

The impact of the COVID-19 crisis on regional and local governments:

Main findings from
the joint CoR-OECD survey



European Committee
of the Regions

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In Brief

The COVID-19 crisis is strongly affecting regions and municipalities throughout the European Union, according to a June 2020 European Committee of the Regions (CoR)-OECD survey of 300 EU regions and municipalities.

Most of the CoR-OECD survey respondents (63%) expect the socio-economic crisis arising from the COVID-19 pandemic to have a significantly negative impact on subnational governments.

Respondents report that a lack of technical means and equipment, a paucity of financial resources at the subnational level and a lack of coordination with other levels of government are among the biggest challenges they face in managing the health crisis. They were reported as challenging by 87%, 76% and 71% of respondents, respectively. Only about one-half of respondents state that coordination within subnational governments or with national governments is effective.

Most subnational governments expect the socio-economic crisis to have a highly negative impact on their finances. Overall, 85% of respondents see the impact as highly and moderately negative in the short and medium terms.

The crisis is affecting subnational government finance, with a dangerous "scissors effect" of increasing expenditure and falling revenues. Regions and municipalities expect the crisis to affect their revenue more than expenditure. About 86% of regions and cities expect a negative impact on their expenditures, especially a large increase in expenditures in the areas of social services (64%), social benefits (59%), support to SMEs and self-employed (52%), and public health (50%). Meanwhile, on the other hand, 90% forecast a decrease in revenue. Representatives of regions and large municipalities expect greater damage to their revenue than representatives of small municipalities. Tax revenue is anticipated to be the most likely affected revenue source: 83% of respondents foresee a large or moderate decrease. Furthermore, 60% of respondents expect this crisis

will have a high or moderately negative impact on debt management. At the time of the survey, 15% of subnational governments had already asked for new borrowing to cope with the crisis and 24% were planning to do so. The 13% of respondents had already applied for additional EU funds and 49% were considering to do so.

Most subnational governments are still coping with the health emergency and have not yet reached the stage of implementing recovery measures. At the time of the survey, one-third of subnational governments declared that they were actively providing public investment stimulus measures, and another third stated that they were providing direct support to the economy. Only 9% were doing both. Almost all subnational government respondents – 90% – report that coordination in the design and implementation of crisis-related measures among all levels of government is of the utmost importance to a successful exit strategy. National governments can best assist subnational governments in implementing recovery measures by providing adequate and dedicated funding to subnational governments as well as by clearly and publicly establishing roles and responsibilities among levels of government.

The survey also shows that the COVID-19 crisis may reshape priorities in regional development policy. Regions and municipalities are calling for more focus on affordable and accessible quality basic services including health to all territories (76%), regional resilience (69%) and reducing digital divides across regions (68%). More than two-thirds of regional and municipal respondents state that the transition to a sustainable and low-carbon economy should shape long-term regional development policy to a large extent. This contrast with the fact that less than 50% of respondents are considering the use of exit plans and recovery strategies to promote a greening policy or sustainability agenda. It is critical that subnational governments make the most of their recovery strategies by integrating green and climate priorities.

This CoR-OECD survey highlights that ongoing support of regions and municipalities is essential to effectively manage the immediate impact of the COVID-19 crisis and the ripples in its wake.

1

Introduction¹

From January to October 2020² the COVID-19 crisis developed into a global pandemic, reaching nearly every country, infecting 44 million people, and causing more than 1.17 million deaths worldwide. Europe reported 20% of all cases, with France, Germany, Italy and Spain seeing the highest numbers among European Union member countries. Europe now accounts for 22% of reported deaths due to COVID-19 globally, with Belgium, France, Italy and Spain reporting the highest numbers. When this survey was conducted in June-July 2020, one-third of the world's population, and most European countries, had or were experiencing a lockdown, with some European countries in the early phase of lifting their restrictions. Since then, the situation is deteriorating again, and Europe is confronted with a growing second wave of infections. Many European countries are now introducing new virus-containment measures, such as curfews and lockdowns, either at the local or national level. Beyond the health and human tragedy of the pandemic, the crisis is profoundly affecting economies, employment-levels, and the sustainability of public finance.

The COVID-19 crisis has a strong territorial dimension (OECD, 2020 ; CoR Barometer, 2020). First, the impact of the crisis on regions and local areas is highly asymmetric within countries – some regions are harder hit than others. The crisis' economic impact differs based on a region's exposure to global value chains, area of specialisation, and ability to shift a large number of occupations to remote working. Second, while national governments are responsible for managing the crisis, regional and municipal governments are responsible for implementing day-to-day containment measures, ensuring health care and social services, and advancing economic development and public investment. COVID-19's impact on subnational government finance has been, and will continue to be, significant on the expenditure and revenue sides, resulting in deficits and increased debt loads.

The Organisation for Economic Co-operation and Development (OECD) and the European Committee of the Regions (CoR) joined forces to identify the challenges that subnational government entities face as a result of the COVID-19 crisis. In June 2020, they launched a joint online survey to better understand and assess the pandemic's socio-economic impact on regional and local governments across the EU. The survey looked at health care, the economy, and subnational government finance, as well as the effectiveness of response measures, including how the crisis is being managed among and within levels of government.

The following report summarises the main findings from the CoR-OECD Survey. A condensed version of this report is available in 24 languages. Carried out among representatives of regional, intermediate and municipal governments throughout the EU, there were 300 respondents representing 24 countries. These were then divided into three groups according to their degree of fiscal decentralisation (see Annex for details on the methodology). First, this report analyses the overall impact of the COVID-19 crisis and underlines the most significant multi-level governance challenges faced by subnational governments. Next, it reviews how the socio-economic impact affects subnational governments' financial prospects over the short and medium terms. Finally, it assesses how recovery measures are being implemented and how the crisis may shape future regional development policy priorities. An Excel file with datasets and charts is provided along with the report.

¹ This policy brief was written by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities, by a team composed of Isabelle Chatry, Antoine Kornprobst, Varinia Michalun, Antti Moisio, Louise Phung and Kate Power, coordinated by Dorothee Allain-Dupré. Comments from Rudiger Ahrend, Sandra Hannig, Paolo Veneri, Yingyin Wu and Isidora Zapata are gratefully acknowledged. The authors would like to thank Nils Brunelet, Bert Kuby, and Audrey Parizel from the European Committee of the Regions for their collaboration on the preparation of the questionnaire and their inputs and comments on the policy brief. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the OECD or the Committee of Regions.

² As of 28 October 2020 - www.ecdc.europa.eu

2

Overall impact of the COVID-19 crisis on subnational governments

A majority of respondents report a strong or very strong impact of COVID-19 on subnational governments

According to 63% of respondents, the overall impact of the COVID-19 crisis on subnational governments is strong or very strong. Only 10% of respondents report low impact (Figure 2.1). The impact is perceived to be stronger by regions than by municipalities: 77% of respondents from regional governments report a strong or very strong impact, versus 54% of municipal respondents (Figure 2.2). The larger the municipal population, the greater the perceived impact. About 78% of respondents from large municipalities (above 250 000 inhabitants) declare the impact to be strong or very strong, versus 48% of small municipalities (population under 10 000 inhabitants) (Figure 2.3).

Figure 2.1. COVID-19 crisis overall impact

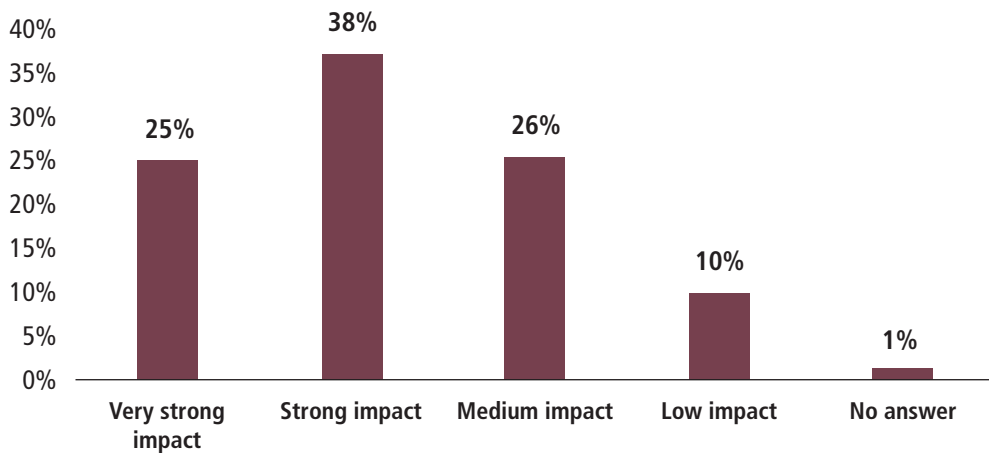


Figure 2.2. Impact of the COVID-19 crisis on subnational governments, by subnational government type

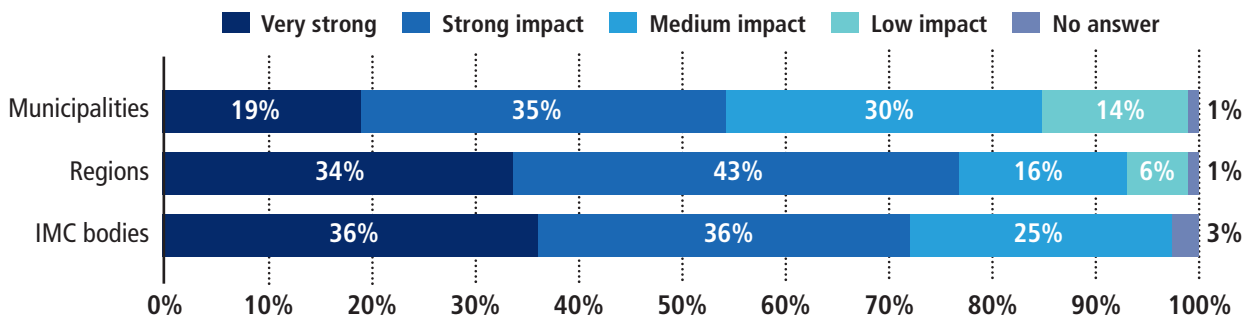
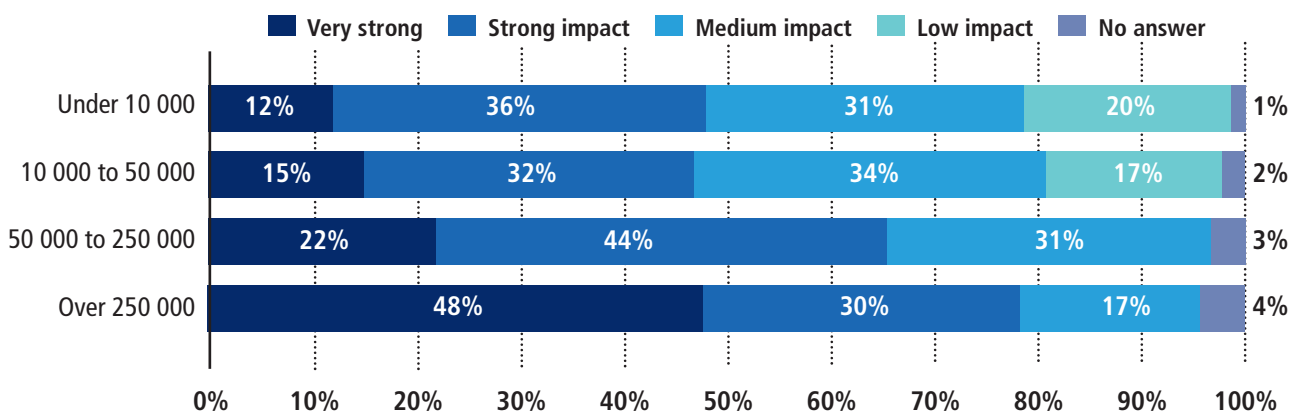


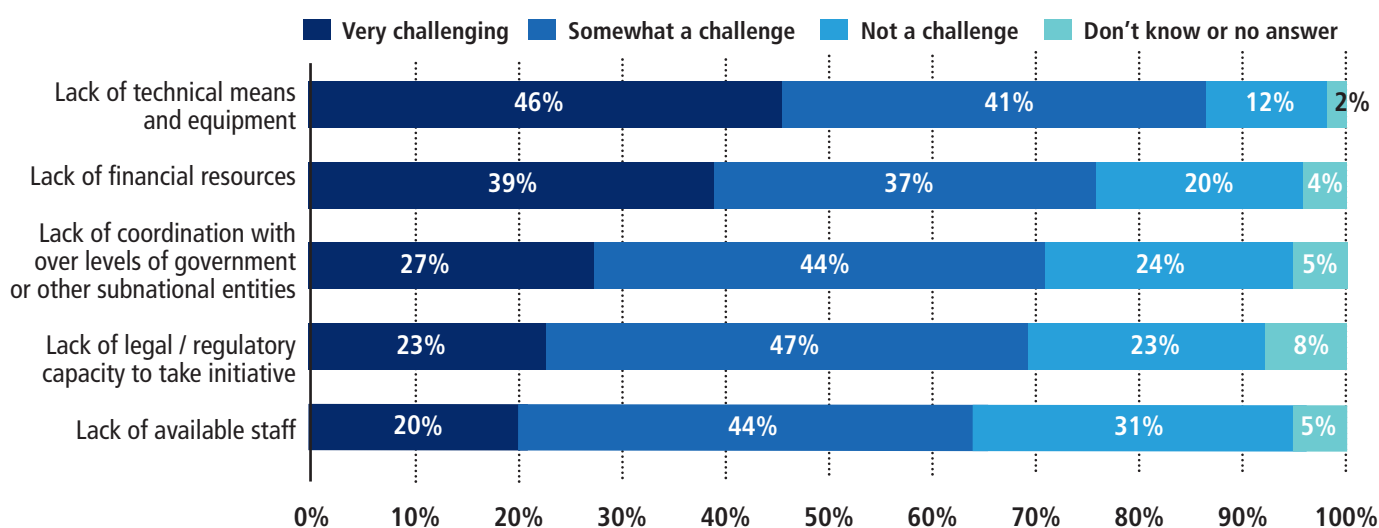
Figure 2.3. Impact of the COVID-19 crisis on subnational governments, by municipal population



Subnational governments face significant challenges in managing the COVID-19 health crisis

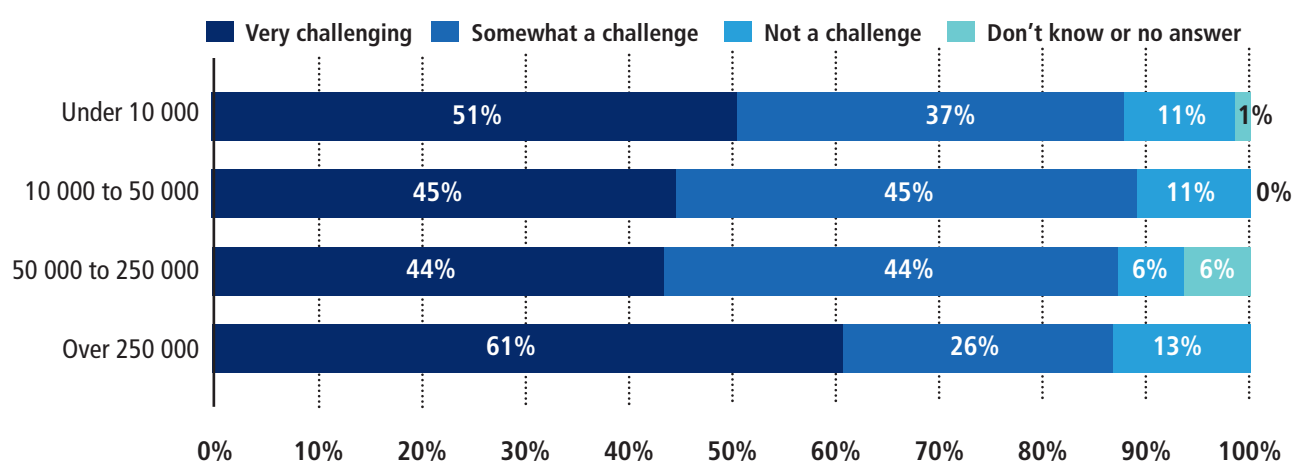
Respondents reported that a lack of technical means and equipment, a paucity of financial resources at the subnational level and a lack of coordination (vertical and horizontal) with other levels of government are among the biggest challenges they face in managing the health crisis. They were reported as challenging by 87%, 76% and 71% of respondents, respectively, and even as “very challenging” by 46%, 39% and 27% of respondents, respectively. The lack of legal or regulatory capacity and of available staff are also challenging, but to a lesser extent. (Figure 2.4).

Figure 2.4. Main challenges reported by subnational governments in managing the health crisis



The lack of technical means and equipment was slightly more challenging for municipalities than for regions. It was particularly challenging for the smallest and largest municipalities (Figure 2.5). Around 51% of small municipalities (below 10 000 inhabitants) and 61% of large municipalities (above 250 000 inhabitants) found this to be particularly challenging.

Figure 2.5. Lack of technical means and equipment, by municipal population category

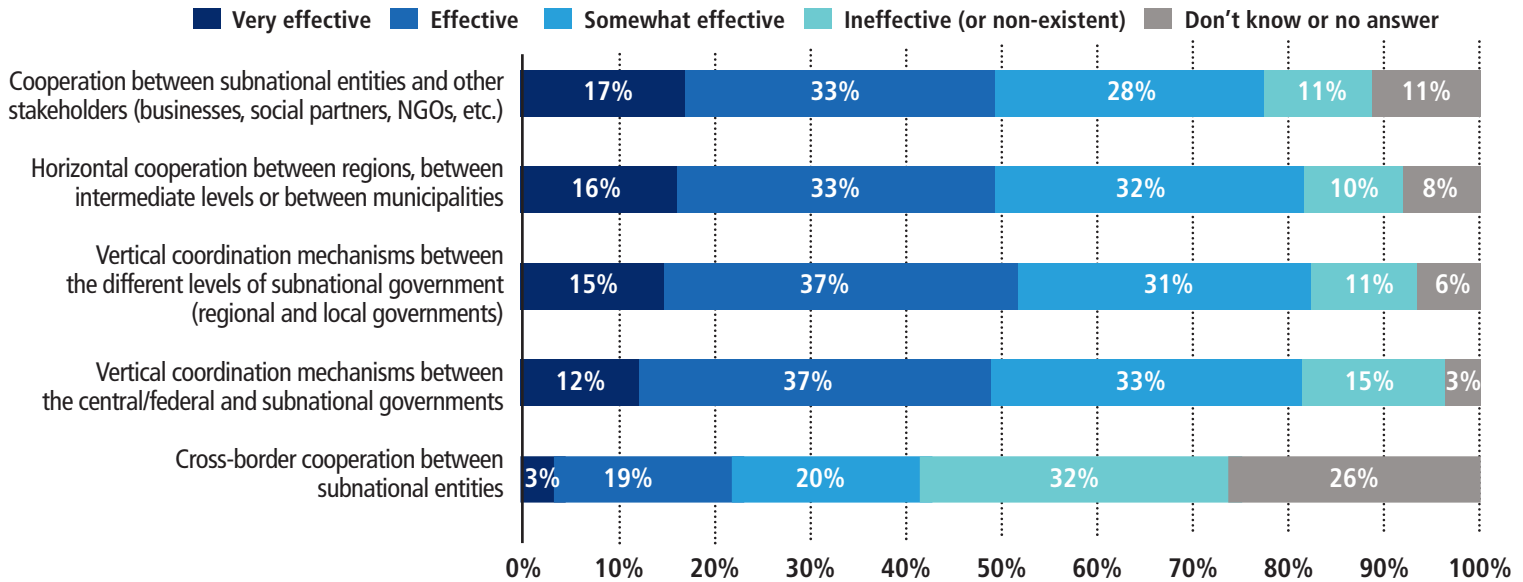


Overall, no significant differences were found between municipalities and regions concerning **the lack of financial resources and the lack of coordination**, while within the municipal group, small municipalities (below 10 000 inhabitants) were less affected by the lack of coordination than larger ones.

Coordination mechanisms produce mixed results in managing the COVID-19 crisis

Existing multi-level coordination mechanisms produce mixed results in managing the COVID-19 crisis (Figure 2.6). Only around one-half of respondents state that coordination within the same level of subnational government (horizontal) or between different levels of government (vertical) is effective or very effective. Around 32% of subnational governments report that cross-border cooperation between subnational governments is broadly ineffective or non-existent, while 22% find such cooperation effective or very effective.

Figure 2.6. The effectiveness of coordination mechanisms in managing the COVID-19 crisis



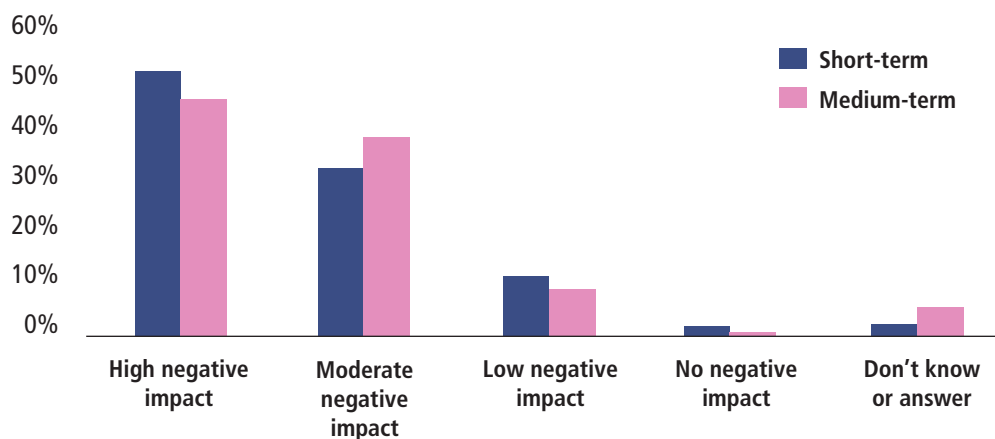
3

The impact of the COVID-19 crisis on subnational government finance

The overall impact of the COVID-19 crisis on subnational finance

Over the short and medium terms, most subnational governments expect the socio-economic crisis linked to COVID-19 to have a highly negative impact on their finances (Figure 3.1). In the short term, 51% of subnational entities estimate the impact on subnational finance to be highly negative, while one-third expect a moderately negative impact and a mere 2% forecast no negative spill-overs. In the medium term, subnational entities still expect the impact to be highly negative (46%) or moderately so (39%). Overall, around 85% of respondents see the impact as highly and moderately negative in the short and medium terms.

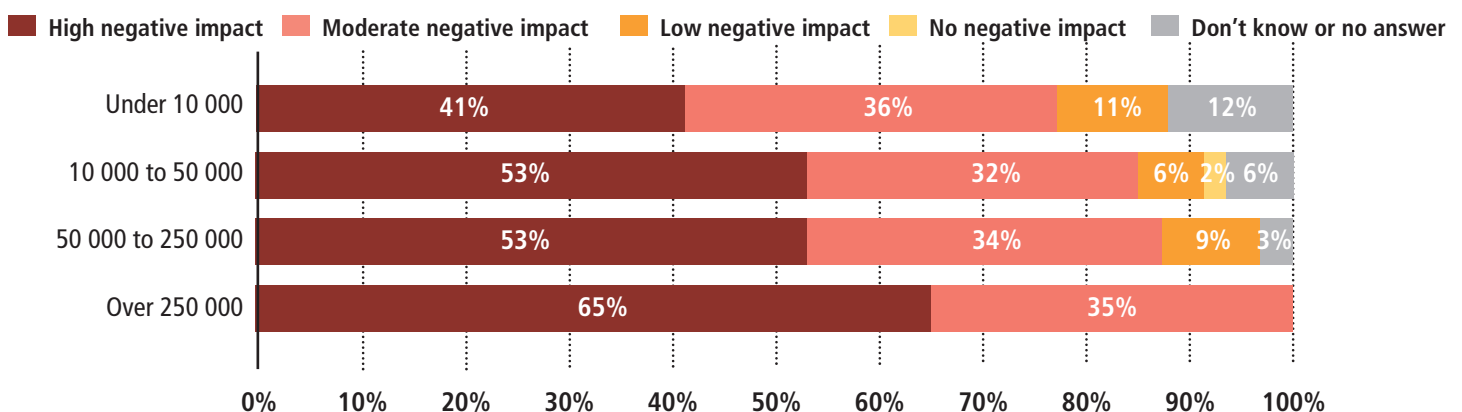
Figure 3.1. COVID-19 crisis impact on subnational finance over short-and medium-term horizons



About one-half of respondents from regions expect a highly negative impact in the short and medium terms, whereas municipal respondents are slightly more likely to expect a highly negative impact in the short term (54%) rather than in the medium term (49%).

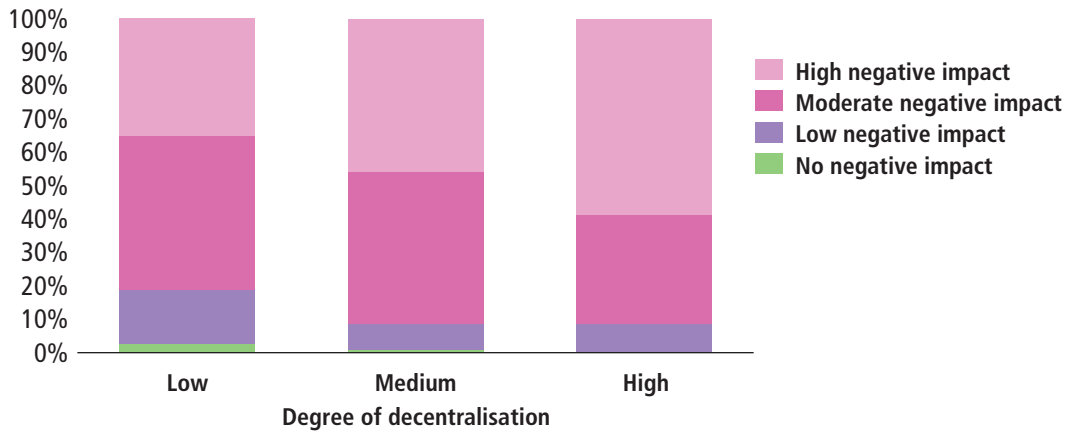
Overall, large municipalities are more likely to expect a larger impact on their finances in the medium term, with 65% of respondents from large cities (above 250 000 inhabitants) forecasting the impact to be highly negative, compared to 41% for small municipalities (below under 10 000 inhabitants) (Figure 3.2).

Figure 3.2. COVID-19 crisis impact on municipal finance



While the impact on subnational finance (i.e. subnational revenue, expenditure, debt management, access to new borrowing) varies among subnational entities, the degree of fiscal decentralisation may partly explain how the COVID-19 crisis affects subnational government finance, particularly in the medium term (Figure 3.3). The impact of COVID-19 on subnational finance can be differentiated according to the degree of fiscal decentralisation (Box 3.1).

Figure 3.3. The medium-term impact of the COVID-19 crisis on subnational finance (classified by degree of decentralisation)



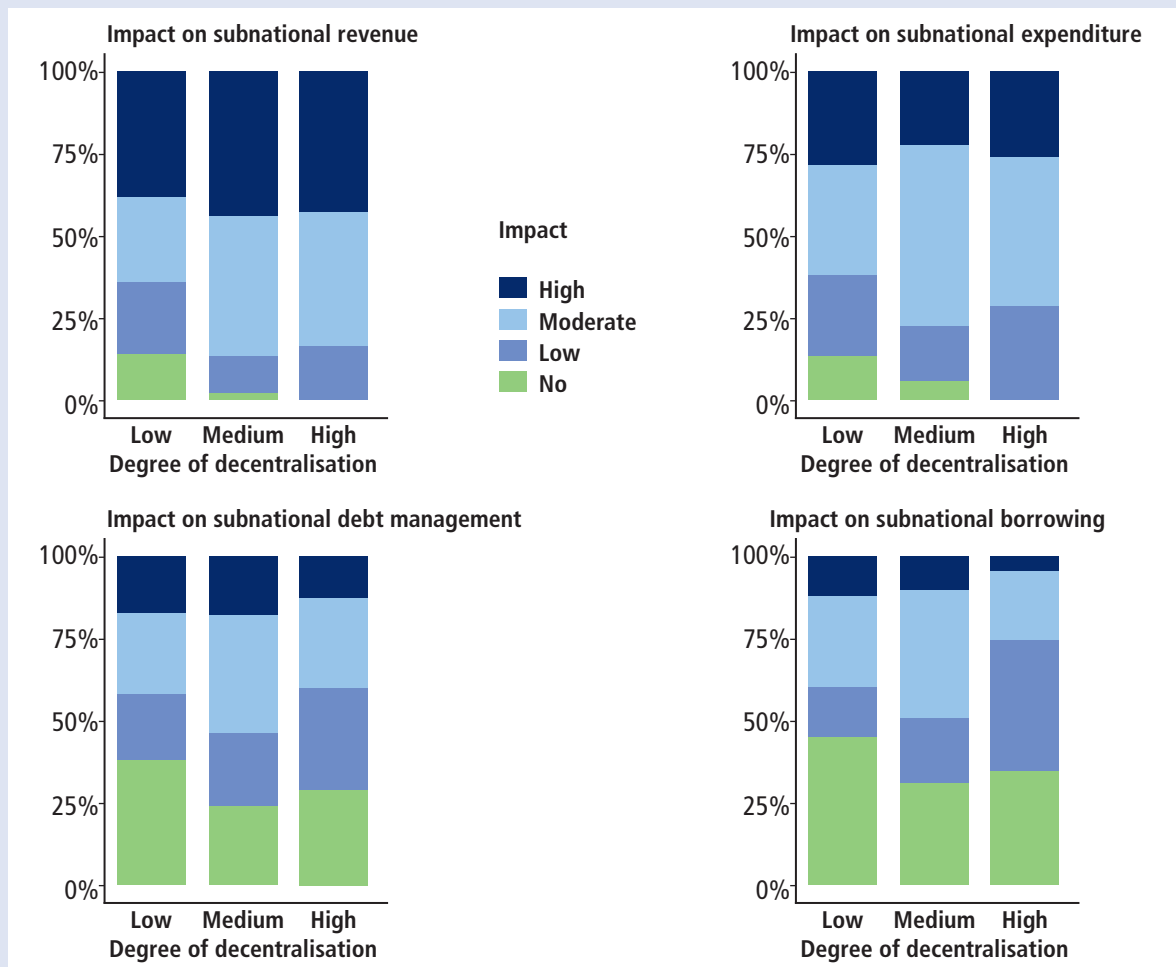
Box 3.1. Assessing the differentiated impact on subnational finance according to degree of decentralisation

■ Impact on subnational government finance, by transaction

Subnational governments in medium and highly decentralised countries are more likely to anticipate experiencing moderate to high losses in revenue as a result of the COVID-19 crisis when compared to subnational governments in countries with low fiscal decentralisation. The expected impact on expenditure is less obvious. Subnational governments in decentralised countries are less likely to foresee a large impact on their debt management and access to future borrowing as a result of the crisis (Figure 3.4).

Figure 3.4. Impact on subnational revenue, expenditure, debt management and access to borrowing

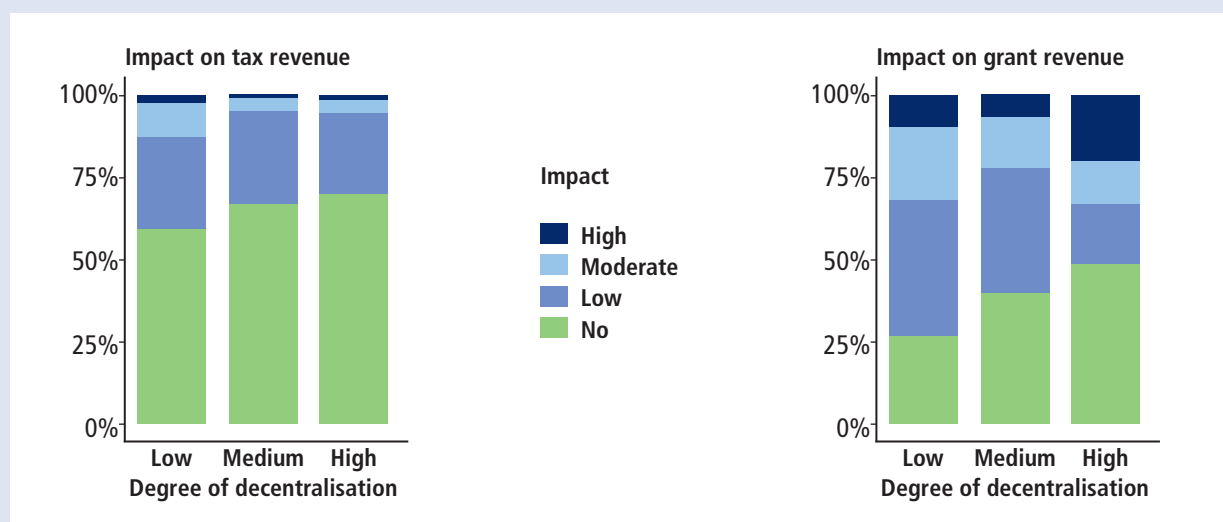
How does the degree of decentralisation interact with the impact of COVID-19 on subnational finance?



■ Impact on revenue sources

The share of subnational governments expecting a negative or very negative impact on tax revenue is larger in decentralised countries (Figure 3.5). Similarly, the share of subnational governments expecting to see a very negative impact on their grant revenue is nearly twice as large in decentralised countries than in centralised ones (48% and 26% respectively).

Figure 3.5. Impact on tax and grant revenue, by decentralisation group

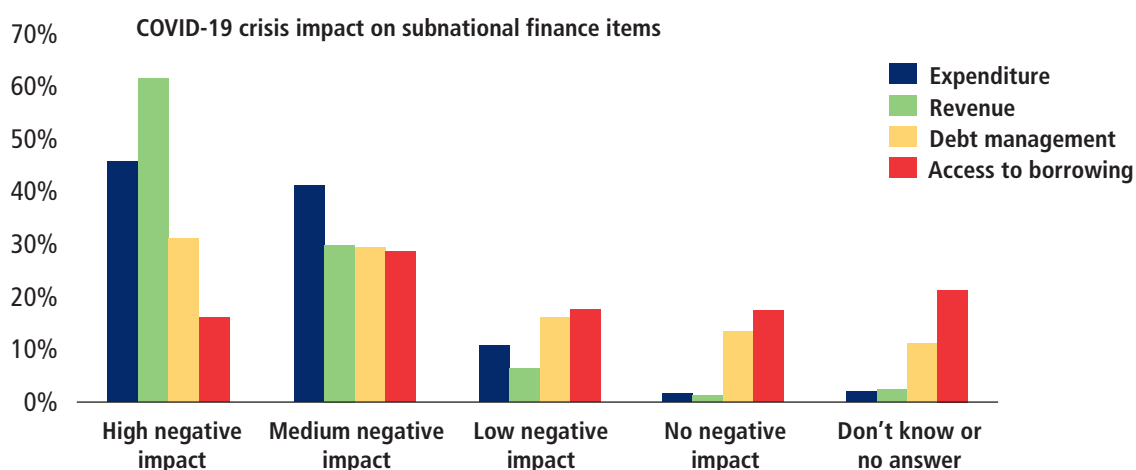


Detailed impact on subnational finance

The crisis is affecting subnational government finance, with a dangerous "scissors effect" of increasing expenditure and falling revenues. Overall, surveyed regions and municipalities expect the crisis to have a slightly larger impact on revenue than on expenditure. Most respondents expecting a high impact on expenditure (83%) also expect a high impact on revenue. Those respondents that expect a moderate impact on expenditure (around 50%) also expect a high impact on revenue. Finally, 60% of respondents that expect a low impact on expenditure also expect a moderate or high impact on revenue.

Nevertheless, all subnational government transactions (i.e., expenditure, revenue, debt) are likely to be highly affected by the crisis in the short and medium terms. A detailed analysis of the expected impact on expenditure, revenue, debt management and access to new borrowing permits identifying their contribution to changes in subnational government finance (Figure 3.6).

Figure 3.6. Impact on subnational finance, by transaction



On the expenditure side, 86% of regions and cities expect a high or moderate negative impact on their expenditures. Municipalities are almost as likely as regions to expect a moderate to highly negative impact on expenditure. Inter-municipal cooperation bodies are more likely to expect no negative impact (28%) when compared to municipalities and regions (Figure 3.7). Municipalities with a population ranging from 10 000 to 250 000 people are more likely to expect expenditure increases (Figure 3.8).

Figure 3.7. Impact on subnational expenditure, by subnational government category

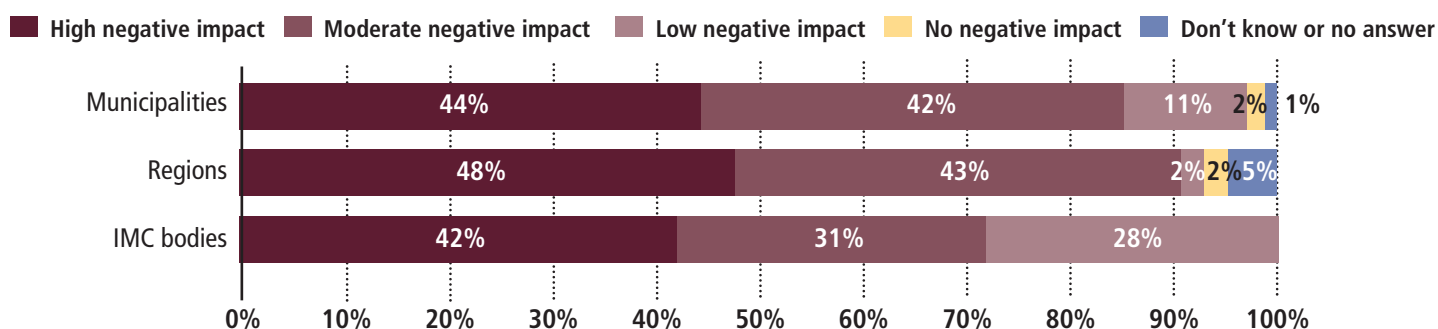
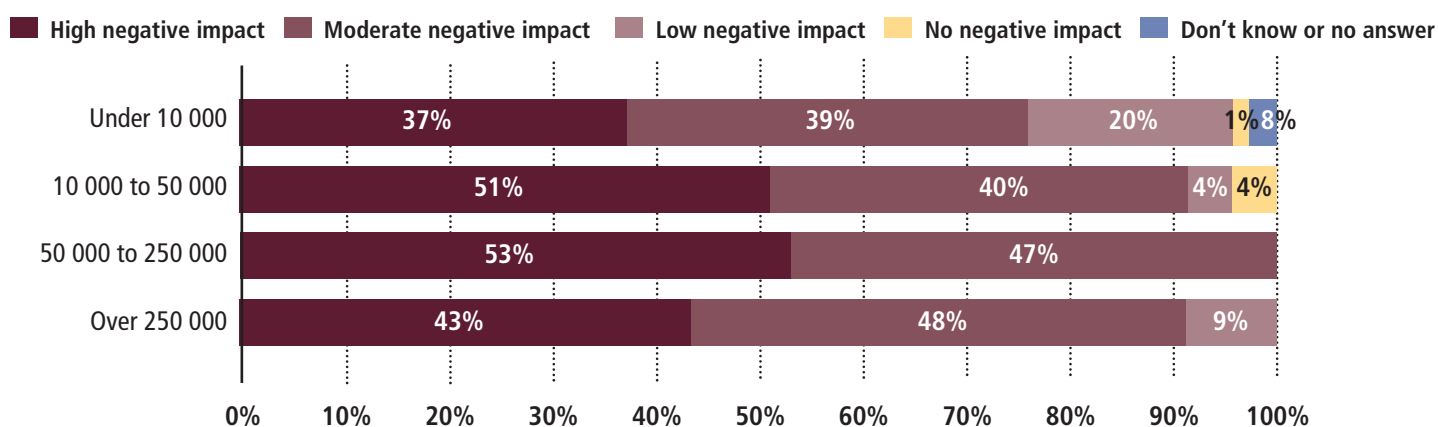


Figure 3.8. Impact on subnational expenditure, by municipal population



On the revenue side, 90% forecast a decrease of revenue (high or moderate), with 61% of subnational governments anticipating a highly negative impact on their revenue (Figure 3.6). Regions and municipalities are slightly more likely to expect a highly negative impact than inter-municipal cooperation bodies (Figure 3.9). Similarly, municipalities with large populations are more likely to expect a highly negative impact on their revenue than smaller municipalities (Figure 3.10).

Figure 3.9. Impact on subnational revenue, by subnational government category

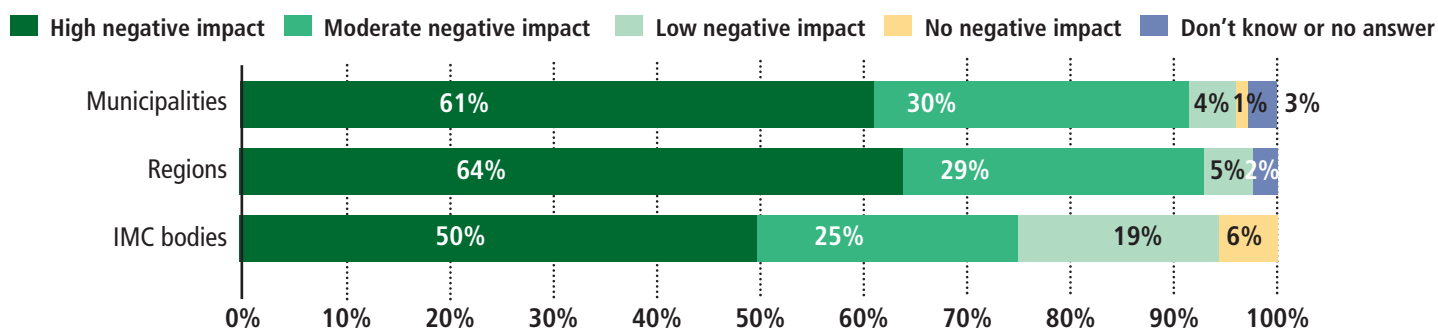
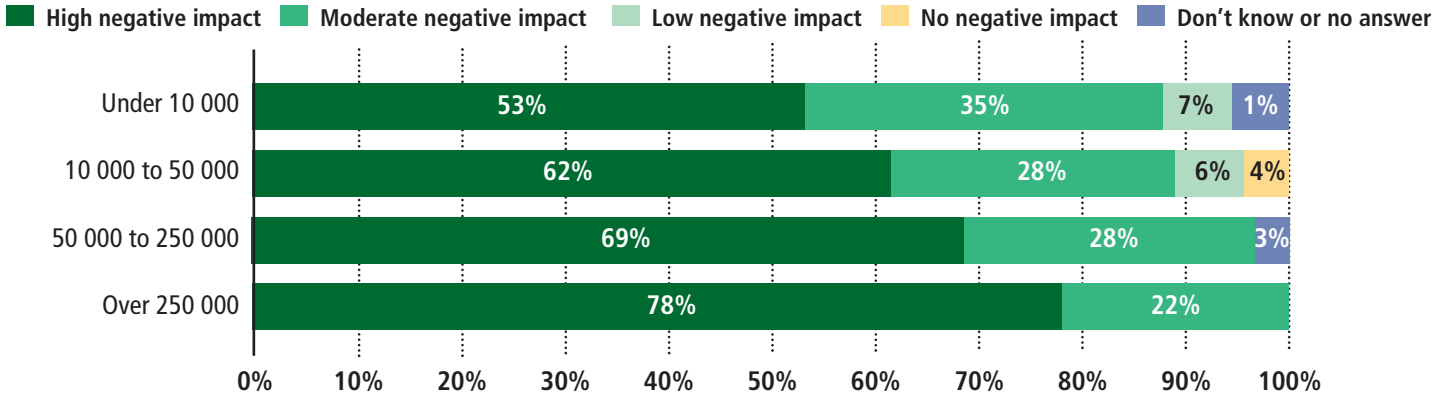
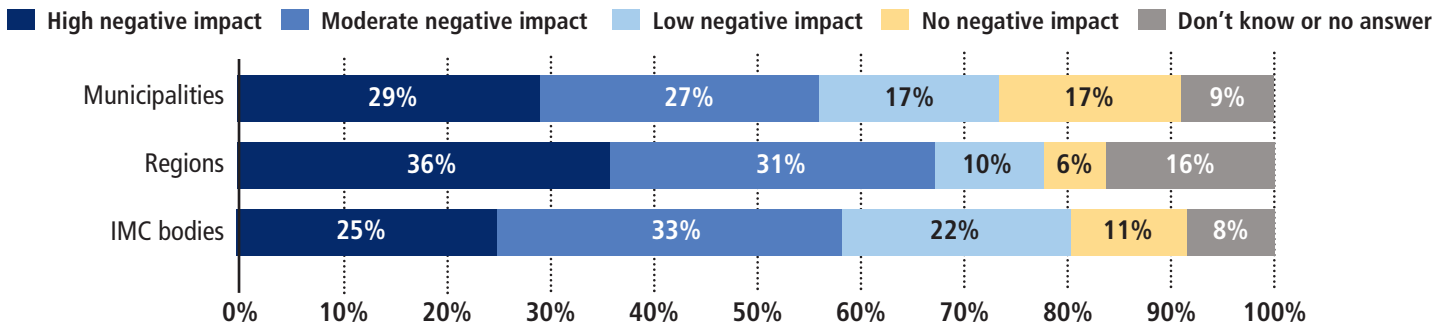


Figure 3.10. Impact on subnational revenue, by municipal population



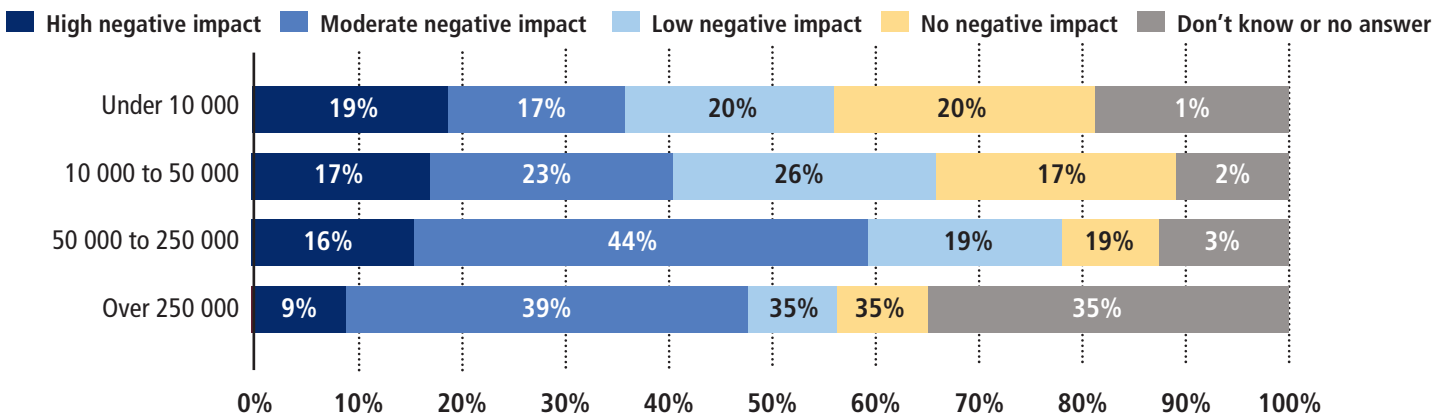
With respect to debt management, close to one-third of respondents expect the COVID-19 crisis to have a moderately negative impact while another third expect it to have a highly negative impact (Figure 3.6). Overall, regions are more likely to expect a large impact on their debt management (36%) than municipalities (29%) (Figure 3.11). Only 13% of respondents estimate that the crisis will not result in greater indebtedness. Most respondents from small municipalities (below 10 000 inhabitants) report that there will be no impact on their debt management.

Figure 3.11. Impact on subnational debt, by subnational government category



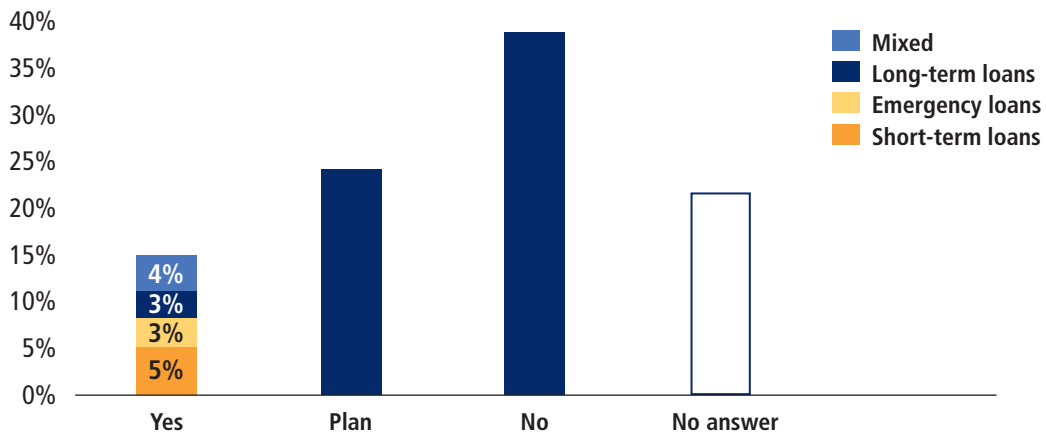
With respect to access to new borrowing, one-half of respondents from regions and 42% of municipalities expect a highly or moderately negative impact. Uncertainty is very high in large municipalities (above 250 000 inhabitants), with 35% of them being unable to estimate the magnitude of the impact. Municipalities expecting an overall negative impact on their future access to borrowing were cities of intermediate population size (between 50 000 and 250 000 inhabitants) (Figure 3.12).

Figure 3.12. Impact on future access to borrowing, by municipal population group



Only 15% of respondents have increased borrowing to cope with the crisis, 24% plan to do so in the medium term and 39% will not increase borrowing at all. The remaining 22% of respondents did not know at the time of the survey (Figure 3.13). Among the 15% of subnational governments that already increased borrowing, most accessed short-term loans (5%), emergency loans (3%) or long-term loans (3%). Regions are more likely to increase their borrowing compared to municipalities, with 25% of regions already having done so, compared to just 10% of municipalities. Large municipalities are more likely to have already increased borrowing to cope with the socio-economic effects of the crisis. Regions are more likely than municipalities to favour long-term loans when increasing their borrowing.

Figure 3.13. Subnational new borrowing to cope with the crisis, by instrument

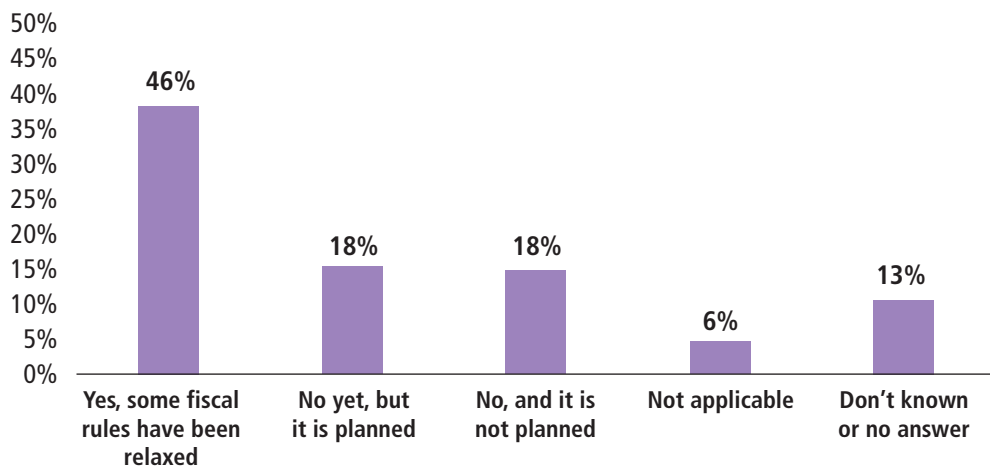


Note: Subnational governments can increase borrowing using various instruments and maturities, namely short-term loans, emergency loans, long-term loans or sets of loans with mixed maturities. Other subnational entities were planning to increase borrowing (Plan) while others did not plan to (No).

Many countries relaxed fiscal rules

A large share of respondents – 46% – report that some fiscal rules have been relaxed or are planning to be (18%) in the near term. An additional 18% declared that fiscal rules remain unchanged and are unlikely to be amended by a higher level of government (Figure 3.14).

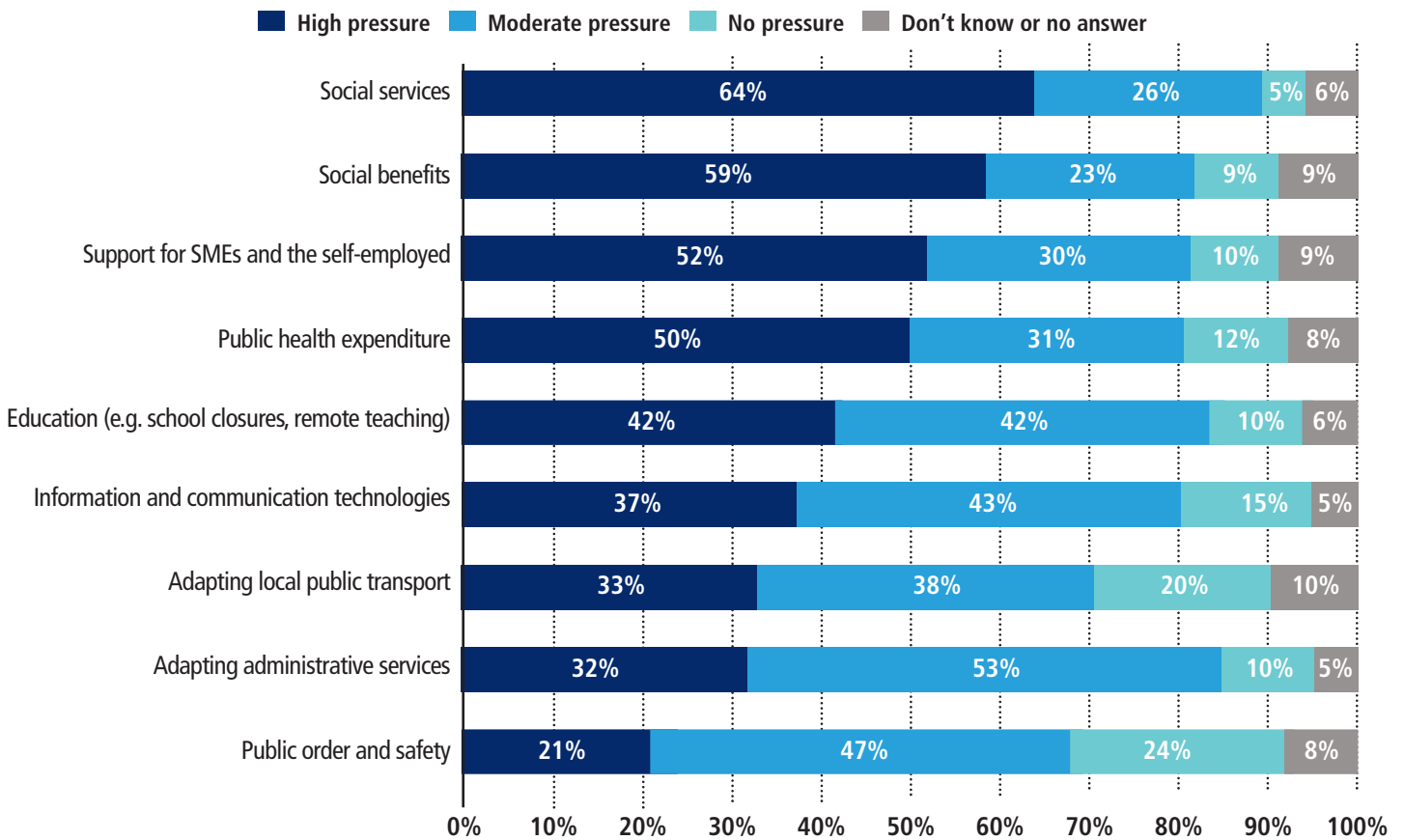
Figure 3.14. Specific fiscal rules adjustments



Subnational government expenditure is under pressure

Subnational governments expect to increase their expenditure levels as a result of the socio-economic crisis arising from COVID-19 (Figure 3.15). In particular, they anticipate significant expenditure increases in social services and benefits, support to SMEs and the self-employed, and public health. More moderate expenditure increases are expected in education, information and communication technologies, adapting local public transport, adapting administrative services and public order and safety. Regions are more likely than municipalities to experience increased spending on health services, support to SMEs and the self-employed, and adaptation of public transport, likely reflecting their often broader responsibilities in these areas.. However, municipalities also report large increases in their social services and social benefits expenditures.

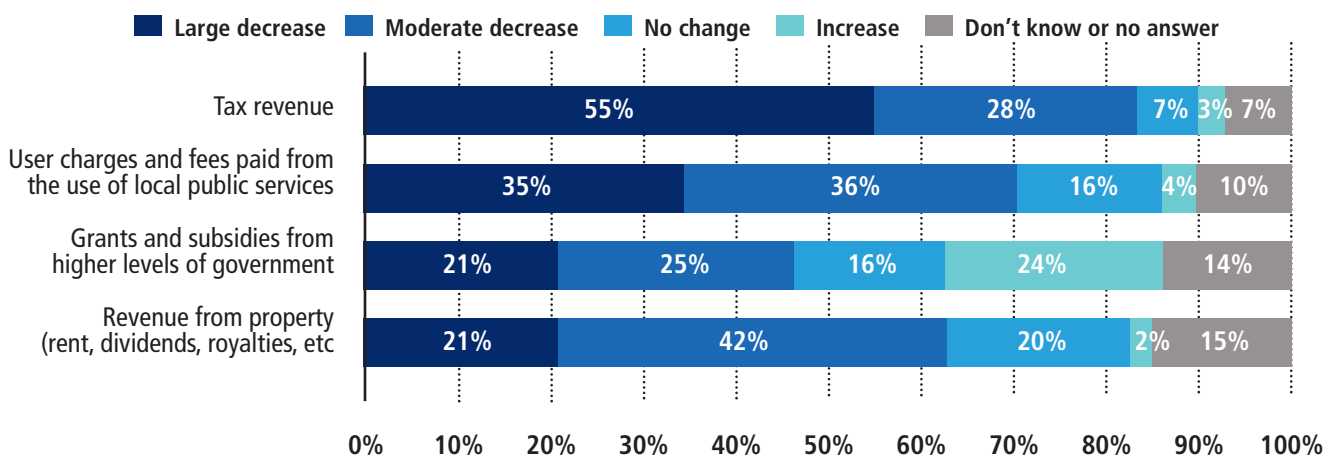
Figure 3.15. COVID-19 pressure on subnational expenditures, by area



Subnational government revenue is particularly affected

Tax revenue is anticipated to be the most affected revenue source (Figure 3.16). Around 83% of respondents expect a decrease in tax revenue, and 55% expect a large decrease. The second most impacted source of revenue is user charges and fees: 71% of respondents expect a decrease, and 35% a large decrease. Grants and subsidies and property revenue are expected to decrease to a lesser extent. A significant share of respondents expect grants and subsidies from higher levels of government to remain unchanged (16%) or to increase (24%).

Figure 3.16. Impact on subnational revenue, by revenue source



Municipalities, and especially regions, expect large decreases in tax revenue (Figure 3.17). Among municipal respondents, 86% anticipate a moderate to large decrease in their tax revenue. No category is spared: small and large municipalities are affected alike (Figure 3.18).

Figure 3.17. Impact on tax revenue, by subnational government category

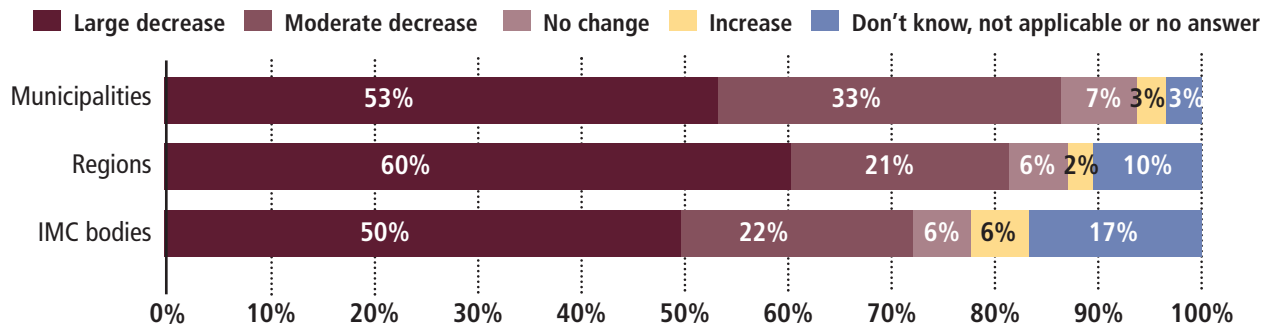
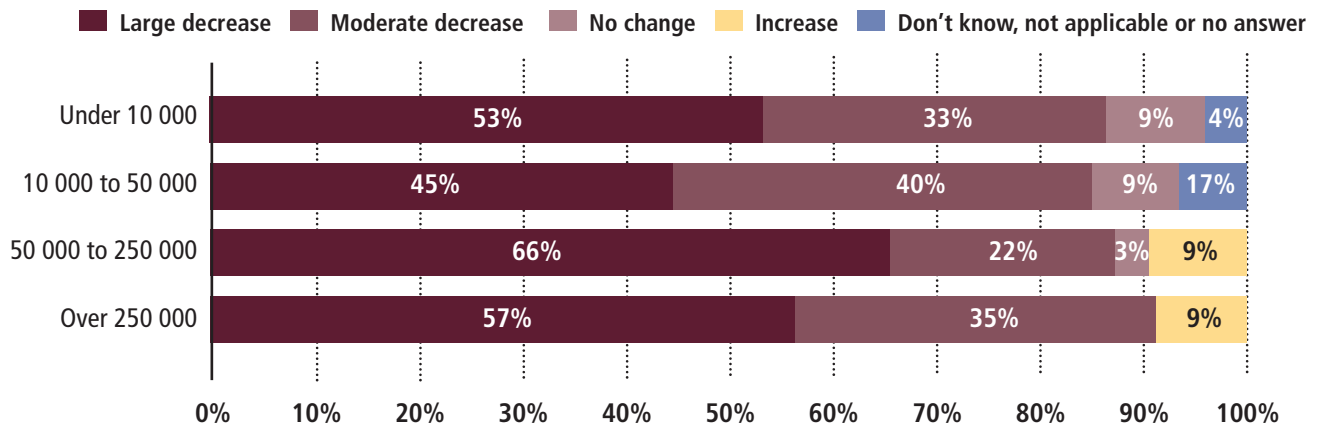


Figure 3.18. Impact on tax revenue, by municipal population group



Changes in revenue from grants and subsidies do not differ substantially across categories of subnational governments, although regions are less likely to be strongly affected (Figure 3.19). The larger a municipality's population, the more likely it is to expect an increase in revenue from central government grants and subsidies. Small municipalities are more likely to expect large decreases in grant revenue (Figure 3.20) than large ones.

Figure 3.19. Impact on grants and subsidies, by subnational government category

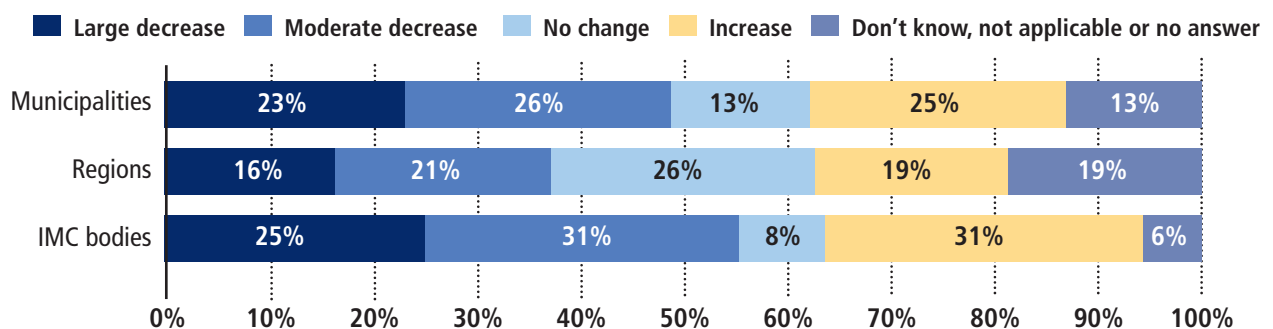
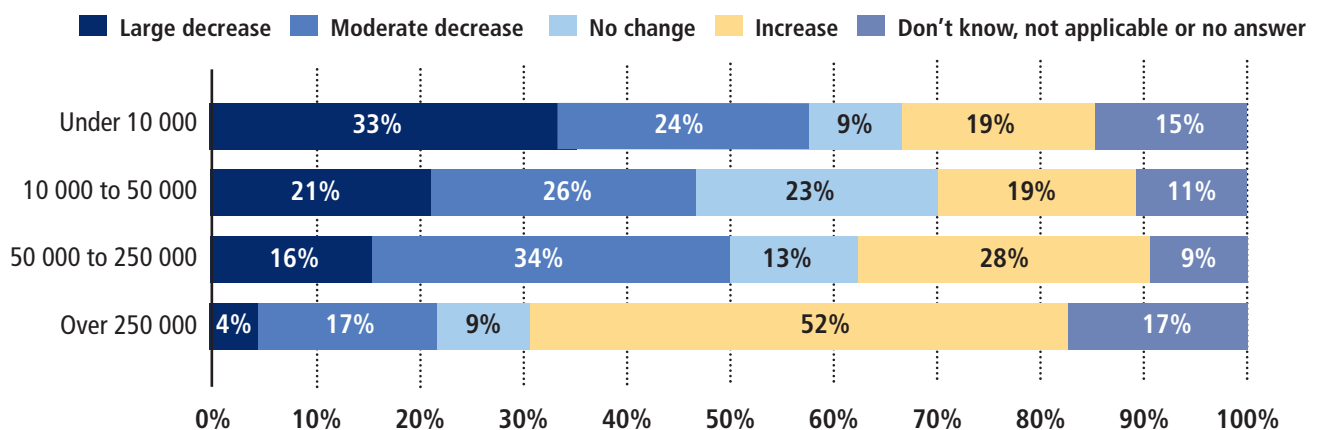
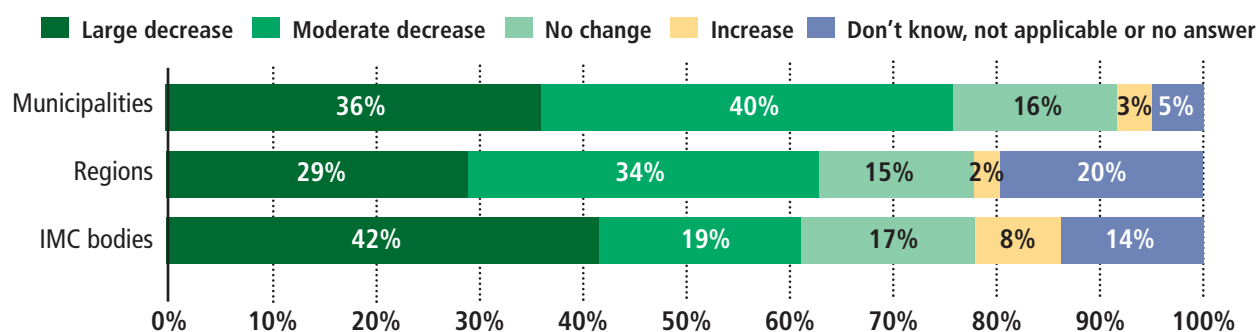


Figure 3.20. Impact on grants and subsidies, by municipal population group



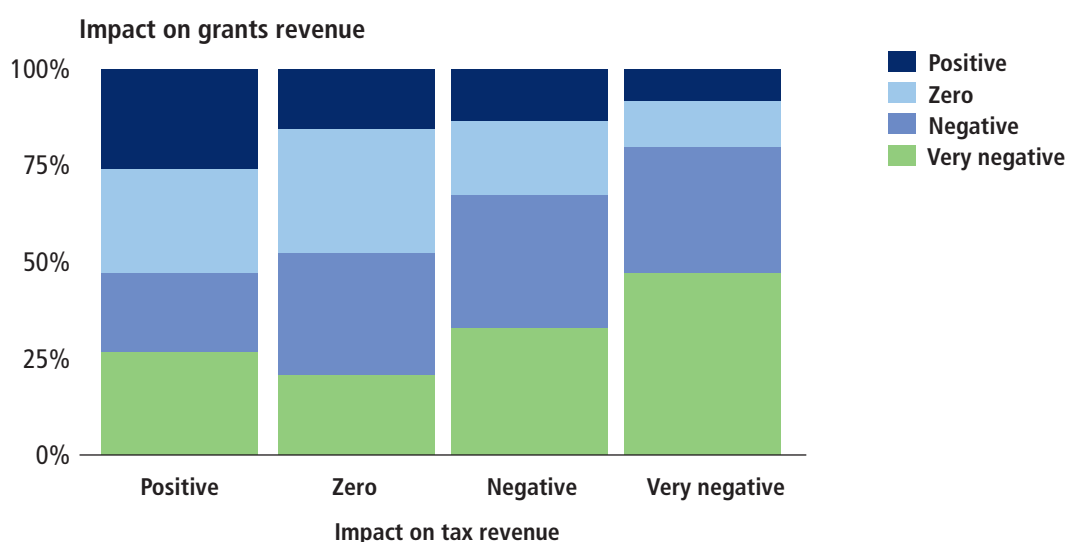
Revenue from user charges and fees is broadly expected to decrease largely (36%) or moderately (40%) in municipalities. This is also expected among inter-municipal cooperation bodies where user charges and fees are a significant source of revenue (Figure 3.21). Municipalities above 50 000 inhabitants are more affected than smaller municipalities. Around 82% of respondents from larger municipalities report a large and moderate decrease in their user charges and fees.

Figure 3.21. Impact on user charges and fees, by category



Subnational governments do not expect grants and subsidies to cover losses in tax revenue. This is particularly true in areas where subnational revenue is most affected. Only 10% of subnational governments expecting to see a large decrease in tax revenue also expect to see an increase in revenue from grants and subsidies (Figure 3.22).

Figure 3.22. Grant revenue is not expected to cover lost tax revenue



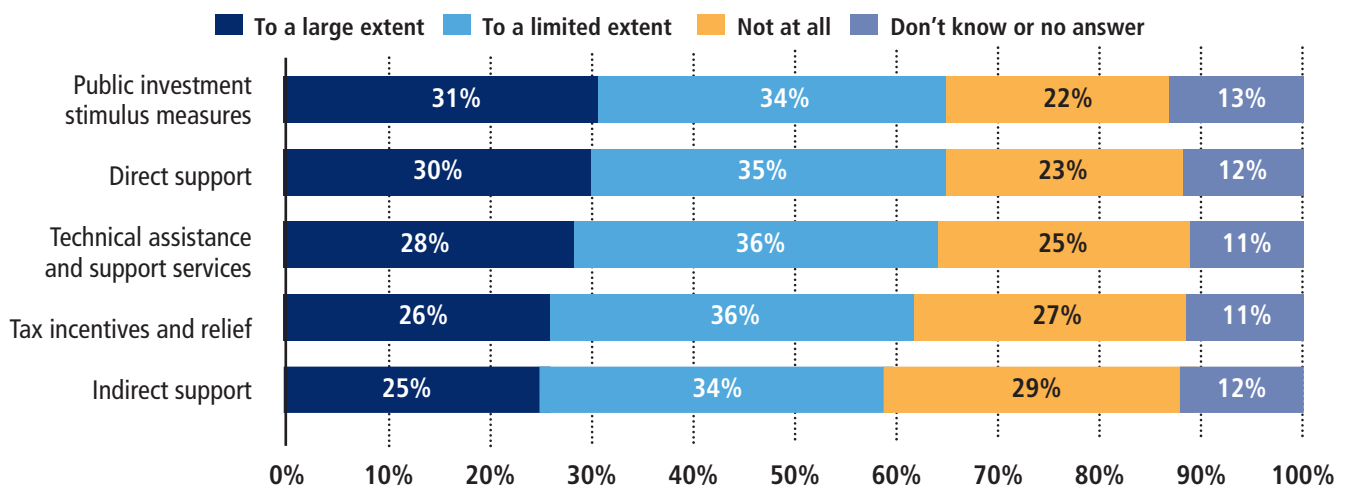
4

Exit strategies and socio-economic recovery plans

Economic recovery measures at the subnational level

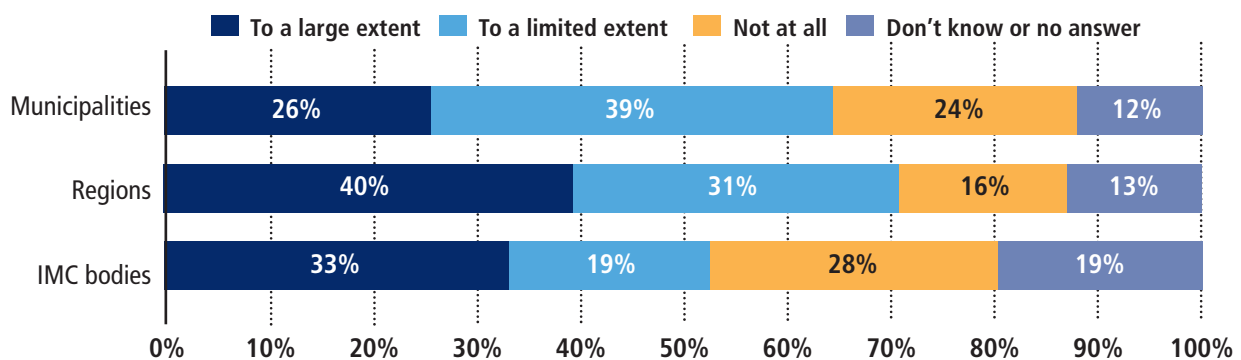
At the time of the survey in June-July 2020, subnational governments were focused on coping with the health emergency and few had reached the stage of implementing recovery measures (Figure 4.1). About one-third of subnational government respondents declare that they are actively undertaking public investment stimulus measures and another third report that they are providing direct support to the economy. However, only 9% of respondents are actively doing both. One-third of respondents stated that they are, at least minimally, pursuing five key government support options: public investment stimulus measures; direct support; technical assistance and support services; tax incentives and relief; and indirect support. Conversely, 9% of respondents have not provided any support measures at all and another 8% have provided only one support measure out of the five options given.

Figure 4.1. Subnational governments support to the local economy, by type of measure



Regions are more likely to provide public investment stimulus to a large extent: 40% of regions versus 26% of municipalities (Figure 4.2).

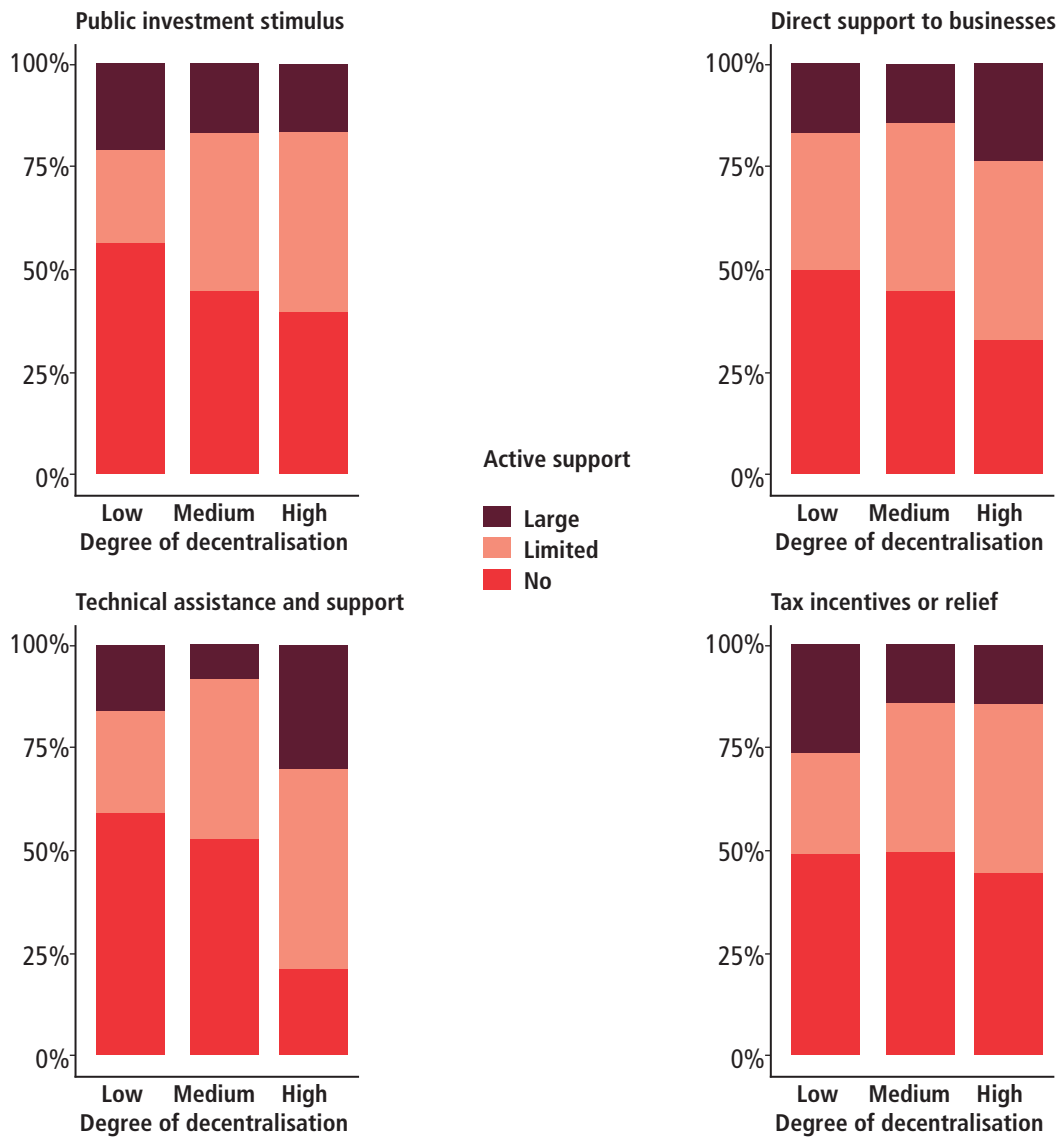
Figure 4.2. Public investment stimulus measures, by subnational government type



Subnational governments in decentralised countries tend to implement economic recovery measures more actively

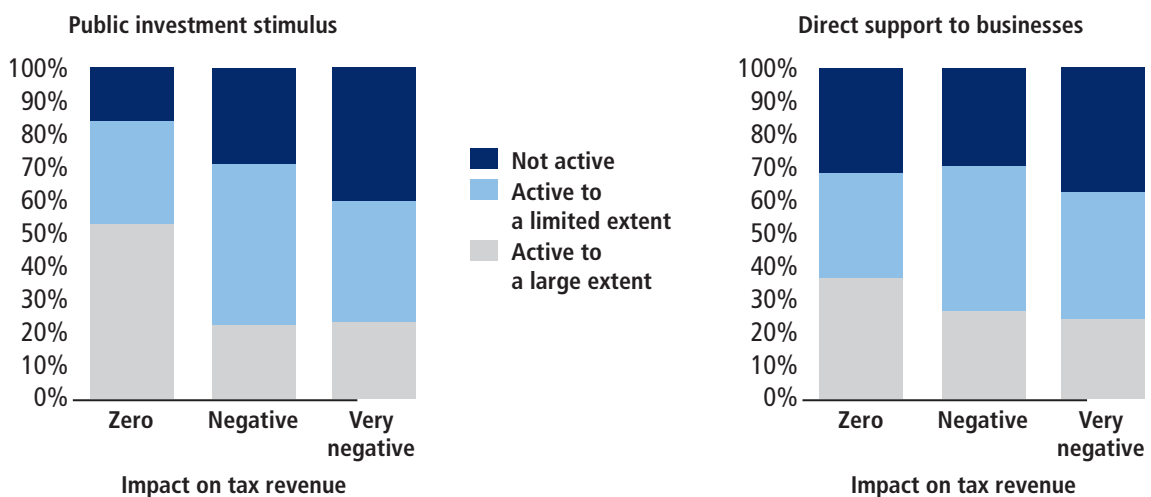
Subnational governments are more likely to support economic recovery where fiscal decentralisation is high (Figure 4.3). Respondents in decentralised countries are more likely to provide active, direct support to businesses and the self-employed, as well as technical assistance and support services for businesses. Although subnational governments in decentralised countries have only taken limited action regarding public investment stimulus and tax incentives to businesses, overall, they are still more likely to provide support than their counterparts in more centralised countries.

Figure 4.3 Subnational government support to the economic recovery, by degree of decentralisation



Subnational governments whose finances are more affected by the COVID-19 crisis tend to more actively invest in the recovery and support local economic actors. Subnational governments expecting large decreases in their tax revenue are also those providing public investment stimulus and direct support to businesses (Figure 4.4). This is not surprising given that tax cuts and tax relief are often part of government economic stimulus measures.

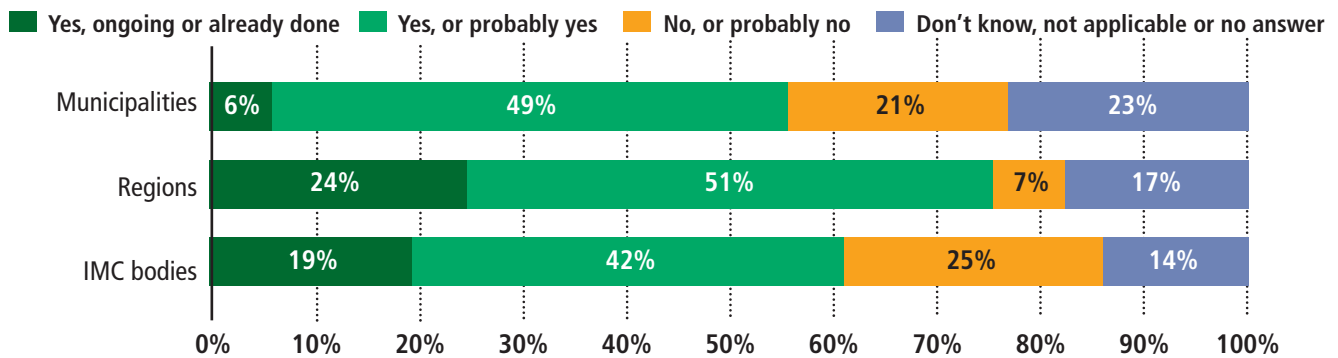
Figure 4.4. Impact of tax revenue and subnational government support measures



EU funds are an additional resource to support the recovery

Subnational governments may apply for additional EU funds to help them implement economic recovery measures. Overall, at the time of the survey, 13% have already applied and 49% were considering doing so. Regions are more likely than any other subnational entity to apply, with 24% of regions having already applied and 51% are considering the option. Municipalities are less likely to apply. Only 6% of municipalities have applied for additional EU funds, 49% are considering doing so, and as many as 21% said they would not (Figure 4.5).

Figure 4.5. Application for EU funds, by subnational government category

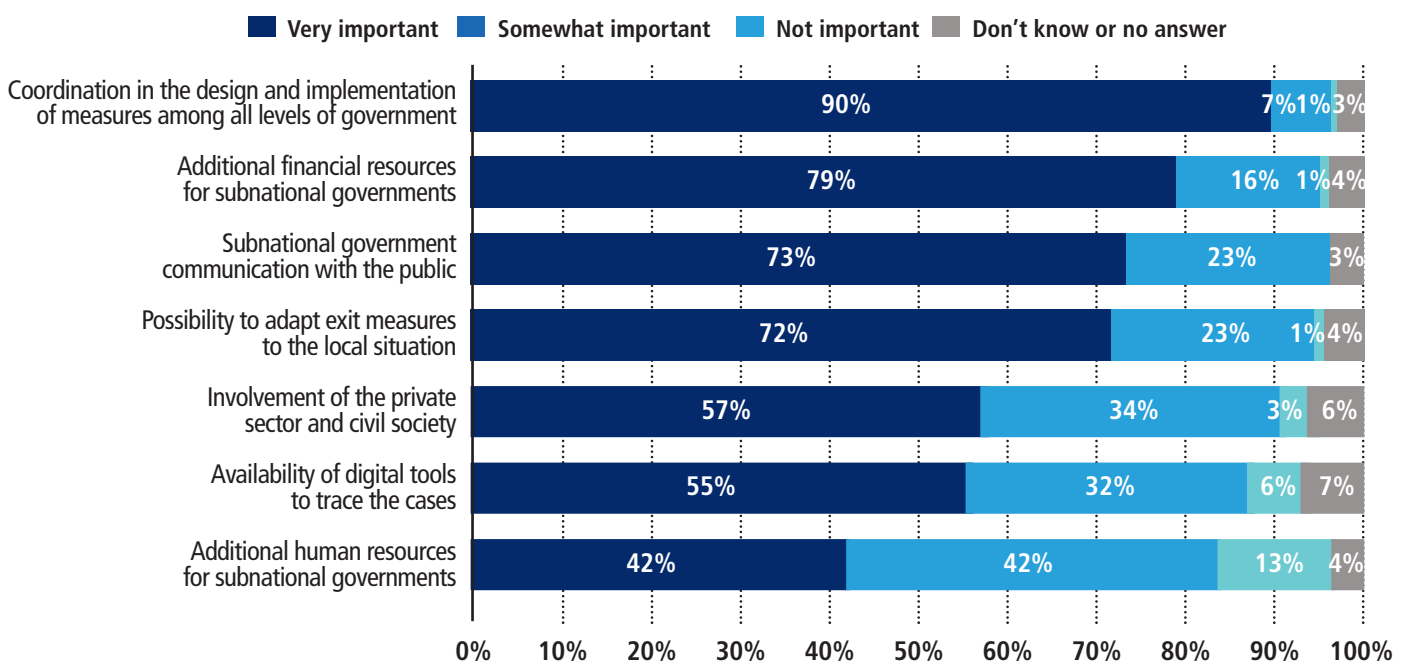


Multi-level governance factors for a successful crisis exit strategy

When consulted on how to manage a successful exit strategy, respondents indicate coordination and financial resources as of utmost importance: 90% of subnational governments report that coordination in the design and implementation of measures among all levels of government is very important, and 79% cite additional financial resources for subnational entities as very important. Communication with the public and the possibility to adapt measures to the local situation are also considered as key in a successful exit strategy (Figure 4.6). While results are broadly homogeneous between the different subnational government categories, regions and municipalities have slightly different priorities. Regions place more emphasis than municipalities on adapting exit measures to the local context (76% versus 68%), while municipalities are more likely than regions to highlight the need for additional human resources (48% versus 33%).

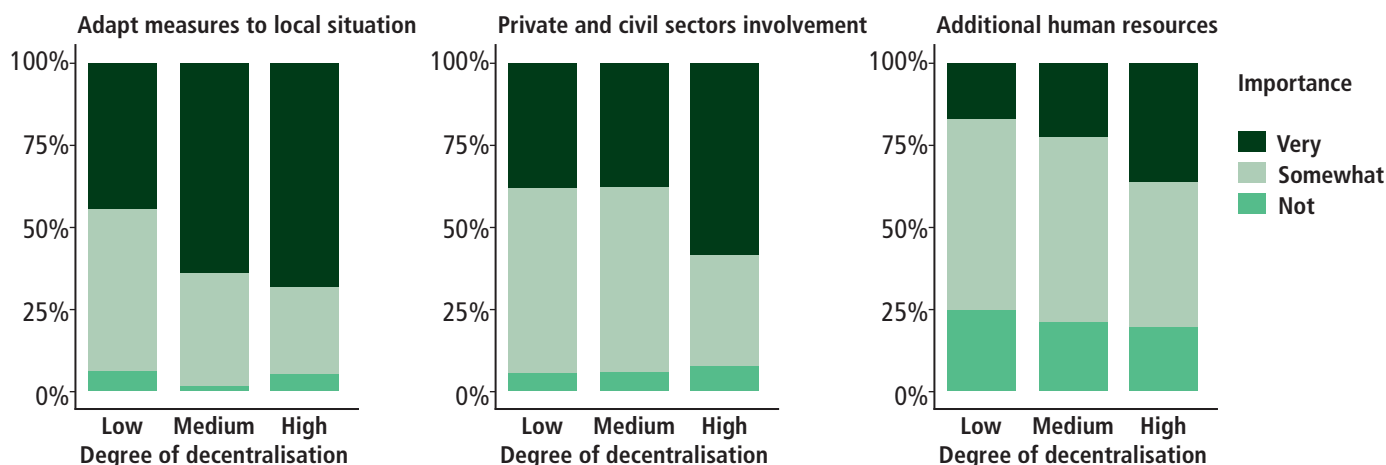
These priorities at the heart of a successful exit strategy (i.e. multi-level coordination, additional fiscal and human resources, communication with the public and the private sector, and place-based approaches) identified by respondents are fully aligned with the **OECD Council Recommendation on Effective Public Investment across Levels of Government**.

Figure 4.6. Policy tools at the core of a successful exit strategy



Respondents in countries with a high degree of fiscal decentralisation are more likely to support policy tools such as adapting measures to the local context, involving the private sector and civil society organisations, and providing additional human resources to subnational governments (Figure 4.7).

Figure 4.7. Policy tools at the core of a successful exit strategy, by decentralisation group

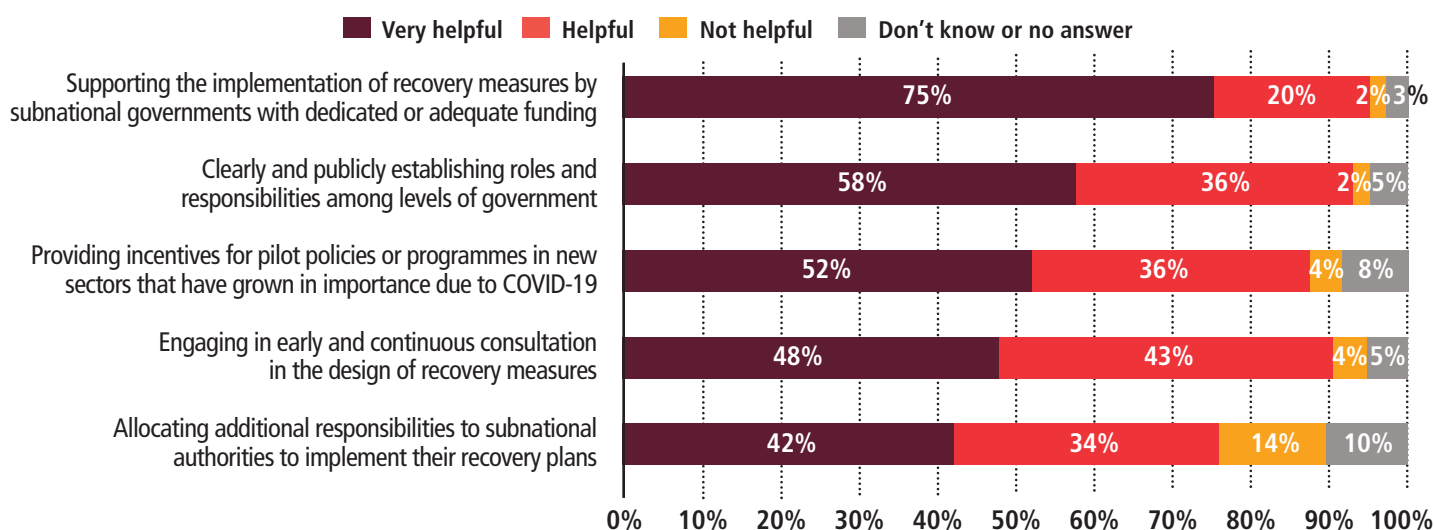


National governments can support subnational crisis recovery measures through different multi-level governance policy instruments

National governments can best assist regional and municipal governments implement recovery measures using several multi-level governance policy instruments. The policy option found to be “very helpful” by the largest proportion of respondents (75%) is the provision of adequate and dedicated funding to subnational governments. Other options receiving considerable support include the clear and public establishment of roles and responsibilities among levels of government (58%); enhancement of incentives for pilot policies and programmes in sectors that have grown in importance due to the COVID-19 pandemic, such as homelessness or minimum income guarantees (52%); and early and continuous consultation in the design of recovery measures (48%). Allocating additional responsibilities to subnational governments to implement their recovery plans has the lowest level of support, with only 42% of respondents considering it to be very helpful and 14% indicating that it would not be helpful at all (Figure 4.8).

These views are shared among municipalities regardless of their size and population. While regions and municipalities have similar views overall, regions are more supportive of early and continuous consultation by the national government in the design of recovery measures than municipalities. On the other hand, support for pilot policies and programmes in sectors growing in importance as a result of the pandemic, such as homelessness or minimum income guarantees, is more widespread among municipalities than in regions.

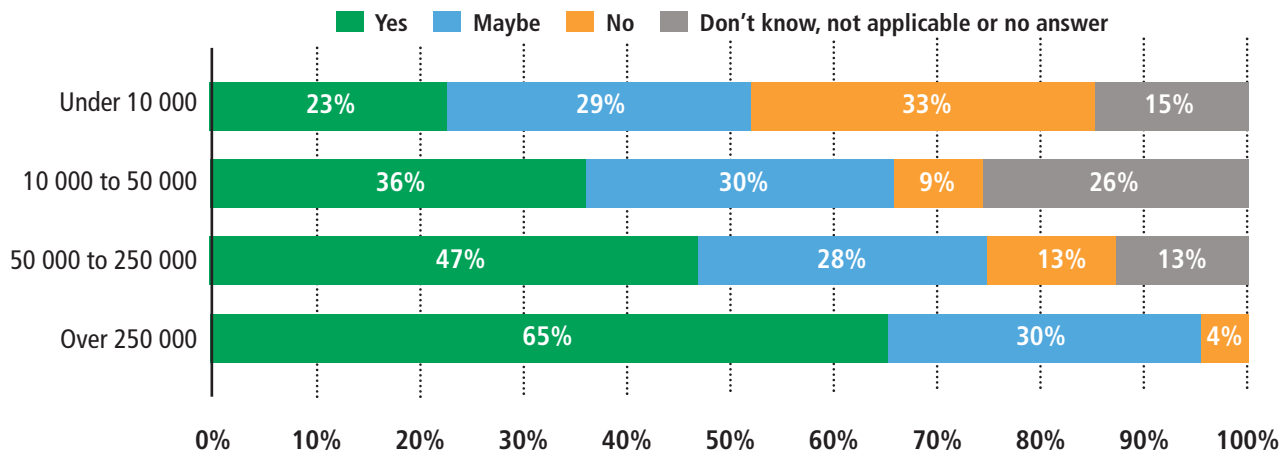
Figure 4.8. Calls for national-level multi-level governance policy instruments



Less than half of subnational governments are linking crisis exit plans and recovery strategies to sustainability agendas

Less than one-half of respondents (42%) consider using their COVID-19 exit plans and recovery strategies to promote their “greening” or sustainability agenda as part of their recovery plans. Regional governments (50%) are more likely to promote a green or sustainable agenda as part of their exit strategy and recovery plans than municipal governments (37%), regardless of the level of decentralisation. Larger municipalities (above 250 000 inhabitants) are more likely to integrate their sustainability agenda with their recovery plans, while smaller municipalities are more uncertain (Figure 4.9).

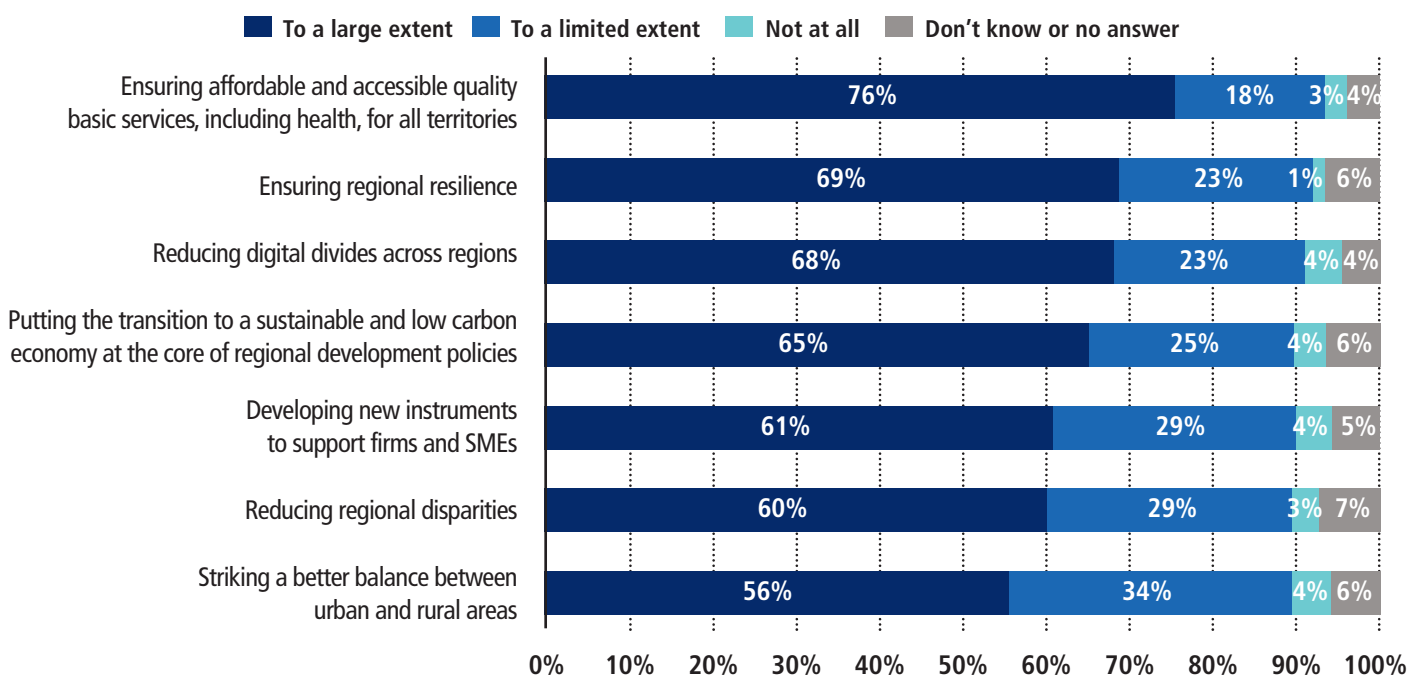
Figure 4.9. Municipalities considering greening their political agenda as part of their exit strategy and recovery plans



The COVID-19 crisis is reshaping regional development policy priorities

The COVID-19 crisis presents decision-makers with an opportunity to reform regional development policy. Overall, subnational governments express a desire that reforms ensure affordable, accessible, and quality basic services, including health, across all territories (76%); increase regional resilience (69%), and reduce digital divides across regions (68%) (Figure 4.10). Two-thirds of respondents also want the transition to a low carbon economy to be placed at the core of regional development policy while around 60% of respondents consider that developing new instruments to support firms and SMEs and reducing regional disparities are also important regional development policy priorities. Addressing the rural-urban divide by striking a better balance between urban and rural areas was ranked last among respondents, but is predictably very widely supported among small municipalities. (Figure 4.10).

Figure 4.10. Reshaping priorities in regional development policy



Support for affordable and accessible basic services, including health services, is strong across all categories of government. Regions (70%) and municipalities (79%) believe that health care should be part of regional development policy to a large extent (Figure 4.11). Small municipalities, who often have reduced access to basic services, are particularly supportive (Figure 4.12).

Figure 4.11. Ensure affordable and accessible basic services for all territories, by subnational government category

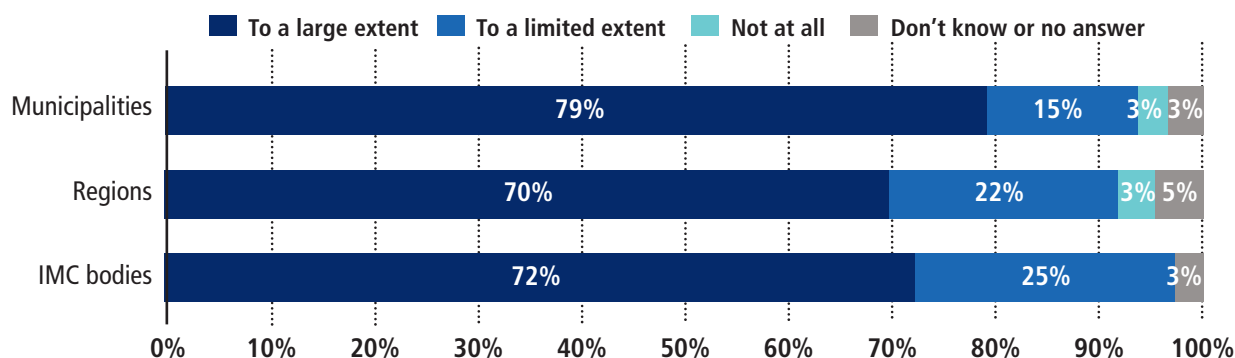
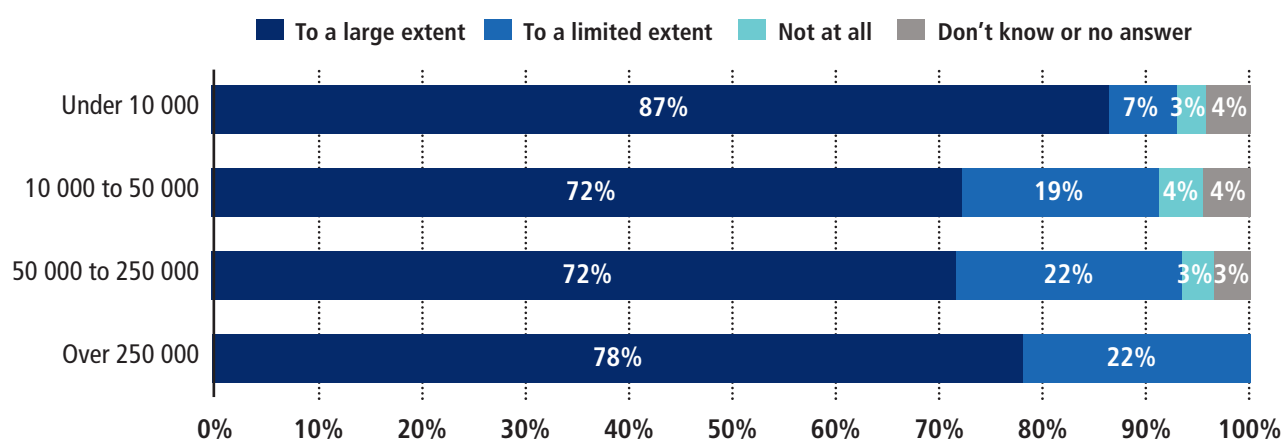


Figure 4.12. Ensure affordable and accessible basic services for all territories, by municipal population group



Reshaping regional development policy to ensure greater regional resilience is widely supported among subnational governments, particularly by inter-municipal cooperation bodies (81%) and regions (72%) (Figure 4.13). Regardless of their population size, a majority of municipalities (65%) support reshaping regional development policy to a large extent in order to enhance regional resilience (Figure 4.14).

Figure 4.13. Ensuring regional resilience, by subnational government category

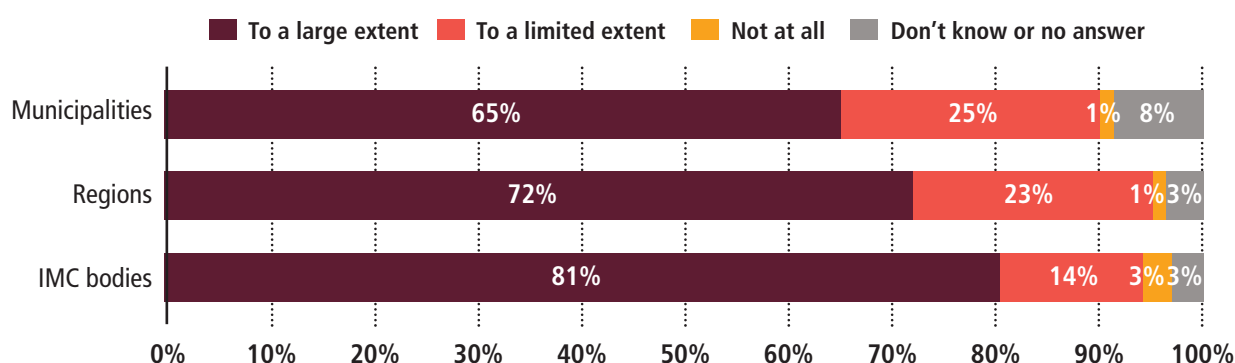
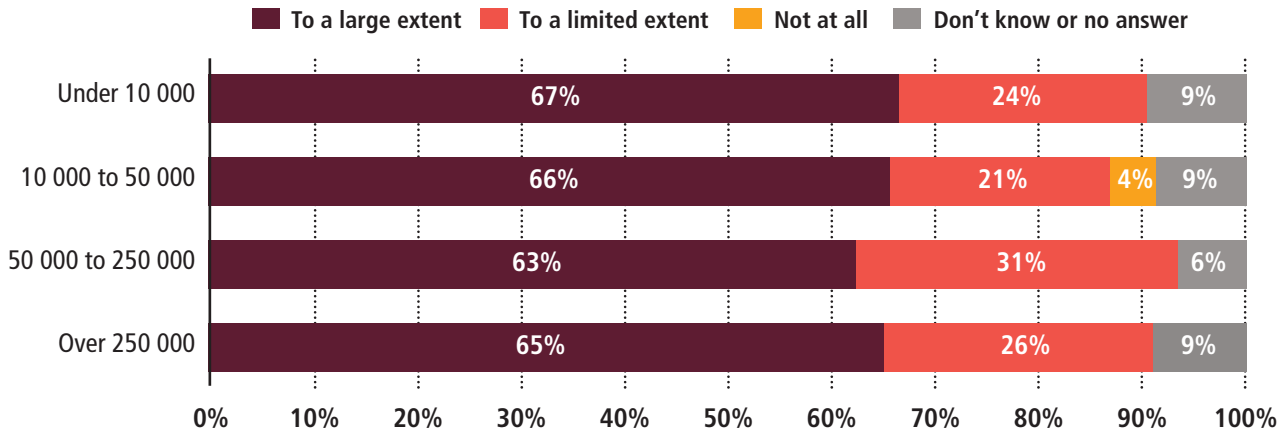
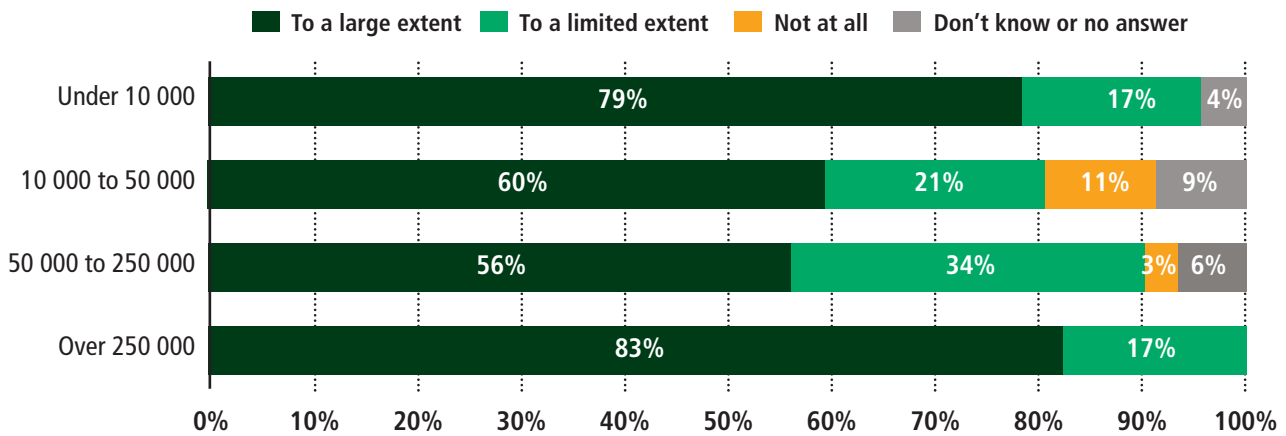


Figure 4.14. Ensuring regional resilience, by municipal population group



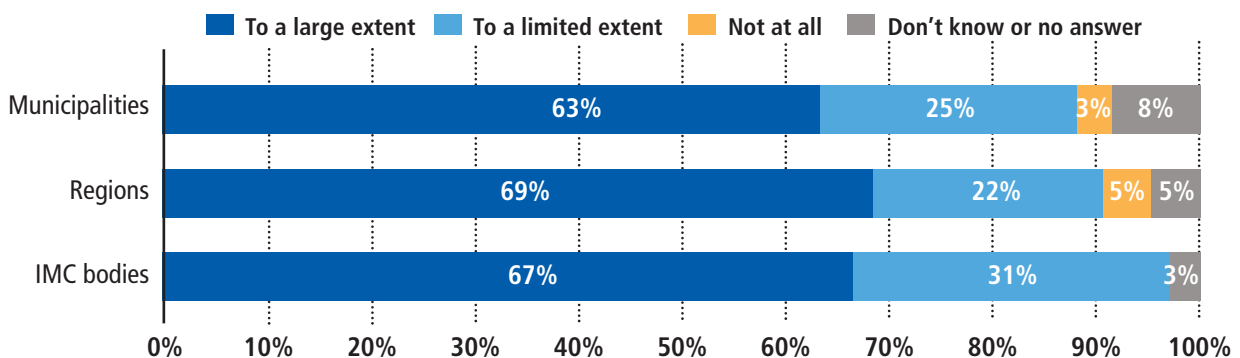
Reducing the digital divide across regions is particularly important for small and large municipalities (Figure 4.15).

Figure 4.15. Reducing digital divide across regions, by municipal population group



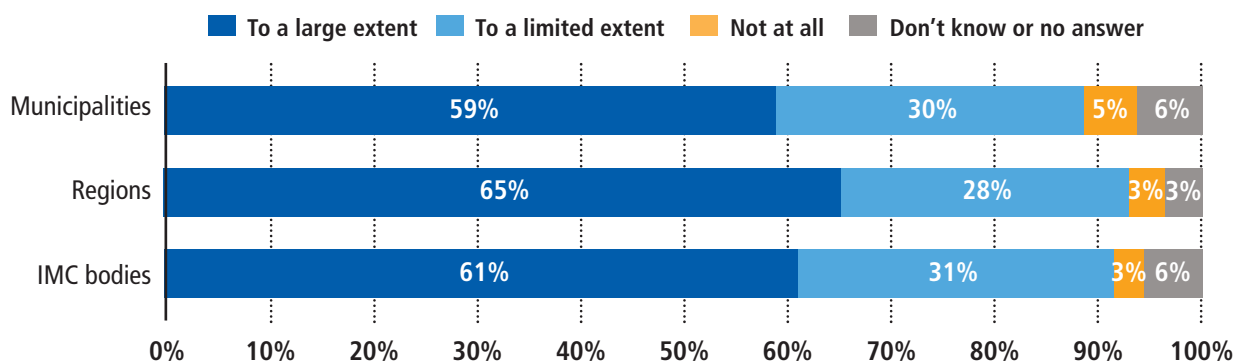
The majority of respondents from regions (69%) and municipalities (63%) state that the transition to a sustainable and low-carbon economy should shape regional development policy to a large extent (Figure 4.16).

Figure 4.16. Putting the transition to a sustainable and low carbon economy at the core of regional development policies



Regional respondents (65%) indicate that regional development policies should include developing new instruments to support firms and SMEs. (Figure 4.17).

Figure 4.17. Putting more emphasis on developing new instruments to support firms and SMEs



Regional (65%) and municipal (60%) respondents also express a desire to use regional development policy to reduce regional disparities (Figure 4.18). Small municipalities were more supportive of this than large ones, potentially because they might expect to benefit more from policies promoting regional convergence. (Figure 4.19).

Figure 4.18. Reduce regional disparities, by subnational government category

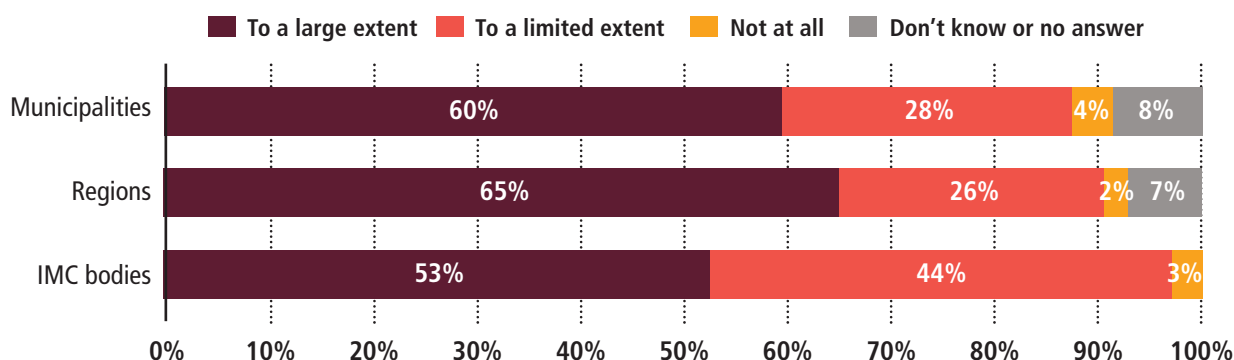
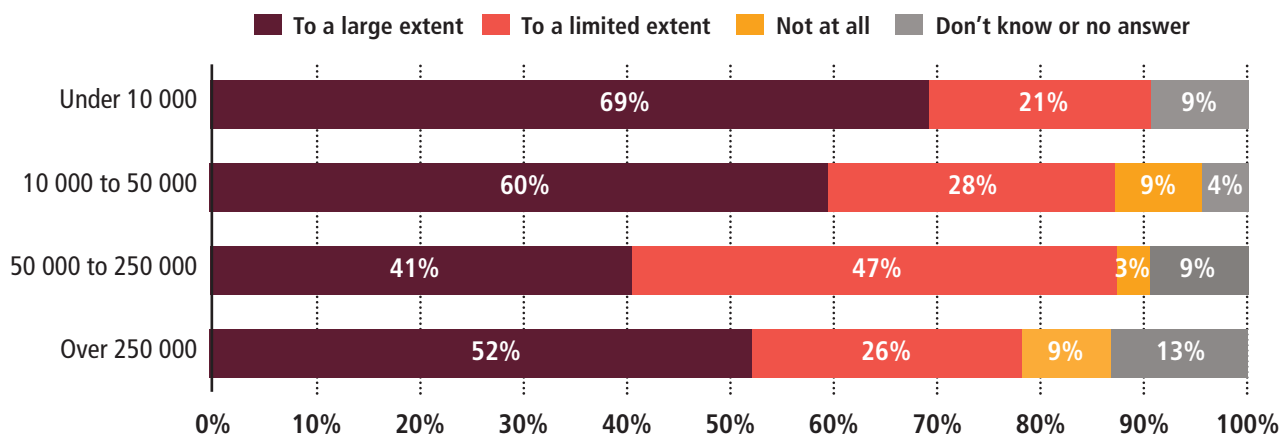


Figure 4.19. Reduce regional disparities, by municipal population group



While 56% of all respondents support a better balance between rural and urban areas, 57% of municipalities and 51% of regions state that the crisis should largely reshape rural-urban priorities (Figure 4.20). Small municipalities (80%) are particularly supportive of a better balance between rural and urban areas when compared to large municipalities (30%) (Figure 4.21).

Figure 4.20. Striking a better balance between urban and rural areas, by subnational government category

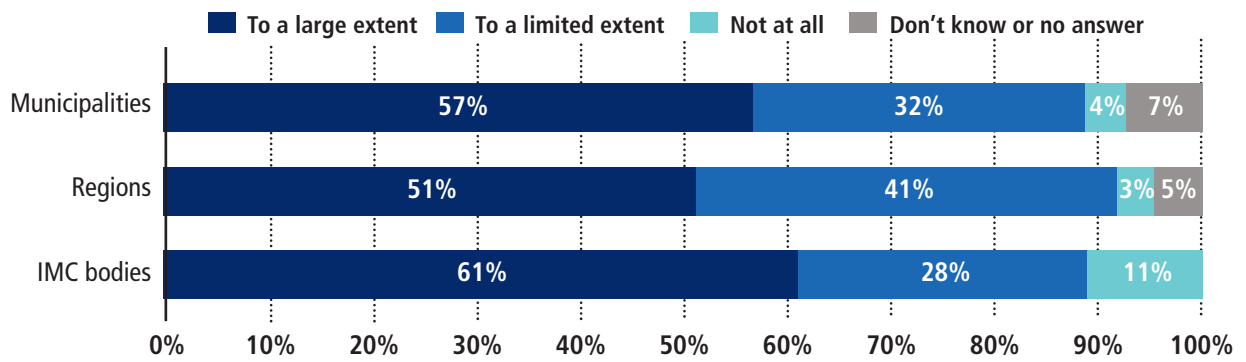
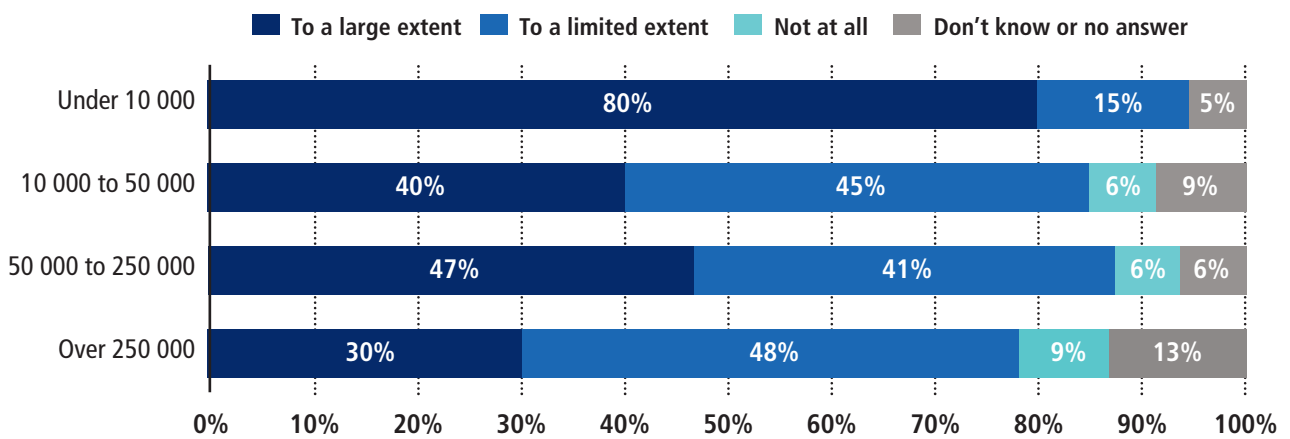


Figure 4.21. Striking a better balance between urban and rural areas, by municipal population group



Data overview

This report describes the responses of 300 subnational government respondents out of a total of 480 respondents that include central and subnational government entities as well as non-government entities (e.g., business, academia, NGOs, etc.).

The analysis of the survey responses was carried out using three background variables:

1. The category of subnational government: regions, municipalities and inter-municipal cooperation bodies (IMC bodies);
2. Municipal size (number of inhabitants)
3. The degree of decentralisation: countries were divided into three groups according to their degree of fiscal decentralisation - see methodology below.

These background variables permit identifying whether the impact of the COVID-19 crisis is asymmetric across countries depending on their degree of fiscal decentralisation, across subnational government categories and across municipalities depending on their population size. A summary shows that:

- Most respondents are from municipalities (59%) or from regions (26%). The rest of the respondents come from inter-municipal cooperation bodies (12%) and intermediate governments (e.g. department, province, county, etc.) (2%) (Figure 5.1). For the purpose of the analysis, intermediate governments have been merged with the regions.
- The bulk of responding municipalities have populations below 10 000 inhabitants (42%) and populations between 10 000 and 50 000 people (26%) (Figure 5.1). Responses from the largest municipalities (above 250 000 inhabitants) form 13% of all responding municipalities. Taking into account that the average EU27 municipal population was 5 169 inhabitants in 2019 (excluding the United Kingdom), the sample is representative of the structure of EU municipalities.
- Respondents represent 24 countries. The database does not include respondents from Denmark, Ireland and Luxembourg (among the 300 respondents representing subnational governments). Some 18% of responses come from Spain, 15% from Italy, 6% from the Slovak Republic, and 6% from Poland (Figure 5.2). When interpreting the results it is important to remember that some countries are overrepresented in the sample (the same applies for small municipalities).
- The degree of decentralisation varies across the EU countries, in particular the degree of fiscal decentralisation. Countries are grouped into three “decentralisation groups” based on fiscal ratios, namely countries with low fiscal decentralisation, medium fiscal decentralisation and high fiscal decentralisation. Overall, 105 respondents belong to highly decentralised countries (35%), 156 to moderately decentralised countries (52%) and 39 to countries with low decentralisation (13%).

Figure 5.1. Overview of the CoR-OECD Survey's respondents, by category

Number of respondents by subnational category and municipal population size (number of inhabitants)

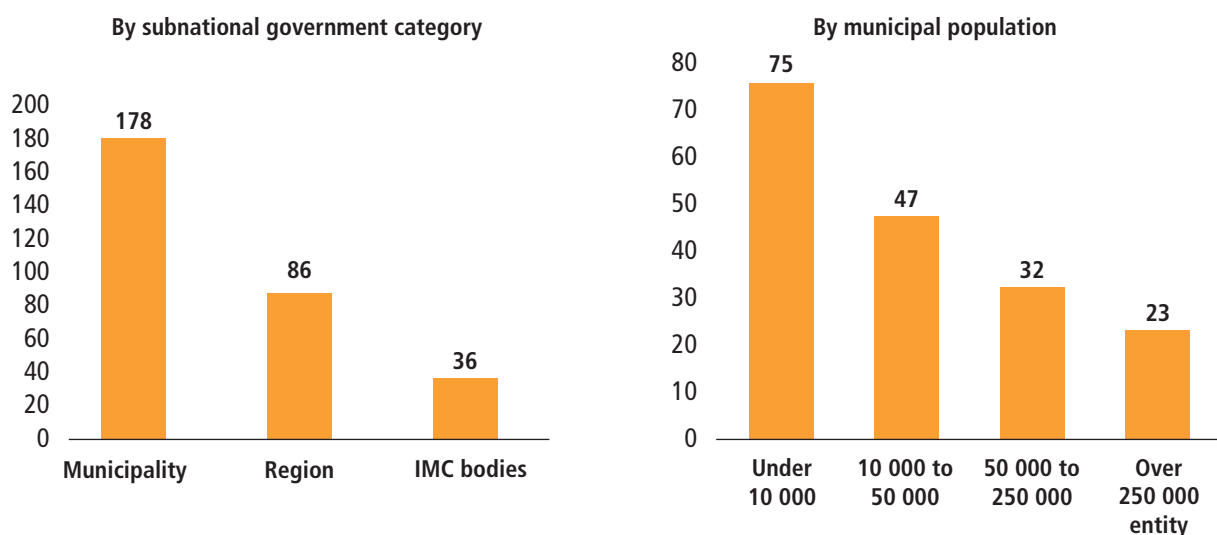
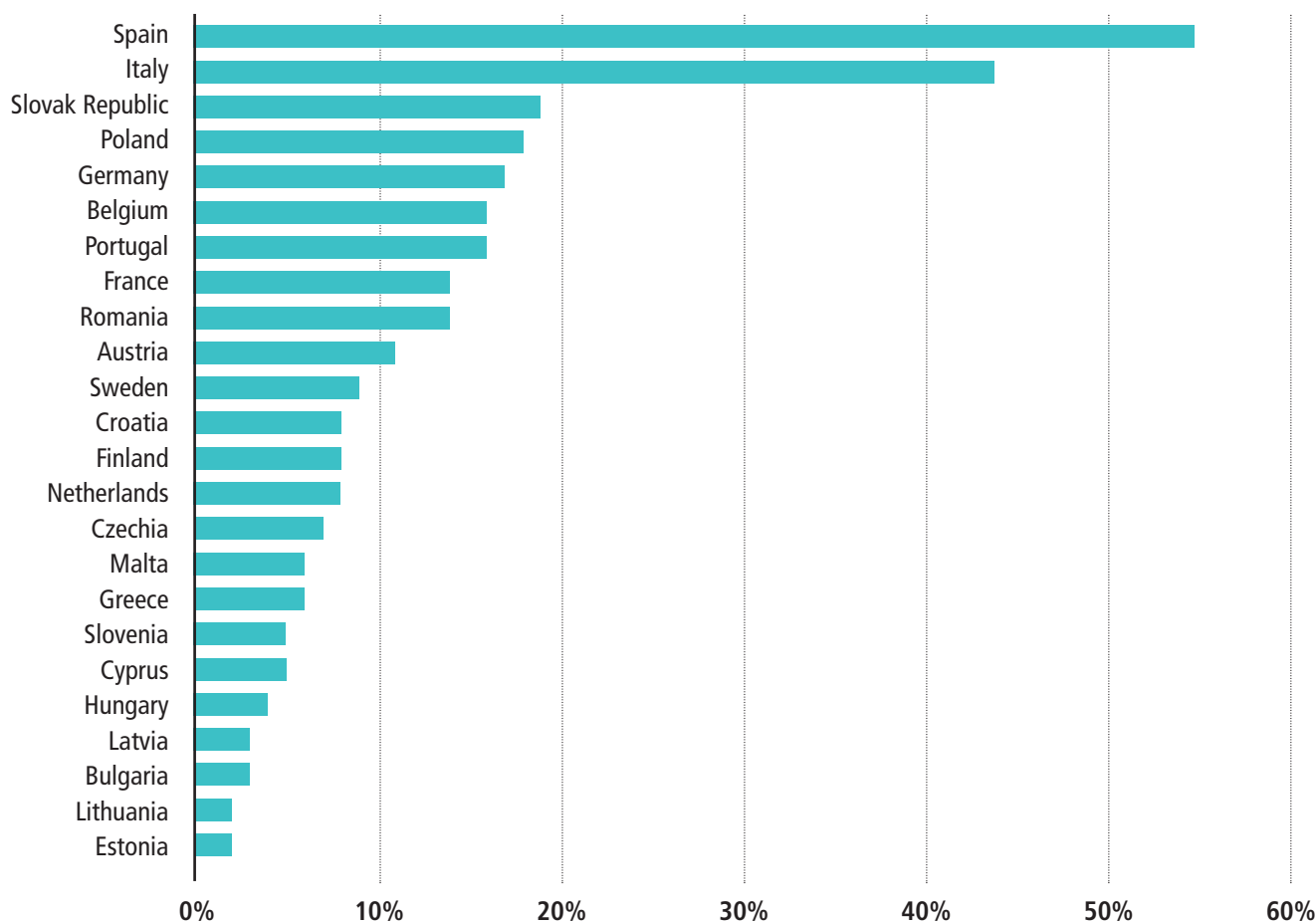


Figure 5.2. Overview of the CoR-OECD Survey’s respondents, by country of origin

Number of SNG respondents, by country



Note: No subnational government’s respondent answer from Denmark, Ireland and Luxembourg

Decentralisation groups

The degree of decentralisation in a country can be assessed based on fiscal indicators, in particular the level of subnational government spending (measured as a share of GDP and as a share of public expenditure) and the level of subnational government tax revenue (measured as a share of GDP, as a share of total subnational revenue and as a share of public tax revenue) (OECD, 2019[1]).

Based on these different spending and tax ratios, EU countries are placed in one of three groups based on the degree of fiscal decentralisation, classified into “Low”, “Medium” and “High”. This permits an analysis of groups as subsamples in the survey.

It is important to underscore that these ratios cannot fully capture the real degree of fiscal decentralisation. The spending indicator can be misleading because the real degree of subnational government spending autonomy can be limited. The tax indicator also has drawbacks because subnational government tax revenue is composed of shared and own-source taxes, which are not differentiated within national accounts. Therefore, tax indicators mix tax resources over which subnational governments have very limited or no taxing power (shared taxes) with taxes over which they have more leeway in deciding and modifying rates and/or bases (own-source taxes).

Results by decentralisation group do not permit establishing causality between the degree of fiscal decentralisation and the dimensions of subnational government policy responses to COVID-19; rather the analysis allows for the identification of patterns among fiscal decentralisation groups.

Table 5.1. Decentralisation groups

Degree of fiscal decentralisation	Countries
High	Belgium, Denmark, Finland, Germany, Spain
Medium	Austria, Bulgaria, Croatia, Czechia, France, Italy, Latvia, Lithuania, Netherlands, Poland, Romania, Slovak Republic, Slovenia
Low	Cyprus, Estonia, Greece, Hungary, Ireland, Luxembourg, Malta, Portugal

Table 5.2. Key data on subnational government finance, EU27

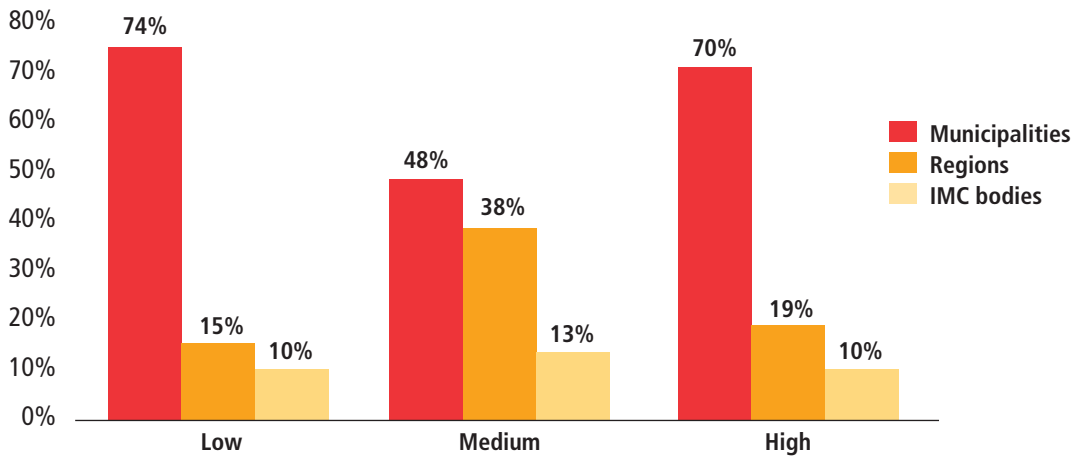
	Degree of fiscal decentralisation	Subnational government expenditure		Subnational tax revenue		
		% GDP	% public expenditure	% GDP	% subnational revenue	% public tax revenue
Austria	medium	17%	36%	2%	11%	7%
Belgium	high	27%	52%	7%	25%	22%
Bulgaria	medium	7%	21%	1%	12%	4%
Croatia	medium	12%	26%	5%	38%	17%
Cyprus	low	1%	3%	0%	23%	1%
Czechia	medium	12%	29%	5%	45%	27%
Denmark	high	34%	65%	12%	36%	27%
Estonia	low	10%	24%	0%	3%	1%
Finland	high	22%	41%	10%	46%	32%
France	medium	11%	20%	6%	53%	20%
Germany	high	21%	48%	12%	57%	52%
Greece	low	4%	8%	1%	24%	3%
Hungary	low	6%	13%	2%	36%	9%
Ireland	low	2%	9%	0%	19%	2%
Italy	medium	14%	29%	6%	43%	21%
Latvia	medium	11%	27%	6%	57%	26%
Lithuania	medium	8%	24%	0%	4%	2%
Luxembourg	low	5%	11%	2%	35%	6%
Malta	low	0%	1%	0%	0%	0%
Netherlands	medium	13%	31%	1%	10%	5%
Poland	medium	14%	34%	4%	33%	20%
Portugal	low	6%	13%	3%	42%	10%
Romania	medium	8%	23%	1%	10%	6%
Slovak Republic	medium	7%	17%	1%	7%	3%
Slovenia	medium	8%	19%	3%	41%	15%
Spain	high	21%	50%	8%	40%	37%
Sweden	high	25%	51%	14%	55%	33%

Source: OECD (2019), *Key data on Local and Regional Governments in the European Union (brochure)*, OECD, Paris

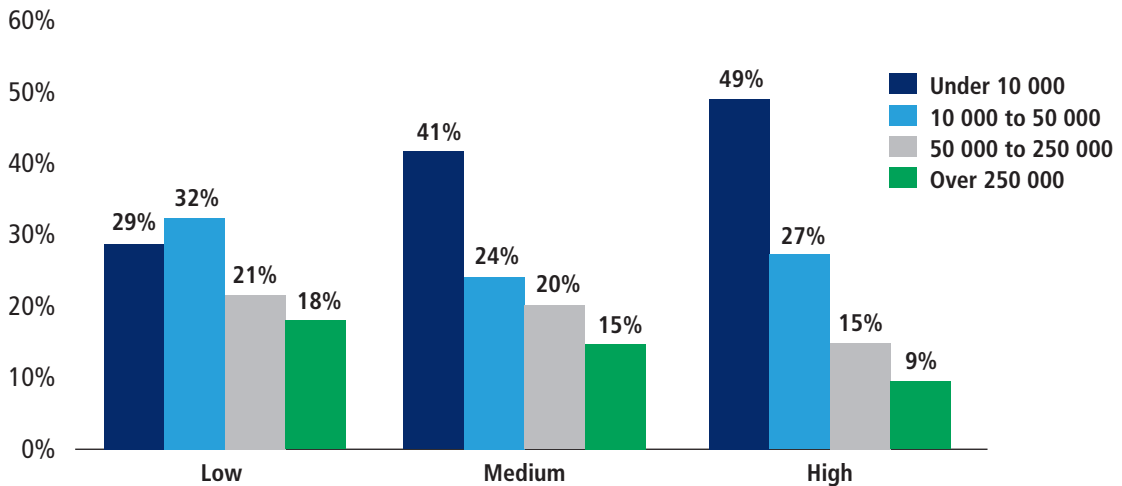
The composition of these three sub-samples matters when interpreting the survey results based on the degree of a country's fiscal decentralisation. Because the subnational government level and the municipal population also influence a respondent's assessment, results differentiated by decentralisation groups can be influenced by sub-sample composition. Regions represent a larger share of the medium decentralisation group in comparison to the other groups, while small municipalities are concentrated in highly decentralised countries, resulting in unbalanced sub-samples. (Figure 5.3).

Figure 5.3. Decentralisation groups composition

Share of each subnational government category, by decentralisation group



Share of each municipal population group, by decentralisation group



Find the detailed Policy Brief and the summary:

- OECD / CFE Multi-Level Governance Portal: <http://www.oecd.org/regional/multi-level-governance.htm>
- European Committee of the Regions: <https://cor.europa.eu/en/our-work/Pages/econ.aspx>

Further reading:

- CoR-OECD Survey Questionnaire: “How is COVID-19 affecting regions and cities?”: <https://cor.europa.eu/en/news/Pages/ECON-cor-oecd-survey-covid-19.aspx>
- CoR (2020) EU Annual Regional and Local Barometer: <https://cor.europa.eu/en/our-work/Pages/EURegionalBarometer-2020.aspx>
- OECD (2020) - The territorial impact of COVID-19: Managing the crisis across levels of government: English: <http://www.oecd.org/coronavirus/policy-responses/the-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government-d3e314e1/>; French: <http://www.oecd.org/coronavirus/policy-responses/l-impact-territorial-du-covid-19-gerer-la-crise-entre-niveaux-de-gouvernement-2596466b/>
- Recommendation of the OECD Council on Effective Public Investment Across Levels of Government: <https://www.oecd.org/effective-public-investment-toolkit>

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THE IMPACT OF THE COVID-19 CRISIS ON REGIONAL AND LOCAL GOVERNMENTS:

Main findings from the joint CoR-OECD survey

This brief summarises the main findings from the CoR-OECD COVID-19 Survey on “The impact of the COVID-19 crisis on regional and local governments: governance, finance and recovery plans”. This on-line survey was carried out in June and July 2020 among representatives of subnational governments of the European Union. Answers were received from 300 subnational government respondents representing 24 countries.

More information:

<http://www.oecd.org/regional/multi-level-governance.htm>

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