



The territorial impact of COVID-19: managing the crisis across levels of government

This paper is developed by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE). It focuses on the territorial dimension of the COVID-19 crisis and the importance of the integrated response to the crisis across levels of government. The first draft of this note takes into account the developments of the crisis as of 3 April 2020.¹ It will support the work on the crisis and impact of COVID-19 of the OECD Regional Development Policy Committee. The note is a living document that will be regularly updated in the coming weeks. An updated version will be released in May.

¹ For more information please contact: Dorothee.ALLAIN-DUPRE@oecd.org | Media: Alexandra.Taylor@oecd.org.
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1 Initial Insights

Key insights

With more than 1 million people around the world affected by COVID-19 and half of the world population experiencing confinement measures, national and subnational governments are adopting a wide range of measures to respond with targeted action and cope with the public health emergency and its economic impact. The OECD estimates that for each month of strict containment measures, there will be a loss of 2 percentage points in annual GDP. The impact of the COVID-19 crisis is also differentiated within countries, with some regions and cities being harder hit than others. The combination of national and subnational measures and an ability to work together, is fundamental for an effective response to this crisis and, ultimately, any emergency. As of 3 April, the responses by national and subnational governments highlighted that:

- **COVID-19 has a strong regional impact, calling for differentiated governance and policy responses.** The regional and local impact of the crisis has been highly asymmetric. In China, 83% of confirmed cases were concentrated in Hubei province. In Italy, the country's north was hardest hit, and Lombardy, registered the highest number of cases (around 41% of total cases in Italy). In France, the regions of Île-de-France (37% of cases) and Grand Est (29%) were the most affected as of 1 April. In the United States, the state of New York has the highest proportion of COVID-19 cases (40%). Countries are managing the asymmetry in a variety of ways. In **China**, the central government allocated Hubei Province CNY 35 million in general grants to be used at the discretion of the provincial government, following national general policy guidance. The **French** government is transferring patients from the most affected regions to less affected ones. **Italy** is negotiating to apply funds under the EU Corona Response Initiative to public health services, SMEs, workers and households. **Korea** adopted a supplementary budget in March 2020 that includes support for Daegu City and North Gyeongsang Province, two of its hardest hit areas.
- **Subnational governments are at the frontline of the COVID-19 response.** Regional and local authorities are responsible for delivering critical short-term containment measures and more long-term recovery activity – from health and social care to economic development and public investment. Subnational governments account for a quarter of total public health expenditure, on average in the OECD, ranging from more than 90% in Switzerland or Spain to less than 1% in France or New Zealand. Directly and indirectly, they are also supporting members of the most vulnerable populations, such as the elderly, migrants and homeless. Meeting these demands calls for pro-active initiatives and flexibility by all levels of government, ranging from how services are delivered, to adjusting the regulations framing such activity. Some **Austrian** municipalities are offering food-delivery services to sick and vulnerable people upon request. Over 60 cities in **China** have changed regulations governing land and permitting a delay in meeting contractual obligations. Local authorities in **Greece** must create a record of citizens requiring assistance, including the indigent. “State of Emergency” measures in **Japan** allow authorities to commandeer large buildings for makeshift hospitals. The **UK** Government is introducing measures to give Local Councils

greater flexibility and allow them to further focus resources on responding to COVID-19. In the **US**, state governments are proactively implementing crisis management measures, including in collaboration with their neighbours.

- **Subnational governments have a key role to play in mobilising digital tools to better track the pandemic, tracking and testing, and inform decision-making at all levels.** In **Germany**, coronavirus testing has been increased considerably since the beginning of the crisis and Germany can now carry out half a million tests per week. The dense network of laboratories across Germany have helped organise the testing relatively quickly and on a large scale. **Italy's** Veneto region successfully applied a multi-pronged approach to controlling the virus, emphasising extensive testing, proactive tracing, home-diagnosis and care, and monitoring medical personnel and other vulnerable workers. In **Korea**, authorities used mobile phone local information to backtrack the movements of infected persons, and many municipalities set up “drive-through” COVID-19 testing pods where medical staff in protective clothing take samples from people in automobiles, facilitating massive and continuous testing. **Norway's** government launched an online reporting tool through which all of the country's residents can report their respiratory symptoms and underlying conditions.
- **A coordinated response by all levels of government can minimise crisis-management failures.** The main risk of non-coordinated action in a crisis is to “pass the buck” to other levels of government, resulting in a disjointed response. This can generate collective risk. It can also reignite a centralisation vs decentralisation debate. Yet, it is not the degree of centralisation or decentralisation that matters for successful response measures. In fact, while some governments are temporarily recentralising health management in response to the crisis, such as Norway and Switzerland, others, like the UK, are decentralising it. What matters is the effectiveness of the coordination mechanisms in place, and the ability of government actors to align priorities, implement joint responses, support one another, and foster day-to-day information sharing, including with citizens. Effective crisis response highlights that robust vertical and horizontal coordination mechanisms are more important than ever. **Canada's** Public Health Agency activated the Health Portfolio Operations Centre (HPOC), which acts as the focal point for coordinating response activities and supporting emergency operations at different levels of government. **Chile** established the Social Committee for COVID-19 bringing together national and local government representatives, and academics and professionals from the health sector. In **Germany**, the Federal state and the *Länder* jointly decided to close non-essential economic activity. **Spain** introduced an inter-ministerial commission to ensure coordination within the government, and an inter-territorial commission to support cooperation among different levels of government.
- **The medium-term economic impact will also differ across regions, based on a region's exposure to tradable sectors, global value chains, and type of specialisation (e.g. tourism).** Metropolitan regions show a relatively higher risk of job disruption than other regions (OECD, forthcoming). This could lead to significant differences in regional employment and GDP, affecting a well-distributed economic recovery. However, in the medium- to long-term the effect – including with respect to the territorial impact on the economic and financial crisis – is likely to become more uniform across regions.
- **The stress on subnational finance will be substantial, in the short, medium and long terms.** Implementing measures to address the virus increases pressure on subnational spending. Meanwhile, subnational revenue will be strained by reduced tax-, tariff/fee- or asset-derived income that is sensitive to economic fluctuations and policy decisions. Mitigating the financial impact on subnational governments and to help them commit the necessary urgent resources to help the population or support businesses is fundamental. In **Finland**, The Government has announced that it will ensure that there will be no funding gaps for local governments and one of the first announced measures is an increase in the municipal share of corporate income tax revenue. In **France**, the "emergency bill" allows subnational governments to derogate from the spending rule adopted in 2018, which limits the growth of their operating expenditure to 1.2%. The **Norwegianian**

Government announced a discretionary grant to municipalities to cover additional expenses caused by the outbreak. In **Spain**, local governments are now allowed to allocate up to EUR 300 million from the 2019 surplus to finance economic aid and all provision of primary care and dependency care managed by the social services. At regional level, a “shock plan” includes several measures to provide the Autonomous Communities with more resources to combat the coronavirus.

- **National and subnational governments will be leading the economic recovery effort, including through regional and local recovery plans that are likely to include business support and stimulus packages targeting public investment.** Some of this activity is already underway. **France** established regional task forces that include development banks in order to accelerate support measures for businesses, while EUR 1 billion in national and regional funds have been unlocked to support artisans, retailers and small businesses. **Poland** announced an economic recovery package that includes boosting public investment. The **European Union** launched the “Corona Response Investment Initiative” (CRII, complemented by the CRII+) directed at health care systems, SMEs, labour markets and other vulnerable parts of EU Member State economies. The **United States** passed a USD 2 trillion relief package for individuals and businesses. It include money for hard-hit hospitals and healthcare providers, as well as financial assistance for small businesses, and loans for distressed companies.

2 COVID-19 Global Crisis: impact on regional and local governments

In less than three months in the first quarter of 2020, the COVID-19 crisis developed into a global pandemic, contaminating almost all countries and affecting more than 1 million people around the world. Half of the world's population is experiencing a lockdown with strong containment measures. Schools and universities are closed for around one billion students of all ages. Beyond the health and human tragedy of the coronavirus, the crisis has already profoundly affected economies, unemployment, and the sustainability of public finance. All economic sectors are affected through disrupted global supply chains, weaker demand for imported goods and services, a decline in international tourism (OECD, 2020^[1]) and a decline in business travel. SMEs and entrepreneurs will be particularly hard hit by measures to contain the virus' spread (OECD, 2020^[2]). Unemployment and the number of aid seekers have started to increase significantly. The global economy is set for a recession, and the OECD estimates that for each month of strict containment, there will be a loss of 2 percentage points in annual GDP (OECD, 28 March).

The COVID-19 global crisis has a strong territorial dimension. First, the regional and local impact of the crisis has been highly asymmetric within countries – some regions have been harder hit than others, at least in the early stage of the pandemic. In economic terms, impact of the crisis will also differ across regions, depending on their exposure to tradable sectors, exposure to global value chains and type of specialisation, such as tourism. Overall, touristic regions and metropolitan regions seem at higher risk of job disruption than other regions (OECD, forthcoming^[3]). Second, subnational governments – municipalities and regions – have been at the frontline of managing the crisis, as they are responsible for critical aspects of contention measures, health care, social services, economic development and public investment. Because such responsibilities are shared among levels of government, effective coordination mechanisms are essential. “*Strong coordination between all actors in charge of the response at central and regional levels is the basis of an effective response*” (World Health Organisation, February 2020). This note focuses on the territorial dimension of COVID-19 and the management of the crisis across levels of government.

The territorial impact of the COVID-19 crisis

Local and regional governments are at the forefront of the current COVID-19 crisis. In many countries, subnational governments are responsible for critical aspects of health care, from primary care to secondary care, including hospital management. Additionally, subnational governments have key responsibilities in education and social services, the latter being particularly affected by the COVID-19 crisis, including care of the elderly, children, people with disabilities, and other vulnerable populations. Subnational governments also need to ensure continuity of essential public services, such as water distribution and sanitation, waste collection and treatment, street cleaning and hygiene, public transport, public order and safety and basic administrative services, while also protecting their own staff. In particular,

emergency services and police are sometimes also managed by state, regions and municipalities, and they have a strong role to play in the confinement context to ensure control, security and rescue.

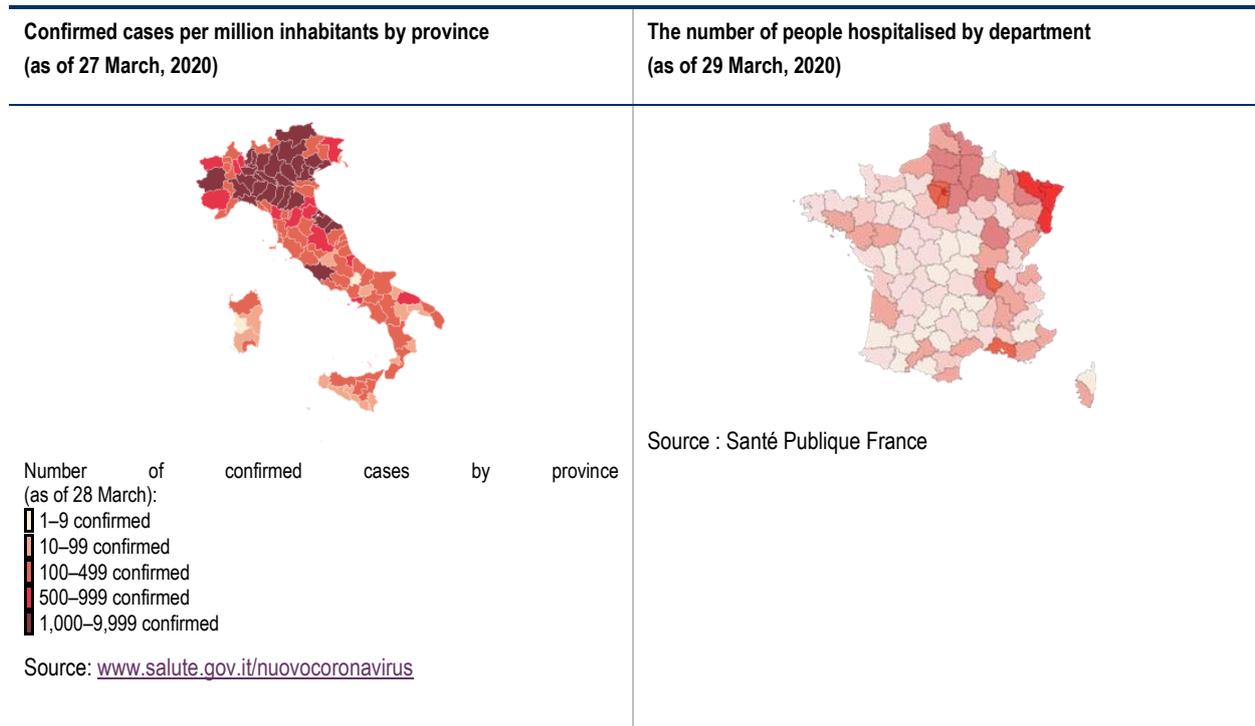
The main risk of coordination failure in a crisis management context is to “pass the buck” to other levels of government and to have a disjointed response to the crisis. In addition to vertical coordination, there is need for horizontal coordination across jurisdictions, among regions and among municipalities. Ultimately, this poses a collective risk. In highly decentralised systems with underdeveloped or weak coordination mechanisms, there may be limited incentive for inter-regional or inter-municipal cooperation (e.g. sharing equipment, skilled personnel, etc.), when supporting a neighbour may jeopardise one’s own ability to adequately respond to a crisis situation. A critical issue has also emerged in cross-border regions where cooperation has been made more difficult because of borders closure, restrictions on movement, in particular for cross-border workers, and the lack of effective coordination arrangements. In the European Union for example, the European Commission called on 13 March for border measures to be “coordinated, operational, proportionate and effective” in a context where several EU Member States have implemented uncoordinated border closures and unilateral measures.

The impact of the COVID-19 crisis may differ markedly across regions and municipalities – some being more affected than others (Figure 1). As in all pandemics, COVID-19 has a spatial dimension that needs to be managed (McCoy, 2020^[4]). In People’s Republic of China (hereafter ‘China’), as of March 2020, 83% of confirmed cases were concentrated in Hubei province. As of 31 March 2020, in Italy, the country’s north was hardest hit, and one of the wealthiest region in Europe, Lombardy, registered the highest number of cases (43,208, around 41% of total cases in Italy). In France, the regions of Île-de-France (37% of cases) and Grand Est (29%) were the most affected as of 31 March. In Spain, all Autonomous Communities are now affected by Covid-19, with Madrid (30% of all Spanish cases) as the most affected region, as of 31 March 2020. In the United States, the state of New York has the highest proportion of COVID-19 cases (40%). Governance and fiscal tools need to be tailored to these differentiated impacts, such as transfers to support the most affected regions.

Such a differentiated impact can be explained by how the first “clusters” of cases developed, as well as the fact that the contagion can spread quicker in large urban areas, due to density and proximity, if preventive, protective or containment measures are not introduced early enough. As McCoy explains for the UK, area-specific socio-cultural, demographic, economic and geographic factors that influence the pattern of transmission means that there are multiple outbreaks and mini-epidemics occurring across the country.

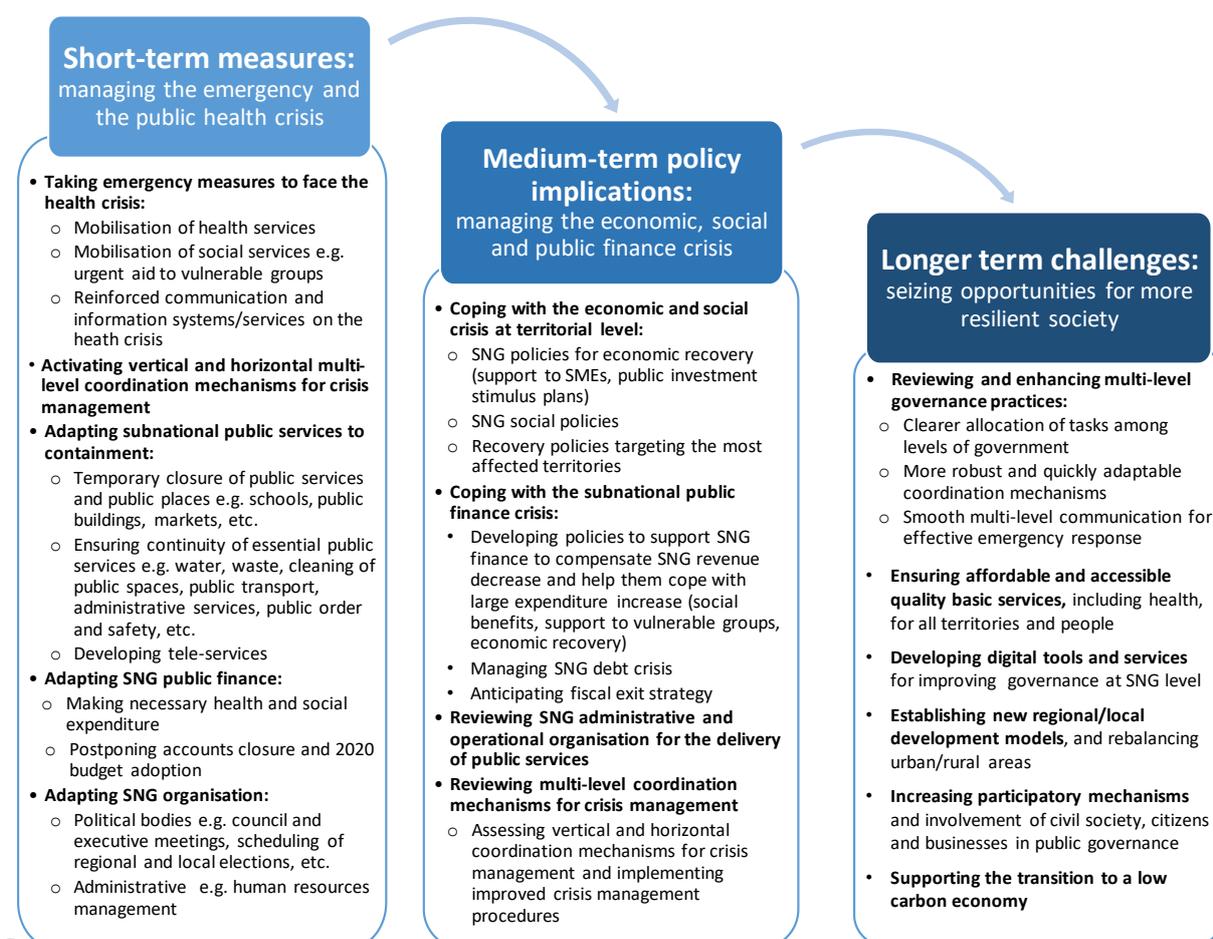
The economic impact of the crisis also differs across regions, depending on their exposure to tradable sectors and sectoral specialisations. For example, the regions which are heavily dependent on the tourism industry will be more affected than other regions. The impact on regional employment and GDP may vary significantly across regions within countries. Within countries, once accounted for the impact on the most touristic destinations, the capital regions or other metropolitan regions often show a relatively higher risk of job disruption than other regions (OECD, forthcoming^[3]).

Figure 2.1. The asymmetric impact of the health crisis: the examples of Italy and France



The COVID-19 pandemic has short- medium- and long-term effects on subnational government functioning and finance, that will be explored in the next sections of this paper (Figure 2.2). While in the short-term the priorities are to manage the emergency and the public health crisis, medium-term priorities will be more about managing the economic, social and public finance crisis while in the long-term, the current pandemic calls for increasing the resilience of our social and economic systems.

Figure 2.2. Managing COVID-19 at the subnational level in the short, medium and longer terms



Source: Authors' elaboration.

Managing the public health crisis among levels of government

Managing the public health crisis implies adopting and implementing emergency measures and adapting other local public services to the situation. In a number of OECD countries, subnational governments (states, regions, and municipalities) have large responsibilities for public health services and hospitals. Subnational governments account for about 24.5% of total public health expenditure in the OECD². However, the degree of decentralisation in the health sector varies markedly across OECD countries (Figure A A.1 and Figure A A.2 in Annex A).

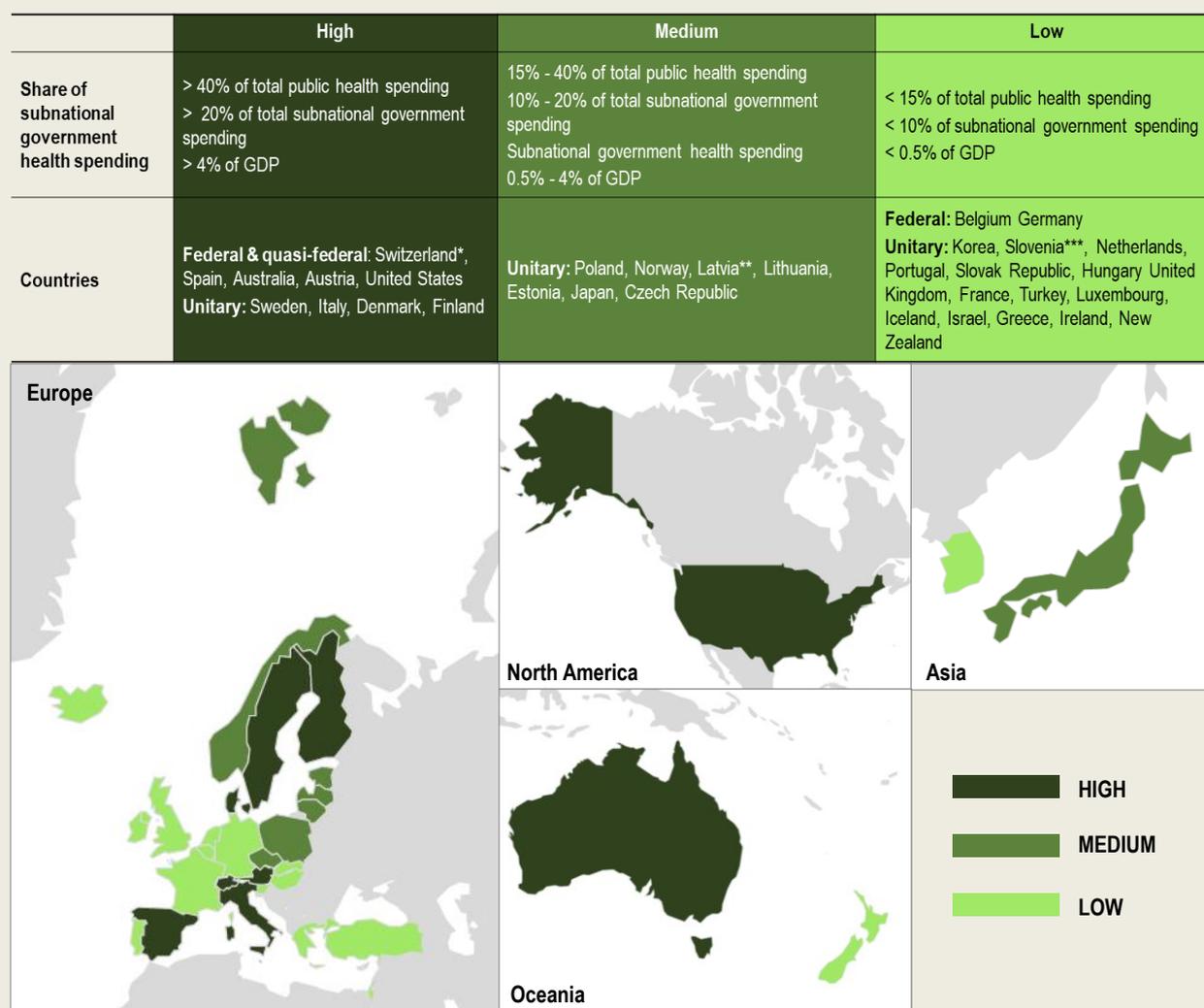
The OECD developed the typology to indicate the level of decentralisation in the health sector in OECD countries (Box 2.1), based on the combination of three spending ratios regarding subnational expenditure *i*) as a share of total public health expenditure; *ii*) as a share of total subnational expenditure; *iii*) as a share of GDP (Figure A A.1 and Figure A A.2 in Annex A).

² 24.5% refers to unweighted average for OECD countries. When taking weighted averages (by population), subnational governments represent 31.8% of total non-consolidated public health expenditure and 38% of consolidated public health expenditure.

Box 2.1. Decentralisation in the health sector in OECD countries

Three groups of countries with high, medium and low levels of decentralisation in health provision are identified (Figure 2.3). Most federal (except Belgium and Germany) and quasi-federal countries (Italy and three Nordic countries) have highly decentralised health care sectors. At the opposite end, 15 unitary countries, plus Belgium and Germany, are in the group where health care is mainly a central or federal responsibility. It is important to note that this analysis, based on spending ratios, may be somewhat misleading. This interpretation can be nuanced, as health expenditure in unitary countries can be a delegated expenditure made on behalf of the central government, with little or no choice as to how expenses are allocated. In federal countries however, state governments can still have shared decision-making responsibilities with the federal government (James et al., 2019^[5]; Beazley et al., 2019^[6]). It is also important to recognise that while health care provision is usually a public sector responsibility, the private sector often plays a large role in service production, side-by-side with public sector producers.

Figure 2.3. The level of decentralisation in health care in the OECD countries



Note: No data for Canada, Chile and Mexico.

* Switzerland: subnational government health expenditure accounts for less than 20% of subnational government expenditure and 4% of GDP.

** Latvia: subnational government expenditure is 8% of subnational government expenditure

*** Slovenia: subnational government expenditure is around 1% of GDP and 12.4% of subnational government expenditure.

Source: OECD based on OECD (forthcoming) Subnational government in OECD countries: key data.

Regions and local governments have differentiated responsibilities regarding health services.

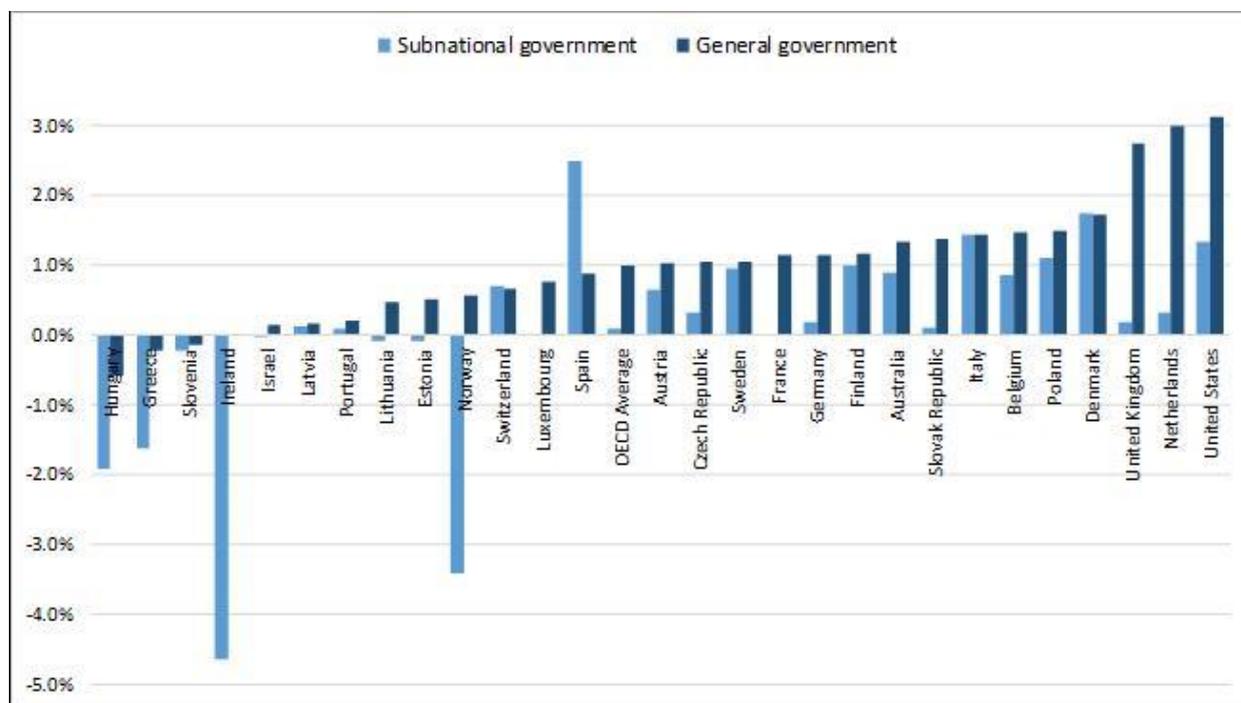
Therefore, this crisis will have differentiated impact within the subnational government sector. In most federal countries, health care is a major responsibility of state governments, which are responsible for secondary care, hospitals and specialised medical services. This is the case in Australia, Austria, Spain, Switzerland, and the United States for example. In Canada, constitutionally, the provincial and territorial governments have most of the responsibility for health care delivery, including hospitals, and other social services. In Mexico, healthcare has been a shared responsibility since 1996. Belgium and Germany are two notable exceptions among federal countries. In Germany health is mostly a federal responsibility. In Belgium, regions and communities are now in charge of wider responsibilities in the health sector, but only since the 2014 reform of the State. Health is a key spending area for regional governments in Spain (37% of total regional government expenditure), Austria (29%) and Australia (28%), as well as in Italy (OECD, forthcoming^[7]). The role of regional governments may be also significant in unitary countries, such as Denmark and Sweden, where health care is almost exclusively a regional-level responsibility, accounting for 90% of regional expenditure.

The role of municipalities in healthcare is more concentrated on primary care centres and prevention. However, in some countries, municipalities or inter-municipal cooperation entities may have wide responsibilities in healthcare services and infrastructure. In Finland, municipalities and joint municipal authorities are in charge of primary and secondary health care. In the Netherlands, there are 25 municipal health services (GGDs) which are inter-municipal cooperation structures established at regional functional scale.

The involvement of subnational governments in public health financing has increased in many OECD countries over the last 20 years, for example in Denmark, Spain, and the US. However, there was also recentralisation in the health sector in some countries, such as Greece, Hungary, Ireland and Norway. Overall, the share of health expenditure in GDP increased by 1 percentage point between 1998 and 2018 for the general government while it increased by 0.1 percentage point at subnational level on OECD unweighted average (Figure 2.4). It is important to note increased health public spending over the last ten years, i.e. after the 2008 global crisis, as a share of GDP has been moderate at the general government and subnational government levels (respectively 0.2 and 0.1 percentage points). Some countries have been severely affected by the economic downturn in the wake of the financial crisis and the resulting austerity measures and spending cuts starting in 2009, including in the health sector of several countries, such as Greece and Portugal. In others, such as the US, the increase of public spending has been triggered by an increase in government transfers to Medicare and Medicaid (OECD, 2020^[8]).

Figure 2.4. Change in health expenditure at general and subnational government levels over the last 20 years as a % of GDP

Change in percentage points between 1998 and 2018



Note: 1998-2015 for Australia; 1998-2017 for Luxembourg. General government includes central, state, local government sub-sectors as well as social security sub-sector.

Source: Authors' calculations based on OECD national accounts

The immediate impact of COVID-19 on subnational governments will be significant in countries where they have the largest responsibilities for health care. This may be especially true in federal countries where state governments have large health responsibilities, such as Australia, Austria, Canada, Spain, Switzerland, and the US, but also in unitary countries, such as Italy and the Nordic countries. Subnational governments, in coordination with central or federal government, have to implement the urgent measures of adapting hospital infrastructure and services to rapidly increasing needs. In the short-term, health services face a sharp increase in costs. This may include higher staff costs, the cost of new laboratory analyses, extra material consumption and infection tracking, purchasing respirators, creating new hospital beds, etc. Despite the fact that in many countries the strategy is to respond to the crisis by postponing non-urgent health treatments to create healthcare capacity, the expected direct expenditure effect is still likely to be high. In Finland, early calculations suggest that the direct effect on healthcare service providers will mean an increase in expenditures by 10% to 20% during 2020-2021, assuming that 35% of the population is affected.

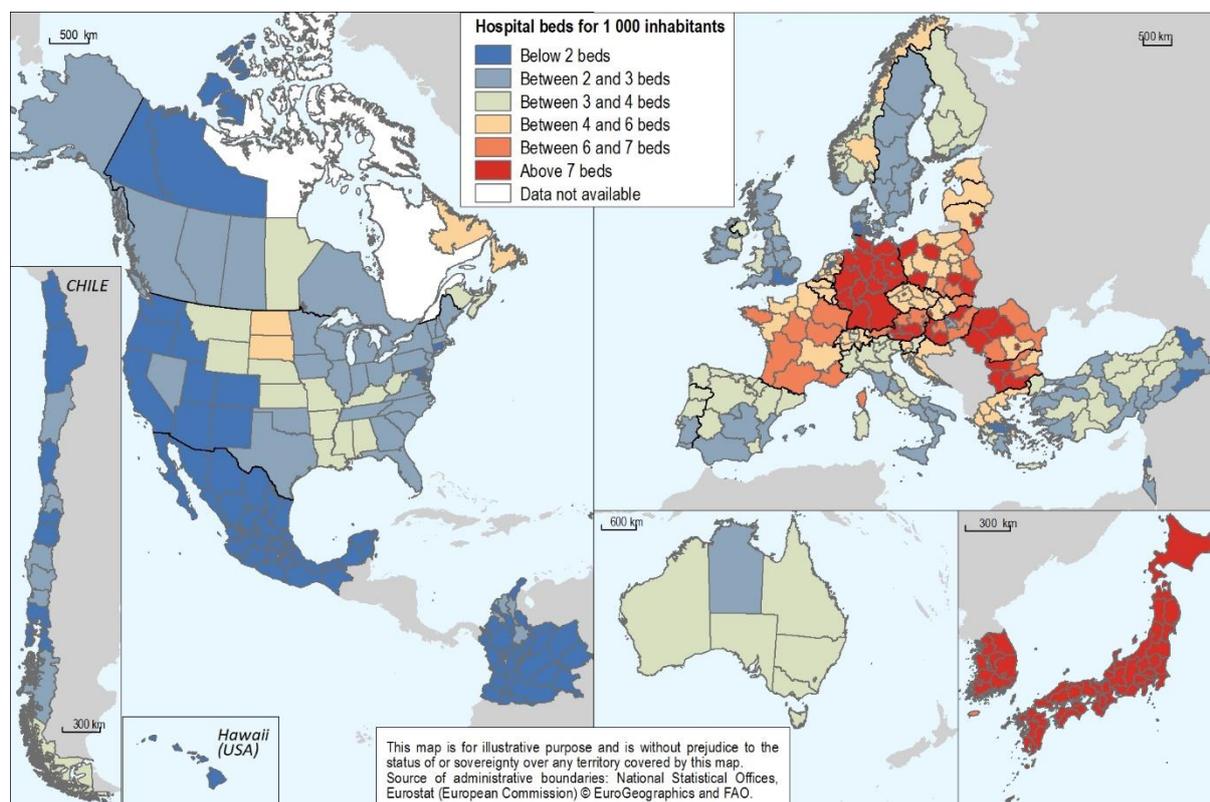
Regional disparities in access to health care

Some recent debates in the crisis management have questioned the link between decentralisation and disparities in access to health care. Regional disparities in access to health care are quite high in some countries (Figure 2.5), when it is measured by the number of hospital beds per 1 000 inhabitants. Some research point out that regional disparities in health outcomes have not increased after the decentralisation of health care spending in Spain and Italy (Lopez-Casasnovasa, Costa-Font and Planas,

2005^[9]; Bianco and Bripi, 2010^[10]), but further analysis would be needed to explore further the link between regional disparities, decentralisation, access to health care and health outcomes.

Figure 2.5. Regional disparities in access to health services

Number of hospital beds per 1 000 inhabitants, large regions, 2018 (or latest year available)



Source: OECD Regional Database: oe.cd/2Wd

Pressures on a wide range of subnational public services

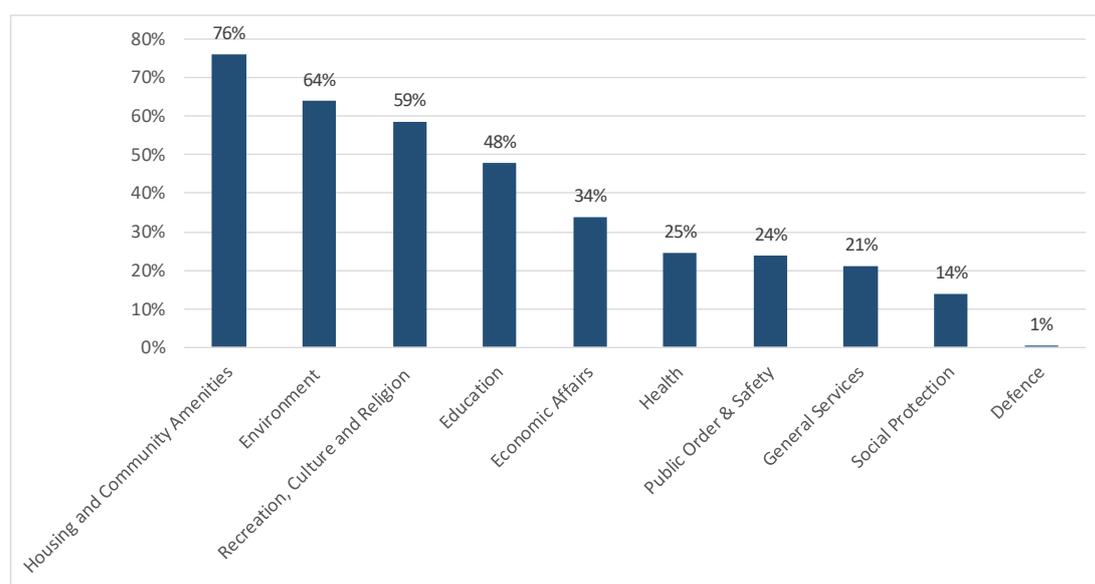
In addition to health services, subnational governments are facing urgent demands related to their other responsibilities as a result of COVID-19. This demand includes social services, including care of the elderly, children, people with disabilities, and the protection of vulnerable populations such as homeless people, migrants, etc. – all of whom are directly and indirectly affected by the virus. In many OECD countries, subnational governments are responsible for several welfare services and social transfers. Social protection represents, on unweighted average, 18% of subnational expenditure and 14% of total social public expenditure (Figure 2.6), but these shares are much higher in countries in which subnational governments have significant social protection responsibilities, such as Austria, Belgium, Germany, Japan, the Nordic countries, and the UK. Subnational governments, and especially local governments, are often the first resort in times of social crisis. This has an immediate and strong impact on social expenditure, especially among the most affected regions and municipalities.

Furthermore, subnational governments are facing a need to adapt various public services under their responsibility to the meet the requirements of the current situation. This includes education, a sector in which subnational governments also have important responsibilities, accounting on unweighted average of almost 50% of public education spending. Regional and local governments are at the frontline

of the management of the closing of pre, primary and secondary schools, as well as universities and higher schools in some countries. Other critical services managed by regional and local governments are public utilities (i.e. water distribution and treatment, waste collection and treatment, etc.), public hygiene (e.g. street cleaning and disinfecting public areas), administrative services, public transport, public order and safety (emergency services, regional and municipal polices), and recreational services.

In the context of the crisis, subnational government have to manage the full or partial closure of certain services and facilities, ensure the continuity of essential public services, and develop or provide better access to tele-services (tele-health consultations, tele-education applications, local tax payments, access to government information, etc.).

Figure 2.6. The share of subnational government in public expenditure by functional area (2017)



Note: The OECD average (unweighted) is calculated for 33 countries (no data for Canada, Chile, and Mexico). The functional areas correspond the Classification of the Functions of Government (COFOG), which distinguishes 10 areas. The total of general government spending is non-consolidated.

Source: OECD (Forthcoming) Subnational governments in the OECD: key data (brochure and database).

As political and administrative organisations, subnational governments are also adopting new ways to work, meet, manage staff and regulate. Many regional and local governments have been granted exceptional authority and under certain conditions, to organise virtual deliberative and executive councils meetings to take urgent decisions and adopt emergency measures. As employers, subnational governments must identify how to best protect their staff, including social and health staff who may come in direct contact with the virus.

Role of subnational governments in widespread testing and implementing exit strategies

To limit spread of the virus and restore economic activity, in a number of countries a radical increase in testing has been proposed to enable more targeted social distancing. Also the use of protective equipment to prevent the transmission of the virus should be considerably increased. Both measures would require a massive increase in investment in coronavirus testing and personnel protective equipment (i.e. masks, gloves, gowns and face shields). While increasing the input and investment in testing and protective material would be huge, such expenditure should be balanced with the devastating economic price paid for containment. Moreover, as the production of the equipment needed for testing and

protection increases, the unit price of such equipment is likely to fall over time, enabling even more extended testing.

In countries in which subnational governments have large responsibilities for health and social services, subnational governments are bearing the greatest responsibility for organising, in cooperation with medical staff, testing operations. These governments will also play a key role in implementing the exit strategy (“track, isolate, test and treat”) and in post-crisis measures. While, central governments will need to ensure the financial resources and coordination, the actual service delivery will be the responsibility of regional and local governments.

In countries with more centralised health service delivery, the role for the subnational governments may seem more limited. However, in these countries the local and regional governments play an important role in assisting the central government to organise the testing and isolation measures. In Korea, specific Subnational Centres for Pandemic Countermeasures were established in local governments to deliver the containment measures and to help coordinate local measures with central authorities. While Korea has used many data driven measures like GPS tracking data from phones and cars, credit card transactions, travel histories, CCTV footage, and artificial intelligence to identify high-priority cases and track the routes of infected individuals, considerable effort is still required from the local authorities to implement the actual testing. For example, local governments were very much involved in setting up the roadside testing facilities to respond to the soaring demand for testing (Chung and Soh, 2020^[11]; Business Insider, 2020^[12]).

Box 2.2. Toward widespread testing

The World Health Organisation (WHO) is recommending massive testing to fight the coronavirus. “Countries should test and trace as many cases as possible” according to the WHO. It has been suggested that as new tests become available, testing could be extended to everyone, not just those with symptoms. Frequent virus testing will enable identifying and isolating the persons who are infectious before the symptoms develop. This considerably reduces the risk of transmission, as is seen from the experience in South Korea and the Italian town of Vò Euganeo and Veneto Region. For such a strategy to work, testing should be frequent however: health personnel should be tested daily and the rest of population weekly. Moreover, tests for the infection (genetic tests) and immunity (serological tests) should be carried out side-by-side. Testing the immunity to coronavirus is needed to detect persons who no longer spread the virus and who could return to work safely.

Source: (Romer and Garber, 2020^[13]; Financial Times, 2020^[14]; The Economist, 2020^[15])

Managing the economic, social and public finance crisis across levels of government

The economic impact of COVID-19 will be significant. The OECD estimates that for each month of containment, there will be a loss of 2 percentage points in annual GDP. All economic sectors are affected though disrupted global supply chains, weaker demand for imported goods and services, a decline in international tourism, and a decline in business travel. SMEs and entrepreneurs will be hit particularly hard by measures to contain the virus’ spread. Unemployment and the number of aid seekers will increase, deepening the consequences of social and territorial inequality. The longer that restrictions on economic activity continue, the greater will be the financial losses. SMEs are particularly vulnerable during the crisis

(OECD, 2020, SME Note). That is partly why many governments have issued extensive support packages for SMEs, as well as for large companies.³

The effect on the public sector could be considerable, particularly in countries that were already heavily indebted before COVID-19. In the short-term, central governments will bear the burden. They will implement recovery plans, and some countries have already announced strong recovery measures to support the economy, directed at business and households.

The economic impact of the crisis will also differ across regions, depending on their exposure to tradable sectors and global value chains. For example, regions heavily dependent on the tourism industry will be more affected than other regions. Preliminary analysis also shows that capital regions or other metropolitan regions show a relatively higher risk of job disruption than other regions (OECD, forthcoming). In the United States for example, analysis from Brookings of county-level infection and economic data shows that the nation's COVID-19 case load not only remains heavily concentrated, but that the hardest-hit counties and metro areas constitute the very core of the nation's productive capacity (Muro, Whiton and Maxim, n.d.^[16]). According to Brookings, the US's 50 hardest-hit counties "support more than 60 million jobs and 36% of its GDP" (Muro, Whiton and Maxim, 2020).

The longer the containment measures last, the higher will be the risk for regional economies. Previous OECD work shows that the recovery of regions after the 2008 global financial crisis took a long time in OECD countries. In more than 40% of OECD and EU regions, even seven years after the start of the crisis, per capita GDP was still below pre-crisis levels (OECD, forthcoming^[3]).

But if the virus continues to spread from "hotspots" to other regions, and if containment measures continue for a long time, it is likely that the overall impact will become more uniform across regions. In the medium- to long-term, the effect – including with respect to the territorial impact on the economic and financial crisis – is likely to become more uniform across regions.

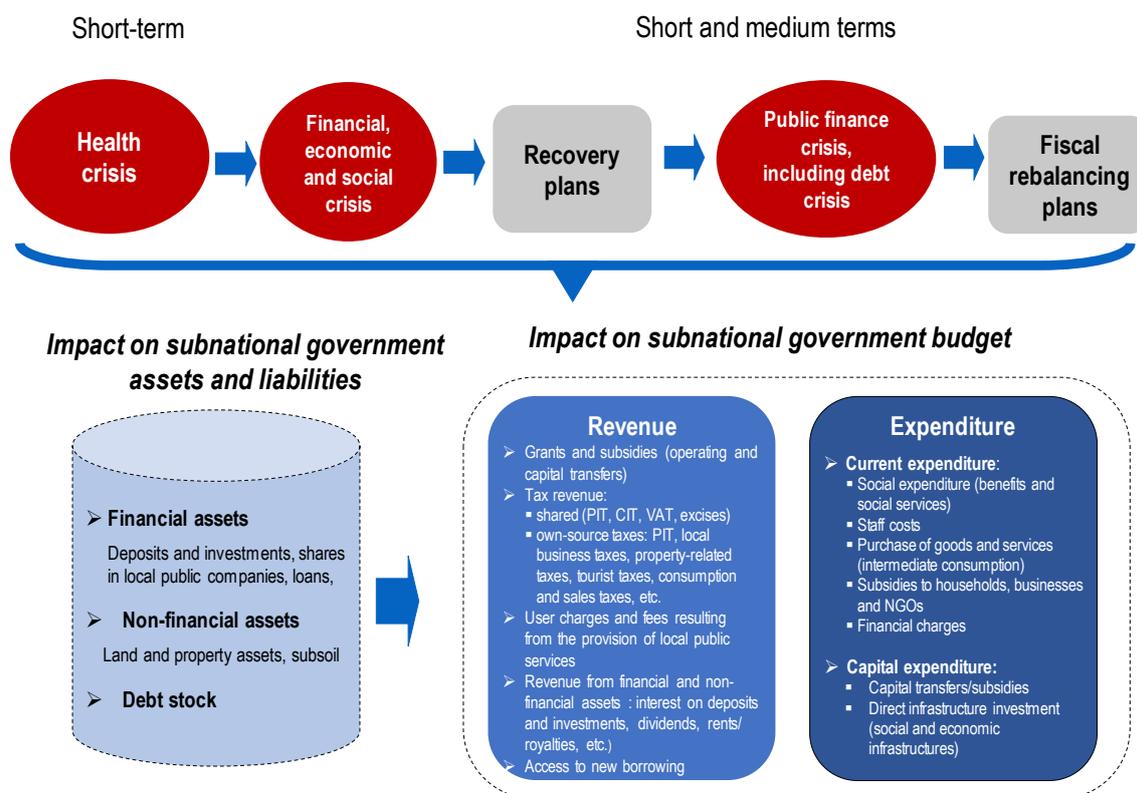
Subnational governments are often well aware of local circumstances and are best positioned to support their local businesses. While in the short-term, local entrepreneurs and workers would probably benefit most from cash support, other forms of economic support by local governments could be offered, especially in the medium- and long-terms. Examples of these include pricing of land and buildings, municipal grants, loan and guarantee arrangements, interest rates and equity financing. Similarly, public service provision (e.g. premises, utilities, water, waste, broadband connections) to local businesses and households at a price below the market price could be considered. Central and regional governments can play a particular role in ensuring equal treatment for similar SMEs.

The impact on public finance will be significant, notably on subnational government finance (see Figure 2.5). While the crisis has already put short-term pressure on health and social expenditures, the main effects are expected in the medium term, on expenditures and revenues. However, this impact may vary widely depending on the exposure of the regions to COVID-19, the fiscal flexibility of subnational government to absorb the exceptional stress the existence rainy-day funds or set-aside reserves, and the scope and efficiency of support policies from higher levels of government (S&P, 2020^[17]; OECD, forthcoming^[18]),

Increases in social spending (unemployment payments, guaranteed minimum revenue, family support, housing subsidies, emergency aid, old age, etc.) will add to the pressure on subnational government expenditure, beyond that arising from the higher costs associated with managing the public health crisis.

³ In the European Union, the aid by central and local governments to enterprises is subject to EC state aid rules.

Figure 2.7. How the COVID-19 may affect subnational government finance



Source: Authors' elaboration

In addition, subnational governments may also be urged to participate in national and regional recovery plans and to take strong recovery actions in regional and local economic development to support businesses, particularly in the most affected areas. Specific recovery policies could target the most affected regions, cities and local areas. On average, subnational governments are responsible for 57% of public investment in the OECD. As major public investors, they may be further mobilised to participate in stimulus packages targeting public investment, in order to compensate for a decline in private investment, as seen in 2007-2008. It is likely that subnational governments will participate in large investment programmes targeted at improving health infrastructure.

In parallel, subnational governments in most countries may experience a large drop in revenue, including tax revenue, user charges and tariffs and asset income. A strong decrease in tax revenues is expected, both from shared and own-source taxes. As subnational government revenues are often based on the previous year's activity (e.g. taxes on income, etc.), most subnational governments will see the situation worsen in 2021 or even 2022, regardless of the degree of recovery at the national level.

Declining economic activity, employment and consumption could affect the performance of several taxes such as personal income tax (PIT), corporate income tax (CIT) and value added tax (VAT). In fact, a decrease in consumption and income among households and firms will automatically reduce receipts from these taxes. In addition, measures such as tax breaks, exemptions, deferrals and a drop in rates decided within the framework of recovery packages as counter-cyclical tax measures, could amplify the mechanical decline in tax receipts. Some regional governments and cities have adopted tax relief measures to support firms and households. In fact, the majority of recovery programmes already adopted to limit the impact of the crisis on households and firms includes a number of tax measures that will result in a decrease of tax receipts for subnational governments budgets.

These taxes, sensitive to economic deterioration, are either national taxes which are shared with subnational governments (as is the case for the PIT in many OECD federal and unitary countries, and, to a lesser extent for the VAT and the CIT) or own-source taxes. The PIT is a municipal tax in Denmark, Finland, Iceland, and Sweden. In Canada and the US, it is levied by the provinces and states, respectively. In some countries, regional and local governments can also piggyback on national taxes and raise a surtax on the national rate, e.g. the PIT in Italy or the CIT in Portugal.

Beyond these national taxes – shared or own-source – many other subnational taxes may be affected by the economic decline. These include taxes linked to real estate activity (e.g. real estate transaction taxes, building permits and rights, etc.), to household and business consumption (e.g. excise duties, taxes on energy products, taxes on cars, leisure, tourist tax, advertising tax, etc.), and to certain local business taxes. Examples include the municipal business tax in Germany and Austria, the “territorial economic contribution” in France, regional tax on productive output (IRAP) in Italy, the municipal trade tax in Luxembourg, local income tax in Korea and Japan, as well as the resident tax levied on individual and business income. These, as well as other “economic” taxes could see their tax base reduced. It is worth noting that some central governments have decided to abolish the payment of several local taxes for some months, such as in Ukraine with the property and land taxes, or in Japan where it is planned reduction and exemption of property tax (Box 2.3).

Subnational governments may also suffer from a strong decrease in user charges and tariffs. This would come as a result of the closure of numerous public facilities (e.g. cultural, educational and sport venues), a declining use of local public services such as local public transport, school meals, car parks, tolls, nurseries, administrative fees, etc.

Finally, **income from physical and financial assets could be also affected** e.g. rent reduction, loss in dividends from local public companies, lower revenue from royalties resulting from the downturn (decrease in raw material prices, and lower production).

A strong decrease in revenues, combined with a continuous increase in expenditure (due to social spending and investment), could result, in a scissor effect and therefore in subnational government deficit, as was the case in 2007-2008 (see also (OECD, forthcoming^[18]; OECD, 2013^[19]). This situation could lead to an increase in subnational government debt while a crisis in debt capital markets could affect the current subnational debt stock. It could also impact access to new borrowing by subnational governments, which may already be weakened by lower fiscal performance and creditworthiness. According to Fitch Ratings, up to 70% of the 300 local and regional governments the agency rates could be affected by weakening credit profiles due to the medium-to-long-term impact on their own fiscal performance (without a change in sovereign credit risk).

Box 2.3. The impact of COVID-19 on some regional and local taxes in France and Italy

In **France**, regional governments could lose part of their revenue coming from the VAT, which accounted for around 15% of their revenue in 2018. Other local taxes will be affected as well. These include:

- Real estate transaction taxes, as most real estate agencies have stopped their activities, and real estate transactions have slowed significantly. For example, the French departments will suffer from the decline of the tax on property transactions (DMTO), which accounts for 20% of their operating revenue;
- Vehicle registration fees because of the fall in car sales;
- The tourist tax, and;
- The levy on corporate added-value tax (CVAE), part of the “territorial economic contribution, which is linked GDP growth (La Gazette des Communes, Fitch Ratings), as of 2022 (because of the time lag).

In **Italy**, the tax revenues of both regional governments and municipalities could be strongly affected.

- Municipalities benefits from the PIT, both as a share (*compartecipazione IRE*) and as a surtax (*imposta addizionale comunale*). They also receive a tax on advertising and a tourism tax, whose tax base will be strongly reduced.
- At the regional level, the tax base of the regional tax on productive output (*imposta regionale sulle attività produttive* - IRAP) will be severely reduced while it represents an important part of regional government revenues. Other regional taxes will be impacted such as the regional tax on vehicles and the regional surtax on the PIT (*addizionali regional all'IRPEF*). For example, it has been decided to defer the payment of the regional surtax on the PIT (*addizionale IRPEF regionale*) in the context of the recovery package. The five special status regions (*regioni a statuto special* - RSS) could be even more affected as they share with the central government certain national taxes, notably the PIT, the corporate income tax, excise duties and the stamp tax.

Source: OECD, La Gazette des Communes, Fitch Ratings.

It is likely that central governments will design recovery strategies and counter-cyclical measures to mitigate the impact of the crisis on subnational government budgets, prevent them from carrying out pro-cyclical actions, and ensure coherence in the overall government response to the crisis. Some governments have already announced fiscal measures targeting subnational governments. These packages will probably include both revenue-side measures (e.g. tax arrangements, and increases in central government transfers) and expenditure-side measures. Some subnational government associations are evaluating the cost of the crisis on subnational budgets, including the impact of recovery measures targeted at businesses and households on their budgets. They started launching discussions with central governments to design appropriate measures to support subnational finance. However, an increase in central government transfers will likely be insufficient to offset decreases in tax revenue, user charges and tariffs, and property income. In the longer term, central government transfers will probably be cut to rebalance public budgets (for example through future austerity or consolidation plans).

The future ratings of subnational governments will depend significantly on the level of extraordinary support provided to subnational governments by central governments and the extent to which they will assume the role of a natural stabiliser, absorbing the costs of higher unemployment and supporting economic output (Fitch Ratings, 2020_[20]).

The long-term challenges: seizing opportunities for a more resilient society

As stressed by the OECD, the longer-term need for new policy approaches to repair the damage and ensure that we are better prepared for future shocks. Central and subnational governments may increase investment in health care and other public services, and commit to ensuring affordable and accessible quality basic services for all territories and people. The crisis may also contribute to introducing new, and reinforcing existing, mechanisms to support local government and public service delivery, including through stronger or more diversified e-government services, e-education and e-learning, tele-medicine, etc. In addition to supporting governments and citizens in a time of crisis, improved and expanded services such as these could contribute to regional attractiveness in remote and rural areas, while also supporting the transition to a low carbon economy. The sharp decrease of carbon emission during the containment in China, the US and Europe shows that it is possible to move forward to meet the climate objectives.

3 Overview of Country Responses

This section highlights ten types of measures that are being taken by national and subnational governments to ensure effective coordination in the crisis and support regions and cities in dealing with the crisis. Leadership and coordination by national government is critical in the crisis context. Subnational governments – regions and cities – have also been undertaking a wide range of actions to manage the public health and economic crisis (OECD, 2020^[21]). Such a combination of national and bottom-up measures is needed for an effective response to the multifaceted crisis. As of 31 March, the main categories of measures are the following:

1. Vertical mechanisms to strengthen a coordinated response to the COVID-19 crisis among levels of government
2. Ensuring a coordinated response across regions/states and minimising coordination failures
3. Managing the asymmetric territorial impact of the crisis
4. Subnational governments' key role in tracking and testing
5. Supporting vulnerable groups
6. Temporarily recentralising – or decentralising – public health management
7. Mitigating the economic/financial impact on subnational governments
8. Enhancing flexibility in subnational regulatory frameworks
9. Liaising with subnational governments to manage the economic/financial impact on firms, workers and households
10. Boosting public investment at all levels of government

1. Vertical mechanisms to strengthen a coordinated response to the COVID-19 crisis among levels of government

Effective vertical coordination is required in federal and unitary countries alike. It is required in all cases to make decentralisation work (OECD, 2019^[22]), but it is even more essential in crisis contexts. More decentralised countries need to mobilise their coordination platforms to minimise the risk of a fragmented policy response. Many countries have learned from past experience in crisis management (e.g. SARS-Coronavirus 2003, Pandemic H1N1/09 virus, and the 2008 global financial crisis) and seem better prepared to tackle the COVID-19 crisis in terms of coordination. Yet some countries seem to lack effective coordination tools for crisis management. National associations of subnational governments also have an important role to play, to coordinate efforts, identify solutions, and support the implementation of emergency measures by their members.

- In **Australia**, the Australian Health Protection Principal Committee (AHPPC) coordinates the aid response, and makes the key decisions. The AHPPC is comprised of the Chief Health Officers from each state and territory, the Chief Medical Officer, and representatives from key departments.

The AHPPC endorsed the Australian Health Sector Emergency Response Plan for Novel Coronavirus on 17 February 2020. The plan guides the response of Government health agencies, ensures that actions are well coordinated, and outlines the four main stages of the response: i) initial action, ii) targeted action, iii) stand-down, and iv) preparedness. On 5 March, the Australian Government activated the National Coordination Mechanism (NCM) in response to the spread of COVID-19. The NCM will operate through the Department of Home Affairs and, together with the states and territories, will co-ordinate the whole-of-government response to issues outside the direct health management of COVID-19.

- **Canada's** Public Health Agency activated the Health Portfolio Operations Centre (HPOC) on 15 January 2020, and triggered the Federal/Provincial/Territorial Public Health Response Plan for the Biological Events to support the coordination of federal, provincial and territorial readiness and response to COVID-19. HPOC acts as the focal point for coordinating response activities and supporting emergency operations at different levels of government. These steps help ensure improved coordination across the country. Canada has developed a "whole-of-government action" based on seven guiding principles including collaboration, which calls on all levels of government and stakeholders to work in partnership to generate an effective and coordinated response. These principles build on lessons learned from past events, particularly the SARS outbreak in 2003, which led to dedicated legislation, plans, infrastructure, and resources to help ensure that the country would be well prepared to detect and respond to a pandemic outbreak.
- **Chile.** The government has established the Social Committee for COVID-19 (*Mesa social por COVID-19*) formed by representatives of municipal associations (mayors), government authorities, academics and professionals from the health sector. The Committee meets twice a week with the objective of strengthening the Action Plan COVID-19. This Committee has also been replicated at the regional level.
- In **France**, the government published a guide for regions, counties (*départements*) and municipalities that includes recommendations to help subnational governments ensure the continuity of local public services. In particular, subnational governments must update and activate Business Continuity Plans (BCP) to organise the operational response and maintain essential activities. The document also provides "service-by-service" recommendations, with a focus on the services to be maintained or closed, in particular those receiving the public, and public areas. Some services must be maintained, such as services related to drinking water, sanitation, rainwater management, waste collection and treatment, public energy service (e.g. district heating, electricity and gas distribution), and some administrative services, such as the civil status service.
- In **Italy**, the Government declared a six-month state of emergency as a result of the coronavirus outbreak on 31 January 2020. The Head of the Civil Protection Department was entrusted with coordinating the interventions necessary to deal with the emergency at a national territorial level. These include assisting the population potentially affected by the virus based on measures adopted by the Ministry of Health, strengthening controls in airport and ports, repatriating Italian citizens located in countries at risk, and establishing communication and information systems for crisis management. In March 2020, the Government appointed a Commissioner to deal with a series of logistical problems and bottlenecks, including mask supplies, caused by the fast spread of the virus and the difficulties in securing medical equipment. In Italy, the National Healthcare Service, which offers universal access to health care, is regionally based, with regional authorities responsible for the organisation and delivery of health services.
- **Japan.** Prefectures and municipalities in Japan have a fair amount of autonomy in the areas of prevention and planning emergency response. As the number of people infected with the virus varies between prefectures, each local government must estimate its own peak and prepare for it. The health ministry also asked local governments to decide which medical institutions will deal with people requiring hospitalisation, receive intensive care, or be put on a respirator. The municipalities

were asked to prepare the necessary medical equipment and supplies. Therefore, the government is working with local municipalities, which have the authority to designate or supervise elderly care facilities, and relevant groups, to ensure that preventive measures are thoroughly implemented.

- **The Netherlands** mobilises doctors, laboratories, municipal health services (GGDs, inter-municipal cooperation bodies), and the National Institute for Public Health and the Environment's (RIVM) National Coordination Structure for Infectious Disease Control (LCI) to work together to combat the outbreak of infectious disease. For COVID-19, the RIVM stays in contact with GGDs that carry out their operations under the leadership of the chair of the safety region. All doctors and laboratories must notify GGDs of every patient thought to be infected with the virus (Government of the Netherlands, 2020^[23]).
- **In Portugal**, the Government established a contact line for municipalities to answer questions from other municipalities. The contact channel (covid19@dgal.gov.pt) is operated by the General Directorate of Local Authorities (DGAL) of the Ministry of State Modernization and Public Administration. The DGAL has published guidelines for municipalities that are available on the Autárquico Portal. The government has also requested municipalities, metropolitan areas and inter-municipal bodies to prepare contingency plans in line with the guidelines issues by the DGAL.
- **Spain** introduced an inter-ministerial commission to ensure coordination within the government, and an inter-territorial commission to support cooperation among different levels of government to manage the COVID-19 crisis.
- In the **UK**, the four nations (England, Northern Ireland, Scotland and Wales) worked with the UK Government to develop a joint policy paper *Corona Virus (COVID-19) Action Plan*. Furthermore, the Ministry of Housing, Communities and Local Government announced additional measures and guidance to tackle the outbreak of the coronavirus. This includes creating a taskforce to bring together senior experts from across key sectors – including resilience, local government, public health and adult social care fields – who will assess Local Resilience Forum (LRF) plans and provide support and advice to ensure these plans are robust.
- The **European Committee of the Regions** (CoR) established an exchange platform to support regional and local communities across Europe. This platform aims to share needs and solutions, enhance mutual support and act as a feedback mechanism to enable a reality check of the EU measures from the local and regional angle.
- Numerous national associations of local governments are implementing actions plans, communication and information platforms for their members:
 - In **Chile**, the government has introduced an Action Plan to implement measures in accordance with the National Association of Municipalities.
 - In **Portugal**, the National Association of Portuguese Municipalities (ANMP) pledges municipalities support to the government and calls on members to collaborate with the national authorities and actively uphold the measures put in place. The association publishes regular analysis of the impact on municipalities of measures taken by the government regarding the COVID-19.
 - In **Sweden**, the Swedish Association of Local Authorities and Regions (SALAR) is playing a key role in informing constituents but also in maintaining dialogue with the central government agencies in charge of managing the crisis.

2. Ensuring a coordinated response across regions/states and minimising coordination failures

Regional governments play an essential role in crisis management. Coordination across regions is essential to avoid disjointed responses, which in the end pose a collective risk to a country's population. For example, in federal systems, there may be limited incentive for cross-jurisdiction cooperation (e.g. sharing equipment, skilled personnel, etc.) if supporting a neighbour jeopardises one's own ability to adequately respond to a crisis situation. The role of national governments is essential in minimising coordination failures and ensuring a coherent approach.

- **In Australia**, the National Coordination Mechanism based in the Department of Home Affairs, coordinates the cross jurisdictional response to non-health aspects of the pandemic.
- **In Brazil**, its 26 state Governors met on 26 March via videoconference to discuss emergency actions given the spread of COVID-19 in the country, and to call for fiscal measures to be implemented by the federal government to help them manage the crisis.
- In **Germany**, the lockdown decision is taken at the state or even local level, and not at the federal one. The federal government has been meeting with state leaders to coordinate restrictions to movement. Bavaria, Hamburg, Hesse, Lower Saxony Rhineland-Palatinate, and Saarland, went into partial lockdown around 21 March. The closing of non-essential economic activities came from an agreement between the federal state and federated states.
- In **Switzerland**, the Conference of Cantonal Governments (KDK) is involved in the coordination activities related to the COVID-19 crisis, first with the Federal Council at confederal level (secretary of the KdK sits on the Confederation Crisis Staff) but also to ensure coordination across cantons. In particular, the KDK is coordinating specialized conferences with all 26 cantons to meet regularly to discuss several topics related to the crisis.
- In the **US**, there is no commonly adopted approach among the 50 states. However, there have been initiatives of cross-state coordination: the governors of New York, New Jersey, Connecticut established a common set of guidelines on social distancing and limits on recreation, which Pennsylvania subsequently joined as well.
- Cross-border transfers of COVID-19 patients have been made possible in the context of pre-existing cooperation agreements among cross-border regions in **France** (Grand-Est), **Germany** (Rhineland-Palatinate and Baden-Württemberg), **Switzerland** and **Luxembourg**. In Germany, the minister-president of Rhineland-Palatinate has created a cross-border task force with Dutch and Belgian regions to coordinate actions against the novel coronavirus. In France, both the central government and the Grand-Est region are involved in this cooperation.

3. Managing the asymmetric territorial impact of the crisis

The impact of the COVID-19 crisis may differ markedly across regions and municipalities – some being more affected than others. In China, as of March 2020, 83% of confirmed cases were concentrated in Hubei province. As of March 26 2020, in Italy, the country's north was hardest hit, and the region with the highest number of cases in Lombardy, which registered cases (43,208 cases, around 41% of total cases in Italy). In France, the regions of Île-de-France (37% of cases) and Grand Est (29%) were the most affected by 31 March 2020. Governance and fiscal tools need to be tailored to these

different impacts, such as transfers to support the most affected regions. The economic impact of the crisis will also differ across regions, depending on their exposure to tradable sectors and global value chains. For example, regions which heavily dependent on the tourism industry will be more affected than other regions. Preliminary analysis also shows that capital regions or other metropolitan regions show a relatively higher risk of job disruption than other regions (OECD, forthcoming). However, in the medium- to long-term the effect – including with respect to the territorial impact on the economic and financial crisis – is likely to become more uniform across regions.

- In **China**, in early March the central government allocated CNY 35 billion in general grants to Hubei Province (where the city of Wuhan is located). The Hubei Provincial government has full discretion on the spending of these grants, following general policy guidance at the national level.
- In **France**, the government is undertaking a transfer of patients from the most affected regions to others.
- In **Italy**, the first cases of the COVID-19 pandemic were confirmed on 31 January 2020. In the following weeks, eleven municipalities located in Lombardy and Veneto were identified as the centres of the two main Italian clusters, and placed under quarantine. The majority of positive cases in the other regions trace back to these two clusters. On 8 March 2020, a Decree of the President of the Council of Ministers expanded the quarantine throughout Lombardy and to 14 other northern provinces. On the following day it was extended nationwide, placing more than 60 million people in quarantine. At the time of drafting this note, Italy's Minister for the South and Territorial Cohesion together with the Presidents of Regions were negotiating an agreement for reprogramming and accelerating investments under the "EU Corona Response Initiative" (approximately EUR 10 billion, including regional and national operational programmes). The funds could be directed towards public health services, SMEs, support to workers and households.
- In **Korea**, a supplementary budget adopted in March 2020 to respond to the COVID outbreak includes a special support for Daegu City and North Gyeongsang Province, which are the two areas hit hardest. Measures includes for example the building of an endemic care facility in the southeast region of the country, where the hardest-hit localities are located, the strengthening of disease prevention by increasing for example negative pressure rooms, a support to small retailers and SMEs and a special support to local economies.

4. Subnational governments' role in tracking and testing

Information tracking in all local governments is essential to inform decision-makers, adopt adequate measures and contain the pandemic, but also to communicate with citizens transparently and maintain trust, a key element for the population to comply with containment measures. In times of crisis, accurate and timely information, especially through data monitoring and reporting, is essential. Municipalities, cities and regions that have been able to mobilise big data and digital tools have been better able to track and stop the spread of the coronavirus (WEF, 2020). However, such use also raises challenging questions linked to data protection and confidentiality, and in many countries the legal framework does not permit this type of data use.

Subnational governments with significant responsibilities for health and social services have a key role in implementing the exit strategy ("track, isolate, test and treat"). Central governments will need to ensure the financial resources and coordination, but the actual service delivery will be the responsibility of regional and local governments. In countries with more centralised health service delivery, the role for the subnational governments may seem more limited. However, also in these countries the local and

regional governments can have an important role in assisting the central government to organise the testing and isolation measures.

- In **Canada**, Surveillance and testing are being continuously strengthened through federal-provincial-territorial cooperation. Online screening tools are used to determine who needs to be tested. The Quebec government will join other provincial governments in adding an online tool in its battle against COVID-19. The interactive and simple questionnaire would allow people who are wondering if a tickle in the throat or slight fever means they should be tested for the virus or not. Several other public health agencies across the country have already posted similar tools on their websites. Manitoba, Saskatchewan, Alberta, British Columbia and Newfoundland-Labrador all have similar tests that ask about 7-10 questions and can be completed in under a minute.
- In **Finland** the coronavirus testing has been concentrated to five public sector laboratories, which are located in four main cities. These laboratories are managed by hospital districts (inter-municipal cooperative units responsible for regional hospitals), universities, or central government. In addition, four other regional laboratories have the capacity to perform the tests. To date, only a few private laboratories have been allowed to do tests, but only with case by case permission from a Medical Officer working in a public hospital. The number of tests carried out so far is 3 770 tests per million inhabitants. However, the Government has recently increased the capacity to testing 2 300 persons daily. The plan is to further increase the testing capacity considerably.
- In **Germany**, coronavirus testing has been increased considerably since the beginning of the crisis, and Germany can now carry out half a million tests per week and will soon increase testing to 200 000 tests per day. Moreover, the preparations have already started for testing the antibodies developed in the population. There are currently plans to test more than 100 000 people to see if they have overcome infection with COVID-19. The dense network of laboratories across Germany have helped organise the testing relatively quickly and on a large scale.
- In **Italy**, testing all 3 300 residents of the town of Vò-Euganeo enabled efficient containment measures that eventually stopped all new infections. Vò-Euganeo was one the first centres of Italy's coronavirus outbreak, and the location of Italy's first virus-related death on 22 February. The decision to test all residents regardless of whether they were exhibiting symptoms resulted in effective quarantining of the infected and their contacts once infection was confirmed. This enabled the health authorities build a full picture of the pandemic situation and completely stop the spread of the illness in the town. Testing occurred in two rounds. The round was carried out on the town's entire population in late February, finding 3% of the population infected. Half of the carriers were asymptomatic. All of those infected were isolated, and the second round of testing was carried out 10 days later, with results indicating that the infection rate had dropped to 0.3%. The second round still identified asymptomatic individuals, and they were quarantined. Based on Vò-Euganeo's experience, the Veneto region extended the use of tests. People will be tested in hospitals but also in their cars with "drive through swabs" and will be sent results via email within hours. The plan is to carry out 20 000 tests a day for the next three weeks. To date, Italy as a whole has carried out 7 280 tests per million inhabitants. The experiences of Lombardy and Veneto are instructive. These two neighbouring Italian regions took two different strategies and saw different results. Lombardy has 10 million people, and as of 31 March registered around 43 000 COVID-19 cases and about 7 200 deaths. Veneto is home to 5 million people, but has seen just 9 000 cases and less than 480 deaths. Veneto's approach to control the outbreak included:
 - *Extensive testing*: People with symptoms and people who were asymptomatic were tested whenever possible.
 - *Proactive tracing*: If somebody tested positive, everybody they live with was tested or, if tests unavailable, they were required to self-quarantine.

- *Emphasis on home diagnosis and care:* Health care providers went to the homes of people suspected of being ill with COVID-10 and collected samples so they could be tested, keeping them from being exposed or exposing others by visiting a hospital or medical office.
- *Monitoring medical personnel and other vulnerable workers:* doctors, nurses, caregivers at nursing homes, and grocery store cashiers and pharmacists were monitored closely for possible infection.

Initially, Lombardy's strategy was much less aggressive. Only a full month after the outbreak in Italy, did Lombardy and other regions begin taking steps to emulate some of the aspects of the "Veneto approach," and request additional support from the central government to help them boost their diagnostic capacity.

- In **Korea**, an interactive and up-to-date webpage was created, mapping out COVID 19-cases within the country, as well as the places that patients reported having visited (<https://coronamap.site/>). Authorities back-tracked the movements of infected persons via mobile phone location information, credit card use and data-mining of CCTV footage, then published extremely detailed lists of their whereabouts. Massive testing has also been the major strategy for combating the coronavirus. Korea has tested 7 600 persons per million inhabitants, which is currently second highest number in the world, behind Norway, which has tested twice as many). Specific Subnational Centres for Pandemic Countermeasures were established in local governments to deliver the containment measures and to help coordinate local measures with central authorities. While Korea has used diverse data driven measures, such as GPS tracking data from phones and cars, credit card transactions, travel histories, CCTV footage, and artificial intelligence to identify high-priority cases and track the routes of infected individuals, considerable effort is still required from the local authorities to implement the actual testing. For example, local governments played a large role in establishing roadside testing facilities in response to the soaring demand for testing. Multiple municipalities, led by Goyang, have set up "drive-thru" COVID-19 testing pods where medical staff in protective clothing take samples from people in automobiles. The process takes 15 minutes, costs less than USD 20 and eliminates direct contact, as samples can be collected through an open window, allowing the driver to remain in their vehicle.
- In **New Zealand**, regional public health services are delivered by 12 Public Health Units (PHUs) owned by district health boards, as well as by diverse NGOs. In response to COVID-19, the New Zealand Government almost doubled resources for the regional Public Health Units in order to increase capacity for contact testing. It provided an additional NZD 32 million for extra intensive care capacity and equipment in hospitals, NZD 50 million to support GPs and primary care, and NZD 20 million to improve video conferencing and telehealth consultations.
- **Norway** currently has the highest number of tests (15 570 persons per million inhabitants). In addition to massive testing, the Government recently launched an online reporting tool where all Norwegians and foreigners living in Norway can report their respiratory symptoms and underlying conditions. The idea for testing is to get better idea of the spread of the respiratory symptoms in the country. The mortality rate in Norway is still very low, 26 persons, although there are already over 4 240 confirmed infections.

5. Supporting vulnerable groups

COVID-19 affects some population groups more than others – such as the elderly, those with chronic or long-term illnesses, the poor, the homeless, uninsured households, and migrants – both in the short- and long-term. Households without health insurance are also particularly vulnerable. They may be unable to access medical treatment, and may not be included in the case count. Local and regional governments have large competencies in the social services sector. Many subnational governments have taken proactive initiatives to manage the emergency and support vulnerable groups (OECD, 2020^[21]). Areas that have been particularly hit may need additional support from national governments to successfully implement necessary actions.

- In **Austria**, some municipalities (e.g. Fernitz-Mellach) are offering public services of food delivery to sick and vulnerable people, directly at home, upon request.
- In **Canada**, the federal government has doubled the Reaching Home Program that provides funding for the homeless. Provinces, as well as municipalities, are also establishing emergency funding through family and community support services. Indigenous Services Canada (ISC) is working closely with the Public Health Agency of Canada, other departments, and provincial and territorial counterparts to protect the health and safety of First Nations and Inuit communities to support them in responding to public health threats, including the novel coronavirus. Additionally, a fund is being established specifically to support Indigenous communities in this crisis.
- In **France**, subnational governments, and particularly local authorities are monitoring and addressing the specific needs of vulnerable populations, including migrants. For example, the city of Rennes, has temporarily transformed hotels into migrant shelters, while in Paris the social service administration is sending calls for action to citizens, connecting them with NGOs active in their neighbourhoods.
- In **Greece**, under the current emergency measures, local authorities must create a record of citizens requiring assistance, including the indigent. Vulnerable households will be assigned care workers who will ensure that such households receive necessary medicines and household supplies, as well as ensuring access to basic sanitation and health services.
- In **Hungary**, local councils are required to organise supplies for elderly people staying at home and to take on looking after them as a priority task.
- In **Iceland**, state and local authorities are establishing a contingency fund that will provide the scope for the necessary actions to address the effects of COVID-19 on social services and on specific services for vulnerable groups, if necessary.
- In **Ireland**, the Department of Housing, Planning and Local Government has been in constant contact with the Dublin Region Homeless Executive (DRHE) and local authorities nationwide to coordinate the response to COVID-19 among users of emergency accommodation and rough sleepers. The DRHE, regional lead authorities and NGOs identified contingency beds and suitable accommodation to provide capacity for persons to self-isolate, if necessary. The Health Service Executive (HSE) has issued guidance to all local authorities and service providers in this regard.
- In **Italy**, on 17 March, the Government passed a EUR 25 billion package of economic measures to help Italian businesses and families. The “Heal Italy” package includes over EUR 10 billion to support workers at risk of losing their jobs due to the coronavirus outbreak, and extends to self-employed and precarious workers. For these “weaker” categories, the Government will provide a one-off contribution of EUR 600. The decree also increases the resources available to help firms pay workers temporarily laid-off due to the forced lockdown. Families with school-age children will be supported with longer parental leave and so-called “babysitter” voucher, given school closures.

On 28 March, EUR 4.3 billion was allocated through the Municipal Solidarity Fund in the form of an instalment of the ordinary annual transfers to the municipalities, and EUR 400 million were allocated to the 8 000 municipalities to provide food/shopping vouchers for people in need. The EUR 4.3 billion is an advanced instalment of the ordinary annual transfers to the municipalities with the EUR 400 million for food emergency.

- In **Slovenia**, municipalities are encouraged to cooperate with a network of professional and voluntary social service providers within their jurisdiction to provide services to vulnerable groups (e.g. those who have no one to bring them food and medicine).

6. Temporarily recentralising – or decentralising – public health management

Many countries have adopted state-of-emergency laws, giving central or federal governments the right to take over some subnational responsibilities. By contrast, some more centralised countries have decided to devolve, at least temporarily some additional powers to subnational governments.

- In **China**, in early February, the central government encouraged subnational governments to design localised measures at the county level, instead of applying one set of measures to the whole region, although this excludes regions that are widely impacted by COVID-19, such as the Wuhan city. In fact, provincial governments have been granted the power to publish information on pandemics/communicable diseases since 2006 through legislation, after the SARS crisis. Meanwhile, all subnational governments (except for the townships/villages) have been granted to the power to bypass their direct upper-level government to report to higher-levels of government, in case of major public emergency.
- In **Norway**, despite the coordinating measures between central government and local authorities, the municipalities and counties have the power to decide on measures protecting their inhabitants. However, the Government recently announced that, as the crisis has gone from being a health crisis to becoming a national crisis that spans all sectors, the Ministry of Justice and Emergency Management will be responsible for coordinating crisis management at the Government level.
- In **Switzerland**, on 16 March 2020, the federal government reclassified the situation in Switzerland as an 'extraordinary situation', enabling it to enact national measures. This permits the federal government to assume some cantonal responsibilities for a given period, harmonising them across all 26 cantons. The cantons were given prior notice of the move.
- The **UK** government has granted emergency powers to all four nations (England, Northern Ireland, Scotland and Wales) to tackle the spread of COVID-19 in their territories.

7. Mitigating the economic/financial impact on subnational governments

Subnational governments with large responsibilities in the health sector will be more affected in the short-term, while subnational governments with more responsibilities in economic development will feel the impact over the medium-term (e.g. France, Korea, and the UK). In the medium-term, subnational government expenditure will also come under strong pressure from increases in social spending (e.g. unemployment payments, guaranteed minimum revenue, family support, housing subsidies, emergency aid, old age, etc.) and from an expected need to participate in recovery plans and investment programmes. Yet, subnational governments in many countries are also likely to experience a significant drop in their revenue, including shared and own-source tax revenues which are sensitive to economic activity, to household and business consumption, to real estate activity, user charges and tariffs and income from assets. Many countries have adopted measures to support subnational public finance, in

particular for health care and social protection systems and help subnational governments participate in economic recovery programmes at regional and local levels (see also (OECD, forthcoming^[18]).

- In **Brazil**, on 24 March 2020, the federal government announced a package of measures for states and municipalities amounting to EUR 15.5 billion to face the impact of the COVID-19 pandemic. Payment of debts to the federal government will be suspended, while funds will be earmarked for the renegotiation of subnational debt with banking institutions. The federal government will also allocate funds to subnational governments for health and social assistance. The government would like to accelerate the adoption of two bills that are pending in the Congress – the Federal Pact, the Fiscal Equilibrium Plan (also known as the Mansueto Plan) – which would create fiscal space and strengthen local government finances.
- In **Canada**, on 10 March, the federal government announced increased budget transfers for health services to provinces and territories. To further support public health preparedness, the Government of Canada will provide CAD 500 million to provinces and territories for critical health care system needs, preparedness and mitigation efforts.
- In **China**, provincial governments can keep an additional 5 percentage points of their revenues from March 2020 until the end of June 2020 (equivalent to around CNY 110 billion in total), helping them weather the crisis. These additional revenues must be allocated to, and thus used by, municipal/county level governments. In addition, by 5 March a total of CNY 6.3 trillion in central government transfers for 2020 were made in advance to subnational governments. These include general grants, health and medical services (both urban and rural), infrastructure and facilities, as well as CNY 1.6 trillion equalisation transfers allocated to 26 provinces and autonomous regions.
- In **Denmark**, the current budget law permits the state to sanction municipalities and regions if they spend more money than budgeted. Yet, as COVID-19 will inevitably result in spending increases, this can lead to problems. The Government is currently planning to grant an exemption in this extraordinary situation.
- In **Finland**, the main responsibility of health care is with the municipalities and joint municipal authorities, who will carry the main burden of COVID-19. The local authorities have a statutory obligation to be prepared for infectious diseases and the local councils can take any action in their area to tackle the disease. The Government has announced that it will ensure that there will be no funding gaps for local governments. One of the first announced measures is an increase in the municipal share of corporate income tax revenue. The central government is by law ultimately responsible for ensuring the delivery of basic services throughout the country. Moreover, the state is much better positioned to respond to crises and thereby will support municipalities to provide the essential services. Since the coronavirus crisis has affected municipalities in asymmetric way, the central government has not yet engaged in specific sums of support. The costs caused by the pandemic to municipalities will be remunerated, but the municipalities must show the expenditure first.
- In **France**, on 22 March 2020, the Parliament has adopted an "emergency bill" to ensure subnational government budgetary and financial continuity. It allows subnational governments to derogate from the spending rule adopted in 2018, which limits the growth of their operating expenditure to 1.2%. The objective is to help them commit the necessary urgent resources to help the population or support businesses that would otherwise exceed the maximum spending limit stipulated in their contract. The emergency law extends the deadline to adopt the local budget law by three months (until 31 July 2020), including the adoption of deliberations concerning local taxes, user charges and tariffs, in order to offset the impact of COVID-19 on local elections.

- In **Israel**, in the framework of its economic recovery package, the government announced that the payment of the municipal council tax will be postponed but that financial assistance will be provided to weak local governments.
- In **Korea**, the government has drawn up a KRW 11.7 trillion worth of supplementary budget to respond to the COVID outbreak, KRW 8.5 trillion for budget expenditures and KRW 3.2 trillion for expected revenue shortages. The extra budget will be spent on disease control efforts, as well as to help affected businesses and local economies, including measures to support local COVID-19 care capabilities and to increase education grants and subsidies for local governments to help them protect K-12 from infection.
- The **Norwegian** Government announced a NOK 250 million (EUR 21 million) discretionary grant to municipalities to cover additional expenses caused by the outbreak. In the first phase, NOK 200 million will be allocated to counties according to the population size. The remaining NOK 50 million will be distributed at a later time. The county governors are responsible for distributing the discretionary funds to municipalities according to need.
- In **Portugal**, the State-of-Emergency Law No. 1-A / 2020, of 19 March includes exceptional and temporary measures, among which is the possibility to postpone the meetings of executive and deliberative bodies until end of June (or to organise them by video-conference under certain conditions) thereby effectively postponing the deadline imposed to municipalities and their inter-municipal bodies to send their accounts to the Court of Auditors.
- In **Spain**, the Royal Decree-Law 8/2020 of March 17 on extraordinary urgent measures to face the economic and social impact of COVID-19 includes a measure to support local finance. Local governments are allowed to allocate up to EUR 300 million from the 2019 surplus to finance economic aid and all provision of primary care and dependency care managed by the social services. At regional level, the “shock plan” presented by the government on 17 March includes several measures to provide the Autonomous Communities (ACs) with more resources to combat the coronavirus and mitigate the emergency’s economic effects.
- In **Sweden**, the Government, the Centre Party and the Liberals have presented proposals that will be included in another amended budget with measures to counteract the economic effects of the coronavirus outbreak. The budget includes proposals for state grants to municipalities and regions for increased healthcare costs, among others. The Swedish association of local authorities and regions (SKL) has pointed out that municipalities and regions should receive full cost coverage from the state for the costs incurred in implementing measures to prevent dissemination in society. SKL is now working on developing a model for how full-cost coverage can be achieved.

8. Enhancing flexibility in subnational regulatory frameworks

Several countries have eased regulatory measures on procurement, land use for emergency actions, and hiring foreign talent, have introduced more flexibility in administrative procedures, and relaxed certain restrictions. Rigid regulations can prevent action when it is most urgently needed, for example with respect to procurement or land governance (e.g. flexibility relating to land leases, allowing for a delay in transferring fees, or meeting other contractual obligations). In some countries, subnational governments have no ability to issue orders or make decisions during a crisis. This leaves them dependent on the national government’s provision and reaction, and they may resort to diverse channels, including the media, to call for measures and support from the national decision-makers. In highly decentralised countries, the approaches may vary substantially across jurisdictions, sometimes leading to contradictory measures.

- In **Chile**, SUBDERE has established a technical coordination table with the different Municipal Associations to co-ordinate the implementation of preventive measures, such as ensuring more flexible and simpler administrative procedures for citizens.
- In **China**, so far over 60 cities changed regulations governing land, most are related to land leases and allow for a delay in transferring fees or meeting other contractual obligations. Another aspect concerns prepayments, where the share has been reduced.
- In **France**, specific procurement rules apply to all level of governments in case of sanitary crisis. The Legal Affairs Directorate of the Economic and Finance Ministry has published a note “*La passation et l'exécution des marchés publics en situation de crise sanitaire*” to remind these specific rules in the context of the Covid-19 crisis.
- In **Italy**, simplified procedures were taken by 14 regions (26 measures in 14 regions) to streamline bureaucratic procedures for SMEs – such as the deferral of deadlines for submitting applications for public funding programmes or for reporting on investment plans subject to public incentives – and regulatory simplifications (including in the field of public procurement) (OECD Trento Centre for Local development, 2020^[24]).
- In **Japan**, the government approved “state of emergency” measures to allow authorities to keep people inside and to commandeer land buildings for makeshift hospitals. This new law permits the prime minister to declare a state of emergency in a specific part of the country, and local governments can require residents to remain indoors, close schools and limit the use of facilities for large gatherings.
- In **Korea**, each department and local government is instructed to use an active administrative system. For example, the Ministry of Health and Welfare uses the 'Active Administrative Support Committee' to provide a temporary allowance for purchasing special equipment required for screening clinics. The Public Procurement Service also uses the system to proceed the contract for supply of masks and payment immediately after delivery of goods (post-receipt of receipts).
- In the **UK**, the government is introducing practical measures to give councils greater flexibility and allow them to further focus their resources on the response to COVID-19, for example relaxing restrictions on supermarket deliveries; postponing local, mayoral and Police and Crime Commissioner elections until May next year; and considering advancing legislation to remove the requirement for annual council meetings to take place in person. In addition, Councils will be able to use their discretion on deadlines for Freedom of Information requests.

9. Liaising with subnational governments to manage the economic impact on firms, workers and households

The economic impact of COVID-19 will be significant. The magnitude and duration of the effects will largely depend on the length of the containment measures needed to mitigate the spread of the coronavirus. The longer that restrictions on economic activity continue, the greater will be the financial losses. SMEs are particularly vulnerable during the crisis (OECD, 2020^[21]). That is partly why many governments have issued extensive support packages for SMEs, as well as for large companies. The responses by governments offer a preliminary indication of the size of the impact. For example, the United States passed a USD 2 trillion relief package for individuals and businesses. Given the role that subnational governments play in supporting SMEs, it is crucial that national and subnational governments coordinate the policy responses to avoid duplication and loss of transparency in public measures. Local governments are well aware of local needs and priorities and are well positioned to support their local businesses. Subnational governments may be urged to take strong recovery actions in regional and local economic development to support businesses.

- In **China**, Suzhou City (a prefecture level city) as well as many provincial-level governments and major cities, published policies to support enterprises, including SMEs. The key measures included tax reductions or exemptions, notably on property tax and land use tax. Delaying tax payments up to three months was also made possible for companies that could prove they were affected by the crisis. Similarly, delaying social insurance payments up to 12 months was applied as a supporting measure. Social insurance funds were used to finance support measures to companies. Private banks were mandated to retain financing costs for SMEs at the 2019 level, and to reduce the interest rates for some SME loans by at least 10%. Rents were also reduced for SMEs that are housed in state-owned properties. As for other measures, the City of Beijing has published policies to support enterprises that develop technologies that can help address the crisis, including an online health consultation platform for citizens. In the City of Shanghai, the local government grants enterprises subsidises of 95% of the cost of all kinds of online vocational training provided employees during the crisis. In some other cities and provinces, subsidies are provided to enterprises that hire employees from vulnerable groups (i.e. from low-income families, workers from rural areas, registered unemployed workers in urban areas, etc.) during the crisis, and provide contracts above one year in length. Companies that have employees confined in Hubei Province, also received subsidies.
- In **France**, joint action is being taken between national and regional governments to manage the crisis as part of the new Economic Council *Etats-Régions* established in December 2019. This includes establishing regional Task Forces that incorporate development banks (BPI) in order to accelerate support measures for businesses. In addition, regional governments will unlock EUR 250 million (in addition to EUR 750 million allocated by the State) to participate in the support fund for artisans, retailers and small businesses announced by the President.
- In **Finland**, the Government launched two new financial services to mitigate the economic impact of the coronavirus pandemic on SMEs. These are intended for at least tourism and auxiliary tourism services, creative and performing industries and all sectors where subcontracting chains are affected. The grant authorisations of the Government's business support agency, Business Finland, will be increased by EUR 150 million to permit immediate business support measures. The first funding decisions were made on 20 March 2020. At the subnational government level, each municipality decides on their own measures. For example the City of Helsinki decided to suspend the rents of commercial and other business premises leased from the City up to three months. Moreover, the unpaid rents can be paid without a penalty in accordance with a 12-month payment schedule to be agreed with each tenant. In addition, the City of Helsinki launched measures related to business advice to help SMEs weather the crisis. In general, the municipalities will mainly focus on supporting self-employed persons. For SMEs with employees, central government agencies like Finvera and Business Finland, as well as the state regional offices, will be the main sources for support.
- In **Germany**, Bavaria launched a rescue package, and other *Länder* have implemented measures expanding existing financing programmes. Tax-related measures are being introduced, such as an interest-free deferral of tax liabilities, adjusted advanced payments, and the waiver of enforcement measures and late payments.
- In **Ireland**, the Department of Business, Enterprise and Innovation (DBEI) is using its Local Enterprise Offices to provide support to businesses, particularly micro and SMEs. Such support includes, for example, COVID-19 loans of up to EUR 50 000 from MicroFinance Ireland to microenterprises. Among its initiatives, Enterprise Ireland has set up an EUR 200 million package that includes a Rescue and Restructuring Scheme for vulnerable but viable firms that need to restructure or transform their business. It is also offering grants to provide consultancy support to enterprises

- In **Italy** on 17 March, the Government passed an EUR 25 billion economic stimulus package to sustain the health care system and support households and businesses. It includes funds for topping up wages and support for exporters. The package also postpones of fiscal deadlines, offers a suspension in loan and mortgage payments for SMEs and families, and introduces stronger public guarantees for banks, in a move that – according to government forecasts – will inject up to EUR 340 billion in new liquidity in the credit market.
- In **the Netherlands**, the central government will discuss with local governments on how they can support local entrepreneurs within the current regulatory frameworks. To support the liquidity of local firms, the central government will discuss whether it is possible to postpone the collection of local taxes, including tourist taxes.
- In **Sweden**, the local governments have decided on various measures to support their local businesses. The main measures include extending payment times on fees and rents up to six months, and easing the processes for issuing permits.
- In the **UK**, the government will provide an additional GBP 2.2 billion in funding for local authorities to support small businesses that already pay little or no Business Rates because of Small Business Rate Relief (SBBR).
- The **United States** passed a USD 2 trillion relief package for individuals and businesses. Key elements of the package include sending checks directly to individuals and families, a major expansion of unemployment benefits, money for hard-hit hospitals and health care providers, financial assistance for small businesses and USD 500 billion in loans for distressed companies.

10. Boosting public investment at all levels of government

A number of countries are already announcing recovery strategies with a focus on public investment to help the economic recovery both in the short- and medium-term. It is hoped that increased public investment will create jobs, stimulate demand, leverage private investment and boost productivity, thereby contributing to long-term GDP growth. The European Commission has also adopted a “Corona Response Investment Initiative” and the suspension of the Fiscal Pact on National and Subnational Investment programmes. Experience from the 2008 crisis indicates that such investment recovery strategies need to be well targeted to specific priorities and regions, to avoid a fragmented approach by municipality (Allain-Dupré, 2011^[25]). The OECD Recommendation on Effective Public Investment across Levels of Government provides guidance to design and implement such investment recovery strategies (OECD, 2014^[26]).

- The **European Union** launched, on 1 April 2020, a “Corona Response Investment Initiative” (CRII) directed at health care systems, SMEs, labour markets and other vulnerable parts of EU Member State economies. The Commission is proposing to mobilise quickly cash reserves from the EU funds. This will provide immediate liquidity to Member States' budgets and will help to frontload the yet unallocated EUR 37 billion of cohesion policy funding within the 2014-2020 cohesion policy programmes, thus providing a much needed boost to economic investments. On 5 April, the CRII was complemented by the “CRII+” further enhancing flexibility in the use of cohesion funds. This enhanced flexibility is inter alia provided through:
 - Transfer possibilities across the three cohesion policy funds (the European Regional Development Fund, European Social Fund and Cohesion Fund);
 - Transfers between the different categories of regions (e.g. less vs more developed);
 - Flexibility regarding thematic concentration;

- The possibility for a 100% EU co-financing rate for the accounting year 2020-2021, and;
- Simplified procedural steps.

In addition, on 23 March, the European Union also suspended the EU's rules on budget deficits included in the Stability and Growth Pact in order to allow governments to support their economies during the COVID-19 crisis at all levels of government.

- In **Iceland**, the government presented on 23 March a response package to the COVID-19 crisis amounting to EUR 1.5 billion (almost 8% of Iceland's GDP). It aims at mitigating the effects of the pandemic by safeguarding the economic livelihood of individuals and businesses, protecting the welfare system, and boosting the economy. As part of the measures, the government will accelerate public investment projects. In particular, the measures include a EUR 132 million investment initiative toward transport, public construction, information technology infrastructure, research, science and innovation in collaboration with municipalities. The current programme contains short-term projects while another initiative is under preparation for 2021-2023, which will involve large-scale investment requiring more planning and preparation.
- In **Israel**, in the framework of the economic recovery package, the government has announced that it will accelerate economic growth infrastructures, including the promotion of research and development, innovation projects, the support of investments and export through Ministry of Economy grants, and acceleration of infrastructure projects (electrification and doubling of railways, fast lanes, highways, integrated transport centres, establishment of a gas transmission line, drainage infrastructure to remove blockages and prevent flooding, etc.).
- In **Lithuania**, The government has set up an economic recovery package which comprises a component dedicated to "Boosting the economy" amounting to EUR 1 billion. The Economic and Financial Action Plan provides for accelerating investment programs, speeding up payments and increasing the intensity of funding. It also allows reallocation of EU investment funds to health, employment and business fields, accelerates the use of state budget for current expenditure, use all funds from the Climate Change, Road Maintenance and Development programs and accelerate the renovation of apartment buildings.
- In **Poland**, on 18 March the government announced an economic recovery package to counteract the consequences of coronavirus pandemic. It amounts to around EUR 48 billion (almost 10% of the Polish GDP). It has five pillars including one dedicated to boosting public investment by EUR 6.6 billion. The government will establish special fund to finance public investment in the construction of local roads, digitalisation, modernisation of schools, energy transformation, environment protection, reconstruction of public infrastructure. The fund consists of national resources, independent from EU support. However, the flexibility proposed by the EU in the use of cohesion funds could be also mobilised.

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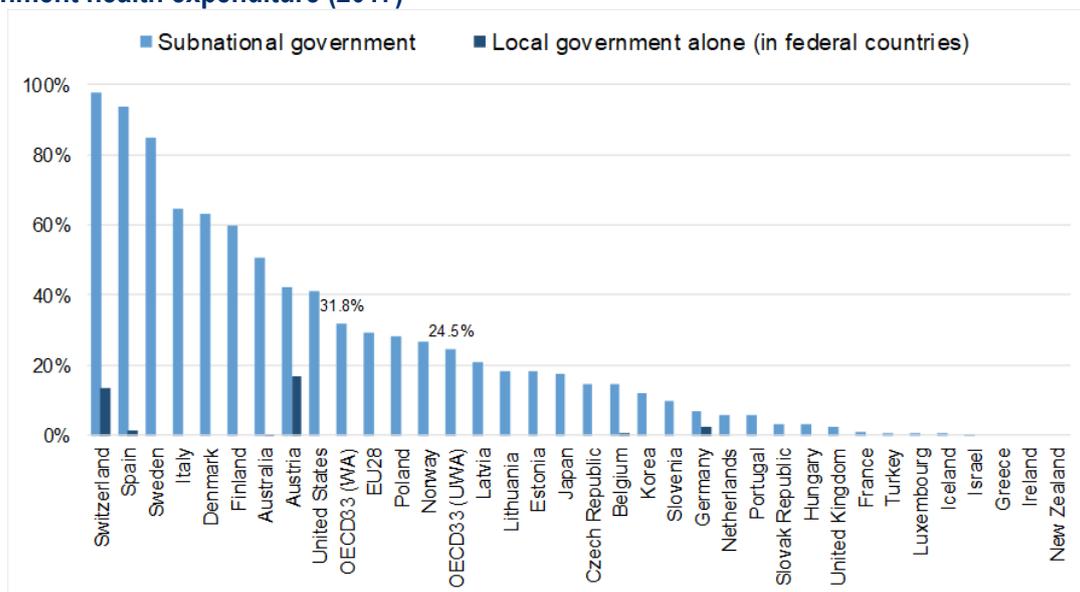
Annex A. The decentralisation of healthcare in OECD countries

In several federal and quasi-federal countries, health care is a major responsibility of state governments. This is the case in Australia, Austria, Spain, Switzerland, and the United States for example, where subnational government spending in health accounts for more than 40% of total public health spending, and represents over 20% of their spending, amounting to more than 4% of GDP (except for Switzerland for these two last ratios). In Canada and Mexico, health care is also a major competence. In Canada, constitutionally, the provincial and territorial governments have most of the responsibility for health care delivery, including hospitals, and other social services. In Mexico, healthcare has been a shared responsibility since 1996. Belgium and Germany are two notable exceptions among federal countries. In Germany health is mostly a federal responsibility. In Belgium, regions and communities are now in charge of wider responsibilities in the health sector, but only since the 2014 reform of the State.

Health care is also an important subnational responsibility in several unitary countries. In Italy, subnational government healthcare expenditure accounts for 65% of total public health expenditure, and 49% of total subnational government expenditure, i.e. 6.7% of GDP. It is the main responsibility of Italy's regional governments. Health care represents about 85% of their spending. In Nordic countries, particularly Denmark, Finland, and Sweden, wide responsibilities for planning, organising, delivering and financing health care services and infrastructure are decentralised to the municipal level or inter-municipal level (e.g. primary care centres) and to the regional level (e.g. hospitals, specialised medical services). In Denmark and Sweden, health care is almost exclusively a regional-level responsibility, accounting for 90% of regional expenditure. In Finland, municipalities and joint municipal authorities are in charge of primary and secondary health care. In Norway the specialised health services (hospitals) are central government responsibility, while primary health care is provided by the municipalities.

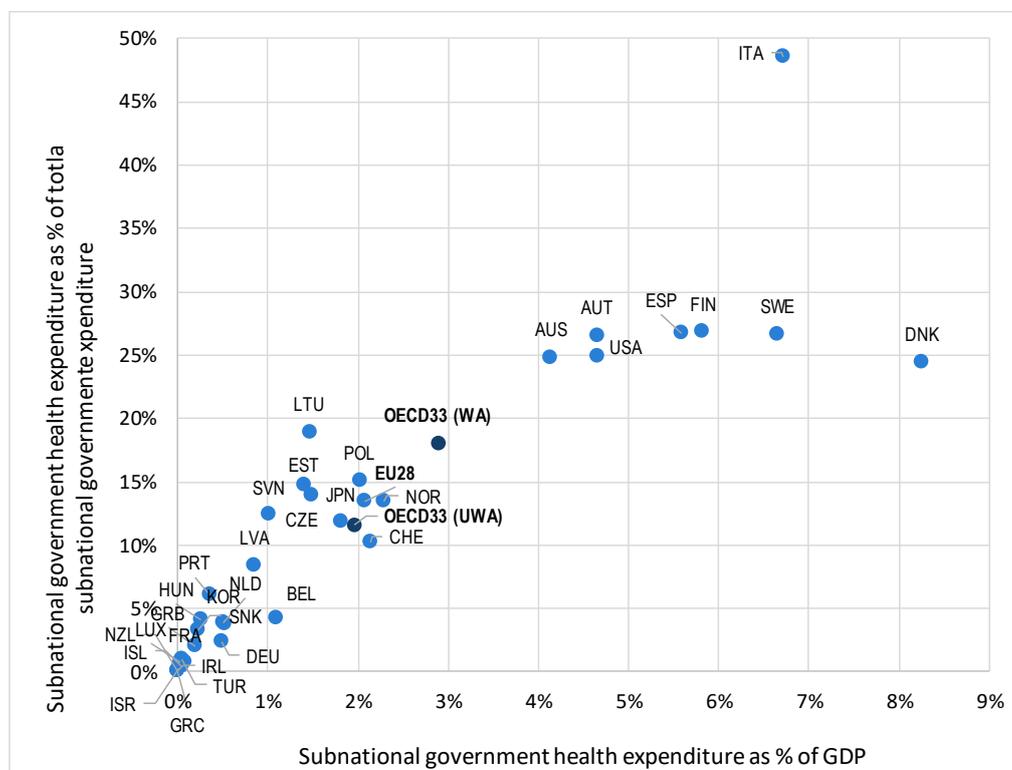
In a number of other countries, health care remains a highly centralised responsibility, with subnational government representing less than 10% of total health public spending in 17 countries, and even less than 1% in France, Greece, Iceland, Ireland, Israel, Luxembourg, New Zealand and Turkey. In these countries, health competences more often fall under the responsibility of the central government or social security bodies, leaving little or no role for subnational governments (Beazley et al., 2019^[6]; James et al., 2019^[5]).

Figure A A.1. Subnational government health care expenditure as a share of total general government health expenditure (2017)



Note: No data for Canada, Mexico and Chile; No data at local level for the United States; OECD33 WA and UWA refer to weighted and unweighted (arithmetic) averages. The total of general government spending is non-consolidated.
 Source: OECD (forthcoming) Subnational governments in OECD countries: key data.

Figure A A.2. Subnational government health care expenditure as a share of total subnational government expenditure and a % of GDP (2017)



Note: No data for Canada, Mexico and Chile; OECD33 WA and UWA refer to weighted and unweighted (arithmetic) averages.
 Source: OECD (forthcoming) Subnational governments in OECD countries: key data.

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