

**Guiding principles and practices for  
urban economic recovery and  
resilience**

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## 1. BACKGROUND

The COVID-19 pandemic that has swept through the world since the beginning of 2020 has taken more than 800,000 lives (as of the middle of August 2020) and disrupted the livelihoods of millions more. With various degrees of restrictions on international travel, human movement and business activities still in force, the pandemic has all but brought the world economy to a halt. Urban areas, which are home to 56% of the world's population but account for over 80% of global economic output, have been particularly hit hard. According to UN-Habitat data, 95% of COVID-19 confirmed cases are in urban areas (UN-Habitat 2020). Due to their very nature and social dynamism – people living closely together, serving as gateways to international travel and trade, proliferation of slums or informal human settlements (particularly in developing countries), and the high concentration of economic activities in factories and offices – cities and urban areas have always been prone to being disproportionately affected by public health crisis on a global scale. The COVID-19 pandemic is evidence of that vulnerability, which in a number of cases has been further exacerbated by the pre-pandemic conditions of urban life leading to lower resilience capacities, such as lack of infrastructure, basic services, lack of social assistance and housing.

Beyond the direct effect on the health sector and health in the population (viral infections, deaths, and the weakening of health systems as resources are re-purposed to fight the disease), the pandemic has contributed to massive job losses, a steep fall in economic activities, and drastically reduced local government finances, particularly in cities. In June 2020, the International Labor Organization (ILO) reported that an estimated 5.4% of global working hours (“equivalent to 155 million full-time jobs”) were lost in the first quarter of the year, relative to the fourth quarter of 2019 (ILO, 2020: 1). Many of these job losses occurred in high-value sectors such as manufacturing, wholesale, business services and administration, and food and accommodation sectors, almost all of them based in urban areas.

Unsurprisingly, consumer spending and business investment were also severely affected, particularly in the informal sector, which accounts for 78% of urban economies in developing countries and over 50% in emerging economies (ILO 2019). According to the International Monetary Fund (IMF), while the fall in consumer spending is due to some combination of social distancing, lockdowns to slow the transmission of the corona virus, and a fall in household incomes resulting from increased unemployment, businesses have cut back in investment due to “precipitous demand declines, supply interruptions, and uncertain future earnings prospects” (IMF, 2020: 2). Urban areas have been hit particularly hard. In India, an episode of job loss leads to an immediate reduction in household consumption expenditure by 6.2%, but the decline is twice as large in urban areas (11.1% vs 5.1%). More concerningly, however, unemployment leads to a decline in expenditures on health (15.3%), education (12.9%) and food (3.6%), which could lead to long-term consequences even if the shock is temporary (Gupta and Kishore 2020).

The combined effect of falling business activities and investment as well as rising unemployment, diminished household incomes, and shrinking consumer demand has led to dwindling local government tax and non-tax revenue around the world. Among other things, the fall in revenue has limited the ability of local governments to finance or sustain existing infrastructure services, provide new ones, and continue to deliver basic municipal services, such as drinking water, sanitation, waste collection, health, and other utilities in the midst of the crisis. Other sources of local revenue, such as transfers from central governments, have also been drastically reduced in many instances due to the negative effects of the crisis on key revenue sources for national governments, particularly corporate, consumption and income taxes (see Section 4.3 for specific examples). These effects are expected to be particularly severe in some regions, such as Africa, where local government spending tends to be low as are tax/GDP ratios. Small- and medium-sized cities, ranging in size from 0.2 to 0.5 million inhabitants are predicted

to experience the largest proportion of decline in financial resources both due to the shrinkage of subsidies and transfers from the national government, and weak own resources (UN-Habitat et al. 2020). Africa has the lowest investment expenditure of local governments in the world at \$28 per capita (OECD and UCLG 2019).

COVID-19 is likely to undo much of the progress made in the fight against poverty. Rising unemployment, business closures, as well as a decline in economic activity and loss of household incomes around the world are likely to push millions more into extreme poverty. The World Bank's preliminary estimates suggest that the pandemic will push from 71 million to 100 million people below the international poverty line of \$1.90 per day in 2020, particularly in urban areas in developing countries. As a result, the global extreme poverty rate would increase from 8.2% in 2019 to between 8.8% and 9.2%, representing the first increase in global extreme poverty since 1998, effectively wiping out progress made since 2017 (World Bank 2020). India, where the decade of 2005-16 pulled nearly 273 million out of multidimensional poverty (more than in any other country in the world), is likely to add 10 million to the poverty rolls in 2020 (Kharas and Kamel 2020).

There are also growing concerns about the negative impact of the pandemic on income and non-income inequality, particularly in developing countries where social protection mechanisms are largely underdeveloped. In particular, the economic downturn caused by the current COVID-19 outbreak has aggravated gender equality, a situation which is expected to persist well beyond the recovery and reconstruction phases of the current response. Compared to "regular" recessions, which typically lead to higher unemployment among men, the social distancing measures prompted by COVID-19 around the world have had a disproportionately larger impact on the employment of women. According to McKinsey (2020), women's jobs are 1.8 times more vulnerable to this crisis than men's jobs. Women make up 39 percent of global employment but account for 54 percent of overall job losses.

In addition, closure of schools and especially day care centers has led to a large increase in child care needs, affecting working mothers in particular around the world due to the disproportionate burden of domestic labour on women. The sum effect of the crisis on working mothers is also likely to persist for many years unless governments take deliberate actions to minimise and ultimately reverse them (Alon et al. 2020). At a broader level, these developments together will almost certainly exacerbate the challenge of "urbanisation without the matching quality" when cities become the main contributors to national inequality. As shown by Furceri et al. (2020), based on the analysis of previous economic shocks, income inequality, measured by the Gini coefficient, can rise by as much as 1.25% above pre-crisis levels five years after the crisis has ended, indicating the need to incorporate policies that address inequality in all its forms into national and sub-national strategies to address the COVID-19 pandemic. The recent UN socio-economic impact assessment for South Africa forecasts an increase in inequality between 0.16 and 0.23% of the Gini coefficient in this country, which is already one of the most unequal in the world with a Gini of 0.62 (UN SA 2020).<sup>1</sup>

With infections tapering off or declining in many parts of the world and governments taking tentative steps to reopen and rebuild their economies (even if some countries are witnessing a second or third wave of infections), cities are expected to play a leading role as engines of economic growth and revival. Success by these cities will to a large extent depend on how resilient their efforts are during the crisis and beyond.

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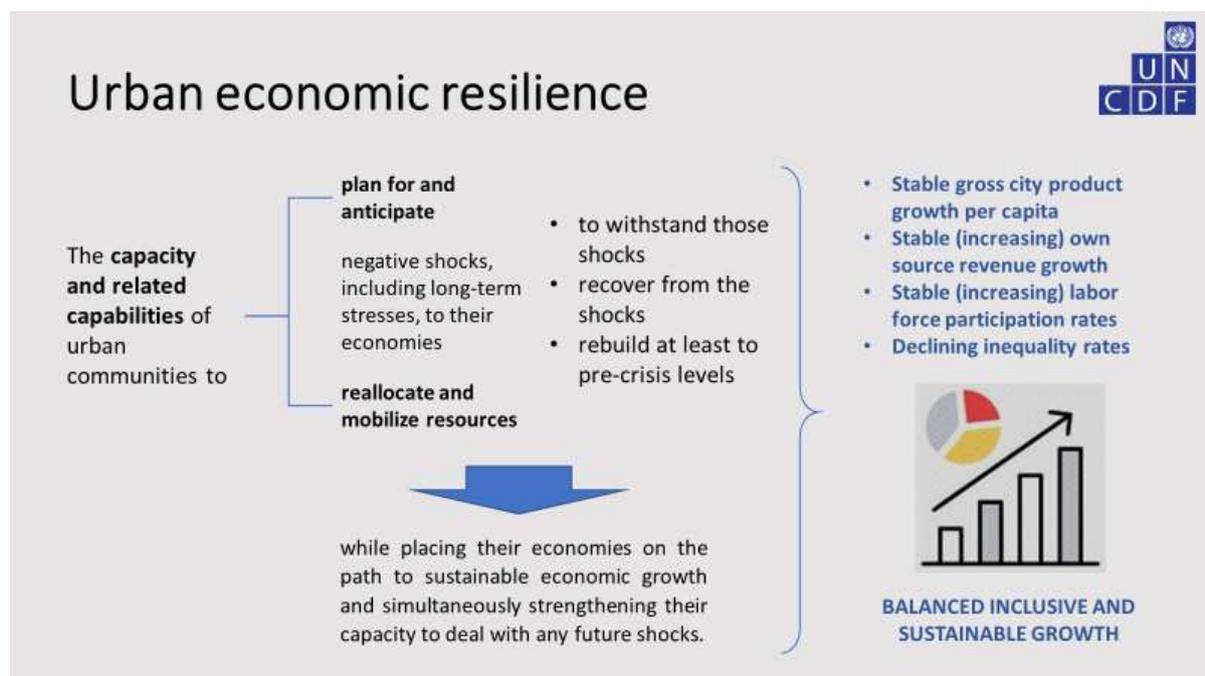
<sup>1</sup> The coefficient ranges from zero to one, with figures closer to one indicating higher inequality, and vice versa.

The conceptual framework that preceded this guide devoted considerable time to reviewing the literature on “urban resilience” broadly and eventually derived the following definition as the most relevant to dealing with economic resilience during and after the COVID-19 crisis:

The capacity and related capabilities of cities or urban communities to plan for, anticipate negative shocks, including long-term stresses, to their economies, allocate, reallocate and mobilize resources to withstand those shocks, recover from the shocks, and rebuild better, while placing their economies on the path to sustainable economic growth and simultaneously strengthening their capacity to deal with any future shocks.

Figure 1 summarizes the approach to urban economic recovery resilience as explained above.

**Figure 1. Conceptualization of urban economic resilience**

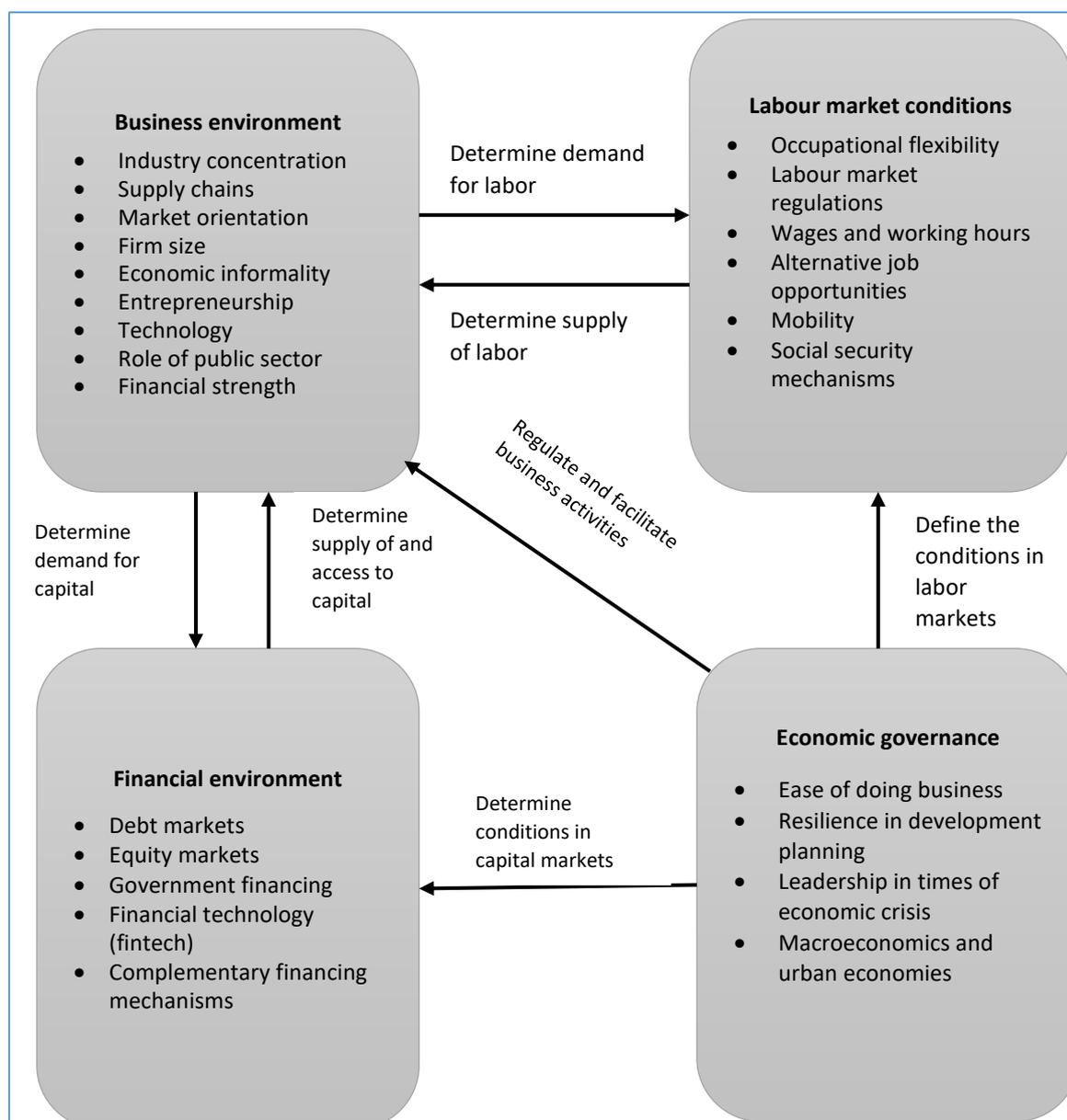


On the basis of this definition, a framework based on the following four dimensions was proposed for the building and management of urban economic resilience, particularly during and after the COVID-19 crisis (see Figure 2).

- 1) business environment;
- 2) economic governance;
- 3) labor market conditions; and
- 4) financial arrangements.

The first two refer to urban systems and describe, respectively, conditions for business operations (both public and private), the structure of local economies, as well as rules and regulations that govern the activities of businesses, while the remaining two refer to factor markets (labor and capital, respectively).

**Figure 2. Dimensions of resilience-building for urban economies**



*Source: UNCDF Background Note (2020)*

Importantly, the conceptual framework has also suggested the overall objective and some performance outcomes indicating strong urban economic resilience. From an economic perspective, the objective is to achieve balanced, inclusive/equitable and sustainable development characterized by the following indicators. These indicators are explained in more detail in the *Conceptual Framework for Building Urban Economic Resilience During and after the COVID-19 Crisis*, which is a companion paper produced for the same project.

The logic behind selecting these indicators is grounded in the concept of inclusive and sustainable development based on balanced growth, which is considered both the objective and outcome of building urban economic resilience. Balanced growth is of course not synonymous with economic development, which is a more comprehensive and more nuanced concept incorporating qualitative aspects, which are not easily captured within the concept of balanced growth. Nevertheless, the general consensus is that economic development and growth are part

of the same process (Acemoglu 2009). On the balanced growth path, while output per capita increases, the capital-output ratio, the interest rate, and the distribution of income between capital and labour remain roughly constant (Acemoglu 2009). Hence, the indicators below represent an attempt to capture the key characteristics of sustainable and inclusive economic development underpinned by balanced growth in the context of an urban economy.<sup>2</sup>

- **Gross city product growth.** Long-term growth in the gross city product (GCP) is determined by many factors, such as business investment and infrastructure provision by both local and national governments; growth and the quality of the labor force, as well as productivity improvements over time.
- **Per capita gross city product and per capita revenue.** This gives a broad view, in the case of GCP, of the local government's *potential* to be financially viable on the basis of economic growth. Per capita revenue (local or total revenue divided by the population), on the other hand, gives an indication of a local government's *ability* through actual revenue from economic activity to finance its operations. A rise in both indicators expands local fiscal space and thus contributes to the building of economic resilience.
- **Labour force participation rate.** This represents the proportion of the working age population (15-64) who are either working or in search of work (with those working or looking for work together constituting the "labour force"). Because this indicator accounts for people who have given up looking for work, this makes the labour force participation rate a more reliable figure than the unemployment rate, which is often criticized for under-counting true joblessness. Indirectly, the labour force participation rate also indicates the quality of the available jobs as well as possible mismatches of skills, identity and place that drive workers out of the labour market.
- **Inequality.** In all its dimensions – such as income (across various socioeconomic groups), productive assets (such as land or skills), and geographical (with uneven distribution of economic opportunities and spatial distributions of services across administrative regions of a country) – inequality has been shown to pose a threat to economic development in particular, development in general, and by implication economic resilience. Addressing income and non-income inequalities should constitute a major part of any strategy to build urban economic resilience both in developing and developed countries.<sup>3</sup>

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<sup>2</sup> The indicators are neither perfect nor exhaustive as the imperfection of any economic output measures (including GDP or its city equivalent) has been strongly argued by the "beyond the GDP movement" (Stiglitz et al. 2019). However, given the lack of consensus about the alternative measures and generally accepted methodologies for them as well as the current availability of statistical data, our concept uses the five indicators explained above.

<sup>3</sup> Economic theory suggests that the COVID-19 pandemic will generate rising inequality. The crisis has intensified the already existing trend of automation and transition to more capital-intensive businesses as machines appear more attractive to employers, particularly in the contracting sectors that use relatively more unskilled labor. The return to capital will thus increase. And, because low-income people must spend a larger share of their income on basic goods than those at the top, any automation-driven increase in inequality will be contractionary (Stiglitz 2020).

## 2. GUIDING PRINCIPLES FOR BUILDING URBAN ECONOMIC RESILIENCE

The following sections expound upon the principles for building urban economic resilience, during and after COVID-19, that were preliminarily presented in the **Conceptual Framework for Building Urban Economic Resilience During and after the COVID-19 Crisis** developed for this project. The Conceptual Framework was based on a review of literature and consultations between the participating UN partners as well as with the partner cities. In addition, the following sections reflect policy recommendations based on both the principles and findings of two global webinars on urban economic resilience conducted with the partner cities and other relevant stakeholders on 12<sup>th</sup> and 17<sup>th</sup> August 2020. Together, they serve as resources for local governments as they deal with the COVID-19 pandemic.

The principles are divided into two categories: “general principles” that must apply at all times (in terms of development planning or general policy making by local government), and “specific principles” that apply to the COVID-19 crisis. The two categories are not mutually exclusive, however, and may be combined according to the institutional arrangements and development needs of particular local governments.

### 2.1 General Principles for Building Economic Resilience

- i. **Prioritization of resource allocation in development planning and management:** Resources, whether in high-, medium-, or low-income countries, are always scarce relative to the needs of the population. There is, therefore, the imperative for policy makers to prioritize the use of those scarce financial, human, and material resources during development planning exercises and the routine day-to-day management of local government affairs. This means that budgetary and other resource allocations for programmes or projects must be guided by some criteria of importance or relevance, such as legislative or constitutional requirements, their contribution to promoting local economic and social development, and in the case of emergencies saving lives, alleviating suffering and restoring livelihoods. In practice, the criteria may differ by local jurisdictions or national laws or policies and may be informed as much by political economy considerations (such as the interests of special pressure groups) as by objective criteria such as the existence or possibility of an emergency and the imperative to save life and property.

COVID-19 experiences indicate that the cities that have been able to set their priorities right and to (re)allocate resources to the areas of most relevance for minimizing the negative economic impact of the pandemic, have fared much better. Quite often, these areas related to healthcare, e.g. increasing the capacity of local healthcare facilities, introducing case tracking systems, providing personal protective equipment and regular disinfection of public places, etc. But city governments have demonstrated much creativity and ingenuity beyond the immediate healthcare priorities. For example, the city of Tirana (Albania) invested in expansion of its bicycle lanes. Not only did it help to maintain a certain level of publicly funded economic activity but it also facilitated movement of labor force under the conditions of restricted public transportation. Quite a number of cities, particularly in developing countries, (Kampala in Uganda is one such example) invested in digital e-commerce systems that linked city market vendors to customers without the need to physically visit the market.

As cities transition from the response and early recovery phase (see Section 2.3), the principle of prioritization of resource allocation needs to be adapted to the requirements

of building a resilient economy. City governments cannot and should not rescue every company with unlimited amounts of cash. A careful balance must be struck between public welfare objectives and the social, economic and political risks of local relief and stimulus programmes. In particular, only financially viable firms should receive solvency support, with financial viability assessed in terms of both the past and future. This equally concerns public and private enterprises as the crisis offers a unique opportunity to review and restructure the key characteristics of the urban economic system and its components described in the previous section.

- ii. **Efficiency:** Efficiency, the main ingredient for productivity improvements, is key to attaining socioeconomic transformation over the medium-to-long term and should be a major guiding principle in policy making and development planning, including the day-to-day management of government, local or national, and the operations of businesses and civil society organizations. Efficiency however should be practiced in combination with effectiveness creating redundancies and backup systems where necessary to ensure that efficient solutions contribute to better resilience. The following four types of efficiency may be operationalized through training programmes for public officials and leaders in the non-state sectors:<sup>4</sup>
- a. **Productive efficiency:** Also known as technical efficiency, productive efficiency reflects the broadest definition of the concept of efficiency and ensures that firms or governments produce their goods and services with the least amount of inputs, including labor, equipment, time, money, and raw materials, for the same or greater amount of output. In the case of labor, using less could lead to redundancy and increased unemployment, and so parallel programs, such as retraining redundant workers for new jobs or promoting the growth of new sectors over the medium-to-long term, should form a part of promoting productive efficiency in the development plans of local governments. Money saved through the promotion of productive efficiency can also be plowed into other areas of great need or stashed away in an emergency fund for a “rainy day”.
  - b. **Allocative efficiency:** This type of efficiency contains elements of prioritization and the trade-offs inherent in certain policy choices or managerial decisions in the face of limited resources, such as money. It emphasizes the imperative to spend scarce resources only on those goods and services that are critical to government operations or activities of local businesses. Hence, a decision must be made, for instance, on what proportion of the “capital budget” of a typical local government must go into purchasing expensive vehicles for public officials, and what proportion goes into infrastructure, such as good roads or sanitation to support economic growth and social development. Distortions in resource allocation that result from prioritizing the comforts of public officials at the expense of meeting the broader development needs of local communities is especially prevalent in countries with weak governance systems, including many that depend on donors to fund substantial parts of their budgets. It can be addressed through a number of ways, including the rigorous enforcement of laid-down rules designed specifically to attain allocative efficiency and minimize waste.
  - c. **Adaptive efficiency:** Sometimes also known as dynamic efficiency, adaptive efficiency encourages managers in the public or private sectors to be proactive

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<sup>4</sup> Based partly on material from <https://www.jacaranda.com.au/subjects/vce/economics/> and other sources.

and adapt to economic, demographic, technological, and other changes that affect their organizations' ability to perform their core or traditional functions. The use of video technology to conduct meetings during the COVID-19 crisis, for example, has presented new and cost-effective ways for governments and businesses to organize meetings or host seminars. Local governments should quickly embrace such changes for their own operations and where possible encourage the private sector to adopt them to enhance productivity and thus profits. Conversely, where the private sector is the first to embrace new technologies, local governments may follow suit as part of a bigger strategy to improve public sector productivity. Research by the World Economic Forum and McKinsey's, among others, convincingly show that probing the future for possibilities and challenges can serve as useful sources for adapting to such changes and preparing for new ones.

***Dynamic efficiency.*** Dynamic (or inter-temporal) efficiency helps decision makers, especially planners, and to a large degree major firms whose activities directly impact the environment, to strike a balance between what is needed today and what will be needed in the future and how to attain them in a sustainable manner in both periods. It is the closest definition of efficiency to sustainable development, where the needs of future generations are factored into decisions about the needs of the current generation.

- iii. **Combatting corruption and waste in government.** The "UN framework for immediate socioeconomic response to the crisis" notes the importance of "mitigating the risks of corruption and clientelism [during] large cash transfers...as the epidemic continues to unfold". The IMF notes that "Corruption was a problem before the crisis, but the COVID-19 pandemic has heightened the importance of stronger governance". Corruption by public officials undermines public confidence in government, discourages tax compliance and may encourage active tax evasion by citizens who see no discernable link between their taxes and the public services they receive.

Perception of corruption is also one of the decisive factors influencing the access of cities to financial resources. It reduces the willingness of citizens to pay their taxes or provide voluntary contributions in emergency situations, thus restricting urban fiscal space. During COVID-19, a number of cities resorted to philanthropic finance to cover the fiscal space gap created by the surging demand for municipal services and dwindling local revenue to provide those services. These fund-raising exercises have been much more successful in cities viewed as "clean" by their citizens. Furthermore, the perception of corruption in local governments in general and in cities in particular has been a major justification for some central governments to opt for direct implementation of COVID-19 response and recovery programmes without disbursing funds to cities. This has also influenced the decision of some donors to direct aid to the central government rather than to local governments.

## 2.2 Specific Principles for Managing COVID-19 Response and Recovery

- i. **Learning lessons from the crisis:** Throughout the world, the COVID-19 crisis has exposed and in some cases aggravated all kinds of inequalities that have long existed side by side with growing prosperity in other segments of the larger population. This has provided useful lessons for extending immediate relief to populations in need and initiating processes for recovery, reconstruction, and regeneration towards more equitable and sustainable societies in the future. For example, the crisis has had a disproportionate impact on workers in countries with large informal sectors, and within those sectors women, in particular, have been adversely affected. This is because informal sector workers survive mainly on daily wages and were thus pushed to the brink of destitution

during lockdowns that governments imposed to control the spread of the Corona virus that causes COVID-19. These experiences underscored the need for countries to strengthen or adopt “decent work” policies and programmes (SDG 8), which among other things will help promote productive employment, provide legal and social protection for workers, as well as help with the development of entrepreneurship to facilitate the formalization and strengthening of local economies.<sup>5</sup>

Other vulnerabilities exposed by the crisis that require prominence in recovery and rebuilding efforts are:

- ***Income and wealth inequality.*** The poor were least able to cope with the crisis due to diminished or lost incomes, with little or no public assistance, especially in developing countries, due to weak administrative systems and rudimentary social protection programmes. And among the poor, women, slum dwellers and persons with disability require special attention in relief, recovery and rebuilding programs.
- ***Digital inequality.*** This inequality was laid bare in both developed and developing countries (though more severe in the latter), when schools, for instance, were moved online and students from poor households found themselves unable to access lessons due to weak or no internet access. In other instances, the high cost of access, often for sub-standard services, affected the poor disproportionately. With the future looking increasingly more digital, including the use of digital tools for meetings or conferences, education, commerce, and health delivery, addressing digital inequality is as critical as addressing any other issues about the crisis and promoting inclusive development.
- ***Poor sanitation systems.*** Effective and efficiency delivery of sanitation services during emergencies, such as earthquakes or disease outbreaks, is critical both for relief and to contain spreading in the case of diseases. Poor sanitation systems have been especially prevalent in developing countries, where services have long failed to keep up with rapid urbanisation. However, some of the innovative solutions during the crisis, such as training small business owners to provide community-level sanitation services, may hold the key to dealing with one of the most daunting challenges in the developing world which, according to the World Health Organization (WTO), is linked to such preventable diseases such as cholera, diarrhea, dysentery, hepatitis A, typhoid and polio and exacerbates stunting.
- ***Poorly planned cities:*** Although spatial planning shapes the physical manifestations of the vision and policies outlined in the development plans of cities, such planning has received scant attention in developing countries in the midst of advancing urbanization. This has resulted in the rapid emergence of unplanned human settlements on the fringes of cities without adequate infrastructure services, such as water, sanitation, health, schools, roads, and housing. These institutionalized deprivations create a vicious cycle of low economic growth and community development, persistently high levels of poverty, low tax revenue, and further decline in infrastructure investment and services due to the inadequate tax revenue from those communities. The crisis provides an opportunity for cities, especially in developing countries, to recapture the initiative in urbanization and make spatial planning a critical counterpart to sectoral planning in line with SDG 11 of the 2030 Agenda as well as the New Urban Agenda. Open air markets, for example, which, when poorly managed, tend to be chaotic, chronically inefficient, and prone to diseases (many had never been

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<sup>5</sup> Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

disinfected or seen comprehensive cleaning until the crisis) may be reconceptualized and retrofitted into modern facilities of commerce with all the necessary amenities, including special facilities for the aged, persons with disabilities and children. This among other things should raise productivity and help such markets compete with competitors such as department stores or shopping malls.

- **Weak databases:** Lack of comprehensive, timely and up-to-date data proved to be one of the weakest links in providing relief and support to the poor, especially in developing countries, at the beginning of the crisis. Many governments, in the absence of well-developed administrative data systems for providing social assistance and facilitating planning, had to turn to rapid surveys to gather basic information to guide their response to the crisis. The growing availability and affordability of modern technology can and should help local and national governments to address this persistent database deficit that has undermined development and aggravated it with the COVID-19 crisis.
- **Informality and vulnerability.** Among those most affected by the pandemic have been those working in the informal economy, averaging as much as 61.0% of the world's labor force and accounting for as much as 90.0% of employment in some countries. The sector ranges from survivalist activities of individuals who turn to things like petty trading in the absence of formal sector employment with stable wages to small enterprises with the potential to grow and employ others but face several impediments and remain small and vulnerable to economic shocks. The sector is also characterized by weak infrastructure, poor sanitation services, low skills and inadequate investments, which together make workers vulnerable to disease outbreaks and income fluctuations while simultaneously making it difficult to extend critical assistance to them in an emergency. These structural constraints are aggravated by institutional weaknesses such as lack of adequate data or information on informal sector workers and their families. The COVID-19 pandemic provides an opportunity for local governments, especially in developing countries, to initiate policies to at least bring informality to levels that drastically reduce vulnerability, increase earnings, and help eliminate extreme poverty. The focus of such an initiative should be less on registering workers for tax collection purposes (which is likely to push some people underground) and more on offering assistance to improve the productivity of those with the potential to "graduate" into viable and thriving businesses that can employ more people, particularly those involved in survivalist activities.
- **Governance.** Inadequate governance systems have significantly interfered with cities' response and are negatively affecting their recovery. Inclusive and participatory governance structures, on the other hand, have allowed urban governments to reach out and mobilize various resources, public and private, in a short time period while also designing longer-term recovery measures. Smooth and effective interface mechanisms between government, the private sector and civil society are of critical importance as are public accountability and transparency. Such mechanisms provide space for continuous exchange of opinions, designing of tailor-made solutions, and joint mobilization of resources by meaningfully engaging all stakeholders in the decision-making process. Effective governance requires a strong capacity to prioritize (re)allocation of resources based on evidence-grounded decisions informed by continuous analysis of a variety of data.

- ii. **Financing recovery and reconstruction:** With most city economies severely weakened and businesses and households under profound financial strain from the crisis, local and national governments will bear varying shares of the burden of financing recovery and reconstruction, depending on the financial health of each city before the crisis and existing national laws governing intergovernmental financial transfers. Some cities may tap into existing budget reserves or take advantage of contingent credit lines while simultaneously utilizing any financial resources available from the central government. With their local tax bases weakened, other cities may look to the central government for greater assistance in the early stages until their local economies have reclaimed some semblance of their past strength and can stand on their own. For developing countries with incipient or no markets for municipal bonds to finance resilient infrastructure (SDG 9), this is an opportunity to develop such markets over the medium-to-long term, along with better use for other alternatives, such as public-private partnerships. At the same time, the quest for own-source revenues that are more resilient and resistant to economic shocks should continue as well as the efforts to improve local revenue management systems and eliminate inefficiencies in public expenditures. National and local governments should work towards improving their investment attractiveness and readiness without a damaging race to the bottom by municipalities in an attempt to outcompete each other.
- iii. **Leaving No One behind:** This is a central feature of the UN's 2030 Agenda and should include serious efforts to identify groups that might be at risk of being harmed by the recovery and reconstruction efforts or excluded from them. In the words of the UN's socioeconomic response framework, ensuring that no one is left behind should include an "analysis of the human rights and gender impacts to inform the design of policies that address these risks, protect development gains and reduce the risk of social violence in the coming months and beyond." In addition to this, particular attention should be paid to industries most likely to provide employment for vulnerable groups, while paying attention to other industries, for example, those most likely to pay taxes and sustain the overall local economy.
- iv. **Mainstreaming resilience into sustainable urbanisation:** In addition to targeted interventions based on the peculiar needs of each locality, cities should also pursue "resilience-proofing" by ensuring that all local development plans include such key ingredients as emergency or contingency funds (that are managed and replenished periodically in line with law), emergency food reserves, special emergency committees made up of government, the private sector as well as community leaders and civil society organizations.
- v. **Promoting sustainable urbanization:** Every decision taken and initiated as part of the recovery and reconstruction effort must pass the test of sustainability by being assessed for its impact on the environment and marginalized and vulnerable groups in line with the 2030 Agenda as well as other global frameworks, such as Paris Climate Agreement, that aim to promote sustainable development in all its forms. Indeed, the crisis should be an opportunity for cities to revise and recalibrate their pre-crisis development plans in line with the SDGs and the new COVID-induced realities, such as the role of digital technology in the future and the need to address old problems with new and innovative solutions.
- vi. **Entrepreneurial government.** A government, either local or national, may be run *like* a business, even if not *as* a business with a profit motive, drawing on the principles of agility and efficiency found in the private sectors (but without compromising sustainability and resilience as discussed above). Of course, not everything that is profitable is of social value and not everything of social value is profitable. However, clearly identifying and exploiting

profitable opportunities to increase local government fiscal space for improved service delivery should be an essential component of an entrepreneurial government.

Such a government will be required to help guide the investments needed towards not only short-term recovery efforts but also long-term transformation and sustainable development long after the COVID-19 crisis has been overcome. COVID-19 thus provides the opportunity to take a fresh look at the interplay between public and private roles in local economic development and re-structure them for greater synergy, complementarity, effectiveness and efficiency. This means that the public sector will not only be reactive to crises but it would be proactive and co-create opportunities through partnerships with the private sector and the larger society. For example, private entrepreneurs by themselves may not find the need for “green growth”, perhaps deterred by cost and other factors. An entrepreneurial government, drawing on international development frameworks and other sources of knowledge, would work with such entrepreneurs to identify any hidden business opportunities in green growth and offer the necessary incentives to encourage those businesses to exploit them, going further than traditional (or perceived) government activities.

### 3. RESPONDING TO THE CRISIS: LESSONS FROM SELECTED CITIES

The conceptual framework developed for urban economic resilience also identified the key actions that contribute to resilient economic recovery in four areas: business environment; economic governance; labor market conditions; and financial arrangements. These components of the framework were reflected in the survey of global practices that was administered to partner cities in all regions of the five economic commissions of the UN and helped collect useful information about the cities’ immediate response as well as measures considered particularly relevant for resilient recovery in the short-to-medium term and over the long term towards sustainable development.

There is no clear-cut divide between immediate response (i.e., relief or emergency assistance) and recovery and rebuilding measures for three principal reasons. First, the immediate response phase is proving to be longer than was initially thought in some countries, posing the challenge of economic response sustainability. Continued emergency assistance to maintain a certain level of urban economic activity against the backdrop of rising COVID-19 cases and/or subsequent waves of new infections is impossible without a view to the long term (anything beyond five years, in most cases) that requires certain policy decisions or initiatives in the short-to-medium term. Second, different sectors of the economy have been affected differently by the crisis and will require different stimuli and durations to recover to at least pre-crisis levels and providing the basis for long-term rebuilding efforts with inbuilt-resilience for the future. Hence, local governments have to implement a smart mix of relief, recovery and reconstruction measures to maximize the immediate impact on both supply and demand of goods and services in local economies while restoring the capacity of local businesses to participate in reconstruction over the medium-to-long term. Third, and most important, the overall response can be effective sustainable only if city authorities ensure maximum effectiveness and efficiency in the use of measures, whether financial, material or human.

In this context, it may be more appropriate to discuss the overall response in terms of early recovery (which also involves support or relief measures) as well as the medium-to-long-term reconstruction phases with appropriate inbuilt measures for resilience.

- **Early recovery** focuses on emergency response or relief to the factor markets (labour and capital) to support some minimum but critical level of economic activity under conditions

of lockdowns and restrictions. The objective of the early recovery is to prevent the collapse of factor markets, to retain their potential, and prepare for their full recovery and future development. This phase involves both financial and nonfinancial support measures but, to the extent that applicable regulations allow, cities also apply a variety of nonfinancial support measures to enable the continued functioning of factor markets. Keeping key businesses financially sound at some minimum is one of the primary concerns at this phase, with the focus shifting towards solvency as the situation improves. Financial support in this situation is normally provided on highly concessional terms and institutional reforms are limited to emergency regulations. This phase also includes looking at the long term and building foundations for sustainable development early on. This will also maximize initial investments.

- **Medium-to-long-term recovery, reconstruction and resilience building** aim at recovering better, that is, creating an economic situation that would be superior to the one that preceded COVID-19. The objective of this phase is to promote the development of the factor markets (within 1 to 3 or 5 years in the case of the medium term, depending on country practices) in a way that would ensure balanced, inclusive and sustainable growth over the long term. This phase is characterized by a stronger focus on urban institutional and regulatory reforms to achieve this objective. All components of the urban economic system – the labour market, business environment, financial environment, and economic governance – undergo revisions and reforms to improve their resilience and ability to thrive and withstand any crises, shocks or stresses in that future. Financial instruments in support of local economies, for example, become more diversified and may include such things as equity stakes in certain businesses by local governments or the provision of financial guarantees to the private sector, along with the emergence of more complex and resilient mechanisms for financing local businesses.

The below table specifies key actions in five areas that underlie the development of urban economic resilience. The first four areas are identical to the key dimensions of urban economic resilience presented above. The fifth area, institutional responsiveness has been added to better reflect the activities of urban governments cutting across the four key dimensions. In a broad sense, these activities are part of economic governance. However, from a practical point of view, it is useful to distinguish between general institutional and regulatory activities of urban governments (economic governance proper) and their other activities and initiatives in key components of urban economy including direct economic interventions of urban governments as employers, financiers and entrepreneurs.

**Table 1. Indicative response and recovery actions at the city level**

<b>1. Labour markets</b>	
i.	Regulation of working conditions in compliance with COVID-19 health requirements (working hours, social distancing requirements, minimum pay, etc.)
ii.	Creation of adequate working conditions (e.g., adequate equipping of night-time shelters for workers who cannot leave their workplaces during emergencies)
iii.	Provision of PPE and public disinfection services to formal and informal workers
iv.	Dissemination of relevant health information to workers
v.	Activation of social protection measures, particularly for informal workers and poor households (cash transfers, food distribution, etc.)
vi.	Launching public works projects and creating temporary public employment opportunities
vii.	Provision of safe and reliable transportation

viii.	Price controls for essential goods
<b>2. Business environment</b>	
i.	Regulations to facilitate and expedite business registration and licensing
ii.	Relief measures for businesses (waiving or deferring municipal taxes and charges, bans on business evictions from rented premises, etc.)
iii.	Advocacy with landowners or regulation of rents to ease burden on businesses
iv.	Maintenance and disinfection of public spaces and facilities used for formal and informal business activities (such as streets, public squares, municipal markets, etc.)
v.	Provision of free or subsidized inputs to critical businesses (e.g., bread flour)
vi.	New public-private partnerships in critical economic sectors
vii.	Identification and arrangement of new supply chains in case of disruptions
viii.	Targeted support in the form of grants or technical assistance to support innovations for COVID-19 response and recovery
<b>3. Financial environment</b>	
i.	Establishment and/or expansion of public facilities (financial and technical assistance) to provide or facilitate access to cheap capital for businesses
ii.	Advocacy with financial institutions for continued provision of affordable investment and working capital and relaxation of conditions precedent (collateral requirements, etc.)
iii.	Support to non-deposit microfinance institutions (grants, guarantees or technical assistance) for continued liquidity supply
iv.	Support and promotion of mobile money/digital financial transactions
<b>4. Economic governance</b>	
i.	Establishment of institutional structures to manage the economic impacts and accelerate recovery (specialized committees, platforms and mechanisms for information sharing, awareness raising and dialoguing with citizens and inhabitants (especially those in vulnerable situations) and local stakeholders
ii.	Systems and mechanisms to provide information to the private sector on business opportunities, effective and innovative business solutions, linkages to supply markets and customers
iii.	Revision of the existing public financial regulations to finance emergency response measures (such as contingency funds, reserve accounts, etc.)
iv.	Adoption and/or revision of policies and regulations to strengthen the city's disaster response capacity and improve resilience in the medium and long term to ensure environmentally sustainable local development
v.	Adoption and/or revision of city development plans (master plans) to improve resilience to external shocks and internal stresses
<b>5. Institutional Responsiveness</b>	
i.	Development of business continuity plans for provision of essential services
ii.	Provision of PPEs and ensuring adequate health conditions for municipal staff delivering essential services
iii.	Restructuring of existing services to reduce health risks and minimize physical contact (including e-governance solutions)
iv.	New public-private arrangements for delivery of essential public services
v.	Reprioritization and reprogramming of existing municipal budgets to increase availability of finance in areas critical for COVID-19 response and recovery

vi.	Restructuring of own-source revenue arrangements to mobilize additional resources (through new sources or expanding some existing ones)
vii.	Advocating for additional central government transfers (conditional or unconditional)
viii.	New borrowing and/or restructuring existing loans with creditors to create additional fiscal space
ix.	Creation of city donation funds to attract voluntary contributions from citizens, businesses and other organizations
x.	Requesting funds directly from development partners and international development organizations
xi.	Launching a municipal financing facility (municipal development corporation, municipal investment fund, municipal development bank, municipal bond markets, etc.)
xii.	Launching other subnational pooled financing facilities in partnership with other cities/local governments

The response and recovery measures presented above can be categorized as financial and non-financial. Financial measures (direct and indirect) use financial instruments whereas nonfinancial measures rely on material, human and institutional resources to support city economies. Of course, both types require financial resources and have fiscal and budgetary implications for city governments as well as the central government (see Table 2).

**Table 2. Financial classification of response and recovery measures**

<b>FINANCIAL SUPPORT</b>	
Direct financial support	Grants, subsidized loans, guarantees, equity stakes, etc.
Indirect financial support	Tax relief and deferment, waiving of municipal charges and fees, etc.
<b>NONFINANCIAL SUPPORT</b>	
Institutional and regulatory development	Temporary bans on business evictions, conducive regulations for businesses, employees and financial institutions, reorganization of economic governance systems (including city finances), etc.
Provision of technological and material support	Provision of free/subsidized equipment, transportation, shelter, technologies (including digital platforms), inputs for critical businesses, etc.
Provision of information and business development services	Creation of information hubs, digital platforms, BDS centers, business incubators, etc.

Many of these actions have been undertaken or are being planned as reported by the partner cities during the two webinars held on 12<sup>th</sup> and 17<sup>th</sup> August 2020, as well as a survey of selected cities. It is important to note that cities are at different stages of recovery, and some are still in crisis mode. This is affecting the perceptions towards recovery measures and actions. On the other hand, some cities have experienced more catastrophic effects from COVID-19. It is important to take existing vulnerabilities into account when understanding the road to recovery.

The ability of cities to apply some actions, particularly regulatory measures and direct financial support, has been determined primarily by existing decentralization arrangements and the degree of political, administrative and fiscal devolution to cities in each country. In general, cities

with a higher degree of devolution have been able to prepare for and respond to recovery better for two reasons: First, they have introduced necessary economic measures expeditiously without waiting for the decisions (and resources) from the central government as was the case in less-decentralized countries. Second, their response was more customized to their local realities, resulting in better allocative and productive efficiencies.

At the same time, it would be incorrect and unproductive to oppose city governments and national or regional governments because their ultimate objective is the same – to minimize the impact of COVID-19 and expedite socio-economic recovery. As reported by participating cities, the monetary and fiscal measures taken by central governments (particularly when cities had a say in how such measures should be designed and applied) have been very helpful in providing effective response and recovery measures. It has been particularly effective when city governments and central governments acted in a mutually complementary way to maximize and leverage measures introduced by the central government through city-level systems and mechanisms. However, where the response was dominated by central governments, with little or no role for city governments, the results have been mixed and not as impressive.

#### **4. KEY PRACTICES AND APPROACHES FOR RESPONSE AND RECOVERY**

Presentations at the two webinars as well as the survey of selected cities, both of which formed part of the project, have provided useful insights into how some cities have responded so far and how their responses reflect or confirm the principles outlined above. Together, they demonstrate how these principles translate into useful practices and effective approaches that can be drawn upon by cities around the world to support their efforts to recover from the devastating effects of the COVID-19 crisis.<sup>6</sup>

These practices have been identified based on the activities undertaken between March and August 2020 by 16 partner cities that participated in the project as well as by other cities that responded to a survey for a global compendium of practices compiled by the UN-Habitat Urban Resilience Hub as part of the project.<sup>7</sup>

##### **4.1 Overview of the survey**

The findings of the survey are highlighted below:

- As many as 55.0% of respondent cities did not have any emergency response plans in place before the COVID-19 crisis occurred.
- Delays in providing economic support to vulnerable populations, such as those in the informal sector, resulted in a breakdown in measures to restrict human movement to curb the spread of the virus as people desperately searched for means to survive by violating those measures.

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<sup>6</sup> This paper intentionally avoids the term “good practices” or “best practices” as discussed by the consortium of the UN organizations participating in the project. This is in recognition of the fact that a practice (that is, specific ways in which formal and informal rules and arrangements are translated into activities) is contextually and institutionally defined and is both territorially and temporally specific. A particular set of informal institutional rules often makes practice transfer difficult or impossible even when the formal regulation is very similar and as institutions develop so do practices (North 1990). It is however possible to distinguish common practices that in most cases did lead to superior results and designate them as “common” with a caveat that the extent of their usefulness may vary significantly from one location or one subnational jurisdiction to another.

<sup>7</sup> The questionnaire is available via the following link: <https://urbanresiliencehub.org/questionnaire-for-global-compendium-of-practices/>

- Many cities are revising their existing annual development plans in order to be able to cope with the crisis better.

Respondents' views of the role of the central government in addressing the crisis at the local level reinforce the view that a successful recovery will require close collaboration between local and central governments, especially in the early stages, where financial and other resources of local governments are severely constrained.

Nearly 64% of respondents view the central government as playing a major role in addressing the financial aspects of the economic crisis faced by cities from COVID-19. This is the highest percentage for any of the listed categories, compared to the roles that they expect the central government to play in addressing other elements of urban economic resilience: 36% for labor markets; 41% for business environment; and 50% for economic governance arrangements (see Figure 3).

Central government support in the case of the financial sector, for example, may come from ministries of finance or treasury departments, in the form of increased inter-governmental financial and material transfers (where cities have suffered serious revenue shortfalls and certain key municipal services may be overwhelmed). Support may also come from central banks through monetary policies that encourage banks to increase, rather than reduce, credit to banks in the midst of the crisis and consider deferments of loan repayment by businesses.

Not surprisingly, as much as 50% of respondents viewed local governments as playing the leading role in providing direct assistance to communities and local businesses in the midst of the crisis, compared to 22.7% who viewed the central government as playing such a role. This may partly explain the nature and extent of decentralization in each country.

**Figure 3. Relative contributions of local government, central government and the private sector**



Source: Webinar presentation, August 17, 2020.

In responding to the COVID-19 crisis, many local governments appear to have revised their existing plans and reoriented them towards addressing the immediate and future needs of their

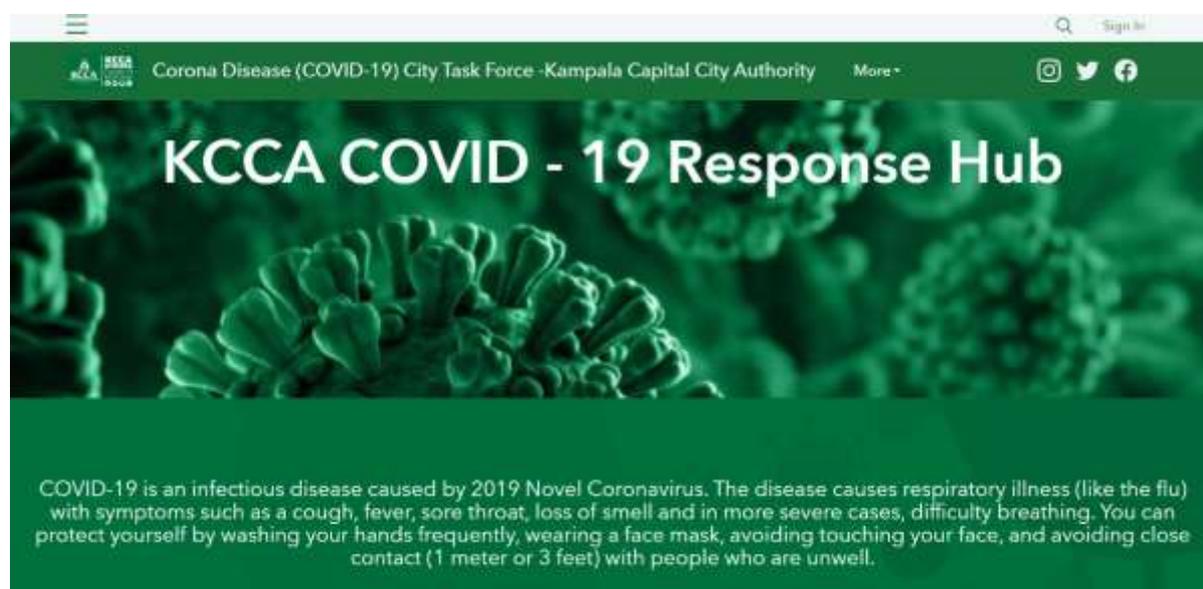
economies. It is recommended that they benchmark their activities against the general and COVID-specific principles discussed above. The imperative for efficiency in forms of municipal administration cannot be overemphasized as financial and other resources are expected to remain in short supply for the foreseeable future.

As discussed earlier, the survey has helped identify common practices, which are discussed below. The list of practices is non-exhaustive and is not grounded in any specific theoretical approach. Rather, it is an empirical attempt to single out the most common practices that have proven to be useful in mitigating the negative effects of the pandemic and the lessons to be learned from them to help accelerate the economic recovery of cities with considerable resilience. For the sake of consistency, the practices are grouped below according to the four dimensions of urban economic resilience presented earlier. It should be kept in mind, though, that often these practices belong to more than one dimension.

## 4.2 Economic Governance

**Community engagement and collaborative governance** have proven to be one practice that all cities have employed, regardless of the strength of national democratic institutions. Cities have introduced various interaction mechanisms, such as e-platforms and dedicated websites, hotlines, social media and the like to keep citizens informed and address their issues in an expeditious manner. Thus, the City of Vienna, for example, has set up a designated website in many languages and a special 24/7 helpline to inform and communicate with citizens. Likewise, the city of Kampala in Uganda set up an online COVID-19 Response Hub (see Figure 4). The city of Madrid came up with a dedicated digital space where citizens can meet live with municipal officials and experts to explain how municipal services can be accessed under the conditions of COVID-19 (see Figure 5).

**Figure 4. Kampala City Online COVID-19 Response Hub**



*Source: Kampala Capital City Authority,*

**Figure 5. Digital meeting space set up by the city of Madrid**



Where access to digital technologies is less common, city governments introduced (often in cooperation with the central government and relevant mobile network operators, MNOs) mobile phone notification systems. Where that was not possible, such as the city of Gulu in northern Uganda, cities formed mobile teams to reach out to communities, particularly in less developed areas, to improve their awareness about the pandemic and better address their needs.

Many cities have moved beyond merely informing their citizens and actively involving them in crisis management structures known variously as COVID-19 task forces, crisis response teams, emergency management committees and similar names. Representatives of civil society and the business community participate in crisis management structures in cities as diverse as Vienna (Austria), Kharkiv (Ukraine), Alexandria (Egypt), and Nairobi (Kenya), to name just a few.

Community engagement was effectively organized within an institutional framework that has proven to be a valuable resource for mitigating the adverse impact of the pandemic in Uganda. The NGO WaterAid helped Kampala City to install 84 handwashing points, 68 metered water standpipes and tanks, where necessary, to support sanitation facilities in many public places like parks, markets, public buildings and health centers. The NGO ZooControl offered the city of Kharkiv free disinfection services of public offices as part of a larger project called “Unified social network”. Young volunteers responded to the invitation of the city of Tirana to join the #AdoptoNjeGjyshe (#AdoptAGrandparent) initiative to support their elderly neighbours who lived alone by sharing home-cooked meals or offering to deliver their groceries and medicines. Tapping into pre-existing community connections, the City of Harare partnered with Oxfam to engage organized community networks such as the women’s savings groups to conduct community decontamination activities on a cash for work basis. When the city government of Dhaka sought to distribute food to the poor during lockdown, it was realised that detailed information about vulnerable households not readily available and sought assistance of the Urban Poor Federation of Dhaka North City — a coalition of 350 Community Development Committees (CDC) organised around savings groups. Community leaders from the CDCs swung into action by mobilising its wide organisational network to identify the target groups and ensure delivery of food assistance.

Furthermore, community engagement and support were critical for determining the extent of restriction measures and their impact on city economies. Tokyo, Japan, did not introduce a city-wide lockdown because citizens dutifully followed government health directives and the police did not need to enforce rules. Shopping malls, salons and restaurants have remained open in the city. Thoughtful policies in a combination with a high degree of public compliance appear to

be keeping people safe in the city without infringing on their quality of life. Moreover, public support for enforcement of health measures allowed the city to improve its overall resilience while releasing resources for economic activities that would have been otherwise spent for the treatment of COVID-19 cases. Swedish cities followed the same route, with normal life continuing with only relatively minor restrictions (such as a ban on gatherings of over 50 people). In the southern city of Malmö schools, cafes and restaurants and other facilities remain open and fully functional due to a combination of regular health inspections by city authorities and a high degree of citizen compliance (for instance, 93% of the elderly are following the recommendations from the health service) (Novus 2020).

Launching a full-scale recovery process will require strong engagement with local communities, and the business community in particular, through various means and mechanisms to ensure the mobilization and effective allocation of all resources by local governments.

**Strong leadership and coordination.** As discussed previously, all partner cities set up in short order dedicated crisis management structures or restructured their existing governance bodies to confront the challenge of COVID-19. Such rapid mobilization and coordination of resources enabled cities to minimize the negative economic impact of COVID-19 and increase the potential for accelerated recovery (which is an essential characteristic of urban resilience). This characteristic is a concrete embodiment of the principle of entrepreneurial government discussed above. Some cities could not respond quickly to the crisis with such mobilization and coordination, resulting in the wasteful use of resources: for example, in Accra, Ghana, some private sector actors launched activities on their own without coordinating with the city's response, leading to duplication of efforts and relief responses.

Furthermore, strong leadership and coordination implies envisioning economic recovery from the early stages of the COVID-19 response. Thus, by the end of March, the mayor of Vienna, Austria, tasked the Vienna Economic Council, consisting of the social partners (labor, government and the private sector), research organizations, as well as economic and innovation-related organisations, to develop economic recovery plans for the city. Similarly, the city of Barcelona (Spain) has established an economic recovery project, "Barcelona Never Stops", with the implementation of a series of measures aimed at the economic and social revival of the city.

**Territorial approach.** Many cities (Kampala in Uganda and Lima in Peru, among others) organized their response around a territorial approach. This approach involves the application of an integrated package of response and recovery measures based on the needs of specific areas and districts in the city. This approach has proven to be particularly relevant in the case of informal settlements where one measure (for example, humanitarian support) is ineffective without others (improvement in sanitation or decongesting public spaces, for example). The city of Lima applied a city-wide geospatial analysis to identify availability of public and private infrastructure, population density, traffic intensity and other local characteristics in order to maximize the impact of specific measures in particular locations (Figure 6). In Kampala, the City Council together with the Capital City Authority developed and implemented, based on a physical survey of informal settlements, a series of action plans to detail a complex of priority measures required in each informal settlement to minimize the social and economic impact of COVID-19. These measures included, for example, construction of additional water points, re-arrangement and regulation of informal markets to make them compliant with COVID-19 health regulations, improvements of communal latrines and sewage systems and so on.

**Figure 6. Territorial approach by the city of Lima**



Source: Webinar presentation, August 17, 2020.

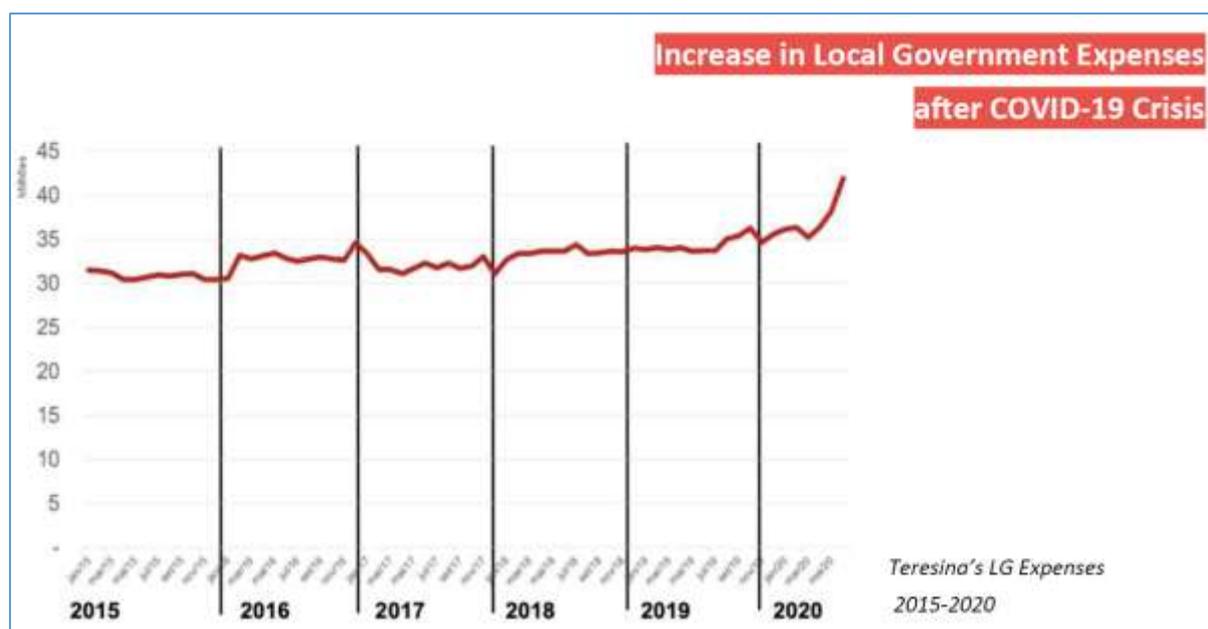
In addition to improving the allocative and productive efficiencies of public resources, the territorial approach closely reflects the principle of “Leave No One Behind” by extending vital services and critical upgrades to the most disadvantaged and poorest areas of the city. The implications of this approach for long-term recovery and resilience are obvious: The identification of geographic pockets of vulnerability helps to increase overall urban resilience and contribute to accelerated and sustainable recovery.

### 4.3 Financial environment

**Smart public financial management.** COVID-19 has resulted in a sharp decline of municipal revenues (partly due to the mitigating fiscal measures to support economic activity). On average, cities have experienced a drop of about 20% against first half 2020 revenue projections. For instance, Bishkek (Kyrgyzstan), achieved 81% of its revenue target, while in the city of Teresina, Brazil, own-source revenue fell by about 22% in April and 14% in May; Tirana in Albania lost 14% of its revenues just in the first quarter. For some sources of revenue, the drop was precipitous: the city of Alexandria, Egypt, saw its revenue from public beaches plunge by 82%; revenue from parking fees by 64%, and revenue from leases of municipal properties by 37%. In the city of Gulu, Uganda, the local hotel tax evaporated to zero under the COVID-19 restriction measures and the subsequent halt to domestic and foreign tourism. Another Ugandan city, Jinja, located at the source of the Nile, lost all its revenue from tourism resulting in a 50% drop in total revenues. Moreover, in many countries, intergovernmental fiscal transfers to local governments were also reduced (for example, by 8% in real terms in the case of Teresina). Some cities, such as Subang Jaya, Malaysia, expect a drop in their total revenue in 2020 of 70%.

At the same time, local governments have come under pressure to increase public expenditure to mitigate the worst consequences of the crisis and to ensure continued delivery of essential public goods and services while also increasing support to vulnerable populations, such as informal sector workers, residents of informal settlements, migrants and refugees, among others. For instance, in the city of Teresina, Brazil, public expenditures in May 2020 increased by 25% compared to the same period in 2019 (Figure 7).

Figure 7. Trends in city expenses, 2015-2020 (Teresina city)



Source: Webinar presentation, August 17, 2020.

Hence, no city has been able to navigate the COVID-19 crisis without reprioritizing and reprogramming their budget. Reprioritization has most affected capital investment programmes although many cities (Bishkek, Kampala, Lima, among others) have also tightened their belts by cutting administrative expenses (such as travel, training, maintenance, and some staff benefits) and carving out some fiscal space. Cities recognize that the COVID-19 crisis has offered an opportunity to rethink public budgets, particularly administrative expenses, and improve the productive efficiency of public money in line with the principles discussed earlier. The city of Subang Jaya, Indonesia, has reduced its administrative expenditure by 20%. Some cities have taken a long-term view to ensure availability of public budgets in anticipation of future expenses: for instance, Subang Jaya introduced a Financial Back-Up Plan, which includes a reserve equal to 4 months of expenses. As cities move through recovery, it is important that the same spirit together with the approaches and practices identified during the COVID-19 pandemic can be applied in the future.

Whereas capital investment programmes have seen budget cuts because of rescheduling or outright resizing, this approach has not been universal across all capital investment projects. In fact, cities that fared better in their COVID-19 response tried to ring-fence as much as possible budgets for projects that would ensure immediate public employment to substitute for a diminished level of overall economic activity while also delivering long-term economic benefits. Thus, the city of Kharkiv, Ukraine, stepped up its housing programme, completing 200,000 square meters of residential properties during the first six months of this year, 2.5 times more than in 2019. Tirana, Albania, sped up its bicycle lane construction programme. Similarly, Vienna built temporary bicycle paths in order to create more space and safety for cyclists during restrictions on private and public transport.

Much as the fiscal space of cities has been adversely affected by a drop in own-source revenues, some cities have seen this as an opportunity to rethink their revenue administration systems and approaches in two aspects: (1) revision of the sources of revenues in an attempt to concentrate on more resilient taxes and fees, and (2) improvement of revenue administration systems to reduce transaction costs and increase collection efficiencies. The city of Teresina has adopted a new Public Financial Management (PFM) programme that aims to mobilize additional revenues

through new sources and expanding the existing ones. In view of the drop in its own-source revenues, the Subang Jaya City Council has launched a programme to enhance local revenues by improving revenue administration, which includes creating awareness for customers to do their transactions online; a friendly approach to customers by sending notification via email; introduction of an instalment plan with zero interest for assessed taxes; and promoting online transactions for business license application and other services.

**Diversification of revenues.** Some cities that had budget surpluses in previous years and had emergency funds tapped into such funds for their immediate relief and recovery efforts. For instance, the city of Vienna was able to allocate immediately €150 million from its financial reserves to deal with the crisis. This gave such cities breathing space to secure additional finance from re-prioritization of their existing budgets or from external sources. However, in other countries cities are not allowed to have reserve accounts or other type of non-financial reserves (e.g., food reserves) and treasury virement rules require that all unspent revenues be remitted to the consolidated budget of the central government at the end of the fiscal year. Emergency reserves are an important element of urban economic resilience, and creating enabling regulations for this purpose is essential, particularly as any medium-to-long-term recovery will have to factor in the possibility of a second or third wave of the pandemic or some other outbreak. Where cities own a bank (or some other financial vehicle) they were able to leverage these financial resources to save public budgets for other interventions. This was the case in Teresina, where the publicly-owned Teresina People's Bank issued BRL1 million in microcredit finance.

Thus, in a situation when only a few cities had access to internal reserves and funding from the central government was slow or non-existent, many of them resorted to raising external finance from two primary sources: (1) philanthropic finance in the form of donations from citizens, private businesses and civil society organizations, and (2) official development assistance, usually in the form of grants from bilateral or multilateral institutions. In addition, some cities resorted to borrowing from subnational pooled financing vehicles where such existed. Thus, as of August 1, 2020, a special account of the Bishkek Mayor's Office had received US\$148,807 in the form of voluntary donations from individuals and legal entities. Where possible, cities reached out to their citizens abroad with a plea for support. The city of Novi Pazar in Serbia was able to raise €40,000 in a matter of days from diaspora members to buy urgently needed medical equipment and ventilators. During its lockdown period, the City of Accra received support from institutions and private organizations such as the Ghana Commercial Bank, the Church of Jesus Christ of Latter Day Saints, Old Mutual Ltd, Zoomlion (a sanitation company), the European Union, and the District Assembly Common Fund (DACF) to help fight COVID-19.

Some cities succeeded in attracting donations from multilateral or bilateral institutions. Thus, another Serbian city, Novi Sad, successfully campaigned with international development partners to obtain €50,000 from the Slovak Agency for International Development. Twin city arrangements were other sources of additional financial and nonfinancial support, particularly for cities in the global south: Bishkek received humanitarian aid from seven sister cities. Pooled financing vehicles where cities are stakeholders have proved to be a valuable source of affordable finance in this situation. Thus, the city of Karaj, Iran, received funding from the City Bank of Iran owned by 11 metropolitan municipalities to expand its public transport system and increase the number of municipal buses.

That COVID-19 has increased fiscal pressure on all cities is beyond any doubt. But this pressure can be significantly offset by a combination of smart public financial management policies, diversification of revenue sources, and the use of economic stimulus measures to support local businesses. For example, in June, Moody's *Public Sector Europe* upgraded the credit rating of the city of Kharkiv from Caa1 to B3 and changed its forecast from "positive" to "stable". A strong

reputation and consistent financial performance also matter. The Swedish Cooperative Bank Kommuninvest, which serves as a pooled financing agency for Swedish cities, was able to raise SEK 5 billion (approximately \$570 million) in a new green bond and \$1.25 billion in a new benchmark bond, dramatically improving the access of Swedish municipalities to affordable finance.

**Use of digital tools and big data.** The review of city practices in the previous paragraphs has already indicated the growing trend of relying more and more on digital tools and big data not only for designing better evidence-based policies and solutions but also for reducing transaction costs, increasing production efficiencies, and improving the inclusiveness and outreach of their solutions by providing better access to vulnerable populations. The current crisis has proven to be a great booster for the expansion and accelerated adoption of digital solutions in various areas. Significantly, digital solutions have been applied in conjunction with better data management and a large range and type of data used by cities.

In addition to relying on a variety of digital solutions to offer support during the crisis, cities have also used big data to observe population density and mobility patterns to prevent congestion. For instance, Mexico City, Mexico, used a partnership with Google Maps and Waze to monitor mobility trends, and Budapest, Hungary, is using smart city tools to identify high concentrations of people. Geospatial solutions have been successfully applied in Lima for its territorial-based approach to COVID-19. Another area is the application of digital solutions for delivery of public services and revenue administration in cities such as Kharkiv, Accra, Kampala and Bishkek. In addition, the city of Kampala also introduced an e-system to manage municipal markets; in Kharkiv, five public utility companies transitioned to an e-document management system to minimize physical interaction and improve transparency; the city of Accra has invested in modern e-revenue collection systems as did Subang Jaya City, which also introduced e-licensing of businesses.

Cooperation between cities and the private sector (digital companies, mobile network operators, and other technology companies) has proven to be effective in introducing and rolling out new digital solutions. The crisis has demonstrated that in many cases there is a credible business case for delivering digital services even to locations and populations that were not previously considered accessible or promising markets. Cities, when approaching this challenge creatively and proactively, have been instrumental in opening up new market opportunities for the private sector and reducing the digital divide, which remains the single biggest obstacle to the application of digital solutions at scale, particularly in the global south.

### 4.4 Business environment

**Continuity of public services.** Cities around the world deliver a broad range of economic and noneconomic services, which are fundamental to any urban economy. Depending on the range and scope of their services, cities may be significant economic actors by themselves, dampening economic shocks by providing stable employment and public works in a countercyclical fashion. Public utilities are critical for achieving higher productivity and growth of private firms, not to mention their importance for mitigating health hazards like COVID-19. If anything, COVID-19 has increased the need for public services. New health facilities were needed to deal with increasing caseloads of COVID-19. Thus, the city of Teresina led the construction of three new hospitals. New water supply points have been set up and water supply extended to informal settlements to ensure continuous access to water for sanitation purposes. The need for cleaning and disinfection services in public facilities and spaces used to conduct business has multiplied. The amount of social support to vulnerable populations and financial and nonfinancial support to businesses affected by the crisis has skyrocketed. On the other hand, the capacity of some facilities had to be reduced, such as the number of vendors in formal and informal markets or number of passengers in public buses, to comply with the health measures.

Cities had to restructure and rebuild their services to make them fit for the COVID-19 challenge. The financial aspect of creating the fiscal space for delivery of public services has been discussed before. But to ensure service continuity, cities also needed policy interventions and organizational measures. Many cities (Lima, Bishkek, Tirana, and Kampala, among others) introduced policies to guarantee continuous supply and ban disconnection from public utilities, such as water, electricity and waste collection. In Lima, garbage collection has been guaranteed in the city centre and the municipality is providing aid to other local governments. AGERE, the municipal water and waste management company of Braga (Portugal), provided small businesses with an exemption for the entire fixed component of the urban waste tariff and a reduction of 25% for all commercial clients. Kampala introduced free bus service on certain routes at a time when private cars were banned from the streets due to the lockdown. Tirana extended free public transport provisions for medical staff and exempted public transportation operators from selected tariffs between March and December to ensure adequate public transportation capacity. Tirana, in addition, adapted some public spaces as open classrooms for students to comply with COVID-19 health requirements for physical distancing.

Having the expertise and wherewithal to quickly adapt and expand public services is critical for urban economic resilience as they underpin all social and economic activities. COVID-19 has demonstrated that cities need to have ready-made and easily implementable solutions that can be deployed quickly to ensure continuity of essential public services.

**Enabling the informal sector and livelihoods.** Most cities, regardless of the share of the informal sector, made special efforts to support the sector not only through direct social assistance but also by creating enabling conditions for its continued functioning. Of course, for many cities, particularly in the global south, there was no choice. For instance, 90% of Dhaka, Bangladesh, inhabitants rely on the informal sector as do 80% of Kampala residents. In Accra, Ghana, 70% of inhabitants have informal sector jobs, similar to the situation Lima, Peru.

Hence, most cities had to design and implement solutions to enable the continued functioning of the informal sector. Not only did it sustain a certain level of economic activity on both the demand and supply sides, but it also prevented informal workers from slipping further into poverty.

Broadly speaking, such solutions may be placed in three categories. The first one is making the places of informal business safe for operation. For example, the city of Accra regularly performs disinfection of formal and informal markets, equip them with hand-washing stations for vendors and customers, and has introduced physical spacing arrangements as did many other cities, including Kampala, Bishkek, Lima, and Subang Jaya. The second group of solutions involves free distribution of PPEs (masks and gloves) and disinfectants to informal sector workers who have to go out every day and work for a living. Thirdly, many cities introduced policy measures that have facilitated operation of informal businesses directly or indirectly. Thus, relief measures from various municipal taxes and fees have positively affected the ability of informal sector workers to continue their operation. A common example is the waiving of municipal market taxes for informal vendors in cities like Accra and Kampala, or deferring the rent paid by hawkers who operate in council-owned food courts, food kiosks and stalls in Subang Jaya. But the other measures, such as bans on evictions from municipal and even privately-owned properties, were very important for informal micro and small enterprises operating from such locations (In some cases, as in Cape Town, this measure was implemented in conjunction with financial support to property owners to support the rental market). Equally instrumental was a ban on disconnection from public utilities (water and electricity).

As the informal sector remains the lifeline of many city economies, longer-term recovery and resilience building must involve formalization policies and measures to increase productivity

through better business practices, access to affordable credit, and programs to enhance skills and improve essential municipal services, such as infrastructure, utilities, and sanitation.

#### **4.5 Labour market environment**

**Inclusive redistribution policies and effective safety nets.** This practice is linked to the principle of “leaving no one behind” discussed previously. Across the board, COVID-19 has resulted in reduced economic activities. Even economically advanced cities, such as Vienna, expect a drop in economic output this year by 4.1%. In Bishkek, at the height of the lockdown period, 88.8% of enterprises and firms suspended their activities. The Malaysian Global Innovation and Creativity Centre forecasts that about 40% of small- and medium-sized enterprises will have to close their operations if the COVID-19 crisis persists for three to six months (until the end of 2020). Many people became jobless overnight or saw their wages and incomes fall substantially. People outside of public sector employment, particularly those employed by small and medium enterprises, as well as those in precarious employment and informal work, found themselves in a particularly difficult situation. In addition, the crisis intensified the vulnerability of the usual vulnerable groups (homeless people, persons with disabilities, women, senior citizens, the chronically ill, migrants and refugees, street children and others).

All cities therefore activated (or introduced) schemes for distribution of financial and nonfinancial support to their citizens in need (often in cooperation with central governments). The City of Paris, France, provided families paying the lowest canteen rates with grants of €50 to €150 per month (and an extra €50 for the second and third child only), benefitting 28,579 Parisian families and the 52,000 children in those families. New Orleans (in the US state of Louisiana) devoted \$750,000 in financial relief to immigrant workers, who have been heavily impacted by the COVID-19 crisis. The city of Alexandria, Egypt, launched the Support Daily Workers initiative to distribute food rations to over 140,000 daily laborers. In Bishkek, 151,000 vulnerable residents received food rations. The city of Rotterdam, the Netherlands, earmarked a €20 million package to support the provision of independent housing and better living conditions for the homeless. Vienna invested €17 million to help more than 16,000 young people who suddenly found themselves without a job. The package included intra-company vocational training, qualification passports, assistance for catching up the missed time, and offers to enter into professions in health care and IT, dedicated to the young generation. Kampala City established a shelter for 70 street children in one of its divisions while also providing food relief and setting up sanitation stations in others. Vienna stopped any tenant evictions due to non-payment of rent as a consequence of lockdown measures in its municipal housing stock of 220,000 flats.

Whereas such redistributive policies have an inherent value in terms of social justice, they also have an instrumental value for keeping an able and healthy labor force. Without such policies (and related mechanisms), the damage inflicted on the labor force by the crisis could be immense, significantly reducing cities’ chances for quick and resilient economic recovery. The COVID-19 crisis has highlighted the importance of effective and robust redistribution mechanisms and safety nets for urban economic resilience and recovery.

## **5. CONCLUSION**

The COVID-19 pandemic has posed an unprecedented economic challenge for cities around the world. Whereas the cities have been affected by the pandemic to various degrees and in different ways depending on the structural features of their economies, exposure to global markets, fiscal and financial health and so on, practically all of them have experienced a decline in economic output, a drop in employment, a shrinking fiscal space, and growing pressure on public finances.

However, the results of the first phase of the project and in particular the survey of global practices, confirm that more resilient cities have been able to better mitigate the negative impacts of the pandemic and prepare for recovery. Some key characteristics of resilient cities include:

- **Effective, inclusive and participatory governance** allowing them to quickly develop and implement relief and recovery plans while at the same time mobilizing additional financial and nonfinancial resources from other sources.
- **Partnerships with central and regional governments.** Resilient cities have been able to leverage their existing relations with central and regional governments to complement their own resources for relief and recovery.
- **Reliable service delivery capacity** to quickly adapt and reconfigure service delivery modalities, creating redundancies and backup options when necessary to ensure continuous service provision.
- **Robust public financial management system** characterized by budget reserve provisions, access to diversified sources of revenues and external capital (commercial and concessional), and smart reprioritization of public expenditure programmes. Some cities have been able to identify new sources of revenues, improve collection efficiency and offset the blow to their revenues.
- **Close engagement with the private sector, formal and informal.** Resilient urban governments are demonstrating their understanding of the challenges faced by the private sector and their capacity to address these challenges in an expeditious manner. Resilience also requires the capacity to lead the private sector by creating stimulus and conditions for its engagement in priority economic sectors.
- **“Leaving no one behind” approach** is another characteristic of resilient urban governments consisting of systematic efforts to reach out and extend services to all population groups, including the vulnerable and the disadvantaged. Many cities have integrated this in a territorial approach that envisages provision of a package of support measures aligned with the needs of specific areas, such as informal settlements.
- **Foresight and perspective planning.** Resilient cities had the foresight to look beyond immediate relief and medium-term recovery and reconstruction and to plan for the long-term (i.e., perspective planning). These cities set up dedicated task forces engaged in the development of not only recovery plans, including financial and economic dimensions, but also strategies for doing better than they were before the crisis and preparing for sustainable development over the long term. In some cities, implementation of such plans started during the early response stage with some preparatory activities.

However, the survey results as well as our numerous interactions with city governments bear evidence of an obvious gap between the potential of cities and the stark reality within which they operate. A city’s capacity to deliver a timely and effective response and build its resilience is contingent on the existing legal and regulatory frameworks as well as the willingness of central governments to offer adequate space for operational, budget and fiscal autonomy of cities. The characteristics of resilient cities discussed above translate into tangible action when cities have necessary regulatory and fiscal instruments as well as financial and nonfinancial assets under their management. In many countries urban governments remain subservient to central governments and their discretionary space is significantly circumscribed.

Too often during the COVID-19 pandemic, city governments have been denied the tools and opportunities to craft their own response serving instead as just a conduit for execution of decisions (sometimes belated) by central governments. This has particularly affected the city capacity in two areas: the financial environment and the business environment. Scarcity of

examples in the previous section when cities effectively intervened in these two areas is not incidental, it reflects the hard reality of city operation in many countries: mustering sizeable resources to support local business activities and maintain the consumer demand is beyond the reach of most cities. Only 9% of the respondent cities which participated in the survey were able to deliver free or subsidized inputs to critical businesses and 41% delivered targeted support to local businesses in the form of grants or technical assistance (most of it in technical assistance rather than grants). Rather, maintenance and disinfection of public space for informal businesses was the most common activity (95%) followed by relief measures, such as deferment and waiving of municipal taxes and fees (82%) (Figure 8). 45% of the respondent cities had the capacity to establish and/or expand public facilities (financial and technical assistance) to provide or facilitate access to cheap capital for businesses.

**Figure 8. Cities’ response in the business environment space**



Source: Webinar presentation, August 17, 2020.

Meanwhile, when urban governments have been substantively involved and provided with adequate means, the COVID-19 impact in terms of infection spread, number of cases and the overall socio-economic impact has been less in comparison. This points to the need of an activist policy agenda to equip cities with adequate capacities, capabilities and resources and to secure the requisite space for cities to live up to their potential of creating a resilient urban economy resistant to complex large-scale economic shocks.

Experiences of cities during the COVID-19 pandemic in 2020 is a vivid testimony of the importance of urban resilience. Their activities focused on four key dimensions of urban economies to support an adequate business environment, preserve functioning labour markets, create adequate financial conditions, and put in place effective economic governance arrangements. Where such measures have been applied in a consistent and holistic manner, in partnership with all other stakeholders, the results have been better and the damage to local economies minimized. When moving beyond to recovery and reconstruction – with the long term in mind- cities should strengthen and further develop these characteristics, incorporating resilience considerations in all their activities and properly reflecting these considerations in annual, medium- and long-term planning and budgeting.

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