

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.

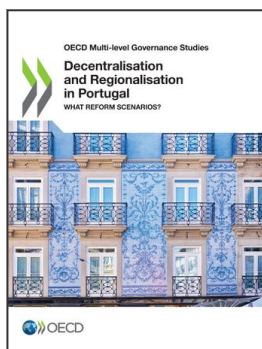
The OECD has prepared this report upon request by the Portuguese Independent Commission for Decentralisation. The aim of the report is to present alternative ways forward for Portugal to implement its regionalisation reforms, in the broader context of OECD decentralisation trends. The executive summary 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.

References

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