UNCDF

Unlocking Public and Private Finance for the Poor

COVID-19 Emergency Response

LOCAL GOVERNMENT FINANCE

Guidance Note for Immediate Action

EDITION #4

SUPPLEMENT:

OEBG Menus and Dual Key Rapid Response System

15 MAY 2020

This supplement is about immediate responses to COVID-19 recommended for local governments through Operational Expenditure Block Grants (OEBGs) and SME economic recovery support. The supplement should be read together with the guidance note. It is advisory and can be adapted to individual circumstances.

The supplement includes generic menus of options for this support that can be approved with consolidated reporting through the UNCDF Dual Key Rapid Response System. The menus are aligned with the World Health Organization's classification of pandemic phases, which distinguishes between a preparedness and early containment phase and an active community transmission phase. The menus include:

- Actions for the preparedness phase
- Actions for the emergency phase
- Actions for the economic recovery and rebuilding fiscal space phase

These responses are not always sequential and can be carried out simultaneously. However, it is important to group in accordance with the above-listed phases to enable the actions to be checked for specific relevance to COVID-19 and to consolidate reporting to different funders of specific actions carried out by different cities and local governments.

As of this writing, this menu is being used to report on OEBG and SME recovery support in several countries.

The text of this supplement was drafted by Mohammad Abbadi and David Jackson with inputs from the UNCDF Local Development Finance team. See https://www.uncdf.org/local-development-finance; contact nan.zhang@uncdf.org for further information on implementation of OEBG and SME support through local government finance.

Overview: local governments are at the forefront of the COVID-19 response

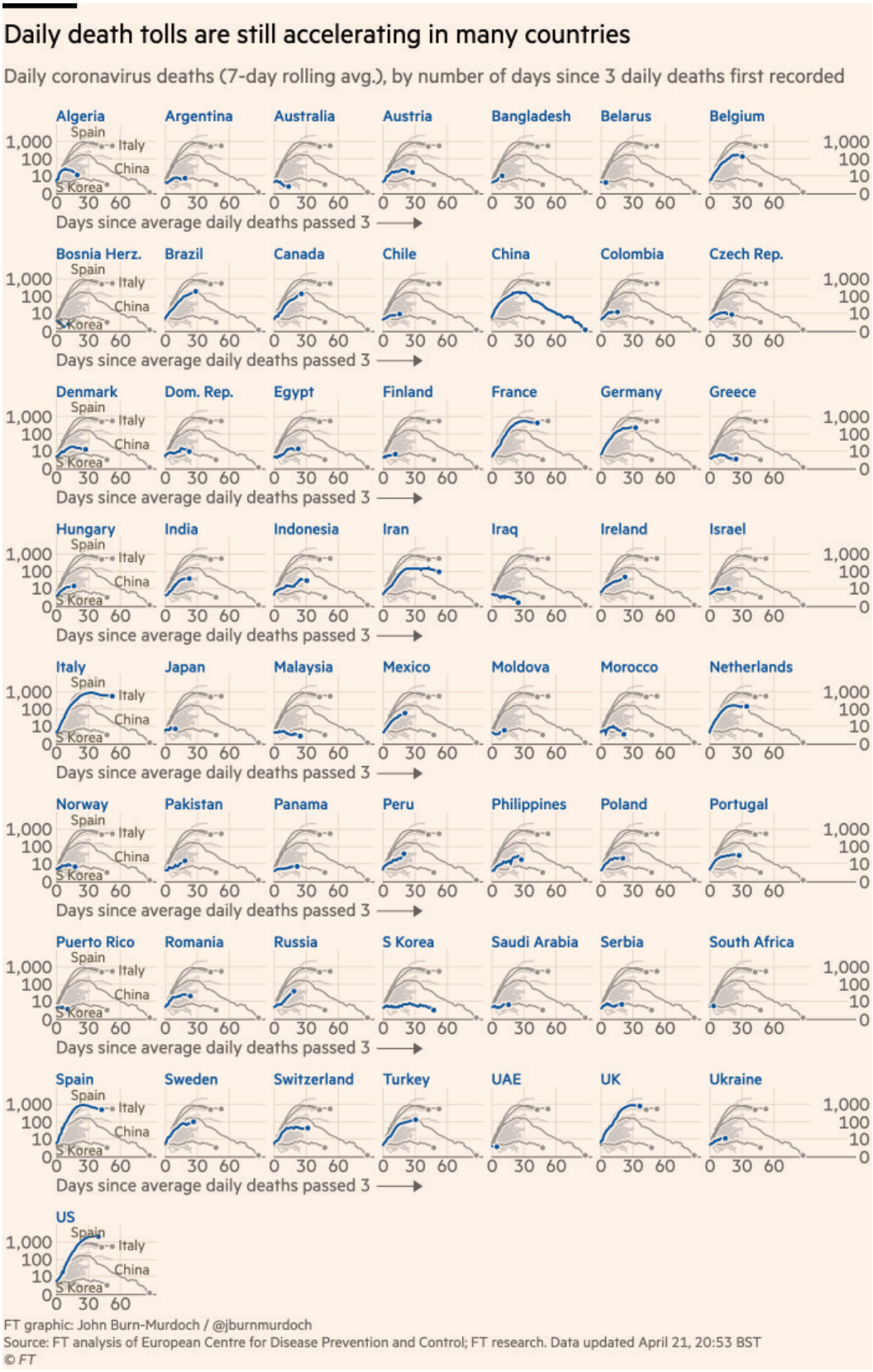
COVID-19 shows the importance of fast, effective local action to slow the spread of the virus. In the words of the World Health Organization, "Test, test, test". Testing, even of those without symptoms, enables isolation of those infected, identification of those with antibodies and treatment of those seriously ill. Experience has already shown that "industrial-level" early testing, social distancing and focused treatment can effectively stop the virus. In most countries, the effectiveness of the response to COVID-19 has varied significantly across national territories. This not only reflects differences in the geographical spread of the virus, but also differences in the approaches taken by local governments as first responders.

Indeed, some countries neglected the role of local governments in the early response and later publicly acknowledged how costly this neglect was. For example, in the United Kingdom, Jeremy Hunt, former minister of health and current chair of the parliamentary health committee, informed the public that "One of the reasons testing took too long to ramp up is because it was all done centrally... I think one of the lessons we could reasonably draw from the slowness of ramping things up centrally is that this is something we should trust local government to help us with" (interview with BBC Radio 4, *World at One*, 17 April, https://www.bbc.co.uk/sounds/play/m000h93y).

This fourth edition of the guidance note includes new data and an expanded section on Operational Expenditure Block Grants which can be a calibrated and effective way for local governments to accelerate the COVID-19 response in a timely manner and in accordance with the stage of the epidemic in the locality. This new information is found in the Immediate Measures to Be Taken section, beginning on page 7.

Figure 1 illustrates differences in the growth curves of the pandemic to date in a variety of countries. It is notable that while the curve has peaked in East Asia, Europe and North America, the spread is still accelerating elsewhere, for example in Bangladesh and Peru. Figure 2 shows

FIGURE 1 **Trajectory of deaths by country**



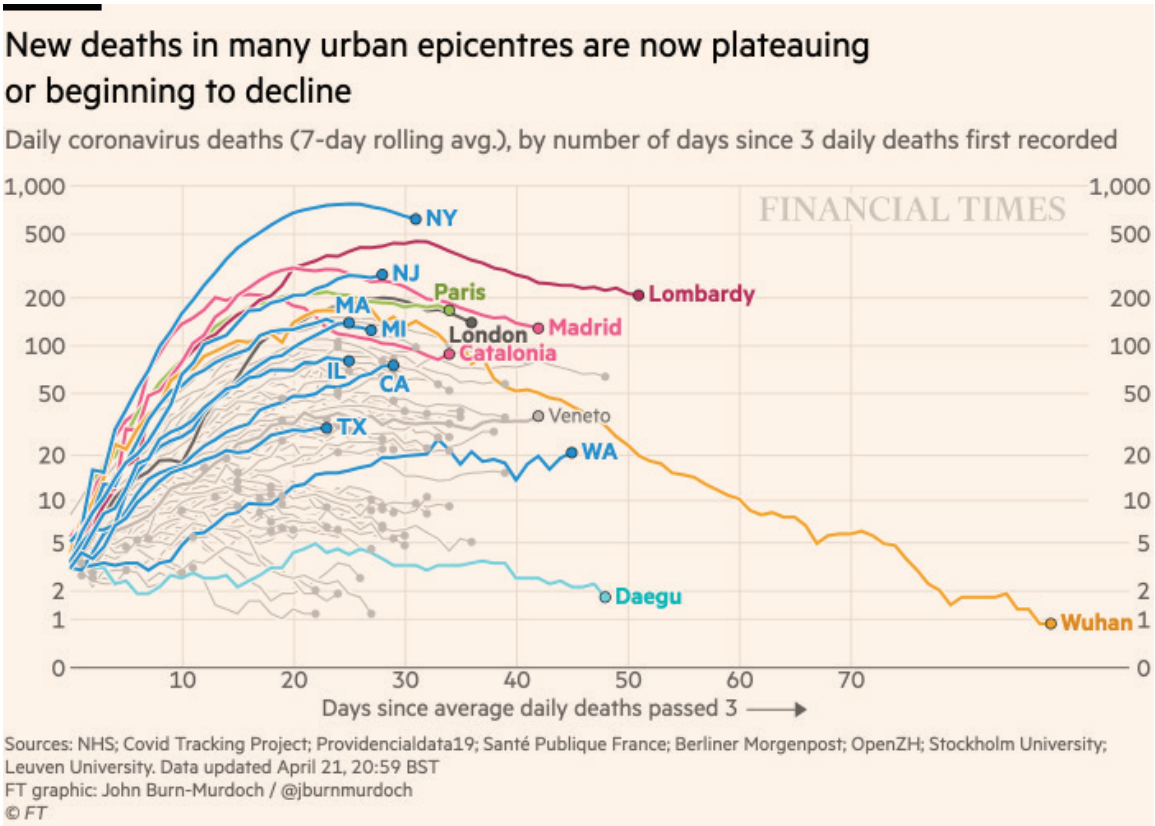
Source: https://www.ft.com/coronavirus-latest.

differences in the COVID-19 curves of the virus across subnational regions and cities in different countries; there is a marked contrast between geographical areas within the same country.

While figure 2 mixes local governments with regional governments, it is clear that some areas are slowing the rate of increase. For example, in the United States, New York has topped out, but neighbouring New Jersey has not. In South Korea, the city of Daegu managed to keep the virus under control from the beginning. Data and analysis reveal that peak infections occur at different times in different towns and counties in accordance with the rate of spread and when the infections started – a phenomenon known as the "rolling apex." It should be noted that these figures use a log scale and therefore represent horrifying numbers. These figures are dynamic and updated daily. The latest information can be found here: https://www.ft.com/coronavirus-latest.

Local governments are leading the COVID-19 responses around the world. They are on the front line of citizen engagement, service delivery and management of public space. Studies, testimonies and government responses from around the world have demonstrated that local governments' preparedness, infrastructure and human capital capabilities, access to emergency funds, and coordination and communication flows with central government are among the key measures to containing the spread of the virus and ensuring speedy recovery. Local governments everywhere in the world are responsible for provision of essential services to their populations. As prevention

FIGURE 2 **Trajectory of deaths by subnational region**



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

Local governments are uniquely positioned to shape, adapt and deliver a holistic response to epidemics.

and containment measures are introduced, maintaining an adequate level of such services while ensuring compliance with restriction measures becomes the main concern of local governments. Thus, local governments are key to ensuring COVID-19 response protocols are implemented.

The recent examples of China and South Korea demonstrate the importance and effectiveness of local governments in mobilizing community response. One of the most notable actions undertaken by the governments during the outbreak of the COVID-19 epidemic was to undertake immediate decisions in a timely manner, directed to the right places and the right institutions for effective response. That, in summary, was focused on increasing support and speeding the transfer of fiscal grants to local governments in their efforts to tackle the coronavirus. While the overall response in Wuhan Province was coordinated by the central government, its actual implementation was the responsibility of the provincial and local governments. China issued an advance quota of $8.6 billion in transfer payments for local governments in 2020. An additional $16 billion was allocated from the central government to local governments to mitigate their fiscal challenges over the period December 2019 to March 2020. Figure 2 demonstrates relative success of Daegu in managing the crisis.

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

Immediate local government finance response

FINANCING LOCAL GOVERNMENTS

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

Own source revenues are the most flexible source of financing that can be relatively easily redirected towards the epidemic response. But in many countries, particularly developing ones,

the share of own source revenues is less than 10 percent of the total local government budgets and is inadequate for an effective epidemic response. Furthermore, the public health response to the coronavirus is significantly diminishing own source revenues in three ways:

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

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

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

IMMEDIATE MEASURES TO BE TAKEN

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

1. **Take stock of available resources and revise the cash budget for the next quarter/three months.** The most likely element is moving resources earmarked for capital expenditure to operational expenditure; this does not add resources but redeploys what is available. This is an action within the control of local governments that only requires policy direction from central governments about the kinds of already budgeted resources that can be redeployed. Such guidance is necessary because some local governments may be overly cautious and

wait for transfers to come, while others may over-react and deploy resources earmarked for critical payments such as salaries to buy sanitizing equipment.

2. **Central government agencies and others should provide payments to local governments for use of local government capital assets (buildings, etc.)** as part of the response. Yes, it is a crisis, but payment for use of these assets will replenish lost own revenues, maintain liquidity for essential functions and benefit the response effort.
3. **Agencies and companies in a position to do so should temporarily forgive local government debt and other outgoing payments.** The central government should provide guarantees/compensation for companies that forgive these payments. Payments should be rescheduled with chief financial officers.
4. **Review local tax and fee payment systems to ensure and enhance safety and access.** Examine how local taxes and fees are paid by citizens and businesses to identify how to immediately reduce in-person contact where appropriate; while maintaining, as much as possible, access and coverage, and avoiding "digital exclusion" or loss of control of the payment system. This can include maximizing revenue from businesses that can continue to operate digital platforms to maintain overall economic activity.

> As an immediate action, it is important to avoid excessive additional expenditure, long-term procurement or commit to long-term service provider contracts.

Intergovernmental transfers. Such transfers can be an effective vehicle for governments to implement their COVID-19 response strategies. In most countries, there are at least four existing channels that can be used:

- **Discretionary recurrent expenditure grants and transfers to local governments usually applied to salaries, travel costs, goods and services.** The advantage of this channel is that it is available across all local government departments at the discretion of local leadership. These can be increased and re-purposed as COVID-19 operational response grants to implement local protocols. Reporting can be through existing channels, with supervision provided by the relevant health authority. Procurement of goods and services is accomplished through existing mechanisms, with increased delegation of authority or ceilings for local procurement where appropriate. Increased value to these transfers will enable co-financing with the next category below for additional effectiveness.
- **Conditional grants to local education and health departments by central ministries.** Clearly, this should be a key vehicle for the response – not only for national fiscal resources but also for additional resources received as part of international relief efforts. Where possible, development partners should coordinate with these agencies, build on their local knowledge and operational capacity, and avoid parallel systems.
- **Discretionary capital grants to local governments.** These funds provide less scope for an immediate response in the next few months, as they depend on construction and procurement cycles. Nevertheless, this emergency provides a case for them to be reapplied to the purchase of medical equipment, vehicles and other capital expenditure items eligible

within the chart of accounts and public expenditure classifications for capital expenditure. Procurement could be expedited. It would be important for local governments to be reimbursed later for this immediate response, to avoid interrupting ongoing capital projects. One advantage of this action is that many capital projects will have halted due to social distancing and other measures; therefore, some liquidity may exist.

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

Operational Expenditure Block Grants (OEBGs). An OEBG is a specific type of intergovernmental fiscal transfer that can be a useful and effective vehicle for governments to implement their COVID-19 response strategies. The beauty of an OEBG is that it combines the most effective elements of the discretionary capital grant and the discretionary recurrent grant. The transfer mechanism of the OEBG is similar to that of a capital grant. The resources are not drawn from the recurrent budget for human resources and basic operating expenditures; instead, they are drawn from other funds and use the modality of the development (or capital budget) as appropriate. This method has four advantages:

- Depending on the severity of the lockdown and its economic impact, expenditure on many development or capital projects is slowing down, meaning there may be immediate liquidity under those budget lines.
- Expenditure under the development/capital budget is usually reassessed annually and does not assume long-term commitments (e.g. to human resources).
- The development budget is usually more open to receive contributions from international development aid, philanthropic aid, and public and other sources. Existing development accounts with transparent reporting can be repurposed.
- The development budget can be assigned to the discretion of the mayor or the governing body of the local authority, and does not need to be pre-allocated to any particular department or sector.

Once available to local governments, the OEBG can immediately be applied to implement COVID-19 response protocols. In this respect, the OEBG differs from the regular development or capital budget. It has specific criteria and rules. For example, it cannot be used for any expenditure which creates long-term obligations such as new permanent payroll staff or new large infrastructure requiring operation and maintenance. However, it can be used for (temporary) staff costs, goods and services, and small-scale capital items (e.g. medical equipment or motorcycles). The OEBG thus covers the full range of budget headings and expenditure codes, enabling a critical flexibility that can:

- **Top up and co-finance interventions** by departments using centrally allotted conditional funds (e.g. to make an ongoing initiative by a local hospital funded from the ministry of health more effective).
- **Combine interventions by different departments** (e.g. complement an ongoing initiative by a local hospital with a follow-up activity by the social services or public works department, such as re-fitting installations to promote social distancing).
- **Deploy funds to practically all legal expenditure categories** (e.g. hire temporary staff or consultants, purchase fuel or personal protective equipment, or purchase motorcycles for a team of quarantine enforcement officers).
- **Be managed either by the respective departments or by a specific COVID-19 response unit** under the mayor or council, or a combination of both.

COVID-19 OEBG disbursement is characterized by transparency and frequency of reporting. Existing reporting features for the development budget can be adapted in this regard. An OEBG is best managed by a locally developed pre-defined plan, which is regularly adjusted in line with the development of the epidemic in the locality. The plan can be endorsed by the relevant COVID-19 response entities. OEBG transfers can be made more frequently than regular development transfers – for example, every three months given attainment of the performance measures or targets in the plan. Three characteristics pertain: (i) n that the local government is responsible for the design, management and implementation of the plan; (ii) that the performance measures are sufficiently broad to allow rapid and frequent (no cost) budget revisions and changes in the distribution of expenditure between activities; and (iii) that the OEBG system enables the local government to dynamically "ride the curve" and adapt its response and activities in line with the epidemic's progress.

The appropriate amount of the OEBG will depend on available resources, the stage of the spread of the epidemic, the degree to which local government is part of the national response and the absorption capacity of the local government. UNCDF has developed a rapid scoping tool, building on the scoping methodology applied in its other work in local government finance, which can quickly produce a design proposal for OEBGs in partnership with interested central or local governments. UNCDF can also make its e-municipal grant architecture available to process and report quickly on external contributions to an OEBG system from international development partners.

Subnational borrowing. Where appropriate, local governments should review the effect of COVID-19 on their liabilities. Many countries have national development banks, and some have subnational development banks. These can provide guarantees and backup to subnational borrowing to ensure continuity of existing programmes and investments. Local governments may resort to short-term bridge borrowing to cover emergency expenses (such as salaries and equipment).

Longer-term credit lines and other solutions will be covered in an upcoming note on early recovery.

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

Priority should be given to financing modalities that allow maximum flexibility and minimum conditionality to deliver a sector-wide response locally.

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

For all these measures, COVID-19-specific reporting and transparency can be added, but given that this immediate response is about days not weeks, and that existing measures are already operational and regulated, speed should be a key consideration. Priority should be given to financing modalities that allow maximum flexibility and minimum conditionality to deliver a sector-wide response locally.

FIRST MOVERS, GETTING IT STARTED, EFFECTIVE TECHNICAL SUPPORT AND LEARNING

Implementing these measures may require technical support. UNCDF has already supported the Governments of Bangladesh, Lao PDR, Senegal, Somalia and Uganda to implement some of the measures described above. Similar conversations are ongoing with local governments and central authorities elsewhere. We look forward to sharing this experience with our partners in United Cities and Local Governments (UCLG), Metropolis and UN Habitat in the Local Government COVID-19 Response Network, including in the live learning session on 23 April 2020.

For further details, contact nan.zhang@uncdf.org.

Key dimensions of local government response

ADVANTAGES OF LOCAL GOVERNMENT EPIDEMIC RESPONSE

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

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

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

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

Legitimacy of government is the foundation of the social contract that ensures social cohesion and stability. An epidemic, particularly if it lasts for some time, results in social and

economic cracks that undermine this foundation. It is critical in such situations that the population remains confident in its government and convinced about the appropriateness of the response measures. Social solidarity and law abidance are enabling factors for an efficient epidemic response, and local governments are the lowest layer on which the entire edifice of government legitimacy is built.

WHAT CAN BE DONE?

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

Increasing the capacity of the local healthcare system is likely to be the primary concern of a local government. Pressure on the local health system at the time of epidemics increases multifold, but the excess capacity is normally very limited or non-existent. Local governments may employ additional medical staff to boost existing capacity (e.g. retirees or medical school students). They may procure necessary equipment for existing healthcare facilities, public and private institutions, and the population at large – including acquisition of personal protective equipment and secure-fit testing resources by third-party vendors for respiratory protection and other equipment such as infection control supplies, digital thermometers and other items associated with quarantine and isolation. Local governments may transform existing premises and build new facilities for isolation/quarantine-related activities and testing laboratories, provide transportation and lodging for medical staff, and wrap-around services such as behavioural health services/support.

While the local healthcare system is the target of these efforts, increasing healthcare system capacity requires a sector-wide response and the concerted action of many sectors and industries (public services, education, transport, construction) as well as multiple public and private actors.

Community awareness and mobilization is critical for effective epidemic response for two reasons:

- Improved public awareness about the disease, preventive measures, and the degree and scope of lockdowns helps contain the epidemic while simultaneously easing pressure on the local healthcare system.
- Community initiatives and contributions through volunteer actions, community labour, financial donations and donations of food and non-food items complement existing public resources and maintain social solidarity and cohesion during difficult times.

Local governments engage in public outreach including through media buys, collaboration with community organizations, printing, phone banks, updating web information, setting up local call centres to provide information, and translating materials into appropriate languages.

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

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

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

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

distancing. Local governments may introduce price controls to prevent hikes in the price of food and other basic supplies and keep them affordable.

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

Uninterrupted provision of essential services – water, sewer, garbage collection and utility – is the foremost responsibility of local governments.

Relief measures for local economies are designed to dampen the economic consequences of an epidemic, particularly in sectors likely to be among the hardest hit – including transportation, tourism and hotels – and expedite economic recovery once an epidemic is over. In many countries, local governments are assigned an important role in supporting a vibrant local economy and promoting local economic development. As restaurants, tourist venues and similar establishments scale back or close, this affects the individuals who rely on these jobs for their income. Finally, any relief measures for local economies that result in a loss of immediate local government revenue will need to be balanced against the opportunity cost of using that income to fund the COVID-19 response. Companies that are able to continue working, or even growing, through the COVID-19 crisis should continue to pay their fair share of taxes and fees.

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

Managing large numbers of migrants is anticipated. In Lao PDR, 700,000 migrants are returning from neighbouring countries due to COVID-19, and local governments are requested to manage their integration. This phenomenon may repeat itself elsewhere as large migrant populations return home due to the economic shutdown in their host countries. In response, the Government of Laos has established seven quarantine centres, located within provinces with official border points. Under the system, the local governments will have the responsibility and accountability to ensure that these centres function and provide adequate services so returnee workers remain in quarantine prior to returning home. It will be crucial that intergovernmental transfer formulas are adjusted to include adequate funding for these new mandates.

FINANCING SPECIFIC RESPONSE MEASURES

The following table suggests the appropriate type of financing (in order of importance) for key response measures by local governments. The applicability of different types of finance depends on the nature of specific interventions, but the general principle is to rely on external finance first (philanthropic or private) followed by conditional grants, then discretionary grants, and eventually own source revenues. The objective is to save most flexible public finance (discretionary grants and own source revenues) for purely public goods unforeseen in any other budgetary arrangements or too urgent to wait for specific conditional allocations. The table demonstrates the relevance of OEBGs to deliver across the spectrum of activities and to fill financing gaps where appropriate. The table also illustrates where OEBGs would not be eligible. The specific design of an OEBG system will vary from case to case.

Epidemic response areas and measures	Financing
Increasing the capacity of the local healthcare system	
● Hiring additional medical staff	Conditional or discretionary recurrent expenditure grant; OEBG for light equipment and temporary staff
● Procurement of medical equipment, personal protective equipment	
● Retrofitting existing facilities/building new ones	Sector capital grant, public works capital grant, discretionary capital grant
● Provision of transportation for medical staff	Sector recurrent expenditure grant, OEBG
Community awareness and mobilization	
● Production and dissemination of information and awareness materials online and offline	Conditional or discretionary recurrent expenditure grant, OEBG
● Setting up local call centres to provide information and other mechanisms for public mobilization	Discretionary recurrent expenditure grant, OEBG
Social protection measures	
● Establishing/operating food and non-food (particularly medicine) delivery systems for elderly and disabled	Philanthropic finance, conditional or discretionary recurrent expenditure grant, own source revenues, OEBG
● Support to providers of safe accommodation to victims of sexual/domestic abuse and their children	
● Establishing and operating meal centres and distribution points	
● Retrofitting public facilities to provide temporary shelter to homeless and other vulnerable populations	
● Food stamps to poor households (if not provided centrally)	
Enforcement of public order and regulations	
● Conducting checks and inspections and introducing electronic recording and tracking systems	Conditional or discretionary recurrent expenditure grant, OEBG
Continued provision of essential services	
● Rearranging/retrofitting service arrangements (additional staff and protective measures)	Conditional or discretionary recurrent expenditure grant, own source revenues, OEBG
● Expanding/retrofitting services delivery facilities	Conditional or discretionary capital grant, OEBG
Relief measures for local economies	
● Retrofitting public spaces to facilitate business operation	Discretionary capital grant, own source revenues, public-private partnership, OEBG
● Continuous provision of utility services to local businesses (depending on the provision modality)	Conditional recurrent expenditure grant, own source revenues, OEBG
● Production and dissemination of information and advice to SMEs on adjusting business processes	Own source revenues, public-private partnership, OEBG
Managing large numbers of migrants	
● Building quarantine centres	Conditional capital grant (important not to divert discretionary resources for this task carried out on behalf of central government)
● Staffing and managing quarantine centres	Conditional recurrent expenditure grant (important not to divert discretionary resources for this task carried out on behalf of central government)
● Monitoring quarantine at migrant returnees' residences	Conditional or discretionary recurrent expenditure grant or OEBG can be added to existing monitoring programme

Menu (short description)	Long description	Impact category
1. Prevention		
Event Training	Community training/information pandemics such as COVID	Public Information
Emergency management training	Administration and public service sector training	Efficient management and delivery
Emergency coordination unit (ECU)	Public administration coordination office establishment	Efficient management and delivery
Emergency coordination maintenance	Maintenance of facility	Efficient management and delivery
Media Campaign	Prints outs and newspapers	Public Information
Out Reach Meetings	Capacity development - hygiene (WASH)	Public Information
Community Radio	Public health announcements/guidance	Public Information
Information Cards	Household guides	Public Information
Hand Sanitizers	Household/Markets/Administration/PHCs	Personal Protective Equipment
PPE stock	Household/Markets/Administration/PHCs	Personal Protective Equipment
Household Mapping	Administration Survey(s)	Efficient management and delivery
Primary Health Centre test kits	Basic test equipment	Medical supplies and other critical supplies
Primary Health Centre - training of staff	Training for PHC staffs (test/treatment/ protection)	Efficient management and delivery
Primary Health Centre - basic stock	Test kits and medicines	Medical supplies and other critical supplies
Primary Health Centre - Accessibility	Staff availability (salary top-up)	Efficient management and delivery
Primary Health Centre - Water	Clean water supply/bottled water	Medical supplies and other critical supplies
Community Hygiene	Disinfection of eligible public facilities	Disinfecting and cleaning
Community Transport	Disinfection of eligible public transports (including private sector)	Disinfecting and cleaning
Community Hygiene	Disinfection of eligible private facilities	Disinfecting and cleaning
2. Rapid Response		
PHC mobilization	Outreach services made available	Treatment/Control
Non deferrable medical treatment	Free medical service delivery through PHC	Treatment/Control
Referral	No cost referrals to hospitals including transport	Treatment/Control
Surge Testing	Surge testing established to cover community	Treatment/Control
Temporary medical facilities analysis	Survey and analysis of available PHC beds and supplies	Treatment/Control
Temporary medical facilities	Construction of temporary facilities including repurposing municipal assets	Treatment/Control
Quarantine centre establishment	Set up of quarantine centres including use of hotels/tourist infrastructure	Implementation and enforcement of social distancing

Menu (short description)	Long description	Impact category
Specialist medical equipment	Procurement of specialist medical equipment	Treatment/Control
Medical waste disposal	Systems construction/maintenance/use	Treatment/Control
Emergency medical transport	Transport for community to and from PHC and referral hospitals	Treatment/Control
Food and water supplies	Delivered food and water	Implementation and enforcement of social distancing
Household energy supplies	Cooking and heating fuels	Medical supplies and other critical supplies
Market access digital solutions	Establishment of on-line public ordering systems for public markets	Implementation and enforcement of social distancing
Market price control	Monitoring and inspection of basic food costs and quality	Public Information
Emergency storage facilities	Strategic storage of essential items including food and energy (cold storage including)	Medical supplies and other critical supplies
Sheltering - stay at home policy	Public awareness for implementation of stay at home	Public Information
Situation monitoring and reporting	Public administration ECU	Efficient management and delivery
Community PPE Programme	PPE for community members (masks/ hand sanitizers)	Personal Protective Equipment
Additional security costs	Additional security costs	Implementation and enforcement of social distancing
Border management and control	Additional international border facilities and services	Implementation and enforcement of social distancing
Business premises watch	Additional security for retailers and retail parks	Implementation and enforcement of social distancing
Community tracking	Digital tracking services	Implementation and enforcement of social distancing
Community services	Payment facilities for cash/vouchers	Implementation and enforcement of social distancing
Additional public service salary costs	Payments for first responders and essential staffs (overtime and supplementary)	Efficient management and delivery
Citizen psychological support services	Psychological support to reduce gender based violence	Treatment/Control
Search and rescue	Community care old and vulnerable	Treatment/Control
3. Recovery		
Small business grants	Small business grants to cover payroll and maintenance of production capacity	Economic recovery
Temporary employment	Temporary employment to provide households with payments for pubic works	Economic recovery

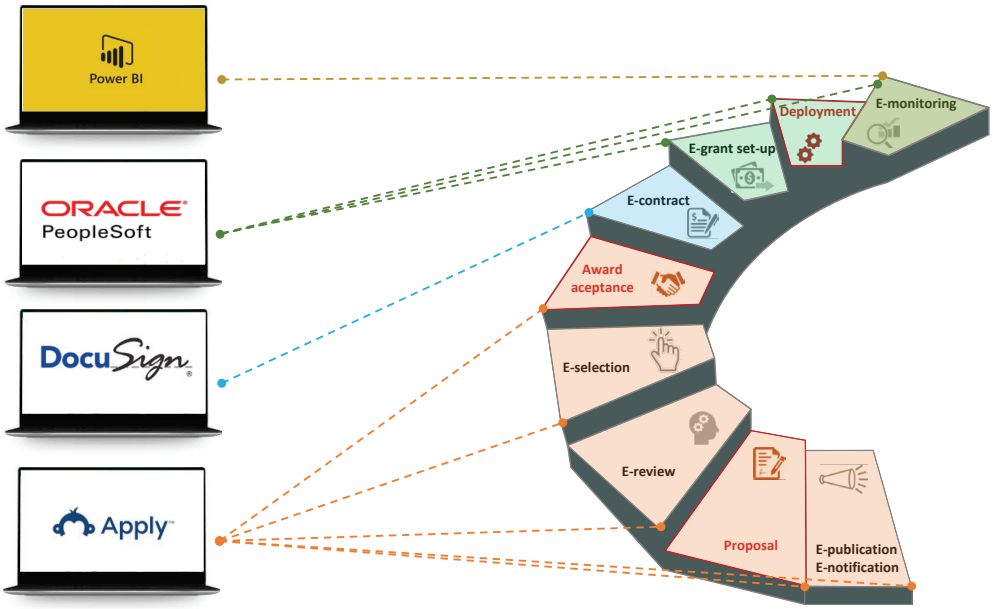
Menu (short description)	Long description	Impact category
Social Protection	Enhanced Mother & Early Childhood Grant payments	Social Protection Household
Social Protection	School meals	Social Protection Household
Social Protection	State severance top up for SMEs	Social Protection Employee
Social Protection	Enhanced disability payment	Social Protection Household
Social Protection	Agricultural support payments	Social Protection Employee
Social Protection	Direct grants for vulnerable groups	Social Protection Household
Economic Recovery - & Rebuilding Local Fiscal Space	Asset repurpose	Rebuilding local fiscal space
Economic Recovery - & Rebuilding Local Fiscal Space	Establishment of municipal business development units and industrial parks	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Establishment of MSME municipal start up funds and support to growing businesses (grants)	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Design and implementation of guarantee schemes with domestic financial institutions (commercial banks, national development banks, sovereign funds)	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Development of economic recovery plan and budget	Efficient management and delivery
Economic Recovery - & Rebuilding Local Fiscal Space	Development of local fiscal space recovery plan and budget	Efficient management and delivery
Economic Recovery - & Rebuilding Local Fiscal Space	Revenue mobilization including from new sources, such as taxes on digital services	Rebuilding local fiscal space
Economic Recovery - & Rebuilding Local Fiscal Space	Tax credits for local companies and businesses	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Land registration/land usage licence support	Rebuilding local fiscal space
Economic Recovery - & Rebuilding Local Fiscal Space	Municipal and local government rents	Rebuilding local fiscal space
Economic Recovery - & Rebuilding Local Fiscal Space	Local economic development strategy	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Stabilisation loans and guarantees direct to SMEs requiring balance sheet support (requires approval from UNCDF's Investment Platform)	Economic recovery
Economic Recovery - & Rebuilding Local Fiscal Space	Establishment of MSME municipal start up funds and support to growing businesses (loans and direct guarantees) (requires approval from UNCDF's Investment Platform)	Economic recovery

Municipal grant - 14-day turnaround time

Unlocking Public and Private Finance for the Poor

Timeline	Local government	UNCDF / Partner
Day 1	1	**E-notification** Direct communication with individual/networks cities and muncipalities on local government response protocol and requests for assistance.
Proposal Preparation and submission of application / proposal.	2	Day 1-7
Day 8-9	3	**E-review** Review of applications / proposals using dual key (public financial management capacity and response adequacy) and initial selection of applicants.
Day 10-11	4	**E-selection** Finalize selection of applications / proposals, and notification of selected local governments, and contract submission.
Award acceptance Acceptance of all terms and conditions, signature of contract and re-submission to UNCDF.	5	Day 11-12
Day 13	6	**E-contract** Review and countersign grants contracts, and vendor setup in PeopleSoft ERP.
Day 14	7	**E-grant set-up** Apply joint performance monitoring and payment triggers through PeopleSoft ERP.
Deployment Operational delivery of COVID-19 local government response activies.	8	Day 15-16
Day 17 till end of contract	9	**E-monitoring and disbursements** Transfer of successive financing tranches according to proposed work plan and monitoring of progress.

E-tools to manage grant process



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

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

For more information on the work of the Local Development Finance team in local government finance, visit:
https://www.uncdf.org/local-development-finance

UNCDF

Unlocking Public and Private Finance for the Poor