Executive summary

Pursuing green growth in cities is more important than ever in light of the explosive urban growth expected over the coming decades. Today, for the first time in human history, over half of the world's population lives in urban areas. By the end of the century, this share is projected to rise to around 85%, out of a world population of about 10 billion. This implies there will be 5 billion new urban dwellers to accommodate in the years ahead.

Cities play disproportionately large roles in the economic and environmental performance of countries. They are critical drivers of national growth. Just 2% of OECD regions, mainly the largest OECD urban areas, generate roughly one-third of all growth in the OECD. In both India and China, the five largest cities' economies contribute approximately 15% of national GDP – roughly three times their share of the population. Cities also contribute disproportionately to energy consumption, and thus to climate change. They account for an estimated 67% of global energy use and 71% of global energy-related CO_2 emissions.

Urban policies can play an important role in achieving national environmental and green growth goals. For instance, they can lower the long-term costs to the economy of national environmental policies. Cities are responsible for a significant share of infrastructure investments, which if invested wisely can contribute to national efforts to combine growth with environmental performance. And urban form and planning can also play a key role in reducing environmental impact, as CO_2 emissions from transport are likely to be greater in less densely populated areas than in more densely populated areas.

What is urban green growth?

Urban green growth is fostering economic growth and development through urban activities that reduce environmental impact, for example low air pollution and CO_2 emissions; low consumption of natural resources including water, energy and undeveloped land; and the protection of ecological services. Urban policy makers have come to see green growth as an opportunity to create jobs and attract firms and investment, while improving local environmental quality and addressing global environmental challenges, particularly climate change.

Policy makers' interest in green growth has led to a call for more information on the policies which can actually bring about green growth in cities. This report proposes a definition of urban green growth and its key elements. It outlines some of the high priority urban policies for green growth, as well as the national policies needed to complement and support these local policies. It also outlines the governance and finance challenges – and solutions – for cities that want to grow green. The report is illustrated with examples from six urban green growth case studies: four at the city level (Paris, Chicago, Stockholm and Kitakyushu) and two national studies (China and Korea). Annex A presents a preliminary set of indicators for tracking progress towards urban green growth.

Key findings and recommendations

Benefits of green growth for cities

What are the potential impacts of green urban activities on economic growth and development? While it is not yet possible to demonstrate a link between urban activities that reduce environmental impact and resulting economic growth and development, the case studies of four urban areas in the OECD do provide preliminary insights into the types of green urban policies that are most likely to contribute to certain desired growth impacts. In this report we focus on four potential impacts and some of the key policies that can contribute to achieving them:

i. When the priority is an increase in jobs, a key policy to consider is energy-efficiency retrofits of buildings.

ii. When the priority is an increase in a city's attractiveness to firms and skilled human capital, a key policy to consider is increasing the efficiency of the transport system.

iii. When the priority is an increase in the local production of green goods and services, key policies to consider are identifying the potential for green specialisation and fostering green technology research and development (R&D) and innovation.

iv. When the priority is an increase in the value of urban land, a key policy to consider is urban redevelopment, including infill development and eco-districts.

Governing green growth

Governing the green city 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.

Funding green growth

A major challenge to pursuing green growth in cities is raising the revenues required. 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;
- value capture taxes, aimed at seizing part of the value increases of real estate due to new nearby infrastructure development; and
- public-private partnerships (PPPs), whereby the long-term risk is transferred to the private sector;
- loans, bonds and carbon finance, to attract private finance.

The national framework for greening growth in cities

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:

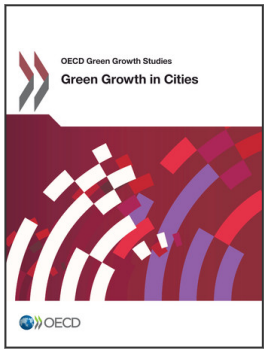
- providing financial and technical support, clear targets, and monitoring mechanisms;
- setting price signals and standards (for example, through carbon taxes or other pricing mechanisms);
- reviewing national policies' impact on local incentives, to identify and remove perverse incentives; and
- encouraging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

National policies should be guided by three key principles:

i. 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.

ii. A holistic approach. Efforts to foster urban green growth may not always be equitable. These concerns should be addressed through national regulations, particularly the tax and benefit system, rather than trying to ensure that each individual policy measure fulfils both environmental and equity objectives.

iii. 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.



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