local economic actors in designing and implementing local integrated strategies that help their areas make a transition to a more sustainable future. Community-led local development can be used by the four European Structural and Investment Funds to tackle a very wide range of challenges in different types of areas. However, while CLLD is optional for the ERDF, the ESF, and the EMFF, it is compulsory for the EAFRD.</p> <p>Replacing LEADER for the 2014-2020 period, CLLD will facilitate the</p>	<p>Individual medium sized urban areas with a population size between 10,000 and 50,000 can particularly benefit of the development of CLLD strategies.</p> <p>Smaller SMUAs that form a coherent territorial unit and that are facing similar issues can also develop together a CLLD strategy to address their common problems.</p>



implementation of integrated approaches among the European Structural and Investment Funds (ERDF, ESF, EMFF and EAFRD).

Community-led local development shall be:

- focused on specific sub-regional areas;
- community- led, by local action groups composed of representatives of public and private local socioeconomic interests, where, at the decision making level neither public authorities as defined in accordance with national rules, nor any single interest group shall represent more than 49% of the voting rights;
- carried out through integrated and multi-sectorial area-based local development strategies;
- designed taking into consideration local needs and potential, and include innovative features in the local context, networking and where appropriate cooperation.

The fundamental rationale for using CLLD is that these principles improve on the results achieved by traditional, centralized top down approaches. When selecting areas eligible for the application of CLLD, Member States or regions should consider the following criteria:

- The population size of areas eligible to be supported by CLLD strategies should be between 10,000 and 150,000 Inhabitants.
- The territory should form a coherent unit in geographical, economic and social terms, taking into account the nature of the strategy. As a result the area may not coincide with national administrative boundaries and in some cases, the area of intervention may not be geographically continuous.

**Integrated  
Territorial  
Investment (ITI)**

ITI is an implementation tool for territorial strategies. An ITI allows Member States to implement programmes in a cross-cutting way and to draw on funding from at least two different priority axes in the same or

Networks of SMUAs with similar characteristics located within a region that has an integrated territorial development strategy can benefit of the

different programmes to ensure the implementation of an integrated strategy for a specific territory. ITI provides both flexibility for Member States regarding the design of Operational Programmes, and enable the efficient implementation of integrated actions through simplified financing.

The key elements of an ITI are:

- a designated territory and an integrated territorial development strategy;
- a package of actions to be implemented; and
- governance arrangements to manage the ITI.

It is not compulsory for an ITI to cover the whole territory of an administrative level. An ITI can be implemented at any (sub-national) level, for which an integrated territorial development strategy has been set up. It may cover a region, a functional area, an urban or a rural municipality, a neighbourhood or any other sub-national territory. An ITI can also deliver integrated actions in detached geographical units with similar characteristics within a region. An ITI can also be used in the context of European Territorial Cooperation programmes (ETC).

use of ITI since this tool can also deliver integrated actions in detached geographical units.

**Joint European  
Support for  
Sustainable  
Investment in  
City Areas  
(JESSICA)**

JESSICA was a joint initiative of the Commission, the European Investment Bank and the Council of Europe Development Bank during the 2007-2013 Programming Period. It provided enhanced support to Member States and regions to invest in sustainable urban development and regeneration projects by investing in Urban Development Funds.

JESSICA promoted sustainable urban development by supporting projects in the following areas:

- Urban infrastructure – including transport, water/waste water, energy
- Heritage or cultural sites – for tourism or other sustainable uses

Not targeting SMUAs specifically.

Small and medium-sized municipalities do not have the same capacity and expertise as larger and more powerful local governments, such as metropolitan regions. Few of them are able to manage or implement EU programs using FIs which require advanced knowledge of financial engineering. The high overhead costs of establishing development funds might also be disadvantageous for small regions.

		<ul style="list-style-type: none"> <li>• Redevelopment of brownfield sites – including site clearance and decontamination</li> <li>• Creation of new commercial floor space for SMEs, IT and/or R&amp;D sectors</li> <li>• University buildings – medical, biotech and other specialized facilities</li> <li>• Energy efficiency improvements.</li> </ul>	The large scale of the projects targeted by FIs might also discriminate against SMUAs where large urban projects rarely take place.
<b>Urban Development Fund (UDF)</b>		<p>Under the current Structural Funds Programming Period 2014-2020 Financial Instruments can be created under 11 thematic objectives.</p> <p>UDF invests in public-private partnerships and other projects included in an integrated plan for sustainable urban development.</p> <p>A UDF can be a separate legal entity or be established as a “separate block of finance” within an existing financial institution. In such cases, JESSICA funds needed to be separately accounted for and clearly segregated from the other assets of that financial institution.</p> <p>UDFs can be established at either a national, regional or local/city level in response to integrated urban development plans, project pipelines and investor interests.</p>	
<b>Holding Fund (HF)</b>	<b>Financial Engineering Instruments (FEI)</b>	<p>HF is set up to invest in more than one Urban Development Fund (UDF).</p> <p>In addition to the tools above, the managing authorities of European funds can use FEI to invest and manage these funds. FEI can be established to serve enterprises, urban development and energy efficiency projects.</p> <p>FEIs have a revolving character. FEIs invest in Final Recipients, typically enterprises, Public Private Partnerships (PPPs) or Urban Projects through the provision of Loans, Guarantees or Equity in line with an agreed investment strategy. As the investment is subsequently repaid to the FEI, FEIs enable Structural Funds to be invested in multiple Final Recipients</p>	

over successive funding rounds beyond the initial programming period, thus creating a lasting legacy from EU funds. FEIs are also designed to attract Co-investment from other sources, in particular the private sector, helping to increase the leverage and Multiplier effect of Structural Fund resources.

### European Funds Managed by the European Commission

Fund	Overview and characteristics	How does it benefit SMUAs?
<b>Horizon 2020</b>	<p>The Horizon 2020 program highlights three new outlines determined as follows:</p> <ul style="list-style-type: none"> <li>• To integrate research and innovation by establishing a continuous support throughout the entire process: from the idea to the marketable product;</li> <li>• To use the funding of research and innovation to respond to major societal challenges;</li> <li>• To support innovation and activities closer to the market in order to create new business opportunities.</li> </ul> <p>Horizon 2020 has three priorities: I) Excellent science, II) Industrial leadership, III) Societal challenges. In addition there are two specific objectives that are IV) Spreading excellence and widening participation, V) Science with and for society.</p> <p>VI) European Institute for Innovation and Technology (EIT) and VII) Joint Research Centre (JRC) are also part of Horizon 2020. Euratom, the research and development program for nuclear energy is also involved in Horizon 2020 with a dedicated budget.</p> <p>All types of actors who are involved or who intend to be involved in</p>	<p>Horizon2020 calls do not target SMUAs per se and do not adopt measures to facilitate their applications.</p> <p>There are calls that are relevant for SMUAs especially those addressing topics such as smart specialisation and local scale cultural and social challenges.</p> <p>The capacity, expertise and costs required to prepare proposals and build partnerships to apply to H2020 grants might however be dissuasive for most SMUAs.</p>

research and innovation can apply to receive funding – academia, research, industry, local authorities, NGOs, networks.

Calls for proposals are published annually by the EC under Work Programs of 2-year duration.

**Connecting  
Europe Facility  
(CEF)**

The Connecting Europe Facility (CEF) finances projects which fill the missing links in Europe's energy, transport and digital backbone. It also promotes cleaner transport modes, high speed broadband connections and facilitating the use of renewable energy in line with the Europe 2020 Strategy. In addition the funding for energy networks will further integrate the internal energy market, reduce the EU's energy dependency and bolster the security of supply.

The CEF will better mobilize private financing and allow for innovative financial instruments such as guarantees and project bonds to gain maximum leverage from this EU funding injection.

The CEF is divided into three sectors:

- CEF Transport
- CEF Energy
- CEF Telecom

The calls' structure follows the funding objectives and priorities defined in their respective work programs. Proposals can be submitted to these calls by one or more Member States or, with the agreement of the Member States concerned, by international organizations, joint undertakings, or public or private undertakings or bodies established in Member States (and exceptionally in neighbouring countries).

INEA (Innovative and Networks Executive Agency) will manage all the EU-supported projects established under the CEF, in total €30 billion.

On the long term, CEF funding objectives serve SMUAs interests by improving accessibility, enhancing connectivity and developing multimodal transportation infrastructure. They however do not include SMUAs as a stakeholder of their projects or structures. SMUAs are not given a direct role in the decision making process regarding the implementation of CEF projects and funding priorities.

## Annex 6: Participation of SMUAs in URBACT projects

URBACT project	Number of participating urban areas		Urban area as lead partner		Project Budget (€)	Call
	5,000 - 50,000	50,000 - 250,000	5,000 - 50,000	50,000 - 250,000		
Active A.G.E	1	1			640,550.00	Call I
Active Travel Network	6	5	x		69,950.00	Call II
BRING UP	3	3		x	69,283.00	Call II
Building Healthy Communities (Fast Track Network)	1	4			635,000.00	Call I
C.T.U.R.	1	3			667,885.37	Call I
CASH	4	3	x		74,910.00	Call II
Cityregions.Net	1	6		x	609,131.25	Call I
CoNet	1	3			644,319.41	Call I
Creative Clusters in low density areas	3	4			634,337.23	Call I
Creative Development	2	1			N/A	N/A
EGENIUS	1	1			N/A	N/A
EGTC	3	-			258,157.00	Call I
ESIMEC	-	8		x	71,515.00	Call I
EVUE	1	2			74,825.00	Call II
FIN-URB-ACT	-	4			662,800.00	Call I
Greening SMEs	-	3			N/A	N/A
HerO (Fast Track Network)	2	2		x	595,000.00	Call I
Historiccentres Net	2	2			74,892.00	Call II
HOPUS	-	1			250,000.00	Call I
InteGROW	2	3			74,850.00	Call II
JESSICA 4 Cities	1	-			259,700.00	Call I
Joining Forces	-	1			250,000.00	Call I
LC-FACIL	-	2			249,650.00	Call I
LINKS	6	2	x		65,000.00	Call II
NeT-TOPIC	2	-			625,425.54	Call I
LUMASEC	-	3			250,000.00	Call I
My Generation	-	1			637,500.00	Call I
NeT-TOPIC	2	5			625,425.54	Call I
Nodus	-	1			254,710.00	Call I
OP-ACT	4	4	x		74,120.00	Call II
PURE Value	-	1			N/A	N/A
REDIS	-	4		x	634,910.00	Call I
RegGov (Fast Track Network)	-	6			584,041.71	Call I
REPAIR	2	1			611,349.97	Call I
Roma-NeT	1	4			75,000.00	Call II
RunUp	1	4		x	646,629.00	Call I
SIMPLUM	1	1			N/A	N/A
STUCA_TEAM	-	1			N/A	N/A
Suite	-	1		x	633,237.00	Call I
SURCH	-	1			N/A	N/A

SURE	3	4	x	74,975.00	Call II
TOGETHER	4	3	x	74,450.00	Call II
UNIC (Fast Track Network)	-	7	x	634,160.00	Call I
URBAN N.O.S.E	2	3	x	684,000.00	Call I
Urbanenergy	5	1	x	74,970.00	Call I
UrSEnE	-	1		50,000.00	Call II
WEED	3	4	x	634,992.00	Call I

Data source: URBACT

## Annex 7: Strategic EU documents on challenges and potentials of SMUAs

Document	Reference to SMUAs
<b>Territorial Agenda of the European Union 2020. Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions, 2010</b>	<p>We call states, regions, cities (incl. small and medium sized towns), other territories and sectoral policies at all relevant levels to contribute to common European territorial priorities. We shall facilitate their ability to respond more effectively to the key challenges Europe faces through closer cooperation. We believe that such cooperation is key to fostering smart, inclusive and sustainable growth and territorial cohesion in the EU.</p> <p>We aim at polycentric development at the macro-regional, cross-border and also on national and regional level in relevant cases. Where possible, it is important to avoid polarization between capitals, metropolitan areas and medium sized towns on the national scale. Small and medium-sized towns can play a crucial role at regional level. Policy efforts should contribute to reducing the strong territorial polarization of economic performance, avoiding large regional disparities in the European territory by addressing bottlenecks to growth in line with Europe 2020 Strategy.</p> <p>Urban-rural interdependence should be recognized through integrated governance and planning based on broad partnership. We welcome place-based strategies developed locally to address local conditions. In rural areas small and medium-sized towns play a crucial role; therefore it is important to improve the accessibility of urban centres from related rural territories to ensure the necessary availability of job opportunities and services of general interest.</p>
<b>Roadmap towards promoting and enhancing an integrated, territorial approach based on the Territorial Agenda of the European Union 2020,</b>	Nothing mentioned about small and medium-sized urban areas.



2011	
<b>Leipzig Charter on Sustainable European Cities, 2007</b>	<p>Ministers responsible for urban development in the Member States of the European Union, consider European cities of all sizes which have evolved in the course of history to be valuable and irreplaceable economic, social and cultural assets.</p> <p>Coordination at local and city-regional level should be strengthened. An equal partnership between cities and rural areas as well as between small-, medium-sized and large towns and cities within city-regions and metropolitan regions is the aim. We must stop looking at urban development policy issues and decisions at the level of each city in isolation. Our cities should be focal points of city-regional development and assume responsibility for territorial cohesion. It would therefore be helpful if our cities would network more closely with each other at European level.</p>
<b>Toledo Informal Ministerial Meeting on Urban Development Declaration, 2010</b>	<p>The Ministers considered that cities and towns are the places where most of the current and future potentials and challenges lie, and that they are key to achieve the goals of Europe 2020, by making Europe's economies smarter, more competitive, sustainable and socially inclusive. Therefore, they stressed that it must be a political priority to empower European cities to tackle future challenges and to unlock their potential, and to continue and to strengthen the public support for sustainable urban policies across the EU, in particular through Cohesion Policy.</p> <p>Cities and towns are vital for achieving the general objectives and specific headline targets of the Europe 2020 strategy.</p> <p>Investing in capacity building efforts and skills to address economic, social and environmental issues as they affect places, wherever they are located (cities, towns, urban and rural) is essential in promoting sustainability.</p> <p>Considering the diversity of European cities and towns and the wide geographical and contextual diversity, it is impossible to apply 'one-size-fits-all' solutions in integrated urban regeneration plans and programmes, and consequently they can benefit from a local development and implementation by the inclusion of a management and governance proposal adapted to the local context, with particular regard</p>

	to the stimulation and channelling of public participation.
<b>Final statement by the ministers in charge of urban development (Marseille Declaration), 2008</b>	<p>Those in charge of urban policies need to adopt an integrated approach to develop sustainable and cohesive towns and cities. Integrated approach needs to take into account the range of scales on which cities function from neighbourhoods to the largest urban areas.</p> <p>Urban and rural areas are interdependent. As a logical progression of the EU sustainable development Strategy, the Territorial Agenda and the Leipzig Charter call for a new approach to the relationship between urban and rural environments and to partnerships between urban and rural territories at the scale of functional areas, in order to secure balanced development of all areas based on respect for their diversity.</p>
<b>VASAB Long – Term Perspective for the Territorial Development of the Baltic Sea Region</b>	<p>Small and medium-sized cities and towns located in the vicinity of the Baltic metropolises may act as international centres of innovation and specialised services, such as higher education, research and development, or fairs and exhibitions. Crucial factors for unlocking capacity of such cities to support the metropolises within the so called functional urban areas are: adequate transportation; integration into the regional markets of labour, housing, education, culture and events; high quality of services for residents and local enterprises, as well as development of a distinct image.</p> <p>Several medium-sized cities in the rural areas fail to provide a sound alternative for employment of the rural population, as they cannot offer an opportunity of integrating with the housing and labour markets of the larger centres. This is the case especially in areas not endowed with attractive assets for tourism or transport and logistics services. These negative prospects for the urban centres outside the metropolitan regions call for political responses either to compensate the negative trends (e.g., the knowledge gap) or even to try to integrate these cities into the knowledge economy.</p>

