

The Role of Subnational Governments in the COVID-19 Pandemic Response: Are there Opportunities for Intergovernmental Fiscal Reform in the Post-Pandemic World?

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Abstract*

As the severity and scale of the COVID-19 pandemic became apparent in early 2020, many countries and global actors mobilized to respond to the pressing crisis. In addition to the general demands the pandemic created for strong and competent national and international response, it also raised numerous issues and generated tensions around the sharing of responsibilities and resources among levels of governments in many countries around the world. A number of comparable health and economic issues have emerged fairly universally, but they have manifested in different ways and the responses and results have been diverse across and within countries. This monograph briefly summarizes available information about how the pandemic has affected fiscal decentralization around the world, but it focuses on five Latin American countries—Argentina, Brazil, Colombia, Mexico, and Peru. It briefly characterizes the intergovernmental fiscal systems in these countries, provides an overview of the known impacts of the pandemic and summarizes available information on government responses to the pandemic, both national and those undertaken by subnational governments with national support or more independently. The conclusions draw some lessons from the country and global experiences and consider if and how post-pandemic policies might be developed to improve the intergovernmental fiscal system in particular countries.

JEL Codes: H60, H75, H77

Keywords: federalism, pandemic, intergovernmental relations, fiscal federalism, fiscal transfers, subnational revenue and expenditure

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Introduction

The COVID-19 pandemic quickly became the most immediately pressing global crisis once its severity was recognized in early 2020.¹ In addition to the general demands for a strong and competent national and international response created by the pandemic,² numerous issues and significant tensions emerged around the sharing of responsibilities and resources among levels of government in many countries³ (OECD, 2021b). A number of comparable health and economic impacts have been fairly universal, but they have manifested themselves in different ways, and the responses and results have been diverse across and within countries.

Different impacts and responses are to be expected given the uneven trajectories and impacts of the disease, variations in institutional, fiscal, and political systems across countries, and often-substantial asymmetries among subnational governments within individual countries.⁴ Equally important—regardless of the legal framework for decentralization and intergovernmental relations—are political economy and capacity considerations that inevitably influence what happened in responding to the pandemic. These considerations would be expected to shape what is feasible in terms of the design and implementation of pandemic policies and their performance.

Despite the dominance of the pandemic and the potentially important roles of subnational governments, fiscal decentralization specialists have paid inadequate attention to this issue. This paper is intended to help fill that gap by exploring what is known about how subnational governments have been affected by, and how they and national governments have acted to deal with, the COVID-19 pandemic. This paper provides an overview of global literature on the topic, but the review focuses on the five largest Latin American countries—Argentina, Brazil, Colombia, Mexico, and Peru.⁵ Consistent and comprehensive data do not exist, but there is information available about how pandemic response has been approached in the context of intergovernmental arrangements for service delivery and revenue generation. The

¹ See, for example, the IMF [Special Series on COVID-19](#).

² See [OECD \(2021a\)](#) and the [Independent Panel for Pandemic Preparedness and Response \(2021\)](#).

³ See [OECD \(2021b\)](#).

⁴ Selected literature on global pandemic impacts and responses is reviewed in Section 1.

⁵ Some of the material presented in this paper has been discussed in an IADB blog: <https://blogs.iadb.org/gestion-fiscal/en/subnational-governments-and-coronavirus-five-actions-idb-is-supporting/>

characterizations of country context and pandemic responses are based on a review of selected literature on each country and interviews with selected country experts.

Responding to the Pandemic in the Intergovernmental System⁶

The initial concern in thinking about intergovernmental approaches to the pandemic will naturally center on the immediate response—for example, identifying and treating infected individuals through clinical health services, containing the spread of the virus through epidemiological tracking of transmission for policy and enforcement purposes, and taking steps to mitigate the negative economic and social effects that have materialized or are expected. These are obviously priority measures and merit considerable attention. At the same time, it is also important to recognize that a pandemic can also affect other important services. Many of these public services are commonly provided or shared by subnational governments. There are also interdependencies among local services that merit explicit consideration. For example, reduced access to clean water and sanitation can create health challenges that further strain local clinics at a time when they are already under severe stress or for which people cannot seek treatment because of lockdown policies and/or a lack of transportation to health facilities. Subnational governments are often in a better position to consider the integrated nature of local public services in their own jurisdictions. Such considerations, of course, apply not only to the pandemic, but also to climate change, natural disasters, and other shocks that subnational governments can play a role in addressing.

The need for subnational government public service delivery responses may go well beyond services directly related to infection prevention and treatment; there may be direct implications for local health and well-being and the ability of subnational governments to recover from broader effects of the pandemic. Also potentially relevant is the comparative advantage of local governments (relative to higher levels) in terms of their ability to partner with local nongovernmental organizations (NGOs) and community-based organizations (CBOs) to support pandemic response and delivery of other local services.

⁶ Yilmaz and Boex (2021) review relevant literature and discuss the role of local governments in a pandemic and the challenges they face in developing pandemic response.

The near-term challenge is how to understand details of the evolution of the pandemic impact in particular countries and subnational governments and how essential affected services are for the local economy and citizen well-being. As the immediate demands imposed by the pandemic abate, it will be equally important to consider not only emergency responses to the crisis, but also longer-term implications for sharing of public functions and resources among government levels.

Beyond the public services effects, the pandemic has immediately affected subnational government finances and could impact them for some time to come. Certain expenditures that are less essential (than health) in a pandemic may decline temporarily, but many will likely rise again at a time when local tax bases may be squeezed by the effect of the pandemic on local economies. Services financed by user charges may suffer from lower demand and/or the inability of some consumers of the service to pay. The local public resource constraints imposed by a pandemic may force difficult choices to reprioritize expenditure allocations with little time to perform adequate analysis of the effects of doing so.

A major challenge for many subnational governments around the world is their dependence on central and/or state/regional government resources. Intergovernmental transfers may in some cases initially stagnate or decline as central governments cope with national public finance challenges. In other cases, national governments may make specific efforts to increase resources for subnational governments, as happened in some cases after the 2008 financial crisis. However, these increases are unlikely to be universal or sufficient, especially in poor countries.

Generally, a strong case can be made to increase intergovernmental fiscal transfers to alleviate pandemic effects—although this is difficult when a central government is under considerable fiscal pressure itself. In the immediate crisis mitigation period, the goal could be to help fill revenue gaps that hinder effective subnational government pandemic responses and basic service delivery. The extent to which gaps can be filled, of course, depends on macroeconomic fiscal realities and political economy considerations that vary by country. Beyond determining the volume and allocation of shared resources, decisions are needed regarding the appropriate balance between conditional and unconditional transfers. The instinct in a crisis may be to conditionally target services directly related to crisis response, but this may not be the best approach in all cases.

During a pandemic, additional conditions on resource use may be warranted but, in some situations, it may be productive to grant subnational governments the flexibility to use funds as needed for specific purposes. They—and front-line service deliverers dealing with conditions on the ground—have broader awareness of available resources and immediate needs. Even when certain centrally mandated standardized and coordinated responses are required in a pandemic, the specific managerial path to realizing these responses need not require rigidly programmed conditional transfers. An appropriate balance between unconditional and conditional depends on the context.

The Pandemic as an Opportunity for Broader Intergovernmental Reform

The pandemic offers an opportunity to revisit the role of subnational governments and relationships among levels of government more generally. Official/formal attention to decentralization, intergovernmental relations, and subnational government performance has waxed and waned, even as many countries have typically or increasingly expected more from their subnational governments. Taking advantage of the pandemic to rethink how to enhance subnational government performance in meeting responsibilities—both existing and new—could be a worthwhile endeavor in many countries.

The revenue problem is obviously immediate, but there are also—in conjunction with a possible rethinking of provisions for the intergovernmental sharing of service delivery responsibilities—longer-term implications for ensuring adequate and sustainable subnational revenue systems. Policy responses can focus on improving the framework for subnational own-source revenue generation, user fees and charges, and the level and structure of shared taxes and transfers, as well as adopting measures and improving mechanisms that support subnational borrowing and stronger fiscal responsibility.

Important considerations regarding intergovernmental transfers have long been recognized in the literature. These include how transfer pools are defined, the nature and definition of criteria (based on policy objectives and recipient incentives) used for horizontal allocation of the pool, and as discussed above, the degree of conditionality. There is a growing interest in performance-based transfers that require subnational governments to meet performance targets for the release of funds and for determining

the level of funding to be allocated in subsequent years. These are structured in dissimilar ways that create different incentives and various challenges in practice, but they could be a useful element of a post-pandemic intergovernmental fiscal transfer system.

In examining the immediate and possible longer-term changes in fiscal decentralization, the importance of county and within-country context cannot be overemphasized. There have been numerous attempts to promote normatively desirable intergovernmental fiscal reforms that have been hindered by political economy and capacity constraints, among others. Developing a constructive path forward requires documenting the perspectives and priorities of the various actors who must support intergovernmental fiscal reforms, both at specific levels (e.g., between finance ministries and sectoral ministries) and among levels of government. Understanding the nature and extent of relevant common views and tensions is essential to make judgments about which types of reforms are feasible in the management of the COVID-19 pandemic and beyond.

Some of the issues that have been evident during the COVID-19 pandemic are similar to concerns that have long been debated in the development and development assistance literature (both general and decentralization-specific), particularly around the perceived tradeoff between emergency response/humanitarian assistance and building government systems and capacity. For many years these were seen as separate concerns—conventional wisdom was to deal with an immediate predicament, even if it meant setting up parallel mechanisms—and only later worry about strengthening local institutions.

Eventually, emergency response activities came to be seen as an opportunity both to deal with crisis and to develop and institutionalize public sector capacity and improve performance. Such an approach during a pandemic—to the extent it is feasible in a particular case—may both contribute to improved institutional structures and routine operations and leave countries and subnational governments in a better position to prepare for and deal with future pandemics and other natural emergencies, as well as to better manage their finances in general.

Paper Overview

The rest of the paper is organized as follows. Section 1 summarizes how the pandemic has affected fiscal decentralization around the world. The literature is uneven and there is still only limited formal research, with much of the work to date more descriptive and impressionistic. Nevertheless, some common impacts, responses, concerns, and lessons are identified. Section 2 briefly compares the intergovernmental systems in the five countries under consideration here—Argentina, Brazil, Colombia, Mexico, and Peru. These reviews are not comprehensive but set the stage for the discussion of pandemic impacts and response.⁷ Section 3 provides an overview of the known impacts the pandemic on the five countries. There is a brief summary of broader national impacts, but the focus is on what is known about the impacts on subnational governments, particularly regarding fiscal matters and service provision. Section 4 reviews available information on government responses to the pandemic. There is a brief review of all national responses, but the focus is on national support to subnational governments and selective coverage of subnational responses. Section 5 synthesizes the main experiences and draws some lessons from the country and global experiences about if and how post-pandemic policies might be developed to improve the intergovernmental fiscal system in specific countries.

⁷ Most of the information on the basic fiscal systems and pandemic impacts and responses are based on IDB publications/data, other relevant materials and selective interviews conducted with a range of national and subnational government officials, academics and researchers in each country.

1. Global Experiences and Perspectives

The global community has given considerable attention to pandemic response since the severity of the situation became evident early in 2020. Much of the analysis has focused on national impacts and responses as well as the role of international organizations and multi-actor partnerships in dealing with the pandemic. There have, however, been some assessments of how subnational governments have been affected and responded.

National policies were adopted to respond to pandemic-generated service delivery needs and to alleviate the broader impact of the pandemic on economic activity. These have focused heavily on the health sector as well as on alleviating the economic hardships imposed on businesses and households. Many countries have provided dedicated support to assist subnational governments and promote multi-actor coordination, both to respond directly to the pandemic and to offset broader fiscal impacts of the pandemic on regional and local territories.

A range of key global players has been involved in creating dialogue about and documenting effects of the pandemic on subnational governments and intergovernmental relations, as well as examining how national and subnational governments have responded. The majority of this work has been more descriptive than analytical, and the better documented efforts have focused on more advanced economies, such as work by the [OECD](#), the [Council of Europe](#), and the [U20](#) (which focuses on cities in the G20 but also collaborates with cities beyond the G20).

Other international organizations that work with a broader spectrum of countries or focus specifically on middle- and/or lower-income countries have also been active on this topic. These include not only the [IDB](#), but also the [ADB](#), [UNCDF](#), [UNDP](#), [UN-HABITAT](#), and the [World Bank](#). Among the most active in assessing and promoting the role of subnational governments in pandemic response and beyond are groups focused on subnational government roles in governance and development. These include the global membership body of regional and local governments, United Cities and Local Governments ([UCLG](#)); the international association of major cities and metropolitan areas, [Metropolis](#); and the Development Partner Working Group on Decentralization and Local Governance ([DeLoG](#)), an alliance of multilateral and bilateral agencies that sponsors events on subnational government and intergovernmental relations and

publicizes/disseminates information about other related events, research, and publications.

Although there has been work on subnational pandemic effects and responses, coverage of issues and regions is uneven in scope and not particularly systematic. Some existing material focuses on selected issues (e.g., service delivery, finances, governance, inclusion, etc.), and there are also divides between a focus on pandemic effects and pandemic responses (both immediate and longer-term). Much available information is based on informal sharing of experiences and expectations rather than well-documented impacts and responses, although more data are emerging. It is possible to broadly characterize some issues from the available material.

Impacts of the Pandemic on Subnational Governments

Although some hard data are available on specific countries, regions, or cities, much of what is in the public realm about the impacts of the pandemic on subnational governments is based on reviews of limited data and surveys of subnational officials. The stronger documentation focuses on industrialized countries and comes from OECD and the [EU Committee of the Regions](#) (EUCOR and OECD 2020; OECD 2020; OECD 2021). The more global information (primarily surveys) that covers a broader mix of country income levels and regions was issued by [UCLG/Metropolis/LSE Cities](#) (2020a, 2020b, 2021). These two sources of information are not directly comparable because they use different questions, methods, country and/or subnational government samples, and time periods, but they provide a general sense of how subnational governments were affected by or expected to be affected by the pandemic at the time the information was collected.

Respondents to the OECD/EU surveys reported that their most significant challenges faced in managing their pandemic response were deficient technical capacity and equipment (87 percent), insufficient funding (76 percent), and inadequate coordination across levels of government (71 percent). Only about half of the respondents indicated that coordination on pandemic response within their own subnational government or with the national government was sufficiently effective.

Eighty-five percent of respondents reported moderately or highly negative effects on subnational finances, with even more specific unease (90 percent) about the effect on their revenues, particularly subnational taxes (83 percent). This was an even

greater concern in regions and large municipalities than in smaller jurisdictions. There were expectations of considerable increases in expenditures on certain services, especially social services (64 percent), social benefits (59 percent), support to SMEs and the self-employed (52 percent), and public health (50 percent). In addition, 60 percent of respondents anticipated challenges with debt management, with 15 percent having already asked for additional loans to respond to the crisis and an additional 24 percent indicating that they had plans to do so.

Updated OECD findings released in May 2021 confirm the negative impact of the health and economic crisis on subnational government expenditure and revenue, but in some countries the impacts were less severe than initially expected. This was largely attributed to substantial central/federal government support of subnational finances and efforts to reduce spending and defer or cancel investments. The OECD cautions that these better-than-projected findings may diminish because the reported subnational tax revenues reflect activity before the pandemic hit in full force. In addition, some deferred spending will eventually have to be incurred with no guarantee of comparable central government support. Considerable uncertainty remains about the pandemic trajectory and economic recovery prospects.

Despite a different approach and samples, the UCLG/LSE Cities surveys yielded similar initial findings as well as a few additional ones. Some challenges identified by respondents included a range of difficulties working across levels of government, lack of access to appropriate/adequate information needed for pandemic response, and insufficient and uncertain public budgets. Respondents also noted challenges created by politicization of the emergency response, bureaucratic inflexibility, inadequate municipal autonomy, and a range of issues related to insufficiently inclusive stakeholder engagement and public trust in subnational governments.

There was also a more detailed UCLG/LSE Cities survey on fiscal considerations. The results indicated that the pandemic amplified long-standing problems concerning subnational government finances, but it also highlighted or worsened other challenges, such as revenue volatility, new demands for services and investments, and the short- to medium-term consequences of reallocating capital funds to finance operations during the pandemic. On average, respondents reported a 5 percent increase in expenditures, in part reflecting subnational government responsibility for financing services that tend to be in higher demand during a crisis. Although recurrent spending

increased overall, nearly two-thirds of reporting subnational governments indicated that they postponed capital investments, and one-third expect these investments to be permanently cancelled.

The revenue side was reported to be more affected than spending with an average 10 percent decrease, but again with significant variations. The largest revenue losses were decreased tariffs and fees (22 percent on average), while intergovernmental transfers were least affected (an average decline of 8 percent but with large deviations, including increases in transfers in some countries). More financially independent subnational governments reported suffering higher income losses (because transfers were often the least affected income sources). Among the respondents, 21 percent of cities/regions had to borrow money to deal with the pandemic. An additional 21 percent wanted to borrow but could not be due to legal constraints or lack of access. Overall, respondents expect the fiscal challenges amplified or created by the crisis to be even more serious post-pandemic.

In assessing this information, it is important to recognize that the pandemic impact on subnational finances can vary considerably not only across countries but also across levels of government, regions, and municipalities (OECD, 2021). Variations depend on the nature and extent of decentralization; the mix and characteristics of subnational revenues, particularly their responsiveness to economic fluctuations; subnational government flexibility to adjust spending and revenue generation to urgent needs; the general subnational government fiscal health (budget surplus/deficit, debt situation, etc.); and the scope and quality of intergovernmental relations and support from higher levels and international actors. The challenges on all of these fronts, especially in lower- and middle-income countries, means that careful and regular analysis is needed to document the effects of the pandemic and to identify viable options for dealing with them.

National Responses to the Pandemic

Most of the more systematic documentation of pandemic response from national governments is focused on more advanced economies. Reviews of OECD countries (2020, 2021), for example, found that many national governments provided massive fiscal support by the following means:

- Reallocating public funding to crisis priorities—particularly health care, small and medium enterprises, and vulnerable populations.
- Introducing measures specifically to support subnational government and finance, both on the expenditure and revenue sides, and also by relaxing fiscal rules for subnational governments to varying degrees.
- Creating large recovery packages targeting public investment to strengthen health systems; support digitalization and accelerate the transition to a carbon neutral economy.

There is less systematic documentation of these efforts in lower- and middle-income countries, although a range of similar measures appear to have been taken in these countries based on various webinars, blog posts, and ad hoc publications.⁸ In many cases, subnational governments have benefitted from direct support in the form of increased transfers, but many also have played some role in assisting or supplementing national efforts to deliver more health services, to support businesses and households in their jurisdictions, and to enhance public investments in infrastructure and information technology and sharing.

There are some reports of national pandemic measures that amount to recentralization. These include, for example, higher-level governments getting more heavily involved in services that are legally lower-level functions and offering subnational financial support in the form of highly conditional transfers. There is much debate about whether recentralization is appropriate—some consider it to have been necessary to deal with the pandemic, but even among these analysts there may be concern about a durable weakening of subnational government powers. There is no clear evidence that strong decentralization offered an advantage in dealing with the crisis. Federal governments with devolved systems like the United States and Brazil, for example, have been criticized for their mismanagement of the crisis, whereas unitary governments like South Korea and New Zealand were lauded for their quick and effective response (Dodds et al., 2020).

⁸ The IDB has supported several countries in LAC with emergency loans aimed at providing timely aid to address the health and economic crises and help restore macroeconomic and fiscal sustainability in the medium term.

Although some recentralization occurred and little evidence supports an inherent superiority of decentralized pandemic response, there are also reports in the surveys and cases of stronger subnational government roles. A common form is national reliance on subnational governments as partners in implementing pandemic response functions. In some cases, subnational governments were granted flexibility in how they used additional funds to support pandemic response. As with so many aspects of pandemic action, there is variation in how policies are framed and implemented across and within countries, and the right approach seems to depend on the quality of governance and institutions as well as other contextual considerations (Beland et al., 2020; Council of Europe, 2020; Dodds et al., 2020; Greer et al., 2020; Hašová and Varvažovská, 2021; Migone, 2020).

Subnational Responses to the Pandemic

Most available information about subnational government pandemic response is anecdotal and not well documented, largely derived from online sharing events and mostly non-scientific surveys. There is also some information about what subnational governments would value in terms of coping with the demands of the pandemic and its effects going forward.

Work cited above in the discussion of subnational pandemic impacts also covers subnational pandemic responses, which are also treated in a paper on city responses produced jointly by multiple OECD actors (OECD 2020).⁹ Short- and medium-term responses fall broadly into a number of categories classified somewhat differently in the various OECD reports. These include service delivery (adjustments not only to health but also to other sectors); pandemic control policies (restrictions on government, business and citizen activity, including social distancing); encouraging appropriate workplace and commuting practices (teleworking and flexible hours, testing protocols, additional public transport sanitation measures, etc.); economic relief (support for vulnerable groups and businesses); coordination initiatives (working more collaboratively with other governmental and nongovernmental actors); and improving

⁹ This note was developed by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) in collaboration with the OECD Working Party for Urban Policy and the OECD Champion Mayors Initiative for Inclusive Growth.

public communication, awareness raising, and digital tools (websites, open databases, outreach campaigns, digital platforms, etc.).¹⁰

Subnational governance responses reported in the UCLG/Metropolis/LSE Cities live-learning sessions and surveys, included various innovations related to enhancing leadership and authority during emergency response, such as measures to provide information and assurance to citizens and working in partnership with local community leaders to engage with citizens. Other governance measures reported were efforts to increase cooperation and collaboration across key stakeholders (governmental and nongovernmental), improving information technology and data management (such as using open-source data infection spread monitoring), taking steps to be more responsive and to increase operational effectiveness (including relaxing rules to hasten response, e.g., for procurement), and adopting policies to enhance administrative capacity and organizational resilience (e.g., reassigning functions and modifying human resource management). Many of these actions are similar to those reported in the OECD work.

Many subnational fiscal responses, such as shifting budget allocations among sectors, reducing total spending, postponing or cancelling infrastructure investments, increasing borrowing, and others, were already noted in the discussion above of subnational pandemic impacts reported in the UCLG/Metropolis/LSE Cities work. In addition, subnational governments reported forgiving or delaying payment of local taxes and fees, creating means to co-share financial responsibilities with other governmental or nongovernmental actors, and seeking more sources of funding from higher levels of government to cover gaps in their budgets.

A large share of UCLG/Metropolis/LSE Cities respondents expressed an interest in receiving more information about how to enhance subnational government finances, upgrade information technology, improve partnerships and cooperation, and better use public participation, among others. These categories are broad and not well defined, but they offer a sense of how subnational governments are thinking about inevitable additional crises and their future operations more generally.

¹⁰ The paper on city responses includes annexes on city initiatives and how cities are progressively exiting the lockdown and maps selected efforts to document city responses and foster knowledge and experience sharing.

In addition to these broader reviews of subnational government pandemic response, some of the OECD and UCLG reports contain more detailed cases of specific measures adopted by specific subnational governments. [Cities for Global Health \(2020\)](#) offers a platform for interested subnational governments and communities to upload information on innovative pandemic response initiatives, which are extremely varied.

Looking Forward

Among the countries covered in OECD work, a range of key policy measures were reported as necessary for a successful ongoing recovery strategy from the pandemic, with 90 percent of respondents calling for stronger coordination in the design and implementation of policies among all levels of government. Nearly 80 percent identified the need for additional financial resources for subnational governments, and over 70 percent highlighted the importance of improved subnational government communication with the public and subnational flexibility to adapt reforms to the local situation. Other measures that received over 50 percent support included involving the private sector and civil society and increasing access digital tools.

Beyond these basic policies and processes, there were calls for nationally framed multi-level governance measures, such as clearly and transparently establishing roles and responsibilities among levels of government, improving stable revenue sources, providing incentives for pilot policies or programs in sectors that have grown in importance due to the pandemic, and allowing for early and continuous consultation in the design of new measures. A majority of the respondents also saw openings for reshaping subnational development priorities that move beyond crisis response to other aspects of sustainable development.

The UCLG/Metropolis/LSE Cities work was less focused on specific questions about what should happen to recover from the pandemic and beyond it, although many responses regarding the pandemic clearly pointed to the effects of longstanding intergovernmental system weaknesses on the fiscal front and beyond. These include commonly recognized issues, such as lack of clarity regarding functional assignments, limited subnational government autonomy, inadequate coordination across levels of government and within individual jurisdictions, insufficient and unstable subnational revenues, and highly constrained access to investment capital, among others. A few

closing points can be made about the global experience with the COVID-19 pandemic.

- First, the pandemic has clearly had a significant economic, fiscal, and social impact on subnational governments around the world. Some effects have been broadly experienced but in different ways and to varying degrees. Other effects are more specific to particular countries and areas within them given the diversity of context—different levels of development and varied institutional structures and capacities, among others.
- Second, there have also been some common responses to cope with the pandemic, particularly at the national level. These have included specific support to meet health needs, efforts to offset the economic impacts, and specific support to subnational governments. Responses at the subnational level have been more varied depending on degrees of empowerment, capacity, and motivation—as well as the nature and level of support from national governments.
- Third, there are to some extent shared ideas—both longstanding and new—about how to continue recovering from the pandemic and to improve on weaknesses in intergovernmental systems that were highlighted during the crisis. These include a range of fiscal reforms (e.g., clarifying functional responsibilities, improving transfers and subnational revenues with appropriate increases in subnational autonomy, and enhancement of fiscal responsibility frameworks); stronger collaboration across levels of government, among neighboring subnational governments, and among departments within individual jurisdictions; and better public communication and governance regimes. The extent to which there is a strong impetus to pursue such reforms, however, is varied and often unclear.

2. The Pre-Pandemic Intergovernmental Fiscal Landscape and Challenges

The intergovernmental systems in the five countries under consideration display a number of similarities but also important differences (see selective points of comparison in Table 1).¹¹ All have multiple tiers of government, but they operate under varied structural configurations and functional sharing arrangements. Argentina, Brazil, and Mexico are federal systems, while Colombia and Peru are unitary states. Intermediate tiers in the federal systems (provinces in Argentina, states in Brazil and Mexico) account for larger expenditure shares than in the unitary government systems (departments in Colombia, regional governments in Peru).

The federal-unitary distinction between the expenditure role of local governments is less clear than for the intermediate tier. Municipalities in Argentina and Mexico account for a lower share of public spending than their counterparts in federal Brazil or in unitary Colombia and Peru. Of course, Table 1 does not account for variations in types and sizes of local governments, so these aggregate numbers for all municipalities do not reflect the substantially stronger expenditure role of some large urban governments in their jurisdictions compared to other municipalities.

On the revenue side, there is considerable diversity across the countries. Intermediate tiers in the federal systems tend to be better resourced than in the unitary countries because of substantial own revenues, tax sharing, and intergovernmental fiscal transfers, and these resources are typically subject to fewer restrictions on use than in the unitary states. Higher-level resources that flow to municipalities in these federal countries, however, often depend non-trivially on (not necessarily systematically determined) decisions at the state/provincial level, except in Brazil where there are more direct federal transfers to municipalities.

Generally, transfers to municipalities in the federal countries are subject to more conditions than those to the intermediate tier, while departments in Colombia and regional governments in Peru also have limited discretion in the use of transferred funds. Own-source revenues also tend to be more important at the intermediate level in federal systems, although their share of total revenues for state and municipal

¹¹ This section presents a brief overview of the countries covered. More details are available in Ter-Minassian (2020) and IDB-ECLAC (2022).

governments is comparable in Colombia, and municipalities in Peru raise a larger share of revenues than provinces do, although that share is quite modest—their only revenue source is fees for a few services. It is difficult to clearly interpret these variations, however, since they depend to some extent on differences in functional assignments and the asymmetric importance of local taxes across subnational jurisdictions. In Colombia, for example, 5 of 1102 municipalities account for 60 percent of all property tax revenues, and in Mexico 31 of 2,442 municipalities account for 50 percent). Equally important are incentives created for municipalities by intergovernmental fiscal transfers and other factors that affect the willingness and ability of municipalities to use the revenue powers at their disposal.

Given considerable variations in intergovernmental fiscal structures, powers, and performance levels across countries, policies to improve on the status quo need to be tailored to the circumstances of each case. Nevertheless, these countries all share, to varying degrees, several intergovernmental fiscal challenges, many of them longstanding issues that have been difficult to resolve given the complexities of intergovernmental relations.

Table 1. Intergovernmental Fiscal Systems and Key Challenges (pre-pandemic) *

Country	Basic features		Key challenges**
Argentina			
System (tiers) Number	Federal (province/municipality) 24 + Capital District/2327		<ul style="list-style-type: none">• Gradual transfer of functions to provinces• Strong vertical fiscal imbalance• Issues with fiscal coordination across levels of government• Significant and persistent fiscal disparities across jurisdictions
Expenditure/revenue Share Provincial/local	<u>Expenditure</u> 43.5/7.4***	<u>Revenue</u> 40/10.6	
Subnational revenue Shares Provincial/local	<u>Own source</u> 46.5/42.	<u>Transfers</u> 53.5/57.8	
Brazil			
System (tiers) Number	Federal (state/municipality) 26 + Capital District/5570		<ul style="list-style-type: none">• Insufficient clarity in some functions (education, health, social security)• Certain transfers separately allocated, very conditional, or weakly redistributive• Rise in pension/personnel expenses• Subnational revenue weakened by changing economic base• States and municipalities use loopholes to bypass Fiscal Sustainability Law
Expenditure/revenue Share State/local	<u>Expenditure</u> 30.8/21.5	<u>Revenue</u> 32.7/22.6	
Subnational revenue Shares State/local	<u>Own source</u> 79.0/33.5	<u>Transfers</u> 21.0/66.5	
Colombia			
System (tiers) Number	Unitary (department/municipality) 32/1102 + special jurisdictions		<ul style="list-style-type: none">• Inadequate coordinating and monitoring of expenditures and quality of use

Expenditure/revenue Share Departmental/local	<u>Expenditure</u> 10.7/21.5	<u>Revenue</u> 9.9/25.6	<ul style="list-style-type: none">• Issues with regulation of royalties• Lack of fiscal autonomy of departments• Problematic subnational revenue policies and highly earmarked transfers
Subnational revenue Shares Departmental/local	<u>Own Source</u> 35.9/37.8	<u>Transfers</u> 64.1/62.2	
Mexico			
System (tiers) Number	Federal (state/municipality) 32 + Capital District/2442		<ul style="list-style-type: none">• Fiscal coordination system is equalizing but offset by resource-related transfers• Weak subnational revenue performance• Growing subnational government transfer dependence
Expenditure/revenue Share State/local	<u>Expenditure</u> 36.4/2.6	<u>Revenue</u> 7.3/1.8	
Subnational revenue Shares State/local	<u>Own Source</u> 15.9/23.8	<u>Transfers</u> 84.1/75.8	
Peru			
System (tiers) Number	Unitary (province/municipality) 26/1874		<ul style="list-style-type: none">• Persistent function-resource imbalance• Expenditures primarily defined by sectoral ministries• Transfers largely conditional• Infrastructure funds highly unequal given link to extractive industry
Expenditure/revenue Share Provincial/local	<u>Expenditure</u> 16.4/12.1	<u>Revenue</u> 4.4/14.4	
Subnational revenue Shares Provincial/local	<u>Own Source</u> 17.5/28.4	<u>Transfers</u> 82.4/71.6	

*The reported data are for 2019, except for Argentina at the municipal level that uses data for 2017

**These challenges were largely identified in selective interviews conducted for this paper (noted in footnote 8) and not all of them may be uniformly accepted by country experts.

*** The first number reported is for the intermediate tier, the second for the local tier. The numbers in each cell are percentages of the totals.

First there is considerable functional sharing (Table 2) and some lack of clarity in functional assignments in most of the countries. There are good conceptual and practical reasons to share public functions among government levels (federal/central, intermediate, local). However, insufficient clarity can hinder ensuring that adequate resources are made available to appropriate levels; complicate the monitoring of service delivery compliance and outcomes; create challenges in coordinating action across government levels; and generate ambiguity in accountability.

Table 2. Functional Assignments among Levels of Government

Function		Argentina	Brazil	Colombia	Mexico	Peru
Security		F/I	F/I/L	C	F/I/L	C/L
Education	Pre-school	I	L	L/I	F/I/L	C/I
	Primary school	I	L	L/I	F/I/L	C/I
	Secondary school	I	I	L/I	F/I/L	C/I
	Higher education	F	I	C	F/I	C/I
	Adult education	I	F	C	I	C/I
Health	Health protection	I	F/I/L	L	F/I	C/I
	Primary care	I	F/I/L	L	F/I/L	C/I
	Hospitals	I	F/I/L	I	F/I	C/I
Water and sewage		I	I/L	I/L	F/I/L	C/I/L
Housing		L	F/L	C/L	F/I/L	C
Transport	Roads	F/I/L	F	C/L	L	C/I/L
	Urban road/transport	F/I/L	L	L	F/I	L
Economic	Promotion	F/I	F/L	C/I/L	F/I/L	C/I
	Tourism	F/I	F/L	C/I/L	F/I	C/I
1 level	2 levels	3 levels				

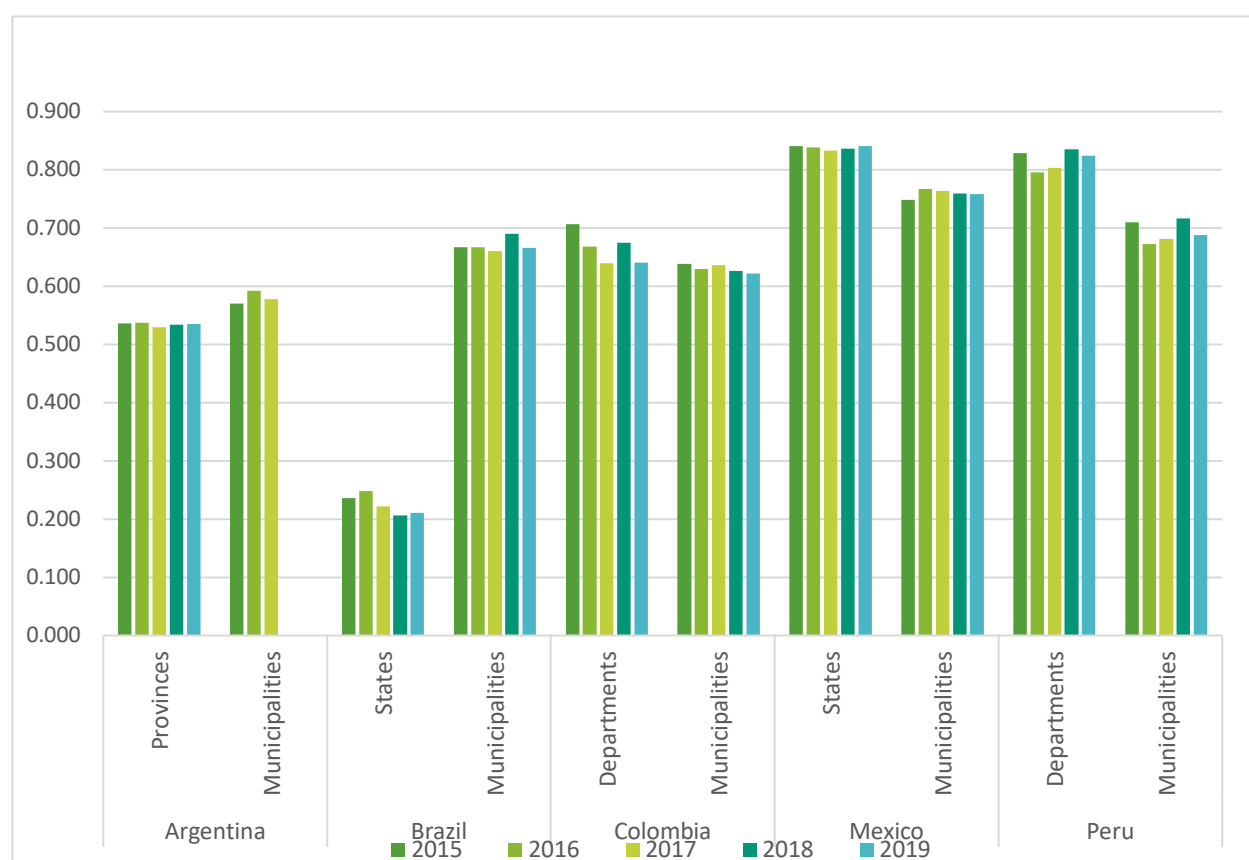
Source: Perez Benitez et al (2022) and UCLG (2010).

Second, dependence on intergovernmental fiscal transfers is high. As noted above, reliance tends to be lower at the intermediate tier in the federal countries, although Mexican states are more dependent than their counterparts in Argentina and Brazil. Dependence on transfers is higher at the municipal level in most countries. Inadequate revenue powers and weak incentives to use them are often a factor. Overall, dependence has remained relatively stable during the past five years, except for Colombia where it decreased and Peru where it increased (Figure 1). Although recent dependence is relatively stable, there are concerns that subnational revenue is not growing sufficiently. In Brazil, for example, there have been shifts in the economic base (due to reductions in manufacturing activity) that have over time weakened the local tax base in some areas and the revenue yields of the ICMS and ISS, and in Mexico increases in transfers over time may have weakened incentives for subnational revenue collection (IMCO, 2020).

Third, fiscal disparity among subnational jurisdictions remains a serious challenge in all countries considered here, particularly at local level, and disparities have generally not changed much since 2005 (Table 3). Transfers have had some equalizing effect

(shown by the difference between Gini coefficients for own revenues and expenditures), but this has not grown over time, and disparities remain large. The inequalities reflect variations in economic base; criteria used to share higher-level revenues, permitted subnational own-source revenues; and the ability and incentives of subnational governments to collect revenues. Even if major transfers are designed to be equalizing, other factors can offset this effect. Brazil, for example, has not updated some allocation criteria to reflect changing conditions, and Colombia's redistribution efforts are partially offset by extractive industry royalties and capital transfers. This is also the case in Mexico (oil states), and distribution is further affected by discretionary state allocation of some transfers (Pueblita 2017). In Peru, infrastructure authority is transferred only to provinces and municipalities with extractive industries.

Figure 1. Transfer Dependence, 2015–2019 (fiscal transfers/total revenues)



Source: Authors' calculations based on official budget execution reports

Table 3. Fiscal Inequalities in Own-Source Revenues and Expenditures, 2005–2019

Country	Gini coefficient					
	Own-source revenues			Total expenditures		
	2005	2012	2019	2005	2012	2019
Intermediate tier						
Argentina	0.45	0.41	0.39	0.27	0.24	0.24
Brazil	0.27	0.23	0.22	0.22	0.21	0.19
Colombia	0.37	0.39	0.39	0.36	0.33	0.40
Mexico	0.40	0.33	0.35	0.12	0.1	0.09
Intermediate average	0.37	0.34	0.34	0.24	0.22	0.23
Local tier						
Brazil	0.5	0.51	0.49	0.27	0.24	0.25
Colombia	0.45	0.48	0.44	0.27	0.22	0.24
Mexico	0.59	0.59	0.57	0.29	0.27	0.30
Peru	0.69	0.65	0.68	0.6	0.48	0.49
Local average	0.56	0.56	0.55	0.36	0.30	0.32

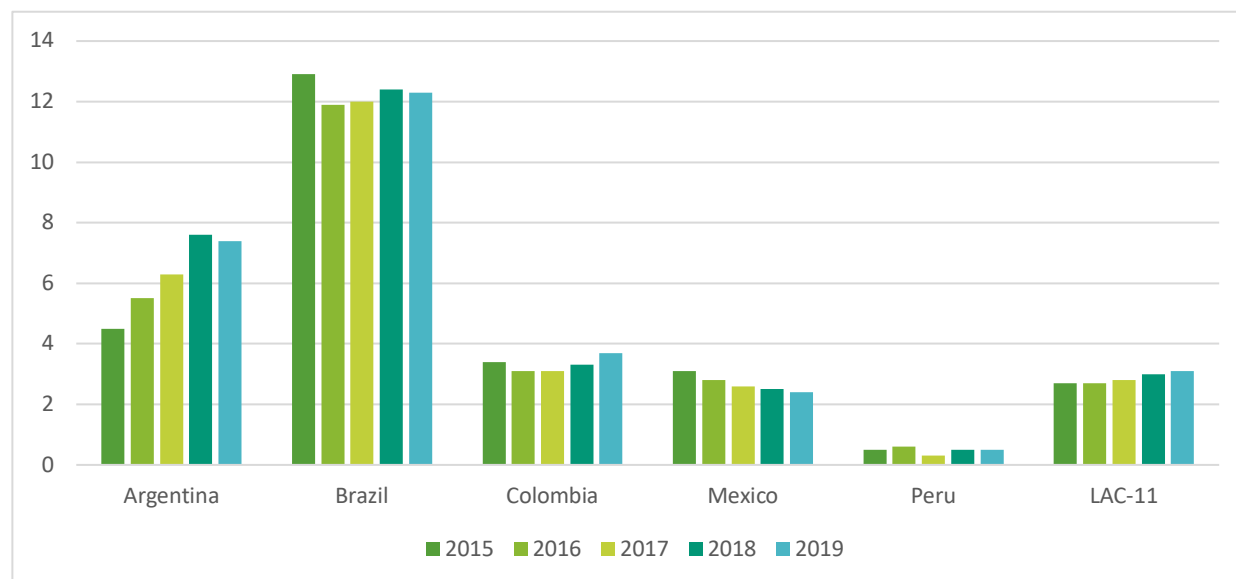
Source: Authors' calculations based on official budget execution reports.

Fourth, sufficient access to development finance and the existence of adequate/appropriate fiscal responsibility frameworks have been difficult to realize broadly in all of the countries under consideration. Although deficits and debt levels are relatively low and mostly manageable, they have been slowly increasing since the 2008 global financial crisis—albeit differently across countries and over time. On average, subnational governments in the region have deficits of 0.5 percent of GDP and debt levels of 3 percent of GDP (IADB-ECLAC, 2022)—7 percent or more in larger countries with heavier use of debt financing (Figure 2). Although there are formula-based development transfers, some funds are provided on a discretionary basis, and access to borrowing is uneven across and within countries. In the case of Peru, the borrowing potential is limited both due to the low fiscal capacity of subnational governments (except Lima) and the strict authorization process by the central government.

In Brazil, some states and municipalities have managed to circumvent the Fiscal Sustainability Law due to loopholes and inconsistent interpretation of its provisions by state accounting courts. In Colombia, the opposite is true, and experts call for more flexibility in times of crisis (Perez-Valbuena et al., 2021). In Argentina, there has been a lack of compliance with the Fiscal Responsibility Law at both national and subnational

levels, with financing following a boom-bust cycle linked to access to debt markets, and the latest subnational legislation is voluntary. Some subnational governments have enacted their own legislation, which in a context of strong vertical imbalances and lack of insolvency frameworks creates moral hazard and soft budget constraints (Larios et al., 2020).

Figure 2. Subnational Debt Levels (*debt-to-GDP ratio, 2015-2019*)



Source: Authors' calculations based on official budget execution reports.

These challenges in the intergovernmental fiscal system have long been recognized in the five countries, at least to some extent, and there have been efforts over the years to deal with them. Political economy challenges in intergovernmental fiscal reform; institutional capacity; complexity, compromises and conflicting policies embedded in the overall system; and the motivations and capacity of subnational governments to perform their functions, however, have constrained the effectiveness of these efforts. Now that the pandemic has refocused attention on consequential weaknesses of the intergovernmental fiscal systems, there may be an opening to pursue renewed efforts to promote the adoption of productive reforms as well as to develop additional measures.

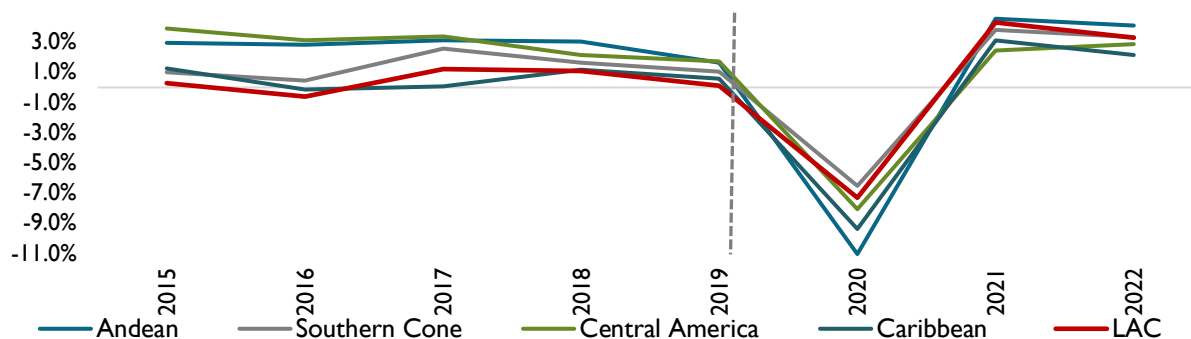
3. National and Subnational Impacts of the Pandemic

The pandemic hit the entire Latin American region more or less at the same time, but its economic, fiscal, and social impact was heterogeneous across countries. The significant variation can be explained partly by the above-noted institutional and fiscal structures that characterize each country. Although pandemic impact cannot be generalized for the entire region, there are certain trends and common features in most countries. Furthermore, the pandemic impact within each country varies across subnational regions and cities depending on domestic disparities in jurisdictional characteristics and internal fiscal arrangements. The larger countries are especially complex and heterogeneous, so the impact of the pandemic was quite differentiated.

National Impacts

Except for a few cases, most countries have experienced weaker economic performance than in the period before COVID-19. The pandemic, however, accelerated economic deterioration that was already challenging countries in the region to varying degrees (Figure 3). Brazil, for example, was still recovering from the 2008 crisis, and Mexico had been entering into an economic recession. The pandemic triggered an acute economic crisis, but the observed impact also reflects economic challenges and fiscal difficulties that countries were facing long before COVID-19.

Figure 3. Economic Growth, LAC Regions, 2015–2022 (annual variation)



Source: Regional Fiscal Monitor for LAC, IDB Fiscal Management Division, Unpublished Manuscript.

At the national level, GDP declines were the most obvious development (selected pandemic impacts are reported in Table 4). All Latin American countries, not only those covered here, experienced significant contractions in economic activity, as did most of the world. In 2020, Brazil faced a 4.1 percent decline in GDP, and Colombia and Mexico

respectively experienced 6.8 percent and 8.2 percent declines. Argentina and Peru had somewhat larger contractions, respectively at 9.9 percent and 11.1 percent.

The variation in GDP contraction not only reflects fiscal differences among countries, but also highlights inevitable variations in their economic recovery paths. Since the second trimester of 2021, with the reopening of many economies, most countries in Latin America are growing at a high rate given the economic rebound effect that often follows a major downturn. Some countries, however, are finding the rebound more limited than expected and will have to take additional measures to fully recover to pre-pandemic levels. Moreover, the overall impact of the pandemic, which is not yet over, remains to be seen.

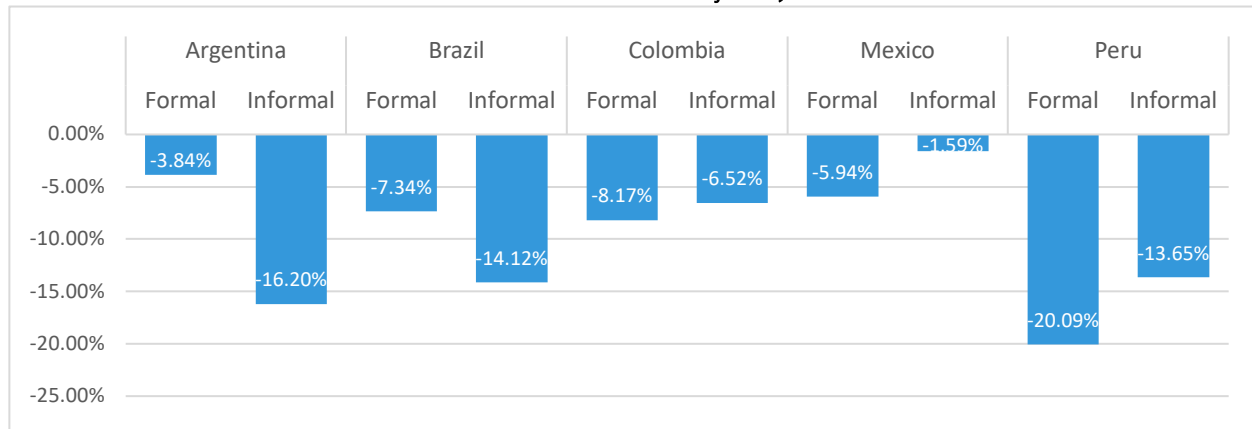
Table 4. National Economic Impacts of the Pandemic, 2019–2020

Country	National impacts*
Argentina	<ul style="list-style-type: none"> • 9.9 percent GDP contraction • Job loss (3.8 percent formal/16.2 percent informal) • Increase in poverty estimated up to 17 percent
Brazil	<ul style="list-style-type: none"> • 4.1 percent GDP contraction • Job loss (7.3 percent formal/14.1 percent informal) • Increase in poverty estimated up to 36 percent
Colombia	<ul style="list-style-type: none"> • 6.8 percent GDP contraction • Job loss (8.1 percent formal/6.5 percent informal) • Increase in poverty estimated up to 39 percent
Mexico	<ul style="list-style-type: none"> • 8.2 percent GDP contraction • Job loss (5.9 percent formal/1.6 percent informal) • Increase in poverty estimated up to 19 percent
Peru	<ul style="list-style-type: none"> • 11.1 percent GDP contraction • Job loss (20.1 percent formal/13.7 percent informal) • Increase in poverty estimated up to 69 percent

*GDP, job loss, and poverty data are respectively from Table 6, Figure 4, and Table 5.

The economic contraction generated a general and often severe rise in unemployment. Again, variation across countries was significant due to differences in their economic bases and labor market structures. At the peak of the crisis in 2020, unemployment rates in some countries, such as Peru, hit 20 percent or more, with the loss of millions of formal and informal jobs (Figure 4). On average, the number of people working in formal and informal jobs in the five countries under study decreased 6.8 and 7.3 percent, respectively, between March and December 2020 (Cardenas et al., 2021).

Figure 4. Pandemic Impacts on the Labor Market, 2019–2020 (percent change in formal/informal jobs)



Source: Authors' calculations based on Cardenas et al. (2021).

Another general impact has been a decline in family income and higher poverty due mainly to unemployment (Table 5). In Colombia, for example, family incomes declined by an estimated 20 percent, and in Peru, poverty increased from 16.5 to 25.8 percent from 2019 to 2020. In some cases, the situation was worsened by social security and public spending cuts, while in other cases, such as in Brazil, the opposite occurred due to social protection programs (Lustig et al., 2021). On average, poverty levels are expected to increase from 30.6 to 36.9 percent after the pandemic recedes. Also, the pandemic increased inequality (measured by the Gini coefficient of labor income) and hit households and populations differently, particularly impacting poorer and rural areas, the elderly, and young adults. Inequality in LAC is projected to increase from an average of 0.473 to 0.498, reversing most of the gains achieved during the past two decades (IDB, 2021). Table 5 illustrates the differential impacts on the five countries considered herein.

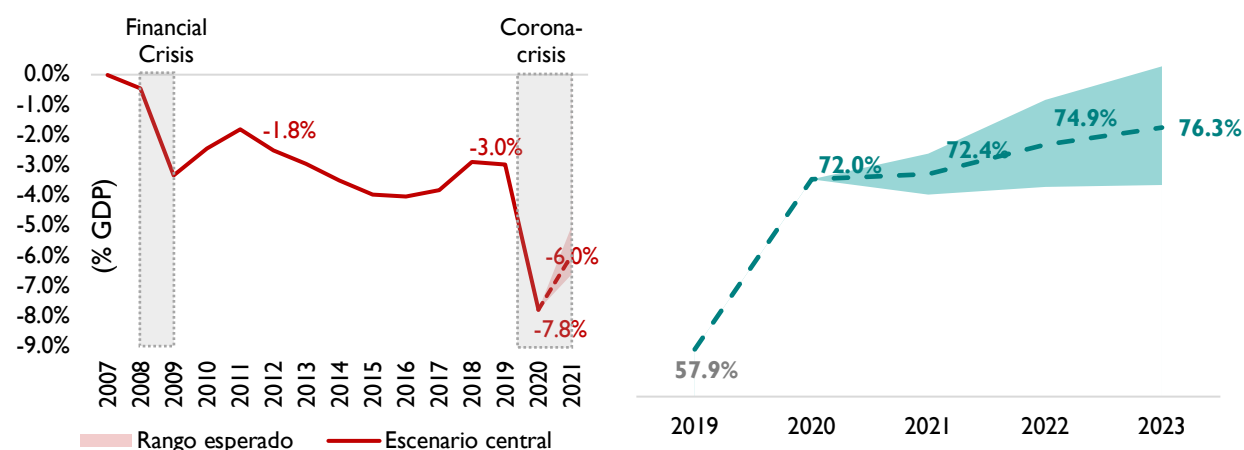
Table 5. National Poverty and Inequality Impacts of the COVID-19 Pandemic

	Poverty			Inequality		
	Pre-COVID-19	Post-COVID-19 (estimated range)		Pre-COVID-19	Post COVID-19 (estimated range)	
Argentina	46.2%	50.0%	54.1%	0.44	0.45	0.49
Brazil	23.1%	23.5%	31.5%	0.54	0.55	0.58
Colombia	32.8%	36.7%	45.6%	0.53	0.54	0.58
Mexico	43.0%	45.9%	51.0%	0.47	0.48	0.51
Peru	17.4%	19.8%	29.4%	0.44	0.45	0.47

Source: IDB (2021).

Pandemic fiscal effects differ across countries but have been severe across the LAC region (Figure 5). Average deficits and debt levels in 2020 reached historical levels, increasing on average to 7.8 percent and 72 percent of GDP, respectively (up from 3 percent and 58 percent of GDP in 2019). Liquidity in the region is low, and there is growing concern that the risk of insolvency is growing fast.

Figure 5. Growing National Deficits and Debt Levels (LAC average)



Source: Regional Fiscal Monitor for LAC, IDB Fiscal Management Division, Unpublished Manuscript.

The fiscal impacts of the pandemic on the five countries under consideration have been significant (Table 6). Deficits increased substantially, ranging from 4.6 percent in Mexico to 13.4 percent in Brazil. Debt also went up considerably across the board—as high as 30.6 percent as a share of GDP in Peru to 12.7 percent in Brazil, with Colombia (20.1 percent) and Argentina and Mexico (each 14 percent) falling in between.

Table 6. National Economic and Fiscal Impacts of the COVID-19 Pandemic, 2019–2020

	2019			2020		
	Growth	Deficit	Debt	Growth	Deficit	Debt
Argentina	-2.1	-4.5	90.2	-10	-8.9	103
Brazil	1.4	-5.9	87.7	-4.1	-13.4	98.9
Colombia	3.3	-2.5	52.3	-6.8	-6.9	62.8
Mexico	-0.1	-2.3	53.3	-8.2	-4.6	60.6
Peru	2.2	-1.4	27.1	-11.1	-8.4	35.4

Source: Regional Fiscal Monitor for LAC, IDB Fiscal Management Division, Unpublished Manuscript.

Subnational Impacts

At the subnational level, impacts were also very significant for the local economy and for the fiscal situation of many regional and local governments. Table 7 presents selected subnational impacts and issues, with more details on certain impacts provided in subsequent tables and figures.

Table 7. Subnational Fiscal Impacts of the Pandemic, 2019–2020

Country	Subnational impacts*
Argentina	<ul style="list-style-type: none"> • Decrease in expenditure (5.5 percent current, 22.9 percent capital) • Decrease in own-source revenue (provinces 7.8 percent) • General increase in transfer dependence • Increase in debt-to GDP ratio of 10.8 percent
Brazil	<ul style="list-style-type: none"> • Increase in expenditure (0.2 percent current, 9.9 percent capital) • Decrease in own-source revenue (states 0.6 percent, municipalities 6.7 percent) • General increase in transfer dependence • Increase in debt-to GDP ratio of 8.7 percent
Colombia	<ul style="list-style-type: none"> • Decrease in expenditure (5.8 percent current, 10.6 percent capital) • Decrease in own-source revenue (departments 11.9 percent, municipalities 6.7 percent) • General increase in transfer dependence • Increase in debt-to-GDP ratio of 19.5 percent
Mexico	<ul style="list-style-type: none"> • Decrease in current expenditure (2.8 percent), increase in capital expenditure (0.1 percent) • Decrease in own-source revenue (states 4.8 percent, municipalities, 11.3 percent) • General increase in transfer dependence • Increase in debt-to-GDP ratio of 11.6 percent
Peru	<ul style="list-style-type: none"> • Increase in current expenditure (26.4 percent), decline in capital expenditure (10.8 percent) • Decrease in own-source revenue (municipalities, 13 percent) • General increase in transfer dependence • Decrease in debt-to-GDP ratio of 20.8 percent

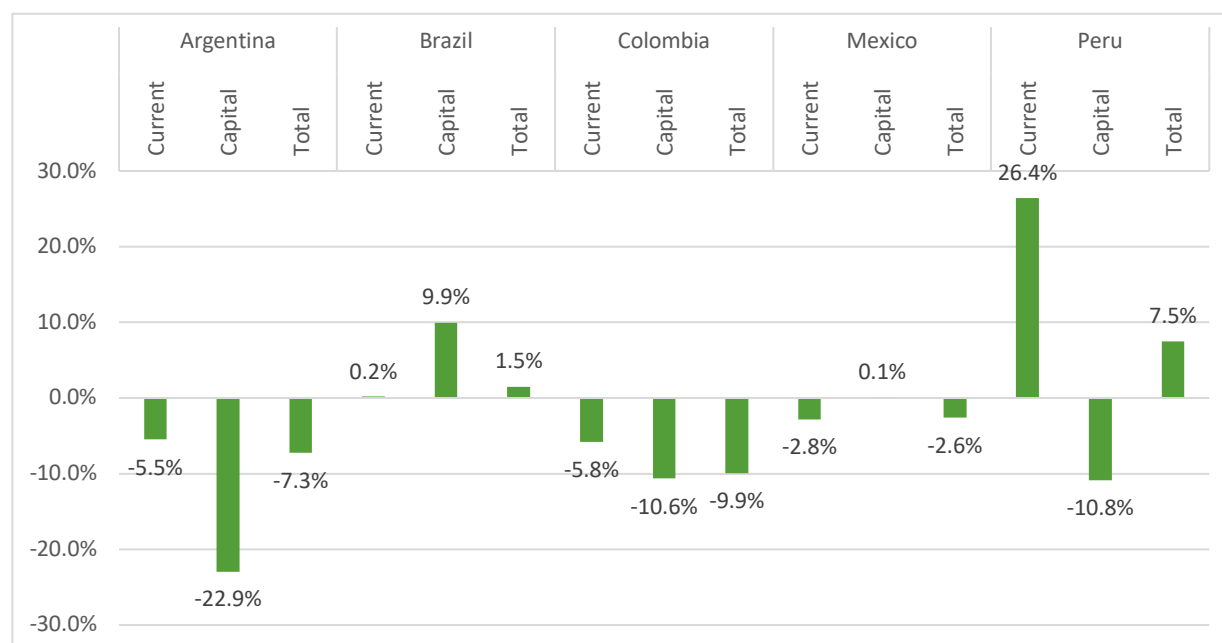
*Spending, revenue, transfer, and debt data are respectively from Figures 6, 7, 8, and 9.

With a rise in job losses and escalating needs for social and health services, local expenditure demands increased, but burdens varied considerably across jurisdictions due to differences in their responsibilities as well as economic, demographic, and fiscal bases. In addition to the public service impact, subnational income was also affected—own-source revenues, intergovernmental fiscal transfers, and borrowing. The nature and severity of the revenue impacts inevitably reflected prevailing intergovernmental structures and dynamics. In outlining basic impacts, this section includes reference to overall subnational changes in spending and revenue generation, while the next section on pandemic responses goes into more detail about specific actions taken.

Public Expenditure and Public Services

As the closest authorities to households affected by unemployment and income declines and the entities with legal responsibility for some important public services, intermediate and local governments came under severe pressure during the pandemic (Figure 6). Real expenditures fell in several of the five countries, although the severity and mix varied. Recurrent expenditures fell from 2019 to 2020 by 5.8 percent (Colombia), 5.5 percent (Argentina), and 2.8 percent (Mexico). Recurrent spending increased slightly in Brazil (0.2 percent) and substantially in Peru (26.4 percent, due in part because of a one-year lag in the distribution of some transfers). On the development side of the budget, subnational governments in Argentina, Peru, and Colombia reportedly had to cancel or postpone infrastructure projects and/or reduce other capital expenditures in part to limit greater cuts to current expenditures, respectively by 22.9 percent, 10.8 percent and 10.6 percent, respectively. In contrast, Brazil increased capital spending by 9.9 percent and Mexico by 0.1 percent, with the increase in Brazil attributed to additional federal transfers provided for improving health, security, and productive infrastructure and borrowing.

Figure 6. Impact on SNG Spending (real change in current, capital, and total expenditures, 2019–2020)



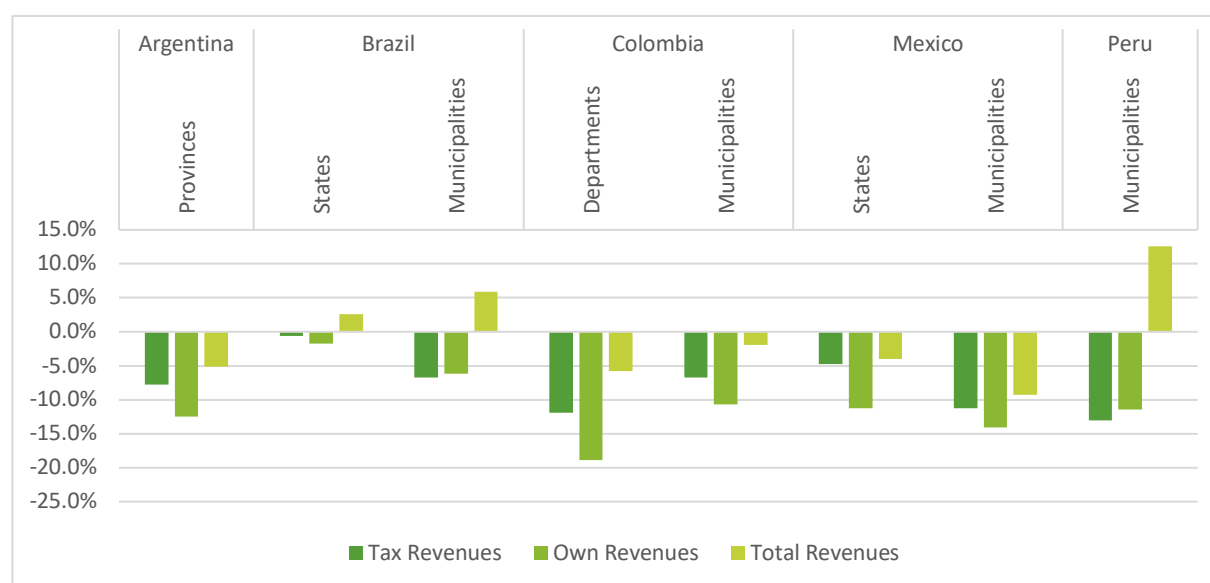
Source: Authors' calculations based on official budget execution reports.

The reductions in public spending surely prevented subnational governments from sustaining the delivery of certain public services, but the details of these changes and the factors underlying them require further investigation. Demand for certain services, such as health, clearly increased, while demand for other services, such as public transport, may have decreased. In addition, increases in transfers (discussed in Section 4) offset larger expenditure declines that would have otherwise occurred.

Tax Collection and Fiscal Capacity

The pandemic had uneven impacts on subnational tax collection across local governments. Subnational own-source revenues declined in all countries (Figure 7), but the effects varied greatly within each country. In the case of Brazil, state governments experienced a moderate decrease in own revenues of 1.7 percent and greater declines in municipalities of 6.2 percent. The effects were particularly severe in Colombia, where departments experienced a 19 percent decline in own-source revenues and municipalities suffered a 10 percent decline. Even with increased transfers, total subnational revenues declined in Colombia, Argentina and Mexico. Peru experienced a particularly severe decrease in subnational own revenue of 26.3 percent, among the most affected countries in the region.

Figure 7. Impact on Subnational Revenues 2019–2020*

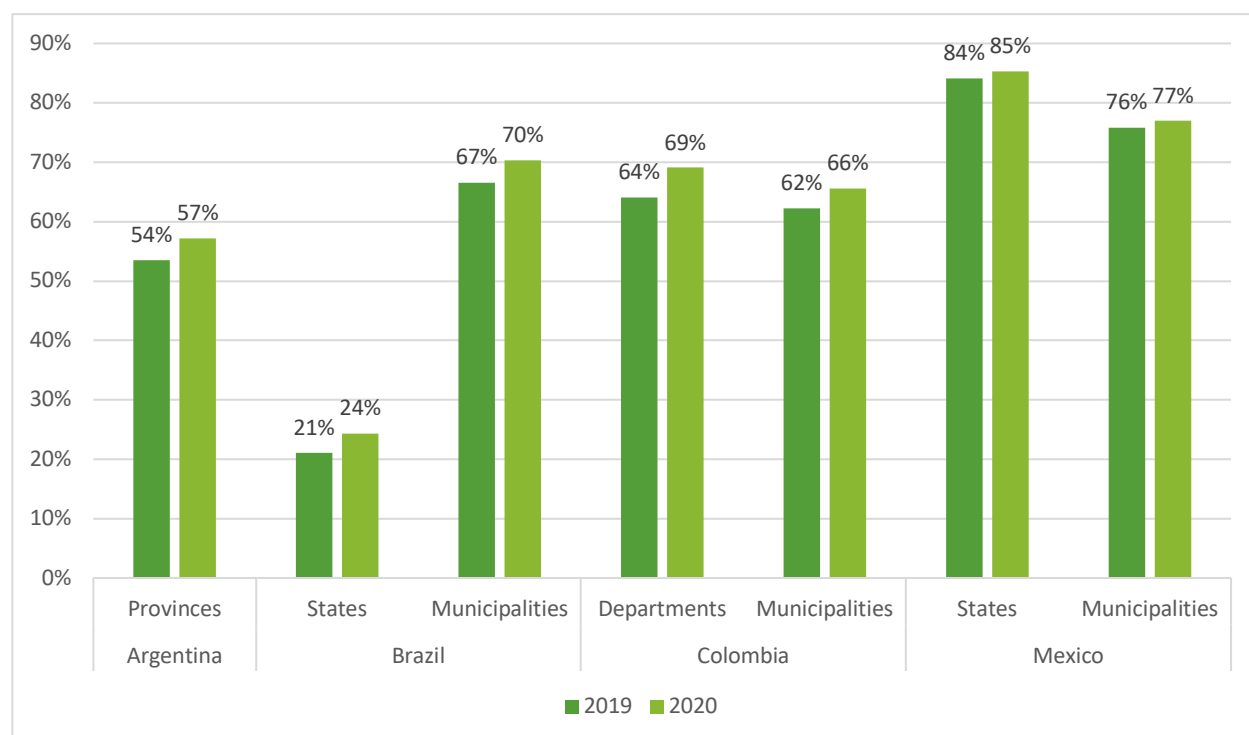


Source: Authors' calculations based on official budget execution reports.

*Tax revenues are those assigned to subnational levels; own revenues include subnational tax and non-tax sources; total revenues include own-sources plus shared taxes and transfers.

These significant variations are partly explained by differences in the size of subnational own-source revenues and the particular bases they are levied on. In addition, fiscal autonomy, the capacity of subnational governments, and the structure and strength of incentives to collect taxes in each country determined to a great extent how much tax collection decreased during the pandemic. Also, subnational revenue impacts during the pandemic tended to reinforce subnational government dependence on fiscal transfers to varying degrees (Figure 8). Transfer dependence increased from 2019 to 2020 across all of the countries under consideration herein and for all levels of subnational government for which data are available. Of course, this dependence also reflects the large volume of transfers, which may be a transitory impact. Additional intergovernmental fiscal transfers made as a response to the pandemic are discussed in Section 4.

Figure 8. Increasing Levels of Transfer Dependence* (transfers as a percentage of total revenues, 2019–2020)



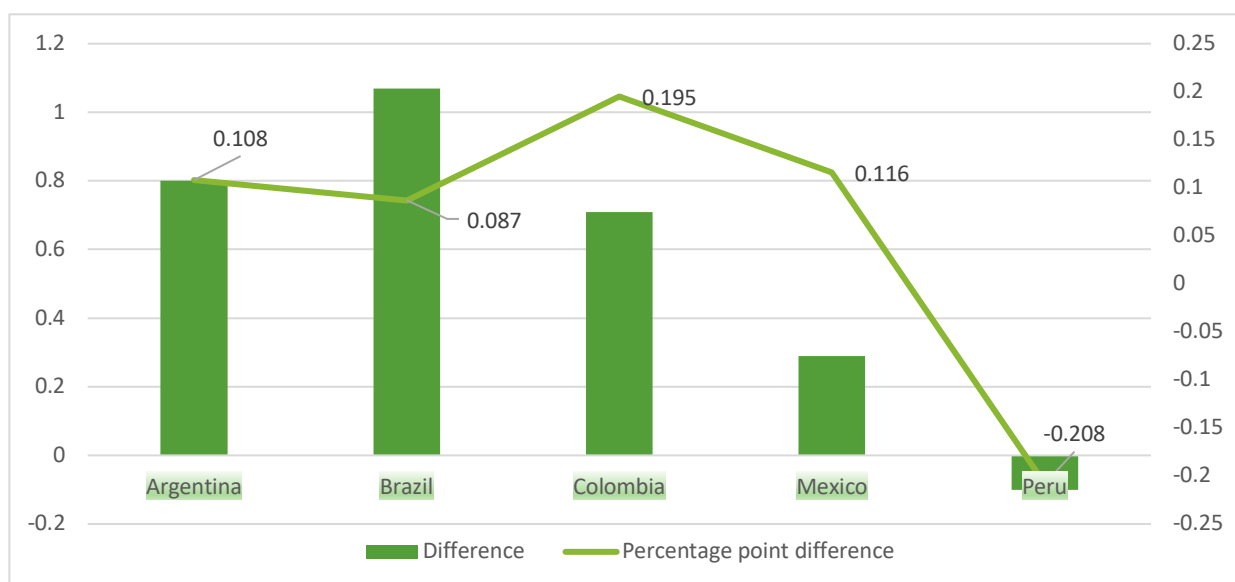
Source: Authors' calculations based on official budget execution reports.

*Data are unavailable for Peru.

Public Debt and Fiscal Responsibility

In the context of fiscal scarcity, subnational governments had to explore alternative sources of revenue. Where allowed, debt was one option considered to access additional funds, although countries started the pandemic with varied debt levels and increased it to different degrees (Figure 9). Subnational debt-to-GDP ratios increased in Colombia (19.5 percent), Mexico (11.6 percent), Argentina (10.8 percent), and Brazil (8.7 percent). Only in Peru, which has low debt levels to begin with, did the ratio decline by 20.8 percent. Although some debt increases seem rather high, the subnational debt responses to the pandemic must be interpreted in terms of variations in national borrowing/fiscal responsibility regulations, access to development finance, and subnational government creditworthiness—as well as specific purposes for which the debt was used in a time of great need.

Figure 9. Debt-to-GDP Ratio (percentage point difference and change, 2019–2020)



Source: Authors' calculations based on official budget execution reports.

Intergovernmental Fiscal Relations

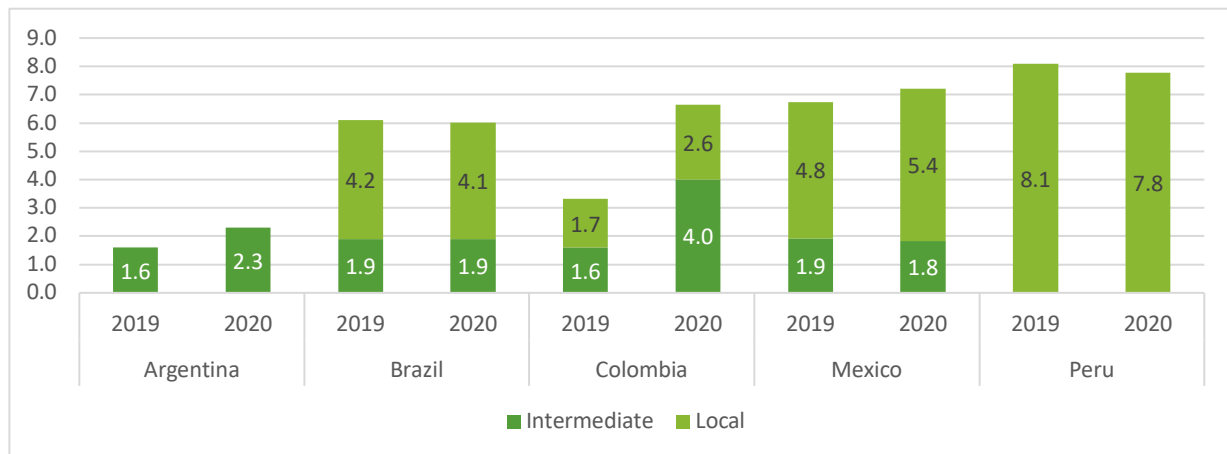
Whether a country is federal or unitary, longstanding weaknesses and challenges with the intergovernmental fiscal architecture are common, as outlined in Section 2. Although the five countries reviewed here have intergovernmental fiscal legal frameworks that are more or less established, the durable ambiguities and debates embedded in intergovernmental fiscal relations and coordination remain considerable.

The tensions on this front were generally exposed and aggravated with the emergence of the pandemic crisis, which put additional strains on the allocation of responsibilities and resources across levels of governments.

The vertical fiscal imbalance in LAC on average reaches 5 percent of GDP, so the gaps between revenues and expenditures remain considerable, as noted in Section 2. Provincial governments in Argentina, for example, have more responsibilities assigned to them than can be covered by the resources allocated to them (own revenues cover 44 percent of total expenditures). This fiscal imbalance in the institutional design produces persistent tensions that tend to be alleviated on an ad hoc basis through discretionary transfers, including during the pandemic. In Mexico, state governments share most responsibilities (concurrent obligations) with the federal government but depend heavily on national transfers that were not increased during the pandemic. Similar issues with tensions resulting from vertical fiscal imbalance were also noted in Brazil, Colombia, and Peru.

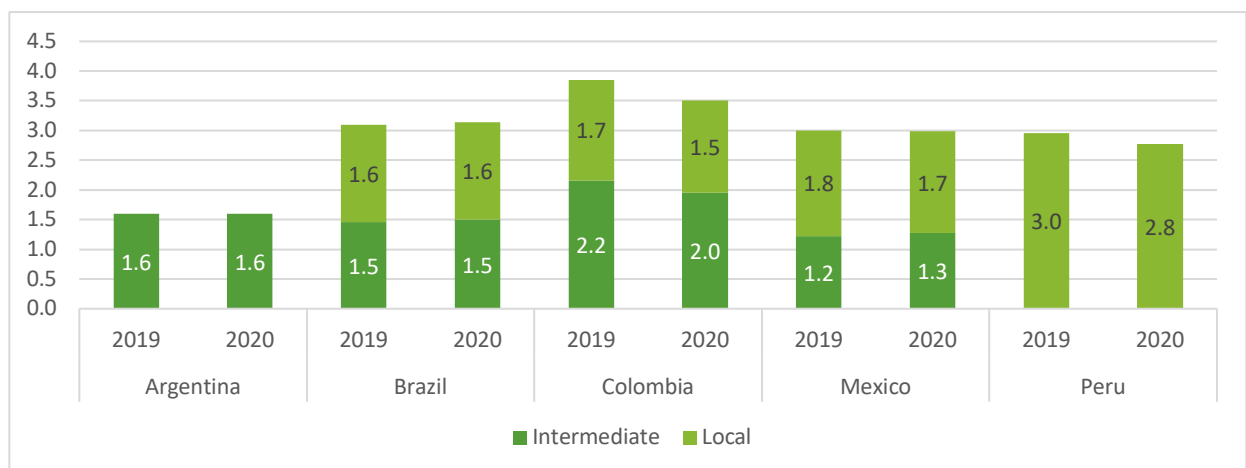
In most cases, there seems to have been some reinforcement or worsening of horizontal fiscal inequities during the pandemic. The pre- and post-pandemic disparities in per capita own-source revenue and expenditures are respectively shown in Figures 10 and 11. The pandemic had a particularly strong negative effect on own-source revenue disparities, with very slight disparity reductions only in Brazil and Peru. Disparities in total expenditures remain relatively constant or even improved very modestly in Colombia and Peru, perhaps as a result of emergency health spending and social assistance given to SNG.

Figure 10. Disparities in Per Capita Own-Source Revenues 2019–2020 (ratio of average per capita revenues in the top to the bottom 25th percentile)



Source: Authors' calculations based on official budget execution reports.

Figure 11. Disparities in Per Capita Expenditures (ratio 75/25, 2020–2019) (ratio of average per capita expenditures in the top 25th to the bottom 25th percentile)



Source: Authors' calculations based on official budget execution reports.

In short, the impact of the pandemic on subnational governments in Argentina, Brazil, Colombia, Mexico, and Peru was partly shaped by the structure of intergovernmental fiscal relations in these countries. The economic decline worsened the impact of revenue disparities, but they were also affected by how the intergovernmental fiscal system and capacity challenges hindered stronger subnational revenue generation. The lesser impacts on expenditure disparities during the pandemic highlighted the fiscal dependence of subnational governments, which particularly in some countries received significant additional transfers to stabilize expenditures during the crisis.

4. Public Sector Responses to the Pandemic

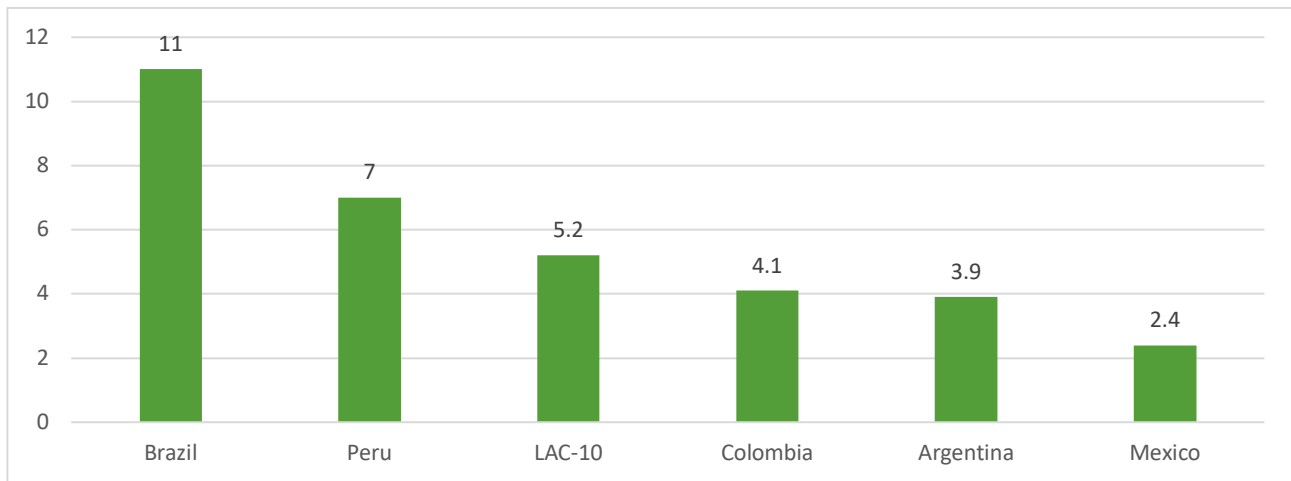
Given the severe impacts of the pandemic, government response needed to be rapid and strong. The five LAC countries considered here made efforts to deal with often similar challenges and used some comparable types of remedies, although the issues differed in priority and the specific approaches also varied to fit particular contexts. Most of these responses were similar to those noted in the global experience review in Section 1. This section reports on national and subnational governments' responses the five LAC countries and concludes with selected vignettes of the pandemic experience of a few subnational governments.

The national response discussion briefly covers broader economic and social support measures but focuses more on dedicated national support to subnational governments. Subnational responses include both those that built directly on national responses and those that were undertaken more independently by subnational governments. Reliable aggregate data on subnational responses are not widely available, so the discussion primarily covers actions that were reported to be widely used and selected examples of actions taken by a few individual subnational governments.

National Government Responses to the Pandemic

National responses to the pandemic were substantial. Available data indicate that the response in Mexico accounted for 2.4 percent of GDP and about 4 percent in Argentina and Colombia. Peru and Brazil respectively reported response commitments of 7 percent and 11 percent of GDP (Figure 12). These large differences may be to some extent reflected in fiscal and economic impacts reported in Section 3, although further analysis would be required to confirm. Brazil, for example, which committed the largest pandemic spending relative to GDP, had the smallest GDP decline, the least impact on poverty, and the largest deficit increase among countries considered here. Argentina and Mexico, which had the lowest pandemic spending shares, had two of the three largest GDP declines. Mexico also had the smallest deficit increase. Argentina's deficit was higher, but it had the largest increase in debt.

Figure 12. COVID-19 Spending (as a percentage of GDP)



Source: Regional Fiscal Monitor for LAC, IDB Fiscal Management Division, Unpublished Manuscript; for Argentina: <https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19>

General Economic and Social Support

All countries reported providing support to the general economy (summary highlights in Table 8). The most common measure was direct assistance to the groups most affected by the pandemic, particularly families and informal businesses, but also formal sector firms. This was done through a mix of established and new programs, e.g., in Brazil through the existing Bolsa Familia and National Program for Support of Micro and Small Enterprises as well as through the newly established Auxílio Emergencial to support informal and unemployed workers, which was particularly important for states and municipalities with large numbers of families in need. Argentina and Peru established transfers and food support to groups particularly affected by the pandemic, specifically families and both formal and informal companies, and Mexico assisted these groups with transfers through the [“Tandas for Welfare”](#) program and credits for merchants and microentrepreneurs in the formal and informal sectors.

Table 8. National Responses to the Pandemic: General Economic Support

Country	Policy measures*
Argentina	<ul style="list-style-type: none"> • Additional spending equivalent to 3.9 percent of GDP • Range of tax breaks adopted • Emergency support provided to businesses and families
Brazil	<ul style="list-style-type: none"> • Additional spending equivalent to 11 percent of GDP • Social protection response (largest in region) benefits 40 percent of households • Increase in support for medium and small businesses • Relaxation of pension rules for formal sector workers • Concessions on payment of taxes
Colombia	<ul style="list-style-type: none"> • Additional spending equivalent to 4.1 percent of GDP • Payment relief enacted for payroll subsidy, suspension of pension contributions • Delayed collection of taxes • Selected exemptions for tariffs and VAT
Mexico	<ul style="list-style-type: none"> • Additional spending equivalent to 2.4 percent of GDP • Lower interest rates and relaxing monetary regulations • Cuts to public federal expenditure as austerity measures
Peru	<ul style="list-style-type: none"> • Additional spending of 7 percent of GDP • Cash transfers/other emergency pandemic support for families and businesses • Tax payment flexibility and tax relief for SMEs

*Some of these measures are documented in budget data and others were reported in interviews conducted for this work.

Another common national response was tax relief or postponement. Argentina, for example, reduced or postponed up to 95 percent of social security contributions for SMEs, lowered certain taxes for health-related service companies, and temporarily exempted from VAT imported medical supplies used to prevent the spread of the coronavirus (OECD, 2020). Brazil relaxed pension rules for formal sector workers and established a moratorium on certain tax payments (World Bank, 2020). Other countries offered payment relief in various forms, Colombia with payroll subsidy, pension contribution suspensions, delayed tax collection, and selected tariff and VAT exemptions, and Peru in the form of payment flexibility and tax relief to SMEs (IMF, 2021).

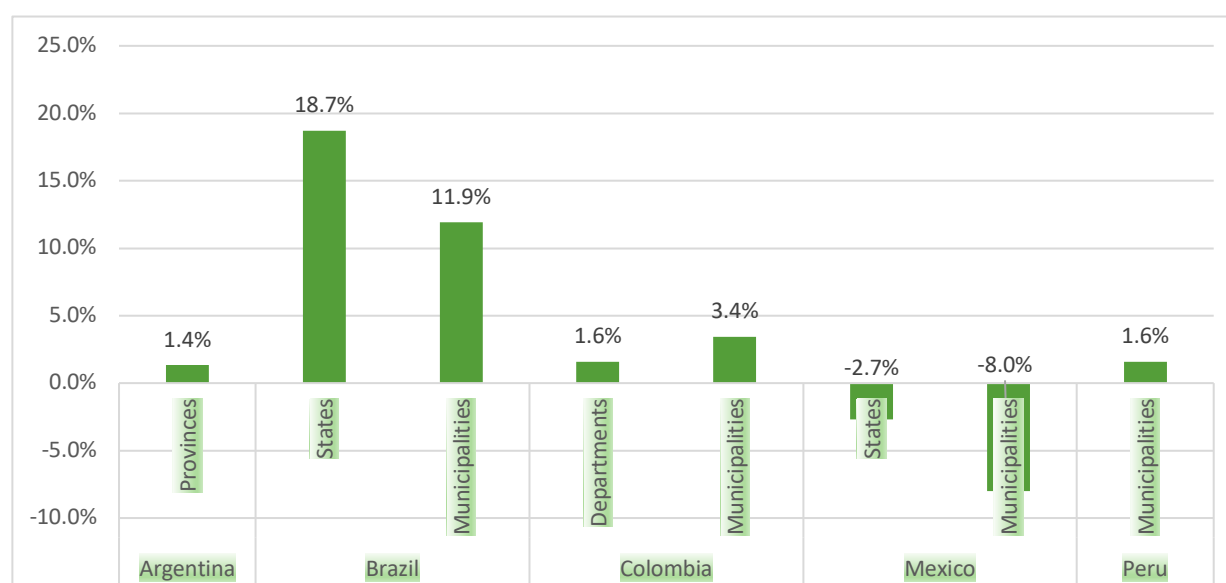
In addition to these economic support and tax concession measures, some countries adopted other fiscal and monetary policies to address the pandemic. In Colombia, for example, the national government borrowed existing savings from pensions and the subnational stabilization fund to avoid deepening national debt (a move that generated some debate) and also pursued a quantitative easing program (although it was deemed timid by some observers). Mexico made selected government spending cuts as an austerity measure, and the Bank of Mexico lowered interest rates and reduced mandatory monetary regulation deposit for banks (México [¿Cómo vamos?](#), 2020).

National Responses Affecting Subnational Governments

Of particular concern for the present study are national government measures to support subnational governments during the pandemic (summary highlights in Table 9). The level and the nature of national government actions were rather varied, ranging from significant and empowering to more limited and in some cases even disempowering.

Intergovernmental fiscal transfers were increased or modified in most countries covered herein (Figure 13). Brazil states and municipalities respectively received an 18.7 and 13.9 percent increase in transfers (2.3 percent of GDP). These funds came in the form of additional transfers to compensate for reductions in the Participation Fund for States (which was restructured to benefit poorer states in the north and northeast) and the Participation Fund for Municipalities, as well as a temporary debt service suspension and an option to renegotiate debt with the federal government and public banks. The Lei Complementar - Programa Federativo de Enfrentamento ao Coronavírus offered up to 60 billion reais to states and municipalities—10 billion for health and social protection, and further assistance to states and municipalities totaled up to 127 billion reais (OECD, 2020). Overall, the increase in available funds from the federal government left subnational governments with very high liquidity in 2020 compared to 2019.

Figure 13. Changes in Transfers 2019–2020



Source: Authors' calculations based on official budget execution reports.

Table 9. National Responses to the Pandemic: Subnational Government

Country	Selected policy measures*
Argentina	<ul style="list-style-type: none"> • Transfers to provinces increased by 1.4 percent • Recentralized some health-related spending
Brazil	<ul style="list-style-type: none"> • Transfers to states and municipalities respectively increased by 18.7 percent and 11.9 percent • Provisions for debt suspension or renegotiation • Supreme court gave states power to impose restrictions to control pandemic
Colombia	<ul style="list-style-type: none"> • Transfers to departments and municipalities respectively increased by 1.6 percent and 3.4 percent • Congress guaranteed 90 percent of subnational recurrent transfers • Increased loans (subsidized rate) for subnational governments and SOEs. • Relaxed restrictions on transfer use to facilitate subnational response • Increased funding for health expenditures
Mexico	<ul style="list-style-type: none"> • Decreased transfers to states and municipalities respectively by 2.7 percent and 8 percent • Federal government did not increase flexibility in use of transfers
Peru	<ul style="list-style-type: none"> • Transfers to municipalities increased by 1.6 percent • Relaxed restrictions on use of certain transfers to facilitate subnational response

*Some of these measures are documented in IDB publications or country sources listed at the end of this paper and others were reported in interviews conducted for this work.

Colombia provided support for subnational governments, bolstered by a Congressional decree ensuring that subnational governments would receive at least 90 percent of their legal allocation to allow for recurring expenditures to continue. Transfers were also increased (1.6 percent and 3.4 percent for departments and municipalities, respectively) to support health expenditures and for other purposes, and restrictions on the use of certain transfers were relaxed to facilitate more flexible subnational government pandemic response (Perez-Valbuena et al 2021). In addition, the central government increased the limits on short-term and long-term loans for subnational governments and state-owned enterprises (SOEs). It also offered subnational governments subsidized-rate credits from public financial corporations and allowed them to draw from local pension funds.

Argentina had only a small increase in transfers (contributions of the National Treasury of 1.4 percent for provinces) and offered preferential credit with low interest rates (Provincial Development Trust Fund). The national government tapped a large countercyclical spending package in Peru to offset reductions in the intergovernmental transfer pool but only increased transfers by 1.6 percent. It also passed an emergency decree suspending selected administrative rules that earmarked certain revenue sources and transfers to specific expenditures, offering subnational governments more flexibility to allocate these resources as needed in the pandemic. At the other end of

the spectrum, the Mexican federal government did not increase intergovernmental transfers and in fact reduced some of them (by 2.7 percent to states and 8.0 percent to municipalities), and it did not increase flexibility in the use of transfers.

Beyond fiscal support, other measures of varying types that affected subnational governments were adopted. Some benefitted subnational governments and others created challenges for them. Brazil, for example, had both types of measures. The federal government created a COVID-19 Crisis Committee to lead the pandemic response, but it failed to include subnational government representation and was characterized by critics as insufficiently effective in vertically coordinating pandemic response. On the other hand, a Supreme Federal Court ruling reinforced the state government role in pandemic response by preventing the President from restricting the authority of subnational governments to impose pandemic lockdowns.

Subnational Government Responses to the Pandemic

Subnational governments in the countries under consideration took a range of actions to deal with the pandemic. Some of these were in conjunction with or built on measures that the national governments were taking as outlined above. These included territorial policy, fiscal, health policy, and governance measures. As with the global literature reviewed in Section 1, the discussion here is not based on robust systematic assessments of subnational response in these countries given data limitations. Instead, this section covers selected responses (Table 10) that were noted as occurring more generally in available written materials and/or by key informants as well as some more detailed examples from a few subnational governments.

Illustrative Subnational Policy Responses

Subnational governments in certain countries tried to adopt social and economic activity control policies to help limit the spread of COVID-19 in their jurisdictions. In some cases, these were inspired by national policies, while in other cases subnational governments proactively took the first steps, sometimes creating tensions between national and subnational governments. Early in the pandemic, for example, a number of cities in Colombia implemented lockdown restrictions prior to national policies on airport closures and suspension of industrial and construction activities, which generated national debates over authority on these matters. Within months after the

Brazilian Supreme Court ruled against federal government attempts to preclude subnational pandemic controls and in favor of states demanding the right to adopt pandemic restrictions in their jurisdictions, subnational governments had passed more than 20,000 municipal policies and 1,000 state policies in response to the pandemic (Bennouna et al., 2021).

Illustrative Subnational Expenditure Responses

As noted in Section 3, subnational governments in all countries considered here to some extent increased expenditures on health services or other important local services affected by the pandemic. In many cases, this would not have been possible without the national assistance documented above, which created considerable space for spending on pandemic response. The national government defined and oversaw some measures to support related services, but instances of more independent subnational government action were also cited.

On top of greater expenditures in the health sector enabled by transfers and greater flexibility in their use, a number of subnational governments in Colombia took actions to complement national efforts to support heavily affected groups. They did this, for example, by providing food assistance and temporary shelter. In Peru, some municipalities also supported markets and informal activities that are potential transmission vectors but central to citizen livelihoods. Measures included relocating vendors, formalizing their activities, monitoring health protocols, providing relevant equipment, and technical support, and designing and operating digital support platforms for small businesses and microenterprises.

Table 10. Subnational Government Responses to the Pandemic

Country	General subnational responses*
Argentina	<ul style="list-style-type: none"> • The federal government generally managed major pandemic measures • Efforts emerged in some areas to strengthen provincial-municipal cooperation for pandemic response • Certain provinces relaxed tax enforcement and suspended debt collection (in some cases due to pandemic-related financial and logistical challenges rather than specifically to provide pandemic relief)
Brazil	<ul style="list-style-type: none"> • Many state and municipal pandemic response policies were passed • Horizontal cooperation efforts for pandemic response emerged in some areas • Governors created an alliance with members of Congress and ministers to respond to official prohibition of lockdown and restrictions • Efforts emerged to continue planning for when temporary funding expires
Colombia	<ul style="list-style-type: none"> • Increased subnational government spending in social services, food assistance and economic revitalization. • Certain subnational governments offered tax amnesties for a period
Mexico	<ul style="list-style-type: none"> • A number of states approved debt to respond to the economic crisis and to fund increased expenditure in public programs, infrastructure, and services. • Some states cooperated with federal government on tax and duties relief action and financial support to those most affected by the pandemic
Peru	<ul style="list-style-type: none"> • Provincial and municipal governments, although initially unable to do much on their own, used national support to reactivate stalled revenue collection and service delivery and to target beneficiaries of national policies • Certain subnational governments enacted tax amnesties and forgave the payment of tax penalties • Municipalities played important roles in administering national transfers to households and support to informal vendors, micro- and small enterprises

*Some of these measures are documented in country sources provided at the end of this document and others were reported in interviews conducted for this work.

In Brazil, some states decided to purchase vaccines independently rather than rely on the federal government for procurement and distribution, which also occurred in Argentina. Many Brazilian cities responded to the pandemic by providing services that directly support affected groups. A common activity was to distribute food and basic need goods from closed schools and municipal buildings. Niteroi provided temporary basic income to vulnerable families and worked with public banks to offer zero-interest credit to SMEs, self-employed professionals, and cooperatives, using the Niteroi Overcomes Fund to fund these expenses (Cities for Global Health, 2020).

Mexican subnational governments, which did not benefit from emergency transfers, contributed to broader efforts to support vulnerable populations as well as the formal and informal sectors, as was also the case in Argentina, where national financial support was limited. Some Mexican subnational governments additionally provided specific support in the health sector, for example, assisting conversions to increase available beds and isolation rooms in regional hospitals, as well as providing ventilators and protective equipment. At the same time, some additional spending for

pandemic services was said to be managed by recentralization. This is also considered to have occurred in Argentina, but more through restrictions placed on the use of additional pandemic funding than direct involvement in service functions.

Illustrative Subnational Revenue Responses

Beyond pandemic control policies and expenditures, subnational governments acted on the revenue side. As noted above, resource constraints and the inability of financially distressed constituents to pay taxes stalled or slowed local revenue collection early in the pandemic. In Colombia, for example, tax collection was suspended initially in some subnational governments, a situation that was reportedly corrected only when transfers were increased.

In some cases, revenue responses were more policy oriented, such as subnational governments offering various kinds of tax breaks to financially strapped businesses and households. In Mexico, for example, 29 of the 32 states undertook related actions, such as partial or total tax and duties forgiveness (Cejudo et al., 2020). Colombia also offered subnational tax amnesties, as did Peru, providing relief to families and businesses affected by the pandemic despite foregoing needed revenues (IMF, 2021). Lima forgave 45 percent of its tax penalties for five months (IDB, 2020). In Brazil, Brasilia reduced the ICMS tax for gel alcohol and other COVID-19 prevention products, and Belo Horizonte postponed property and urban territorial tax payments, temporarily suspended new collection, and initiated processes to cancel overdue installments (Cities for Global Health, 2020).

Illustrative Intergovernmental Collaboration Efforts

Although problematic intergovernmental relations were cited in Sections 2 and 3 as a significant and persistent weakness in the countries covered here, both in general and with respect to the pandemic response, there were instances cited of productive intergovernmental collaboration during the pandemic. Some measures for cooperation on subnational pandemic-related service delivery had elements of national and subnational action, such as subnational governments working with national government agencies on household and business relief initiatives. In Peru, for example, subnational governments participated in implementing or augmenting national pandemic relief programs, working with central ministries to help them better target

and disburse cash transfers. In these initiatives, line ministries generally decided on the groups to receive assistance and how much was to be given, but local governments helped to identify and connect to beneficiaries.

As the pandemic evolved, mechanisms for coordinating pandemic response were created by certain subnational jurisdictions. Rio de Janeiro, for example, established a crisis cabinet with members of the Rio secretariats of Health, Culture, Education, Social Assistance and Human Rights, Public Order, Transport, Finance, Civil Housing, and Healthy Aging. Collaboration in other cases was planned between regional and subregional jurisdictions. The province of Corrientes in Argentina sought better coordination with municipalities in the province for implementation of the management processes and distribution of pandemic relief measures to the target populations. Brazil also reported interjurisdictional horizontal coordination efforts, such that groups of governors in neighboring states worked together to coordinate pandemic responses.

A number of reported collaborative initiatives were broader either in terms of scope or the participants involved. In Brazil, for example, 25 of 27 governors launched an alliance with certain leaders of Congress and federal ministers to challenge the president's opposition to pandemic control lockdowns and restrictions (Bennouna et al., 2021). Entities like the National Finance Policy Council (Conselho Nacional de Política Fazendária, or CONFAZ) or the Committee of State Finance Secretaries (Comitê de Secretários de Fazenda do Estados, or COMSEFAZ), as well as the Undersecretariat of Federative Affairs were said to play productive roles in coordinating subnational pandemic responses.

Selected Vignettes of Subnational Government Pandemic Response

The selected experiences outlined above, while very broad brush, provide basic illustrative information about the types of pandemic responses taken by subnational governments. They do not, however, reflect the overarching and complex struggles of individual subnational governments to cope with the pandemic. There has been great diversity of experience and ability to respond among subnational governments within specific countries.

Anecdotal evidence from global experiences reviewed in Section 1 and the Latin American cases covered here suggest that pandemic response was shaped both by larger parameters of intergovernmental systems outlined in Section 2 and measures

taken by individual subnational governments to reform their operations prior to the COVID-19 crisis. It is impossible to do justice to this topic here, but selected vignettes of initiatives taken by one or more subnational governments can provide a flavor of the potential opportunities, the dynamics at work and their implications for reform.¹² More work would be needed to understand why some subnational governments were prepared and willing to take decisive and/or innovative action.

Cordoba Province, Argentina

Cordoba was better prepared than some other Argentine provinces to respond to the pandemic due to reforms that were already underway to deal with pre-pandemic operational weaknesses. Efforts to pursue fiscal modernization, including the adoption of digital means for local tax payments, have streamlined the process for taxpayers and led to an increase in revenue collection. The pre-pandemic advances in digital taxation enabled the province to sustain revenue collection during the pandemic despite social distancing measures and the closure of public institutions, and also reduced administrative costs compared to those incurred by other provinces.

An additional revenue practice highlighted by provincial authorities is the tax unification realized through a scheme called the monotax, a single tax mechanism that incorporates certain national, provincial, and municipal tax payments to simplify meeting multiple obligations of taxpayers. Since 2018, the Federal Administration of Public Revenues (AFIP), the General Revenue Directorate of the province of Cordoba, and its member municipalities have worked together to integrate the payment and distribution of a set of revenue obligations owed to different levels. This revenue generation innovation, the first of its kind in Argentina, has improved the tax collection process in the province, lowered the level of tax evasion, increased the tax yield, and reduced the costs of collection. Monotax taxpayers make their single payment through a platform that they can access on the official AFIP website or through a mobile application. Overall, these tax modernization and collection innovations have been valuable in the pandemic and can be maintained and built on in a post-COVID-19 era.

¹² The information on cases covered here is based on reviews of selected literature (bibliographies are provided at the end of this document) and interviews with selected country experts.

Barranquilla Municipality, Colombia

As with Cordoba, Barranquilla municipality benefitted from revenue reform measures that began prior to the pandemic. The municipality has improved property tax performance over the last decade, and it has also been able to assume the management of its own cadaster from a national institute. This was achieved by professionalizing the municipal revenue office, developing a public communications strategy, and heavily investing in digital services. The gains that were realized allowed the municipality to improve health and education services and increase public investment. These measures, supported by a communications strategy highlighting expenditure transparency, fostered a stronger culture of paying taxes and reducing tax evasion. Since Barranquilla was able to sustain these reforms through different administrations, the municipality has increased revenues, more fully tracked payments and debts, and improved transparency and audits. These actions have led to collection rates increasing from around 35 to 40 percent to 65 to 70 percent over the past 10 years.

More generally, a decade of strengthening municipal administrative capacity, placing tax administration as a priority service for elected leaders, and a close partnership with civil society and the private sector laid the foundation for a more successful response to the COVID-19 pandemic. The revenue office also established a dedicated crisis committee, which used data available from the monitoring systems built in the last decade to analyze the economic impact of the pandemic and to determine how it affected different groups of taxpayers in varied ways. This provided information and facilitated communication and coordination among implementation bodies. Public communications focused on a message of solidarity and encouraged those not experiencing an income reduction to pay taxes on time.

The work undertaken to automate and systematize tax collection and improve public relations before the pandemic paid off, as Barranquilla was better able to collect taxes and to avoid postponing many payments during the crisis. For example, compared to a national decline of up to 36 percent in property tax collection, Barranquilla initially lost 18 percent and reduced that to 3 percent by October 2020. Similarly, Barranquilla experienced a 7 percent decrease in revenues from industry and commerce taxes compared to a 15 percent decline nationally and was also able to reduce the loss further by October. Barranquilla also took advantage of central government measures to collect unpaid debts. Challenges remain, among them the

continued inequalities in administrative capacity between Barranquilla and other municipalities within the metropolitan area of Barranquilla (AMB), but options to deal with such challenges are being investigated.

Guanajuato State, Mexico

As in the cases of Barranquilla and Cordoba, the state of Guanajuato has been adopting measures for several years to improve their fiscal operations and position. This has included increasing own revenue collection, decreasing dependence on federal transfers, and improving the use of resources for state spending. Guanajuato's strategy to strengthen local public finances was based on taking full advantage of state tax powers allowed under the Fiscal Coordination Law.

The main actions focused on strengthening local tax collection and strategic spending. The government created the local Tax Administration Service to better tap available resources and to facilitate taxpayer compliance. Some key reforms included increasing efforts to utilize certain taxes, and others involved changes in collection. Specific measures included increasing rates of the cedular tax and lodging services to the legal maximum, adopting new collection strategies for certain revenues (such as alcohol sales) that involved municipalities, and expanding the payroll tax base. These reforms were developed in consultation with the private sector, which was represented on the Advisory Council for the Monitoring and Expansion of Payroll and Identification Taxes of the State of Guanajuato. Use of this council gave the business community a voice in the public revenue discussions and a vote on the reforms to be taken.

In addition tax reform, the Guanajuato state expenditure strategy prioritized improved control, monitoring, and optimized public resource use. Measures were established to restrict and reduce certain types of spending, to rationalize and automate spending through digital media, and to implement a spending prioritization model based on results. Revenue and expenditure actions taken by Guanajuato have served the state well in the pandemic, and their performance improvements have been recognized by agencies such as FITCH Ratings, Moody's, and SP Global, as well as by civil society associations.

Piura Region, Peru

The region of Piura decided to deal with the COVID-19 crisis by documenting the recurring problems of jurisdictions already hit by the pandemic and anticipating some of the challenges that were considered likely to emerge. The regional government redirected spending to set up temporary healthcare facilities and coordinated with the private sector and the national government to ensure sufficient supplies of oxygen and other supplies. They also acquired ambulances to provide more coverage of the main city and opened a temporary shelter to provide health and shelter services for vulnerable populations or those with COVID symptoms.

The pandemic conditions forced Piura to halt revenue collection and reduce certain expenses in tandem, particularly discretionary activities financed by local revenue, such as travel and events. At the same time, essential expenses, such as the salaries of healthcare workers, were increased and initially paid from Piura's own-source revenues to make sure enough personnel would be available to deal with the pandemic in a timely manner. Although Piura initially financed these expenses, they did so in anticipation of a refund from the central government as per national pandemic policy, taking advantage of this option to make essential expenditures.

Piura faced some challenges with delays in reimbursements from the central government, which limited the range of further action that could be financed in this way by the regional government. Some broader concerns were also raised about the design of the administrative procedures to apply for national funding, which were characterized as potentially not adequately attentive to reality on the ground or to regional disparities in administrative capacity. Guidelines and cooperation with the national government were better in some health and education projects, but there is a risk that they could fall short if they rely on subnational government resources to be implemented, especially if there is not confidence that they will be reimbursed.

5. COVID-19 Pandemic: Implications for Considering Future Intergovernmental Reform

The consequences of and reactions to the COVID-19 pandemic have clearly been shaped by the structure and dynamics of intergovernmental fiscal systems both globally and in Latin America. Although generalizations are elusive given major variations across intergovernmental systems, pandemic impacts and responses, and potential future reform options, some basic observations can be offered. This section covers three questions relevant for considering if and how the pandemic experience might catalyze improvements to intergovernmental fiscal systems.

- First, what do we know about how the structures of intergovernmental fiscal systems shaped pandemic impacts and have been used to respond to it?
- Second, how can the pandemic experience inform and motivate thinking about the reform of existing intergovernmental fiscal systems?
- Third, how can countries try to be appropriately strategic about how to approach future intergovernmental fiscal reforms given the many challenges involved?

After discussion of each question, some concluding observations are offered.

Subnational Pandemic Impacts and Responses in Intergovernmental Context

The structure of intergovernmental fiscal systems—in broader global experience and in the Latin American countries covered in this paper—had an important influence on how subnational governments were affected by the pandemic and how they responded to it. Given the diversity of these systems (Sections 1 and 2), their effects and the opportunities they offered/ constraints they imposed for pandemic response also varied. Some fiscal system characteristics reinforced or generated challenges, while others created openings for actors to take constructive steps to deal with the pandemic. A number of summary points are worth considering.

- *Lack of clarity in functional assignments across levels of government and inadequate coordination of shared functions posed challenges during the pandemic as demand for certain public services and pandemic relief increased.*

Functional assignment and intergovernmental coordination challenges have long been recognized, but the pandemic reinforced their visibility and consequences, most obviously for pandemic-related health functions. The pandemic also influenced feasible government responses. Several Mexican states, for example, were unable to secure vaccines. Pandemic health services in Peru were reportedly on the verge of collapse in some provinces, to the extent that they asked the Ministry of Health to take over certain functions. In Brazil, there were reports of ineffective service delivery coordination between federal and state governments, state inability to get vaccines from designated central programs, and incidences of state and municipal competition or overlap in service delivery.

- *Although the functional assignment landscape posed challenges for subnational governments during the pandemic, it also opened opportunities for action by all levels of government and generated some attempts at collaboration.*

In most cases, national governments took charge of critical pandemic response functions, including in the health sector and on relief to affected citizens and businesses. Central governments, for example, often managed vaccination procurement, while subnational governments contributed to identifying priority populations and/or distributing and administering vaccines. This did not always work as planned, but this was likely due to functional ambiguities or conflicts and poor implementation rather than inappropriate policies. Beyond health, emergency social and economic relief services were also normally defined and substantially financed by the center, with subnational governments asked to play some role in their delivery on the ground.

Although national governments often dominated key aspects of pandemic response, some subnational governments acted more on their own. Several Brazilian states, for example, purchased vaccines independently of a federal initiative, and some Mexican states increased bed capacity and essential hospital equipment. Peru reported subnational spending for health infrastructure, special equipment, and health salaries. Some subnational governments in Argentina and Mexico also filled gaps in delivering national social programs. Several Brazilian cities provided emergency food and basic goods to citizens in need, as did Colombian municipalities, some of which offered

emergency shelter. Municipalities in Peru provided crisis support for markets and informal vendors, including services that may enhance their viability beyond the pandemic. Such subnational efforts were quite important for the constituents of these jurisdictions.

Governments at all levels took measures to improve coordination of pandemic response. In Brazil, the National Finance Policy Council (Conselho Nacional de Política Fazendária, or CONFAZ) and the Committee of State Finance Secretaries (Comitê de Secretários de Fazenda do Estados, or COMSEFAZ), among others, reportedly tried to coordinate national and subnational responses. Some subnational governments created internal coordination mechanisms (e.g., Rio de Janeiro convened a crisis cabinet to coordinate various secretaries with pandemic responsibilities (OECD, 2020)). In other cases, subnational horizontal initiatives (e.g., groups of governors in neighboring Brazilian states collaborated on pandemic response) and vertical arrangements (e.g., provincial-municipal collaboration in Corrientes, Argentina) enhanced coordination.

- *Subnational revenue powers defined in the intergovernmental fiscal system had a major impact both on how subnational governments were affected by and how they responded to the pandemic.*

Total subnational government revenues are known to be generally insufficient to finance functional needs, but the problem was worsened by increased demands for certain services and diminished revenues resulting from pandemic challenges. Impact was uneven given the variation in revenue powers across and even within countries at different government levels. In federal systems, state/provincial revenues tend to be stronger than at the municipal level. Argentine provinces and Brazilian states, for example, have relatively stronger revenue bases, while subnational (both local and regional) governments in Peru have weak own sources of revenue.

Subnational revenue policies—both in terms of the mix of sources and how bases and rates are defined—affect their productivity. Options range from buoyant taxes on economic activity often enjoyed by state/provinces in federal systems to more inelastic local bases like municipal property taxes and various fees. Some sources, such as natural-resource-based revenues, only benefit resource-rich jurisdictions. The ability of

subnational governments to make choices about parameters of their taxes also affects revenues. In Peru, for example, municipalities have property tax without control over the base or rate. The combination of variations in revenue structures and control plus the economic effects of the pandemic had important consequences for subnational fiscal impact, including reported worsening of fiscal disparities (more below).

- *The strong but varied role of intergovernmental fiscal transfers in many countries was consequential—in both productive and problematic ways—during the pandemic.*

National revenue generation advantages and weak subnational bases mean that transfers dominate subnational finance, which intensified as local revenue yields declined during the pandemic. Dependence, of course, is higher for countries and levels of government with weaker revenue bases, and it varies across jurisdictions of a particular type. Buenos Aires, for example, is more fiscally autonomous than the typical Argentine province, and such differentials occur in other countries. Similarly, Bogota has a stronger own-source revenue base that allows the Colombian capital to have higher revenue independence than most other subnational jurisdictions.

How transfers are allocated is another major factor. The balance between unconditional and conditional transfers is always challenging. Relatively unconditional transfers (more common but not exclusively for states in federal systems like Argentina, Brazil, and Mexico) allow maximum flexibility, although this can result in insufficient funding for national priority services. In other cases, conditional transfers limit subnational discretion, as in Colombia and Peru, which may in some cases hinder productive local resource use. Conditionality may differ across levels, but this can be difficult to quantify given the complex mix of resource flows. Regardless of the degree of conditionality, transfers may create disincentives for local fiscal collection efforts.

Equally important is the degree of discretion and transparency in how higher levels allocate transfers to lower levels. Many countries have moved toward adopting transparent rules for pooling and allocating resources, at least for certain transfers. Mexico, for example, decreased the use of discretionary transfers, although critics say their allocation is insufficiently redistributive. Still, some central governments continue to operate transfer programs on a discretionary basis with limited transparency in the

allocation process and criteria. Argentina, for example, substantially increased discretionary transfer funds during the pandemic, but reports suggest that a lack of clarity in allocation and high inflation eroded transparency and the value of transfers that were generous in nominal terms.

- *Both national and subnational governments took steps to deal with pandemic revenue challenges—if not necessarily in ways that are desirable in principle or sustainable for post-pandemic subnational government operations.*

Central governments used their superior revenue capacity and regulatory powers to support subnational governments during the pandemic, as noted in Section 4. Transfers often increased. Countries under fiscal stress financed increases by tapping special sources (e.g., Colombia borrowed pension and stabilization funds and Peru used a countercyclical spending package). Brazil and Colombia offered subnational debt renegotiation or relief. Other actions safeguarded subnational revenues, e.g., a congressional decree in Colombia to protect regular transfer allocations. There were also instances, as in Colombia and Peru, of subnational governments being granted temporary additional transfer discretion to respond to local pandemic realities (Perez-Valbuena et al., 2021).

Subnational governments also modified revenue policies during the pandemic. Quite a few offered relief to citizens and businesses through total or partial postponement of tax collection. This occurred in some form, for example, in most Mexican states. Although tax relief supported local businesses and residents in a crisis, this is not fiscally sustainable. Subnational debt increased to varying degrees in Argentina, Brazil, Colombia, and Mexico, with some specific subnational governments, such as Jalisco in Mexico, reporting new borrowing. The extent to which debt increases were directly related to the pandemic, however, is not entirely clear.

Although subnational tax relief was offered, it was not always a choice. Involuntary responses reflected pandemic-induced collection obstacles stemming from funding and staff shortages exacerbated by the crisis, as well as tax compliance challenges resulting from social distancing mandates and transport challenges, among others. In such cases, municipalities resumed collection when extra pandemic-related

national transfers arrived. Higher transfers also enabled some subnational governments to offer temporary relief for local tax burdens. These experiences reflect structural and resource weaknesses and further highlighted subnational dependence on the center.

- *The pandemic reinforced or worsened the effects of national inattention to or inconsistency in dealing with interjurisdictional fiscal disparities in some countries.*

The extent to which national policy addresses interjurisdictional fiscal disparities is uneven across countries both globally and in Latin America. As noted in Sections 1 and 2, disparities depend on functional assignments, service demand, the nature and size of subnational tax bases, and the extent to which transfers alleviate fiscal gaps, among others. Some countries have at least one redistributive transfer, but the effects can be offset by other transfers that are disequalizing (as in Mexico and Peru); by revenues based on natural resources in which subnational governments are unevenly endowed (as in Colombia, Mexico, and Peru); or by a failure to revise over time transfer allocation criteria to reflect changing socioeconomic conditions that affect fiscal gaps, a critique specifically raised about Argentina and Brazil but possibly relevant in other cases.

The pandemic has exacerbated the effects of these long-recognized disparities and the factors that underlie them, which unevenly affected subnational service demands and ability to generate revenues. Some national measures had a redistributive intent, such as pandemic transfers in Brazil that were restructured to benefit certain disadvantaged states in the north and northeast. Data reported in Section 3 indicated reduction of disparities on the expenditure side in some countries, but generally a negative effect on the revenue side. Whatever the immediate effects of pandemic impacts and responses, the post-pandemic situation remains to be seen.

Although the future is unknown, it seems improbable that the response to the pandemic or its potentially lasting economic effects would have a sustainable positive effect on fiscal disparities—indeed, the opposite seems more likely. Understanding the magnitude, drivers and likely durability of these disparities is essential. Even positive fiscal equalization measures in the existing system may be less able to deal with new realities, suggesting that the overall system may need to be reconceived to deal with longstanding and emerging conditions of inequality.

- *Weaknesses with subnational borrowing and fiscal responsibility frameworks were underscored during the pandemic and may have affected the response to it.*

Borrowing is critical for subnational governments to access development finance needed to meet their functional responsibilities in normal times and to prepare for a crisis. Although subnational governments are often empowered to borrow, perhaps more so in Latin America than in other regions, enabling frameworks are diverse and can create fiscal challenges. Argentina, Brazil, Colombia, Mexico, and Peru have legal frameworks for subnational borrowing and fiscal responsibility, many developed in response to the 1990s debt crisis. The provisions of these legal frameworks, however, vary—e.g., rules defining access, debt limits, and the nature and degree of national support (e.g., guarantees). There are also differences funding sources, e.g., relative reliance on financial markets, special financial intermediaries, and government ministries.

Establishing the right framework to support subnational government ability to mobilize development finance has been an ongoing challenge, and the pandemic reinforced this. The Brazilian law has been called insufficiently rigorous, enabling some subnational governments to use legal loopholes to borrow irresponsibly. Peru's enabling framework allows a range of options, but the national government dominates and limits subnational lending. Colombia's fiscal rules helped stabilize local finances in recent decades but were said to prove too strict for the crisis.

During the pandemic, subnational debt increased nontrivially in most of the countries, but with a modest decline in Peru. At the same time, there was reported stagnation or decline in infrastructure investment in all countries, except Brazil, which further underscores longstanding concern about inadequate public investment. It is unclear if or how these investment numbers are directly linked to subnational borrowing and fiscal responsibility frameworks—they may primarily reflect previous plans or postponing investment in an emergency that required resources to go elsewhere. Nevertheless, the frameworks clearly play a key role in mobilizing essential subnational development finance and ensuring fiscal responsibility. The pandemic reinforced the urgency of assessing these frameworks to ensure that they neither

unduly constrain subnational government access to development finance nor are too lax and easily manipulated.

- *National and subnational reforms to improve subnational revenue performance initiated prior to the pandemic had a positive impact on pandemic response and hold promise for the post-pandemic period.*

There are examples of subnational or national-subnational action or collaborative action (Section 4) that began before the pandemic to improve revenue administration. Peru, for example, created Tax Administration Services as semi-autonomous entities of municipalities that are used in several main cities. Cordoba province (Argentina) has been undertaking a tax modernization that includes digitization, streamlining and enforcing tax administration, and adoption of a monotax incorporating certain national, provincial, and municipal taxes to simplify administration and facilitate taxpayer compliance. The municipality of Barranquilla (Colombia) has been systematizing and improving property tax administration over the last decade. The state of Guanajuato (Mexico) created the Local Tax Administration Service and pursued reforms to enhance the efficiency of tax collection as well as taxpayer confidence and convenience.

Such policies partially insulated these subnational governments from suffering revenue losses as severe as many of their counterparts. In the Barranquilla and Guanajuato cases, the reforms also included efforts to deal with political/governance aspects of revenue generation. Barranquilla worked to develop stronger relationships with civil society and the private sector that served the municipality well during the pandemic, and the Guanajuato reforms were developed and implemented through systematic engagement with the business community, increasing the credibility of the state government and perhaps improving willingness to pay. These efforts point to the probability that desirable administrative and technical reforms to a fiscal system may be more successful if they take these local political concerns into account.

Impact of the Pandemic Experience on Intergovernmental Fiscal Reform

The preceding discussion highlighted how pandemic impacts on subnational governments and the responses to it are connected to features of the intergovernmental fiscal system. What this implies for post-pandemic reform, however,

is a difficult question to answer. The review of materials and interviews conducted for this paper pointed to considerable benefits from remedying longstanding fiscal system issues. Broad restructuring, for example, has been framed as the only effective path to deal with gaps and contradictions in Argentina, which has pursued many reforms over the years that were hindered by complex and inconsistent compromises that are almost inherent in a federal system. The same was suggested about Mexico, where reformers proposed an in-depth revision of intergovernmental fiscal arrangements prior to the pandemic. In Peru, a unitary country, the broader concern is rethinking the centralization-decentralization balance by reducing central dominance and increasing subnational fiscal empowerment and administrative capacities.

Most reforms that emerged as desired and viable from available materials and interviews were less comprehensive and linked to specific aspects of the intergovernmental fiscal system. Despite great variation in system characteristics across countries, recommendations can mostly be categorized into familiar types that correspond to those noted in the previous subsection, and some are based on reforms already planned or even in process, including the following examples.

- *Clarifying ambiguous and/or contested functional assignments and improving intergovernmental coordination*

Although the significance of such action was noted as a broader problem to some extent in all cases, the countries raised ideas on this front specifically related to pandemic response in the health and social protection sectors. Some national-subnational vertical collaboration in pandemic response occurred in all countries. Although this did not necessarily happen by careful design, how functions were shared and the basis for doing so could provide lessons for broader application. Other ideas focused on increasing opportunities and incentives for horizontal subnational interjurisdictional cooperation, citing the need to learn from productive (and even less successful) experiences, for example, among state governments in Brazil, neighboring municipalities in Peru, and provinces and municipalities in Argentina.

- *Increasing or modifying subnational revenue powers*

All countries cited a need for subnational revenue reform, but with different purposes and at different levels. There were, for example, calls in Argentina, Brazil, and Mexico to improve the mix and efficiency of the state/provincial tax base (e.g., reform state/provincial VAT, recalibrate taxes with problematic features or poor yields, consider piggyback taxation options), or increase revenue powers to diversify bases (e.g., a subnational digital taxation). Other proposals were intended to reduce dependency on fiscal transfers, e.g., at the municipal level in Brazil and for all subnational levels to varying degrees in the other countries; to serve specific finance goals (e.g., use of land value taxation for infrastructure finance in Colombia); or to allow greater subnational discretion in managing existing revenues (e.g., property tax base and rate in Peru).

Despite a commonly expressed need for subnational revenue increases and administrative reform, there does not seem to be a major consolidated effort to reform subnational fiscal and institutional capacities in any of the countries considered here. There also seems to be a lack of understanding and action in cases where subnational governments do not use the revenue sources available to them. In Mexico, for example, only a few state governments collect the vehicle ownership tax, which has been their right for many years. Mexican states on average collect only seven out of eighteen potential taxes reserved for them, likely at least in part a consequence of the dominant role of fiscal transfers, but also due to technical and political factors.

- *Reforming intergovernmental fiscal transfers*

Improving intergovernmental fiscal transfers was a priority cited in all countries, but again in different ways. Reducing conditionality was a common concern, e.g., in Colombia and Peru at all levels (especially departmental in Colombia) and in Brazil and Mexico at the municipal level. In some cases, other issues emerged, such as a perceived need to improve transparency in the allocation of certain transfers over which the central government had discretion, such as in Argentina, Mexico and Peru, or to adopt

or increase the use of performance-based transfers, which was specifically mentioned for Colombia and Mexico but is likely of potential broader interest.

- *More effectively addressing interjurisdictional fiscal disparities*

Insufficient attention to equalization—a well-known concern in Latin America—was cited in all countries, usually related to how transfers and shared taxes are structured and allocated. In some cases, horizontal allocation criteria do not sufficiently account for fiscal disparities. There are also cases, such as Mexico and Colombia, in which one transfer is equalizing but another is not, or where certain subnational or shared revenues are disequalizing by allocation on a derivation basis that heavily favors jurisdictions with stronger economic bases or greater natural resource endowments, an issue to some extent in all countries. Although the pandemic deepened territorial inequalities within countries, there still seems to be relatively limited visible discussion about the need to alleviate fiscal disparities among regions or the policy mechanisms needed to do so.

- *Improving public financial management and revenue administration*

Another common proposal was to strengthen how subnational finances are accounted for and reported, an issue noted in Peru and some areas of Brazil, but also implied as a concern in other countries. Most recommendations focused on modernizing outdated revenue administration practices. Suggested reforms, some already under development or in process, include digitization of data (as in Barranquilla) and other technological improvements, integrated management of multiple revenue sources (single tax registry/payment arrangements, as in Cordoba), and other means to facilitate taxpayer awareness, convenience, and compliance (as in Guanajuato).

- *Supporting public investment and fiscal responsibility in financing development*

Improving regulation of and support for subnational development finance was a common reform target, but details vary across countries. Some ideas relate to

framework provisions, while others focus on how the framework is used. Concerns in Brazil, for example, surround closing fiscal responsibility law loopholes that allow lax subnational debt behavior, while some independent analysts consider Mexico's framework to be too restrictive to promote sufficient local investment. In other cases, such as Peru, there is interest in subnational borrowing beyond central government sources. In several countries there is a desire to expand access to private sources to reduce pressure on the central government to finance subnational infrastructure, of course in a way that ensures responsible debt management. Beyond responsible public investment, other elements of fiscal responsibility, such as containing payroll spending, are also said to be needed in some countries.

This brief summary of reported recommendations for intergovernmental fiscal reform is not comprehensive; it simply reflects what emerged from reviewing materials and interviewing country experts about post-pandemic reform. Despite the selectivity, the scope, scale, and diversity of fiscal system issues and desirable reforms are extensive. Advancing reform requires careful attention, and fiscal concerns also need to be contextualized in the larger intergovernmental landscape and with the latest information on the fiscal effects of the pandemic. In this regard, a few observations about approaching intergovernmental fiscal reform can be identified.

- *Piecemeal reforms are necessary but rarely sufficient to improve the operation of the intergovernmental fiscal system independently.*

Although the integrated nature of elements of the intergovernmental and subnational fiscal system is accepted in theory, reforms are often designed and implemented to deal with specific problems. Clarifying and/or expanding subnational government functions have little effect without sufficient resources and the flexibility, processes, and capacity needed to make sound and accountable expenditure decisions. Provisions for sharing functions and mechanisms for facilitating collaboration among levels of government are equally important.

On the revenue side, increasing own sources simply because subnational revenue systems are weak is unlikely to be constructive without considering expenditure functions/needs and the current mix and productivity of subnational revenues. The problem may be less the dearth or type of sources and more how they

are defined and implemented. If so, reforms to bases, rates and collection mechanisms—and perhaps national or state incentives to improve collection—may be better first steps than new sources. Equally important, transfer system reforms should reflect subnational functions, own-source revenue potential, and national policies on priority services, target regions, and redistribution, among others. Some cases covered here documented how even well-conceived individual transfers can be offset by other transfer programs or shared revenues.

Regarding development finance, a borrowing and fiscal responsibility framework is clearly important. Its utility, however, depends on the overall intergovernmental fiscal framework, including the scope of subnational development responsibilities, available sources of revenues, and others. Such factors are considered in lending decisions, but other factors may inhibit subnational borrowing, such as central government reticence to allow it, cumbersome regulation, development transfers that discourage it, or practices like excessive interest rate subsidies and loan guarantees that disincentivize creditworthy subnational governments from market borrowing and responsible behavior. Equally important, unless measures are taken to progressively strengthen the fiscal capacity and performance of weaker subnational governments, many may never be able to borrow.

- *Measures that are appropriate or essential in a crisis like a pandemic may need to be adapted for normal government operations.*

Although some fiscal measures taken by national and subnational governments during a crisis may have implications for permanent reforms, this is not a given. More centralized control to ensure emergency provision of concurrent or subnational obligations may be valuable in crisis but detrimental in normal times. Similarly, voluntary subnational actions in a pandemic may reflect motivation and capacity to play roles beyond past practice or that exceed legal powers. Some may fill gaps that are not best served by that level of government on an ongoing basis. Others may be innovative and productive enough to maintain and even to replicate and scale up. The lessons for intergovernmental fiscal reform require careful assessment, with any modifications in the division of functional responsibilities ultimately reflecting sound principles and evidence.

Another key consideration is that increasing transfers to address an emergency may be essential, but not normatively desirable or practically appropriate for standard times. If subnational governments need more resources for regular functions, some mix of own-source revenue reforms and transfer reforms may often be more appropriate and sustainable than large permanent transfer increases. Not only does placing the full burden on transfers reinforce or increase dependency, but it also neglects the possibility that reforms to strengthen existing subnational revenues or authorizing new ones may open up opportunities for productive reform to transfer programs and their allocation criteria, including, for example, to improve equalization.

Other ad hoc pandemic actions or pre-pandemic reforms can also be productive and offer lessons for post-pandemic operations. Some vertical and horizontal intergovernmental coordination mechanisms to deliver services in the pandemic noted above may be scalable and adaptable to other government actors and service delivery functions after the pandemic. Equally important, some intergovernmental or subnational fiscal reforms already piloted or partially implemented before the pandemic, such as revenue system modernization, proved their worth in the crisis and may merit expansion and regularization across subnational governments.

- *Most intergovernmental fiscal system design and reform challenges—including issues that emerged in the pandemic—are rooted in the universal tension between the relative merits of more centralized versus more decentralized fiscal governance.*

The allocation of powers and functions in intergovernmental fiscal systems is understood to be contested in multiple respects. On the technical front, well known principles of fiscal decentralization (fiscal federalism) offer guidance on appropriate assignment of functions and revenue powers to central and subnational governments based on conventional economic considerations. These principles, however, are simplified and need to be interpreted and applied in the context of diverse systems with varied government levels, different and unequally distributed economic bases and levels of development, assorted cultural and historical foundations, and asymmetric capacities to assume public service responsibilities, among others.

Points of agreement and debates about appropriate roles of different levels of government in intergovernmental systems clearly emerged in pandemic responses. As noted above, the center faced expectations to play a strong role given its superior resource base and authority/capacity to manage coordinated response. Not all efforts were well designed or executed, and not all central governments took decisive actions. The Brazilian federal government, for example, created a COVID-19 Crisis Committee to lead the response, but lack of subnational government representation was cited as limiting vertical coordination.

The pandemic further demonstrated that subnational governments could build on national (or municipal on state/provincial) pandemic efforts or pursue independent service and revenue measures, as illustrated above. But subnational governments also took certain actions beyond conventional fiscal functions. Early in the pandemic, several Colombian cities adopted lockdown restrictions prior to national action, creating tensions between national and subnational governments. In Brazil, the president tried to prevent states from imposing pandemic restrictions, but the Brazilian Supreme Court ruled in favor of the states, generating significant state and municipal policies.

A prominent centralized-decentralized fiscal debate observed in the pandemic is the proper degree of subnational government discretion in using fiscal transfers. Few would argue for full discretion or rigid universal rules on discretion. The task is how to balance in specific contexts legitimate national mandates/standards against the potential ability of subnational actors to make better decisions on dealing with certain needs on the ground. As noted above, the countries covered here differ in conditionality across levels of government and types of transfers. During the pandemic, most countries provided more transfers, many targeted to pandemic response and others allowing more subnational flexibility in use of transferred funds, as in Colombia. The effects of such pandemic transfer policies relative to the policies in normal times need to be documented and assessed in considering next steps in determining appropriate levels of discretion.

- *The technical and administrative tensions between centralization and decentralization are invariably interpreted and acted on in the context of political dynamics.*

The pandemic crisis, as noted above, motivated some type of centralizing or decentralizing actions in most countries. In a number of cases, these were likely undertaken largely to deal with an immediate need and might be temporary. In other cases, they may have been an attempt to alter the balance of power in the intergovernmental fiscal system more permanently. The nature and motivation for these actions depend on the specific political dynamics in a particular country and may not be primarily linked to fiscal needs or other more objective considerations.

The political nature of decentralization is reflected in a considerable literature on the political economy of decentralization and is quite evident in the countries covered here.¹³ A key message is that motives for decentralization and how it is defined are usually complex and depend on incentives faced by legislatures, political parties, government administrators and interest groups. True motives (whatever official national policies say) may not be based on normative fiscal justifications. Furthermore, many countries with robust constitutional and/or legal decentralization frameworks based on sound principles have only incompletely implemented them or have undermined them in practice based on political situations.

National politics can obviously support or undermine fiscal decentralization policy. They influence which functions and revenues are decentralized, the degree to which the center will grant subnational autonomy, and the process and support structures that enable subnational governments to assume their responsibilities. Reluctance to decentralize may reflect the center's unwillingness to relinquish functions and resources. Superficial efforts to pursue reforms may result from clashes between the legislature and the executive or among groups within legislatures, which can be based on party politics or factions within dominant parties.

Ultimately, much responsibility for detailed design and implementation of decentralization falls to national administrators rather than politicians, although it may be politicized. Administrators may have diverse views on decentralization. Various central agencies often have some role in defining, implementing, and overseeing reforms. Finance ministries tend to be primarily concerned about risks that fiscal decentralization may cause for national fiscal performance. Sectoral

¹³ Selected literature on the political economy of decentralization includes, for example: Manor (1998), Eaton (2004), Bardhan and Mookherjee (2006), Connerley et al. (2010), Eaton, et al. (2011), Faguet and Pöschl (2015), Lockwood (2015), Ponce-Roriguez, et al. (2018), Rodden and Wibbels (2019).

ministries focus on delivery of services under their authority and often push for controls and transfer conditionalities in their sector. Latin America does not have the local government ministries common elsewhere, but other ministries—planning, interior, urban development, and public administration, for example, may play a role in subnational government regulation and oversight that affects how they perform.

Politics are expected to be more complex in federal countries given a typically strong constitutional role for state/provincial governments. Not only are there difficult negotiations between federal and state/provincial governments, as is evident in Argentina, Mexico, and Brazil, but the intermediate tier in these systems has a degree of control over lower levels. States/provinces may support certain municipalities more than others, leading to variations and inconsistencies in how they are treated, potentially generating inequities across states/provinces. The relationship between a state/province and specific municipalities can vary based on political considerations. However, even some unitary systems in Latin America face complex political relationships among levels of government, as in Colombia, where governors are directly elected.

Another point emerging from this review that is consistent with the decentralization literature is that performance of particular subnational governments, whether in a pandemic or in general, depends in part on the strength and inclinations of particular political personalities. Although strong leadership can be particularly important where institutions are weak, it cannot be a public policy in a democratic system. Still, efforts to understand what effective subnational leaders do and how they are able to do it can potentially offer lessons for how to approach reform and how to prepare local leaders to operate as effectively as possible in implementing intergovernmental fiscal reforms.

- *Given a lack of clarity on the merits of fiscal decentralization and the critical role of political dynamics in shaping fiscal systems and policies, better empirical evidence is critical to document the case for and details of intergovernmental fiscal reform.*

Many points above on intergovernmental fiscal reform reflect opinions, perceptions, and limited/anecdotal evidence. Intergovernmental system parameters were framed

as instrumental in pandemic fiscal effects and responses, and these experiences also pointed to potential needs and avenues for reform. Examples were given of various pandemic reforms as well as pre-pandemic efforts to correct weaknesses in the fiscal system and operations that may have allowed subnational governments to cope better with pandemic effects and continue to serve them well post-pandemic.

What is not broadly available is sufficient hard evidence on which to base concrete reform programs.¹⁴ Most reforms reviewed here cannot be well defined operationally or confidently adopted without better evidence on what works and what does not. For example, did more centralized or decentralized approaches improve service delivery? Have changes to subnational revenue sources been productive? Did changes in transfers affect subnational fiscal behavior and the attainment of goals in service delivery, equalization, and others? Did increased discretion in the use of transfers have any demonstrable effects? Did collaboration efforts in service delivery or revenue generation improve performance or generate any cost savings? And of course, there are many more reforms or potential reforms that required assessment. Some such policy research is likely being undertaken in all countries and can be considered, but much more could be done.

Empirical documentation faces challenges. Responsibility for some reforms might differ and be approached and assessed separately. As noted above, reforms need to be situated in a broader context since their effectiveness often depends on conditions that vary within countries and on the adoption and quality of other reforms. Even if stronger evidence for certain reforms emerges, the political and bureaucratic dynamics that drive durable tensions between centralization and decentralization may impede doing what is technically and fiscally proven to work. Despite these challenges, the importance of better evidence to inform fiscal policy reform cannot be overstated even if it cannot always be used to its fullest advantage in practice.

¹⁴ There is much disparate empirical literature on decentralization performance. Attempts to review the literature, include, for example: Local Development International (2013), Rao, et al. (2014), Faguet and Pöschl (2015), Smoke (2015a), Sow and Razafimahefa (2015, 2017), Martinez-Vazquez, et al. (2016), and Rodden and Wibbels (2019).

Strategic Approaches to Intergovernmental Fiscal Reform

The path to sustainable intergovernmental fiscal reform is rarely easy. This is due to many factors, including the scope and scale of desirable reforms, the interdependence of reform elements, tensions between centralization and decentralization, limited or uneven evidence to support specific reforms, and above all the political dynamics that shape action. When so much needs to be done, priorities and preferred approaches differ and even clash. Countries face ongoing and periodic crises that compete for attention and resources with regular government operations. Under such conditions, there is good reason to seek pragmatic ways to approach the considerable landscape of reform possibilities as systematically and strategically as possible in non-emergency situations so that the system is better prepared to respond when a crisis arrives.¹⁵

A fundamental issue of concern is which actor is in charge of reform. A finance ministry will lead on fiscal reforms, but support of other government actors, such as the ministry of interior, the ministry of economy/commerce, or sectoral ministries may be required for a specific reform or reform package. The literature on decentralization, both fiscal and more generally, illustrates just how difficult it can be to bring together these players unless there are established mechanisms for this purpose that are broadly perceived as fair and credible. The result, as noted above, is often a focus on intergovernmental reforms that are fragmented and incomplete, and even consensus strategies based on careful investigation and design of reforms can fall short in implementation.

The political dimension introduces additional challenges and can weaken reforms that are technically sound and feasible. This, of course, is in the nature of the public sector, and there is no universally effective way of negotiating technically sound reforms with political demands, which can have a powerful or dominant influence that varies across countries and specific measures, including the possibility of modifying or weakening them. A major risk often occurs within national legislatures, where political parties modify policy reform initiatives, distorting them for political reasons regardless of technical considerations or evidence.

¹⁵ Selected literature related to decentralization strategy, sequencing, and implementation includes, for example, Smoke and Lewis (1996), Shah and Thompson (2004), Falletti (2005), Connerley et al. (2010), Easton et al. (2011), Bahl and Martinez-Vazquez (2013), Smoke (2014, 2015b), Boadway and Eyraud (2018), and Wright (2018).

Despite such challenges, principles and approaches derived from international and regional experience may support more strategic intergovernmental fiscal reform. These are mostly not new ideas, and some are or could be considered common sense in public administration. Yet there are many instances in which such principles have not been used or have been employed only superficially, so there may be scope for incorporating some of them more fully in considering how fiscal reform is approached.

- *Even when focusing on a specific reform, it is important to consider how it fits into the larger intergovernmental fiscal framework and interacts with other system elements.*

As noted above, specialization and fragmentation are well-recognized phenomena in intergovernmental fiscal reform. Modifications to specific elements of fiscal decentralization, even if they seem well designed for a specific purpose, can generate problematic effects. Examples include assigning functions to a level of government without provisions for adequate resources (unfunded mandates); allowing subnational revenue sources for which adequate local data and capacity are not available; and modifying transfers in a way that creates disincentives for subnational revenue collection or that cannot meet the intended purpose because of the effects of other revenue sources, among others.

An isolated initiative to deal with one element of the system that ignores complementary elements can result in “trophy” reforms that look like positive steps and meet normative principles, but they require corresponding reforms to generate meaningful and sustainable results. It is common, for example, to introduce property valuation reforms that improve assessments but do little to improve collection, which typically requires technical, administrative, and governance reforms. Some specific reforms may be temporarily needed in a crisis like a pandemic, but more permanent reforms should be framed in terms of potential institutionalization and sustainability. The presumption that linkages among interrelated reforms would be considered is logical and may seem obvious, but it clearly does not always occur in practice.

A common intergovernmental fiscal challenge in LAC countries is the need to tackle regional fiscal disparities. A key reform is the introduction of equalization transfers and grants. For such a reform to be more effective, countries would need to

consider the broader intergovernmental fiscal framework, paying careful attention to existing local capacity to generate resources and deliver services and ensuring technical and administrative support for subnational governments that need it (Muñoz, Pineda, and Radics, 2017). Likewise, given large vertical gaps, it may be necessary to expand the total resources (national and local) available for redistribution to avoid a zero-sum game that does not sufficiently address subnational government needs and to reduce tensions between winners and losers (Ter-Minassian and Muñoz, 2022; Hernandez, 2019).

During the late 1990s and early 2000s, for example, many provinces in Argentina engaged in modernization and digitalization of cadastral management to improve collection, maintenance, and updating data for property tax collection. The results were disappointing. While the 14 provinces that implemented reforms incorporated 4.3 million properties and increased total valuations and tax bills by 38 percent and 40 percent, respectively, total collection increased by only 12 percent. The reform costs of US\$91 million did not match the collection of US\$70 million (Álvarez de López, 2004; Díaz and Castro, 2014). These experiences highlight the need to incorporate reforms to deal with political economy issues, including communication and consultation strategies with citizens and politicians and support to the local bureaucracy, among others.

- *Try to ensure that relevant actors with a role in or affected by the proposed reform(s) are involved in formulation discussions and subsequent implementation arrangements.*

Global literature highlights the issue of designing fiscal (and other) decentralization reforms in a closed process. Even for a finance ministry with authority over such reforms and the data and expertise to design them, there is value in consulting other players whose understanding/ acceptance of the reform and/or cooperation in its implementation is needed. Such actors could include, for example, sectoral ministries overseeing services to be assigned or financed through reforms and subnational governments or departments that are target entities. If multiple actors are later involved in implementation, intergovernmental coordination mechanisms for service delivery or revenue administration may also be needed. There were instances in the

countries covered in this paper in which key players were not included in pandemic coordination efforts. The recent case of a failed fiscal reform attempt in Colombia is a complex but instructive example of an initiative that was criticized by some for not adequately including certain relevant stakeholders.

There may be great challenges incorporating consultation in federal systems. States/provinces can be powerful actors, and they do not always have harmonious perspectives. If intended reforms target municipalities, there will be questions about what should/can be standardized nationally versus controlled by the states/provinces, and at what stage and at what level municipalities should be included in negotiations. There is no universally ideal process, and different states/provinces may have their own preferences for engaging municipalities. Adequate and appropriate engagement, however, should help develop better reforms about which there is adequate consensus and facilitate their implementation.

A regional example of a reform process that involved this type of broader approach is the Fiscal Consensus of 2017 in Argentina, which involved most provinces (22 out of 24, including Ciudad Autónoma de Buenos Aires) and the federal government in designing major reforms to subnational taxation (reducing reliance on income tax and improving property taxation), intergovernmental fiscal transfers (introduce equalization schemes), the fiscal responsibility framework (enhance fiscal rules to reduce deficits and control expenditures), and fiscal disputes. After two years of negotiations, many provinces signed the agreement, but the economic and fiscal crisis and the pandemic led to modification and postponement of the agreement.

- *Consider sufficient piloting and experimentation before mainstreaming reform design.*

Finance ministries presumably conduct research and consultations before designing new subnational fiscal policies, and some policies may be piloted, but perhaps not always sufficiently. Not all types of reforms require pre-adoption testing, but those involving application of new systems and technologies, the development of new skills among subnational government staff, or partnerships among actors not accustomed to working together may benefit considerably from experimentation, as in the Guanajuato case discussed earlier. This is particularly true if multiple approaches or technologies are under consideration and merit systematic comparison in practice. Successful piloting not only provides justification to institutionalize a reform, but it can also generate interest in other subnational governments to adopt effective reforms.

A regional example of piloting was the experience of the e-invoice system (Nota Fiscal Eletrônica, NF-e) in Brazil that began in 2008. In an effort to integrate tax administrations among levels of government and combat tax evasion, the Ministry of Finance and the states agreed to pilot use of the NF-e in key sectors, such as fuel. The success of the pilot generated the impetus to prepare a full design of administrative and technological improvements, and the NF-e was expanded to other sectors and states (using an IDB Program called PROFISCO).

Other examples include Brazilian federal government efforts through the Ministry of Finance and its revenue agency (Receita Federal do Brasil, RFB) to partner with states to facilitate the business environment. This involves simplifying the registration and legalization of private firms (REDESIM). Six states implemented a pilot to integrate services provided by REDESIM, the tax administration and licensing authorities (health, firefighting, environmental certifications). After careful evaluation, the program was expanded to all states. Another case noted in Section 4 was the monotax the province of Cordoba adopted to integrate taxes on small and medium enterprises (SMEs) across federal, provincial, and municipal tax administrations. Its success generated interest by other provinces to adopt the reform (Capello et al., 2022).

Piloting can also be valuable is where different systems or approaches, for example, in tax administration, might be appropriate for different types of local

governments. This may be the case if there are variations in the scale of operations required, the nature and size of the tax base, or staff capacity in different jurisdictions, among others. Learning from experimentation has been useful, for example, in some cases of property tax reform and has informed not only the design of the reform but also provided lessons about how to implement it effectively. Among the more than eleven thousand municipal governments in these five countries, there might be hundreds of examples of reform and institutional change relevant as pilot or experimenting cases.

A further consideration for experimentation initiated by central or regional governments is how to select the pilot subnational governments. Technical fiscal experts would generally like to start a pilot with a particular type of subnational government or select a sample on the basis of variations in relevant characteristics of the jurisdictions. Others might argue for pragmatism—picking a sample of willing/motivated jurisdictions that are likely to make a serious effort to adopt the reform and use it productively, thereby increasing the likelihood of a positive launch and giving momentum to the reform. A hybrid approach could also be considered.

- *Give appropriate attention to how reforms will be implemented, not only to how they are designed.*

Many well-designed intergovernmental and subnational fiscal reforms never get fully implemented, as evidenced in the literature on incomplete or stalled decentralization. This has been partly blamed on reforms being issued in what has been called “sink or swim” mode. This term refers to the common practice of issuing fiscal reform guidelines that subnational governments are simply expected to comply with, that is, to sink or swim. Even if reforms are well researched and designed, some subnational governments may be unable to use them without dedicated support that evolves as the reform proceeds. Some initiatives, especially if there is a package of multiple reforms being adopted, may need to be phased in strategically.

The accounting reforms of Colombia and Mexico circa 2008 illustrate this point well. The laws mandated the use by subnational governments of new accounting principles, practices, and formats that reflect convergence towards adherence to international accounting standards. Although central and federal authorities provided

detailed guidelines and some training, most subnational governments were not able at the time to implement the changes and report their accounts accordingly, thus delaying and diminishing the impact of the reform. Persistent uneven adherence to the reforms over time in part reflects inadequate attention to implementation.

Many factors can condition how to approach reform implementation. An important one is the extent to which a reform is new versus a modification of existing practices. Also relevant are factors noted above regarding piloting—the characteristics of the reform (use of innovative technologies, skills, or partnerships) and variations among subnational governments. On this latter point, the decentralization literature has increasingly emphasized the need for asymmetric reform. There has long been asymmetric treatment in decentralization, but usually based on limited mechanical measures, such as formal classification of subnational governments (e.g., state, province, city, municipality, district, etc.) or specific characteristics, such as population size, urban versus rural, etc. Recent thinking argues that some small municipalities are better managed than some large cities. On this basis it posits that performance could be a factor in determining, for example, the degree of discretion allowed in the use of intergovernmental fiscal transfers. There are challenges to this approach, such as consistency with the legal framework, the heavy bureaucratic effort needed to measure performance (and the possibility of manipulation), and the potential political sensitivity involved, among others. If there is a valid case to phase in the implementation of a particular reform, the following considerations may be relevant:

- *Determine starting points for the sequencing of reform(s).* The specifics will vary by the type of reform (or the set of reforms in a package) and subnational government, but this requires prioritizing reforms, perhaps focusing on simpler tasks that do not overwhelm capacity and threaten early positive results. It is important to choose something meaningful enough to begin to move the system in a better direction, and to set up a well-defined (based on clear criteria) process to define and sustain the progression of reforms. Asymmetric starting points can be productive, and for certain types of reforms, sequencing may be at least partly negotiated with subnational governments, a feature that places a degree of responsibility on them to comply with steps they agreed to.

- *Embed appropriate incentives in the reform process.* Once reforms and steps in the reform trajectory are determined, positive or negative incentives (rewards and penalties) may encourage subnational governments to achieve them. Options include: (1) enforceable accountability mechanisms, such as central or state government contracts with local governments; (2) financial incentives to adopt reforms and performance improvements, such as performance-based grants; and (3) tournament approaches that bring recognition, such as contests, to acknowledge improved service delivery, revenue generation or other achievements. The utility of such mechanisms depends on the political/bureaucratic culture in a particular country and the effort/costs involved in developing and monitoring them.
- *Consider how to enhance capacity development.* Capacity building and technical assistance for subnational actors may be needed for successful reform. Critics argue that capacity building is often framed in a mechanistic way, with a bias toward central supply-driven technical training. There is weaker emphasis on governance skills important for subnational revenue reforms, such as how subnational tax administration can engage with business and citizen taxpayers to increase their understanding of how tax resources are used and facilitate compliance. Another consideration is the potentially greater role for demand-driven capacity support, such as on-the-job/on-site training in skills required for specific reforms in the process of being implemented and requested by a subnational government, which can enhance the development and retention of skills.

An example of the use of such strategic elements in the region is Colombia's approach to certain expenditure assignments. Since 2000, Colombian municipalities have been required to achieve a certification status to be able to provide education and health services (if not certified, services are provided by the departments). Based on municipal categorization (i.e., population levels), clear criteria related to the local financial, administrative, and technical capacity and a performance evaluation process are used to certify or decertify municipalities. There is also an asymmetric hybrid approach to cadastral management, whereby some main capitals and one department have their

own cadasters while a national agency (IGAC) manages the cadasters for a large majority of municipalities. More recently, with the implementation of a multipurpose cadaster, more and more municipalities are engaging in a process to have their own cadaster based on the analysis of local capacities.

There are also examples of implementation incentives. Brazil created an incentive program for states to improve fiscal health (Programa de Equilíbrio Fiscal, or PEF). Under this program, the federal government guarantees subnational credit operations in states in repayment capacity (Capacidade de Pagamento, or CAPAG) category C (that cannot get debt), in return for undertaking reforms and achieving performance targets that could lead to CAPAG category B status. Since 2009, Peru has implemented an incentive program (Programa de Incentivos a la Mejora de la Gestión Municipal) to improve municipal service delivery and property tax collection. Municipalities that meet performance targets receive more transfers. A few studies, however, document adverse effects on property tax collection (Huanqui, 2018) and water coverage (Leon et al., 2019). Both countries, as well as Chile and Mexico, are considering using performance grants for subnational government reforms and performance.

Even with strong consensus, good policies, and carefully designed implementation strategies, it is important to adopt an ongoing learning and adaptation approach to intergovernmental fiscal reform. As in some of the cases noted above, certain aspects of the reform may not work as planned, suggesting either basic design flaws or unanticipated general obstacles—or there may be specific challenges in individual subnational jurisdictions that require attention. Equally important, economic, fiscal, and political conditions may change, and this may justify making some modifications in the original design and implementation strategy. Politics also play a major role in fiscal reform, not always for the better.

An example of inattention to learning was the decentralization of vehicle taxation (tenencia vehicular), granted to states in Mexico in 2007/2008. Lack of revenue effort, dependence on federal transfers, and tax competition has led many states to underexploit this productive revenue source. Today, 13 out of 32 states do not collect this tax. Before reform, the federal government raised about 0.2 percent of GDP from this tax, while under state administration the yield only reached 0.07 percent of GDP in

2018 (LAC Average is 0.35 percent). There has not been systematic monitoring or major studies of this tax, although there is discussion nowadays to recentralize the tax.

The obvious way to keep track of the progression of reforms and the issues that arise is to ensure that there is sufficient monitoring of reform adoption and its effects. This is hardly news, and most fiscal reforms do set up some type of assessment mechanisms. They may, however, not be used well because of data collection and interpretation challenges, insufficient attention/commitment to using the data to modify in-process reforms, or lack of an empowered authority to ensure that needed modifications indicated by the monitoring are adopted. Thus, how reforms are monitored, who is in charge of doing this, and how to ensure the results will be used productively are always important considerations in implementing and adapting reform.

Concluding Observations

It is evident that the COVID-19 pandemic had a major impact on subnational governments globally, including in Latin America generally and in the specific countries considered herein. In many cases, intermediate-tier and local governments mounted serious responses to the effects they experienced, but they also faced considerable challenges and often depended on national resources and support. While there were some common impacts and responses, there were also substantial variations shaped by the diverse structures and dynamics of intergovernmental fiscal systems across and within countries. This diversity precludes robust generalizations beyond some very basic points, but there is much to be learned from how subnational governments acted in the pandemic. Although the paper focused on only five Latin American countries, it clearly has relevance for the region more generally. At the same time, additional documentation of and research on pandemic effects and responses would deepen our understanding of the broader implications for intergovernmental fiscal reform.

Many challenges to effective subnational pandemic response highlighted longstanding issues in how intergovernmental fiscal systems are structured, operate, and perform. Ambiguities and weaknesses in subnational functional assignments and revenue powers; weak governance arrangements and coordination among levels of government; flaws in how national resources are shared with subnational governments; inadequacies in access to and management of subnational development finance; and

resulting interjurisdictional fiscal disparities and underperformance in subnational service delivery, public investment and revenue generation are among the well-known major concerns that affect individual countries in different combinations and to varying degrees. Underlying all of these issues is the fundamental tension involved in getting the right balance between central regulation and oversight relative to local authority and autonomy, a tradeoff that has conceptual, technical, and political dimensions.

Despite the challenges, there have been some encouraging signs that offer hope for reform prospects and better performance. National and subnational governments took steps during the pandemic that demonstrated a willingness and ability to think creatively and address problems. They found ways to manage responsibilities beyond their normal routines and made efforts –sometimes planned, sometimes ad hoc—to work together in multiple ways. Subnational governments also developed their own partnerships—between states/provinces and local governments as well as among subnational governments at the same level. A number of these actions were very specific to the pandemic, but some of them may offer lessons for how to improve routine operations in the future if the urgent pressures and lessons of the pandemic have sufficiently awakened governments and the citizens they serve to the need for and value of reform.

Perhaps the greatest challenge is how to approach intergovernmental fiscal reform when so much could be done and there are many potential obstacles to action. Thus, developing a reform strategy is essential. There is a need for prioritization given the scope and scale of reforms that are potentially beneficial and the common interdependencies among them. Working out what to do and in what order requires dealing with persistent tensions between centralization and decentralization advocates; inadequate and/or conflicting evidence on the effects of specific reform options; varying conditions and capacities among subnational governments; and perhaps most prominently, the underlying political dynamics that influence what is attainable.

Given this reality, there is good reason to seek pragmatic ways to approach the often-extensive spectrum of reform options as systematically and strategically as possible. Determining appropriate and possibly asymmetric starting points, piloting reforms before broadly adopting them, providing incentives and capacity building for subnational governments suitable for particular stages of reform, and monitoring and modifying new approaches as needed can all help to make reforms more effective and

sustainable. How reform decisions are determined, which actors are involved, and how the process is managed will also affect the credibility and feasibility of reforms. With efforts to draw on/adapt practices used in Latin America and beyond and a willingness to think strategically, experiment/innovate, and learn from experience, it is possible to make meaningful improvements in intergovernmental fiscal systems in any country.

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