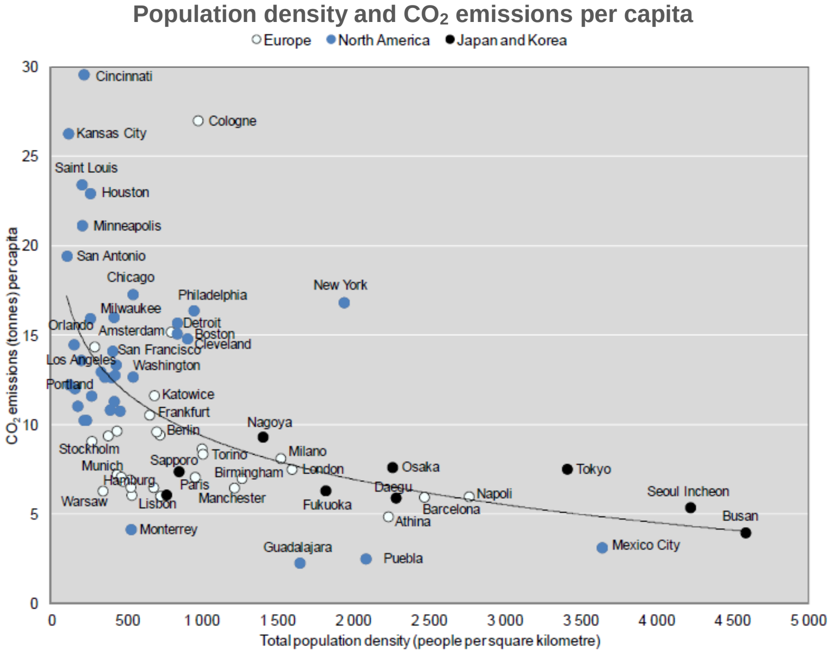
GREEN GROWTH IN CITIES: KEY MESSAGES FROM THE OECD

What is urban green growth and why do cities matter to national green growth strategies?

- ***Urban green growth*** fosters economic growth and development through urban activities that reduce negative environmental externalities and the impact on natural resources and environmental services.
- ***Cities strongly influence the economic and environmental performance of countries***. They are crucial drivers of growth: 2.4% of OECD regions – mainly large urban areas – generated roughly one-third of growth in the OECD (1995-2007). Cities also account for an estimated 67% of global energy use and 71% of global energy-related CO_2 emissions.
- ***Urban policies are crucial for achieving national environmental and green growth goals,*** in part by lowering the long-term costs to the economy of national environmental policies. Urban form and planning can play a strong role in reducing environmental impact, as CO_2 emissions are likely to be lower in dense cities than in less densely populated areas.

Population density and CO_2 emissions per capita



Source: OECD (2012), *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, doi: *10.1787/9789264174108-en*.

What are potential impacts of green urban policies on growth?

The OECD's city-level case studies provide urban leaders with new insights on how environmental policies can contribute to different types of growth.

- ***Job creation:*** the right urban sustainability policies can include retrofitting the existing building stock for improved energy efficiency. For example, the Chicago Tri-State metro-region has built a regional specialty in green building design and retrofitting. In 2010 it gave 45 000 people green jobs, 36% of which were in the green building sector.
- ***Attracting firms and workers:*** efficient transport systems, in particular good public transport networks, help cities to lure investors. The private sector in the Paris/Ile-de-France region has long recognised this, and firms that benefit from proximity to the transportation system contribute to its financing.

- ***Innovation and entrepreneurship:*** cities can foster the growth of the green technology sector by creating green regional clusters that build on existing industries, services, research and innovation. Kitakyushu has built an impressive recycling cluster, the Eco-Town, which recycles hundreds of tons of industrial waste every day, while producing energy for residential and commercial neighbourhoods.
- ***Increasing the value of urban land:*** redevelopment, infill, and eco-districts can enhance land values while increasing density and reducing residents' environmental impact. Following the success of its Hammarby Sjöstad eco-district, Stockholm is now working with the private sector to develop the Stockholm Royal Seaport eco-district. Buildings there will use less than the energy of others in Stockholm and the new district will have an advanced smart grid and district heating.

How to govern the green city?

Governing green growth involves multiple levels of government and various stakeholders. Urban policy makers interested in pursuing green growth can improve co-ordination through:

- ***a combination of enforcement and incentives*** to ensure compliance when objectives diverge;
- ***inter-municipal co-operation to manage urban services,*** such as water or waste management, in a more environmentally and economically coherent way;
- ***working together across policy sectors*** – for example, in integrating environmental and economic development policies;
- ***developing measuring and monitoring tools that cross administrative boundaries*****,** and a body to collect and disseminate cross-sector data at the micro-scale; and
- ***building local capacity*** to foster green growth.

What can national governments do to enhance cities' capacity to act on green growth?

Cities do not act in isolation from upper echelons of government. National governments can enhance cities' capacity to act on green growth in the following ways:

- **providing financial and technical support**, clear targets, and monitoring mechanisms;
- **setting price signals and standards**, for example, through carbon taxes or other pricing mechanisms;
- **reviewing national policies' impact on local incentives**, to identify and remove perverse incentives; and
- **encouraging infrastructure investment** in line with sustainable development and green goals.

National policies should be guided by three key principles:

- ***Policy coherence across levels of government***. The greener the national framework, the easier it will be to address city-specific challenges and to ensure coherence and consistency between national and local policies.
- **A holistic approach**. Efforts to foster urban green growth may not always be equitable. These concerns should be addressed through national policies, particularly the tax and benefit system, rather than trying to ensure that each individual policy measure fulfils both environmental and equity objectives.
- **Sophisticated policy instruments within a simple package**. An overly complex system of regulations, incentives, and taxes makes impact assessment harder and raises the risk of unintended interaction effects or perverse incentives.

How to leverage financing for urban green growth?

Many urban revenue sources can be designed to either stimulate or discourage green growth in cities. For example, well-designed property taxes and development fees can tackle urban sprawl and raise money for funding green infrastructure. In addition, private financing can be attracted to fill the funding gap for many urban green infrastructure projects through:

- ***real estate developer charges and fees***, to pay for the infrastructure needed to connect new development to existing infrastructure, and to discourage urban sprawl;
- ***value capture taxes***, aimed at seizing part of the value increases of real estate due to new nearby infrastructure development;
- ***public-private partnerships*** (PPPs), whereby the long-term risk is transferred to the private sector; and
- ***loans, bonds and carbon finance***, to attract private finance.

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