



**IMPACT OF COVID-19
ON THE FINANCIAL RESOURCES AND
CAPITAL EXPENDITURES OF LOCAL AND
REGIONAL GOVERNMENTS IN AFRICA**

Local and regional governments are on the front line in the fight against COVID-19. But beyond this commitment, it is clear that the pandemic will have an impact on local and regional authorities, particularly in financial terms. A model assesses the impact of the pandemic on the financial resources and capital expenditure of local and regional governments.

Impact of COVID-19 on the financial resources and capital expenditures of Local and Regional Governments

I - Introduction

Africa has about 16,000 local and regional governments (LRGs). These local and regional governments were created following the adoption and implementation of decentralization laws which respond to the specific characteristics of countries: to their ancient or contemporary history, to the acting of national actors and to the internal spatial and socio-economic disparities, among others. These communities are of different types: rural or urban municipality at the basic level, "département" or equivalent at the intermediate level, community located immediately below the central state level (federal state, region, county, province, etc.). All of these types of LRGs' have in common that they enjoy legal personality as a public body distinct from that of the central state, and financial autonomy. They are generally administered by elected assemblies, are led by an elected or appointed executive, and have their own administration.

These LRGs are grouped into national associations which are the representative body for the voices of local and / or regional elected representatives. There are currently 48 of them across the continent. The role of these associations is to contribute to strengthening decentralization, to represent and defend the interests of member communities with public authorities and national and international partners, and to promote good governance. Local and regional authorities can also be grouped according to type and size (rural or urban; rural towns, intermediate/secondary cities, large cities, etc.) according to the geographical area of belonging, or according to the dominant function (port cities, cities tourism, etc.). In some countries, associations exist per level of community (municipalities and regions for example), per types of community (urban and rural for example) or even per geographic spheres (regional associations of local or regional governments).

The health sector is one of the competencies assigned to local and regional governments in African countries since the generalization of decentralization processes. With education and sanitation, health is one of the basic attributions which benefit from the comparative advantage of proximity according to the principle of subsidiarity. In all countries, the construction and maintenance of health centers are the responsibility of local and regional governments, to which must be added in some other countries the salaries of health workers and similar workers. In most countries, district hospitals and / or regional hospitals exist and are the responsibility of regional authorities, districts or provinces. Only the University Hospitals do not fall under the jurisdiction of local authorities.

In addition to the fact that local authorities are responsible for health, which make them major players in the presence of health crises, some of them, especially cities, are fertile ground for contagion and for the rapid spread of diseases. Indeed, cities are by definition places of high density, where a large number of people live and interact close to each other. The density levels in parts of African cities, especially in slums and other informal settlements, are very high.

It is for these two reasons that local and regional governments are key players in the fight against epidemics and national disasters. In the case of Ebola, local and regional governments in Central and West Africa have been at the forefront in raising awareness and implementing protective measures to prevent the spread of the disease. They have upgraded their basic health facilities for a better management of the epidemic. In 2005, communities in the Lake Tanganyika region in central Africa, in the Kenyan coast in the East of the continent, as well as the city of Kalemie, in the Democratic Republic of Congo, were the first institutions to take immediate action to bring relief to the people following the powerful earthquake measuring 7.5 percent on the Richter scale. The same thing happened in 2019 when a large part of Southern Africa, including Mozambique, Malawi and Zimbabwe, were hit by tropical cyclone Idai. There too, it is the local authorities of these countries that have brought first aid to the populations and enabled support for the poorest by setting up the right conditions for resettlement and assistance for the proper reintegration of the populations.

II – Central role of local and regional governments

The response from local and regional governments was diverse and included conventional measures to control the spread of the disease, up to the implementation of lockdown and social measures and measures aimed at mitigating the social impacts of the pandemic.

The authorities of cities like Abidjan, Johannesburg, or Lagos have delivered sanitary and prevention materials to health structures, (gloves, muff, disposable gowns, bleach, complete handwashing devices, medical beds, equipment isolation) to communities, social workers and health centers. Given the shortage of brands in some countries, cities have set up a production capacity, adapting the production of some of their structures as was the case in Abidjan with the reconversion of the Municipal Training Center to the professions of sewing, hairdressing, cosmetology and pastry. In some cities such as Sousse, N'Djamena and Rabat, municipal services perform the daily sterilization of the public spaces and places to curb the risk of spreading the disease. Faced with the interruption of the services that used to be provided by taxis and transport buses, the Kampala Capital City Authority (KCCA) has set up 29 sites where ambulances are stationed which will provide transportation for people in situations of health emergencies.

Some African cities such as Nairobi (Kenya), Kinshasa (Democratic Republic of Congo) and Niamey (Niger) have simply chosen to lock themselves down. Indeed, in these countries, the capital cities concentrate the greatest number of COVID-19 patients, making them real factors of the spread of the disease. Local authorities in coordination with central authorities have opted to "isolate" their cities from the rest of the country to avoid being the vector of contamination of the country. This is how these towns were cut off from the rest of the country, and roadblocks erected to control the comings and goings of the inhabitants. With the exception of the traffic of goods and goods, all vehicles leaving these capital cities are stopped, and each trip must be justified.

New information and communication technologies have also been used by local and regional governments to curb the spread of the pandemic. This is how the municipality of Tétouan (Morocco) has accelerated the transition to online services in order to deal with the spread of the Coronavirus pandemic. The municipality has decided to end the use of paper media definitively and to switch to digitalisation of its services and benefits on behalf of users as a

preventive measure against the transmission of the new Coronavirus (COVID-19). For the municipality, this decision to digitize its services aims to avoid the risk of transmission of the Coronavirus, by setting up a digital alternative to ensure the normal functioning of administrative work. On the other hand, Johannesburg (South Africa) has, among the 8 measures taken by the City to fight the Coronavirus, provided prominently for assistance in finding and monitoring people who have been potentially exposed to people whose exposure to the virus has been confirmed.

Some local governments have dwelled on the conditions to be put in place for the proper implementation of barrier and public health measures. For example, local and regional governments such as Harare (Zimbabwe) and Zaire (Angola) have focused on improving access to water, especially in dense working-class neighborhoods. In these overcrowded neighborhoods, which have few amenities, the communities have set up public standpipes and public handwashing devices. This measure is all the more important than according to United Nations estimates, only 56% of the urban population of sub-Saharan Africa and only 10% of slum dwellers have access to running water. In Harare (Zimbabwe), under pressure from the population, the City Council recently increased its production of water from 173 megaliters to 240 megaliters per day since April 20, 2020, and by ensuring that all the suburbs have access to water. In Angola, the Governor of Zaire made water tank available to municipalities and municipalities to support the supply of drinking water to remote areas of the region as part of the COVID-19 prevention and lockdown measures.

Finally, the initiatives of African communities also involve the homeless and certain categories of migrants. In Fez (Morocco), the Commune has identified a reception site for migrant populations, and the municipal services are making it viable with the cleaning of its various outbuildings (dormitories, WCs, kitchens, and), the installation of lampposts, and repair of showers with hot water. Other conveniences such as blankets, beds and food, the first supplies are already delivered. However, other deliveries of food products will be carried out. Many African cities have invested in mitigating the social effects of the lockdown associated to the Coronavirus. Indeed, the necessary general quarantine hit the poor social groups hard. These groups, which are mainly made up of workers and households in the informal sector, have the main characteristic of having daily incomes, the level of which barely meets their daily needs, starting with food. The Social affairs Department of Dori (Burkina Faso) has thus set up a communal solidarity fund to support people who are no longer active following containment measures. The city of Dakar (Senegal) is organizing food aid in the 19 municipalities of the city, to cope with the consequences of the COVID-19 epidemic. The county governor of Machakos (Kenya) has exempted the Machakos people from paying water bills between May and December 2020, while working to ensure that everyone in the region has access to clean water.

Finally, the initiatives of African communities also involve the homeless and certain categories of migrants. In Fez (Morocco), the Commune has identified a reception site for migrant populations, and the municipal services service the area with the cleaning of its various outbuildings (dormitories, WCs, kitchens, and other amenities), the installation of lampposts, and repair of showers with hot water. Other conveniences such as blankets, beds and food, the first supplies are already delivered. Nonetheless, other food deliveries will be carried out.

III – Impact of COVID-19 on financial resources and capital expenditures of local and regional governments

COVID-19 raises fears of the worst economic consequences since the Great Depression of 1929, according to the IMF¹. In Morocco, according to the General Confederation of Moroccan Enterprises (CGEM)², a drop between 30% and 50% of the activity is noted during the first three months of confinement. The Executive Secretary of the Economic Commission for Africa (UNECA), Mrs. Vera Songwe, warns that beyond the downturn in activity, many small and medium-sized enterprises risk "going out of business". As for the economic activity of the informal sector which occupies two-thirds of the working population in African cities, the lockdown implies an outright shutdown of the economy, which means in practice a massive unemployment and a drastic drop in income.

At the territorial level, the impact is likely to be greater for two reasons. The first one is linked to the fact that the modern sector in local governments (excluding national capitals) is made up of a myriad of small and medium industries and SMEs whose capacity to absorb systemic shocks like that of COVID-19, is weak. Much of this economic activity will certainly not survive the consequences of COVID-19. The second reason is due to the fact that the informal sector is the prevailing sector in these local governments, representing between 35% and 50% of the added value and between 60% and 80% of employment³. The added value of this sector is proportional to the time spent by the confinement decided by the national and local authorities.

The attempt to estimate the impact of COVID-19 on the financial resources and capital expenditures of African local and regional governments is based on the following double precaution: (1) First of all, the impact is assessed with regard to the three sources of income: the resources collected from the informal sector; resources collected from the modern sector and finally financial transfers from the central government to local governments. (2) Then simulations are made on total operating revenue on the one hand and on capital expenditure on the other. The first simulation is an extension of the current situation; such simulation sets the level of economic activity in general at one third of the usual annual activity. For the informal sector, this implies 4 months of activity, considering the linearity of its activity. For the modern sector at the time of activity, it is also necessary to take into account the closing of some activities; the equivalent of one quarter (3 months) of activity is used. Concerning the financial transfers received from the central government, they are halved in this simulation. The second simulation is more optimistic; it implies a quick reopening of the economy and 4 months only of inactivity within the year. This implies 8 months of activity in the informal sector, and half of the year for activity in the modern sector. Concerning the financial transfers received from the national government, this simulation does not consider any drop in the level of financial transfers which are rolled over as such.

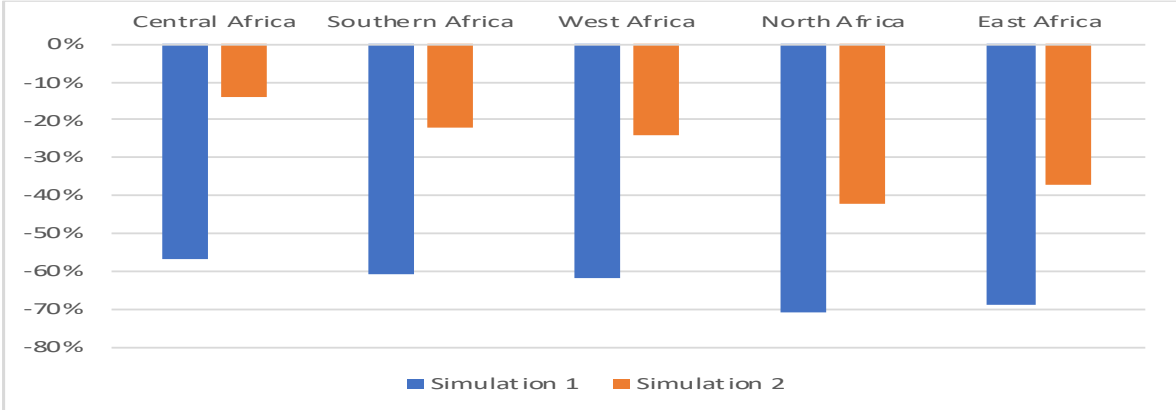
¹ This is the gloomy prognosis made by Kristalina Georgieva, Managing Director of the IMF on the impact of the Coronavirus pandemic on the world economy , in a speech before the Spring meetings to be held by videoconference

² According to a survey, 815 companies questioned (out of 1740) saw their activity decrease during the first three months by more than 50%, and 301 companies declared a drop ranging between 30% and 50%.

³ See the results of the ECOLOC studies.

The model predicts that, on average for all African local and regional governments (252 US \$ per capita), a drop in local finances of the order of -65 % for the first simulation to -30 % for the second simulation. These figures suggest that if current trends continue, it is feared that local authorities will lose two-thirds of their resources, thereby jeopardizing the provision of local public services to the populations. In the best of cases, one should expect a drop in local finances equivalent to one third of local budgets, which is a real concern. However, this African average hide strong regional disparities. The figure below shows the impact on the finances of local authorities of COVID-19 per region. Thus for East Africa (51 US \$ per capita) and North Africa (150 US \$ per capita), the drop in the level of financial resources is the greatest regardless of the simulation. This sharp drop reflects a larger share of the product in the local budgets of these two regions, all other things being equal. These two regions also show the largest declines in simulation 2, supposing that national government’s subsidies are maintained at the same level. Central Africa (21 US \$ per capita) is, among the five regions, the one that experiences the smallest declines in both scenarios, reflecting an insufficient contribution of the informal sector and/or of the effects of the many exemptions that formal businesses do benefit from.

Figure 1: Impact on local and regional governments finances on average in the five regions of Africa



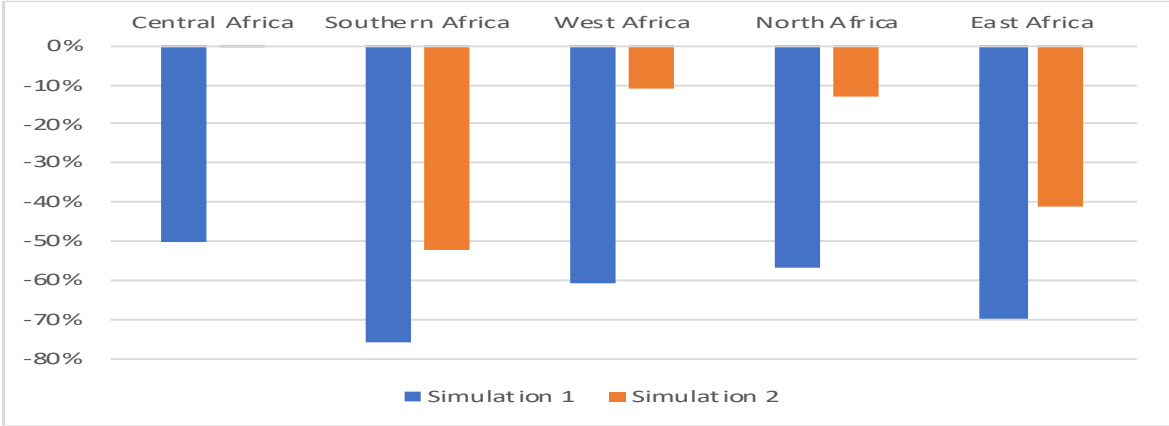
Source: Observatory of local finance of UCLG Africa.

The second important indicator, alongside the mass of local finance, is the investment expenditures of local governments (average of 28 US \$ per capita). They are important because they determine the quality and quantity of the infrastructure needed to provide local public services. The impact of the COVID-19 is -63% if the current situation continues and - 26% for an optimistic scenario. Given the limited investment budgets in normal times, it is more than necessary to anticipate the special grants dedicated to investment.

These averages, as shown in Figure 2, hide large disparities between regions. Central Africa (6 US \$ per capita), for example, seems to experience the smallest declines in investment. This situation is due to the fact that in this region, all other things being equal, the local authorities practically do not levy monies in connection with investment revenues ; all financial resources are used for operations. As a result, investment covers almost exactly the subsidies received from the national government that are dedicated to the revenues of the investment budget: this explains why in scenario 1, the drop in investment spending covers exactly the level of decline adopted for state grants in this scenario, that is to say 50%. For scenario 2, the result close to zero is explained not only by a

re-establishment of the level of investment subsidies, but also by the fact that the improvement in the level of economic activity does not translate into levies in connection with investment income. This is to a lesser extent the case of West Africa (74 US \$ per capita) and North Africa (55 US \$ per capita).

Figure 2: Impact on capital investment of local and regional governments on average in the five regions of Africa

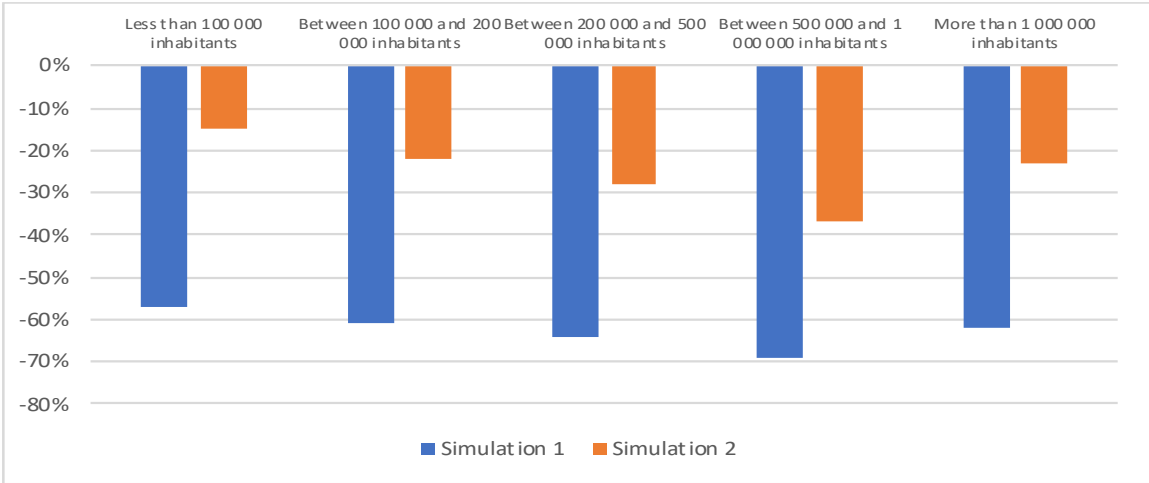


Source: UCLG Africa Local Finance Observatory

Compared to Central Africa, Southern Africa (237 US \$ per capita) and East Africa (6 US \$ per capita) are in a different situation. Much of the investment comes from the levy in connection with investment income, which implies a sharp decline in both simulations and especially for the second simulation where the level of subsidies from the central government is maintained as it is.

In addition to the impact of COVID-19 on the different regions of Africa, the analysis in relation to the population of the cities sheds additional light. Figure 3 shows that the decreases are more or less equivalent regardless of the size of local authorities, with the exception of the size of cities between 0.5 and 1 million inhabitants.

Figure 3: Impact on local and regional governments finances per population size



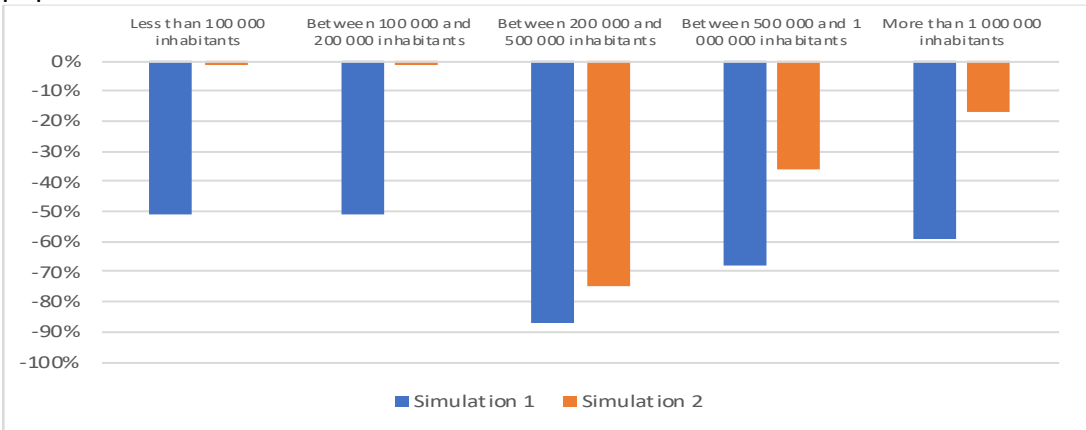
Source : UCLG Africa Local Finance Observatory

The results of the second simulation (which estimates that the informal sector will remain active for at least 8 months) show better responsiveness of cities with less than 200,000

inhabitants, given the important contribution of the informal sector in their budgets. This performance is also noted in cities of more than 1 million inhabitants where a significant part of their population operates in the informal sector.

The analysis of the impact of COVID-19 on cities' investment spending sheds further light. Figure 4 shows that cities with fewer than 200,000 inhabitants are those whose needs are out of all proportion to their budgetary resources. The fact that variations in investment spending in both simulations cover exactly the variation of the amount of subsidies from the national government shows that these cities have no investment capacity. All financial resources are consumed by the operation induced by the provision of public services. We know that these intermediate/secondary cities alone will absorb one third of the growth of the urban population in Africa in the next two decades. The investment capacity of these cities depends in reality only on the national government which has so far dedicated only marginal attention to them. We must therefore draw considerable attention to the low place accorded to them in public investment policies in the majority of African countries. Support strategies for these cities must not only aim to strengthen the mobilization of financial resources by widening their tax base, but also to improve the quality of local public expenditure by rationalizing expenditure and by identifying expenditures that will support the economic activity.

Figure 4: Impact on the capital investment of local and regional governments per size of population



Source: UCLG Africa Local Finance Observatory

Cities ranging in size from 0.2 to 0.5 million will experience the largest proportion of decline in investment income that equates to subsidies received from the national government, bringing this decline to the same level whatever the scenario considered. For cities with more than 0.5 million inhabitants, their significant contribution to investment expenditure on own resources explains the level of the decreases.

IV – Implications for public policies

The results of this analysis of the impact of the COVID-19 pandemic on the finances and capital expenditures of African local authorities suggest two main implications for public policies.

The first lesson is that of the necessary deepening of the decentralization process in Africa and more particularly in the field of public health. Indeed, the initiatives taken by local public institutions in all African countries have been decisive against the spread of the disease. The initiatives were decisive because the local public institutions were faster, closer to the field, and better aware of the constraints encountered by health facilities in the field ; but above all the local public institutions were effective through better knowledge of the populations and better targeting of awareness-raising actions for the adoption of sanitary measures for the protection against COVID-19. The effects both on the resources of local governments and on their investment expenditure show the need to deepen the decentralization processes, particularly their financial aspect. Furthermore, all the measures taken by the various international financial institutions (World Bank, African Development Bank, Regional integration institutions, etc.) are certainly a positive point, but one must see to it that such measures will not translate in practice in recentralizing interventions in the health sector. It is important to ensure that the implementation of these support measures for the health sector is accompanied by a requirement for their territorialization in compliance with the legislative and regulatory texts adopted in the area of decentralization by African countries. There is a need to be concerned with how the support given to the health sector in the fight against the Coronavirus pandemic and its consequences will reach the local governments. Most African national governments support local government budgets and have budgetary and accounting procedures for doing so. Nothing prevents the possibility that within the framework of the Coronavirus crisis, and for more efficiency and impact of the actions at the level of the local populations, these procedures be effectively adopted and implemented within the framework of the budgetary supports brought to the health sector by the development partners.

The second lesson to be learned is that of re-examining financial relations between the national governments and local governments. From the conceptual standpoint, putting the priority on economic stabilization first has led to many reservations being raised about determining a tax field specific to local governments. It is for this reason that it is usually recommended not to transfer local taxes to local governments, which have the particularities of generating highly fluctuating resources such as corporate income taxes, value added tax, and import duties. But COVID-19 has shown that it is important to rehabilitate the function of stabilization and redistribution of transfers of public finances between the national government and local governments. The same taxes whose decentralization is not desired are also important instruments for stabilization and redistribution at the territorial level. Part of the proceeds of these taxes and levies centralized so far can be used via financial transfer systems to cushion natural or external cycles and shocks. Subsidy systems for territories must particularly support local governments in their role of accelerating local economic development, so that the growth of local economies will support the creation and redistribution of wealth at the national level. We have shown how dependent informal sector companies are on basic equipment and infrastructure put in place by local communities. Any lasting depression in the capacity of local governments to invest in the development of basic equipment and services will inevitably result in a deterioration in the living conditions and living environment of the populations, and in a drastic reduction in activities in the informal sector. The policies in support of economic activities defined in response to the economic consequences of the Coronavirus pandemic must therefore take the greatest account of the impact of this crisis

on local budgets, and not limit support to companies only. Countercyclical subsidy systems for local governments are more necessary than ever, especially in Africa where the opening of economies to globalization leads to a great sensitivity of public finances to cyclical fluctuations in world markets. Strengthening local economies is one of the most effective responses to reducing the sensitivity of national economies to the cycles of the global economy. It is perhaps an opportunity that the COVID-19 crisis opens for a different look at the contribution of local communities to the structural transformation and development of Africa.

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