

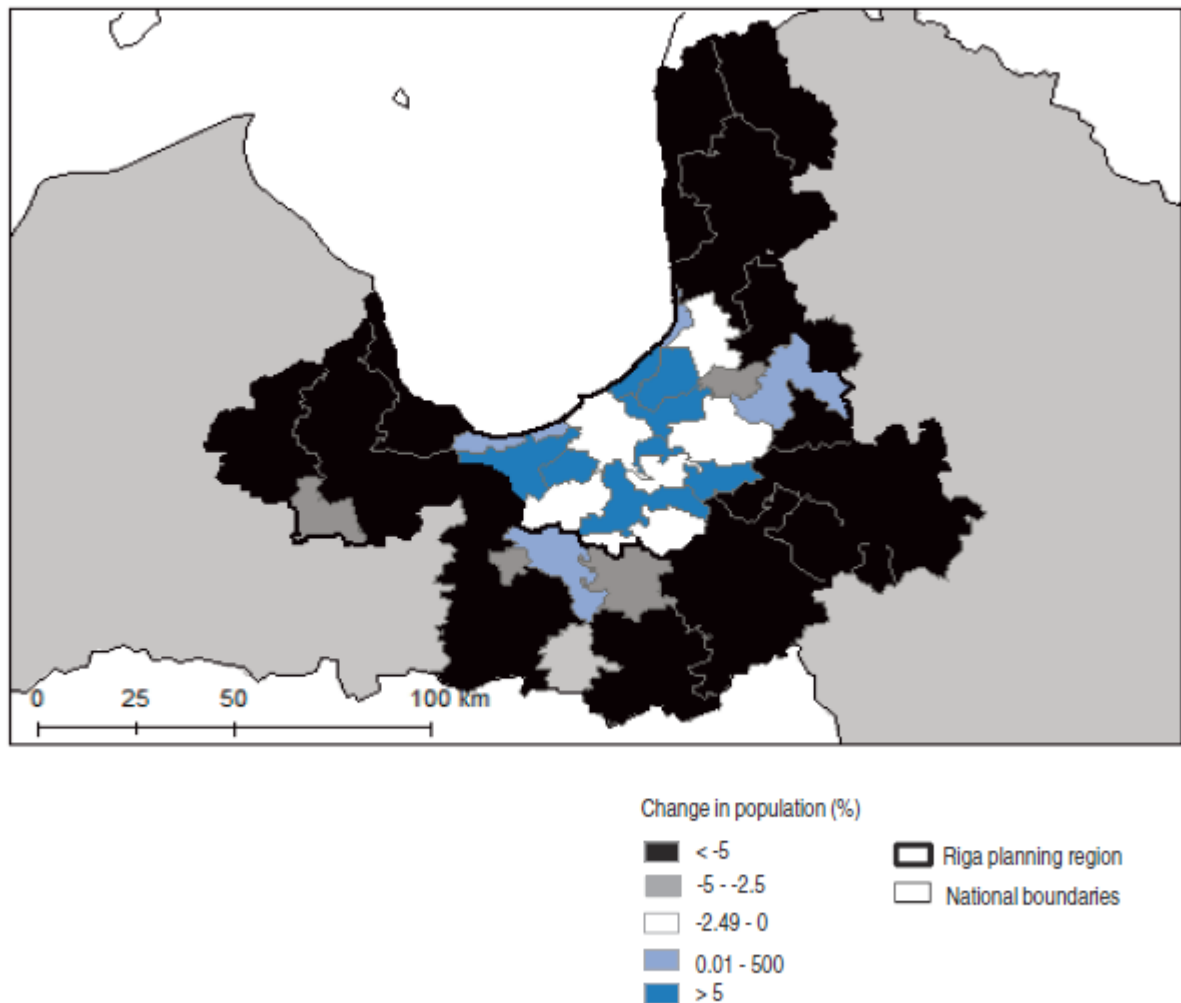
# Making the most of Riga metropolitan area can boost wellbeing and economic growth in Latvia

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Located at the centre of the Baltic States, Latvia's capital city Riga and its surrounding municipalities are a strategically important logistic centre with access to markets in Europe and Russia. It is the largest city in the Baltic States and the third largest in the Region of the Baltic Sea. The city and its surrounding municipalities are not only home to more than half of the Latvian population but also contribute about 69% to national GDP. Better urban policies improve the quality of life for a large share of the population, boost economic performance by making the area more attractive, and can help retain young people who have emigrated from Latvia in large numbers, as argued in the *2017 Economic Survey of Latvia* (OECD, 2017).

The city of Riga has lost inhabitants mostly to surrounding suburban municipalities in commuting distance, resulting in urban sprawl. Urban sprawl is driven by low density developments. It can give rise to socio-economic, transport, infrastructure and environmental concerns, with negative effects on economic performance and quality of life. Urban sprawl therefore increasingly contributes to congested roads and environmental pollution. For instance, between 2000 and 2010 the number of private vehicles in Riga increased by 60%, whereas the flow of incoming vehicles from surrounding areas of Riga doubled.

**Figure 2.8. Population has declined in many municipalities but has grown in municipalities surrounding Riga**  
Population growth, 2010-15



Note: Only municipalities that are part of the Riga planning region or the Riga agglomeration are depicted.  
Source: OECD calculations based on RDIM (2016), Regional development indicators ([www.raim.gov.lv](http://www.raim.gov.lv)).

Urban sprawl is driven by middle to high income households, contributing to a concentration of households with similar socio-economic status in neighbourhoods. Residential segregation can result in unequal access to quality education. Residential segregation in Riga is still lower than in other European capital cities but has been increasing. Latvia's fiscal framework incentivises municipalities to follow a strategy that maximises their revenues by individually adjusting their spatial planning. This is because high income households generate more local tax revenues. Municipalities may lack incentives to provide amenities that might attract lower income households, such as social housing. While there is redistribution of tax revenue across municipalities, it

only offsets a small part of the revenue differences.

To reap the benefits that come with urban agglomeration, Riga city and the surrounding municipalities need better co-ordination and joint strategic planning. The appropriate scale of such metropolitan governance needs to match daily mobility patterns of residents and ensure good co-ordination not only across local but also regional and national governments as well as across policy sectors (OECD, 2015a). Across the OECD, good metropolitan governance has shown to be linked to higher productivity, durably higher wages and better quality of life (Ahrend et al., 2014; OECD, 2015b). For example, residents' satisfaction with public transport in metropolitan areas with a dedicated transport authority is higher and air pollution is lower. Metropolitan areas without tailor-made governance arrangements have experienced an increase in urban sprawl, whereas those with a metropolitan authority densified.

## References

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