2 Policy responses to the COVID-19 crisis

Governments at all levels have taken unprecedented actions to contain the spread of COVID-19 and mitigate the large economic impacts. Local and regional actors play an increasingly important role. The substantial costs of the COVID-19 pandemic to human life and economies and their territorially different impacts highlight that a place-based, co-ordinated policy response is central. While central governments need to set the strategy, bottom-up approaches produce inclusive, local responses. Preventive, anticipative action minimises major adverse impacts on health, well-being and the economy.

In view of the bigger health and economic impacts on vulnerable groups, efforts to halt the pandemic need to be combined with support to disadvantaged areas. Hardest-hit regions and cities may face the biggest loss in revenues and the biggest increase in spending. Without concerted action, this could derail rebuilding efforts in the regions hit the most. Multi-level public finance arrangements need to respond to asymmetric increases in healthcare needs, unemployment and poverty.

Societies have shown they are willing to act to overcome the crisis. This can inspire lasting transformations, notably to address the climate challenge. National, regional and local governments need to deploy economic stimulus in a way that is consistent with these transformations.

Policy responses need to include cities and rural regions

Governments at all levels have taken unprecedented actions to contain the spread of COVID-19 and mitigate the large economic impacts on people and firms described in Chapter 1. Local and regional actors play an increasingly important role. They often implement emergency support policies on behalf of national governments, complement them with local actions to fill gaps for specific sectors or populations and help local workers and firms navigate the sometimes-complex patchwork of schemes (OECD, 2020[1]).

As shown in Chapter 1, the economic, fiscal and social impact of the COVID-19 crisis on territories is differentiated, and its diverse risks vary greatly depending on the location (OECD, 2020[2]). This regionally differentiated impact calls for a territorial approach to policy responses on the health, economic, social and fiscal fronts and strong inter-governmental co-ordination. Recovery strategies also need to have an explicit territorial dimension and therefore need to involve subnational governments at all levels in their implementation.

Cities are on the frontline of responses to the COVID-19 crisis

Often hit first by the initial waves of the pandemic, cities play a key role to implement measures to contain infections and cope with economic impacts but also provide laboratories for bottom-up and innovative recovery strategies. COVID-19 has accelerated transformations towards inclusive, green and smart cities, although these continue to fall short of what is needed to reach net-zero greenhouse gas (GHG) emissions in 2050, a target set by most OECD countries to align with the Paris Climate Agreement (Part II of this *Regional Outlook* report).

Cities crisis management responses have first related to social distancing, workplaces and commuting, protection of vulnerable groups, ensuring local service delivery, support to businesses and citizen engagement. Many cities are also planning for life beyond COVID-19 with a range of investments to pair recovery with environmental sustainability including clean forms of urban mobility and energy efficiency.

The following are some steps taken by city governments (OECD, 2020[2]).

Prevention and effective early action

In some Asian countries, early action, particularly in early testing and extensive tracing of COVID-19 cases, teleworking and lockdown orders, have succeeded in avoiding large outbreaks in several hyper-dense cities such as Hong Kong (China), Seoul and Tokyo.

Several mayors and local administrations have developed innovative ways to inform, reassure and communicate. They have developed a wide range of digital tools to cope with daily needs and health issues, including public information programmes, websites, posters, advertisements and social media.

The crisis has prompted some cities to expand facilities and services to prevent and reduce health crisis impacts. Seoul, Korea, has made a large investment in public healthcare, establishing a monitoring system of the pandemic and new municipal facilities that include a public medical school and research centres on infectious diseases. To help reduce virus transmission within households, especially mixed-generation ones, governments in some countries (e.g. Finland, Italy, Lithuania) arranged special isolation accommodation for people who contracted the virus (Haroon et al., 2020[3]). These may in particular serve to alleviate low-income households who often live in crowded housing and who are more exposed to both infections and socio-economic effects of the crisis, as argued above.

Supporting inclusiveness

Support measures to vulnerable groups are diverse and include food programmes for children and the elderly, meal and pharmaceuticals delivery, special care for elderly and disabled people, emergency shelter and housing, distribution of masks, vouchers for essential goods, installation of sanitary facilities, exemptions or deferrals from rental payments for residents of social housing, mortgage payment assistance, waiver or relief of utility payments and emergency phone lines. Some have engaged unemployed people in paid work to improve public services needed in the crisisand provided more subsidised social services (e.g. early childhood services for children).

Bristol in the United Kingdom (UK), for example, is supporting and taking into consideration studies and recommendations by civil society organisations addressing social disparities. One example is the work conducted by the Bristol-based Black South West Network (BSWN), which has provided support to Black, Asian and Minority Ethnic businesses, communities and organisations, through advice and monitoring of the impact of the crisis on these communities (OECD, 2020[4]).

The use of digital tools

Digitalisation has been a crucial lever in cities' response to the pandemic, with tools monitoring contagion risk and, in some cases, ensuring the respect of confinement and social distancing, while also enabling the continuity of services and economic activity. These tools and the changes in habits they have entailed will remain a permanent component of cities' recovery phase and increased preparedness for potential new waves. This prompted reflections on issues of privacy rights and the universality of Internet access.

In terms of contact tracing and ensuring social distancing in Daegu, Korea, the epidemiological investigation during the outbreak was able to use the smart city data hub to trace patient routes. Seoul, Korea, used geo-localisation data, bank card usage and video surveillance. Other cities opted for less individualised monitoring options, such as using urban data to observe collective density and mobility patterns. For instance, Mexico City, Mexico, used a partnership with Google Maps and Waze to monitor mobility trends and Budapest, Hungary, is using smart city tools to identify high concentrations of people.

The digital divide is one of the many inequalities exposed by COVID-19. Cities initially provided rapid or temporary measures to try to bridge that gap. Boston in the United States (US) is working to address the digital divide by providing high school students with a free "cell phone hotspot". Boston and New York schools have also provided tablets to students, though meeting demand has been a challenge and there might be students who cannot access the Internet. In Yokohama, Japan, some school lessons were made available on a local TV station. Milan, Italy, has launched a call for donations of devices or Internet connections to schools. The city of Toronto, Canada, has partnered with information and communication technology (ICT) companies to provide free temporary Internet access for low-income neighbourhoods, long-term care homes and shelters.

Urban mobility

Mobility has been strongly impacted by the COVID-19 pandemic and has provided cities with the momentum to rethink urban space and propose alternatives. For example, cities have been promoting cycling. Moving into more long-term and permanent strategies, cities are now investing in active mobility infrastructure, improved public transport safety and accessibility, and zero-emission transport options, such as electric vehicles and scooters. Part II of this *Regional Outlook* report shows how important it is to take these measures on a large scale across all cities to reach net-zero GHG emissions but also avoid unnecessary costs, strengthen well-being, move towards a fairer allocation of urban space and thereby strengthen cities' international attractiveness and competitiveness.

While the impact of COVID-19 on public transport has been significant in most OECD countries, transport systems have shown a remarkable capacity to enforce hygiene measures during lockdowns, thus contributing to avoiding transport-related clusters. Many urban public transport systems ensured a minimum level of service to facilitate distancing. Urban transport around the world has also faced unprecedented low levels of ridership and corresponding losses in fare revenue.

Going forward, and as described in Part II, a diversification of public transport offers, including digital-platform-based ride-sharing can help avoid congested public transport while reducing individual car use and make it more responsive to demand in real time.

Urban planning and design

Cities are adapting urban design, reclaiming public space for citizens and rethinking the location of essential urban functions to ensure easier access to services and amenities while securing safety and health. Concepts such as the “15-minute city” have gained traction as a means to increase the quality and sustainability of life in cities, by ensuring access to 6 essential functions in a short perimeter: to live, work, supply, care, lean and enjoy. This can be well aligned with net-zero-emission strategies and boost well-being beyond the pandemic, as accessibility is improved with less energy use in transport. This would need to be built into a comprehensive urban net-zero transport concept, including transport pricing (Part II of this Regional Outlook).

Montreal, Canada, is one of the many cities enabling social distancing through the extension of terraces on sidewalks and pedestrianisation of streets. This further confirms the benefits of Montreal’s “human scale” as the city is already a juxtaposition of neighbourhoods, each with easily accessible public services and amenities.

Rural regions face specific vulnerabilities. Short-term responses during the COVID-19 crisis have focused on emergency measures to improve health and access to medical services and other basic services in rural areas. Improving digital infrastructure was another focal point. These have shed light on the high vulnerability of rural regions, calling for specific measures for them. Bottom-up initiatives involving civil society and voluntary support groups have emerged to support rural communities.

Health responses and improving access to the medical and other basic services

Several countries have mobilised health workers in different ways to ensure services in remote territories. Initiatives range from making health services more accessible and delivering medical equipment, to information and self-assessment tools for citizens, or bringing rural citizens closer to health services.

The European Union (EU) developed a platform containing a growing list of open-source software and hardware solutions to assist medical staff, public administrations, businesses and citizens in their daily activities.

In Mexico, a platform of about 300 professionals from different fields joined efforts to create and donate 3D-printed medical devices to rural hospitals. The platform has facilitated the donation of medical equipment, such as masks and respirators, as well as monetary donations to supply the needs of local hospitals.

Korea has provided on-demand services in locations where physical facilities are unavailable, as well as improved medical services to all people regardless of location. The Korean government plans to transform medium-sized regional hospitals into first-class medical institutions that can treat all kinds of diseases.

In Spain, in the Basque Country region, a programme relying on volunteers and the network of pharmacies provides a service to the elderly population with chronic diseases and living alone, ensuring they will not have to go to the pharmacy and thus avoid coronavirus exposure.

Other measures have ranged from securing food availability in rural areas, for example with networks of local citizens/producers to deliver food and other basic products, assisting the elderly and solidarity initiatives, providing emergency aid and maintaining essential services.

Improving digital infrastructure and accessibility

While 85% of urban households had access to 30 Mbps of broadband before the crisis, only 56% of rural households had access.

- The US has provided funding to entities seeking to deploy broadband in rural areas. The CARES Act also allocated USD 25 million to the United States Department of Agriculture's Distance Learning and Telemedicine programme, helping rural communities by funding connectivity to combat the effects of remoteness and low population density.
- Poland has introduced an investment plan of EUR 6.6 billion to reinforce public investment expenditure including a specific fund for the deployment of broadband networks.
- The government of Austria created Digital Team Austria, a group of companies that will offer services including online meetings, digital collaboration, cyber security and/or Internet access free of charge for at least three months.
- Korea has allocated funds for wider 5G wireless network coverage, development of next-generation smartphone models and easing regulations to speed up innovation to foster the transition to new telecommunication systems. This programme is part of a package of measures that will generate an economic stimulus in a post-COVID-19 phase by relying heavily on artificial intelligence (AI) and wireless telecommunication technology.

Managing the crisis across levels of government

"Strong co-ordination between all actors in charge of the response at central and regional levels is the basis of an effective response" (WHO, 2020[5]). It has increasingly emerged that this requires leadership and co-ordination by the national government and effective co-ordination mechanisms among levels of government. On the health front, many countries have increasingly adopted territorial approaches to response measures. On the economic front, governments have provided massive fiscal support to protect businesses, households and vulnerable populations. Since March 2020, they have pledged to spend more than USD 12 trillion globally. More than two-thirds of OECD countries have introduced measures to support subnational finance on the spending and revenue sides and have relaxed fiscal rules.

The territorial approach to the health crisis and the role of subnational governments

Many countries have adopted local lockdowns to limit the large costs of national confinements. Effective co-ordination among subnational authorities, health agencies and the central government are essential to managing local outbreaks. Effective testing strategies with the tracing of contacts, combined with social distancing can limit containment measures and reduce their economic impacts. They are best put in place when caseloads are low, as part of a preventive approach to avoid rising caseloads which may then require lockdowns. They require accurate data and information about infections and contacts at the local level, to quickly deploy test results and trace contacts, as in Korea (Box 2.1).

European countries increased their capacities and generalised testing for suspicious cases when caseloads had already reached high levels between May and November 2020 (Figure 2.1). In the EU27, more than 6 million reverse transcription polymerase chain reaction (RT-PCR) tests were taken every week in October compared to 1.5 million in April (OECD, 2020[2]). Subnational governments play a leading role in implementing the "track, isolate, test and treat" strategy. To reduce the risk of new waves of COVID-19 outbreaks, 70%-90% of all people who have been in contact with an infected person need to be traced, tested and isolated if infected. This is most effective when caseloads are still small, so requires a preventive, anticipatory approach (OECD, 2020[6]).

In decentralised contexts, while central governments should provide financial resources and co-ordination, policy delivery is the responsibility of regional and local governments. In countries with more centralised health service delivery, local and regional governments contribute to the organisation of testing and isolation measures. In either case, it is important to leave room for local initiatives and experimentation. To make the most of local initiatives and experimentation and learn from the rich experience they generate, it is important to produce data and use them to evaluate impacts.

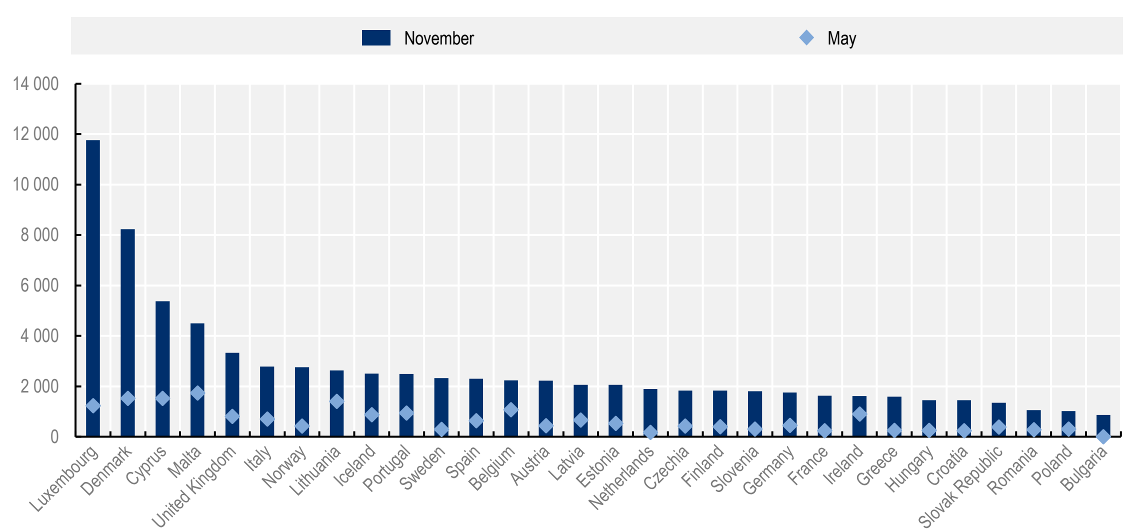
Box 2.1. Local action contributes to successful early testing and tracing strategies

Testing and contact tracing were at the core of Korea's successful strategy. Local governments are responsible for COVID-19 screening stations and treatment centres. Korean local experiments in drive-thru screening have become national and international models.

After the SARS outbreak in 2003, Korea's governance reform has scaled up medical capacity and prepared the health administration. An effective infection disease risk alert system and strong co-ordination mechanisms with clear assignment of responsibilities among central and subnational governments, medical institutes and the private sector, have contributed to the success of its co-operative governance model in 2020, which is characterised by the centralised guidance from the Central Disease Control Headquarters and the decentralised implementation by subnational governments. Elsewhere, poorly co-ordinated actions have instead resulted in a disjoined crisis response and generated collective risk.

Figure 2.1. European countries increased testing in the course of the crisis

Average weekly number of tests per 100 000 inhabitants



Source: OECD (2020[2]), "The territorial impact of COVID-19: Managing the crisis across levels of government", https://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/; European Centre for Disease Prevention and Control.

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Nearly all surveyed EU subnational governments consider co-ordination among all levels of government in the design and implementation of measures very important for a successful crisis exit (Figure 2.2). Other key factors they highlighted also relate to co-ordination, such as the possibility of adapting measures to the local situation and the relationship between subnational governments, the private sector and the public. Seventy-one percent of surveyed subnational governments highlighted that the lack of vertical and horizontal co-ordination is among the biggest challenge in managing the health crisis (OECD-CoR, 2020[7]).

Vertical co-ordination among the national and subnational governments is the "first step of an effective response", as stated by the World Health Organization (WHO) at the pandemic's outset. In places where subnational governments operate with high degrees of autonomy, policy responses are more likely to be fragmented (OECD, 2020[2]). There is a greater risk of operating with one-size-fits-all measures that may not address local needs in more centralised countries. Crisis management tools in a broad range of policy areas, including healthcare, social services, economic development and public investment, are shared across levels of government and therefore require effective vertical co-ordination**.** Unilateral decisions without prior consultation with all stakeholders spurred non-compliant behaviours and even large-scale demonstrations in France, Italy, Spain, the UK and the US.

Horizontal co-ordination is as important as vertical co-ordination, particularly in decentralised and federal countries where crisis responses are differentiated across territories (OECD, 2020[2]). Horizontal co-ordination across jurisdictions allows addressing cross-jurisdictional issues and achieve economies of scope. Some jurisdictions may face an immediate trade-off between adequately responding to the crisis locally and supporting neighbouring jurisdictions with information (on infections and local measures) and resources (equipment, personnel and funds). Going forward, cross-jurisdiction co-operation will be essential to support the recovery process and avoid a fragmented approach to public investment.

New co-ordination platforms and associations of regional and local governments support crisis management

Federal and unitary countries have introduced and mobilised vertical co-ordination mechanisms during the pandemic. Newly created institutions have supported inter-governmental co-ordination in 8 out of 17 surveyed OECD countries (OECD, 2020[8]). The Risk Assessment Group and the Group of Experts in charge of the Exit Strategy in Belgium and the New Emergency Management Office in Colombia for example are providing such platforms. National associations of subnational governments are important to foster vertical co-ordination efforts by disseminating information, identifying and sharing solutions and supporting the implementation of emergency measures by their members (Box 2.2). The more decentralised the country, the greater the need to mobilise co-ordination platforms to minimise the risk of a fragmented policy response. Such platforms allow enhancing the evaluation of policy measures and promoting feedback on what works and what issues emerge across different levels of government.

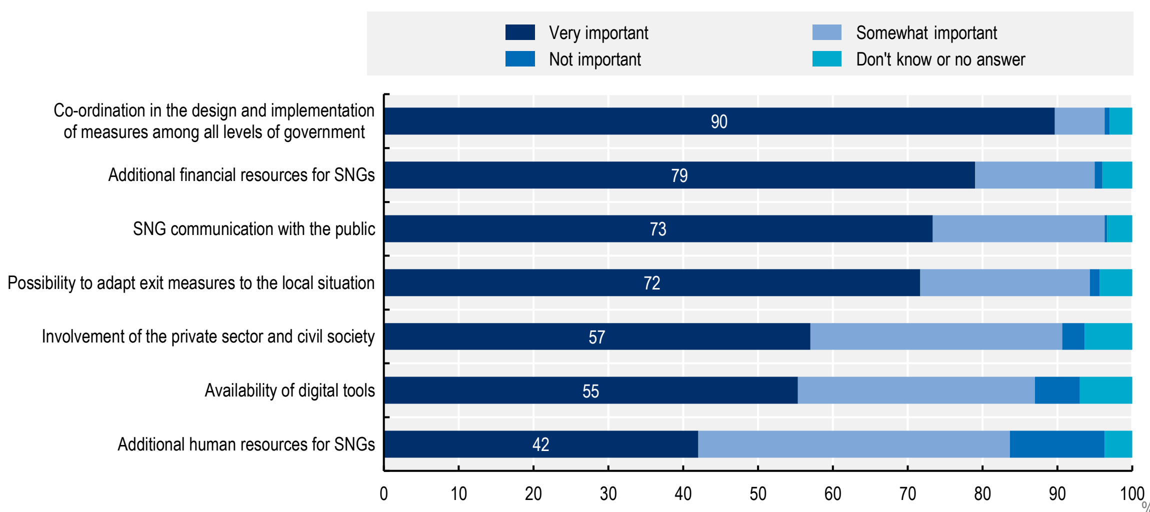
Box 2.2. Examples of vertical and horizontal co-ordination for crisis management

Associations of regional and local governments act as interlocutors between national and subnational governments. They also co-ordinate efforts among their members, identify solutions and help implement emergency measures. Regular dialogue between the national government and these associations can be particularly valuable to address crisis-generated social and economic damage. In Australia, the government introduced the National Cabinet to bring together the prime minister and first ministers of Australian states and territories. In Chile, the Social Committee for COVID-19, formed by representatives of municipal associations, government authorities, academics and professional from the health sector, helped to strengthen the action plan. In Spain, the Conference of Presidents, a multi-lateral co-operation body between the central government and the governments of the autonomous communities, became the operative instrument for multi-level dialogue to co-ordinate resources based on the territorial situations. Canada and Korea developed "whole-of-government" approaches to call on all levels of governments to work in co-operation (OECD, 2020[2]).

In Denmark, municipalities purchase protective equipment through joint procurement (Aarhus Kommune, 2020[9]). In France, inter-municipal co-operation bodies have multiplied initiatives to support their member municipalities by acting as a platform and an operational actor (ADCF, 2020[10]). In Switzerland, the Conference of Cantonal Governments co-ordinated regular meetings between all 26 cantons (KDK, 2020[11]). In the US, governors of New York, New Jersey, Pennsylvania and Connecticut adopted a common set of guidelines on social distancing (New York State, 2020[12]).

Figure 2.2. Policy tools at the core of a successful exit strategy

Answers from subnational government officials to the question: How important do you consider the following factors to be for a successful exit strategy from the crisis?

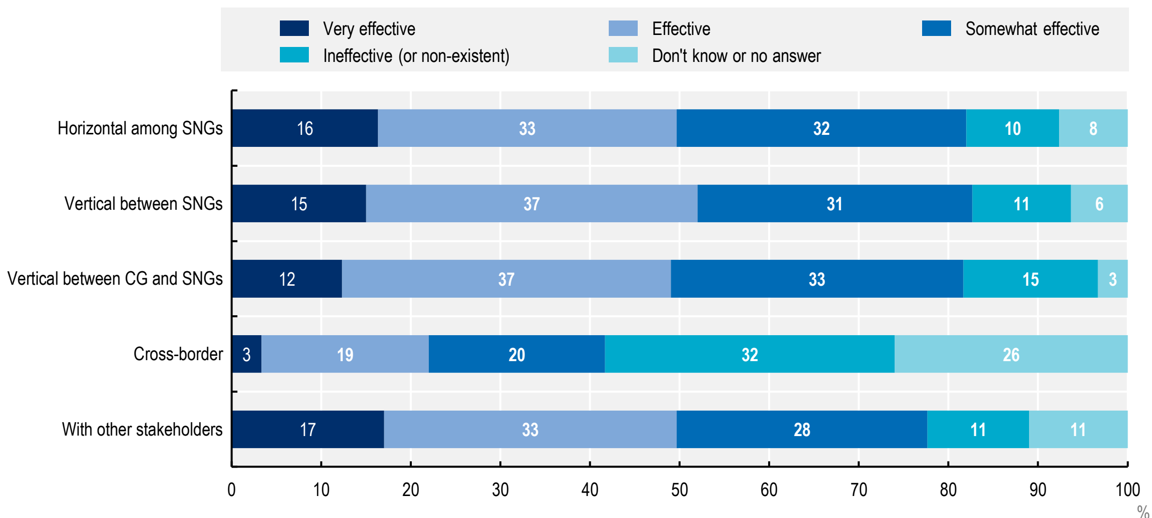


Note: Subnational governments (SNGs) submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

Many countries have experienced co-ordination challenges between national and subnational governments. Only around half of the respondents representing subnational governments in the EU believe that co-ordination mechanisms have been effective (Figure 2.3). A critical issue emerged in international cross-border regions where co-operation has been more difficult because of borders closure and the lack of effective co-ordination arrangements (OECD, 2020[2]). In many cases, EU member states have implemented uncoordinated border closures and unilateral measures. Around one-third of respondents to the OECD-CoR survey reported that cross-border co-operation between subnational governments was broadly ineffective or non-existent, while only 22% found such co-operation effective (OECD-CoR, 2020[7]). However, several cross-border co-operation mechanisms worked well and, arguably, allowed for increased resilience and paving the ground for reinforced co-operation (EU Committee of the Regions, 2020[13]). Cross-border transfers of COVID-19 patients have been made possible in the context of pre-existing co-operation agreements among France (Grand-Est), Germany (Baden-Württemberg and Rhineland-Palatinate), Luxembourg and Switzerland (OECD, 2020[2]). The regions of South Tyrol, Trentino and Tyrol at the Italian-Austrian border set up a co-ordination unit (OECD, 2020[2]).

Figure 2.3. Co-ordination mechanisms effectiveness during the first phase of the crisis

Answers from subnational government officials to the question: How effective have the following co-ordination mechanisms been in managing the COVID-19 crisis in your country?



Note: CG: central government. SNGs submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

Fiscal policy needs to respond to territorial impacts of the crisis

The COVID-19 crisis and the associated policy responses have had a strong negative effect on subnational government finances (Figure 2.4), which has differed across regions (Box 2.3). The crisis is reported to have a somewhat larger impact on revenue than on expenditure. Large municipalities tend to expect bigger impacts than smaller ones: About two-thirds of surveyed municipalities with populations above 250 000 inhabitants expect the impact to be highly negative, against 41% where the population is below 10 000 inhabitants (OECD-CoR, 2020[7]). The US National League also reported a severe and long-lasting impact on US cities with a loss of own-source revenue reaching 21.6% in 2020 (US National League of Cities, 2020[14]). Already in June 2020, most subnational governments noted a dangerous "scissors effect" of rising expenditure and falling revenues (CoR-OECD, 2020[15]).

Box 2.3. The impact on subnational finance is asymmetric

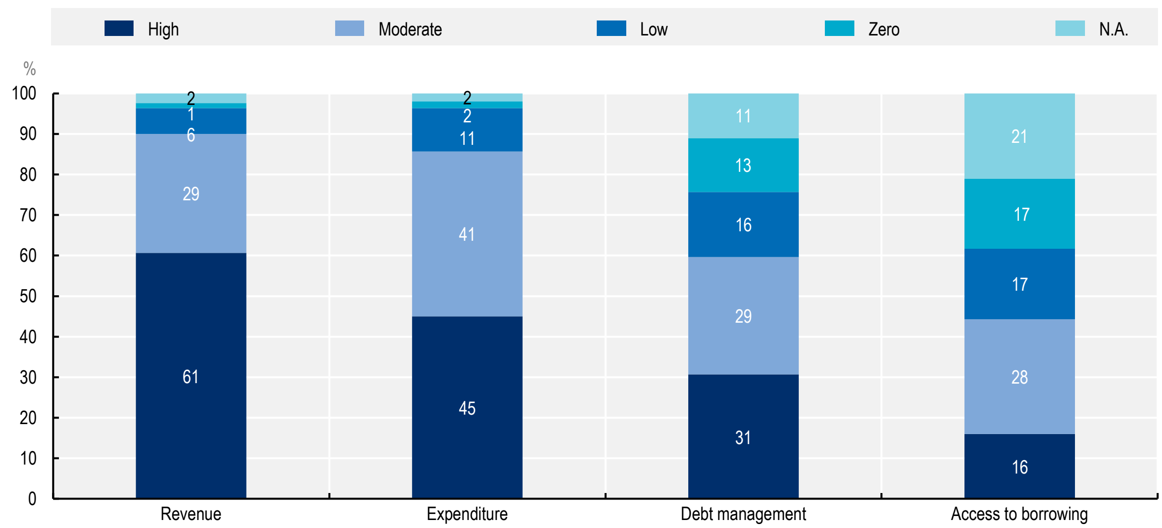
The impact on subnational finance is asymmetric due to different exposure and vulnerability to the health and economic crisis across countries, regions, municipalities and levels of government. The impact at the subnational level depends on several financial and budgetary factors:

- The degree of decentralisation and the assignment of spending responsibilities.
- The characteristics of subnational government revenues, in particular the elasticity of fiscal revenue with respect to the business cycle.
- The ability of subnational governments to absorb exceptional stress, determined by their capacity to adjust their expenditure and revenues to urgent needs.

- The fiscal health and financial conditions of subnational governments, determined by the *ex ante* budget balance and debt ratios, the level of cash treasury and set-aside reserves.
- The scope and efficiency of support policies from higher levels of government.

Figure 2.4. Impact of the COVID-19 crisis on subnational finances in the European Union

Answers from subnational government officials to the question: How negative do you expect the impact of COVID-19 to be on your revenue, expenditure, debt management and access to borrowing?



Note: N.A.: Not applicable. Subnational governments submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

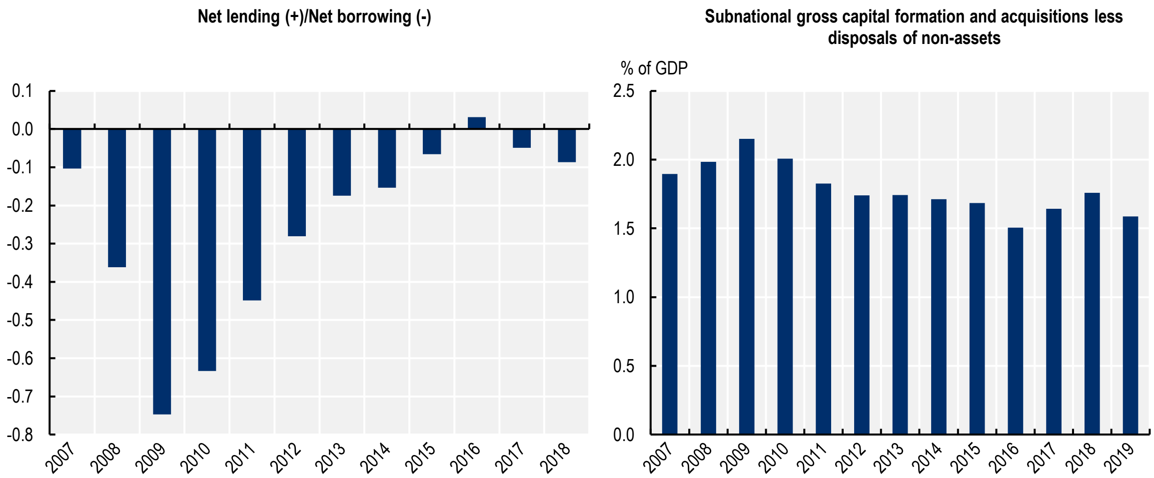
Subnational budget consolidation measures after 2010 led to drops in subnational public investment (Figure 2.5), with a likely negative effect on private investment, and hampered growth in many OECD countries (OECD, 2020[2]). With a substantial share of subnational governments reporting budgetary impacts, including on debt management and access to borrowing, risks of premature consolidation may also exist in the current crisis, if subnational government finances do not receive sufficient support. In some regions and cities, public investment projects have already been cancelled or postponed. Reducing public investment would also be inconsistent with the net-zero GHG emission transition, which requires both different and more investment, as shown in Part II of this *Regional Outlook* report.

The impact on subnational government expenditure varies with spending responsibilities

In 2017, subnational health expenditure accounted for 24.5% of public health expenditure and 11.5% of total subnational expenditure (Figure 2.**6**).[1] In many countries, subnational governments are responsible for critical aspects of healthcare systems, including emergency services and hospitals. Subnational governments also have expenditure responsibilities in social protection including social assistance and social benefits (14% of subnational expenditure). Beyond health and social responsibilities, education (24%), public administration (15%), economic development and transport (13%) have all been disrupted at the subnational level and subnational governments are facing a number of complex and costly tasks. Subnational governments have also been involved in delivering support policies for small- and medium-sized enterprises (SMEs) and the self-employed, as well as infrastructure investment.

Figure 2.5. Subnational governments' budget and investment, 2007-19

Fiscal consolidation measures in the decade to the COVID-19 crisis have been associated with a lower share of subnational public investment in gross domestic product (GDP) in OECD countries



Note: Unweighted average net lending/net borrowing as a percentage of GDP for subnational governments (state and local governments) in 36 OECD countries between 2007 and 2018. In Turkey, data are available over 2009-19. Colombia is not included. Unweighted average subnational gross capital formation and acquisitions less disposals of non-assets as a percentage of GDP (state and local governments) in 34 OECD countries between 2007 and 2019. In Turkey, data are available over 2009-19. Chile, Colombia and Lithuania are not included.
Source: OECD Fiscal Decentralisation Database, OECD National Accounts database.

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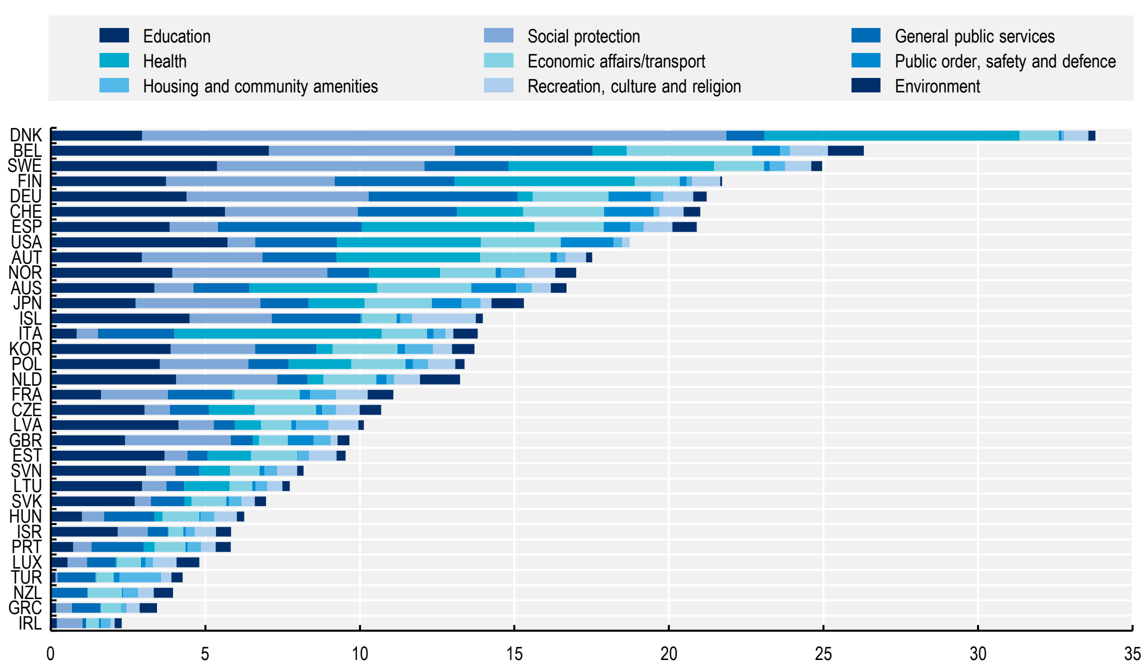
Figure 2.6. Breakdown of subnational government expenditure by function (COFOG), 2017



Note: COFOG: Classification of the Functions of Government.
Source: OECD (2020[16]), *Subnational Governments in OECD Countries: Key Data - 2020 Edition*, OECD, Paris.

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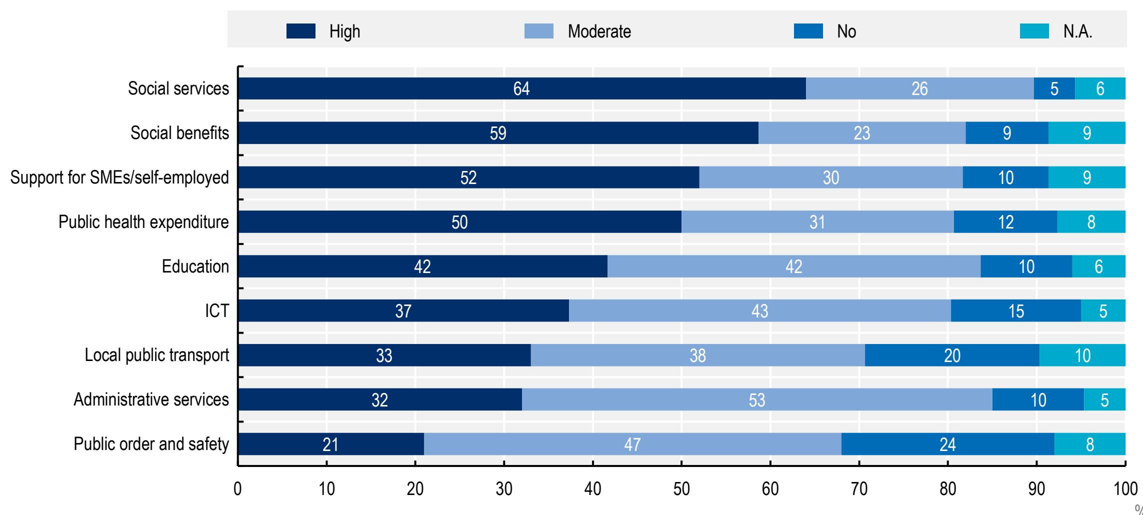
Health and social protection are putting pressure on subnational government finances (Box 2.4) and is expected to grow in the medium term. Some spending items could decrease temporarily amid the closure of some public services as well as lower energy and commodity prices. According to the OECD-CoR survey, subnational governments in the EU anticipate significant expenditure increases in social services and benefits, support to SMEs and the self-employed, and public health (Figure 2.7). Some expenditure increases should also arise from the digitalisation of services in education, local public transport, administrative services and public order and safety. Regions are more likely to experience increased spending on health, support to SMEs and the self-employed as well as adaptation of public transport than municipalities, reflecting the broader responsibilities of regions in these service areas (OECD-CoR, 2020[7]).

Figure 2.7. COVID-19 pressure on subnational expenditures, by service area

Answers from subnational government officials to the question: In the following service areas, how much pressure do you expect the COVID-19 crisis to put on your subnational entity's expenditure?



Note: N.A.: Not applicable. Subnational governments submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

Box 2.4. Pressure on subnational government spending is strong, especially for social services

The COVID-19 crisis is placing strong pressure on subnational social protection spending given its impact on elderly and dependant people, those with chronic or long-term illnesses, the poor and low-income families. Among OECD countries, social protection represents 14% of total subnational public expenditure, though this is much higher in countries where subnational governments have significant social protection responsibilities (e.g. Austria, Belgium, Germany, Japan, Nordic countries and the UK). There are large disparities in social protection spending among OECD countries but when social protection is not a subnational government's responsibility, it nevertheless often has to respond to social emergencies. During the pandemic, subnational governments have undertaken initiatives to provide social and community support to vulnerable populations (OECD, 2020[4]). In the longer term, social expenditure will certainly continue to increase as more welfare benefits need to offset the impact of higher unemployment and the number of aid seekers.

Regional and local governments have differentiated responsibilities in health services. Therefore, the crisis will have a differentiated impact within the subnational government sector. In most federal countries, healthcare is a major responsibility of state governments, which are responsible for secondary care, hospitals and specialised medical services. The role of municipalities in healthcare generally concentrates on primary care centres and prevention. However, in some countries, municipalities or inter-municipal co-operation bodies may have wide responsibilities in healthcare services and infrastructure. In the EU, 69% of responding regional governments reported facing high pressure on their health expenditure, compared to 44% of municipalities, likely reflecting their broader responsibilities in this area in many EU countries (OECD-CoR, 2020[7]). In unitary countries, the role of regional governments may be also significant (e.g. Denmark, Italy and Sweden).

Economic affairs[2] represent 13.6% of subnational spending in the OECD on average. Subnational governments in the OECD account for approximately 34% of total public spending in this area, although in some countries, more than 50%, e.g. in Australia, Belgium, Japan and Spain, and even 69% in the US. Some subnational governments are supporting their local economies, notably SMEs, the self-employed, informal workers and highly affected sectors. In the longer term, subnational governments may be further mobilised to participate in stimulus packages targeting public investment.

The impact on subnational government revenue depends on the structure of subnational government revenue

In countries where subnational governments are largely funded by central government transfers (e.g. Estonia, Lithuania, Mexico, the Slovak Republic), the negative impact may be smaller than in federal countries where most transfers to local governments come from state governments that may not be able to sustain their transfers (Chernick, Copeland and Reschovsky, 2020[17]). Impacts will vary with revenue structure (Box 2.5). Historical elasticities of subnational government revenue to the business cycle do not allow to accurately forecast future revenue even if projected GDP growth and output gaps were accurate (OECD, 2020[8]). Country-level elasticities of subnational government revenue with respect to the business cycle have been estimated in previous cycles. The current crisis is different because economic sectors are asymmetrically affected by government response measures, particularly restrictions on mobility and gatherings, in a way that has never been observed (OECD, 2020[18]). Therefore, within countries, changes in individual subnational government revenue will depend on the regional economy and tax base exposure to affected industries, stimulus plans, as well as backward and forward participation in global value chains.

The COVID-19 pandemic is expected to result in a strong drop in shared and own-source tax revenue. Declining economic activity, employment and consumption arising from COVID-19, and particularly containment measures, will automatically reduce receipts from personal income tax (PIT), corporate income tax (CIT) and value added tax (VAT). CIT and VAT may be more affected than PIT as national governments have supported personal income and saving has risen in some countries. Measures such as tax breaks, exemptions, deferrals and tax rate cuts decided in stimulus packages will lower tax receipts, as will increasing non-payment, for example because of bankruptcy. As subnational government revenues are often based on the previous year (e.g. income taxes), most will see the situation worsen in 2021 and even 2022. Other subnational taxes may be affected by the recession and fiscal policy decisions: taxes on businesses (Austria, France, Germany and Luxembourg), economic activities (Italy, Japan, Korea), real estate activities, consumption and commodities. Recurrent property taxes on buildings and businesses are less volatile but were sometimes waved to support businesses. Nevertheless, any correction on land and real estate prices or higher bankruptcies rates would inevitably lead to decreasing revenues in 2021 and 2022.

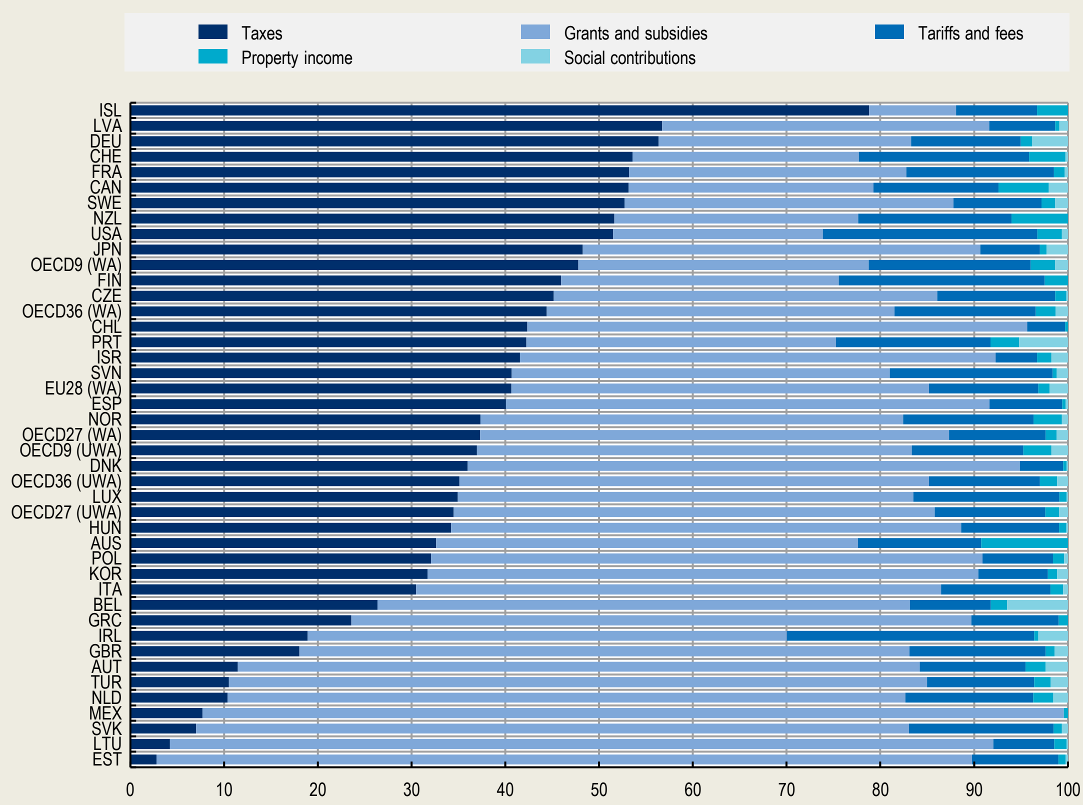
The closure of public facilities and less public transport use have reduced revenues from user charges and fees. Drops in such revenue could be compounded by a rise in unpaid fees. Income from physical and financial assets, such as rental revenues, dividends from local public companies, sales of land and royalty revenues have dipped when economies went into lockdowns. The global negative demand shock for raw materials has pushed down prices and output but a strong recovery could be supportive in 2021. Subnational governments dependent on revenue from oil production may also experience a substantial revenue decline in 2020, e.g. in Australia, Canada, Mexico and Norway (S&P Global Ratings, 2020[19]). About two-thirds of subnational governments are anticipating a decline in property income.

Box 2.5. Revenue impacts will vary with revenue structure

In countries where subnational government revenue comes mainly from taxes, user charges, fees and income from assets, the impact may be even larger (Figure 2.8), although this depends on the sensitivity of tax bases to the economic activity and policy decisions. In the EU, subnational tax revenue is anticipated to be the most affected revenue source, followed by tariffs and fees (OECD-CoR, 2020[7]). Grants and subsidies, as well as property income, are expected to decrease to a lesser extent (Figure 2.9) (OECD-CoR, 2020[7]).

Figure 2.8. Sources of subnational government revenues vary across countries

Breakdown of subnational government revenues by category, percentage of total revenue, 2018



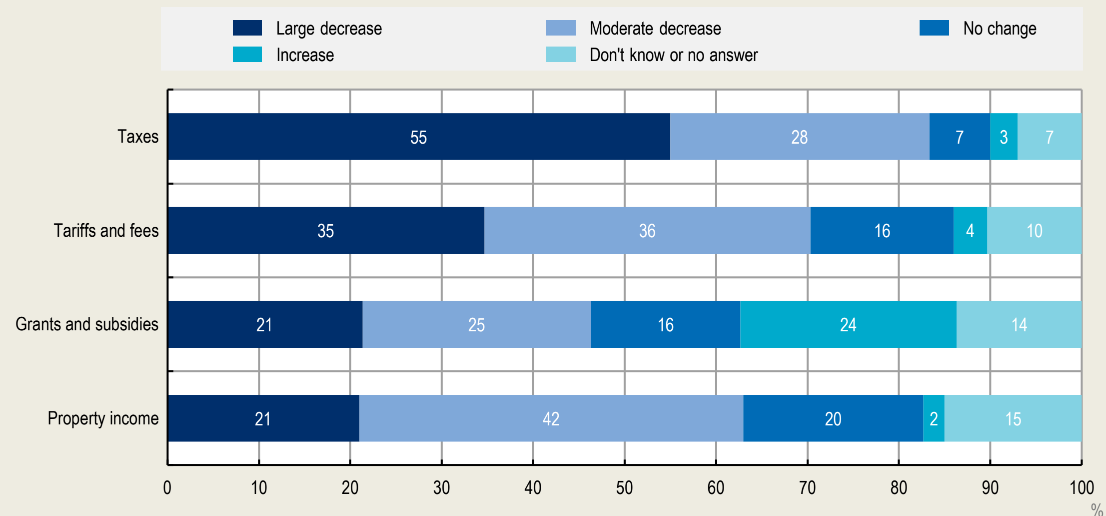
Note: Australia and Chile: estimates from IMF Government Finance Statistics. 2017 data.

Source: OECD (2020[16]), *Subnational Governments in OECD Countries: Key Data - 2020 Edition*, OECD, Paris.

StatLink https://doi.org/10.1787888934236589

Figure 2.9. Impact on subnational revenue, by revenue source

Answers from subnational government officials to the question: Relative to pre-crisis projections, what impact do you expect on the revenues of your subnational entity?



Note: Subnational governments submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

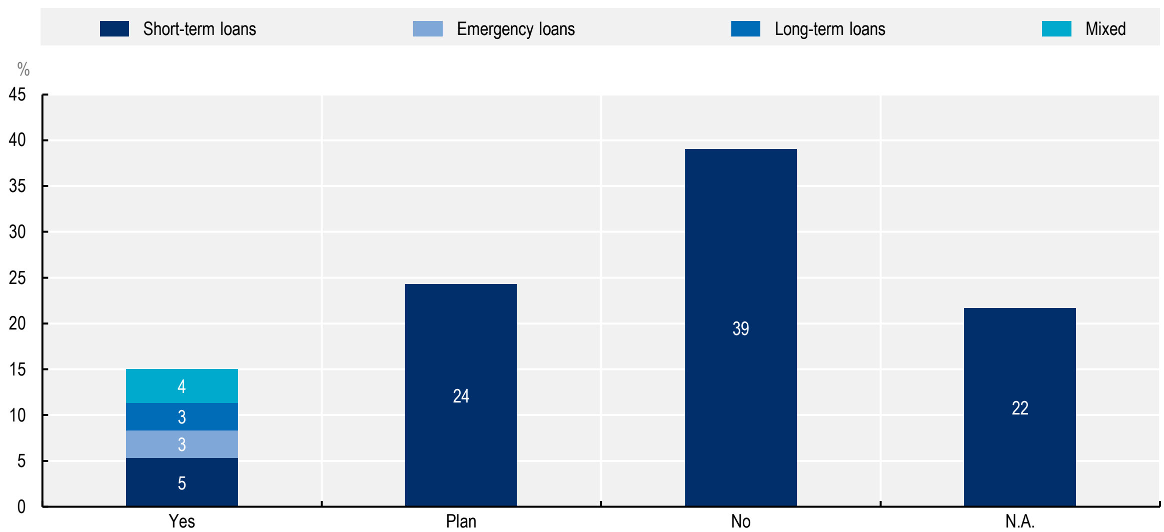
Subnational government debt is rising substantially

The strong decrease in revenues, combined with a marked increase in expenditure is leading to higher subnational government deficits and debt, as in the wake of the 2008 crisis (OECD, 2020[20]; 2013[21]) albeit with likely more asymmetric and generally bigger effects than back then. Short-term borrowing to bridge delays in revenue and cover a lack of liquidity has already significantly increased in some countries. Many national governments have facilitated subnational government access to short-term borrowing and credit lines, including specific COVID-19 credit lines. By June 2020, 15% of surveyed subnational governments in the EU had increased borrowing to cope with the crisis and 24% were planning to increase borrowing (Figure 2.10). Short-term and emergency loans represented more than half of new subnational government borrowing in the EU in June 2020.

Long-term borrowing is also expected to increase, including finance recovery programmes. Several governments have relaxed regulatory constraints on long-term borrowing, notably on capital markets. Stimulus measures and automatic stabilisers have increased deficits while GDP decreased in most economies in 2020. As a result, general government debt-to-GDP ratios will rise by an average of 15.7 percentage points in 2020 according to the IMF October 2020 Fiscal Monitor. Global subnational annual gross borrowing grew in 2020 by about 29% to USD 2.2 trillion, mostly because of the crisis (S&P Global Ratings, 2020[22]). Australia, Canada, China, Germany and Japan would make up about two-thirds of gross subnational borrowing in 2020 because subnational governments, particularly regions and large cities, have applied countercyclical fiscal policies (S&P Global Ratings, 2020[22]). Subnational governments' debt-to-GDP ratios of these countries were already above the OECD average before the pandemic. Poor fiscal performance and creditworthiness may hinder access to new borrowing, although central banks have pledged to ease monetary conditions and ensure low interest rates (OECD, 2020[18]).

Figure 2.10. New borrowing to cope with the COVID-19 crisis

Answers from subnational government officials to the question: Has your subnational entity increased its borrowing to cope with the COVID-19 crisis?



Note: N.A.: Not applicable. Subnational governments submitted their answer to the survey in June-July 2020.
Source: OECD-CoR (2020[7]), "The impact of the COVID-19 crisis on regional and local governments: Main findings from the joint CoR-OECD survey", http://www.oecd.org/regional/multi-level-governance.htm.

Effects on subnational government finances are asymmetric and some will be delayed

Subnational governments in more decentralised countries are more likely to experience large losses in revenue (OECD-CoR, 2020[7]). The immediate impact may be stronger for municipalities but in the medium term may be greater for regions. While municipalities' revenues are directly impacted by the crisis, the fiscal shock on many regional governments could be delayed to 2021 and 2022 because a large share of their revenues depends on taxes sensitive to previous years' economic activity. Subnational government exposure depends on the resilience of local economies and their tax bases as well as fiscal equalisation. Regions where hospitality, retail and transportation represent a large share of value-added are more exposed.

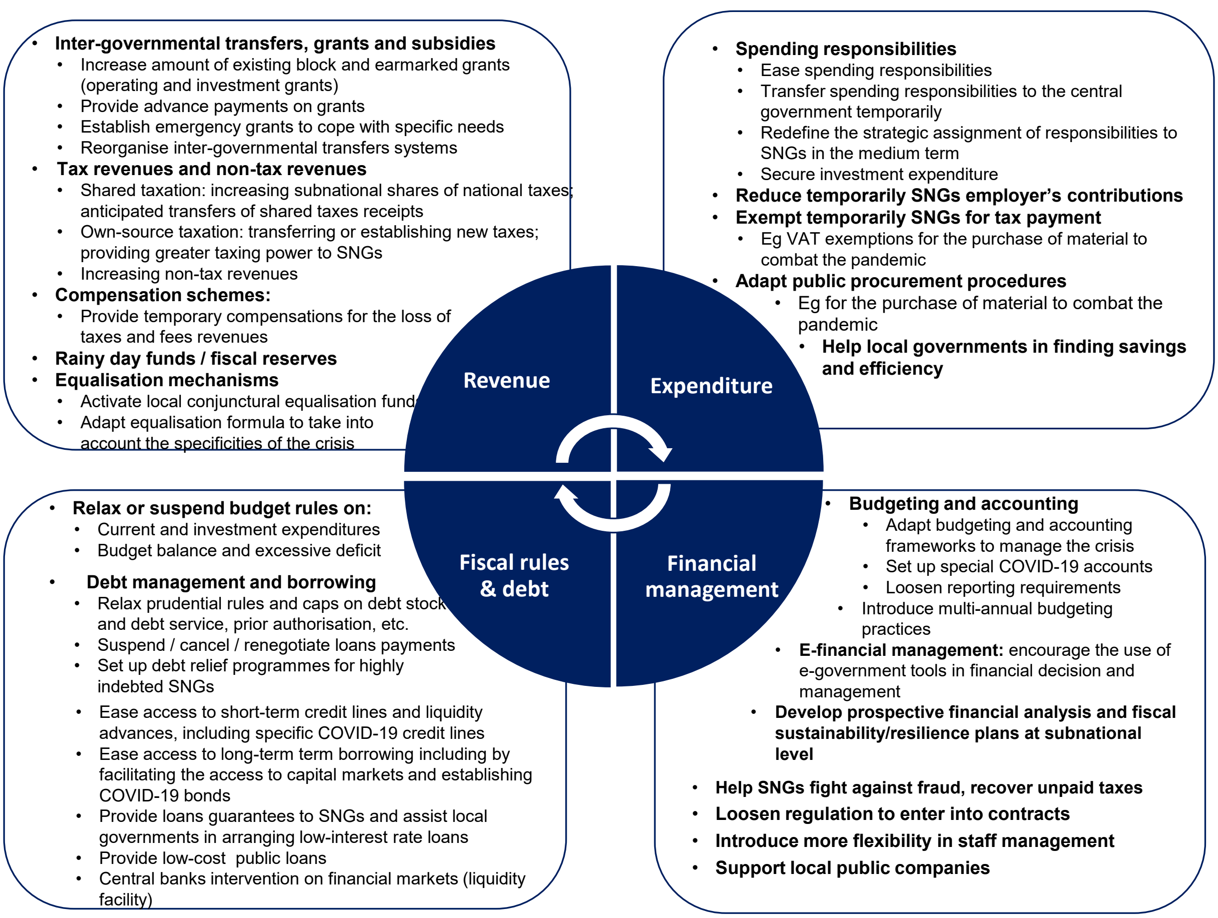
Equalisation systems may not absorb asymmetric effects in full. Many equalisation systems themselves may be susceptible to the contraction in economic activity. According to a survey by the OECD Network on Fiscal Relations, 8 out of 17 country respondents anticipate a fall in total equalising transfers, whereas only Canada anticipates an increase to 1 of its 2 equalising transfers (the Territorial Financing Formula). This suggests that equalisation systems may have a pro-cyclical impact (OECD, 2020[23]). Equalisation formulae may also not be able to fully offset the asymmetric impact of the crisis on revenues and spending across regions, aggravating socio-economic discrepancies, as the crisis has hit locations with much precarious and low-pay employment the most. Some equalisation systems may offset differences in revenues but not in spending. For example, in Germany, public investment was relatively low in municipalities with high spending on federally mandated social transfers following the global financial crisis (Fuentes Hutfilter et al., 2016[24]). Negative impacts on inclusiveness may result especially in countries where subnational governments have responsibilities for social protection and health.

Pre-crisis levels of indebtedness and cash reserves also matter. Interest rates close to zero limit the impact on long-term debt sustainability, especially if subnational governments can secure longer-term borrowing. However, some subnational governments and sovereigns may be subject to high or rising risk premia, which could aggravate asymmetric territorial impacts by limiting fiscal support available in some of the most vulnerable regions. For example, in March 2020, US municipal bond yields soared by 150 basis points amid concerns over delayed revenues and liquidity shortages. The Municipal Liquidity Facility announced by the Federal Reserve in April 2020 to conduct municipal bonds purchases allowed yields to decrease to 30 basis points above their pre-crisis level (OECD, 2017[25]), with higher yields in states where COVID-19 incidence was greater.

Central and subnational governments are taking steps to counter the "scissors effect"

Without sufficient compensation for the extra spending and revenue losses caused by COVID-19, many subnational governments could be forced to implement sharp cuts on spending. This would endanger the efforts for a co-ordinated recovery response and weaken the equity and quality of service availability among subnational governments. Many central governments have therefore announced considerable fiscal support measures. State governments in federal countries have also announced measures to support local governments. All in all, two-thirds of OECD countries have adopted measures in support of subnational government finance. Fiscal measures can be classified into four categories (Figure 2.11): revenue and expenditure measures, financial management measures as well as measures related to fiscal rules (Box 2.6).

Figure 2.11. Emergency fiscal measures to support subnational governments



Source: OECD (2020[2]), "The territorial impact of COVID19: Managing the crisis across levels of government", https://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/.

Box 2.6. Providing fiscal relief to subnational governments

Fiscal rules are generally pro-cyclical when they are rigid. Such rules may be relaxed during a crisis, along two lines: i) formal escape clauses can be triggered by prescribed circumstances; ii) effective suspension can be announced when it is unreasonable to expect subnational governments to comply (OECD, 2020[23]). During the pandemic, revenue measures have been applied and fiscal rules have been suspended frequently; in the EU, 46% of responding subnational governments reported that some fiscal rules have been relaxed and 18% that they will be in the near term (OECD-CoR, 2020[7]).

Extraordinary grants to subnational governments can compensate for tax revenue losses and increased expenditure. They are more appropriate than temporary recentralisation of public services or local tax rates hikes because they allow for a place-based approach and foster local aggregate demand. As an immediate response, support from higher levels of government in the form of grants is the most common measure taken across OECD countries (OECD, 2020[23]). However, future consolidation plans loom. Reforms that ensure the stability, operational capacity and resilience of subnational finance are important and should be carefully planned and implemented, especially where subnational regions have an important role to play in providing social protection.

In countries where fiscal co-ordination is already well developed and effective, support measures have been developed and discussed between responsible national ministries and representatives of subnational governments. Formal or informal agreements in several countries with the national associations of subnational governments provide urgent support, compensation schemes and other financial measures. Support can also be indirect, such as to public transport, energy and other subnational-government-owned utility companies.

Public investment can contribute to recovery and reduce upcoming risks

Immediate fiscal responses to COVID-19 granted financial and liquidity support to firms, their workers and households. Since June, many national governments have announced large economic recovery packages, much larger than in 2008, focusing on public investment. These investment recovery packages are prioritising: i) the strengthening of healthcare systems; ii) digitalisation diffusion; iii) the transition to a carbon-neutral economy (OECD, 2020[2]). The OECD and the International Monetary Fund (IMF) have made a strong call to scale up public investment to address the challenges to the COVID-19 recovery. Subnational governments play a key role, as they are responsible for 57% of public investment in OECD countries. It is crucial that recovery packages are consistent with the transition to net-zero GHG emissions, targeted by most OECD countries by 2050, to avoid a global climate crisis and make sure investment remains productive over the next ten years and beyond. As argued below, this consistency is not yet achieved.

In June 2020, 31% of surveyed EU subnational governments were actively providing public investment stimulus measures and 30% direct support to the local economy. Only 9% were doing both, suggesting that in the early phase of the recovery, there was a trade-off between short-term direct support and longer-term public investment stimulus (OECD-CoR, 2020[7]). In the EU, 40% of responding regions were providing public investment stimulus and 26% of responding municipalities. While near-zero interest rates make a strong case for resorting to deficit spending to provide both direct support and public investment, these trade-offs and the large amounts of public funds disbursed reinforce the case for improving data, so support is provided to households and firms most in need and spending is effective in achieving near-term and long-term targets.

The OECD estimates that a 1% GDP increase in public investment in advanced economies and emerging markets could spur GDP by 0.8% in normal times but more likely by 1% in crisis times across G7 countries, though impacts vary depending on openness, monetary stance and capacity to borrow without rising risk premia (OECD, 2018[26]). It could create between 20 and 33 million jobs, directly and indirectly (IMF, 2020[27]). Local, regional and national governments should invest in post-crisis priorities in health, digitalisation and environment infrastructure (OECD, forthcoming[28]). The EU Recovery plan is providing funds to this end (Box 2.7).

As highlighted by the OECD Recommendation on Effective Public Investment Across Levels of Government (2014[29]), the impact of public investment depends on how governments manage this shared competency across levels of government. Several tools can strengthen the coherence of infrastructure investment among levels of government, such as co-financing arrangements, contracts between levels of government, formal consultation processes, national agencies or representatives working with subnational areas, or other forms of regular inter-governmental dialogue. Seeking complementarities across sectors into integrated strategies allows more efficient use of public resources and mutually reinforcing investments, for example in housing and transport networks (OECD, forthcoming[28]).

The demand for infrastructure was already high before the COVID-19 crisis. The OECD has estimated that globally USD 95 trillion in public and private investment will be needed in energy, transport, water and telecommunications infrastructure between 2016 and 2030 (OECD, 2017[25]). In view of the long-lived nature of infrastructure, it is critical that infrastructure investment is undertaken in a way that is consistent with the net-zero GHG emission objectives adopted by most OECD countries for 2050, otherwise budgetary and environmental sustainability are compromised. Cities and regions have important needs for maintenance and new investment in renewable energy, low-carbon buildings, energy efficiency, waste and pollution management systems and clean public transport. As argued in Part II of this *Regional Outlook* report, government spending plans need to be aligned with climate policy scenario analysis, backcasting infrastructure requirements using the 2050 net-zero GHG emissions objective as a starting point. Investment stimulus projects need to be well thought through and appraised to be consistent with long-term targets. This may be a challenge after many years of budgetary consolidation and may require investing in the capacity of local and regional governments to define and implement such investment projects.

Employment gains from redirecting and boosting investment so economic activity becomes consistent with the net-zero transition can relieve the economic impacts of the COVID-19 crisis (Unsworth et al., 2020[30]). Short-term employment opportunities include accelerated wind turbine installation and operation, construction and operation of electric vehicle charging infrastructure, active mobility infrastructure and pilot projects to scale up hydrogen production as well as research and development (R&D) in industrial zero-emission consistent production. COVID-19 fiscal recovery packages could accelerate progress on the net-zero transition also with energy-efficient retrofits in buildings (Hepburn et al., 2020[31]). When investing in low-carbon and climate-resilient infrastructure that supports a regionally balanced economic recovery, national governments need to recognise the crucial role that local authorities play, including though setting priorities for the first retrofitting of buildings and in local transport (ADEPT, 2020[32]). Expanding skills needed to address these challenges is another place-based priority to accelerate the transition.

Box 2.7. The European Union Recovery Plan

The EU is providing significant funds to help member states tackle the COVID-19 crisis, for example:

- EUR 37 billion from the EU budget is available to support healthcare systems, SMEs and labour markets through the Coronavirus Response Investment Initiative.
- EUR 28 billion in structural funds from 2014-20 national envelopes not yet allocated to projects are eligible for crisis response.

- EUR 800 million from the EU Solidarity Fund are directed at the hardest-hit countries by extending the scope of the fund to public health crises.

Unlike in 2008, the EU mobilised the cohesion policy to address the COVID-19 crisis, lifting or modifying the rules that apply to European Structural and Investment Funds. As of October 2020, more than 100 programmes have changed to respond to the COVID-19 crisis. Through the Coronavirus Response Investment Initiative Plus, member states can transfer money between different funds. Money can be redirected to the most affected regions. Finally, member states can request up to 100% financing from the EU budget between 1 July 2020 and 30 June 2021 for programmes dealing with the pandemic's impact.

The EU has enabled maximum flexibility in the application of EU rules on the use of national funds:

- State aid measures to support businesses and workers.
- Public finances and fiscal policies to accommodate exceptional spending.

On 21 July, the EU announced that EUR 390 billion would be distributed as grants and EUR 360 billion would be available in loans to member states. The EU proposes borrowing up to EUR 750 billion.

Source: European Council (2020[33]), *COVID-19 Coronavirus Outbreak and the EU's Response*, https://www.consilium.europa.eu/en/policies/coronavirus/.

The public investment strategies are not yet consistent with a climate-neutral economy

A sustainable fiscal response requires it to be climate-consistent. Whether protracted financial, economic and environmental risks result from higher debt will depend on the consistency of government stimulus spending with needed future economic transformations, notably the transition to net-zero GHG emissions by 2050. As shown in Part II of this *Regional Outlook* report, the consistency of activity, investment and infrastructure financing needs to be assessed in a place-based manner to ensure sustainable regional development.

Employing economic stimulus to invest in infrastructure and encourage private investment in a way that is consistent with the transition to a climate-neutral economy, while discouraging investment that is inconsistent with this transition, starting this year, could turn the COVID-19 crisis into an opportunity to prevent a major climate crisis. As discussed in Part II of this *Regional Outlook* report, doing so early reduces the cost of the transition and would also reduce financial risks from failed investment. Such investment requires a place-based approach and could also reduce air, water and land pollution and thereby reduce health risks and generate human well-being benefits.

Current assessments suggest that consistency of stimulus programmes is not achieved. Only 42% of respondents in an EU survey of subnational governments stated that they are considering promoting a green or sustainable agenda as part of their COVID-19 exit strategy and recovery plans (OECD-CoR, 2020[7]). According to the Energy Policy Tracker, national and subnational governments in a range of OECD countries have committed 40% more funding to support fossil fuel energy than to support clean energy production and consumption between the start of the COVID-19 pandemic and the end of 2020. Additionally, at least up until August 2020, the recovery packages of 5 major emitters (China, EU27, India, South Korea and the US), which committed 8% to 14% of GDP, mostly did not make climate change mitigation at the core of the planned spending (Climate Action Tracker, 2020[34]). The EU and South Korea have a focus on green recovery for part of their stimulus packages, while other governments are set to spend more on sustaining the fossil fuel industry and airlines. The economic stimulus packages, announced by October 2020 in 16 of the G20 countries, may have a net negative effect on the environment (Vivid Economics, 2020[35]). Countries that have committed to green recoveries are still allocating more towards activities that are harmful to the environment and maintain or increase GHG emissions than towards activities that are beneficial to the environment and reduce emissions. Moreover, biodiversity aspects have largely been neglected in green recovery plans. However, the share of green spending in recovery packages announced by the second lockdown has increased compared to those announced during the first lockdown.

Regional and local governments play a leading role in delivering employment and skills

In almost half of OECD countries with available data, local and regional governments are wholly or partially responsible for implementing active labour market policies and can therefore contribute to a policy response that takes territorial differences in crisis impacts into account. For example, based on their understanding of local labour market dynamics, they can co-ordinate with employers to identify and deliver "top up" training to help displaced workers transition quickly to new opportunities or co-ordinate local services for the most disadvantaged job seekers. Personal connections between service providers at the local level often reinforce this co-ordination.

Recommendations for local employment action, mostly laid out in the report *Job Creation and Local Economic Development 2020: Rebuilding Better* (OECD, 2020[1]), include:

- Strengthen local employment and training systems to manage the additional pressures.
- Consider complementary measures for the hardest-hit places as national schemes are rolled back. Support firms in implementing social distancing, including through adaptations to the built environment.
- Upgrade frontline public employment service capacities and virtual services, to help places hardest hit in the short term and support broader economic transitions in places facing longer-term challenges. Intervene early to prevent longer-term labour market disengagement.
- Target active labour market policies to both individual and community characteristics and ensure accountability mechanisms take local conditions into account. Address other barriers to employment (e.g. childcare, mental health challenges).
- Adapt local training provision in light of increased demands, system constraints and local needs.
- Prevent disadvantage from becoming entrenched for young people, the low-skilled and women. Expand outreach to hard-to-reach populations, including through partnerships with local community organisations. Particular concern should be to support the career start of young people, especially among those who do not have the best job prospects, to avoid difficulties at the beginning of the career having long-lasting adverse impacts.
- Integrate the use of teleworking by firms into local development strategies and upgrade digital infrastructure, particularly in rural areas.
- Investing in biodiversity protects ecosystem services essential to human well-being and reduces risks of zoonotic epidemics. It can also support rural development by creating jobs in activities, such as ecosystem restoration, reforestation, invasive alien species management and environmental monitoring and enforcement, which tend to be labour intensive and quick to implement.

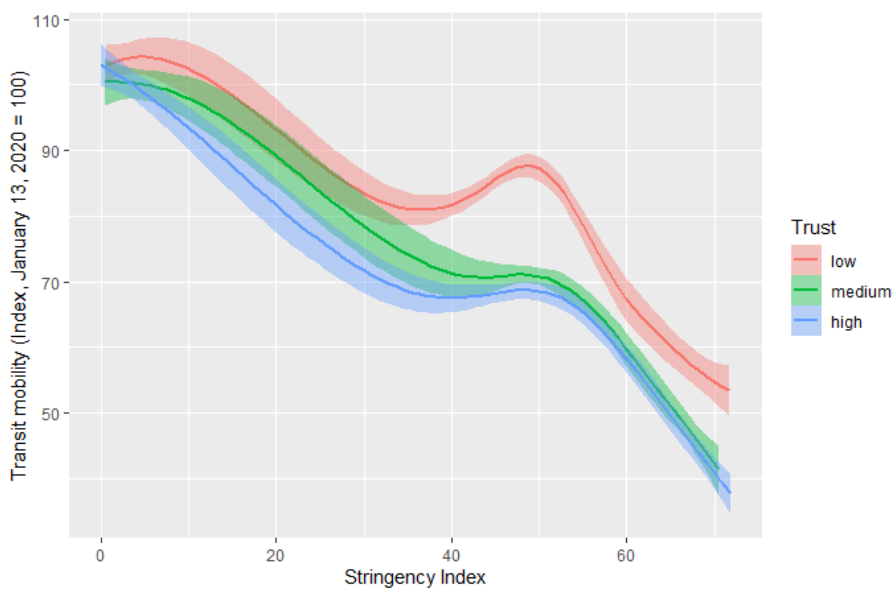
Already following the global financial crisis, lagging places performed better in terms of employment if they had an industrial composition that facilitated greater inter-sectoral worker flows (e.g. workers from one sector were able to move into another) and if they enjoyed larger changes in occupational structure. These findings suggest that growth of local economies increasingly depends on their ability to "rewire" and adjust to changing labour market realities. This will also be important for regions that need to wind down industrial activities which are inconsistent with a net-zero-emission transition or which face major challenges, as discussed in more detail in Part II (OECD, 2020[1]).

Citizen trust facilitates effective policy response

In some countries, surveys suggest that trust in the national government has increased during the crisis. Where it has not, the gap is often filled by increased trust in local government (Edelman, 2020[36]). Europeans tend to trust regional and local authorities more than they trust their national government. About 48% believe they respond appropriately to overcome the crisis (EU Committee of the Regions, 2020[13]). Citizen trust in government results in greater compliance with government response measures. Stringent response measures are more effective where trust is high. This relationship holds between countries and within countries. In the US, for example, a given increase in stringency is associated with a bigger decline in mobility where trust is relatively strong and therefore, most likely, in a bigger decline in the spread of the pandemic (Figure 2.12). In Europe, compliance with public health policies is also higher where trust is high (Bargain and Aminjonov, 2020[37]).

Figure 2.12. Transit mobility decreases more with COVID-19 containment measures where citizen trust is high

Stringency of measures and transit mobility in US states, grouped by citizen trust



Note: Data for the Stringency Index and transit mobility are retrieved daily at the state level in the US and span from 13 January 2020 to 15 December 2020. The Oxford COVID-19 Government Response Tracker systematically collects information on several different common policy responses that governments have taken to respond to the pandemic on 19 indicators such as school closures and travel restrictions. The Stringency Index records the strictness of "lockdown style" policies that primarily restrict people's behaviour. The transit mobility index is generated by counting the number of requests made to Apple Maps for directions in select countries/regions, sub-regions and cities versus their level on 13 January 2020. States are classified in three-tier trust groups according to state-level measures of voter turnout. The correlation of transit mobility with the stringency of measures is shown with the "Loess method", a non-parametric regression approach.
Source: OECD (2020[2]), "The territorial impact of COVID-19: Managing the crisis across levels of government", https://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/.

Trust in government may play a positive role in COVID-19 health outcomes. Mortality rates tend to be higher in countries with less trust in the government. They are above 50 per 100 000 inhabitants in 86% of countries where trust in government is low, 71% where trust is medium and 46% where trust is high. Many factors may be at play, including health and social system capacity or deprivation levels. Governments facing lower degrees of trust may have difficulty enforcing containment measures and ensuring their population's compliance with public health measures (OECD, 2020[2]). Less success in curbing mortality may also have diminished citizen trust. While this crisis may be generating rising levels of trust in government, the challenge for public officials will be to continue building it up and maintain it. All levels of government may want to take stock and evaluate the trust-building actions. While it can take many years to build trust, it can be rapidly lost (Edelman, 2020[36]).

Lessons learned from the COVID crisis for regional, urban and rural policies

The substantial costs of the COVID-19 pandemic to human life and economies and their territorially differentiated distribution highlights that a place-based and co-ordinated emergency response strategy is central. A place-based approach allows local actors to act swiftly and specifically to vulnerabilities. Partnerships across government levels allow generating agreed-upon objectives, priorities and plans. Effective central-government-level leadership needs to set the strategy and guidelines. Bottom-up approaches have produced innovative ways to deal with the emergency of the crisis and have built up trust among citizens and policymakers across government levels. A clear, commonly understood and agreed delineation of roles and responsibilities and well-capacitated, financially endowed subnational governments facilitate such partnerships. Clear, rapid, regular and accurate communication across levels and government and citizens helps government respond in a timely and targeted manner and promotes knowledge sharing. All of this needs to be supported by good data – to spot emerging risks, better target policy responses and evaluate policy measures for their effectiveness and their costs. By improving trust in institutions and people such an approach can further improve effectiveness.

Anticipatory action minimises major adverse impacts on health, well-being and the economy. To reinforce a place-based preventive approach to any potential future pandemic outbreaks, it would be useful to identify which regions are vulnerable to early transmission of shocks, along global value chains and transport links for example, as well as those regions which may play key roles to play in preventing the development of zoonotic pandemics. Ultimately there may not be a trade-off between dealing with the health crisis and the economic crisis, as postponing interventions may require longer or heavier restrictions, with a higher cost in terms of health impacts, economic impacts and particularly adverse impacts on vulnerable people. Countries and regions which have incorporated previous experience in health crisis management have been better prepared to co-ordinate actions, anticipate and thereby limit adverse impacts. This can also be a source of learning for others. This reinforces the need for evaluation too – it should be important to evaluate the impacts of containment and support measures to learn and share best practice between tiers of government. Promoting the use of digital tools, transferable skills and active labour market policies also help. Subnational governments have an important role to play.

Urban and rural vulnerabilities need to be addressed in their specificity. In rural regions, this requires improving access to digital infrastructure, better access to healthcare and other key services. This illustrates that the quest of cost reduction and efficiency risks being counterproductive if it hurts resilience. Cities' resilience would improve with less inequality in housing and access to jobs and key facilities. Better connections of cities with the rural environments can provide relief for urban and rural dwellers alike, fostering potentials for local markets.

The crisis has shown that we have not yet adequately addressed inequality – the vulnerable are the most exposed to risk, lacking the means and buffers to protect themselves. In the COVID-19 crisis, inequality fuelled the pandemic as the virus raced through overcrowded accommodation and meant the poor often had to continue working in risky face-to-face jobs to sustain themselves. Workers on non-standard employment, often on low pay, also face the biggest economic impacts. Without concerted action, this could derail rebuilding efforts in the regions hit the most, contributing to a downward spiral for affected regions that may be hard to escape once set in motion, as experience with regional development shows. Therefore, as national emergency support such as short-time work schemes is phased out, place-based support for poor and worst-affected households, firms and workers to adapt to the "new normal", will become more important (OECD, 2020[1]). Subnational governments are often well placed to help workers into new jobs, provide needed training and social services. In view of the narrow relationship between poverty on the one hand and the incidence of infection on the other, combining preventive efforts with generous support when isolating infected people in disadvantaged areas may be particularly promising. It may also help maintain a voluntary approach to prevention and crisis management, reinforcing trust.

Multi-level public finance arrangements may have too narrowly focused on debt and deficits for sustainability. They also need to integrate environmental and social aspects of sustainability. This requires adequate and prompt fiscal equalisation across regions with compensation to adapt to asymmetric spending increases and revenue shortfalls. A comprehensive subnational government finance review would help countries improve fiscal resilience and flexibility, in particular the capacity of subnational governments to respond to asymmetric increases in poverty and healthcare needs. It will be important to ensure a good balance in revenue and spending assignments, sufficient autonomy and flexible recourse to debt. As argued in Part II of this *Regional Outlook* report, funding arrangements for subnational governments need to integrate GHG emission reduction objectives. After the financial crisis, investment recovery funds were often fragmented in small projects at the municipal level, rather than at the regional level. Intermediary levels of government – regions, states, provinces – should be actively involved in implementing national investment recovery strategies with long-term and cross-cutting priorities, including the climate challenge.

More resilient regions: A regional development policy priority post-COVID-19

More resilient regions mean ensuring they are able to absorb, recover from or adapt to the impact of economic, financial, environmental, political and social shocks or chronic pressure. This is particularly important when a crisis is systemic, as in the case of COVID-19. It started as an infectious disease but has ended up affecting most aspects of economic and social life with multiple knock-on effects. The nature of the knock-on effects may not be known in advance. COVID-19 also reveals that risks to the foundations of human well-being, notably public health, can be the source of a systemic crisis. The COVID-19 crisis has demonstrated that anticipation and early action, integrating scientific advice in governance, are key to addressing such systemic crises. This requires better planning to anticipate needs and prepare for risks and pre-emptive action to head off emerging risks. Similarly, longer-term risks around climate change and the transition to climate-neutral models have been postponed too long.

Resilience is about preventing, limiting and reversing damaging knock-on effects while meeting the needs of citizens and businesses as well as possible. This will only be possible if known upcoming challenges for protecting and further improving well-being are anticipated and addressed. Therefore, resilience cannot mean returning to previous modes of regional development. Instead, it requires their transformation. The close relationship of COVID-19 with global environmental challenges illustrates that regional development must in particular integrate these challenges to be resilient.

The COVID-19 crisis recovery, therefore, needs to be an opportunity to accelerate the transformation of economies to address these challenges. Civic duty and community involvement are prevailing over individual interest to protect vulnerable groups. Local governance and networks are important for regional recovery and resilience. This can inspire lasting behavioural shifts to make cities and regions more resilient to address the climate challenge, where effective early action is crucial to minimise costs. To ensure reconstruction provides lasting benefits and avoids financial risks from failed investment, economic activity needs to be redeveloped in a way that is consistent with net-zero GHG emissions. Recovery packages do not yet achieve that. Part II of this *OECD Regional Outlook* report discusses ways for regional development to assess benefits and vulnerabilities and make progress to incorporate the climate challenge.

The COVID-19 crisis has also revealed how intricately resilience relates to inclusiveness. Efforts to prevent or limit the crisis early on protect vulnerable individuals the most. At the same time, alleviating economic impacts to worst-hit regions and communities and providing the resources to them to respond, is particularly effective in strengthening resilience, as the system may only be as strong as the most vulnerable communities in it. It can also garner support for a preventive approach and build up trust.

Since the climate challenge is also systemic, on a larger scale and longer time horizons, the experience with the COVID-19 crisis has rich lessons for climate policy. This includes the need for a place-based, inclusive approach. These are explored in Part II of this report.

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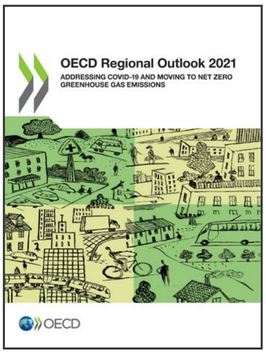
Notes

[1] 24.5% and 11.5% 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, 38% of consolidated public health expenditure and 18% of subnational government expenditure.

[2] Economic affairs are mainly composed of transport but also include commercial and labour affairs, economic interventions, agriculture, energy, mining, manufacturing, construction, etc.



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