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COVID-19 and Progress on Subnational Localisation of the SDGs



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Foreword by UNU-IAS



On 25 June 2020, the UN Secretary-General launched the United Nations Comprehensive Response to COVID-19¹ to save lives, protect societies, and recover better. As part of the response the Secretary-General issued the policy brief COVID-19 in an Urban World², which called for intensified commitment and action for cities to overcome the impacts of the pandemic in three key areas: tackling inequalities and development deficits, strengthening the capacities of local actors, and pursuing a resilient, inclusive, gender-equal, and green economic recovery. Since then the urgent need for action has only increased.

Subnational governments have implemented important measures to safeguard lives and livelihoods and mitigate the devastating socio-economic impacts of the pandemic. Yet, their capacity to respond is under heavy pressure as the COVID-19 crisis continues to unfold. The response and recovery require multi-level coordination, driven by solidarity and multi-stakeholder partnerships. Support for the most vulnerable people and communities is essential.

Recovery is an opportunity to accelerate localisation of the SDGs, address the climate crisis, and tackle inequality and gaps in our social protection systems. We need to encourage subnational governments to transition to a greener, more sustainable and resilient future, and improve preparedness for health emergencies and multi-hazard risks. Lessons learned from COVID-19 need to be understood, shared, and applied towards more resilient policymaking and long-term preparedness. At all levels,

solidarity and effective partnership are not only moral imperatives, they are practical necessities in an interconnected world, where none of us is safe until all of us are safe.

Recognising the many dimensions and far-reaching impacts of the crisis for subnational governments, UNU-IAS and UCLG ASPAC partnered to develop this publication. It highlights some of the challenges and opportunities facing subnational governments in overcoming the COVID-19 crisis and sustaining their efforts to attain the SDGs. It seeks to understand how the goals can help cities and regions shape and implement COVID-19 recovery strategies and share these lessons.

The universality, interdependence, indivisibility, and transformative nature of the 2030 Agenda for Sustainable Development provides a vision and a critical opportunity for national and subnational governments to deliver a resilient and sustainable recovery from the deep impacts of the pandemic across society.

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¹ United Nations. 2020a. "United Nations Comprehensive Response to COVID-19. Saving Lives, Protecting Societies, Recovering Better." September 2020. https://www.un.org/pga/75/wp-content/uploads/sites/100/2020/10/un_comprehensive_response_to_covid.pdf.

² United Nations. 2020b. "Policy Brief: COVID-19 in an Urban World." July 2020. https://unsdg.un.org/sites/default/files/2020-07/sg_policy_brief_covid_urban_world.pdf.

Foreword by UCLG ASPAC



Local and regional governments have been widely acknowledged as key players in implementing the SDGs, which simultaneously makes them the centre point in the battle against the COVID-19 pandemic, as they are closest to their citizens. The impacts of the pandemic have raised various forms of challenges for local governments, ranging from social, economic, environment to various institutional concerns.

Lack of financial and human resources, data, coordination and partnerships towards collaborative actions has been some of the most frequently cited issues and challenges raised in the COVID-19 and SDGs forums that UCLG ASPAC convened since the pandemic emerged in early 2020. UCLG ASPAC, being the association of local and regional governments, has grappled with the dilemma of balancing priorities of action towards the pandemic and towards the broader economy, including the measures and approaches to be taken in this time of crisis.

Observing the collective needs of the local and regional government members in the region, UCLG ASPAC sees the significance of working together with UNU-IAS to convert these debates into sound assessments to guide policy-making. An assessment can shed light for the local and regional governments to better understand their situation during the pandemic, especially on financing for the SDGs, to learn from other local and regional governments on how they optimise their coordination mechanisms to address the pandemic and thinking forward towards rapid recovery.

Although it is widely understood that the pandemic caused a number of drawbacks or even deacceleration in meeting targets of the SDGs,

the conditions have also triggered peer-to-peer collaborative actions and solidarity among local and regional governments. It has also generated the rapid acceleration of ICTs due to the physical and social distancing measures in place to prevent disease transmission. The effective pandemic response and recovery measures taken by the local and regional governments have demonstrated their continued commitment to simultaneously attaining the SDGs. It becomes even more clear that the SDGs is not an “additional burden” for the local and regional governments but is, in fact, a useful framework to shape their pandemic recovery plans towards building forward better and stronger.

We thank the active members of local government associations, particularly the League of Cities of the Philippines (LCP), Associations of Indonesian Municipalities (APEKSI) and Malaysian Association of Local Authorities (MALA), who helped to encourage their members to respond to the assessments that resulted in this publication and make this research happen. Taking our inspiration from SDG 11, we hope that this publication will be of use to the local and regional governments in the Asia-Pacific region to become more resilient, inclusive, safe and sustainable and can move towards rapid recovery.

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Executive Summary

According to the survey conducted by UNU-IAS and UCLG ASPAC in February 2021, the COVID-19 crisis has had adverse socioeconomic impacts on subnational governments (local and regional) and their progress on Sustainable Development Goals (SDGs) localisation in Indonesia, Malaysia, and the Philippines. However, the impacts of the crisis on subnational governments are differentiated in terms of governance, finance, and actions towards attaining the SDGs. Simultaneously, the subnational response and policy priorities to the crisis include two cross-cutting components: urgent measures to respond to the emergency and their desired policy directions towards recovery and resilience.

Main Issues

The survey highlighted the following main issues for the attention of the national and subnational governments and stakeholders working on overcoming the impact of the COVID-19 crisis, not limited to the observed countries.

- **The emergency has raised and amplified various forms of challenges for subnational governments, ranging from social and economic to institutional concerns.** The top challenge in managing the COVID-19 crisis is finance, such as the drop in public revenue and the expenditure surge. The crisis has also brought other challenges to the fore, including the shortage of human resources, weak public compliance with public health measures, and limited quality data.
- **The vertical and horizontal coordination mechanisms across levels and among sectors are recognised by subnational governments to have a critical function in responding to the COVID-19 crisis.** Subnational governments have indicated that multi-level coordination is necessary to ensure that the available resources are effectively utilised, and all relevant stakeholders could work together in a constructive manner.
- **While the socioeconomic crisis linked to COVID-19 has had adverse impacts on subnational governments' finances, its severity is perceived differently** across different city types (i.e., small, medium, metropolitan) in their short and medium-term finances. Subnational governments also expect the negative impact to continue to affect their long-term finances (beyond five years) and financing programmes for SDGs implementation. Many possible factors contribute to the differentiated subnational finance impact of the COVID-19 crisis, including the types and extent of the primary source of revenue, main economic activities, pre-pandemic economic fundamentals and structural vulnerabilities.
- **The COVID-19 socioeconomic crisis imposes a significant strain on subnational government transactions** (i.e., expenditure, revenue, debt management), leading towards financial imbalance and fiscal instability. Public health, social benefits, and food security are the top sectors under immense pressure. Metropolitan areas are more likely to experience a decrease in their tax revenue than smaller cities. Subnational governments perceived limited financial resources and technical means to potentially harm subnational SDGs implementation progress and SDGs attainment.

- **The subnational governments have underlined shifting priorities in overcoming the health crisis as the main challenge of localising the SDGs during the COVID-19 crisis.** Due to the crisis, subnational governments prioritise strategies and policies and desired support from the national government that directly respond to immediate health and wealth issues.
- **SDG 1 (No poverty), SDG 3 (Good health and well-being), and SDG 8 (Decent work and economic growth) are identified as the highly prioritised areas for implementation.** On the other hand, goals possibly perceived to deliver less tangible benefits during the emergency, such as gender and environmental goals, have received less priority.

Policy Recommendations

Based on findings from the survey, the following ten recommendations are of equal importance and proposed to national and local policymakers and stakeholders.

- 1. Ensuring coherent policy and governance to build back better**
 - Strengthen or reorient multi-level and cross-sector governance and coordination to manage pandemic and post-pandemic impact while accelerating SDGs implementation.
 - Actively support and pursue horizontal cooperation among subnational governments and with non-state actors to promote a coherent approach to response and recovery.
 - Deliver national recovery strategies with explicit context-specific and place-based considerations to manage the differentiated impact of COVID-19.
 - Increase national to subnational support for key policy sectors to overcome the COVID-19 pandemic.
- 2. Pursuing resilient, inclusive, and green subnational finance**
 - Explore and introduce financial management measures and fiscal tools to lessen subnational financial imbalance and restore fiscal stability.
 - Improve expenditure and revenue effectiveness by increasing transparency and strengthening accountability.
 - Establish a funding mechanism to promote multi-year green recovery and ensure finance for SDGs implementation.
- 3. Accelerating SDGs localisation to achieve inclusive, sustainable, resilient recovery**
 - Align the short-term emergency responses with long-term economic, social and environmental objectives by internalising SDGs and other international frameworks (e.g., Paris Agreement, New Urban Agenda).
 - Adopt SDG-related approaches to support subnational governments' strategies to locally build back better.
 - Upscale the use of Information and Communication Technologies (ICT) to accelerate the digitalisation of services and address digital divides.



01 Introduction

COVID-19 shows the importance of fast, effective subnational actions to respond to the impact of the pandemic. Subnational governments (regional and local) are at the forefront of COVID-19 response, recovery and rebuilding through healthcare and other essential services, and public space management, engaging citizens, partners, and other levels of government.³ In addition to this, their preparedness, infrastructure, human capital capabilities, access to emergency funds, and coordination and communication flow with the national governments are among the critical measures to contain the spread and ensure a faster recovery.⁴

COVID-19 measures at the subnational level have socioeconomic impacts far beyond administrative boundaries. These multifaceted socioeconomic impacts threaten the social, economic, and governance structure and require cohesive responses to ensure alignment and synergies between different level and sector interventions. Responses that are siloed and not well-planned could worsen and exacerbate impacts from the pandemic.⁵ Medium and long-term policy choices at the national and subnational level are critical to build resilience and strengthen the ability to achieve the Sustainable Development Goals (SDGs). Subnational governments are uniquely positioned to shape, adapt, and deliver a holistic response to the pandemic.

COVID-19 has severely impacted subnational efforts towards attaining the SDGs as the pandemic continues to unfold. Subnational governments must “build back better,” but the question of how to do so remains. With only ten years remaining, understanding the pathways to build back better is critical to mitigating possible COVID-19 imposed challenges to progress on the SDGs at the subnational level, keeping cities and regions on track to accelerate implementation and attainment.

The SDGs provide an invaluable framework for recovery from the COVID-19 pandemic. The transformative nature of the goals offers key opportunities for subnational governments to promote a new sustainable development paradigm and move towards a recovery that is greener, more inclusive, and resilient. By aligning with the SDGs, cities and regions can leverage the full potential of the SDGs as a policy tool to improve people’s lives, going beyond the efforts to overcome the immediate pandemic’s impact. Yet, the necessary factors required for subnational governments to develop practical and effective actions for recovery aligned with the SDGs are not well understood. This will require taking stock of current progress in localising SDGs and charting short, medium, and long-term recovery pathways based on the SDGs.

The United Nations University Institute for the Advanced Study of Sustainability (UNU-IAS) and United Cities and Local Governments Asia-Pacific (UCLG ASPAC) conducted a study on the impact of COVID-19 on subnational governments to understand their post-pandemic development directions. The findings will support subnational governments in their rebuilding phase and SDGs localisation

³ Ibid, 2-10.

⁴ UNCDF. 2020. “COVID-19 Emergency Response. Local Government Finance. Guidance Note for Immediate Action.” Edition #4, 15 May. <https://www.uncdf.org/article/5477/guidance-note-covid19-local-governments>.

⁵ Ibid. United Nations, 2020b: 5.

efforts. In February 2021, UNU-IAS and UCLG ASPAC launched an online survey to increase awareness and gain a broad overview of subnational policies and current progress related to localising the SDGs and strategies to overcome the impact of COVID-19. The survey targeted subnational governments in Indonesia, Malaysia, and the Philippines, gathering 52 responses (see Annex).⁶

The bulk of responding subnational governments came from Indonesia (33%) and the Philippines (61%). Only three responses (6%) were from Malaysia. The majority of respondents are from municipalities (81%), with the rest coming from regions⁷ (19%). Most of the responding subnational governments have populations below 200,000 inhabitants (38%) and populations between 200,001 and 500,000 people (33%). Responses from metropolitan areas (above 500,001 inhabitants) form 29% of all responding subnational governments.

This publication summarises the main findings from the survey. First, this publication examines how COVID-19 has affected subnational governments and their progress in localising the SDGs. Second, it analyses the socioeconomic impact of the pandemic over subnational governments' finances. Third, it identifies subnational governments responses to the COVID-19 and their short, medium, and long-term priorities for action. Finally, it offers policy recommendations based on key opportunities and challenges in developing practical and effective measures for recovery, taking into account the full potential of the SDGs. Whenever possible, case studies are offered to highlight best practices and lessons learnt. Charts are provided to illustrate the datasets and support the interpretation.

⁶ Subnational governments in Indonesia include provincial and regency/city governments; in Malaysia it is state and municipal government, and; in the Philippines it covers provincial and municipal/city governments.

⁷ Regions refer to provincial or state governments.

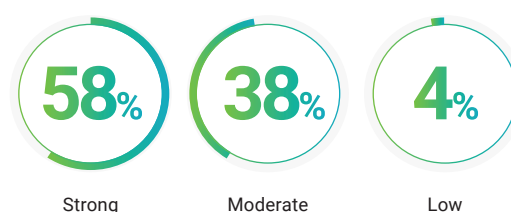
02 Subnational Governance and Progress on Localising the SDGs

The COVID-19 pandemic has caused wide-ranging impacts on the subnational governments.⁸ It has amplified many of the existing problems in the planning and management mechanisms and has also brought forth new challenges. The process of SDGs localisation and the work done towards the attainment of SDGs have also been facing impediments due to the evolving situation. This chapter focuses on examining the extent of these impacts and analyses the nature of challenges faced by subnational governments, and also elucidates the coordination mechanisms being used in responding to the emergency.

2.1. Impact of COVID-19 on Subnational Governments

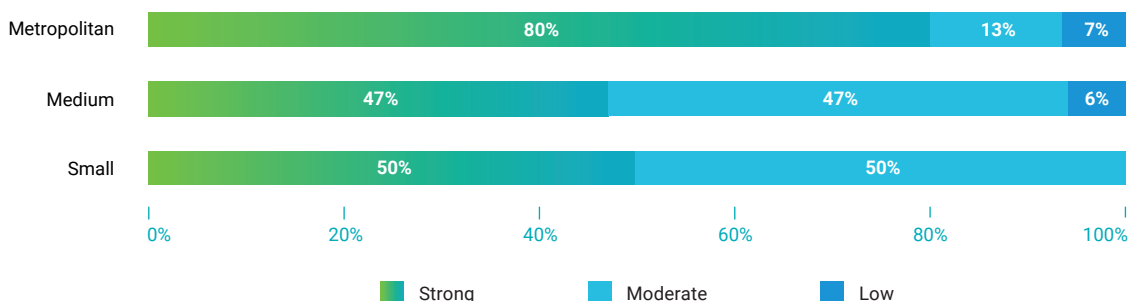
The overall impact of the COVID-19 crisis as perceived by the surveyed subnational governments is clarified foremost. The impact of the crisis is classified as strong or moderate by nearly all (96%) of the subnational governments. Out of these, more than half (58%) have reported a strong overall impact of the pandemic on their functioning (Figure 2.1). A very low number (4%) cite a low impact faced due to the pandemic.

Figure 2.1. COVID-19 crisis overall impact.



The strength of the impact is perceived differently by different city types⁹. The result shows that 80% of metropolitan governments report a strong impact of the COVID-19 crisis (Figure 2.2). When we consider the medium and small subnational governments, the percentages reporting a strong impact are 47% and 50%, respectively.

Figure 2.2. COVID-19 crisis overall impact, by city type.



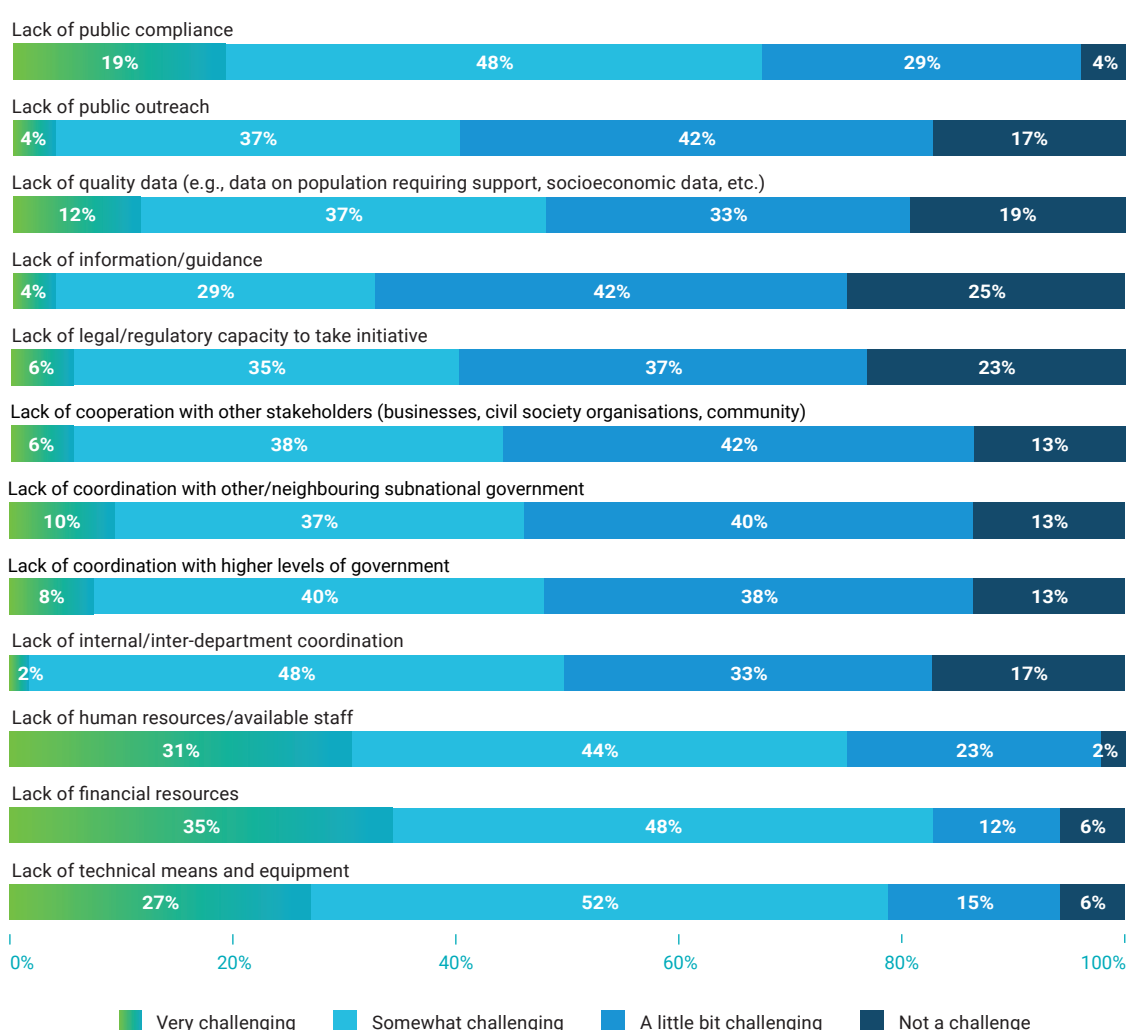
⁸ See Annex for explanation on subnational governance context of observed countries.

⁹ This study uses the OECD classification of urban areas as: small cities if their population is between 50,000 and 200,000; medium sized cities if their population is between 200,000 and 500,000; and, metropolitan areas if their population is greater than 500,000.

The impacts of the pandemic have raised various forms of challenges for subnational governments, ranging from socioeconomic to institutional concerns. The extent of severity of the challenges is also perceived differently by the subnational governments. A majority of the subnational governments categorised the challenges in managing the COVID-19 crisis as somewhat challenging or a little bit challenging.

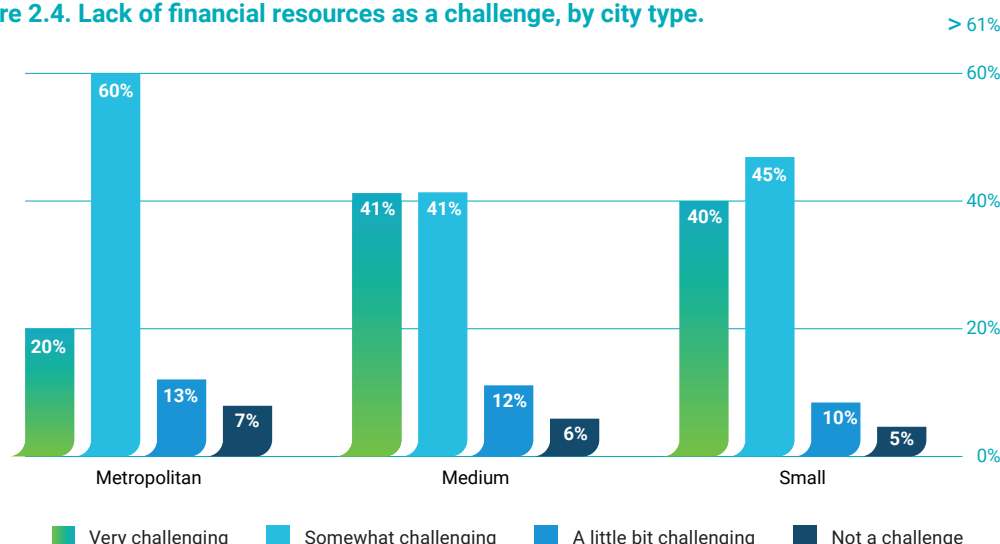
The biggest challenge in managing the pandemic has been a lack of financial resources, with 35% of subnational governments citing it as 'very challenging' and 48% citing it as 'somewhat challenging' (Figure 2.3). The second group of challenges faced at the subnational level are lack of human resources and available staff, lack of technical means and equipment, lack of public compliance, and a lack of quality data (e.g., population requiring support). It is notable from these results that the pandemic has brought forth behavioural challenges such as compliance with preventive health behaviour for reducing transmission. Finally, the least challenging factor for the subnational governments is reported to be a lack of information or guidance, with 25% citing it as 'not a challenge'. This indicates adequate dissemination of required knowledge from the national and international levels on the proper management of the pandemic. Another less challenging factor is the legal and regulatory capacity to take the initiative, with 23% of the bodies reporting it as 'not a challenge'.

Figure 2.3. Main challenges faced in managing the health crisis.



The critical challenge of a lack of financial resources is finding an asymmetrical dimension to it as there are differences in how it is perceived by different sizes of subnational governments. A larger proportion of small and medium-sized cities report the lack of financial resources as very challenging, at 40% and 41%, respectively (Figure 2.4).

Figure 2.4. Lack of financial resources as a challenge, by city type.

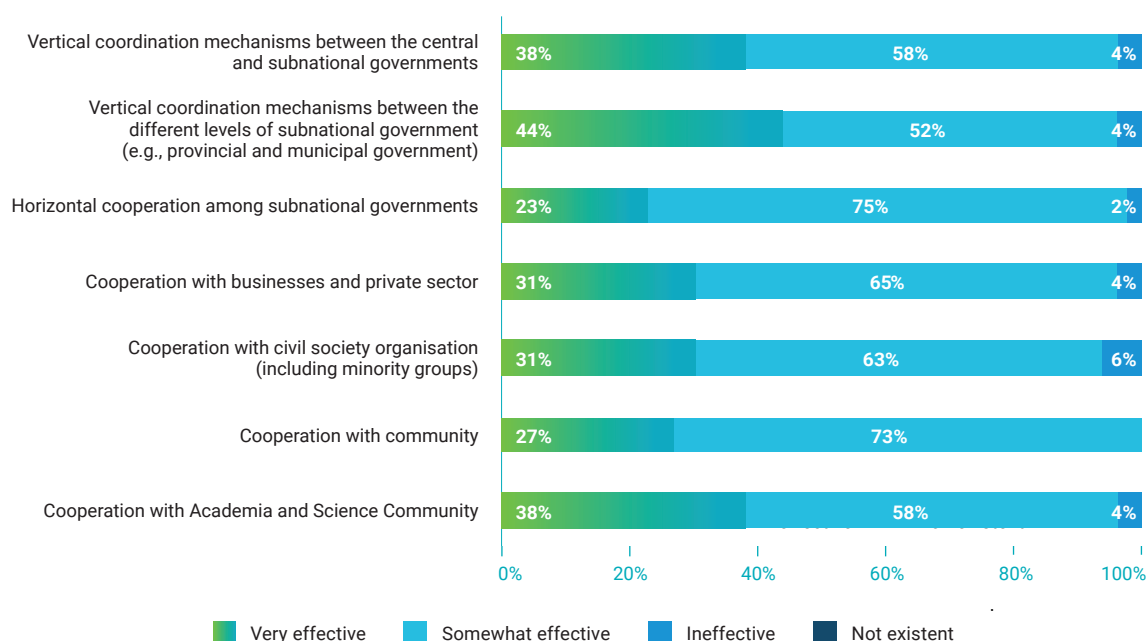


2.2. Coordination Mechanisms for Managing COVID-19

In addressing the challenges posed by the COVID-19 health emergency, the coordination mechanisms between government bodies on different levels and amongst sectors have a key role. Such mechanisms have been identified as a critical function in responding to the health emergency. Coordination is essential to ensure that the available resources are effectively utilised and various stakeholders, agencies and other sectors work together constructively. All the subnational governments participating in this survey reported the presence of coordination mechanisms in their respective response to the pandemic.

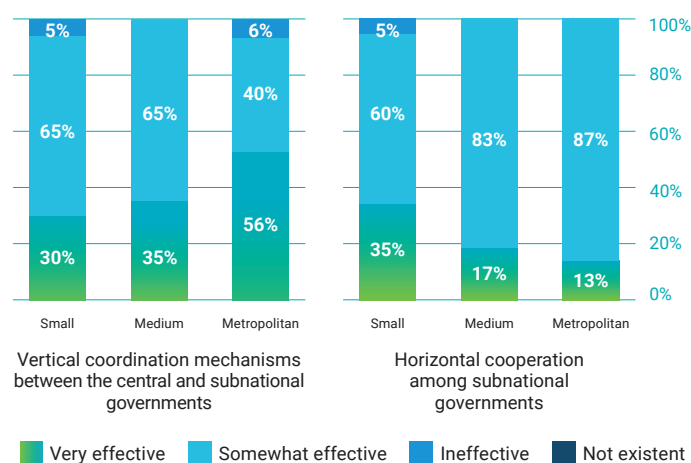
Cooperation with the community is regarded as the overall most effective coordination mechanism in dealing with the health crisis, with no subnational governments perceiving it as ineffective (Figure 2.5). It was categorised as 'very effective' by 27% and 'somewhat effective' by 73% of those surveyed. The top three coordination mechanisms in the 'very effective' category are found to be 1) vertical coordination mechanisms between the different levels of subnational governments, 2) vertical coordination mechanisms between the central and subnational governments, and 3) cooperation with academia and the science community. It is also important to note that horizontal cooperation among subnational governments is also an effective coordination mechanism, with only 2% of the subnational governments surveyed reporting it as ineffective.

¹⁰ WHO. 2018. "Managing epidemics: key facts about major deadly diseases." License: CC BY-NC-SA 3.0 IGO. <https://apps.who.int/iris/handle/10665/272442>.

Figure 2.5. Effectiveness of coordination mechanisms in managing the COVID-19 crisis.**Case Illustration**

In Indonesia, the Provincial Government of Central Java implemented a community-based programme Jogo Tonggo to identify vulnerable groups, conduct COVID-19 track and trace, and manage COVID-19 quarantine. The programme empowered community units to form a task force consisting of youth, women, midwives, integrated health centre officials, religious leaders, and other local organisations. The government provided essential equipment such as gloves, masks, personal protective equipment (PPE), and disinfectant.¹¹

By classifying these results based on the city sizes, specific trends are observed, particularly for vertical coordination mechanisms between central and subnational governments and horizontal cooperation among subnational governments (Figure 2.6). Results show that metropolitan governments fare better in coordinating with the central governments, with more than half citing it as very effective. Comparatively, a larger proportion of small cities (35%) report horizontal cooperation between subnational governments as very effective.

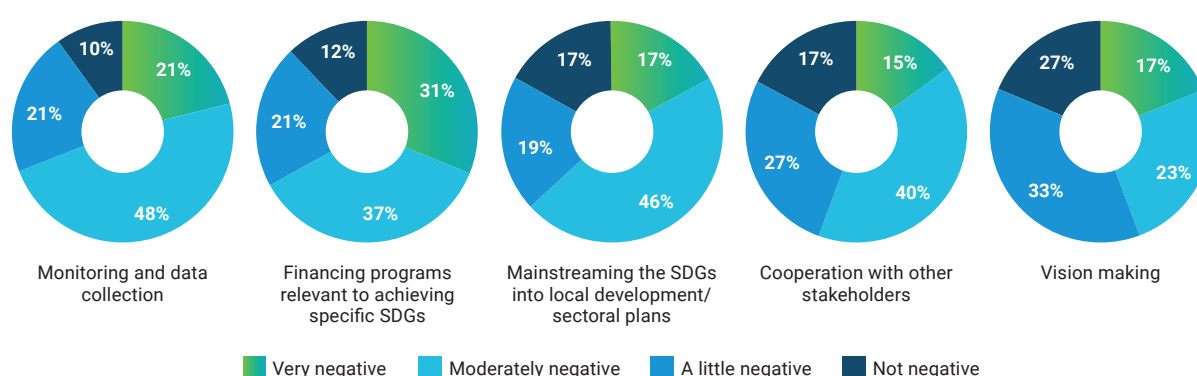
Figure 2.6. Effectiveness of specific coordination mechanisms, by city type.

¹¹ SDGs Center UNDIP, UCLG ASPAC and APEKSI. 2021. "A Compilation of Best Practices." Book 3. UCLG ASPAC & APEKSI.

2.3. Impact of COVID-19 on Subnational Localisation of the SDGs

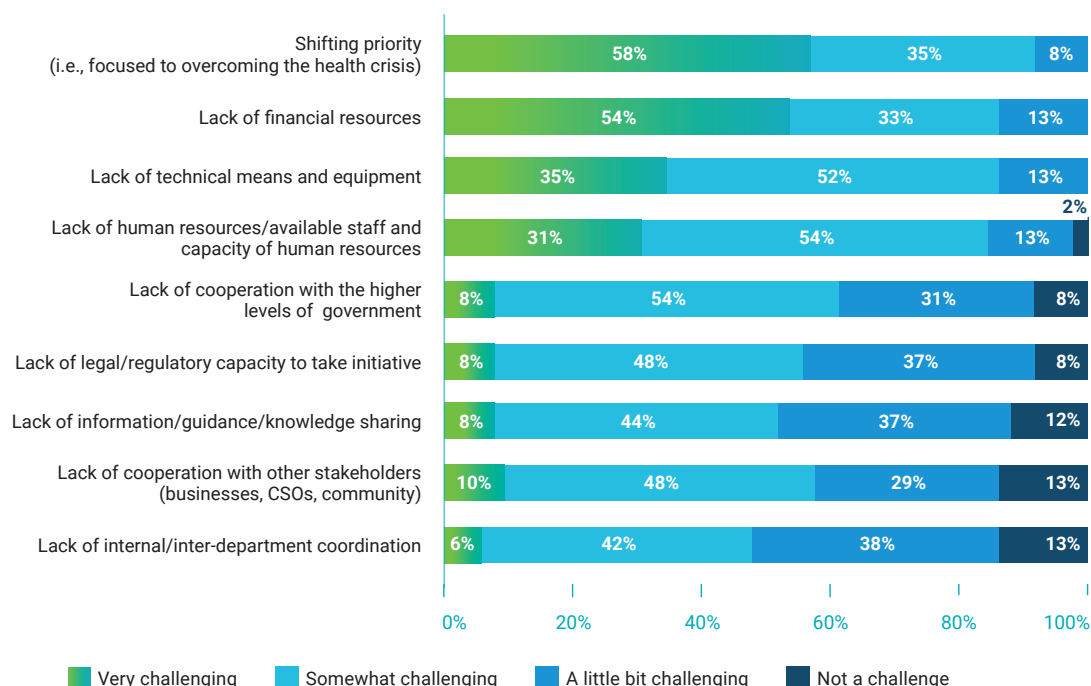
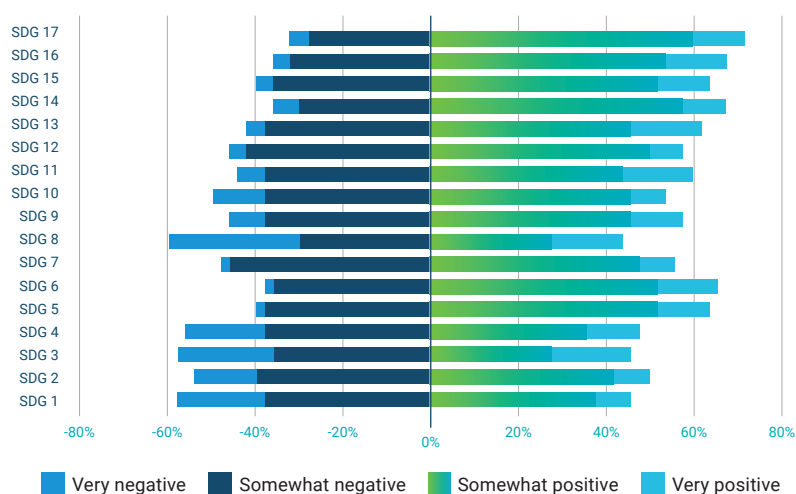
The ongoing pandemic has further increased the relevance of a sustainable future for human settlements. It is necessary to analyse the effects of this health emergency on various aspects of SDGs localisation. The subnational governments have overall reported moderate to little negative impacts of the COVID-19 crisis on SDGs localisation progress in their respective jurisdictions. Monitoring and data collection and financing programmes relevant to achieving specific SDGs are the two most impacted aspects of SDGs localisation. A total of 90% and 88% of subnational governments report a negative impact on them, respectively (Figure 2.7). 31% of the subnational governments have reported a very negative impact on financing programmes, and 21% on the monitoring and data collection systems. The aspect of vision-making for SDGs localisation has experienced a relatively lesser impact, with 27% of the responding bodies identifying a non-negative effect on it. Cooperation with other stakeholders for SDGs localisation also fares better as it has been one of the key mechanisms in managing this pandemic.

Figure 2.7. Impact of the COVID-19 crisis on the progress of SDG localisation.



The main challenges to SDGs localisation as perceived by the subnational governments have also been clarified in this study. **The most challenging aspect of SDGs localisation by the subnational governments during the COVID-19 emergency has been the shifting of priorities towards overcoming the health crisis**, with 58% perceiving it as 'very challenging' and 35% perceiving it as 'somewhat challenging' (Figure 2.8). Lack of financial resources and a lack of technical means and equipment are the next biggest challenges towards SDGs localisation as reported by the subnational governments in the survey. These findings conform to the reported overall challenges faced in managing the COVID-19 situation.

The relatively lesser challenging factors in SDGs localisation during the pandemic have been reported as internal and inter-departmental coordination, cooperation with non-governmental stakeholders, and the availability of information and guidance. Less than half (48%) of the subnational governments regard a lack of internal and inter-departmental coordination as very or somewhat challenging, and 13% do not consider it to be a challenge at all. A little more than half (52%) reported the lack of information, guidance and knowledge sharing to be very or somewhat challenging, and 12% did not perceive it to be a challenge.

Figure 2.8. Challenges to SDGs localisation during the COVID-19 crisis.**Figure 2.9. Subnational progress in achieving the SDGs during the COVID-19 crisis.**

In addition to the effect on SDGs localisation, the COVID-19 situation has also impacted the progress in the attainment of SDGs. The surveyed subnational governments have indicated the nature (positive or negative) and extent of progress in achieving each of the SDGs during the crisis. It is noteworthy that many subnational governments have experienced some positive progress in their respective efforts towards achieving the SDGs (Figure 2.9).

A higher proportion of negative effects is observed on achieving SDG 1 (No poverty), SDG 2 (Zero hunger), SDG 3 (Good health and well-being), SDG 4 (Quality education) and SDG 8 (Decent work and economic growth). The progress in achieving SDG 8 is the most negatively affected due to the COVID-19 situation, with 29% of the subnational governments reporting a very negative impact and another 29% reporting a somewhat negative impact. For SDG 1 and SDG 3, the proportion of subnational governments experiencing a negative impact on the work progress is 56% each. These results correspond with the main perceived pressures of a pandemic situation on the socioeconomic conditions. On the other hand, a more positive impact is noticed on SDG 5 (Gender equality), SDG 6 (Clean water and sanitation), SDG 14 (Life below water), SDG 15 (Life on land), SDG 16 (Peace, justice, and strong institutions) and SDG 17 (Partnerships for the goals). It needs to be emphasised that a total of 70% of the subnational governments have confirmed a positive trend in the achievement of SDG 17.

03

Subnational Finance and Financing for the SDGs

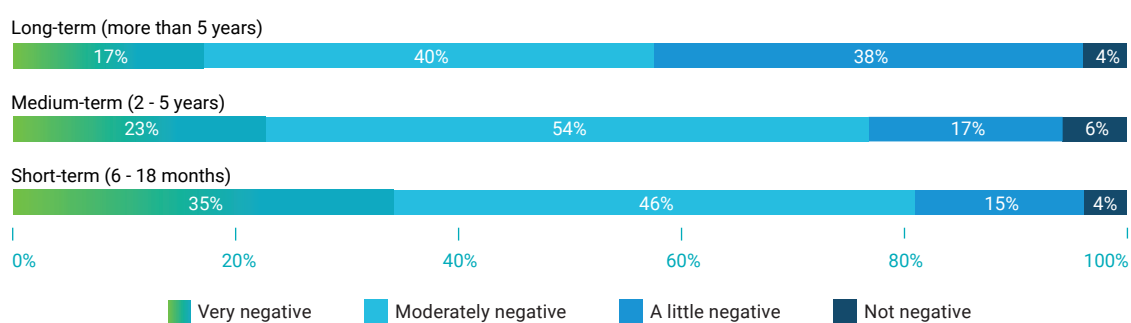
Disruption of economic activities and social distancing measures related to the health emergency led to a significant slowdown in the subnational economy. Stimulus packages and policy measures are needed to boost subnational governments' ability to sustain critical public services and raise their own finances while also addressing the need to prevent additional financial pressure on vulnerable groups. This chapter attempts to shed light on the subnational finance impact of the COVID-19 crisis by examining short, medium and long-term finances, transaction pressures, and efforts to finance the SDGs localisation.

3.1. Impact of COVID-19 on Subnational Finance

The socioeconomic crisis linked to COVID-19 has negatively affected subnational governments' finances (Figure 3.1). A majority of subnational governments report a very negative and moderately negative impact of the COVID-19 pandemic and resulting recession on their finance in the short and medium term. In the short term (6-18 months), 35% of subnational governments estimate the impact to be highly negative, while 46% foresee a moderately negative impact. The outlook is more optimistic for the medium term (2-5 years), with the number of subnational governments expecting very negative falls to 23% and a moderately negative impact increases to 54%. The outlook is more optimistic for the long term (more than 5 years), with the number of subnational governments expecting very negative falls to 17% and a moderately negative impact increases to 40%.

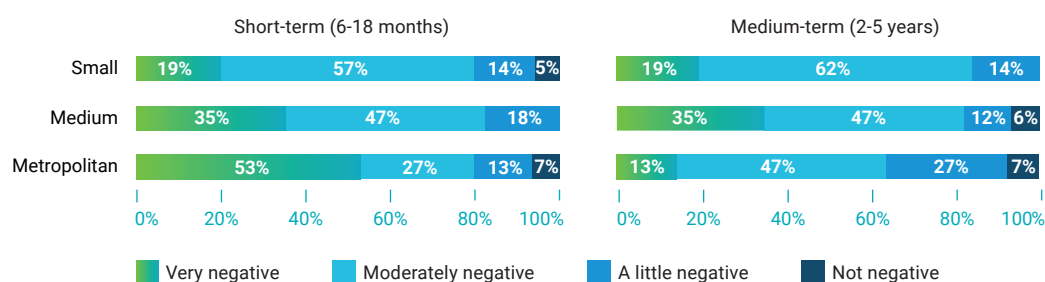
Subnational governments also expect the negative impact to continue to affect their long-term finances (beyond five years). The majority sees the severity of impact on their finances reducing overtime, while 44% think the effect will not lessen or even get worse.

Figure 3.1. Impact of the COVID-19 crisis on subnational finances.



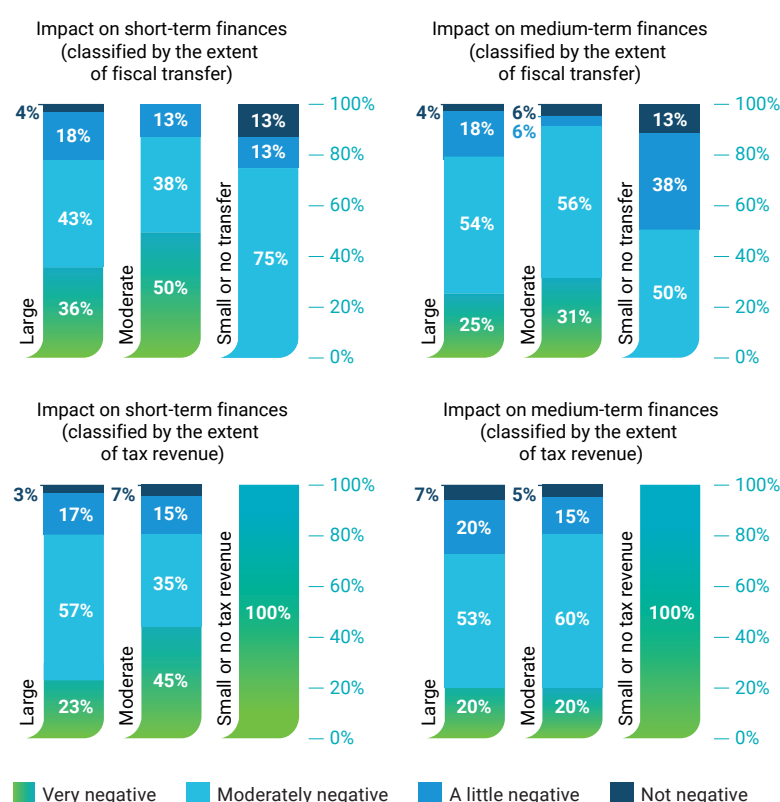
The severity of the socioeconomic crisis is perceived differently across different city types in their short and medium-term finance (Figure 3.2). In the short term, most metropolitan areas perceive a very negative impact, while a majority of small cities foresee a moderately negative impact. The way these cities perceive the change of severity from short to medium-term is also quite different. Overall, metropolitan areas are more likely to expect a less severe impact on their finances in the medium term than short term. On the other hand, small and medium cities are forecasting less or no change in the severity of the crisis over their finances.

Figure 3.2. Impact of the COVID-19 crisis on subnational finances over short and medium-term, by city type.



The COVID-19 crisis creates differentiated impacts on subnational finances. Many possible factors are affecting the degree of impact on subnational finances across different types of cities. The types and extent of the primary source of revenue (i.e., the extent of tax as the main revenue, dependency on fiscal transfer from the national government) may partly explain how the COVID-19 crisis affects subnational government finances. Subnational governments with moderate reliance on fiscal transfer from the national governments are more likely to expect a very negative impact on their short- and medium-term finances than those that receive large, small or no fiscal transfer. Moreover, the larger the share of tax revenue as a primary source of revenue, the less very negative impact subnational governments forecast over their short-term finances. A similar trend is also observed in medium-term finances.

Figure 3.3. Differentiated impacts of the COVID-19 crisis in the short and medium-term, by extent of fiscal transfer.

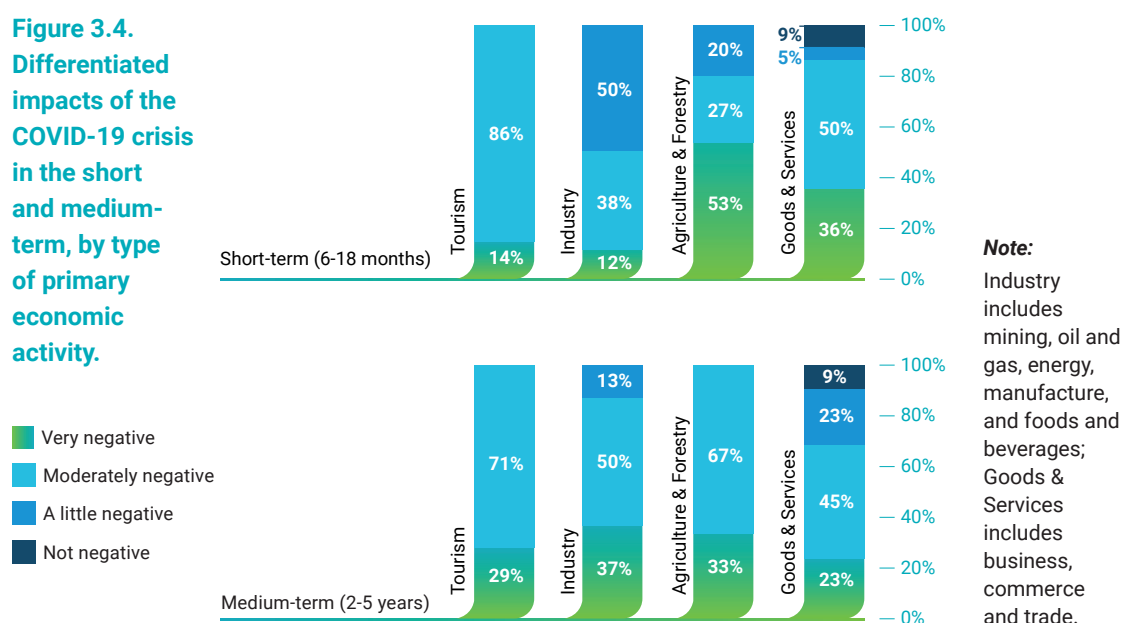


The impact of the COVID-19 crisis on subnational finances is also differentiated according to the types of primary economic activities. Pre-pandemic economic fundamentals and structural vulnerabilities are among the main factors affecting subnational-level performance during the COVID-19 crisis. Subnational governments with tourism or agriculture and forestry as their primary economic activities report more negative short-term financial losses than those who are primarily industrial cities or depend on goods and services. Tourism is a large sector in Indonesia and Malaysia.¹² Their perception over the medium-term is also less optimistic. This indicates that an economic structure with larger contact-intensive and dependence on intensive labour sources with low wages might suffer more disruption and be among the worst affected and slowest to recover. Small-scale farmers, migrants, and informal workers who might be hindered from working on their land and, more importantly, accessing markets to sell their products are among the most vulnerable groups.¹³ Thus, an essential feature of approaches to emergency financing is to recognise diversity in subnational situations.

¹² The ASEAN Secretariat. 2020. "ASEAN Rapid Assessment: The Impact of COVID-19 on Livelihoods across ASEAN." https://asean.org/storage/ASEAN-Rapid-Assessment_Final-23112020.pdf

¹³ FAO. 2020. "Addressing the impact of COVID-19 in food crises." April-December 2020. <http://www.fao.org/3/ca8497en/CA8497EN.pdf>

Figure 3.4.
Differentiated
impacts of the
COVID-19 crisis
in the short
and medium-
term, by type
of primary
economic
activity.



3.2. Impact of COVID-19 on Subnational Revenue, Debt Management, and Borrowing

The COVID-19 crisis imposes a significant strain on subnational government revenue. This finding is consistent with studies in other countries¹⁴ and regions.¹⁵ Our survey found 29% of subnational governments report they are experiencing a very negative impact on their tax revenue, with 42% saying the impact is moderately negative. The pandemic also affects subnational grant revenue, with the respondents reporting 13% very negative impact and 37% moderately negative impact. Only 8% of subnational governments whose tax revenue is not negatively affected by COVID-19 (Figure 3.5). Metropolitan areas are most likely to forecast a very negative impact on their tax collection than smaller cities (Figure 3.6).

Figure 3.5. Impact of the COVID-19 crisis on subnational revenue.

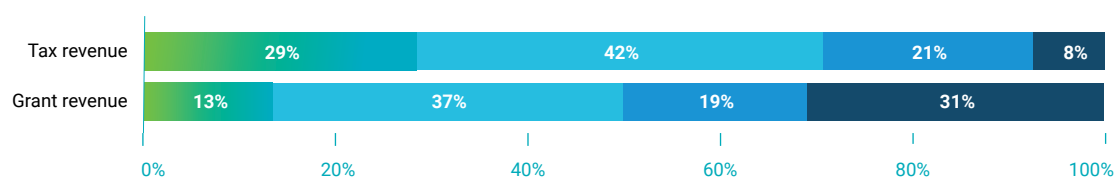
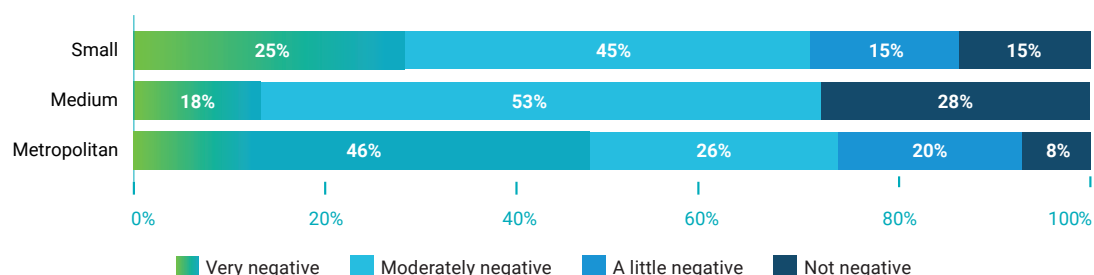


Figure 3.6. Impact of the COVID-19 crisis on subnational tax revenue, by city type.

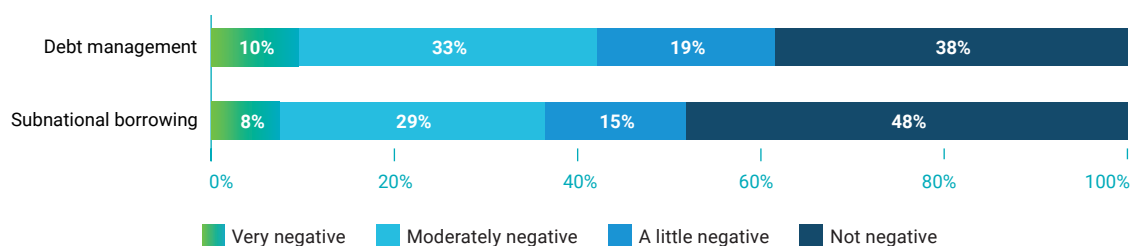


¹⁴ Gordon, T., Dadayan, L., and Rueben, K. 2020. "State and Local Government Finances in the COVID-19 Era." National Tax Journal, National Tax Association, vol. 73(3), pp. 733-758, September. <https://doi.org/10.17310/ntj.2020.3.05>

¹⁵ UCLG. 2021. "The impact of the COVID-19 Pandemic on Subnational Finances. Emergency Governance for Cities and Regions." Analytics Note #3, January. https://www.uclg.org/sites/default/files/an03_-_the_impact_of_the_covid19_subnational_finances.pdf

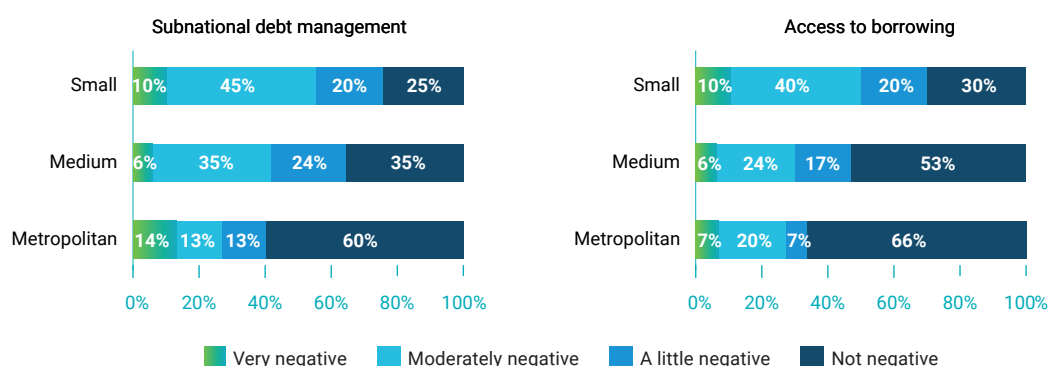
The COVID-19 crisis is unequally affecting subnational government transactions (i.e., expenditure, revenue, debt). Subnational governments perceive the less negative impact of the crisis over their debt management and access to borrowing than their revenue and expenditure. Concerning debt management, 62% expect the pandemic to have a negative impact, while 38% estimate that it will not result in greater indebtedness. A similar trend is observed on access to subnational borrowing; 52% perceive a negative impact, and the other 48% see no impact (Figure 3.7).

Figure 3.7. Impact of the COVID-19 crisis on subnational debt management and borrowing.



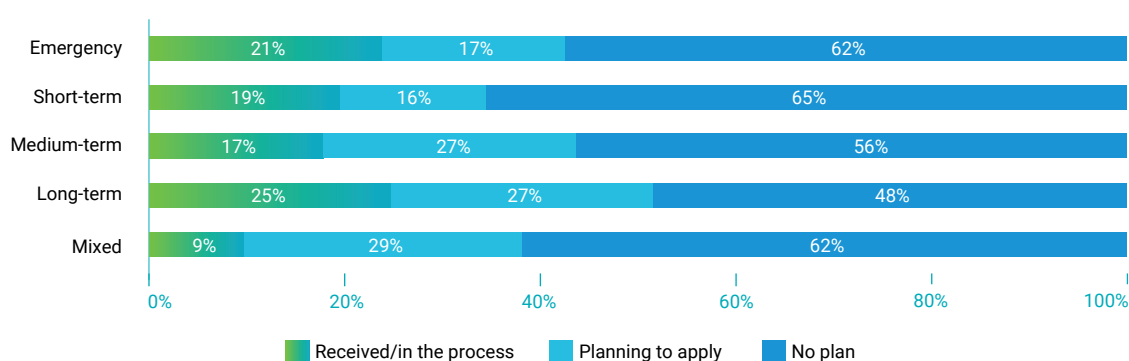
Overall, no significant differences were found among larger cities concerning debt management and access to borrowing. On the other hand, most small cities expect the crisis will result in a greater negative impact on their debt management and access to borrowing (Figure 3.8).

Figure 3.8. Impact of the COVID-19 crisis on subnational debt management and access to borrowing, by city type.



Facing limited financial resources, subnational governments need to mobilise funding. One option is by increasing their subnational new borrowing to cope with the COVID-19 crisis. However, our study highlighted that only a fraction of respondents indicated they have received or are in the process of receiving new loans to cope with the COVID-19 (Figure 3.9). The majority of respondents stated they have no plan to apply for new borrowing. Among subnational governments that have increased borrowing, commonly received loans are long-term loans (25%), emergency loans (21%), and short-term loans (19%). 9% of subnational governments have applied for multiple loans. Subnational governments who expressed interest to apply for new borrowing are more likely to apply for mixed loans, medium (2-5 years) and long-term loans (beyond five years). Moreover, regardless of their negative expectation towards access to borrowing, small cities are more likely to increase their borrowing than medium-sized cities and metropolitan areas to cope with the socioeconomic crisis.

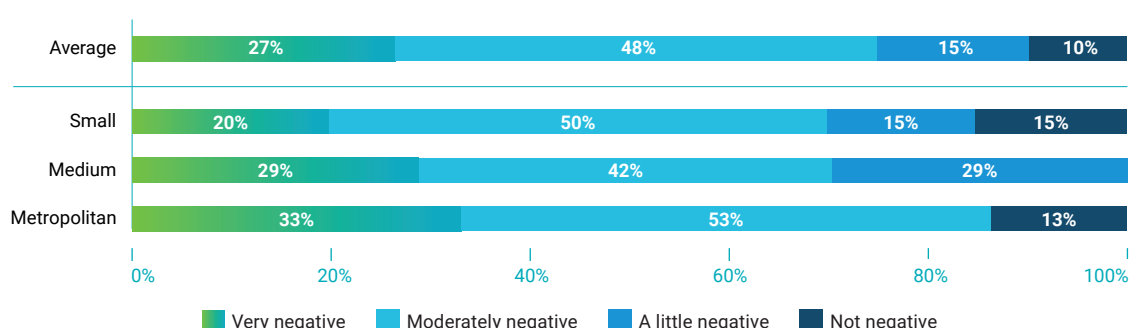
Figure 3.9. New subnational borrowing to cope with the crisis, by type of loan.



3.3. Impact of COVID-19 on Subnational Expenditures

The crisis is affecting subnational finance with a “scissor effect” of falling tax revenue and increasing expenditure. Most respondents perceiving a very negative impact on tax revenue (29%) also expect a very negative impact on their expenditure. A similar trend is also observed over those who forecast a moderate impact. On average, 90% of subnational governments are facing negative pressures on their expenditure, ranging from very negative (27%) to moderately negative (48%) to a little negative (15%) (Figure 3.10). Metropolitan areas are more likely to expect a steep increase in their expenditure compared to smaller cities. Around 10% of respondents consider the crisis has not negatively affected their expenditure.

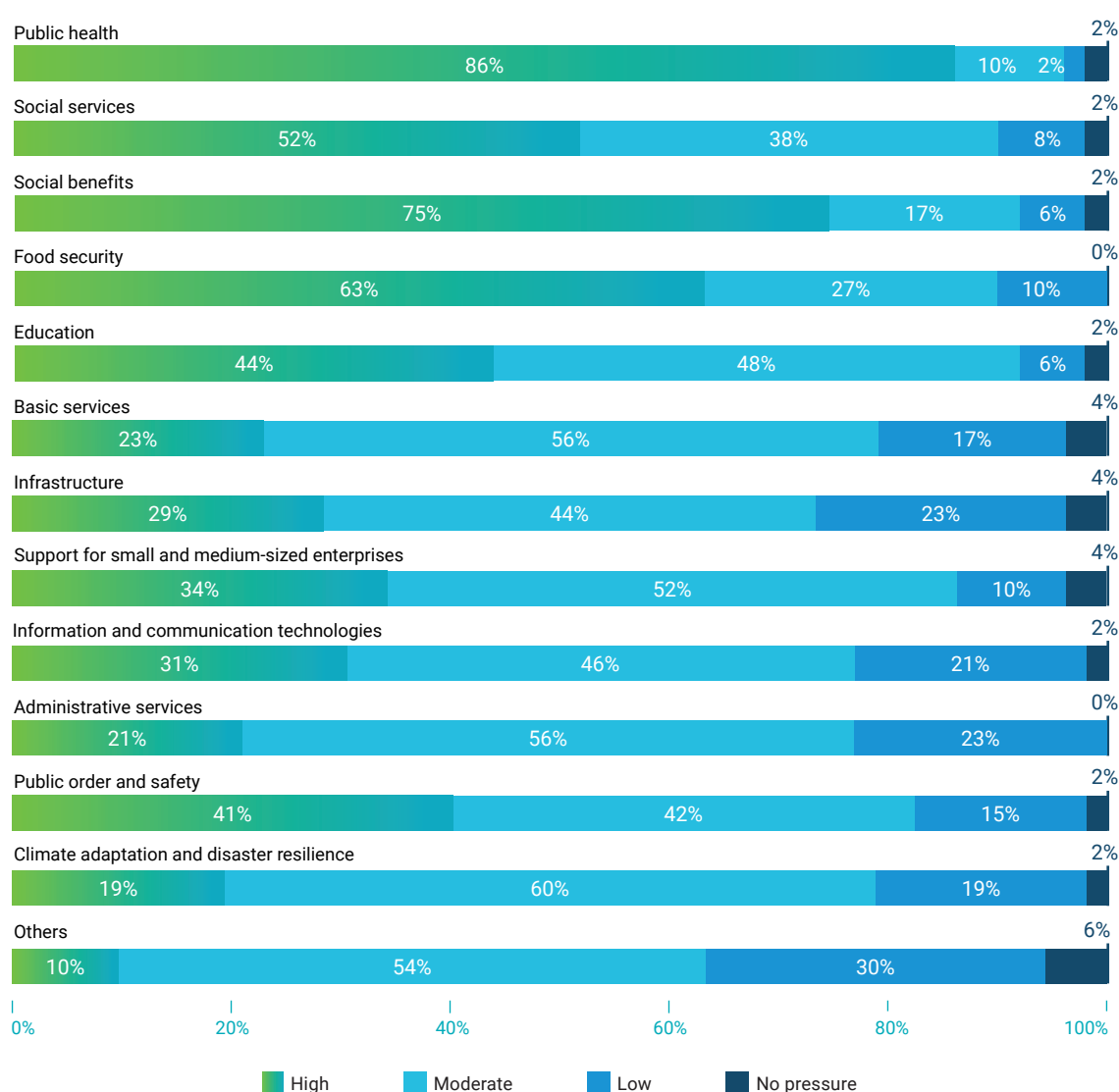
Figure 3.10. Impact of the COVID-19 crisis on subnational expenditures.



¹⁶ A situation where governments suffer from higher spending and lower tax revenue. See Blöchliger H, Charbit, C., Campos, J. M. P., and Vammalle, C. 2010. “Sub-central Governments and the Economic Crisis: Impact and Policy Responses.” OECD Economics Department Working Papers No. 752. <https://dx.doi.org/10.1787/5kml6xq5bgwc-en>

Subnational governments are expecting an increase in their expenditure in their efforts to overcome the COVID-19 pandemic. Expenditures in public health, social benefits and food security are the top three sectors facing high pressures. 86% of Subnational governments report high pressures on their public health expenditure (Figure 3.11). Key sectors in response to the COVID-19 emergency, such as social services (e.g., employment and training), education, and public order and safety (e.g., enforcing physical distancing), have also experienced high expenditure pressures. Only a small number of subnational governments (19%) forecast high pressures on expenditure related to climate adaptation and disaster resilience during the pandemic.

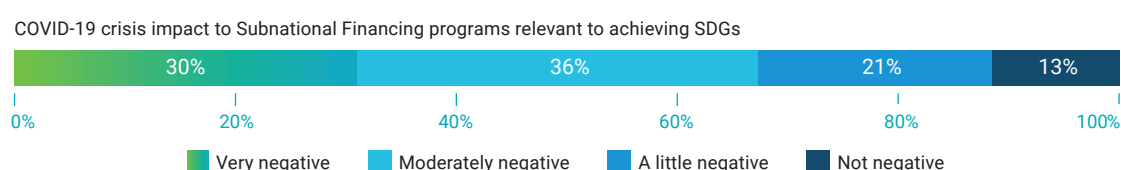
Figure 3.11. Pressure on subnational expenditure resulting from COVID-19.



3.4. Impact of COVID-19 on Financing for the SDGs

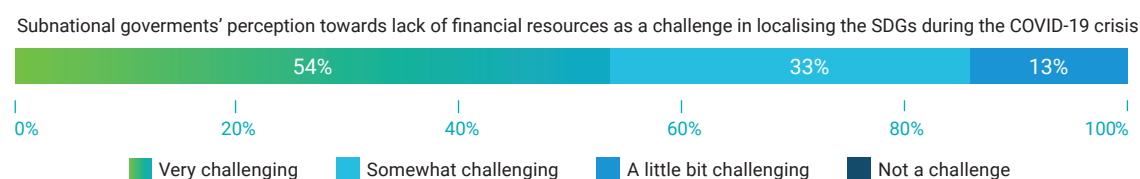
The COVID-19 crisis negatively affects subnational finance for the SDGs localisation process, with 31% of subnational governments reporting a very negative impact on their financing programmes to achieve SDGs (Figure 3.12). Half of the metropolitan areas expect the socioeconomic crisis to severely affect their financing programmes for the SDGs, while another half indicates moderate and low negative impact. Overall, 33% of subnational governments offer more optimistic views, reporting less damage (21%) and no impact (12%) on their SDGs programmes. Those who assume no impact are small and medium-sized cities.

Figure 3.12. Impact of the COVID-19 crisis on subnational financing programmes relevant to achieving the SDGs.



The COVID-19 crisis amplifies problems of subnational finance on lack of resources. All subnational governments perceive the lack of financial resources as challenging in localising the SDGs during the pandemic. More than half of subnational governments (54%) identified it as 'very challenging' (Figure 3.13). Among them, medium-sized cities are more likely to see their limited financing as very challenging compared to small cities and metropolitan areas. Subnational governments dependent on goods and services as their primary economic activities are also more likely to categorise lack of financing as their primary challenge in localising the SDGs.

Figure 3.13. Subnational governments' financial challenges in localising the SDGs during the COVID-19 crisis.



04

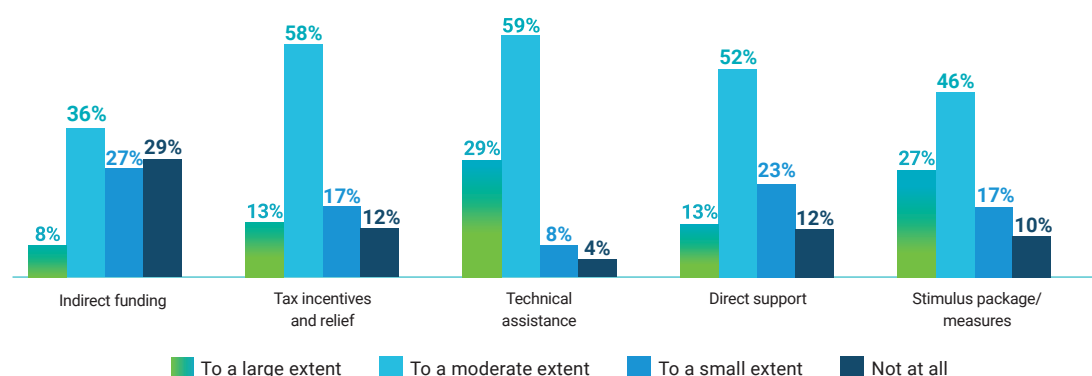
Subnational Strategies for Sustainable and Resilient Recovery

This chapter examines the current situation of subnational governments' policy responses and policy expectations during the COVID-19 pandemic and how the pandemic affects subnational governments' prioritisation and utilisation of SDGs for local strategies aimed at building back better. As a result of this crisis, the subnational governments prioritise strategies and policies that respond to immediate issues, namely health and wealth. Wealth-related strategies and policies are ranked first in terms of desired policy directions and desired national-level policy instruments. These priorities also reflect on the role of SDGs in post-pandemic development policies. SDG 3 (Good health and well-being), SDG 1 (No poverty), and SDG 8 (Decent work and economic growth) are among the highly prioritised areas. In contrast, the subnational governments pay less attention to the goals possibly perceived to deliver less obvious benefits, such as gender and environment. Thus, even though the subnational governments, to some extent, consider the SDGs a path to recovery and future development, the current crisis seems to threaten the advancement of SDGs.

4.1. Economic Recovery Measures at the Subnational Level

In general, economic recovery measures are available to the local governments to a moderate extent (54% of the respondents). The survey results clearly show the need for more economic recovery measures and more support from the central government. As illustrated in Figure 4.1, the most commonly available economic measures are technical assistance and support services. On the other hand, stimulus packages and measures, direct support (e.g. loans, microfinance), and tax incentives and relief are not available to 10%-12% of the respondents. Moreover, the measures regarding indirect funding through intermediaries and banks do not exist in almost one-third of the sample governments.

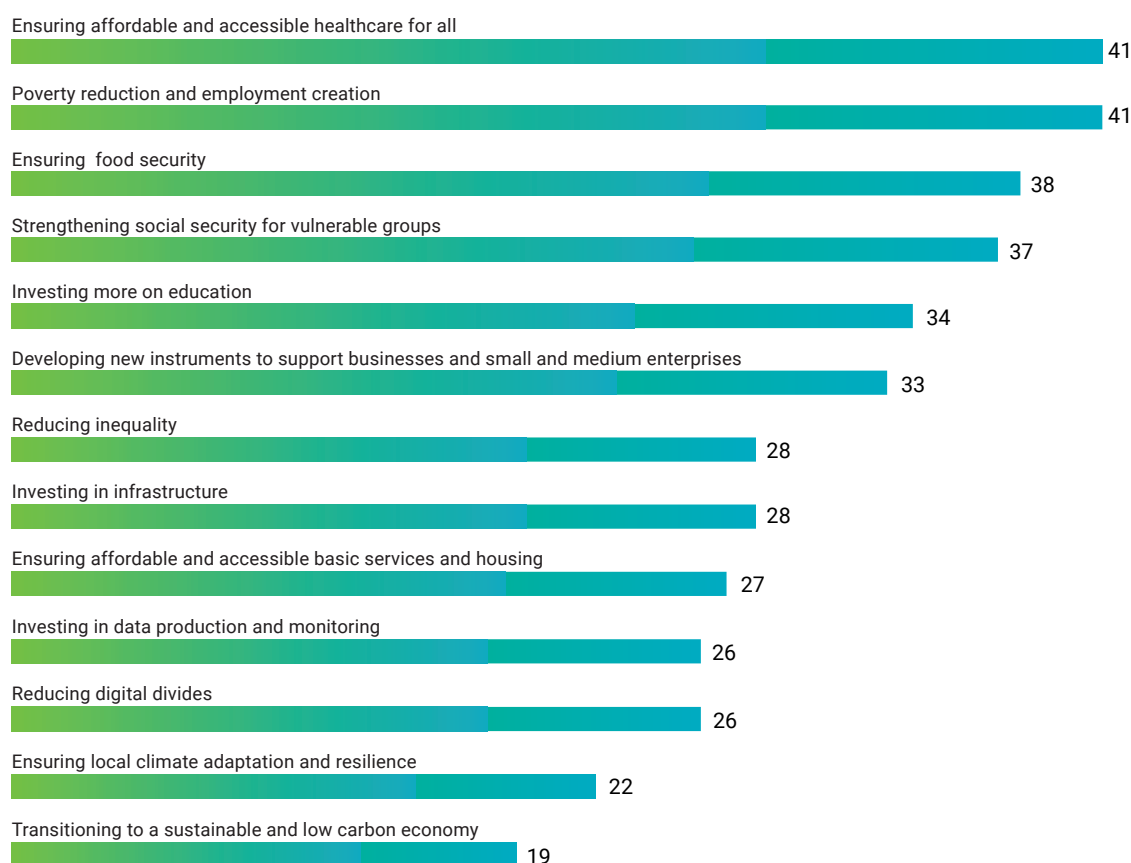
Figure 4.1. Overall availability of economic recovery measures.



4.2. Desired Policy Directions and Instruments at the National and Subnational Levels

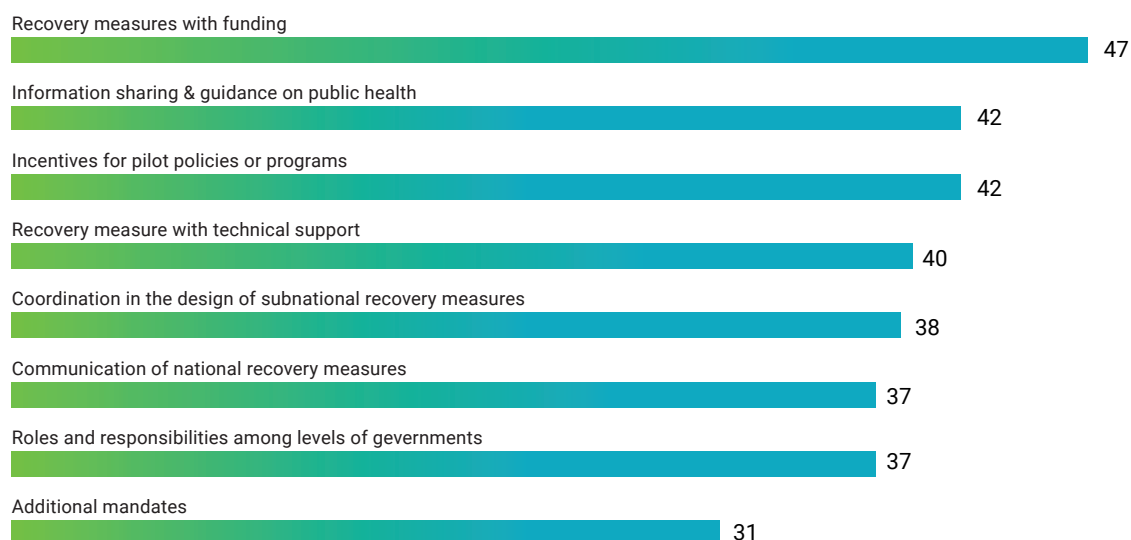
The survey results clearly demonstrate that desired policy directions and instruments at national and subnational levels identified by the subnational governments are highly consistent. Regarding subnational level policy directions and instruments, the respondents highlight **healthcare access, poverty reduction and employment creation, and food security as the top three desired policy areas** (Figure 4.2). In contrast, environmental aspects, such as transforming to a sustainable and low carbon economy and local climate adaptation, are among the least prioritised directions. Interestingly, despite the acute needs for digital technology and the internet, e.g. teleworking, in the time of the pandemic, digitalisation policies, such as reduction of the digital divide and data production and monitoring, are among the lowest priorities.

Figure 4.2. Policy directions desired by subnational governments.



Regarding national-level policy directions and instruments, support related to health and wealth is the most desirable instrument among the subnational governments (Figure 4.3). The top three most desired national-level policy instruments are 1) policy instruments supporting the implementation of recovery measures with dedicated or adequate funding, 2) information sharing and guidance on public health, and 3) policy instruments providing incentives for pilot policies or programmes in priority sectors that have grown in importance due to COVID-19. On the other hand, policy instruments allocating additional mandates to subnational governments to implement their recovery measures receive the least attention among the subnational governments.

Figure 4.3. National-level policy instruments desired by subnational governments.



4.3. Prioritised Tools for a Successful Exit and Recovery Strategy

The local governments equally prioritise policy coordination, additional resources and support, and cooperation with other stakeholders as policy tools for a successful exit and recovery strategy (Figure 4.4). The most prioritised policy tools are cooperation with the community, linking to sustainability agenda, coordination among all levels of government, and additional financial resources, respectively (Figure 4.5). The subnational governments generally provide positive responses regarding the SDGs and post-pandemic development policies. According to Figure 4.6, half of the respondents utilise the SDGs as a roadmap to build back better to a large extent, thus confirming the importance of SDGs among the local governments. The survey results highlight that, despite the pandemic, the subnational governments still pay attention to SDGs and consider them a pathway to recovery and future development.

Figure 4.4. Tools prioritised for a successful exit and recovery strategy, by policy area.

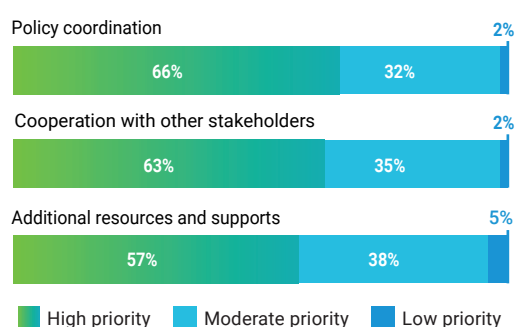


Figure 4.6. Utilisation of the SDGs as a roadmap to build back better.

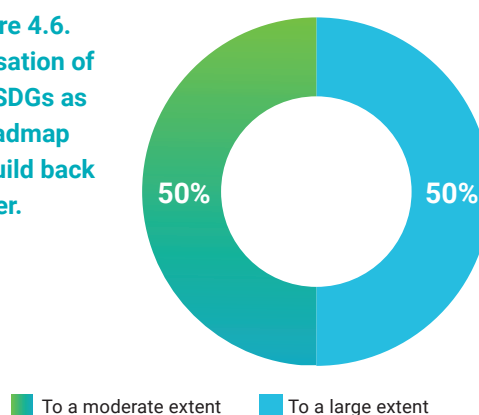
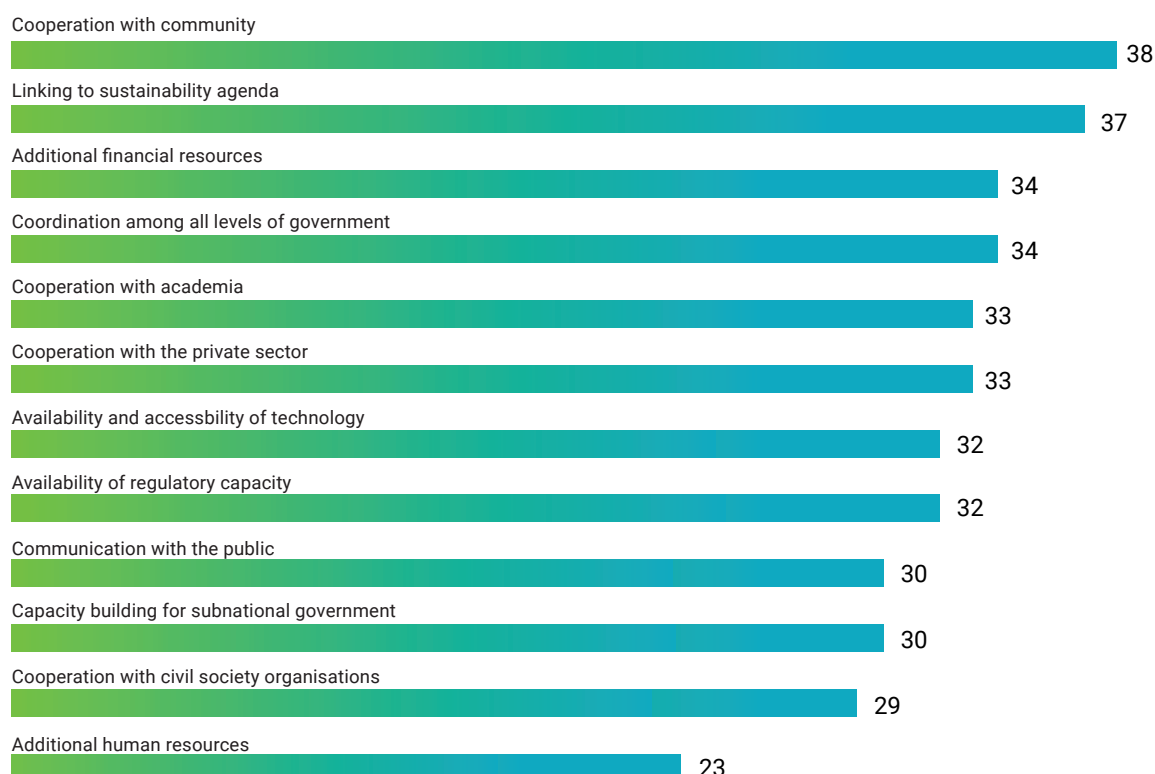


Figure 4.5. Tools prioritised for a successful exit and recovery strategy.

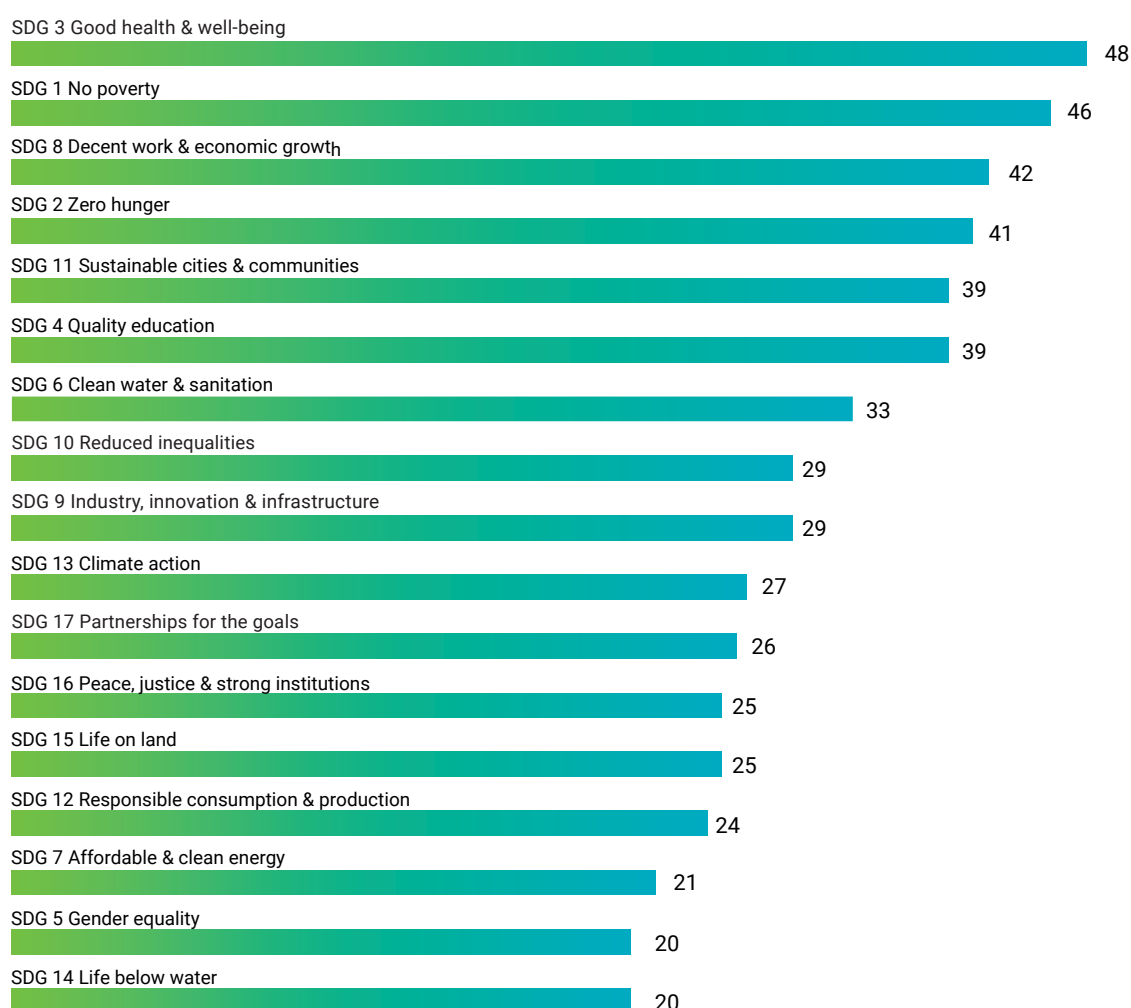


4.4. The SDGs in Post-pandemic Development Policies

Subnational governments' attention is primarily on immediate needs, i.e. health and wealth, as the pandemic has halted most economic activities and poses vital risks to people's lives. The majority of the subnational governments (92% of the respondents) agree that SDG 3 (Good health and well-being) should be highly prioritised for post-pandemic development policies (Figure 4.7). At the same time, SDG 1 (No poverty) and SDG 8 (Decent work and economic growth) also receive significant attention from the subnational governments, 88% and 81% of the respondents, respectively. The survey results underscore the high consistency between highly prioritised SDGs and the desired policy directions and instruments at national and subnational levels, as presented in Section 4.2.

On the other hand, the goals perceived to offer less obvious benefits, such as gender equality and environment-related goals, receive significantly less priority. Only 38% of the respondents highly prioritise SDG 5 (Gender equality) and SDG 14 (Life below water) (Figure 4.7). Moreover, goals such as SDG 7 (Affordable and clean energy), SDG 12 (Responsible consumption and production), SDG 15 (Life on land), and SDG 16 (Peace, justice and strong institutions) are among the low priority areas to which more than half of the subnational governments give only low-to-moderate priority. As a result, the pandemic jeopardises the overall advancement of SDGs.

Figure 4.7. SDGs assigned high priority in post-pandemic development policies.



More than half of the sample subnational governments (57%) utilise to a large extent SDG-related approaches in their strategies to locally build back better (Figure 4.8). The respondents highlight good governance and accountability (77%), evidence-based decision making (73%), and stakeholder engagement (71%) as the approaches incorporated in the strategies to locally build back better (Figure 4.9). In contrast, half of the respondents adopt the approaches such as sustainability and resilience in actions and business models, valuing co-benefits in public investments, gender mainstreaming, and the human rights approach. Hence, the subnational governments are more likely to adopt broader SDG-relevant approaches and less likely to utilise specific or thematic approaches in their strategies to locally build back better.



Case illustration

The agriculture office of Iriga City in the Philippines implemented a circular economy approach in the form of 'vegetable on wheels' to sell basic goods to villagers and keep them at home during the enhanced community quarantine. With the closure of all borders in Camarines Sur's Rinconada area, vegetables and basic commodities were sourced from local farmers and sold at a lower price to ease the plight of low-income households. The government also distributed free vegetable seeds to encourage backyard gardening. The programme helped ensure food security (relevant to SDG 2) and contribute to the circular economy (relevant to SDG 12).

Figure 4.8. Utilisation of the SDGs towards local building back better strategies.

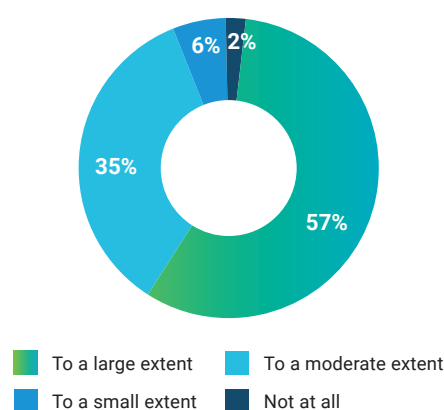
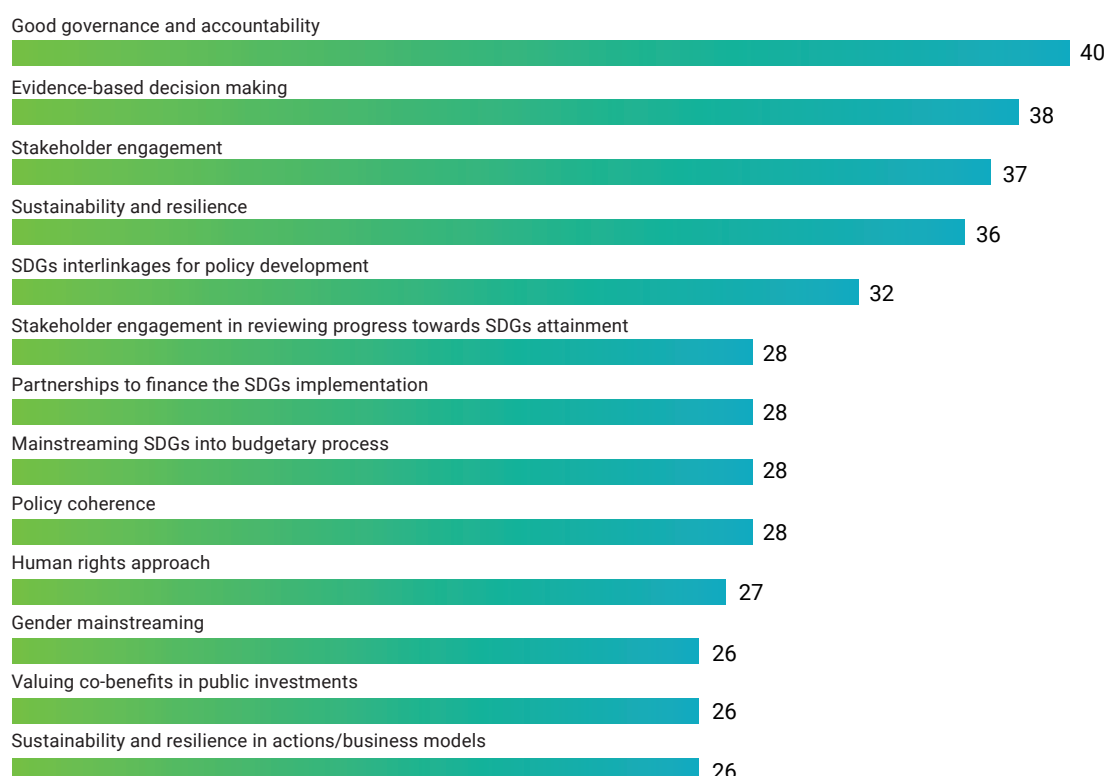


Figure 4.9. SDG-relevant approaches used in local building back better strategies.





05

Conclusion and Policy Recommendations

Subnational governments in Indonesia, Malaysia, and the Philippines have indicated how COVID-19 differentially affected their governance, finance, and actions towards localising and the attainment of the SDGs. It is extremely difficult to quantify the impact of the COVID-19 crisis as there are many uncertainties surrounding its variability across countries and regions and the effectiveness of the response mechanisms introduced by national and subnational governments. For example, subnational governments' asymmetric socioeconomic impacts might depend on the severity of the pandemic and their resiliency. Also, the role of subnational governments has been defined in part by the constitutional organisation of a country, which could impact the autonomy and flexibility in determining subnational response to the pandemic. These differentiated impacts call for a context-specific and place-based approach to policy responses.

At the onset, the COVID-19 pandemic offers an opportunity to build a greener, more sustainable, more resilient, and more inclusive future, with the 2030 Agenda and the SDGs as a collective compass. Governments and other stakeholders must ensure that every policy and financial decision fully considers environmental, social and economic impacts. There is a need for governance and financial systems to undergo a transition to a more sustainable, inclusive, and resilient future. Relevant to this issue, the observed subnational governments highlighted their most prioritised policy tools as cooperation with the community, linking to sustainability agenda, coordination among all levels of government, and additional financial resources.

Below are policy recommendations on managing COVID-19's subnational impact, its implications for multi-level governance, subnational development policies and finance, as well as takeaways for national and subnational policymakers to consider as they build more green and resilient recovery necessary to overcome the pandemic, accelerate SDGs implementation, and attain the SDGs.

1. Ensuring coherent policy and governance to build back better

- **Strengthen or reorient multi-level and cross-sector governance and coordination to manage pandemic and post-pandemic impact while accelerating SDGs implementation**

Developing robust multi-level governance mechanisms that enable the government to address wide-ranging strategies and cross-agency issues is critical in efforts to build back better.¹⁷ The COVID-19 crisis has required subnational governments to follow multiple courses of action for managing and recovering from the crisis. From the results of this survey, the significant role of a coordinated response to the pandemic is highlighted. It is important to maintain a balance between the centralised leadership setting up policies and guidelines and the subnational governments' capacity to act accordingly. The legal and regulatory capacity to take the initiative is not deemed as a very critical challenge by most of the responding subnational governments. Flexibility in administrative procedures can further help in allowing these subnational governments in developing context-specific responses.

Coordinating multiple sectors and stakeholders in an effective manner requires a combination of strategies. Foremost, developing a framework for coordinated responses that can provide guidelines for subnational governments with a clear assignment of roles, responsibilities, and authority in case of such an emergency. Setting up special coordination platforms or bodies will aid in successful vertical coordination between different levels of government. Guidelines for the utilisation of strategic resources from government support programmes should also be laid down. Measures to ensure information dissemination across levels and facilitating access to support programmes should be implemented.

The SDGs framework could also be referred to ensure an integrated approach, as various adjustments carried out in the pandemic situation are contributing to SDGs attainment, which is reflected in goals such as SDG 1 (No poverty), SDG 2 (Zero hunger), and SDG 3 (Good health and well-being), as well as economic-related goals such as SDG 8 (Decent work and economic growth) and SDG 10 (Reduced inequalities).¹⁸

- **Actively support and pursue horizontal cooperation among subnational governments and with non-state actors to promote a coherent response recovery approach**

Horizontal cooperation among subnational governments is necessary for alleviating the differentiated impacts of COVID-19. Encouraging operational coordination will be a step towards this, which can be done either by institutionalising it or by developing measures for coordination in the event of a crisis. Support from the national government to create more inclusive platforms that reflect local needs should reach all cities, especially through technical peer-to-peer networks or community of practice.¹⁹ Training programmes specifically designed for boosting horizontal cooperation should be promoted. Horizontal cooperation requires the creation of trust and a working relationship between bodies. Measures to improve the technical capacity and human resources capacity of the subnational governments should be implemented. Collaboration with academic institutions and other such bodies should be promoted for capacity building and devising improved crisis response mechanisms. Specific platforms for knowledge transfer should be set up for regular communication with the public and other stakeholders.

¹⁷ Okitasari, M., Sunam, R., Mishra, R., Masuda, H., Morita, K., Takemoto, K., and Kanie, N. 2019. "Governance and National Implementation of the 2030 Agenda: Lessons from Voluntary National Review." UNU-IAS Policy Brief No. 18. 2019. <https://collections.unu.edu/eserv/UNU:7386/UNU-IAS-PB-No18-2019.pdf>

¹⁸ Jaweng, R. N. A., Ramda, E.E., Suparman, N., Hasibuan, S. N., Mangiri, D., and Tambunan, M. 2020. "Realokasi Anggaran dan Penyesuaian (Refocusing) Program: Tantangan dan Respons Pemerintah Daerah Hadapi Pandemi," LOCALISE SDGs Cross Sectoral Research. UCLG ASPAC & APEKSI. <https://localisesdgs-indonesia.org/asset/file/newsletter/publikasi/Research-3-WEB.pdf>

¹⁹ Katramiz, T., Okitasari, M., Masuda, H., Kanie, N., Takemoto, K., and Suzuki, M. 2020. "Local Implementation of the 2030 Agenda in the Arab World: Addressing Constraints and Maximising Opportunities." UNU-IAS Policy Brief No. 19, 2020. <https://collections.unu.edu/eserv/UNU:7577/UNU-IAS-PB-No19-2020.pdf>

- **Deliver national recovery strategies with explicit context-specific and place-based considerations to manage the differentiated impact of COVID-19**

Implementation of national recovery strategies, including green recovery packages, should have explicit considerations on context-specific and place-based dimensions to address the differentiated subnational impact of COVID-19. For this to take place, national governments should involve subnational governments in their development and implementation of recovery plans early on. National recovery strategies and their fund allocation criteria should be guided by strategic national and subnational priorities. Policymakers at the national and subnational level should take measures to avoid fragmentation of strategies and fund allocation into small projects in order to spend funding rapidly at the expense of quality investment and long-term priorities such as sustainability, building resilience, and addressing inequality.

Successfully managing the differentiated impacts of COVID-19 rests with differentiated policy responses that focus on the potential advantages and strong partnerships between national and subnational governments as well as with the private sector, civil society, and citizens. Differentiated policy responses also require a degree of flexibility to allow subnational responses that are adapted to the most pressing needs. This may require necessary regulations to ensure a sufficient level of decentralisation for subnational governments in delivering specific measures relevant to their circumstances.

- **Increase national to subnational support for key policy sectors to overcome the COVID-19 pandemic**

Effective policy and quality investment are critical to overcoming the COVID-19 crisis. Our study highlights that more support is needed from the national government in terms of healthcare access, poverty reduction and employment creation, and food security. This means national economic recovery packages need to prioritise these areas in addition to providing technical assistance and guidelines to help subnational governments invest in a smarter way.

At the offset, governments at all levels should be encouraged to ease the administrative burden on services that ensure the continuity of core subnational services. Provision of incentives for pilot policies or programmes in key policy sectors to overcome COVID-19 impact is also recommended to national governments. Co-financing possibilities can also be offered for the implementation of programmes, particularly in the impacted sectors of health and finance.

A framework for assistance and oversight from the national level is required, which could be carried out to support subnational governments.²⁰ The framework should consider the characteristics of problems and similarities of challenges so that the budget reallocation and public finance restructuring can be made more effective.

²⁰ Ibid, Jaweng et al., 2020: 7

2. Pursuing resilient, inclusive, and green subnational finance

- **Explore and introduce financial management measures and fiscal tools to lessen subnational financial imbalance and restore fiscal stability**

The COVID-19 socioeconomic crisis is creating significant pressure on subnational revenues and expenditure, and subnational governments are expecting this impact to be long-lasting. To address the subnational financial imbalance, national and subnational governments should foster multi-level and multi-sector dialogues and fiscal coordination to address the pandemic impact on subnational finance, using shared data and evidence. Dialogue at the national level should involve associations of subnational governments and other consultative bodies. National governments also need to support subnational governments to reduce the gap between decreasing revenues and increasing expenditures to avoid underfunded and unfunded mandates and possible cuts in subnational operating expenditures. This might include introducing special grant schemes to help close fiscal gaps and provide subnational debt restructuring or delays. Possible fiscal tools and measures to explore and introduce to subnational governments include tax arrangements, easing fiscal rules, and improving access to external financing. Some of these measures can be temporary or more permanent. To begin, national governments may need to undertake a comprehensive review of subnational government finance to improve fiscal resilience and flexibility of revenue sources and spending assignments.

It is necessary to promote financial support to subnational governments in the event of such a crisis, particularly for the small and medium-sized cities that do not have a large revenue base of their own. Since many observed subnational governments depend on fiscal transfer, national governments can consider increasing such transfer to support subnational investment that can be used for projects on key social policy areas affected by COVID-19, such as health care, education, employment support, and food security. In the medium and long-term, multi-year subnational budgeting should be promoted to enable agile fiscal systems when facing changes in revenues and evolving expenditures.

- **Improve expenditure and revenue effectiveness by increasing transparency and strengthening accountability**

Increasing the transparency in finance flow and accountability of stakeholders are crucial steps to improve subnational finance. Governments at all levels should improve their collection, dissemination, and exchange of reliable and transparent data on subnational finance. The involvement of independent auditors should be sought. However, flexibility and efficiency in bureaucracy need to be considered to reduce the subnational reporting burden, which often leads to subnational hesitance to spend.

Subnational governments, with support from the national government, should undertake a review of their finances focusing on the degree of asymmetry on expenditure and revenue to align with the asymmetric impact of COVID-19. Distribution of fund allocation should be done in a transparent manner. For the national governments, consider providing greater weight to subnational governments facing the severe impact of the pandemic and those with higher shares of vulnerable populations to account for the higher costs of service delivery during the crisis and reduce regional and local disparities.



Case illustration

Subang Jaya City Council in Malaysia conducted restructuring of its future expenditure in operationalisation and development. After reviewing its finance, the city managed to reduce its expenditure by 15% from May to December 2020, with shortfalls covered by reserves. Restructuring of expense was managed by reducing administrative costs (e.g., overtime, no purchase or replacement of vehicles, etc.) and retaining development costs to ensure continuous public services and well-functioning public facilities.

- **Establish a funding mechanism to promote multi-year green recovery and ensure finance for SDGs implementation**

Going forward, building back better will depend on the depth and longevity of the crisis, availability of accessible funding, and the fiscal capacity of subnational governments to access new borrowing. Smaller cities are already having difficulties accessing external funding due to low creditworthiness. Our study highlighted that subnational governments have an appetite to pursue medium and long-term funding. This requires support from national governments to strengthen subnational capacity and improve access to funding. Subnational governments should be encouraged to apply for available international funding through their national governments, such as the Green Climate Fund (GCF). Moreover, it is recommended to integrate the SDGs into local budgetary processes²¹ and establish funding mechanisms to support SDGs implementation. Such a mechanism could be provided through subnational grants and should place particular emphasis on financing green and resilience investments. For example, allocating resources from the national to subnational governments destined for infrastructure development in support of energy efficiency, environmental protection, improvement of basic services, circular economy, mobility and public transportation, and sustainable urban-rural development.

²¹ Ibid, Katramiz et al., 2020: 3.

To increase funding for SDGs, partnerships for SDGs investment can also be explored. An important part of achieving the SDGs under Agenda 2030 is measuring the data and monitoring. Capacity building for data collection and monitoring by public and private stakeholders will allow better management and recovery from the pandemic. It will help in prioritising the investments geared towards various SDGs. Policies targeting job and income support to the vulnerable population, especially the workers in the informal economy, should be emphasised to mitigate the negative impacts of the pandemic on the progress towards SDG 8 (Decent work and economic growth).

3. Accelerating SDGs localisation to achieve inclusive, sustainable, resilient recovery

- **Align the short-term emergency responses with long-term economic, social and environmental objectives by internalising SDGs and other international frameworks (e.g., Paris Agreement, New Urban Agenda)**

Options for subnational governments to bridge their short-term emergency responses and long-term development objectives include: ensuring recovery measures built-in objectives of medium-term sustainability and inclusivity, aligning subnational budgets with the SDGs, and developing or updating subnational disaster risk reduction strategies. All stakeholders at the national and subnational level should work together to ensure SDGs and international obligations (e.g., NDCs) are mainstreamed into the short-term subnational emergency responses. These options require support from national governments, which may entail designing or updating the national roadmap or framework for SDGs implementation, and enhancing Nationally Determined Contributions (NDCs) to reflect this ambition in their recovery plans. Technical capacity building for subnational governments is needed to allow them to develop and implement coherent subnational recovery plans.

The COVID-19 crisis creates a differentiated impact on the attainment of SDGs as subnational governments focus on overcoming socioeconomic challenges. To mitigate SDGs from going further off-track, subnational governments are encouraged to develop or update their SDGs implementation plan to balance the advancement of SDGs more equally. However, the plan should also tailor to each subnational government's needs. Moreover, all stakeholders should raise awareness of the benefits of other SDGs, particularly gender and environment.

- **Adopt SDG-related approaches to support subnational governments' strategies to locally build back better and ensure financial inclusion**

Our study encourages more utilisation of SDG-related approaches for decision-making, such as evidence-based and SDG interlinkages in developing subnational recovery plans or updating subnational development plans to overcome the COVID-19 crisis. Strengthening interlinkages between SDGs and targets and with other international agendas can facilitate the management of trade-offs and allow an informed decision-making process.²² The broader approaches deal with fundamental architecture and efficiency of the subnational governments while engaging relevant stakeholders to create a build-back-better strategy. Thus, the broader approaches promote the SDGs and the development of subnational communities in a comprehensive manner.

²² Ibid, Katramiz et al., 2020: 3.

Nevertheless, specific or thematic approaches, such as sustainability and resilience in actions and business models, valuing co-benefits in public investments, gender mainstreaming, and the human rights approach, are also recommended in developing subnational strategies to locally build back better. The specific or thematic approaches help subnational governments accelerate the advancement of individual SDGs that lost their momentum due to the COVID-19 pandemic. Subnational governments can strategically utilise specific or thematic approaches to match with their needs and progress on the SDGs. The optimal combination of broader and thematic approaches tailored to each subnational government can fully enhance the progress of subnational communities' build-back-better development and SDGs.

Financial inclusion is also important to be ensured in the planning and implementation of strategies as it is related to equitable distribution of social safety net and incentives investment for small and medium enterprises and informal sector. Some challenges may include inconsistent and limited availability of data, as well as an insufficient level of financial literacy of the affected communities, which hampered them from receiving assistance.²³ Therefore, the local government's role in facilitating the stages of financial inclusion will be essential.

- **Upscale the use of Information and Communication Technologies (ICT) to accelerate the digitalisation of services and address digital divides**

Our study finds that despite the importance of digital connectivity, the issue of the digital divide seems to be neglected. National governments should encourage subnational governments to invest in digital infrastructure and consider digital acceleration as one of the priority areas to locally build back better. All stakeholders at the national and subnational levels should ensure adequate weight is given to digital inclusion. This means providing necessary measures to evaluate potential solutions, their impact or cost-effectiveness through research and working with communities to address issues of opportunity, access, and skill to using technology.

Policymakers' support to make connectivity affordable and accessible is critical, especially for low incomes. Solutions beyond short-term fixes might include subsidies and providing connectivity in community spaces. Collaboration with the private sector and other stakeholders should be sought to make such solutions possible, including through coordinating funding for organisations doing similar work in the community to meet immediate demand and reach more people in the longer term. At the national level, this effort should be supported by necessary regulatory frameworks to facilitate digital solutions while protecting citizens' rights and security online and addressing inequality.



Case illustration

The city of Bogor in Indonesia launched a programme to connect donors and recipients by developing an ICT for crowdfunding. The Bogor City Foster Family Network Programme targeted low-income populations not registered as aid recipients in the government's database and set a minimum donation of one million Rupiah (USD 70). Donors and recipients must register on the government's websites with their data verified by subdistrict staff.²⁴

²³ Ibid, Jaweng et al., 2020: 9.

²⁴ Ibid. SDGs Center, UNDP, UCLG ASPAC and APEKSI, 2021: 49.

Data Overview

This publication describes and analyses the responses of 52 subnational government respondents that include regional (provincial and state) and local (municipality, local government unit, regency) government entities in Indonesia, Malaysia, and the Philippines. An online questionnaire was shared in February 2021 with focal persons of the subnational government who are aware of the process of localising the SDGs and implementation of policies and strategies relevant to addressing COVID-19 crisis. The data collection involved Local Government Associations within UCLG ASPAC network.

Most respondents are from municipalities (81%) or from regions (19%). Most of these subnational governments have populations below 200,000 inhabitants (38%) and populations between 200,001 and 500,000 people (33%). Responses from metropolitan areas (above 500,001 inhabitants) form 29% of all responding subnational governments. Taking into account the average municipal population in Indonesia (500,894 inhabitants), Malaysia (200,671 inhabitants), and the Philippines (2,359 inhabitants), the sample is representative of the structure of responding countries' municipalities.²⁵

In parts of the analysis, three background variables were used:

1. Population size: small cities (up to 200,000), medium-sized cities (between 200,000 and 500,000) and metropolitan areas (greater than 500,000);
2. Primary economic activity: tourism, industry (includes mining, oil and gas, energy, manufacture), foods and beverages, goods and services (includes business, commerce and trade); and
3. Source of revenue: tax, fiscal transfer from the national governments, grants, and borrowing.

These background variables permit identifying whether the impact of the COVID-19 crisis is differentiated across responding subnational governments.

²⁵ OECD. 2016. "Country profile." Indonesia (<https://www.oecd.org/regional/regional-policy/profile-Indonesia.pdf>), Malaysia (<https://www.oecd.org/regional/regional-policy/profile-Malaysia.pdf>), and the Philippines (<https://www.oecd.org/regional/regional-policy/profile-Philippines.pdf>).

Questionnaire

An online questionnaire was developed to gain awareness and a broad overview of subnational policies and current progress related to localising the SDGs and strategies to overcoming the impact of the COVID-19 crisis. The questionnaire covered 22 questions and was organised into six topic areas:

- General information on subnational governments;
- Impact of COVID-19 on subnational governments;
- Impact of COVID-19 on subnational finance;
- Subnational exit strategies and recovery plans;
- Impact of COVID-19 crisis on subnational progress of localising the SDGs; and
- The role of SDGs as a framework to build back better.

The questionnaire offered four qualitative scales (e.g., strong to no impact, high to no pressure, very challenging to not a challenge) to respondents to reflect their perceptions on each question.

Subnational Governance Context

The institutional setting of subnational governance differs across countries. The degree of fiscal, political, and administrative decentralisation also varies. Institutional setting and degree of decentralisation do not permit establishing causality between governance and decentralisation and the dimensions of subnational responses to COVID-19. Rather they provide context among subnational governments across observed countries.

Indonesia

Indonesia is a unitary republic and is divided into three layers of governments: central and subnational governments (provinces, regencies and municipalities). Under regencies and municipalities, there are districts and sub-districts/villages. Heads of subnational governments and villages are directly elected, while heads of districts and sub-districts are appointed by mayors. The concurrent affairs, of which the responsibilities are divided between governments, consist of two types: 1) obligatory affairs and 2) non-obligatory affairs. The obligatory affairs include education, health, general construction and spatial management, public housing, social affairs, and local security. The provision of public health service is a provincial responsibility.²⁶

Subnational governments have the responsibilities and authority to determine the size and structure of budget expenditure. Following the decentralisation law in 2014, provinces received supervisory powers and a stronger role as representatives of the central government, particularly in the area of planning and budgeting as well as public service delivery. However, subnational governments' power to collect taxes and borrow remains very limited. The central government collects major taxes, while regencies and municipalities are only given the right to collect minor taxes such as taxes on land and building, motor vehicles, hotels, restaurants, entertainment, base metal and mineral extraction, and water. Assessment and tax rates are uniform for the whole country, and subnational governments do not have control over the rate structure for their major sources of revenue.

²⁶ Sevindik, I., Tosun, M. S., and Yilmaz, S. 2021. "Local Response to the COVID-19 Pandemic: The Case of Indonesia." *Sustainability*, 13, 5620. <https://doi.org/10.3390/su13105620>

Subnational governments are allowed to borrow from domestic and foreign markets. However, they require permission from the Ministry of Finance for issuing local debts. The law adopts the fiscal and debt rules of the European Union by limiting the budget deficits of central and local governments to 3% of their respective annual GDP or regional GDP. The ratio of debt to GDP or regional GDP is set at a maximum of 60%.²⁷ On average, subnational expenditure in Indonesia is mainly allocated for general public services, education and housing.

In the pandemic situation, fiscal pressure on the revenue side has stalled investment spending and the carrying out of infrastructure projects. With the bureaucratic machine not operating in full force, the available local government's budget cannot function optimally, resulting in many local governments' negative balance sheets, with some going through a recession. In Indonesia, there are three focuses of government's programmes to respond to the pandemic: 1) healthcare, 2) social safety nets, and 3) adjustments in programmes to countermeasures against economic impacts.²⁸ Such adjustments are consistent with the agenda of SDGs and reflected in goals such as SDG 1 (No poverty), SDG 2 (Zero hunger), and SDG 3 (Good health and well-being), as well as economic-related goals such as SDG 8 (Decent work and economic growth) and SDG 10 (Reduced inequalities). To support these goals, the Indonesian government has been implementing four central themes for the Local Government Work Plan (Rencana Kerja Pemerintah Daerah/RKPD) of 2021: 1) the recovery of the industry, tourism, and investment sector, 2) healthcare system reform, 3) social protection system reform, and 4) disaster resilience system reform.

In the context of SDG localisation, the commitment to adopting and implementing SDGs at the local level is based on the Presidential Decree No 59 of 2017, which is followed by several enabling environments at the national level. The Ministry of Development and Planning Regulation No 7 of 2018 on the implementation of SDGs gave a mandate to Provincial Governments to prepare SDGs Local Action Plan (Kajian Lingkungan Hidup Strategis or KLHS), whereas city or regency municipalities are only required to submit their data and plans to their respective provincial governments. Although subnational governments below provinces are not mandated to prepare the SDGs Local Action Plans, many have incorporated SDGs in their Local Mid-Term Development Plans.²⁹ The Ministry of Home Affairs Regulation No 7 of 2018 called for all subnational governments to prepare Environmental Strategic Assessment for the Local Mid-Term Development Plan, which includes their progress and plans for the SDG attainment.³⁰

In handling COVID-19, the main power is within the purview of the central government, including public mobility restriction and fiscal response packages. The implementation of Government Regulation No. 21 of 2020 concerning the Large-Scale Social Restrictions (PSBB) in the Context of Accelerating Handling of COVID-19 positions the Ministry of Health as a party that will approve the submission of the local government for the determination of the PSBB status. However, different regional capacities in fulfilling various requirements and the formal administrative process for submitting PSBB may cause delays in its application.³¹ As of July 2021, the emergency public activity restriction (PPKM) is in place in 15 provinces based on the Ministry of Interior Instruction No. 15 of 2021.

²⁷ ADBI. 2016. "Government Decentralization Program in Indonesia." ADBI Working Paper Series, No. 601, October 2016. <https://www.adb.org/sites/default/files/publication/201116/adbi-wp601.pdf>

²⁸ Ibid, Jaweng et al., 2020: 3.

²⁹ APEKSI, APPSI, ADEKSI, UCLG ASPAC, and ITB SDGs Network. 2021. "Voluntary Subnational Review Report for Indonesia 2021." UCLG ASPAC & UCLG. https://gold.uclg.org/sites/default/files/indonesia_2021_0.pdf

³⁰ LOCALISE SDGs and SDGs Hub UI. 2021. "Laporan Evaluasi Adopsi Indikator Tujuan Pembangunan Berkelanjutan pada Pembangunan Daerah Berdasarkan Permendagri 7/2018 (Report on the evaluation of SDG indicators adoption at the local level based on MOHA Regulation 7/2018)." UCLG ASPAC & APEKSI.

³¹ Ayuningtyas, D., Ul Haq, H., Utami, R. R. M., and Susilia, S. 2021. "Requestioning the Indonesia Government's Public Policy Response to the COVID-19 Pandemic: Black Box Analysis for the Period of January-July 2020." *Front. Public Health*, 10 May 2021. <https://doi.org/10.3389/fpubh.2021.612994>

Malaysia

Malaysia is a parliamentary democracy and constitutional monarchy. The country has three tiers of government (federal, state and local), with regular elections held at the central and state levels. There are three types of local authorities in Malaysia: 1) city councils, 2) municipal councils, and 3) district councils. While the local authorities are under the purview of the respective state governments, the Ministry of Housing and Local Government (MHLG) is responsible for formulating, executing and monitoring all laws pertaining to local government while local authorities in the Federal Territories are subject to the purview of the Ministry of Federal Territories and Urban Well-Being. All three types of local authorities must provide basic infrastructure and public utilities, whilst municipalities and cities additionally provide for urban planning, public health and waste management, and city councils further provide revenue collection activity and law enforcement. The largest part of subnational income is spent on staff expenditures, charges and utilities.

The Federal government is given all major public functions, unlimited taxation and borrowing powers, and considerable authorities, which include wide-ranging emergency powers. They also undertake national development planning in the national interest. The main revenue sources assigned to the States are receipts from land sales, revenue from lands, mines and forests, entertainment duty and Islamic religious revenue. A State Reserve Fund was established to assist the States in balancing their budget. Federal grants are distributed among the States on the basis of the origin of collections, population, State Gross Domestic Product and other social and economic indicators and the actual cost of projects.

The State government can borrow only from the Federal government or from a bank or other financial sources approved by the Federal government for a period not exceeding five years. States' borrowing consisted of loans from the Federal government and market borrowing from the domestic financial market. The State governments can only borrow for capital spending.³²

The Federal Government, through Malaysian National Security Council, is in charge of deciding the nationwide full movement control order (FMCO). The Ministry of Health assesses when to progress to each phase of the FMCO based on daily COVID-19 numbers and hospital capacity. Local authorities are responsible for enforcing the national regulations, ensure seamless public service delivery, and oversee the safety guidelines.

³² Anuar, A. H. 2000. "Fiscal Decentralization in Malaysia." *Hitotsubashi Journal of Economics*, 41, pp. 85-95. <http://hermes-ir.lib.hit-u.ac.jp/hermes/ir/re/7710/HJeco0410200850.pdf>

The Philippines

The Philippines has a unitary government system. The administrative subdivisions are divided into four layers: provinces, cities, municipalities, and barangays. They are collectively referred to as local government units (LGU). The barangay is the lowest tier of local governance. A group of barangays comprise a municipality. The more urbanised and developed barangays comprise a city. There are two types of cities: 1) highly urbanised, which is independent of the province, and 2) component cities (smaller cities). A cluster of municipalities or municipalities and component cities comprise a province.

The 1991 Local Government Code (Republic Act 7160) provided local government units with powers to tax and levy various fees and charges and to borrow from the financial markets in order to raise revenues for financing local development. The main sources of locally generated revenues are property tax, business tax, and service and business income from various local economic enterprises. Local governments set some tax rates but can make changes only every three years. Central government influences local government spending. The majority of subnational expenditure is dedicated for general public services, including administration costs, public order, and safety spending.

A key element of fiscal decentralisation is the intergovernmental fiscal transfer called the internal revenue allotment (IRA), which is a block grant to local government units based on a formula designed by the Philippine Congress.³³ Performance incentives are explicitly used limited to the employment of transfer intercept in cases of non-repayment loans.

The National Guiding Principles of COVID-19 response assigned LGUs as the steward of local health systems and primary responders to the public health emergency, including enforcing the enhanced community quarantine (ECQ) and maintaining the uninterrupted flow of essential personnel, goods, and services. LGUs have the mandate to institute their own intensified enforcement measures to ensure that minimum health standards are maintained. However, the current National Disaster Risk Reduction and Management Plan does not mention pandemics, and many LGUs do not have a working Community Response Strategy to deal with COVID-19. On finance, to address inequality in financial resources among LGUs and improving their capacity, the central government has started to implement the Mandanas Ruling (i.e., IRA is programmed to increase by 55 percent in the 2022 budget) by identifying spending responsibilities for select devolved mandates to be transferred back to LGUs.

³³ UN-Habitat. 2011. "Fiscal Decentralization in the Philippines." The Global Urban Economic Dialogue Series. https://unhabitat.org/sites/default/files/download-manager-files/1403266078wpdm_Fiscal%20Decentralisation%20in%20Philippines.pdf



Glossary

Building back better (BBB) is an approach to post-disaster recovery that reduces vulnerability to future disasters and builds community resilience to address physical, social, environmental, and economic vulnerabilities and shocks. Recovery within a BBB framework gives impacted communities the chance to reduce risk from the immediate hazard and threatening hazards and conditions.³⁴

Co-benefits are the positive effects that a policy or measure aimed at one objective might have on other objectives, increasing the total benefits for society or the environment. Co-benefits are often subject to uncertainty and depend on local circumstances and implementation practices, among other factors. Co-benefits are also referred to as ancillary benefits.³⁵

Green or sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.³⁶

Green recovery is recovery measures in the form of economic stimulus packages and plans that have the potentials to create opportunities for income, jobs and growth, and at the same time accelerate action on medium and long-term environmental goals.³⁷

Horizontal cooperation refers to the collaboration among governments at the same level and between government and non-State actors, including the private sector, civil society organisations, academia, and other actors.

Multi-stakeholder partnerships (MSPs) are voluntary and collaborative relationships between stakeholders across different sectors that enable sharing common interests and approaches, leveraging responsibilities, risks, resources and benefits towards achieving sustainable development.³⁸

Resilience is the ability of a system, community or society exposed to hazards to resist, absorb, accommodate to, and recover from the effects of a hazard in a timely and efficient manner, including preserving and restoring its essential basic structures and functions.³⁹

³⁴ GFDRR. 2020. "Building Back Better in Post-Disaster Recovery." https://www.recoveryplatform.org/assets/tools_guidelines/GFDRR/Disaster%20Recovery%20Guidance%20Series-%20Building%20Back%20Better%20in%20Post-Disaster%20Recovery.pdf

³⁵ IPCC. 2018. "Special Report: Global Warming of 1.5 °C." <https://www.ipcc.ch/sr15/>

³⁶ European Commission. nd. https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en#:~:text=Related%20links,-What%20is%20sustainable%20finance%3F,sustainable%20economic%20activities%20and%20projects.

³⁷ OECD. 2020. "Making the Green Recovery work for jobs, income and growth." https://read.oecd-ilibrary.org/view/?ref=136_136201-ctwt8p7qs5&title=Making-the-Green-Recovery-Work-for-Jobs-Income-and-Growth_&_ga=2.186680168.1587330556.1627359732-140200233.1611717297

³⁸ UNU-IAS and UNESCAP. 2018. "Partnering for Sustainable Development: Guidelines for Multi-stakeholder Partnerships to Implement the 2030 Agenda in Asia and the Pacific." http://collections.unu.edu/eserv/UNU:6459/MSP_Guidelines.pdf

³⁹ United Nations. 2012. "UN System Task Team on the Post-2015 UN Development Agenda: Disaster Risk and Resilience." Thematic Think Piece. UNISDR, WMO. https://www.un.org/en/development/desa/policy/untaskteam_undf/thinkpieces/3_disaster_risk_resilience.pdf

SDGs localisation is the process of taking into account the subnational contexts in the achievement of the 2030 Agenda, from the setting of goals and targets to determining the means of implementation and using indicators to measure and monitor progress. Localisation relates both to how the SDGs can provide a framework for local development policy and how local and regional governments can support the achievement of the SDGs through action from the bottom up and how the SDGs can provide a framework for local development policy.

Vertical coordination is concerned with linking national and subnational levels to guarantee joined-up and sustainable implementation and management of inclusive policies.

Vulnerable populations include populations that live in poverty without access to safe housing, water, sanitation and nutrition and those who are stigmatised, discriminated against, marginalised by society and even criminalised in law, policy and practice. These populations may struggle to fulfil their human rights, including their rights to access health and social services.⁴⁰

⁴⁰ UNDP. nd. <https://www.undp-capacitydevelopment-health.org/en/legal-and-policy/key-populations/>



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