

DECENTRALISATION AND REGIONALISATION IN PORTUGAL: LESSONS FROM INTERNATIONAL EXPERIENCE AND REFORM ALTERNATIVES

The OECD has prepared this report upon request by Portuguese Independent Commission for Decentralisation. The aim of the report is to present alternative ways forward for Portugal to implement its decentralisation reforms, in particular at the regional government level.

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1. Introduction

The purpose of this paper is to present international and OECD trends on both decentralisation and regionalisation, and to discuss the expected effects of these reforms and the conditions under which they may deliver more economic efficiency and regional equity. The study is based both on economic research and best policy practices. This analysis and information can be useful to contribute to the current policy debate in Portugal about decentralisation and regionalisation.

From an OECD comparative perspective, Portugal is a unitary and much centralised State, clearly influenced by the model of public administration. Portugal has basically only two layers of government, of which the 308 municipalities form the core of the local government. The creation of administrative regions, which is contemplated in the Portuguese Constitution of 1976, never materialised. A referendum on regionalisation failed in 1998. Two decades later, the Portuguese government has to face recurrent challenges of economic development and territorial cohesion. Recently, decentralisation reforms emerged again on top of the policy agenda with two main objectives: i) fostering decentralisation by assigning more tasks to municipalities and inter-municipal associations; and, ii) by strengthening regional level governance.

In the European Union member countries and in the OECD, regional disparities within countries have been persistent and often rising in recent decades. GDP per capita dispersion is now greater within countries than between countries. Even within the world's wealthiest countries there are substantial differences across regions. Today, the top 20% of regions are more than twice as rich as the poorest 20% in over half of OECD countries. And in most OECD countries, capital regions (often home to a country's largest city) were responsible for at least 25% of net job creation between 2006 and 2016 (OECD, 2018_[1]). The age structure and service needs of population often vary a great deal between regions within a country. These factors challenge the ability of governments to maintain the balanced development of the state.

Portugal is still recovering from the 2008 economic and financial crisis, but its recent performance has been strong compared to other southern European countries. Exports have been an important driving factor, including strong growth in tourism. While the GDP has returned to pre-crisis levels and growth is expected to continue, important challenges remain: long-term unemployment remains comparatively high and productivity growth has slowed over the past two decades. Moreover, Portugal is facing significant demographic challenges: its population has been shrinking since its peak of 10.7 million in 2009 and is projected to be less than 9 million by 2050. The bulk of the population loss will occur in non-metro, rural regions, mostly in the inner parts of the country. Portugal, together with Japan and Spain is one of the OECD countries with the largest share of aged population (65+) in rural areas (OECD, 2018_[1]). One of the objectives of a regionalisation reform could precisely be to strengthen the regions' ability to cope with the demographic challenge.

The Lisbon Metropolitan Area and the Porto Metropolitan area, as well as the Norte region play an important role in Portugal's economy – accounting for approximately two-thirds of Portugal's GDP, yet Portugal's two largest metropolitan areas, located in these regions, are not fulfilling their full potential as engines for its overall economy (Rodrigues et al.,

2018^[2]). Enhanced metropolitan governance could help improve the conditions for the main Portuguese urban areas to better utilise agglomeration economies for stronger growth.

When well designed and implemented, decentralisation may ignite a more proactive local and regional development, enhanced growth and productivity, improved local public services, better accountability and efficient use of public resources. However, decentralisation reforms also come with a number of risks, which should be carefully assessed. To understand these risks is key to make the most of decentralisation reforms. These risks typically include unexpected impact on public finances, unfunded mandates, inadequate allocation of competencies, and increased fiscal and territorial disparities.

It should also be emphasized that decentralisation should be accompanied and is part of a reform of the central government. This is especially important concerning the deconcentrated central government administration, notably to redefine the organisation and functioning of central government services in regions. Indeed, Portugal maintains a relatively complex system of deconcentrated government systems, which could be reformed even irrespective of the regionalisation reform. Portugal could also benefit from enhanced performance monitoring and data collection concerning the regional and local levels. During recent years, the legal and administrative status of Portugal's subnational governments has been strengthened. The next natural step would be to increase the level fiscal decentralisation, in order to reap more fully the benefits from decentralisation reforms.

The OECD has prepared this report upon request by the Portuguese Independent Commission for Decentralisation. The aim of the report is to present alternative ways forward for Portugal to implement its regionalisation reforms, in the broader context of decentralisation trends. The executive summary provides a short summary of main findings and policy options for Portugal. Then, the report starts with a discussion on the rationale and effects of decentralisation. Also the international practices on decentralisation and in particular on regionalisation reforms in peer countries are described. The next section concentrates on the main forms of regionalisation, and the experiences of regional reforms that have been carried out in EU countries and in particular Finland, France and Poland. The fifth section discusses the strengths and challenges in Portuguese multi-level governance framework. The final section presents three potential policy paths of regional reform for Portugal, building on the lessons learned from economic research and international experiences, as follows:

i) *Decentralisation and strengthened deconcentration without empowerment of regional level;*

ii) *Decentralisation without full regionalisation by reinforced municipal and inter-municipal levels; and,*

iii) *Decentralisation through complementary regionalisation and inter-municipal cooperation reforms.*

These options are presented from the least to the most comprehensive one. Therefore, they are not mutually exclusive, but rather could work as complements to each other. They are based on practices that are most often observed in other unitary European countries. Obviously, they are not exhaustive and other potential alternatives could also be considered. In this context, the aim of the study is to provide material for discussion and scope for possible further investigation.

2. Executive summary and main policy options for Portugal

2.1. Overview

At first glance, the Portuguese model of multilevel governance does not seem to differ much from the systems practiced in most other countries. However, Portuguese municipalities, parishes (*freguesias*) and inter-municipal co-operative units, which currently form the subnational government in Portugal, have much less spending and revenue powers than most of their peers in other EU countries. Therefore, the Portuguese multi-level governance system appears quite centralised compared with other OECD and European countries.

Another interesting feature of Portuguese multilevel governance is that, at least so far, Portugal has chosen not to establish a regional government level, which is currently in use by many other EU countries with similar population size. This is despite the fact that Portugal has already prepared the legal framework to implement the Administrative Regions in its 1976 Constitution, which would have elected councils and own budget. Instead, Portugal has established deconcentrated regional governance to tackle regional level issues and to co-ordinate the central government services at the regional (NUTS 2) level. These agencies are called Commissions for Coordination and Regional Development (in Portuguese and henceforth, CCDRs). In addition, Portugal has attempted to enhance inter-municipal co-operation by establishing 23 IMCs (in Portuguese CIMs, which correspond to the NUTS 3 level) to take care of tasks which have benefit areas that go beyond the borders of single municipalities. Portugal also created metropolitan areas (MAs) for Lisbon and Porto. However, the role of metro and non-metro inter-municipal co-operation remains limited, as only a fraction of local spending has been assigned to the IMCs and MAs, so far.

Taking into account the demographic challenges faced by Portugal in the coming decades, due to ageing and diminishing population, and the growing regional differences in service delivery potential and economic sustainability that will come with it, the need for structural reforms seems inevitable. Moreover, there seems to be unused potential in the current implementation of decentralisation.

This executive summary describes shortly the main challenges faced by the Portuguese decentralisation, and the potential paths forward for more efficient multilevel governance.

2.2. Main challenges faced by Portuguese multilevel governance

This study has identified a number of challenges of the current Portuguese model for decentralisation. In below is a summary of the main observations discussed in this paper.

Limited ability to address regional level issues

In Portugal, the regional level problems are currently being tackled mainly with deconcentrated central government administration or with direct intervention by central government. While the CCDRs are engaged in co-operation and dialogue with local governments and other relevant stakeholders, due to their limited financial resources and because of their narrow mandate, the main focus of CCDRs has been on managing the EC structural funds. Therefore, the ability of CCDRs to deal with issues concerning regional

public service provision and regional development is restricted at best. Moreover, due to their role as deconcentrated central government units, the CCDRs lack the status and legitimacy that an elected regional government could have.

Modest spending and revenue decentralisation limits the benefits received from decentralisation

While the legal and administrative autonomy of Portuguese municipalities has been strengthened during the recent 5-10 years, at the same time not many important spending assignments have been devolved to local governments. Although the reluctance of Portugal to decentralise important spending tasks to municipal level during the austerity measures is understandable, the dilemma is however that without further fiscal decentralisation, i.e. devolving more tasks and revenue to subnational governments, the potential benefits of decentralisation will be missed.

The differences in fiscal capacity between municipalities

Municipalities differ considerably in their capacity to generate own revenues. Lisbon and Porto have the highest levels of own revenues per inhabitant, followed by other municipalities in the coastal area. On the other extreme are the inland municipalities, which are very dependent on intergovernmental transfers. This puts pressure on the transfer system and fiscal equalisation, but also on the subnational government financing system in general.

Tax competition between municipalities may improve efficiency but it can also have negative side effects

The municipalities with lower fiscal capacity, in the use of their freedom to explore legal fiscal limits, tend to adopt lower tax rates in the property tax and surcharge tax. While this behaviour is understandable from a single municipality's point of view, as a way to attract private investments and promote local economic development, it may have larger effects which are not all positive. From the positive side, competition between municipalities is beneficial if it enhances the efficiency of public service provision and constrains increase of tax rates. Competition can also be harmful, for example if it leads to "race to the bottom" behaviour of the tax rate setting. In turn, this can erode tax bases and may eventually lead to worse local public services.

Volatile municipal tax bases may create spending risks

It is usually recommended that local revenues should be relatively stable and predictable over time. Hence, elements of local revenue system that contribute to volatility of taxes should be avoided. In 2017, the Municipal Property Purchase Tax (IMT) was the second most important tax for municipalities, forming 26% of total municipal tax revenues. The data on IMT reveals that it has been highly volatile during the past 15 years. While the economic crisis and the recovery afterwards explains part of this development, the volatility of important local tax base is a cause for concern. Exposure to volatile local tax bases can lead to aggregate efficiency losses if expenditure rises in good times, and governments find it harder to cut spending than raise taxes during a downturn, leading to a ratchet effect.

Unclear role of inter-municipal co-operation

The Metropolitan Areas (MAs) and Inter-municipal Communities (IMCs) still play a marginal role in the public sector, notably due to modest level of decentralisation in general. While this may change in the coming years, as more responsibilities will be decentralised to municipalities, the challenge is to enlarge the role of the inter-municipal organisations and to guarantee their financial means.

Overlapping assignments between deconcentrated central government units may be a source for inefficiency

The deconcentrated regional departments of the Portuguese line ministries are currently fragmented, forming a complex network of central government services. There are currently deconcentrated central government departments in Agriculture, Education, Employment, Economy, Social Security, Health and Transport. The five CCDRs have the responsibility of territorial coordination of central government services in each region. However, there seem to be several organisational and legitimacy challenges which may impede the CCDRs to co-ordinate and to catalyse a truly cross-sector, strategic approach to regional development.

The slow economic growth in Lisbon and Porto areas

It is worrying to note that the growth in the Portuguese metropolitan areas, notably in Lisbon area, has not picked up as in other regions in Portugal. Well working metropolitan governance can form a favourable environment for economic growth and wellbeing. Therefore, enhanced metropolitan governance could be part of the solution for this problem. Currently, the Lisbon and Porto metropolitan areas are organised as compulsory one-tier co-operative associations (MAs). The real decision-making authority in metropolitan areas is however largely held by the municipalities of these areas, together with central government. As a result, the current MAs lack both political and financial authority to truly influence the metropolitan-wide challenges.

2.3. Ways forward in the process of decentralisation in Portugal

2.3.1. Prerequisites for a successful territorial and institutional restructuring

There are some preconditions that apply to any successful decentralisation reforms. Among these requirements, focusing on clear responsibilities and functions assigned to government levels, funding adequately the responsibilities that are transferred, as well as strengthening subnational capacities and the overall coordination mechanisms, are fundamental. Other pre-conditions include allowing for territorially-specific policies and the possibility for asymmetric decentralisation, with differentiated sets of responsibilities given to different types of regions/cities, in particular the metropolitan areas. Such mechanisms are critical to provide institutional and fiscal arrangements that best respond to local needs. Such measures would be useful for Portugal irrespective of the type of decentralisation reform.

Portugal could consider adopting experimenting and sequencing practices when implementing major multilevel governance reforms. While this kind of reforming is slower than a “big bang” reform, it enables learning-by-doing and revising the decisions during the reform process, if needed.

Portugal could also consider intensifying and developing the data collection processes as well as setting up new databases on subnational government finances and service provision.

High quality information on Portugal's subnational governments would enable enhanced steering and monitoring of subnational governments, both by central government and citizens/taxpayers. Although the data collection processes and setting up databases would require additional resources, savings gained over time from reduced administrative work would be likely to exceed the costs of the initial investment.

It must be also emphasized that decentralisation should be seen as an entity and not a collection of separate policies. Therefore, reforms on particular areas of governance and decentralised system are likely to affect other policy areas as well. Establishing regional government level is therefore bound to affect the central government, municipalities, inter-municipal units and parishes etc. In order to secure a successful decentralisation reform, all major components of multilevel governance should be on the table.

2.3.2. Three scenarios for enhanced decentralisation in Portugal

Three approaches for regionalisation in Portugal are presented in this report, in the broader decentralisation context. These options are based on models that are most often observed in other European countries. They can also be progressively adjusted as more information on the reform needs will become available. The options presented in this report are not mutually exclusive and are actually complementary, in particular the options to strengthen the metropolitan areas and the IMCs can go hand in hand with the creation of administrative regions. Instead, these alternative ways forward are provided as a basis for further discussion and possible further investigation.

(i) Decentralisation and strengthened deconcentration without empowerment of regional level

If Portugal decides not to establish Administrative Regions at this stage and maintain the deconcentrated model, there are still several ways Portugal could strengthen the current system of regional governance. Such measures are summarised below.

Aligning the regional networks of deconcentrated central government departments with the CCDRs

The deconcentrated central government services could be better co-ordinated by making the regional organisational structures more alike and compatible. Such reorganisation should include also the various consultative entities promoting vertical and horizontal co-ordination at the regional level. Furthermore, the role of presidents of the CCDRs should be strengthened in relation to the Heads of sectoral deconcentrated government departments. These measure would improve the effectiveness of CCDRs.

Strengthening the capacity and fiscal autonomy of municipalities for enhanced service delivery

The decentralisation process that has started in August 2018 should be continued and followed through. However, a partial decentralisation such as assigning only responsibility of the service delivery may not lead to full benefits of decentralisation. Spending responsibilities should also be accompanied with local financing responsibility to secure the right incentives for subnational governments.

Clarifying the role of inter-municipal co-operation

Currently the IMCs and MAs play only a marginal role in local public service delivery. While this situation may change as more tasks will be decentralised to municipalities during the coming years, the central government could nevertheless accelerate the process with financial incentives. One way to accomplish this could be to use the transfer system, for example by directing more transfers to IMCs, instead of municipalities, in case of public services with important externalities.

Intensifying the metropolitan governance in Lisbon and Porto areas

The ability of MAs to engage in real decision-making and financing of the metropolitan areas should be improved. It should also be ensured that the metropolitan authorities have adequate capacity to take responsibility of the development in the region.

One option could be to alter the MAs into subnational government units with elected councils and with sufficient fiscal autonomy, for example by granting them taxation rights (for example property tax), as well as giving them important tasks associated with region-wide importance such as transport, environment, housing, land use and planning. Another possibility could be to merge the municipalities of the metropolitan region to form large metropolitan cities.

Rethinking the task assignments between levels of multilevel government

There seems to be room for rethinking the service assignments between central government, municipalities, parishes, IMCs, and MAs. A nation-wide plan could be prepared for reorganising the tasks and responsibilities as well as resources. All main stakeholders (e.g. line ministries, representatives of municipalities, IMCs, central government agencies, research institutes) should be engaged in the process.

(ii) Decentralisation without full regionalisation by reinforced municipal and inter-municipal levels

The second alternative policy strategy for Portugal could be to establish a compulsory region-wide inter-municipal association, which could take over the tasks of the CCDRs.

Such co-operative regional body could also take over the responsibility of some tasks that are currently organised by IMCs or by municipalities, but only if this can be justified by externalities that could be internalised by the regional government.

The responsibility of metropolitan governance could be concentrated to special metropolitan authorities, because the region-wide authorities would be too big and heterogeneous to be effective in solving metropolitan problems.

The regional councils in this alternative would consist of members elected by municipalities in the region. The tasks of the co-operative regional governments could be limited to regional planning, managing EU funds and some other tasks with clear region-wide benefit areas such as environment protection and regional roads. The financing of the regions could be based on central government transfers and municipal member fees.

(iii) Decentralisation through complementary regionalisation and inter-municipal cooperation reforms

Establishing a full-scale elected self-governing regional government level as described in the Portuguese Constitution, i.e. the Administrative Regions, is the third alternative path. Establishing Administrative Regions would solve many issues that the other two alternatives presented in this section are not able to solve, or solve only partially. Compared with other potential alternatives, the elected self-governing regions provide advantages in terms of local democracy, legitimacy and accountability. Administrative Regions could also bring additional allocative efficiency, depending on the eventual tasks assigned to the regions.

It should be noted that establishing Administrative Regions would not exclude policies to strengthen decentralisation at the local level. Therefore, the proposals to empower municipalities and IMCs would still be valid as they would complement the measures to establish Administrative Regions.

The regional councils could have two main functions: regional development and territorial cohesion planning. The councils could be responsible for the EU's Structural Fund programs and their implementation. The financing of Administrative Regions should be based on central government transfers and own revenues. The Administrative Regions should also have budgetary and financial autonomy in service areas devolved to them.

It should be noted also that establishing Administrative Regions does not exclude the possibility to have a deconcentrated regional administration for purely central government services. However, the representatives of deconcentrated central government administration should not interfere the decision-making of the regional governments. Instead, the deconcentrated central government administration could focus ensuring that the subnational governments obey the law and that the quality of local public services does not deviate too much from the national standards.

Inter-municipal cooperation and Administrative regions complement each other and hence should be promoted together as a driving force to improve local public services. Inter-municipal cooperation and regionalisation are two key mechanisms to both rationalise public expenditure and improve the quality of public services throughout the country. The metropolitan regions should have a special administrative solution, since the Administrative Regions would be too big to focus effectively on metropolitan issues.

The regionalisation alternative described here could be the first step in a series of public sector reforms. The next phase could be the reform of deconcentrated central government departments, and to extend the service-menu of the Administrative Regions. Such reforms should be implemented sequentially, for example sector by sector, with careful planning and impact evaluation to avoid unwanted effects.

3. Why do countries decentralise?

This section begins by providing a brief description of the main types of decentralisation and the key benefits and challenges of decentralisation, as described in research and policy analysis on various country practices. In the end of the chapter, four main current trends in decentralisation are discussed: the inter-municipal co-operation, metropolitan governance, regionalisation and asymmetric decentralisation. The chapter covers both theoretical and empirical arguments, but the emphasis is on international experiences of multilevel governance.

3.1. What is decentralisation and why do countries decentralise?

The OECD defines decentralisation as measures that transfer a range of powers, responsibilities and resources from central government to subnational governments, defined as legal entities elected by universal suffrage and having some degree of autonomy (OECD, 2019^[3]). Similar definitions are frequently used by many other international organisations, such as the World Bank, UN, Council of Europe and European Commission (Slack, 2009^[4]; CEMR, 2013^[5]; World Bank, 2019^[6]). In a decentralised system, the subnational governments are governed by political bodies (with assemblies and executive bodies) and have their own assets and administrative staff. They can raise own-source revenues, such as taxes, fees and user charges and they manage their own budget.

There can be various political, administrative and fiscal motives for decentralisation reforms. In some countries decentralisation can be seen as a counter-reaction to previous strong centralisation and even authoritarianism (Hooghe et al., 2016^[7]). In these countries, decentralisation has been, at least partly, a way to ensure that the democratization development will not be reversed. In other countries, decentralisation has been a method to reform the public sector, for example in order to improve the efficiency of public services and thereby curbing the growth of government spending. Decentralisation of authority is also often expected result in more accountable and transparent public governance, lower corruption, higher political participation and policy innovation (OECD, 2019^[3]).

3.2. Main types and forms of decentralisation

Several types and subtypes of decentralisation have been recognised, such as political decentralisation, administrative decentralisation and fiscal decentralisation (Rondinelli, Nellis and Shabbir Cheema, 1983^[8]; OECD, 2019^[3]). In practice, decentralisation policies are often difficult to categorize, because all these aspects (political, administrative and fiscal) are usually present at the same time. Moreover, decentralisation can be implemented in varying strengths as assignments can be either delegated or devolved.

Political decentralisation aims, in general, to devolve political decision-making power away from the central government. It is often based on view that over-concentration of political power has been a problem, and that fragmentation of political powers enables better the checks and balances needed to ensure democratisation. Political decentralisation focuses on the institutional and political aspects of decentralisation (instead of the economic or efficiency outcomes of decentralisation). Political decentralisation reforms often lay the legal foundation for a system of local governance by defining the rights, responsibilities and roles of each level of government. Political decentralisation can be seen

as indispensable to federalism (Galligan, 2006^[9]). The goal of political decentralisation is to strengthen the democratization processes and to increase the participation of citizens, by giving more decision-making power to citizens or their elected representatives.

Administrative decentralisation transfers operational responsibility from a higher level to a lower level of organization. Administrative decentralisation assigns responsibility and provides budget but does not redistribute full decision-making power. Administrative decentralisation can be divided into *delegation* and *devolution* (Rondinelli, Nellis and Shabbir Cheema, 1983^[8]). Delegation shifts responsibility of service provision from center to subnational level with some decision-making powers (Ahmad and Brosio, 2006^[10]). In case of delegation, the subnational governments would nevertheless be only partly fiscally autonomous because they would still be monitored and controlled by the central government. Hence, the ultimate responsibility of the delegated service remains with the central government. Delegation is often seen as a form of ‘principal–agent’ relationship, with central government as the principal and subnational governments as the executive agents (Dafflon, 2006^[11]).

Devolution is perhaps the strongest form of administrative decentralisation, because in this case decision-making and funding responsibility is transferred to the elected councils of subnational governments. In case of devolved tasks, central authorities exercise only indirect control over the subnational governments. Devolved tasks are mainly funded by own revenues of subnational governments. Nevertheless, especially in case of services with national interest, central government usually uses transfer systems to guarantee that also the poorest subnational governments are able to provide services up to a national minimum standard.

Fiscal decentralisation devolves spending and revenue responsibilities from central governments to subnational tiers of government. Fiscal decentralisation is principally concerned with the optimal division of expenditure and revenue responsibilities between levels of government. In order to implement fiscal decentralisation, at least the following policy decisions must be made:

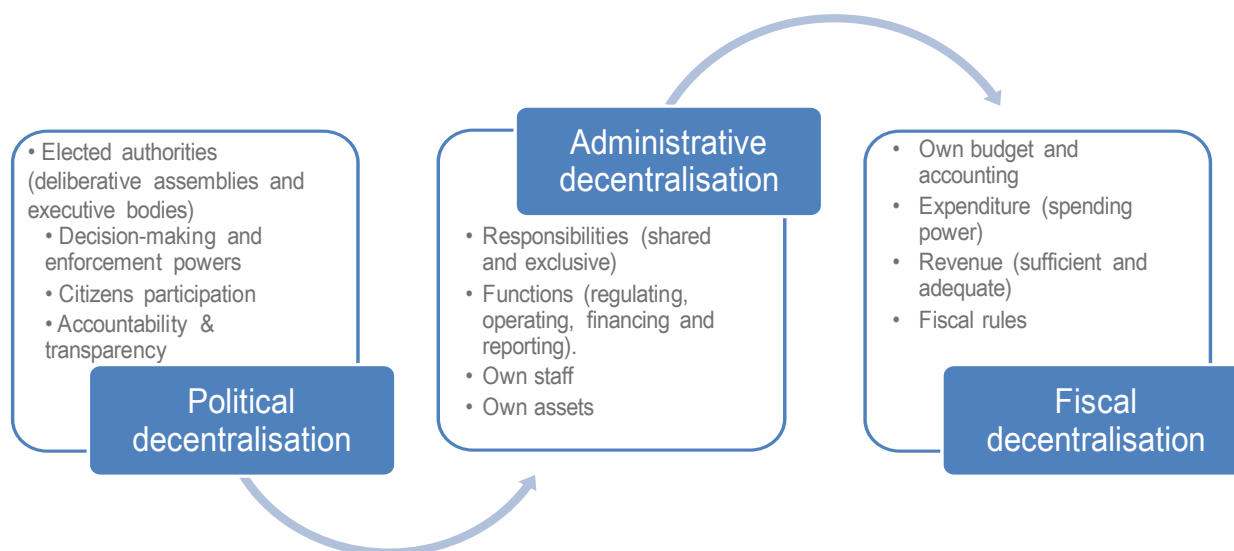
- the division of spending assignments between levels of governments,
- the revenue sources of central and subnational levels of government,
- the degree of autonomy of each level government, and
- how the intergovernmental transfers are financed and distributed.

In practice, decentralisation is often a mix of political, administrative and fiscal measures. The eventual result of decentralisation therefore depends on implementation and the way the different measures are weighted in the system. For example, even in cases where subnational governments have been granted a comparatively high degree of spending and revenue autonomy, the subnational units are often subject to some degree of central monitoring and control. This is especially the case with services that are redistributive in nature, such as education, health and social services. In case of local public services, such as local infrastructure, local schools, or waste/sewage services, there is usually less need for central government intervention.

It should also be noted that in most cases decentralisation is not always undertaken in a balanced way. For example, spending is usually more decentralised than revenues. Also, some types of expenditures are usually decentralised more than others. In summary, decentralised governments are often complex entities, consisting of both autonomous and

less autonomous capacities. All this makes it hard to distinguish the degree of decentralisation and devolution from delegation.

Figure 3.1. Decentralisation, a multidimensional concept



Source: (OECD, 2019^[3])

Deconcentration is another form of governance and should not be confused with decentralisation. Deconcentration alters the responsibilities within levels of organization. For example, some tasks may be shifted within central government from the ministry to central government led offices in regions. Deconcentration is quite common practice in the EU and the OECD. In most countries central government has established regional offices for planning, monitoring and coordination purposes and for granting permits and licences. Deconcentrated central government tiers may co-exist with fiscally autonomous regional or local governments, this is the case for example in the Nordic countries. In some cases, deconcentration has been the only form of reform. This was the case in developing countries in the 1970s (Rondinelli, Nellis and Shabbir Cheema, 1983^[8]), and later in former communist countries (Rao, 2006^[12]).

3.3. Fiscal federalism as a starting point for decentralisation

According to well-known fiscal federalism principles, public tasks can be divided into three groups: allocation, redistribution and stabilization functions (Musgrave and Musgrave, 1980^[13]). According to these principles, the allocation function – i.e. public services provision – can be the responsibility of both central and subnational level of governments. The central level responsibility is best justified when the services clearly have no specific local interest. Subnational responsibility is usually supported when the benefits of the goods or services are spatially limited. Moreover, according to the “Decentralisation theorem” (Oates, 1972^[14]), the subnational government is most suitable level to provide the services and goods, unless the central government has a clear advance in provision. This could be, for example, in case of considerable economies of scale in the provision.

According to the Musgravean distinction, the redistribution and stabilization functions are mostly central government responsibilities. In particular, the central government should be responsible for monetary and fiscal policy (Musgrave and Musgrave, 1980^[13]). In addition,

central government should have the main responsibility for the redistribution function, because central government is more capable to carry out income redistribution from the rich to the poor and in establishing minimum standards of public services across regions (King, 1984_[15]).

The “pure local goods”, such as local infrastructure (streetlights, local roads), sewage, land use planning, or basic education, are usually considered best suited for subnational government provision. It is nevertheless quite common that subnational governments are at least in some way involved in provision of services with redistributive features also. In some countries, such as the Nordic countries, even health, education and welfare services have been delegated from the center to subnational governments. In case of a decentralized redistribution, the central government usually retains responsibility for coordination and ensuring equity of citizens in different parts of the country. This can be achieved for example by using transfers from central to subnational governments, or with normative regulation (minimum standards), or both.

3.4. The benefits and challenges of decentralisation: a summary of the main effects

Decentralisation comes with both benefits and challenges. The main effects of decentralisation can be grouped as economic, political and administrative, as is discussed in more detail in the recent report by OECD Making Decentralisation Work: A Handbook for Policymakers (OECD, 2019_[16]). It is important to note that the effects of decentralisation largely depend on implementation. While there is a large literature on the direct and indirect outcomes of decentralisation, only a short summary of the main effects is presented here.

3.4.1. Economic outcomes

Decentralisation provides information advantages as local governments have better insights on citizens preferences, allowing tailored and efficient public services to the population and transfers from the rich to the poor (Rodríguez-Pose and Tselios, 2019_[17]). Local public service provision yields allocative efficiency by adapting public service provision to the heterogeneous preferences of smaller population groups (Wallis and Oates, 1988_[18]). Especially in public service provision where the local preferences matter, the subnational governments outperform the central government in allocating public sector resources (Oates, 2005_[19]).

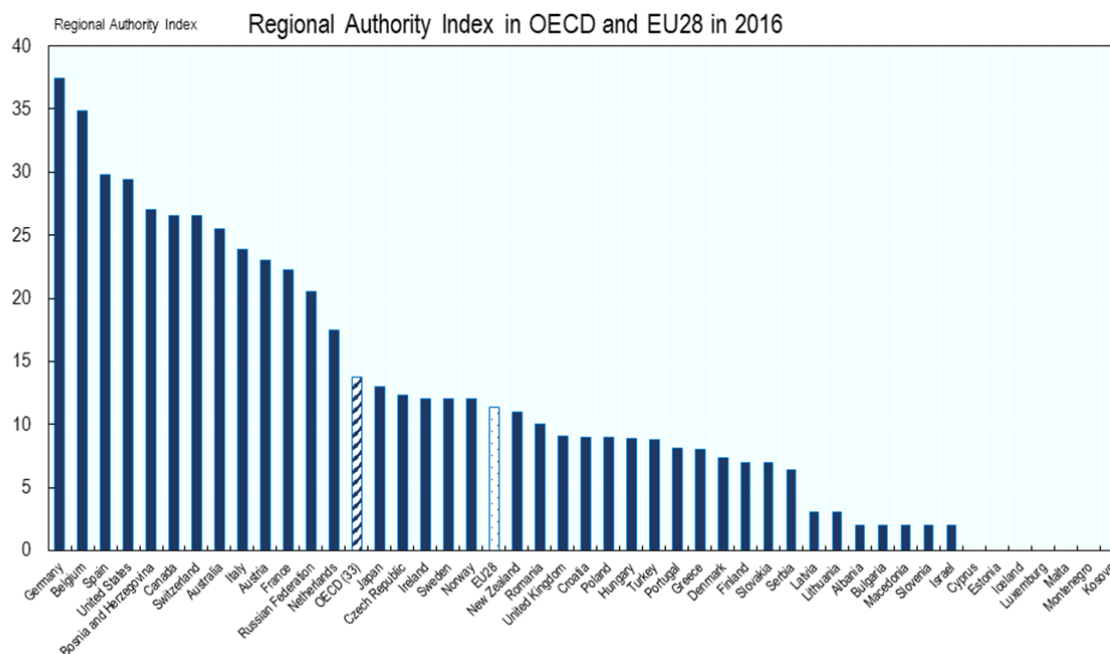
Decentralisation facilitates fiscal competition between jurisdictions, in particular when households are mobile between subnational governments. Decentralisation enhances competition also within municipalities and within regions. This type of “yardstick” monitoring, where voters compare the taxes and service quality in their own jurisdiction to those in neighbouring jurisdictions, and punish badly performing politicians in local elections, contributes to tighter competition among local politicians. The competitive pressures formed by mobility and yardstick competition may be efficiency enhancing. Such circumstances can also raise local officials’ accountability and result in a better match with service provision and local preferences (Ahmad and Brosio, 2006_[10]).

Decentralisation may lead to greater citizens’ engagement in local affairs, and political competition can lead to better policies and more efficient implementation of government programmes (OECD, 2019_[3]) with performance-oriented strategies driving down bribes and corruption practices (Shah, 2006_[20]; Bordignon, Colombo and Galmarini, 2008_[21]; De

Mello and Barenstein, 2001^[22]). The accountability of local decision-making is best achieved if local residents have a strong incentive to evaluate the efficiency of their local administration. While there may be many motives for such monitoring, from the economic perspective the motivation depends primarily on the financing system of locally provided public services and on information available on the service outcomes. If local residents finance a considerable share of local services by paying local taxes and user fees, they will have a strong incentive to monitor their local administration, because inefficient and corrupt administration usually means higher taxes or poorer services, or both.

Linked with the above discussion, an empirical examination of 33 OECD countries (except South Korea, Mexico and Chile) and 10 non-OECD countries suggests a positive association between regional authority and government effectiveness (Figure 3.3). It is also interesting to note that the correlation is stronger when the comparison is made between subnational government share of general government revenues and government effectiveness (Figure 3.4).

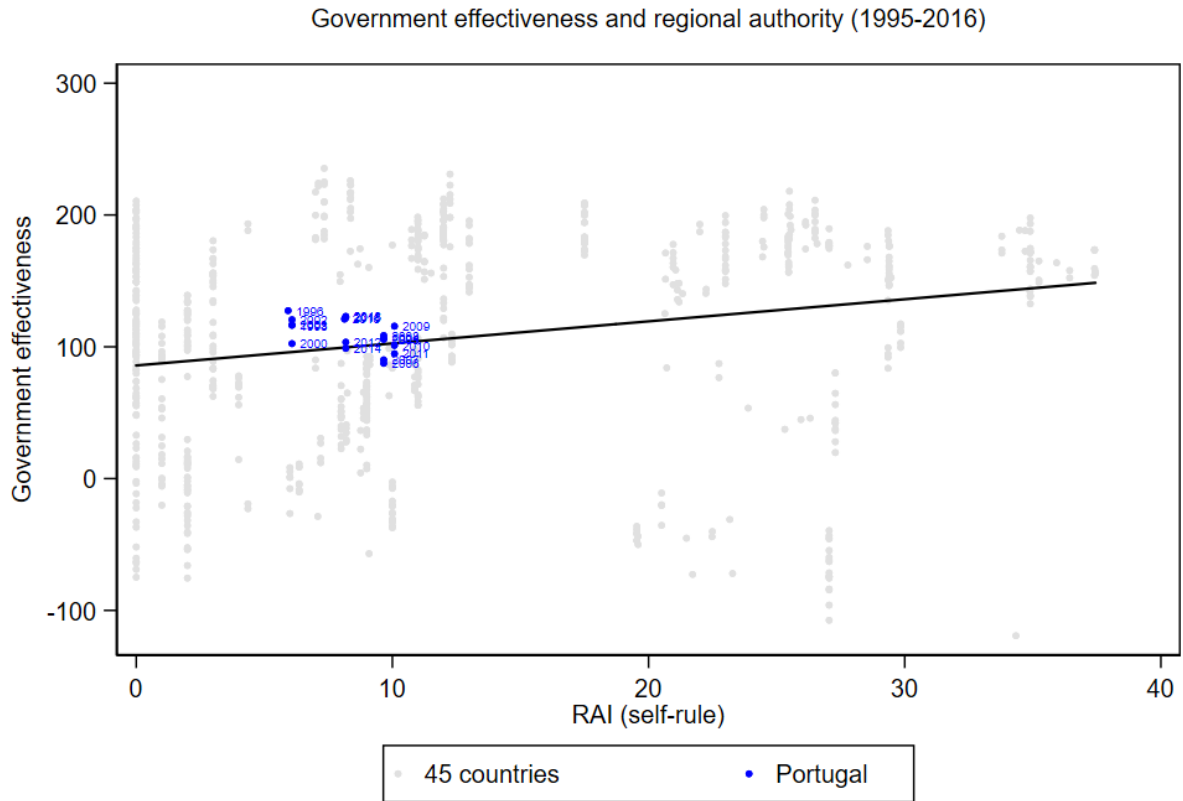
Figure 3.2. Regional Authority in Portugal and other OECD countries



Note: The data includes only 33 OECD countries (all except Chile, South Korea and Mexico.)

Source: (Schakel, 2019^[23]; Marks, 2019^[24])

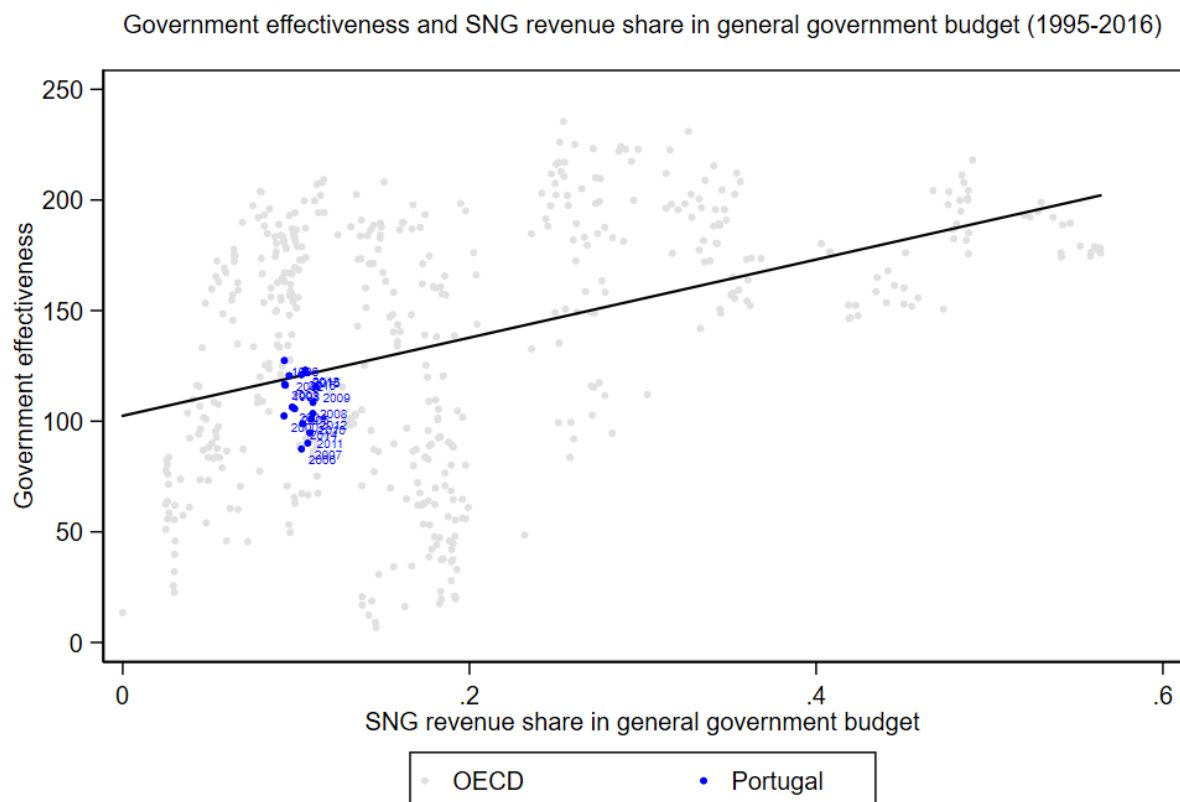
Figure 3.3 Government effectiveness and Regional authority (RAI) are positively correlated



Note: The countries in the graph include 33 OECD countries (except South Korea, Mexico and Chile) and 10 non-OECD countries, namely Albania, Bulgaria, Bosnia and Herzegovina, Cyprus, Croatia, Malta, Montenegro, North Macedonia, Romania, Russian Federation and Serbia and cover the 1995-2016 period. The Regional Authority Index (RAI) is a measure of the authority of regional governments in 81 democracies or quasi-democracies on an annual basis over the period 1950-2010. The dataset encompasses subnational government levels with an average population of 150,000 or more. Regional authority is measured along ten dimensions: institutional depth, policy scope, fiscal autonomy, borrowing autonomy, representation, law making, executive control, fiscal control, borrowing control, and constitutional reform. A regional data set contains annual scores for regional governments or tiers and a country data set aggregates these scores to the country level (Schakel, 2019^[23]). The World Bank's Government Effectiveness index captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5 (Kaufmann and Kraay, 2018^[25]).

Source: The sources used for Regional Authority Index (RAI) are the internet-pages of Arjan Schakel and Gary Marks (Schakel, 2019^[23]; Marks, 2019^[24]), and the publication on Regional authority (Hooghe et al., 2016^[7]). The source for Government effectiveness is World Bank Government Effectiveness (GE) index from the Worldwide Governance Indicators (WGI) project (Kaufmann and Kraay, 2018^[25]).

Figure 3.4. Government effectiveness and revenue decentralisation are positively correlated

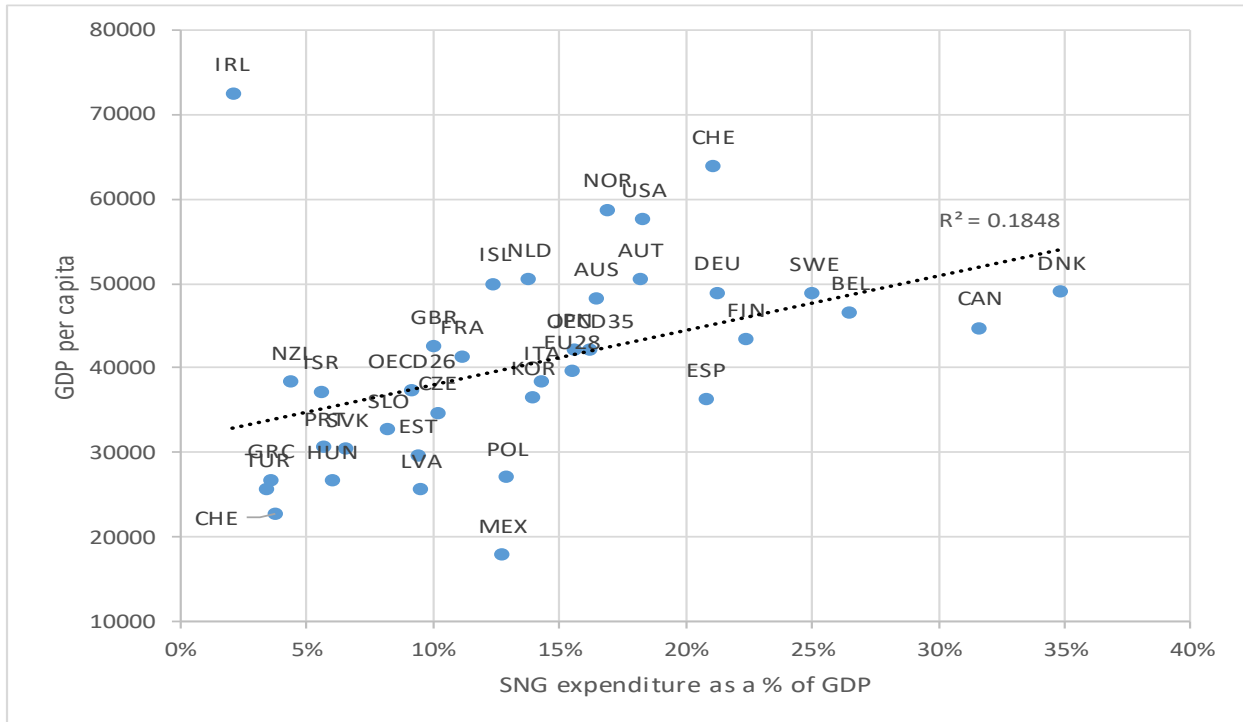


Note: The countries in the graph include 29 OECD countries except Australia, Japan, South Korea, Chile, Turkey, New Zealand and Lithuania and cover the 1995-2016 period. The World Bank's Government Effectiveness index captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The subnational government share of general government revenues is based on OECD fiscal network's data.

Source: OECD elaboration of the World Bank's data of government effectiveness and of OECD Statistics on subnational government and general government revenues.

Decentralisation may enhance growth and contribute to lower regional disparities. Although causal inference is not possible using the existing data, there is a clear association between decentralisation and GDP (Figure 3.5). It has been argued that subnational fiscal power is associated with higher economic activity through productivity and human capital improvement for example because investment in physical and human capital increases with decentralisation (Blöchliger, 2013_[26]). In particular, recent empirical evidence indicates that revenue decentralisation could be associated with smaller regional economic disparities and spur growth and convergence dynamics in poorer regions (Bartolini, Stossberg and Blöchliger, 2016_[27]). Regionalisation may as well correct interregional disparities and give local actors the means to implement better regional development policies, such as EU funds management in the European Union (Morgan, 2006_[28]).

Figure 3.5. Economic development and decentralisation are concomitant in OECD countries



Note: The OECD countries except Luxembourg in 2016. GDP per capita and subnational governments share in general government revenue are concomitant, as revenue decentralisation from the central government to subnational governments tends to increase with GDP per capita.

Source: OECD.

OECD Fiscal Network has found that spending and tax decentralisation are conducive to growth while intergovernmental transfers are detrimental, suggesting that subnational own-source revenues should finance a considerable portion of subnational expenditures (OECD, 2016^[29]). Spending covered by own-source revenue is growth enhancing while transfer-funded spending is growth dampening because local governments with higher fiscal autonomy have incentives to promote economic growth to develop their tax base. While incentives for developing own source revenues at the subnational government level contribute for regional growth policies, it should be noted that many subnational governments nevertheless need substantial central government financing to provide the services assigned to them (Shah, 2017^[30]).

Decentralisation success and impact on growth depends on the implementation scheme, the policy environment and the quality of the institutional framework. Policies limiting subnational government taxing power weaken decentralisation allocative efficiency (Brueckner, 2009^[31]). Fiscal reliance on a higher level of government and soft budget constraints can destabilize the national economy when the central government let local governments run large fiscal deficits and accumulate unsustainable amounts of debt before bailing-them out. The social planner should monitor subnational resources and fiscal autonomy, restrict underfunded mandates and curb vertical fiscal imbalances (Rodden, Eskeland and Litvack, 2003^[32]). Moreover, the optimal public service benefit areas do not necessarily match with jurisdictions borders, resulting in inadequate scale and/or under-provision of public service. This requires either specific transfers from central government, regionalisation reforms, municipal mergers, joint municipal authorities or formal co-

operation between local governments (OECD, 2019_[31]). Because public investment in infrastructure tends to increase with decentralisation, effective vertical and horizontal co-ordination mechanisms are necessary to reduce investment gaps or overlapping activities (Kappeler et al., 2013_[33]; OECD, 2016_[29]).

3.4.2. *Administrative and political outcomes*

Decentralisation can strengthen citizen participation in government by bringing governments closer to citizens and by making governments more accessible. Citizen participation is essential for the success of decentralisation as it enables subnational spending to reflect citizens' preferences and it enables the accountability of public decision-making. Empirically, several studies have found positive association between decentralisation and political participation both in developed and developing countries (Huther and Shah, 1998_[34]; Michelsen, Boenisch and Geys, 2014_[35]; Stoyan and Niedzwiecki, 2018_[36]). Citizen participation and empowerment has been almost a standard argument for decentralisation in many former communist countries (Regulski and Drozda, 2015_[37]) and in developing countries (Faguet, 2014_[38]; Bahl and Bird, 2018_[39]).

Decentralisation can induce the hindrance of rent-seeking and corruption in public administration (Boadway and Tremblay, 2012_[40]) as well as the expansion of experiments and policy innovation (Oates, 2008_[41]). Regarding rent-seeking and corruption, theoretically, the government size being smaller, the size of available rents is thus reduced, hence less interesting. Besides, fostered competition decreases opportunities for rent-seeking and corruption. Additionally, as lobbying becomes more locally-oriented, the monopoly power of national level rent-seeking is reduced (Bordignon, Colombo and Galmarini, 2008_[21]). Empirically, De Mello and Barenstein (De Mello and Barenstein, 2001_[22]) show, using cross-country data, that larger subnational share of public expenditure and revenue is associated with lower corruption. It has nevertheless been argued that the impact of decentralisation on corruption depends largely on the decentralisation system. For instance, very complicated multi-level government systems with several government tiers and unclear assignments are correlated with higher probability of corruption (Fan, Lin and Treisman, 2009_[42]).

Decentralisation can foster subnational experiments and policy innovation in the context of subnational governments' reliance on own-resources financing, yardstick competition and general systematic frameworks supporting subnational governments to introduce their own programs (Oates, 2008_[41]). Subnational experiments and policy innovation can produce information externalities for other jurisdictions as well as for the central government. Empirically it has been observed that many countries have implemented practices at national level only after they were first innovated and implemented in the territories (Campbell and Fuhr, 2004_[43]; Oates, 2008_[41]).

Decentralisation may not always lead only to positive political and administrative outcomes. In some cases the benefits of decentralised service delivery may primarily go to local elites, as local jurisdictions may sometimes be vulnerable to capture by predatory pressure groups, who may be able to receive a disproportionate share of spending on public goods (Bardhan, 2002_[44]). This underlines the importance of strong central government that is engaged to support decentralisation policies, the institutions of local democracy, and mechanisms of overall political accountability (Bahl and Bird, 2018_[39]).

The benefits from decentralisation can be limited in case of inadequate design and implementation of decentralisation reforms. From this aspect, there are a number of pitfalls to avoid. In particular, the policy-makers should avoid unclear assignment of responsibilities between levels of government and vague relationship between fiscally autonomous subnational governments and deconcentrated central government's administration. Unclear assignment of responsibilities can lead to costlier service delivery and democratic deficit, because it is difficult for citizens to hold authorities accountable for policy shortcomings due to confusing assignments (Allain-Dupré, 2018^[45]).

Lack of subnational governments' capacity to deliver public services forms a major threat for successful implementation. This should be tackled with capacity-building programmes and equalisation transfers (OECD, 2019^[16]). It seems that subnational governments have capacity gaps especially concerning public infrastructure investments. According to a survey of the OECD and the EU Council of Regions, "two-thirds of the subnational governments (65%) reported that the capacity to design adequate infrastructure strategies is lacking in their city/region" and "more than half of the subnational governments (56%) reported a lack of adequate own expertise in infrastructure" (OECD, 2019^[3]).

Finally, the coordination of service delivery by the central government is essential especially in the case of decentralised redistributive services provision, such as education or healthcare. The coordinating role of central government and the transfer of resources to poor jurisdictions are often underestimated in decentralised reforms and increase the risk of regional disparities in terms of level of quality and coverage of public services delivery (Martinez-Vasquez, 2011^[46]). A balance should be found between subnational government autonomy and degree of central government regulation, in order to secure the benefits of decentralisation with minimised regional disparities (OECD, 2019^[3]).

3.5. Decentralisation goes hand in hand with an upscale of subnational governance

3.5.1. Experiences from inter-municipal co-operation

The rationale, benefits and challenges of co-operation

Inter-municipal co-operation means that two or more municipalities work together to provide some specific task or several tasks. There are both voluntary and compulsory types of co-operation. In the former, the municipalities are free to establish long or short term co-operation and also to withdraw from co-operation. Mandatory co-operation is defined by law and compliance is monitored and sanctioned by central government.

Inter-municipal cooperation is usually understood as expenditure sharing. In this case municipalities provide joint services and share the costs associated with the delivery of the service. Inter-municipal co-operation can also include joint efforts on the revenue side, although this is less common than expenditure co-operation (Slack, 1997^[47]).

There can be various motivations for voluntary inter-municipal co-operation, but often the rationale is simply to enable more efficient service delivery and better services for the local inhabitants. In order to reach these ultimate goals, utilising economies of scale and creating better capacity for know-how or human resources is essential.

Inter-municipal co-operation is not the only way to utilise economies of scale in municipal service delivery, however. Municipal mergers, or outsourcing service production to private companies, can also lead to bigger scale of production and cost savings. Municipal mergers can be politically difficult to accomplish though. Besides, based on research evidence, it is

not clear that municipal mergers will automatically lead to costs savings (Blom-Hansen et al., 2016^[48]; Moisiu and Uusitalo, 2013^[49]). It should also be noted that municipalities usually provide a wide variety of services, and the optimal production size varies by service. Municipal mergers may then lead to economies of scale in some services but to diseconomies of scale in others.

Furthermore, outsourcing is not always a feasible alternative because of legal reasons or lack of private markets. Regions and municipalities are also in a very different position in ability to utilise private markets. Often the need to enhance economies of scale is greatest in small and remote regions and municipalities, where little suitable private provision may be available.

Compared with municipal mergers, inter-municipal co-operation seems an attractive option especially because it is relatively straightforward to establish. Voluntary inter-municipal co-operation involves a sort of a “minimal” government restructuring and this probably explains why it has been so popular in many countries (Bird and Slack, 2007^[50]; OECD, 2019^[3]). Due to the simplicity of the arrangement, a municipality can easily engage in many different co-operative deals at the same time without high administrative costs.

Inter-municipal co-operation is also a flexible solution. As times change, co-operation can be strengthened, scaled back or ended according to the needs of co-operating partners. Joint service provision can be a gate to deeper engagement: a successful inter-municipal co-operation in one service area may lead to widened co-operation in other services, and in some cases even to a later voluntary merger.

Economies of scale undoubtedly form the major benefit of inter-municipal co-operation. Especially capital intensive public services (e.g. utility systems such as water, waste, energy) often require certain minimum size for efficient service delivery. In such a framework, inter-municipal co-operation can be a feasible solution because it enables both improved economies of scale and tailoring of services to local needs. Inter-municipal co-operation may also help secure local democracy, because the number of elected local politicians does not diminish as a result of co-operation.

Inter-municipal co-operation is not without its challenges, however. Perhaps the main disadvantage is that an extra tier in the hierarchy is introduced. Adding hierarchical layers may increase administration and monitoring costs. Inter-municipal co-operation may also result in democracy deficit, as inter-municipal organisations are usually governed by representatives that are nominated by the member municipalities. This may reduce the accountability and transparency of local decision-making, compared with municipalities’ own production (and with directly elected councils).

An important challenge of inter-municipal co-operation is also that the member municipalities engaging the co-operation inevitably have less power to affect the services than if the service was provided by their own organisation.

It has also been argued that inter-municipal co-operation may create a harmful common pool, which can lead to increased costs and inefficiency. Depending on the size of the pool, monitoring of IMC by member municipalities may be lower if common pool creates a disincentive to do so (Allers and van Ommeren, 2016^[51]).

International examples and experiences of inter-municipal co-operation

A spectrum of practices of inter-municipal co-operation can be observed among the EU and the OECD countries. Three main groups of models can nevertheless be identified: a)

informal voluntary agreements/contracts steered by private law, b) legally defined and regulated voluntary co-operation steered with public or private law, and c) mandatory co-operation steered by public law (see also Figure 3.6).

OECD countries have often chosen to start with a private law model, for example by giving freedom for local authorities to opt for certain formulas, such as contracts, associations and commercial enterprises. The next step is a move to a public law model. The public model means that co-operation is regulated in some detail by public laws, including the contractual and financing arrangements, the type of delegated functions, the governance structure, and the supervision and control. Different degrees of regulation is usually applied for voluntary and mandatory co-operation (OECD, 2019^[3]).

The examples for informal co-operation include shared service arrangements or shared programmes in Australia, Ireland, New Zealand, United Kingdom. Voluntary but legally structured and steered co-operation is practiced in a number of countries, for example in Finland, France, Netherlands and Sweden. Examples of compulsory co-operation with delegated functions can be found e.g. in Finland, France, Portugal and Spain (OECD, 2017^[52]; OECD, 2019^[3]). In some countries, such as Finland, compulsory inter-municipal co-operation has been a substitute to an intermediate level of government, in specialised health care and regional development.

Inter-municipal co-operation is practised in many service areas, from technical issues to health care, education, and regional development and strategy (OECD, 2017^[52]). For example in Germany, IMC is strongly encouraged by Länder, in particular for waste management, sewage, water or transport. Czech Republic promoted voluntary municipal association and micro-regions in the education, social care, health, culture, environment, tourism. Poland introduced the “territorial contracts” in 2014. The contracts are intended to strengthen partnership and improve co-ordination of local public services (OECD, 2019^[3]).

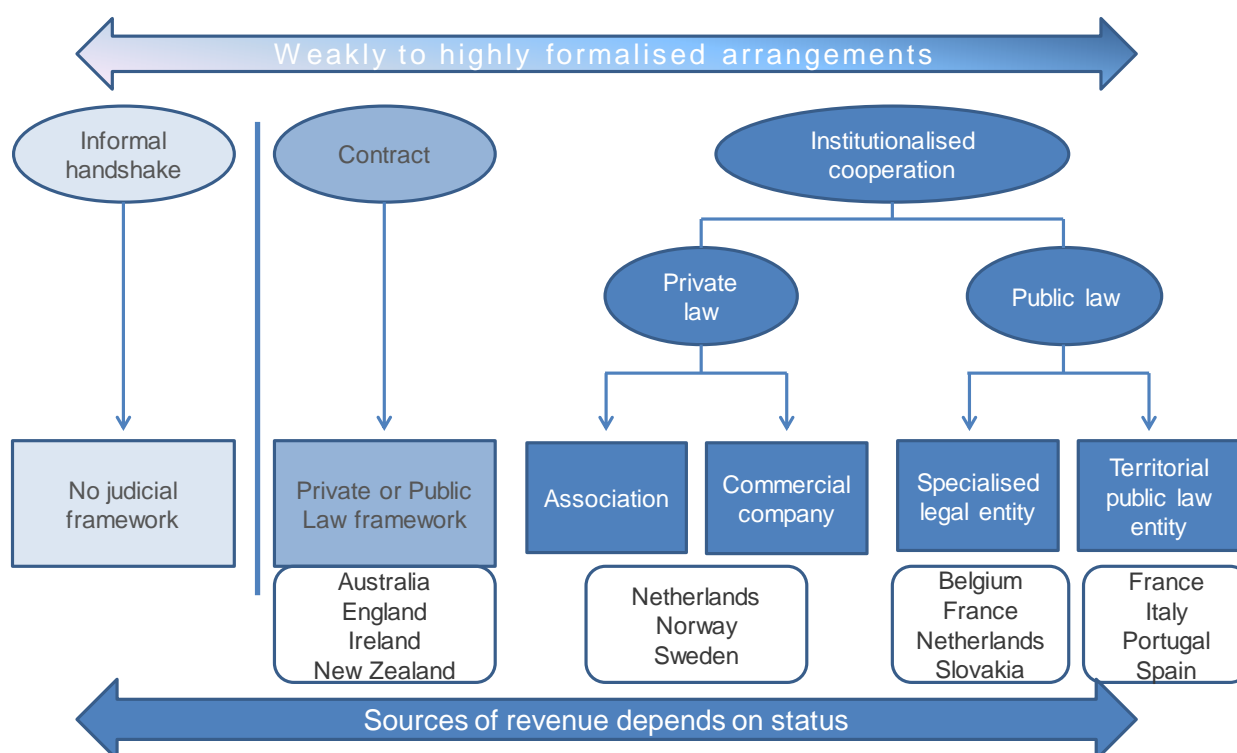
Irrespective of the model of co-operation, the inter-municipal bodies are almost without exception managed by nominated councils and/or boards. While in principle nothing would prevent arranging elections to select the decision-makers for the inter-municipal co-operative bodies, such elections could considerably add the administrative burden. To our knowledge, the only examples of co-operative arrangements which involve elections are the UK’s Devolution Deals. Devolution Deals are agreements which move funding, powers and responsibilities from central to local government in return for governance reform at a local level, typically through the creation of combined authorities and the institution of directly elected mayors (Green, 2018^[53]). The elected mayors are responsible for the tasks and report to both central government and local councils. The Devolution Deals have covered tasks such as public transport, skills and employment, health, land and housing and financing. The first Devolution Deal was announced by the British Government and the Greater Manchester Combined Authority in 2014 (Sandford, 2018^[54]). By early 2018, devolution deals with twelve areas had been agreed. Three of the Deals have collapsed, and two had collapsed and then been partially revived (Sandford, 2018^[54]).

Municipal co-operative organisations are usually financed by member municipality contributions and transfers from central government, but in some countries, like for example in France, IMCs can also collect taxes or levy user fees to pay for services.

In the Nordic countries, municipalities co-operate also in financing investments. In Denmark, Finland, Sweden and Norway, joint municipal credit institutions have been formed by the local authorities. The joint credit institutions borrow money from

international financial markets and lend it to their member organisations (municipalities, counties and companies owned by local authorities). For example, the Swedish Kommuninvest was created in the 1980s in response to difficulties that the municipalities had faced to raise financing for their investments. The Swedish Kommuninvest, like the other similar Nordic credit institutions, has high creditworthiness, which is based on the fact that all members have the liability for Kommuninvest's obligations. Besides, there have never been any credit losses in the operations since Kommuninvest's inception. Kommuninvest currently accounts for more than 40 percent of the Swedish local government sector's borrowing (Kommuninvest Sweden, 2019^[55]). In Finland, the share is even higher, nearly 70%.

Figure 3.6. Formats for inter-municipal cooperation



Note: Add the note here. If you do not need a note, please delete this line.

Source: Author's elaboration from <http://www.municipal-cooperation.org>.

There is currently not much research evidence on the effects of voluntary inter-municipal co-operation on municipal spending or service quality (in particular the evidence of causal relationship is scarce or non-existent). Moreover, the results of existing studies are somewhat mixed (Allers and van Ommeren, 2016^[51]). In France, a recent study found no effect of co-operation on total spending of French municipalities (Frère, Leprince and Paty, 2014^[56]). In contrast, in Spain, small towns that cooperated incurred lower costs for their waste collection service. Cooperation also raised the collection frequency and improved the quality of the service in small towns (Bel and Mur, 2009^[57]). In the Netherlands, inter-municipal associations paid higher interest rates for their loans compared with independent municipalities (Allers and van Ommeren, 2016^[51]), suggesting that co-operative arrangements were considered inefficient by creditors. In Finland, break-ups of municipal

health centre federations in the 1990s increased costs but also the outputs were increased, so the break-ups had no statistically significant effect on inefficiency (Kortelainen et al., 2019_[58]).

3.5.2. Metropolitan governance in the OECD and beyond

The rationale for metropolitan governance

Metropolitan areas differ from other cities and urban areas in many ways. They have exceptionally large populations which are concentrated in dense functional areas: the OECD defines large metropolitan areas as functional urban areas with a population of 1.5 million or higher. Other functional metropolitan areas are defined as urban areas with a population between 500 000 and 1.5 million people (OECD, 2012_[59]).

Metropolitan areas are major commercial centres, and due to agglomeration economies metropolitan cities are also important “engines” of innovation and economic growth. For example, according to Brookings Institute, the 300 largest metro economies in the world account for almost half of the global output (Bouchet et al., 2018_[60]). Metropolitan cities also serve as regional hubs for people living in surrounding communities who come to work, shop, and use public services that are not available in their own communities.

The population living in metropolitan areas is usually heterogenous compared with rest of the country, often with a large share of in-migrants and immigrants. The demographic changes, due to ageing population and growing migration, are particularly challenging for urban form and transportation systems (Slack and Côté, 2005_[61]).

The economic recession since 2008 hit subnational public investment particularly hard, also in metropolitan areas. Public investment was used as an adjustment variable in the context of fiscal consolidation strategies put in place by countries after 2010. In the OECD countries on average, public investment still remain below the pre-crisis level. After ten years of curbed public capital spending, the quality of existing public infrastructure has deteriorated and public infrastructure stock has started to drop in many countries (CEB, 2017_[62]). These deficiencies in infrastructure can seriously hamper productivity and socio-economic opportunities for metropolitan areas, as well as their resilience in the face of megatrends. Furthermore, issues such as environment, local democracy and citizen engagement need special attention in urban and in particular metropolitan areas.

The rapid population growth in metropolitan areas has often resulted in urban sprawl¹. Urban sprawl can create many challenges at metropolitan areas: higher car dependency and longer commuting distances, traffic jams, higher greenhouse gas emissions and air pollution (OECD, 2018_[63]). It also substantially increases the per-user costs of providing public services that are key for well-being, such as water, energy, sanitation and public transport. All this contributes to special spending needs in metropolitan areas compared with other subnational governments.

A well-functioning metropolitan governance is a key for urban success. But the administrative borders and governance models that were designed decades ago may no longer reflect the current activities and needs in these regions (OECD, 2017_[52]). Reforming

¹ Urban sprawl can be defined as urban development pattern characterised by low population density.

boundaries and organisational structures is nonetheless just the first step towards more efficient metropolis. For example, if the land use policies are not intensified in metropolitan areas, the promise from agglomeration economies and human capital spillovers may be missed (Glaeser and Gottlieb, 2008_[64]).

Examples of metropolitan governance models

In order to tackle the special spending needs in metropolitan areas and to secure the role of metropolitan areas as growth engines, countries worldwide are implementing various metropolitan governance models. While each country and each metropolitan area forms a special case, four main types of governance solutions can be identified (Slack and Côté, 2005_[61]; Bird and Slack, 2007_[50]):

- One-tier fragmented government structures,
- One-tier consolidated government structures,
- Two-tier government model,
- Voluntary cooperation/special purpose districts.

The *one-tier model* can have two forms: a series of small fragmented municipalities in a metropolitan area, or one large consolidated municipality for the whole area (Bird and Slack, 2007_[50]). In one-tier governance model, either one political body makes the metropolitan-wide taxing and spending decisions, or several independent municipalities in metropolitan area make their own decisions. In the latter model, there is usually one major city (or a few big cities) that dominates the development. The consolidated single-tier governments have generally been formed by merging lower tier municipalities within the metropolitan area. Metropolitan areas in countries with a long history of local autonomy may however find municipal mergers difficult.

The *two-tier model* is usually formed by an upper tier governing body and municipalities. The upper tier governing body can be for example a regional government or special body created for metropolitan area. Usually the idea is that the upper tier is responsible for services that provide metropolitan/region-wide benefits, and municipalities concentrate on services that lead to local benefits. The upper tier is usually better positioned to internalise externalities, engage in redistribution and allow for economies of scale (Bird and Slack, 2007_[50]).

Voluntary co-operation was discussed at length already in the previous section. In general, at the metropolitan level the voluntary co-operation aims to achieve the benefits of two-tier metropolitan model with less administrative arrangement and smaller costs. Co-operative metropolitan governance models can be used to provide a wide selection of tasks, or single purpose services. Although the voluntary model does not include an elected area-wide government, it provides an alternative method of area-wide arrangement.

There is no evidence, however, that a single optimal governance model could be applied universally. Therefore the governance model must be planned and adapted to local circumstances. Regardless of the model, the basic features such as political representation through direct election, clear assignment of expenditure responsibilities and revenue sources, geographic boundaries that match boundaries of economic region (functional area), fiscal autonomy, adequate capacity and revenues that match expenditures, are essential elements for any successful metro governance.

Defining a proper metropolitan governance framework is the first step. The fiscal structure, the tasks of metropolitan structure and the financing of the services, should be built to suit the governance model. Ideally, the revenues of metropolitan governments consist of mix of user fees, taxes and intergovernmental transfers (Slack, 2018_[65]).

It should also be emphasized that without legitimacy of metropolitan decision-making, defined in national legislation, and clearly defined and effective authority, the metropolitan governance may enjoy only limited success. In order to solve these problems, an increasing share of countries have decided to establish a special regime for their capital cities and main metropolitan areas. Currently around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014_[66]).

Some recent examples of metropolitan governance include the 2013 French Law on Metropolitan Areas which contemplated differentiated governance for Paris, Lyon and Aix-Marseille, to include governance structures with own taxing powers and the shift of competences from regions and departments (OECD, 2015a). In France, efforts were made by the central government already during the 2000s to encourage co-operation at an urban level (spatial planning directive, DATAR calls for metropolitan projects). However, apart from the creation of urban communities in 1966, they had little success. The 2010 "Law on the Creation of Metropolitan Areas" has led to the creation of only one metropolis (Nice Côte d'Azur), confirming once again that regulation is not sufficient to induce reform. A new step was achieved in 2013 with the first discussions on the new law on metropolitan areas. Government adopted a new approach, based on governance solutions tailored to territorial specificities and local needs. The 2014 "MAPTAM" law, on the modernisation of public territorial action and metropolises, introduced a degree of diversification across French territories. 14 metropolises (more than 400 000 inhabitants) will be granted greater responsibilities than "standard" municipalities or inter-municipalities, justified by their larger size and urban nature. Among them, the three largest metropolitan areas (Paris, Lyon and Aix-Marseille-Provence which already have a specific status since the 1982 PLM law) received ad hoc different governance structures - i.e. different organisation, responsibilities and resources.

The Métropole du Grand Lyon, operational since January 2015, has (unlike Paris and Aix-Marseille-Provence) a particular metropolitan status: it merged the responsibilities of the existing inter-municipal co-operation entity Grand Lyon and those of the département du Rhône, covering about 1.3 million people - the only one of its kind in France. Political representatives for the metropolis will be elected through direct suffrage from 2020 onwards. This innovative "asymmetrical" approach based on "recognising the diversity of territories within the unity of the Republic" is relatively new in France (OECD 2013), where past policies were uniform across territories (except for overseas territories). It aims at adapting organisational structures and policies to the distinctive characteristics of territories at an appropriate scale. Another innovation is the setting up of two transitory inter-ministerial "prefiguration" task forces for Grand Paris and Aix-Marseille-Provence. These task forces, headed by the prefect and composed of national and local civil servants and experts, prepared the reforms and then helped in the transition process. They also work to gain support from citizens, local authorities, the private sector, and civil society (OECD, 2013).

Finally, the French metropolitan reform is a good illustration (at least in the cases of Grand Paris and Aix-Marseille) of resistance from local mayors, and possibly from the regional level. The implementation process is as crucial as the nature of the reform itself: the adoption of a law is not sufficient as it may not, or partly, be implemented in practice.

In Italy, a 2014 reform ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metro areas—Rome, Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples, and Reggio Calabria—and four additional cities in special regions—Palermo, Messina, and Catania in Sicily, as well as Cagliari in Sardinia) (Allain-Dupré, 2018_[45]).

The metropolitan areas of Zurich and Geneva are based on voluntary intergovernmental cooperation. In the case of Geneva, intergovernmental co-operation extends across national borders, to local government in the neighbouring France. Intergovernmental cooperation is practised in electricity, waste disposal, and energy supply. Political representation is composed of delegates of the member communes (Kübler and Rochat, 2014_[67]). This approach to dealing with inter-municipal externalities is seen in Switzerland as the most pragmatic way of addressing the metropolitan challenges (Kübler and Rochat, 2014_[67]).

An important question is how the relationship between metropolitan areas and the elected regional governments should be arranged. For obvious reasons, it is essential that both the benefits of metropolitan governance and the interests of the whole region can be secured. There is however no one answer to this question, and the practices vary from a country to another. In some cases, such as in Italy, regional level governments originally opposed the strengthening of metropolitan governments, because regions saw this development as weakening their position (Conti and Vetrutto, 2018_[68]). In Italy, the tasks of previous Provinces have been transferred to metropolitan cities by the Regions, and the metropolitan cities are mostly dependent on the funding of the regional governments (Boggero, 2016_[69]). Italy is not the only example in this respect however. In Canada, all aspects of municipal government – their boundaries, their responsibilities, their taxing powers – are completely controlled by the provincial governments. Hence, in Canada the Provinces decide also on the tasks and financing of metropolitan governments. For example, the provincial government has in effect largely taken over responsibility for transportation and land use planning for the Toronto region (Slack and Bird, 2010_[70]). The Nordic countries provide another type of example. For example in Sweden, the distinction between municipalities and counties applies also in case of metropolitan cities. The metropolitan area of Stockholm has no administrative function of its own, although the urban area extends into 11 municipalities in Stockholm County. By Constitution, Swedish counties have their specific tasks and financing, and municipalities have their own, and the regions have no power over municipalities (or vice versa). Regional development is largely based on voluntary co-operation and dialog between the central government, counties and municipalities (OECD, 2017_[71]).

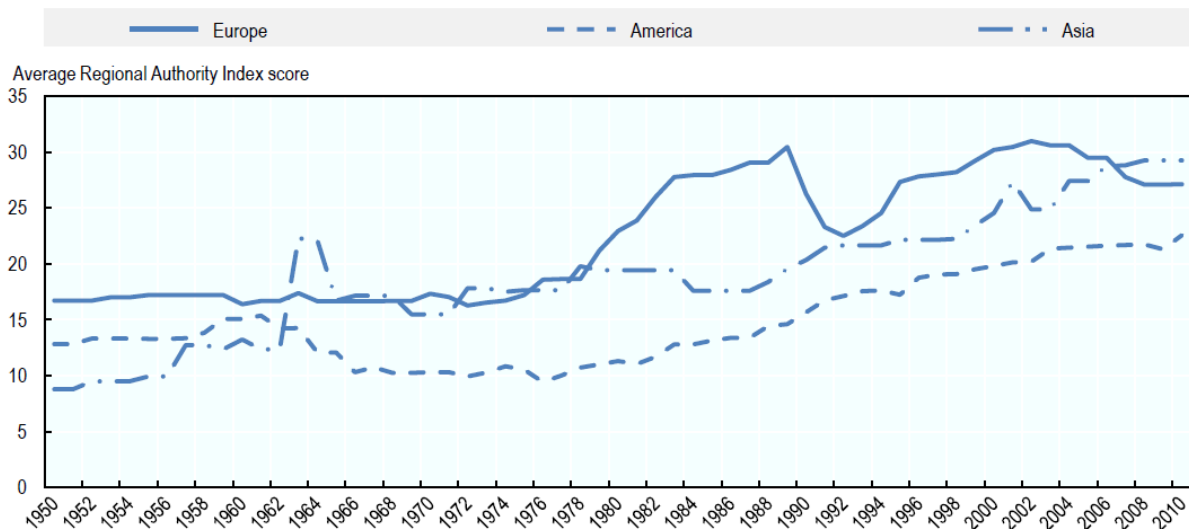
3.5.3. Regionalisation: an increasing trend worldwide

Several European countries have recently created new regions and strengthened the existing ones. Many more are currently planning such reforms. For Eastern European countries regionalisation has been largely in the context of EU enlargement. In other countries, strengthening existing regional governments has been popular in particular in Nordic countries, but also in France or Italy. Responsibilities such as higher education, specialised healthcare and regional public transport have been reassigned from the municipal and the central government levels to a newly created or reinforced regional level.

Regionalisation trend extends beyond Europe, as also countries in Asia and America establish regional level governments, even in faster pace compared with Europe. The Regional Authority Index (RAI) measures the degree of power of intermediate governments. The RAI specifically focuses on regional government, and the indicator

traces regional authority across 10 dimensions in 81 countries between 1950 and 2010 (Hooghe, Marks and Schakel, 2009^[72]; Hooghe et al., 2016^[7]). The average RAI-score has increased considerably during the past 50 years: in 1970 the index value was 10.3 for America, 15.5 for Asia, and 17.3 for Europe. In 2010 the average RAI-score increased to 22.6 in America, to 29.3 in Asia, and to 27.1 in Europe (Figure 3.7).

Figure 3.7. Regionalisation in America, Asia and Europe since 1950



Note: Add the note here. If you do not need a note, please delete this line. Shown are average Regional Authority Index scores for 29 American, 11 Asian and 41 European countries. America: Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, El Salvador, Suriname, Trinidad and Tobago, Uruguay, the United States, and Venezuela. Asia: Australia, Brunei, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Timor Leste. Europe: Albania, Austria, Belgium, Bulgaria, Bosnia and Herzegovina, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Kosovo, Latvia, Lithuania, Luxembourg, Malta, Montenegro, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia and Montenegro (until 2006), Serbia, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and Turkey.

Source: (Schakel, 2019^[23]; Hooghe et al., 2016^[7]; OECD, 2019^[3])

Despite the general trend of increasing importance of regional government level, also reforms to opposite direction have been implemented. This has been the case for example in Denmark and Norway with a reduction in the responsibilities assigned to regions, or in Hungary through recentralisation reforms (Pasquier, 2019^[73]). In Denmark, the major local government reform in 2007 reduced the number of regions and reduced their tasks and autonomy in favour of central government and municipalities. The existence of regions has never been completely politically secured or accepted in Denmark (Blom-Hansen, 2012^[74]). Regions are not as popular among the electorate as municipalities or central government, and this lack of popular support has made it difficult for the regions to create a strong legitimacy base (Blom-Hansen, 2010^[75]). Also in Norway the regions have suffered from legitimacy problems. In Norway, the central government took over the hospital services from regions in 2002, mainly due to equity concerns (Borge, 2010^[76]). In Estonia, the municipalities were recently strengthened by a radical merger reform, and at

the same time the regional government level was abandoned and the tasks were given to municipalities and central government agencies (Rahandusministreerium, 2019^[77]).

The main types of regionalisation and the country experiences on regionalisation reforms are discussed in more detail in section 4.

3.5.4. *Asymmetric decentralisation*

Yet another important trend in multi-level governance in OECD countries is asymmetric decentralisation. It is defined by the fact that the same subnational government levels have different political, administrative or fiscal powers (Congleton, 2015^[78]). Asymmetric decentralisation can take various forms. These are shortly discussed in this section.

Political asymmetric decentralisation refers to situations where some regions or subnational governments have been given political self-rule that deviates from norm or average assignment. One common way to categorise asymmetric decentralisation has been to divide the policies into “de jure” or “de facto” arrangements (Martinez-Vazquez, 2007^[79]; Bird and Ebel, 2006^[80]). De jure asymmetric decentralisation is based on special legal status of a certain region. In some cases, the status is outlined in the constitution, but more often asymmetric treatments are established in the ordinary law (sometimes both)². The regions with special “de jure” status often enjoy considerably broader political autonomy than other regions. Politically motivated asymmetry usually leads to administrative and fiscal asymmetry as well.

Even if subnational governments belonging to same government tier were treated symmetrically in terms of the politico-legal system, there might still be “de facto” asymmetry in implementation. This *administrative asymmetry* often aims to take the different capacities of subnational governments into account. Administrative asymmetry may for example include sequencing a national policy so that the subnational governments that fulfil certain predetermined standards³ are given greater autonomy in spending and revenue. The rest of the subnational governments could then ‘grow into this role’ over time.

Asymmetric fiscal arrangements consist of wide variety of measures including special spending responsibilities, revenue bases or taxation rights and additional transfers. The main forms of asymmetric fiscal decentralisation can be summarised as follows:

- *Differential spending assignments*. For example, some regions or subnational governments may be assigned tasks in specific services, which are otherwise provided by central government or higher level of subnational governments.
- *Differential revenue autonomies*. The subnational governments with more capacity may be given more tax autonomy than usual. Asymmetric autonomy could be used also for collecting user fees or selling property.
- *Differential treatment in transfer system*. In this case, the regions with unique service needs or exceptional operating environment may justify the use of special purpose grants or use of certain criteria in formula-based grants.

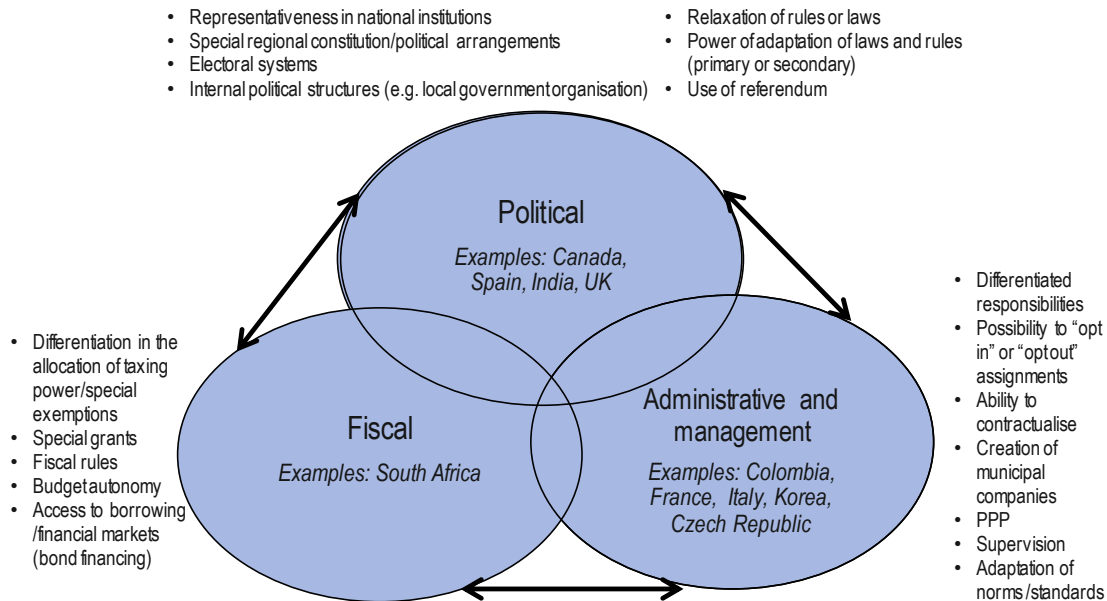
² The division of asymmetric arrangements (with legal basis) into ones that are based on constitutional status and others that are based on ordinary law, is of course a simplified description of reality. In many cases, like for example in Spain, the regions may have special status both by constitution and ordinary law.

³ Sometimes the asymmetric arrangement can be based on discretion also. This could be the case if, for example, specific rules would be difficult to define or costly to administer.

Specific transfers may be used as an alternative to differential revenue autonomies.

- *Differential fiscal rules.* Some subnational governments may be given more room for maneuver in borrowing for example. This could be the case if the subnational government has special needs for public investments and if it is capable to fulfill its obligations.

Figure 3.8. Three main types of asymmetric decentralisation



Source: (OECD, 2019^[31]), Allain-Dupré, Chattry and Moisiu (forthcoming), Asymmetric decentralisation in OECD countries: trends, challenges and policy recommendations, OECD Working Paper.

During the last seven decades or so, asymmetric arrangements have become more common especially among unitary countries. There is a greater convergence between unitary and federal countries in the trend toward greater differentiated governance at the subnational level (OECD, 2019^[31]). In unitary states, symmetry is often one of the basic principles of the state, motivated by equity and integration of different parts of the country, such as in Chile or France ("une et indivisible"). However, some unitary states have strong elements of asymmetry, in particular to recognize a different status to territories having strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands, outlying regions (France, Finland). It is also the case with Portugal with the 2 autonomous regions, Azores and Madeira.

Asymmetric decentralisation is increasing in unitary countries, based on new motivations – notably giving more responsibilities to regions with greater capacities. Asymmetric decentralisation is often applied at three different scales: regional (state/province), metropolitan and local levels. Also in this respect asymmetric decentralisation trends are changing: whereas during the past decades the asymmetric arrangements occurred mostly at the regional level, the present trend seems to apply asymmetric decentralisation to large cities or for selected local governments. Large cities have experienced growth in asymmetric decentralisation arrangements perhaps because the benefits of urbanisation and agglomeration economies have become more widely understood and accepted. As a result,

the number of metropolitan governance authorities has increased during the past decades. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014_[66]).

Figure 3.9. Different scales of asymmetric decentralisation



Source: (OECD, 2019_[3]).

4. Regionalisation in the context of decentralisation reforms

Regional level of government has become more important in both centralised and decentralised countries. While there is no single explanation for this development, in decentralised countries the motive for regionalisation has often been the desire to utilise bigger scale in public service provision, while still securing the benefits from decentralised decision-making. These reforms have typically transferred powers from local to regional level, although the reforms usually include some powers transferred also from the central government to regions. In centralised countries regionalisation has often happened as part of a wider decentralisation reform, for example as a response to growing dissatisfaction on the centralised public service delivery in regions. In these cases both spending and revenue powers have been transferred from the centre to regions.

This section discusses the main types of regional reforms. The first subsection identifies four main ways that have been used to strengthen regional level decision-making. The weakest form is to deconcentrate central government service delivery and the strongest form is to establish regions with elected self-government and fiscal autonomy. In between these two extreme policies, the regional level governance is arranged by inter-municipal co-operation or by regional decentralisation. In the first subchapter, these policies are discussed from both benefit and challenge aspects. The second subchapter describes and discusses the regional reforms that have been carried out in the EU countries. The third subchapter takes a deeper look on the regional reforms carried out in Finland, France and Poland. While these countries differ a lot in their degree of decentralisation, they nevertheless provide interesting examples of different solutions to similar policy questions.

4.1. Strengthening regions in a multilevel governance framework

Four main types of regionalisation can be distinguished: (1) Regionalisation through deconcentration; (2) Regionalisation by existing local authorities (inter-municipal co-operation); (3) Regional decentralisation; and (4) Political regionalisation (or regional autonomy). Before going further in describing each group, some prior explanation is provided below.

Firstly, federalism is not in itself a form of regionalisation. On the contrary, a federal state is a means of state organisation whose structures and operation can be affected by regionalisation in its different forms. Regionalisation of federal units is one of these, but it can itself be attached to different types of regionalisation. For this reason, it is very important not to take the federal state as such an expression of regionalisation or regionalism.

Secondly, regionalisation is not always homogenous. One country can therefore feature several forms of regionalisation depending on the problems faced by the state and the particular situations that need to be considered, or perhaps due to competition between different types of institutions to carry out regionalisation-specific operations. For instance in the United Kingdom, no less than three different types of regionalisation currently exist.

Thirdly, it is important to avoid having a static vision of regionalisation and institutional evolutionism. Obviously, situations can change, and depending on the reforms implemented, a state can successively feature different types of regionalisation. For

example, France implemented a purely administrative regionalisation from the 1960s before the current regional decentralisation was introduced at the beginning of the 1980s. Some countries in Central and Eastern Europe could undergo a similar development. However, it is equally important not to consider the different types of regionalisation as the rungs of a virtuous ladder that states need to climb to reach the ideal model of regionalisation, i.e. the greatest regional autonomy. On the one hand, the forms that regionalisation takes in a state do not just depend on the problems that explain its generalisation, which are above all socio-economic; they also depend on numerous other country-specific factors, such as the extent of national integration, the conception of the state accepted by society and political elites, and, of course, the political situation. In addition, regionalisation includes limitations and risks that vary depending on the state and that can be appreciated in different ways.

Table 4.1. Types of regionalisation

	Sources of legitimacy	Nature of the action	Nature of the identification	Countries
Regionalisation through deconcentration	Effectiveness of public policy	Deconcentrated state administration at regional level	Mainly national	Denmark, Greece, Portugal, Bulgaria, Lithuania, Norway, Romania, Slovenia, Slovakia, Sweden
Regionalisation by inter-municipal co-operation	Effectiveness of public policy	Limited powers of planning	Mainly national	Finland, German Länders, Ireland
Regional decentralisation	Effectiveness and local democracy	Decentralisation at the regional level	Mainly national (and sometimes subnational)	Denmark, France, Poland, Czech Republic, Norway, Sweden
Political regionalisation	Cultural identity and local democracy	Political autonomy at the regional level	National and subnational identification (either complementary or conflictual)	Spain, Italy, UK, France (overseas territories), Portugal (Azores, Madeira)

Source: Author's modification of (Pasquier, 2019^[73])

4.1.1. Regionalisation through deconcentration

By regionalisation through deconcentration we mean the administrative reorganisation of central government authorities. In that case the deconcentrated authorities are subordinate to the central government, or of organisations that, although endowed with a degree of legal autonomy, constitute instruments of its action placed under its control, and whose functions, or at least some of them, aim to promote regional economic development, and are to this end based on mobilising local authorities and economic organisations. One example is Luxembourg, whose government has defined four land planning regions, but the country's very small size does not make it necessary to endow them with their own institutions.

In France, regionalisation was initially based on deconcentration. In 1964, the establishment of regional prefects as part of the regional action districts, followed the creation of DATAR (Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale - Interministerial Delegation of Land Planning and Regional Attractiveness) in 1963. This introduced a new devolved level more appropriate than the smaller département to implement territorial land planning policies and the national plan. Local authorities and economic and social interests were represented in an advisory committee working under the regional prefect; in some regions, economic development

bodies were set up associated with representatives of the region's economic interests (private associations known as "expansion committees"). The underlying rationale remained centralisation, and the economic development was led by the state.

The case of Portugal is particularly interesting in this respect because the creation of local authorities at regional level on the mainland has always been met with wariness from municipalities, which are relatively large in size and small in number; these municipalities may fear that regional authorities will make them less autonomous, despite guarantees set out in the Constitution.

In central and oriental Europe, regionalisation which is based on deconcentration is the dominant form. In some cases, the small size of the country explains this choice, although it is not necessarily the only reason.

In Estonia, the regional development policy has not led to a change in the country's territorial organisation. In 1995, two central bodies were created: the Council of Regional Policy, for inter-ministerial coordination of policies concerning regional development, and the Estonian Regional Development Agency. State policy is implemented at the level of the 15 counties by a governor. In 2018 mergers of municipal authorities have replaced the old counties in the implementation of the EU cohesion policy.

A similar system operates in Lithuania, where the implementation of spatial planning and regional development policy is carried out by the governor at the level of higher administrative units (i.e. province/county); two regional development agencies were created in 1998, respectively for Kaunas and Klaipeda.

In Slovenia, regionalisation goes through centralised bodies (the regional development council, under the government and regional development agency) and the definition of regions of intervention.

Bulgaria and Slovakia have divided their territories into regions. However, these regions remain districts of state administrative authorities that are in particular responsible for implementing state regional development policy. Bulgaria was divided into nine major economic regions from 1987, but in 1998 returned to 28 small regions (nevertheless considered as regions – "oblast's"), which is in fact the traditional administrative division of Bulgaria. However, this reform was spurred by economic arguments, such as communication networks and the country's weak economic integration. The 1999 Act on regional development establishes a regional development council under a regional governor comprising municipal representatives, which advises on regional development issues. In Slovakia, the 1996 reform divided the country into eight regions, taking the number of administrative districts from 26 to 79. Although the Constitution establishes territorial authorities at the higher level, for the moment the law only organises devolution at regional level. However, it is worth noting that the regional administration offices are organised in the same way as the district administration offices, which themselves correspond to much older forms of administrative organisation that date back to the Austrian empire. The regional administration office is responsible for coordinating local development missions common to state administration bodies and local authorities.

These observations lead to several general remarks. First, regionalisation through deconcentration does not necessarily correspond to situations in which local authorities (municipalities or counties) are weak. On the contrary, in obviously very different contexts, municipalities and local authorities in Portugal, England and Bulgaria are large and, proportionately dispose of quite significant means of action as in England. Secondly, regionalisation through deconcentration is centred on regional development, possibly

associated with the deconcentration of other administrative functions. Thirdly, deconcentration includes institutions or mechanisms that, to different degrees, involve local authorities in regional development policies, which nevertheless remain closely controlled by central government. Lastly, administrative regionalisation is in all cases (except in Sweden and England) a response to the implementation requirements of the EU.

4.1.2. Regionalisation through inter-municipal co-operation

Regionalisation can take place through existing local authorities when the functions that require developing are managed by local authorities that were initially established with other aims. This involves either extending their attributions and scope of action, or their cooperation within a wider framework. This type of regionalisation is different from deconcentrated regionalisation in that the regionalisation takes place through decentralised institutions acting with their own powers. This case is actually very common in the European context. This type of regionalisation is notably typical in five European Union Member States, i.e. Germany, Estonia, Denmark, Finland and Ireland.

In Germany, regionalisation takes the form of co-operation between local authorities in the Länder. The first indication of local authorities' regional expression is the regional associations of municipalities that can be found in five of the Länder. They generally cover a bigger territory than a Land's government districts (although they coincide in Bavaria); they originate in historic cooperation and operate in the domains of regional culture, health and social services. The regional federation of Palatinate (in Rhineland-Palatinate) is one of the most active. The second form of this regional expression is related to regional planning, which is totally or partially decentralised to local authorities in some Länder. In Baden-Württemberg, Bavaria, Lower Saxony and Rhineland-Palatinate, regional planning is entrusted to decentralised structures under the Land's authority, i.e. the regional planning federation (districts ("Kreise") and towns with district status ("kreisfreie Städte"), the federation's council being elected directly), or the district itself (Lower Saxony). However, beyond these relatively traditional institutions, local authorities and their representative organisations affirm, at both federal and Land level, their vocation to interconnect and represent regional interests, based on: i) their proximity to citizens; ii) the fact that a Land is a state in the federal system and that it does not therefore have a vocation to represent regional interests; iii) the fact that even in the EU's Nomenclature of Territorial Units for Statistics, Länder correspond to the level NUTS 1, whereas regions correspond to NUTS 2.

The cases of Ireland and Finland correspond to regionalisation organised at the scale of the entire country based on cooperation between local authorities. In Ireland, eight regional authorities were created in 1994; however, other functions related to regional development are still carried out by specialised agencies. Regional authorities cover the entire territory and are administrated by a council whose members are elected by counties and county boroughs. They coordinate the planning programmes of local authorities and play a growing role in carrying out Community programmes. In Finland, 20 regional councils have been established, over the entire territory, in application of the Act of 1994 on regional development. They are federations of municipalities created by the unanimous agreement of the municipalities that they comprise, and not a new local authority; the members of regional councils are elected by the municipal councils.

In Portugal, Sweden and the Netherlands, this type of regionalisation only concerns some parts of the territory. In Sweden, a 1995 Act adopted following various reports and debates on the number and organisation of counties, organises regional cooperation between the

four counties of western Sweden; this cooperation is administered by a council composed of representatives of municipal councils and county councils. In Portugal, two metropolitan areas, Lisbon and Porto, were created by a 1991 Act; they are local authorities in the sense set out in the Constitution (Art. 236). The metropolitan area of Lisbon covers the perimeter of the region that was to have been created around Lisbon, except for two municipalities. The council of the metropolitan area is a product of the municipal councils of the regrouped towns; a liaison with the regional coordination commission is ensured, mainly due to the participation of its chairperson and representatives from major public services concerned on the metropolitan area's advisory committee. Lastly, in the Netherlands, the term region is traditionally used to designate an infra-provincial territorial frame, to organise devolved state services or intercommunal cooperation services. In 1994, a law established the creation of seven urban regions based on the seven biggest urban areas in the country, and capable of carrying through European-level development strategies.

The comparison of these different experiences leads us to make several observations. First, the most frequent case is when regionalisation is based on the creation of institutions that are common with local authorities; this illustrates the fact that the pre-existing constituencies of local authorities, at second and first levels, do not fully correspond to the scale of the regionalisation. Secondly, we can see that towns and inter-municipal cooperation can also assume the functions of regionalisation, and that cities in particular can find themselves at the centre of the regionalisation process, as seen in Germany, Portugal, the Netherlands and Hungary. Thirdly, all institutions in which regionalisation is expressed through existing local authorities tend to preserve the rights and authority of the local authorities that they group together: their bodies result from them, their resources come from associated authorities and are relatively low, and their competencies are limited, in particular when the institutions of regionalisation are a form of intercommunal cooperation (this is particularly the case in the metropolitan areas of Portugal, where the council only has a function of coordinating municipalities in the urban area). To a certain extent, regionalisation through existing local authorities is a limited form of regionalisation, unless urban areas are endowed with strong institutions and sufficiently broad jurisdictions.

4.1.3. Regional decentralisation

Regional decentralisation designates the creation or substitution of a new elected authority at a higher level than that of existing local authorities, and qualified as a region. The direct election of the regional councils is a key criterion of the regional decentralisation. The region then takes on a specific institutional aspect, characterised by the application of the local authorities' general regime. It thus forms a new category of elected territorial authority, with the same legal nature, but with a broader constituency that includes the existing local authorities and with competencies that are essentially focused on the economy or turned towards development. Although this type of region modifies the territorial organisation, it comes under the constitutional order of the unitary state.

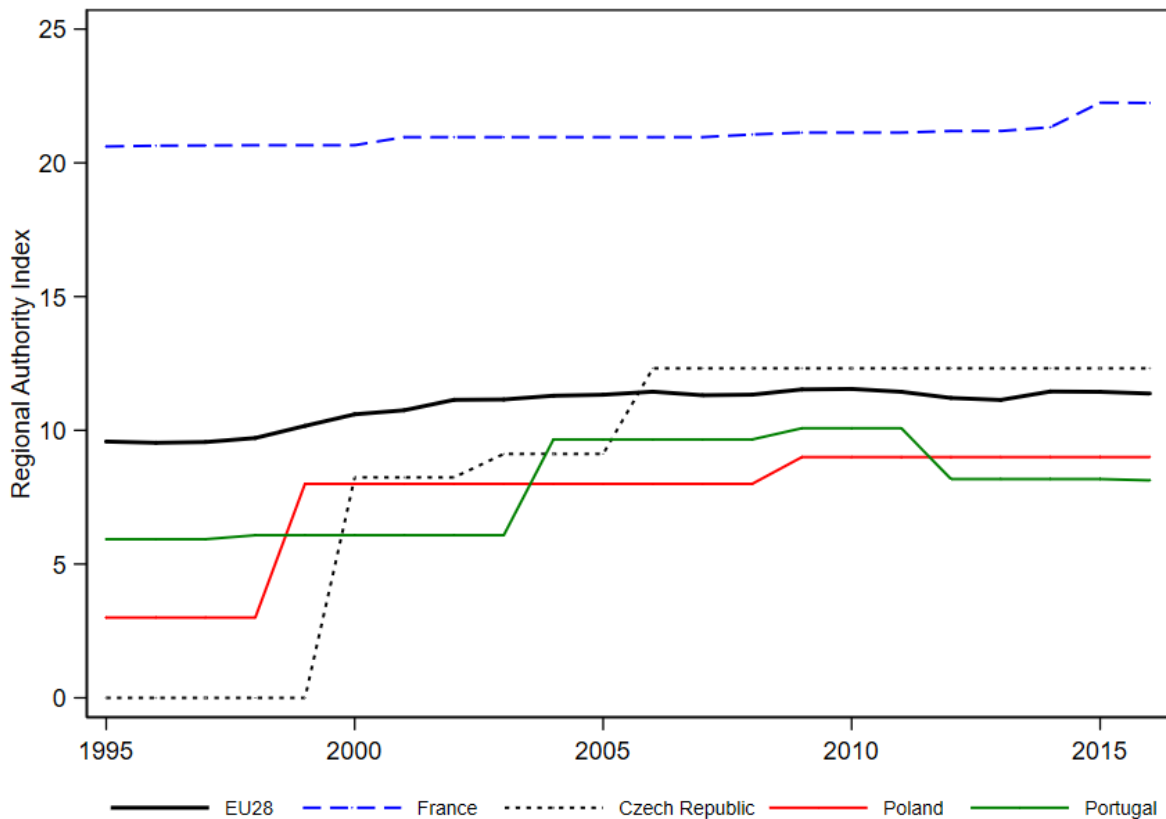
France is the only EU Member State that has fully implemented this regional concept. In application of the Act of 2 March 1982, and since the regional elections of 1986, France features 25 regions, four of them in its overseas territories. They benefit from the principle of free administration by local authorities, which was initially consecrated by the Constitution for municipalities, departments, and overseas territories. The principle of free administration is not in itself a regulatory power, except in the case of express legislation; nor does it involve the exercise of any legislative power. In fact, due to their jurisdictions, the regions wield less normative power than municipalities and *départements*, and in

particular mayors. The regions cannot exercise or arrogate any authority over other local authorities on their territory.

In Eastern Europe, two countries, Poland and the Czech Republic, have moved towards regional decentralisation (Figure 4.1). For the moment, only the Polish reform is in force, since autumn 1998; the Czech reform will not come into force until 2020 with regional council elections being scheduled for November. These two states introduce territorial authorities in the framework of unitary constitutions. Along with the re-establishment of the formerly abolished districts (*powiat*), Poland now has 16 voivodeships, instead of the 49 that had existed since 1975. Voivodeships are a type of territorial authority whose creation is permitted by the Constitution, which nevertheless establishes a jurisdiction to the benefit of municipalities. The state's territorial administration is also organised at the level of the voivodeship under the authority of the *voivode*, who controls the territorial authorities. In the Czech Republic, a constitutional Act of 1997 establishes the creation of "high-level territorial authorities" provided for in the Constitution, in the form of 13 regions and the capital, Prague, placed at the same level. A devolved state administration could be maintained in the regions, but the district offices would be abolished.

All of the examples of regional decentralisation described above share numerous common traits, despite the heterogeneity of institutional contexts. The regions are always administered by councils elected by direct universal suffrage. In the case of France, the regional elections are held in direct universal suffrage using proportional representation lists. The election is held over two rounds, with majority bonus (25% of seats for the leading list). The lists must be gender balanced by alternatively have a male candidate and a female candidate from the top to the bottom of the list. Only lists with as many candidates as available seats in every *département* of the region may compete. In the case of Sweden, the county/regional elections use proportional representation lists. In Sweden, they also use the proportional representation but the county/region election is held over one round. Seats are allocated amongst the Swedish political parties proportionally using a modified form of the Sainte-Laguë method. This modification creates a systematic preference in the mathematics behind seat distribution, favoring larger and medium-sized parties over smaller parties. At the core of it, the system remains intensely proportional, and thus a party which wins approximately 25% of the vote should win approximately 25% of the seats.

Figure 4.1. Regional Authority Index in Czech Republic, France, Poland, Portugal and EU28



Source: OECD elaboration of (Schakel, 2019^[23]; Marks, 2019^[24])

In practice, the regions in the decentralisation model have no normative power. They have extensive administrative jurisdictions related to key domains of economic and social life, but the law directs their policies towards regional development; this is most clearly apparent in the French and Polish laws. Regional decentralisation includes measures to protect the autonomy of existing local authorities: territorial authorities are prohibited from having control over each other in France; Poland features municipal competency in principle for affairs related to free territorial administration. The financial capacity of regions is clearly limited, compared to the political regionalisation or federal systems.

In many cases a dual model prevails where the deconcentrated central government and regional decentralisation co-exist. However, depending on the country, the balance of power varies. In the French case, regional councils are gradually gaining power. In France, the deconcentration tends to focus on sovereign functions of the State (security, financial and legal controls), whereas in the Polish case the regional deconcentration remains much more influential in the implementation of territorial policies and strategies.

4.1.4. Political regionalisation (institutional regionalism)

This type of regionalisation is often put forward as a model due to the regional autonomy that it features, and is often idealised. From a legal point of view, in comparison with regional decentralisation, the political regionalisation is characterised by several distinguishing aspects. These include the attribution of legislative power to a regional assembly, wider jurisdiction whose content is defined and guaranteed by the Constitution, or at least by a constitutional-type text (note that in the United Kingdom, parliament's sovereignty prevails), and, to exercise this jurisdiction, by an executive with the characteristics of a regional government. Unlike regional decentralisation, political regionalisation affects the structure of the state and modifies its constitution. Political regionalisation dominates the entire territorial organisation of the state in Spain, Italy and Belgium, although the latter established a formally federal constitution in 1993. In other countries, such as the United Kingdom and Portugal, this type of regionalisation is partially applied. Nevertheless, political regionalisation is different from the federal state in several aspects, i.e. regions are not states, and the constitution in principle remains that of a unitary state; in Spain some even fear that the conjunction of federalism and regionalism may threaten the integrity of the state.

Unlike federated states, political regionalisation does not result in a double constituent power: regions are overseen by a statute subject to a vote by the national parliament, although drawn up by the regional assembly, and not by a constitution like federal states. While multiple forms of institutional cooperation between states and regions exist, the latter do not participate in the exercise of national legislative power through their own representation. This asymmetry reflects the fact that political regionalisation results from recognition of specific ethnic, cultural and linguistic factors, in the name of which wider autonomy is granted to the regions in question and these specific features define their identity. In this aspect, political regionalisation is institutional regionalism. It can also produce an effect of dissemination or contagion that is likely to lead to a generalisation of regional organisation based on the same principles, usually with narrower autonomy. This is what occurred in Spain, where the autonomy regime was initially aimed at satisfying the demands of "historic" nationalities.

Insofar as political regionalisation affects the structure of the state, it is legitimate to see in it the source of a new type of state, different from both federated states and classic unitary states. Daniel Seiler thus suggested calling it an "autonomic state", defined by the absence of co-determination of everything by parties, and central control of the power of devolution. According to this definition, unlike confederations, autonomic and federal states have in common the autonomy of parties, but differ in their handling of relations with the centre. Historically, the "failed state control" of Belgium, Spain and Italy seems to correspond to resistance from the side lines, which participated to different degrees in the Europe of City-States.

4.2. Regionalisation reforms in the EU countries: an overview

In the above discussion (section 4.1) regionalisation was defined as the process of an institutional handling of specific interests related to promoting a territory, in a socio-economic perspective, but also taking on cultural and/or political dimensions and bringing about a change in the operations of intermediate institutions that formerly merely relayed the authority of central power. When understood in this way, regionalisation is a general trend in Europe, mainly related to economic developments, although less significant in some countries for reasons related to their size and history.

4.2.1. Regionalisation and regional institutions

Contrary to what we might expect, the most widespread type of regionalisation operates through existing local authorities. In the European Union, federalism and quasi-federalism are only fully in place in four states, i.e. Austria, Belgium, Germany and Spain, although in different forms. Regional autonomy is spurred by centrifugal trends in Belgium and Spain, but not in the Austrian and German Länder. In Italy regionalism has inspired a political movement without reaching institutions. Two other countries feature political regionalisation on part of their territory, i.e. Portugal (its islands) and the United Kingdom (Scotland and Wales). Regional decentralisation, typical of France, is applied in Sweden; regionalisation through deconcentration is characteristic of Greece, Portugal, the United Kingdom (England) and Sweden. In Sweden, though, deconcentrated central government regional units and regional governments with elected self-government and fiscal autonomy operate side by side.

In contrast, in Eastern EU member States, regionalisation by federal units and political regionalisation are absent and deconcentrated regionalisation characterises six states in ten. Only two states have so far embarked on the path of regional decentralisation (Poland and the Czech Republic). Others have tried to do so but the reform was blocked after a failed referendum (Slovenia). Regionalisation by existing local authorities takes place in Romania and partially in Hungary. Others can be expected to move towards regional decentralisation, or to increase the participation of existing local authorities in the regionalisation process, but the institutional regionalism path appears to be excluded.

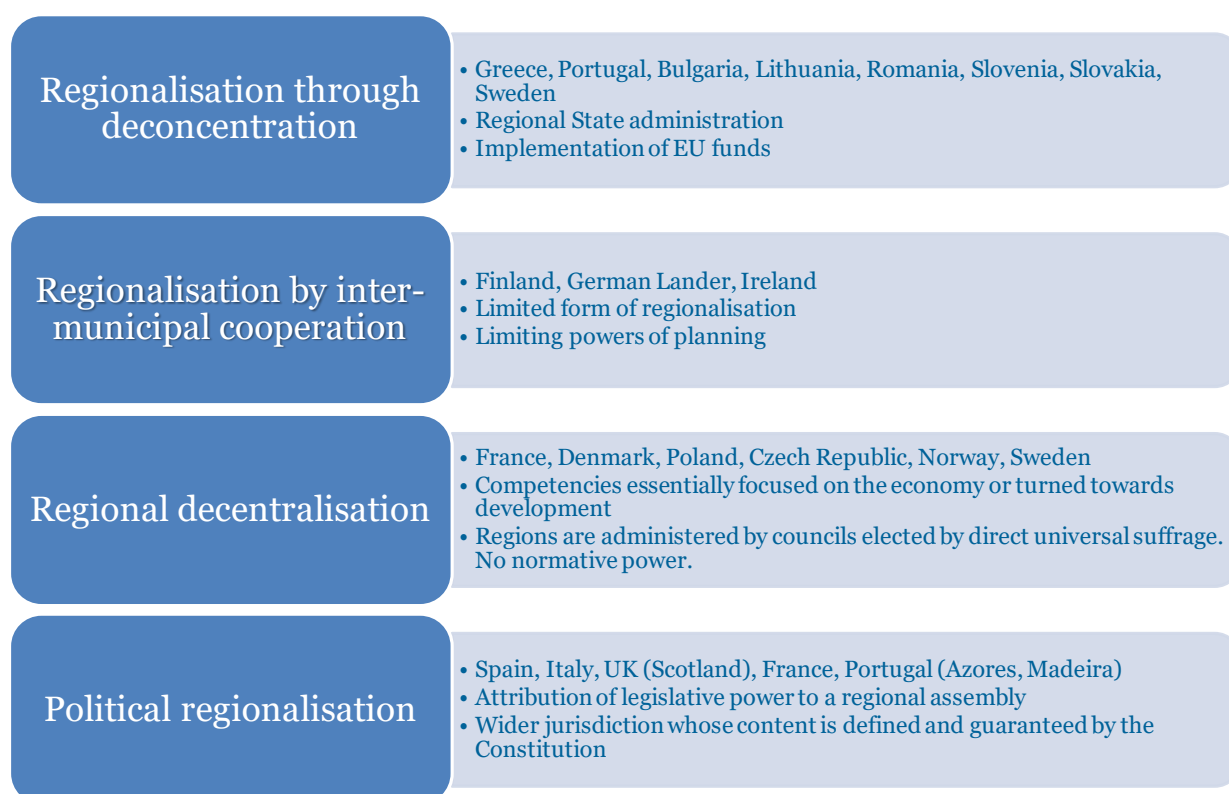
EU cohesion policy has been a driving factor behind regionalisation reforms in the European Union. Countries have opted for reforms which affect their administrative organisation the least. Most often, the reforms are of two types: regionalisation through deconcentration (Greece until the creation of 13 regions in 2011, Portugal, Sweden), and regionalisation through existing local authorities (Denmark, Finland, Ireland, Sweden)

In Portugal, the abolition of districts is set out in the Constitution, but municipalities have always been against setting up “administrative regions” (which would have been territorial authorities), which they perceive as a threat to their autonomy (Nunes Silva, 2016^[81]). In contrast, municipalities seem to have adjusted to their relations with state territorial departments and have developed cooperation with them. The countries in which the jurisdiction and autonomy of local authorities are the most extensive (i.e. Denmark, Finland, the Netherlands and Sweden) either possess regional institutions that are reliable or dependent on local authorities, or simply have not created any.

More generally, the impacts of regionalisation on existing local authorities have played a key role in the ultimate choices made. In most cases, solutions that might negatively affect the autonomy of authorities were not considered. Two reasons can be advanced. The first one is political. Local political leaders at the municipal or county levels are often opposed to the regionalisation process. The second one is constitutional. Local government’s status is traditionally protected by constitutions. The most typical cases are those of Portugal, Poland and Hungary. Even in France, this trend is illustrated not just by the maintenance of the départements, but by measures written into the law providing that no territorial authority can exercise control over another, or use any financial aid granted to this end. In the Netherlands, opposition from the inhabitants of Amsterdam and Rotterdam led to the failure of the 1994 reform aimed at instituting urban regions.

In countries with autonomous regions (political regionalisation), the constitution or national law confers the regions with a more or less extensive partial jurisdiction towards the local authorities on their territories, which includes at least some control of local authorities; in Scotland, devolution is almost total in this sense.

Figure 4.2. Four main types of regionalisation implemented in the EU: from deconcentrated state administration to autonomous regions



Source: OECD elaboration of (Pasquier, 2019^[73]) and OECD 2019

4.2.2. Regionalisation and identities

It is often maintained that the advantages of institutional systems with strong regions are that they are more likely than any other form of organisation to sustain cultural diversity and the expression of regional identities, to which individuals appear more attached as a backlash to the standardised lifestyles resulting from globalised markets and economies. According to (Keating, 2008^[82]), industrialisation, national integration and cultural homogenisation are closely interdependent; with the loss of the nation-state's legitimacy, the cultural, linguistic and ethnic differences that it reduced are being revived; the attraction of regionalism is more about culture than economics.

The identity aspect only characterises regionalisation in a small number of cases. Specific regional and linguistic features can be protected without establishing regions founded on this basis. When regionalisation operates only on ethnic bases, it may threaten the integrity of states. The results of regionalisation in such cases depend much on the implementation of regionalisation and the severity of conflicts.

These specific features, or these identities, are only at the foundations of regional institutions in a few cases. They are dominant in Belgium, but Flemish nationalism was the main driver of the constitutional evolution that took place in the country. Specific features are what shaped Spain's "state of autonomies", but they only concern three autonomous communities. In Italy, the situation is very different: the creation of regions was not a response to mobilisation from the side lines; no regional languages exist apart from Francophone and Germanophone minorities in the north; the Italian regional state model is therefore very different from Spain's "autonomic state". Specific regional features led to the devolution of power to Scotland and Wales in the United Kingdom, but only in Wales does a significant share of the population speak a regional language. In Portugal, they only concern the Azores and Madeira Islands.

4.2.3. Opportunities and risks of regionalisation

Regions, and local authorities in general, clearly participate more and more in the European integration process. EU policies themselves have contributed to this trend, insofar as the growth of structural funds, and cohesion funds for beneficiary states, has mobilised territorial authorities around the programming of funds, and encouraged potential public and private beneficiaries to make their region-focused applications (Tömmel, 2011^[83]; Loughlin, Hendriks and Lidström, 2010^[84]). However, the diversity of institutions through which the expression of the trend for regionalisation makes it difficult to speak of regions in abstract terms for Europe as a whole.

Despite the above, debates on regions and regionalisation in Europe often adopt a normative position. Regionalisation is identified with regional autonomy, in the shape of federalism, political regionalisation or at least, and in its minimal form, regional decentralisation. It is credited with at least four merits, i.e. it fosters economic development, decentralisation, grassroots democracy, and the respect for regional and local identities. Taking these different aspects, an evaluation of regionalisation calls for a more nuanced judgement.

Regionalisation can have very different implications for decentralisation: it can represent a form of decentralisation with respect to central government, but it can also generate centralisation at regional level with respect to local authorities; this situation is particularly common in the case of political regionalisation and in federal states. For example, in the case of France, the local authorities (municipalities and départements) regularly denounce the risk of "regional centralisation" if the regional councils gain more powers. Rather than postulating that regionalisation encourages decentralisation, it is preferable to consider the protection of local authorities' free administration rights in the definition of regional institutions. In several countries (Sweden but also France) the strong constitutional protection of local governments has led to weak regions compared to other "big" European States.

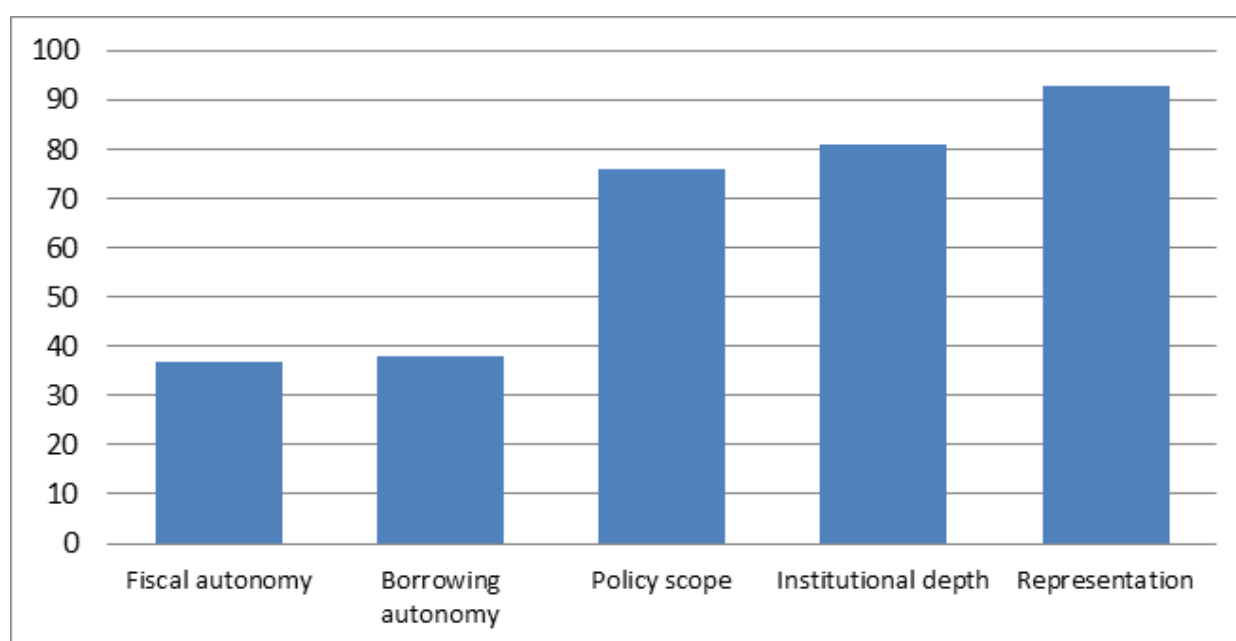
Concerning democracy, the question is probably misguided: transferring management or decision-making powers to local level (town, municipality, neighbourhood) can encourage citizens' participation and control due to the easier access of proximity; yet from a citizen's point of view, the relationship with regional government is unlikely to be any different from his or her usual relationship with central government. Once they take on a certain importance, the nature of jurisdictions and the administrative means at play bring them

closer. On the contrary, when it is considered necessary to practise certain jurisdictions at a regional level, because they need to interconnect with a regional interest in the making, it becomes necessary to establish regional institutions with an elected representativeness. In other words, it is regionalisation that calls for democracy, not democracy that needs regionalisation for its development.

As to regional and local identities, although regionalisation has the means to satisfy them, this requires several qualifications. Firstly, specific cultural and linguistic features could be respected without resorting to their territorialisation. It should not be forgotten that, although identities are volatile and hard to delimitate, institutions also contribute to building them.

Put another way, regionalisation cannot on its own produce any of the benefits mentioned above without making the effort to identify the conditions for regional and local development. This means in particular that needs related to economic development, spatial planning and the respect for regional identities require ad hoc solutions.

Figure 4.3. Summary of different policy measures that have strengthened regional self-rule in 81 countries



Source: (Schakel, 2019⁽²³¹⁾)

4.3. Regional reforms in Finland, France and Poland

This section focuses on regionalisation reforms in Finland, France and Poland, because these three countries can provide some inspiration for Portugal. The French model could be of interest because both the Portuguese and the French administrations are based on the so-called Napoleonic model. Moreover, during the past 30 years France has carried out several regionalisation reforms, which can provide valuable information for Portugal. Poland provides a slightly different example. While the original motivation for

decentralisation in Poland was largely political, and here Poland differs from France, Finland and Portugal, the process and the implementation of the Polish decentralisation is very interesting. Especially the sequenced implementation of the decentralisation and regionalisation reforms can be inspiring for Portugal. The Finnish experiences on regionalisation can be useful in Portuguese context because, like Portugal, Finland has discussed establishing regions for many decades, and the current Finnish Constitution allows it. The previous Finnish government prepared the reform intensively between 2015 and 2019, and the current government, formed in May 2019, is determined to continue that work in order to create eighteen regional councils.

4.3.1. One or two-tier subnational government? The Finnish experience

While there is currently no regional government tier with elected self-government in Finland, Finnish Constitution does allow regional self-government. Article 121 of the Constitution provides for self-government in an area larger than a municipality. The provision written in the law is loose and its reasoning is scarce, however: the provision states only that such self-government "may be regulated by law". The explanatory memorandum for Constitution states that the provision expresses 'the possibility of organising larger municipalities, such as counties, in accordance with the principles of self-government'. The constitutional guarantees of regional self-government are however not as strong as for municipal self-government. It is also noteworthy that according to the law, regional self-government cannot be established by lower-level legislation or by inter-municipal agreements.

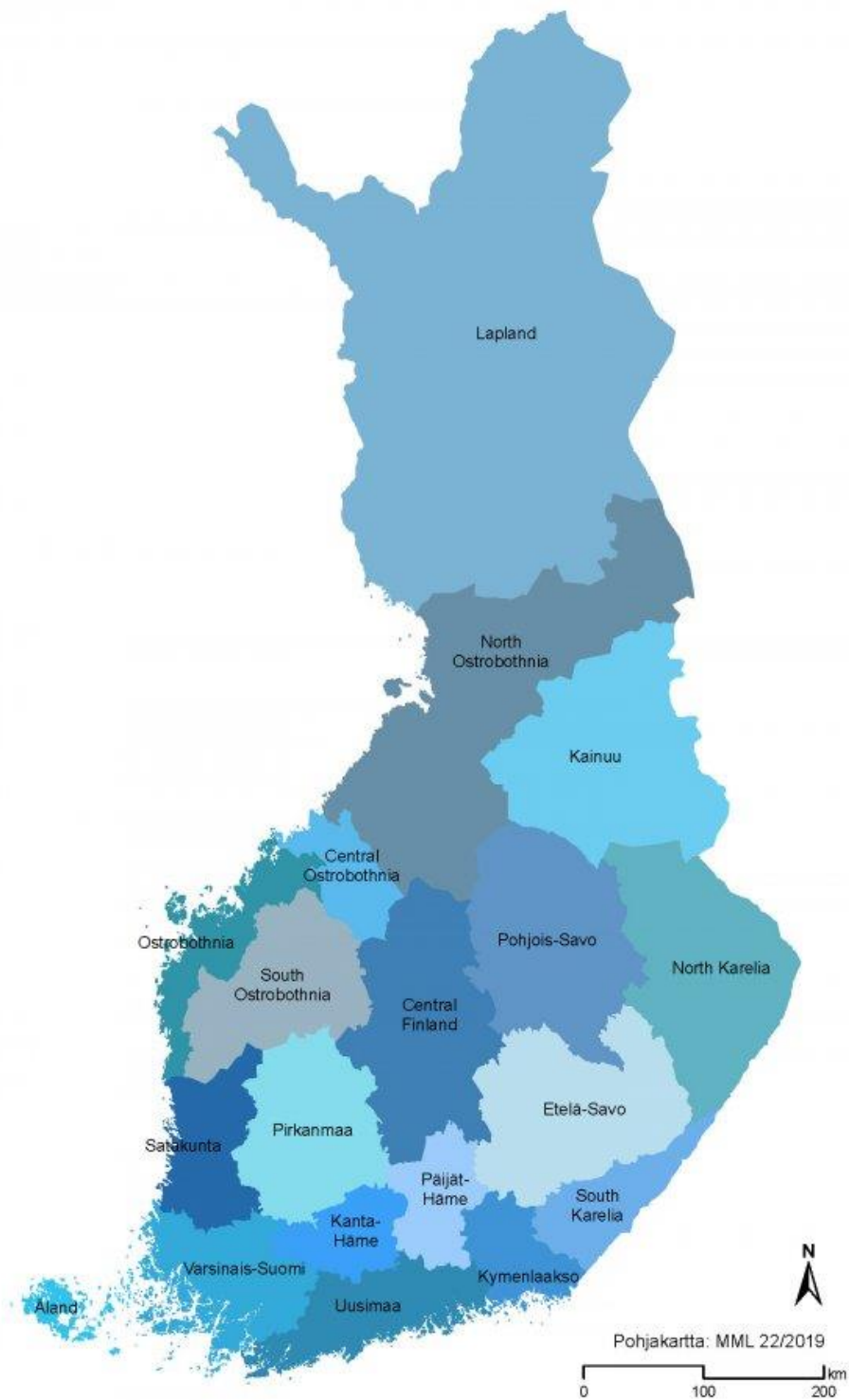
Currently, the political structure of Finland is formally two-folded, consisting of the national and the local level of governments (Pesonen and Riihinen, 2018^[85]). Regions, however, play a role in the Finnish politico-administrative system: they refer to geographical entities with a long historical background. Secondly, there are regional councils, which have specific tasks, but lack the independence as they are formed as joint municipal authorities (inter-municipal co-operation), as part of the local governance.

The basic local government units are municipalities, currently numbering at 311. They differ in size but have the same tasks. Municipalities are responsible for a wide range of services, and inter-municipal co-operation is therefore common especially among the smallest municipalities who would be too weak to arrange all services alone. The joint municipal efforts are numerous, and may cover a large area. Inter-municipal co-operation is voluntary except in specialised health care (hospitals) and regional development. In these services municipalities are obliged to be members of co-operative units.

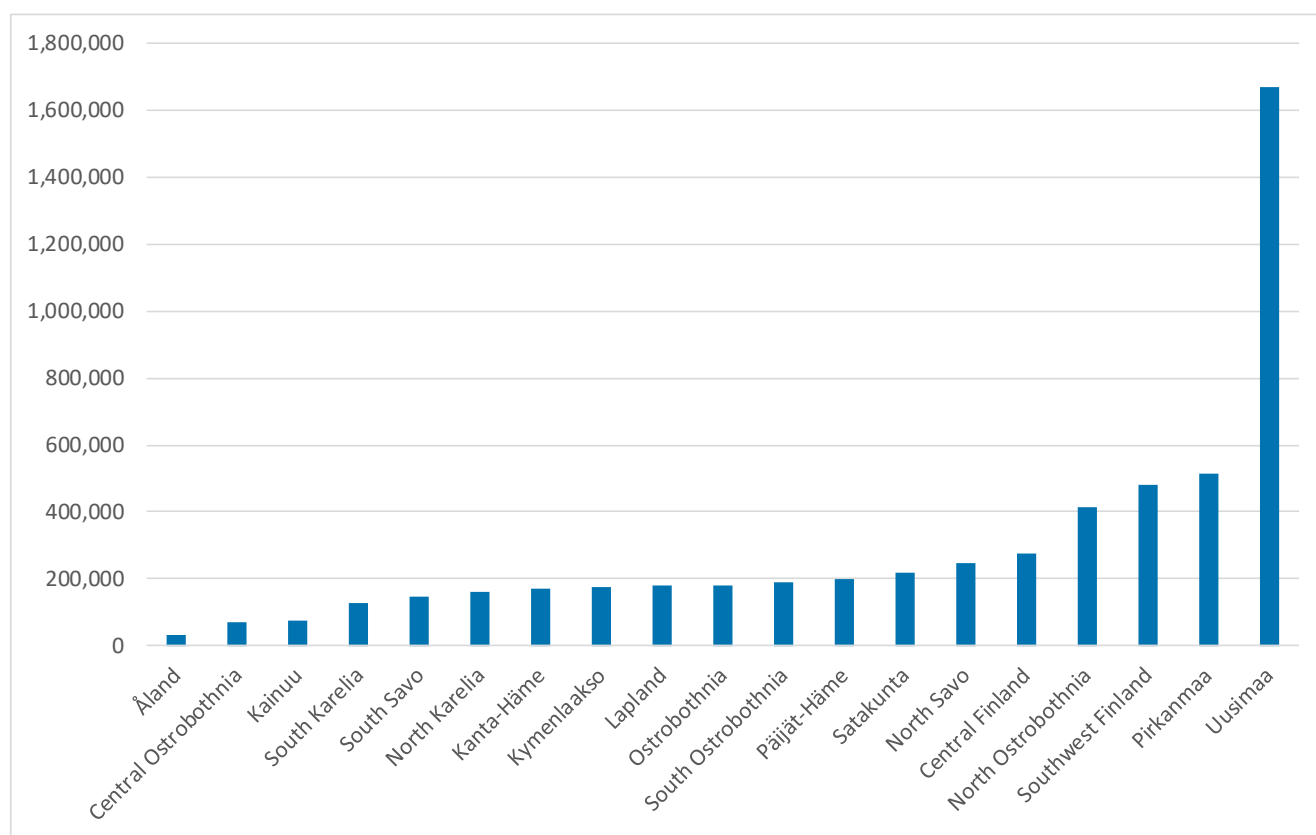
Regions as geographic units have a strong historical presence, and as objects of identification, including dialects, are parts of everyday narratives. In this sense we can talk about nine regions, which are based on historical regions. The spread of Finnish language dialects approximately follows their borders. These historical regions are the following: Finland Proper, Laponia, Karelia, Ostrobothnia, Satakunta, Savonia, Tavastia, Uusimaa, and Åland.

Regionalisation in Finland is largely a consequence of the EU integration. When Finland became independent in 1917 no regional councils existed in the present sense. The region-level territorial division was made of provinces (*lääni, län*) which were part of national government (deconcentration), and implemented supervisory tasks of the ministries. The emergence of regional councils took place later on, at the advent of the European Union membership (from 1995), when through combining smaller inter-municipal organizations the regional councils were established in 1993 (Law on regional administration 1135/1993).

It meant that the earlier municipal cooperative organs, which mainly dealt with land-use planning were combined with voluntary regional associations, and the regional councils emerged. Regions work at this level and have more to do with the local governments than the state. Legally the regional councils are based on legislation concerning regional development.

Figure 4.4. The Finnish regions (Maakunta)

Source: (Regional Council of Southwest Finland, 2019^[86])

Figure 4.5. Population size of Finnish regions

Note: Population as of 1st January 2019.

Source: (Statistics Finland, 2019^[87])

There have been some changes in the number of regional councils, at current they number 19. In other words, compared to the historical regions the number is higher because some regions are divided into several and some new ones (i.e. Keski-Suomi) have been founded.

The Finnish regional councils are municipal cooperative organs with rather limited tasks. A regional council is the region's statutory joint municipal authority; and every local authority must be a member of a regional council. The councils have two main functions laid down by law: 1) regional development and 2) regional land use planning. The councils are the regions' key international actors and they are largely responsible for the EU's Structural Fund programs and their implementation.

The regional councils are a part of municipal governance. Each council (excluding Åland) has an assembly and a cabinet. The members of the assemblies are selected in connection to municipal general elections, held every fourth year, and the newly elected municipal councils select a number of councillors to the regional assembly. Hence the political colour of the regional assemblies reflects the municipal election results. The number of municipal representatives in a regional assembly depends on the size of the member municipalities, and they gather together only twice a year. In other words, the regional cabinet is more involved in daily routines of the council and running its activities.

The councils work as statutory regional development and as regional land use planning authorities, playing a key role in regional planning and in promoting the region's interests.

In order to organise cooperation between regional councils, the country is divided into regional council partnership areas to facilitate the handling of major issues across regional boundaries. In other words the regional councils resemble other inter-municipal organisations, and are only indirectly accountable for the citizens.

The main tasks of the regional councils deal with land usage planning and coordination of regional funds, especially EU funds. The tasks of economic development are not defined exactly. It is rather a contextually determined task affected by the type of region, its economic structure, and the interplay with municipalities, as they also may promote interests of their own in this area. Basically it is a question of advocating the wellbeing of the region. One target of this activity is to ascertain that the national government acknowledges the region when planning, say, infrastructure investments, such as highways, airports and shopping malls. Coordination is a central question in the Finnish regional policy. As any organisation, also regions have to find the best ways to advance their goals, economic development, good land-use planning, or implementation of the EU funds.

Land-use planning in the regional councils is taking place as part of the planning structure, in which the line ministries, regional councils and local governments interact. Finland is divided into 19 regions, each covered by a regional land use plan. These fairly general plans set out medium-term and long-term objectives for regional land use patterns concerning issues that affect land use planning in many municipalities. Regional land use plans cover developments and issues that affect many municipalities where effective planning solutions cannot be developed at the local level only. Such developments include: new main road, rail and energy developments, developments serving wider areas, such as popular recreational facilities or major water supply schemes, and development issues involving competition between municipalities. Since beginning of 2016 the Finnish Ministry of Environment no longer approves the regional land use plans. This change was made to strengthen the regional councils' autonomy in this respect. More broadly, the planning process of regional land use plans involves close dialogue not only with ministries and municipalities but also other stakeholders. Before acceptance, the regional councils must send the proposal for open discussion and usually a lot of statements will be sent to the regional land use plans by central government agencies, municipalities, pressure groups and private citizens.

As noted before, the Finnish regional councils are not directly elected. Municipalities select the members of the assembly, and the executive body. Regional councils represent the local voice, and there have been some debates on how they can – in their current form - represent local views against the power of the national regional agencies. Regional councils are not dealing with the everyday welfare services important for the citizens. However, their visibility depends on to what extent they manage to bring together the various regional actors and stakeholders and help bringing forward the regional interest. Successful policymaking requires a good ability to cooperate with the local governments and with other regions and with the state agencies. Land use planning, for example, is an area in which the interests of the local governments can contradict. Also, the national government affects the decisions.

Out of the 19 regions, two are differing from the rest. First, Kainuu, in the north-west, has reformed its entire welfare service system, however, this pilot was finished in 2012. Secondly, the Autonomous County of Åland Islands has a special status in the Finnish system.

Between 2005 and 2012, the Kainuu region was applying a pilot model of regional governance. The aim of the self-government experiment was to gain experiences of the

effects of the regional self-government enforcement on regional development work, basic services, citizen activity, the relationship between the regional and the central state government as well as the municipal and the local state government. The Act was valid from 1 June 2003 to 31 December 2012. During this experiment, the highest decision-making of the region was centralised into one organ, the joint authority of Kainuu Region. The distribution of tasks between region and municipality were reorganised. The arrangements of practically all social and health care services, for example, together with upper secondary and vocational education, were the responsibility of the joint authority of Kainuu Region. Within the joint authority, the highest decision-making body was the regional council, elected by the citizens of Kainuu.

According to the evaluations of the experiment (Jäntti, Airaksinen and Haveri, 2010^[88]) the pilot project did not live up to the expectations. The objective of the audit was to examine the implementation of the Kainuu regional self-government experiment and the impacts of the Kainuu development appropriation on the development of the region. The main question in the audit was whether the Kainuu regional self-government experiment had strengthened Kainuu's economic and social development. Based on the results of the audit, the experiment had had only a minor impact of the development of the region. Nor had the objective of increasing the regional council's role in regional development been fully implemented. The law for the experiment was accepted with condition that after the first phase of the experiment, the continuation must have unanimous support of the municipalities. It seems that the results from the evaluation studies, which showed only modest positive impacts of the experiment, and the frustration of some municipalities in the region on their limited role in the decision-making, resulted in a situation where it was no longer possible to get full support for the experiment. Therefore, in 2012, the Kainuu regional experiment was ended. After the experiment, the tasks concerning regional development were transferred to the joint municipal authority. Also social and health services were transferred to a joint municipal authority. Vocational education and upper secondary education, which had been provided by the regional government during the experiment, were transferred back to municipalities. While the model tested in Kainuu Region did not fulfill the expectations, the experiences from this reform provided some inspiration for later plans and efforts for regionalisation reforms in Finland.

Finland is an example of regionalisation by existing local authorities (inter-municipal co-operation). Finnish regional councils are dealing with technical issues of land use planning, and administering the EU Structural Fund appropriations. On the other hand they represent the municipalities and coordinate, more or less, the economic and social development in the regions. They represent the regional voice in discussions with central government and the EU.

For the past four years, Finland has been preparing a reform to transform the current co-operative regional councils into regions with their own directly elected regional assembly. In Finland, the regionalisation has been mainly motivated by health care and social services reform, which aimed to transfer health and social services from the current 295 mainland municipalities and 190 inter-municipal co-operative organisations to 18 counties. In addition to health and social services, the plan was to transfer altogether 23 other tasks to the established counties. This plan was however abandoned in April 2019, due to political disputes, and led to the resignation of the government. While the previous government's proposal to create eighteen self-governing regions was not successful, the current government, formed in May 2019, has decided to continue the regionalisation reform, albeit

with slightly less ambitious approach. The plan is now to create eighteen regional councils, with elected decision-makers and own budget, mainly to provide health and social services in their areas.

4.3.2. French experiences on regionalisation

Based on vigorous cultural and political policies, the Jacobin ideal of the “nation state”, according to which the nation is a product of the (democratic) state, has been seriously challenged these last decades (Pasquier, 2015^[89]). The French state, like other European nation-states, has been confronted for some years by the dual pressure of European integration and the growing desire for autonomy on the part of sub-national political communities. As a result of the decentralisation laws of 1982-83, the evolution of EU policies and, more generally, the increasing globalisation of the overall economic context, the central administrative organs of the French state have lost their monopoly on political initiative.

In the last few years, there have been important evolutions in the model of local government and central-local relations in France. These have included: the creation of the 15 or so metropolitan Councils (*métropoles*) in France’s largest cities; a reform of the territorial map of the regions with the merger of regions, an enhanced central control over the financial autonomy of local authorities. There is a general consensus that the crisis of public finances, and the policies of administrative reform which have attempted to address this crisis, have pushed French governments to attempt to reform the “mille-feuille” territorial, the complex and overlapping structure of French local and regional authorities. France is the only OECD country with 4 levels of sub-national authority (communes, intercommunalités, departments, *régions*). The existence of some 34,900 small communes (40% of all such local government units in the whole EU) has come to symbolise the extreme fragmentation and duplication of the French local government system.

Table 4.2. Sub-national authorities in France (2019)

<i>Type</i>	<i>Number</i>	<i>Functions</i>
Communes	34,938	Varying services, including local plans, building permits, building and maintenance of primary schools, waste disposal, first port of administrative call, some welfare services
Intercommunal public corporations (EPCI)*	1258	Permanent organisations in charge of inter-communal services such as fire-fighting, waste disposal, transport, economic development, some housing.
Departmental Councils	101	Social affairs, some secondary education (<i>collèges</i>), road building and maintenance, minimum income (RSA)
Regional Councils	18	Economic development, some transport, infrastructures, State-Region plans, some secondary education (<i>lycées</i>), training, research, some health

Note: *With their tax raising powers.

Source: Ministère de l’intérieur, Paris, 2019.

The financial crisis of 2008, and the new obligations it generated, provided a new structure of opportunities for supporters of a reform of France's territorial structures. Successive governments have used this context to announce 'structural reforms'. However, it is difficult to modify the balance of power within the complex pattern of territorial administration, especially the relations between regions and departments, (Pasquier, 2015^[89]).

Though it is accused of being dysfunctional, the core features of the system established in the 1982-83 decentralisation reforms have resisted pressures for change. One core principle of the model is that of the "blocs de compétences"; the attribution of specific functions to different levels of local and regional government. In theory, this approach is coherent and logical: issues of proximity are, in theory, the policy province of the communes, welfare functions are largely reserved for the departmental councils, while economic development, transport and strategic planning are the responsibility of the regions, acting in cooperation with the French state and the European Union. This French style garden, of a neatly organized distribution of functions, has not withstood the reality of public policy making in France's localities and regions, however, where policy problems spill across levels. Moreover, the approach, which bears some resonance of the EU doctrine of subsidiarity, has run against the legally entrenched principle of the 'free administration', whereby local authorities can develop policies in any area they deem to be in the general interest.

Three decades of decentralization have seemed to confirm Maurice Hauriou's prophecy (1927): '...with centralisation, the administrative garden was laid out in the French style, the rows neatly aligned and the trees planted and trimmed in an ordered manner. With decentralization, it must be expected that this perfect construction be destroyed by the spontaneity of life'. If local authorities are in principle specialized in their functions, concentrating on particular areas of public policy, in reality they each intervene across the spectrum of public policy, because they each can claim a general type of democratic legitimacy and, until the 2015 "Nouvelle Organisation Territoriale de la République" (NOTRE) law, each had a 'general administrative competency' that allowed them to intervene in any issue of territorial interest. Moreover, decentralisation conceives of the role of local and regional authorities as one of policy implementation; they have very few legislative or regulatory capacities.

In 2009-2010, the government launched a major territorial reform which created the first metropolitan governments (in Nice, notably). The "Modernisation de l'action publique et affirmation des métropoles (MAPTAM)" law of 27th January 2014 re-established the general administrative competency clause that had been suppressed in the 2010 law; this allows local and regional authorities to develop policies in relation to any area deemed to be in the general interest. The MAPTAM law also conferred a new legal status on the French metropolitan councils in the large cities, close in practice to the provisions of the Law of 16th December 2010, but with a more extensive outreach.

During the parliamentary debates in Spring 2015, the government even abandoned the idea of transferring the responsibility for roads, or for lower secondary education from the departments to the regions. Certainly, the NOTE Law enacted on 7th August 2015 strengthened the role of the regions, in four main areas: the management of EU structural funds, transport (especially concerning schools and as inter-urban transfers), economic development and spatial planning. In these latter two fields, the regions henceforth are responsible for formulating five year plans that, in theory at least, have to be respected by all other local authorities. They are recognised with a leadership in role in the field of territorial economic development and planning. Not surprisingly, departmental and

communal interests represent a major obstacle for the regional and metropolitan reforms in France.

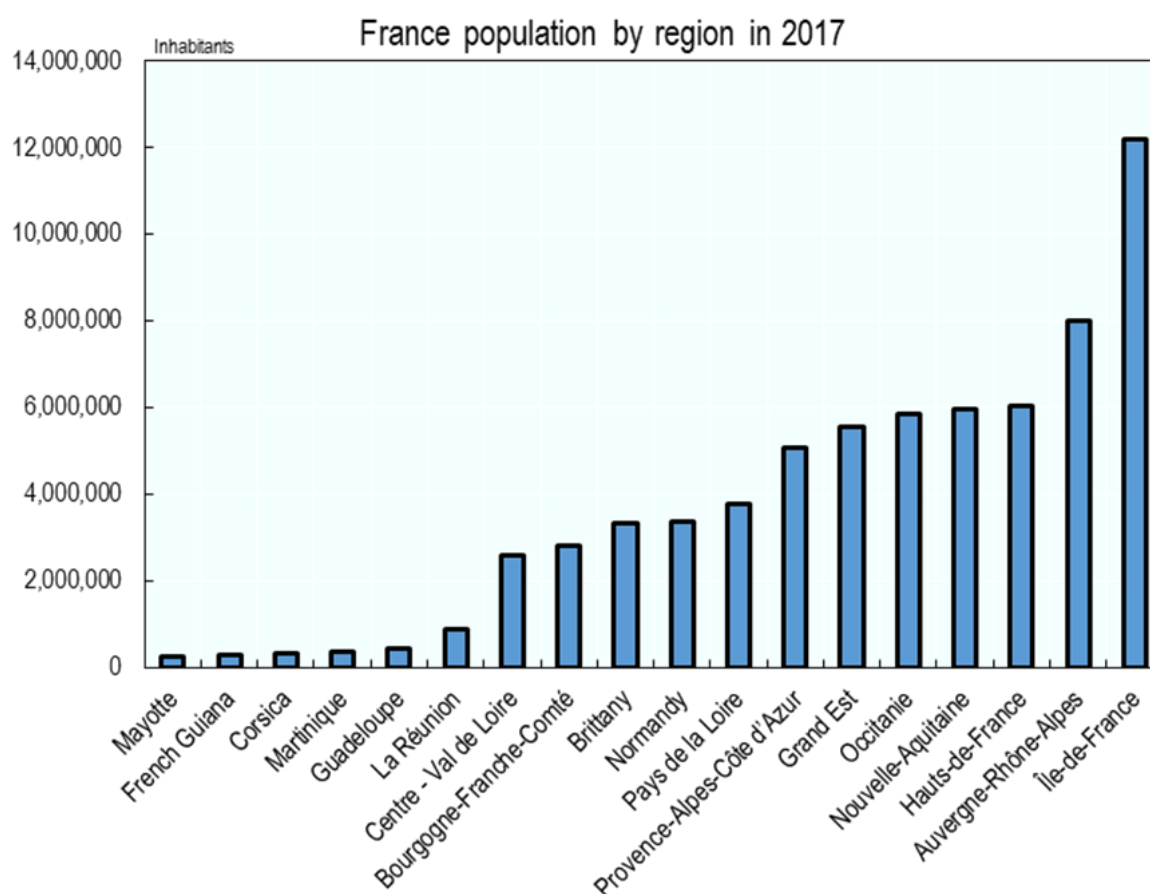
The third major reform of the Hollande presidency was the reform of the regional map. In the Law of June 16th 2015, a new map of the regions was produced, reducing their number from 26 to 17 (of which 12 in mainland France, along with Corsica and 4 overseas regions). Several regions were unchanged: Brittany, Centre-Val-de-Loire, Corsica, les Pays-de-Loire, l'Ile-de-France and Provence-Alpes-Côte-D'azur (PACA). All the other regions were merged to create larger entities.

Figure 4.6. The New Map of the French Regions (law of 16th June 2015)



Source: INSEE.

Figure 4.7. Population size of French Regions



Source: OECD Regional Demography, Population (Large regions TL2), 2017, link: https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR#

Scalar forms of justification were to the fore in the territorial reform of 2015, which reduced the number of mainland (including Corsica) regions to 13 (in alignment with the European ‘norm’ represented by the 16 German *länder*). The redrawing of the regional map was justified in terms of size (the optimum size to succeed in a competitive European and world environment) and economy (economies of scale, avoiding duplication, rationalizing back-office functions). In one interview carried out as part of the Trust and Transparency project, a PS deputy in the Ardeche department summed up the prevailing sentiment about the reform of the territorial map: ‘this was a political decision, motivated by a –contested – belief that size would allow economies of scale, as well as arming French regions with the necessary size to compete at the European level’. Size itself is misleading: the new Hauts-de-France region (the merged region of Nord/Pas-de-Calais and Picardy) has a population superior to that of Denmark and a landmass equivalent to that of Belgium, yet it has minor regulatory and no legislative powers and a limited budget. Arguments based on size were more prominent than those of restoring historic regions, as in the case of the UK (with Scotland and Wales) and Spain (Catalonia, the Basque country, Galicia).

As part of a major cross-national project on trust and transparency in multi-level governance, a nationwide survey was carried out into attitudes to the French regions in general and the reform of the territorial map in particular (Cole and Pasquier, 2018^[90]). The

survey demonstrated quite clearly that French citizens shows greater trust in two levels of government over the proposed alternatives: the city (for most routine matters of public policy) and the national government (for welfare provision, equality of treatment and national planning). Support for the intermediary levels of sub-national government (13 regions and 96 departments) was sector and place specific. Measures of trust in France's regions varied according to place. If there is some sympathy for the region, this is more clearly affirmed in the case of the traditional region (Brittany) than in the merged regions of Auvergne-Rhône-Alpes (a fusion of two regions) or in the geographically vast New Aquitaine (a merger of three previously existing regions).

4.3.3. Regionalisation and decentralisation in Poland

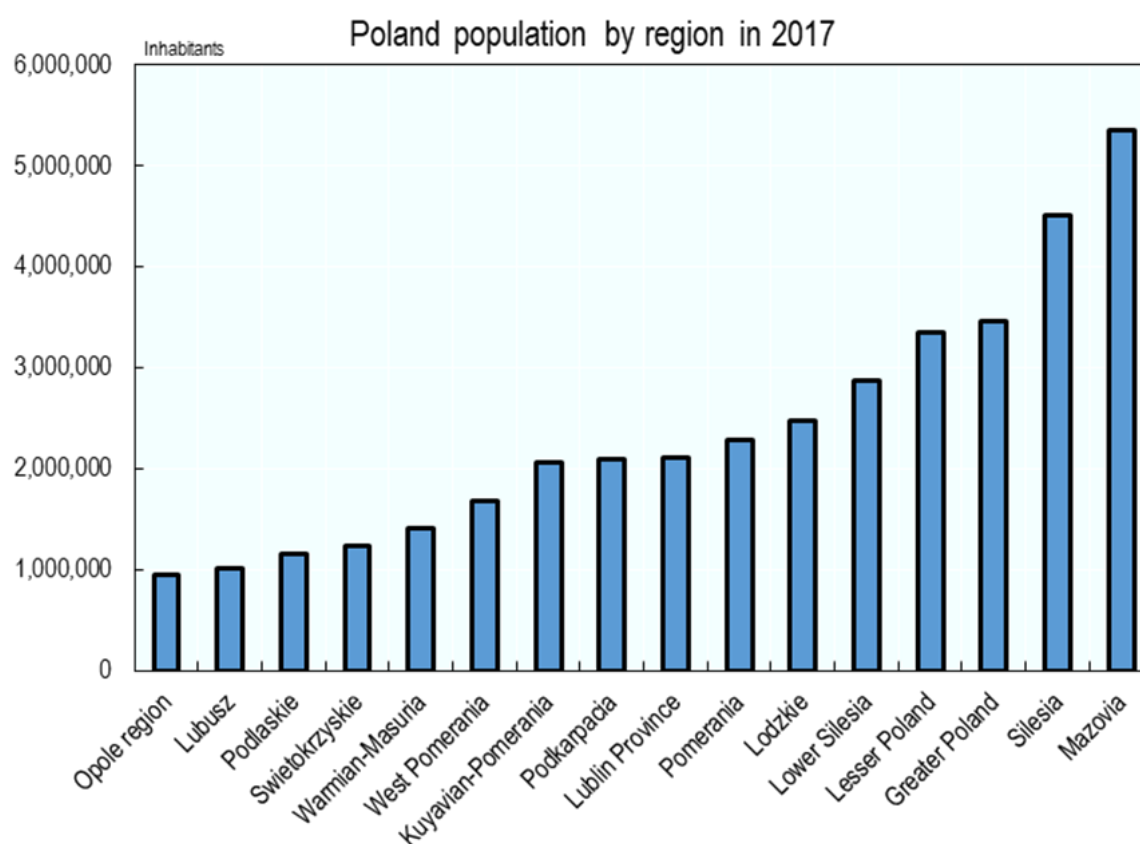
Independence and democracy were restored in Poland in 1989. Even though the country borders were so often changed during the recent last two centuries, the notion of "territory" is deeply anchored in the national memory. This high value conferred to the central State, seen as guarantee of the homogeneity of the national territory, explains the difficulties experienced by decentralisation.

In Eastern Europe, the policy of regionalisation became a clear political program when the EU Commission in 1997 imposed to the candidate countries the implementation of the "Acquis Communautaire" (Dąbrowski, 2008^[91]). From this moment onward, it has been positioned as an unavoidable (necessary) condition for joining the EU. The so called "Copenhagen criteria" formalized in 1993 have been the first step paving the way to the accession by stressing the necessity to adopt democratic rules, market economy and the respect of the rights of minorities.

For these reasons, the projects aiming at modifying the "territorialisation" of public policy have been sensitive, provoking strong debates. The important law on local prerogatives, adopted in March 1990, was achieved by restoring the former subregional units destroyed by the communists. Such law delivered more strategic capacities to the local municipalities, even though this dynamic was not accompanied by a transfer of funds. Important public discussion occurred. The core debate was about the number of regions. Most stakeholders understood the necessity of reducing the size of the regions to better restore the historical intermediary level, the "powiat" (county). Finally, when the law was passed in July 1998, 16 regions (voivodships) were created.

Currently the Polish system of subnational government consists of three tiers. In addition to the 16 regions, there are also 380 counties (powiats) and 2478 municipalities (gminas). The regions form the largest territorial division of administration in the country. Thirteen of them reshape more or less the former pre-war "designs", based on clear regional identities. Two other regions present a twin city. The smallest region by population, the region of Opole, was created mostly because of the presence of a German minority.

Figure 4.8. Population size of Polish regions (voivodships).



Source: OECD Regional Demography, Population (Large regions TL2), 2017, link: https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR#.

The administrative model has been inspired by the French one: in face of the representative of the State (the voivode, i.e. prefect, in charge of the ex post control of the public funds) one finds the most important political figure, the Marshal (the president of the region), elected by the regional assembly, whose deputies are elected by all the citizens of the region. The Marshal organises the tasks and directs the ongoing matters of the voivodship, and represents it externally. The Marshall's Office, a self-governing organisation in the voivodship, is a body assisting the execution of tasks designated by the Marshall and the voivodship's elected members.

At the sub regional level, one finds the "powiat", led by the Starosta, (an old word for "chief"), elected by the local assembly, and which is more or less the district. The Starosta takes decisions on individual matters in the field of local public administration. Powiats are allocated to towns with populations in excess of 100,000 residents, together with the towns that have ceased being capitals in the reformed voivodships. There are 380 powiats in Poland, that can be either land counties (314 units) or towns with powiat rights, i.e. urban powiats (66 units).

Under this level, but independent from the two upper levels, one finds the *gmina* (municipality), which benefits of a free statute to develop its own plan of development. The

gmina is responsible of all public matters of local importance. Its executive organs are the gmina council and the “wójt” (the mayor or town president). Poland counts 2479 gminas, that can be urban (305 units), rural (1566 units) or urban-rural (608 units).

What is remarkable in this new architecture is the capacity left to all the levels to be independent from the other. Such a feature complies to the very historical legacy of freedom of the administrative levels in this country, but has been very often blamed for fostering paralysis and blockage. Indeed, the fact that the regional authority (the regional assembly and the Marshall) cannot constraint its sub-regional levels has often impeded the regional development. The very bad situation of the transport system can be explained by this. On the other side, because the structural funds are used under the condition of their economic efficiency, it has forced the different sub regional units (and particularly the gmina) to create some intercommunal links for some common projects.

Poland has been exemplar in the way it conducted its multi-level governance reforms for two main reasons. First, because of the public discussions held before the adoption of the law. These discussions have been an important period of deep democratic debate. All the participants have been invited to discuss and the used arguments have been often drawn from the national and local past. On this occasion, it was really interesting to see how the local people had a clear idea of their own regional interest, and a clear memory of the ancient regional administrative divisions. Secondly, because the law was passed very quickly in July 1998, it triggered no definite disputes. This dynamic has reflected the maturity and the clear consciousness of the public authorities that from this moment a new political axis took place in the political life.

The argument of weakness at Polish regional level is something of a self-fulfilling prophecy, because the legislator has still not given decentralised regional levels the means for political and financial self-government. The particularly tight budgets of regional institutions and districts make it difficult to imagine that they will be able to co-finance structural funds, given the dependency of these institutions on financial support from the state. A general analysis of the budgets and margins for financial autonomy of Polish supra-national institutions (Bafoil, 2010^[92]) shows that the 1998 administrative and territorial reform is, in the current state of affairs, only a smokescreen for decentralisation.

The central government has conferred significant jurisdictions to regions without however granting them the corresponding financial capacity: their level of own resources is low both in value (15 to 20 times lower than their homologues in the West) and volume (around 13% on average), and their tax margins are very low (1.5% of the income tax of physical entities, 0.5% of corporate tax). The majority of their funds come from mostly pre-allocated central state endowments, while most of their expenditure is quasi obligatory (health and education).

4.3.4. Summary of the country examples

France is currently the only unitary OECD country with 4 levels of sub-national authority (communes, intercommunalités, départements, régions). While public expenditure is mostly centralised in France, local and regional authorities are very important actors in public investments (being responsible for about 57 percent of public investments). The French model of multilevel governance has seen several important changes during the past decades. These reforms include the creation of the metropolitan Councils (métropoles) in France’s largest cities, a merger reform of the regions and enhanced central fiscal control of local authorities. From the Portuguese aspect, the French case is an example of step-by-step process of regionalisation. The French experiences illustrate well the challenges to

reform the existing multilevel governance, especially in a situation where there are two types of intermediate government, i.e. the départements and regions.

Poland restored its independence and democracy in 1989. Since then, Poland has implemented several decentralisation reforms. As a result, the current system of subnational government consists of three tiers: 16 regions (voivodships), 380 counties (powiats) and 2478 municipalities (gminas). Each level operates independently in the sense that each of them have their own assignments, and levels of government are not in a hierarchical position with each other. This situation has forced the different subnational units and levels of subnational government to create intercommunal links for common projects such as major infrastructure investments with region-wide effects.

Although Poland adopted the laws on decentralisation quite quickly in the early 1990s, the reforms were based on intensive public discussions. The fact that everyone was encouraged to participate the public debate on decentralisation promoted inclusiveness and feeling of ownership of the reforms among citizens. After the reform plans were accepted, the implementation of the reforms was sequenced, which fostered learning-by-doing and enabled revising plans if needed. Building capacity of the subnational governments to assume the new tasks has been a top priority in Poland. In this process, training and information activities, often organised using nongovernmental organisations, have had a key role in the reform implementation. Portugal could be inspired from the Polish experiences in the implementation of decentralisation and regionalisation reforms.

Finland has a single-tier subnational government, composed of 295 municipalities. There are also more than 300 joint municipal authorities, delivering services in health, education and social sectors. Also the responsibility for regional development and managing of EU funds is organised through inter-municipal co-operation. Municipalities are obliged by law to be members of one of the 18 regional joint municipal authorities. Municipalities nominate the regional council members and are responsible for funding of the regional councils. In addition to the Regional Councils, municipalities are obliged to belong to a joint municipal authority for specialised health services (so called hospital districts). While obligatory co-operation forms an important part of municipal service delivery, inter-municipal co-operation is organised mostly on a voluntary basis in Finland. Especially municipalities with small population and weak own revenue bases have engaged in co-operative arrangements. The Finnish experiences from inter-municipal co-operation, in particular at the regional level, could provide an interesting example for Portugal.

The recent regional reform proposals by the Finnish government could provide another set of interesting experiences for Portugal. In order to better utilise scale economies and to prepare for increasing demand for public services due to ageing population, the previous Finnish government (in office since spring 2015 until spring 2019) began an ambitious process to establish a regional level government with extensive tasks. The government's plan was to create 18 regional councils with elected decision-makers. According to the proposal, more than 20 tasks would have been transferred to regional councils from municipalities and central government, including all health and social services as well as tasks concerning regional development. The plan was also to abandon the deconcentrated central government offices, and transfer their tasks to the regions or to a new central government agency. While the law proposal suggested that the regions would have been financed with central government transfers and user fees in the beginning, an inquiry to assign taxation powers to regional councils was planned to follow.

The reform prepared in Finland was not only about regionalisation however. An important component of the reform package was the privatisation of basic health care. This added the

complexity of the reform, especially from legal and administrative aspects. Due to various problems in tackling the various legal issues, the four-year term of the government turned out to be too short for passing the reform. Eventually, the abandoning of the reform plan led to resignation of government just before the end of the government's term. The lessons from the Finnish reform process are numerous. Here, just a few main observations. Firstly, it seems clear that the bundling of several issues to the reform package was a mistake, as it led to serious legal problems, which made it impossible to pass the reform proposal during one parliamentary term. Second, it seems that instead of being just the government's project, the preparation of such a major reform would have benefited from a larger political preparation, for example by a parliamentary committee. Third, the reform should have been prepared more as a step-by-step process, instead of a "big bang" reform. This would have enabled experimentation and piloting before entering in full-scale reform.

The new government, nominated in May 2019, has announced that it will continue the regional reform and that 18 regional governments with elected councils will be formed. According to the government's programme, the new regions will in in charge of health and social services, as well as fire and rescue services. At this stage, the regional development services will not be transferred to regions from the inter-municipal associations. The deconcentrated central government services will not be abandoned either.

5. The case of Portugal: diagnosing multi-level governance strengths and challenges

5.1. Stage of decentralisation in Portugal

This section will provide a brief description of the Portuguese multilevel governance model from political, administrative and fiscal decentralisation aspects. The section will also discuss Portuguese decentralisation in international comparison. In the end of the chapter, the challenges of Portuguese model are discussed.

5.1.1. Subnational government structure

Since the 1976 constitution, there are 308 municipalities (278 in the mainland) and two autonomous regions in Portugal. Although the 1976 constitution established the creation of administrative regions in the country, they were not implemented in the mainland and currently only two exist, namely the islands of Madeira and Azores. In addition to the autonomous regions and municipalities, currently, there are also 3091 parishes (2882 in the mainland, 155 in the autonomous region of Azores and 54 in the autonomous region of Madeira) (see also Figure 5.1). All these three layers of government have elected governments.

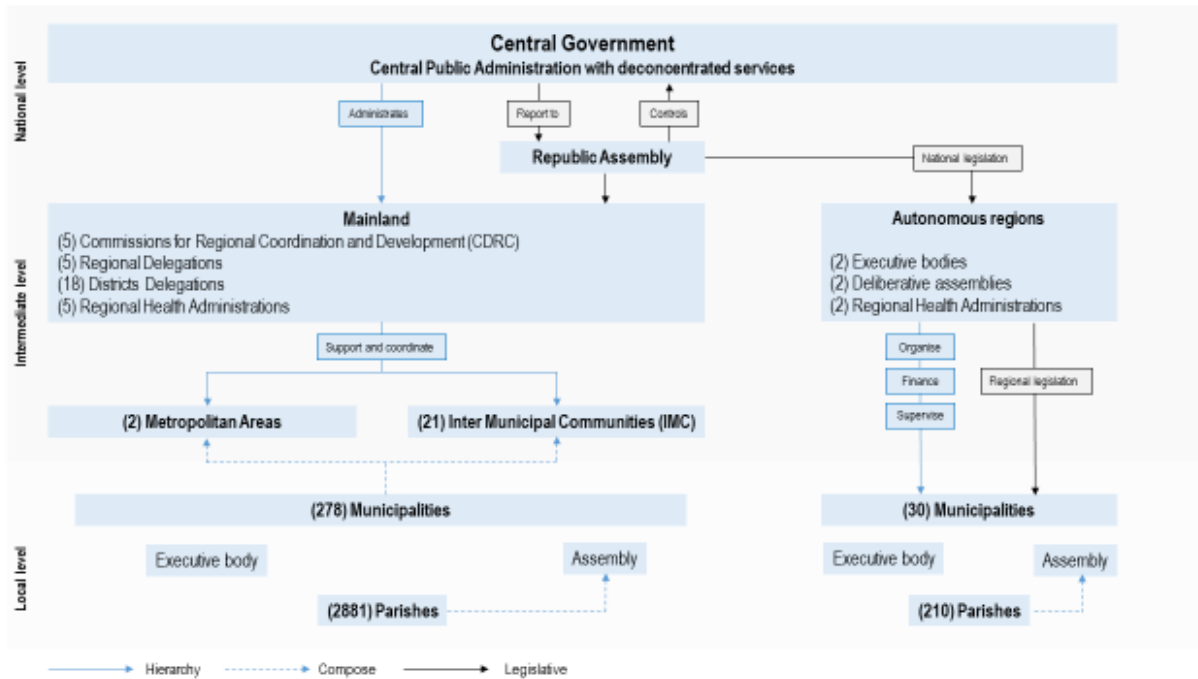
The current legal framework also includes two additional local administrative entities, run by nominated political representatives of the municipalities/parishes: the inter-municipal entities (IMC) and the associations of municipalities/parishes for specific purposes. The former are associations of municipalities that currently consist of two metropolitan areas (Lisbon and Porto) and other 21 inter-municipal communities, all in mainland Portugal. The latter are associations of municipalities or parishes, created to perform specific tasks.

In addition to the local administrative entities, the local public sector also comprises municipal and inter-municipal enterprises (MIE). These enterprises were built as private-law-based entities, acting in a business-like fashion, however granting oversight powers to the local government. The main driver of this legal initiative was to provide common-ground to local government that wanted to explore local entrepreneurship as an alternative to in-house solution. The law to allow the creation of municipal enterprises was enacted in 1998 and altered a few times until the current legal framework was enacted in 2012. A municipal enterprise is legally defined as a business-like organisation, which is partially or entirely owned by a municipality, association of municipalities or metropolitan area.

Municipalities can also pursue their tasks through other organisational forms aimed at inter-institutional cooperation: i) cooperatives and foundations, and ii) associations. In both cases, other partners can be involved, namely public, private or from the social sector.

It should also be noted that in parallel with the above-mentioned units there is a large number of consultative entities whose mission is to promote vertical and horizontal dialogue/coordination between levels and sectors of government.

Figure 5.1. Portuguese model of multilevel governance



Note: Municipal and inter-municipal enterprises as well as other organisational forms aimed at inter-institutional cooperation are not included in the graph.

Source: Author's summary based on several sources.

5.1.2. Political decentralisation

Democracy was re-established in Portugal on April 25, 1974, after 48 years of dictatorship. The first elections for regional governments of Azores and Madeira took place in 1976, and since then every four years. The first elections for local governments were held in 1976. Initially the local elections took place every three years (1979, 82, 85), and then every four years (1989, 1993, 1997, 2001, 2005, 2009, 2013 and 2017).

The governing bodies of the autonomous regions of Azores and Madeira are the legislative assembly and the regional government. Members of the legislative assembly are elected directly by voters by proportional rule. The president of the regional government is nominated by the representative of the Republic, considering the election results for the Legislative Assembly, and after hearing the political parties represented therein.

Municipalities are governed by the Town Council (executive power) and the Municipal Assembly⁴ (deliberative power). The Town councillors are elected directly by voters registered in the municipality by proportional rule. The leader of the party or list⁵ receiving the majority of votes becomes the president of the Town Council (mayor) and has a prominent role in the executive. The number of full-time councillors, as well as the total

⁴ Laws 169/99 and 75/2013 establish the competencies and the legal framework of municipalities' branches.

⁵ Under the Law 1/2001, non-partisan lists of independent citizens are allowed to run for the local elections.

number of councillors, depends on the number of registered voters. Part of the members of the Municipal Assembly are elected directly by voters registered in the municipality, while the remaining members of the Assembly are the presidents of the councils of the parishes that belong to the municipality. Parishes also have executive and deliberative branches. The president of the parish's council is elected directly by voters living in the area. The total number of seats in the Municipal Assembly must be at least three times that of the Town Council.

In the absence of administrative regions, the reinforcement of supra-national levels of government occurred through the creation of inter-municipal co-operative units (IMCs). In 2008, a legal framework for municipal associations was adopted. Geographically, the inter-municipal communities (IMCs) follow the boundaries of the NUTS 3 regions. While a membership in IMC is not compulsory, all municipalities are currently member of IMC, as municipalities are steered to join by upper-level incentives associated with the management of EU structural funds. The IMCs are governed⁶ by the Inter-municipal Assembly (deliberative power), the Inter-municipal Council, the Executive Secretariat (executive power), and the Strategic Council for Inter-municipal Development (advisory power).⁷

5.1.3. Administrative decentralisation

Subnational government responsibilities

Autonomous regions

The legal background for administrative and fiscal decentralization of autonomous regional governments is currently established by the Political-Administrative Status of the Autonomous regions of Azores (Law 39/80, changed by laws 9/87, 61/98 and 2/2009) and Madeira (Law 13/91, changed by laws 130/99, 12/2000), and the Autonomous Region's Finance Law (Organic Law 2/2013). The assignments are different for each autonomous region according to their Political-Administrative Status. The autonomous regions can exercise their own tax power, under the terms of the law, and may adjust the national tax system to regional specificities, in accordance with the framework law of the Assembly of the Republic.

Local governments

For municipalities and parishes, the Law 75/2013 defines their assignments and Law 73/2013 the financial regime. According to article 23 of Law 75/2013:

1. It is the responsibility of the municipality to promote and safeguard the interests of its people, in articulation with the parishes.
2. The municipalities have assignments, in particular, in the following domains:
 - a) Rural and urban equipment;

⁶ Laws 75/2013 establishes the competencies and the legal framework of the branches of IMCs.

⁷ In the case of the two metropolitan areas (Lisbon and Porto), the bodies are the Metropolitan Council, the Metropolitan Executive Committee, and the Strategic Council for Metropolitan Development.

- b) Energy;
- c) Transports and communications;
- d) Education, teaching and vocational training;
- e) Heritage, culture and science;
- f) Leisure and sports;
- g) Health;
- h) Social assistance;
- i) Housing;
- j) Civil protection;
- l) Environment and basic sanitation;
- m) Consumer protection;
- n) Fostering development;
- o) Spatial planning and urban planning;
- p) Municipal police;
- q) External cooperation.

The list of assignments has been kept stable over the last 20 years. The assignments are valid for all municipalities, regardless of their type or location (e.g. whether they are located in the mainland or islands). Through laws and decree-laws, the government can delegate competencies in the municipalities or inter-municipal entities in any of the above assignments. In 2015, Law 69/2015 expanded the local authorities' competencies in education, teaching and vocational training, and Decree-law 30/2015 specified several aspects of the decentralization process.

In order to clarify the assignments and responsibilities, and to take steps for further decentralisation, the Law 50/2018 of August 16th defined the framework for the transfers of new additional competencies to local authorities. The transfer of competencies started in 2019 for the local authorities that did not declare, until September 15th, that they were not willing to implement them (Box 5.1).

Box 5.1. The ongoing decentralisation process

The current decentralisation process in Portugal is formed by two main dimensions:

1. The reorganization of the State at the regional and sub-regional level, only in the continental part of the country;
2. The transfer of new competencies from the government to the municipalities, a transfer that in some cases can be for the IMC/MA, aiming at strengthening the inter-municipal structures.

Regarding the first dimension, the political decision has no fixed schedule.

Regarding the competences to be transferred to the municipalities, the Law 50/2018 defined a wide range of new competences to be transferred until January 2021. The specific conditions of these transfers, namely financial conditions, are currently being clarified.

In general terms, the areas of transference to the municipalities are:

- a. Education, all that refers to non-tertiary education, except management of teaching staff and definition of curricular contents.
- b. Social action at local level, especially in the fight against poverty.
- c. Justice: "Julgados de Paz" network (volunteer commitment court), social reintegration and support for victims of crimes.
- d. Health, local equipment and management of non-clinical personnel.
- e. Municipal civil protection.
- f. Culture, local heritage and museums not classified as national.
- g. State unused real estate assets.
- h. Housing, housing of the State and management of urban rental and rehabilitation programs.
- i. Management of port-maritime areas: secondary fishing ports, recreational boating and urban areas for tourism development.
- j. Tourism (inter-municipal entities): management of investment funds, planning and sub-regional tourism promotion.
- k. Investment attraction and management of community funds (inter-municipal entities): definition of the territorial strategy for development and management of local development programs with community funding.
- l. Beaches: licensing, management and equipment of sea, river and lake beaches integrated in the public domain of the State
- m. Management of forests and protected areas.
- n. Transport: infrastructures and equipment within urban perimeters.
- o. Citizen service: citizen's shops.
- p. Proximity policing, participation in the definition of policing model.
- q. Protection and animal health.
- r. Food safety.
- s. Fire safety in buildings.
- t. Public parking: regulation, supervision and management of administrative misconduct.
- u. Licensing games of chance and fortune at a local level.

Inter-municipal co-operation and metropolitan governance

Currently, the inter-municipal communities (IMCs), which are organised at NUTS 3 level, can take on the functions and tasks assigned by law to the municipalities. However, the IMCs can only provide services that are assigned to them by municipalities and central government. In the current legal framework, the IMCs are designed to pursue the following assignments:

- a) Promoting the planning and management of the strategy for economic, social and environmental protection of its territory;
- b) Co-ordination of municipal investments of inter-municipal interest;
- c) Participation in the management of regional development programs;
- d) Planning of the activities of public entities, of supra-municipal character.

It is also the responsibility of the ICM to ensure the co-ordination of actions between municipalities and Central Government in the following areas:

- a) Public supply networks, basic sanitation infrastructures, treatment of waste water and municipal waste;
- b) Network of health equipment;
- c) Educational and vocational training network;
- d) Spatial planning, nature conservation and natural resources;
- e) Security and civil protection;
- f) Mobility and transport;
- g) Public equipment networks;
- h) Promotion of economic, social and cultural development;
- i) Network of cultural, sports and leisure equipment.

As said, IMCs are charged with the assignments by the Central Government and the shared powers delegated by the municipalities. Considering this framework, a recent pilot study conducted by the General-Directorate of Local Administration (DGAL) identified four possible ways to organise the functions of the IMCs: 1) Exclusive management of “municipal” functions, that is, these functions would be solely assigned to the IMC; 2) Shared management of municipal functions; 3) Exclusive management of functions directly delegated by the national government; and 4) Shared management of national government functions. Currently, the intensity and diversity of cooperation varies across the country’s 23 IMCs (Veiga and Camões, 2019^[93]).

Box 5.2. Metropolitan areas of Lisbon and Porto

The national legislation defines framework for Portugal’s two Metropolitan Areas (laws enacted in 1991, 2003, 2008 and 2013). The Metropolitan Areas for Lisbon and Porto are inter-municipal co-operative arrangements, financed with membership payments by the municipalities and by transfers from the central government.

The Lisbon Metropolitan Area is formed by 18 municipalities and governed by a council of 55 members, who are nominated by the municipalities of the Metropolitan Area. The Porto Metropolitan Area of Porto is composed of 17 municipalities, and governed by Assembly of composed of 43 members nominated by member municipalities.

The current laws grant the metropolitan areas the authority to “participate”, “promote”, and “coordinate” various planning and investment activities of metropolitan scale. But the law also limits the authority of MAs. They are mainly dependent on the will of member municipalities and central government on their tasks and financing.

Currently, the responsibilities of Metropolitan Areas comprise transport, spatial planning, regional development, waste disposal, water provision and sanitation.

Municipal enterprises

The activities developed by municipal and inter-municipal enterprises remain clearly defined, now restricted to only two groups of specific areas. On the one hand, there are enterprises that exploit activities of general interest, limited to the promotion and management of collective equipment and provision of services in the areas of education; social support, culture, health and sport; promotion, management and supervision of urban public parking; public water supply; urban wastewater treatment; urban waste management and public cleaning; passenger transportation; and distribution of low voltage electrical energy. On the other hand, companies of local and regional development, which can only operate in the following specific areas: promotion, maintenance and conservation of urban infrastructures and urban management; urban renewal and rehabilitation and management of built heritage; promotion and management of social housing properties; production of electricity; promotion of urban and rural development in the inter-municipal sphere.

Deconcentrated central government regional bodies

In the mainland Portugal, according to Decree-Law no. 104/2003, the Commissions of Coordination and Regional Development (CCDR) are deconcentrated services of the central administration. Within central government, the CCDRs have administrative and financial autonomy, and they are responsible for carrying out measures that are useful for the development of the respective regions. CCDRs operate under a shared regime of the Ministry of the Environment and Energy Transition and Ministry of Planning. CCDRs regional mission is:

- To ensure the coordination and articulation of various sectoral policies at regional level;
- To implement environmental, spatial planning and city policies;
- To give technical support to local authorities and their associations.

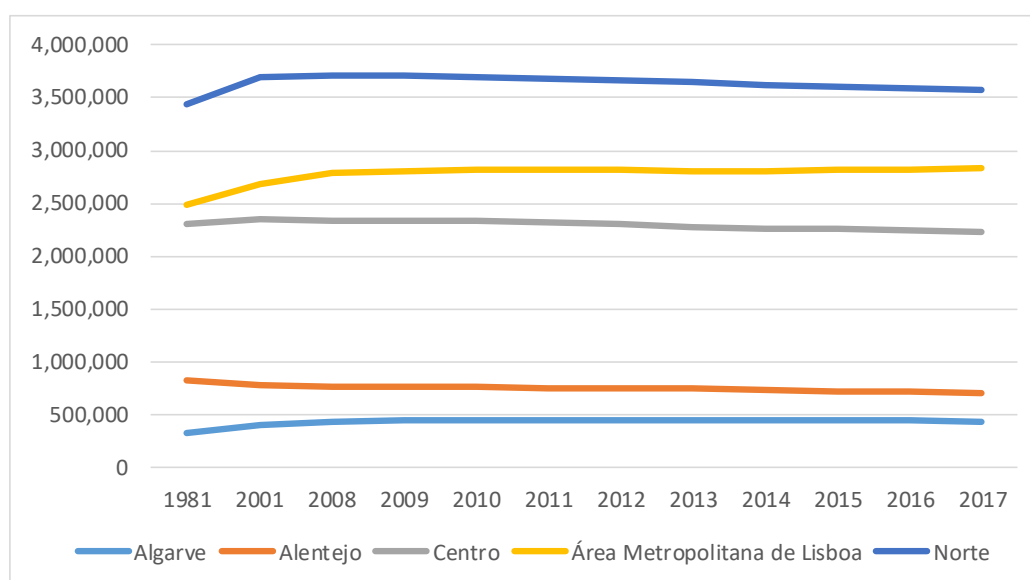
The organizational structure of the CCDRs is quite complex, and comprises a President of the CCDR, an administrative board, a supervisory commission and a regional council. None of these bodies is directly elected, and the President of the CCDR is appointed by the Portuguese Government for a period of three years. The area of activity of CCDR corresponds entirely to that of NUTS II statistical units on the continent. There are currently five Regional Coordination and Development Commissions: Alentejo, Algarve, Center, Lisbon and Tagus Valley, North (Figure 5.2).

Figure 5.2. Map of the CCDRs (Deconcentrated units)



Source: (Veiga and Camões, 2019^[93]).

Figure 5.3. The population size of the Portuguese regions (mainland)



Source: OECD elaboration of population data provided by (PORDATA, 2019^[94]).

Administrative Regions: a description of yet to be established regional governments

Portuguese Constitution establishes a model of regionalization based on "Administrative Regions". These administrative regions have not been implemented, but their possible creation is under discussion. Administrative Regions are not to be confused with the "Autonomous Regions", which are practiced in Azores and Madeira.

The organization and functioning of the so called administrative regions is defined in Chapter IV of Title VIII of Part III of the Portuguese Constitution and Law 56/91 (also known as the Administrative Law). Law 56/91 establishes that an administrative region is a "territorial legal person, endowed with political, administrative and financial autonomy, of representative bodies that seek to pursue the interests of the respective populations as a factor of national cohesion". Despite the legal preparations, the administrative regions have not been established.

By law, the administrative regions are local authorities, similarly to the municipalities and parishes, despite certain differences in the way they operate in relation to other local authorities. According to the Constitution, administrative regions are a local authority that exists only in the territory of mainland Portugal.

According to Law 56/91, the administrative regions have a deliberative body (Regional Assembly) and an executive body (Regional Board), as well as a Regional Civil Governor, which represents the Portuguese Government in the area of the respective region. The Regional Assembly is composed by two groups of members:

- Representatives of municipal assemblies, numbering 15 or 20, depending on whether it is a region with less than 1.5 million voters or 1.5 million and over. These representatives are elected by indirect suffrage, through an electoral college constituted by the members of the municipal assemblies of the region, who, in turn, were directly elected;
- Members elected by universal suffrage, direct and secret, by citizens registered in the area of the respective region, numbering 31 or 41, depending on whether the region has less than 1.5 million voters or 1.5 million or more. Members of the Regional Assembly are called Regional Deputies and are appointed for four-year terms.

The Regional Board would consist of the President of the Regional Board and four or six members, depending on whether the region has less than 1.5 million voters or 1.5 million or more. The Regional Board would be elected by the deputies of the Regional Assembly, being that the President is the first element of the list more voted in the elections for the Regional Assembly.

There would also be a representative of the Government in the Administrative Regions. The main task of the representative would be to coordinate the work of deconcentrated administration with the Administrative Regions, especially with the Regional Board and Regional Assembly. The central government representatives would be appointed by the Portuguese Government at a meeting of the Council of Ministers.

Box 5.3. Regionalisation in Portugal: a short history

Since the mentioning of regions in the Portuguese Constitution and creating the Law 56/91 to define the legal base of administrative regions, the discussion on regionalisation in Portugal intensified especially from the mid-1990s onwards. Based on political discussions it was concluded that it was necessary and urgent to start the process of creating administrative regions in mainland Portugal.

During the following years, there was a lively debate about the creation of administrative regions and on the regional map for mainland Portugal. In 1995 António Guterres was elected as prime minister with the creation of administrative regions in his electoral program. However, at the time of the constitutional revision of 1997, a mandatory referendum was included as a legal requirement for establishing regions. This is still seen today by many regionalists as an attempt to halt the progress of the regionalisation process in Portugal.

In 1997, two maps for the regional division, both proposing nine regions, were presented and later reduced to eight. The proposal of the eight regions was made official in the Law of Creation of the Administrative Regions (Law no. 19/98), a law that would later be taken to a referendum. The law established the division of mainland Portugal into the following eight administrative regions:

- Alentejo
- Algarve
- Beira Interior
- Beira Litoral
- Between Douro and Minho
- Estremadura and Ribatejo
- Lisbon and Setúbal
- Trás-os-Montes and Alto Douro

Thus, on November 8, 1998, a referendum was held on the proposal to establish eight administrative regions. The referendum had two questions: one on the establishment of administrative regions and another on the institution of region where the voter was registered. Probably due to the confusion and the lack of information released during the campaign, the referendum had a weak popular participation. The discussion on regionalisation became an eminently political issue, prompting many voters to withdraw from the issue.

The results of the referendum led to a rejection of the proposal by the electorate, but the referendum was not binding, since no more than 50% of voters participated. As a result, there is a "gap" in the country's administrative structure. A number of powers that in the law are attributed to supra-municipal bodies (because they are regional in scope) are not entrusted to the central government nor to the municipalities and cannot be exercised by the administrative regions because they were not created.

The failure to set up administrative regions led to the creation of other bodies, such as urban areas (Metropolitan Areas and IMCs) and CCDRs. CCDRs were created in 2003 by merging the Regional Coordination Commissions (RACs) and the Regional Directorates of Environment and Spatial Planning, which were also deconcentrated services of the central government. Before 2003, RACs were already functioning with functions similar to those of the current CCDR. The RACs were established in 1979 following the planning regions created in 1969 during the government of Marcelo Caetano, with the aim of achieving an equitable regional distribution of development to be achieved by the Third Development Plan.

Initially, the RACs had only functions of coordinating the activities of the municipalities, but their competences were later increased considerably.

Subnational government financing

Under the current legal framework, local governments have financial autonomy with respect to the following powers:

- a) Preparing and approving financial plans, annual budget, and financial accounts;
- b) Deciding and managing their own assets;
- c) Managing the tax powers legally granted;
- d) Administering and collecting their own revenues;
- e) Administering and processing expenditures;
- f) Subscribing loans under the established legal limits.

The financial resources of local governments come from two broad types of revenues: own-raised revenues and intergovernmental transfers. Municipal own revenues are mostly tax revenues that come from direct and indirect municipal taxes, namely the Municipal Property Tax, the Municipal Property Sales Tax, the Municipal Surcharge, the Circulation Unique Tax, and the amounts received in the process of issuing licences and user charges.

The largest amount of intergovernmental transfers to municipalities comes from the Financial Equilibrium Fund, a general-purpose grant that corresponds to 19,5% of the average of the amount collected with personal income tax, corporate tax, and value-added tax. This fund is then divided into two sub-funds with different purposes and subsequently redistributed among municipalities with different criteria:

- a) Municipal General Fund – to finance their legal assignments;
- b) Municipal Cohesion Fund – with the objective of correcting asymmetries among municipalities, particularly with respect to fiscal capacity and unbalance of opportunities.

Municipalities are also entitled to a conditional transfer from the national budget – Municipal Social Fund – designed to adjust to the transfer of additional assignments, mainly related with social functions such as health, education, and social assistance.

Parishes' own-revenues are based on a small fraction of property tax and user charges related to some public services they provide. Parishes are also entitled to a general-purpose grant – Financial Fund of Parishes – that corresponds to 2% of the fund.

Local governments are limited with regard to indebtedness. The total amount of municipal debt cannot exceed 1,5 the 3-year average of current revenues. In 2011, 141 (46%) municipalities exceeded debt limit, which forced the national government to adopt severe measures. In the first place, the 2013 legal regime already recognized the importance of foreseeing the existence of municipalities in need of financial recovery. Accordingly, this law created a Municipal Support Fund, participated equally by central and local governments, in order to financially assist unsolvable municipalities. The law also created a Regularization Municipal Fund corresponding to the financial transfers retained by central government when municipalities failed to comply with the recovery plan and used to pay short-run debts.

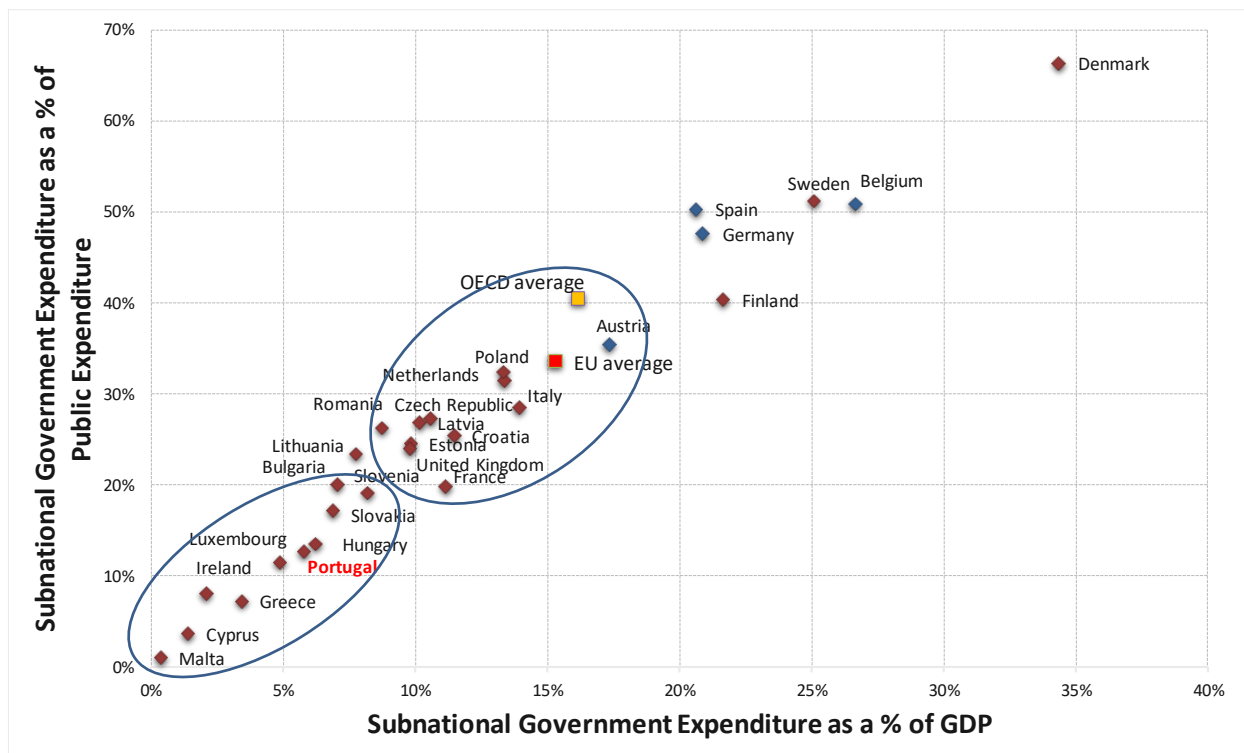
Local governments' financial activity has also been conditioned by the new regime of commitments and arrears by the public sector (Law no. 8/2012). For the settlement of the payment of debts of municipalities overdue for more than 90 days, the Local Economy Support Program - PAEL (Law no. 43/2012) was approved. Through this program, eligible municipalities can establish loan agreements with the State with a view to restoring the financial situation of the municipality.

5.1.4. Decentralisation in Portugal in international comparison

Measured with the usual decentralisation indicators, the degree of fiscal decentralisation in Portugal is relatively low (Figure 5.4). Moreover, there are no signs of major changes in decentralisation in Portugal during the past two decades. Between years 2000 and 2017, subnational governments' revenues/expenditures represented around 6% of GDP, and below 17% of the General Government revenues/expenditures (Figure 5.5). Since 2008, the ratio of subnational governments' revenues on general government's revenues has exceeded the ratio of subnational governments' expenditures on general government's expenditures. The gap between the two ratios has expanded since the economic and financial crisis. This seems to be mostly because municipalities have adjusted their spending to reduced central government transfers, and because municipalities have been able to slightly increase their own revenues.

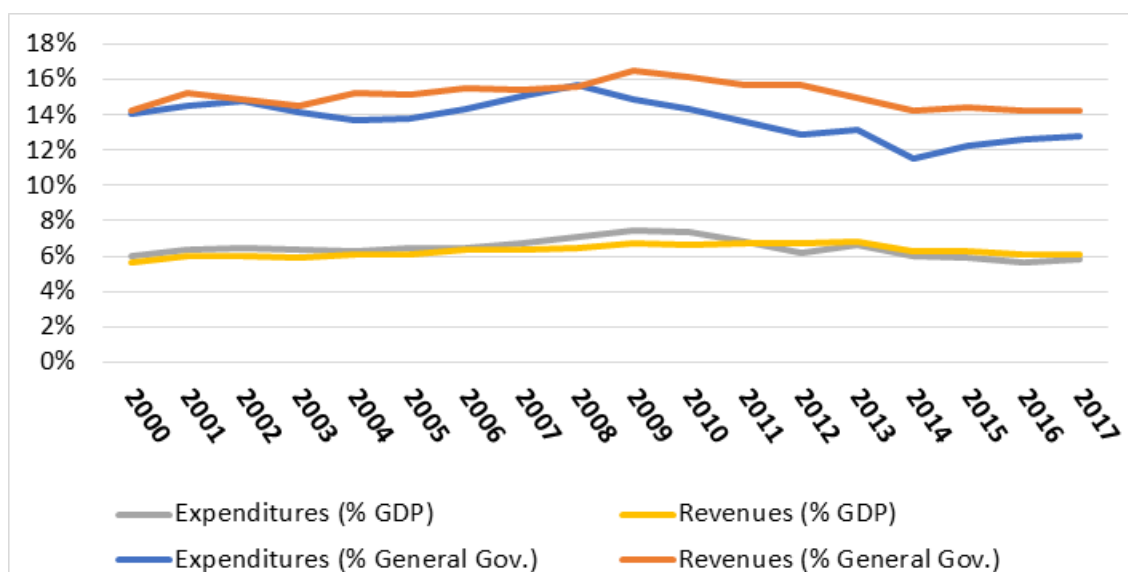
Figure 5.4. Portugal is among the least decentralised countries in the EU

Subnational government expenditure represented on average 33.5% of general government spending and 15.3% of GDP in the 28 EU member countries in 2017.



Source: (OECD, 2019_[31])

Figure 5.5. Regional and local governments' expenditures/revenues as a percentage of GDP and of general government's expenditures / revenues



Source: AMECO

Among the EU countries, Portugal belongs to the group of unitary countries with one subnational government level (municipalities and parishes are not counted as separate levels) (Table 5.1). This group consists mostly of countries with small population size, such as Cyprus, Malta and Luxemburg, the three Baltic countries, and also Ireland, Finland and Bulgaria (Figure 5.6 Panel A). In Finland, Bulgaria and Portugal the governments are currently planning or discussing regionalisation reforms. The second country group, with two subnational governments, is formed by countries with slightly bigger populations, such as Sweden, Hungary, Czech Republic and Romania. The third country group, with three tiers of subnational government, consist of clearly biggest countries by population. Poland, France and Germany, among others, belong to this group. The association between country's population size and number of subnational tiers is clear, as bigger countries tend to have more tiers (correlation between population and number of tiers is 0.79). There is nevertheless some overlap between the groups, as can be seen from Figure 5.6 (Panel A). Portugal could, based on its population size, belong also to group of countries with two levels of subnational government. Panel B of Figure 5.6 shows the considerable variation in the size of administrative regions in the OECD. Among unitary countries in the OECD, France has now the largest regions in terms of population, and Chile in terms of size.

Table 5.1. Subnational government organisation in the EU28

	Countries with one subnational government level* (n=11):	Countries with two subnational government levels** (n=10): <i>Municipalities, regions</i>	Countries with three subnational government levels*** (n=7) <i>Municipalities, intermediary governments, States/regions</i>
Federations (n=4)		Austria	Germany Belgium Spain [§]
Unitary countries (n=24)	Bulgaria Cyprus Estonia Finland [§] Ireland Latvia Lithuania Luxembourg Malta Portugal[§] Slovenia	Croatia Czech Republic Denmark Greece Hungary Netherlands Romania Slovak Republic Sweden	France Italy Poland United Kingdom [§]

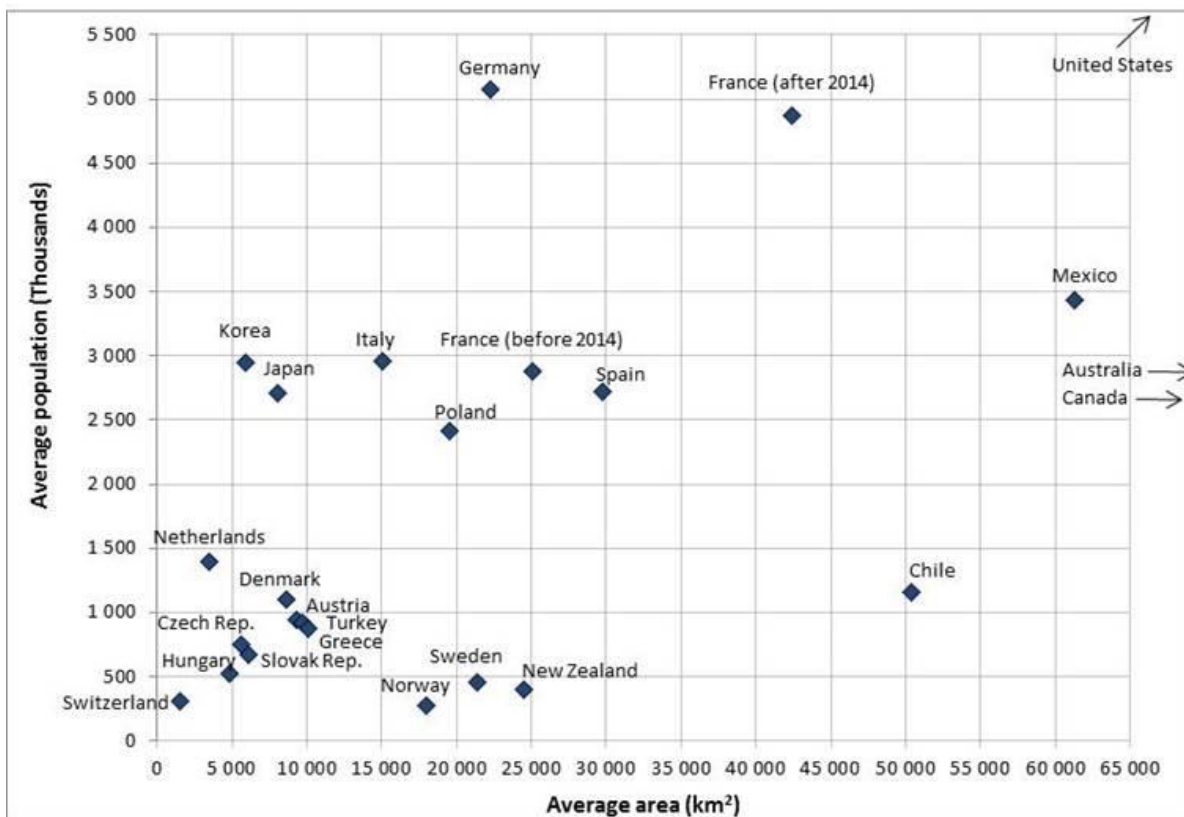
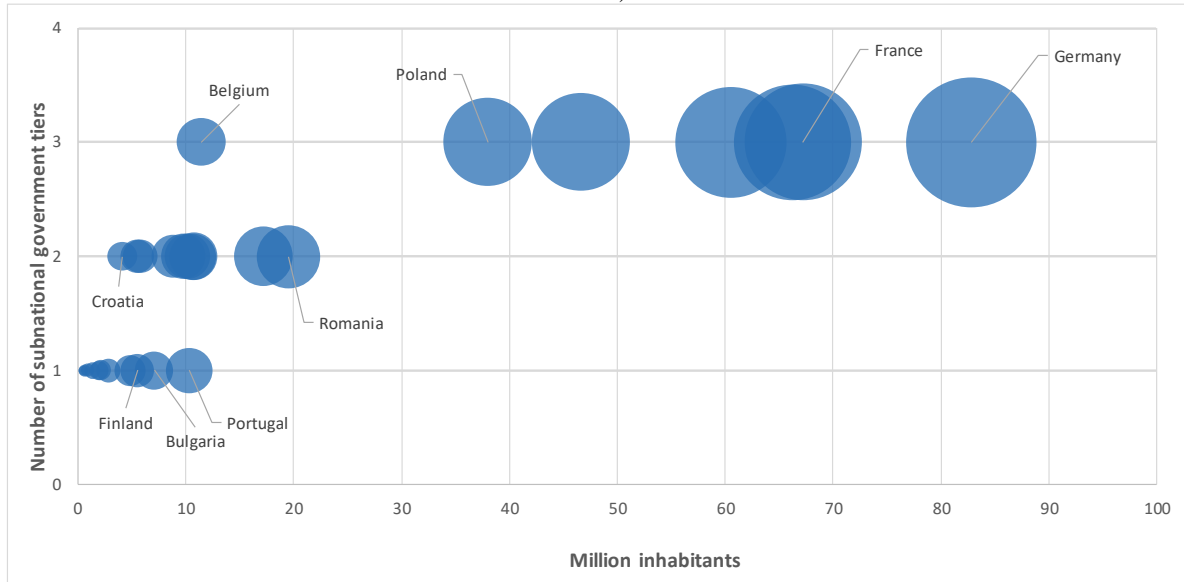
Note: *Municipalities; **Municipalities and regions; ***Municipalities, intermediate governments and regions. [§]Spain is a quasi-federal country; [§]Portugal has two autonomous regions; [§]Finland has one autonomous region; [§]United Kingdom has three “devolved nations” at regional level.

Source: OECD.

Figure 5.6. Population size and number of subnational government tiers among EU28 countries and the OECD countries

Panel A: Population in million inhabitants (horizontal axis) and number of government tiers in each country (vertical axis). The bubble size indicate differences in countries' population.

Panel B: Average geographic area of regions in each country (horizontal axis) and average population size of regions (vertical axis).



Source: OECD and author's calculations based on Eurostat population data.

The average population size of Portuguese municipalities is 33600 inhabitants (35400 in the mainland) inhabitants (Table 5.2). This is among the highest municipal population sizes among the EU countries, although the size is higher in Sweden, Netherlands, Lithuania, Denmark, Ireland and United Kingdom (Figure 5.7). It should be noted however, that for example in Denmark, Netherlands and Sweden, the municipalities are responsible for many demanding tasks such as social services and health care.

Despite of relatively high average population size, the differences between municipalities are nevertheless considerable. Municipal population varies between 460 and 504000 inhabitants. Only six municipalities have more than 200000 inhabitants. Four of these are located in the metropolitan area of Lisbon (Lisbon, Sintra, Cascais and Loures), while two belong to the metropolitan area of Porto (Vila Nova de Gaia and Porto). Altogether 118 municipalities have less than 10 thousand inhabitants and 67 municipalities have between 10 and 20 thousand inhabitants. The differences in geographic, demographic and fiscal circumstances are considerable too (Table 5.2).

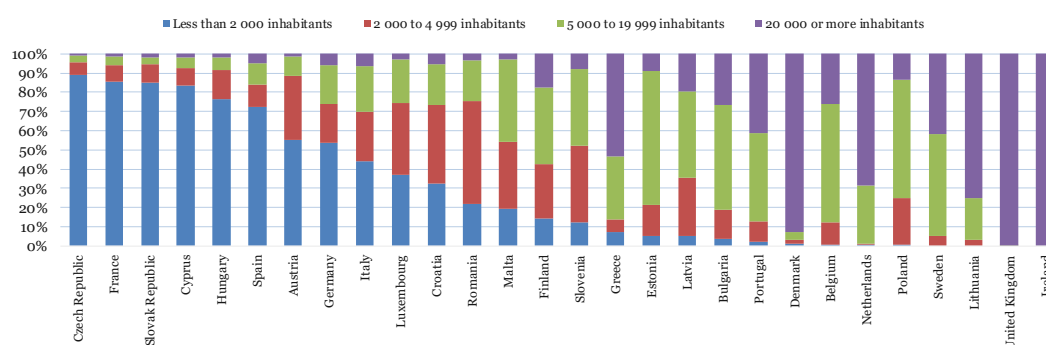
Table 5.2. Descriptive statistics for municipalities

Indicators covering all 308 municipalities

Dimension	Variable	Average	Standard deviation	Smallest	Biggest
Scale	Population	33,575.7	54,690.1	459	504 471
	Area (km ²)	299.2	277.8	8.3	1 720.6
Geography and demography	Location (Inland, Coastal, Islands)	--	--	--	--
	Seasonality (stays per 100 inhabitants)	639.0	1686.7	6.2	20 613.2
	Altimetric amplitude (meters)	624.2	441.3	2 351.0	17.0
	Population Density	295.0	818.3	4.3	7,529.6
	% of elderly population (>=65)	23.9	6.3	8.1	45.4
	Urbanization (% of land for urban use)	10.1	12.1	0.3	75.5
Fiscal	Total expenditures <i>per capita</i> (€)	1,145.7	646.8	353.0	6 863.4
	Tax revenues <i>per capita</i> (€)	222.7	157.5	64.4	1 147.1
	Financial independence (own revenues as % of effective revenues)	41.9	18.8	6.7	94.5
	Weight of transfers (% of effect. rev.)	58.2	18.8	5.5	93.3

Source: Veiga and Camões (2019), National Institute of Statistics and General-Directorate for Local Governments.

Figure 5.7. Portuguese municipalities are big by population compared with most EU countries

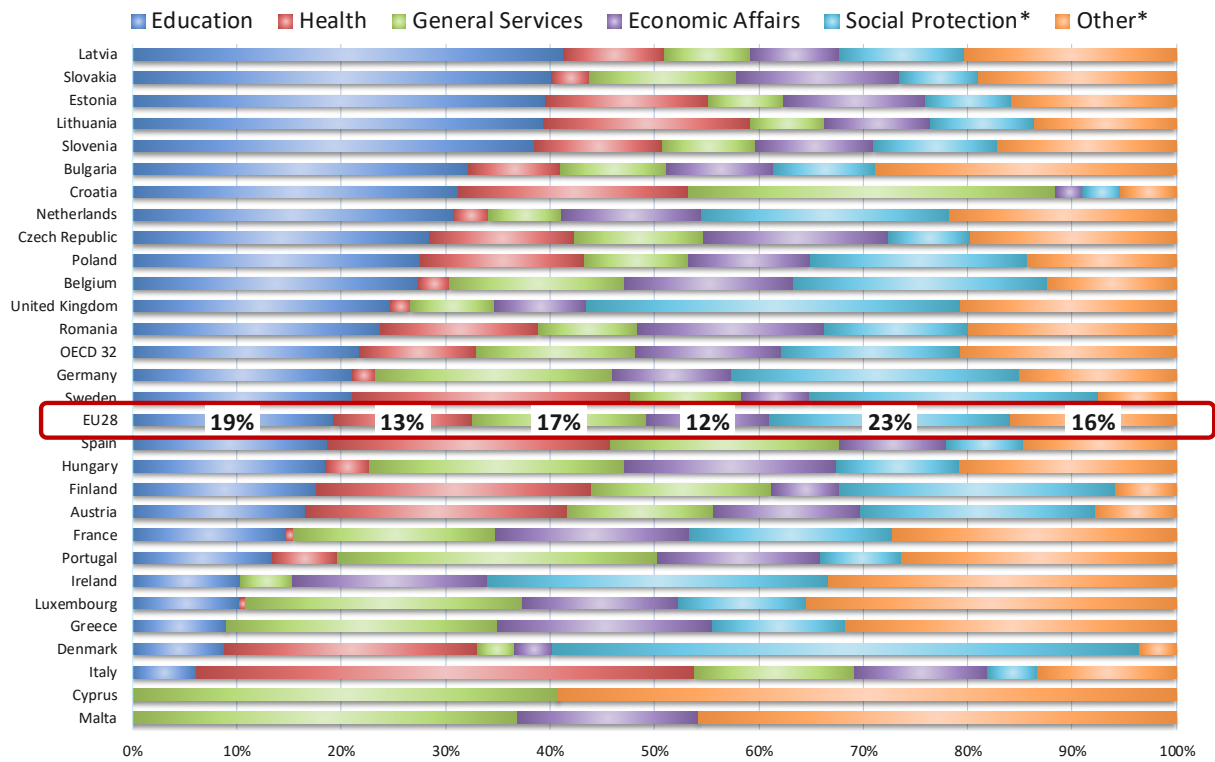


Source: OECD

The strong role of central government in Portugal in public service provision is reflected in the responsibilities devolved to subnational governments (Figure 5.8). Compared with the EU average, the spending assignments of Portuguese subnational governments differ markedly. While in the EU the three biggest sectoral spending categories are social protection, education, and general services, in Portugal the main local services comprise general services, economic affairs and other services. In education, health services and social services, the central government bears the main responsibility in Portugal. While this differs from most EU countries, a similar situation prevails also in other centralised EU member countries, such as France and Greece.

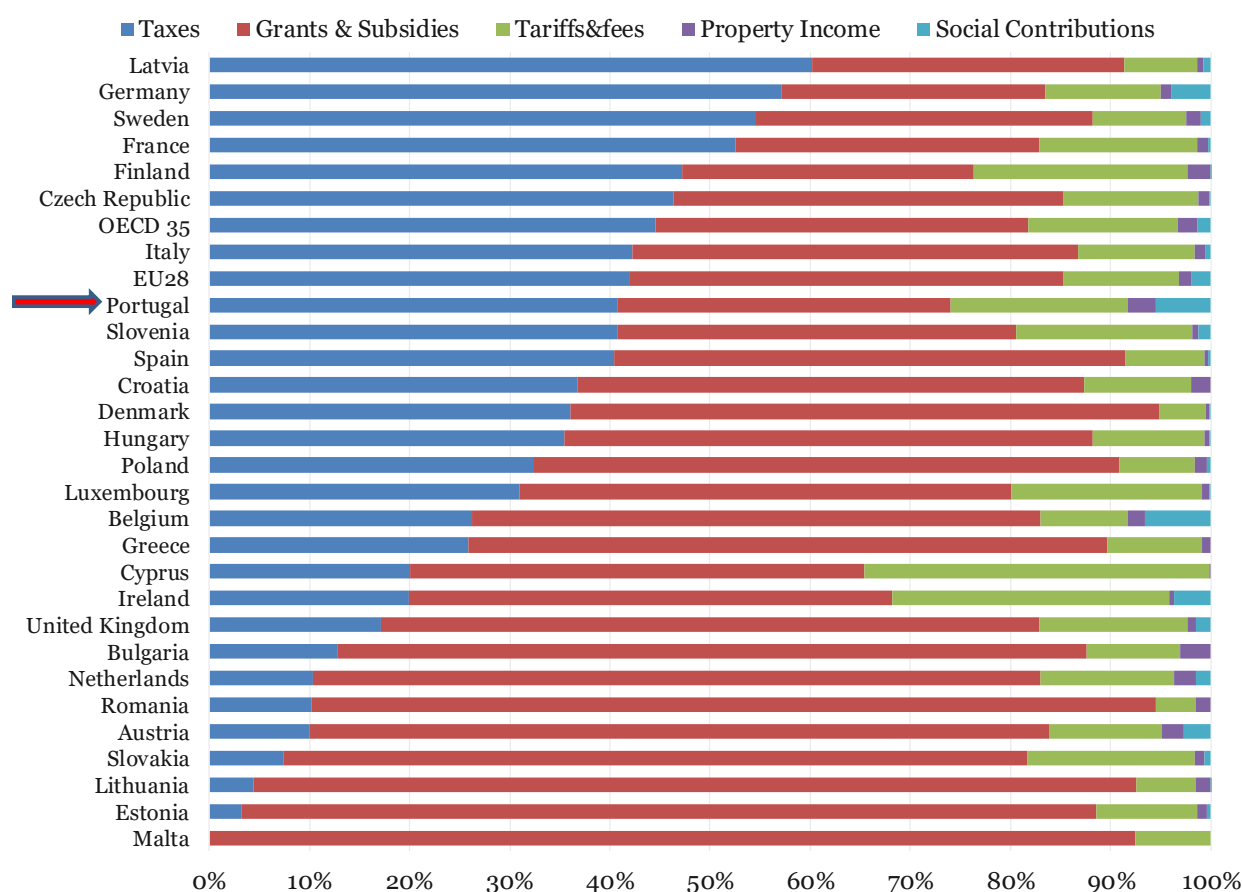
In contrast to situation in spending responsibilities, the revenue structure of Portuguese subnational governments follows closely the EU and OECD mainstream (Figure 5.9). As in the EU on average, the most important source of revenue is tax revenues, followed by transfers and user fees.

Figure 5.8. Portuguese subnational government provides local public goods



Source: OECD.

Figure 5.9. More than half of the subnational government revenues is formed by own source revenues in Portugal



Source: OECD.

5.1.5. Main challenges faced by Portuguese multilevel governance

This subsection aims to identify policy areas where the current Portuguese multilevel governance could benefit from reform or rethinking of the system. The discussion here focuses on the challenges that can be identified by comparing Portugal to other countries or to the usual recommendations presented in the economics literature.

The current Portuguese multilevel governance model does not directly address regional level problems

In Portugal, the regional level issues are currently addressed mainly with deconcentrated central government administration or with central government direct intervention. While the CCDRs are engaged in co-operation and dialogue with local governments and other relevant stakeholders, due to limited resources and their mandate, the main focus of CCDRs has been on managing the EC funding. Therefore, the ability of CCDRs to deal with issues concerning public service provision is restricted. Moreover, the CCDRs lack the status and legitimacy that an elected regional government could have.

While there are no clear normative guidelines on how to assign spending responsibilities to different levels of government, the general principle presented in the economics literature is that the central government should be responsible for pure public goods such as national defence or foreign affairs. It is also recommended that the central government is responsible for macroeconomic stabilisation and fiscal policy. Similarly, redistribution should in principle be decided at the national level, although subnational governments may be (and often are in practice) involved in providing and producing services which involve redistribution. Subnational governments are best positioned to provide local public goods such as local roads, water and sewage, as in these services benefits are mainly local. Subnational governments can also share the responsibility of service provision with central government in many other public services (Table 5.3). As for the regional level, there are many important policy areas where regional level of government could engage either in oversight, service provision or service production, or all, as can be seen from Table 5.3.

Based on the general principles of public spending assignments, it could be argued that in the Portuguese case the lack of regional level of government may bring extra costs to public decision-making and public service provision. This is mainly because a regional level government is currently not used in oversight (although the CCDRs and the other deconcentrated administration do monitor and co-ordinate local tasks at some extent), service provision and service production. This is simply because there is currently no regional level of government in Portugal. Moreover, in Portugal, as in other countries, there are services with region wide benefits (and which the IMCs are not well positioned to internalise). In these services, the regional level service delivery could be defended.

Table 5.3. Assigning spending responsibilities in a multilevel government framework

	Policy, standards, oversight	Provision, administration	Production, distribution	Comments
Water and sewers	R,L	L	L, P	Mainly local benefits
Solid waste	R, L	L	L, P	Mainly local benefits
Fire protection	L	L	L	Mainly local benefits
Police	R,L	R, L	R, L	Mainly local benefits
Parks, recreation	R,L	R, L	R, L, P	Benefits vary in scope
Roads	N, R, L	N, R, L	R, L, P	Benefits vary in scope
Natural resources	N, R	N, R	N, R, L, P	Benefits vary in scope
Environment	N, R, L	N, R, L	N, R, L, P	Externalities vary in scope
Education	N, R, L	N, R, L	R, L, P	Externalities, transfers in kind
Health	N, R, L	N, R, L	R, L, P	Transfers in kind
Social welfare	N, R, L	N, R, L	R, L, P	Redistribution

Note: N = National, R = Regional, L = Local, P = Private or non-governmental

Source: (Bahl and Bird, 2018_[39])

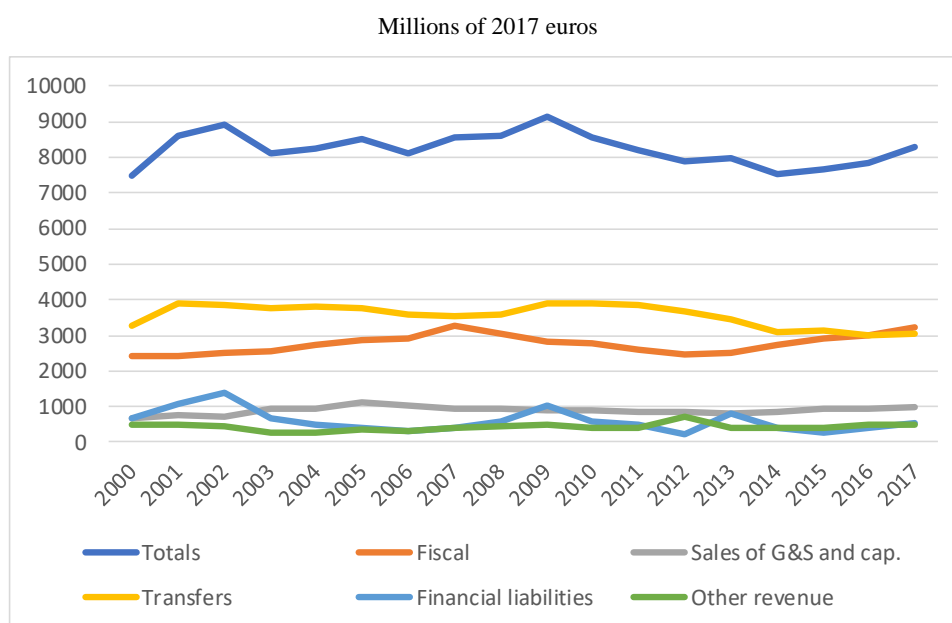
The rapid demographic change and sluggish recovery from the economic and financial crisis form together a tricky policy environment in Portugal

Like many other European Union member countries, in the coming years and decades Portugal must find ways to solve problems that are formed by rapid population ageing, continuing urbanisation and the decreasing population especially in rural areas (see chapter 3.1 above for more detailed discussion on demographic change in Portugal). While the population will decrease especially in the remote rural areas, also the metropolitan areas

will be affected. These trends challenge Portuguese government both at central and local levels, and form the main pressures for structural reforms in public sector.

Portugal is currently in a process of adjusting its economy in the aftermath of economic and financial crisis. The austerity measures that have been taken have affected governments at all levels. For municipalities, the policy has meant belt-tightening as the intergovernmental transfers, which have traditionally been a major source for revenue for municipalities, have decreased considerably after 2010 (Figure 5.10). The good news is that the recovery of overall economy has supported growth in local tax bases, and this has helped municipalities to compensate part of the loss in central government funding with increase in own source revenues. Nonetheless, the transition from a centrally financed model to a model which is based on greater self-reliance at the subnational government level has been slow.

Figure 5.10. Municipal revenues by category between 2000 and 2017



Note: Each line represents national totals.

Source: Own calculations based on data from the DEGal (Veiga and Camões, 2019^[93]).

Modest spending and revenue decentralisation misses potential benefits of decentralisation

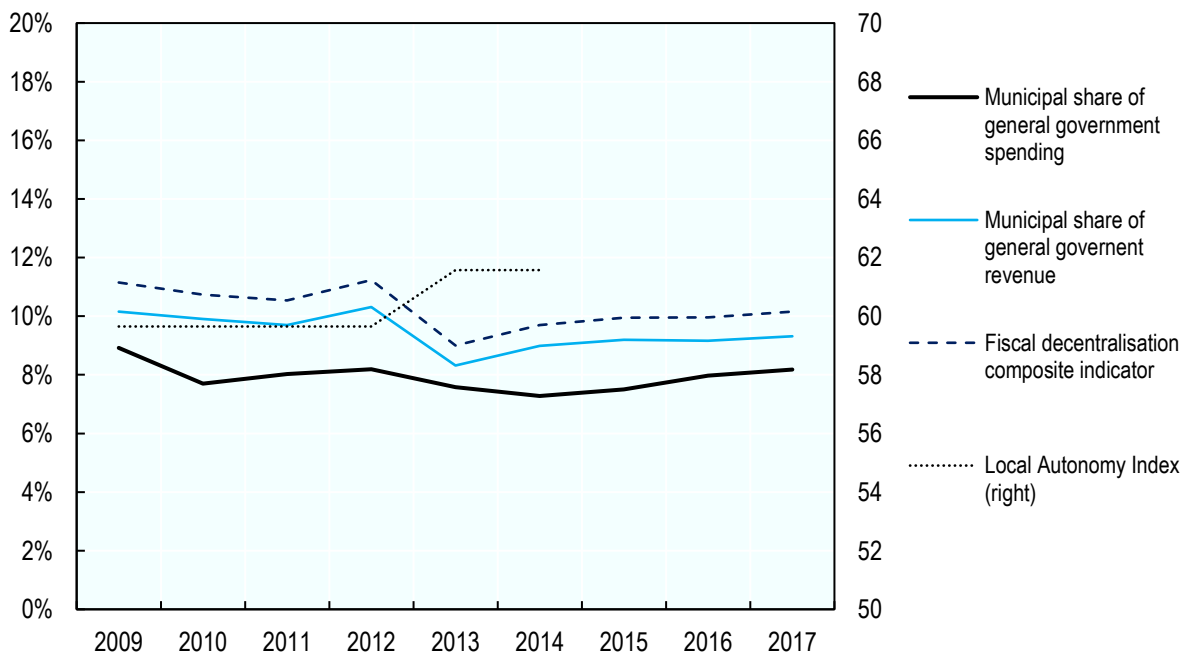
Despite current and past efforts to transfer tasks and revenues from central government to municipalities and inter-municipal entities, Portugal is by all measures still a highly centralised country. While the legal and administrative autonomy of Portuguese municipalities has been strengthened during the recent 5-10 years, at the same time not many important spending assignments have been devolved to local governments. It is interesting to note that although the Local Autonomy Indicator⁸, which measures the local

⁸ Local authority index (LAI) measures autonomy at the local level. Eleven sub-indicators are used to create the LAI indicator. The 39 countries covered by LAI include all 28 EU member states together with the three European Economic Area (EEA) countries (Norway, Iceland, and

government's autonomy with mostly legal and regulatory characteristics, shows increased local autonomy in Portugal since 2010, the fiscal data shows the opposite development (Figure 5.11).

The reluctance of Portuguese central government to decentralise important spending to municipal level during and right after the austerity measures, is understandable. During the past 7-8 years the main focus of fiscal policy has been on spending control and savings. The dilemma is however that without further decentralisation, i.e. devolving more tasks and revenue to municipalities, IMCs and the possible administrative regions (if they will be established), the benefit potential of decentralisation remains underutilised.

Figure 5.11. The legal and administrative status of Portugal's municipalities has strengthened during the past decade, but fiscal decentralisation has developed in the opposite direction



Note: The municipal share of general government spending is the sum of the 308 Portuguese municipalities expenditures over the sum of expenditures at all levels of government in Portugal. The municipal share of general government revenue is the sum of the 308 Portuguese municipalities revenues over the sum of revenues at all levels of government. The fiscal decentralisation composite indicator summarises information on municipal spending and revenue shares in general government. The Local Autonomy Index is an expert-based assessment of local governments' autonomy combining dimensions such as institutional depth, policy scope, effective political discretion, fiscal autonomy, financial transfer system, financial self-reliance, borrowing autonomy, organisational autonomy and self-rule.

Source: Eurostat, Pordata, (Ladner, Keuffer and Baldersheim, 2016^[95]).

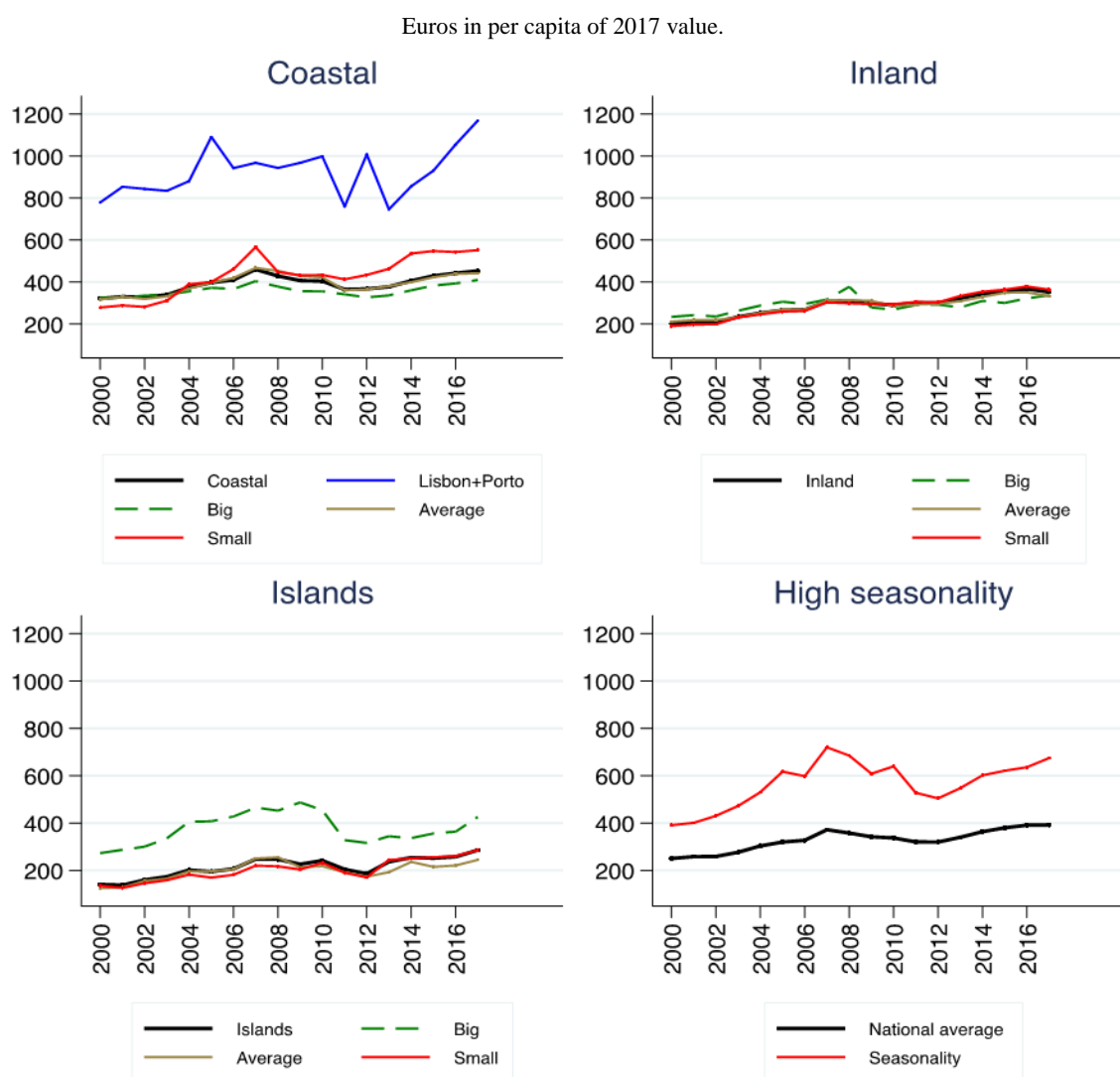
Liechtenstein) plus Switzerland, a member of the European Free Trade Association (EFTA). Additionally, Albania, Macedonia, Moldova, Georgia, Serbia, Turkey and Ukraine have been included (Ladner, Keuffer and Baldersheim, 2016^[95]).

The differences in fiscal capacity between municipalities put pressure on the transfer system and fiscal equalisation

In 2017, on average, transfers represented 36.8% of total revenues for municipalities. Among these transfers, 78.3% corresponded to tax-sharing transfers that are determined by a formula, 10.1% to other transfers from the central government, 6.5% were EU transfers and the remaining 5.1% other transfers.

Municipalities differ considerably in their capacity to generate own revenues. Lisbon and Porto have the highest levels of own revenues per inhabitant, followed by other municipalities in the coastal area (Figure 5.12). On the other extreme are the inland municipalities, which are exceptionally dependent on intergovernmental transfers (Figure 5.13).

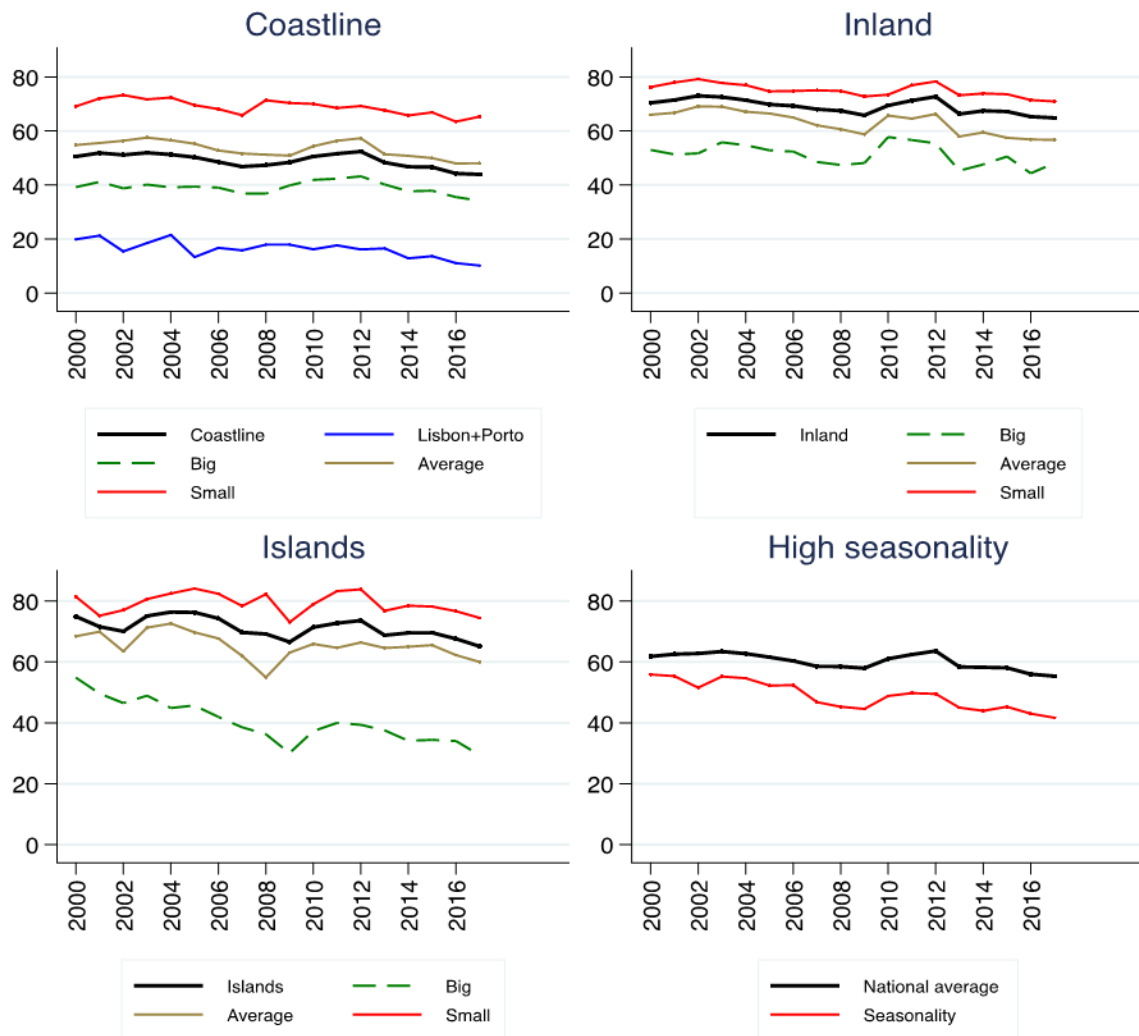
Figure 5.12. Average own revenue in different municipality groups



Note: Each line represents average values for municipalities belonging to each group.

Source: Own calculations based on data from the DGAL.

Figure 5.13. Weight of transfers on total municipal revenue



Note: Each line represents average values for municipalities belonging to each group.

Source: Own calculations made based on data from the DGAL (Veiga and Camões, 2019^[93])

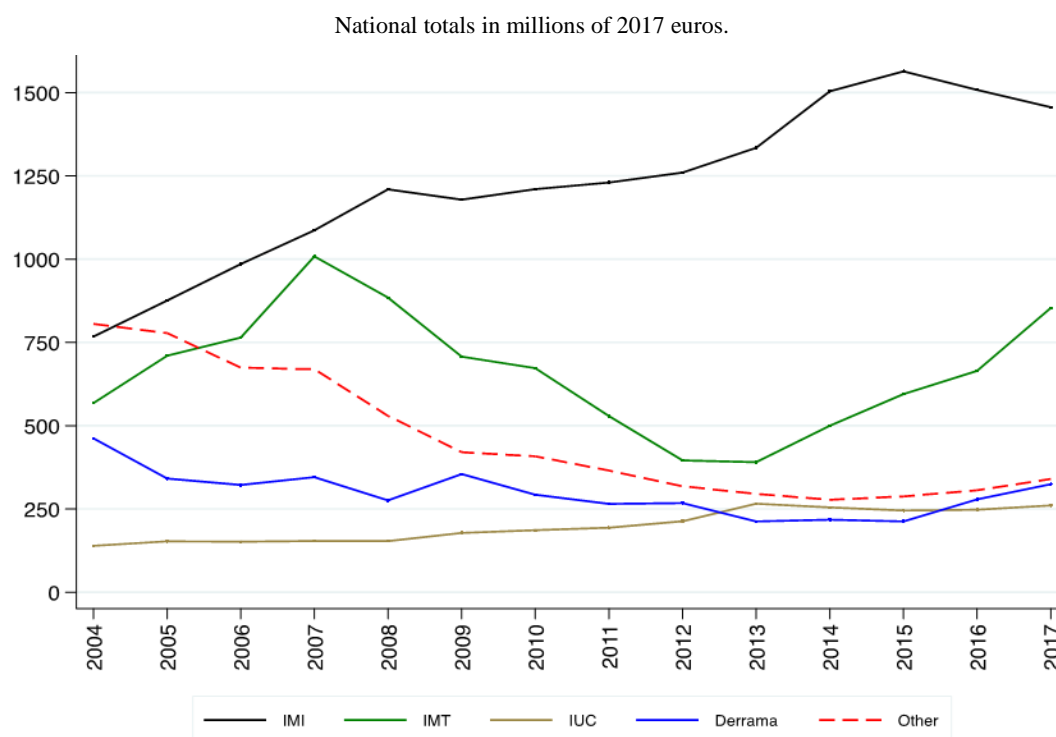
Tax competition between municipalities may have both beneficial and damaging effects

The municipalities with lower fiscal capacity, in the use of their freedom to explore legal fiscal limits, tend to adopt lower tax rates in the property tax and surcharge tax (Veiga and Camões, 2019^[93]). While this behaviour is understandable from a single municipality's point of view, as a way to attract private investments and promote local economic development, it may have larger effects which are not all positive. From the positive side, competition between municipalities is beneficial if it enhances the efficiency of public service provision and constrains increase of tax rates. Competition can also be harmful, for example if it leads to “race to the bottom” behaviour of the tax rate setting. This can erode tax bases and may eventually lead to worse local public services.

Volatile municipal tax bases may create spending risks

It is usually recommended that local revenues should be relatively stable and predictable over time. Hence, elements of local revenue system that contribute to volatility of taxes should be avoided. In 2017, the Municipal Property Purchase Tax (Imposto Municipal sobre Transmissões Onerosas de Imóveis – IMT) was the second most important tax for municipalities, forming 26% of total municipal tax revenues (Figure 5.14). The IMT reached its highest value in 2007, and declined considerably since then, until 2013. The economic and financial crisis can be identified as the main cause for this decline (Veiga and Camões, 2019^[93]). Since 2014, the IMT has been rising rapidly. It should also be noted that although the Law 73/2013 predicted the abolition of the IMT in 2018, this did not happen, resulting in an increase in revenues for municipalities. While the biggest cities, who are the main beneficiaries of the IMT (Figure 5.15), can probably handle the risks created by volatile tax bases better than the small municipalities, in the medium and long run an important tax base with high volatility may create problems in spending side. Exposure to volatile local tax bases can lead to aggregate efficiency losses if expenditure rises in good times and governments find it harder to cut spending than raise taxes during a downturn, leading to a ratchet effect (Sutherland, Price and Joumard, 2005^[96]).

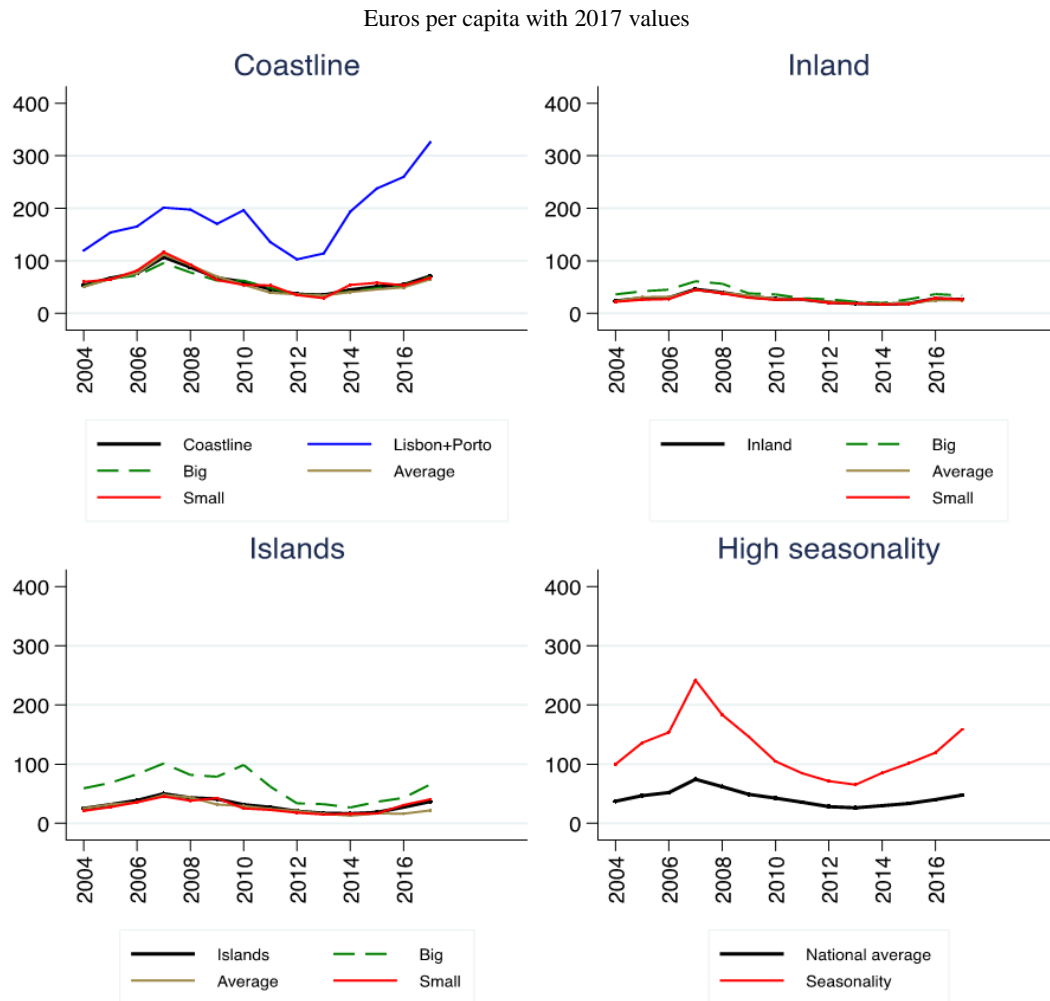
Figure 5.14. Fiscal revenue of Portuguese municipalities



Note: IMI is the Municipal Property Tax (Imposto Municipal sobre Imóveis), IMT is the Municipal Property Purchase Tax (Imposto Municipal sobre Transmissões Onerosas de Imóveis), IUC is the Circulation Unique Tax (Imposto Único de Circulação) and Derrama is the Municipal Surcharge.

Source: Own calculations made based on data from the DGAL (Veiga and Camões, 2019^[93]).

Figure 5.15. Revenue from Municipal Property Purchase Tax is exceptionally volatile



Note: Each line represents average values for municipalities belonging to each group.

Source: Calculations made based on data from the DGAL (Veiga and Camões, 2019^[93]).

Room for more impact evaluation of public policies concerning subnational governments

A number of reforms on municipal management have been decided during the past 5 years or so.⁹ While these reforms are expected to bring gains in terms of transparency, simplification and accountability of municipal decision-making, there is not yet much information available on the effects of the changes. For example, the merger reform of parishes was done with the purpose of strengthening the capacity of the parishes and

⁹ Examples of such recent reforms include: the merger reform of parishes, restriction of the local business sector, several changes made to municipal financing (debt rules, property tax, transfers) and land use.

promoting economies of scale to enhance efficiency. However, the impact evaluation of the effects of this reform is yet to be done.

Ideally, the impacts of the most important reforms should be evaluated systematically, both ex ante and ex post. Ex ante evaluation is especially useful in case of reforms that assign new responsibilities to subnational governments. An independent evaluation would give information on the feasibility, in particular on the resources and capacity needed for achieving the desired outcomes.

This said, it should be acknowledged that in Portugal there are some practices in place to measure service outcomes and user satisfaction. For example in health care and in education, the efficiency and quality of services is followed systematically. Regarding regional development, the Agency for Development and Cohesion plays an active role in implementation, monitoring and evaluation of the policies. Examples of such attempts include the Network of Regional Dynamics, and network of Monitoring and Evaluation.

Unclear role of inter-municipal co-operation

The Metropolitan Areas (MA) and Inter-municipal Communities (IMC) still play a marginal role in the public sector. As established in Law 73/2013 (art. 69, n. 2), the amount transferred to IMCs is only 0.5% of the transfer system FEF (1% in the case of Metropolitan Areas). In addition, the inter-municipal bodies have only a restricted capacity to raise own revenues. As a result, IMCs are mainly financed by municipalities. So far, municipalities have been reluctant to assign tasks to IMCs. This is understandable taking into account the relatively modest tasks and strong population base of most municipalities. It appears that municipalities do not see need for the scale economies that IMCs could provide, or they are unsure of the service level that IMC could provide for the member municipalities. This may however change in the coming years, as more responsibilities will be decentralised to municipalities. In any case, the challenge is to enlarge the role of the inter-municipal organisations and to guarantee their financial means.

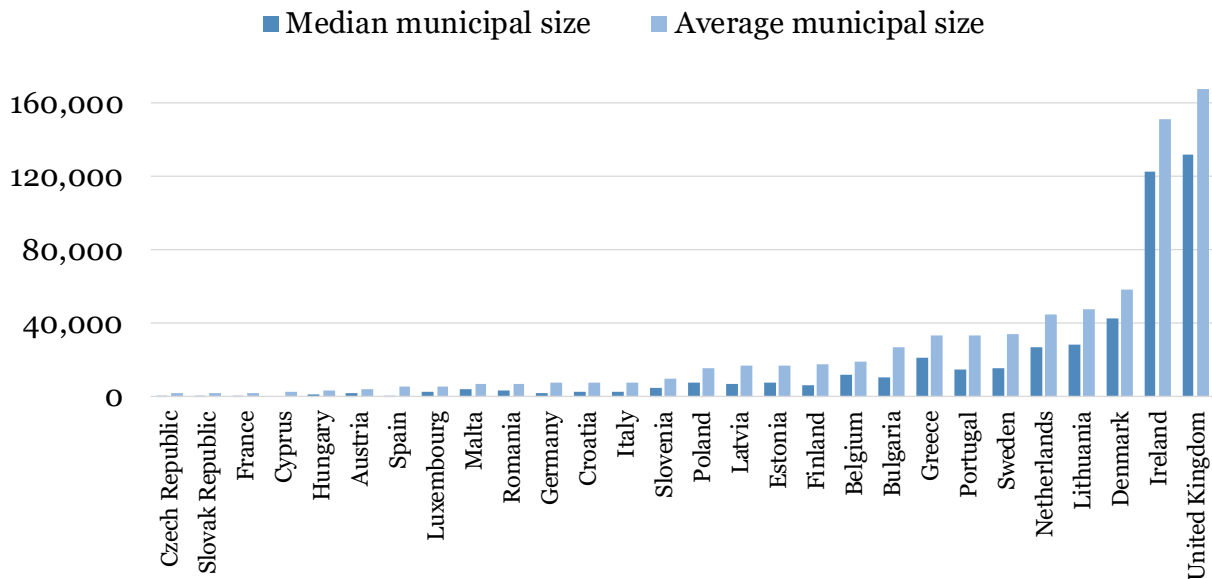
It should also be noted that reforms that aimed to strengthen the inter-municipal co-operation (IMC and MA), also increased the regulation. For example, the degree of conditionality in the access to Community funds by the municipalities has increased, introducing rigidity in the process. While the aim of the regulation is to improve the quality of the projects and to act in coordinated way, the flip side of the tightened regulation is that municipalities may tend to adopt investments eligible for Community funds as their priorities, in contrast of the real needs of the territories.

Municipal population size is high in European comparison

Municipal population size is under discussion in Portugal. Often the argument seems to be that in Portugal the municipalities are too small to operate their current services, let alone to take more responsibilities. However, in international comparisons the Portuguese municipal population size is not particularly small (the current average municipal population of 33,500 inhabitants is above the average of EU28 and OECD countries) (see Figure 5.16). The share of small municipalities in Portugal is not higher than in most other countries in the EU or the OECD. Moreover, the current or planned tasks of Portuguese municipalities, which comprise mostly local public goods and supporting services of centralised health and education services, do not seem to be exceptionally demanding in international comparisons.

It seems clear that in any case the municipal merger reforms will not be politically feasible solution in Portugal. The question of increased utilisation of the IMCs and MAs is therefore important in public service provision. If the administrative regions will be established, this will affect also municipalities and the co-operative units, depending on the division of assignments at different levels of government.

Figure 5.16. Municipal population size in Portugal in 2016 compared with other EU28 countries



Source: OECD.

Overlapping assignments between deconcentrated central government units may cause unnecessary duplication and be a source for inefficiency

There are currently deconcentrated central government departments in Agriculture, Education, Employment, Economy, Social Security, Health and Transport. The five CRCDs have the responsibility of territorial coordination of central government services in each region. However, there seem to be organisatory challenges which may impede the current model to accomplish all the goals, for example:

- The deconcentrated central government regional administration is based on a number of regionalised departments, which seem not to always follow the same geographical borders, even within the same ministry. For example, the Ministry of Labour, Solidarity and Social Security has regionalized services of Social Security with eighteen district offices, which are deployed in 441 local services for the public. The same ministry is responsible for the Institute of Employment and Professional Training (IEFP), which comprises five regional delegations (coinciding with NUTS II) and 53 local Employment Centres that may have several municipalities as their area of influence or even infra-municipal areas.
- There is currently a large number of consultative entities whose mission is to promote vertical and horizontal dialogue/coordination between levels and sectors

of government. The risk is that the roles and responsibilities of various actors overlap and lead to loss of transparency as well as administrative burden.

- It also appears that it is difficult for the presidents of the CRCD's to co-ordinate the sectoral services, because each sector is led independently by a sectoral president who is at the same level as the president of CRCD.

5.2. Portuguese model of multilevel governance in comparison with systems in the other EU countries: the path-dependency revisited

Local government in Europe features a wide range of organisations due to historical developments and national traditions (OECD 2017). A path-dependent process is often observed in the implementation of regional reforms in Europe. For instance, a country with a strong tradition of centralisation will not immediately launch into political regionalisation. The political, institutional and cultural obstacles are too great. As illustrated by the French case, regionalisation is a slow, step-by-step learning process. Deconcentration towards the regions is often the first stage in moving towards regional governance models with elected self-government and fiscal autonomy and greater democratic legitimacy.

Three types of state exist in Europe: purely unitary states (Bulgaria, Cyprus, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Romania, Slovenia, Slovak Republic, Sweden, Portugal), and federal states (Austria, Germany, Belgium) and hybrid states (United Kingdom, Spain and even Italy). Three major state traditions influence local organisation: the Napoleonic tradition (e.g. France, Italy, Spain, Greece, Central and Eastern Europe) based on centralisation, uniformity and symmetry; the Germanic tradition (Germany, Austria, the Netherlands) which recognises intermediary bodies alongside a powerful state; and the Scandinavian tradition, which takes a uniformity principle from the French model but applies it within a more decentralised framework.

While this significant diversity makes it impossible to identify any single model of local government, it does not exclude, in fact quite the opposite, making an inventory of common practices and observing similar trends towards more decentralisation and local responsibilities.

One observation of the practices is that there are a variety of local government tiers. The majority of countries have a one-tier model (Bulgaria, Cyprus, Estonia, Finland, Ireland, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovenia)¹⁰, then the two-level model (Austria, Hungary, Ireland, Netherlands, Portugal, Sweden, Switzerland, United Kingdom) while the minority have a three-level model (France, Germany, Italy, Poland and Spain). Although country size partly explains this (large countries like Germany, Italy and Spain opt for three levels, as does France), several countries seem to have attempted to unite local administrative areas to form regions, with nevertheless variable results (success of the Swedish experiment, failure of Hungarian project).

¹⁰ Excluding the special autonomous island of Azores and Madeira in Portugal and Aland islands in Finland.

5.2.1. Countries with one subnational government tier

In Bulgaria, municipalities were re-established in the beginning of 1990s after several decades of a centralised socialist system in order to restore local democracy. Municipalities are sub-divided into smaller towns and villages, totalling 5267 in 2015. Of these settlements, there are around 2500 mayoralties (deconcentrated municipal units established by decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants). There are 25 such units on average per municipality. The three main Bulgarian cities are sub-divided into districts or raions (24 in Sofia, 6 in Plovdiv and 5 in Varna). There is also a central government territorial administration composed of 28 regions (oblasts), with governors appointed by the Council of Ministers (OECD & UCLG, 2016_[97]).

In Estonia there are currently 79 local government units. All local government units – towns (linn) and rural municipalities (vald) – are equal in their legal status. All local authorities decide and organize independently all local issues and all local authorities have to implement same tasks and provide the same range of services to their inhabitants regardless of their size (Rahandusministeerium, 2019_[77]).

Ireland's subnational government consists of 31 local governments: 3 city councils, 2 city and county councils and 26 county councils. In addition there are Municipal Districts, which are part of the relevant county council, acting as constituencies for county councils, with councillors, enjoying devolved local decision-making responsibilities to decide matters relevant to local communities (OECD & UCLG, 2016_[97]).

Latvia's territorial organisation consists of 110 districts and 9 “republican cities”. Districts have resident populations of at least 4 000 inhabitants and must comprise a village of at least 2 000 inhabitants. There are also 5 planning regions. They have no legal status but have indirectly elected regional governments (councils) made up of local authority representatives (OECD & UCLG, 2016_[97]).

Lithuania has one tier of local self-government composed of 60 municipalities. The municipal level comprises 48 districts (rajonas), 6 towns (miestas) and 6 common municipalities, which all have the same status and competences. Municipalities can set up sub-municipal entities called wards (seniūnijos) to manage proximity services. There are around 545 such entities each headed by a civil servant appointed by the director of municipal administration. The ten counties (state administrative regions with centrally-appointed governors) were abolished in 2010 and replaced by regional development councils composed of municipal councillors, but which remain under the direction of the Ministry of Interior (OECD & UCLG, 2016_[97]).

In Slovenia, there are 212 municipalities. There is also a sub-municipal level of 6035 settlements (local communities and districts which are optional). The country is also divided into 58 administrative districts representing the State at territorial level in charge of supervising municipalities (OECD & UCLG, 2016_[97]).

5.2.2. Countries with two levels of subnational government

Austria has adopted a territorial organisation comprising nine Länder and 2356 municipalities (Gemeinden). This organisation is “symmetrical” since each level of authority has the same type of organisation and the same legal system. In Hungary, the 3174 municipalities constitute the linchpin of the local administration system, with an average population of 3200 inhabitants. The 19 administrative regions have strong historical legitimacy but their role today is mostly limited to managing social and health

centres. The Netherlands also has two levels of local authorities: provinces, of which there are twelve, and municipalities, which total 441.

The United Kingdom is organised in a particularly diverse manner. Scotland, Wales and Northern Ireland each have a regional assembly (named “parliament” in Scotland) and local councils at local level (“unitary authorities”, or “district councils” in Wales). In England, the situation is more complex: the country, which does not have a regional assembly, is divided into nine “government office regions” which are themselves divided into either unitary authorities with a single administration level, or county councils.

In Sweden, the two levels of local authorities are the 21 counties (län) and the 290 municipalities (kommuner), with an average county/region population of 456,000 inhabitants and 32,000 in municipalities. These two levels are not subordinate and have different jurisdictions, some of which are obligatory and others optional. Two experimental “regions”, Skåne (Malmö region) and Västra Götaland (Göteborg region) were created in 1997-1998 by bringing together several counties headed by a regional council that up to 2010 enjoyed a greater delegation of state authority than county councils, in particular in the area of economic development.

5.2.3. Countries with three levels of subnational government

The four countries with three-level organisation are also among the biggest by population in the European Union. In addition, three of them are federal or autonomist states in which the regional level possesses “state” powers.

In Germany, the 16 Länder, whose average population is close to 5 million, are not local authorities in the legal sense of the term since the state is a federation that comes from the Länder and not the opposite: the Länder therefore have all of the jurisdictions that are not explicitly attributed to the federation, such as defence and foreign policy. Note that the Länder in particular have the exclusive jurisdiction of defining the organisation of local authorities. The second level of local government comprises 323 arrondissements (Landkreise), which have a status somewhere between local government, groups of municipalities, and the devolved scale of the Land. Lastly, Germany features 14,000 municipalities with an average population of 6,700 inhabitants.

Spain’s three levels of local authorities include 8,111 municipalities, 50 provinces and 17 autonomous communities. One feature of the provinces is that they provide technical assistance to municipalities of fewer than 5,000 inhabitants and participate in financing “supra-municipal” projects.

5.2.4. Portuguese multilevel governance model

It can be argued that Portugal belongs to the country group with one subnational government tier, i.e. the first country group. In Portugal, municipality is a very old form of local administration, and the parish, although also a very old form of organization, initially a division within the organization of the Catholic Church, is only part of sub-national public administration since the liberal period in the nineteenth century. The number of municipalities reached 308 and the number of parishes 4260, in 2013, when the reform of the parishes reduced its number to 3092 units, as a result of the parish merger reform implemented by the XIX Constitutional Government. The merger reform was done in the context of the economic adjustment program (2011-2014), signed between the Portuguese Government and the EU Commission, the European Central Bank and the International Monetary Fund, in 2011, which stated on this issue the following: “central government

should develop until July 2012 a consolidation plan for the reorganization and significant reduction of the number of municipalities and parishes, in articulation with EC and IMF staff” (Nunes Silva, 2016_[81]). In practice, this plan was applied only to the parishes, a reform process that has been questioned by the political parties that support the XXI Constitutional Government formed after the legislative election of 4 October 2015.

The regional tier of public administration in Portugal, between the state and municipalities, has a long history, comprising forms of decentralized as well as de-concentrated institutions (Nunes Silva, 2006_[98]). In the 1976 Constitution, the first form – political and administrative decentralisation - includes the Autonomous Regions of Azores and Madeira, a form of political decentralisation, whose boards were first elected in 1976, and the Administrative Region, a form of administrative decentralization, applied only to mainland Portugal. The motive for a model of political decentralization in the archipelagos of Azores and Madeira was the recognition of the specific characteristics of these two regions, as is stated in the 1976 Constitution. The implementation of administrative regions in mainland Portugal was however rejected in a national referendum in 1998.

In the case of administrative de-concentration, central government departments have been organized in regional or in local tiers. Among them is particularly important the case of the five regional planning and coordination entities, the 'Comissão de Coordenação e Desenvolvimento Regional' (CCDR), one for each of the five NUTS-II in which mainland Portugal is divided, namely because they were expected to be the support of the future administrative region, at least in some of the political proposals that have been put forward over the years.

The CCDRs carry out important missions in the areas of the environment, land and town planning, and regional development. One of their biggest missions is to manage regional operational programmes of European structural and investment funds on mainland Portugal for 2014-2020. The CCDRs are managed by a president assisted by two vice-presidents, a single controller, inter-sectoral coordination council, and regional council. The president of each CCDR is thus appointed by the government from a list of three names drawn up by an independent recruitment and selection commission following a competitive application.

5.2.5. Portuguese model in comparison with Finland, France and Poland.

The Portuguese model appears to be a lot more centralised than the three cases presented, both institutionally and financially.

In the case of Finland, the Scandinavian model traditionally assigns the local level with a strong political capacity in terms of legal jurisdiction and financial autonomy. Compared with Finland, the Portuguese case features bigger municipalities with low degree of administrative autonomy. Associations of municipalities have been created to counterbalance fragmentation, but do not constitute a genuine intermediate government capable of managing considerable land planning and economic development powers. Finnish co-operative regionalisation is in this respect original and constitutes a form of regional municipality councils. For this model to work in Portugal would probably require working more strongly on the basis of associations of municipal cooperation.

The French case is interesting for Portugal because both countries borrow from the Napoleonic model of public administration. However, France has a 30 year history of legal and financial decentralisation. Although public expenditure is still mostly centralised in France (80%), local and regional authorities are responsible for 57% of public investments. French municipal fragmentation is the highest in Europe. Consistent political decisions

have thus attempted to reinforce inter-municipal associations and the regions by reducing their number and giving them greater authority.

Nevertheless, political impediments exist, and the overlapping institutions that still characterise the French system have the effect of making decentralisation relatively expensive (municipalities, inter-municipalities, départements, Regions). If Portugal takes its inspiration from the French model, it should recognise the need to strengthen municipalities and make a choice between two types of intermediate government, i.e. départements or regions.

Polish case differs from the Finnish and the French model, since the financial capacities of regions in Poland are much lower. Poland provides however an interesting example of a relatively successful implementation of decentralisation reform. While it is not possible to measure precisely the effects of decentralisation on Polish society, Poland has performed well for example in World Governance Indicator compared with its neighbours and other former communist countries.

As a result of the decentralisation reforms of 1990s and thereafter, Poland has transformed from a very centralised country to a decentralised one. Thanks to decentralisation reforms in the 1990s, Poland is now considered the most decentralised country in Central and Eastern Europe. Between 1995 and 2014, the share of SNG expenditure in total public expenditure increased by more than 9 percentage points, from 23% to 32%.

One key factor behind this success was the gradual and systematic way to implement the reform. New responsibilities have been transferred hand in hand with capacity building at the subnational level. In addition, new fiscal rules and territorial contracts have been introduced in order to control and coordinate the decentralisation process. A considerable effort has been made to ensure that all stakeholders understand the reform goals and the likely outcomes. Therefore, training and information activities, often organised using nongovernmental organisations, have had a key role in the reform implementation.

Although the Polish decentralisation reforms were decided very quickly after the collapse of communism, the implementation of the reforms has been sequenced. For instance, municipal self-governance was established first and the regional authorities were introduced at the second stage. An important aspect of the Polish reform is also that the revenues of subnational government were developed after the spending assignments were decided. The 2004 Act on Local Government Revenue modified the financing of subnational governments. Subnational governments gained more financial autonomy, with a decrease in the share of central transfers. Especially the use of earmarked grants was reduced. At the same time, tax sharing on personal income tax and corporate tax revenues was introduced.

5.3. Regional development policy in Portugal

This section will focus on the regional economy issues of Portugal. The first subsection provides a brief discussion on the trends that will affect the regional policy in Portugal. The second subsection will discuss on the key achievements and challenges of the current and future regional policy in Portugal.

5.3.1. Regional performance and disparities in Portugal

As underlined by the recent OECD Economic Survey, Portugal's recovery is now well underway (OECD, 2019^[99]). Its recent performance has been strong compared to other

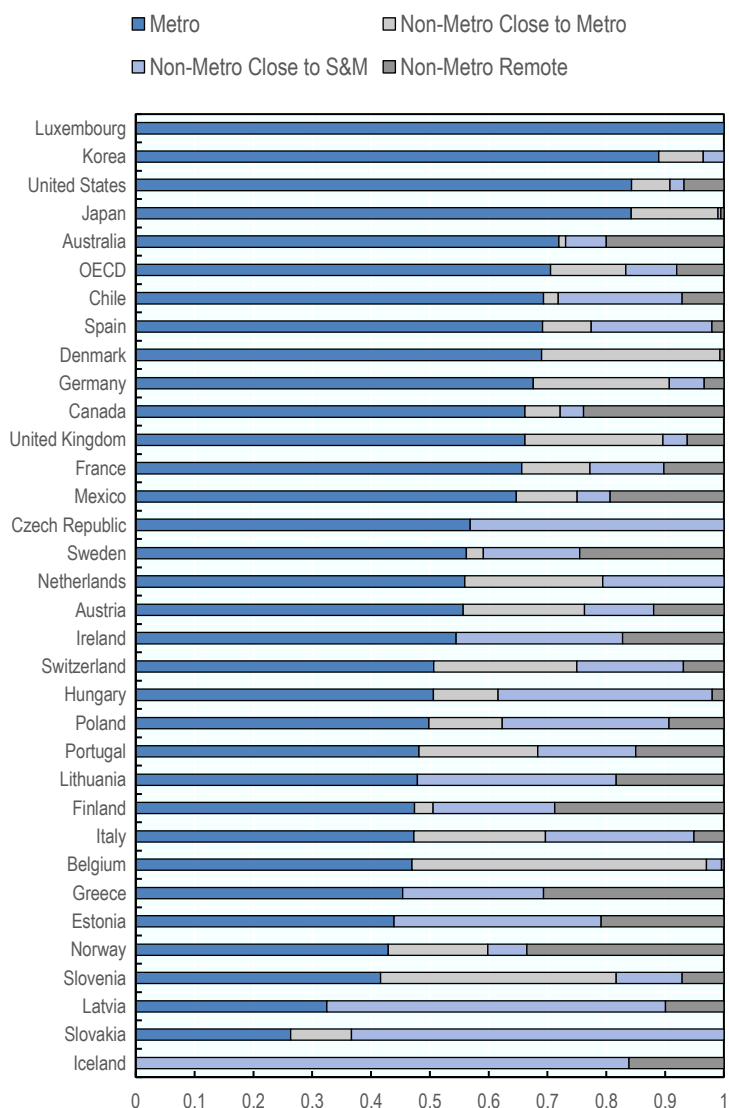
southern European countries, with exports as an important driving factor, including strong growth in tourism. GDP has now returned to pre-crisis levels, and the economy is expected to continue to expand at a stable pace. However, important challenges remain: long-term unemployment remains comparatively high; productivity growth has slowed over the past two decades; and overall, Portuguese citizens report low life satisfaction compared to their OECD peers. Portugal also continues to lag behind its peers in terms of the skills of its workforce, although younger cohorts are substantially more educated than older cohorts, thanks to extensive reforms to the education system (OECD, 2018_[100]). Additionally, while important progress has been made, a relatively high debt burden continues to limit the ability of governments to respond to future economic shocks.

At the regional level, economic performance and future constraints on growth vary. The Lisbon Metropolitan Area and Norte play an important role in Portugal's economy – accounting for approximately two-thirds of Portugal's GDP, yet Portugal's two largest metropolitan areas, located in these regions, are not fulfilling their full potential as engines for its overall economy. Additionally, demographic changes will put considerable stress on labour markets, service delivery and public revenues, particularly outside of metropolitan areas. While a full accounting of the context, challenges and opportunities for regional development are beyond the scope of this exercise, the following section highlights some of the regional dynamics most relevant for the question of multi-level governance reforms.

Demographic change poses long-term challenges, particularly in non-metro areas and in the north of the Portugal

Slightly less than half of Portugal's population lives in metropolitan TL3 regions (48%), compared to an OECD average of 71% (Figure 5.17, based on the OECD's method to classify TL3 regions in metro and non-metro according to their level of access to cities -- see Box 5.4). Conversely, a larger share of Portugal's population lives in non-metro remote regions (15%) compared to the OECD average (8%).

Figure 5.17. Distribution of population by type of region, 2016



Note: Metro is defined as the sum of metropolitan and metropolitan large
Source: OECD (2019), *Regional Demography*, OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en> and Fadic, M., Garcilazo, J.E., Moreno Monroy, A., and Veneri P. (2019, forthcoming), “Classifying small (TL3) regions based on metropolitan population, low density and remoteness”, *OECD Regional Development Working Paper*.

Box 5.4. An alternative OECD methodology to classify TL3 regions

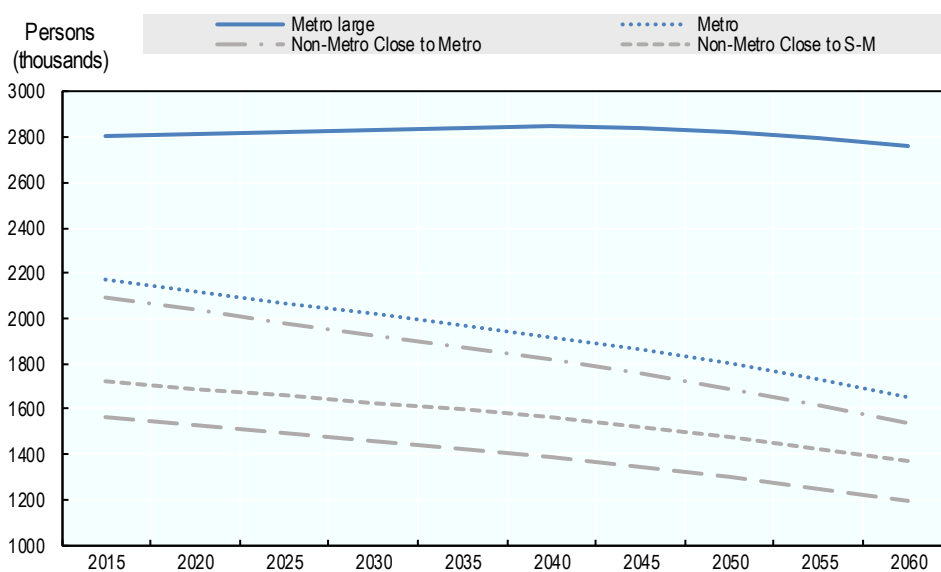
In 2019, the OECD developed a methodology for classifying TL3 regions across OECD countries based on their level of access to metropolitan areas based publicly available grid-level population data and localised information on driving conditions. The figure below summarises this new methodology, and the corresponding classifications for Portugal:

Metro/non-metro	Sub-classifications	Corresponding TL3 regions in Portugal
Metropolitan region: 50% or more of its population lives in a metro (i.e. FUA of at least 250 thousand inhabitants)	Large metro region (Metro large): 50%+ of its population lives in a large metro (i.e. FUA of at least 1.5 million inhabitants)	Metropolitan area of Lisbon
	Metro region (Metro): 50%+ of its population lives in a metro but not a large metro	Metropolitan area of Porto Região de Coimbra
Non-metropolitan region: less than 50% of its population lives in a metro	With access to a metro region (Non-metro close to metro): 50%+ or more of its population lives within a 60 minute drive from a metro.	Alto Minho Ave Tâmega e Sousa Oeste Região de Aveiro Região de Leiria
	With access to a small/medium city region (Non-metro close to SM): 50%+ or more of its population lives within a 60 minute drive from a small or medium city	Cávado Algarve Viseu Dão Lafões Alto Alentejo Autonomous Region of the Azores Autonomous Region of Madeira
	Remote region (Non-metro remote): 50%+ of its population does not have access to any FUA within a 60 minute drive.	Alto Tâmega Douro Terras de Trás-os-Montes Beira Baixa Médio Tejo Beiras e Serra da Estrela Alentejo Litoral Baixo Alentejo Lezíria do Tejo Alentejo Central

Source: Fadic, M., Garcilazo, J.E., Moreno Monroy, A., and Veneri P. (2019, forthcoming), “Classifying small (TL3) regions based on metropolitan population, low density and remoteness”, *OECD Regional Development Working Paper*.

However, Portugal is facing significant demographic changes: its population has been shrinking since its peak of 10.7 million in 2009 and is projected to be less than 9 million by 2050 (OECD, 2019_[101]). The bulk of the population loss (69%, or 1.3 million people) will occur in non-metro regions, and the remaining in metro regions (28% of .5 million) (Figure 5.18). Meanwhile the population of the Lisbon Metropolitan Area, the only large metro in Portugal, will remain relatively stable in the next five decades.

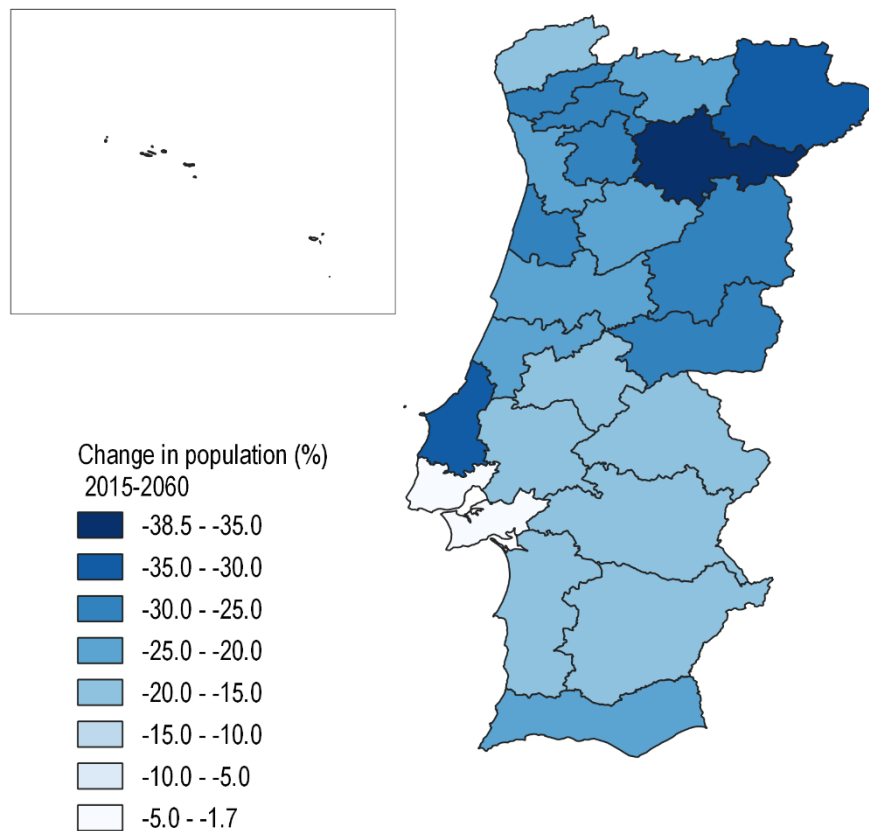
Figure 5.18. Population projections in Portugal by type of region, 2015-2060



Source: OECD (2019), *Regional Demography*, OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en> and Fadic, M., Garcilazo, J.E., Moreno Monroy, A., and Veneri P. (2019, forthcoming), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", *OECD Regional Development Working Paper*.

Geographically, population loss is predicted to happen faster in the north of country compared to the south. The top three regions in terms of projected population losses are Douro (39% loss) and Terras de Trás-os-Montes (32%) located in the north-east and Oeste (32%) located just north of the Lisbon Metropolitan Region in the centre-west part of Portugal (Figure 5.19). The top three regions with the smallest projected losses are the Lisbon Metropolitan Area (1.7%), the Autonomous Region of Madeira (14%) and Alto Alentejo (16%), located next to Lisbon.

Figure 5.19. Population change by region, 2015-2016

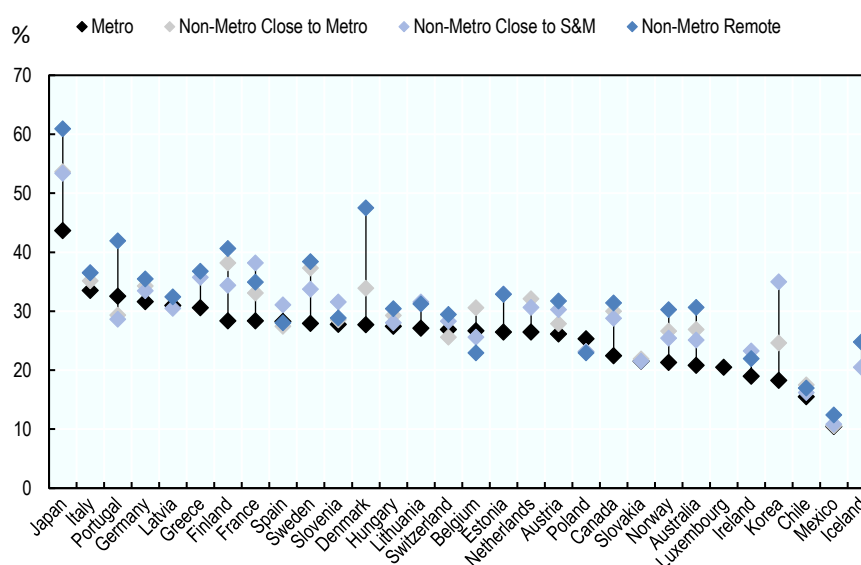


Source: OECD (2019), *Regional Demography*, OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>

This shrinking will be accompanied by a general ageing of the population, with the number of 20-64 year olds expected to shrink from 6.5 million in 2005 to 4.4 million in 2050. At the same time, the number of people aged 65 and older is expected to grow from 1.8 million in 2005 to 3.2 million in 2050. Accordingly, the old age dependency ratio (the number of people over 65 compared to the number of working age people 20-64) is expected to almost double by 2050 (from 34.6 in 2015 to 73.2) (based on UN data) (OECD, 2019_[101]).

Ageing will be a particular challenge in non-metro remote areas, which already have an elderly dependency ratio 10 percentage points higher than in other types of regions in Portugal. While a similar pattern holds true for non-metro remote areas in other OECD countries, Portugal is somewhat unique in that its metro areas currently have a higher share of the elderly population compared to non-metro regions with access to a metro or small or medium city.

Figure 5.20. Elderly dependency ratio, 2017



Note: +65 population over working age population 15-64, 2016 for Japan, US, Australia, New Zealand and 2017 for all other countries.

Source: OECD (2019), *Regional Demography*, OECD Regional Statistics (database), <http://dx.doi.org/10.1787/region-data-en>.

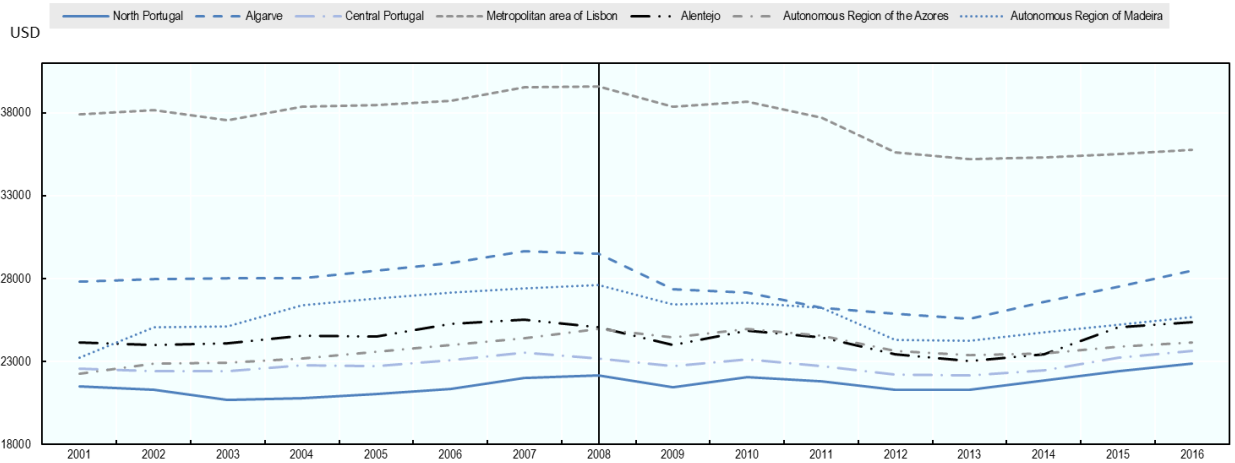
These demographic trends have important implications for Portugal's decentralisation reforms, e.g. how to maintain quality public service delivery in the face of shrinking populations and tax bases; how to balance economic vitality with a shrinking labour force; what spatial planning models to promote in light of these changes. While these questions will be particularly pronounced in more remote areas as well as in the north of the country, all places in Portugal will have to grapple with these questions in the future.

Lisbon and Norte play an important role in Portugal's economy, but regional inequalities are relatively low compared to other OECD countries

Overall, Portugal's economy is largely dominated by two TL2 regions: the Lisbon Metropolitan Area and Norte. Together, they account for about two-thirds of Portugal's GDP. While Lisbon's dominance is a result of both hosting a relatively large share of the population and relatively strong economic performance in terms of GDP per capita, Norte's large role is more due to its hosting a large share of Portugal's population (35%), rather than relatively strong economic performance. In fact, the Lisbon Metropolitan Area and Norte represent the regions with the highest and the lowest level of development in Portugal: in 2017, the Lisbon Metropolitan Area's GDP per capita was 131% of Portugal's, while Norte's was 85%. However, according to population projections, Norte will have lost over 945 000 people by 2060, which could serve to diminish its role in Portugal's overall economy.

As shown in the graph below, all TL2 regions have demonstrated positive GDP per capita growth since a low in 2013, albeit it to different degrees. Growth in 2016 ranged from .7% in the Metropolitan Area of Lisbon to 3.5 percent in Algarve. However, GDP per capita has recovered to pre-crisis levels in only three out of seven regions as of 2016.

Figure 5.21. GDP per capita in TL2 regions, Portugal, 2001 – 2016



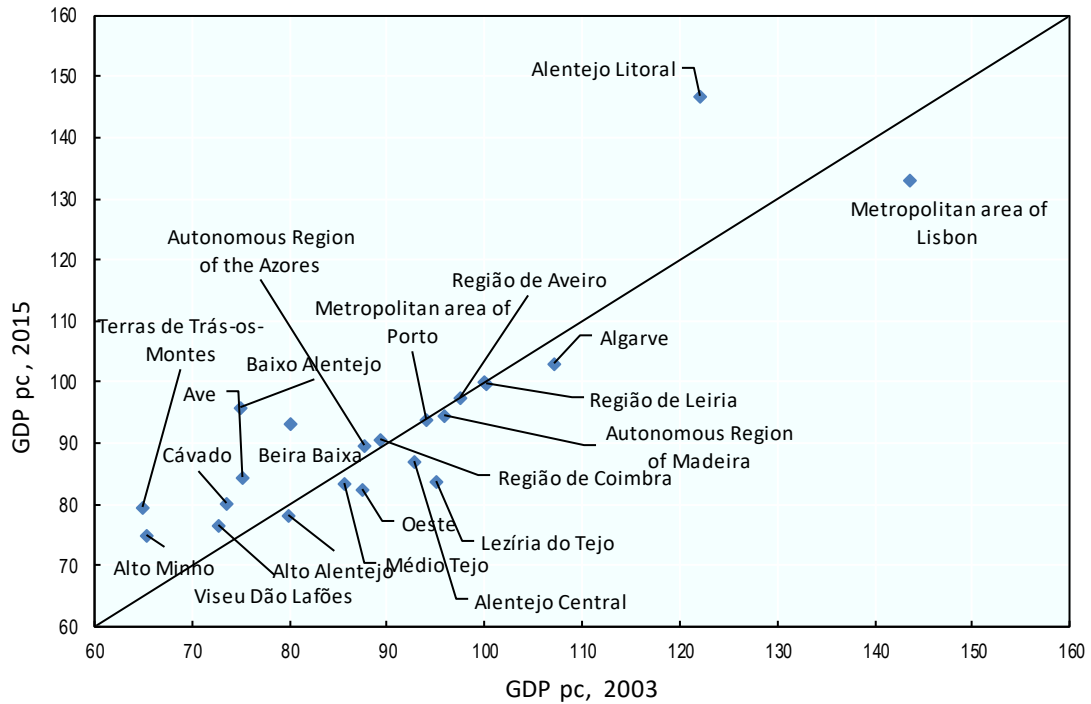
Note: GDP per capita levels in USD PPP base year 2010.

Source: OECD (2019), Regional Economy, OECD Regional Statistics (database), <http://dx.rg/10.1787/region-data-en>.

At the TL3 level, GDP per capita grew in 17 out of 25 regions between 2003 and 2015. The national average annual growth rate stood at 0.5%, and varied from 2.24% in Baixo Alentejo to a decrease of 0.88% in Lezíria do Tejo. GDP per capita levels across metropolitan TL3 regions (Lisbon, Porto, and Coimbra) have still not yet recovered to pre-crisis levels as of 2015, they have generally in non-metro regions. In fact, remote non-metropolitan regions show the largest growth rate between 2003 and 2015, contributing to a pattern of regional convergence.

Figure 5.22. GDP per capita in TL3 regions, 2003 and 2015

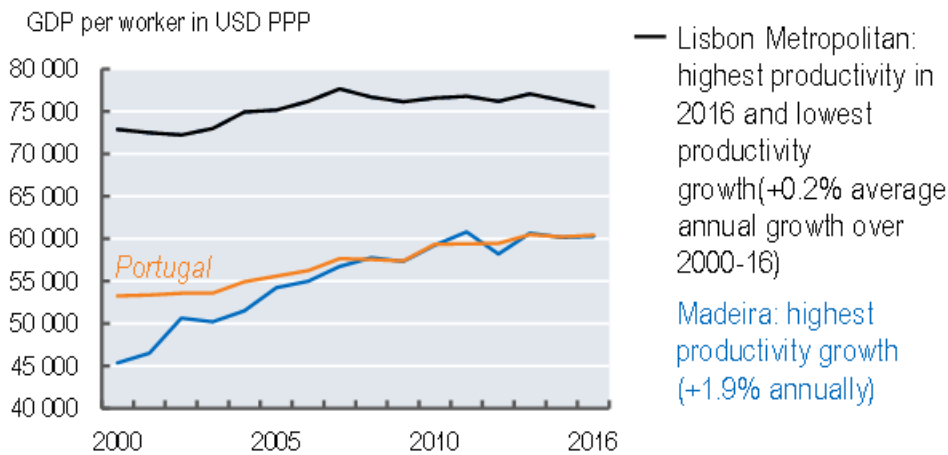
As percentage of Portugal's GDP per capita



Source: OECD (2019), Regional Economy, OECD Regional Statistics (database), <http://dx.rg/10.1787/region-data-en>.

Portugal recorded a relatively large reduction in regional economic inequalities compared to other OECD countries between 2011 and 2016 (at the TL2 level). However, while disparities are decreasing, the dynamics behind this decrease are worrisome. Namely, this decrease is due to a fall in GDP per capita in the Lisbon Metropolitan Area since 2010 and moderate growth in Norte since 2013. Overall, longer-term trends point to a pattern of internal regional convergence but divergence at a national level in comparison to the EU (Rodrigues et al., 2018_[2]).

Likewise, regional productivity gaps have been decreasing, but namely because of Lisbon's relatively stagnant productivity growth (0.2% per year between 2000 and 2016; the slowest of Portugal's seven regions) combined with stronger productivity growth in Madeira (1.9%). Lisbon was also one of only two TL3 areas in Portugal that recorded both a decline in productivity growth and employment between 2007-2015.

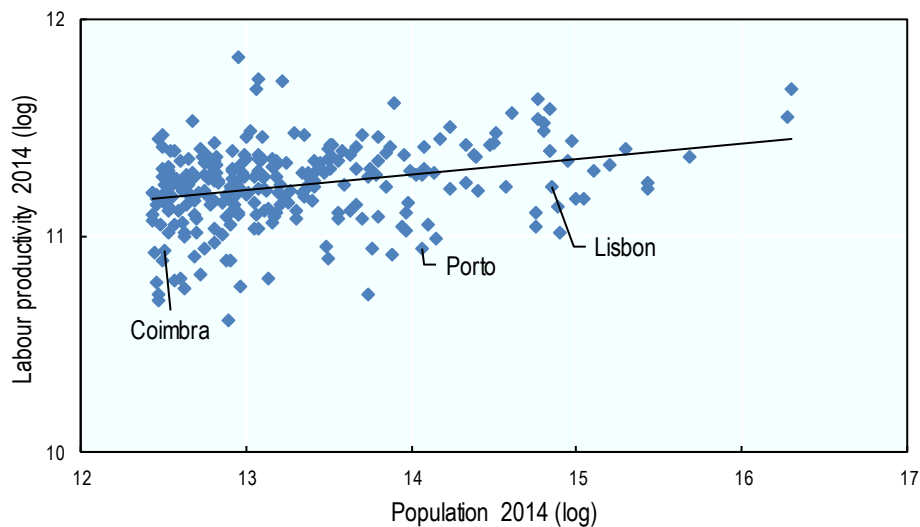
Figure 5.23. Productivity trends, most and least dynamic regions, 2000-16 (TL2)

Source: OECD (2018). *Regions and Cities at a Glance*.

Overall, these figures suggest that metropolitan areas in Portugal are not fulfilling their full potential as engines of economic growth, especially compared to metropolitan areas in other OECD countries. Out of 31 OECD countries with available data, Portugal was one of only seven where GDP growth in metropolitan areas was lower than the rest of the country between 2000 and 2016 (OECD, 2018₍₁₁₎).

Additionally, the productivity performance of cities (as measured by their functional urban areas) in Portugal is below the level that would be expected from their size. Lisbon, with a population of over 2.8 million in 2014, had lower levels of GDP per worker in 2014 than 10 out of 16 comparative metropolitan areas with populations between 2 and 4 million people in the OECD, including Athens, Warsaw and Vienna (Figure 5.24).

Porto, with a population close to 1.3 million people had lower productivity in 19 out of 20 cities with population between 1 and 1.5 million – and only outperformed Thessaloniki in Greece. The smaller functional urban area of Coimbra, with a population close to 270 thousand people also had a lower than expected performance, as it had higher productivity levels than only 5 in 26 cities with population between 275 000 and 250 000, located in Poland and Hungary.

Figure 5.24. Population versus labour productivity across OECD cities, 2014

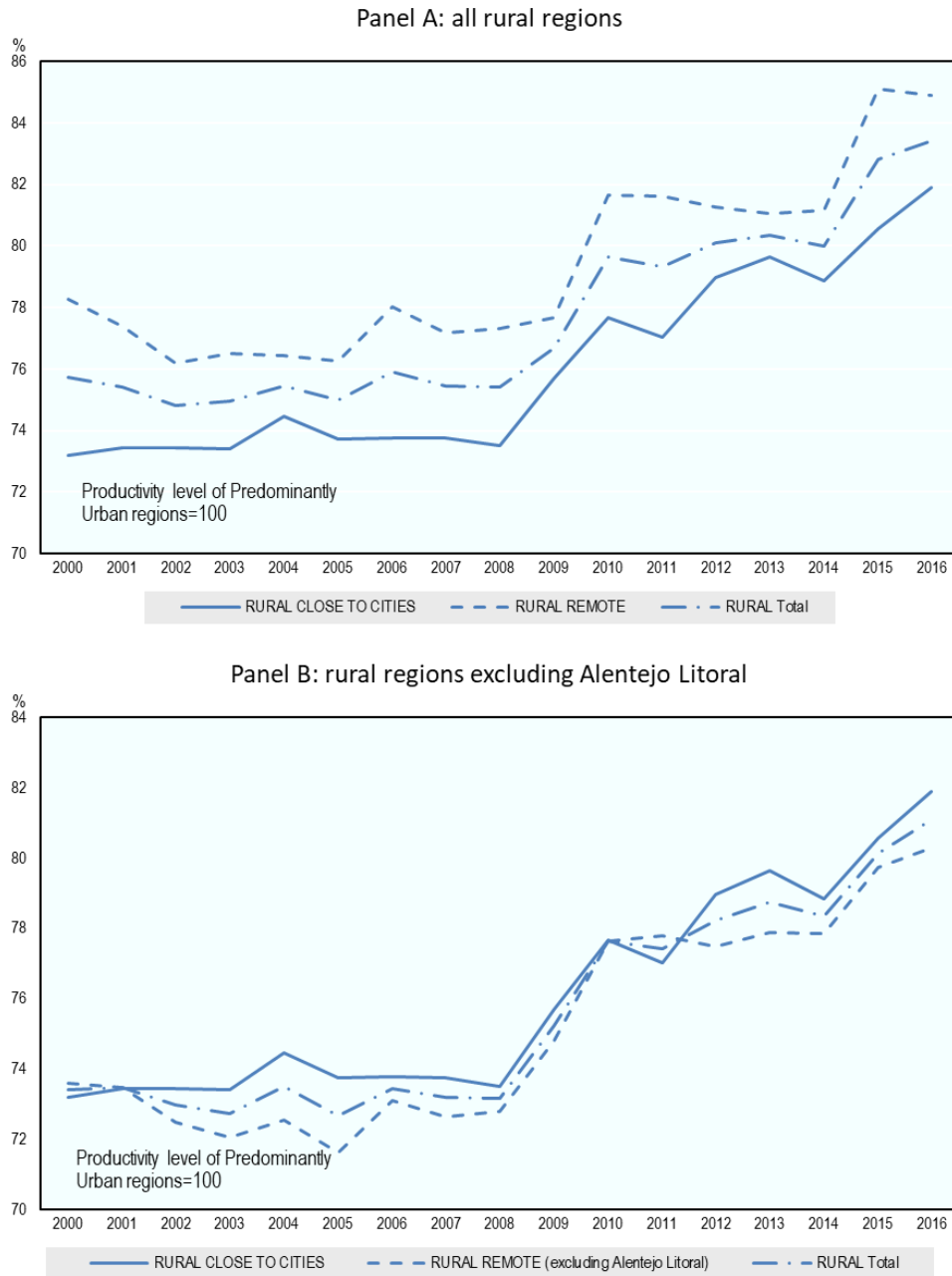
Source: OECD (2019), “Metropolitan areas”, OECD Regional Statistics (database), <http://dx.doi.org/10.1787/data-00531-en>

These trends also help to explain why Portugal displays a lower level of regional disparities than its OECD peers. At the TL3 level, Portugal has the fourth lowest level regional inequalities across OECD countries, with only Sweden, Finland and New Zealand showing lower levels of regional inequalities.

Accordingly, fostering stronger performance in Portugal’s metropolitan areas will be a crucial objective for any multi-level governance reforms, as OECD research demonstrates an important link between metropolitan governance and productivity (OECD, 2015_[102]).

Indeed, data on the productivity development in Portuguese rural areas during the past 15 years complements the observations discussed above (Figure 5.25). From labour productivity perspective, after the economic and financial crisis in 2008-2009, the productivity of rural areas began to catch up with the productivity level of predominantly urban areas. Another interesting observation is that during the crisis years, the difference between remote rural regions and regions close to cities diminished almost to zero, but has increased since then. Usually, in OECD countries, the productivity of rural areas close to cities tends to be better than the rural remote. This pattern is the reverse for Portugal, but actually this is mostly due to the TL3 region of Alentejo Litoral where it is located the petro-chemical of Sines.

Figure 5.25. Productivity of rural regions in Portugal in relation with predominantly urban regions



Note: In these graphs, Portugal's productivity is measured with the GDP per worker at place of work in TL3 regions. The productivity for each type is an unweighted average of the regional values. Panel A. shows that rural regions started to catch up with the productivity of urban regions since 2009. Moreover, it shows that the remote rural regions have performed better in this respect than rural regions close to urban regions. It should be noted however, that the remote rural region of Alentejo Litoral has some major petrochemical industry in its area, and this may explain much of this development. Panel B shows that leaving Alentejo Litoral outside of the examination changes the relative performance of the two rural region groups. Without Alentejo Litoral, rural areas close to cities have developed slightly better compared with the rural remote regions throughout the period (except for 2011).

Source: OECD.

5.3.2. Regional policy as a test case for broader multi-level governance reforms: key achievements and outstanding challenge

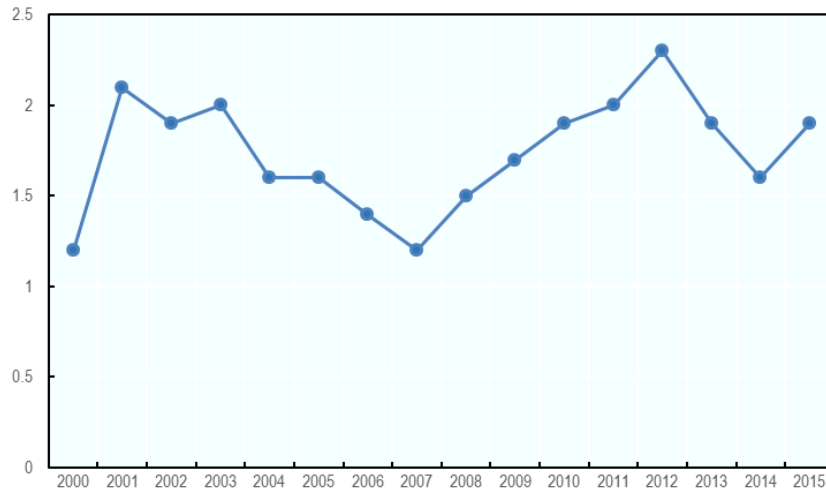
Introduction

Portugal's regional policy is largely shaped by the broader EU regional policy agenda, namely the use of Cohesion policy funding through the EU's Structural and Investment Funds (ESIF) (OECD, 2019_[103]). (Box 5.5 provides an outline of other related policies.) Over the period of 2014-2020, the EU will contribute 25.9 billion Euros to regional development in Portugal, matched by 7.2 billion Euros in national funds.¹¹ This brings the total amount of regional development funding Portugal has received since first joining the European Economic Community in 1986 to over 100 billion euros. This funding has been allocated over five programming periods, including the Portugal 2020 (2014-20). Preparations and negotiations are currently underway for the post-2020 programming period. Between 2000 and 2015, EU regional policy funding amounted to, on average, 1.7% of Portugal's GDP, ranging from a peak of 2.3 in 2012 to a low of 1.2 in 2000 and 2006 (see Figure 5.26). For the period of 2015-2017, this accounts for 84% of public investment in Portugal, the highest share of any European country (Figure 5.27).

Given the importance of European funding, it's not surprising that Portugal's approach to regional development, including its priorities, instruments and institutional architecture is heavily influenced by broader norms, priorities and practices associated with European regional policy (Nanetti, Rato and Rodrigues, 2004_[104]), (Medeiros, 2014_[105]), (OECD, 2008_[106]). As the thematic focus, the instruments used, and the geographic dispersion of European Cohesion policy funds have shifted over time so have the institutional structures in place to design, manage and evaluate these funds within Portugal. Of particular relevance for the question of Portugal's multi-level governance reforms are the design and functioning of the deconcentrated structures established at the regional level that manage regional policy, as well as the evolving role of sub-regional and local actors.

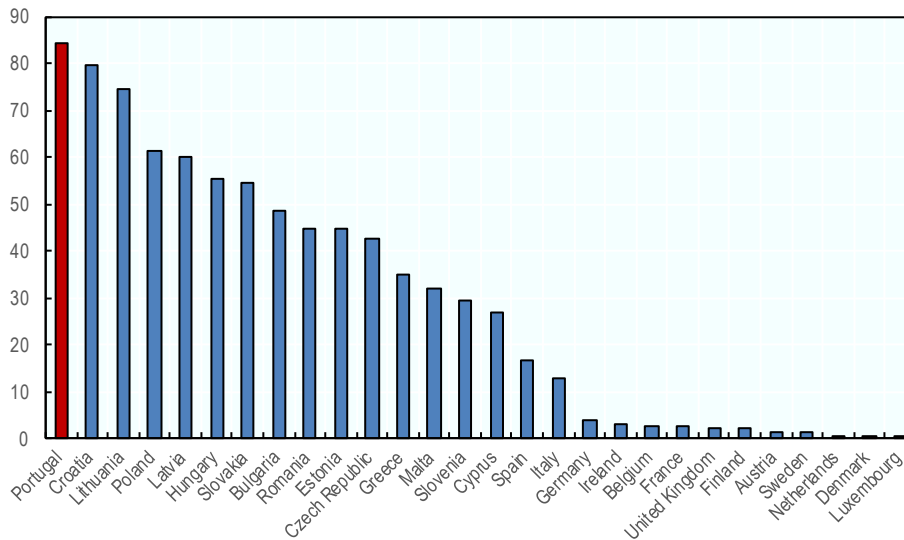
¹¹ Figures taken from <https://cohesiondata.ec.europa.eu/countries/PT>

Figure 5.26. Cohesion policy funding in Portugal as percent of GDP, 2000-2015



Source: (Rodrigues, 2016^[107])

Figure 5.27. Cohesion policy funding in Portugal as share of public investment, 2015-2017



Source: (European Commission, 2017^[108])

Box 5.5. Overview of Other Relevant Strategies and Policies

In addition to the funding and strategies related to EU regional policy funding, a number of other Portuguese policies and strategies are relevant for the question of regional policy. Among these are the following:

- “The **National Spatial Planning Policy Programme** (PNPOT), underwent a comprehensive revision of its territorial model and development strategy in 2017, extending its foresight window up to 2050, and introducing a new Programme of Action to 2030.
- Following the creation of the Inner Territory Enhancement Taskforce in 2016, the **National Territorial Cohesion Programme** was adopted, serving as an inter-ministerial development agenda to tackle multiple challenges of the Portuguese mainland’s innermost territories, including ageing, territorial capital, economic innovation and attractiveness, and urban-rural relations.
- In 2017, a **new housing strategy** was adopted, focusing on housing accessibility and urban regeneration. A **Housing Framework Act** was established and a new array of housing policy instruments set up, ranging from housing accessibility, mobility and inclusion programmes to the new Urban Lease Act.
- Portugal is developing a **National Strategy for 2030** (at national and regional levels) and a **National Investment Programme to 2030** (focused on major infrastructure investments).”

Source: OECD (2019) *Regional Outlook: Portugal Country page*, http://www.oecd.org/cfe/_Portugal.pdf

Overview of Portugal 2020

A strategic focus on competitiveness and internationalisation, as well as sustainability and resource efficiency

Portugal’s most current Partnership Agreement with the EU sets the priorities for regional, urban and rural development for the current programming period, under the banner of “Portugal 2020”. It include four key thematic domains — competitiveness and internationalisation, social inclusion and employment, human capital, sustainability and efficiency in the use of resources — and two cross-cutting dimensions — reform of public administration and an integrated intervention approach at the territorial level. It is organised via 16 operational programmes: four thematic operational programmes, seven regional operational programmes, three rural development programmes, one marine and fisheries programme, and one technical assistance programme, in addition to Territorial Cooperation Programmes in cooperation with other Member States.

Portugal 2020 has a particular focus on the following priorities:

- Improving entrepreneurship and business innovation – including developing the e-economy, and improving SME access to finance their investments and advanced business services;
- Boosting R&D knowledge transfer between academia and businesses, strengthening
- Research and innovation systems in enterprises and developing an innovation-friendly business environment;
- Increasing the economic competitiveness by enhancing the production of tradable goods and services;

- Tackling unemployment, in particular youth unemployment through the Youth Employment Initiative, improving the quality of education and training and a better match with labour market demand, raising the qualifications and skills of the active labour force and preventing early school leaving;
- Poverty reduction through improved access to services and support to the social economy;
- Contributing to the modernisation of the public administration through capacity building and investments in human resources development and e-governance;
- Supporting the shift to a low carbon and resource-efficient economy: energy efficiency and improved management of natural resources (European Commission, 2014_[109])

The tables below provide an overview of the planned budget allocations for Portugal 2020. Thematically, support for the Competitiveness of SMEs accounts for almost one-quarter of the budget, followed by Educational and Vocational Training (16%). Environment Protection and Resource Efficiency (12%), Research and Innovation (11%), and Social Inclusion (10%) are the next largest category of planned expenditures. Compared to other EU countries, there is an enhanced focus on Competitiveness of SMEs, and Educational and Vocational Training, and less focus on Network Infrastructure in Transport and Energy.

Table 5.4. Cohesion policy funding by thematic objective, Portugal and EU-28, 2014-2020

	Portugal	EU-28
Competitiveness of SMEs	24.55%	14.95%
Educational & Vocational Training	16.09%	7.65%
Environment Protection & Resource Efficiency	11.76%	13.60%
Research & Innovation	10.76%	10.24%
Social Inclusion	9.74%	9.99%
Sustainable & Quality Employment	7.80%	9.14%
Low-Carbon Economy	7.44%	9.82%
Climate Change Adaptation & Risk Prevention	4.14%	6.54%
Network Infrastructures in Transport and Energy	2.90%	10.76%
Technical Assistance	2.75%	2.97%
Efficient Public Administration	0.94%	1.00%
Information & Communication Technologies	0.68%	3.12%
Outermost & Sparsely Populated	0.41%	0.13%
Discontinued Measures	0.02%	0.03%

Source: European Commission (2019), *ESIF 2014-2020 Finances Planned Details* <https://cohesiondata.ec.europa.eu/2014-2020/ESIF-2014-2020-FINANCES-PLANNED-DETAILS/e4v6-qrrq>; downloaded 2 May 2019

Compared to the previous programming period (2006-2013), there is increased emphasis on competitiveness and internationalisation, and sustainability and efficiency in the use of resources; and less emphasis on human capital. Another new feature is the use of “smart specialisation” strategies developed at the national and regional levels to guide related investments in areas such as research, technological development and innovation and SME competitiveness.

In 2018, with the agreement of the European Commission, Portugal further adjusted its resource allocation to better align funding with current needs, while still remaining within the existing envelopes of each operational programme.¹² Key changes include

- Increased for funding for innovation in small and medium businesses, skills and training, support to employment and entrepreneurship, clean urban mobility and social infrastructure;
- Additional funding for the implementation of strategic, large infrastructure projects;
- New scheme to blend grants and financial instruments to support innovative SMEs in better accessing finance; and
- Increased attention to economic growth in outermost regions, including for SMEs in Madeira and preservation of natural and cultural heritage in Azores.

Increased prominence of regional programmes and territorial approaches

In comparison to previous programming periods, Portugal 2020 dedicates more resources to the Regional Operational Programmes, which now account for 50% of ERDF and ESF. They cover each of Portugal's seven NUTS 2 regions, based on regional strategies developed by the CCDRs and the regional smart specialisation strategies.

Territorial approaches is also a transversal element of Portugal 2020, with increased funding allocated to this approach.

- Integrated Territorial Investments (ITI) – EUR 1.1 billion provided to 22 inter-municipal communities and metropolitan areas, implemented through Pacts for Territorial Development and Cohesion. These Pacts cover all of mainland of Portugal and are managed by IMCs and MAs.
- Integrated Sustainable Urban Development (SUD) actions – EUR 739 million provided to 105 urban centres through to promote urban renewal and urban mobility in the main urban centres defined in the National and Regional Spatial Plans.
- Community-Led Local Development (CLLD) funds – EUR 310 million implemented through 91 Local Development Strategies articulated by Local Action Groups in rural, coastal and urban areas (OECD, 2018_[110])

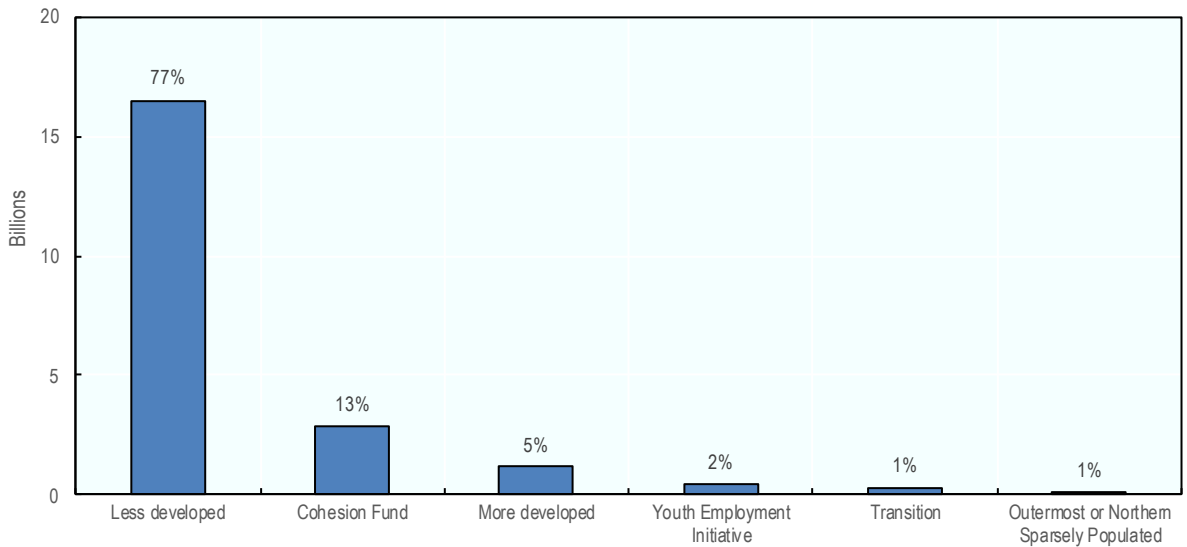
Territorial strategies, delivered predominantly through the following instruments. ITI and SUD account for around 10% of ERDF and ESF in Portugal 2020, while CLLD and Urban policy account for just over 5% (Rodrigues, 2016_[107]).

Growing focus on less developed regions, particularly the North and Centro

Geographically, over three quarters (77%) of ESIF funding in Portugal – across the thematic programmes and the regional programmes – is allocated to the four less developed regions: North, Center, Alentejo, and Azores. The two more developed regions – Lisbon and Madeira – are allocated to receive 5% of funding, while the one transition region – Algarve – is slated to receive 1%.

¹² See http://europa.eu/rapid/press-release_IP-18-6682_en.htm for more information

Figure 5.28. Cohesion policy funding in Portugal by spending category, 2014-2020

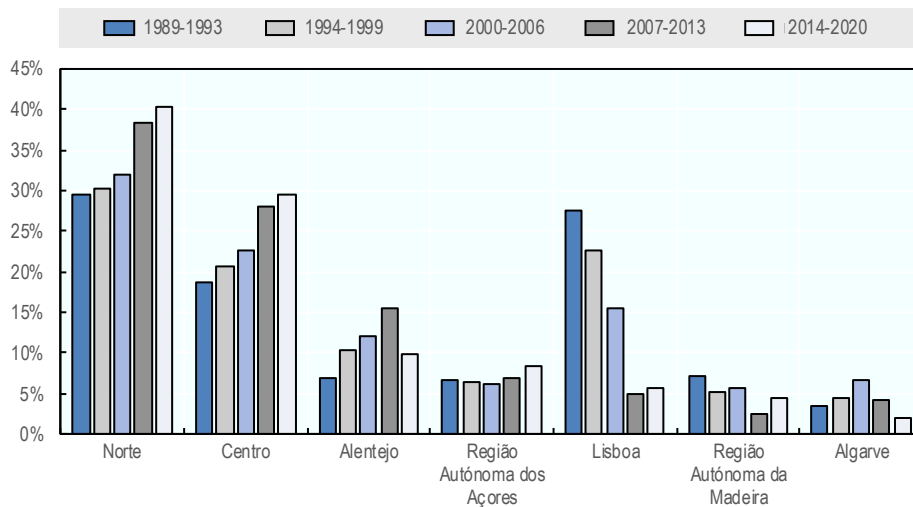


Note: Includes European Regional Development Fund, European Social Fund, Cohesion Fund, Youth Employment Initiative

Source: European Commission - Directorate-General for Regional and Urban Policy, “2014-2020 Financial Allocations by Member State - Breakdown by spending category”, 2 May 2019, <https://cohesiondata.ec.europa.eu/2014-2020/Total-allocations-of-Cohesion-Policy-2014-2020-Bre/xjb9-gf3a>

As shown in Figure 5.29, the regional allocation of Cohesion policy funding has changed over time in Portugal. (Note: as data for the most recent programming period is not directly comparable to previous programming period, these figures should be interpreted with caution.) The most dramatic shift has been a relative decrease in funding for the two regions currently classified as “most developed” – and in particular Lisbon – and an increase in shares of funding for the less developed regions, namely Norte and Centro.

Figure 5.29. Regional allocation of Cohesion policy funding over time in Portugal, 1989-2020



Note: Regional allocations are calculated differently for the 1989-2013 programming periods and the 2014-2020 Programming Period. Data for 1989-2013 is taken from European Commission - DG Regional Policy (2019), based on actual EU payments, and national and multi-regional projects have been regionalised in the original dataset. Data for the 2014-2020 programming period is from Agency for Development and Cohesion (2018) and are based on approved operations as of March 2019. Data for the categories of “national” and “multi-regional” have been excluded in the chart, and percentages have been calculated based on share of regionalised spending only. Accordingly, the allocations in the chart represent the share of funding for each region excluding national and multi-regional funding. Therefore, the two data sets are not directly comparable.

Source: European Commission - DG Regional Policy (2019), “Historic EU Payments – regionalised and modelled, 1 April 2019, <https://cohesiondata.ec.europa.eu/Other/Historic-EU-payments-regionalised-and-modelled/tc55-7ysv>; Agency for Development and Cohesion (2018), “Boletim Informativo dos Fundos da União Europeia”, Bulletin #16, 2019 March; http://www.adcoesao.pt/sites/default/files/portugal2020/monitorizacao/resultados_da_monitorizacao_operacional/boletins_trimestrais_dos_fundos_da_ue/boletimfundos31mar2019.pdf

Governance and institutional framework for regional policy

In Portugal, the institutional framework for the delivery of Cohesion policy has evolved over time at the national, regional and sub-regional level as part of overall efforts to adjust Portuguese institutions so that they are able to effectively design and deliver Cohesion policies. As shown in Box 5.6, enhancing governance is not a side effect, but rather an explicit priority for Cohesion policy in Portugal. This is part of a broader trend of increasing attention to the role of governance and institutions as a mediating factor in the success of interventions to boost productivity, growth and inclusion through regional development policies across Europe and the OECD (European Commission, 2017_[108]); (Bachtler et al., 2017_[111]).

Box 5.6. Overview of Governance Priorities for 2014-2020 EU Cohesion funding in Portugal

“The governance model of the Partnership Agreement and programmes for 2014-2020 as well as their institutional architecture are based on four key elements:

- Simplification of the governance model, in particular with a clear separation between the political guidance and technical responsibilities and increasing the involvement of stakeholders
- Result orientation, favouring the selection of investments on the basis of expected outcomes;
- Establishment of common rules for financing which will not only ensure conditions of fairness and transparency but also promote competition between beneficiaries;
- Facilitating the access of beneficiaries to funding as well as reducing their administrative costs.”

Source: (European Commission, 2014_[109])

National

At the national level, the key institutions created to manage Cohesion policy include the following:

- The Interministerial Coordination Committee (CIC), chaired by the Minister for Planning and Infrastructure, is the lead political organisation at the national level.

It is composed of one representative from each Ministry and leads negotiations with the European Commission, sets overall strategies, approves evaluation plans, communications plans, regulations, etc.

- The Agency for Development and Cohesion (AD&C), created in 2013, is the lead technical organisation at the national level for regional policy. It is charged with the conception, programming, implementation, monitoring and evaluation of regional development policies.
- Each of the four thematic operational programme has its own bespoke national Managing Authority, consisting of a steering committee with representatives from relevant government ministries and a technical secretariat.

Regional

At the regional level, the lead actors in mainland Portugal are the Five Commissions for Regional Coordination and Development (CCDRs), which operate at the NUTS 2 level. The CCDRs were established in 2003 and are deconcentrated services of the Ministry of Planning and Infrastructures, jointly managed by the Ministry of Environment, with executive powers. They are the result of the merging of the Regional Coordination Commission (RAC) created in 1979 and the Regional Directorates of Environment and Spatial Planning. The RACs, were, in turn, the successors to the Regional Planning Commissions created in 1969. They are comprised of a President of, appointed by the Portuguese government for a period of three years; an administrative board; a supervisory commission; and a regional council (Veiga and Camões, 2019^[93]).

The CCDRs serve as the Managing Authorities of each Regional Operational Programmes, and the President serves as the Chair of the Board of Directors that oversees each Operating Programme. The CCDRs are also charged with ensuring the coordination and articulation of various sectoral policies at the regional level managed by the deconcentrated units of other Ministries, implementing environmental, spatial planning and city policies, and providing technical support to local authorities and their association.

As discussed further below, Lisbon Regional Coordination and Development Commission (CCDR-LVT) diverges slightly from the other CCDRs, in that while it manages the regional operational programme for the Lisbon NUTS II region, for other regional policy purposes (e.g. environmental and spatial planning), it also oversees planning for several NUTS III regions that are now part of the Alentejo and Central NUTS II regions.

In the Autonomous Regions Azores and Madeira, regional governments have general administrative, political and legislative powers, except for the functions of sovereignty and national representation, including responsibilities for regional development.

Box 5.7. Examples of management of European regional policy in other countries, 2014-2020

France. The 15.9 billion EUR in Cohesion policy funding that France has been allocated is managed through 75 operational programmes, including 6 national programmes and over 60 regional programmes. This reflects a new governance model that has regional authorities, namely the 18 Regional Councils, taking charge of a major part of programme management and implementation.

Finland. Finland is slated to receive 1.47 billion EUR from ERDF and ESF, in addition to 2.38 billion from the EAFRD. It has chosen to narrowly target its spending to research and

innovation, competitiveness of enterprises, and the shift to low-carbon economy. It also chose to reduce the number of operational programmes, from seven in the previous period to two in the current period: one for mainland Finland and one for Åland Islands.

Greece. Greece's 15.3 billion EUR in funding is managed through 4 national thematic programmes, and 13 regional operational programmes. Regions will manage about 35% of ERDF, ESF and CF.

Poland. Poland is the largest beneficiary of Cohesion policy funding, and will receive 77.6 billion EUR from ERDF, ESF, and CF. Cohesion policy will be delivered through 23 operational programmes, including 6 national operational programmes and 16 regional programmes financed by ERDF and ESF. A larger share of funding will be managed by regions: 55% of ERDF and 66% of ESF compared to 25% of ERDF in the previous period.

Austria. Austria will receive a relatively small amount of funding (4.9 million EUR from ESI-funds), but its experience remains notable as it chose to get rid of regional operational programmes, which operated at the Bundesland in the previous programming period, and instead have four operational programmes, one for each fund.

Source: European Commission, "Partnership agreements on the European structural and investment funds", https://ec.europa.eu/info/publications/partnership-agreements-european-structural-and-investment-funds_en

Sub-regional and local

As territorial development strategies have gained increasing importance in successive programming periods, sub-regional actors are playing an increasingly prominent role in the design and delivery of Cohesion policy, both within Portugal and across the EU. In Portugal, this is particularly true of IMCs and MAs, namely through contracts for the design and delivery of Integrated Territorial Investments in the form of Pacts for Territorial Development and Cohesion. Other relevant local actors include Local Action Groups comprised of public and private stakeholders that lead community-led local development programmes (CLLD) and the municipalities involved in Integrated Sustainable Urban Development (SUD) actions and other project delivery.

Regional policy as a test case for broader multi-level governance reforms: key achievements and outstanding challenges

Key achievements

The implementation of regional policy in Portugal has had important impacts on strengthening multi-level governance arrangements and institutions at the regional and sub-regional level. For the 2007-2013 European cohesion funding programming period, Portugal in fact had a consistently higher absorption rate than the EU-28 average over time, one indicator of administrative capacity (European Commission DG REGIO, 2019^[112]). (For a further accounting of the impact of European regional policy on cohesion and competitiveness in Portugal, see, for example, (European Commission, 2016^[113]), (Caldas, Dollery and Marques, 2018^[114]), (Rodrigues et al., 2018^[2]). The following developments are particularly important:

Establishing a footprint for regional governance

CCDR's play an important role in the design and delivery of regional policy, and their role has been reinforced in the most recent programming period as the share of funding for

Regional Operational Programmes has increased. While these entities represent deconcentrated, rather than truly decentralised, services, they have helped to establish a footprint for regional governance that further regionalisation reforms can build on. Likewise, while NUTS 2 regions were initially established for only for statistical and planning purposes, they have also contributed to this “footprint”, as they are increasingly been used to define areas of operation of the decentralisation services of the various ministries, replacing the previous district geography (Veiga and Camões, 2019^[93]).

Using contracts to enhance coordination across levels of government and strengthen the sub-regional level

Portugal has been using contracts to deliver Cohesion policy since CSF I in 1989, but the scope and scale of these contracts have greatly expanded in the subsequent years. As indicated above, for the current programming period, a total of 22 Pacts for Territorial Development and Cohesion have been signed, covering all of mainland Portugal and involving 1.15 billion EUR. Thus, Cohesion policy has played an important role in consolidating a third level of management in mainland Portugal, including consolidating the financial and strategic capacities of inter-municipal entities. After multiple cycles of contracting, there has been particular progress in related to

- Strengthening a sub-regional level of inter-municipal co-operation;
- Enhanced capacity at the sub-regional level;
- Evolution in the type of interventions, such as the increasing relevance of interventions beyond physical infrastructure; and
- Indications of a transition from intra or inter-municipal (e.g. municipal networks of collective services) to supra-municipal projects (e.g. anchor projects or e-governance at NUTS 3 level) (OECD, 2018^[115]).

Engaging a wider range of actors

Already in the 2007-2013 programming period, the design and implementation of regional policy in Portugal was engaging a wider range of actors. Portugal 2020 expands on this progress, as it opens up new possibilities to new actors beyond the municipal sphere, notably as a result of the increased focus on territorial approaches and through enhanced cooperation between public, associative and private actors.

Enhancing monitoring and evaluation frameworks

Portugal has developed a strong monitoring and evaluation framework, which involves a range of municipal associations and other relevant stakeholders. For example, the Composite Index of Regional Development has been published by Statistics Portugal on an annual basis since 2009, with the aim of serving as a tool for monitoring regional disparities. It includes three components, reflecting a broader approach to sustainable development: cohesion, competitiveness, and sustainable development. In 2015, a new version of the Index was released, with data broken down to the new NUTS level 3 which align with the IMCs and MAs, in line with their enhanced role in the 2014-2020 programming period (OECD, n.d.^[116]).

Key outstanding challenges

At the same time that Portugal has taken important steps to enhance its governance model for regional development, a number of outstanding challenges remain. These challenges

have implications both for regional policy, as well as more broadly for the question of regionalisation and multi-level governance in Portugal.

European funding supports the bulk of regional policy in Portugal, leaving important gaps and distorting incentives in some cases

As discussed above, Portugal's regional policy is largely driven by European Cohesion policy, and the influence of European funding has played an important role in helping Portugal upgrade its institutions and governance models for regional development. However, the high share of European funding for regional development and investment in Portugal also has its drawbacks:

- For one, planning at the national, regional, and sub-regional level is largely tied to Cohesion policy timelines and funding requirements, rather than European funding being one input into a larger strategic approach to regional development. Thus, other important inputs to regional development – such as broader questions around structural reform of subnational authorities, public services, etc. – are often overlooked. Stakeholders also report, for example, that municipalities tend to prioritise investments eligible for European funding, rather than other investments that may respond to unmet needs but do not qualify for European funding.
- Despite efforts to streamline and simplify the management of Cohesion funding, stakeholders reported that the continued complexity associated managing this funding continues to absorb a large part of the capacities and resources of regional and sub-regional actors, leaving relatively little space to address other strategic issues.
- Stakeholders report that the logic of differentiated regional eligibility of European funds encourages fragmentation, while the separation between Cohesion policy and agricultural policy at the European level impedes coordination between regional and rural policies in Portugal.
- While discussions are still underway for the 2021-2027 programming period, current proposals suggests that the amount of Cohesion funding allocated to Portugal will be slightly reduced. In light of further enlargement of the EU and Portugal's ongoing recovery, the amount of EU support it receives may further decrease in the future, potentially creating a hole in Portugal's regional policy portfolio if the heavy reliance on this source of funding remains.

It is important to note that many of these challenges are not unique to Portugal, and rather are part of more general critiques of EU regional policy, ranging from the extent to which they crowd out national spending (González Alegre, 2012_[117]) to whether they are focused on investments with the most potential to spark growth ((Medve-Bálint, n.d._[118]; Crescenzi and Rodríguez-Pose, 2012_[119]), to the complexity of implementation (see (Piattoni and Polverari, 2016_[120]) for a fuller discussion of these issues).

CCDRs are an important stop-gap for the lack of a true regional tier of governance, but are not able to drive a truly strategic, cross-sector approach to regional development

CCDRs are charged both with managing Cohesion policy funding as well as playing a larger role in regional strategy development and implementation, including coordinating the deconcentrated arms of sectoral ministries at the regional level. However, despite this mandate, they have not yet been able to catalyse a truly cross-sector, strategic approach to regional development. A number of issues contribute to this situation:

- First, as discussed above, CCDR's are very much absorbed by the complex task of managing Cohesion policy funding, leaving relatively little resources available to play a larger coordination role at the regional level.
- In addition, stakeholders report that CCRDs lack the legitimacy to truly serve as a neutral regional convener. They tend to embody the philosophy of a single ministry, and lack the political legitimacy that an elected, regional government may enjoy.
- Given their role as a gatekeeper for European funding, regional branches of sectoral ministries do engage with CCDR's related to funding, but there is less upstream engagement on strategy development. Likewise, the level of sectoral ministries' engagement in the development of sub-regional strategies varies.
- Finally, while efforts have been made to standardise the geographic remits of regional branches of sectoral ministries, some differences persist, which impedes the ability of CCDRs to coordinate sectoral policies at the regional level in some cases.

Mismatched geographical remits at the regional level continue to create challenges

Despite efforts to streamline and standardise the geographic boundaries of deconcentrated Ministry branches, the remits of CCDRs, and the regions for Cohesion funding / statistical purposes, remaining mismatches continue to create challenges. A key issue that will need to be resolved for any regionalisation reform is in Lisbon, where the geographic mandate of the Lisbon Regional Coordination and Development Commission (CCDR-LVT) differs for managing Cohesion policy funding and broader regional planning. This split results from the redrawing of the NUTS 2 boundaries in 2002, echoing practices in other countries to divide capital areas into separate NUTS 2 regions at least in part to create more favourable conditions for EU funding eligibility (e.g. recent reforms in such as Poland, Hungary and Lithuania to separate their capitals from the surrounding regions in NUTS II designations). As discussed further in the corresponding section of this report, this creates broader questions about metropolitan governance.

The increasing complexity of contracting arrangements and overlapping instruments across levels of government impedes efficiency and stretches resources thin

While the enhanced engagement of sub-regional actors can be seen as a positive development, it also implies managing increasingly complex contracts across levels of government. In particular, managing nested sets of contracts and balancing the need for territorial and thematic flexibility with rigid contract modalities (i.e. requirements of detailed information on objectives, outputs and results) is a challenge. Managing different instruments with various, and often overlapping, geographies has also proved difficult (Rodrigues et al., 2018_[2]) (OECD, 2018_[110]).

Additionally, the current system fails to adequately take into account diversity in sub-regional and local capacities, both in terms of presence of relevant stakeholders and in terms of the required technical skills (Rodrigues et al., 2018_[2]). Depending on their design and implementation, multi-level governance reforms could either add additional bureaucratic and administrative complexities or help simplify such procedures. If the former holds true, this could put additional stress on already stretched institutions and systems, particularly in places with less capacity.

6. Ways forward in the process of decentralisation in Portugal

This section focuses on the Portuguese model of decentralisation and on the alternative ways Portugal could promote decentralisation at the regional and local level. The OECD view is that decentralisation and regional level governance in Portugal needs to be strengthened, in one way or another. Currently, the CCDRs are not sufficient to tackle the present and future problems faced by Portugal at regional level. This chapter argues that there is no single way to solve this. Based on information on international practices, and experiences from regional reforms implemented in selected peer countries, the chapter ends by presenting three options for ways forward for Portugal. The choice should be based on efficiency and democratic considerations.

6.1. Making reform happen: prerequisites for a successful territorial and institutional restructuring

While each country is a special case, and the effectiveness of institutional reforms such as decentralisation vary considerably across countries, some preconditions for a successful regional reform can be identified. Since regionalisation reform is in fact a special type of decentralisation, the preconditions are however much the same as for other decentralisation reforms. Among these requirements, focusing on clear responsibilities and functions assigned to government levels, as well as strengthening subnational capacities and the overall coordination mechanisms, are fundamental. Other pre-conditions include allowing for territorially-specific policies and the possibility for asymmetric decentralisation, with differentiated sets of responsibilities given to different types of regions/cities, in particular the metropolitan areas. Such mechanisms are critical to provide institutional and fiscal arrangements that best respond to local needs. Some of the measures described below would be useful for Portugal irrespective of regionalisation reform.

Portugal could consider adopting experimenting and sequencing practices when implementing major multilevel governance reforms. The Polish experiences which were described in previous sections of this report provide a particularly interesting case in this respect. Also in Sweden (see Box 6.1), the government managed to reassign tasks from deconcentrated central government to regions with elected self-government and fiscal autonomy using experiments and voluntary approach. While this kind of reforming is slower than a “big bang” reform, it enables learning-by-doing and revising the decisions during the reform process, if needed. In Finland, the regionalisation reform, which eventually failed, was attempted with a very ambitious package (combining the establishing regional level, integrating health and social services and enlarging the role of private provision in basic health care). Judged by the Finnish experiences, in any case Portugal should probably avoid attempting a very radical regional reform in a very short time period.

Portugal could also consider intensifying and developing the data collection processes as well as setting up new databases on subnational government finances and service provision. In particular, the outputs and outcomes of the main public services could be reported and collected in more detail, but more detailed data on the input side would also be a welcome development. For example, there is currently no comprehensive information available on municipal spending by COFOG classification (municipality specific data)

The benefits of the decentralisation and regionalisation reforms will be larger if they are well informed. The General-Direction for Local Government, the Central Government

authority in charge of monitoring municipalities, would be well suited actor to play this role. Three main tasks could be specified:

- The design and implementation of a full-scale business intelligence information system, reflecting a well-designed battery of Key Performance Indicators. This would be relevant for municipal decision-makers and it would also permit a robust analysis of comparative efficiency among municipalities;
- The enforcement of cost-benefit analysis for public investments at municipal level;
- Ensure the means, including human capital means, to enforce an across the board implementation of systems of costs or analytical accounting in all municipalities.

High quality information on Portugal's subnational governments would enable enhanced steering and monitoring of subnational governments, both by central government and citizens/taxpayers. Moreover, with enough good quality data, the steering could focus on monitoring service outcomes instead of "micromanaging" input use and service production processes. Although new data collection processes and setting up additional databases would require extra resources, savings gained over time from reduced administrative work would be likely to exceed the costs of the initial investment.

It must be also emphasized that decentralisation should be seen as an entity and not a collection of separate policies. Therefore, reforms on particular areas of governance and decentralised system are likely to affect other policy areas as well. Establishing regional government level is therefore bound to affect the central government, municipalities, inter-municipal units and parishes etc. In the same vein, changes in spending assignments affect the revenue side, and changes in one public service sector such as regional planning will affect other public services, and so on. In order to secure a successful regionalisation reform, all major components of multilevel governance should be on table.

Box 6.1. Reforming the dual multilevel governance in Sweden

Sweden is one of the most decentralised countries in the world in terms of public service delivery and expenditure: about 25 percent of the country's GDP is accounted for by subnational government expenditure, and the subnational government enjoys extensive spending, taxing and decision-making autonomy. In Sweden, nearly all redistributive tasks have been devolved from the central government to counties and municipalities. Sweden has a two-tier system of subnational government, consisting of 20 County Councils and 290 municipalities:

- County Councils (landsting) are run by directly elected assemblies and are mostly responsible for health services (80 percent of their budget). Counties may also engage in promoting culture, education and tourism. The responsibility for regional and local public transport is shared between the municipalities and the County Councils. Ten County Councils have responsibility for regional development policy. In addition, the municipality of Gotland which is an island, is with County Council responsibilities.
- Municipalities (kommuner) are also run by directly elected councils. Municipalities are responsible for basic and secondary education, kindergarten, elderly care, social services, communications, environmental protection, fire departments, public libraries, water and sewage, waste management, civil defence, public housing and physical infrastructure.

Until the late 1990s, the County Administrative Boards (central government agencies) were responsible for regional development in each county. Since 1997/1998, Sweden launched a reform to transfer these competencies from regional central government agencies (CAB's) to self-governing counties. The national government has however not imposed a single model on the counties but instead different regionalization options (OECD 2010). It has promoted an asymmetric and bottom-up regionalization as a gradual and experimental process (a laboratory of regionalization).

The underlying idea is that decentralised policy making leads to more innovation in governance. Therefore, from 1997 onwards, Sweden developed various regionalization options in terms of political representation and responsibilities in different regions and in different phases: directly elected regional councils in the two "pilot regions" of Skåne and Västra Götaland, resulting from the mergers of respectively two and three counties; an indirectly elected regional council for Kalmar; and a municipality with regional functions for Gotland. The second wave (2002-07) started with the Parliamentary Act of 2002. This Act made it possible for counties, if all local municipalities agreed, to form regional co-ordination bodies (indirectly elected bodies i.e. in line with the Kalmar model) to co-ordinate regional development work.

The third phase of experimentation, since 2007, corresponds to a renewed bottom-up demand for regionalization. It started with the publication of the recommendation for the future of the regional level, published by the Committee on Public Sector Responsibilities in February 2007. The Committee argued for the extension of the "pilot region" model, which was assessed positively, the merger of current counties and the creation of six to nine enlarged regions in order address long-term challenges such as ageing. The reform was not applied as such until now but this bottom-up demand for regionalization persisted,

and since 1 January 2015 ten county councils out of 21 counties are responsible for regional development.

Sources: (OECD, 2012_[121]; OECD, 2017_[122])

6.2. Three scenarios for enhanced decentralisation in Portugal

Nearly seventy years of economic research and practical experiences accumulated from decentralisation reforms in different parts of the world have shown that there is no single way to decentralise successfully. In general, the results of decentralisation reforms depend on the objectives set for the reform, the overall policy environment and the way the reform is designed and implemented. Each country is a special case and therefore such reforms require tailor-made planning.

Furthermore, the benefits and costs of establishing a self-governing subnational government level are influenced by the tasks assigned, as well as the financing system and the governance model applied. The overall quality of public administration and central government long term commitment are essential factors behind successful decentralisation reform.

Regional governments and regionalisation reforms form a specific dimension of decentralisation. Regionalisation can mean a policy that establishes a new government layer between central government and municipalities. But regionalisation can also mean policies that strengthen the already existing regional government, for example with new spending and/or revenue assignments. The type of tasks that will be assigned to regional governments matter too, as regionalisation can mean decentralising from central government to regions, or, transferring tasks or revenue from local governments to regional level, or both. Each of these approaches are likely to have different effects.

In the Portuguese context, full regionalisation means the launching of the Administrative Regions, which are already defined in the Portuguese Constitution. While the proposals for the boundaries of the regions have varied over time, the latest discussion has focused on the five region model. There seems to be less consensus on what tasks the Administrative Regions would be responsible of, and how they would be financed. These are key issues that must be solved before the practical preparing for the Administrative Regions can start.

Since there is not yet a political commitment to adopt the Administrative Regions, we have chosen to discuss three options for decentralisation and regionalisation in Portugal. While there are of course many potential alternatives available, these three approaches are the ones that are most often observed in other European countries, as was discussed in previous sections of this report. These approaches can also be easily varied as more information on the reform needs will become available. The scenarios presented below are by no means exhaustive, and should not be seen as pure alternative recommendations. The three options are presented from the least to the most comprehensive one. In some sense, there are partly nested and complementary to each other. The options presented here are also a basis for further discussion and possible further investigation.

6.2.1. Decentralisation and strengthened deconcentration without empowerment of regional level

If Portugal decides not to establish the Administrative Regions at this stage, there are still ways Portugal could strengthen the current decentralisation framework and the role of the regional level. In short, these measures comprise reorganising the allocation of tasks between CCDRs and other deconcentrated central government services, strengthening the capacity and fiscal autonomy of municipalities, clarifying the role of inter-municipal co-operation, intensifying the metropolitan governance in Lisbon and Porto areas, and rethinking the task assignments between different levels of multilevel government, notably municipalities, central government and IMCs. Each of these potential measures are discussed shortly in below.

Aligning the regional networks of deconcentrated central government departments with the CCDRs

The CCDRs are currently the main regional policy actors in Portugal. The main duty of CCDRs is to co-ordinate the deconcentrated central government in regions, but their ability to deliver that task is currently rather limited. There are probably many reasons for this, and here just the main points are raised. First, the deconcentrated regional departments of the Portuguese line ministries are currently fragmented, forming a complex, intricate network of central government services. Reorganising the deconcentrated central government services so that they are better compatible with CCDRs would be the first step to improved regional policy co-ordination. For example in Ministry of Labour there are regionalized services of Social Security with eighteen district offices, which are deployed in 441 local services for the public. The same ministry is responsible for the Institute of Employment and Professional Training (IEFP), which comprises five regional delegations (coinciding with NUTS II) and 53 local Employment Centres that may have several municipalities as their area of influence or even infra-municipal areas. Similar situation may prevail also in other sectors, which calls for reorganisation.

Second, it should be ensured that the jurisdictions of the various consultative entities promoting vertical and horizontal co-ordination at the regional level do not overlap with the work carried out in the CCDRs.

Third, the role of the Presidents of the CCDRs should be strengthened in relation to the presidents of sectoral deconcentrated government departments. This would improve the effectiveness of CCDRs.

Strengthening the capacity and fiscal autonomy of municipalities for enhanced service delivery

Despite efforts to decentralise public service delivery and financing, Portugal is still a much centralised country. There are clear benefits that could be gained by stepping up decentralisation. As discussed above, Portugal would follow the development road taken by most developed OECD countries. As it appears that Portugal has already strengthened the legal and administrative status of municipalities and IMCs during recent years, now could be the right time to go forward also with fiscal decentralisation. It is therefore important that the decentralisation process, that was started late 2018, is continued and followed through.

It should be noted that a partial decentralisation, such as assigning only limited responsibility of the service delivery to municipalities, may not lead to full benefits of

decentralisation. Spending responsibilities should also be accompanied with local financing responsibility to secure the right incentives for subnational governments.

Enough resources for ex ante and ex post impact analyses should be allocated, so that outcomes of decentralisation can be monitored and evaluated in a reliable way. Central government could also establish arenas and platforms for spreading information on best practices and continuous learning. Furthermore, capacity building programmes for municipalities and IMCs should be established to support and assist the local governments to achieve the desired level of services.

Clarifying the role of inter-municipal co-operation

Currently the IMCs and MAs play only a marginal role in local public service delivery. This situation can be at least partly explained by the service menu of municipalities: as the tasks currently assigned to municipalities are not very demanding in terms of outcomes, there has been less interest for inter-municipal co-operation. Another explanation could be that a tradition for inter-municipal co-operation has not yet developed, at least not within the IMCs that have been formed. While this situation may change as more tasks will be decentralised to municipalities during the coming years, the central government could nevertheless accelerate the process with financial incentives. One way to accomplish this could be to use the transfer system, for example by directing more transfers to IMCs, instead of municipalities, in case of public services with important externalities.

It should also be noted that if the Administrative Regions will not be established, the need for utilising IMCs in regional policy will increase markedly. This aspect is discussed in more detail in subsection “Decentralisation without full regionalisation by reinforced municipal and inter-municipal levels”.

Intensifying the metropolitan governance in Lisbon and Porto areas

It is worrying to note that the growth in the Portuguese metropolitan areas, notably in Lisbon area, has not picked up as in other regions in Portugal. In fact, as was discussed in previous sections of this report, the productivity and employment has recently declined in Lisbon, making the capital city area one of two TL3 areas in Portugal that recorded a decline in these indicators. This development has probably many explanations and there are many potential solutions for this problem. Here, just one potential solution, namely the enhanced metropolitan-wide policymaking, is discussed.

Currently, the Lisbon and Porto metropolitan areas are organised as compulsory one-tier co-operative associations (MAs). The real decision-making authority in metropolitan areas is however held by the municipalities of these areas, together with central government. As a result, the current MAs lack both political and financial authority to truly influence the metropolitan-wide challenges.

It seems clear that the ability of MAs to engage in real decision-making and financing of the metropolitan areas should be improved. The legal authority of MAs could be strengthened, but at the same time it should be ensured that the metropolitan authorities have adequate capacity to take the responsibility of the development in the region. Central government should give support to the MAs to build the capacity needed to take responsibility of strategic development of the metropolitan areas.

As was discussed in previous sections of this report, it is not possible to present one universal metropolitan governance model for all purposes. The main alternatives, at least based on the international experience, include:

- One-tier fragmented government structures,
- One-tier consolidated government structures,
- Two-tier government model,
- Voluntary cooperation/special purpose districts,
- Creation of specialised Metropolitan Authorities (e.g. Transportation, Spatial planning, etc.).

The main question is of course who has the actual responsibility of developing the area. The current system could be strengthened by increasing the autonomy of the MAs (in relation with the municipalities in the region). One option could be to alter the MAs into subnational government units with elected councils and granting them taxation rights (for example property tax), as well as giving them important tasks associated with region-wide importance such as transport, environment, housing, land use and planning. In this setup, municipalities could concentrate on providing services that are purely local in nature. The management system based on specialised Metropolitan Authorities supposes the delegation of certain management functions of the municipalities and raises the problem of inter-sectoral coordination (e.g. how the transportation and housing policies are coordinated).¹³

Rethinking the task assignments between levels of multilevel government

Taking into account that Portugal already has several local government units at its disposal, and considering also that in practice Portugal is still a relatively centralised country, there seems to be room for rethinking the service assignments between central government, municipalities, parishes, IMCs, and MAs. This would require preparing a nation-wide plan which would need considerable preparation time and planning resources. In order for such reorganisation to be successful and politically accepted, all main stakeholders (e.g. line ministries, representatives of municipalities, IMCs, central government agencies, research institutes) should be engaged in the process. This suggestion is of course linked with the above presented proposal for stepping up decentralisation in Portugal. On the other hand, such in-depth study and rethinking the entity of assignments could just as well lead to recentralisation of some tasks. Moreover, it is generally recommendable that countries evaluate their multilevel governance setting every 5 to 10 years.

6.2.2. Decentralisation without full regionalisation by reinforced municipal and inter-municipal levels

The second policy strategy for Portugal could be to establish a compulsory region-wide inter-municipal association, which could take over the tasks of the CCDRs. This co-operative regional body could also take responsibility of some tasks that are currently organised by IMCs. Some municipal tasks could also be included, but only if this can be justified by major externalities that could be internalised by such reorganisation.

The current IMCs could still be allowed to exist as an intermediate level. They could concentrate on services which have smaller service benefit areas than the one covered by the region-wide municipal association. The responsibility of metropolitan governance could be concentrated to special metropolitan authorities as described in the previous

¹³ See (OECD, 2015_[141]).

section. This is because the region-wide authorities would be too big and heterogeneous to be effective in taking care of metropolitan needs.

The regional councils in this alternative would consist of members elected by municipalities in the region. The tasks of the co-operative regional governments could be limited to regional planning, managing EU funds and some other tasks with clear region-wide benefit areas such as environment protection and regional roads. The co-operative regional governments should have decision-making autonomy on matters that belong to regional governments' jurisdiction. The financing of the regions could be based on central government transfers and municipal member fees. Municipal financing share should be high enough to create incentives for municipalities to avoid the so-called common pool problem.

Some European Union Countries, such as Finland and Slovenia are currently implementing a form of co-operative regionalisation, which could be inspiring for Portugal. Both of these countries have in fact planned also reforms to establish a self-governing regional government level, but such proposals have not yet gained enough political support. Co-operative regionalisation can be seen as an alternative to full regionalisation, but also as an intermediate stage towards regionalisation.

6.2.3. Decentralisation through complementary regionalisation and inter-municipal cooperation reforms

Establishing a full-scale regional government level as described in the Portuguese Constitution, i.e. the Administrative Regions, is the third, and more comprehensive, option. If the reform is well designed, establishing Administrative Regions could solve many issues that the other two alternatives presented in this section are not able to solve, or solve only partially. Compared with co-operative regionalisation, the benefits of full regional government level include especially gains in local democracy, legitimacy, transparency and accountability. Administrative Regions could also bring additional allocative efficiency, depending on the eventual tasks assigned to the regions.

It should be noted that establishing Administrative Regions would not exclude policies to strengthen decentralisation at the local level. Therefore, the proposals to empower municipalities and IMCs would still be valid as they would complement the measures to establish Administrative Regions.

The formal structure and the governance model of the Administrative regions, including election of members to regional Assemblies and formation of Regional Board as well as other bodies, is defined by Law 56/91.

It should also be noted that establishing Administrative Regions does not exclude the possibility to have deconcentrated regional administration for purely central government services. In fact, many countries practice the so called "dual model", with elected regional governments and deconcentrated administrations. In many unitary countries such as in France (regional and departmental prefects), Poland (regional prefects), and Sweden (County Governors as the heads of the County Administrative Boards), the central government representatives at the territorial level are operated side by side the elected regional governments. However, it should be noted that in general the representatives of deconcentrated central government administration are not interfering or taking part in the decision-making devolved to the regional governments. They are however ensuring that the subnational governments obey the law and regulations, and therefore the prefects and

County Governors must deal with complaints made by local citizens on subnational government services.

The tasks of the Administrative Regions could consist, on a first stage, of the current tasks of CCDRs, with the exception that they would not involve co-ordinating the deconcentrated central government tasks (such as health or education). Nor would the Administrative Regions co-ordinate municipal tasks, except in cases where such tasks are closely related with regional tasks, or in tasks which the regions have made contracts with municipalities. Therefore the regional councils would have two main functions: regional development and territorial cohesion planning. The councils could also be responsible for the EU's Structural Fund programs and their implementation.

The financing of the Administrative Regions could consist of central government transfers and own revenues. The Administrative Regions would need to be endowed with some budgetary and financial autonomy, as fiscal powers form an essential dimension of political and administrative capacity. The own revenues of Administrative Regions could, for example, be derived from one or several local taxes or a share of national tax revenues.

Portugal should avoid major overlaps with the tasks of Administrative Regions and IMCs and municipalities. While full prevention may be hard or impossible, the remaining overlaps should be well investigated so that the potential problems can be anticipated and minimised. A clarification of assignments and jurisdictions would also be required between Administrative Regions and deconcentrated state administrations. Portugal may be inspired by practices in countries where a dual model (elected regional government and deconcentrated central government units) co-exist in regions. As was discussed above, such countries are for example France, Poland and Sweden.

As said, inter-municipal cooperation and Administrative regions complement each other and hence should be promoted together as a driving force to improve local public services. Inter-municipal cooperation and regionalisation are two key mechanisms to both rationalise public expenditure and improve the quality of public services throughout the country.

The regionalisation alternative described here could be the first step in a series of public sector reforms. The next phase could be reform of deconcentrated central government departments. Depending on political support for further decentralisation reforms, the Administrative Regions could be assigned tasks that are now arranged by central government in regions, like for example secondary education and specialised health care. Until then, the current IMCs should co-exist with the Administrative Regions. They could concentrate on services which have a smaller service benefit area than the Regions but larger than that of single municipalities. Once the Administrative regions have been established and once there is agreement of further decentralisation, the role of IMCs could be diminished. It is likely though that voluntary inter-municipal co-operation, albeit less needed, would be still useful in certain cases.

The metropolitan regions should have a special solution, as was discussed already in the previous sections. It should be noted though, that the metropolitan governments should be enhanced in any case, not depending on the solution on regional governance model. The Administrative Regions would probably be too big for metropolitan issues, as the Administrative Regions need to look the regions as a whole. It is likely that this would not leave them with enough interest and capacity to take into account the needs and problems of the metropolitan areas.

In case the regionalisation continues on basis of Administrative Regions, the question of MAs relationship with Administrative Regions should be solved. Since the Administrative

Regions would not have a supervisory power over the municipalities, it seems that the relationship between Administrative Regions and MA's should be arranged through dialogue and co-operation. If this solution is adopted, the Nordic countries, notably Sweden, could provide an interesting example for Portugal.

The European comparison shows that many average-sized countries opt for a single level of intermediate government, in particular when municipalities or grouped municipalities are vast. From this point of view, Portugal could take inspiration from similar sized countries, such as Switzerland and Sweden.

7. References

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