



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

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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.¹ 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.

¹ 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/km² 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.

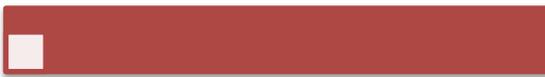
Evidence shows that the class of regions with SMUAs as a prevailing type of settlement has experienced higher GDP growth rates than more urbanized areas, compared to the EU average. There are clusters of SMUAs in the core of the European continent, which contributes, to the largest share of its GDP.

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



- ✘ **ECONOMIC:** Regions with SMUAs often show higher economic performance despite lower population growth.
- ✘ **UNEMPLOYMENT:** On average SMUAs show lower unemployment rates compared to larger urban areas.
- ✘ **POVERTY:** SMUAs outperform both large urban and rural areas by lower poverty levels in a number of member states.
- ✘ **HOUSING:** SMUAs perform better than large urban areas in providing affordable housing.

- ✘ **ECONOMIC:** Greater impact of de-industrialisation.
- ✘ **DEMOGRAPHIC:** Outflow young and educated to larger cities.
- ✘ **SERVICES:** Erosion of public and private services. Dependency on funds national governments, vulnerability to austerity measures
- ✘ **INFRASTRUCTURE:** Out-dated infrastructure.
Poor connectivity.

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 complementary 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.