

PBL 'What Works school' 2020

Day 2: How to organize policy to stimulate well-being in the region

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THE COVID-19 CRISIS:

IMPLICATIONS FOR MULTI-LEVEL GOVERNANCE AND REGIONAL DEVELOPMENT POLICY

Dorothee Allain-Dupré

Head of Unit, Decentralisation, Subnational Finance and Public Investment

Centre for Entrepreneurship, SMEs, Regions and Cities (CFE)

OECD



1. The territorial impact of the COVID-19 crisis

Within countries, health, economic, social and fiscal impacts differ markedly across regions

- Municipalities and regions are at the frontline of managing the crisis
- The impact is asymmetric within countries, between regions and local areas – in the health, economic and fiscal impacts of the crisis
- The maps of the various impacts do not coincide



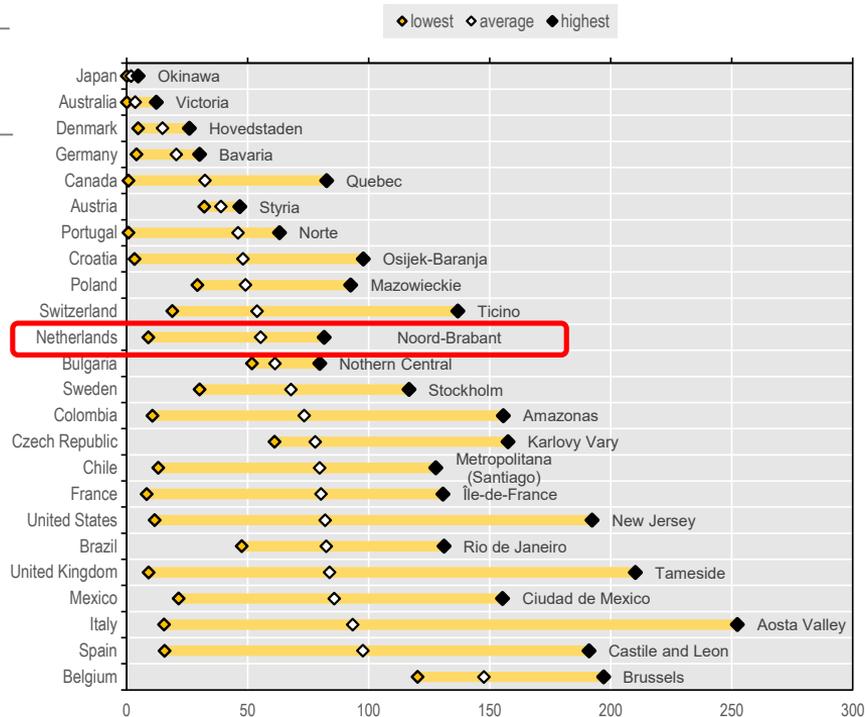
Health impact: Significant within-country differences in COVID-19 deaths

Within-country differences in COVID-19 related fatalities

In deaths per 100 000 population, December 2020

A number of **factors** explain this:

- Localisation of first clusters
- Density associated with the lack of appropriate measures
- Density associated with poor housing conditions
- Deprived urban areas are the most affected
- Access to hospital beds



Source : OECD 2020, *The Territorial Impact of COVID-19: Managing the Crisis across Levels of Government*

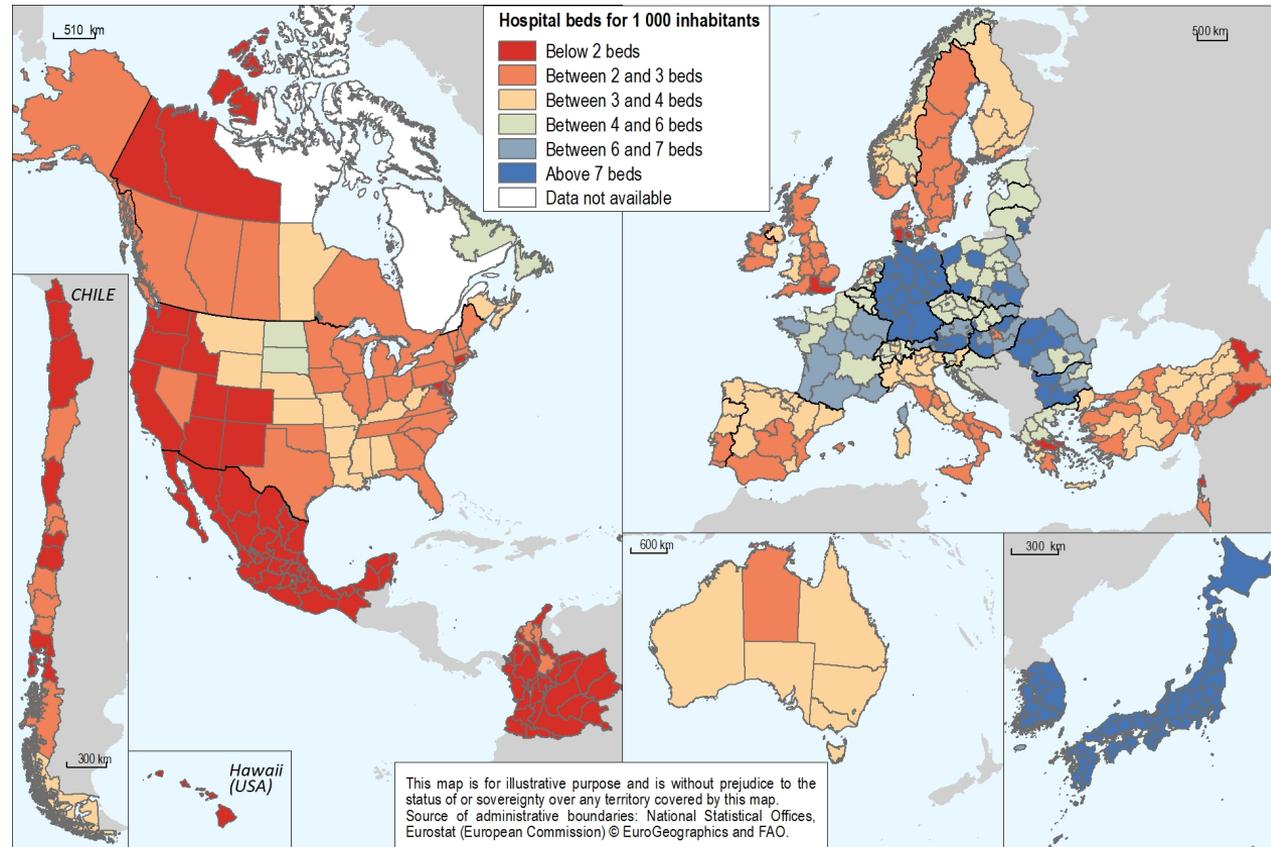


Disparities across and within countries in access to hospital beds

Available hospital beds range from less than 2 to more than 7 beds per 1,000 inhabitants.

Japanese, Korean and German regions tend to have higher values.

Some countries, such as the **US**, **Norway** and **Poland**, show some regional disparities.

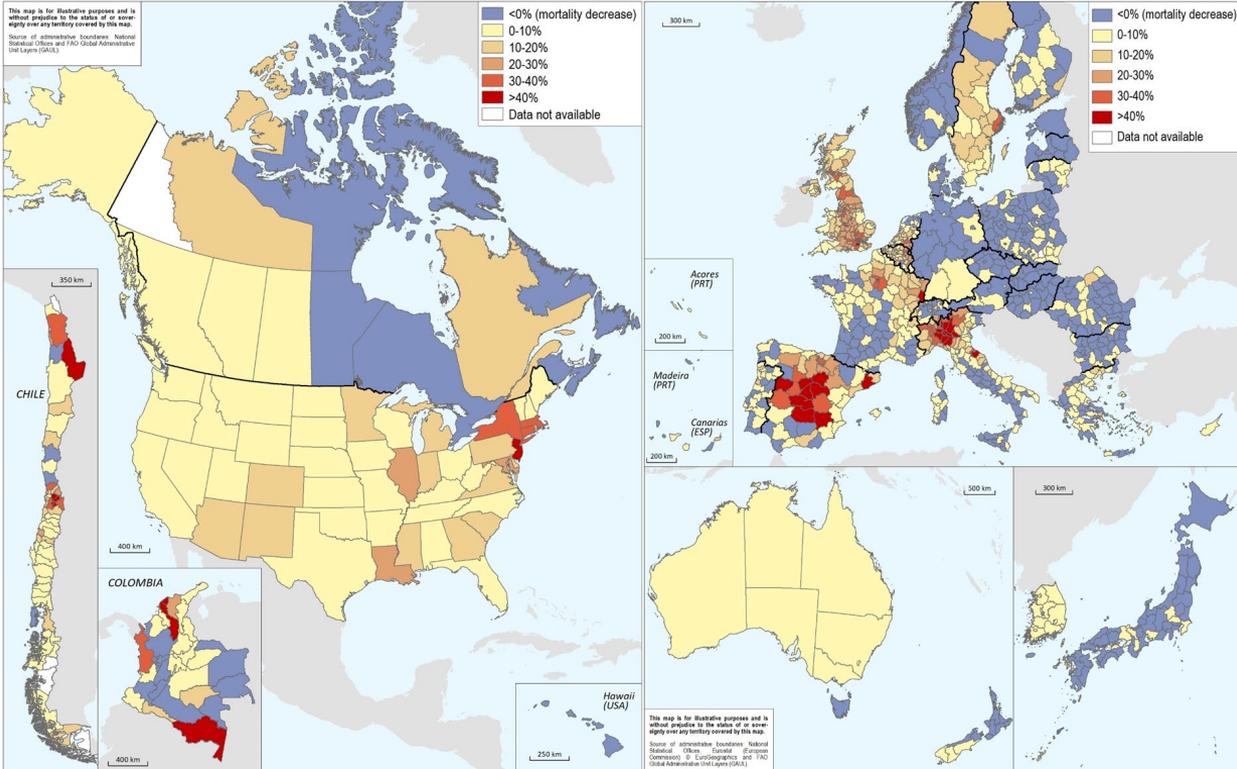


Source: OECD (2020), OECD Regions and Cities at a Glance 2020

Significant within-country differences in excess mortality

Excess mortality, February to June 2020

% increase in deaths relative to the 2018-19 average, small regions (TL3) if available, otherwise large regions (TL2)



Source: OECD (2020), OECD Regions and Cities at a Glance 2020



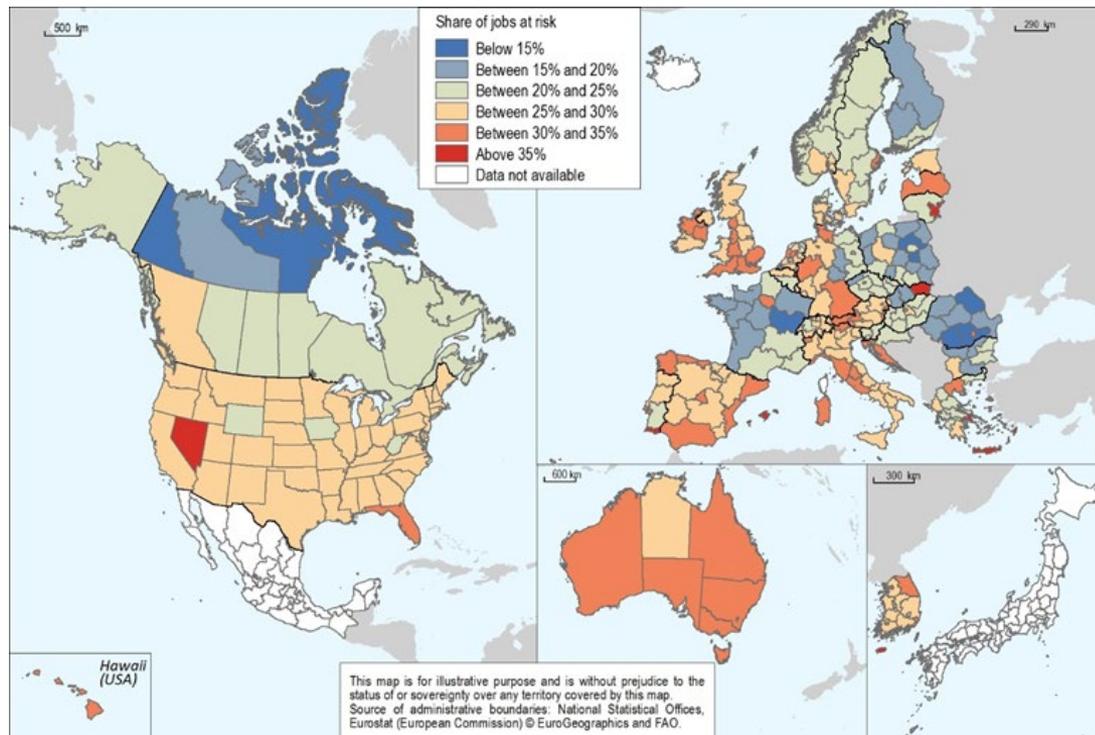
Economic impact: the share of jobs potentially at risk varies across regions

Share of jobs potentially at risk from COVID-19 containment measures

In %, based on 2017 data

The share of **jobs potentially at risk with confinement policies varies by more than 20 percentage points** across regions in OECD countries (June 2020)

Tourist destinations and **large cities** have a higher share of jobs potentially at risk



Source: <https://oe.cd/ll/3jg>

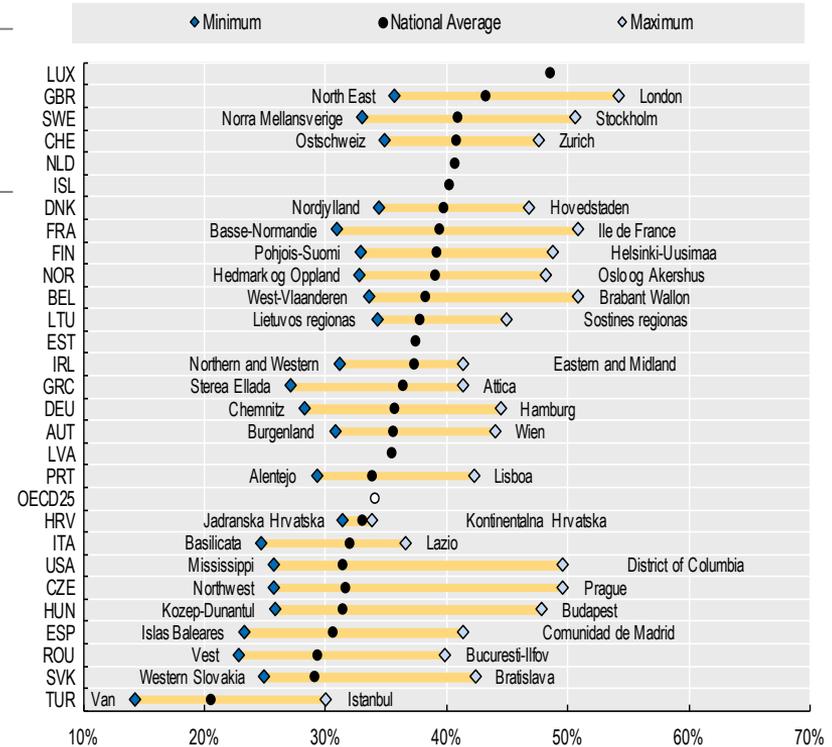


Mitigating the economic impact: different capacities of regions to do remote working

Percentage of jobs which can be done remotely (%), 2018,
NUTS-1 or NUTS-2 (TL2) régions

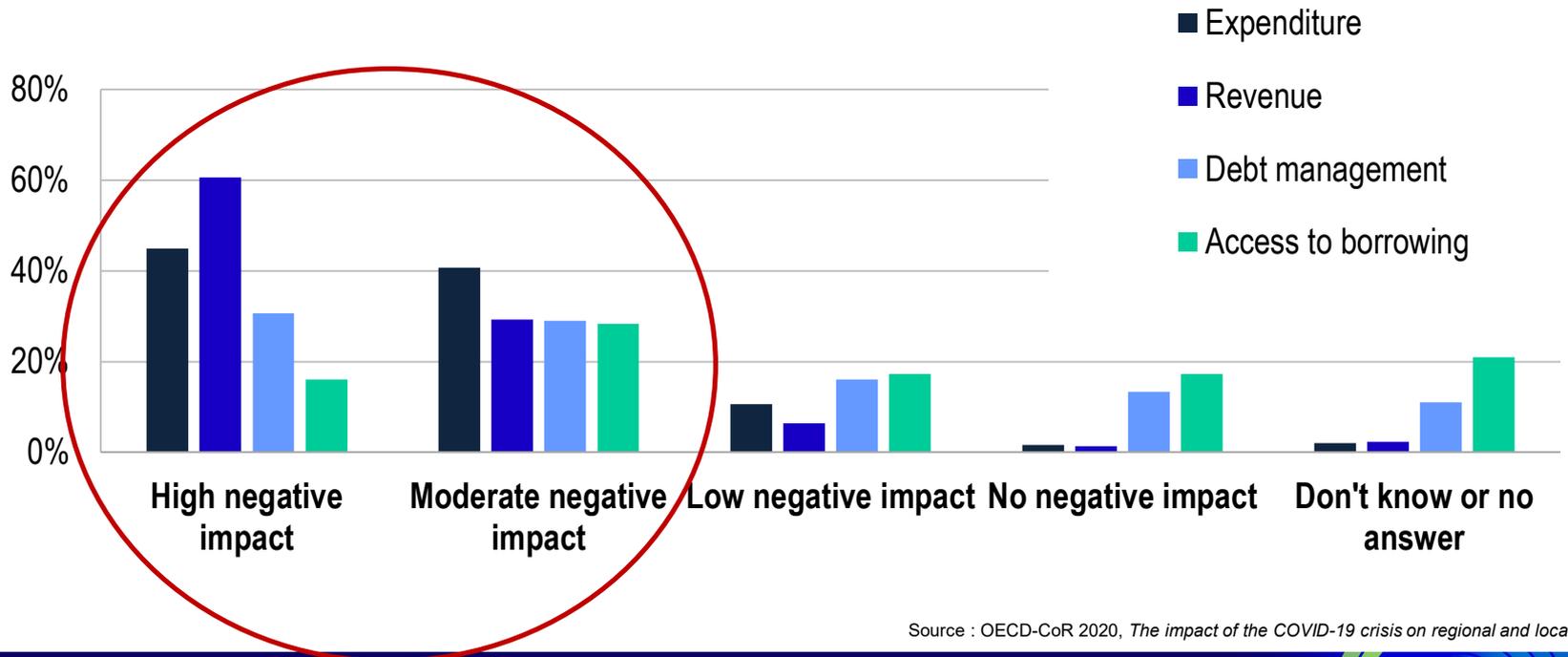
Share of total employment (%), large regions (TL2)

Urban populations have a significantly **higher potential to telework** than those in rural areas



Fiscal impact: the stress on subnational finance is substantial

Impact on subnational finance, by transaction



Source : OECD-CoR 2020, *The impact of the COVID-19 crisis on regional and local governments*



Main risks

Trends in subnational public investment (2008-2016)

Subnational finance

- Scissor effect → Increased deficits and short and long-term debts
- Fiscal consolidation plans in the medium term, leading to:
 - cuts in public investment, which could undermine the recovery
 - cuts in social expenditure, which could affect even more vulnerable populations

Regional economies

- Difficulty for subnational governments to participate in recovery plans, support local economies and SMEs
- Focus on short term priorities and not on resilience
- Amplification of pre-existing trends, increase of regional disparities

GDP growth in the different types of regions (2008-2017)



2. Policy responses

Managing the territorial impact of the COVID-19 crisis and recovery

1. A territorial approach to the health crisis

- Testing and tracing
- Social distancing
- Local and national lockdowns

2. A territorial approach to the economic and social

- Supporting SMEs and the self-employed at regional and local levels
- Supporting vulnerable populations at regional and local levels

3. Upscaling digital tools

- Using digital tools to track the pandemic
- Accelerating the digitalisation of local public services and management
- Reducing the digital divides across regions and across urban-rural areas

4. Supporting subnational finance

- Implementing expenditure-side and revenue-side measures to reduce fiscal gaps
- Relaxing fiscal rules and debt management
- Adapting financial management

5. Public investment recovery strategies

- Maintaining, or even accelerating, public investment in territories, involving SNGs
- Improving governance and quality of investment, including green, social and digital priorities



Place-based responses to the health crisis

Spring 2020

National confinements

Summer 2020

De-confinement,
localised lockdowns

Autumn 2020

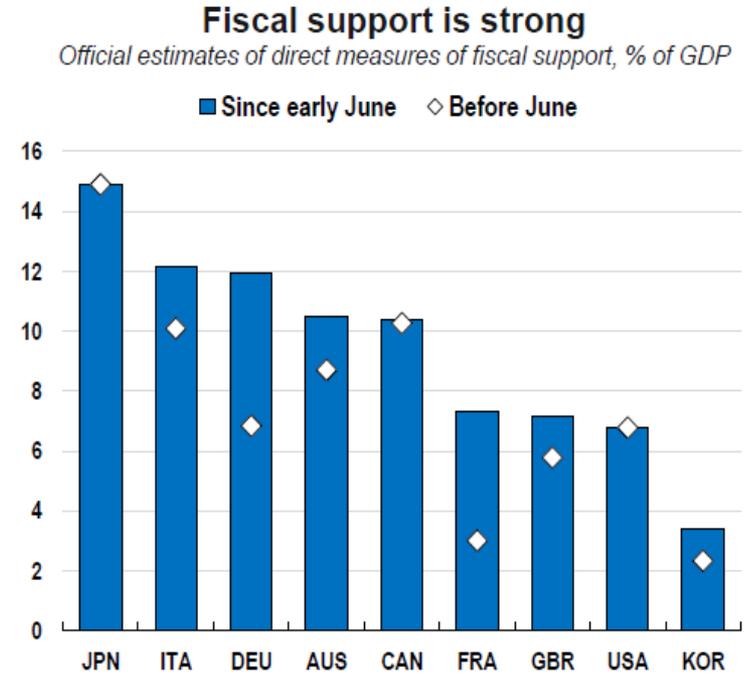
Differentiated territorial measures in a large number of countries, national re-confinements (Israel, Ireland, France) or curfews (Spain)

- Managing the crisis requires **a degree of flexibility to allow for differentiated territorial responses** – from first response to exit plans to long-term recovery strategies
- **Localised policies** for lockdowns, masks, school or restaurant closures can minimise costs of national confinements – but need to be undertaken at an early stage
- **Testing, tracing:** sometimes significant disparities in implementation *within* countries → coordination is needed



Place-based approaches to the economic crisis: managing the uncertainty and the trade-offs

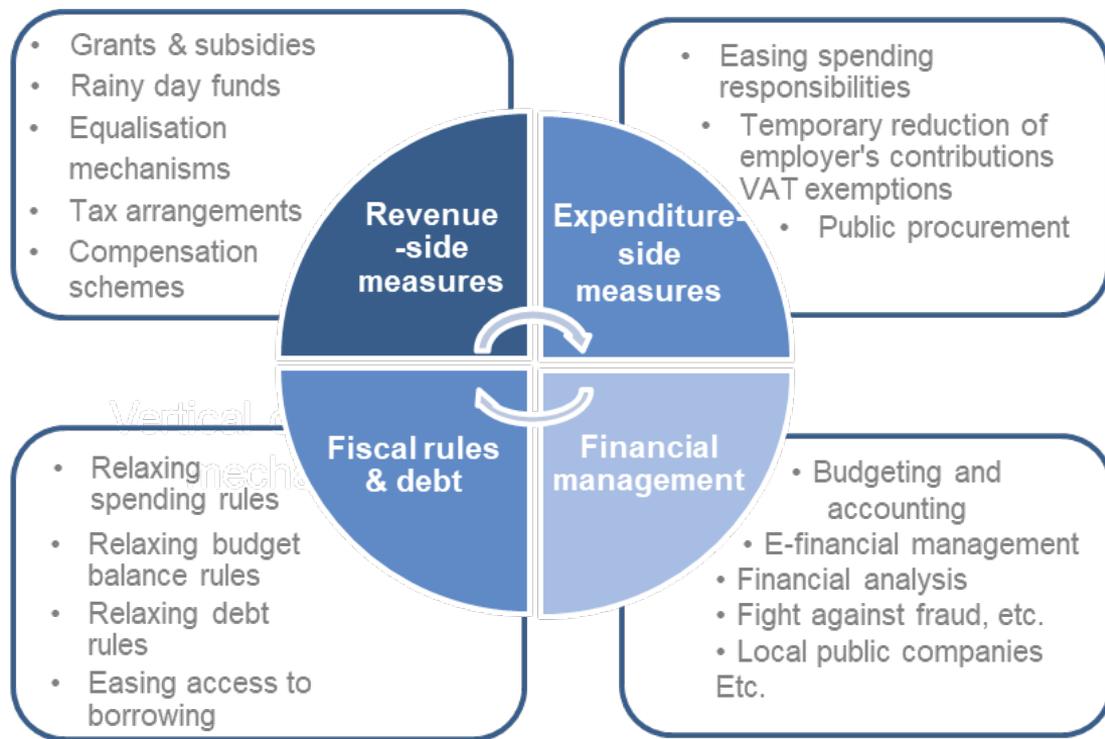
- **High uncertainty and difficult trade-offs** between managing the economic recovery and the different waves of the COVID-19 crisis
- **Massive reallocation of fiscal policy, including for regional policy funding in Q2 2020:**
 - Regions strongly hit by the crisis
 - Support the emergency and health services
 - Support SMEs and the self employed
 - Vulnerable populations



Source: OECD (2020), Interim Economic Outlook September 2020



Supporting subnational finance: 4 categories of measures



Public investment recovery plans: a territorial approach needed

OECD & IMF: **scale-up public investment**

Public investment multiplier is higher when uncertainty is high

Many countries are shifting their recovery approaches to focus more on public investment

- Digital priorities
- Green priorities
- Resilience of health systems (incl. demographic challenges, preparedness of future pandemics)
- Social housing
- Safe transportation

Territorial dimension of national investment strategies

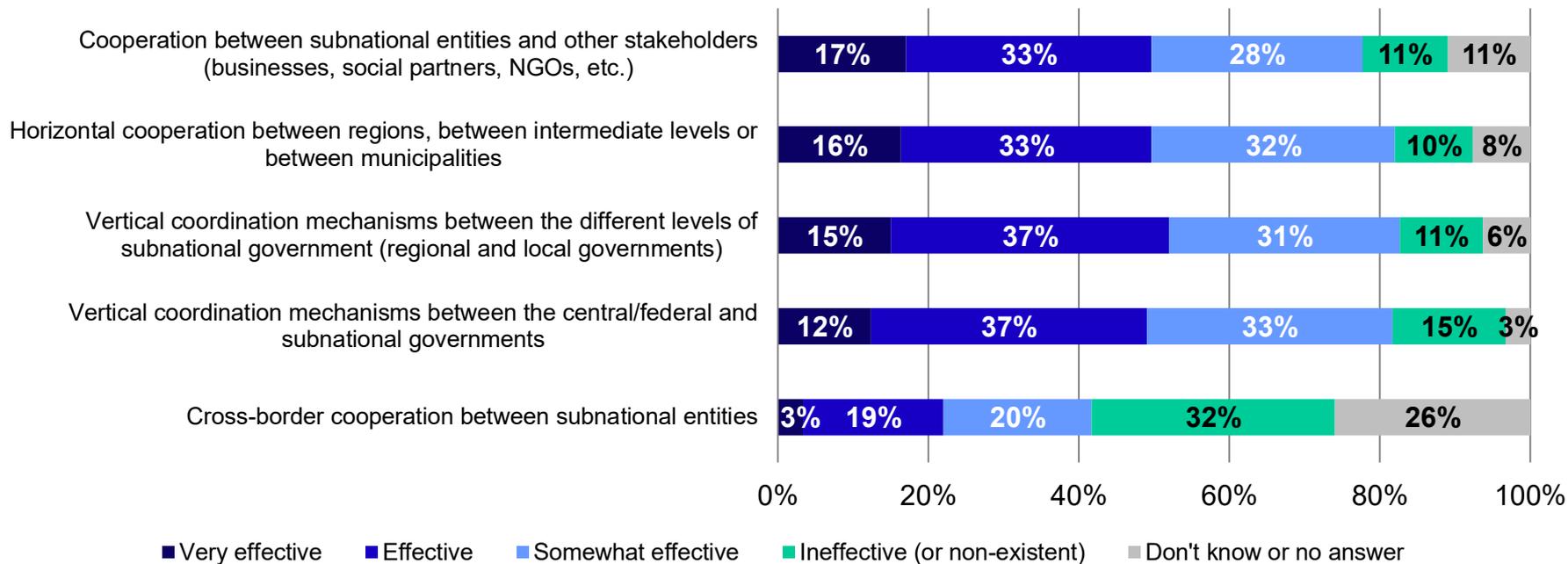
Important role for subnational governments in public investment strategies

- Ensuring quality investment
- Improving the governance of public investment
- Avoiding fragmented projects



3. Preliminary take aways for multi-level governance

Only around one-half of subnational governments surveyed in the EU state that vertical and horizontal coordination was effective or very effective



Coordination is critical to manage the response to the crisis...

Coordination at the heart of crisis policy responses



Risks of not coordinating

- “Passing the buck” to other levels of government
- Jurisdictions competing for supplies, such as masks, testkits, etc.
- Designing and Implementing disjointed recovery strategies
- Further increasing territorial inequalities
- Under-funded/unfunded mandates



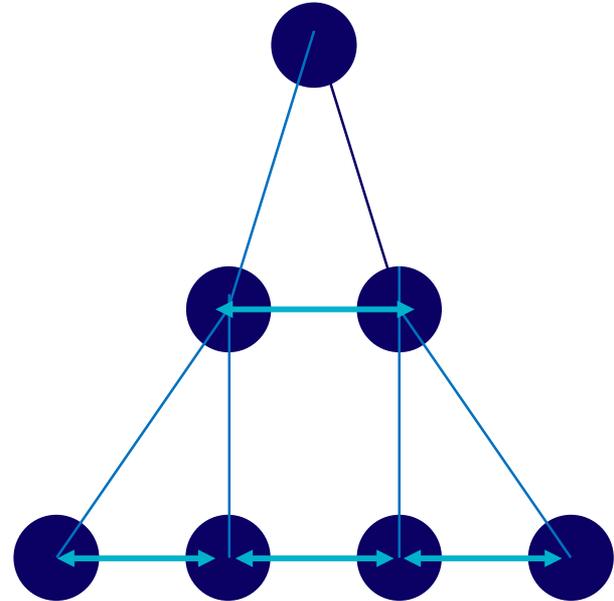
Why is coordination essential

- Because responsibilities are shared among levels of government, effective coordination mechanisms are essential, both vertically and horizontally.
- Externalities linked to Covid-19 are high
- No jurisdiction or country can fight alone
- Coordination is more important than ever



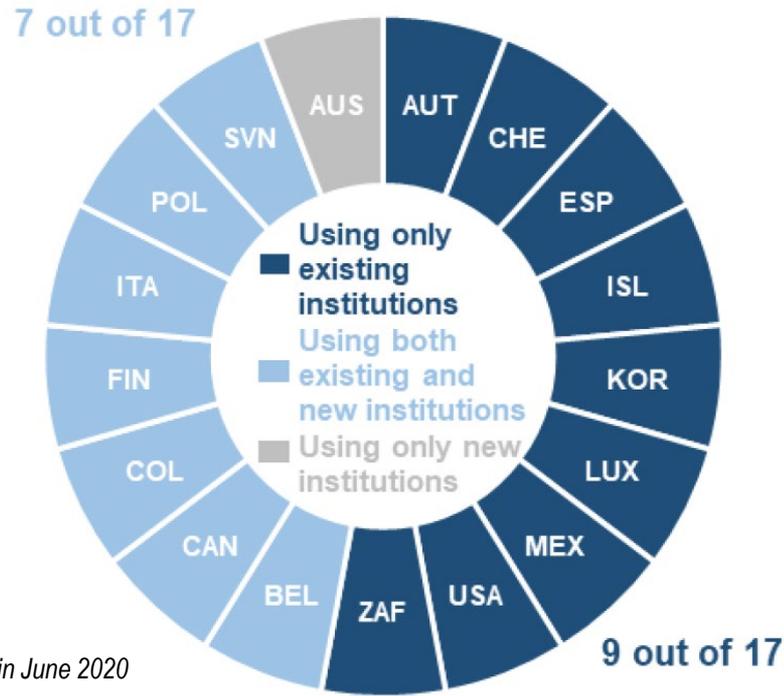
Co-ordination mechanisms at play

- Mobilising **multi-level coordination bodies**
- Clarifying **roles and responsibilities**
- Strengthening **vertical** coordination
- Fostering **inter-municipal** and **inter-regional** cooperation
- Promoting **cross-border** cooperation
- Bringing **public and private** stakeholders together



New or reoriented bodies of government have been supporting inter-governmental coordination

Coordination mechanism employed



Source: Based on the Fiscal Network's COVID-19 survey in June 2020



Inter-governmental coordination matters

Examples of vertical coordination

Korea adopted a “whole-of-government approach” to manage the crisis

New institution in **Finland** focuses on data sharing to form together “a situation picture” and keeping it updated

In **Italy**, a scientific-technical committee was set up, made of experts and representatives of local authorities and state administrations

New National Federation Reform Council in **Australia**

Conference of the presidents in **Spain**

In **Chile**, Social Committee for COVID-19 (*Mesa social por COVID-19*) formed by representatives of municipal associations (mayors), government authorities, academics and professionals from the health sector

Examples of horizontal coordination

In **Denmark**, municipalities have joined forces to purchase protective equipment for their personnel.

In **France**, inter-municipal cooperation bodies have multiplied initiatives to support their member municipalities, citizens, NGOs and local economic actors + transfers across regions

In **Sweden**, the four largest municipalities have joined forces

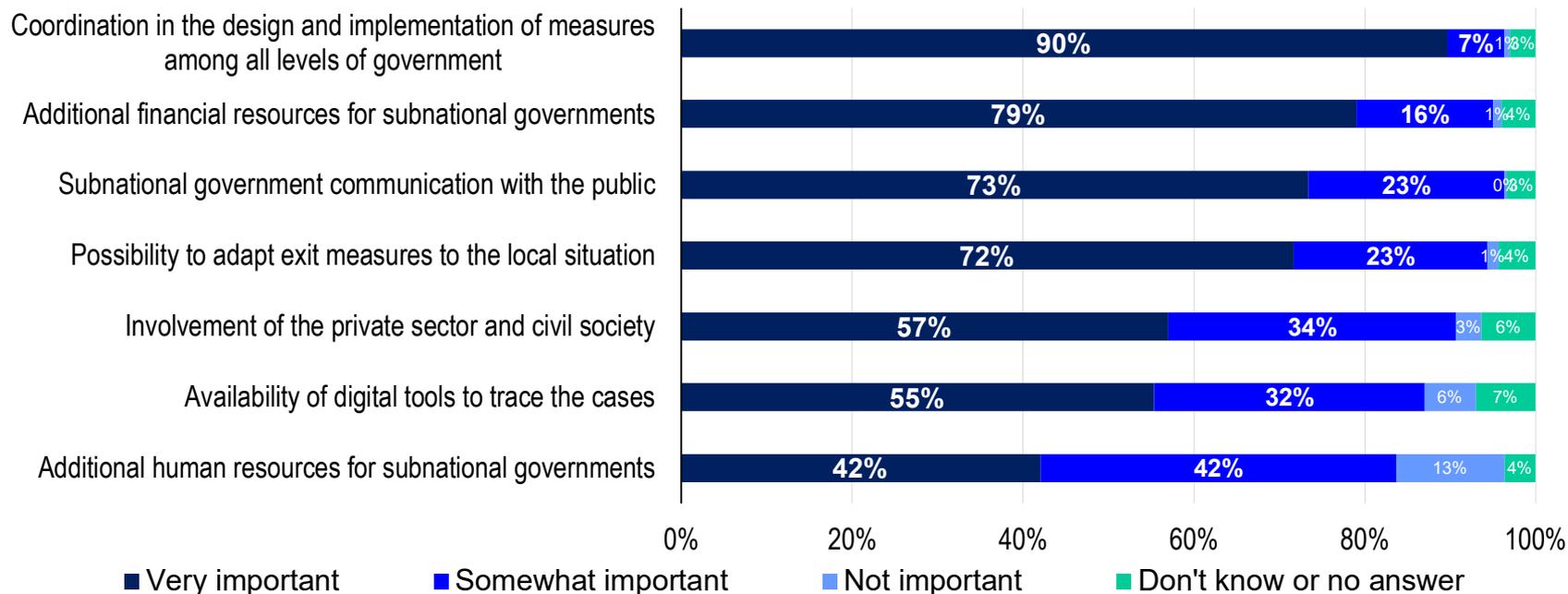
In **Switzerland**, the Conference of Cantonal Governments (KDK) coordinates activities related to the COVID-19 crisis with the Federal Council and among cantons.

The governors of New York, New Jersey, Connecticut in the **United States** established a common set of guidelines on social distancing and limits on recreation



Exit strategies and recovery plans need to account for emerging challenges

Policy tools at the core of a successful exit strategy



Source : OECD-CoR 2020, *The impact of the COVID-19 crisis on regional and local governments*

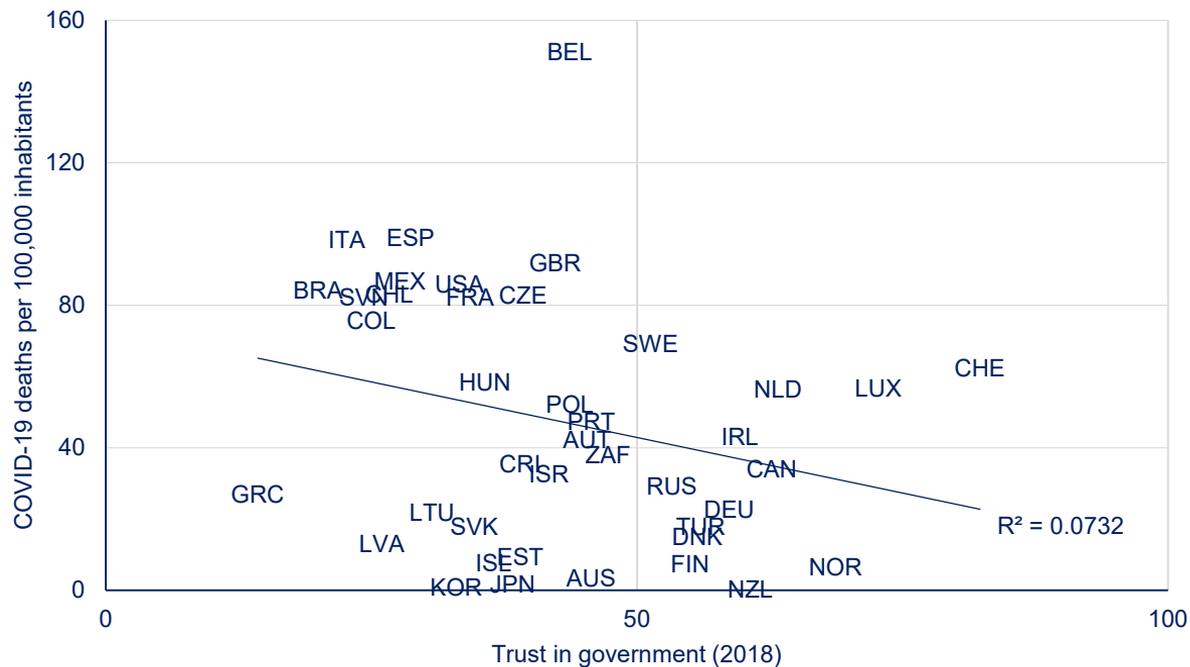


Implications for multi-level governance to build resilience

- **Transparent, rapid, and accurate communication** among all parties is fundamental
- **Building partnerships** to mobilise public, private and third sector actors
- **Citizen trust** may play a role in COVID-19 related health outcomes

Trust in government and health outcomes

COVID-19 deaths per 100,000 population as of December 6, 2020



Implications for multi-level governance to build resilience

Opportunities

- **National coherence** in the response, combined with **flexibility and autonomy** for local authorities to take initiatives
- Build more **flexible multi-level governance** systems, more **differentiated** to better respond to the different needs of regions
- Importance of **partnership-based approach** – with each other, with the private and third sectors, and with citizens.
- Re-evaluate the way **responsibilities are assigned** and financed, and assess areas for improvement to better manage future shocks
- Develop **risk management strategies** at all levels to build more resilient regions
- Identify **new sources of financing**, from traditional budget sources to external sources of funding

Challenges

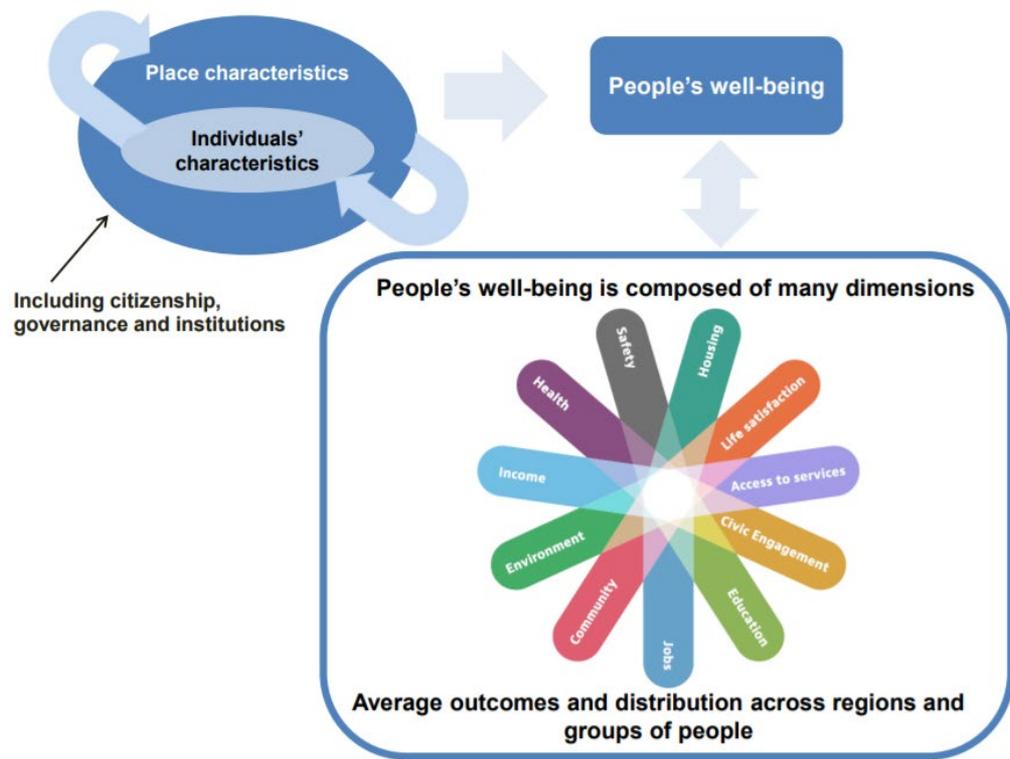
- **Lack of trust** in government, particularly in national governments: democratic challenges and rise in discontent, with a spatial dimension
- High levels of **public debt** for national governments and increased **subnational public debt**
- Limited **fiscal space** in the medium-term, beyond recovery strategies
- **Amplified disparities** between jurisdictions with the administrative, fiscal, strategic capacities to attract private funding and those with out





4. Looking ahead: Implications for regional development policy (and well-being)

OECD Approach to Regional Well-Being



11 dimensions of regional well-being (environment, health, governance, income, jobs, education, life satisfaction, safety, community, civic engagement)



Post COVID-19 #1: Rethinking regional policy objectives

- Exogenous shock of COVID-19: **amplifies** existing trends and challenges
- Risks of **rising territorial disparities** post COVID-19
- **Rethinking the regional policy-mix objectives**
Local and regional eco-systems:
 - Greater focus on quality public services, including health
 - Regional resilience
 - Bridging digital gaps across regions
 - Putting the transition to a low carbon economy at the core of regional policies

76% of subnational governments consider that regional development strategies should place more emphasis on accessing quality public services, including health

(Source: OECD-CoR Survey 2020)

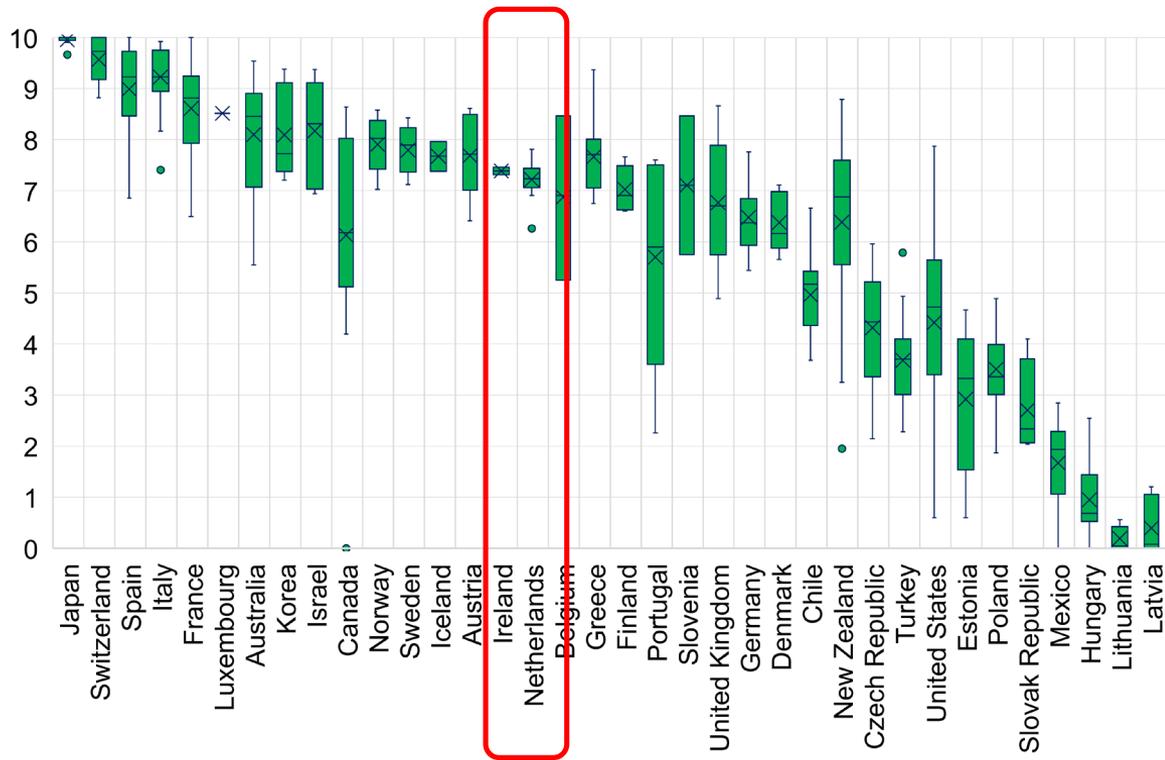


Post COVID-19 #2 : a much greater focus on health resilience

Distribution of health scores, OECD countries 2019

Large regions (TL2), scale (0-10)

Source: OECD Regional Well-being indicators



Post COVID-19 #3: A new spatial equilibrium?

COVID-19:
potential game-changer
for **urban and rural areas**



- Widespread telework may remain a permanent feature of the future working environment
- **Mid-size cities** may gain traction in some countries + smaller municipalities close to large cities
- **While some residents may consider moving to smaller-size cities or rural areas**, this will likely **NOT** be the case for the majority
- People agglomerate in cities not just for work, but also for **services**
- Long-term impact still hard to anticipate



Post COVID-19 #4: Implications and challenges of going digital

Opportunities

- Speed up investments in **digital infrastructure** - opportunity to step up big data, artificial intelligence, the internet-of-things and blockchain
- Higher relevance to enhance **quality and use** of digital tools in rural regions
- Remote distributed work might increase **linkages** between urban and rural areas
- Improvements in **e-services** (e-health, e-education)
- **Smart cities**: more efficient and liveable
- Promote digital uptake for **SMEs**

Challenges

- Substantial gap in access to **high quality internet** between urban and rural areas
 - ❖ 85% of urban households vs 56% of rural households
- Growing digital divide (including **digital skills**)
- Ability to work remotely is **higher in cities** compared to towns and semi-dense areas
- Financing digital investment in a tight fiscal context, especially in rural areas → **risks of increased disparities**



Post COVID-19 #5: The climate imperative intensifies

Opportunities

- Reducing health risks and lowering pollution are positively related
- **COVID-19 recovery packages can accelerate the green transition in regions and cities**
- Responsible for 64% of public investment linked to climate and environment, regions and cities can make sure investment is properly targeted to local needs
- The **three pillars of climate mitigation action** – energy, land use, urban policy – **are at the heart of regional development policies**
- Develop **circular economy** in regions and cities
- Associated **local well-being gains** (e.g. health, environment, productivity)
- Introduce new **indicators** on climate change adaptation covering OECD countries

Challenges

- The **current scale and pace of action and investment** at all levels of government is insufficient to reach climate-neutrality by 2050
- Over 50% of policy support for energy in recovery packages is going to **'brown' fossil fuels**
- **Short-term** spending and investment challenges for COVID-19 risks **derailing long-term (climate) priorities** in regions and cities
- Critical need to **enhance subnational climate finance** and diversify sources of funding in municipalities and regions in a tight fiscal context
- **Ensuring a just transition**



Post COVID-19 #6 : Rethinking globalisation

Opportunities

- Shorter supply chains can **reduce carbon emissions and lead times**
- Local production processes are **more sustainable**, which is increasingly important for consumers
- Reshoring strategic industries that were delocalised (e.g. raw materials) can **reactivate rural economies** as hosts of these industries
- The manufacturing sector increasingly uses and produces services alongside the goods that it sells. This can **create new jobs in rural areas**

Challenges

- Regions with major ports, trade facilities or regions with relatively larger shares of employment in **manufacturing or other tradable sectors**: more affected by disruptions in GVC
- Reshoring, and producing close to potential consumers, even with reduced lead times, can be **more costly than offshoring**
- Many tasks are **difficult to relocate**, as they depend on local resources or specific skills
- **Production lines cannot be changed quickly**; they are built for 7-9 years
- SMEs that operate in a limited number of markets, and rely on specific suppliers and buyers, can be **less resilient to disruptions**, such as COVID-19



TACKLING CORONAVIRUS (COVID-19)
CONTRIBUTING TO A GLOBAL EFFORT

Thank you

✉ Dorothee.Allain-Dupre@oecd.org

Twitter: @OECD_local

LinkedIn: www.linkedin.com/company/oecd-local

Website: www.oecd.org/cfe

Link to the paper: oe.cd/il/2X6

