OECD Multi-level Governance Studies

Decentralisation and Regionalisation in Portugal

WHAT REFORM SCENARIOS?

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Please cite this publication as:
OECD (2020), *Decentralisation and Regionalisation in Portugal: What Reform Scenarios?*, OECD Multi-level Governance Studies, OECD Publishing, Paris, *https://doi.org/10.1787/fea62108-en*.

ISBN 978-92-64-96171-5 (print)
ISBN 978-92-64-64732-9 (pdf)

OECD Multi-level Governance Studies
ISSN 2414-6781 (print)
ISSN 2414-679X (online)

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Foreword

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, with the exception of the two autonomous regions of Madeira and Azores, of which the 308 municipalities form the core of the local government. The creation of administrative regions in the Continental territory of Portugal, which is contemplated in the Portuguese Constitution of 1976, has never materialised. A referendum on regionalisation failed in 1998. Two decades later, the Portuguese government continues 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: by assigning more tasks to municipalities and by strengthening regional level governance.

The OECD has prepared this report upon request by the Portuguese Autonomous Parliamentary Commission of 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 paper utilises analysis of present international trends on decentralisation and regionalisation, notably the expected effects of these reforms and the conditions under which they may deliver more economic efficiency and regional equity.

The report presents three potential policy paths of regional reform for Portugal: 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. As the options are not mutually exclusive, they could be seen as different layers of an incremental and medium- to long-term structural reform agenda.

The report is part of the OECD Multi-Level Governance Studies series. It was conducted by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), under the leadership of the Regional Development Policy Committee. It was approved on 4th November 2019 by written approval procedure under the reference [CFE/RDPC(2019)9].

Acknowledgements

This report was produced by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) led by Lamia Kamal-Chaoui, Director. It is part of the multi-level governance Programme of Work of the OECD's Regional Development Policy Committee.

The report was coordinated and written by Antti Moisio, Economist/Policy Analyst, with substantial contributions received from Anna Rubin, Isabelle Chatry, Antoine Kornprobst, Louise Phung and Enrique Garzilazo from the OECD Secretariat. It was prepared under the supervision of Dorothée Allain-Dupré, Head of Unit, Decentralisation, Public Investment and Subnational Finance. This unit is in the Economic Analysis, Statistics and Multi-level Governance Section, led by Rudiger Ahrend, in CFE. The report also includes substantial contributions from Romain Pasquier, Professor and Director of Research at the CNRS; and Linda Veiga, Professor of Economics, University of Minho. The overall project was directed by Joaquim Oliveira Martins, Deputy Director in CFE. In the context of the project, a fact finding mission was organised in Portugal in April 2019, and a seminar was organised in Porto in April 2019. The OECD would like to thank Isabel Flores, General Secretary at IPPS-ISCTE, and Raul Lopes, Professor at ISCTE-IUL, for the coordination of the local team, and for Sérgio Nunes and António Mendes Baptista for their input in the local team. The OECD would also like to thank the two international peer reviewers, Mr Jani Pitkäniemi, Director General, Ministry of Finance, Department for Local Government and Regional Administration, Finland, and Mr Paweł Chorąży, Managing Director, Polish Development and Promotional Bank, Poland, who attended the seminar arranged in Porto in April 2019 and gave their valuable insights on regional reforms in their countries. Finally, the OECD would like to thank Mr João Cravinho and Professor João Ferrão as well as Mr Duarte Rodrigues for support and very helpful discussions.

The authors gratefully acknowledge the comments and input received from the Delegates of the OECD Regional Development Policy Committee throughout the process. Thanks are also due to Eleonore Morena for editing and formatting the manuscript and to Pilar Philip who prepared the final publication.

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Introduction

The purpose of this report 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 re-emerged at the top of the policy agenda. This time, with two main objectives: i) fostering decentralisation by assigning more tasks to municipalities and intermunicipal associations; and ii) strengthening regional level governance.

In European Union (EU) and OECD member countries, regional disparities within countries have been persistent and often rising in recent decades. Gross domestic product (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 a 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 has recovered from the economic and financial crises and its recent performance has been stronger than other southern European countries. Exports have been an important driving factor, notably strong growth in tourism. While a moderate GDP 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. Moreover, the climate change forms an important challenge for Portugal as well, with very differentiated territorial impacts.

The Lisbon Metropolitan Area and the Porto Metropolitan area, as well as the Norte region, play an important role in Portugal's economy. Together, they account for approximately two-thirds of Portugal's GDP. Yet, the two largest metropolitan areas are not fulfilling their full potential as economic engines

(Rodrigues et al., 2018[2])). Enhanced metropolitan governance could help improve the conditions for the main Portuguese urban areas to better mobilise agglomeration economies.

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. Understanding these risks is key to making 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 emphasised 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 of 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 OECD decentralisation trends. The executive summary provides a short summary of the main findings and policy options for Portugal. The report then starts with a discussion on the rationale and effects of decentralisation. International practices on decentralisation, in particular on regionalisation reforms, in peer countries are also described. The next section concentrates on the main forms of regionalisation and the experiences of regional reforms carried out in EU countries and in particular Finland, France and Poland. The report then continues with discussing the strengths and challenges of the Portuguese multilevel governance framework. Building on the lessons learned from economic research and international experiences, the final section presents three potential policy paths of regional reform for Portugal, as follows:

1. Decentralisation and strengthened deconcentration without empowerment of the regional level.
2. Decentralisation without full regionalisation by reinforced municipal and intermunicipal levels.
3. Decentralisation through complementary regionalisation and intermunicipal co-operation reforms.

These options are presented from the least to the most comprehensive. 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. They are not exhaustive and other alternatives could also be considered. In this context, the aim of the study is to provide material for an informed public debate on this important issue for the country and scope for further investigation.

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Executive summary and main policy options for Portugal

Overview

At first glance, the Portuguese model of multilevel governance does not seem to differ much from the systems practised in most other countries. However, Portuguese municipalities, parishes (freguesias) and intermunicipal 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 multilevel governance system appears quite centralised compared with other European and OECD 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 co-ordinate central government services at the regional (NUTS 2) level. These agencies are called Commissions for Co ordination and Regional Development (henceforth the Portuguese acronym CCDR). In addition, Portugal has attempted to enhance intermunicipal co-operation by establishing 23 Inter-Municipal Councils (IMC) (CIMs in Portuguese, which correspond to the NUTS 3 level) to take care of tasks which 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 intermunicipal 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 an 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 in this area should be a priority for the country. Moreover, there seems to be unused potential in the current implementation of decentralisation.

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

Main challenges faced by Portuguese multilevel governance

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

Limited ability to address regional level issues

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

While the legal and administrative autonomy of Portuguese municipalities has been strengthened during the past five to ten years, few important spending assignments have been devolved to local governments in that same period of time. Although the reluctance of Portugal to decentralise important spending tasks to the municipal level during the austerity measures is understandable, the dilemma lies in the fact 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. At 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 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 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 greater 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 if it leads to "race to the bottom" behaviour of the tax rate setting, for example. In turn, this can erode tax bases and may eventually lead to worse local public services.

Volatile municipal tax bases may create spending risks

Relatively stable local revenues that are predictable over time are usually recommended. Hence, elements of the local revenue system that contribute to the 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 subsequent recovery explains part of this development, the volatility of important local tax bases 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 intermunicipal co-operation

Metropolitan areas (MAs) and intermunicipal councils (IMCs) still play a marginal role in the public sector, notably due to the 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 intermunicipal organisations and guarantee their financial means.

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

The deconcentrated regional departments of the Portuguese line ministries are currently fragmented, forming a complex web of central government services. There are currently deconcentrated central government departments in agriculture, education, employment, economy, social security, health and transport. The five CCDRs are responsible for the territorial co ordination of central government services in each region. However, there seem to be several organisational and legitimacy challenges which may impede the CCDRs in the co-ordination and catalysis of 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 the Lisbon area, has not picked up as in other regions in Portugal. Operational metropolitan governance can form a favourable environment for economic growth and well-being. Therefore, enhanced metropolitan governance could be part of the solution to 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.

Ways forward in the process of decentralisation in Portugal

Prerequisites for a successful territorial and institutional restructuring

There are preconditions for any successful decentralisation reform. Among these requirements, focusing on clear responsibilities and functions assigned to government levels, funding the responsibilities that are transferred adequately, as well as strengthening subnational capacities and the overall co ordination mechanisms are fundamental. Other preconditions include allowing for territorially-specific policies and the possibility for asymmetric decentralisation, with differentiated sets of responsibilities given to different types of regions/cities, and metropolitan areas in particular. Such mechanisms are critical to providing 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 decisions during the reform process, if need be.

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 database setup 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 emphasised that decentralisation should be seen as an entity and not as 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 a regional government level is therefore bound to affect the central government, municipalities, intermunicipal units and parishes, etc. In order to secure a successful decentralisation reform, all major components of multilevel governance should be on the table.

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 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 that can go hand in hand with the creation of administrative regions.

In general, the options presented here would improve the implementation of decentralisation in Portugal. In the longer time frame, it is also likely that the proposed measures would contribute to enhanced efficiency of public services and to slower growth of public expenditure. Provided that subnational governments will be assigned also own revenues which will cover a considerable share of their service expenditures, decentralisation together with fiscal rules can also support fiscal responsibility of subnational governments. Decentralising spending without decentralising revenues would be a risk for public finances because a high reliance on central transfers can incentivise subnational governments to overspend and to incur debt, especially if subnational governments operate under soft budget constraints.

The following alternative ways forward are provided as a basis for further discussion and possible further investigation.

(i) Decentralisation and strengthened deconcentration without empowerment of the 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 also include 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 measures would improve the effectiveness of CCDRs.
- Strengthening the capacity and fiscal autonomy of municipalities for enhanced service delivery

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

  Currently, IMCs and MAs play only a marginal role in local public service delivery. While this situation may change as more tasks are 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. Metropolitan authorities should also have adequate capacity to take responsibility for development in the region.

One option could be to alter MAs into subnational government units with elected councils and with sufficient fiscal autonomy, by granting them taxation rights (for example property tax) for example, as well as giving them important tasks of regionwide 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 nationwide 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 intermunicipal levels

The second alternative policy strategy for Portugal could be to establish a compulsory regionwide intermunicipal association, which could take over the tasks of the CCDRs.

Such a co-operative regional body could also take over the responsibility for some of the 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 focused on special metropolitan authorities as regionwide 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 other tasks with clear regionwide benefit areas such as environmental 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 intermunicipal co-operation reforms

Establishing a full-scale, elected, self-governing regional government level as described in the Portuguese Constitution, i.e. 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 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.

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

It should also be noted that establishing administrative regions does not exclude the possibility of having a deconcentrated regional administration for purely central government services. However, the representatives of deconcentrated central government administration should not interfere with the decision-making of the regional governments. Instead, the deconcentrated central government administration could focus on 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.

Intermunicipal co-operation and administrative regions complement each other and hence should be promoted together as a driving force to improve local public services. Intermunicipal co-operation 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 to reform deconcentrated central government departments and to extend the service menu of administrative regions. Such reforms should be implemented sequentially, sector by sector for example, with careful planning and impact evaluation to avoid unwanted effects.

1 Why do countries decentralise?

This section provides a brief description of the main types of decentralisation. Both the key benefits and challenges of decentralisation are discussed. In addition, the chapter discusses the four main current trends in decentralisation: intermunicipal co-operation, metropolitan governance, regionalisation and asymmetric decentralisation. The chapter builds on both theoretical arguments and empirical observations concerning multilevel governance.

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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. At the end of the chapter, four main current trends in decentralisation are discussed: intermunicipal 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.

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[1]). Similar definitions are frequently used by many other international organisations, such as the Council of Europe, the European Commission, the United Nations and the World Bank (Slack, 2009[2]; CEMR, 2013[3]; World Bank, 2019[4]). In a decentralised system, 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[5]). In these countries, decentralisation has been, at least partly, a way to ensure that the democratisation 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[1]).

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[6]; OECD, 2019[1]). In practice, decentralisation policies are often difficult to categorise, 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 the 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 its economic or efficiency outcomes). 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[7]). The goal of political decentralisation is to strengthen the democratisation 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 organisation. 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[6]). Delegation shifts the responsibility of service provision from the centre to subnational level with some decision-making powers (Ahmad and Brosio, 2006[8]). 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[9]).

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 the case of services with national interest, central government usually uses transfer systems to guarantee that the poorest subnational governments are also able to provide services 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, the following policy decisions must at the very least be made:

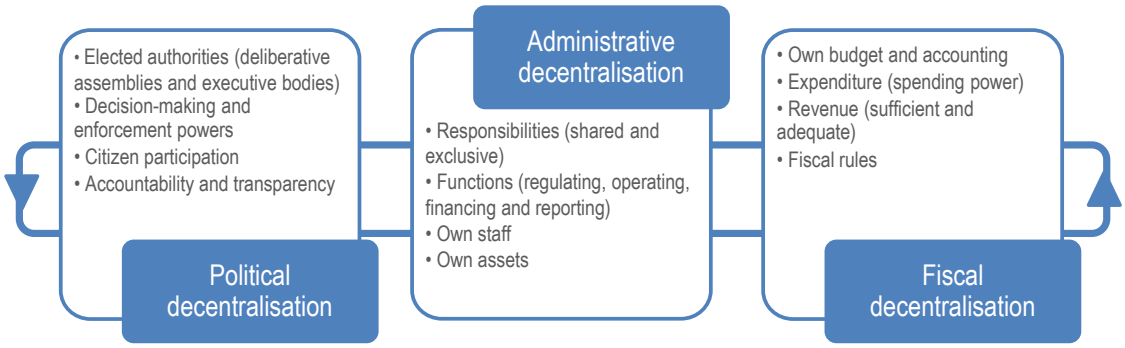
- the division of spending assignments between levels of governments
- the revenue sources of central and subnational levels of government
- the degree of autonomy of each level government
- how intergovernmental transfers are financed and distributed.

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 the 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.

Deconcentration is another form of governance and should not be confused with decentralisation. Deconcentration alters the responsibilities within levels of organisation. For example, some tasks may be shifted within the central government from the ministry to central government-led offices in regions. Deconcentration is quite common practice in the European Union (EU) and the OECD. In most countries, central government has established regional offices for planning, monitoring and co-ordination 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 in the Nordic countries for example. 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[6]) and, later, in former communist countries (Rao, 2006[10]).

Figure 1.1. Decentralisation, a multidimensional concept



Source: OECD (2019[1]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://dx.doi.org/10.1787/g2g9faa7-en.

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 stabilisation functions (Musgrave and Musgrave, 1980[11]). 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[12]), the subnational government is the most suitable level to provide services and goods, unless the central government has a clear advance in provision (in the event of considerable economies of scale in the provision for example).

According to the Musgravean distinction, the redistribution and stabilisation functions are mostly central government responsibilities. In particular, the central government should be responsible for monetary and fiscal policy (Musgrave and Musgrave, 1980[11]). In addition, central government should have the main responsibility for the redistribution function, because central government is more capable of carrying out income redistribution from the rich to the poor and establishing minimum standards of public services across regions (King, 1984[13]).

"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 also in some way involved in the provision of services with redistributive features. In some countries, such as the Nordic countries, even health, education and welfare services have been delegated from the centre to subnational governments. In the case of a decentralised redistribution, the central government usually retains responsibility for co-ordination 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.

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 discussed in more detail in the recent OECD report Making Decentralisation Work: A Handbook for Policymakers (OECD, 2019[1]). It is important to note that the effects of decentralisation largely depend on implementation. While there is a large body of literature on the direct and indirect outcomes of decentralisation, only a short summary of the main effects is presented here.

Economic outcomes

Decentralisation provides information advantages as local governments have better insights on citizens' preferences, allowing efficient public services tailored to the population and transfers from the rich to the

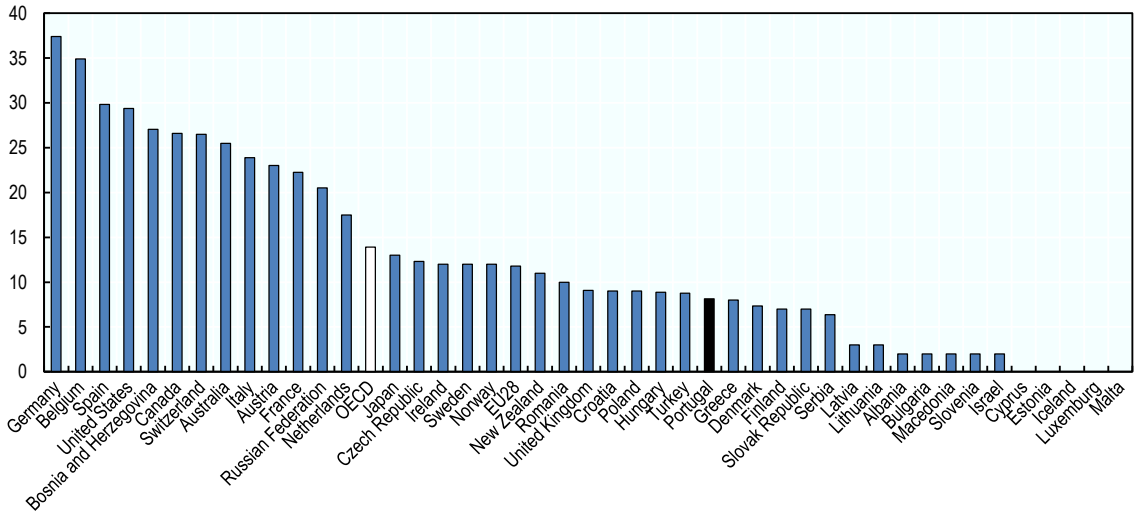
poor (Rodríguez-Pose and Tselios, 2019[14]). Local public service provision yields allocative efficiency by adapting public service provision to the heterogeneous preferences of smaller population groups (Wallis and Oates, 1988[15]). Especially in public service provision where the local preferences matter, the subnational governments outperform the central government in allocating public sector resources (Oates, 2005[16]).

Decentralisation facilitates fiscal competition between jurisdictions, in particular when households are mobile between subnational governments. Decentralisation also enhances competition within municipalities and within regions. This type of "yardstick" monitoring, where voters compare the taxes and service quality in their own jurisdiction to those of 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[8]).

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[1]) with performance-oriented strategies driving down bribes and corruption practices (Shah, 2006[17]; Bordignon, Colombo and Galmarini, 2008[18]; De Mello and Barenstein, 2001[19]). 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.

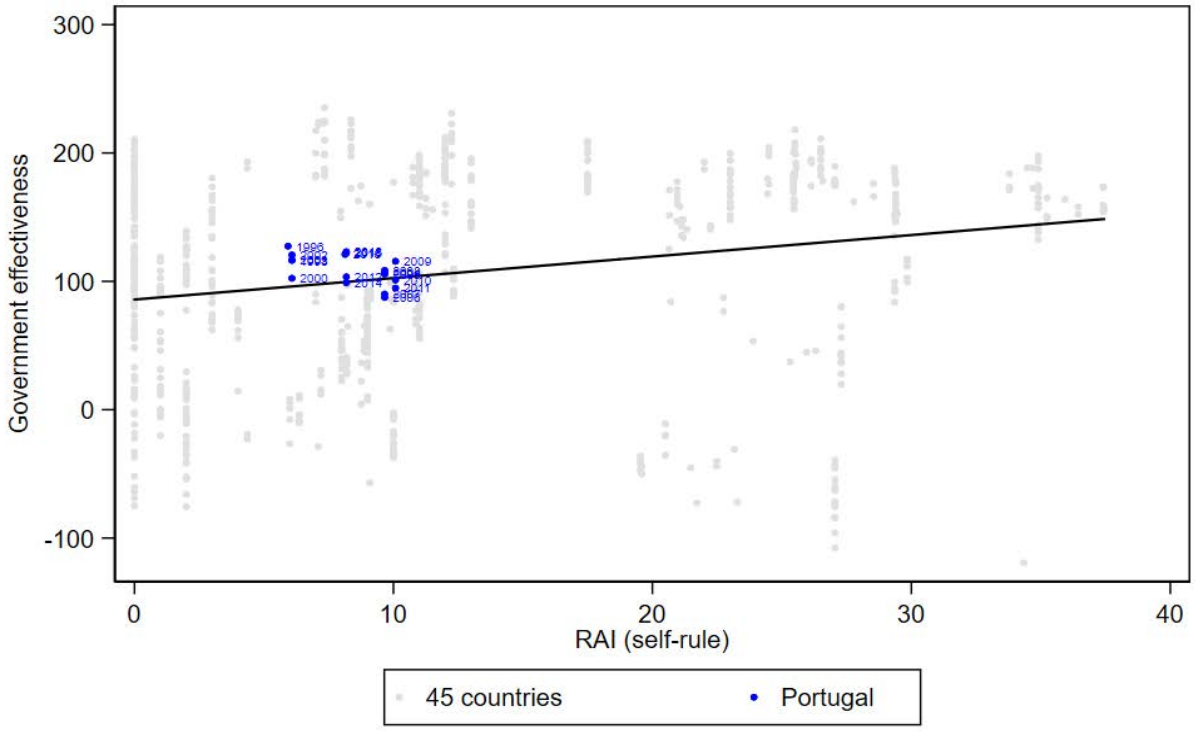
Linked with the above discussion, an empirical examination of 33 OECD countries (except Chile, Mexico and South Korea) and 10 non-OECD countries suggests a positive association between regional authority and government effectiveness (Figure 1.3). It is also interesting to note that the correlation is stronger when the comparison is made between the subnational government share of general government revenues and government effectiveness (Figure 1.4).

Figure 1.2. Regional Authority Index in Portugal and other OECD countries



Note: The data includes only 33 OECD countries (all except Chile, Mexico and South Korea).
Sources: Schakel, A. (2019[20]), *Regional Authority Index (RAI)*, https://www.arjanschakel.nl/index.php/regional-authority-index (accessed on 15 May 2019); Marks, G. (2019[21]), *Regional Authority*, http://garymarks.web.unc.edu/data/regional-authority/ (accessed on 15 May 2019).

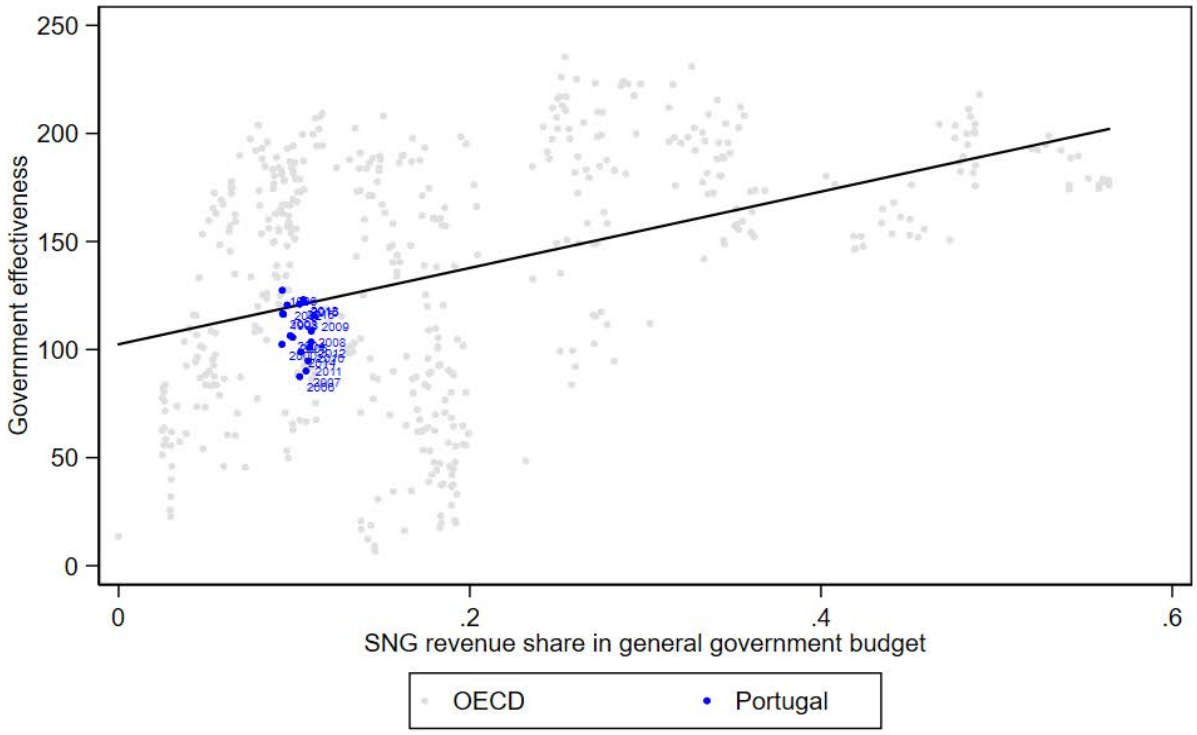
Figure 1.3 Government effectiveness and the Regional Authority Index (RAI) are positively correlated, 1995-2016



Note: The countries in the graph include 33 OECD countries (all except Chile, Mexico and South Korea) 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 using 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[20]). The World Bank's Government Effectiveness (GE) 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[22]).

Sources: The sources used for the Regional Authority Index (RAI) are the Internet pages of Arjan Schakel and Gary Marks (Schakel, A. (2019[20]), *Regional Authority Index (RAI)*, https://www.arjanschakel.nl/index.php/regional-authority-index [accessed on 15 May 2019]; Marks, G. (2019[21]), *Regional Authority*, http://garymarks.web.unc.edu/data/regional-authority/ [accessed on 15 May 2019]) and the publication on regional authority (Hooghe, L. et al. (2016[5]), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press). The source for government effectiveness is World Bank Government Effectiveness (GE) index from the Worldwide Governance Indicators (WGI) project (Kaufmann, D. and A. Kraay (2018[22]), *Worldwide Governance Indicators*, http://info.worldbank.org/governance/WGI/#reports [accessed on 9 August 2018]).

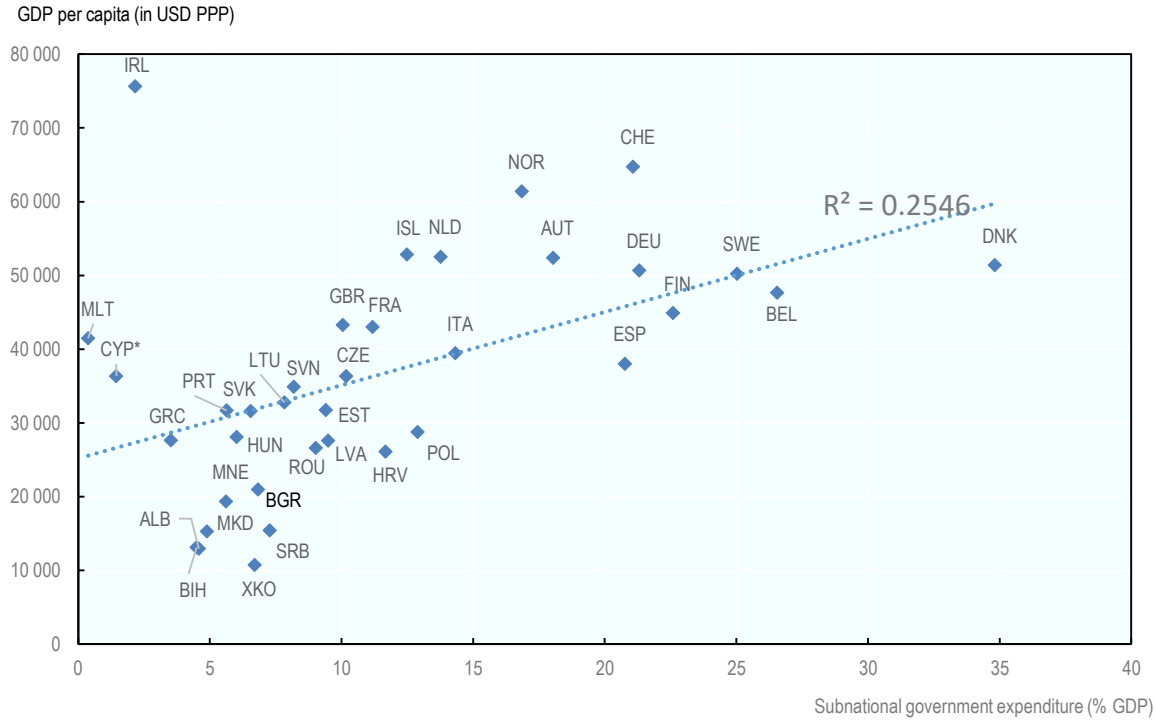
Figure 1.4. Government effectiveness and revenue decentralisation are positively correlated, 1995-2016



Note: The countries in the graph include 29 OECD countries except Australia, Chile, Japan, Lithuania, New Zealand, South Korea and Turkey cover the 1995-2016 period. The World Bank's Government Effectiveness (GE) 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 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 gross domestic product (GDP) (Figure 1.5). 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[23]). 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[24]). 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[25]).

Figure 1.5. Economic development and decentralisation are concomitant in OECD countries



Note: 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.

The 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[26]). 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 to 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[27]).

Decentralisation success and impact on growth depends on the implementation scheme, the policy environment and the quality of the institutional framework. Policies limiting subnational governments' taxing power weaken decentralisation allocative efficiency (Brueckner, 2009[28]). Fiscal reliance on a higher level of government and soft budget constraints can destabilise 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[29]). 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[1]). 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 (OECD, 2016[26]; Kappeler et al., 2013[30]).

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 the accountability of public decision-making. Empirically, several studies have found a positive association between decentralisation and political participation both in developed and developing countries (Huther and Shah, 1998[31]; Michelsen, Boenisch and Geys, 2014[32]; Stoyan and Niedzwiecki, 2018[33]). Citizen participation and empowerment has been almost a standard argument for decentralisation in many former communist countries (Regulski and Drozda, 2015[34]) and in developing countries (Faguet, 2014[35]; Bahl and Bird, 2018[36]).

Decentralisation can induce the hindrance of rent-seeking and corruption in public administration (Boadway and Tremblay, 2012[37]) as well as the expansion of experiments and policy innovation (Oates, 2008[38]). 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[18]). Empirically, De Mello and Barenstein (2001[19]) 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 multilevel government systems with several government tiers and unclear assignments are correlated with higher probability of corruption (Fan, Lin and Treisman, 2009[39]).

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 programmes (Oates, 2008[38]). 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 the national level only after they were first innovated and implemented in the territories (Campbell and Fuhr, 2004[40]; Oates, 2008[38]).

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, which may be able to receive a disproportionate share of spending on public goods (Bardhan, 2002[41]). 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[36]).

The benefits from decentralisation can be limited in the event of inadequate design and implementation of decentralisation reforms. From this aspect, there are a number of pitfalls to avoid. In particular, the policymakers should avoid unclear assignment of responsibilities between levels of government and vague relationships 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[42]).

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[1]). 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[1]).

Finally, the co-ordination of service delivery by the central government is essential, especially in the case of decentralised redistributive services provision, such as education or healthcare. The co-ordinating 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[43]). 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[1]).

Decentralisation goes hand in hand with an upscale of subnational governance

Experiences from intermunicipal co-operation

The rationale, benefits and challenges of co-operation

Intermunicipal 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.

Intermunicipal co-operation is usually understood as expenditure sharing. In this case, municipalities provide joint services and share the costs associated with the delivery of the service. Intermunicipal co-operation can also include joint efforts on the revenue side, although this is less common than expenditure co-operation (Slack, 1997[44]).

There can be various motivations for voluntary intermunicipal 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.

Intermunicipal 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 whether municipal mergers will automatically lead to costs savings (Blom-Hansen et al., 2016[45]; Moisio and Uusitalo, 2013[46]). 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 terms of their 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, intermunicipal co-operation seems an attractive option, especially because it is relatively straightforward to establish. Voluntary intermunicipal 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[47]; OECD, 2019[1]). 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.

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

Intermunicipal 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. Intermunicipal co-operation may also result in democracy deficit, as intermunicipal organisations are usually governed by representatives who 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 intermunicipal 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 intermunicipal 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 the intermunicipal co-operative body IMC by member municipalities may be lower if a common pool creates a disincentive to do so (Allers and van Ommeren, 2016[48]).

International examples and experiences of intermunicipal co-operation

A spectrum of practices of intermunicipal co-operation can be observed among EU and OECD countries. Three main groups of models can nevertheless be identified: i) informal voluntary agreements/contracts steered by private law; ii) legally defined and regulated voluntary co-operation steered with public or private law; and iii) mandatory co-operation steered by public law (see also Figure 1.6).

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 are usually applied for voluntary and mandatory co-operation (OECD, 2019[1]).

The examples for informal co-operation include shared service arrangements or shared programmes in Australia, Ireland, New Zealand and the United Kingdom. Voluntary but legally structured and steered co-operation is practised in a number of countries, for example in Finland, France, the Netherlands and Sweden. Examples of compulsory co-operation with delegated functions can be found, e.g. in Finland, France, Portugal and Spain (OECD, 2017[49]; 2019[1]). In some countries, such as Finland, compulsory intermunicipal co-operation has been a substitute to an intermediate level of government, in specialised healthcare and regional development.

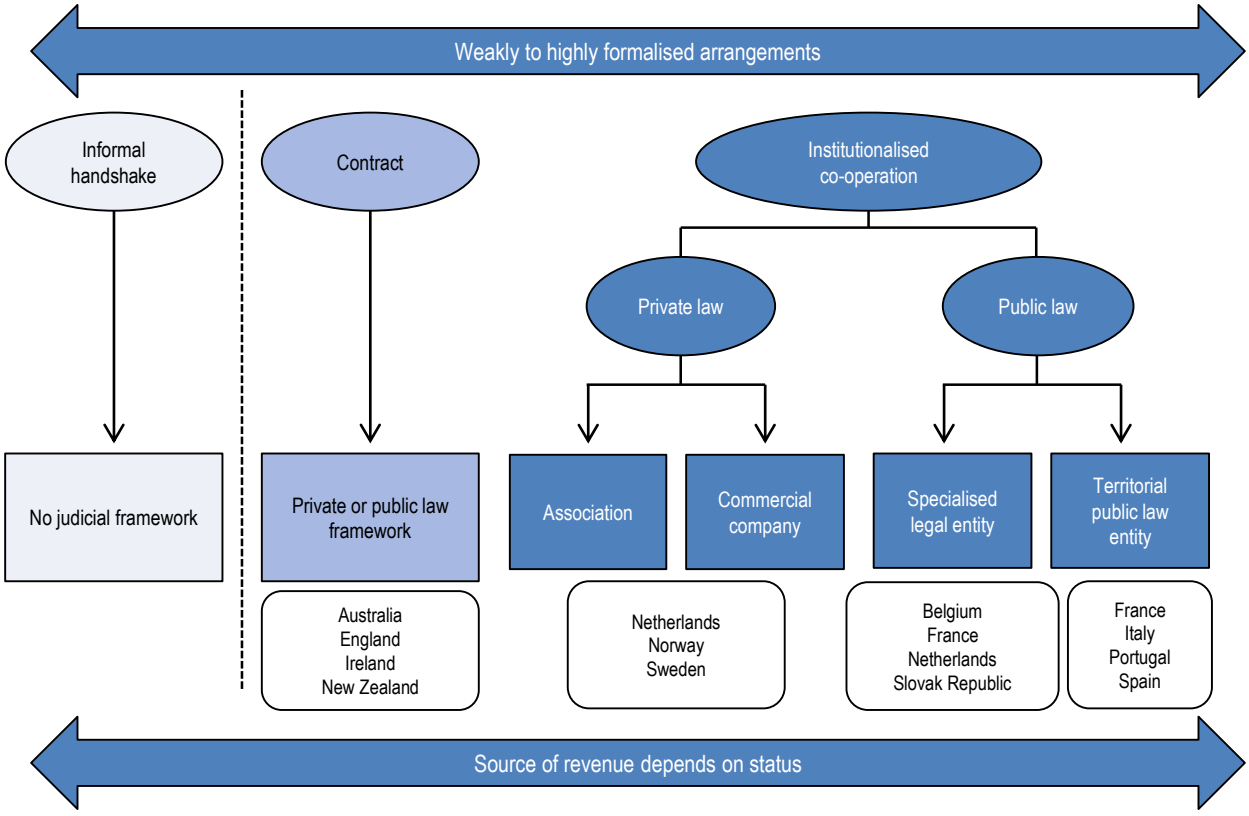
Intermunicipal co-operation is practised in many service areas, from technical issues to healthcare, education, and regional development and strategy (OECD, 2017[49]). For example, in Germany, IMC is strongly encouraged by *Länder*, in particular for waste management, sewage, water or transport. The Czech Republic promoted voluntary municipal association and micro-regions in education, social care, health, culture, the environment and tourism. Poland introduced "territorial contracts" in 2014. The

contracts are intended to strengthen partnership and improve co-ordination of local public services (OECD, 2019[1]).

Irrespective of the model of co-operation, the intermunicipal 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 intermunicipal co-operative bodies, such elections could considerably add to 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[50]). 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[51]). By early 2018, devolution deals with 12 areas had been agreed. Three of the deals have collapsed, and two had collapsed and then been partially revived (Sandford, 2018[51]).

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

Figure 1.6. Formats for intermunicipal co-operation



Source: (OECD, 2019[1]).

In the Nordic countries, municipalities also co-operate in financing investments. In Denmark, Finland, Norway and Sweden, 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 in raising financing for their investments. The Swedish Kommuninvest, like other similar Nordic credit institutions, has high creditworthiness, which is based on the fact that all members are liable for Kommuninvest's obligations. Indeed, there have never been any credit losses in the operations since Kommuninvest's inception. Kommuninvest currently accounts for more than 40% of the Swedish local government sector's borrowing (Kommuninvest Sweden, 2019[52]). In Finland, the share is even higher, at nearly 70%.

There is currently not much research evidence on the effects of voluntary intermunicipal co-operation on municipal spending or service quality (the evidence of causal relationship, in particular, is scarce or non-existent). Moreover, the results of existing studies are somewhat mixed (Allers and van Ommeren, 2016[48]). In France, a recent study found no effect of co-operation on total spending of French municipalities (Frère, Leprince and Paty, 2014[53]). In contrast, in Spain, small towns that co-operated incurred lower costs for their waste collection service. Co-operation also raised collection frequency and improved the quality of the service in small towns (Bel and Mur, 2009[54]). In the Netherlands, intermunicipal associations paid higher interest rates for their loans compared with independent municipalities (Allers and van Ommeren, 2016[48]), suggesting that co-operative arrangements were considered inefficient by creditors. In Finland, break-ups of municipal health centre federations in the 1990s increased costs as well as outputs, so the break-ups had no statistically significant effect on inefficiency (Kortelainen et al., 2019[55]).

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 of between 500 000 and 1.5 million people (OECD, 2012[56]).

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 the Brookings Institute, the 300 largest metropolitan economies in the world account for almost half of the global output (Bouchet et al., 2018[57]). 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 heterogeneous compared with the 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[58]).

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 remains 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[59]). 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 the environment, local democracy and citizen engagement need special attention in urban and in particular metropolitan areas.

The rapid population growth in metropolitan areas, together with other drivers like political and technical factors, has often resulted in urban sprawl.[1] Urban sprawl can create many challenges in metropolitan areas: higher car dependency and longer commuting distances, traffic jams, higher greenhouse gas emissions and air pollution (OECD, 2018[60]). 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 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[49]). Reforming boundaries and organisational structures is nonetheless just the first step towards more efficient metropolises. 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[61]).

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[58]; Bird and Slack, 2007[47]):

- one-tier fragmented government structures
- one-tier consolidated government structures
- two-tier government model
- voluntary co-operation/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[47]). In the 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 the metropolitan area. Usually the idea is that the upper tier is responsible for services that provide metropolitan-/regionwide 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[47]).

Voluntary co-operation was discussed at length already in the previous section. In general, at the metropolitan level, voluntary co-operation aims to achieve the benefits of the two-tier metropolitan model with less administrative arrangement and lower 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 a mix of user fees, taxes and intergovernmental transfers (Slack, 2018[62]).

It should also be emphasised that without the 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[63]).

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 competencies 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, La Délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale, 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. Fourteen metropolises (more than 400 000 inhabitants) will be granted greater responsibilities than “standard” municipalities or intermunicipalities, 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 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 intermunicipal 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, 2017[49]), where past policies were uniform across territories (except for overseas territories). It aims to adapt organisational structures and policies to the distinctive characteristics of territories at an appropriate scale. Another innovation is the setting up of two transitory interministerial “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, 2017[49]).

Finally, the French metropolitan reform is a good illustration (at least in the cases of Grand Paris and Aix-Marseille-Provence) 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[42]).

The metropolitan areas of Geneva and Zurich are based on voluntary intergovernmental co-operation. In the case of Geneva, intergovernmental co-operation extends across national borders, to local government in neighbouring France. Intergovernmental co-operation is practised in electricity, waste disposal and energy supply. Political representation is composed of delegates of the member communes (Kübler and Rochat, 2014[64]). This approach to dealing with intermunicipal externalities is seen in Switzerland as the most pragmatic way of addressing the metropolitan challenges (Kübler and Rochat, 2014[64]).

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 Vetritto, 2018[65]). 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[66]). 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 also decide 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[67]). The Nordic countries provide another type of example. For example, in Sweden, the distinction between municipalities and counties applies also in the 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 dialogue between the central government, counties and municipalities (OECD, 2017[68]).

Regionalisation: An increasing trend worldwide

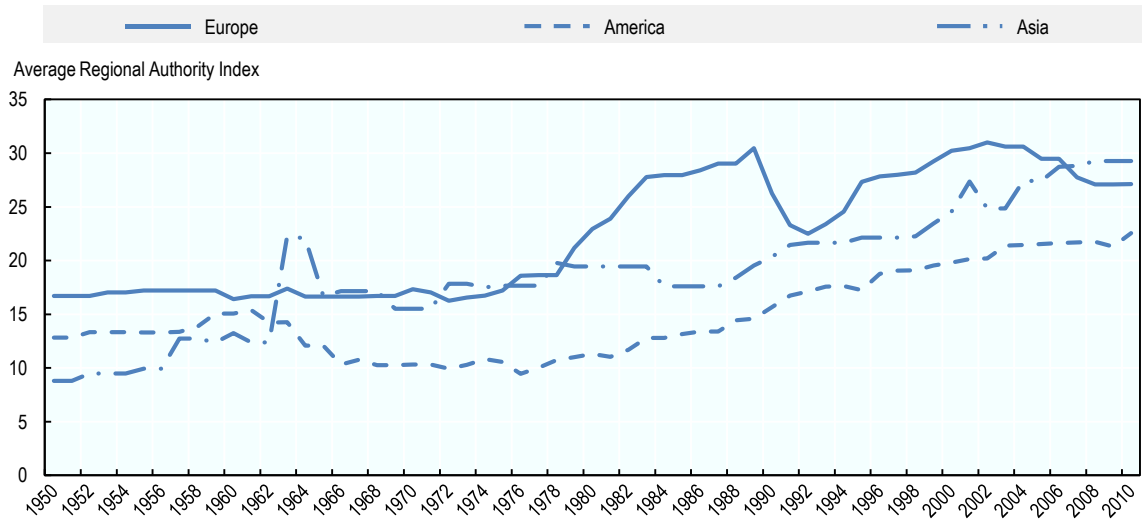
Several European countries have recently created new regions and strengthened the existing ones. Many more are currently planning such reforms. For East European countries, regionalisation has been largely in the context of EU enlargement. In other countries, strengthening existing regional governments 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.

The regionalisation trend extends beyond Europe, as countries in Asia and America are also establishing regional level governments, at an even 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[69]; Hooghe et al., 2016[5]). 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, 29.3 in Asia and 27.1 in Europe (Figure 1.7).

Despite the general trend of increasing importance of regional government level, reforms pulling in the opposite direction have also 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[70]). 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[71]). 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[72]). 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[73]). 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[74]).

Figure 1.7. Regionalisation in America, Asia and Europe since 1950



Note: 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, Turkey and the United Kingdom.
Sources: Hooghe, L. et al. (2016[5]), *Measuring Regional Authority: A Postfunctionalist Theory of Governance*, Oxford University Press; OECD (2019[1]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://dx.doi.org/10.1787/g2g9faa7-en.

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

Asymmetric decentralisation

Yet another important trend in multilevel 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[75]). Asymmetric decentralisation can take various forms. These are briefly 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 the norm or average assignment. One common way to categorise asymmetric decentralisation has been to divide the policies into “de jure” or “de facto” arrangements (Bird and Ebel, 2006[76]; Martinez-Vazquez, 2007[77]). De jure asymmetric decentralisation is based on the 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 the 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 standards[3] are given greater autonomy in spending and revenue. The rest of the subnational governments could then "grow into this role" over time.

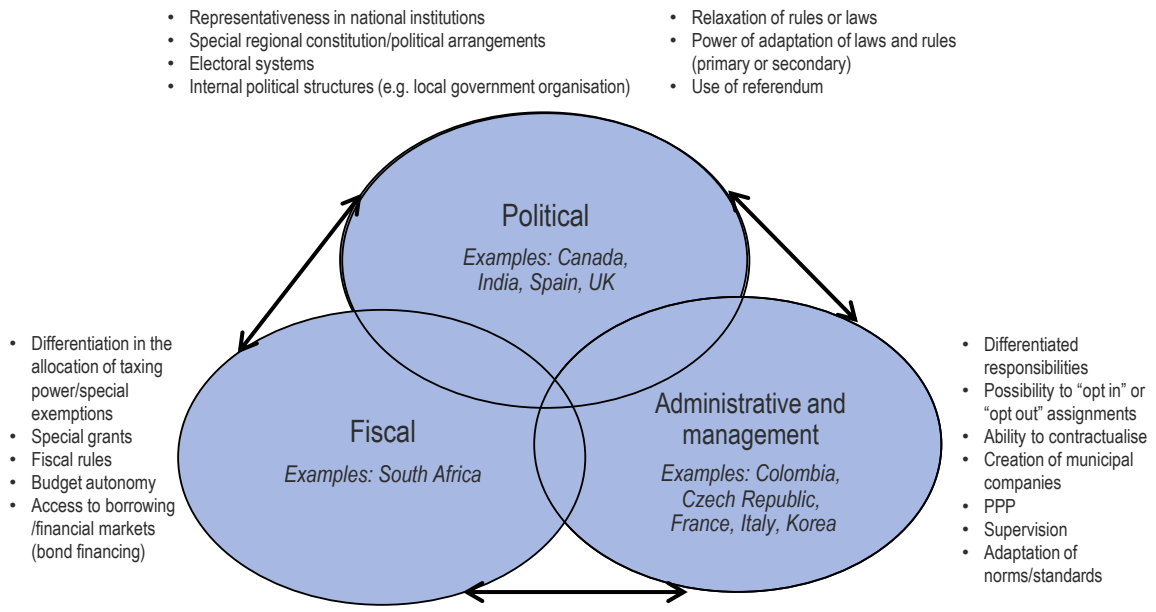
Asymmetric fiscal arrangements consist of a wide variety of measures including special spending responsibilities, revenue bases or taxation rights and additional transfers. The main forms of asymmetric fiscal decentralisation can be summarised as follows:

- *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 the transfer system***.** In this case, the regions with unique service needs or exceptional operating environment may justify the use of special-purpose grants or of certain criteria in formula-based grants. Specific transfers may be used as an alternative to differential revenue autonomies.
- *Differential fiscal rules***.** Some subnational governments may be given more room for manoeuvre in borrowing for example. This could be the case if the subnational government has special needs for public investments and if it is capable of fulfilling its obligations.

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[1]). 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 recognise a different status for territories with a strong history/identity (Italy, UK) as well as peripheral territories such as outermost regions, islands, outlying regions (Finland, France). This is also the case with Portugal's two autonomous regions, the 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. 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[63]).

Figure 1.8. Three main types of asymmetric decentralisation



Sources: OECD (2019[1]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://dx.doi.org/10.1787/g2g9faa7-en; Allain-Dupré, D., Chatry and Moisio (forthcoming[78]), "Asymmetric decentralisation in OECD countries: Trends, challenges and policy recommendations", OECD Working Paper, OECD, Paris.

Table 1.1. Different scales of asymmetric decentralisation

Regional	Metropolitan	Local
• The most common form. • In 1950, around half of the countries covered by the Regional Authority Index (RAI) had some kind of differentiated governance at the regional level. • In 2010, almost two-thirds of countries in RAI had implemented asymmetric arrangements in some form. • Rising trend. • Long-term trend.	• Since the 1950s: specific status for capital cities. • Since 1990s: increase in metropolitan governance to address specific challenges and capacities of metro regions. • 87 new metro structures created since 1991 compared to 14 between 1971 and 1991.	• Different sets of responsibilities for different municipalities, depending on their capacities. • Municipal classifications, based on population, access to public services, budget, performance. • Urban/rural municipalities: classification may just be statistical or lead to differentiation in funding or responsibilities.

Source: OECD (2019[1]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://dx.doi.org/10.1787/g2g9faa7-en.

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Notes

[1] Urban sprawl can be defined as an urban development pattern characterised by low population density.
[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, such as in Spain for example, 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 are difficult to define or costly to administer.

2 Regionalisation in the context of decentralisation reforms

This chapter discusses four main ways that can be used to strengthen regional-level decision-making: i) deconcentration of central government service delivery, ii) intermunicipal co-operation, iii) regional decentralisation and iv) establishing regions with elected self-government and fiscal autonomy. The chapter also describes reforms that have been carried out in European Union (EU) countries. A more detailed description is provided for regional reforms that have been carried out Finland, France and Poland. These countries provide interesting examples of different solutions to similar challenges.

The regional level of government has become more important in both centralised and decentralised countries. While there is no single explanation for this development, the motive for regionalisation in decentralised countries has often been the desire to utilise a bigger scale in public service provision, while still securing the benefits of decentralised decision-making. These reforms have typically transferred powers from the 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 intermunicipal 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 European Union (EU) countries. The third subchapter takes a deeper look at the regional reforms carried out 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.

Strengthening regions in a multilevel governance framework

Four main types of regionalisation can be distinguished: i) regionalisation through deconcentration; ii) regionalisation by existing local authorities (intermunicipal co-operation); iii) regional decentralisation; and iv) political regionalisation (or regional autonomy). Before going further in describing each group, some prior explanation is provided below.

First, 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.

Second, 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.

Third, 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 2.1. 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 the regional level	Mainly national	Bulgaria, Denmark, Greece, Lithuania, Norway, Portugal, Romania, Slovak Republic, Slovenia, Sweden
Regionalisation by intermunicipal 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)	Czech Republic, Denmark, France, Poland, Norway, Sweden
Political regionalisation	Cultural identity and local democracy	Political autonomy at the regional level	National and subnational (either complementary or conflictual)	France (overseas territories), Italy, Portugal (Azores, Madeira), Spain, UK

Source: Author's modification of Pasquier, R. (2019[1]), "Decentralisation and regionalisation in Portugal: Lessons from international experience and recommendations", Unpublished manuscript.

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 the 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 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 interministerial co-ordination 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 for Kaunas and Klaipeda respectively.

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 the Slovak Republic 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 – "*oblasts*"), 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 the Slovak Republic, the 1996 reform divided the country into 8 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 the 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 co-ordinating 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 Bulgaria, England (United Kingdom) and Portugal are large and, proportionately dispose of quite significant means of action as in England. Second, regionalisation through deconcentration is centred on regional development, possibly associated with the deconcentration of other administrative functions. Third, 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 England and Sweden) a response to the implementation requirements of the EU.

Regionalisation through intermunicipal 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 co-operation 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. Denmark, Estonia, Finland, Germany 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 co-operation 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-Wüttemberg, 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 the federal and *Land* levels, 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 NUTS 1 level, whereas regions correspond to NUTS 2.

The cases of Finland and Ireland correspond to regionalisation organised at the scale of the entire country based on co-operation 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 co-ordinate 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 the Netherlands, Portugal and Sweden, this type of regionalisation only concerns some parts of the territory. In Sweden, the 1995 Act, adopted following various reports and debates on the number and organisation of counties, organises regional co-operation between the four counties of western Sweden; this co-operation 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 the 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 co-ordination 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 co-operation services. In 1994, a law established the creation of seven urban regions based on the seven biggest urban areas in the country, 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. Second, we can see that towns and intermunicipal co-operation 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, Hungary, the Netherlands and Portugal. Third, 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 co-operation (this is particularly the case in the metropolitan areas of Portugal, where the council only has a function of co-ordinating 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.

Regional decentralisation

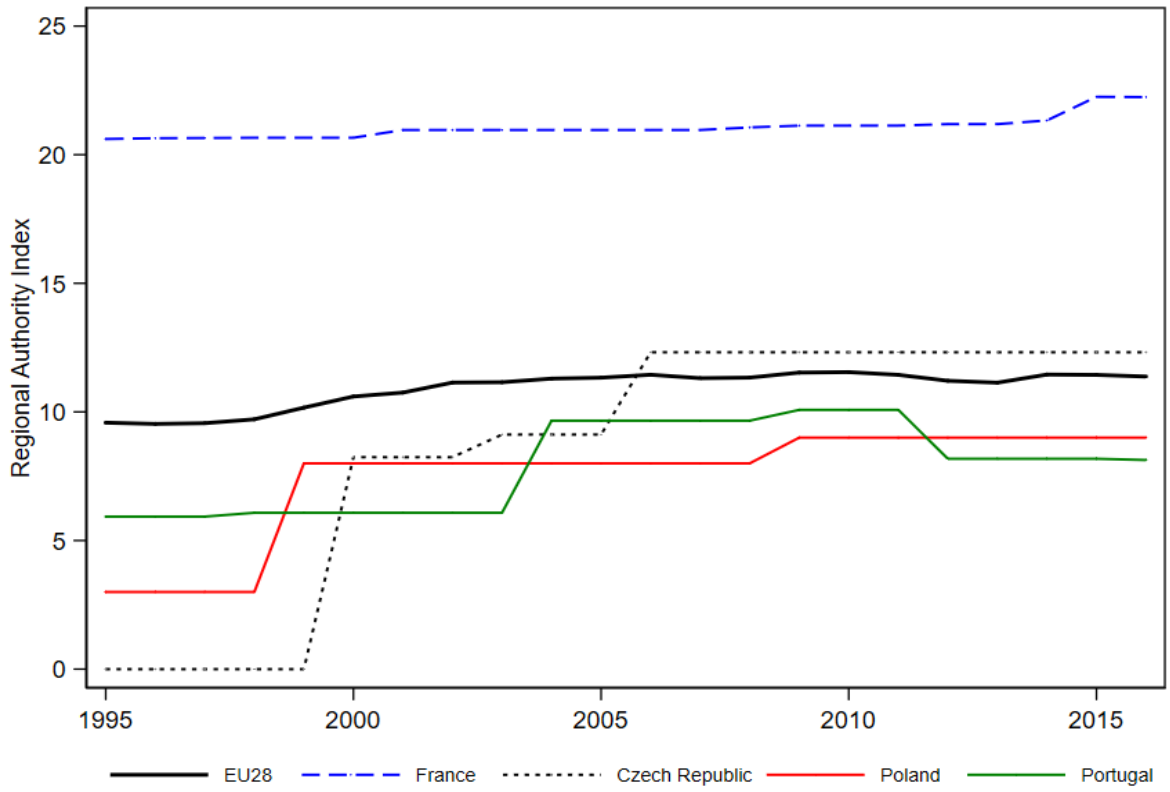
Regional decentralisation designates the creation or substitution of a new elected authority at a higher level than that of existing local authorities and qualified as a region. The direct election of the regional councils is a key criterion of regional decentralisation. The region then takes on a specific 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, 4 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, the Czech Republic and Poland, have moved towards regional decentralisation (Figure 2.1). 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 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, the 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 having 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, favouring 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 2.1. Regional Authority Index in the Czech Republic, France, Poland, Portugal and EU28



Sources: OECD elaboration based on Schakel, A. (2019[2]), *Regional Authority Index (RAI)*, https://www.arjanschakel.nl/index.php/regional-authority-index (accessed on 15 May 2019); Marks, G. (2019[3]), *Regional Authority*, http://garymarks.web.unc.edu/data/regional-authority/ (accessed on 15 May 2019).

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, regional deconcentration remains much more influential in the implementation of territorial policies and strategies.

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 Belgium, Italy and Spain, although the first established a formally federal constitution in 1993. In other countries, such as Portugal and the United Kingdom, 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 co-operation 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. This has sometimes been called also an “autonomic state”, defined by the absence of co-determination of everything by parties, and central control of the power of devolution (Pasquier, 2019[1]). 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, Italy and Spain seems to correspond to resistance from the sidelines, which participated in different degrees in the Europe of City-States.

Regionalisation reforms in the EU countries: An overview

In the above discussion, 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.

Regionalisation and regional institutions

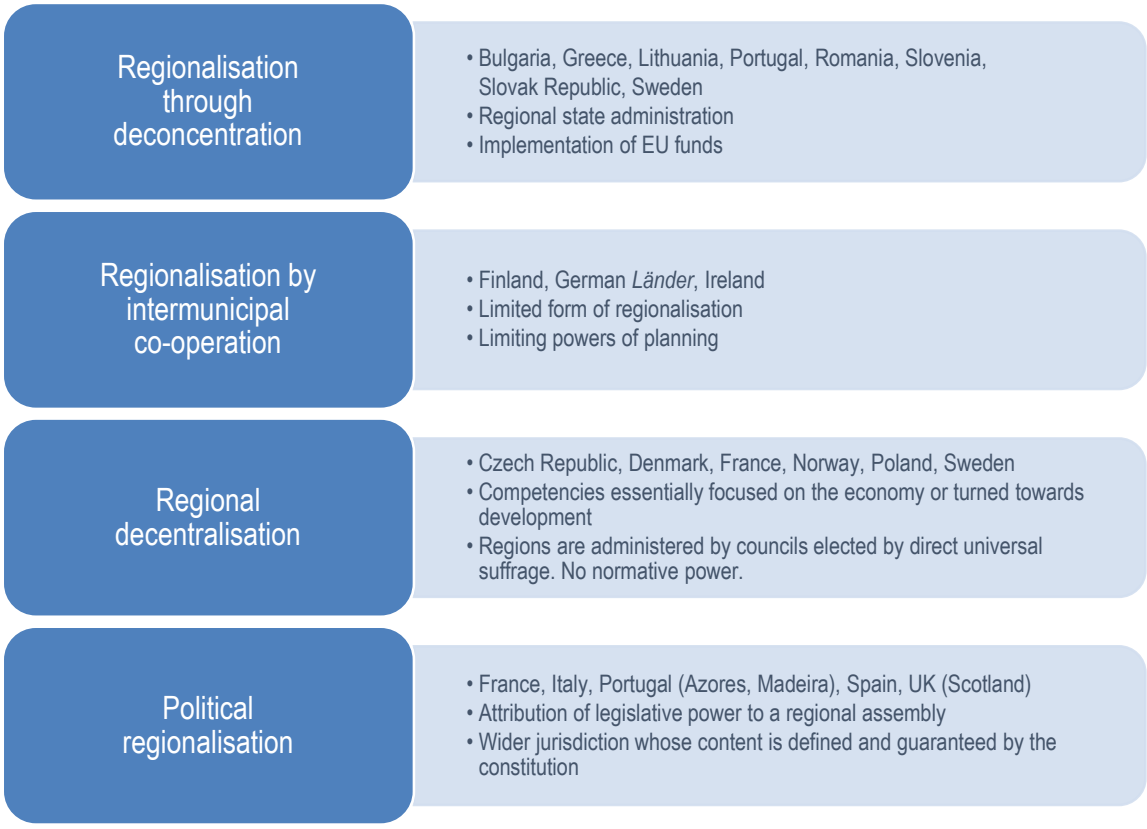
Contrary to what we might expect, the most widespread type of regionalisation operates through existing local authorities. In the European Union, federalism and quasi-federalism are only fully in place in four states, i.e. Austria, Belgium, Germany and Spain, although in different forms. Regional autonomy 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, Sweden and the United Kingdom (England). 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 (the Czech Republic and Poland). 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[4]). In contrast, municipalities seem to have adjusted to their relations with state territorial departments and have developed co-operation 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.

Figure 2.2. Four main types of regionalisation implemented in the EU: From deconcentrated state administration to autonomous regions



Sources: OECD elaboration based on Pasquier, R. (2019[1]), "Decentralisation and regionalisation in Portugal: Lessons from international experience and recommendations", Unpublished manuscript.

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.

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[5]), 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 sidelines; 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.

Opportunities and risks of regionalisation

Regions, and local authorities in general, clearly participate increasingly 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[6]; Loughlin, Hendriks and Lidström, 2010[7]). However, the diversity of institutions through which the expression of the trend for regionalisation evolves, 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

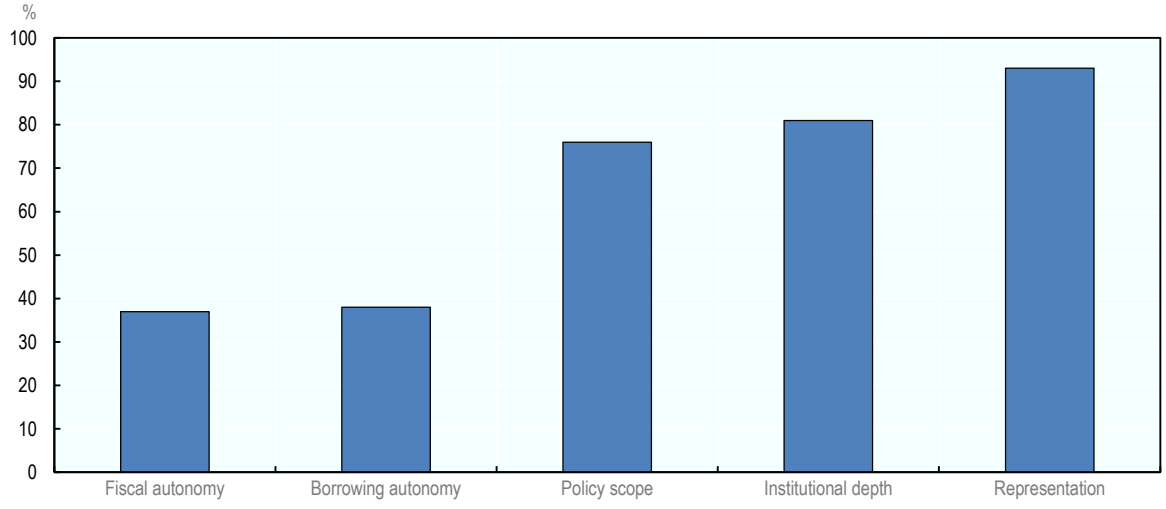
at least, and in its minimal form, regional decentralisation. It is credited with at least four merits: it fosters economic development, decentralisation, grassroots democracy and the respect for regional and local identities. Taking these different aspects, an evaluation of regionalisation calls for 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 the 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 the 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 exercise certain jurisdictions at a regional level because they need to interconnect with a regional interest in the making, regional institutions should be established with an elected representatives In other words, it is regionalisation that calls for democracy, not democracy that needs regionalisation for its development.

As for regional and local identities, although regionalisation has the means to satisfy them, this requires several qualifications. First, 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.

Figure 2.3. Summary of different policy measures that have strengthened regional self-rule in 81 countries



Source: Schakel, A. (2019[2]), *Regional Authority Index (RAI)*, https://www.arjanschakel.nl/index.php/regional-authority-index (accessed on 15 May 2019).

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.

Regional reforms in Finland, France and Poland

This section focuses on regionalisation reforms in Finland, France and Poland as these three countries can provide some inspiration for Portugal. The French model could be of interest because both the Portuguese and 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 Polish decentralisation is very interesting for Portugal, especially the sequenced implementation of decentralisation and regionalisation reforms. Finnish experiences in regionalisation can be useful in the Portuguese context because, like Portugal, Finland has discussed establishing regions for many decades and the Finnish constitution now 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 the work in order to create 18 regional councils.

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

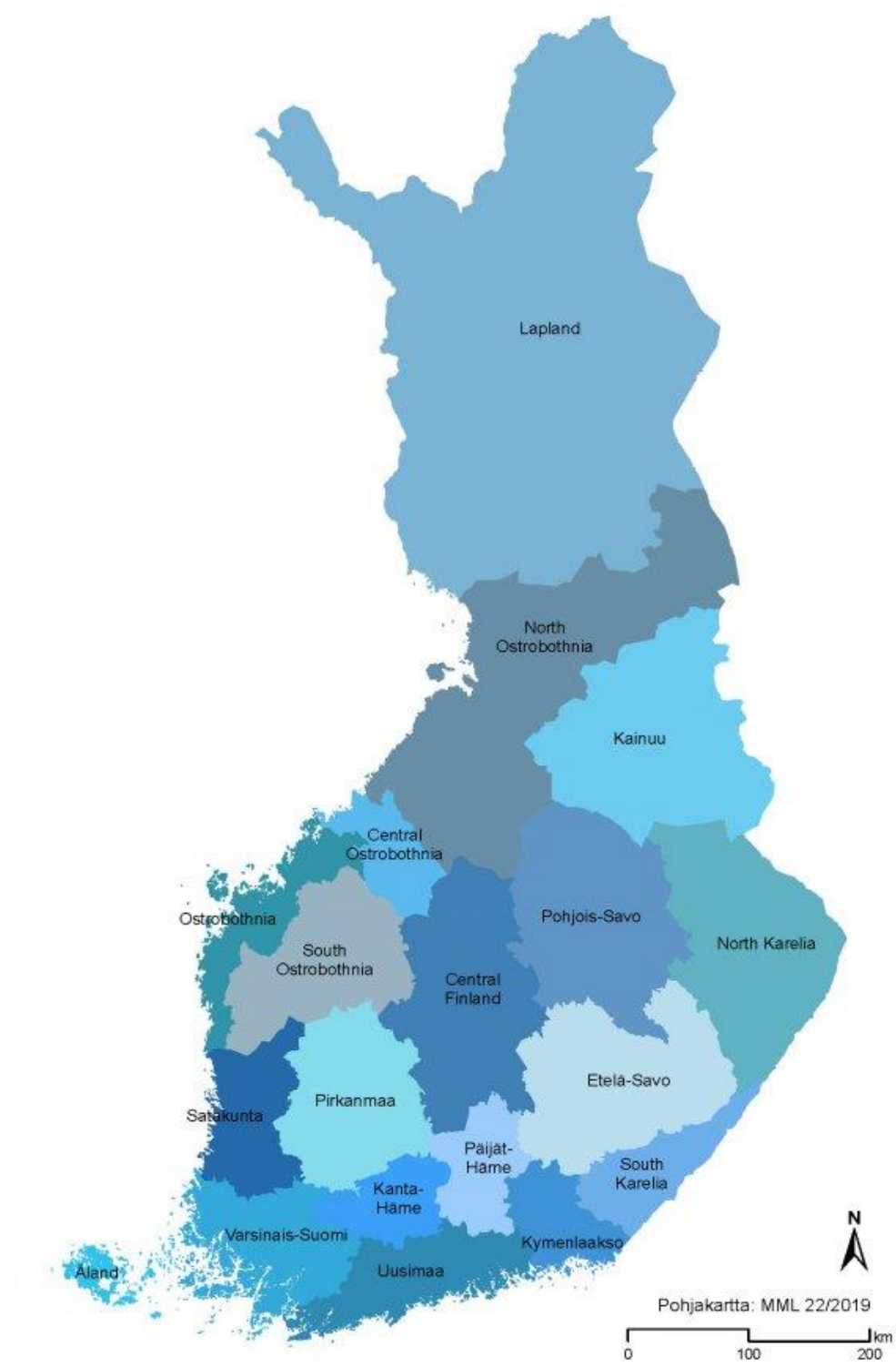
While there is currently no regional government tier with elected self-government in Finland, the Finnish constitution does allow regional self-government. Article 121 of the constitution provides for self-government in an area larger than a municipality. The provision written in the law is vague and its reasoning is limited. The provision states only that such self-government “may be regulated by law”. The explanatory memorandum for Finnish 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 intermunicipal agreements.

Currently, the political structure of Finland is officially two-folded, consisting of the national and local levels of government (Pesonen and Riihinen, 2018[8]). Regions, however, play a role in the Finnish politico-administrative system: they refer to geographical entities with a long historical background. Second, there are regional councils with specific tasks, but which lack independence as they are formed as joint municipal authorities (intermunicipal co-operation) and part of local governance.

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

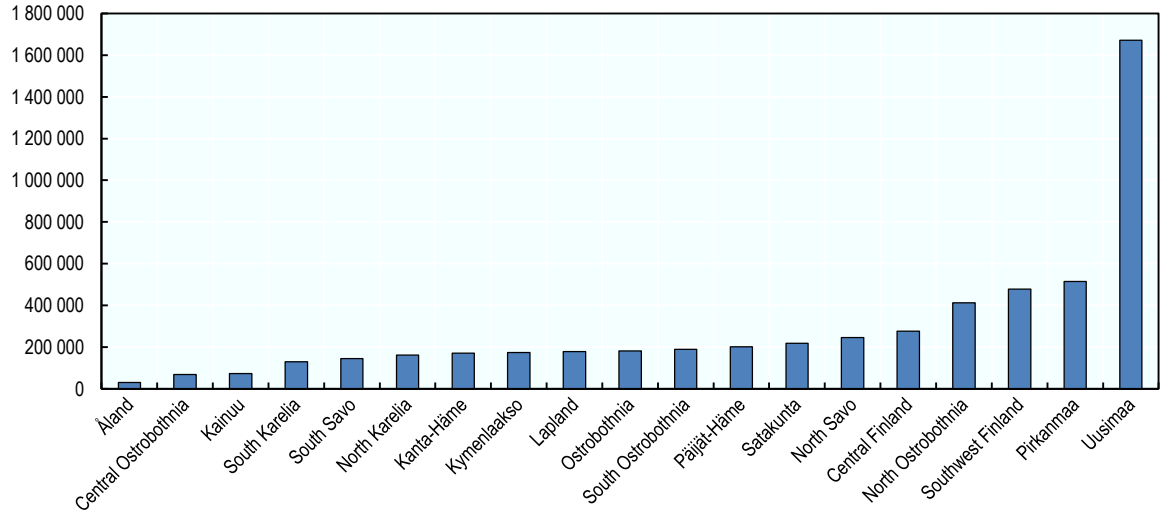
Regions as geographic units have a strong historical presence and, as objects of identification, including dialects, are parts of everyday narratives. In this sense, we can talk of nine regions, which are based on historical regions. The spread of Finnish language dialects approximately follows their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

Figure 2.4. The Finnish regions (*Maakunta*)



Source: Regional Council of Southwest Finland (2019[9]), *Regions of Finland*, https://www.varsinais-suomi.fi/en/southwest-finland/regions-of-finland (accessed on 23 May 2019).

Figure 2.5. Population size of Finnish regions



Note: Population as of 1st January 2019.
Source: Statistics Finland (2019[10]), *Population Statistics Finland*, https://www.tilastokeskus.fi/tup/suoluk/suoluk_vaesto.html (accessed on 29 May 2019).

Before Finland joined the EU, the region-level territorial division was made of provinces (*lääni*, *län*) which were part of central government administration (deconcentrated central government functions). The provinces mainly implemented supervisory tasks of the ministries and regional policy was led by central government. The emergence of regional councils took place later on, with the advent of European Union membership (from 1995), when the regional councils were established in 1993 by merger of smaller intermunicipal organisations (Law on regional administration no. 1135/1993). This meant that the earlier municipal co-operative organs, which mainly dealt with land-use planning, were combined with voluntary regional associations. As a result, the regional councils emerged. The regional councils are, as said, intermunicipal co-operative units.

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

The Finnish regional councils are municipal co-operative 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: i) regional development; and ii) regional land-use planning. The councils are the regions' key international actors and are largely responsible for the EU Structural Funds programmes 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 meet only twice a year. In other words, the regional cabinet is more involved in the 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 co-operation 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 intermunicipal organisations and are only indirectly accountable for the citizens.

The main tasks of the regional councils deal with land-use planning and co-ordination of regional funds, especially EU funds. The tasks of economic development are not specifically defined. It is in fact more of a contextually determined task affected by the type of region, its economic structure and the interplay with municipalities, as they may also promote interests of their own in this area. This is basically a question of advocating the region's well-being. 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. Co-ordination is a central question in the Finnish regional policy. As with any organisation, regions also have to find the best ways to advance their goals, economic development, good land-use planning or implementation of EU funds.

Land-use planning in regional councils is part of the planning structure, in which line ministries, regional councils and local governments interact. Each of the 19 regions have a regional land-use plan. These fairly general plans set out medium- 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 roads, 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 the beginning of 2016, the Finnish Ministry of Environment no longer approves 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 with other stakeholders. Before being accepted, regional councils must open up their proposal for discussion and many statements are usually sent to the regional land-use plans by central government agencies, municipalities, pressure groups and private citizens.

As noted before, 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 national regional agencies. Regional councils are not dealing with the everyday welfare services that are important to citizens. However, their visibility depends on the extent to which they manage to bring together the various regional actors and stakeholders and help bring forward regional interest. Successful policymaking requires a good ability to co-operate with the local governments, other regions and the state agencies. Land-use planning, for example, is an area in which local government interests can contradict themselves. The national government also has an impact on decisions.

Out of the 19 regions, 2 differ from the rest. First, Kainuu, in the northwest, has reformed its entire welfare service system; however, this pilot was finished in 2012. Second, the autonomous county of the 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 experience of the effects of regional self-government on regional development work, basic services, citizen activity, as well as the relationship between the regional, central and municipal 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 joint authority of Kainuu Region was responsible for arranging practically all social and healthcare services, for example, together with upper secondary and vocational education. 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[11]), the pilot project did not live up to 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 on the development of the region and the objective of increasing the regional council's role in regional development had not been fully implemented. The law for the experiment was accepted on the condition that, after the first phase of the experiment, municipalities had to unanimously support continuation. 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 regarding their limited role in 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, tasks concerning regional development were transferred to the joint municipal authority, as were social and health services. 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 fulfil expectations, the experiences from this reform provided inspiration for subsequent regionalisation reform plans and efforts in Finland.

Finland is an example of regionalisation by existing local authorities (intermunicipal co-operation). Finnish regional councils are dealing with technical issues of land-use planning and administering EU Structural Fund appropriations. On the other hand, they represent the municipalities and more or less co-ordinate 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 the healthcare and social services reform, which aimed to transfer health and social services from the current 295 mainland municipalities and 190 intermunicipal co-operative organisations to 18 counties. In addition to health and social services, the plan was to transfer 23 other tasks altogether 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 18 self-governing regions was not successful, the current government, formed in May 2019, has decided to continue the regionalisation reform, albeit with a slightly less ambitious approach. The plan is now to create 18 regional councils, with elected decision-makers and own budgets, mainly to provide health and social services in their areas.

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[12]). The French state, like other European nation-states, has been confronted for some years with the dual pressure of European integration and the growing desire for autonomy on the part of subnational 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; and 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 structure. France has three levels of sub-national authority (communes, departments, régions). France has also developed strong intermunicipal co-operative mechanisms. The existence of some 34,900 small

communes (40% of all such local government units in the whole EU) has come to symbolise the fragmentation of the French local government system.

Table 2.2. Subnational authorities in France, 2019

Type	Number	Functions
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)*	1 258	Permanent organisations in charge of intercommunal services such as fire-fighting, waste disposal, transport, economic development, some housing
Departmental councils	101	Social affairs, some secondary education (*collèges*), road building and maintenance, minimum income (RSA)
Regional councils	18	Economic development, some transport, infrastructures, state-region plans, some secondary education (*lycées*), training, research, some health

* Établissement public de coopération intercommunale. It is noteworthy that the EPCI have 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 *départements* (Pasquier, 2015[12]).

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 co-operation with the French state and the European Union. This French-style garden, of a neatly organised distribution of functions, has not withstood the reality of public policymaking in France's localities and regions, however, where policy problems spill across levels. Moreover, the approach, which bears some resonance with 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 decentralisation have seemed to confirm Maurice Hauriou's prophecy (Hauriou, 1927[13]; Pasquier, 2019[1]): "…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 decentralisation, it must be expected that this perfect construction be destroyed by the spontaneity of life". If local authorities are in principle specialised 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 2009-10, 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 27 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 large cities, close in practice to the provisions of the Law of 16 December 2010 but with a more extensive outreach.

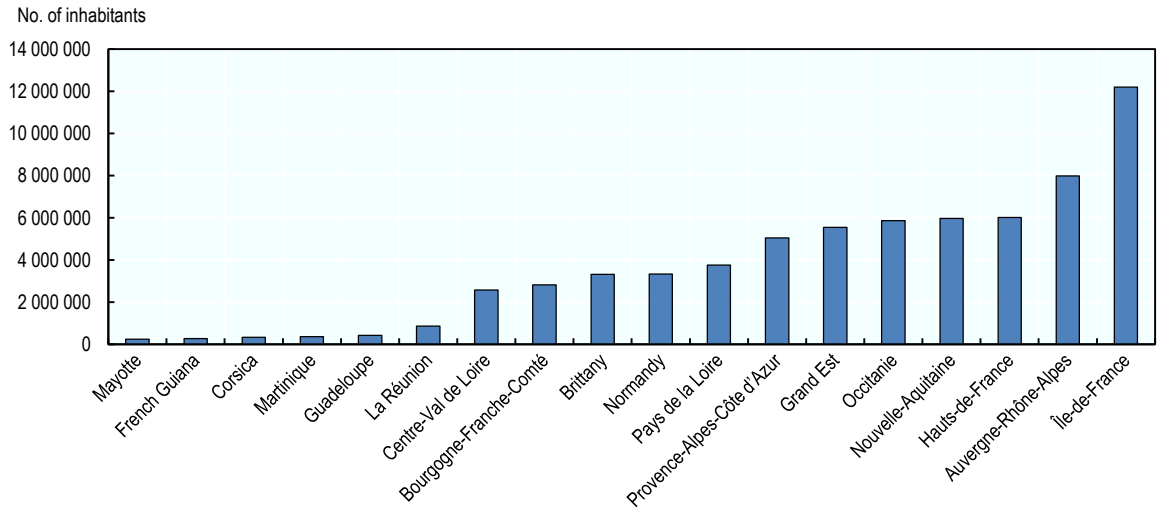
During the parliamentary debates of 2015, the government even abandoned the idea of transferring the responsibility for roads or lower secondary education from the departments to the regions. Certainly, the NOTRE Law enacted on 7 August 2015 strengthened the role of the regions in four main areas: the management of EU structural funds, transport (especially concerning schools and as interurban 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 role in the field of territorial economic development and planning. Not surprisingly, departmental and communal interests represent a major obstacle for 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 16 June 2015, a new map of the regions was produced, reducing their number from 26 to 17 (of which 12 in mainland France and Corsica and 4 overseas regions). Several regions were unchanged: Bretagne, Centre-Val de Loire, Corse, Pays de la Loire, Ile-de-France and Provence-Alpes-Côte d'Azur (PACA). All other regions were merged to create larger entities.

Figure 2.6. The new map of French regions (Law of 16 June 2015)

Source: INSEE.

Figure 2.7. Population size of French regions, 2017



Source: OECD (2017[14]), *Regional Demography, Population (Large Regions TL2)*, 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, rationalising back-office functions). In one interview carried out as part of the Trust and Transparency project, a Parti Socialiste (PS) deputy in the Ardèche 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 historical 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 multilevel 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[15]). The survey demonstrated quite clearly that French citizens show 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 subnational 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).

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

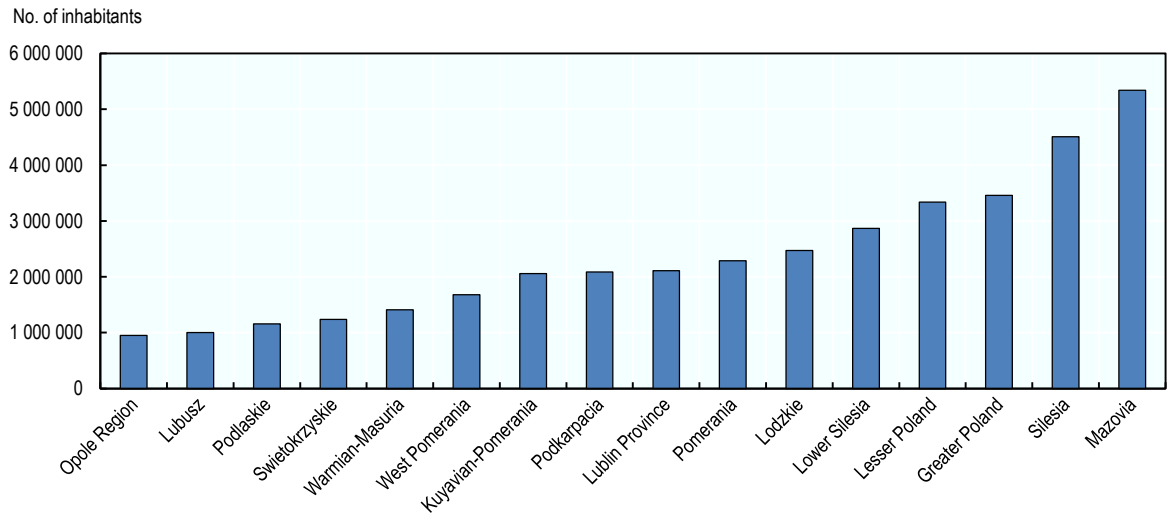
national memory. This high value conferred to the central state, seen as a guarantee of the homogeneity of the national territory, explains the difficulties experienced by decentralisation.

In Eastern Europe, the policy of regionalisation became a clear political programme when, in 1997, the European Commission imposed the implementation of the "Acquis Communautaire" upon candidate countries (Dąbrowski, 2008[16]). From this moment onward, it has been positioned as an unavoidable (necessary) condition for joining the EU. The so-called "Copenhagen criteria" formalised in 1993 have been the first step paving the way to accession by stressing the necessity to adopt democratic rules, market economy and 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 a 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 and 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 2 478 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 2.8. Population size of Polish regions (*vojvodships*), 2017



Source: OECD (2017[14]), *Regional Demography, Population (Large Regions TL2)*, https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR#.

The administrative model has been inspired by the French one: in the 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 subregional 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 from a free statute to develop its own plan of development. The *gmina* is responsible for all public matters of local importance. Its executive organs are the *gmina* council and the "*wójt*" (the mayor or town president). Poland counts 2 479 *gminas*, that can be urban (305 units), rural (1 566 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 constrain its subregional levels has often impeded regional development. The poor situation of the transport system can be explained by this. On the other hand, for purposes of economic efficiency has forced the different subregional units (and particularly the *gmina*) to create some intercommunal links for some common projects.

Poland has been exemplary in the way it conducted its multilevel 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 arguments used have often been drawn from the national and local past. On this occasion, it was most interesting to see how the local people had a clear idea of their own regional interest and a clear memory of past regional administrative divisions. Second, because the law was passed expediently in July 1998, it triggered no definite disputes. This dynamic has reflected the maturity and the clear consciousness of the public authorities.

The argument of weakness at the 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[17]) 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 comes from mostly pre-allocated central state endowments, while most of their expenditure is quasi-obligatory (health and education).

Summary of the country examples

While public expenditure is mostly centralised in France, local and regional authorities are very important actors in public investments (being responsible for about 57% of public investments). The French model of multilevel governance has seen several important changes during the past decades. These reforms include the creation of 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 (*vojvodships*), 380 counties (*powiats*) and 2 478 municipalities (*gminas*). Each level operates independently in the sense that each has its 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 regionwide effects.

Although Poland adopted the laws on decentralisation fairly quickly in the early 1990s, reforms were based on intensive public discussions. The fact that everyone was encouraged to participate in the public debate on decentralisation promoted inclusiveness and feeling of ownership of the reforms among citizens. Subsequently, the reform plans were accepted and the implementation of the reforms 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 by 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. The responsibility for regional development and managing EU funds is also organised through intermunicipal co-operation. Municipalities are obliged by law to be members of 1 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, intermunicipal 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. Finnish experiences from intermunicipal 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 an ageing population, the previous Finnish government (in office from mid 2015 until early 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 Bill put forth by the government suggested in the beginning that the regions should be financed with central government transfers and user fees, an inquiry into assigning taxation powers to regional councils was scheduled 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 healthcare. This added to 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, abandoning 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 and we list here a few main observations. First,

it seems clear that bundling several issues with the reform package was a mistake, as it led to serious legal problems, making 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 benefitted from greater political preparation, by a parliamentary committee for example. 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 be 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 from intermunicipal associations to regions. The deconcentrated central government services will not be abandoned either.

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3 The case of Portugal: Diagnosing multilevel governance strengths and challenges

This section is divided into two main parts. The first part describes and analyses the current decentralisation policies in Portugal. The second part focuses on the regional development policies. Both sections identify a number of challenges in these policy areas. For decentralisation policies, one of the main challenges is the low degree of spending and revenue powers devolved to subnational governments, because this limits the benefits received from decentralisation. Other challenges include the unclear role of inter-municipal co-operation, the volatility of some of the municipal tax bases, and the overlapping assignments between deconcentrated central government units. From the regional development policy perspective, the current challenges include the ability of CCDRs to catalyse a truly cross-sector and strategic approach to regional development, and the mismatches in geographic boundaries of deconcentrated Ministry branches.

Note by Turkey:
The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union:
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

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. At the end of the chapter, the challenges of the Portuguese model are discussed.

Subnational government structure

Since the 1976 Constitution, there are 308 municipalities (278 in the mainland) and 2 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 the Azores. In addition to the autonomous regions and municipalities, currently, there are also 3 091 parishes (2 882 in the mainland, 155 in the Autonomous Region of the Azores and 54 in the Autonomous Region of Madeira) (see also Figure 3.1). 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 intermunicipal entities (IMC) and the associations of municipalities/parishes for specific purposes. The former are associations of municipalities that currently consist of 2 metropolitan areas (MAs, Lisbon and Porto) and 21 intermunicipal 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 intermunicipal enterprises (MIEs). 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 an inhouse 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.

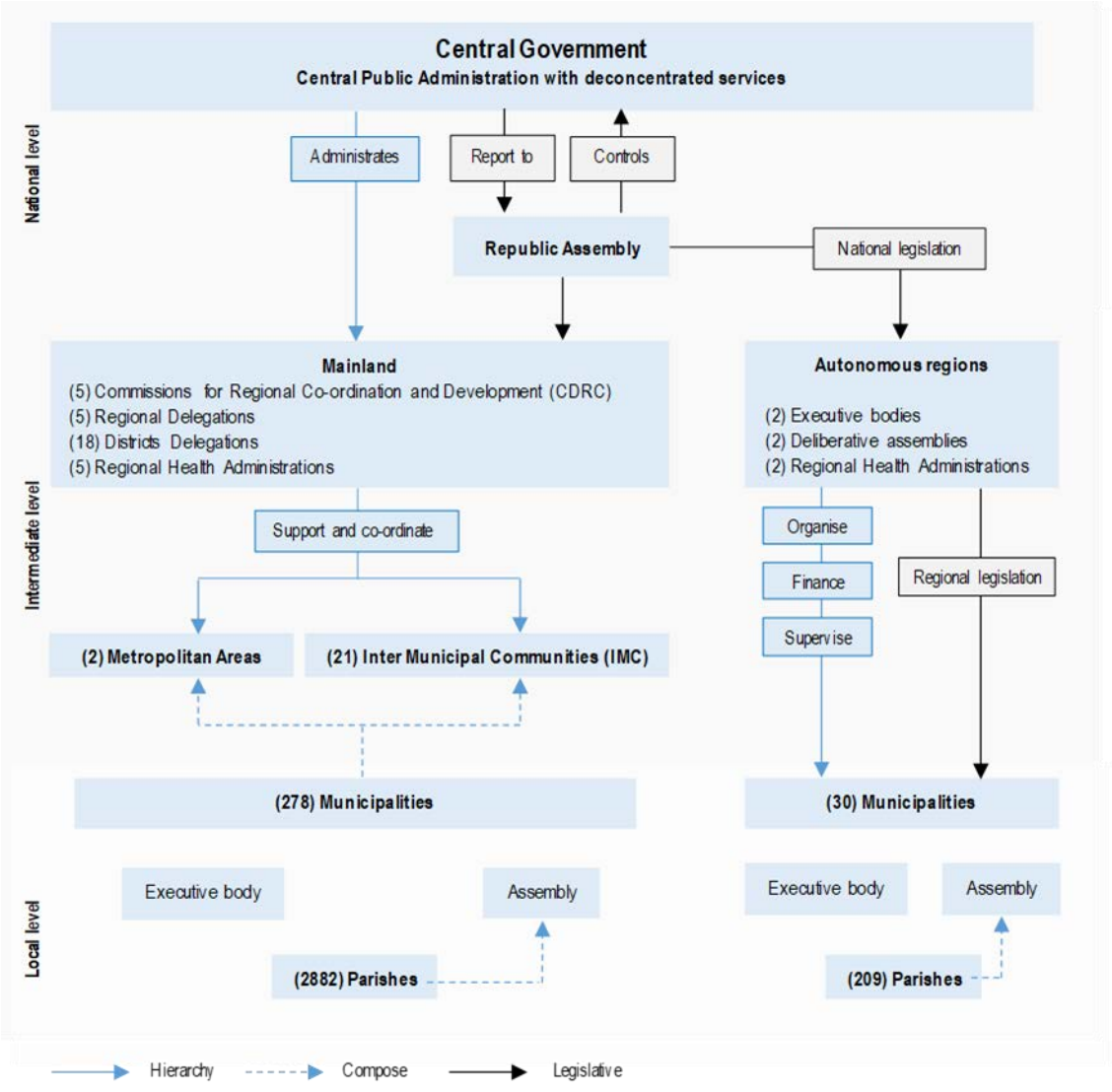
Municipalities can also pursue their tasks through other organisational forms aimed at interinstitutional co-operation: i) co-operatives and foundations; and ii) associations. In both cases, other partners can be involved, namely public, private or from the social sector.

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

Political decentralisation

Democracy was re-established in Portugal on 25 April 1974, after 48 years of dictatorship. The first elections for the regional governments of the Azores and Madeira took place in 1976 and every four years since then. The first elections for local governments were held in 1976. Initially, the local elections took place every three years (1979, 1982, 1985) and then every four years (1989, 1993, 1997, 2001, 2005, 2009, 2013 and 2017).

Figure 3.1. Portuguese model of multilevel governance



Note: Municipal and intermunicipal enterprises, as well as other organisational forms aimed at interinstitutional co-operation, are not included in the graph.
Source: Author's elaboration.

The governing bodies of the Autonomous Regions of the 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 assembly[1] (deliberative power). The town councillors are elected directly by voters registered in the municipality by proportional rule. The leader of the party or list[2] 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 number of councillors, depends on the number of registered voters. Some 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 subnational levels of government occurred through the creation of intermunicipal co-operative units (IMCs). In 2008, a legal framework for municipal associations was adopted. Geographically, the IMCs follow the boundaries of the NUTS 3 regions. While membership in an IMC is not compulsory, all municipalities are currently members, as municipalities are steered to join by upper-level incentives associated with the management of European Union (EU) structural funds. The IMCs are governed[3] by the intermunicipal assembly (deliberative power), the intermunicipal council, the executive secretariat (executive power) and the Strategic Council for Intermunicipal Development (advisory power).[4]

Administrative decentralisation

Subnational government responsibilities

Autonomous regions

The legal background for administrative and fiscal decentralisation of autonomous regional governments is currently established by the Political-Administrative Status of the Autonomous Regions of the Azores (Law no. 39/80, changed by Laws no. 9/87, 61/98 and 2/2009) and Madeira (Law no. 13/91, changed by Laws no. 130/99 and 12/2000), and the Autonomous Region's Finance Law (Organic Law no. 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, Law no. 75/2013 defines their assignments and Law no. 73/2013 the financial regime. According to Article 23 of Law no. 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
    b. energy
    c. transport 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
    k. environment and basic sanitation
    l. consumer protection
    m. fostering development

n. spatial planning and urban planning
o. municipal police
p. external co-operation.

The list of assignments has been kept relatively 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 intermunicipal entities in any of the above assignments. In 2015, Law no. 69/2015 expanded the local authorities' competencies in education, teaching and vocational training, and Decree-law no. 30/2015 specified several aspects of the decentralisation process.

In order to clarify the assignments and responsibilities, and to take steps for further decentralisation, Law no. 50/2018 of 16 August 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 15 September, that they were not willing to implement them (Box 3.1).

Box 3.1. The ongoing decentralisation process

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

1. The reorganisation of the state at the regional and subregional levels, 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 to strengthen intermunicipal structures.

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

Regarding the competencies to be transferred to the municipalities, Law no. 50/2018 defined a wide range of new competencies 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:

1. Education, all that refers to non-tertiary education, except management of teaching staff and definition of curricular contents.
2. Social action at the local level, especially in the fight against poverty.
3. Justice: "*Julgados de Paz*" network (volunteer commitment court), social reintegration and support for victims of crimes.
4. Health, local equipment and management of non-clinical personnel.
5. Municipal civil protection.
6. Culture, local heritage and museums not classified as national.
7. State unused real estate assets.
8. Housing, housing of the state and management of urban rental and rehabilitation programmes.
9. Management of port-maritime areas: secondary fishing ports, recreational boating and urban areas for tourism development.
10. Tourism (intermunicipal entities): management of investment funds, planning and subregional tourism promotion.

11. Investment attraction and management of community funds (intermunicipal entities): definition of the territorial strategy for development and management of local development programmes with community funding.
12. Beaches: licensing, management and equipment of sea, river and lake beaches integrated in the public domain of the state.
13. Management of forests and protected areas.
14. Transport: infrastructures and equipment within urban perimeters.
15. Citizen service: citizen's shops.
16. Proximity policing, participation in the definition of a policing model.
17. Protection and animal health.
18. Food safety.
19. Fire safety in buildings.
20. Public parking: regulation, supervision and management of administrative misconduct.
21. Licensing games of chance and fortune at a local level.

Intermunicipal co-operation and metropolitan governance

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

1. Promoting the planning and management of the strategy for economic, social and environmental protection of its territory.
2. Co-ordination of municipal investments of intermunicipal interest.
3. Participation in the management of regional development programmes.
4. Planning of the activities of public entities, of supra-municipal character.

It is also the responsibility of the IMC to ensure the co-ordination of actions between municipalities and central government in the following areas:

1. Public supply networks, basic sanitation infrastructures, treatment of wastewater and municipal waste.
2. Network of health equipment.
3. Educational and vocational training network.
4. Spatial planning, nature conservation and natural resources.
5. Security and civil protection.
6. Mobility and transport.
7. Public equipment networks.
8. Promotion of economic, social and cultural development.
9. 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 IMCs: i) exclusive management of “municipal” functions, that is, these functions would be solely assigned to the IMC; ii) shared management of municipal functions; iii) exclusive management of functions directly

delegated by the national government; and iv) shared management of national government functions. Currently, the intensity and diversity of co-operation varies across the country's 23 IMCs (Veiga and Camões, 2019[1]).

Box 3.2. Metropolitan areas of Lisbon and Porto

The national legislation defines the framework for Portugal's two metropolitan areas (laws enacted in 1991, 2003, 2008 and 2013). The Metropolitan Areas of Lisbon and Porto are intermunicipal 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 (MA). The Porto Metropolitan Area is composed of 17 municipalities and governed by an assembly of composed of 43 members nominated by member municipalities.

The current laws grant the metropolitan areas the authority to "participate", "promote" and "co-ordinate" 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 intermunicipal 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 intermunicipal sphere.

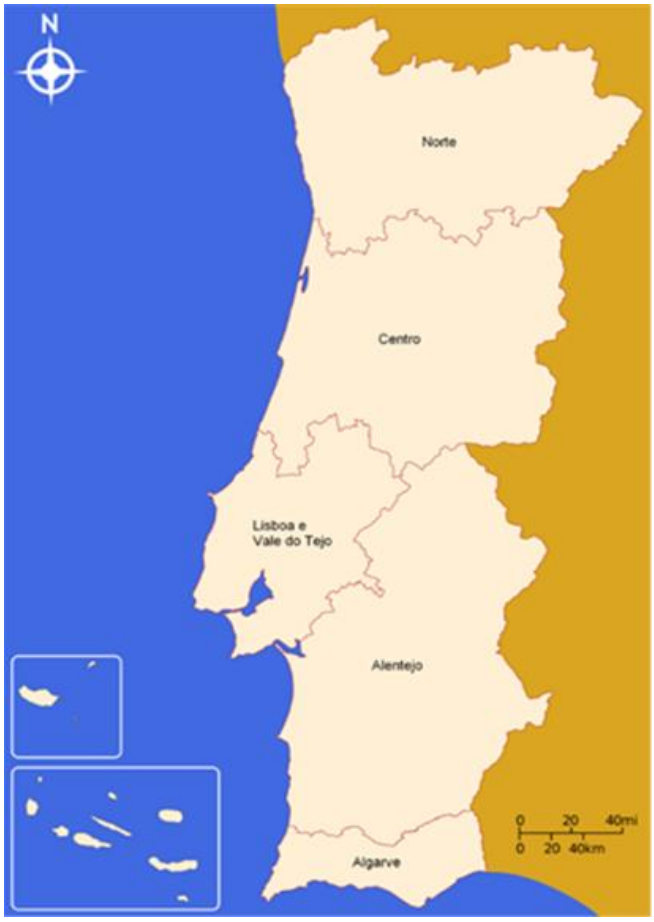
Deconcentrated central government regional bodies

In mainland Portugal, according to Decree-law no. 104/2003, the Commissions of Co-ordination 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 co-ordination and articulation of various sectoral policies at regional level.
- To implement environmental, spatial and urban planning and urban development policies.
- To give technical support to local authorities and their associations.

The organisational 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 are 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 a CCDR corresponds entirely to that of NUTS 2 statistical units on the continent. There are currently five Regional Co-ordination and Development Commissions: Alentejo, Algarve, Centre, Lisbon and Tagus Valley, North (Figure 3.2).

Figure 3.2. Map of the CCDRs (deconcentrated units)



Source: Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript.

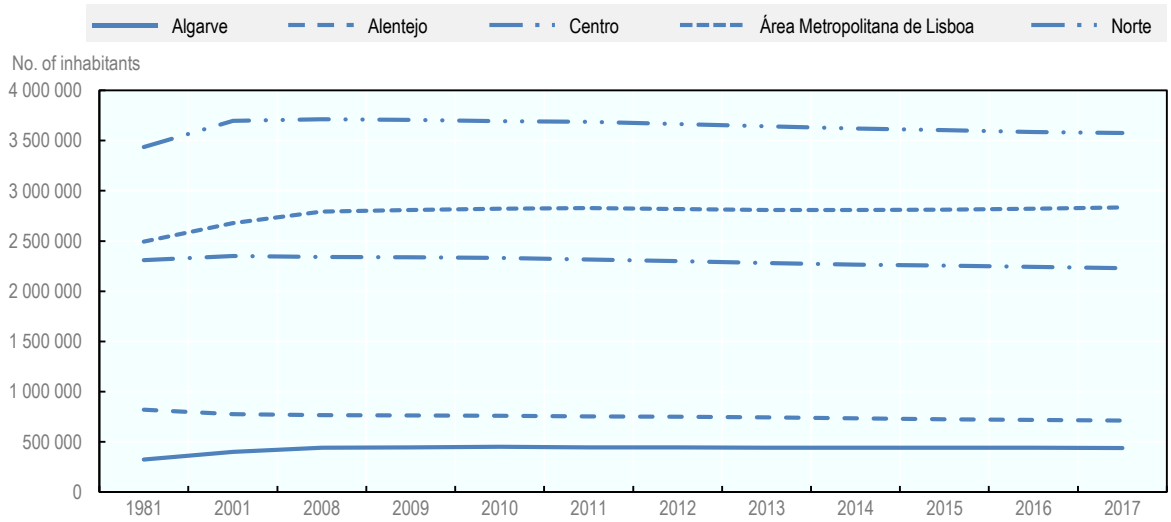
Administrative regions: A description of yet-to-be-established regional governments

Portuguese Constitution establishes a model of regionalisation 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 "autonomous regions", which are found in the Azores and Madeira.

The organisation and functioning of the so-called administrative regions are defined in Chapter IV of Title VIII of Part III of the Portuguese constitution and Law no. 56/91 (also known as the Administrative Law). Law no. 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.

Figure 3.3. The population size of the Portuguese regions (mainland)



Source: OECD elaboration based on population data provided by Statistics Portugal (2019[2]), *Resident Population, Estimates at December 31st*, https://www.pordata.pt/en/DB/Municipalities/Search+Environment/Table (accessed on 29 May 2019).

According to Law no. 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 of 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 4 or 6 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 co-ordinate 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 3.3. Regionalisation in Portugal: A short history

Since the mention of regions in the Portuguese constitution and creation of Law no. 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 the regional map for mainland Portugal. In 1995, António Guterres was elected as prime minister with the creation of administrative regions in his electoral programme. 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 8 November 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 the 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 Co-ordination 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. 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 co-ordinating the activities of the municipalities, but their competencies were later increased considerably.

Subnational government financing

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

1. Preparing and approving financial plans, annual budget and financial accounts.
2. Deciding and managing their own assets.
3. Managing the tax powers legally granted.
4. Administering and collecting their own revenues.
5. Administering and processing expenditures.
6. 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:

1. Municipal General Fund – to finance their legal assignments.
2. 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 – the 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 – the Financial Fund of Parishes – that corresponds to 2% of the average of the amount collected with personal income tax, corporate tax and value-added tax.

Local governments are limited with regard to indebtedness. The total amount of municipal debt cannot exceed 1.5 times the 3-year average of current revenues. In 2011, 141 (46%) municipalities exceeded the debt limit, which forced the national government to adopt severe measures. In the first place, the 2013 legal regime already recognised the importance of foreseeing the existence of municipalities in need of financial recovery. Accordingly, this law created a Municipal Support Fund, with equal participation of central and local governments, in order to financially assist unsolvable municipalities. The law also created a Regularisation 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.

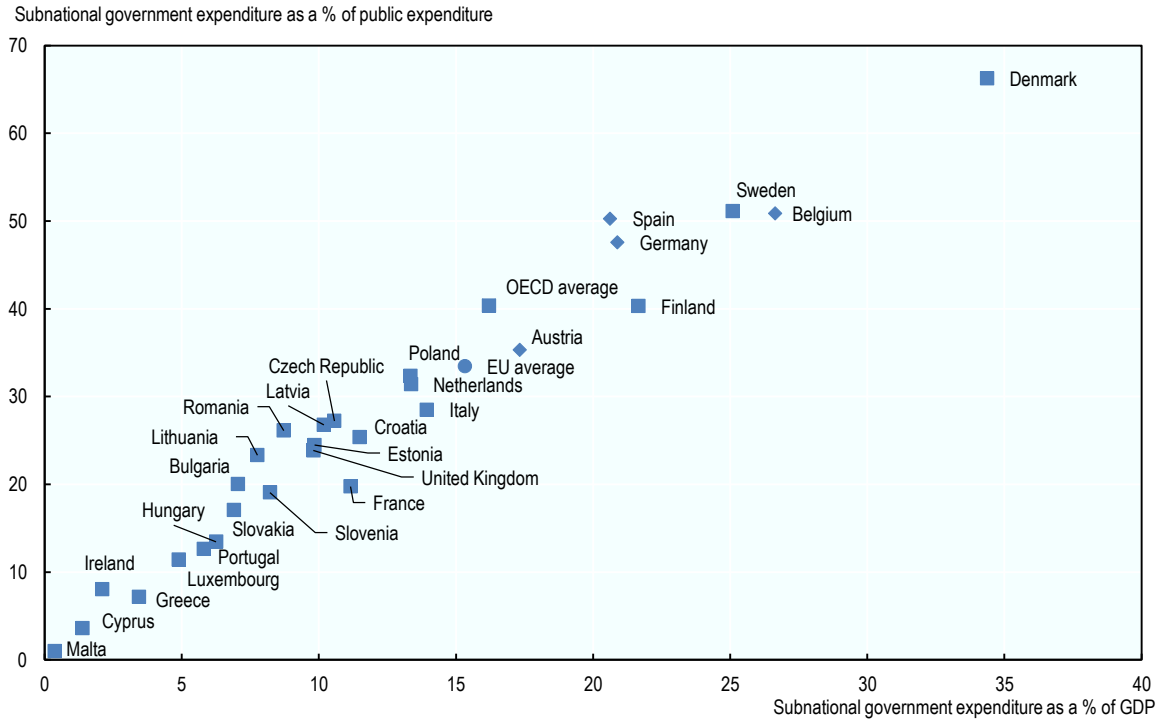
Local governments' financial activity has also been conditioned by the new regime of commitments and arrears by the public sector (Law no. 8/2012). For the settlement of the payment of debts of municipalities overdue more than 90 days, the Local Economy Support Programme (PAEL) (Law no. 43/2012) was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

Decentralisation in Portugal in international comparison

Measured with the usual decentralisation indicators, the degree of fiscal decentralisation in Portugal is relatively low (Figure 3.4). Moreover, there are no signs of major changes in decentralisation in Portugal during the past two decades. Between the years 2000 and 2017, subnational governments' revenues/expenditures represented around 6% of gross domestic product (GDP) and sat below 17% of general government revenues/expenditures (Figure 3.5). 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.

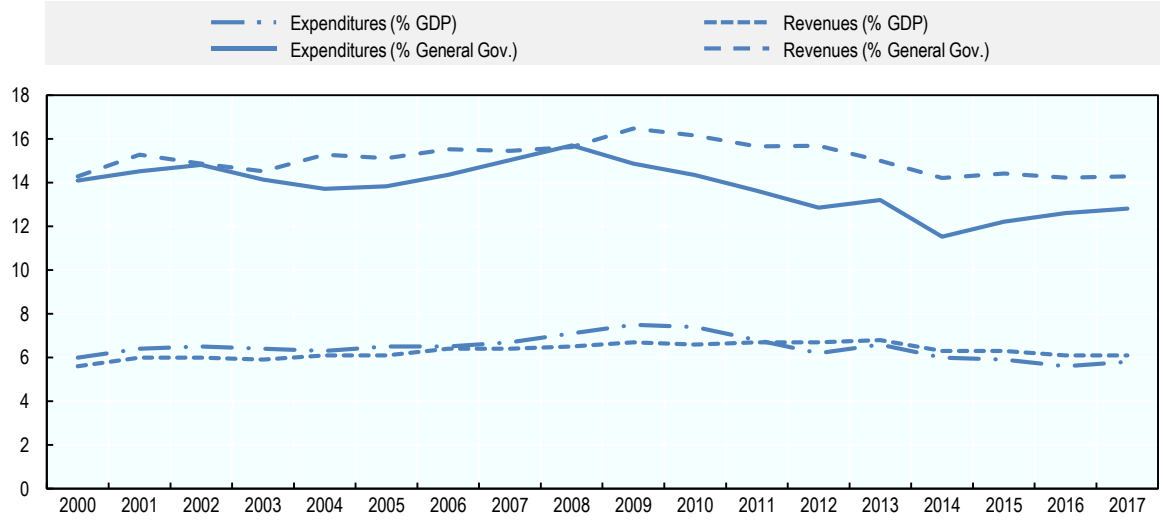
Figure 3.4. Portugal is among the least decentralised countries in the EU

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[3]), *Making Decentralisation Work: A Handbook for Policy-Makers*, https://dx.doi.org/10.1787/g2g9faa7-en.

Figure 3.5. Regional and local governments' expenditures/revenues as a percentage of GDP and of general government's expenditures/revenues



Source: (European Commission, 2019[4])

Among 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 3.1). This group consists mostly of countries with small population size, such as Cyprus, Luxembourg, Malta, the three Baltic countries, and also Bulgaria, Finland and Ireland (Figure 3.6, Panel A). In Bulgaria, Finland 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 the Czech Republic, Hungary, Romania and Sweden. The third-country group, with three tiers of subnational government, consist clearly of the biggest countries by population. France, Germany and Poland, among others, belong to this group. The association between a country's population size and the 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 3.6 (Panel A). Portugal could, based on its population size, also belong to a group of countries with two levels of subnational government. Panel B of Figure 3.6 shows the considerable variation in the size of administrative regions in the OECD. Among unitary countries in the OECD, France now has the largest regions in terms of population, and Chile in terms of size.

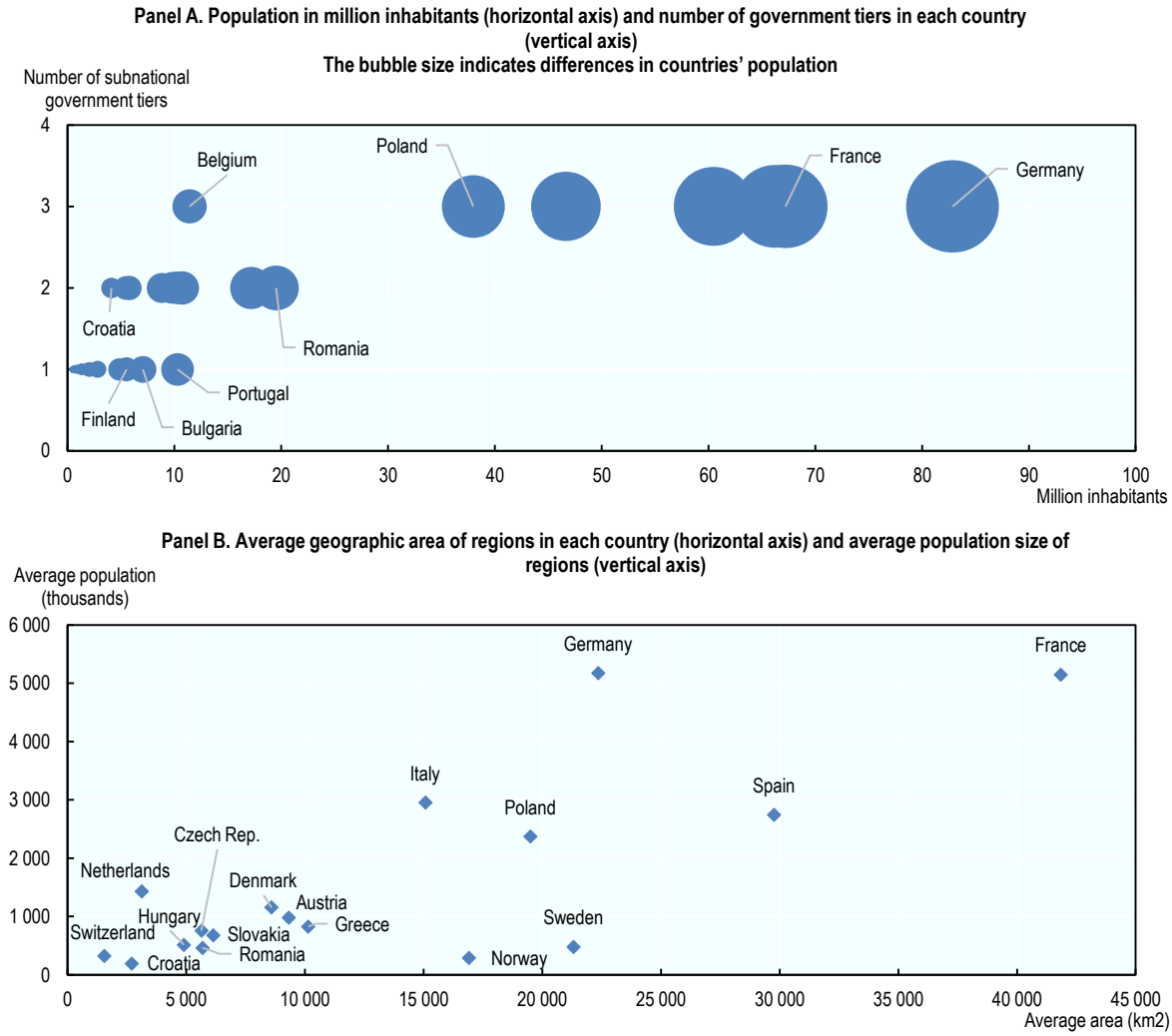
Table 3.1. Subnational government organisation in the EU28

	Countries with one subnational government level* (n=11)	Countries with two subnational government levels** (n=10)	Countries with three subnational government levels** (n=7)
Federations (n=4)		Austria	Germany Belgium Spain§
Unitary countries (n=24)	Bulgaria Cyprus Estonia Finland§ Ireland	Croatia Czech Republic Denmark Greece Hungary	France Italy Poland United Kingdom§

	Latvia Lithuania Luxembourg Malta **Portugal§** Slovenia	Netherlands Romania Slovak Republic Sweden	

* 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; The United Kingdom has three "devolved nations" at regional level.

Figure 3.6. Population size and number of subnational government tiers among EU28 countries and the OECD countries



Source: OECD and author's calculations based on Eurostat population data (Eurostat, 2019[5]).

The average population size of Portuguese municipalities is 33 600 inhabitants (35 400 in the mainland) (Table 3.2). This is among the highest municipal population sizes among EU countries, although the size is higher in Denmark, Ireland, Lithuania, the Netherlands, Sweden and the United Kingdom (Figure 3.7). It

should be noted, however, that in Denmark, the Netherlands and Sweden for example, the municipalities are responsible for many demanding tasks such as social services and healthcare.

Despite of relatively high average population size, the differences between municipalities are nevertheless considerable. Municipal population varies between 460 000 and 504 000 inhabitants. Only 6 municipalities have more than 200 000 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 10 000 inhabitants and 67 municipalities have between 10-20 000 inhabitants. The differences in geographic, demographic and fiscal circumstances are considerable too (Table 3.2).

Table 3.2. Descriptive statistics for municipalities 2017

Indicators covering all 308 municipalities

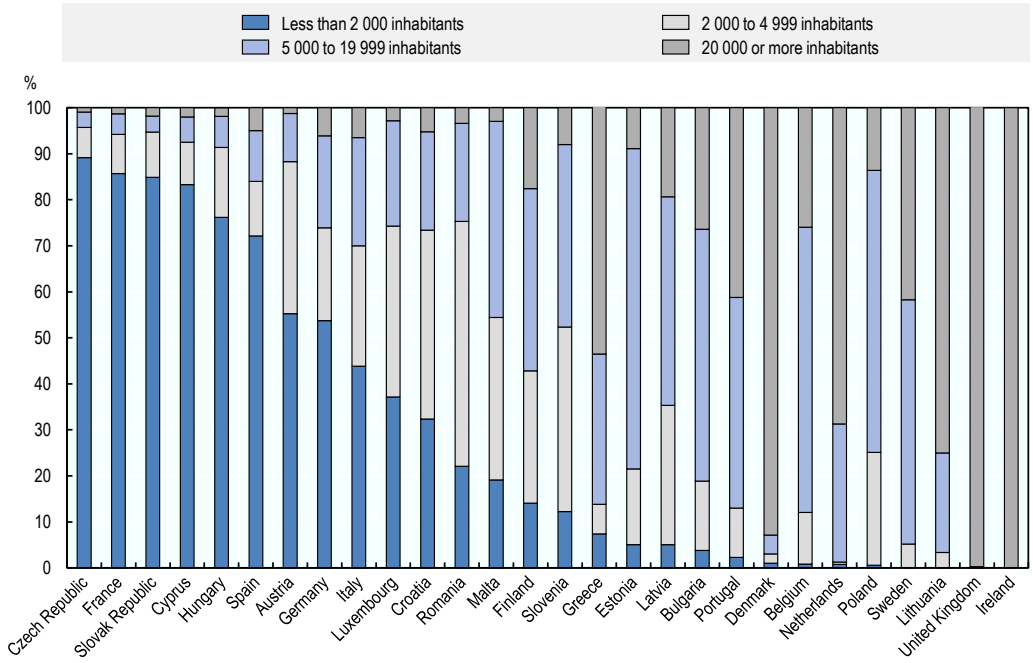
Dimension	Variable	Average	Standard deviation	Smallest	Biggest
Scale	Population (2017)	33 575.7	54 690.1	459	504 471
	Area (km^2) (2017)	299.4	277.8	7.9	1 720.6
Geography and demography	Location (inland, coastal, islands) (2017)	--	--	--	--
	Seasonality (stays per 100 inhabitants) (2017)	639.2	1 689.8	6.2	20 613.2
	Altimetric amplitude (meters) (2017)	625.5	441.3	17.0	2 351.0
	Population density (2015)	291.5	794.0	4.3	7 426.8
	Percentage of elderly population (>=65) (2015)	23.9	6.3	8.1	45.4
	Urbanisation (percentage of land for urban use) (2015)	10.1	12.1	0.3	75.5
Fiscal	Total expenditures per capita (EUR) (2017)	1 145.7	646.8	353.0	6 863.4
	Tax revenues per capita (EUR) (2017)	222.7	157.5	64.4	1 147.1
	Financial independence (own revenues as a percentage of effective revenues) (2017)	41.9	18.8	6.7	94.5
	Weight of transfers (percentage of effective revenues) (2017)	58.2	18.8	5.5	93.3

Sources: Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript; National Institute of Statistics (Instituto Nacional de Estatística, 2019[6]) and General-Directorate for Local Governments (Direção-Geral das Autarquias Locais, 2019[7]).

The strong role of central government in Portugal in public service provision is reflected in the responsibilities devolved to subnational governments (Figure 3.8). 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.

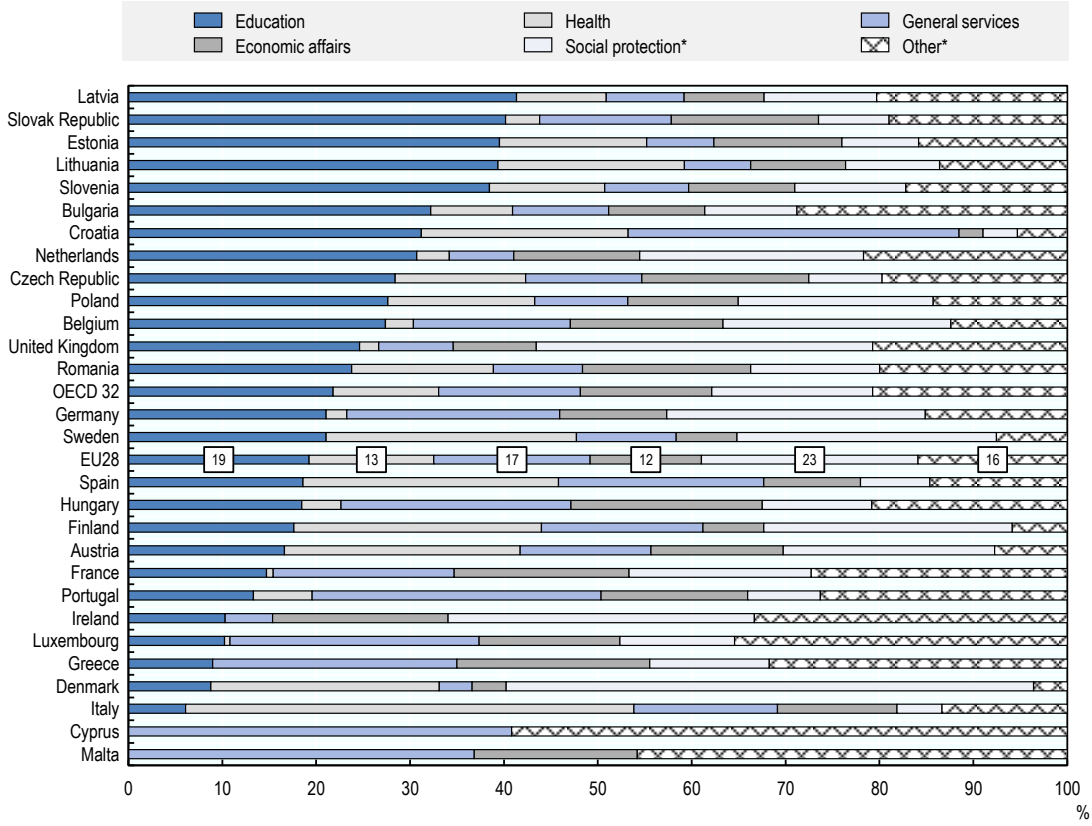
In contrast to the situation in spending responsibilities, the revenue structure of Portuguese subnational governments follows closely the EU and OECD mainstream (Figure 3.9). As in the EU on average, the most important source of revenue is tax revenues, followed by transfers and user fees.

Figure 3.7. Portuguese municipalities are big in terms of population compared with most EU countries



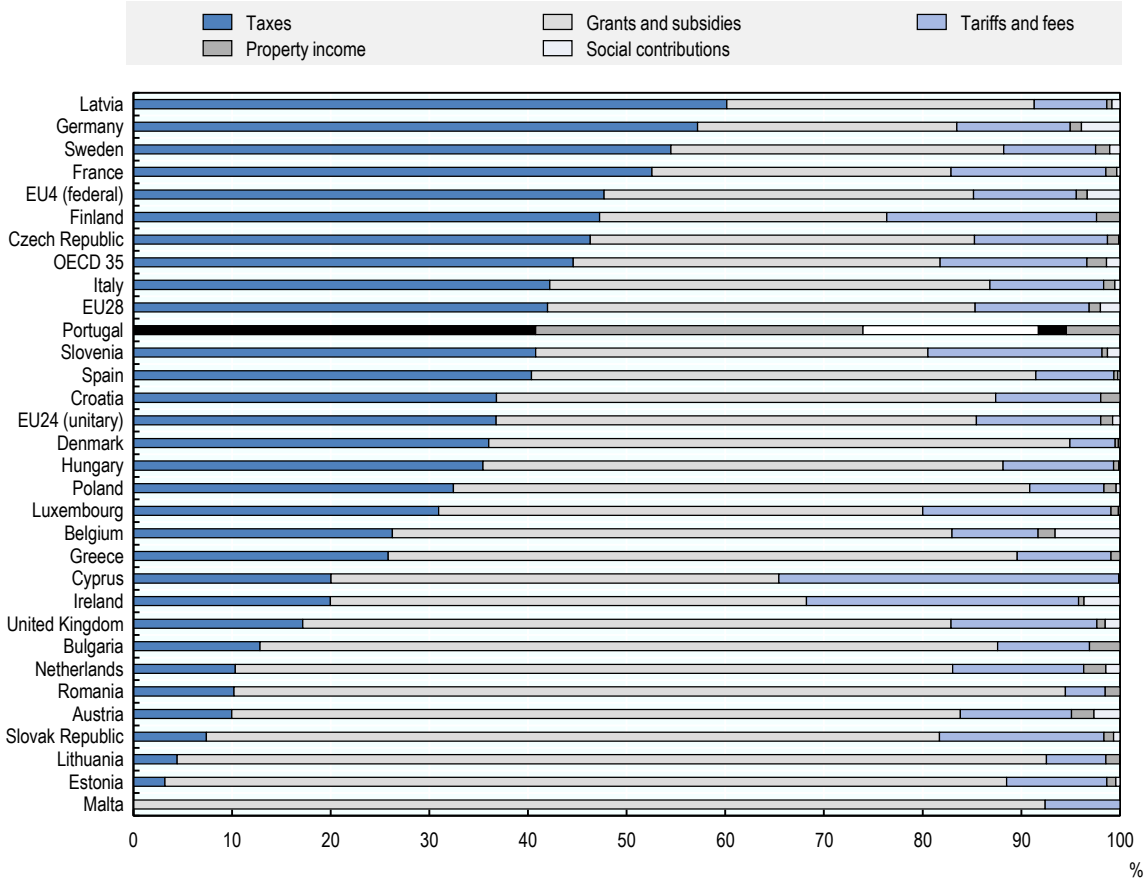
Source: OECD.

Figure 3.8. Portuguese subnational government provides local public goods



Source: OECD.

Figure 3.9. More than half of the subnational government revenues is formed by own-source revenues in Portugal



Source: OECD.

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, 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 EC funding. Therefore, the ability of CCDRs to deal with issues concerning public service provision is restricted. Moreover, 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 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 3.3). 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 three, as can be seen from Table 3.3.

Table 3.3. 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

N = National, R = Regional, L = Local, P = Private or non-governmental.
Source: Bahl, R. and R. Bird (2018[8]), *Fiscal Decentralization and Local Finance in Developing Countries: Development from Below*, https://www.e-elgar.com/shop/fiscal-decentralization-and-local-finance-in-developing-countries.

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

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 CCDRs and other deconcentrated administration do monitor and co-ordinate local tasks to 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 regionwide benefits (and which the IMCs are not well-positioned to internalise). In these services, the regional level service delivery could be defended.

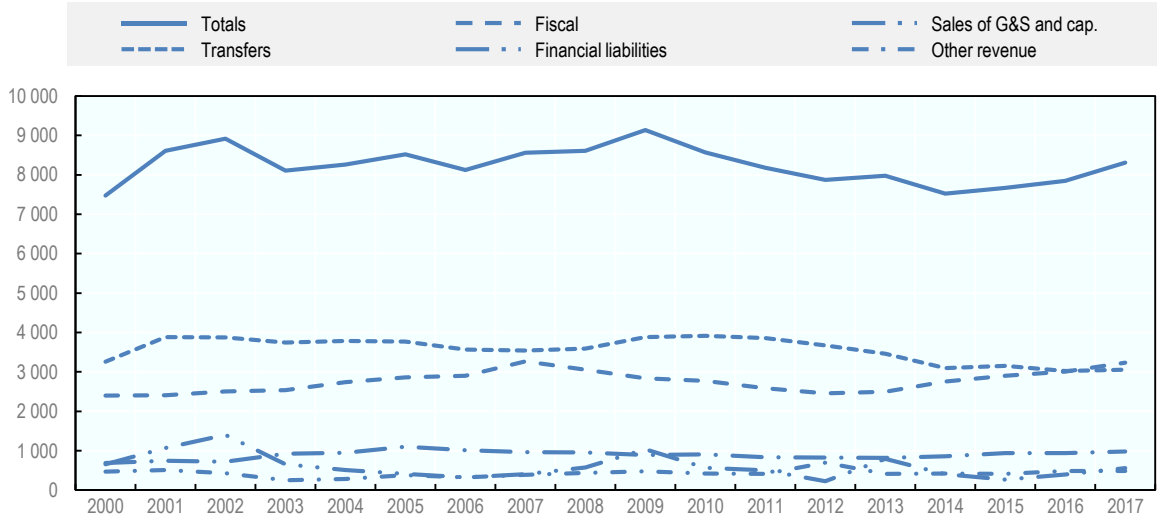
Like many other European Union member countries, in the coming years and decades, Portugal must find ways to solve problems that are formed by rapid population ageing, continuing urbanisation and the decreasing population especially in rural areas. While the population will decrease, especially in remote rural areas, metropolitan areas will also be affected. These trends challenge the Portuguese government both at the central and local levels and form the main pressures for structural reforms in the public sector.

Portugal is currently in the 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 3.10). The good news is that the recovery of the 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 an 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 3.10. Municipal revenues by category between 2000 and 2017

In millions of 2017 EUR



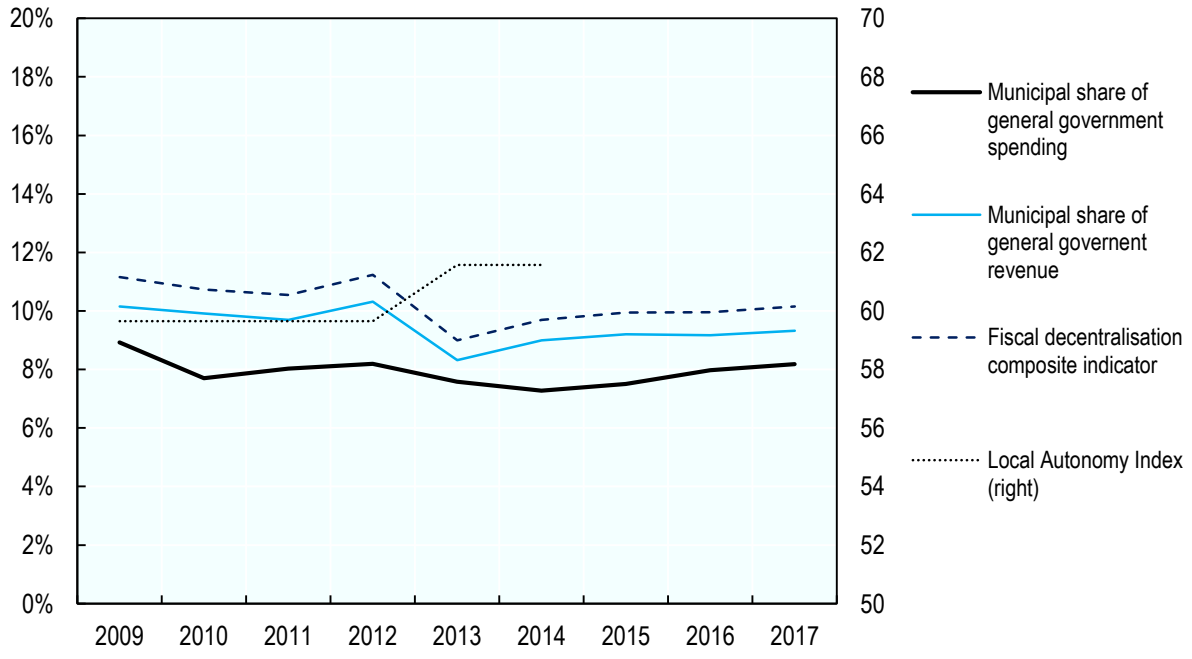
Note: Each line represents national totals.
Source: Own calculations based on data from the General-Directorate for Local Governments (DGAL) (Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript).

Modest spending and revenue decentralisation miss the potential benefits of decentralisation

Despite current and past efforts to transfer tasks and revenues from central government to municipalities and intermunicipal 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, not that many important spending assignments have been devolved to local governments at the same time. It is interesting to note that although the Local Autonomy Indicator,[5] which measures the local 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 3.11).

The reluctance of the 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 future administrative regions (if they are established), the benefit potential of decentralisation remains underutilised.

Figure 3.11. 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 the general government. The Local Autonomy Index is an expert-based assessment of local governments' autonomy combing 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.
Sources: Statistics Portugal (2019[2]), *Resident Population, Estimates at December 31st*, https://www.pordata.pt/en/DB/Municipalities/Search+Environment/Table (accessed on 29 May 2019);
Ladner, A., N. Keuffer and H. Baldersheim (2016[9]), "Measuring local autonomy in 39 countries (1990–2014)", http://dx.doi.org/10.1080/13597566.2016.1214911.

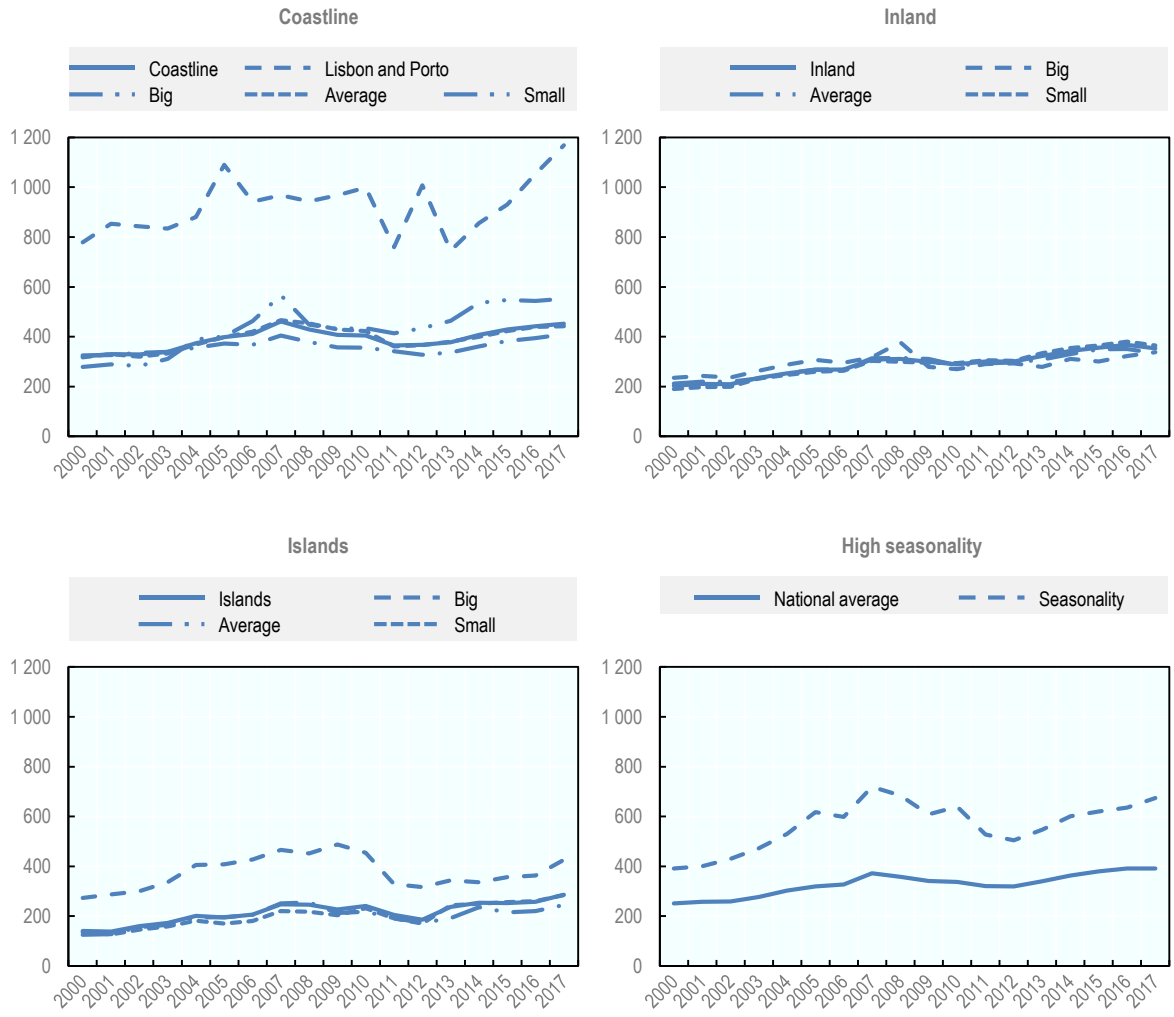
The differences in fiscal capacity between municipalities put pressure on the transfer system and fiscal equalisation

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 3.12). At the other extreme are the inland municipalities, which are exceptionally dependent on intergovernmental transfers (Figure 3.13).

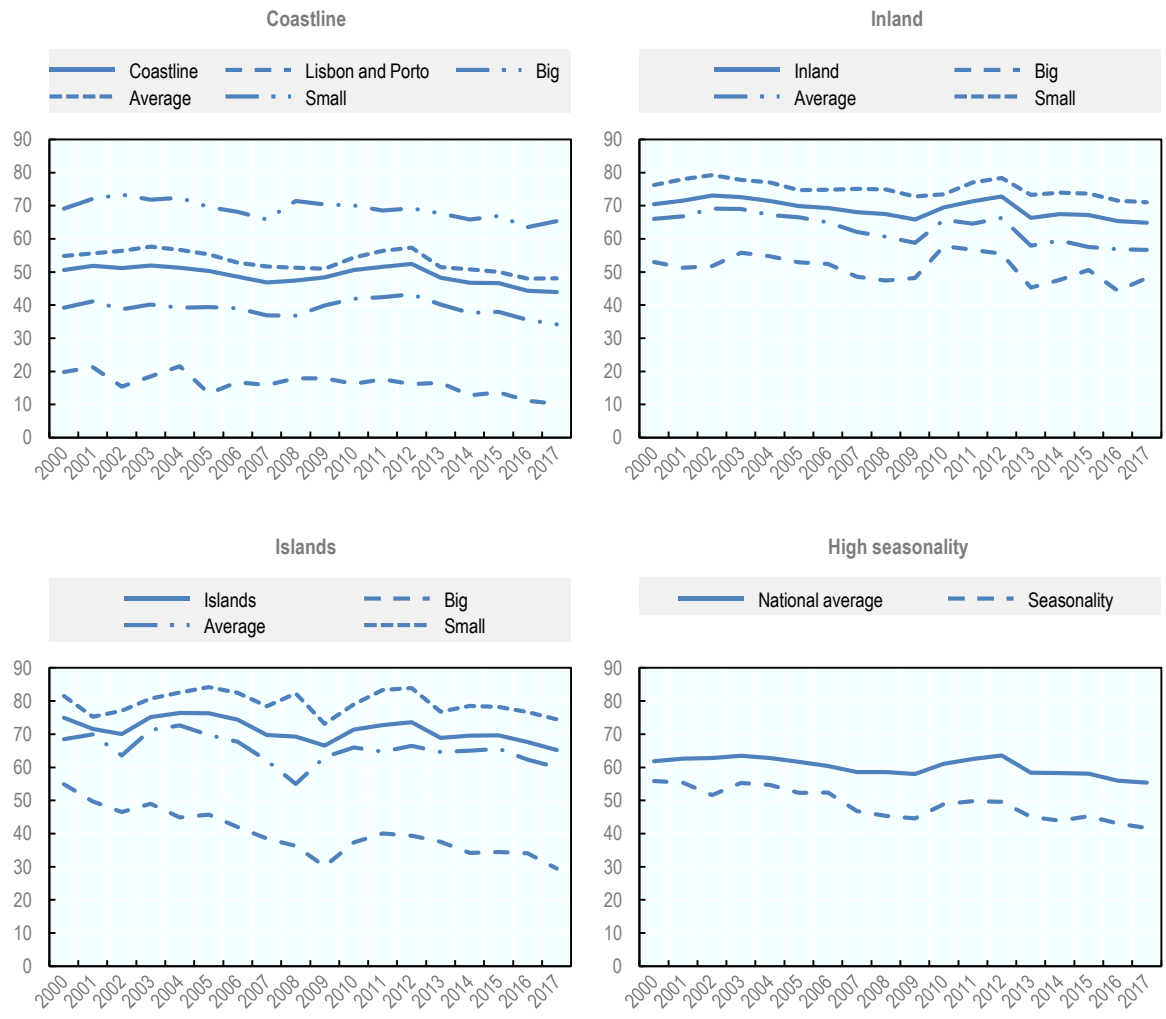
Figure 3.12. Average own revenue in different municipality groups

EUR in per capita of 2017 value



Note: Each line represents average values for municipalities belonging to each group.
Source: Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript.

Figure 3.13. Weight of transfers on total municipal revenue



Note: Each line represents average values for municipalities belonging to each group.
Source: Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript.

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 property tax and surcharge tax (Veiga and Camões, 2019[1]). 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.

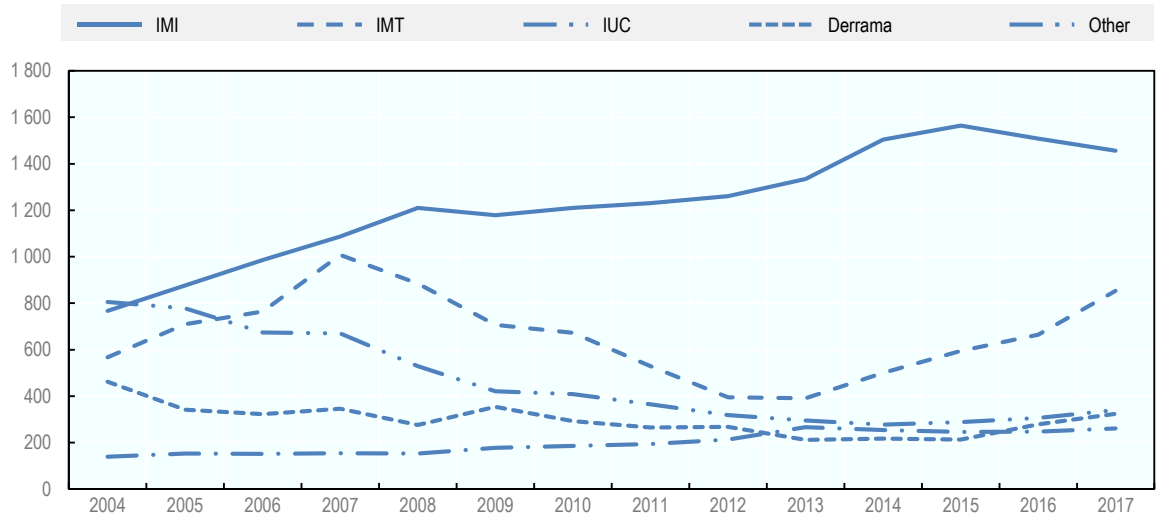
Volatile municipal tax bases may create spending risks

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 3.14). 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 of this decline (Veiga and Camões, 2019[1]). Since 2014, the IMT has been rising rapidly. It should also be noted that although Law no. 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, which are the main beneficiaries of the IMT (Figure 3.15), 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[10]).

Figure 3.14. Fiscal revenue of Portuguese municipalities

National totals in millions of 2017 EUR



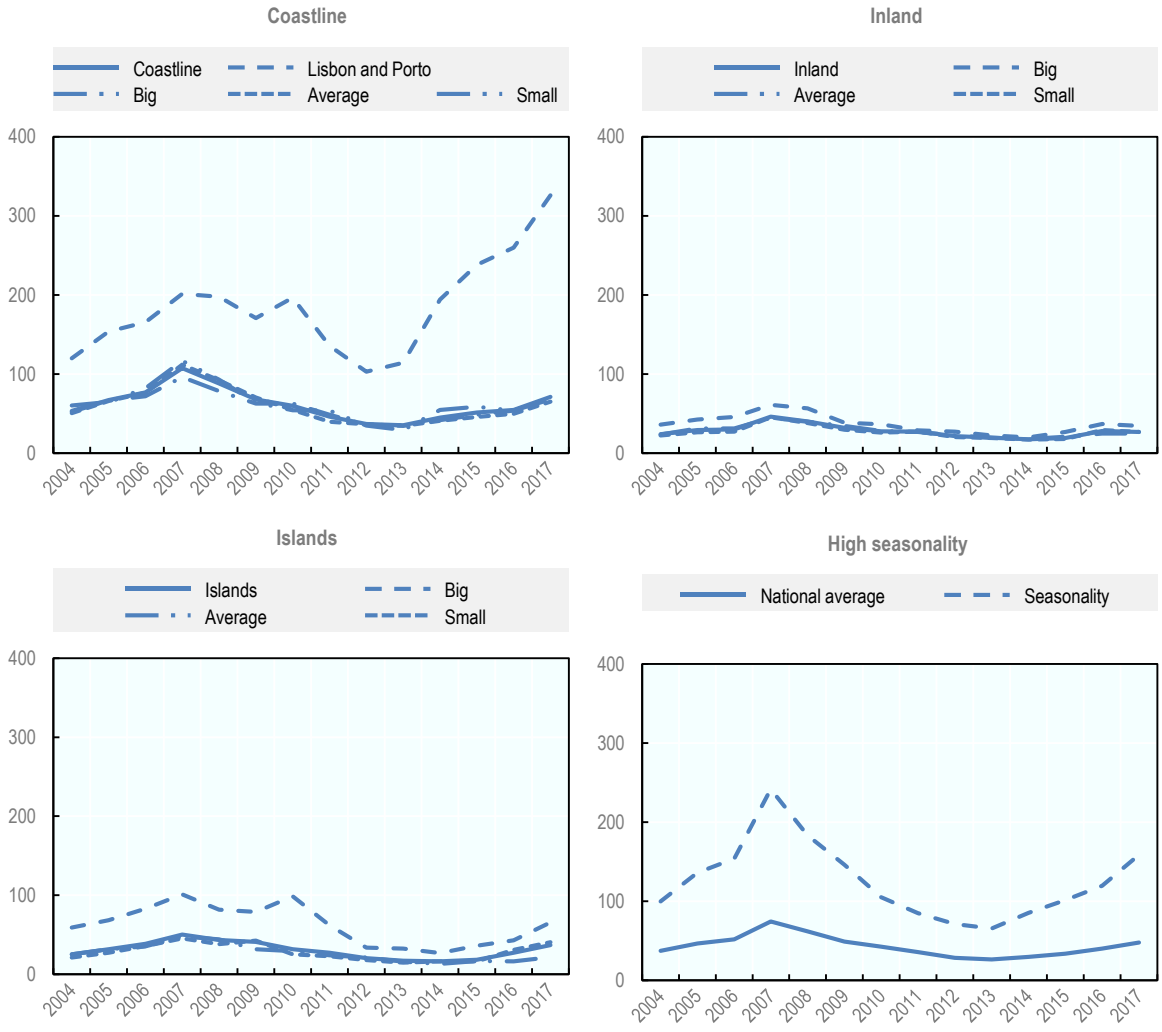
Note: IMI is the Municipal Property Tax (*Imposto Municipal sobre Imóveis*), IMT is the Municipal Property Purchase Tax (*Imposto Municipal sobre Transmissões Onerosas de Imóveis*), IUC is the Circulation Unique Tax (*Imposto Único de Circulação*) and Derrama is the Municipal Surcharge.
Source: Own calculations based on data from the DGAL (Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript).

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

Figure 3.15. Revenue from Municipal Property Purchase Tax is exceptionally volatile

EUR per capita with 2017 values



Note: Each line represents average values for municipalities belonging to each group.
Source: Own calculations based on data from the DGAL (Veiga, L. and P. Camões (2019[1]), "Portuguese multilevel governance", Unpublished manuscript).

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 healthcare and in education, the efficiency and quality of services are followed systematically. Regarding regional development, the Agency for Development and Cohesion plays an active role in implementing, monitoring and evaluating the policies. Examples of such attempts include the Network of Regional Dynamics and Network of Monitoring and Evaluation.

Unclear role of intermunicipal co-operation

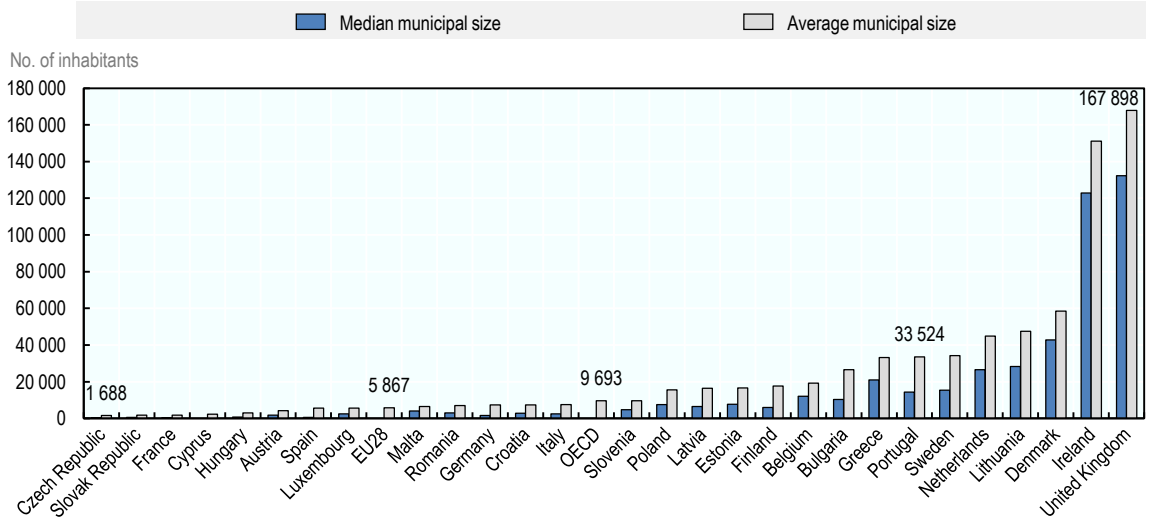
The metropolitan areas (MA) and intermunicipal communities (IMC) still play a marginal role in the public sector. As established in Law no. 73/2013 (Art. 69, no. 2), the amount transferred to IMCs is only 0.5% of the transfer system FEF (1% in the case of metropolitan areas). In addition, intermunicipal 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 the 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 IMCs 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 intermunicipal organisations and guarantee their financial means.

It should also be noted that reforms that aimed to strengthen intermunicipal 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 a co-ordinated 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 with 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 take on 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 3.16). The share of small municipalities in Portugal is not higher than in most other EU or OECD countries. 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.

Figure 3.16. Municipal population size in Portugal in 2016 compared with other EU28 countries



Source: OECD.

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

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 CCRDs are responsible for the territorial co-ordination of central government services in each region. However, there seem to be organisation challenges which may impede the current model in accomplishing all of its goals, for example:

- The deconcentrated central government regional administration is based on a number of regionalised departments, which do not seem to always follow the same geographical borders, even within the same ministry. For example, the Ministry of Labour, Solidarity and Social Security has regionalised social security services within 18 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 5 regional delegations (coinciding with NUTS 2) 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/co-ordination 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 CCRDs to co-ordinate the sectoral services as each sector is led independently by a sectoral president who is at the same level as the president of the CCRD.

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

Local government in Europe features a wide range of organisations due to historical developments and national traditions. 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, the Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia, the Slovak Republic, Sweden), federal states (Austria, Belgium, Germany) and hybrid states (Spain, the United Kingdom and even Italy). Three major state traditions influence local organisation: the Napoleonic tradition (e.g. France, Greece, Italy, Spain, Central and Eastern Europe) based on centralisation, uniformity and symmetry; the Germanic tradition (Austria, Germany, 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,[7] Estonia, Finland, Ireland, Latvia, Lithuania, Luxembourg, Malta, Portugal, Slovenia),[8] then the two-level model (Austria, Hungary, Ireland, the Netherlands, Portugal, Sweden, Switzerland, the United Kingdom) while the minority have a three-level model (France, Germany, Italy, Poland, 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).

Countries with one subnational government tier

In Bulgaria, municipalities were re-established at the beginning of 1990s after several decades of a centralised socialist system in order to restore local democracy. Municipalities are subdivided into smaller towns and villages, totalling 5 267 in 2015. Of these settlements, there are around 2 500 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 subdivided 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[11]).

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 organise 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 (Rahandusministreerium, 2019[12]).

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[11]).

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 five planning regions. They have no legal status but have indirectly elected regional governments (councils) made up of local authority representatives (OECD/UCLG, 2016[11]).

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 competencies. Municipalities can set up submunicipal 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[11]).

In Slovenia, there are 212 municipalities. There is also a submunicipal level of 6 035 settlements (local communities and districts which are optional). The country is also divided into 58 administrative districts representing the state at the territorial level in charge of supervising municipalities (OECD/UCLG, 2016[11]).

Countries with two levels of subnational government

Austria has adopted a territorial organisation comprising 9 *Länder* and 2 356 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 3 174 municipalities constitute the linchpin of the local administration system, with an average population of 3 200 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 2 levels of local authorities: provinces, of which there are 12, and municipalities, which total 441.

The United Kingdom is organised in a particularly diverse manner. Northern Ireland, Scotland and Wales each have a regional assembly (named "parliament" in Scotland) and local councils at local level ("unitary authorities", or "district councils" in Wales). In England (United Kingdom), 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 authority with a single administration level, or county councils.

In Sweden, the 2 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 2 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 1997-98 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.

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 *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 3 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.

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, the municipality is a very old form of local administration and the parish, although also a very old form of organisation, initially a division within the organisation of the Catholic Church, is only part of subnational public administration since the liberal period in the 19th century. The number of municipalities reached 308 and the number of parishes 4 260, in 2013, when the reform of the parishes reduced its number to 3 091 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

programme (2011-14), signed between the Portuguese government and the European 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 reorganisation and significant reduction of the number of municipalities and parishes, in articulation with [European Commission] EC and [International Monetary Fund] IMF staff" (Nunes Silva, 2016[13]). 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 decentralised as well as de-concentrated institutions (Nunes Silva, 2006[14]). In the 1976 constitution, the first form – political and administrative decentralisation – includes the Autonomous Regions of the Azores and Madeira, a form of political decentralisation, whose boards were first elected in 1976, and the administrative region, a form of administrative decentralisation, applied only to mainland Portugal. The motive for a model of political decentralisation in the archipelagos of the 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 deconcentration, central government departments have been organised in regional or local tiers. Among them the particularly important case of the five regional planning and co-ordination entities, the *Comissão de Coordenação e Desenvolvimento Regional* (CCDR), one for each of the five NUTS 2 regions into 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 2014-20. The CCDRs are managed by a president assisted by two vice-presidents, a single controller, intersectoral co-ordination 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.

The 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 a 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 be efficient in Portugal, it would probably require working more strongly on the basis of associations of municipal co-operation.

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 intermunicipal 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, intermunicipal co-operative units, departments, 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.

The Polish case differs from the Finnish and the French models 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 the 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 subnational government 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 co-ordinate 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 non-governmental 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. The use of earmarked grants was especially reduced. At the same time, tax sharing on personal income tax and corporate tax revenues was introduced.

Regional development policy in Portugal

This section will focus on the regional economic 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 the key achievements and challenges of the current and future regional policy in Portugal.

Regional performance and disparities in Portugal

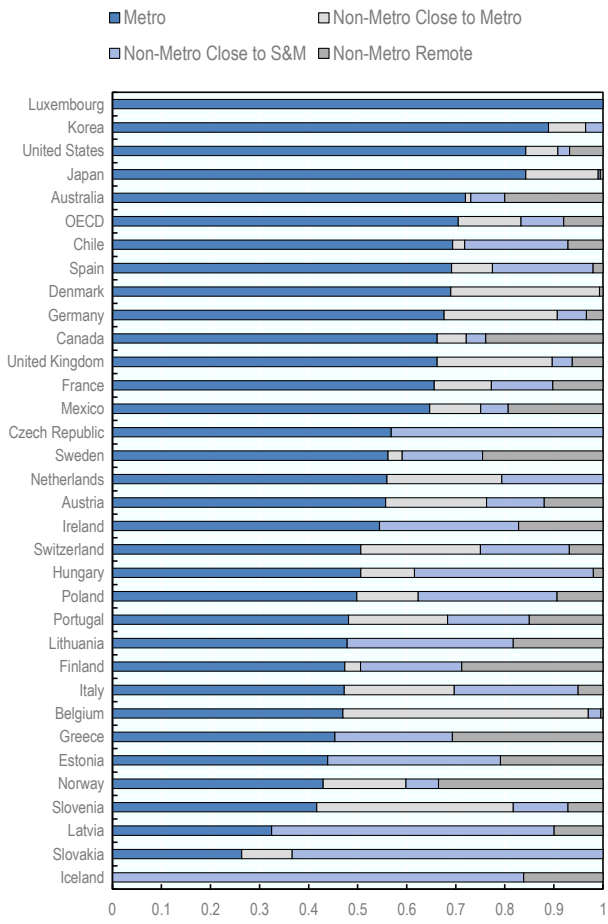
As underlined by the recent *OECD Economic Survey*, Portugal's recovery is now well underway (OECD, 2019[15]). Its recent performance has been strong compared to other southern European countries, with exports as an important driving factor, including strong growth in tourism. GDP has now returned to 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 educations system (OECD, 2018[16]). 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 multilevel governance reforms.

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

Slightly less than half of Portugal's population lives in metropolitan TL3[9] regions (48%), compared to an OECD average of 71% (Figure 3.17, based on the OECD's method of classifying TL3 regions in metro and non-metro according to their level of access to cities – see Box 3.4). Conversely, a larger share of Portugal's population lives in non-metro remote regions (15%) compared to the OECD average (8%).

Figure 3.17. Distribution of population by type of region, 2016



Note: Metro is defined as the sum of classifications "metropolitan" and "metropolitan large".
Sources: OECD (2019[17]), *Regional Demography*, http://dx.doi.org/10.1787/region-data-en; Fadic, M. et al. (forthcoming[18]), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", *OECD Regional Development Working Paper*, OECD Publishing, Paris.

Box 3.4. 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 on 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:

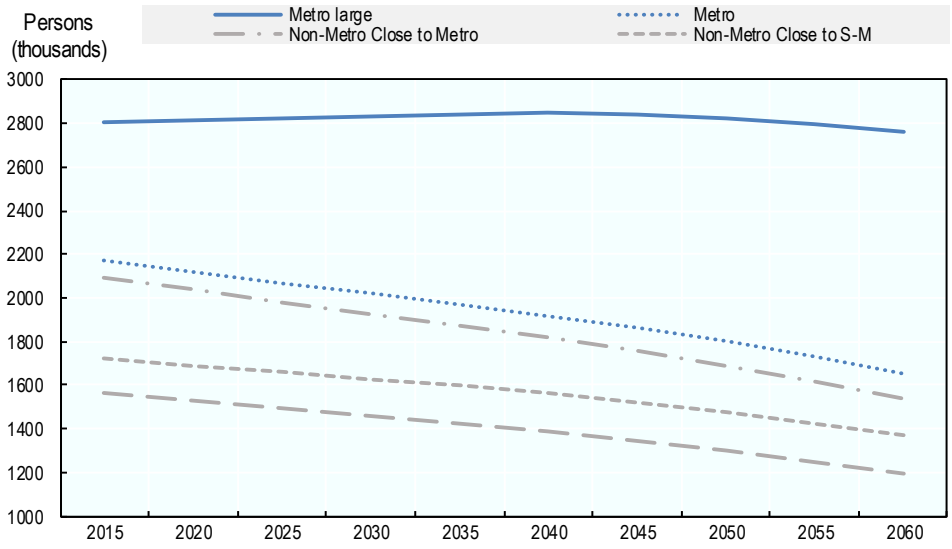
Metro/non-metro	Sub-classifications	Corresponding TL3 regions in Portugal
Metropolitan region: 50% or more of its population lives in a metro (i.e. FUA [10] of at least 250 000 inhabitants)	Large metro region (metro large): 50%+ of its population lives in a large metro (i.e. FUA of at least 1.5 million 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. et al. (forthcoming[18]), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", *OECD Regional Development Working Paper*, OECD Publishing, Paris.

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[19]). 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 500 000) (Figure 3.18). Meanwhile, the population of the Lisbon Metropolitan Area, the only large metro in Portugal, will remain relatively stable in the next five decades.

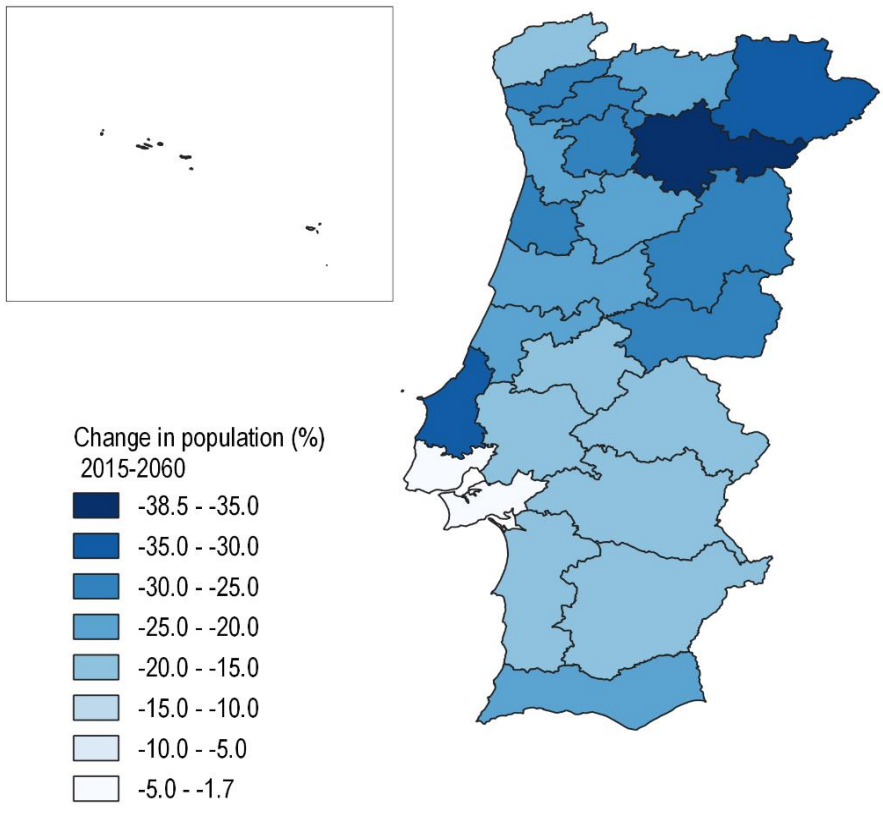
Geographically, population loss is predicted to happen faster in the north of the country compared to the south. The top 3 regions in terms of projected population losses are Douro (39% loss) and Terras de Trás-os-Montes (32%) located in the northeast, and Oeste (32%) located just north of the Lisbon Metropolitan Region in the centre-west part of Portugal (Figure 3.19). The top 3 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 3.18. Population projections in Portugal by type of region, 2015-60



Sources: OECD (2019[17]), *Regional Demography*, http://dx.doi.org/10.1787/region-data-en; Fadic, M. et al. (forthcoming[18]), "Classifying small (TL3) regions based on metropolitan population, low density and remoteness", *OECD Regional Development Working Paper*, OECD Publishing, Paris.

Figure 3.19. Population change by region, 2015-16

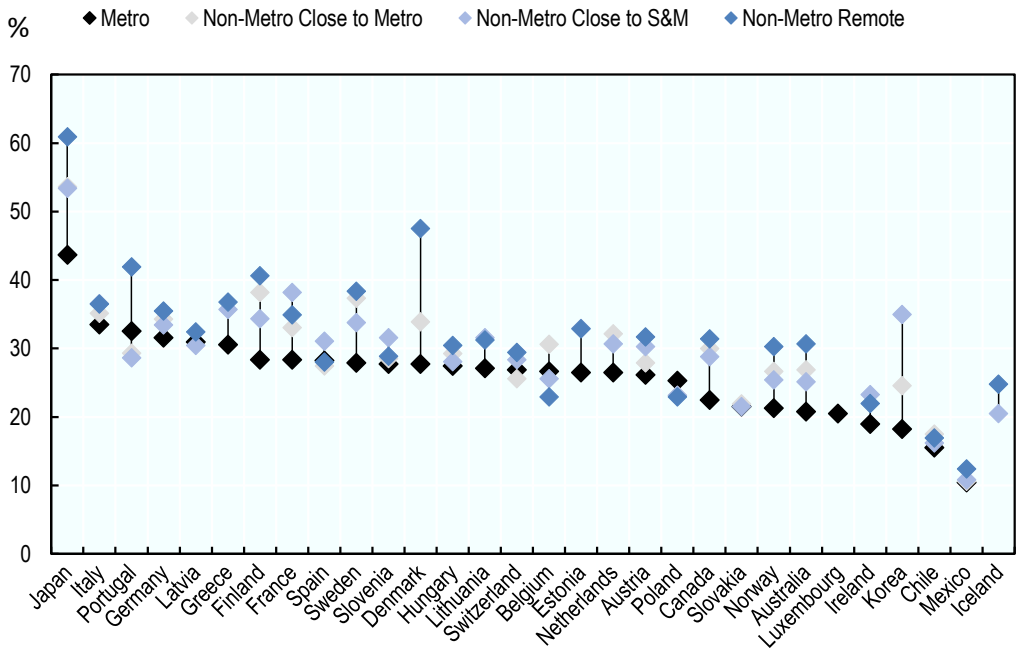


Source: OECD (2019[17]), *Regional Demography*, http://dx.doi.org/10.1787/region-data-en.

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 more 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 years old) is expected to almost double by 2050 (from 34.6 in 2015 to 73.2) (based on UN data) (OECD, 2019[19]).

Ageing will be a particular challenge in non-metro remote areas, which already have an elderly dependency ratio ten 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 3.20. Elderly dependency ratio, 2017



Note: Share of 65+ population of working-age population 15-64, 2016 for Australia, Japan, New Zealand and the United States, and 2017 for all other countries.
Source: OECD (2019[17]), *Regional Demography*, 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.

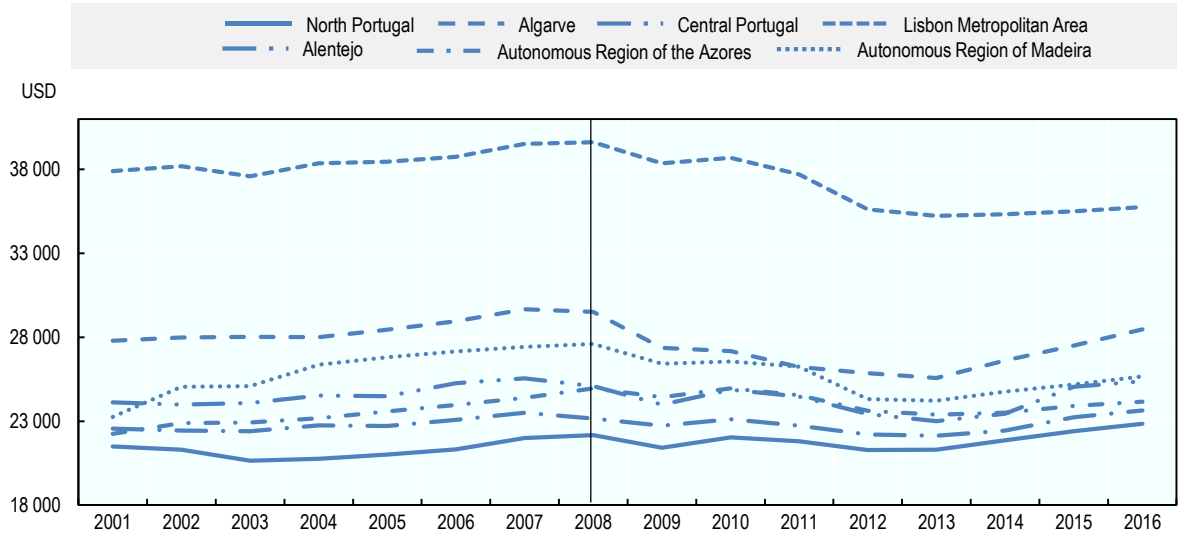
Lisbon and Norte play an important role in Portugal's economy but regional inequalities are relatively low compared to other OECD countries

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 hosting both 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 0.7% in the Metropolitan Area of Lisbon to 3.5% in the Algarve. However, GDP per capita has recovered to pre-crisis levels in only three out of seven regions as of 2016.

Figure 3.21. GDP per capita in TL2 regions, Portugal, 2001-16



Note: GDP per capita levels in USD PPP base year 2010.
Source: OECD (2019[17]), *Regional Demography*, http://dx.doi.org/10.1787/region-data-en.

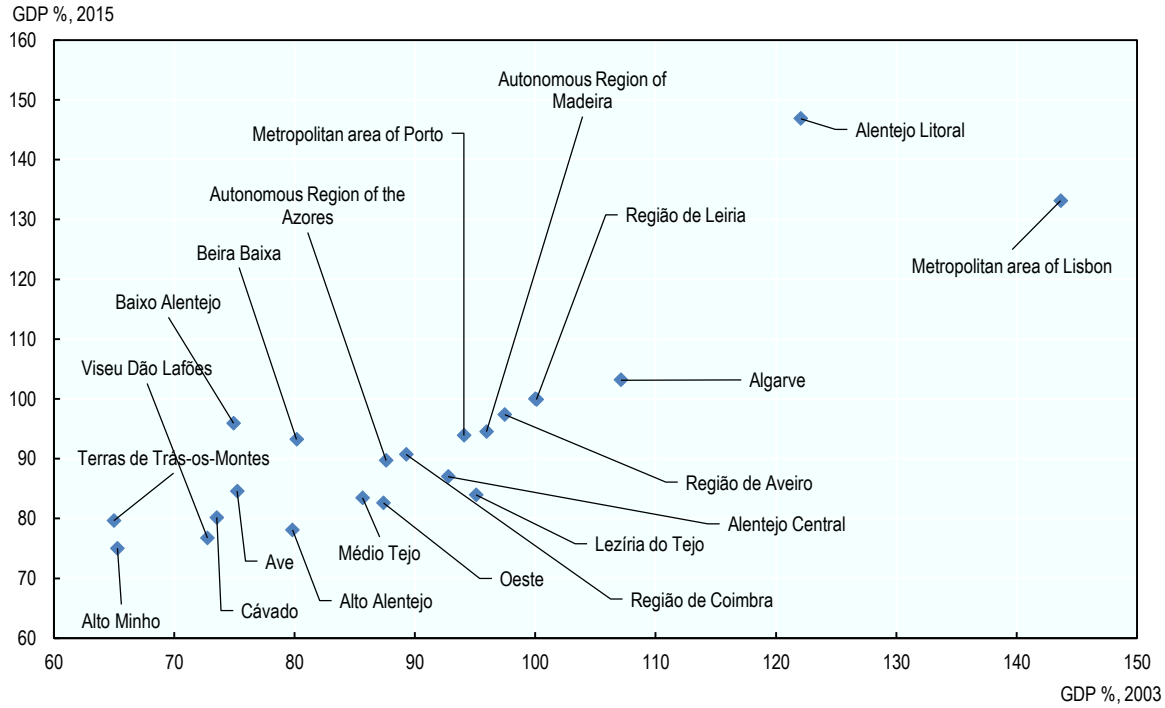
At the TL3 level, GDP per capita grew in 17 out of 25 regions between 2003 and 2015. The national average annual growth rate stood at 0.5%, and varied from 2.24% in Baixo Alentejo to a decrease of 0.88% in Lezíria do Tejo. Though GDP per capita levels across metropolitan TL3 regions (Coimbra, Lisbon and Porto) had still not yet recovered to pre-crisis levels in 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.

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[20]).

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 7 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 2007-15.

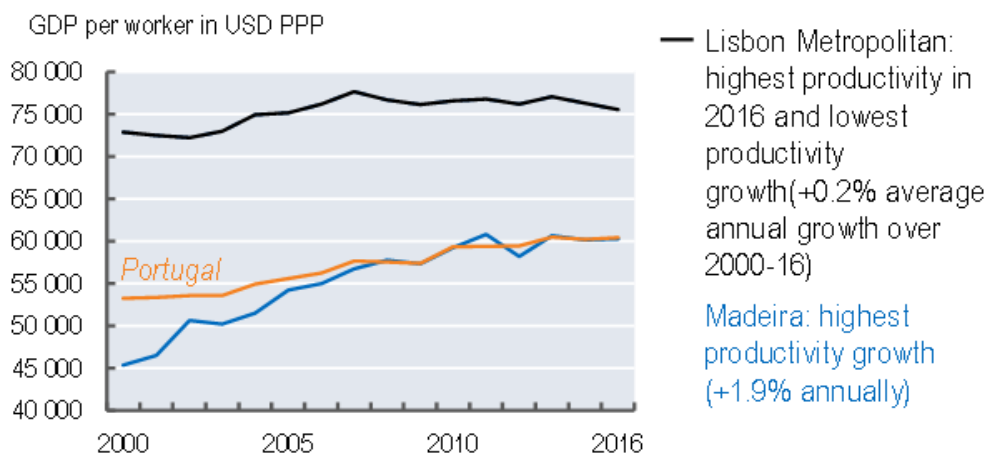
Figure 3.22. GDP per capita in TL3 regions, 2003 and 2015

As percentage of Portugal's GDP per capita



Source: OECD (2019[17]), *Regional Demography*, http://dx.doi.org/10.1787/region-data-en.

Figure 3.23. Productivity trends, most and least dynamic regions, TL2, 2000-16



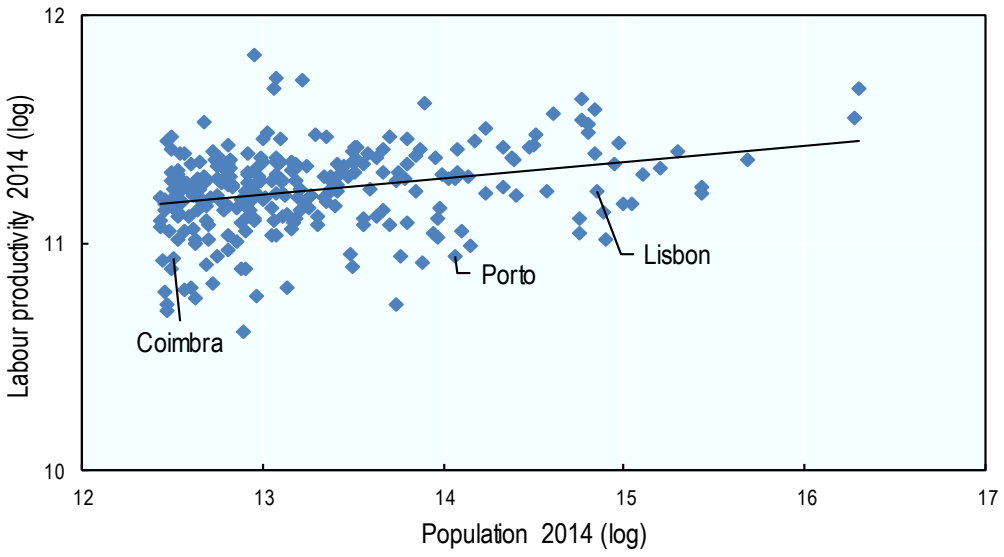
Source: OECD (2018[21]), *OECD Regions and Cities at a Glance 2018*, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

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 1 of only 7 where GDP growth in metropolitan areas was lower than the rest of the country between 2000 and 2016 (OECD, 2018[21]).

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 of between 2 and 4 million people in the OECD, including Athens, Vienna and Warsaw (Figure 3.24).

Porto, with a population close to 1.3 million people had lower productivity in 19 out of 20 cities with a 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 270 000 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 Hungary and Poland.

Figure 3.24. Population versus labour productivity across OECD cities, 2014



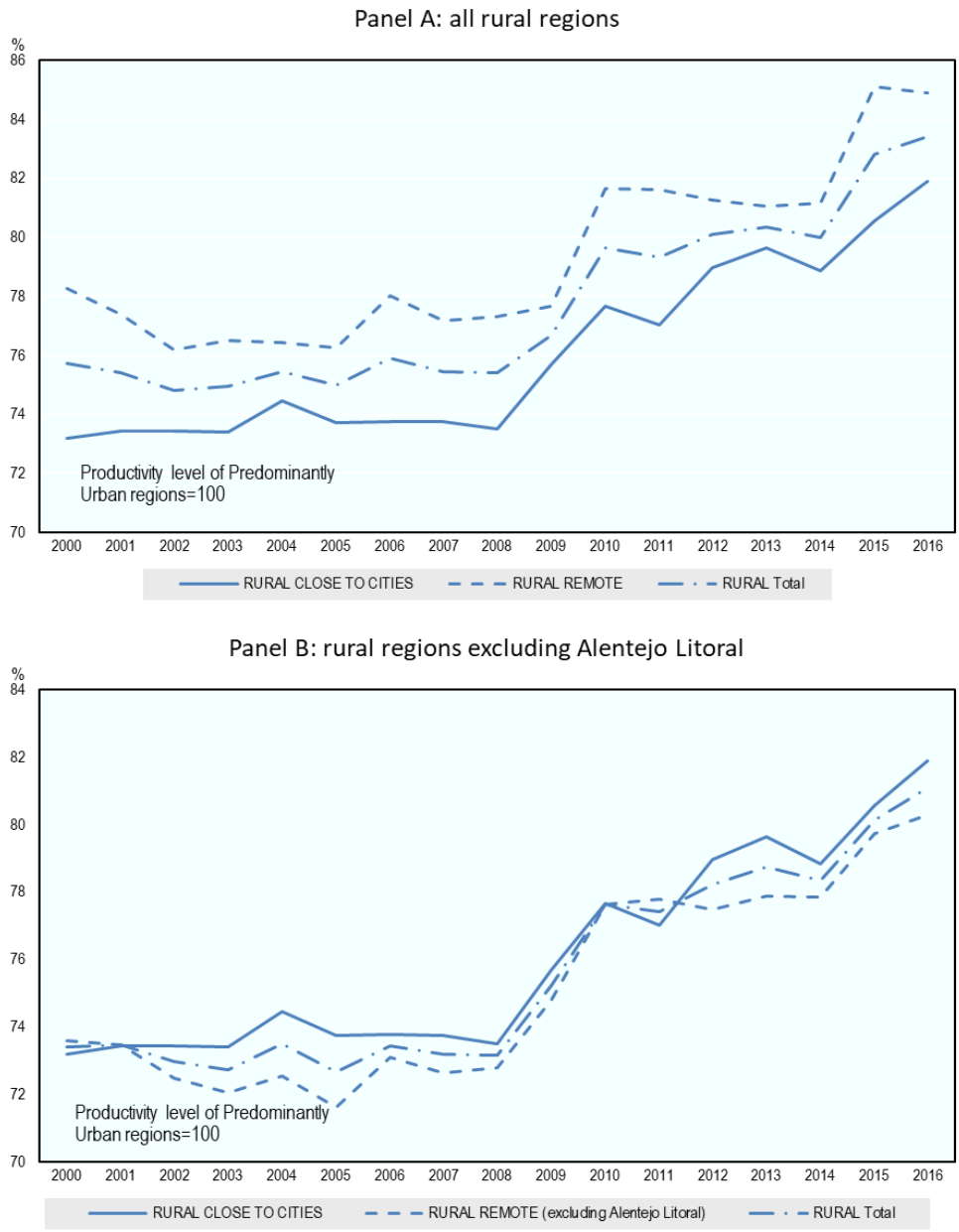
Source: OECD (2019[22]), "Metropolitan areas", http://dx.doi.org/10.1787/data-00531-en.

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 Finland, New Zealand and Sweden showing lower levels of regional inequalities.

Accordingly, fostering stronger performance in Portugal's metropolitan areas will be a crucial objective for any multilevel governance reforms, as OECD research demonstrates an important link between metropolitan governance and productivity (OECD, 2015[23]).

Indeed, data on productivity development in Portuguese rural areas during the past 15 years complements the observations discussed above (Figure 3.25). From a labour productivity perspective, after the economic and financial crisis in 2008-09, 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 cites 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 this is actually mostly due to the TL3 region of Alentejo Litoral, home to the petrochemical complex of Sines.

Figure 3.25. Productivity of rural regions in Portugal in relation to 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 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.

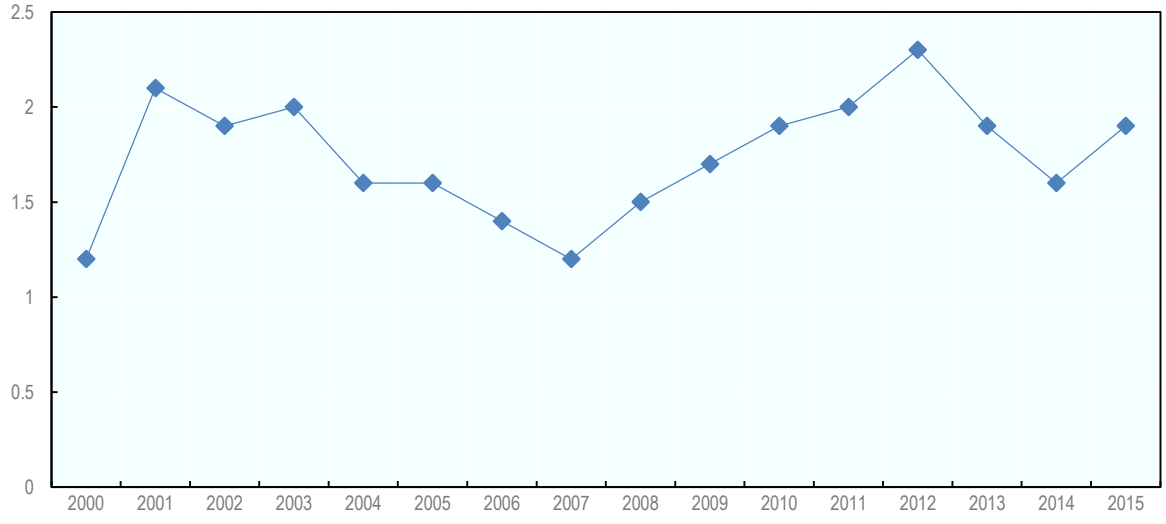
Regional policy as a test case for broader multilevel governance reforms: Key achievements and outstanding challenge

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 Structural and Investment Funds (ESIF) (OECD, 2019[24]). Box 3.5 provides an outline of other related policies. Over the period of 2014-20, the EU will have contributed EUR 25.9 billion to regional development in Portugal, matched by EUR 7.2 billion 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 EUR 100 billion. This funding has been allocated over five programming periods, including 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 3.26). For the period of 2015-17, this accounts for 84% of public investment in Portugal, the highest share of any European country (Figure 3.27).

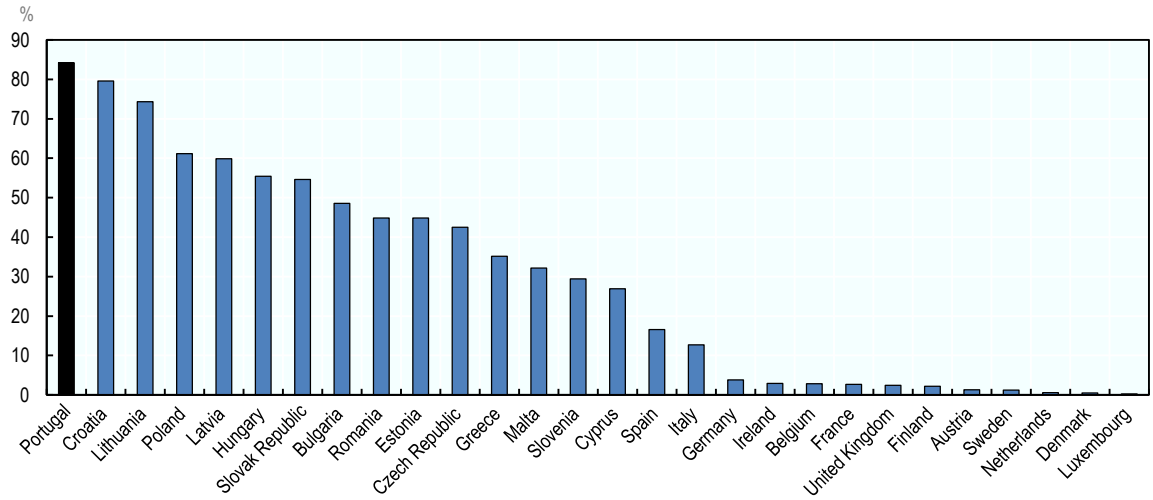
Given the importance of European funding, it is not surprising that Portugal's approach to regional development, including its priorities, instruments and institutional architecture, is heavily influenced by broader norms, priorities and practices associated with European regional policy (Nanetti, Rato and Rodrigues, 2004[25]; Medeiros, 2014[26]; OECD, 2008[27]). As the thematic focus, the instruments used and the geographic dispersion of EU 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 multilevel 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 subregional and local actors.

Figure 3.26. Cohesion policy funding in Portugal as a percentage of GDP, 2000-15



Source: Rodrigues, D. (2016[28]), *Portugese Regional Policy within EU Regional Policy*, https://www.oecd.org/effective-public-investment-toolkit/Portguese-regional-policy.pdf.

Figure 3.27. Cohesion policy funding in Portugal as a share of public investment, 2015-17



Source: European Commission (2017[29]), *Seventh Report on Economic, Social and Territorial Cohesion - Regional Policy*, http://dx.doi.org/10.2776/176864.

Box 3.5. 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 interministerial 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[30]), *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 (PA) with the EU sets the priorities for regional, urban and rural development for the current programming period, under the banner of "Portugal 2020". It includes 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: 4 thematic operational programmes, 7 regional operational programmes, 3 rural development programmes, 1 marine and fisheries programme, and 1 technical assistance programme, in addition to territorial co-operation programmes in co-operation 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 small- and medium-sized enterprise (SME) access to finance their investments and advanced business services.
- Boosting research and development (R&D) knowledge transfer between academia and businesses.
- 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[31]).

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%). Environmental 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 the competitiveness of SMEs, and educational and vocational training, and less focus on network infrastructure in transport and energy.

Compared to the previous programming period (2006-13), 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.

Table 3.4. Cohesion policy funding by thematic objective, Portugal and EU-28, 2014-2020

	Portugal (%)	EU-28 (%)
Competitiveness of SMEs	24.55	14.95
Educational and vocational training	16.09	7.65
Environment protection and resource efficiency	11.76	13.60
Research and innovation	10.76	10.24
Social inclusion	9.74	9.99
Sustainable and quality employment	7.80	9.14
Low-carbon economy	7.44	9.82
Climate change adaptation and 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 and communication technologies	0.68	3.12
Outermost and sparsely populated Areas	0.41	0.13
Discontinued measures	0.02	0.03

Source: European Commission (2019[32]), *ESIF 2014-2020 Finances Planned Details*, https://cohesiondata.ec.europa.eu/2014-2020/ESIF-2014-2020-FINANCES-PLANNED-DETAILS/e4v6-qrrq (accessed on 2 May 2019).

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 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.
- Increased attention to economic growth in outermost regions, including for SMEs in Madeira and preservation of natural and cultural heritage in the 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 European Regional Development Fund (ERDF) and European Social Fund (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 are also a transversal element of Portugal 2020, with increased funding allocated to this approach.

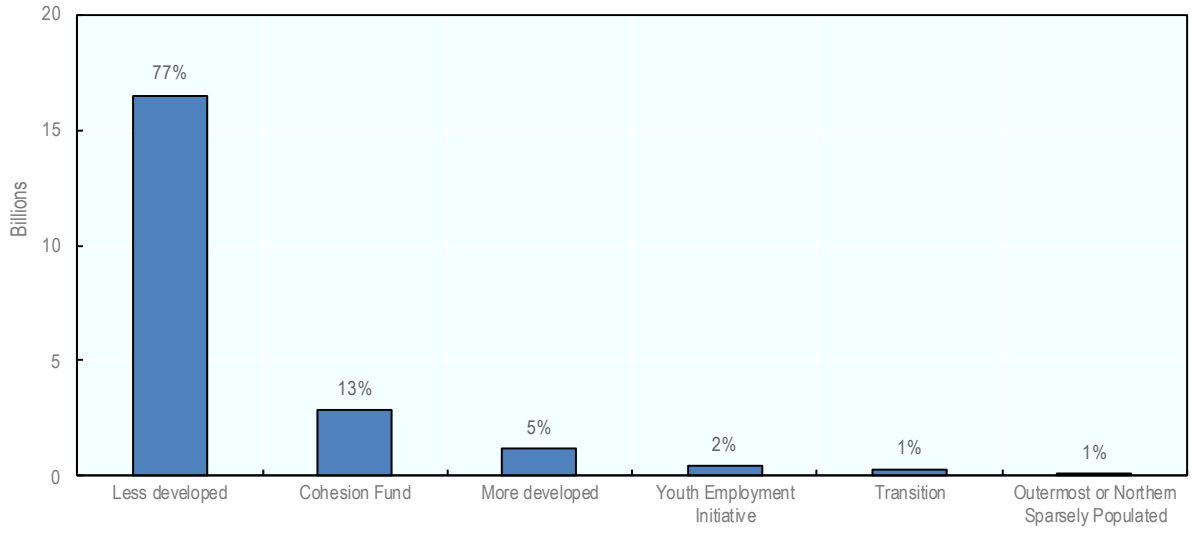
- Integrated Territorial Investments (ITI) – EUR 1.1 billion provided to 22 intermunicipal communities and metropolitan areas, implemented through Pacts for Territorial Development and Cohesion. These pacts over cover all of mainland of Portugal and are managed by IMCs and MAs.
- Integrated Sustainable Urban Development (SUD) actions – EUR 739 million provided to 105 urban centres 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[33]).
- 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[28]).

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

Geographically, over three-quarters (77%) of ESIF funding in Portugal – across thematic and regional programmes – is allocated to the 4 least developed regions: North, Centre, Alentejo and the Azores. The 2 more developed regions – Lisbon and Madeira – are allocated to receive 5% of funding, while the one transition region – the Algarve – is slated to receive 1%.

Figure 3.28. Cohesion policy funding in Portugal by spending category, 2014-20



Note: Includes European Regional Development Fund, European Social Fund, Cohesion Fund, Youth Employment Initiative.
Source: European Commission (2019[34]), *2014-2020 Financial Allocations by Member State – Breakdown by Spending Category*, https://cohesiondata.ec.europa.eu/2014-2020/Total-allocations-of-Cohesion-Policy-2014-2020-Bre/xjb9-gf3a.

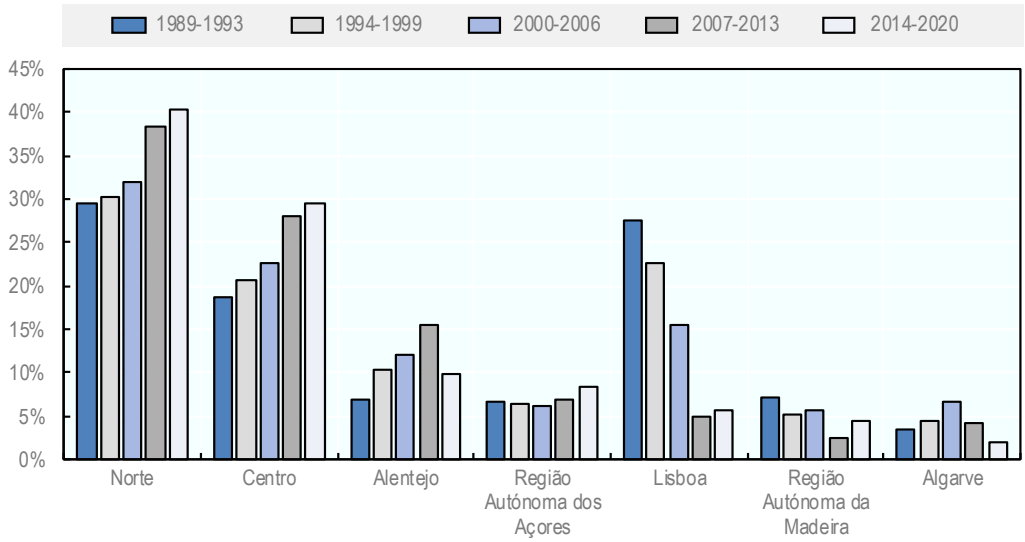
As shown in Figure 3.29, the regional allocation of cohesion policy funding has changed over time in Portugal (note: as data for the most recent programming period is not directly comparable to the previous programming period, these figures should be interpreted with caution). The most dramatic shift 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 Centro and Norte.

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 subregional levels 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 3.6, 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[29]; Bachtler et al., 2017[35]).

Figure 3.29. 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 2014-20 programming period. Data for 1989-2013 is taken from the 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 2014-20 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.

Sources: European Commission (2019[36]), *Historic EU Payments – Regionalised and Modelled*, https://cohesiondata.ec.europa.eu/Other/Historic-EU-payments-regionalised-and-modelled/tc55-7ysv; Agency for Development and Cohesion (2018[37]), "Boletim Informativo dos Fundos da União Europeia", http://www.adcoesao.pt/sites/default/files/portugal2020/monitorizacao/resultados_da_monitorizacao_operacional/boletins_trimestrais_dos_fundos_da_ue/boletimfundos31mar2019.pdf.

Box 3.6. Overview of governance priorities for 2014-20 EU cohesion funding in Portugal

"The governance model of the Partnership Agreement and programmes for 2014-20 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[31]), *Partnership Agreement with Portugal – 2014-20*, https://ec.europa.eu/info/publications/partnership-agreement-portugal-2014-20_en.

National

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

- The Interministerial Co-ordination 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 programmes 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 Co-ordination and Development (CCDRs), which operate at the NUTS 2 level. 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 Co-ordination 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 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[1]).

CCDRs serve as the managing authorities of each regional operational programme, and the president serves as the chair of the board of directors that oversees each operating programme. CCDRs are also charged with ensuring the co-ordination 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 Co-ordination and Development Commission (CCDR-LVT) diverges slightly from the other CCDRs, in that while it manages the regional operational programme for the Lisbon NUTS 2 region, it also oversees planning for several NUTS 3 regions that are now part of the Alentejo and Central NUTS 2 regions for other regional policy purposes (e.g. environmental and spatial planning).

In the Autonomous Regions of the 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 3.7. Examples of management of European regional policy in other countries, 2014-20

France. The EUR 15.9 billion 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 EUR 1.47 billion from ERDF and ESF, in addition to EUR 2.38 billion from the European Agricultural Fund for Rural Development (EAFRD). It has chosen

to narrowly target its spending to research and innovation, the competitiveness of enterprises and the shift to a 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 EUR 15.3 billion 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 EUR 77.6 billion 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 (EUR 4.9 million from ESI funds) but its experience remains notable as it chose to get rid of regional operational programmes, which operated at the *Bundesland* level in the previous programming period, and instead has four operational programmes, one for each fund.

Source: European Commission (n.d.[38]), "Partnership agreements on the European structural and investment funds", https://ec.europa.eu/info/publications/partnership-agreements-european-structural-and-investment-funds_en.

Subregional and local

As territorial development strategies have gained increasing importance in successive programming periods, subregional 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 multilevel governance reforms: Key achievements and outstanding challenges

Key achievements

The implementation of regional policy in Portugal has had important impacts on strengthening multilevel governance arrangements and institutions at the regional and subregional levels. For the 2007-13 European cohesion funding programming period, Portugal, in fact, had a consistently higher absorption rate than the EU28 average over time, one indicator of administrative capacity (European Commission, 2019[39]).[13] The following developments are particularly important:

- *Establishing a footprint for regional governance*

  CCDRs 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 used to define areas of operation of the decentralisation

services of the various ministries, replacing the previous district geography (Veiga and Camões, 2019[1]).

- *Using contracts to enhance co-ordination across levels of government and strengthen the subregional level*

  Portugal has been using contracts to deliver cohesion policy since 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 EUR 1.15 billion. 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 intermunicipal entities. After multiple cycles of contracting, there has been particular progress in related to:

  - Strengthening a subregional level of intermunicipal co-operation.
  - Enhanced capacity at the subregional level.
  - Evolution in the type of interventions, such as the increasing relevance of interventions beyond physical infrastructure.
  - Indications of a transition from intra- or intermunicipal (e.g. municipal networks of collective services) to supra-municipal projects (e.g. anchor projects or e-governance at NUTS 3 level) (OECD, 2018[40]).

- *Engaging a wider range of actors*

  Already in the 2007-13 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 co-operation 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 2014-20 programming period (OECD, n.d.[41]).

Key outstanding challenges

As 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 multilevel 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 subregional 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 subregional 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 co-ordination between regional and rural policies in Portugal.
- While discussions are still underway for the 2021-27 programming period, current proposals suggest 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[42]) to whether they are focused on investments with the most potential to spark growth (Medve-Bálint, 2018[43]; Crescenzi and Rodríguez-Pose, 2012[44]), to the complexity of implementation (see (Piattoni and Polverari, 2016[45]) for a fuller discussion of these issues).

- *CCDRs are an important stopgap 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 co-ordinating 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, CCDRs are very much absorbed by the complex task of managing cohesion policy funding, leaving relatively little resources available to play a larger co-ordination role at the regional level.
  - In addition, stakeholders report that CCDRs 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 CCDRs related to funding, but there is less upstream engagement on strategy development. Likewise, the level of sectoral ministries' engagement in the development of subregional 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 co-ordinate 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

Co-ordination 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 countries such as Hungary, Lithuania and Poland to separate their capitals from the surrounding regions in NUTS 2 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 subregional 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[20]; OECD, 2018[33]).

  Additionally, the current system fails to adequately take into account diversity in subregional and local capacities, both in terms of presence of relevant stakeholders and in terms of the required technical skills (Rodrigues et al., 2018[20]). Depending on their design and implementation, multilevel 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.

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Notes

[1] Laws no. 169/99 and 75/2013 establish the competencies and the legal framework of municipalities' branches.

[2] Under Law no. 1/2001, non-partisan lists of independent citizens are allowed to run for the local elections.

[3] Law no. 75/2013 establishes the competencies and the legal framework of the branches of IMCs.

[4] 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.

[5] The 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 the LAI include all 28 EU member states together with the 3 European Economic Area (EEA) countries (Iceland, Liechtenstein and Norway) plus Switzerland, a member of the European Free Trade Association (EFTA). Additionally, Albania, Georgia, Macedonia, Moldova, Serbia, Turkey and Ukraine have been included (Ladner, Keuffer and Baldersheim, 2016[9]).

[6] 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.

[7] Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

[8] Excluding the special autonomous islands of the Azores and Madeira in Portugal and the Åland islands in Finland.

[9] Territorial level 3 (TL3) is composed of micro-regions in the 30 OECD member countries.

[10] Functional Urban Area (FUA).

[11] Figures taken from https://cohesiondata.ec.europa.eu/countries/PT.

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

[13] For a further account of the impact of European regional policy on cohesion and competitiveness in Portugal, see, for example, European Commission (2016[47]), Caldas, Dollery and Marques (2018[46]) and Rodrigues et al. (2018[20]).

4 Ways forward in the process of decentralisation in Portugal

This section starts by summarising some international experiences for a successful territorial and institutional restructuring. After this, the chapter presents three scenarios for enhanced decentralisation in Portugal. The scenarios presented in this chapter are by no means exhaustive, and should not be seen as pure alternative recommendations. In a sense, the alternatives are partly nested and complementary to each other. The options presented should be seen as basis for further discussion and possible further investigation.

This section focuses on the Portuguese model of decentralisation and on the alternative ways Portugal could promote decentralisation at the regional and local levels. 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 the 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.

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 co-ordination mechanisms, are fundamental. Other preconditions 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 providing 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 4.1), 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 establishing a regional level, integrating health and social services and enlarging the role of private provision in basic healthcare). Judging by the Finnish experience, 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 the Classification of the functions of government (COFOG) classification (municipality-specific data).

The benefits of the decentralisation and regionalisation reforms will be greater if they are well informed. The General-Direction for Local Government, the central government authority in charge of monitoring municipalities, would be a 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 the municipal level.

- Ensure the means, including human capital resources, 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 emphasised 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 a regional government level is therefore bound to affect the central government, municipalities, intermunicipal 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 the table.

Box 4.1. 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% of the country's gross domestic product (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% 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 are responsible 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, County Administrative Boards (central government agencies) were responsible for regional development in each county. Since 1997/98, Sweden launched a reform to transfer these competencies from regional central government agencies (CABs) to self-governing counties. The national government has however not imposed a single model on the counties but, instead, different regionalisation options. It has promoted an asymmetric and bottom-up regionalisation as a gradual and experimental process (a laboratory of regionalisation).

The underlying idea is that decentralised policymaking leads to more innovation in governance. Therefore, from 1997 onwards, Sweden developed various regionalisation 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 two and three countries respectively; 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 regionalisation. 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 has not yet been applied as such but this bottom-up demand for regionalisation persisted and, since 1 January 2015, 10 county councils out of 21 counties are responsible for regional development.

Sources: OECD (2012[1]), *OECD Territorial Reviews: Skåne, Sweden 2012*, http://dx.doi.org/10.1787/9789264177741-en; OECD (2017[2]), *OECD Territorial Reviews: Sweden 2017: Monitoring Progress in Multi-level Governance and Rural Policy*, http://dx.doi.org/10.1787/9789264268883-en.

Three scenarios for enhanced decentralisation in Portugal

Nearly 70 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 the 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 for and how they would be financed. These are key issues that must be solved before practical preparations for administrative regions can start.

Since there is not yet a political commitment to adopt 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 discussed in previous sections of this report. These approaches can also be easily varied as more information on reform needs 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. In a sense, they are partly nested and complementary to each other. The options presented here are also a basis for further discussion and possible further investigation.

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 the Commissions of Coordination and Regional Development (CCDRs) and other deconcentrated central government services, strengthening the capacity and fiscal autonomy of municipalities, clarifying the role of intermunicipal 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 the intermunicipal co-operative units (IMCs). Each of these potential measures is discussed briefly below.

Aligning the regional networks of deconcentrated central government departments with CCDRs

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 the following raises the main points. 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 more compatible with CCDRs would be the first step to improved regional policy co-ordination. For example, in the Ministry of Labour, there are regionalised social security services with 18 district offices, deployed in 441 local services for the public. The same ministry is responsible for the Institute of Employment and Professional Training (IEFP), which comprises 5 regional delegations (coinciding with NUTS 2) and 53 local employment centres that may have several municipalities as their area of influence or even infra-municipal areas. Similar situations may also prevail 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 CCDRs.

Third, the role of the presidents of 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 also be the right time to go forward with fiscal decentralisation. It is therefore important that the decentralisation process, 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 the full benefits of decentralisation. Spending responsibilities should also be accompanied by 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 in achieving the desired level of services.

Clarifying the role of intermunicipal 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 intermunicipal co-operation. Another explanation could be that a tradition for intermunicipal co-operation has not yet developed, at least not within the IMCs that have been formed. While this situation may change as more tasks are 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 are not established, the need for utilising IMCs in regional policy will increase markedly. This aspect is discussed in more detail in the subsection "Decentralisation without full regionalisation by reinforced municipal and intermunicipal levels".

Intensifying metropolitan governance in the Lisbon and Porto areas

It is worrying to note that growth in the Portuguese metropolitan areas, notably in the Lisbon area, has not picked up as in other regions of the country. In fact, as was discussed in previous sections of this report, productivity and employment have recently declined in Lisbon, making the capital city area one of two TL3 areas in Portugal to record 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 enhanced metropolitan-wide policymaking – is discussed.

Currently, the Lisbon and Porto Metropolitan Areas (MAs) are organised as mandatory one-tier co-operative associations. 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 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 responsibility for the development in the region. Central government should give support to the MAs to build the capacity needed to take responsibility for the 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 international experience, include:

- one-tier fragmented government structures
- one-tier consolidated government structures
- a two-tier government model
- voluntary co-operation/special purpose districts
- creation of specialised metropolitan authorities (e.g. transportation, spatial planning, etc.).

The main question is, of course, linked to which organisation is actually responsible for developing the area. The current system could be strengthened by increasing the autonomy of the MAs (in relation to 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 of 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 intersectoral co-ordination (e.g. how the transportation and housing policies are co-ordinated).[1]

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 nationwide 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 proposal for stepping up decentralisation in Portugal presented above. On the other hand, such an in-depth study and rethinking the entity of assignments could just as well lead to the recentralisation of some tasks. Moreover, it is generally recommendable that countries evaluate their multilevel governance setting every five to ten years.

Decentralisation without full regionalisation by reinforced municipal and intermunicipal levels

The second policy strategy for Portugal could be to establish a compulsory regionwide intermunicipal association, which could take over the tasks of CCDRs. This co-operative regional body could also take responsibility for 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 regionwide municipal association. The responsibility of metropolitan governance could be concentrated on special metropolitan authorities as described in the previous section. This is because regionwide 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 regionwide benefit areas such as environmental 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 also planned 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.

Decentralisation through complementary regionalisation and intermunicipal co-operation reforms

Establishing a full-scale regional government level as described in the Portuguese constitution, i.e. 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 a 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 governance model of the administrative regions, including the election of members to regional assemblies and formation of a regional board as well as other bodies, is defined by Law no. 56/91.

It should also be noted that establishing administrative regions does not exclude the possibility of having 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 heads of county administrative boards), the central government representatives at the territorial level operate side by side with elected regional governments. However, it should be noted that, in general, the representatives of deconcentrated central government administration do not interfere or take part in the decision-making devolved to the regional governments. They do however ensure that subnational governments obey the law and regulations and, therefore, prefects and county governors must deal with complaints made by local citizens regarding subnational government services.

The tasks of the administrative regions could consist, at the first stage, of current CCDR tasks, with the exception of co-ordinating 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 tasks which the regions have laid out in contracts with municipalities. Therefore, regional councils would have two main functions: regional development and territorial cohesion planning. The councils could also be responsible for EU Structural Fund programmes 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, IMCs and municipalities. While full prevention may be hard or impossible, the remaining overlaps should be well investigated so that 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, intermunicipal co-operation and administrative regions complement each other and hence should be promoted together as a driving force to improve local public services. Intermunicipal co-operation 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 the 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, such as example secondary education and specialised healthcare for example. Until then, 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 on further decentralisation, the role of IMCs could be diminished. It is likely though that voluntary intermunicipal co-operation, albeit less needed, would be still useful in certain cases.

The metropolitan regions should benefit from a special solution, as discussed in the previous sections. It should be noted, though, that the metropolitan governments should be enhanced in any case and should not depend on the solution found for the regional governance model. The administrative regions would probably be too big for metropolitan issues, as administrative regions need to look at 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 the event regionalisation continues on the basis of administrative regions, the question of Mas' relationship with administrative regions should be solved. Since administrative regions would not have supervisory power over the municipalities, it seems that the relationship between administrative regions and MAs should be upheld through dialogue and co-operation. If this solution is adopted, 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 Sweden and Switzerland.

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Note

[1] See OECD (OECD, 2015[3])

OECD Multi-level Governance Studies

Decentralisation and Regionalisation in Portugal

WHAT REFORM SCENARIOS?

This report has been prepared by the OECD upon request by the Portuguese Independent Commission for Decentralisation. Decentralisation and regionalisation reforms have recently emerged on the Portugal's policy agenda, with two main objectives: assigning more tasks to municipalities and strengthening regional level governance. The report presents a diagnosis of Portugal multi-level governance in international perspectives and highlights the strengths and challenges of the system. It then presents three potential policy paths of regional reform for Portugal. As the options are not mutually exclusive, they could work as complements to each other. The report analyses the conditions under which the reforms may deliver more economic efficiency and regional equity.

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ISBN 978-92-64-96171-5

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