



In collaboration with:



Live Learning Experience: *Beyond the immediate response to the outbreak of COVID-19*

Finance: Local governments under financial strain – what solutions in the face of the COVID-19 crisis and beyond?

Briefing & Learning Note

23 April, 2020



For more information, please contact: policy@uclg.org



Launched jointly by United Cities and Local Governments (UCLG), Metropolis, and UN-Habitat on March 25th, 2020, the **#BeyondTheOutbreak** Live Learning Experience (LLE) virtual sessions aim to bring together Local and Regional Governments (LRGs), their associations, and partner organisations to allow and promote meaningful exchange as they find themselves confronting the COVID-19 crisis while maintaining an orderly functioning of public services. Following an initial consultation held during the launching session, the seventh thematic LLE session, held on Thursday, April 23th in collaboration with FMDV and UNCDF, was devoted to **assessing the impacts of the COVID-19 crisis on local and regional government finances, and the challenges and actions to be taken in response to the current emergency and during the future recovery period.**

Over 280 participants attended the session. Several local and regional governments were invited to share their experiences, including the cities of Johannesburg (South Africa), Seville (Spain), Kumasi (Ghana), Gulu (Uganda), Edmonton (Canada), Mexico and the Department of Antioquia (Colombia). The floor was also given to various public and private partners, including UNCDF, the Rockefeller Foundation, the European Commission and the French Development Agency, who presented the support they could provide. Throughout the session, a parallel discussion thread allowed to collect the participants' views and proposals.

Localising Financing: A long-standing claim of local and regional governments and an absolute necessity in times of COVID-19

The COVID-19 outbreak is placing local and regional governments (LRGs) under unprecedented financial pressure. Faced with the current emergency, they must continue to ensure sustainable provision and financing of basic public services to their communities while incurring extraordinary expenditure on prevention and containment measures to curb the spread of the virus. At the same time, they are experiencing a substantial drop in their current income. Far from ending in the wake of the crisis, these financial difficulties are likely to persist and even worsen in a majority of countries.

Against this backdrop, ensuring that LRGs have access to adequate financing for both emergency and recovery measures is a matter of life and death, especially in developing and less developed countries. Now more than ever, their role as public





actors in their own right must be acknowledged and fully supported, in order to empower them to respond to people’s needs and demands through sustainable service provision and promotion of inclusive urban and territorial development.

In recent years, the call for a new paradigm that places cities and regions at the heart of mobilizing funding and investment for sustainable development has gained momentum. Along with key international partners and institutions such as UN Habitat and Cities Alliance, LRGs around the world have come together in the **Malaga Global Coalition for Municipal Finance** to advocate for reshaping a new financial ecosystem that allows them to deliver on their mandate to achieve local sustainable development. Through their umbrella organisation, United Cities and Local Governments, LRGs have placed the issue of localising financing and investment at the core of their priorities and have agreed on a renewed strategy on “localising financing for sustainable urbanisation and territorial development” in 2018, led by UCLG with the support of FMDV. They have taken an active part in the main global fora on financing for sustainable development, pushing for enhanced fiscal autonomy and increased access to sustainable long-term domestic and external finance. Regarding the latter, UCLG and UNCDF, in collaboration with FMDV, have jointly launched the **International Municipal Investment Fund**, in order to provide a concrete response to assist cities and regions in accessing finance and mobilizing public and private resources for sustainable urban projects.

Local Governments under financial strain

A live consultation held during the session allowed to map what participants identified as the main challenges posed by COVID-19 on local finance. When asked which one word they found best described the impact of the pandemic, the majority of participants expressed their deep concern with the virus’ straining effect on oftentimes already fragile local finance systems.



The live consultation also invited participants to share their thoughts on what LRGs’ spending priorities should be in the face of the crisis. Investing in social protection, local economic development and ensuring the provision of basic services were identified as the priority spending areas to address the COVID-19 crisis. When asked which resources could be mobilised to fund the above-mentioned exceptional expenses,





participants identified, as main sources and in that order, intergovernmental transfers, local solidarity and emergency funds, international aid and own-source revenue.

Lastly, participants were asked what the crisis represents for the future of local finance and the changes that the COVID-19 pandemic may bring about to local finance ecosystems. Answers varied widely, with participants being more or less optimistic -- the point of agreement being that the virus' impact on the future of local finance depends largely on the decisions taken at this point in time.

As the previous LLE notes have emphasised, LRGs are taking many proactive measures to respond to the multi-dimensional impacts of the COVID-19 pandemic, whether their jurisdiction is already hit by the virus or not. The discussion focused on three main issues: (1) the local socio-economic and financial context in which the epidemic broke out and the local and national preparedness; (2) the local ability to design immediate fiscal and financial responses to cope with the impacts of the crisis and; (3) the financial and fiscal measures that will need to be implemented in the aftermath to maintain the sustainability of local service provision.

Impacts of the crisis on local finance

The outbreak has hit all territories, yet the magnitude of the local socio-economic crisis linked to the COVID-19 global pandemic, truly reveals the **"real gap" and the missing link in public finance**, with public service provision being largely underfunded. **The new socio-economic vulnerabilities and the territorial inequalities in coping with the COVID-19 are directly connected to LRGs capacities** to continue financing essential services and adapt locally to leave no one behind. Everywhere, city financial officers are working to design solutions that meet immediate needs while securing sources of revenue.

In accordance with national guidelines or local mitigation measures, all cities have implemented physical distancing and closure of non-essential trading activities. This has had a major impact on local businesses and on the informal economy as reported by the cities of Seville, Kumasi, Johannesburg and Gulu.¹ As a result, people are more

¹ See also Press Release on Addressing informalities, LLE session 29/04/20.





vulnerable, and are looking for social protection. **LRGs revenues are impacted** by their inability to collect as many monthly fees and charges due to deferred property taxes and utility fees, by the contraction of local economic activities (e.g. tourism, local trading markets) and by having to close down revenue-generating public infrastructure (e.g. parking lots, sports and recreation facilities, etc.).

In cities like Kumasi or Gulu, the **local context prior to the outbreak was already one of a recovery** highly dependent on trust and local economic actors' capacities to trade in markets or operate in these transnational regional hubs. In both cities, the impact of COVID-19 at this time of the year - when taxpayers are the most solicited - is a critical hit to public finances and their capacity to pay arrears. In all cases, as stressed by the mayor of Johannesburg, *"to be able to reach communities in distress and maintain the citywide municipal basic services with such a constrained fiscal envelope, we had to reduce some of the other regular municipal services"*.

Indeed, as a result of the substantial decrease in local own-source revenue, the majority of cities and regions have had to **re-allocate and prioritise their spending** to finance immediate operational aid measures. LRGs' interventions echoed the previous LLE thematic sessions, highlighting that basic service provision such as health (mentioned by the regional government of Antioquia), housing and shelter, public transport and food security (mentioned by Johannesburg, Kumasi, Mexico and Seville), are among their priority spending areas in response to the emergency based on their mandate and the additional unforeseen expenses imposed by the emergency context. In cities like Edmonton, which cannot operate a deficit budget, LRGs are led to make difficult decision such as laying off temporary local staff working in infrastructure that were closed down. The spared expenses are redirected to offset the budget deficit and the city is striking a balance by reallocating longer-term capital spending to provide an immediate response, resulting in putting on hold some capital expenses that could result in a bigger bill in the long run.

LRGs' immediate response to cope with the additional financial strain

Regional governments like Antioquia and cities such as Johannesburg, Seville, and Mexico City have also made additional financial efforts to **support the local economic actors** most affected by the crisis, primarily small and medium-sized enterprises (SMEs) and informal workers. Johannesburg is working to provide financial packages directed to local businesses, while Seville and Mexico are **supporting household economy** to ensure minimum wages to offset the reduction in their local economic activities. The Rockefeller foundation is supporting vulnerable workers to retrain for employment in the community healthcare sector. At the





regional level, Antioquia has followed the same logic, by creating special credit lines for SMEs and informal workers most impacted by the crisis to grant them immediate liquidity.

Social and financial solidarity is the cornerstone of all local response strategies. This means securing partnerships to leave no one behind in cities and regions such as Edmonton, Johannesburg, Antioquia and Seville. In-kind donations to municipal taskforce have also been crucial in Gulu. In Mexico City, the municipal staff donated a percentage of their salaries to fund welfare packages and some local businesses have agreed to sustain staff wages and municipal tax payments. The city is also setting up a programme called "Adopt an SME" for bigger firms to provide direct financial support to SMEs. Lastly, the Rockefeller foundation is supporting US cities and host communities globally to improve the supply-chain and make the necessary investments to get back to work, especially where communities do not have sufficient social security. The non-profit foundation is supporting the implementation of a mass testing campaign and the strengthening of laboratory capacities.

National government support has also proven decisive for a number of LRGs such as Johannesburg, Kumasi and Mexico City to address the most immediate impacts of the emergency. The main call is to ensure that **stable and predictable intergovernmental transfers are secured** throughout the emergency phase and beyond. As highlighted in the chat section by eThekweni/Durban, flexibility instead of ring-fenced grant funding will be key to give LRGs more leeway to deal with the crisis. In South Africa and Mexico, **national financial packages** are granting LRGs extraordinary funds to mitigate cash flow problems and support cities responding to the pandemic. In South Africa, the most immediate response was to enable LRGs to act outside their budgeted framework on areas that are a priority to curve the spread of the crisis. Likewise, in this first emergency phase, municipalities' debt repayment to the government of Antioquia has been deferred for at least 2 months. On their end, the French Development Agency is supporting national governments to ensure sustained financial transfers to LRGs and UNCDF has set up Operational Expenditure Block Grants with partnering national governments based on transparent disbursement criteria.

Lastly, **multilevel and multi-sectoral coordination** is essential to provide a whole-of-government and whole-of-society response to the outbreak. Centralised responses have proven financially short-legged and with higher costs in the long run. Municipal government such as Seville, Johannesburg and Edmonton commended the **advocacy**





work done to improve multi-level dialogue and leverage emergency operating funds for municipalities, as in the specific case of Edmonton.² In Uganda, the national guidelines call for the creation of **multi-stakeholder and multilevel taskforces against COVID-19**, as they were created for prior sanitary outbreak such as Ebola. In Gulu, the taskforce was created from the sub-municipal districts up to the municipal council. In Edmonton, the taskforce is in charge of assessing the current emergency and start planning the recovery phase.

Recovery measures to ensure municipal and regional long-term financial sustainability

While LRGs are taking immediate action, they are also calling for global efforts, at all levels of government, to plan for the recovery, and better prepare for future crises. As recommended by UNCDF, UN-Habitat and South-African Vice-Minister Parks Tau, many LRGs are looking for financial options to **rebuild their fiscal space**. The city of Johannesburg, in particular, highlights that assessing correctly how the tax base will have evolved in the post-crisis is critical information. On the question of “how to identify new streams of revenues for Local Government post-COVID-19”, the city of Edmonton, UNCDF and the Rockefeller Foundation agree that **local economic development assessments** can help LRGs identify sectors that can contribute to increased local taxation. Kumasi will open an escrow account and invest 5 to 8% of the income generated into government bonds to finance urban public infrastructure and help prepare for future crises. This concern is shared by Edmonton, since asset management will also be a key issue in assessing LRGs financial options.

UNCDF supports LRGs in **mapping local economic sectors generating revenue** (e.g. digitalisation and IT sectors) and those hit the hardest by the crisis, to then reorganise local taxation systems. In building partnerships with the local economic sectors to prepare the recovery phase, the city of Edmonton is concerned about the **gender dimension** of their labour policies. As a result of structural wage inequalities and their higher social-role as unpaid care workers, women are more vulnerable to the sudden shift in the job market. The city is encouraging organisations to train women for tomorrow’s job markets. This implies building renewed and **strong partnership with the private sector** based on clear fiscal rules, as well as strengthening and stabilizing local economy.

² For more information on the work of national associations of LRGs, see the Briefing and Learning Note on LGAs, LLE 09/04/20.





On a similar vein, LRGs like Antioquia, Seville, Mexico City, Gulu and Edmonton highlighted the need to **build more sustainable and resilient communities** in the aftermath, to mitigate future crises. Gulu, Antioquia region and Mexico City also agree that a roadmap for economic, social and financial sustainability should guide their future actions to mitigate and prevent future crises. Seville highlighted that besides the need to focus on revenue-generating investments, the targeted innovative and sustainable sectors must **accelerate the pace towards a green economy**.

Both the French Development Agency and the EU Development Cooperation highlighted the importance of prioritising and accelerating sub-sovereign guarantee programmes on more impactful projects such as municipal climate action plans and **nature-based solutions for climate resilience**. To this end, **long-term planning** is essential, first to assess local financial vulnerabilities, then to strengthen and invest in social protection systems and infrastructures, and finally to establish a recovery plan with specific budget lines to cater for unforeseen circumstances. Regarding the latter, AFD supports the creation of contingency arrangements among donors to unlock emergency funds for LRGs as soon as they encounter a disaster and avoid administrative delays in processing new applications for funding.

The Cities for Global Health database and UNCDF blog (see Resources below) showcase examples of local governments that have developed effective preparedness plans including smaller local governments such as the Napak district, in Uganda, budgeted to less than \$1 per capita. Financing these plans, as the deputy mayor of Gulu says, *“is critical to prepare before the local contagion takes root in communities that have no means to cope”*. As Maimunah Mohd Sharif stated, *“this will require enhancing trust in LRGs as public service providers and investors, with improved institutional coordination at all levels of government”*.

Looking beyond the COVID-19 outbreak also encourages cities like Mexico to **rethink local economic development**.³ As a result of globalisation and financialisation, the city is vulnerable to the economic decision of international companies that are not fully part of the local fabric. This is also the case of e-commerce companies that might not contribute to the local tax system. Moreover, the city has mentioned **social and solidarity economy** as a sector that should be enhanced to generate stable and predictable sources of revenues and new income-generation economic activities.

³ See also Press Release on Local Economic Development, LLE session 30/04/20.





Lastly, the COVID-19 pandemic adds further pressure on the **need to support LRGs' access to more diverse sets of financing**. Throughout the session, attendees debated in the chat section over **Public-Private-Partnership models**. Presented as an option to mobilise additional financing from the private sector, both UNCDF and the European Development Cooperation highlighted that the operating premise is to demonstrate that actual risk of setting up local PPP with LRGs is far lower than the perceived risk. In the chat section, attendees engaged on the debate that PPP models are also risky for local governments and local communities as they are not 'money savers' as previous lessons have shown. This reinforces the need to continue **pushing for capacity building at local level** to design collaborative solutions that are principled to do no harm while prioritizing revenue generating projects.

International solidarity is a matter of life and death as Gulu Deputy-Mayor compellingly said. For UN-Habitat, UNCDF, Vice-Minister Parks Tau, the EU Development cooperation and LRGs of Seville, Antioquia, Kumasi and Mexico, **the outbreak cannot imply the abrupt interruption or setbacks in the efforts made to improve creditworthiness and trust** by both LRGs and external partners, and consequently, LRGs' capacity to access borrowing and repay current loans. The French Development Agency will continue supporting financial intermediaries such as Findeter in Colombia and local banks in financing LRGs projects. In the chat, experts working with UCLG raised the question of **financial decentralisation** and the most relevant level of government and institutional framework to create new emergency support mechanisms. The objective is to enable each local government to tailor its response, depending on the phase of the crisis and its capacity to design own local financing arrangements. Larger cities and metropolitan areas may require dedicated funds. Seconding the inputs from the French Development Agency and EU Development Cooperation on accelerating national development banks' efforts to secure financing in local currency, the City of Montevideo highlighted in the comments section that such a financing option, without the need for a sovereign guarantee, is crucial to minimise the very likely risk of exchange rate volatility.





Key lessons learnt and ways forward

Four main ideas can be drawn from the discussions:

1. To be prepared to react, all cities must have the ability to **design local fiscal responses** that are adapted to their context.
2. Cities and their partners are finding ways to **organise the contribution of and to economic stakeholders** that have been impacted by the policy measures. These responses need to be comprehensive to address large, medium and small businesses and cooperatives. They should **engage vulnerable actors first**, such as women who play a prominent role in the formal care system and informal economy.
3. Financing solutions must be organised through a **multi-stakeholder and multilevel process**: it requests a collaborative work of regional and national, public and private stakeholders. These co-created solutions need to be ruled by **transparency principles** and **target the continuity of public services**. Co-ownership and participation in preparing for the future is key.
4. Last but not least, starting today, all the stakeholders must think and act differently to **make sure no one is left behind in preparing for the future** and that we accelerate transformations to be better prepared and more resilient to future shocks, whether they are health, climate, economic or social related. As recalled by **Maimunah Mohd Sharif**, many local and regional governments are *"already thinking and planning now for tomorrow's support to the most vulnerable, financing the pledge to leave no one behind"*. Efforts to *"plant the seeds for recovery"* require cities and regions to seal new compacts with citizens and stakeholders involved in their financial ecosystem.





Recommendations for action:

1. Cities and regions can and must organise themselves now as a matter of urgency to show their solidarity with each other. **Emergency mutual support** mechanisms must be put in place, which can be mobilised in particular through **city-to-city cooperation at global, regional and national levels**.
2. “Adopting financial support mechanisms that allow local and regional governments to continue to work at the frontline for the communities during the crisis and in the post-COVID-19 recovery phase” is one of the ten commandments of the Decalogue for the post COVID-19 era agreed upon by LRGs on the initiative of UCLG. **Designing or adapting such financial support packages** in line with the rebuilding and rethinking of local finances that secure sustainable finances for local public service provision should be a priority global concern for local and national governments and the international community. Local government networks and associations are ready to play their part in facilitating this endeavour, in collaboration with all their partners, public and private, national and international.
3. With the support of the **Malaga coalition** [UNCDF, UCLG in collaboration with FMDV], a continued and enhanced **policy dialogue** with national governments, on the urgency of local financial autonomy and predictable, transparent and commensurate fiscal transfers will be required. This dialogue might need to be repurposed and accelerated to be fully meaningful in the aftermath of the pandemic. It needs to come along with concrete drivers of action for national and local decision makers to support them in taking action.
4. Finally, shaping and setting up a **true international fund for local infrastructure**, with both soft and hard pipelines in support of local service provision, is more necessary than ever for both emergency and recovery. The economic and social crisis following the sanitary crisis is already a given. LRGs are the public actors best-placed to provide timely responses. Drawing on the experience of the **International Municipal Investment Fund**, the African Territorial Agency and others, that reflect the kind of multilateral system that will have to emerge in the aftermath, bold new global initiatives should be urgently driven forward.





Resources

The presentations made by the cities during this Live Learning Experience are available on UCLG [#BeyondTheOutbreak webpage](#). The Cities for Global Health platform, facilitated by Metropolis, is a living repository of LRGs' initiatives to confront the COVID-19 crisis. The platform is available [here](#). For further information, please refer to the resources that have been developed by UCLG and our partners, as well as to those shared during the LLE session.

- UCLG, *Decalogue for the post COVID-19 era*, bit.ly/2zWFzj3
- UCLG, *Manifesto on the Future of Local Finances*, bit.ly/35Dj3rh
- FMDV, *The Potential Catalytic Role of Subnational Pooled Financing Mechanisms*, bit.ly/35zqLTj
- CCFLA, *Localizing climate finance, mapping gaps and opportunities, designing solutions*, bit.ly/3baw9xp
- UNCDF, *Guidance note for immediate responses to the COVID-19 recommended for local governments*, bit.ly/3cocHys
- UNCDF, *Blog on COVID-19*, www.uncdf.org/COVID-19
- UNCDF Operational Expenditure Block Grants: bit.ly/2YIIOq5
- FCM, *COVID-19 resources for municipalities*, bit.ly/2zpLVqT
- Public Service International, *Lockdown pushes digitalisation through in Italian public services*, bit.ly/2VU600j
- Public Service International, *Public Finance for the Future We Want*, bit.ly/3c8wx0C
- Public Service International, *The tragedy of the private the potential of the public*, bit.ly/3eNaFtm
- OECD and UCLG, *2019 Report of the World Observatory on Subnational Government Finance and Investment*, www.sng-wofi.org/reports/
- OECD, *Cities policy responses*, bit.ly/2YBfWPb
- OECD, *The territorial impact of COVID-19: managing the crisis across levels of government*, bit.ly/2xADzMD
- UNDESA, *Corona crisis causes turmoil in financial markets*, bit.ly/2W5W7Oj
- IMF, *Policy responses to COVID-19*, bit.ly/3b5qA3h
- Covenant of Mayors in Sub-Saharan Africa, *Climate Finance Landscape for Sub-Saharan African Cities*, bit.ly/3bg8V8Z