# Rethinking Regional Attractiveness in the **Metropolitan Area of Lisbon,** Portugal

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# 2023



The impact of the COVID-19 crisis, compounded by the consequences of Russia's war of aggression against Ukraine and existing megatrends (e.g. climate change, globalisation, digitalisation and demographic change), continue to produce asymmetric effects within and between countries and regions, with the scope and scale depending on their unique characteristics.

The OECD's work on rethinking regional attractiveness policies in the new global environment, is undertaken with the support of the European Commission (DG REGIO) and is a priority activity of the Regional Development Policy Committee (RDPC). Working closely with 15 regions in 5 OECD member countries (Ireland, Italy, Portugal, Spain and Sweden) It aims to help regional and national policy-makers to better understand the position of regions in an evolving global context, including emerging challenges and opportunities, and identify the policy levers at their disposal to enhance the attractiveness of regions to the key international target groups of investors (including exporters), talent, and visitors. In doing so, it seeks to support regions transition towards new territorial development policies that promote inclusive, sustainable, and resilient development, while enhancing regional attractiveness.

## A snapshot of the Metropolitan Area of Lisbon (AML) in the world

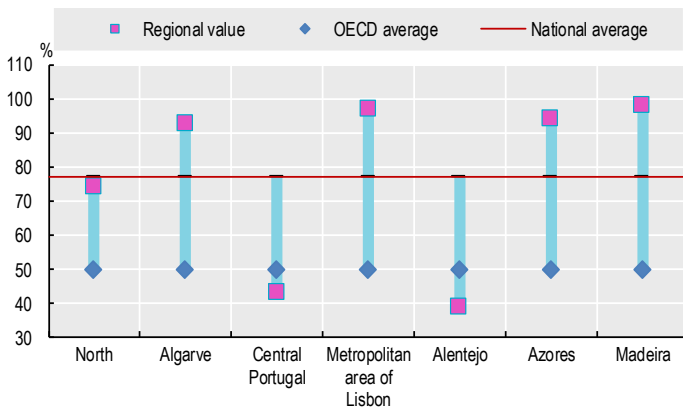### Greenfield FDI Inwards by region, expenditure in US millions
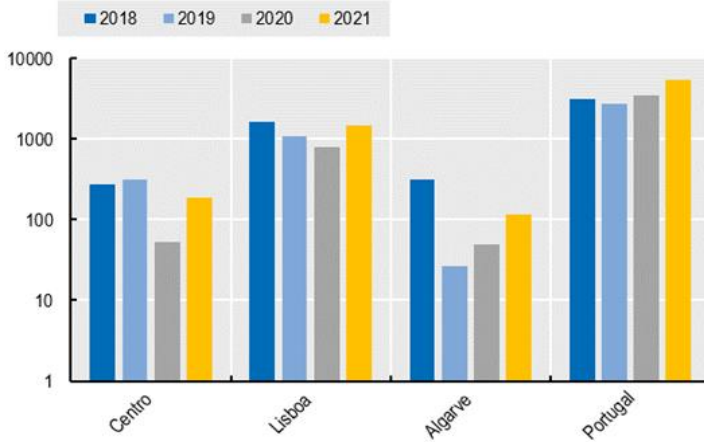


Note: fDI market database includes declared greenfield inward investments only.

Source: OECD calculations based on fDI market database, 2022.

### Share of renewables in electricity generation, 2019



Source: OECD Environmental database (2022); OECD regions (TL2)

### Share of nights spent by foreign tourists in accommodation establishments



Source: OECD calculations based on Instituto Nacional de Estatística (2022); Eurostat (2021)

Throughout the pandemic, the Metropolitan Area of Lisbon (AML) maintained its attractiveness to foreign investors. Despite the impact of the COVID-19 crisis in 2020, when the share of inward FDI fell by 26.1%, the AML has made a strong recovery. FDI flows bounced back in 2021, growing by 88% to USD 1,486 million. This significant increase was due to large investments in industrial building construction (over USD 315m), Biotech R&D (USD 156m), and to improve air transport logistics services (USD 300m). This performance compares favourably with global trends, which dropped by about one-third, and also outpaces the overall OECD and EU (Greenfield) FDI inflows (which fell by around 50% and 70% respectively). Although indicating that it is steadily recovering from the effects of the pandemic, high uncertainty remains nonetheless, given the current geopolitical context.
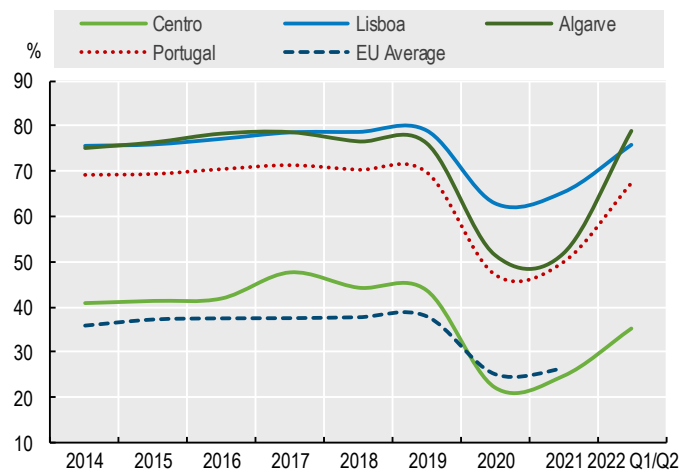
AML's southwestern and coastal position presents major opportunities for renewable energy production, particularly on offshore wind. The share of renewables in electricity production in the AML at 97%, outperforms both the National (77%) and OECD (50%) averages. Between 25-50% of total electricity generation comes from wind power and over 10% from solar (OECD, 2021). The AML's proximity to the ocean and large areas of forest (e.g. in municipalities such as Sesimbra or Palmela) allow for the deployment of renewable energy technologies (e.g. wave energy, biomass and biogas). This can play an increasingly important role in its energy supply and reduce dependence on fossil fuels as well as external energy sources for the production of electricity (CCDR LVT, 2020).

Between 2014 and 2019, the AML experienced a slight but steady increase (to 79%) in the share of nights spent by foreign tourists in accommodation establishments– indicating both the attractiveness of the region as a destination for overseas tourists (recognised as a tourism of excellence), and its dependence on overseas markets. The unprecedented shock to the tourism economy caused by the COVID-19 crisis led to a 16 percentage points drop in 2020. While a significant figure, this was much less than the national average. In the last two years, the AML has experienced a rebound, reaching figures close to pre-pandemic levels. In the first 6 months of 2022, the share of international visitors reached 76%. In 2021, the top two inbound markets of Spain (15%) and France (14%) accounted for nearly 30% (Statistics Portugal, 2022). Prior to the pandemic, the region was much more dependent on long haul markets, with Brazil (11%), and the United States (10%) accounting for nearly over one fifth of international visitor nights (Statistics Portugal, 2020).

**Interregional comparison on social life opportunities**
(% of population satisfied with opportunities to meet people and make friends)
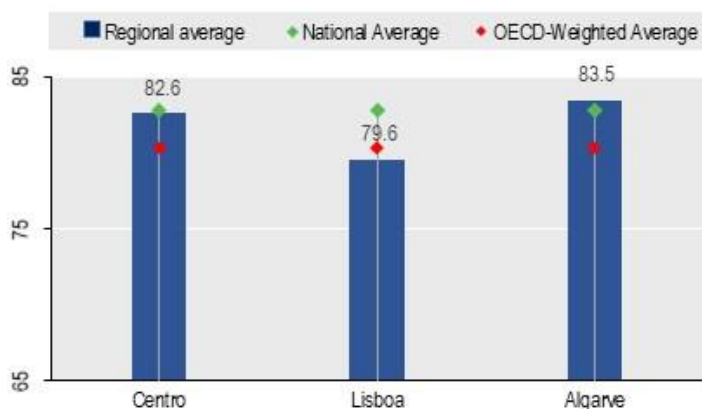


Note: Average on the 2016-2020 years
Source: Gallup World Poll

Indicators that capture participation in social activities can be utilised to measure the stock and evolution of regional social capital. These indicators tend to illustrate an important relationship between higher levels of social well-being and regional economic growth which makes a strong case for investments in policy areas that foster social cohesion (Muringani, Fitjar, & Rodríguez-Pose, 2021). In the AML, 80% of the population indicated they are satisfied with opportunities to meet people and make friends, a figure that is slightly below the national average (83%) and close to the OECD-weighted average (80%), as it is the case in general for densely populated areas.

**European Quality of Government Index**
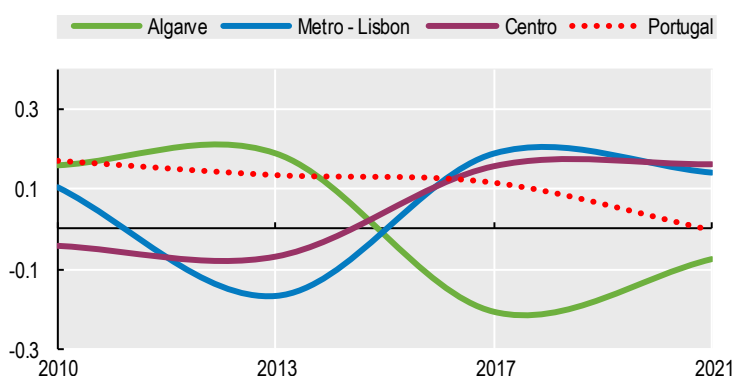


Note : The EU average is represented by the horizontal axis (zero line). Negative values mean that the regional EQI is below the EU average.
Source: University of Gothenburg

The European Quality of Government Index (EQI) captures, at the regional level, citizens' perceptions, and experiences in relation to corruption, quality, and impartiality of three essential public services – health, education, and policing. Between 2013 and 2017, the EQI for the AML increased considerably, rising above the EU and Portuguese averages. Data from 2021 illustrates that the EQI for the AML, continues to surpass both the EU and Portuguese averages. Perceived quality of government can have implications for trust in government, as well as the attractiveness of territories. It can influence the decisions of potential investors and talent when choosing a preferred destination to set up a business or raise a family.

**Download speed at the regional level**

Download speed as a percentage deviation from national average
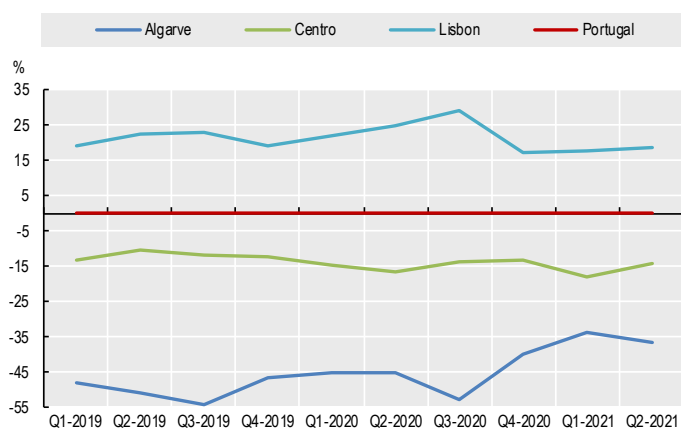


Source: OECD calculations based on Ookla database ; 2021 ; OECD TL2 regions

Access to fast and reliable internet connections are a key factor in attracting talent - remote workers in particular - investors and visitors. The AML benefits from the fastest download speed amongst Portuguese regions, by some margin. Despite a roughly 10% improvement relative to the national average between Q4 2019 (19%) and Q3 2020 (29%), the 2021 figures have decreased over the past two years, with the average download speed in the AML now around 18% faster than the national average, perhaps reflecting improvement in download speeds in other regions and the rise in LMA usage (demand). This can be more closely related to new teleworking models and business digitalisation processes (infrastructure requirements), rather than a decrease in download speeds for the Metropolitan Area of Lisbon.

## Attractiveness profile: Metropolitan Area of Lisbon

The Metropolitan Area of Lisbon (Área Metropolitana de Lisboa – AML) stands out for its diverse cultural life opportunities and high levels of perceived quality of government. The high concentration of Greenfield Foreign Direct Investment (FDI) and a well-developed tourism sector offer opportunities to shape the future of the regional growth while making limited available land and affordable housing a challenge for inclusive and sustainable development.

Before considering the policy levers available to enhance the attractiveness of a region to international target groups (investors, talent, visitors), it is important to first understand the region's position in the world. To do so, the OECD considers four families of international connections: business (e.g. FDI projects, trade, employment in foreign-controlled business, etc.), human (migration, and visitors), knowledge (international students, R&D, patents) and infrastructure (broadband, ports, airports, stations). In the case of the Metropolitan Area of Lisbon (AML), on the **Business** front, the AML is globally integrated with a **trade openness rate** of over 68.6% - a measure of the region's imports and exports as a share of regional GDP – which is above both the EU (47.4%) and national average (35.6%). In terms of **Infrastructure,** the region stands out with strong **air transport performance**; on average, people in the region can access over 491 unique passenger flights within 90 minutes by car, far out-pacing EU (320 flights) and national averages (213 flights). When it comes to **Human** connections, and in particular visitor presence, the region recorded more visitor nights spent per sq. km (2,035 nights) than most EU regions (1,126 nights), highlighting the region's enduring attractiveness as a destination for visitors. Finally, in terms of **Knowledge** connections, there were nearly 2,500 **international scientific co-publications** in the region in 2021, which is an important measure of participation in the global research ecosystem. This was far above the average of EU (1,126) and national regional average (1,357), and up nearly 60% from when data began being collected in 2014.

The OECD's innovative and multidimensional approach to assessing **regional attractiveness** considers global engagement beyond international connections and economic factors alone. In total, the methodology considers more than 50 indicators to develop regional attractiveness profiles, covering 14 dimensions of attractiveness, across six domains (Economic attraction, Connectedness, Visitor appeal, Natural Environment, Resident well-being, Land-use and Housing).



**Attractiveness Compass: Metropolitan Area of Lisbon**

Source: OECD database on Measuring the Attractiveness of Regions; all statistics from the OECD Regional Database (2015-2022) unless otherwise noted.
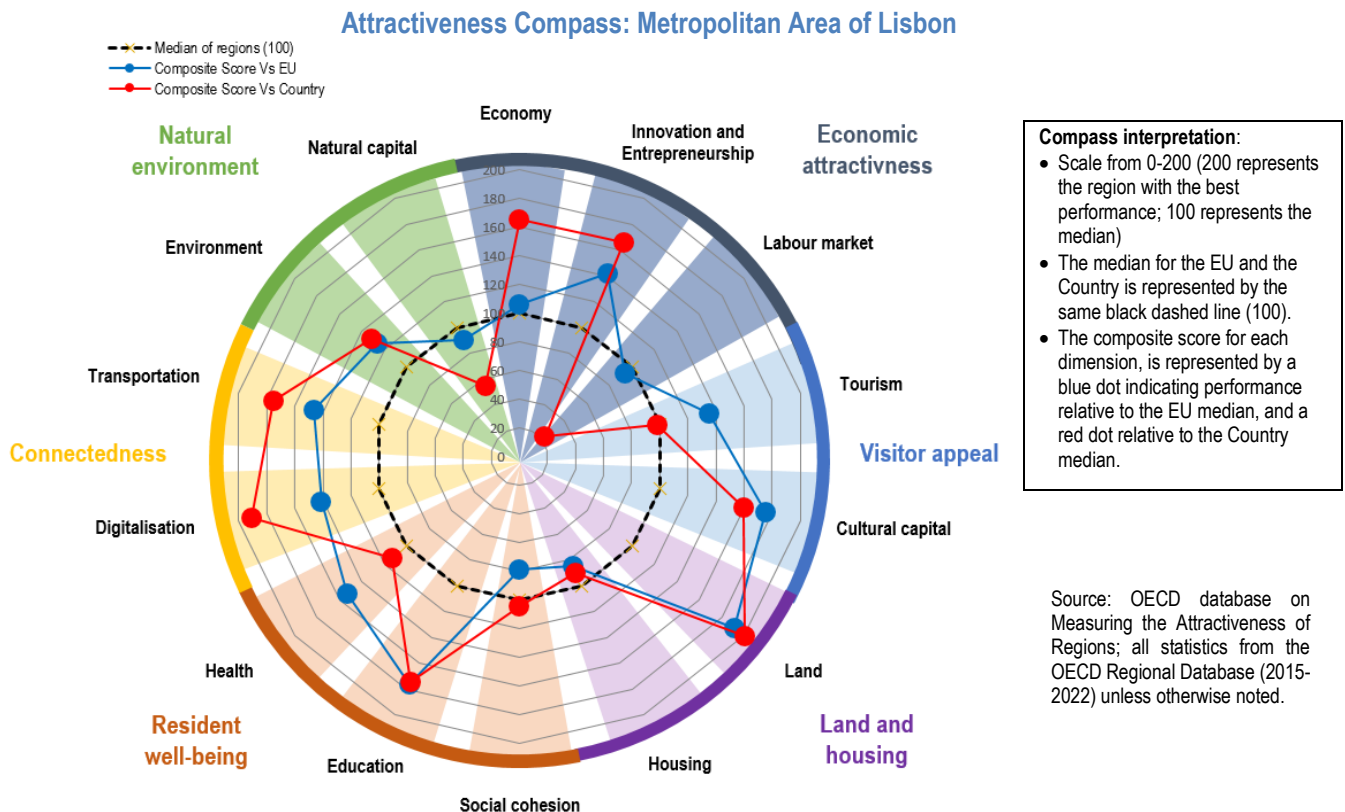
**Economic Attractiveness:** The Metropolitan Area of Lisbon (AML) presents relatively strong economic attractiveness relative to other EU and Portuguese regions (apart for the labour market). More specifically, it is outperforming other Portuguese regions in GDP per capita and Gross Value Added per worker and is among the top-performing Portuguese regions in terms of percentage of employment in research and development (over 3.6%) and the creation of employer firms. However, it is generally below the EU average (58%) on employment rate (55%), particularly concerning youth employment (74%) compared to the EU average (80%) where significant challenges remain (OECD, 2022). Indeed, Portugal suffered a large decline in youth employment at the start of the COVID-19 crisis and has yet to reach pre-crisis levels.

**Visitor Appeal:** The tourism sector has been an important and growing part of the region's economy in recent years and generally performs strongly against other EU and Portuguese regions in terms of attractiveness. The AML benefits from a large share of inbound visitors, who account for around 75% of nights spent in accommodation establishments. At the same time, Portugal's tourism and wider economy has been particularly vulnerable to the impacts of the pandemic due to the high proportion of international visitors (the share of which is well above the EU average), and the prominent contribution of tourism to the Portuguese economy – accounting for 8.1% of GVA, 20% of exports, and nearly 10% of total employment prior to the pandemic (OECD, Forthcoming) – especially in metropolitan areas and tourism hubs such as Lisbon and the Algarve. In terms of cultural capital, the AML region has a rich endowment of cultural heritage, including a number of UNESCO World Heritage sites, and a share of employment in the culture and creative industries (roughly 2.4%), that outpaces the EU average (1.14%). Cultural and creative sector businesses are acknowledged to make a significant contribution to regional development, with workers in these sectors typically being highly skilled, and their jobs being at low risk of automation (OECD, 2022) and with high potential for internationalisation.

**Connectedness:** Overall, the AML performs well above the majority of other Portuguese and EU regions on this domain (covering transportation and digitalisation). On transport connectivity, the AML stands out with nearly 500 flights accessible to residents within a 90-minute drive but increasing long-term air traffic in the airport of Lisbon may cause pressure on the current infrastructure. On rail performance, a measure of rail accessibility and proximity, the region scores well above the EU average (European Commission, 2022). The same can be said on the road performance measure (Dijkstra, Poelman, & Ackermans, 2019) (Poelman, Dijkstra, & Ackermans, forthcoming). Despite this, only just over half (56.8%) of the population is satisfied with the quality of public transport, a score that is in line with other regions in Portugal, but below the average for both the OECD (60.7%) and EU (60.4%). Initiatives introduced to improve and reduce the delivery cost for public transport include the Lisbon Social Transport Pass (2019) to people facing financial difficulties or social vulnerability and adopting a single metropolitan brand (2022) to increase in 35% the regional coverage, support better connections among the 18 municipalities in the AML. The region performs above other EU regions when it comes to digital transformation, with over 88% of households having broadband access and the fastest download speeds and fibre optic coverage in the country.

**Land and Housing:** Tourism has become a leading sector in the region, and the growing demand by non-residents responding to government incentives for foreigners to buy second homes has been a significant factor behind the strong growth in house prices. In the Metropolitan Area of Lisbon, 13% of the population feel they do not have enough money for housing, while under a third (32%) are satisfied with housing affordability, the second lowest score in Portugal. When assessing the land dimension, it is important to understand that a higher score represents higher levels of land development and land prices. The dynamics of infrastructure development and urban fabric consolidation were particularly affected as demonstrated by the high share of land converted to artificial surfaces between 2004-2019 (5.3%). The share of built-up areas (20.4%) is also considerably higher than the averages for OECD (4.7%) and EU (6.3%) regions. From 2011 to 2019, Lisbon saw more new constructions which increased by about 36% than rehabilitated buildings, about 5% increase. (Statistics Portugal, 2019). While this may be illustrative of economic dynamism, it may also have environmental consequences in the Region.

**Resident Well-being:** In terms of education, the AML performs better than the majority of EU and Portuguese regions. Residents benefit from good access to primary and secondary schools, and there are three universities ranked in the world's top 500. There is a high percentage of foreign students (around 12%) compared to OECD (8.3%) and EU regions (7.4%), and the highest share of population with tertiary education in the country (41.3%).

Reliable access to health services and the high number of doctors per capita (6.65 per 1000 inhabitants) is indicative of the higher score on health, an essential public service. However, counterintuitively, less than 60% of the population is satisfied with the availability or quality of healthcare (below EU and OECD averages – 65%). Social cohesion is the lowest performing dimension in this domain, as indicated by the low voter turnout in general elections (~56% of the population) and the share of the population satisfied with opportunities to meet and make friends.

**Natural Environment:** On the environmental dimension, around 49% of the population is satisfied with efforts to preserve the environment, a score below the EU average, possibly indicating the need for improved policy responses to safeguard the environment and support green growth. The region has an abundance of natural capital, including the estuaries of the Tagus and Sado rivers and the natural parks of Sintra-Cascais and Arrábida. Although the AML performs below (22%) of the majority of EU regions (37%) on tree cover rate, it has shown improvements in the evolution of tree cover, which increased between 2004 and 2019 above the EU average. On greenhouse gas emissions produced by the transport industry (0.65 tonnes of $CO_2$ equivalent per capita), the region outperforms the majority of OECD (2.02) and EU (1.96) regions.

## From recovery to resilience of the Metropolitan Area of Lisbon

The Lisbon and wider Tagus Valley Region comprises an area of 12 216 km² and is home to 36% of the national population, within which the Metropolitan Area of Lisbon (AML) accounts for 28% of the national population in only 3% of its territory (Statistics Portugal, 2020[13]).   The pandemic had an asymmetric impact on sectors of the regional economy, with tourism and creative industries hardest hit. Portugal's economy is steadily recovering from the effects of the pandemic, following a set of proactive policy responses and a widespread deployment of vaccines. As the economic recovery progresses, policy action at the regional level is essential to increase investment in digital technologies and structural reforms that will tackle social and living standards for more inclusive and greener growth, contributing to the region's overall resilient attractiveness. To achieve this at regional level, The Lisbon Regional Strategy (ERL 2030) launched in 2020 aims to reposition the AML as a global player in innovation and competitiveness, and is incorporated into the Lisbon Regional Programme (PRL2030) together with an updated Smart Specialisation Strategy of Lisbon - AML (RIS3) for 2021-2027, which outlines measures to attract firms, researchers, and international specialists to the region, strengthening its value chain and attracting investors and talent.

The OECD recognises that knowledge-oriented sectors are associated with innovative products, new production processes with positive impacts on productivity, international competitiveness, well-paying jobs and overall economic growth. These sectors tend to be concentrated in certain regions since investments, infrastructure, and physical and human capital tend to naturally agglomerate (OECD, 2009). Nevertheless, ensuring that the different strategies are aligned, also including the Recovery plan for Europe and Horizon Europe, and identifying opportunities to include additional post-crisis initiatives, especially on health and economy, could decrease the risk of policy overlaps and avoid misinterpreting the policy objectives and responsibilities of the various institutions and actors involved. For instance, the Region is active in improving the population satisfaction with health and initiated specific programmes such as the new family health units supported by the 2014-20 EU funds (e.g. the construction of 49 family health units supported by the Lisbon 2020 – Regional Operational Programme 2014-2020). Moreover, implementing these strategies will require further co-ordination and more robust monitoring tools to analyse policy outcomes and to build a resilient recovery following the pandemic.

Following Russia's war of aggression against Ukraine, millions of Ukrainians fled their homes seeking refuge in a number of European regions, including the Lisbon and Tagus Valley Region. To address urgent needs, the Lisbon City council established a *Municipal Emergency Program* (VSI TUT - Todos Aqui) to provide ongoing assistance and temporary protection to Ukrainian refugees for a period of at least one year. A variety of free support services and initiatives have been put in place, including: access to health care, housing, immigration, and schools for children as well as social support and initiatives that promote intercultural dialogue. Although the length of stay of Ukrainian refugees is still uncertain, refugee flows encompass working-aged women and highly educated refugees, which can potentially contribute to addressing labour market shortages in the region in the short to medium term at least (OECD, 2022).

The Metropolitan Area of Lisbon is an attractive entry point for firms seeking to establish access to the EU. The Region features well developed physical (e.g. railway, ports and airport), and IT infrastructure. In addition, there is a large pool of available talent, and the cost of living is significantly lower compared to other countries in Northern Europe. Lisbon has been actively attracting investment to enhance the city's economy with the support of Invest Lisboa. This one-stop agency – created through a partnership between the City Council and the Portuguese Chamber of Commerce – assists companies, investors, and entrepreneurs looking to invest or set up their business in Lisbon. While the strategy shows great promise, expanding it to cover the Lisbon and the Tagus Valley (LVT) region, with a wider remit, could unite the vision of the multiple sub-regions and municipalities, with potential economies of scale enhancing the effectiveness of FDI attractiveness. A robust investment attraction strategy at regional level, such as *Ireland's Regional Recovery and Sustainable Growth Strategy*, (Box 1), which is based on regional specialisations and sets targets and means of attracting investment in the regions, could help identify the appropriate tools and co-ordinate regional investment strategies amongst relevant stakeholders.

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**Box 1. Learning from Ireland's Regional Recovery and Sustainable Growth Strategy**

Over the period 2021-2024, Ireland's Foreign Direct Investment (FDI) Agency (IDA Ireland) will carry out an all-island regional strategy based on regional specialisations, with set targets and means of attracting investment in the regions. The strategy, which is aligned with the central government's National Economic Plan, is built on five pillars – growth, transformation, regions and sustainability and impact. Its ambitions are to increase client expenditure by 20% – maximising the impact of FDI investment – and create 50,000 jobs by 2024. Regional development is also at the heart of the new strategy. A total of 400 investments are targeted for regional locations and 19 Advanced Building Solutions will be delivered by IDA Ireland to regional locations over the four-year period. Supporting the Climate Action Plan, the strategy also aims to win 60 sustainability investments and will support future growth through 170 R&D&I and 130 training investments, enabling a transformative recovery focused on sustainability and inclusiveness. Finally, it also has a special focus on attracting leading multinational companies to locate in Ireland, maximising the impact of FDI in Ireland

Despite the current volatile economic context, highlights of IDA Ireland's performance throughout 2021 include the highest increase in FDI employment in a single year, increasing the figures of directly employed in the multinational sector in Ireland to 275,384. A total of 249 investments were won,104 of these being new name investments – out of which 53% went to regional locations.

Source: IDA Ireland (2021), Press release: Performance 2021, https://www.idaireland.com/latest-news/press-release/ida-ireland-announces-results-for-2021-with-highest-increase-in-fdi-employment-in-a-single-year" (accessed 17 November 2022).

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**Focusing on new market niches and opportunities that are emerging from the Covid-19 pandemic, while encouraging innovation, can bolster the evolution of entrepreneurial ecosystems and help enterprises adapt to and benefit from those opportunities.** Identifying and seizing export potential and focusing on emerging sectors such as the blue economy, biotechnology and research through the Lisbon RIS3 Strategy could offer innovative solutions to adapt to changes triggered by the pandemic. For instance, improving connectivity between the Port of Sines and the Port of Setubal, located 100km apart, could promote the integration with other infrastructure and facilities and attract prospective investors. Ports are pivot points of international economic activity in terms of organisation and value creation. They can also be assets for urban development and as such, should be conceived in complementarity with other initiatives fostering inter-regional linkages to ensure that impacts are inclusive and sustainable. Although the two main ports (Setubal and Lisbon) are autonomously managed, AML could promote integration among ports (e.g. through a strategy, such as the French HAROPA Port alliance, formed in 2012 between the major seaports of Le Havre and Rouen, as well as the river ports in Paris) – in terms of governance and investment – between port and non-port regions, bringing the positive economic spill overs of large ports beyond their immediate vicinity.

**An appealing lifestyle and high quality of life are among the many advantages that have made the region ripe for the presence of international students.** As a result, the Region is emerging as a European knowledge capital, with the capacity to attract international students, start-ups, and multi-national enterprises attracted by the regional 's potential. Further empowering higher education institutions for transfer and knowledge enhancement activities is essential as they provide research and training and contribute to strengthen the ecosystem. The Nova School of Business and Economics (Nova SBE) is good example of how knowledge created at universities and research centres can drive innovation and opportunities in existing or new sectors (Box 2). The Nova SBE also plays a strategic role in supporting regional development through knowledge creation, knowledge transfer and cultural and community development, which benefits not only the AML but also the Lisbon and Tagus Valley region as a whole.

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### Box 2. The Nova School of Business and Economics – an innovation leader

The Nova School of Business and Economics (Nova SBE) is a European leader in innovation and one of the top business schools in Europe. Since the inauguration in 2018 of the new Carcavelos campus in the municipality of Cascais, the school has shifted its focus to attracting international talent looking for education and research opportunities, and foreign investors looking to take advantage of the talent pool. The school actively promotes a sustainable, innovative and entrepreneurial environment, in a multi-cultural setting with over 60% of enrolled students coming from abroad. Offering vital services that accommodate the needs of the wider community while contributing to development of an inclusive society is an inherent tenet of the school's vision. The campus is open to members of the public, who can make use of the School's multiple services, including the library, sports facilities, restaurants, parking and health clinic.

Nova SBE is home to the Haddad Entrepreneurship Institute, which plays a unique role in business start-up support. The institute provides support to new businesses while proactively disseminating the technical knowledge and skills for students to build entrepreneurial competencies. An entrepreneurial culture often brings positive economic and regional impacts, in terms of job creation, inclusive growth and innovation. The Institute currently hosts 84 start-ups, with a focus on 5 areas: Fintech & Data; Health & Well-Being; Hospitality & Customer Journeys; Smart Cities & Communities; Space, Green & Blue Economy. The Institute aims to forge a strong collaboration between students, scientific researchers and entrepreneurs, all of which are important levers to attract further international students and foreign investment.

Nova SBE is also committed to becoming a 'living lab' for innovative projects that contribute to environmental sustainability and contribute to the smart and sustainable development of the community. For instance, in 2021 the school established a partnership with Bios Tech to implement the Bios Urban Farm on their campus. This partnership explores a pioneering form of agriculture that promotes circular economy processes and contributes to a more sustainable way of living.

Source: Nova School of Business and Economics (2022), "Nova SBE Haddad Entrepreneurship Institute" (accessed 19 July 2022).

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Despite this, the Region's success to attract talent and visitors has left low-income households struggling with a rising cost of housing, particularly in the city of Lisbon. The influx of new residents with high-income levels, higher demand from foreign investors, and the increased presence of short-term holiday rentals have led housing and rent prices to rise in the capital. Young professionals struggle in the housing market and the lack of student accommodation brings additional challenges to accessing affordable accommodation. This increases social tensions and greater income, spatial and employment inequalities, particularly between the central city and peripheral households. House prices in the city centre have led inhabitants with low wages to settle at the periphery, fuelling further urban sprawl and gentrification, which may lead to higher emissions from road transport and loss of open space and environmental amenities which as a congestion and emission cost (OECD, 2018). In

the case of AML, this may be reflected not only in the gentrification of Lisbon's city centre, but also triggered the dynamism of other municipalities in the metropolitan area.

To tackle these challenges, in 2021, the *New Portuguese Housing and Urban Planning* was adopted, focusing on housing accessibility and urban rehabilitation. In addition, a *Housing Framework Act* was established with a new array of policy instruments, ranging from housing accessibility, mobility and inclusion programmes to the new *Urban Lease Regime*. Furthermore, a housing action plan (Housing Action Plan PRR-AML 2021-2026) was developed for the AML in the context of the Recovery and Resilient Plan. The Region could also learn from the 2015 Spatial Development Plan of the Czech Republic, tasked the Ministry of Regional Development, the city of Prague, and the Central Bohemia Region with conducting regional studies on infrastructure interaction, co-ordinated development, and suburbanisation (OECD, 2018). Outcomes suggest that coordinating efforts between municipalities could improve public housing administration and maintenance (OECD, 2021).

Policymakers and regional stakeholders recognise the central role of human capital in economic growth and the importance of absorbing the positive spill overs generated by the agglomeration of skills. As levels of youth unemployment and the number of young people who are not in employment, education, or training (NEETs) have risen since the COVID-19 pandemic, particularly amongst disadvantaged groups, opportunities remain to enhance the co-ordination between education provision and labour market needs. For instance, the tourism sector faces difficulties in recruiting and retaining qualified staff. This situation, due to the sector's labour market characteristics (e.g. high seasonality, low salary levels, job insecurity and long working hours) is leading to increasingly dissatisfied workers and hampering the recovery of the sector. In recent years, businesses have increasingly relied on the migrant population (in particular Brazilians), to fill hospitality vacancies.

The AML enjoys a competitive advantage in the global tourism marketplace that could benefit the Lisbon and Tagus Valley region. While the financial and public debt crisis in 2008 substantially reduced economic activity, the tourism sector has witnessed rapid development in recent years and has boosted the region's economy. Regardless, the impacts of the COVID-19 crisis for tourism were immediate, with the sector experiencing a sharp decline in visitation and expenditure. While continuing to support the sustainable development of this sector is fundamental, diversification of the economy through the identification and promotion of other competitive sectors can act as a lever to strengthen its economic base. The pandemic has demonstrated the benefit of diverse regional economies, where tourism is pursued within the wider context of regional economic development plans. Attracting more digital nomads and remote workers to other areas of the region could serve as an opportunity to improve territorial cohesion, enhance rural-urban linkages and rethink tourism growth.

To maximise the potential positive impacts of tourism, regions can leverage aspects of national strategies to enhance their attractiveness to international visitors. For instance, the coastal municipality of Cascais, located 25km from Lisbon, has recently launched a promotional campaign targeting visitors, digital nomads and remote workers. The Cascais Tourism Board offers assistance in, for example, visa application, navigating business start-up regulation, and even finding suitable workspaces. Such campaigns can serve the dual purpose of tackling overcrowding in popular existing destinations such as the city of Lisbon, whilst also playing a stimulating role for the economies in less well-known destinations. At the same time, the region aims to drive the influence of its multiple brands (e.g. Marca Cascais) through the Strategic Tourism Plan for the Lisbon Region 2020-2024, although there currently is no strategy in place for the development of a regional brand from which all subregions could benefit.

## Enhancing multi-level governance and coordination mechanisms

Portugal has a three-tier system of subnational governments, consisting of regions (two Autonomous Regions), municipalities, and parishes. The Portuguese system of governance is highly centralised, and in order to co-ordinate central government services (e.g. regional development, environment,and energy) at the regional level, the national government established the Commissions of Coordination and Regional Development (CCDR) in 2003. These "deconcentrated" regional bodies have administrative and financial autonomy and play an active role managing the regional operational programmes of EU structural funds. In an effort to boost intermunicipal cooperation, the national government has taken steps to reinforce decision-making at the subnational level,

transferring additional competencies (e.g. in education, housing, transport) to local authorities and IMCs. In addition, a new reform to strengthen CCDRs' responsibilities is planned to take place until 2024. This process foresees the transfer of competencies in the areas related to the economy, culture, education, health, nature conservation and forests, spatial planning, infrastructure, professional training, and agriculture and fisheries (Government of Portugal, 2022). However, it remains unclear how the CCDRs will fund their new responsibilities and how they will interact with inter-municipal bodies.

The main objectives of such reforms are to generate economies of scale in public service provision and support the development and implementation of integrated regional development strategies that take into account urban-rural linkages. Regionalisation trends increase the need for co-ordination across government levels and the need for clarification around responsibilities and the allocation of competences in order to avoid duplication and/or overlap. The potential benefits depend on the system in its entirety, including the adequate capacity of national, and subnational governments, accountability of national, regional and local public decision-making and the presence of sound framework conditions (OECD, 2019)[1]. Since Portugal is undertaking these territorial reforms through not only the implementation of an administrative deconcentration process but also a recent re-design of NUTS II and NUTS III perimeters, this topic is even more relevant, particularly considering the challenges for multilevel and regional governance in the region.

Some NUTS III territories in the area of CCDR LVT are part of a hybrid system since they are also depending on other regional authorities (CCDR Centro and CCDR Alentejo[1]) for various purposes such as policy cohesion funds, spatial planning and some sectoral policies like health and agriculture. In this system, the "geography for finance" projects and investments is different from the "geography of spatial planning". For instance, the Lisbon and Tagus Valley region's spatial planning include four NUTS III areas: AML (Metropolitan Area of Lisbon), Oeste, Médio Tejo, and Lezíria do Tejo. However, Oeste and Médio Tejo are included in Centro Region's funding (Cohesion Policy), while Lezíria do Tejo is included in Alentejo Region. As a result, CCDR LVT's cohesion funds are limited to investments in AML. In contrast, funding the for cohesion policy investments in Oeste and Médio Tejo (and Lezíria do Tejo) is the responsibility of CCDR Centro together with the CCDR Alentejo, who are not responsible for the spatial planning of these NUTS or ICMs. This complexity adds to the entropy the risk that there will be insufficient accountability on the institutional framework for each region.

Furthermore, the CCDR's current ability to develop and implement regional strategies may be constrained in the long term by limitations in their human resources and technical capacity for managing public service provision and supporting overall regional development. The CCDRs usually face organisational challenges that hinder the commitment and implementation of long term strategic and cross-sectoral approaches to regional development. The reform also takes into account the on-going process to allocate new competencies to IMCs and the need to expand their role. Ways to guarantee that it will not lead to unfunded mandates have to be precise. This issue can be related to the volatility of municipal tax bases and the uncertainty with spending capacity for multi-year commitments. Clarification of assignments between CCDRs and IMCs is also needed to avoid duplication and allow for cross-sector public action at the relevant scale (OECD, 2020[21]), particularly considering the possibility for IMCs to participate in the management of regional funds.

As Portugal is advancing in the implementation of its decentralisation reforms, it will be important to ensure that all levels of government, including at the regional, inter municipal and municipal levels, have adequate resources and tools to take on new roles and responsibilities efficiently. It is particularly challenging for the LVT region which includes four NUTS III regions (the AML, Lezíria do Tejo, Médio Tejo, and Oeste), 52 municipalities, and 355 parishes in an area of 12,216 km2, which is home to 36% of the Portuguese population, especially considering that it includes the Inter-Municipal Organisation of the Metropolitan Area of Lisbon financed by its 18 member municipalities together with central government transfers and European funds. Competences of the AML include

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[1] The region of Alentejo is one of Portugal's seven TL2 regions. The region has five inter-municipal communities (CIM) and 58 municipalities, including its main city, Évora (Alentejo Central). The region borders Extremadura and Andalucía (Spain) on the East, the Atlantic Ocean and Metropolitan Area of: Lisbon on the West, Algarve in the South and Centro Region in the North. With 704 934 inhabitants, Alentejo is the fourth Portuguese TL2 region in terms of population. (OECD, 2022[57])

key competences for attractiveness such as transport, spatial planning, regional development, waste disposal, water provision and sanitation.

With the ongoing reform process, the CCDR will also have their competences reinforced. For instance, a stronger focus on strengthening the implementation capacity at the Lisbon and Tagus Valley by improving co-ordination capacities could enhance the impact of investment in the Region. Examples include needed  co-ordination between separate innovation hubs, such as the Almada Innovation District and the Setubal City of Knowledge. At the same time, a higher uptake of digital technologies, through infrastructure and skills development with the support of EU funds, could boost potential growth. For example, reinforcing passenger and freight connections, in particular in routes across the Spanish–Portuguese border, linking Spanish regions such as Galicia and Andalusia with Portugal's main ports and airports, and large metropolitan areas such as Lisbon and Porto can strengthen the global competitiveness of the "hub" LVT  region.

Efficiency in public spending and balanced development can also benefit from improved territorial organisation. For instance, the Setubal Peninsula has lost competitiveness due to its distance from Greater Lisbon and metropolitan asymmetries over the years. The creation of new NUTS III and one new ICM with the ongoing reform can be instrumental for the nine municipalities in the Setubal Peninsula in implementing projects to promote tourism, develop infrastructure and public services, and attract investment and talent to the region. However, it remains to be seen if it will reduce asymmetries among municipalities within the Setubal Peninsula and with the Lisbon Tagus Valley region.

To attract investors, talent, and visitors, CCDR-LVT is working to communicate effectively with public entities and private sector stakeholders to identify good practices and policies that address the economic, social and environmental opportunities and challenges in the new global environment. However, as it is the case in other Portuguese regions, certain challenges arise in terms of territorial attractiveness disparities in the region. Municipalities located in coastal areas have higher levels of revenue per inhabitant than inland municipalities, making the latter highly dependent on central government transfers and EU funds. Significant imbalances in EU funding allocation could hamper the development of subregions in the hinterland and accentuate disparities within the Lisbon and wider Tagus Valley Region. They may also reflect in differences in capacity to absorb EU funds, which is high in the AML (with for example 85% execution rate of EU funding in 2022). For instance, as of June 2022, 4049 projects were approved in the Metropolitan Area of Lisbon under Lisbon's Regional Operational Programme, supported by EU funding, with a global amount of EUR 817 million. Nevertheless, most of these projects are located in coastal areas (CCDR LVT, 2022[22]).

That said, the EU funding has been instrumental to enhance regional development and complement the capacity of Portuguese government to ensure public investments and support local authorities through the national budget. For instance, Portugal will receive a financial allocation of EUR 16.6 billion over the 2021-2026 period (EUR 13.9 billion in grants and EUR 2.7 billion in loans). This unprecedented response that aims to strengthen economic and social cohesion in the EU can also be viewed as an opportunity to enhance the region's attractiveness and internationalisation profile. However, the region still faces issues to finance the maintenance of planned infrastructure investments, which can hinder infrastructure planning and long-term involvement of public human resources, in particular in municipalities with limited human and technical resources. As such, to ensure that investments made today can most effectively contribute to future regional development and attractiveness, all regions receiving EU funding need to explore potential non-EU funding solutions to support infrastructure maintenance. Additionally, local authorities tend to prioritise projects eligible for EU funding, often at the expense of other projects that might contribute to addressing other concerns (e.g. investing in affordable and quality housing to attract talent). The new role of CCDR intends to enhance its capacity to absorb, manage and expend EU funds. However, the impact of the reform remains unclear and should be better assessed through implementation clarification. In addition, the scope of strategic planning and funding should be articulated between different institutions with different purposes acting in the capital region.

# Policy considerations

The following policy considerations are intended to help policy makers to enhance the impact of attractiveness strategies of the Lisbon and wider Tagus Valley region vis-à-vis investors, talent, and visitors, and provide guidance to improve multi-level governance frameworks and coordination mechanisms.

- **Reinforce measures to facilitate the growth and development of emerging industries where the region has competitive potential:** boosting the implementation of existing strategies and programmes will help to create jobs and strengthen economic diversification (e.g. blue economy, biotechnology and research). For instance, using the updated Regional Smart Specialisation Strategy (RIS 3) for 2021-2027 as a framework to guide the development of the untapped potential of the Region may also represent an opportunity to attract both national and foreign investment in projects that concentrate research activity as well as developments to benefit from the green transition.

- **Improve the housing strategy at the metropolitan level to attract talent and investment.** The Housing Action Plan PRR-AML 2021-2026 includes provisions for decent housing, affordable housing, emergency housing, and university housing. Despite the plan's strength and the budget available from the RRP, it is crucial to ease the tensions caused by the demand for housing close to the areas with the highest employability. For instance, steering housing development to areas that are accessible by public transport and further regulating short-term rentals can help overcome the housing issues facing residents in the region, improve territorial cohesion, enhance rural-urban linkages, and contributing to attracting talent and investment.

- **Take steps to spread the benefits of the tourism economy beyond the traditional tourism hubs in the Metropolitan Area of Lisbon and into the surrounding areas of the Lisbon and Tagus Valley region.** To effectively leverage tourism as a catalyst for regional development and to help diversify regional economies (as set out in the RIS 3), tourism growth should be pursued within the wider context of relevant city, regional, sustainable and economic development strategies, through innovation that introduces new dynamics to local communities.

- **Enhance the effectiveness of FDI attractiveness beyond the Metropolitan Area of Lisbon.** Expanding the role of Invest Lisboa to cover the Lisbon and Tagus Valley region could help to create a united vision and attract further foreign investment. This will require the appropriate tools, and taking into account the new competencies of CCDR LVT, reinforcing its ability to co-ordinate and promote investment strategies amongst relevant stakeholders.

- **Adopt an integrated view of regional attractiveness for international target groups (investors, talent and visitors) and monitor its implementation.** Clarification in the allocation of competences for infrastructure, well-being, skills and innovation is essential to avoid duplication and increase complementarities among policy fields and stakeholders. It can also facilitate the adoption of an integrated/cross-sectoral strategy for regional attractiveness at the relevant scale thanks to multi-level coordination mechanism. The enforcement of public decision and long-term impact would also benefit from the implementation of additional monitoring tools (e.g. managerial monitoring, multilevel monitoring).

- **Consolidate the institutional framework for regional attractiveness and development.** Considering the current process of decentralisation and redesign of geographic perimeters of statistical regions (NUTS III), special attention should be given to regional governance, in particular between Centro Region and Lisbon and Tagus Valley Region (as well as Alentejo Region). Dialogue among stakeholders and the adoption of convergent objectives are necessary to guarantee that the budget allocated for regional development will be used for large-scale investments instead of being segmented in multiple projects, which in return will support the attractiveness of the region vis-à-vis investors, talent and visitors.

## Notes

The data on which these graphs are based comes from several different sources covering the period 2015-2022. Most of it is extracted from the OECD database and EUROSTAT ensuring the same source is used for as many countries and regions as possible. Where and when data is missing, it is extracted from databases available through national statistical offices. For some dimensions, the data comes from specific databases, such as the Ookla database for indicators linked to digitalisation. The data are selected using the most robust, available, and frequently collected data at the adequate geographic level (TL2 or TL3). With certain indicators, calculations are done in order to present the indicator at the most relevant and comparable unit of analysis.

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