



Post-socialist Cities in a Globalizing World

Dr. Sasha Tsenkova

Associate Professor in International Development
University of Calgary, Faculty of Environmental
Design

<http://www.ucalgary.ca/~tsenkova>

SUMMARY

At the beginning of the 21st century cities are at the front line of the development campaign¹. The transition from a centrally-planned to a market-based economy has offered significant opportunities to increase economic prosperity and to improve the well being of urban residents. Urban policy is perceived to be an important facilitator of sustained economic and social improvement as well as more democratic governance (WB, 1999). Post-socialist cities have gained political influence since recent political and fiscal decentralisation has shifted power to local governments. In this context, municipal policies affecting urban areas -- planning, housing, transportation and delivery of urban services -- have major ramifications for the efficient operation of businesses and the social well being of households. A decade later, cities of transition economies have remained the centres of economic growth, service expansion, technological innovation and cultural diversity. However, they have also experienced rapid social polarization, poverty and environmental degradation.

This research will focus on the process of urban change in post-socialist cities. The urban context in Central and Eastern Europe (CEE) will be analysed with a reference to economic and social change. The politics of urban governance will be discussed as they relate to the provision of urban services. In addition, trends and major processes of spatial change in the urban setting will be identified. Recognizing the need for effective policy solutions to these urban challenges, the analysis will explore the opportunity to influence change through urban/city development strategies.

Drawing on the experience of Budapest, Riga, Prague, Vilnius, Sofia and Warsaw with *City Development Strategies*, the research will highlight the responsiveness of the model to transition imperatives and its ability to influence the national policy dialogue on sustainable growth and poverty reduction. It is argued that the model can be instrumental in defining contextually appropriate multi-dimensional urban policy agenda for post-socialist cities.²

¹ The centrality of urban issues to national and global sustainable development agenda has been acknowledged in the international arena. The Habitat Agenda, adopted by 171 governments at the 1996 City Summit in Istanbul, marked a turning point in promoting socially and environmentally sustainable cities. It also sent an important message that good urban governance is a prerequisite for sustainable development. These commitments have changed significantly the agenda of major donor institutions responding to challenges of the urbanising world (WB, 1999, UNCHS, 2001a).

² City Development Strategies are the new urban initiative launched by the World Bank and Habitat, sponsored through the Cities Alliance (Cities Alliance, 2002). Some of the other cities have undertaken strategic planning efforts independently or with some donor assistance.

URBAN POLICY MATTERS

Why an urban focus?

Urbanisation and the increasing complexity of the associated problems are creating enormous challenges around the globe. There is now a recognition that the basic problems associated with environmental degradation and social and economic polarisation are concentrated in cities (UNCHS, 2001A). There is also recognition that urban sustainability -- environmental, social and economic -- must be tackled through holistic and integrated approaches and that local governments must be at the centre of efforts to tackle such issues in partnership with the various sectors of the community. Decentralisation of responsibilities from the state governments to the local level is occurring due to factors such as democratisation, failure of centralised authoritarian systems, and fiscal pressures at the national level. This is accompanied by recognition that the most pressing problems are urban in origin or have a major impact in the urban arena, and therefore can be tackled most effectively at the local level.

Figure 1: Historic Prague



In addition to these global pressures for change, cities in Central and Eastern European (CEE) are experiencing profound transformation associated with the transition from a centrally-planned to a market-based economy. Post-socialist cities in 1990s account for as much as four-fifths of the GDP; they remain the centres of economic growth, finance industry, technological innovation and cultural diversity. CEE countries are highly urbanised with a share of the urban population between 61.2% in the Slovak Republic and 74.9% in Lithuania, so the urban transition affects a large number of local communities and people.³ Data indicate that urbanization and urban growth have become less pronounced in the 1990s, with an annual population growth between 0.6-1.7% (WB, 2000). Concentration of the population in large urban agglomerations is another characteristic feature of post-socialist cities in the region. Katowice has around 3.4 million inhabitants. Other large metropolitan centres -- Warsaw and Budapest -- have over 2 million, followed by Prague and Lodz with over 1.2 million. The

level of concentration is much higher in the Baltic States, where close to 35% of the population lives in the capital cities. In CE the figure varies between 15-22%. Central European urban centres with population over 100,000 accommodate up to 46% of the

³ For an in-depth discussion of urbanisation trends and their impact over urban change see Szelenyi (1996), Tosics, 2001b and UNCHS (1996).

urban population (UNCHS, 1996).

CEE countries are unique. The usually positive correlation between GDP per capita and level of urbanisation is not applicable to the transition economies, most of which tend to be over-industrialized and highly urbanized (Buckley and Mini, 2000).⁴ The legacy of centrally directed urbanisation, driven by industrial growth under state socialism, has had powerful implications during the transition. Over-industrialized cities were hit badly by massive closure of unproductive state enterprises, escalating unemployment and poverty. Not surprisingly, urban poverty is a much more significant and persistent phenomenon in the region than anywhere else (World Bank, 2000).

While most of the CEE countries in the first wave of EU accession have made progress in areas such as economic stabilization, public service reform, and fiscal decentralization, further efforts are required to consolidate and anchor the changes. In the Baltics in particular, progress in these areas has been rather uneven and the social and economic cost of the transition - high. Policy responses to transition imperatives can be best integrated within an urban policy agenda (Buckley and Mini, 2000; Simpson and Chapman, 1999). First, problems with high unemployment, growing poverty, and ethnic tensions appear to be much more pronounced in urban areas, particularly in larger metropolitan centers with ethnically diverse population. Second, changing inter-governmental relations have resulted in the devolution of major responsibilities in the area of economic development, education, health care and social assistance to the local government level. Local governments are seen as crisis managers charged with a lot of responsibilities without the adequate resources to cope with growing pressures. Third, reforms at the urban level hinge on the strengthening of public sector institutions, as well as on securing popular support for the more costly restructuring measures.

Seizing the opportunity for greater impact

A strategic focus on urban issues in CEE will allow policy intervention of local and central governments to seize a development opportunity with greater impact. With limited funding and emphasis on capacity building and economic development, policies could acquire an urban dimension, which will create synergies among sectoral policies, replicability and high visibility of results. If future programming approach in CEE acquires an urban focus, several tangible benefits might emerge:

Opportunity for impact on pressing urban issues. It could be beneficial if over the next years national government and multinational organizations succeed in mobilizing an institution-wide effort to address urban and local government issues and to integrate urban perspectives in a dialogue on national development policies. More generally, this will capitalize on the opportunity to have an impact on pressing urban issues with high stakes for national poverty reduction, more equitably shared growth, and environmental improvement.

Responsiveness and selective intervention. The multi-dimensional urban agenda suggests common goals for all cities and local governments but could be implemented very differently, with different priorities, and operational instruments, depending on the level of political commitment and institutional capacities. Some cities might pursue financial and

⁴ For example, levels of urbanisation are larger in the Baltic States, where income calculated at purchasing power parities is lower compared to CE. Correspondingly, countries with high levels of employment in agriculture, such as Poland, have a lower level of urbanisation today, despite higher per capita income. Finally, 'the goulash type of communism' in Hungary, or the emphasis on existing industrial capacities in small and medium size settlements in former Czechoslovakia, explains lower urbanisation rates in these countries compared to their much higher income levels.

economic gains; others might choose poverty reduction, improvement of service delivery or environmentally friendly policies as the focus of their future reform efforts. This approach could ensure cross-sector alliances (e.g. peace building & poverty reduction; economic development and public sector management) and complementarity of sectoral reforms and initiatives.

Scaling-up experiences to meet the growing urban challenges. A commitment to urban issues will require a variety of approaches and levels of activity that will allow achievements and successes to be shared widely with other cities, partners and central government institutions. Replicability could ensure lasting improvements in outcomes, but also opportunities to create successful models based on the experience of some cities in transition economies that could successfully be implemented elsewhere. The process could be complemented by grant funds and support from multinational agencies with a well-defined emphasis on urban programming.

Objectives of the research

This research will focus on the process of urban change in post-socialist cities. The geographic scope of the study is limited to the capital cities in the following countries: Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Lithuania, and Poland. Where possible, data on other cities will be presented to highlight trends and patterns of change. The urban context in CEE will be analysed with a reference to economic and social change. The politics of urban governance will be discussed as they relate to the provision of urban services. In addition, trends and major processes of spatial change in the urban setting will be identified. Recognizing the need for effective policy solutions to these urban challenges, the analysis will explore the opportunity to influence change through strategic plans/city development strategies.

THE TRANSITION IN POST-SOCIALIST CITIES

The framework for analysis recognises the diversity of urban experiences on one hand, and draws on sustainable development principles on the other. It is recognised that there is no blueprint for sustainable development at the urban level, particularly in the context of transition. Rather, series of studies have focused on strategies, policies and guidelines that might enhance sustainable development opportunities, and foster city or nation-wide partnerships for local action (UNCHS, 1996, 2001; Tsenkova et. al, 1996). It should be acknowledged that urban sustainability is inherently problematic given the complexity of urban activities, the immense concentration of people, capital and resources in cities with often-negative implications for the environment. Urban sustainability is often perceived as a series of incremental changes in the economic, social, and environmental frameworks of cities and their institutional structures that take them further along the 'road to sustainability' (Blackman, 1995; Roberts and Sykes, 2000). The emphasis is on holistic approaches, rather than sector specific short-term strategies. This is echoed in the recently adopted strategic plans and/or *City Development Strategies* in several capital cities across the region (City Development Authority of Prague, 2000; Riga City, 1996; World Bank, 1999; Zejloin et al. 2002). The sections below provide a brief overview of urban change in CEE focusing on economic, social, environmental and spatial planning indicators of change.⁵

⁵ A number of comparative studies have identified a series of indicators to measure the relationship between urban policy intervention and urban outcomes in several thematic areas – economy, liveability, governance, quality of life/environment (see Blackman, 1995; Hill, 1994; Roberts and Sykes, 2000; UNCHS, 2001A; World Bank, 1999).

The economic transition

The starting point in the analysis is economic change. The years of economic stress and market volatility have led to contrasting developments across the region. The transition countries, mainly in Central Europe, have pushed ahead with the more challenging structural and institutional reforms and have been able to maintain macroeconomic stability. The Baltic States still have a more fragile economic environment, problematic corporate governance, and relatively weak financial systems. Despite the uneven progress in transition and economic performance, growth prospects across the region are encouraging. Recent developments indicate that GDP growth is between 3-5.2%, but still below 1989 levels. Poland and Slovenia are a notable exception with economic performance in 2000 exceeding pre-reform conditions (EBRD 1998, 2000). Inflation is under control, but still remains high in the range of 4-10% (see table 1).

Table 1: Major macroeconomic indicators in CEE

Country	FDI 1989-99 per capita	Real GDP in 2000** 1989=100	GDP capita per	1998 Private sector share of GDP	End-year inflation	
					1991	2000**
Bulgaria	273	70	1,459	70%	338.9	7.0
Czech Republic	1,447	95	5,242	75%	56.6	5.1
Estonia	1,122	80	3,532	70%	303.8	4.8
Hungary	1,764	104	4,853	80%	32.2	6.2
Latvia	880	61	2,581	60%	262.4	4.2
Lithuania	545	63	2,884	70%	345.0	3.5
Poland	518	128	3,987	65%	18.5	7.5
Slovak Republic	391	101	3,489	75%	58.3	10.0
Slovenia	568	112	9,845	n/a	247.1	5.5

* The data refer to cumulative FDI inflows in US dollars.

** EBRD estimates

Source: EBRD 1998, 2000.

Foreign direct investment (FDI), responsible for a third of private capital inflows in 1999, has advanced steadily over the past decade in line with the countries' progress in transition and macroeconomic stabilisation. FDI has provided a major boost to the reform, particularly in the Czech Republic, Estonia and Hungary, where a more liberal and stable environment has attracted strategic investors to enterprise restructuring and technology transfer.

Privatisation has made significant progress taking several forms -- employee-buy outs, vouchers and competitive bidding (WB, 1996). The result is manifested in the growing private sector share of GDP, which accounts for 60-80% of GDP in 1998, with Hungary taking the lead. Despite overall economic stabilization, fiscal imbalances continue to be a problem in most countries in the region (EBRD, 2000; UNECE, 2001). Severe pressures on the expenditure side, due to high social security payments and various forms of off-budget support, continue to undermine the fiscal position of central governments. Managing the process of fiscal transition and spending more efficiently continues to be one of the major challenges in the second phase of transition.

Figure 2: SMEs in Sofia (e.g. retail, management, and printing) account for 95% of the firms today.



Urban economies have responded differently to the changes in macroeconomic conditions. New challenges have emerged due to profound structural changes in the economy in the transition from planning to markets. The pressures of national and international economic forces, and the opening up of previously sheltered markets, have generated rapid adjustment of industries, services and other economic activities. *Economic restructuring has a crucial impact on direction of growth and change, on future specialization in the economic base of cities, their mix of traditional manufacturing industries and advanced services.* Empirical evidence suggests that economic diversification, associated with the transition from industrial to service oriented-information based urban economies, has become more prominent and is reflected in the composition of GDP. Central European countries and the Baltic States have experienced a significant growth in the share of service based GDP. Small and medium-size enterprises (SMEs) have become a genuine source of private sector growth and

employment (see figure 2).

Those processes in return bring corresponding changes in the demand for urban resources, land, and infrastructure provision. While the extent of this adjustment is related to macro-level policies, market integration, technological innovation and the power of international capital, endogenous factors in the urban economy also have a significant role. Land, existing industrial capacity, natural resources, labour, good urban governance also contribute to the competitiveness of cities and their ability to attract new industries and economic activities.

The social transition

While economic growth prospects in the region have been evaluated positively, the social impact of the transition process presents a major challenge to market reforms. The most significant aspect of social change is associated with labour market adjustment and social differentiation. In response to structural and macroeconomic pressures, labour market adjustment has proceeded through changing sectoral employment patterns, unemployment fluctuations and wage differentiation. Industrial employment by large outnumbers agricultural employment with the exception of Poland, where historically agriculture has been particularly vital even during state socialism. Service employment, particularly significant in Hungary and the Czech and Slovak Republics, has experienced significant growth in the second phase of the transition (see table 2).

Table 2: Labour market development indicators

Country	Employment by economic activity 1992-1997 (%)				Unemployment**		Gini Index	Average gross monthly wages***
	Industry		Services		1992	1999		
	Male	Female	Male	Female			1995-1997*	
Bulgaria	n/a	n/a	n/a	n/a	15.3	16.0	28.3	105
Czech Republic	50	29	43	66	2.6	9.4	25.4	332
Estonia	39	27	44	65	6.6	11.7	35.4	257
Hungary	40	25	50	71	12.3	9.1	30.8	308
Latvia	33	20	44	62	3.9	14.4	32.4	219
Lithuania	35	21	42	61	1.3	13.3	32.4	207
Poland	41	21	38	59	14.3	13.0	32.9	320
Slovak Republic	49	28	41	67	8.3	19.2	19.5	283
Slovenia	49	31	38	57	8.3	7.5	26.8	n/a

*Most recent year available.

** Unemployment data is presented in percentage of the economically active population.

*** Average gross monthly wages for 1997 in \$US.

Source: WB, 2000; EBRD, 2000

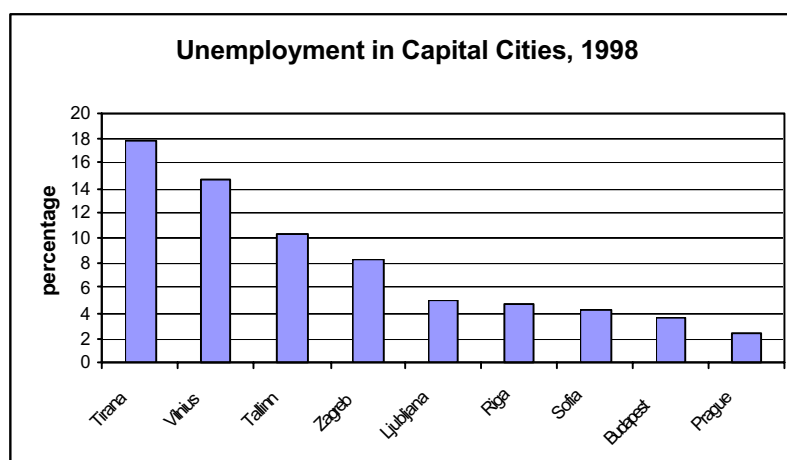
Furthermore, employment for women is much higher in the service sectors, while industrial employment is still male dominated (UNECE, 1996; Tsenkova, 2001). *During the transition individual urban areas have experienced a process of differentiated development with some losing and others gaining economic attractiveness.* Capital cities and large urban centres have been privileged in that respect attracting a large share of investment in banking, retail and information-based technologies⁶.

In addition to shifts in the occupational structure, labour market restructuring is manifested in unemployment rate fluctuations. Unemployment increased rapidly in most countries at the start of macroeconomic reforms and continues to be excessively high in Bulgaria and the Slovak Republic. In general, the economies of the capital cities have been sheltered from escalating unemployment and have managed to sustain a more stable labour market (see figure 3). Evidence suggests that unemployment for women is higher due to employer's discrimination practices, growing burden of domestic responsibilities and changing social pressures⁷. Wages in CE countries tend to be 25-30% higher compared to the ones in the Baltic States, but still much below the EU average (UNDP, 1999).

⁶ For example, in 1997 Prague's GDP per capita is 85% of the EU average, while in northern Bohemia and northern Moravia, it is half of that value.

⁷ The Human Development Reports for Latvia & Lithuania indicate that women tend to be better educated than men, with the share of women with post-secondary education exceeding the share of men by 30% in 1997. However, unemployment among women is 30-40 % higher. Other studies suggest that social pressures related to women's employment have changed -- previously expected to work, today women are expected to stay at home and take care of the children (WB, 1996).

Figure 3: Unemployment in the capital cities is one third of the national average



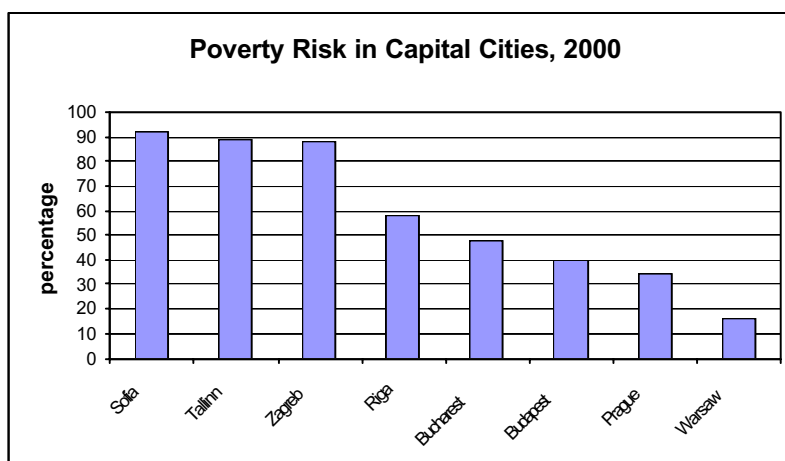
Sofia Master Plan, 2001

There is a positive correlation between GDP per capita and wage levels, which indicates a general tendency of income growth in relation to productivity. These broader developments need to be evaluated against the background of rising income inequality, large increases in poverty and

Source: UNCHS, 2000b⁸;

growing insecurity across transition economies. Wages have become more differentiated with a ratio of up to 4 between the lowest and the highest income quintile in the mid-1990s, which is radical social change for these previously egalitarian societies. In the mid-1990s income inequalities, measured by Gini coefficient, tend to be particularly high in the Baltic States and in Poland (WB, 2000; EBRD, 2000).

Figure 4: Poverty risks tend to be high



Note: Poverty is measured as the % of households whose expenditure is below 1/2 of median household expenditure in the country.

Source: World Bank, 2000

health care) and aggravated patterns of poverty and inequality (EIU, 1997; World Bank, 2000). Despite the generally lower levels of unemployment, residents of capital cities face a high risk of being poor. As Figure 4 shows -- Sofia, Tallinn and Zagreb -- have more intensive concentration of poor people than most other major cities in the region. About one

Poverty in the Baltic States is alarmingly high. As much as 46% of the households in Lithuania, 40% in Estonia and 23% in Latvia live below the poverty line⁹. An ageing population and high economic dependency ratio has placed excessively high demand on social security systems (pensions &

⁸ The methodology used draws on the HABITAT urban and housing indicators. Data were collected by local experts in 18 cities in CEE sub-region under the methodological guidance of the Metropolitan Research Institute in Budapest.

⁹ Levels of poverty are measured in terms of households living on less than US\$4 per day (UNDP, Human Development Reports, 1997).

person in three is poor no matter whether they live in the capital city or elsewhere in those three countries. This distribution is far different from the situation in other countries, where the risk of poverty in the capital cities tends to be much lower. The large concentrations of people facing poverty risks affect the city's opportunities and social responsibilities.

The high rate of inequality, particularly in the urban areas, has broad impacts on the social well being, because it reflects the inability of some citizens to participate in society and share in activities leading to improved health and educational attainment. The urban poor are especially vulnerable to economic shocks; they lack access to services, safety nets, and political representation. Large cities tend to be more expensive, with prohibitive housing costs and transportation constraints, which alternatively creates a potential for even greater social problems and inequalities. Cumulative deprivation in these cities often defines urban poverty, with single parent households and elderly women being the most vulnerable social groups.

The transition in governance

In the context of transition from planning to markets the role of national governments has been redefined to facilitate liberalisation of the economy, to promote economic and social stability, and to ensure distributional equity. This process has included efforts to introduce more local autonomy, citizen participation and rebalancing of public and private sector roles. All of these efforts have strong implications for subnational and local governments. Specifically, local government reforms in the countries of transition have several aspects: decentralisation, devolution of power, and privatisation, which are analysed in the next section.

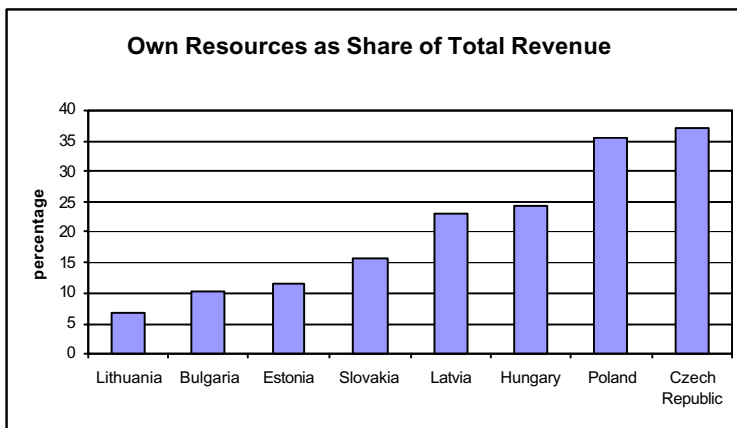
Political, fiscal, and administrative *decentralisation* has taken place across the region over the past decade in an effort to make governments more democratic and efficient. However, decentralisation has resulted in excessive fragmentation, particularly in the Czech Republic, Hungary and Slovakia, where majority of local governments are too small to operate basic services independently. Most countries are finding themselves with a very large number of small municipalities without mechanisms to foster necessary co-ordination and economies of scale in management.¹⁰ Within the framework of institutional reforms in CEE, governments enhanced local autonomy and decentralized power and responsibilities. Local governments have become the principal institutions responsible for urban planning and management. In addition, they have retained the statutory responsibility for the provision and maintenance of technical infrastructure and urban social services. In most cases municipalities have acquired ownership of the fixed assets of water and sewerage companies, district central heating systems and public housing (UNECE, 1997; 1998). However, inflation, subsidy restructuring and significant budget cuts have raised the cost of urban services dramatically. Running schools, hospitals, social care homes and other social facilities has contributed to high local government shares of public expenditure¹¹. In this respect, it has placed Hungarian and Polish local governments in the Premier League of European spenders along with the Scandinavian countries. It has also increased the dependency on intergovernmental transfers, since the scale of resources

¹⁰ For example, the Czech Republic has 6,196 municipalities with an average population of 1,666 residents. The situation in Slovakia is quite similar with 2,853 municipalities (average population size 1,845) (Davey, 1999).

¹¹ It should be acknowledged that there is a considerable diversity with respect to provision of urban social services. In Hungary local governments have a primary responsibility for primary and secondary education, hospital health care, social services and part of the social security system. In Poland secondary education, health and social care were transferred to cities in 1996. In Slovakia municipalities have a limited responsibility for social welfare and none for education and health (Davey, 1999).

needed far exceeds the potential of any local tax base (see figure 5). Overall, fiscal decentralisation has failed to enhance the ability of local governments to raise resources locally and to have a sustainable tax base (UNECE, 1997).

Figure 5: Local governments are dependant on central transfers



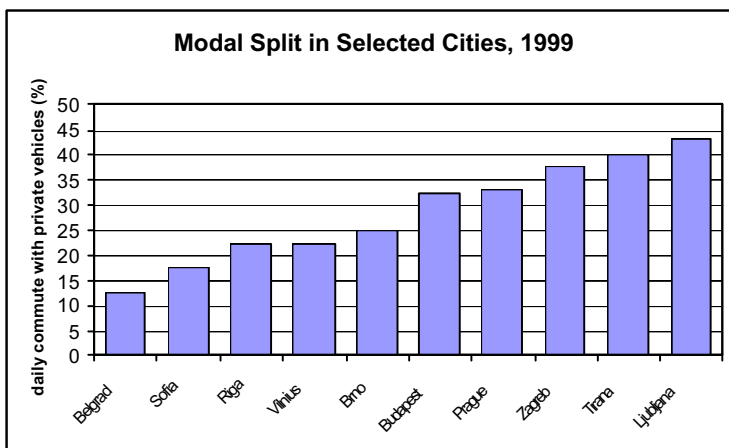
Note: Own revenue excludes shared taxes and taxes which local governments have no authority to determine; data refer to 1998.

Source: World Bank, 2001.

raise the much-needed revenue. Progress has been made in upgrading the region's infrastructure, which in most cases was spurred by growing private sector involvement and foreign participation. Although privatisation of infrastructure is under way in many countries, mostly through concessions and/or competitive contracting of services, tariff reforms continue to be undermined by weak payments discipline.

The lack of adequate funding has eroded the quality of urban services and transportation. Cash constrained local governments have often resorted to privatisation of land, buildings and other municipal assets. Privatisation of housing has become the flagship of the decade, but has failed to

Figure 6: Commuting to Work by Private Transport

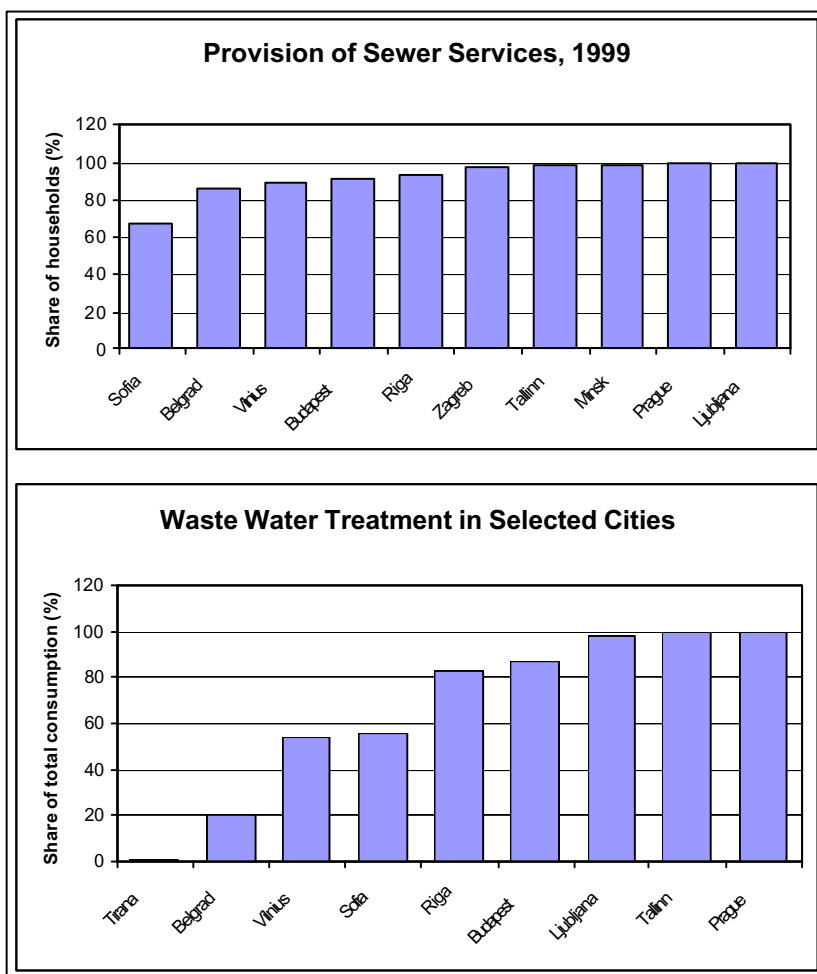


Despite the rapid growth in car ownership across the region, most of the commuting to work is still done by public transport (see figure 6). Indeed, in most capital cities in CEE close to 70% of the trips to work are undertaken by buses, trams, trolleys.

Source: UNCHS, 2000b; Sofia Master Plan, 2001

Local governments are under a lot of pressure to maintain the competitiveness of the public transit system. As the fleets are getting older, more capital funding is required to provide good quality of transportation services and sufficient frequency. In some cases, local governments have gone to the capital markets to secure sufficient financing (Prague, Sofia) but the problems go beyond their capacity. Limited data from transportation surveys indicate that the average commuting time by public transport is growing, which makes the commute with private automobiles much more attractive.

Figure 7: Provision of Sewer and Waste Water Treatment, Selected Cities



Source: UNCHS, 2000b; Sofia Master Plan, 2001

are often run down, poorly maintained with frequent leakages. A great deal of work is required to improve existing networks and financial management. As indicated in Figure 7, in Sofia, Vilnius and Belgrade, only half of the generated wastewater is treated. Local governments are committed to addressing environmental concerns and protecting the livelihoods of city residents from further urban environmental degradation (City Development Authority of Prague, 2000; City Development Department, 2001; Zeijlon et al., 2002). Actions will need to be coordinated with national level efforts as laws and regulations on environmental issues will be harmonized as part of the EU accession work.

Post-socialist cities face significant challenges with respect to their environment. The socialist legacy of industrialization, outdated technologies, increased levels of transport and heating, insufficient or poorly maintained infrastructure and lack or consistent environmental policies have resulted in poor air quality, water pollution, excessive noise levels and degradation of green areas. Poor water quality is also a growing environmental concern. Although most of the population in the capital cities is connected to piped water and sewer (if septic tanks are included), the systems

Changes in the urban structure

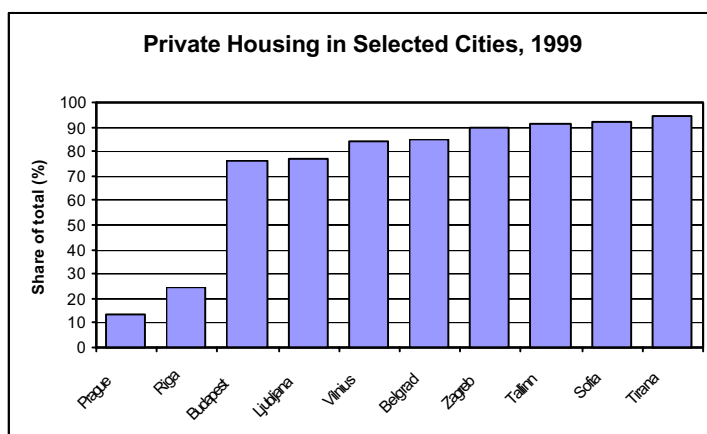


Post-socialist cities have a distinctive form. The legacy of the socialist experiments in planning and housing provision has created excessively high densities in the urban periphery compared to the market city (Bertaud and Renaud, 1994). These areas contain a high proportion of system-built housing and some basic social services (schools, medical care, etc.), but lack sufficient retail and employment opportunities. This segregation of land uses contributes to excessively long commuting trips to centres of

Figure 8: A housing estate in Riga ... if you have seen one, you have seen them all ...

employment, urban inefficiency and high transportation costs (Tsenkova, 1998; 2000a). Mass produced socialist housing in the peripheral housing estates is 'the home' of 50-60 percent of the population in large urban centres. Rapid privatisation of public housing has transferred ownership of those units to former tenants at below market prices (Pishler-Milanovich, 1994). The 'nations of home owners' -- Hungary, Estonia and Lithuania -- have reached levels of home ownership over 90 percent, well above the EU average of 56 percent¹².

Figure 9: Home ownership in capital cities



As data in Figure 9 demonstrate, home ownership in most capital cities has reached its limits. While Riga and Prague stand out, creeping privatization in the last two years has transferred another 40 percent of Riga's stock in private hands. Given the nature of the housing stock, rising costs and poverty, the challenge to sustain the value of housing
 Source: UNCHS, 2000b; Sofia Master Plan, 2001

¹² It should be noted that the pre-reform conditions in different countries were different, which has long-term repercussions. The level of home ownership in cities across the region reflects the legacy of socialist housing systems and different privatisation strategies with respect to public housing (Tsenkova, 2000a). An overview of privatization is provided in Marcuse, 1996.

assets through investment in renovation and energy efficiency upgrades is perhaps one of the most significant ones in the post-privatization phase (Lowe and Tsenkova, 2002). The transition to more advanced, market oriented forms of economic development, industrial production and labour is reflected in series of changes in the urban fabric. Existing industrial zones are in the process of intensification to accommodate the establishment of a large number of new private firms, warehouses and office activities. Most post-socialist cities have a disproportionately high share of industrial land – a direct result of the explicit emphasis on industrialization (see table 3).

Table 3: Density and industrial land in capital cities

	Average density in the built-up area ¹³ (people per ha)	population	Industrial land as % of built-up area
Berlin	38		Nav
Ljubilana	46		27
Budapest	63		Nav
Krakow	65		28
Warsaw	67		15
Prague	71		13
Sofia	105		20
St Petersburg	121		44
Moscow	182		32

Source: World Bank database, 2001

Continued growth in service sector industries has increased the pressure on areas with good exposure and transportation accessibility, so some of that industrial land may have a chance to be recycled and allocated for other more profitable land uses (Buckley and Tsenkova, 2001). Shifts in technology and communications have established office functions, particularly banking and finance, as a significant component in the urban economic base of capital

cities. These trends are reflected in dynamic property development of office space and top prices in buoyant office markets (e.g. Budapest, Prague, and Warsaw). The retail sector has experienced a dynamic growth particularly associated with the emerging private businesses (Sykora, 1994; Tosics, 2001a; Weclawowicz, 1992). Restructuring of existing retail space according to demand from a diverse retail structure, recycling and redevelopment of unprofitable and underutilized shopping centres tend to be the major trends. Strip retailing has established itself as the largest type of retail activity especially in the inner cities, often with exclusive shops, boutiques and retail spaces that cater for the affluent consumer.

Other forces behind the dynamics of urban change are land reforms, property market differentiation, and fragmentation of investment flows (Strong et al., 1996). These new challenges and opportunities have triggered turbulence and controversy in the planning professions through the 1990s (Meier, 1994). A new generation of master plans, aiming at defining the future for the capital cities under market conditions, has had a limited degree of success so far (Dimitrovska-Andrews, 2002). The impact of these planning efforts, however, should be considered against the background of economic, social and institutional change. Within the new market reality urban development is associated with a wave of investment in land uses offering opportunities for higher return, selective inner city redevelopment by the private sector and gentrification of inner city neighbourhoods (Tsenkova, 2000a). Studies indicate that investment and wealth accumulation through housing, other real estate, productive and infrastructure assets in the region are

¹³ Bertaud's definition of built-up space refers to areas within city boundaries which according to the land use plan are designated for construction, but do not include parks, water surfaces (lakes, river valleys) and other protected areas.

predominantly concentrated in cities (Adair et al., 1999; Ghanbari-Parsa and Moatazed-Keivani, 1999). Firms continue to locate in cities to benefit from agglomeration economies, a pool of diverse labour force and wider access to information and technology. Though productivity advantages of urban areas are significant, inefficient urban management, inadequate transportation and lack of affordable housing impede the quality of urban life and labour mobility (UN-ECE, 1998).



Figure 10: Public-private partnerships in the redevelopment of Riga's historic core

FROM 'NOWHERE' TO 'KNOW WHERE'

Urban economies have responded differently to the changes in macroeconomic conditions. New challenges have emerged due to profound structural changes in the economy in the transition from planning to markets. The pressures of national and international economic forces, and the opening up of previously sheltered markets, have generated rapid adjustment of industries, services and other economic activities. Successes in privatisation and liberalisation of markets need to be expanded to include the more difficult structural and institutional reforms of the next phase of transition. These challenges include improvement of urban governance and economic restructuring, urban infrastructure reforms, fiscal and social reforms. Within the urban sector, the slow and uneven progress in tackling those challenges in the past decade requires a renewed focus on urban strategies and a substantial and constructive role of central and local government institutions. The effect so far has been marginal and the commitment inadequate. Urban reforms have taken a back seat in the overall process of economic and social transition (UN-ECE, 1997; 1998). The environmental problems of urban areas -- the "brown" agenda -- including pollution of air, land and water, have not received sufficient attention. Urban

social problems -- mostly related to conflicts over affordability of services, housing shortages and poverty -- require urgent commitment to the development of economically and politically feasible strategy facilitating market efficiency. Effective solutions will require addressing broader issues, including transport, land use planning, economic development, and poverty – all of which are central to the urban development agenda.



Figure 11: Defining Sofia's strategic priorities in a participatory manner

The experience of several capital cities in the region indicates that local economic and social development efforts are more successful if guided by a strategic process that includes the following elements: i) analysis of strengths and weaknesses, opportunities and threats affecting the city, ii) consensus-building on goals, priorities and actions among major stakeholders, and iii)

formation of institutional alliances to carry out specific actions and programs in order to achieve sustainable results (City Development Authority of Prague, 2000; City Development Department, 2001; Zeijlon et. al., 2002)

In Budapest, Riga, Prague, Vilnius, Sofia and Warsaw local governments have taken the lead in defining contextually appropriate multi-dimensional urban policy agenda. This approach marks a radical departure from previous experiences where a number of sectoral policies have been introduced to overcome existing urban conflicts -- pollution, decay in other parts of the city, lack of adequate provision of transport and social infrastructure, the imbalance of employment opportunities, housing and services, etc. (Dimitrovska-Andrews, 2002; Nedovic-Budic, 2001).

The strategic planning approach in post-socialist cities

The primary focus of those efforts is the institutional strengthening of local government units through the creation of locally-owned municipal strategy development processes that are participatory, integrated and holistic. An effective strategy development process will enable a municipality to accomplish conscious change by concentrating on critical issues. It will consider resource availability and innovative solutions based on commitment and capability. Since the strategy development process is dependant on local context and priorities, the focus can be wide ranging (e.g. economic development, regional co-operation, environmental management, heritage preservation and corporate management).

While different contexts produce different methodologies, most strategy development processes are cyclical and involve a number of basic components:¹⁴

¹⁴ This approach has been applied in the Strategic Plan for Prague, St. Petersburg and Sofia City Development strategy. The author acted as a task leader of Sofia CDS.

- **Purpose & Approach** -- It is essential to establish a clear understanding of the concept of strategy development as well as to clarify and define the reasons for undertaking the effort. Further, an agreement must be reached on the design of the approach for competing the first strategy cycle. The focus area, methodology, schedule, resource requirements, and responsibilities for accomplishing and integrating the various elements of the strategy development process will have to be defined. The innovation of a locally appropriate approach involves the examination of factors such as local power structures, decision-making processes, experiences with public participation, and communication networks and linkages. The examination of other jurisdictions' experiences is a useful tool during this initial component.
- **Contextual Analysis** -- In order to effectively diagnose the problem areas and key issues, an emphasis has to be placed on gaining an understanding of the local context and sensitivities as well as assessing the extent to municipality's readiness to undertake the strategy development effort. In a systematic manner, the external factors and trends (opportunities and threats) which affect the functioning of the community should be analysed, and the municipality's ability (internal issues) to respond to those factors (strengths and weaknesses) will have to be assessed. *Stakeholder Analysis* is a key element in this component. The stakeholders (both individuals and groups) who are directly and indirectly affected by the strategy development initiative should be identified and consulted. Decisions will have to be made on who should be involved as well as on the timing and capacity of their involvement. Stakeholders are essential for diagnosing the problematique and for prioritising strategy options as well as measuring performance.

Figure 12: Mayor Sofianski leads Sofia City Strategy process



- **Strategy Development** -
- Effective strategy development requires a systematic method for analysing and breaking down complex problems into a hierarchical strategic concept -- vision, strategic directions, objectives and actions -- that are realisable and measurable. Further, each strategy should be selected through a process of evaluation and prioritisation of potential

alternatives. Moreover, it is essential that this process is conducted in a participatory manner and is based on consensus. The strategy development process usually incorporates four stages:

1. *Vision of Success* is identified for the problem area. The examination of obstacles blocking the realization of the vision is an effective way to define critical issues and

establish strategic directions or goals. It is also important to define the municipality's role in relation to the resolution of each critical issue area.

2. *Strategic Directions* (often referred as goals or mission statements) must be established for each critical issue area. Strategic directions set out the overall manner in which each critical issue will be approached and managed.

3. *Objectives* are then established for each strategic direction. Objectives are prioritized targets or milestones to be reached in a manner which contributes progressively to the attainment of a strategic direction. Objectives should be significant, realistic (in balance with available resources), measurable and describe the expected results.

4. *Actions* must be established for each objective. For each selected action, an action plan will have to be formulated. Action plans detail specific tasks to be undertaken along with the corresponding implementation structure:

What? Identification of the objective to be achieved with clear definitions of specific activities and tasks to be undertaken.

Who? Identification of and contact with potential participants.

How? Allocation of required resources (physical, human, financial, etc.) and delineation of responsibilities for implementing, monitoring and evaluation.

When? Establishment of measurable targets (deliverables and impacts) to determine progress with realistic time-frames (schedules) for completion.

Performance measurement -- When properly developed, implemented and utilised, performance measurement systems can provide information that can quantitatively determine efficiency, effectiveness and quality / impact of the strategy development process during the implementation phase. Further, performance measurement systems can allow for the refocusing of the strategy development effort and enable ongoing adjustment in an optimal and participatory manner.

In summary, strategic planning in post-socialist cities can respond to the challenges of the economic, social and spatial transition. It provides a much-needed participatory framework for decision-making and complements the more traditional land use planning processes implemented through expert-driven master plans. Strategic planning can:

- *Enhance policy making and management of cities* by promoting a better understanding of contemporary urban issues, in particular democratic governance, sustainability, economic vitality and quality of life.
- *Foster innovative, co-operative approaches to urban issues* that involve business, government, academics and other partners in the process.

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