

# TRENDS IN THE ECONOMIC EVOLUTION OF URBAN DEVELOPMENT POLES

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## **Abstract.**

Cities are facing constant and more increasingly changes and challenges. In the light of these changes and challenges, this paper tries to configure the idea of how communities, especially those in urban areas face their problems and initiatives to use existing opportunities to access sustainable and balanced development. An integrated approach to urban development and the concept of cities as centers of power in disseminating positive effects in neighboring territories, led the European Union to structure a policy framework, an institutional and legal framework in order to support this type of events. Doing a little review of the EU and national action and support framework for urban development, this paper aims to highlight the effect of this support on urban development in terms of economic dimension. Approach starts from the assumption that urban areas are able to efficiently use the leverage created by the European Union and accessible nationally through established internal policies, in support of urban development. Proposed research hypothesis applies in a case study upon the urban development poles from Romania's North-West Region, by linking information from the analysis of the local economic environment with the level of structural funds absorption rate for these poles in the 2007-2013 financial programming.

**Key words:** economic growth, business environment, region, funding instruments, absorption rate

## **1. Introduction**

„Cities are complex ecosystems affected by social, economic, environmental, and cultural factors” (Li *et al.*, 2009). It has been observed in the last years that „urbanization promotes rapid social and economic development” that led to problems, such as “concentration of the population, traffic jams, housing shortages, resource shortages, biodiversity reductions, ‘heat island’

effects, noise, and air and water pollution” (Savard *et al.*, 2000).

In a fast development urbanization processes „the world is becoming an increasingly urban place” that will have to face larger and wider issues considering the fact that by the year 2025 “about 65% of population is expected to live in urban areas” (Schell and Ulijaszek, 1999).

In the European Union, more than two parts of population live in those urban areas (European Commission, Directorate General for Regional Policy, 2011) and considering these perspective, European urban areas will also be facing numerous challenges including economic, social, transportation, landscape, environmental problems and others.

It is clearly that solving all these problems will imply a holistic, integrated vision, a modern perspective, always in necessity to be updated to present.

The Territorial Agenda of the European Union adopted at the informal meeting of European Ministers responsible for Urban Development and Territorial Cohesion in Leipzig in May 2007, confirm the new challenges to be overcome by the Member States in period 2007-2013. They consist of the following issues remain topical:

- Climate change;
- Interdependence and competition in the globalized economy;
- Higher energy prices, energy inefficiency and sustainability,
- EU enlargement acting on economic, social and territorial cohesion;
- Overexploitation of ecological and cultural resources and loss of biodiversity;
- Demographic change (including aging and migration) (European Ministers Responsible for urban development and Territorial cohesion, 2007).

European Union's Cohesion policy have allocated during 2007-2013 period with an amount of 2.1 billions euro, representing 6,1% of total budget, for projects aiming urban development (European Commission, 2007).

Urban development policy in Romania as part of the regional development policy is in that perspective under the influence of the EU cohesion policy "which remains the most viable development policy model even in the next programming period, as a pre-requisite for continuing the process of economic, social and territorial convergence" (Constantin, 2011).

This paper will try to make an overview over the importance of urban development poles within E.U regional development policy by presenting specific Romania's acting along with this policy and the way Romania's urban communities have known using this funding opportunities during 2007-2012 with the focus on the urban development poles in North-West Region and presenting specially existing effects upon their economic dimension.

However there are opinions sustaining the idea that "a high efficiency of structural funds is conditioned by the quality of governance in general and of public administration institutions in particular" (Zaman, 2009).

## 2. Urban development poles in Romania

### *2.1. Legal Framework and arguments*

In 2008, the Ministry of Development, Public Works and Housing has identified and proposed and the National Coordination Committee for Structural Instruments decided in accordance with art. 1 of Decision CNC nr.2/10.07.2008, the designation of 7 big cities as centers of growth poles (one in each development region): Iasi, Constanta, Ploiesti, Craiova, Timisoara, Cluj-Napoca, Brasov for funding the European and national programs of 7 growth poles formed around.

Besides these 7 growth poles, there have been identified other 13 poles of urban development as are: Arad, Baia Mare, Bacau, Braila, Galati, Deva, Oradea Pitesti, Ramnicu-Valcea, Satu Mare Sibiu Suceava Targu Mures.

Basic criteria in determining urban development poles were as follows:

- Potential for economic development (degree of functional specialization);
- Ability to research and innovation (universities, research institutes, centers of excellence, scientific cores with a critical mass of high quality research that have the ability to keep pace with advances in science and technology);
- Adequate business infrastructure (industrial parks, incubators, science parks and technology which provides market research results);
- Environmental and entrepreneurial culture based on diversity of business relationships and social connections;
- Accessibility (road, rail, air, sea);
- Public services (health infrastructure, cultural);
- Administrative ability association (H.G 998/2008).

The arguments for declaring of urban development poles as presented in the Substantiation note of H.G 998/2008, follows the theory of growth poles stipulated by François Perroux who "assumes that a growth process is not located everywhere, but manifests in variable intensity in certain points or poles. Diffusion growth is achieved by various channels to certain variables of all of terminal economy" (Perroux, 1950) and "an economy's level of development is defined by the set of

goods that it is capable of producing" (Kelly, 2001).

These urban development poles correspond with territory systems that concentrate dynamic industry where investments have a significant effect on the regional economy. These may have also interregional effects and can alter not only the structure of the region in which it is located, but also the extent and intensity of interregional structure, including the territorial distribution of population and economic activities.

Considering the polycentric development model, it is expected that urban development poles will act as a liaison between growth poles and other small and medium town urban system in order to mitigate and prevent imbalance development trends within the region in the context of a predominantly monocentric urban regional systems. At the same time, these poles will help reduce the population and employment concentration level in the major urban centers and may create a spatial structure that can boost economic development balanced in territory.

In a second dimension, the cities identified and designated as urban development poles are important administrative centers, connected to national and European transport network, with significant level of economic development, cultural and important academic functions and they already emerging growth in regional space.

By creating attractive working conditions and living standards, urban development poles may favors reducing the migration of the capital toward other major urban areas, counteracting the phenomenon of

depopulation of the small towns and rural areas adjacent to urban development poles (Substantiation note of H.G 998/2008).

## *2.2. Funding Instruments*

Main instrument for sustaining urban development is represented by the Regional Operational Programme (ROP) 2007-2013, approved by the European Commission Decision no. 3470/12.07.2007. ROP provides the distribution of funds based on priority axes AS ROP strategy stipulates, taking into account the portfolio of projects collected from the 8 development regions and by agreement with representatives regions.

First Axis of ROP called - "Support to sustainable development of cities - urban growth poles" aims particular the regeneration or the revitalization of cities with economic development potential in order to increase the role of cities in regional and local economic development, rehabilitation of urban infrastructure and improving services and by developing business support structures and entrepreneurship.

For this axis there are available 30.00% from ROP funds, namely 1391.17 million from the European Regional Development Fund and national public funding. This allocation took into account the implementation capacity, the ability and experience of local authority in financing and applying such large projects.

To finance urban development poles is proposed to allocate a percentage of up to 20% of the financial resources for Priority Axis 1: "Support to sustainable development of cities - urban growth poles" Regional Operational Programme

2007-2013, as defined by Decision European Commission no. 3470/12.07.2007 (Substantiation note of H.G 998/2008).

Indicative financial allocation available for the first open call for integrated plans and projects designed for the urban development poles is EUR 248.51 million €. North-West Region receives 32, 96 million € of this amount divided in equal parts of 10, 98 million € for each of the three urban development poles (Applicant Guide for Urban Development Poles, 2011).

## **3. Study Case – Economic Trends of Urban Development Poles in North-West Region**

### *3.1. Recent economic trends of the urban poles in North-West Region*

Cities are the economic spots where most activities and function are concentrated in the territory. The way the cities know to manage and value their resources, print its mark upon urban development, but far more affects the overall development of the region through a diffusion phenomenon of capital and income.

Considering economic dimension in detrimental of other starts from the idea that "the view of the functioning of a city as an economic, rather than a social or a political of the urban or an architectural entity, sets out a scientific research programme" (Evans, 2003) more effective. Recent EU policy aims to support development by inserting capital in the cities regarded as key to regional development.

In this context, the case study proposed aims to highlight what economic trends marked the urban development poles in North-West Region economy before and after having access to capital through the

Structural Funds for the 2007-2013 funding period, even more in the context of an axis under the Regional Operational Programme dedicated specially to urban development poles.

It is important to reveal that, the study case is part of a research work, phase VII called - "Trends in the socio-economic urban development poles and their role in the context of regional development policy - Case Study - Evolution of urban development poles in North - West Region" from the Nucleus Program - "Socio-economic effects of the policy of urban network expansion", and refers only to the economic dimension of changes occurred in Oradea, Baia Mare and Satu Mare cities.

The methodology of analysis approached, comprises the idea of identifying key indicators to define local economic activities trends and a qualitative assessment of those in correlation with the absorption level of EU financing succeeded by the urban development poles for 2007-2012 periods.

The indicators used in the analysis of the economic trends refer only to the private sector and they have been aggregate using NACE (European industrial activity classification) codes after Fourastie model (1954).

In this context „the purpose of indicators" is also „to provide a tool for guidance in sustainability policies" (Spangenberg *et al.*, 2002) through presenting a state of facts and may represent "common reference to different stakeholders" (Repetti and Desthieux, 2006) possible investors.

These indicators are - the number of active firms, number of employees and turnover.

The indicator expressing the number of firms in 2010, while employees and turnover indicators are analyzed for two years - 2006 and 2010, allowing to highlight local economy trend before and after declaring those urban development poles.

The lack of homogeneity between dates is due to different reporting periods, but, however, it can be observed a certain trend in the economic evolution of the three cities and there can be made an interpretation of those compared with absorption rates.

Databases used are the official statistics - Tempo online of the National Institute of Statistics and BorgDesign Romania's Firm List, a database for private sector including data from profit and losses statements.

Analysis of the recent economic trends of Arad, Satu Mare and Baia Mare has shown an increasing evolution in number of firms, turnover and employment ratio in 2010 compared with 2006, facts that places these urban development poles in a positive economic trend. Employment dates shows a slightly increase of working places in a range of 11 to 15 percents in 2010 compared to 2006 and the turnover register in the same period an even higher growth in a approximate range of 50 percents for all three cities.

In which concern main activities contributing to local economic results there have been identify some differences of the economic profiles of the cities. Thus Oradea reveals a dominant tertiary economic profile; Baia Mare has a tertiary - secondary profile and Satu Mare a secondary-tertiary profile.

The economic profile has been determinate base on the total turnovers reported by



firms and remains unchanged during the analysis period; there are no fluctuations in this regard. However, in terms of occupational profile, the situation changes, in that perspective it can be observed an important decrease of employment in industry. Respective to that situation, Oradea and Satu Mare "loses" cumulated close to 4,500 jobs in industrial activities in recent period. Not the same situation is encountered in Baia Mare, where they are created around 600 new jobs in this field. It has to be mentioned also, some particularities in recent economic structure of North-West urban development poles in regarding to agricultural activities whose importance has grown in last years.

However there are also negative aspects especially related to extractive activities. Baia Mare city evidence a highly restructuring process of extraction activities bolded by the lost of 115 jobs.

Considered in regional context, the economic dimension of Arad, Baia Mare and Satu Mare appear as highly important. In a short description each of the three municipalities generate somewhere between 54 and 67 percent of economic output, and similar percentages in terms of securing salaried jobs.

In the regional context is obviously the particular role of Oradea city, its economy contributes with about 13-14% to the total of regional turnover, while Satu Mare and Baia Mare have a share of approximately 7 to 8 percents.

The evidence of the economic role played in regional context of the analyzed urban development poles, reiterates the importance of such administrative - territorial units to ensure those spillover effects which according to theory development poles will lead to the creation

and diffusion effects required breaking the vicious circle of poverty.

### 3.2. State of absorption rate of structural funds of the urban development poles in North-West Region

Romania in 2007-2013 is allocated by the EU Structural and Cohesion Funds an amount of 85.538 billion lei to support growth and reduce development disparities within the Union in accordance with the Treaty recognized by Member States. The objective of the 2007-2013 funding period is for Romania to reach a GDP of 41% of the EU average in late 2013 (Romania's Government, 2005) and the fundraising community wants to be an important part in supporting this objective. Until 31.03.2012 from Romania managed to raise 69,009,002,904 lei from 7812 contracts signed (own calculation after dates from <http://www.inforegio.ro/node/22>).

Payments situation of that money is different if refer to each operational program. The chart below presents the absorption rate by development regions Fig. 1.

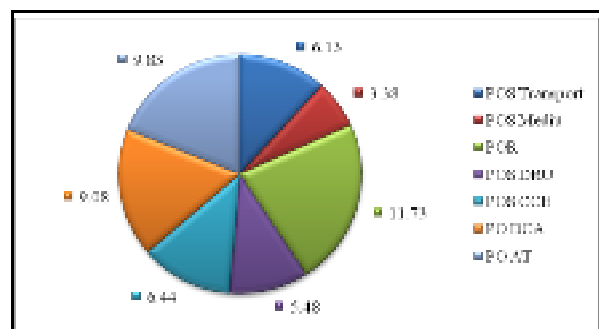


Fig. 1. Absorption of EU structural and cohesion funds in Romania on 31 March, 2012.

Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)

Regarding the absorption of EU funds at regional level from 2007 until March 2012 there has been identified a rather low absorption rate in all regions in an interval ranging from approximately 3 percents to almost 17% of the total

allocation. North - West enroll an average of absorption rate compared with other regions and it managed to receive payments for 13.22% of the allocated amount, through the signed contracts. Fig. 2.

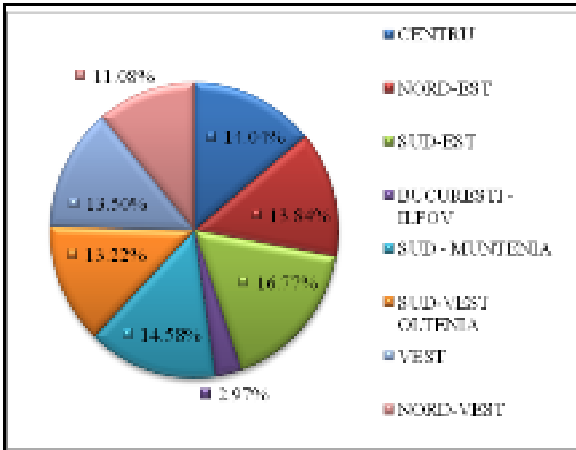


Fig. 2. Distribution by region of absorption of EU funds until 31.03.2012

Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)

During 2007-2012 periods, North-West urban development poles have attracted financing from Community funds in amount of 1,262,863,783 lei.

The chart below shows the distribution of EU funds attracted to the poles of development for the period of 2007-2012 Fig. 3.

Most favorable situation concerning absorption rate belongs to Oradea, the city attracts 53.84% of the allocated regional funds.

The total amount of EU funds raised through contracts in 2007-2012 in Oradea is 1,262,863,783 lei. Of this amount the beneficiaries were paid to a percentage of 8.9 and there were awarded contracts up to 135 in number, Fig. 4.

The total amount of EU funds capitalized through contracts in 2007-2012 periods in

Baia Mare is 938,883,964 lei. From this sum the beneficiaries were paid in a share of 7.7 percent and were granted amounts for a total of 116 contracts.

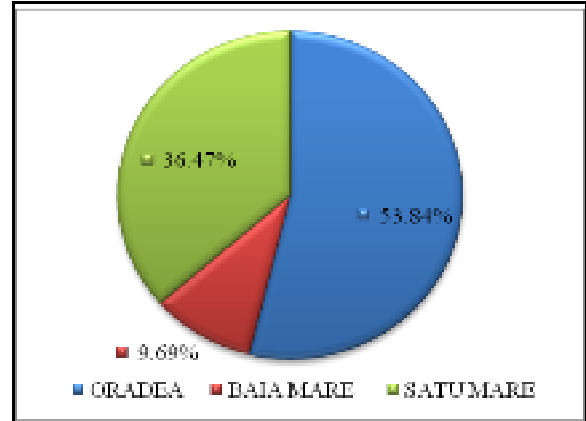


Fig. 3. Distribution of EU funds attracted by the urban development poles during 2007-2012 period. Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)

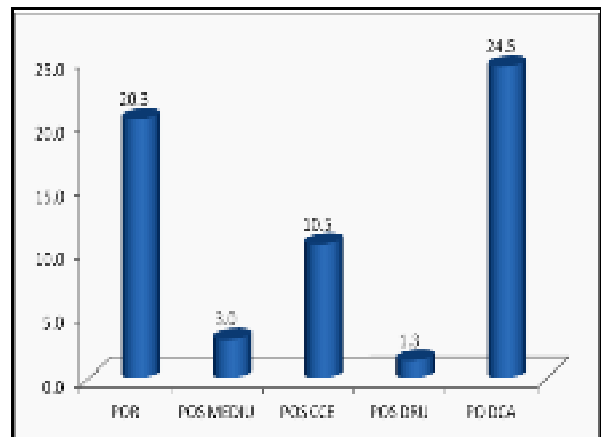


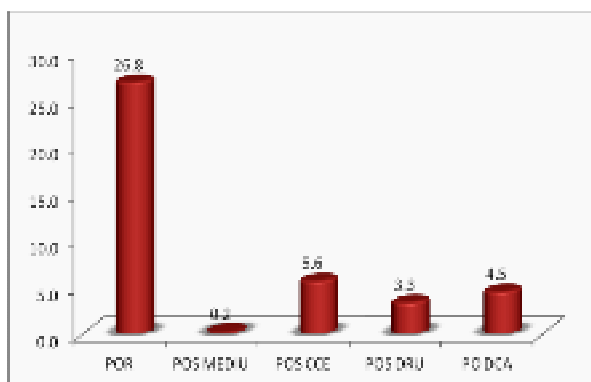
Fig. 4. Total extent of absorption of structural funds in Oradea city, in 2007-2012 periods by type of program

Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)

In the same period Satu Mare success in obtaining 664,145,552 lei allocated for contracts 87. Of this sum payments were made in a share of 5.4 percents, a very small piece compared to the amounts allocated.

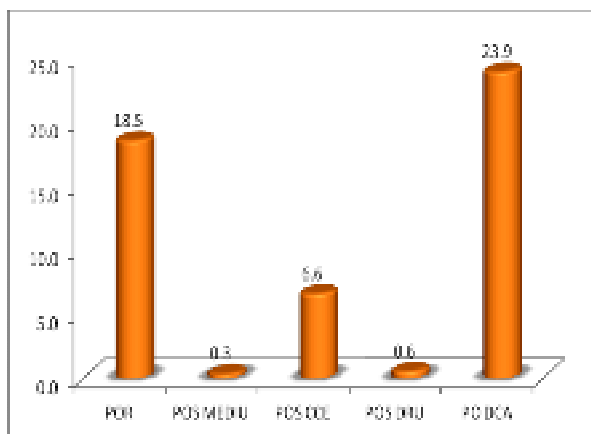
The analysis of the absorption rate of EU funds in the three growth poles of the North - West, shows low capabilities and

a relatively low level of funding obtained by such instruments. It is however noted an average absorption rate which is higher than the national average for the Operational Programme Administrative Capacity Development and for the Regional Operational Programme.



**Fig. 5.** Total extent of absorption of structural funds in Baia Mare city, in 2007-2012 periods by type of program.

Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)



**Fig. 6.** Total extent of absorption of structural funds in Satu Mare city, in 2007-2012 periods by type of program

Source - Own processing on - Stage absorption of European funds - Ministry of European Affairs [www.dae.gov.ro](http://www.dae.gov.ro)

Nevertheless, according to the latest report of the Ministry of Foreign Affairs the urban development poles in the North - West have not drawn any amount under Axis 1 - Urban Development Poles of the ROP.

## Conclusions

Making a compare between the late economic development trends of Oradea, Baia Mare and Satu Mare cities and their absorption rate it is clear that there can not be found any kind of correlation in which concern the way urban development poles have shown a spatial diffuse of economic growth base on capital insertion using funding instruments made available by the European Union.

This is not a typical example, because we only have in focus the urban development poles in North-West Region. However, it might be observed that there is quite a low interest of communities in using opportunities of EU funding instruments to support the development and even more to pass a hop period, like recent economic crisis, in order to overcome difficulties.

There is no doubt that there were some limiting factors that have acted and induced divergent responses of authorities and local businesses environment, and that resulted in not being more and strongly reflected in obtaining financing through EU funds.

Limiting factors may have an objective or a subjective basis and may refer to:

- inadequate or limited organizational capabilities;
- inhibitors bureaucratic factors;
- lack of access to finance for co-payment;
- low degree of initiative;

Overcoming these types of restrictions is a challenge both for the authorities and for future EU and Romania's policy, in finding those levers and those types of tools to fold the best in various types of regions, so that it can be achieved a sustainable, equal, fair



and non-discriminatory development for all Community citizens.

On the other hand there are authors that sustain that information accumulation represents an important criterion for development and “poor societies may have less information partly because the scarcity of capital restricts the repetition of various activities” (Acemoglu and Zilibotti, 1999).

Nevertheless, it is clearly that a positive economic trend of urban development poles can not be related directly to the economic capitalization through EU funding opportunities and economic growth may be obtained even in difficult times and “remained firmly based on microeconomic foundations” (Acemoglu, 2012) of the endogenous resources.

The problems appears when considering the disparities existing in life condition between regions along Europe and the existing possibility of obtaining a much important result through attracting EU financial aid. In that perspective, the role of urban development poles becomes essential as points of spreading this growth.

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