

Assessment and Recommendations

Demographic and digitalisation trends

1. Alentejo is experiencing one of the fastest rates of population decline and ageing across OECD regions

As in the rest of Portugal, Alentejo is experiencing population ageing and low in-migration due to the preference of nationals and migrants for coastal areas. Alentejo is Portugal's TL2 region with the highest share of elderly in the population (26% of +65) and lowest share of foreign-born population (4%). These forces, which have been gradually sustained over the past 50 years, have contributed to increase the ageing gap in Alentejo with respect to other Portuguese regions, and have contributed to economic and social decline in some municipalities. Indeed, more than half of the municipalities of the region have experienced sustained and strong population decline in recent decades. According to preliminary 2021 census data, Alentejo's population shrank at an annual rate of 0.72% on average between 2011 and 2021, four times faster than the national average (0.17%).

Moreover, projections from the Portuguese National Statistics Institute (INE) foresee a further 30% drop in Alentejo's population between 2020 and 2080. This trend will particularly affect the more remote areas of the region – which already have an elderly dependency ratio 10 percentage points higher than in other regions in Portugal. The four most remote TL3 regions in Alentejo are projected to shrink about three times faster in 2011-2035 (0.8% annually) compared to the TL3 region close to a small/medium city (0.27% annually). In addition, by 2035, only three municipalities are projected to grow, while 14 will sustain annual population decreases of 1% on average over 2011-2035.

These demographic developments have and will continue to lower the demand for education services in some areas and increase it for health care services. This will require adapting the provision of local public services in the region and building on efficiency gains across levels of government. Moreover, as demand recedes, municipal governments and parishes, mandated to provide equal access to all residents, will face higher costs from the lack of economies of scale and larger distances between settlements.

2. Broadband connectivity and digital gaps represent a major challenge for the provision of public services

Digital services present new opportunities for service delivery in remote areas where costs tend to be higher and quality lower. They can help to improve the quality and lower the cost of service delivery in these types of rural areas. The national government in Portugal has already undertaken several initiatives to strengthen digital services, including in education. Digital solutions can help address challenges in remote and low populated areas to deliver transport on demand services. Targeted actions can also help to reduce skills gaps of education professionals.

Despite recent efforts, broadband connectivity has not yet reached all corners of Alentejo, and rural inhabitants have less basic digital skills than urban inhabitants. According to broadband speed data¹ at the TL2 regional level, inhabitants in Alentejo experience, on average, speeds over 26% below the national average. Moreover, these gaps in broadband connection are compounded by the low level of digital skills.

According to national data for 2020, Portugal faces one of the lowest levels of basic or above digital skills in rural areas across the EU. Only 22% of Portuguese people living in rural areas have basic or above digital skills, compared to 60% in cities.

Multi-level governance and subnational finance

3. Further pursuing decentralisation and regionalisation reforms would allow Alentejo to better align service provision and local needs

The multi-level governance system in Portugal has been undergoing important structural changes in recent years, in particular with the 2019 framework for the transfers of new additional competencies to local authorities. The success of these reforms will depend, on how municipalities can maintain quality public service delivery in the face of a shrinking population and labour force, and the erosion of tax bases.

The transfer of competences from the central level to municipalities in particular regarding education, teaching and vocational training, as well as school transport has represented an opportunity for local governments, which have been able to reorganise, to a certain extent, the provision of public services. Decentralising tasks associated with school transport services, for example, facilitated the reorganisation of the network. In some cases, it also facilitated the closure of small schools and the reorganisation of the delivery of school transportation and education services in a more rational way with one school providing education services for different places.

The flip side is that the municipalities are struggling with finding a balance between the new decentralised competences and financing of their tasks. Central government transfers do not necessarily cover all the costs associated with the transfer of new competences, in particular, additional administrative costs that municipalities need to incur when dealing with new tasks, including adjustments in functions in order to deliver new tasks and new, often onerous, administrative procedures. In addition, in some cases, the transfers have resulted in inconsistencies. For example, while school closures remain a central government responsibility, municipalities now have to bear the higher costs of students' travel reflecting the consolidation process. Some key avenues to further enhance regionalisation and decentralisation reforms and ensure these reforms meet its objectives, are as follows:

- **Recommendation 1** – The transfer of competences to municipalities needs to be accompanied with the transfer of sufficient and adequate financial resources to cover the administrative costs associated with the management of new tasks. To encourage municipalities to take over more responsibilities in the context of the decentralisation reform, municipalities should receive more fiscal resources (from grants) and powers (more own-source revenues) aligned with the new tasks that would be assigned (see below). Beyond the transfer of resources it is important to ensure that municipalities have adequate human resources and necessary tools (e.g. IT tools) to undertake the new tasks that have been assigned.
- **Recommendation 2** – Alentejo could serve as a pilot to experiment a new model of regional governance to be consistent with NUTS2 definition and better align demographics trends with public services and better understand the differentiated needs of large and smaller municipalities. Different options are available. Co-operative regionalisation can be seen as an alternative to full regionalisation but also as an intermediate stage towards full regionalisation.

4. Strengthening cross-jurisdiction cooperation is necessary to make sure the planning and delivery of services are done at the right scale

The lack of an intermediate regional level in Portugal affects the efficient provision of services in Alentejo as the central government might be too large and municipalities too small to deliver services effectively. At

the same time, municipal mergers are not necessarily an efficient solution as municipalities are already large and not densely populated. In this context, the role played by the Alentejo Regional Coordination and Development Commission (CCDR-A) has been crucial in ensuring a whole-of-region approach to service delivery challenges. The CCDR facilitates a mutual understanding among municipalities and inter-municipal communities (IMCs) to find a regional-level framework that better takes into account challenges identified by IMCs in their strategies. Still, while the CCDR-A helps in bringing clarity and enabling co-ordination at the regional level, it only covers four sub-regions – Lezíria do Tejo, which for statistical purposes pertain to the TL2 regional definition, and for administrative purposes is part of the Lisbon region. It has also proven difficult to coordinate sectoral, territorial, and regional policies in Alentejo as the multiplicity of sectoral actors at different levels of government makes co-ordination challenging.

The creation of IMCs and the gradual transfer of competences to municipalities has supported horizontal coordination, municipalities and parishes in Alentejo. IMCs in Alentejo, as is the case in other Portuguese regions, have effectively enabled municipal cooperation in various strategic areas where local service delivery may benefit from increasing scale and improved inter-governmental coordination. IMCs conduct projects that are key to promote regional development such as inter-municipal climate change adaptation, mapping social, health and educational services within its territory, or the co-ordination of vocational programmes.

Nonetheless, the current Portuguese multi-level governance framework does not facilitate the delivery of services with region-wide benefits, such as healthcare or transport – the latter being provided at the IMC level in Alentejo. IMCs do not necessarily cover the appropriate scale for regional development policies. Moreover, in some cases, it has been difficult to stimulate participation of municipalities in IMC projects as they do not necessarily see the advantages of supra-municipal coordination. In addition, since decision making by IMCs requires unanimity among municipalities, the line of actions and investment by IMCs remains limited.

Further encouraging inter-municipal association to provide decentralised services could improve service provision in education, health care and social support. The central government needs to adopt a proactive role in promoting and stimulating inter-municipal cooperation in the provision of decentralised services. For this, the following actions could be beneficial:

- **Recommendation 3** – The central government could encourage IMCs through financial incentives that foster cooperation across jurisdictions. One way to accomplish this could be directing more transfers to IMCs, instead of to municipalities, particularly with respect to public services with important externalities.
- **Recommendation 4** – Encourage peer-learning building on already successful inter-municipal co-operation mechanisms in the region (and in other regions in Portugal) and adopt a strategy to actively promote them.
- **Recommendation 5** – Foster cooperation among parishes to enable them to effectively perform their tasks and deliver local services to residents. In some cases, parishes would benefit from cooperating with adjacent parishes in another municipality.
- **Recommendation 6** – Promote peer-learning experiences explore instances of co-operation with neighbouring regions and knowledge sharing with regions that face similar challenges (i.e., shrinking and ageing population). This peer learning, while promoted by the central level, could, for example, be conducted with regions in Spain that are currently facing similar challenges.
- **Recommendation 7** – Identify municipalities or groups of municipalities pertaining to the same functional area that could benefit the most from scaling-up the provision of services. This mapping needs to identify which services may benefit from joint-provision considering functional areas, and not necessarily the administrative divisions of IMCs currently in place.

5. Adjusting fiscal arrangements to ensure municipalities can properly finance service provision and adapt to demographic trends

The ageing and shrinking of Alentejo's population affects: (i) the type of services that local governments need to finance, and (ii) local government capacity to finance the provision of services. The ongoing change of Alentejo's demographic structure will have a strong impact on education, health and long-term care services, but also on public infrastructure. Given the ageing trend, it is expected that public spending on age-related programs will increase. At the same time, the declining population is likely to have a negative effect on economic activity, resulting in a slowdown in public revenue growth. Shrinking population also means shrinking municipal tax bases. This represents an important challenge for services financing in Alentejo, where direct and shared taxes revenue account for a large share of total subnational government's revenue. Given the design of the transfer system, declining population also means a reduction of the transfers received from the central level.

While the fiscal framework for local authorities has undergone reforms in recent years (2007, 2013, 2018) to strengthen municipal finance and improve its sustainability, the fiscal situation of municipalities in Alentejo is still challenging. First, 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. Second, while direct and shared tax revenues represent a significant share of municipal revenues, municipal tax bases in Alentejo tend to be below the national average. Third, central government transfers to municipalities, in particular capital transfers, have decreased since 2010, as a result of national fiscal consolidation measures. Finally, an ageing and shrinking population put at stake the current funding models of local public services in the region.

IMCs have only a restricted capacity to raise own revenues and are mainly financed by municipalities. The limited financial means of these entities puts pressure on their capacity to be effective service providers and may restrict the incentive of municipalities to utilise the IMCs.

Current fiscal arrangements in Portugal do not always take into account territorial, social and economic specificities, and, ultimately, the changing needs of each territory resulting from demographic changes. This means that many municipalities in Alentejo especially those that are smaller and scarcely populated –and which are ultimately the most affected by the demographic challenge–, face large difficulties in providing access to quality services in a sustainable way. Fiscal arrangements need to be gradually reformed in order to ensure that municipalities will still be able to properly finance service provision and ensure citizen's well-being over time. For this, some of the measures that could be taken are the following:

- **Recommendation 8** – Strengthen the municipal own revenue base in a gradual manner. A high reliance on transfers and a low taxing power may have a negative effect on the efficiency of municipal service delivery. This can be done by increasing the leverage that municipalities have on tax rates (i.e. on the Property Tax and the Surcharge Tax), and the proportion of the personal income tax that stays with municipalities.
- **Recommendation 9** – Guarantee financial means of IMCs to particularly benefit small municipalities that have less capacity to raise own revenues. It would be important to increase the amount of transfers to enlarge the role of IMCs and make them less dependent on the municipal will of delegating task. The increase of transfers for IMCs can be subject to particular results or outputs that should be previously defined and agreed between the central level and the concerned IMCs.

Forward-looking planning for the provision of basic education

6. Taking into account the effects of demographic change is necessary to bridge the quality and access gaps and improve the restructuring and planning of the school network

The 2005 school consolidation reform in Portugal – addressing the school network’s inefficiency and strong regional inequalities – accomplished the goal of reducing the number of redundant schools, especially in rural areas. Between 2005 and 2010, school consolidation in Portugal proceeded based on a fixed threshold of students per school but that did not take into account the effect of geography and demography on rural schools. These thresholds have since been removed and replaced by a policy of case-by-case evaluation between the national government and municipalities. However, more needs to be done, the costs of school consolidation should be fully accounted for when weighing the efficiency benefits of school consolidation. At present, there is no accounting of the full costs of consolidation including not only direct transport costs, but also indirect costs linked to long travel distances, such as the societal costs when a student dropouts. Given the fast progression of school consolidation and the already long distances to schools many students face, the national government should pay special attention to designing tailored strategies for small rural municipalities and lagging regions that have failed to improve education quality and that have high distances and small schools.

Moreover, municipalities need further flexibility to adapt to the effects of demographic change on the school network. Under the second generation of educational charters – a municipal strategic planning instrument aimed at reorganising the network of educational and pedagogical facilities – some municipalities have built their own municipal principles in order to align the reorganisation of the school network with the educational policy defined at the local level.

In order to bridge the quality and access gaps in education and improve the restructuring and planning of the school network, the following actions could be beneficial:

- **Recommendation 10** – Design a specific strategy to bridge quality and access gaps in lagging and remote rural municipalities. The national government should undertake cost-benefit analyses that fully take into account the effect of school closures on the accessibility of students living in the most remote areas and associated costs of school transport. It should also commission a dedicated study projecting the financial sustainability of the current model given demographic projections, taking into account structural under-investment in physical infrastructure in these areas as well as the regional context.
- **Recommendation 11** – Use educational charters to coordinate actions among neighbouring municipalities. In the framework of increased planning at the level of inter-municipal communities (IMCs), the creation of inter-municipal school network planning instruments, such as inter-municipal education charters, would allow planning beyond municipal administrative boundaries as well as a better comprehension of the different needs of rural areas within the region.
- **Recommendation 12** – The national government should work closely with municipalities and regional authorities towards innovative models including service co-location, and plan strategically the location of new schools based on future demand projections.

7. Achieving better quality education also requires improving the geographic mobility of teachers while increasing within school efficiency

As demonstrated in the current study, increasing within school efficiency can lead to substantial cost-savings. Student-to-teacher ratios in Alentejo and Portugal remain small by international standards, so the focus could be on finding mechanisms to continue increasing within school efficiency while maintaining similar quality levels, for instance by reconsidering the spread of the vocational offer in upper secondary

schools and investing in small and multi-grade classroom teaching skills. While the geographic and demographic conditions in some rural areas imply a lower achievable student-to-teacher ratio, this could lead to substantial savings in towns and suburbs.

More generally, like other countries experiencing population decline and ageing, Portugal needs to downscale on the number of teachers to keep in line with decreased demand for education services, while also focusing on rebalancing higher demand in urban areas and lower demand in rural areas. The process of downscaling proceeds in a context of ageing of a substantial part of the teaching staff, and increasing difficulties in attracting teachers to rural areas, especially those that require long travel times. However, the ability of Alentejo to design tailored solutions for teacher shortages issues is limited given that teaching responsibilities remain under the full control of the national government. Currently, the deployment of teachers in rural areas is mainly a result of centralised decisions rather than personal choices. The impact of recruitment policies can affect teacher motivation and increase rural-urban gaps in the quality of education. The national government could consider the following actions to improve the geographical mobility of teachers while increasing within school efficiency:

- **Recommendation 13** – Revise the national model of teaching recruitment to include the participation of municipalities and regional authorities in the process. This would better align needs and motivation of teachers and would help considering retention strategies for teachers in order to reduce the high turnover in rural schools.
- **Recommendation 14** – Geographic mobility of teachers – especially young ones – could be enhanced with career incentives, experience-sharing networks by more experienced teachers, and more clear compensation for long travel times that go beyond financial compensation (e.g. flexible work hours, shorter dedication in classrooms, rotation systems for itinerant teachers, accommodation support).

8. Increased efforts are needed to bridge the digital divide and enhance the digitalisation of public services to overcome the challenges of school transport

The balance between costs, access and quality is currently fragmented across levels of government: municipalities assume the transportation costs that in a large part result from consolidation while the national government manages the school network. This model is prone to lead to higher spatial inequalities, as remote and small rural municipalities find themselves under pressure on all fronts – cost, distance and quality – while also having lower capacity to deal with a complex and costly organisation of transportation services. Therefore, school transportation is one of the main concerns of Alentejo rural inhabitants as long travel distances and significant time of travel negatively affect students' learning experience and represent a significant educational equity problem.

In this context, digitalisation provides a powerful way to overcome the trade-offs between cost efficiency and access. Regarding education, Portugal has recently made substantial progress in its strategy for digital education and has started exploring transport on demand services, which can be a solution against the alternative of increasing the time frequencies of the traditional transport system, in a scenario where both would lead to increased access and decreased travel times for students. The benefits of transport on demand and digital education are however greatly limited by the digital divide in Alentejo. Internet connection is more limited in Alentejo and rural areas than in other regions and urban areas and rural inhabitants have lower basic digital skills than urban inhabitants.

It is essential to reduce digital gaps in rural areas in order to set up efficient transport on demand services. Assisting rural communities to bridge broadband access and uptake gaps is critical to improve their quality of life and their access to Internet-based digital services. In the framework of the European Recovery Funds, Portugal's plan allocates 22% of the funds to measures in favour of the digital transition (European Commission, 2021^[11]). Part of the funds should enable greater investment in broadband infrastructure in rural and sparsely populated areas of Portugal with the largest connectivity gaps, such as Alentejo, and in

particular, the sub-regions of Alentejo Central and Baixo Alentejo. This effort will strongly contribute to reduce the existing gap in access to public services in rural areas.

In order to tackle the challenge of school transportation and digital skills gaps in rural areas, the study suggests the following actions:

- **Recommendation 15** – Further develop transport on demand solutions. Alentejo authorities should develop further the current *Transporte a pedido*² service in the near future and make it more dynamic. By incorporating a more sophisticated software, the service could provide users with reliable and comprehensive real-time information, the possibility to make last-minute bookings from a mobile application or by phone, and the adaptation of routes, stops and schedules to users demand. Transport on demand services benefit the entire rural population, from dependent people needing access to basic services, to teachers and upper secondary and vocational students – with more flexible schedules – living in remote areas.
- **Recommendation 16** – Increase cooperation between municipalities for the provision of transport. A supra-municipal perspective and greater cooperation between municipalities, inter-municipalities and school clusters could be beneficial for school transport in Alentejo. This would allow better integration of transport on demand services with regional and national bus networks as well as scaling services from a local to a regional level. Regional transport partnerships across the Alentejo region and further spaces for dialogue between local stakeholders to improve school transport should be encouraged.
- **Recommendation 17** – Create a committee of volunteer teachers at the regional level to support teachers from rural communities with the most difficulties in their adaptation and training process. This would help to ensure that the target of 100% of teachers with digital capabilities by 2023 is achieved specifically in rural areas.
- **Recommendation 18** – Alentejo regional authorities should support networks bringing together employees from digital sectors and teachers in order to review and improve the new ICT curriculum guidelines as well as to better inform students on the broad opportunities offered by digital careers and the digital skills required to access them.

9. Establishing a strategy for student accommodation could contribute to solve the challenges of school transport

The few existing student residences in Alentejo are managed by municipalities and supported by national administration funds or will soon be according to the decentralisation programme (Decree-Law no. 21/2019). Student accommodation can be an effective alternative to tackle school transport issues and to avoid that, due to poor access in rural areas, many students are limited to choosing educational programmes that are closer to where they live. On the other hand, due to a mismatch between supply and demand, some of the student residences provided by the Ministry of Education throughout the country are not operational due to a lack of demand. The actions identified on these issues include:

- **Recommendation 19** – Support the accommodation of students over 16 years of age – as they have more flexible timetables that are difficult to accommodate with a regular transport system – during school days. In the framework of multi-level cooperation, this action could contribute to avoiding daily transport problems – and consequently study performance related issues – as well as to allow young people in Alentejo to have a wider educational offer and thus more career opportunities. European Recovery Funds could finance all or part of these residences.

Recommendation 20 – Implement a national plan to restructure the network of student residences in order to better match supply with demand efficiently and to concentrate student residences where they are most needed.

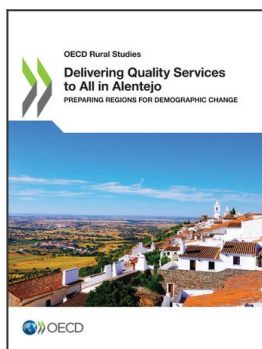
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Notes

¹ Data from self-administered speed tests by Ookla is presented as deviations from the national average to highlight within-country differences in the quality of broadband connections.

² Alentejo launched in 2019 the pilot transport on demand project "*Transporte a pedido*". It has 25 circuits in Baixo Alentejo (Beja, Mértola, Moura), Alentejo Litoral (Odemira) and Alentejo Central (Reguengos de Monsaraz).



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