Rethinking Regional Attractiveness in the **Centro Region** of Portugal

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

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

# A snapshot of the Centro Region in the world

Greenfield FDI Inwards by Region (capital expenditure in USD millions)
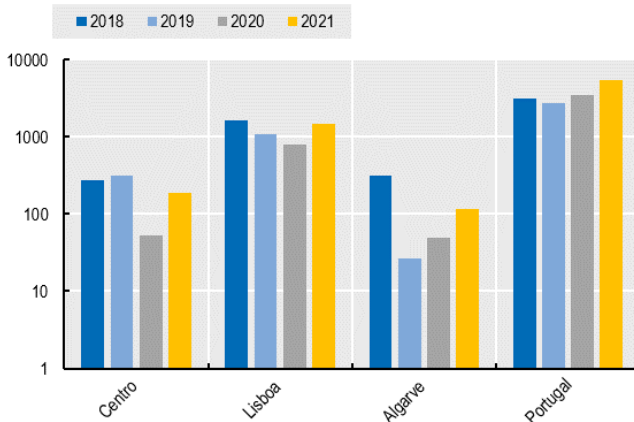
Note: fDI market database includes declared greenfield inward investments only.

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

Between 2018 and 2019, Centro was one of the few Portuguese regions to achieve an increase in FDI (+15.2% to USD 316m), following an investment of USD 111m in the mining industry. Due primarily to COVID and subsequent supply chain disruptions, the share of FDI declined sharply in 2020 (-83.2% to USD 53m). There was a strong recovery in 2021 (+247.9% to USD 185.1m), after large investments (USD 121m) in ICT research and development (R&D) activities and the automotive manufacturing sector (USD 41m). This outperforms trends globally, as well as overall OECD and EU (Greenfield) FDI inflows, which were broadly consistent between 2018 and 2019 before dropping off in 2020, by more than 70% in EU and about 50% in OECD countries, and by about one-third, globally. While yet to attain pre-pandemic levels, the Region may have turned the corner on FDI, although given the current geopolitical instability, a degree of caution should be retained.

Share of renewables in electricity generation, 2019
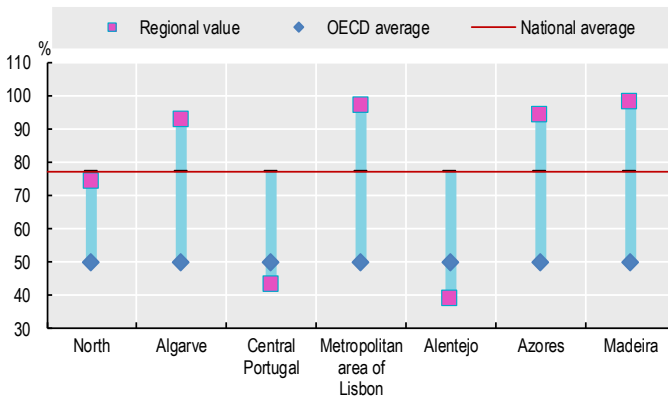
Source: OECD Environmental database (2022); OECD regions (TL2)

The Centro Region has significant renewable electricity potential in several forms including hydropower, wind, solar, biofuels, ocean energy, geothermal, biomass and biogas. Indeed, the installed wind power capacity has increased in recent years, positioning the districts of Viseu and Coimbra amongst the top two performing districts in Portugal (Endogenous Energies of Portugal, 2021[1]). Furthermore, the region was responsible for 50% of the national wind production in 2022 (DGEG, 2022[2]). For the moment, Centro share of renewables in electricity production (44%) is currently below both the OECD (50%) and Portuguese averages (77%). Strategic investments in the renewables sector could continue contributing to reaching national climate and energy targets, attracting investors, building competitiveness and improving quality of life.

Share of nights spent by foreign tourists in accommodation establishments
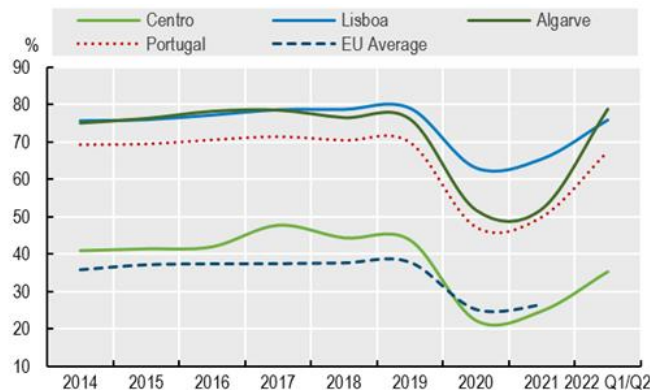
Source: OECD calculations based on Instituto Nacional de Estatistica (2022); Eurostat (2021)

Between 2014 and 2017, Centro experienced a slight but steady increase (to 48%) in the share of nights spent by foreign visitors in accommodation establishments, followed by a slight decline to 2019 (44%). The unprecedented shock to the tourism economy caused by the COVID-19 crisis in 2020, led to a 22 percentage points drop in the share of nights spent by foreign tourists, to 22% – a figure well below the national average of 47% and the European average of 27%. Centro has experienced a slower rebound when compared to other Portuguese regions, with the share of total nights rising to 36% in the first six months of 2022. The top inbound market in 2019 was Spain accounting for over a quarter of international visitor nights (Statistics Portugal, 2020[3]), rising to 34% in 2021 (Statistics Portugal, 2022[4]).

Interregional comparison on social life opportunities
(% of population satisfied with opportunities to meet people and make friends)
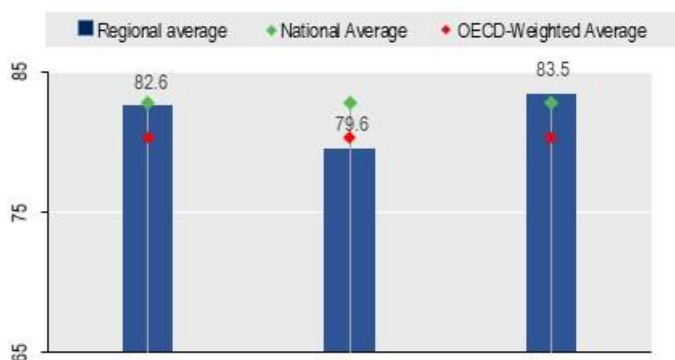
Note: Average on the 2016-2020 years
Source: Gallup World Poll

Social interactions are a significant factor driving life satisfaction and overall well-being of residents (OECD, 2020[5]). Indicators that capture participation in social activities can help to measure regional social capital and can illustrate an important relationship between higher levels of social well-being and regional economic growth. In the Centro Region, 83% of the population indicated that they are satisfied with opportunities to meet people and make friends, performing well against the OECD-weighted average (80%) and the national average (83%). This result indicates that the region is well placed to provide a diversity of social life opportunities likely to boost well-being and sense of belonging, with positive impacts on the region's attractiveness as a place to invest, live and visit.

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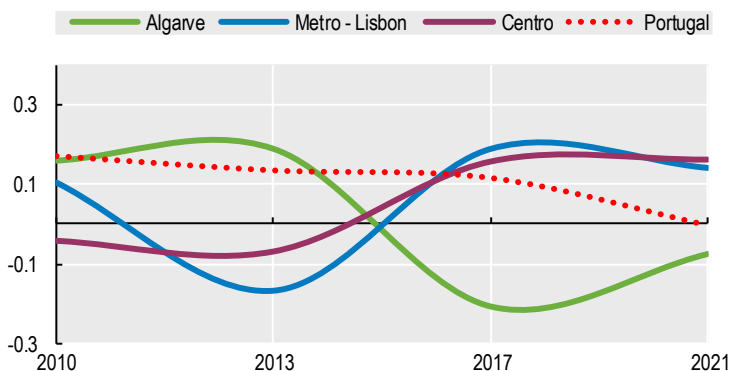
Note : The EU average is represented by the horizontal axis (zero line). Negative values mean that the regional EQI is below the EU average.
Source: University of Gothenburg

The European Quality of Government Index (EQI) captures, at the regional level, citizens' perceptions, and experiences in relation to corruption, quality, and impartiality of three essential public services – health, education, and policing. Between 2013 and 2017, the EQI score in Centro increased considerably, outpacing the EU and Portuguese averages. The score remained relatively stable to 2021, but again, well above the EU and Portuguese averages. Perceived quality of government can have serious implications for trust in government, as well as regional attractiveness. It can influence the decisions of potential investors and talent when choosing a preferred destination to set up a business or raise a family.

Download speed at the regional level

Download speed as a percentage deviation from national average
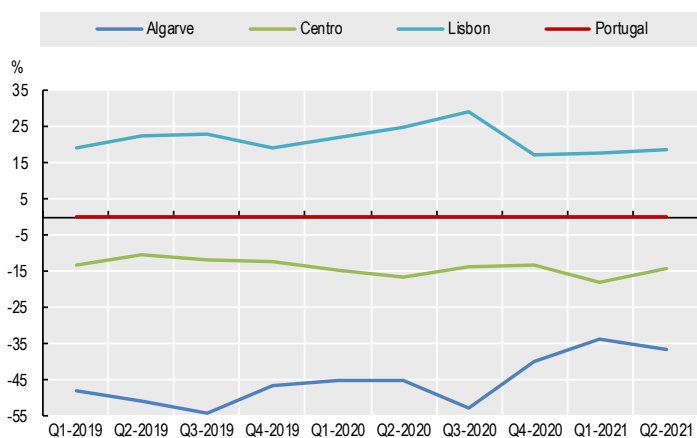
Source: OECD calculations based on Ookla database ; 2021 ; OECD TL2 regions

Access to fast and reliable internet connections are a key factor in attracting investors, talent – remote workers and digital nomads in particular – and visitors. On the digitalisation front, download speeds in Centro have consistently remained at around 15% below the national average in recent years, indicating scope for improvement. While overall speeds have been increasing, significant disparities exist between interior and coastal municipalities, particularly in the rural areas (ANACOM, 2021[6]). Improving download speeds also directly complements the opportunities for the region to redefine the attractiveness of municipalities, parishes, and rural areas.

Attractiveness profile: Centro Region

Centro's ability to provide diverse social life opportunities, high levels of perceived quality of government, and the high concentration of Greenfield Foreign Direct Investment (FDI) are all positive drivers of regional development. Building on these assets and others can help enhance the attractiveness of the region and better balance territorial development of Centro.

Before considering the policy levers available to enhance the attractiveness of a region to international target groups (investors, talent, visitors), it is important to first understand the region's position in the world. To do so, the OECD considers four families of international connections: business (e.g. FDI projects, trade, employment in foreign-controlled business, etc.), human (migration, and visitors), knowledge (international students, R&D, patents) and infrastructure (broadband, ports, airports, stations). In the case of the Centro, on the **Business** front, it is globally integrated with a **trade openness rate** of over 50% - a measure of the region's imports and exports as a share of regional GDP – above both the EU (47.4%) and national average (35.6%). In terms of **Infrastructure,** the region stands out with strong **air transport performance** due to its proximity to international airports in neighbouring regions such as Norte and Lisbon; on average, residents in the region can access over 258 unique daily passenger flights within 90 minutes by car, out-pacing the EU and OECD regions. When it comes to **Human** connections, and in particular visitor presence, the region lags with less nights spent per sq. km (151) than in most EU regions (1,126). Finally, on **Knowledge** connections, Centro publishes the second highest number of **international scientific co-publications** (1,790) in Portugal, a score above the average of EU (1,126) and Portuguese regions (1,357) in 2021.

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

Attractiveness Compass: Centro Region

Compass interpretation:
- Scale from 0-200 (200 represents the region with the best performance; 100 represents the median)
- The median for the EU and the Country is represented by the same black dashed line (100).
- The composite score for each dimension, is represented by a blue dot indicating performance relative to the EU median, and a red dot relative to the Country median.

Source: OECD database on Measuring the Attractiveness of Regions; all statistics from the OECD Regional Database (2015-2022) unless otherwise noted.

Economic Attractiveness: Despite Centro demonstrating relatively low performance relative to EU regions on the economy dimension, it does perform reasonably well against its Portuguese counterparts, including in terms of economic diversification, a measure that takes into account the distribution of employment. However, it is among the lowest-performing regions compared to OECD, EU and Portuguese average in terms of GDP per capita and Gross Value Added per worker. Concerning the innovation and entrepreneurship dimension, which considers the percentage of staff employed in R&D, Centro (over 2.35%) exceeds other EU (1.9%) and OECD regions (1.6%). Regional economic specialisations are various from traditional industrial areas (ceramic materials and glass; forestry and the resulting products, such as paper pulp; or agro-food industries) to more recent technology based (basic metallurgy and the manufacture of machinery and equipment; molds; or plastics industries) or knowledge-intensive (information technologies, biotechnology, new materials, health, industrial and product design) activities (CCDR-Centro, 2020[7]). A highly diversified economy is a clear asset to enhance Centro's innovation system and boost its attractiveness to foreign investors and talent, which could be better exploited by reinforcing the existing entrepreneurial fabric and pursuing increased productivity.

Visitor Appeal: In the tourism dimension, Centro's performance is on par with the EU median, although the COVID-19 pandemic has brought new tourism opportunities for the region, especially in terms of rural destinations. Its diversified portfolio includes natural, religious, sun and beach, gastronomic, health and wellness tourism (thermal). Particularly, the Region has strength in cultural heritage and is home to four UNESCO World Heritage listed cultural sites, which represent a significant asset in terms of tourism attractiveness. Despite this, the share of employment in culture and creative industries (0.84%) is lower than the EU (1.14%) and OECD averages (1.30%). Cultural heritage and the presence of an active creative economy can contribute to enhanced quality of life, and as such increase territorial attractiveness not only for talent, but also for investors and visitors.

Connectedness: Digitalisation and transportation scores are below the EU median, highlighting the need for coherent and comprehensive approaches to address infrastructure policy challenges in these dimensions. In fact, around 77.6% of the population has access to high-speed internet, a score performing well-below the EU average (85%). On road and rail performance (measures of accessibility and proximity), Centro performs above the EU and OECD averages for road, but well below for rail. For example, the number of population reachable via railway within 90 minutes is only 0.7 per 100 nearby inhabitants (within 120km radius), a figure far below the EU (4 per 100) and OECD average (5 per 100). The lack of access to public transportation reflects the low satisfaction with the quality of public transportation (47.08%), particularly when compared to the average of EU countries (60%).

Land and Housing: In Centro, residents spend much less of their income (9.7%) on housing than the EU average (25%) yet only just a small share of the population considers that they have enough money for housing (12%) and slightly less than half of people (46%) are satisfied with housing affordability, which may be explained by different factors (e.g. housing shortage availability, house pricing or deterioration). When assessing the land dimension, it is important to understand that a higher score represents higher levels of land development and land prices. The share of land converted to artificial surfaces between 2004-2019 (1.3%) is above the EU (0.64%) and above the OECD average (0.73%), suggesting the region has relied more on greenfield land for projects and investments than the redevelopment of brownfield sites. While this may be illustrative of economic dynamism, it may also have environmental consequences in the Region, including loss of habitat, flora and fauna displacement and loss of green spaces. By the same token, a low score may indeed illustrate an unexplored economic opportunity and/or a high-quality natural environment (e.g., areas with improved air quality, noise reduction, and enhanced biodiversity). Further analysis of this dimension would help to better understand the local context and disparities for Centro.

Resident Well-being: Centro performs just below the Portuguese median relative to the education dimension. However, access to essential public services, such as health is lagging. Although the number of doctors per capita (5 per 1000 inhabitants) is above both the EU (4) and OECD averages (3), the distance to access maternity and obstetric hospital services (76km) is over 20 km further than the average for Portugal. Centro does benefit from the presence of top-quality tertiary institutions, with two universities included in the World's Top 500 Ranking. Regardless, the low share of population with tertiary education (28.9%) and the distances to primary (3 km) and secondary schools (5 km) are indicative of the lower score in education. Finally, despite having a high percentage of population feeling safe walking at night (80.6%) and satisfied with the opportunities to meet people and make friends (82.7%), social cohesion remains the lowest performing dimension in this domain, particularly highlighted by the satisfaction of the population with life (5.48 at the Gallup scale from 1 to 10) compared to EU (6.51) and OECD (6.53). Still, a recent survey from Centro shows that 72% of residents in the region considered themselves globally satisfied with their life (CCDR-Centro, 2022[8]). With evidence indicating an important relationship between higher levels of social well-being and regional economic growth, this makes a strong case for investments in policy areas that foster social cohesion (Muringani, Fitjar and Rodríguez-Pose, 2021[9]).

Natural Environment: Centro's performance in this domain indicates that room for improvement remains. On the natural capital dimension, Centro's tree cover rate (53%) is above the national average, and its evolution is above the OECD and EU averages. However, on greenhouse gas emissions produced by the transport industry (2.36 tonnes of CO_2 equivalent per capita) the Region doesn't perform as well as OECD (2.02 tonnes) and EU (1.96 tonnes) regions. The relatively small percentage of the population satisfied with efforts to preserve the environment (less than 50%) and the low share of recycled municipal waste (roughly 45%) are indicative of the lower score on environment attractiveness drivers. These figures possibly indicate the need for improved policy responses to safeguard the environment and support green growth as levers to enhance regional attractiveness.

From recovery to resilience

Addressing structural challenges and intra-regional disparities reinforced by the pandemic is key to increasing the attractiveness of Centro. Although the Gross Domestic Product (GDP) decreased in all Portuguese regions in 2020, Centro experienced the smallest decrease in GDP among Portuguese regions. Its diversified economy holds potential to increase the region's resilience and can help in sustaining long-term economic growth. While Centro is rapidly recovering from the effects of the pandemic in terms of inward FDI, growing over 247% in 2021, rates have not returned to pre-pandemic levels. The share of renewable energy in electricity production is below the Portuguese average, but slightly above the average when compared to OECD and EU regions, presenting an area for Centro to enhance further, supporting the green energy transition in Portugal. The performance of fixed internet connections is also a challenge in the region. In June 2022, Centro illustrated download speeds around 19% slower than the national average, with disparities between inland and coastal municipalities. Despite these challenges, Centro has demonstrated resilience and introduced policy responses to contain, in the short term, the economic fallout and, in the long term, provide relief and promote recovery. In this framework, the Portugal 2030 Strategy comprises four Thematic Agendas[1], addressing the key challenges to enable sustainable and inclusive growth for the next decade. To achieve this at the regional level, the Strategic Vision for the Centro Region 2030 offers a comprehensive strategy for each of the 8 subregions in Centro, which when implemented could enhance the attractiveness of less populated hinterland areas, to investors, talent, and visitors. At the same time, Centro's Smart Specialisation Strategy (S3) aims to boost the social, environmental and economic development of the territory by identifying research and innovation priorities to ensure the social, digital and green transition while promoting cooperation amongst multiple levels of government. Through these strategies, Centro is identifying the main drivers to improve its position in global value chains (e.g. new localisation of firms) and pursuing opportunities for stronger rural-urban linkages.

Moreover, Russia's aggression in Ukraine has posed additional difficulties for countries in Europe and beyond, as they seek to recover from the economic impacts of the pandemic. While Portugal is not immune, it is currently one of the least exposed countries to the effects of the war, mainly due to its limited trade relations with Ukraine and Russia (European Commission, 2022[10]). Areas of exposure include imports of liquefied natural gas from Russia, which accounted for 16.6% of total national imports, and imports of corn and sunflower oil from Ukraine, which accounted for 34.7% and 31.2% of total imports in 2021, respectively (Duarte and Belejo Correia, 2022[11]). The consequences of high international energy and food commodity prices are being felt across the country, placing downward pressure on household income, spending, and saving rates, and making access to energy-efficient transport, like trains, even more necessary.

The Centro Region has identified, through the *Strategic Vision for the Centro Region 2030*, several policy actions to strengthen its export capacity, intensify technology-based entrepreneurship and increase the attractiveness of FDI projects. However, the absence of a competitive railway infrastructure compared to OECD and EU regions, particularly connecting the region to other major cities in Portugal and Spain, as well as the underdeveloped infrastructure and facilities of the Port of Aveiro, could serve as an impediment to attracting FDI and enhancing the attractiveness of the region to exporters. Furthermore, Centro is facing demographic challenges such as rural depopulation and an ageing population, with the region's innermost municipalities most vulnerable. These and other demographic trends have important implications for the Region's labour force, weakening economic vitality and labour productivity growth, which has decelerated between 2019 and 2020 (Statistics Portugal, 2022[12]). To respond to these demographic challenges, different programmes were put in place, such as the Inland Valorisation Programme (PVI), the Common Strategy for Cross-border Development, and the Programme for the Economic Enhancement of Endogenous Resources (PROVERE). Also, the regional authorities could take advantage of the

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[1] Under the Portugal 2030 Strategy, the four Thematic Agendas include: Agenda 1 - People First: better demographic balance, greater inclusion, less inequality; Agenda 2 - Innovation, Digitalisation and Skills as drivers for development, Agenda 3 - Climate transition and resource sustainability, Agenda 4 - An externally competitive and internally cohesive country

national More Inland Employment ("Emprego Interior Mais") initiative, which provides relocation grants for workers (including remote workers) and entrepreneurs who relocate to selected territories in the hinterlands.

In terms of talent attractiveness, Centro faces significant intra-regional disparities. The loss of young people in a region characterised by outward migration and a declining birth-rate places additional pressure on smaller inland municipalities in their efforts to maintain essential public services and boost economic and productive activity. The OECD acknowledges that considering the effect of demographic change within regions is necessary to bridge 'quality and access' gaps and improve the provision of public services (OECD, 2022[13]). Introducing policy measures to better align demographic trends with public service delivery could help the regional government to identify the needs of inland and coastal municipalities.

Box 1. Attracting talent: North Sweden Green Deal (Sweden)

In 2019, regions in Northern Sweden launched an attractiveness pilot project to respond to major industrial investments and the resulting need for coordination among multiple actors, including: the Regions of Norrbotten and Västerbotten, the Luleå University of Technology, the Norrbotten County Board, the Swedish Lapland Visitors Board and many others. A total of SEK 112.5 million (EUR 10.6 million) has been allocated for the project, of which 54% is allocated to the Norrbotten Region and 46% to Västerbotten Region. The Swedish Government funds half of Norrbotten's budget through regional 1:1 financing while Västerbotten receives around 40% of funding from the Skellefteå Municipality and roughly 12% through the Swedish Government and the remainder from the European Regional Development Fund.

The project aims to attract and retain talent by simultaneously carrying out territorial marketing efforts with capacity building initiatives in the host territories. Thus, local actors and municipalities must be able to plan and manage what the industry demands, notably in terms of access to skills, energy and infrastructure. Although the majority of the establishments are technology-oriented, the initiative is looking to retain a wide range of expertise, taking advantage of both national and international talent. As such, the project supports emerging collaborative initiatives in marketing and capacity building. These include:

- International talent spotting through the use of AI-technology: employing methods to collect data from the country's destination management organisations.
- Testing municipalities' attractiveness messages: students from Luleå University of Technology come to Norrbotten municipalities to listen and rate their attractiveness narrative.

Finally, the strategy also introduces measures to secure access to housing, school and employment for the accompanying family members.

Source: : Luleå University of Technology (3 March 2021),"Record investments in the north and the University's important role in the supply of skills", The Vice-Chancellor's blog, (accessed November 15, 2022).

Attracting and retaining talent is essential to achieving the targets set by the Strategic Vision for the Centro Region 2030 and Centro's S3 strategy. Under Centro's S3 strategy, the regional authorities encourage the creation of collaborative laboratories at the local level and a regional mobilisation programme to promote interaction between business associations and higher education institutions. Projects aiming at minimising the lack of qualified professionals in technological areas and the depopulation of inland regions are under development, such as "Belmonte Connect", which includes the creation of a technological development centre and jobs for Portuguese and foreign professionals, and "Fundão – Welcoming Land" ("Terra de Acolhimento"), which intends to develop the first Iberian aggrotech park in partnership with Extremadura, Spain. They can enhance the attractiveness to talent and investors in these territories of Centro. For instance, the municipality of Fundão is also using a set of local policies to attract investors and talents, such as the Innovation Plan, the Business Space, CoWork Fundão, the Property Exchange office and the #MoveToFundao initiative. Upskilling the adult population is also a priority, in order to keep pace with rapidly changing skills demands, in particular in digitalisation and automation. In Portugal, active labour market policies have increased access to training in

recent years yet spending per unemployed remains low and there is a visible mismatch between employer demand and the ability to attract scarce talent and workers to advertised jobs (OECD, 2021[14]). Aligning the educational offer with regional job priorities could foster innovation and productivity, providing knowledge exchange and spill over opportunities. Centro could learn from the example of North Sweden Green Deal (Sweden) (Box 1), a regional initiative aiming to take advantage of recent graduates and the active population in the region, while offering housing solutions for those interested in the initiative.

In an effort to further diversify its economy, Centro has identified tourism as one of the economic areas for the establishment of new business clustering. The region is focused on promoting Centro as a competitive and sustainable tourism destination while identifying effective policy responses to manage demographic pressures in rural areas. In this sense, PROVERE (Box .2) has been essential to the region in order to reduce the effects of 'interiority' or 'depopulation', taking advantage of eminently territorial resources that can trigger sustainable and innovative activities, many of which are related to active, cultural, heritage and nature tourism. For instance, the "iNature" initiative is enhancing the innovation capacity of nature tourism to diversify the regional offer, creating jobs and strengthen entrepreneurship, and the "Historical Villages" project is helping to revitalise villages through cultural tourism, urban and heritage regeneration, education, business development and incentives for investors in the tourism sector.

Box .2. Centro's Programme for the Economic Enhancement of Endogenous Resources (PROVERE)

The PROVERE programme is a regional economic development strategy launched in 2009 which specifically targets less populated municipalities of the Region. It aims to strengthen Centro's competitiveness through the promotion of innovative economic activities based on endogenous resources targeting investment, export and visitors.

During the 2019-2021 cycle, 4 PROVERE strategies were in place:

1. *Network of Historical Villages of Portugal:* contributes to the sustainable development of 12 historical villages located in the hinterland. One of the main objectives of this initiative is to attract talent and create a business environment conducive to entrepreneurship.

2. *Enhancing the value of thermal spas in Centro*: aims to reinforce the region's thermal offer, enabling greater interaction between operators and further dissemination of the *Termas Centro* brand.

3. *Schist Villages Network*: enhances the cultural landscape of the Schist villages through the creation of a territorial brand and establishes a platform for inter-municipal cooperation, fostering effective communication between public and private entities.

4. *Nature - Sustainable Tourism in Protected Areas*: promotes green tourism in regional parks and protected areas and facilitates the creation of employment and new business opportunities.

A total of EUR 21 million has been allocated to the strategy, supported by the Centro 2020 Operational Programme. The evaluation of the 2016-2018 PROVERE programme enabled decisions to be taken on which projects should continue in the following 2019-2021 cycle. Most of the results of this evaluation underlined the positive impact of this policy: to provide innovative ideas to promote new activities in the region, contribute to strengthening human connections and encourage business creation. All of which are essential to fight depopulation in rural areas by implementing attractiveness strategies.

Source: CENTRO 2020 (2021), "PROVERE: Programa de Valorização Económica dos Recursos Endógenos", [PROVERE: Programme for the Economic Enhancement of Endogenous Resources], (accessed 19 July 2022).

The programme has provided a qualitative evaluation of these initiatives but lacks an assessment in terms of investment, talent and visitor attractiveness. In addition, creating a regional brand that enhances local products and the value of cultural routes has been an integral part of the strategies included in the 2020-2030 Centro Region Tourism Development Plan, which presents tourism as a key strategic sector and welcomes the idea of transforming the regional economy by opening new growth paths. The Plan is aligned with the 2027 National Tourism Strategy and provides a detailed outline of the initiatives that will enhance Centro's tourism industry, identifying potential target markets who might interested in tourism products (e.g. young adults, families, corporate businesses) and fixing objectives for each initiative.

Enhancing multi-level governance and coordination mechanisms

Portugal has a three-tier system of subnational governments, consisting of regions (two Autonomous Regions), municipalities and parishes. Centro's administrative region is divided into 8 Inter-Municipal Communities (IMCs) made up of 100 municipalities and 972 parishes. The Portuguese system of governance is highly centralised, and in order to co-ordinate central government services (e.g. regional development, environment, energy) at the regional level, the national government established the Commissions of Coordination and Regional Development (CCDR) in 2003. These "deconcentrated" regional bodies have administrative and financial autonomy and play an active role managing the regional operational programmes of EU structural funds. In an effort to boost intermunicipal cooperation, the national government has taken steps to reinforce decision-making at the subnational level, transferring additional competencies (e.g. in education, housing, transport) to local authorities and IMCs. In addition, a new reform to strengthen CCDRs' responsibilities is planned to take place until 2024. This process foresees the transfer of competencies in the areas related to the economy, culture, education, health, nature conservation and forests, spatial planning, infrastructure, professional training, and agriculture and fisheries (Government of Portugal, 2022[15]). However, it remains unclear how the CCDRs will fund their new responsibilities and how they will interact with inter-municipal bodies.

The main objectives of such reforms are to generate economies of scale in public service provision and support the development and implementation of integrated regional development strategies that take into account urban-rural linkages. Regionalisation trends increase the need for co-ordination across government levels and the need for clarification around responsibilities and the allocation of competences in order to avoid duplication and/or overlap. The potential benefits depend on the system in its entirety, including the adequate capacity of national, and subnational governments, accountability of national, regional and local public decision-making and the presence of sound framework conditions (OECD, 2019[16])[1]. Since Portugal is undertaking these territorial reforms through not only the implementation of an administrative deconcentration process but also a recent re-design of NUTS II and NUTS III perimeters, this topic is even more relevant, particularly considering the challenges for multilevel and regional governance in Centro. Some NUTS III territories in the NUTS II area of the region are part of a hybrid system since they are also depending on other regional authorities (CCDR Centro and CCDR Alentejo[2]) for various purposes such as policy cohesion funds, spatial planning and some sectoral policies like health and agriculture. In this system, the "geography for finance" projects and investments is different from the "geography of spatial planning". For instance, the Lisbon and Tagus Valley region's spatial planning include four NUTS III areas: AML (Metropolitan Area of Lisbon), Oeste, Médio Tejo, and Lezíria do Tejo. However, Oeste and Médio Tejo are included in Centro Region's funding (Cohesion Policy), while Lezíria do Tejo is included in Alentejo Region. As a result, funding for Cohesion Policy investments in Oeste and Médio Tejo (and Lezíria do Tejo) is the responsibility of CCDR Centro together with the CCDR Alentejo, who are not responsible for the spatial planning of these NUTS or ICMs. In contrast, CCDR LVT's financial responsibilities are limited to investments in AML. This complexity adds to the entropy the risk that there will be insufficient accountability on the institutional framework for each region.

Furthermore, despite the CCDR's role in regional strategy development and implementation, their human resources and technical capacity to manage regional public service provision and overall regional development is limited. The CCDRs usually face organisational challenges that hinder the commitment and implementation of long term strategic and cross-sectoral approaches to regional development. The reform also takes into account the on-going process to allocate new competencies to IMCs and the need to expand their role. Ways to guarantee that it will not lead to unfunded mandates have to be precise. This issue can be related to the volatility of municipal

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[2] The region of Alentejo is one of Portugal's seven TL2 regions. The region has five inter-municipal communities (CIM) and 58 municipalities, including its main city, Évora (Alentejo Central). The region borders Extremadura and Andalucía (Spain) on the East, the Atlantic Ocean and Metropolitan Area of: Lisbon on the West, Algarve in the South and Centro Region in the North. With 704 934 inhabitants, Alentejo is the fourth Portuguese TL2 region in terms of population. (OECD, 2022[20])

tax bases and the uncertainty with spending capacity for multi-year commitments. Clarification of assignments between CCDRs and IMCs is also needed to avoid duplication and allow for cross-sector public action at the relevant scale (OECD, 2020[17]), particularly considering the possibility for ICMs to participate in the management of regional funds.

In order to effectively attract talent, investors and visitors, CCDR-Centro is working to better communicate with public entities and private sector stakeholders to identify good practices and policies that address the economic, social and environmental challenges of the new global environment. However, certain challenges arise, both from a multi-level governance and regional attractiveness perspective. As it occurs in other Portuguese regions (OECD, 2020[18]), municipalities in Centro vary substantially in their ability to generate revenue, creating differences in their fiscal, administrative, and strategic capacity. Those located in coastal areas have higher levels of revenue per inhabitant than inland municipalities. These diverse territorial dynamics are also reflected on Centro's Operational Programme (2014-2020), supported by EU funding and accounting for an eligible investment of EUR 376 million. As of August 2022, 1,560 projects were approved under the programme, nevertheless, most of these projects are located in coastal areas (CCDR Centro, 2022[19]). Different initiatives were taken to attract investors to inland areas and reduce these discrepancies (e.g. dedicated public calls to attract firms to inland areas),This type of action is necessary to address the significant disparities within the Centro Region. Strengthening subnational capacities and coordination mechanisms should be a priority to better territorialise attractiveness policies and the capacity of elected subnational governments and officials, to design and implement policies that support inclusive and resilient economic growth. The current process of decentralisation in Portugal could benefit from an examination of regional attractiveness to key target groups (talent, investors and visitors), as a way to integrate coherent strategies at relevant scale.

Moreover, the EU funding has been instrumental to enhance regional development in Centro and complement the capacity of Portuguese government to ensure public investments and support local authorities through the national budget. For instance, under the *EU Recovery and Resilience Facility* (RRF), Portugal will receive a financial allocation of EUR 16.6 billion over the 2021-2026 period (EUR 13.9 billion in grants and EUR 2.7 billion in loans). This unprecedented response aims to strengthen economic and social cohesion in the EU, and can be viewed as an opportunity for Centro to enhance its internationalisation profile and attractiveness to key target groups (investors, talent and visitors), with the appropriate integrated strategies, human resources and technical resources to do so. However, the region still faces issues to finance the maintenance of planned investments, which negatively interferes with infrastructure planning and long-term involvement of public human resources, in particular in municipalities with limited human and technical resources. Additionally, local authorities tend to prioritise projects eligible for EU funding, often at the expense of other projects that might contribute to addressing other concerns (e.g. investing in affordable and quality housing to attract talent). The new role of CCDR intends to enhance its capacity to absorb, manage and expend EU funds. However the impact of the reform remains unclear and should be better assessed through implementation clarification. In addition, the scope of strategic planning and funding should be articulated between different institutions with different purposes acting in the same sub-regions of Oeste and Médio Tejo, in line with the rationale for recent NUTS redesign of geographical perimeter (coherence of regions for planning and EU funding purposes).

Policy considerations

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

- **Strengthen investment in accessibility and proximity to services of general interest, in addition to enhancing infrastructure (namely railway development), culture and connectivity.** This could favour the retention of local talent and attract international target groups – investors, talent and visitors. Making education and health accessible in a more balanced way could enhance regional competitiveness. For instance, establishing multi-disciplinary health centres, incentivising doctors to locate in specific areas, increasing school clusters and integrating schools with other public services are actions that could increase the attraction and retention in low density and depopulating areas. Better connectivity associated with teleworking strategy could incentivise civil servants relocating in smaller communities. Also, building export capacity, namely through the development of the Port of Aveiro and an active rail freight service to Spain (via Salamanca), could enhance regional infrastructure connections, boost exports and support the attractiveness of the region to potential investors.

- **Provide public financial support (e.g. through relocation grants, scholarships and loans) and incentives to stay in the region while ensuring quality vocational education and training**. As a result, younger generations could have the possibility to continue their studies and find stable and high-quality employment. Further collaboration between higher education establishments, training providers and employers could facilitate youth and adults to upskill in response to fast-changing labour market needs and evolving skills gaps. Special attention should be given to those living in sparsely populated areas to facilitate their access to training in relation with local sectorial investment.

- **Take steps to continue to diversify international source markets and attract more domestic and short-haul visitors.** Establishing a governance mechanism to manage joint attractiveness responsibilities of the tourism sector (e.g. regional branding, transport, environment) could favour economies of scale to enhance efficiency while promoting rural areas, small and medium size cities and large urban areas.

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

Note

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

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