

## REPORT ON THE SECOND SEMINAR OF THE RSA RESEARCH NETWORK ON THE IMPACT OF THE GLOBAL ECONOMIC CRISIS ON CAPITAL CITIES

26th October 2012, Kyiv, Ukraine, Olga Mrinska, ILORI, Ukraine and Maciej Smetkowski, EUROREG, Warsaw University, Poland



some initial stocktaking of the effects of crisis on cities' socio-economic development, their budgets, job markets, economic structure, investment and urban planning, how it affected policy decisions and reconfiguration of financial flows, influenced governance structures and city strategies.

Colleagues from EUROREG (Warsaw University, Poland) were the first presenters, outlining the impact of the crisis on the Central and Eastern European countries, as well as some regional patterns of its effects. Professor Grzegorz Gorzelak and Dr Maciej Smetkowski highlighted that CEE countries have gone through the (first stage of) economic crisis in relatively good shape. Their socio-economic performance is considerably better compared to that of Mediterranean EU member states and the slowdown could not be compared to the one which they experienced in the 1990's while transiting to an open market economy. Capital cities in most CEE countries have done relatively well out of the crisis, mainly due to the nature of their diversified economies and prevalence of services in their structure. This session was concluded with a presentation by Yulia Rybak (Kyiv Regional Centre of Investment and Development, Ukraine) who talked about the experience of establishing and developing clusters in the metropolitan areas of Nordic countries and how it could be used in the context of Ukraine. Her presentation was heavily based on

international experience and provided some insights into the planned large-scale investment projects in Ukraine that are being developed by the State Agency for National Projects and Investments, including a science park in the capital city of Kyiv. The latter part stimulated a lively discussion among participants about the realities of Ukrainian 'cluster landscape' and the role that the Government should play in its enhancement.

2008 (it lost about one fifth of its gross regional product). A new strategic framework was proposed in 2011. However, despite the participatory nature of the process of preparation of the Kyiv Strategy-2025 its execution, as well as decisions as to distribution of resources and generating its own income, are very much dependent on the central government and its representatives in city administration. Dorota Celińska-Janowicz



The second seminar of the RSA Research Network 'The impact of global economic crisis on capital cities' took place in Kyiv, Ukraine on 26th October 2012 and was organized jointly by network founders Olga Mrinska (ILORI, Ukraine) and Maciej Smetkowski (EUROREG, Poland) and local partner, Kyiv National Economic University (KNEU, Ukraine). In total, 24 researchers/practitioners from seven countries took part in the event, and 13 papers were presented with the coverage of a wide range of issues on capital cities' development in Europe, as well as some global trends.

While the objective of the first research network seminar was to look at the crisis as an opportunity and as a challenge for the development of capital cities, this second seminar was dedicated to



The second morning session was dedicated to the governance and budgetary aspects of capital cities' development in the wake of the crisis. Dr Olga Mrinska (independent research consultant in the UK and NGO ILORI, Kyiv, Ukraine) talked about the governance responses of Kyiv city leadership to the crisis and the way decision-making has shifted over the past several years. The main trend is centralisation of power and deterioration of local self-government/community representation in decision-making, which is observed in the context of very negative trends of socio-economic development of Kyiv since

(EUROREG, Warsaw University, Poland) then talked about the municipal budget of Warsaw and how it was transformed in the wake of the crisis. With limited opportunities for cutting costs and dwindling income generation (due to a drop in personal and corporate income taxes receipts) Warsaw faces challenges of a long-term nature, rather than immediate perils of financial instability. It managed to increase its resource base through external borrowings, however the load on the city budget is increasing as the repayment amounts are growing over time.

Dr Olga Shevchenko (National Institute of

Strategic Studies, Ukraine) talked about the changes in the distribution of financial flows and resources among the regions of Ukraine and how Kyiv has gained relatively from the decline of other regions. Despite facing a dramatic decline in gross regional product, economic activity and investments, Kyiv remains the leader in the national economy and in some spheres has strengthened its position but mainly due to the weakening of other cities and regions. Policy solutions will have to address the challenges of growing disparities and productive use of financial resources accumulated by the capital city for the benefit of the entire country. This session was concluded by Tatiana Borodina (the Institute of Geography of the Russian Academy of Sciences, Russia) who described the complex and extensive process of establishing a new regulatory framework for spatial development of the city of Moscow. The mega-size of the city and its role as the economic and administrative heart of Russia is causing local residents and businesses lots of problems. The lack of a modern master plan and hawkish nature of the construction industry is creating further difficulties. The multitude of actors that need to be engaged and core role of the Federal Government makes the process of developing a new master plan, and regulations more protracted and non-transparent.

The first afternoon session was dedicated to the issues of a knowledge-based economy and place-based approach in the development of capital cities. First Professor Victor Chuzhykov and Veronika Orlovskaya (KNEU, Ukraine) presented the results of their research on

the global positioning of Ukrainian capital in the context of the European competitive model. Based on an extensive dataset and analysis of various indexes, they outlined the current state of affairs and potential future developments in the innovative sector of Ukraine and Kyiv in particular – as the biggest centre of innovative production in the country. After that Tina Haisch (Berne University, Switzerland) (in co-authorship with Heike Mayer and Fritz Sager) made a presentation about evolving economies of capital cities and how they are becoming more knowledge intensive and more resilient. The presentation covered the cases of Berlin and Berne where adaptability and innovative approach to linking private and public sectors in the wake of the financial crisis were the results of a smarter governance solution based on a greater decentralisation. In these two cases, a changed policies and governance approach has helped capital cities address negative consequences of the crisis and open up new opportunities for the future.

Liga Baltina (Centre for European and Transition Studies, Latvia University, Latvia) then talked about the opportunities that a place-based approach could bring for boosting the development of Riga. Latvia has seen one of the most dramatic recessions among EU member states and it faces the challenges of a mono-centric spatial model where too much is dependent on the capital city of Riga. A great concentration of businesses, jobs, innovations and opportunities further drives up the attractiveness of Riga as a number one destination for people and companies. However, its territory is not considered to be an integral

part of the system. The place-based approach to regional development policy in Latvia where territory is considered to be an asset and essential element of the city's economy should open up new opportunities for its capital.

The final afternoon session was dedicated to the development of particular cities and sectors. Professor Volodymyr Shevchenko (Kyiv National Taras Shevchenko University, Ukraine) presented the trends of the post-crisis linkages between the international financial markets and the banking sector of Kyiv. He highlighted the extreme vulnerability of Kyiv's banking industry (which represents the majority of the national sector) and its dependence on the international liquidity markets and international parent banks. Due to the financial crisis, the number of banks has shrunk, some international operators have sold their businesses to locals and the share of bad loans in the banks' portfolio is growing. Accompanied by a general economic crisis and downgraded country and city investment ratings, this creates a serious challenge to the sector and city economy in general. Then Kateryna Nykoniuk (KNEU, Ukraine) presented the case of the healthcare sector in Kyiv and how it is being transformed as

a result of large-scale reforms in the spheres of governance, resource allocation and network optimisation, use of multiple providers and introduction of medical insurance etc. It has been argued that in the future, the healthcare sector might provide a significant boost for the capital's economy due to the large concentration of highly qualified staff, more rational use of resources, change in stimuli towards a healthier lifestyle, and significant role to be played by the private sector.

The last paper was by Vasileios Kitsos (The State Agency for Regional Development of Latvia, Riga, Latvia) in which he presented the case of urban space transformations in Riga and its surroundings. Before the crisis, Riga had seen a significant exodus of population from the central areas to suburbia as a result of a construction boom, accessible loans, people's rising affluence and preferences for a more comfortable life-style. After the crisis, many developers' projects still remain unfinished while mortgages have become unattainable for many Latvians who have lost their jobs and have seen salary cuts. A new phase of urban development sees some revitalisation of central areas while a coherent



policy approach to spatial planning in Riga is still to be developed and implemented to tap into the opportunities that the city's territory offers.

The final discussion was centred on the following questions: a) What were the factors in capital cities' relative success/resilience in the face of the current global economic crisis? b) What is the role of power decentralisation in the process of adapting to the external conditions? c) Which capital cities' sectors/branches were the most vulnerable to the crisis and why? d) What austerity measures have been implemented by the capital cities' authorities and what

might be their final outcome? e) What opportunities does the crisis provide for spatial planning in capital city-regions?

The variety of answers and solutions from the capital cities across Europe demonstrates the need for cities to adapt while building their crisis mitigation plans on the basis of local strengths and advantages. At the same time, there is one common feature that characterises more successful scenarios of crisis mitigation by capital cities: the more autonomy cities have to respond to negative economic and social trends, the more influence they have

over generating income and allocating resources, the more flexible and thus more efficient their policies are and their outcomes are more significant. A centralised governance structure with limited powers granted to regional/local authorities negatively affects the abilities of capital cities to address their challenges and plan for the future in a different and less predictable socio-economic and investment climate.

Less formal and very friendly discussions continued over the seminar dinner at the restaurant Taras Bulba in the centre of Kyiv, with authentic Ukrainian cuisine.

**Olga Mrinska** has more than 10 years of experience in the areas of regional policy, local and regional economic development and governance. She is an independent researcher/consultant based in Hertfordshire, UK.

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