

COVID19 EMERGENCY RESPONSE – LOCAL GOVERNMENT FINANCE

GUIDANCE NOTE FOR IMMEDIATE ACTION

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This note is about immediate responses to the COVID19 recommended for local governments. It is advisory and generic and can be adapted to individual circumstances. It is focused on responses that can be implemented in days and weeks, rather than months and years. A later note will cover the early recovery phase.¹

1. Overview

Local Governments at the forefront of the COVID19 Response

COVID19 shows the importance of fast effective local action to slow the spread of the virus. In the words of the World Health Organization “Test, test, test”. Testing, even of those without symptoms enables isolation of those infected, identification of those with antibodies and treatment of those seriously ill. Experience has already shown that “industrial” level early testing, social distancing, and focused treatment can effectively stop the virus.

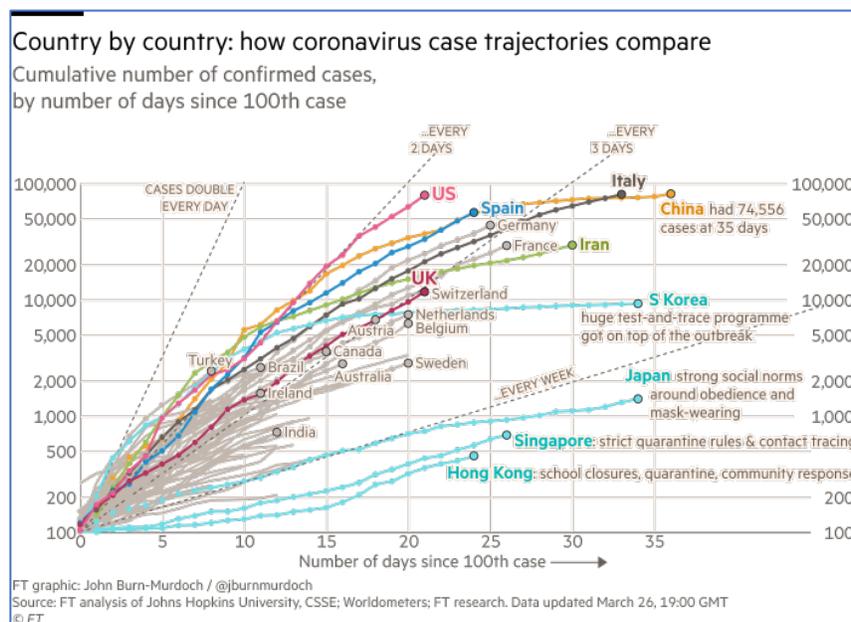
Figure 1 illustrates differences in the growth curves of the pandemic to date, It is noticeable that both Singapore and Hong Kong – which are effectively “cities” as well as nation states - have adopted measures that resulted in a slowing of the growth rate. Figure 2 indicates the difference in the growth curves of the virus between different sub national regions and cities in different countries, it shows a marked contrast between different geographical areas within the same country.

Whilst figure 2 mixes up local governments with regional governments it is also clear that some cities are also slowing the rate of increase. There is a marked change in the trajectory in London and a noticeable if less marked change in Madrid. New York State is the epicenter of the Covid-19 in the United States, data and analysis reveal that peak infections occur at different times in different towns and counties in accordance with the rate of spread, rate of density and when the infections have started - a phenomenon, now known as the “Rolling Apex.” Finally, it should be noted that these figures use a log scale and therefore represent horrifying numbers. These figures are dynamic and updated daily. The latest information can be found here: <https://www.ft.com/coronavirus-latest>

¹ This Guidance Note was prepared by UNCDF’s Local Development Finance team. The text was drafted by Dmitry Pozhidaev and David Jackson with inputs from the team. See <https://www.uncdf.org/local-development-finance> . Contact nan.zhang@uncdf.org for further information.

Local governments are leading the COVID19 responses around the world, they are in the frontline of citizen engagement and of service delivery and of management of public space. Studies, testimonies and government responses from around the world have demonstrated that local governments' preparedness, infrastructure and human capital capabilities, access to emergency funds, coordination and communication flows with central government are among the key measures to contain the spread of the virus and ensure speedy recovery. Local governments everywhere in the world are responsible for provision of essential services to their populations. As prevention and containment measures are introduced, maintaining an adequate level of such services while ensuring compliance with restriction measures becomes the main concern of local governments. **Local governments are key to ensure COVID19 response protocols are implemented.**

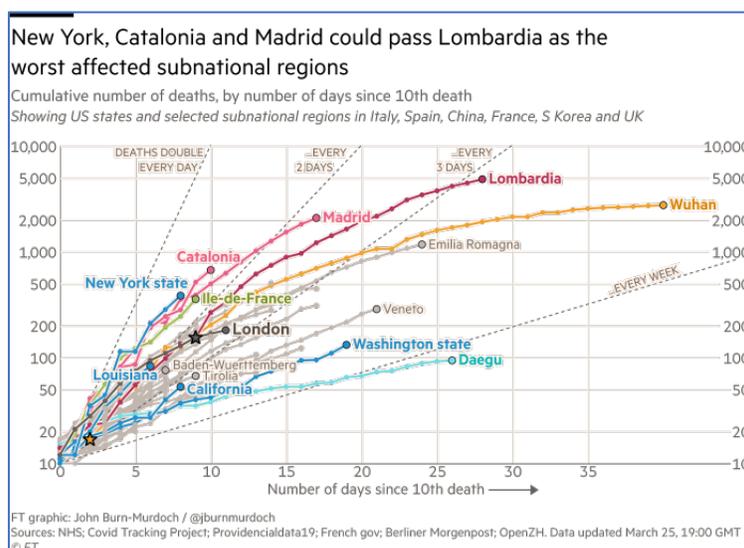
Figure 1 illustrates differences in the growth curves of the pandemic to date



Source: <https://www.ft.com/coronavirus-latest>

China's recent example demonstrates the importance and effectiveness of local governments in mobilizing community response. One of the most notable actions undertaken by the government during the outbreak of the COVID-19 epidemic was to undertake immediate decisions in timely manners, to the right places and for the right institutions for effective response. That, in summary, was focused on increasing support and speed transfer of fiscal grants to local governments in their efforts to tackle the coronavirus. Whereas the overall response in the Wuhan Province was coordinated by the central government, its actual implementation was the responsibility of the provincial and local governments. China has issued an advance quota of 8.6 billion US dollars in transfer payments for local governments in 2020. An additional 16 billion US Dollars were also allocated from central government to local government to mitigate their fiscal challenges from the period December 2019 to March 2020.

Figure 2 demonstrates how COVID19 is spreading at different rates in different sub national regions.



Source: <https://www.ft.com/coronavirus-latest>

Local governments' lead in standing up to the COVID-19 challenge as well as the earlier epidemics, such as avian flu, SARS and Ebola virus disease, is particularly appropriate not only because the effects of such epidemics are localized (this is true for any other crisis situation) but also because such effects are produced locally and local governments proximity to the populations. Local governments are uniquely positioned to shape, adapt and deliver a holistic response to epidemics. Because an epidemic produces multifaceted socio-economic effects that threaten the very social and governance fabric, it requires a cohesive response across sector boundaries to ensure alignment and synergies between different sector interventions in a particular locality.

2. Immediate local government finance response

Financing local governments

Every preventive and containment measure requires resources and has a fiscal aspect. To finance their epidemic response, local governments rely on three major sources: own revenues, intergovernmental transfers and sub-national borrowing. The latter is only available in countries with supportive legislative and policy environment.

Own source revenues are the most flexible source of financing that can be relatively easily redirected towards the epidemic response. But in many countries, particularly developing ones, the share of own source revenues is below 10 percent of the total local government budgets and is inadequate for an effective epidemic response. Furthermore, the public health response to the CoronaVirus is significantly diminishing own source revenue in three ways:

- Social distancing, work from home and lockdowns devastate the retail and transport industries and deprive local governments of tax revenues.
- Rising unemployment reduces rent and property tax payments
- Overall reduced economic activity reduces business tax and fee receipts

Intergovernmental transfers remain the major source of local government finance in many countries. However, between 70 and 80 percent of central government transfers come as nondiscretionary grants earmarked for particular sector activities and leave very little flexibility for local governments to adjust these resources to the needs of the local epidemic response. Moreover, non-capital recurrent grants are usually only enough to cover payroll expenses whereas operations and maintenance costs are often neglected. This situation is in obvious contradiction with an effective epidemic response which requires firstly, a sector wide approach, which implies reallocation of funding between various sectors and secondly, increased noncapital expenditures for community awareness and mobilization, enforcement of public order, and restructuring of public service delivery to ensure its continuity. In many countries the legal frameworks do provide for local disaster risk management, these however, have often not been given adequate fiscal attention and where they exist, the funds require complex procedures to unlock each time, rather than an immediate liquidity response with pre-determined procedures.

Lastly, **sub-national borrowing**, particularly in developing countries, is limited by the narrow fiscal space of local governments and their low repayment capacity as well as by statutory limitations of their borrowing powers. Hence, borrowing any sizeable funds for capital investments looks unlikely but where legally possible, local governments may resort to short-term borrowing for urgent operational activities if other sources of finance are unavailable.

Immediate measures to be taken

Own source revenues and financial management: the fiscal space of local governments will be severely impacted by this crisis. This will reduce their capacity to provide the overall public health functions that are an essential part of supporting the national efforts. The following actions are recommended immediately:

- The first immediate systemic actions is take stock of available resources and revise the cash budget for the next quarter/ 3 months– the most likely element is moving resources earmarked for capital expenditure to operational expenditure; this does not add resources but redeploys what is available – it is an action within the control of LGs that only require a policy direction from central governments about the kinds of already budgeted resources that can be redeployed. The guidance is necessary because some LGs may be ultra-cautious and wait for transfers to come, while others may panic and deploy resources that were earmarked for critical payments like salaries to buying sanitizing equipment.

- Payment to local governments by central government agencies and others for use of local government capital assets (buildings etc.) as part of the response. Yes, it is a crisis but payment for use of these assets will replenish lost own revenue, maintain liquidity for essential functions and benefit the response effort.
- Temporary forgiveness of local government debt and other outgoing payments by those agencies and companies that are in a position to do so. Central government guarantees / compensation for companies that forgive these payments. Rescheduling payments with Chief Financial Officers.
- Review of payment systems of local taxes and fees from citizens and businesses to identify how to immediately reduce in person contact where appropriate whilst maintaining as far as possible access, coverage, avoiding “digital exclusion” or loss of control of payment system. For immediate action: Important to avoid excessive additional expenditure, long term procurement or tether to long term service provider contracts. This can include maximizing revenue from businesses that can continue to operate digital platforms to maintain overall economic activity.

Intergovernmental transfers can be an effective vehicle for governments to implement their COVID19 response strategies. In most countries there are at least three existing channels that can be used:

- Discretionary recurrent expenditure grants and transfers to local governments are usually applied to salaries, travel costs, goods and services. The advantage of this channel is that it is available across all local government departments at the discretion of the local leadership. These can be increased and re-purposed as COVID19 operational response grants to implement local protocols. Reporting can be through the existing channels with supervision provided by the relevant health authority. Procurement of goods and services through the existing mechanisms, with increased delegation of authority or ceilings for local procurement where appropriate. Increased value to these transfers will enable co-financing with the next category below for additional effectiveness.
- Conditional grants to local education and health departments by central ministries. Clearly this should be a key vehicle for the response. Not only for national fiscal resources but also for additional resources received as part of international relief efforts. Where possible development partners should coordinate with these agencies, build on their local knowledge and operational capacity, and avoid parallel systems.
- Discretionary capital grants to local governments. These funds provide less scope for an immediate response in the next few months as they depend on construction and procurement cycles. Nevertheless, this emergency provides a case for them to be reapplied to the purchase of medical equipment, vehicles and other capital expenditure items eligible within the chart of accounts and public expenditure classifications for capital expenditure. Procurement could be expedited. It would be important for local governments to be reimbursed later for this immediate response, to avoid interrupting ongoing capital projects. One advantage of this action is that many capital projects will have halted due to social distancing and other measures, therefore some liquidity may exist.

- Re-purposing the Disaster Risk Management Fund to support COVID-19 response. Several nations have provisions for a disaster risk response fund and these in many countries have never been operationalized or fully administered from the centre. This fund could be urgently recapitalized and transferred to subnational governments to support their response plans.

Sub-national borrowing is partially covered in the section above. Where appropriate local governments should review the effect of COVID19 on their liabilities. Many countries have national development banks and some have subnational development banks. These can provide guarantees and back up to subnational borrowing to ensure continuity of existing programmes and investments. Local governments may resort to short-term bridge borrowing to cover emergency expenses (such as salaries and equipment). Longer term credit lines and other solutions will be covered in the upcoming note on early recovery.

Many local governments have been able to raise additional **philanthropic finance** to complement the financing sources discussed above. Philanthropic finance may be remitted to local governments directly as donations (which is the most flexible type of finance) or as financial or nonfinancial (equipment and materials) contributions to specific facilities and services, such as ambulance support to transport patients, support to shelters for victims of gender and sexual violence and other vulnerable categories, food items for vulnerable households during lockdown period, meals centers and distribution points, etc. A number of local governments establish **local emergency funds** to mobilize philanthropic finance. Such funds operate as a ring-fenced structure with its own governance arrangements and expenditure procedures to ensure expediency and transparency of operation.

Local governments can increase their effectiveness in mobilizing philanthropic financing by leveraging digital platforms for crowdsourcing donations. Digital platforms can also be leveraged to direct mobilization efforts towards specific needs like purchasing of test kits or medications and impact can be easily tracked. Other forms of public financing could also be mobilized through crowdsourcing leveraging digital platforms.

For all these measures additional COVID19 specific reporting and transparency can be added, but given that this immediate response is about days not weeks, and that existing measures are already operational and regulated, speed should be a key consideration. Priority should be given to financing modalities that allow maximum flexibility and minimum conditionality to deliver a sector-wide response locally.

[First movers, getting it started, effective technical support, learning](#)

Implementing these measures may require technical support. UNCDF has already supported the governments of Bangladesh and Uganda to implement some of the measures described above. We are currently working with other central and local governments. Similar conversations are ongoing with local governments and central authorities elsewhere. We look forward to sharing this experience with our partners in United Cities and Local Governments (UCLG), Metropolis, and UN Habitat during through Local Government COVID19 response network including an upcoming seminar.

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Unlocking Public and Private
Finance for the Poor

Key dimensions of local government response

Advantages of local government epidemic response

The rationale for local governments involvement in the COVID-19 response is grounded in the overall logic of decentralized government, which produces improved outcomes in four areas: efficiency, equity, service delivery and legitimacy.

Efficiency, and in particular allocative efficiency, is related to the fact that local governments have better understanding of local needs than the central government. In the context of health crises and epidemics, such as COVID-19, this allows local governments to allocate resources towards the local needs in a way that maximizes their impact. An epidemic creates distortions in labour markets by increasing demand for labour force involved in the epidemic response and reducing demand for other professions. Local governments are likely to be more responsive to the changes in the labour market and reallocate resources in a way to minimize the negative effects on local economies. This may include, for example, support to local businesses affected by the epidemic, which are not covered under national programmes or financing of labour-intensive public works related to the epidemic response. Stronger local ownership of the response measures also implies better monitoring and maintenance of public expenditures.

Equity is achieved due to the fact that local governments operate under more public scrutiny than the central government due to their proximity to the population. This leads to more effective management of investments and other financial resources for epidemic response, particularly for marginalized population groups and those in remote locations. The experience of previous epidemics (such as Ebola) and the ongoing COVID-19 pandemic demonstrates that the poor and disadvantaged are among the hardest hit. Local governments are more likely than central governments to extend epidemic response measures, such as provision of water and improved sanitation services, to slum areas or personal protection equipment to street vendors, waste pickers and other informal sector workers.

Service delivery by local governments uses the same information advantage and local knowledge that helps it achieve better efficiency and equity. Not only do local governments have a better understanding of the type of services and their scope required by different population groups, they can also rely on local resources and expertise for production of such services and maintenance. This is very relevant during an epidemic response when resources may be very limited. Local governments can identify cheap local materials and ad hoc solutions for protective equipment, quarantine facilities and other measures, and mobilize inexpensive local labour and volunteers for the epidemic response.

Legitimacy of government is the foundation of social contract that ensures social cohesion and stability. An epidemic, particularly if it lasts for some time, results in social and economic cracks that undermine this foundation. It is critical that in such situations, population remains confident in their governments and convinced about appropriateness of the response measures. Social solidarity and law abidance are key enabling factors for an efficient epidemic response, and local governments are the lowest layer on which the entire edifice of government legitimacy is built.

What can be done?

Local government epidemic response may cover six broad areas: (1) increasing the capacity of the local healthcare system; (2) community awareness and mobilization; (3) enhancing social protection measures; (4) enforcement of public order and regulations to prevent and contain the infection; (4) continued provision of essential services (5) relief measures for local economies. The scope of the response and the specific actions depend on the statutory competences and responsibilities of local governments and their fiscal position which determines the amount of financial resources available.

Increasing the capacity of the local healthcare system is likely to be the primary concern of a local government. The pressure on the local health system at the time of epidemics increases multifold but the excess capacity is normally very limited or plainly non-existent. Local governments may employ additional medical staff to boost the existing capacity (for example, retirees or medical school students). They may procure necessary equipment for existing healthcare facilities, public and private institutions, and population at large including acquisition of personal protective equipment (PPE) and secure fit testing resources by third party vendors for respiratory protection and other equipment, such as infection control supplies, digital thermometers, and other equipment costs associated with quarantine and isolation. Local governments may transform existing premises and build new facilities for isolation/quarantine related activities and testing laboratories; provide transportation and lodging for medical staff and wrap around services like behavioral health services/support. It is important to note that whereas it is the local healthcare system that is the target of these efforts, increasing the healthcare system capacity requires a sector-wide response and concerted action of many sectors and industries (public services, education, transport, construction) as well as multiple public and private actors.

Community awareness and mobilization is critical for effective epidemic response for two reasons. Improved popular awareness about the disease, preventive measures, and the degree and scope of lockdowns helps contain the epidemic while at the same time easing the pressure on the local healthcare system. Community initiatives and contributions through volunteer actions, community labor, financial donations and donations of food and non-food items complement the existing public resources and maintain social solidarity and cohesions at difficult times. Local governments engage in public outreach including media buys, collaboration with community organizations, printing, phone banks, updating web information, setting up local call centers to provide information, translating materials into appropriate languages.

Social protection measures become crucial to prevent the disproportionate impact of an epidemic on the most vulnerable populations, such as the elderly or very young, disabled, people living with HIV, poor and unemployed, slum residents, informal workers and others. Local governments are known to establish food and nonfood (particularly medicine) delivery systems for the elderly and disabled who are most vulnerable and whose mobility is restricted to help them comply with lockdown provisions. Local governments work with a partnership of the groceries industry, community pharmacies, local resilience and emergency partners, and voluntary groups, to ensure that essential items can be delivered to those who need it. Some local governments introduced time slots for shops (e.g., early mornings) to serve only elderly customers.

Many local governments allocate resources to providers of safe accommodation to victims of sexual and domestic abuse and their children. Others introduce a complete ban on eviction from social or private rented accommodation, rent payment deferrals, and enforce additional protection for renters to minimize their losses. Non-disconnect policies are introduced to prevent disconnection from public utilities, such as electricity and water, particularly for vulnerable populations. Local governments authorize the emergency use of public facilities to provide temporary shelter to people experiencing homelessness.

Support to the poor, unemployed and persons in precarious employment is another important measure implemented by local governments in cooperation with central governments and social insurance schemes. Specific actions include income replacement measures, such as cash allowances to poor and very poor households and vulnerable occupational groups, such as informal waste pickers. Local governments establish, extend and operate food and nonfood banks, meal centers and distribution points to cater for the neediest and disadvantaged. It is not just the poor and informal workers who benefit — by allowing vulnerable workers to social distance, the epidemic curve will have a greater chance of being flattened, benefiting everyone by slowing the spread of the virus and allowing health systems to better cope.

Enforcement of public order and regulations to contain an epidemic is closely related to the community awareness and mobilization actions undertaken by local governments. Voluntary compliance with the restrictions inevitable at the time of an epidemic is the best enforcement measure. Such compliance is based on full awareness about the ways of transmission, the risk of infection, effectiveness of prevention measures and so on. Local governments are uniquely positioned to track implementation down to individuals, apartments, houses, communities, organizations and public facilities. They may do so by instituting regular checks, inspections, electronic recording and tracking systems. Local government's role in keeping essentials like food and supplies flowing through organized, government-controlled arrangements is also essential. It involves regulation of the working hours of grocery stores, pharmacies and other relevant suppliers while ensuring their compliance with preventive measures, such as social distancing. Local governments may introduce price controls to prevent hikes in the price of food and other basic supplies and keep them affordable.

Continued provision of essential services is the foremost responsibility of local governments. Providing uninterrupted water, sewer, garbage collection, and utility services is a top priority. Demand for such services may even increase at the time of emergency as its extension may be required to particularly vulnerable areas (for example, construction of new water points). On the other hand, demand for some other public services, such as education, culture may decline due to lockdown conditions whereas other services may be scaled back (e.g., road and sidewalk repair can be limited to emergency repairs only). This requires local governments to review, re-arrange or retrofit their service arrangements and reallocate resources. For example, local government facilities (such as food markets) may be retrofitted to allow required social distancing and minimize physical contact. Local governments introduce or expand online or over the phone platforms for utility payments and delivery of some other services.

Relief measures for local economies are designed to dampen the economic consequences of an epidemic, particularly in the sectors likely to be among the hardest hit including transportation, tourism, and hotels, and expedite economic recovery once an epidemic is over. In many countries, local governments are assigned an important role in supporting a vibrant local economy and promoting local economic development. As restaurants, tourist venues, and similar establishments scale back or close, this impacts individuals who rely on these jobs for their income.

Local options that can support small businesses most likely to be affected by the disruptions include, for example, deferment of tax and nontax payments and other dues for local businesses. A number of local governments are exploring potential ways to provide financial assistance to local residents and businesses, including (but not necessarily limited to) deferring certain local business and occupation (B&O) taxes, stopping utility shutoffs and waiving late fees, establishing temporary short-term street parking for restaurant takeout, and providing per diem to employees to buy food and beverages from local restaurants. Local measures may also include deferred rent if the specific facts warrant it, for example if the facility in which the tenant's business is located is closed due to the emergency. Local governments take measures to ensure that information on the prevention and containment of the epidemic and advisory on how to adjust their business models and processes reaches SMEs, including through information via SME/enterprise agencies and SME associations.

Financing specific response measures

The table below suggests the appropriate type of financing (in the order of importance) for key response measures by local governments. Applicability of different types of finance depends on the nature of specific interventions but the general principle is to rely on external finance first (philanthropic or private) followed by conditional grants, then discretionary grants, and eventually own source revenues. The objective is to save most flexible public finance (discretionary grants and own source revenues) for purely public goods unforeseen in any other budget arrangements or too urgent to wait for specific conditional allocations.

Epidemic response areas and measures	Financing
Increasing the capacity of the local healthcare system	
<ul style="list-style-type: none"> • Hiring additional medical staff • Procurement of medical equipment, PPE • Retrofitting existing facilities/building new ones • Provision of transportation for medical staff 	<p>Conditional or discretionary recurrent expenditure grant</p> <p>Conditional or discretionary recurrent expenditure grant</p> <p>Sector capital grant, public works capital grant, discretionary capital grant</p> <p>Sector recurrent expenditure grant</p>
Community awareness and mobilization	
<ul style="list-style-type: none"> • Production and dissemination of information and awareness materials online and offline • Setting up local call centers to provide information and other mechanisms for public mobilization 	<p>Conditional or discretionary recurrent expenditure grant</p> <p>Discretionary recurrent expenditure grant</p>
Social protection measures	
<ul style="list-style-type: none"> • Establishing and operating food and nonfood (particularly medicine) delivery systems for the elderly and disabled • Support to providers of safe accommodation to victims of sexual/domestic abuse and their children • Establishing and operating meal centers and distribution points • Retrofitting public facilities to provide temporary shelter to homeless and other vulnerable populations • Food stamps to poor households (if not provided centrally) 	<p>Philanthropic finance, conditional or discretionary recurrent expenditure grant, own source revenues</p>
Enforcement of public order and regulations	
<ul style="list-style-type: none"> • Conducting checks, inspections and introducing electronic recording and tracking systems 	<p>Conditional or discretionary recurrent expenditure grant</p>
Continued provision of essential services	
<ul style="list-style-type: none"> • Re-arranging/retrofitting service arrangements (additional staff and protective measures) • Expanding/retrofitting services delivery facilities 	<p>Conditional or discretionary recurrent expenditure grant, own source revenues</p> <p>Conditional or discretionary capital grant</p>

Relief measures for local economies

- | | |
|--|--|
| • Retrofitting public spaces to facilitate business operation | Discretionary capital grant, own source revenues, PPP |
| • Continuous provision of utility services to local businesses (depending on the provision modality) | Conditional recurrent expenditure grant, own source revenues |
| • Production and dissemination of information and advice to SMEs on adjusting business processes | Own source revenues, PPP |
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For more information on the work of the Local Development Finance team in local government finance visit: <https://www.unCDF.org/local-development-finance>

About UNCDF

The United Nations Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 47 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: inclusive digital economies, connecting individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; local development finance which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic development and sustainable development; and investment finance, that provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to Sustainable Development Goal-SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a broad diversity of SDGs.