



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



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Rethinking Regional Attractiveness in the Algarve Region of Portugal

2023

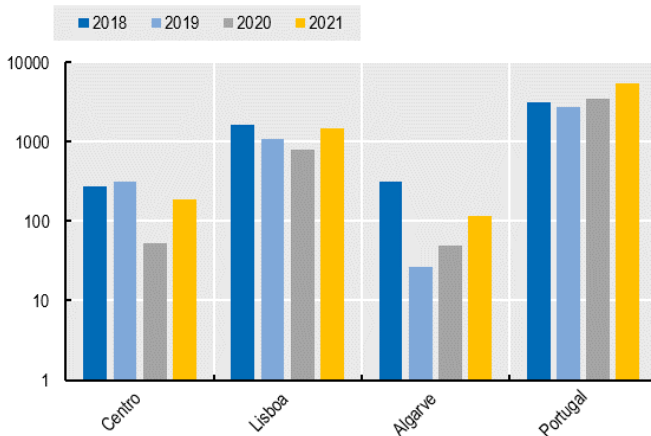


The impact of the COVID-19 crisis, compounded by the consequences of Russia's war of aggression against Ukraine and existing megatrends (e.g. climate change, globalisation, digitalisation and demographic change), continue to produce asymmetric effects within and between countries and regions, with the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

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

4 | A snapshot of Algarve in the world

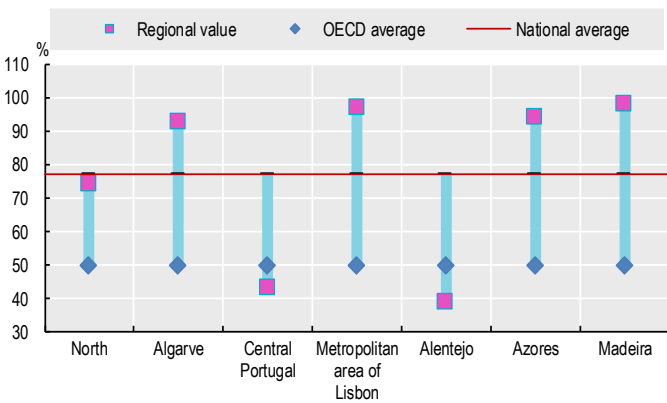
Greenfield FDI Inwards by Region (capital expenditure in USD millions)



Note: fDI market database includes declared greenfield inward investments only.
Source: OECD calculations based on fDI market database, 2022.

The region received greenfield FDI inflows in relevant sectors for its sustainable development (such as renewable energy, software and IT services, transportation and warehousing) between 2018 and 2022. Still, following a major real estate investment in 2018 (USD 272m), Algarve had a steep decline in greenfield FDI in 2019, moving from a total of USD 315m to USD 26m. Despite the impact of the COVID-19 crisis, the region has recovered in the last two years, with increases of 85% year-on-year in 2020 (to USD 48m) and over 140% in 2021 (to USD 116m). While it remains below the baseline of 2018, this growth is well above Portugal's average growth for the same period and also compares favourably with global trends, which dropped by about one-third. This performance also outpaces the overall OECD and EU (Greenfield) FDI inflows (which fell by around 50% and 70% respectively). Still, the outlook remains uncertain given the current geopolitical context.

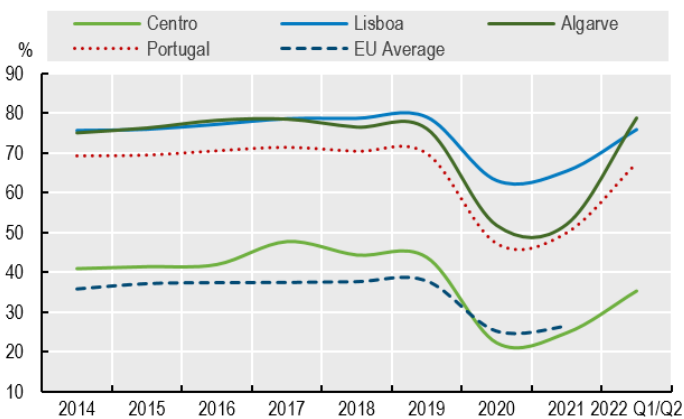
Share of renewables in electricity generation, 2019



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

An increase in the use of renewable energy has multiple benefits for society such as mitigating climate change, reducing the emission of air pollutants and improving energy security. On the share of renewables in electricity generation, Algarve (along with Metro Lisbon, Azores and Madeira) reached 93%, outperforming the national average among regions (77%) and the OECD and EU averages (50%). Data from 2022 on the distribution of installed power by technology and NUTs II reveals that photovoltaic and wind energy are the main renewable sources within the region (DGE, 2022^[11]). The region can also benefit from exploring other natural resources, such as waves and biomass. As the world strives to achieve a swift green transition, the region needs to avoid new vulnerabilities arising from high and volatile critical fossil fuel prices or highly concentrated clean energy supply chains as a pull factor to attract sustainable international firms that want to green their production.

Share of nights spent by foreign tourists in accommodation establishments

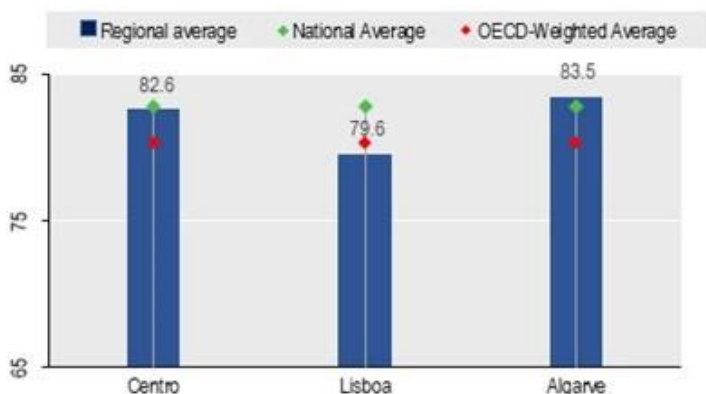


Source: OECD calculations based on Instituto Nacional de Estatística (2022); Eurostat (2021)

In the years leading up to the pandemic, the share of nights spent by foreign visitors in the Algarve was higher than for most all regions in Portugal, except for the Metropolitan Area of Lisbon, accounting for 76% of the total nights spent in accommodation establishments in 2019. The impact of the pandemic was both severe and immediate, with this share falling sharply to 52% in 2020 and 2021, followed by a strong rebound in the beginning of 2022 (79%). Algarve is outperforming the EU regions that had an average of 37% of nights spent by foreign tourists between 2015-2019 and around 26% in 2020-21. Although the necessity to diversify regional economy was not new, the impacts of COVID that were generally more severe in tourism regions more dependent on international visitors, reinforced Algarve's need to target a more diverse mix of markets and ensure that tourism is developed as part of an integrated economic development strategy to improve the resilience of the sector and the regional economy.

Interregional comparison on social life opportunities

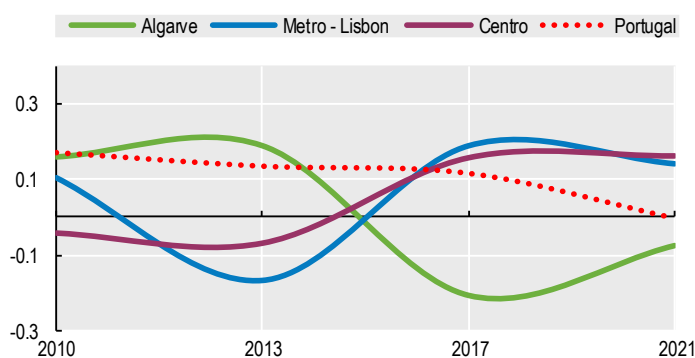
(% of population satisfied with opportunities to meet people and make friends)



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

Indicators that capture participation in social activities can help to measure regional social capital and can illustrate levels of social well-being and regional economic growth. Algarve performs slightly above (83.5%) both the national (82%) and OECD-weighted (81%) averages concerning the share of the population satisfied with opportunities to connect with others and make friends. 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

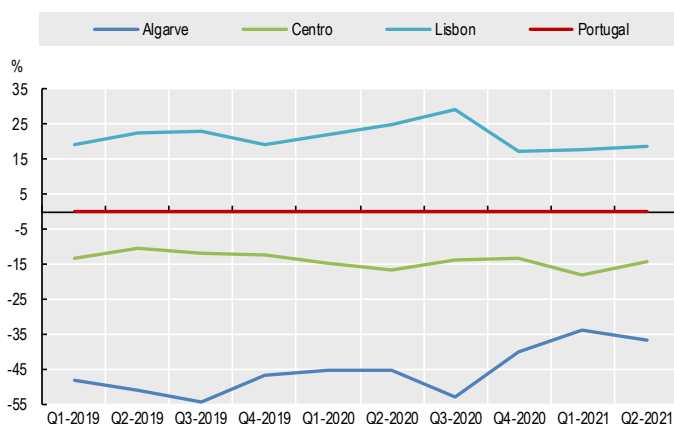


Note : The EU average is represented by the horizontal axis (zero line).
Negative values mean that the regional EQI is below the EU average.
Source: University of Gothenburg

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. After slight improvements between 2010 and 2013, perceived quality of government in Algarve dropped during the period to 2017. The latest data shows that from 2021 residents perceptions are again on the rise, however, performance remains below the national and EU averages. Perceived quality of government can have serious implications for the attractiveness of territories, as it is crucial to ensure the success of a wide range of public policies and trust of investors.

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

On the issue of download speed at the regional level, there remains significant room for improvement in Algarve. Despite steady improvement between 2020 and 2021, where the download speed (relative to the national average) improved by around 10% points, the average speed in Algarve is now holding relatively steady at around 35% below the national average. Regardless, download speeds in the region remain well below the national average. Moreover, the regional average highlights great disparities both in the quality of the network coverage and in access to high speed internet between coastal and interior municipalities. Access to reliable and fast connections to the internet are a key factor in attracting talent - remote workers in particular - investors and visitors. Faster download speeds in non-metropolitan areas would reduce inequalities within the region and increase opportunities to attract key target groups.

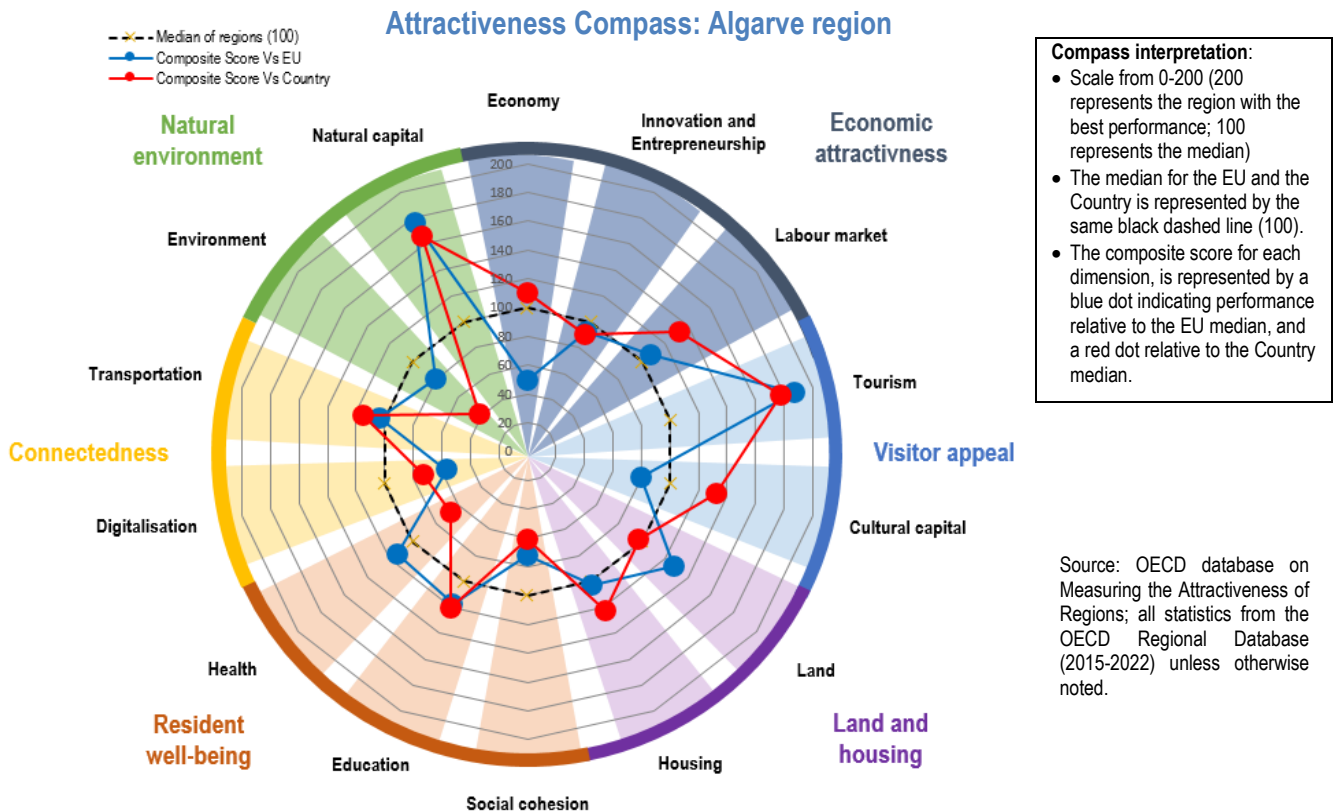
Attractiveness profile: Algarve

The high number of visitors drawn to Algarve underlines its strong international ties. Indeed, Algarve outperforms Portugal's other regions in several areas, including the greenfield FDI inflows between 2018 and 2022. A well-developed tourism sector, combined with an increasing capacity of renewable energy generation and a diversity of social life opportunities likely to boost well-being and sense of belonging open a window of opportunity to shape the future of the region's growth. Such development would need to go beyond tourism activities and be based on a more diversified regional economy.

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 (employment, migration, and visitors), knowledge (international students, R&D, patents) and infrastructure (broadband, ports, airports, stations).

In the case of Algarve, the region has potential on **knowledge connections**, reflected by its number of international scientific co-publications per million population in 2021 (1183), slightly below the EU and national averages – this figure is up over 60% from when data began being collected in 2014. In terms of its **infrastructure connections**, the region performs below the EU (354), the OECD (397) and the Portuguese (212) averages in terms of air transport performance – measured by the daily number of passenger flights accessible within 90 minutes by car. On average, people in the region can access over 144 unique daily passenger flights, compared to, for example, 258 in the Centro region, highlighting the need to further improve coast-hinterland transport connection. With regard to Algarve's **human connections**, the region fares well in tourism (i.e. number of nights spent per km²). Available data indicates that the region performs below EU and Portuguese regions on **business connections** regarding the share of employment in tradable sectors. It also lags behind in the share of gross value added (GVA) in tradable sectors compared to Portuguese regions.

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).



Economic Attractiveness: Although generally lagging behind EU regions on the economy dimension, Algarve demonstrates potential to make a more substantial contribution to the Portuguese economy. The region outperforms other Portuguese regions' gross domestic product (GDP) per capita averages, except for the Lisbon Metropolitan Area. In the labour market, it also performs above other Portuguese regions in its employment rate (i.e. persons aged 15-64 years), but there is room for improvement, particularly in relation to the youth employment rate (15-24 years old). On innovation and entrepreneurship dimension, Algarve outperforms other Portuguese and EU regions on the employers' firms creation rate, however, the share of the population who think their region is a good place for people to start new businesses is low compared to other EU and OECD regions. While it performs well in attracting foreign students, the lack of innovation capacity highlighted, for instance, by the low percentage of employment in R&D, may negatively affect the perceptions of potential investors and talent. Also, according to the latest Regional Innovation Scoreboard (European Commission, 2021[2]), Algarve is an emerging innovator, showing relative strengths (e.g. Above average digital skills) and weaknesses (e.g. R&D expenditures business sector). However, it records low scores in areas like "Employment in knowledge-intensive activities", "Innovative SMEs collaborating", "Innovation expenditure per person employed", or "R&D expenditure of the business sector".

Visitor Appeal: In addition to a high share of overnight stays by foreign tourists, Algarve far outperforms other Portuguese, OECD and EU regions in terms of the number of overnight stays in tourist accommodations per 1 000 inhabitants, and the number of tourist accommodation beds per 1000 inhabitants. Although the region is lagging on the cultural capital dimension (i.e., share of employment in cultural and creative industries) compared to OECD and EU regions, Algarve is performing above other Portuguese regions. It continues tackling this challenge by diversifying its tourism activity beyond its sun-and-sea offering, namely golf, nature, health and well-being tourism, among others. Furthermore, the region is home to a cultural heritage that is not yet fully explored and represents a significant asset in terms of tourism attractiveness.

Connectedness: In terms of connectedness, despite the region dropping behind other Portuguese regions regarding the daily number of passengers flights accessible within 90 minutes by car, on road and rail performance (measures of accessibility and proximity), Algarve outperforms other EU and OECD regions, pointing to a high share of the population that can be reached by road, and rail networks. However, the region lags in the digitalisation dimension, scoring below OECD and EU regions on the average download speed from a fixed device, the percentage of fibre optic coverage, and the percentage of households with access to very high-speed broadband. This low performance may challenge the Region's objective, with new projects such as the Tech Park of Portimão, the Blue Hub and the Algarve Tech Park, to leverage opportunities in existing and emerging sectors including ICT, health and well-being, and energy.

Land and Housing: Algarve has a lower share of built-up areas compared to EU regions. This may indicate limited repurposing of existing infrastructure and brownfield sites, and rather, a focus on the use of greenfield sites for projects and investments. Although Algarve lags slightly behind other Portuguese regions on the share of land converted to artificial surfaces between 2004 and 2019, it does perform above EU and OECD regions. Even though this demonstrates land development, it may also reflect a risk for environmental preservation, particularly considering the specificities of tourism impact on land use. In terms of housing, housing expenses as a share of household income in Algarve compare favourably with OECD and EU regions, while satisfaction with housing affordability is below that for both. The share of the population who perceive they do not have enough money for housing is lower than other regions in OECD countries and on par with EU.

Resident Well-being: On social cohesion, while generally performing below the median for both Portugal and the EU, when looking at specific indicators, Algarve performs above OECD and EU regions in relation to feeling safe walking alone at night and in line with both when considering satisfaction with the opportunities to meet people and make friends in the city or area where they live. However, it performs below the OECD and EU regions in relation to satisfaction with life (on a scale from 1 to 10). In terms of education, Algarve outperforms other OECD and EU regions in access to primary education establishments (less than 3 km) and in the share of international students in the student population in higher education (11%). On the issue of health, in general terms, the region performs more strongly against EU than Portuguese regions. When considering, for example, the number of doctors per 1 000 inhabitants, Algarve performs strongly against both EU and OECD regions, and just below concerning satisfaction with the availability or quality of health care.

Natural environment: Regarding the natural capital dimension, it performs above OECD and EU regions, particularly on protected areas and the tree cover rate. Algarve still lags behind on other Portuguese regions with only 43% of tree cover rate. On the environmental dimension, Algarve demonstrates generally strong performance, and particularly on the share of renewables in electricity generation (93%). Nevertheless, there is room for improvement, including in terms of the share of municipal waste recycled and the percentage of the population satisfied with environmental preservation efforts, which are low and if unaddressed, could challenge the region's sustainability credentials to attract investors and talent. Also, greenhouse gas emissions produced by the transport industry (2.48 tonnes per capita) are high relative to other EU regions (2.16 tonnes per capita).

From recovery to resilience

Evidence shows that addressing structural challenges reinforced by the pandemic or related to current megatrends (e.g. digitalisation, demographic change, socio-economic inequalities and green transition) is key to increasing the regional attractiveness of Algarve. The COVID-19 crisis highlighted vulnerabilities in the economy of Algarve, particularly on the dependence on the tourism economy, the sector most affected by the pandemic. For instance, approximately 60% of the GVA in the accommodation and food catering services in the region originates in three municipalities, namely, Loulé, Faro and Albufeira, and this picture has remained stable over the period 2010-2019 (AIGSTO, 2021^[3]). Like most regions reliant on tourism for job and wealth creation, the consequences of COVID-19 for growth and employment were felt immediately, reflected in household income and living conditions. Evidence shows that, in 2020, Algarve's GDP decreased by 16.7% in year-on-year terms, almost doubling the national figure registered at the national level (-8.4%). In terms of GDP per capita, it decreased by 15% below the previous year. While in 2019, the region's GDP per capita was equivalent to 112% of the national average, in 2020, this ratio fell to 102%, the same as in 2009 and 2014. Despite this, it maintained the second-highest GDP per capita in the country. Moreover, the tourism sector is showing signs of recovery. In May 2022, there were increases in overnight stays in the region (+271,1%) compared with the same period of the previous year (Turismo de Portugal, 2022). In terms of employment, total employment suffered a loss of 10% in 2020 compared to 2019, significantly above the country's average (-1.9%) and the highest recorded since 1996 in any Portuguese region. Its high levels of unemployment, particularly affecting younger people, is due in part to the lack of a qualification strategy (CCDR Algarve, 2021^[4]). However, the region is recovering and, although youth unemployment (16-24 years) was still high in 2021 (22.8%), the overall unemployment rate is dropping (8.2%, in the same year) (Statistics Portugal, 2022^[6]).

To tackle these challenges, the Regional Council of the Algarve Regional Development and Coordination Commission (CCDR Algarve) approved the *Algarve 2030 Regional Development Strategy* (CCDR Algarve, 2020^[1]). In line with the areas prioritised in the *Regional Smart Specialisation Strategy* (RIS3 Algarve) (CCDR Algarve, 2015^[5]), it aims to overcome sustainability and economic diversification challenges, namely in the blue economy; sustainable agriculture; renewable energies; biodiversity; ICT and creative cultural industries; as well as health and longevity; energy efficiency and renewable energy. As part of the recovery strategy, the Region also developed the *Action Plan Diversify Algarve 2030* to promote smart and resilient diversification. The action plan aims to position the region in new areas, such as well-being and health; nature tourism; technology; creative domains; and a flourishing silver economy¹. It also aims to reinforce the relevant role of the Mediterranean diet and agri-food, fishery and aquaculture products. For this to occur it will be necessary to promote the local productions, increasing technological and organisational capacity, and improving digitalisation infrastructure to strengthen the regional innovation ecosystem and tackle regional disparities. Algarve may inspire by international experiences to overcome these challenges. Attracting researchers for this purpose is often a challenge that the Valencia region in Spain intends to address with a specific plan (Box 1). An important part of the success of the strategy is also based on the actions of promotion and communication of the territory and its products. However, the variety of plans and strategies would gain from a coordinated approach to guarantee their coherence and the benefit of synergies in their implementation. This issue relates to governance challenges discussed below.

Moreover, the large-scale aggression by Russia against Ukraine has posed additional difficulties, just as Portugal was recovering from the economic impacts of the pandemic. Portugal is currently taking action to help match refugees with labour shortages (OECD, 2022^[6]) and is one of the least exposed countries to the direct effects of the war, mainly due to limited trade relations with the countries involved in the conflict (European Commission, 2022^[7]). Nonetheless, imports of liquefied natural gas from the Russian Federation account for 16.6% of total

¹ "An environment in which the over-60 interact and thrive in the workplace, engage in innovative enterprise, help drive the marketplace as consumers and lead healthy, active and productive lives". (OECD, 2014^[15])

national imports, while corn and sunflower oil from Ukraine account for 34.7% and 31.2% of total imports, respectively (Duarte and Belejo Correia, 2022^[8]). Therefore, the consequences of high energy and food commodity prices have already begun to affect household income, spending and saving rates. While the conflict is not expected to significantly impact the number of international visitors to the region, typically originating from North and Central Europe, these consequences are also relevant to Algarve as high inflation and the rising cost of goods, services and energy are starting to affect the tourism supply chain.

Box 1. Attracting and retaining talent: Valencia's Plan GenT and its impact on the diaspora

In the context of growing competition for talent and the increased mobility of high-skilled workers the Plan GenT, launched in 2017, aims to attract, retain and consolidate the careers of top-level researchers in Valencia. The plan offers researchers the opportunity to develop their R&D projects in public universities and research centres Valencia, in addition to their wage. To date, the regional government has invested more than EUR 31 million and has successfully attracted and retained 214 researchers. The aim is to attract and retain the Valencian diaspora abroad, although all nationalities are welcome.

More specifically, the programme is mandated to:

1. Raise the level of excellence of Valencian R&D activities;
2. Increase the international presence of Valencian research activity and attract European funds to support research;
3. Retain young Valencian researchers and support the development of their research projects.

The plan also considers three possible candidates:

	CIDEGENT (Researchers and Doctorates)	CDEIGENT (Doctorates with international experience)	SEJIGENT (Junior researchers in the Valencian system)
Number of Grants	20	9	9
Number of years + (contract extension)	4+2	4+2	4+2
Annual gross income	EUR 70 000	EUR 55 000	EUR 80 000
Annual research allowance	EUR 100 000	EUR 30 000	

Source: Generalitat Valenciana (2022), "¿Qué es el Plan GenT" [What is the Plan GenT?], <https://gentalent.gva.es/es/que-es> (accessed 4 August 2022).

In terms of investment, Algarve's population and economic activities are concentrated predominantly on the coast and in tertiary sectors, similarly to the rest of the country. In addition, Algarve has been significantly impacted by rural depopulation and an ageing population, increasing the vulnerability of its innermost territories. This concentration is influenced by the population seasonal increases generated by tourism, accentuating pressure on coastal municipalities (service provision, waste management etc.), resources, infrastructure and equipment. Although some low-density parishes are growing slightly in terms of population, the innermost territories present unfavourable conditions in comparison to those located at the coast due particularly to the lack of services and infrastructure. In addition, the absence of a competitive transport infrastructure connecting the inland municipalities to the coastal areas, other major cities in Portugal and Spain, and the underdeveloped infrastructure and facilities of the ports in Algarve, could negatively impact hinterland attractiveness and then more balanced territorial development from an FDI perspective. All this is reinforced by the lack of investment in services of general interest and access to public facilities (e.g. accessibility of hospitals, schools, and public transport stations) in the innermost areas. These are historical asymmetries exacerbated by the COVID-19 crisis, particularly the acceleration of digital transformation of the region. To tackle those challenges, the *Action Plan to Diversify Algarve 2030* was launched in 2021 to prioritise investments in housing ("*Local Housing Strategies*"), improve public transport, mainly favouring intermodal connectivity, and increase the use of renewable energy and water

management². Still, there is a need to engage and partner with Portuguese and other regions to leverage public sector investment and attract investment from the private sector. For example, the region may benefit from the Nexus Agenda led by the Ports of Sines and the Algarve Authority in Portugal, is a consortium of 35 national and international representatives from the transport and logistics sector, academia, research institutions, and technology companies. The aim of which is to develop solutions for the digital and ecological transition of the transport and logistics sector that could also benefit the region of Algarve. It is estimated that by 2030, products created under the *Agenda* will generate a thousand jobs and reduce the carbon footprint of the Ports of Sines by 55%.

Algarve faces significant challenges in attracting and retaining talent. As indicated by the Algarve 2030 Strategy, there is a shortage of human resources to meet the needs of labour-intensive sectors, such as the hospitality sector and maritime activities, that are part of the current regional specialisation. This also makes it difficult to attract or retain new skills and talent for emerging sectors with greater technological intensity. In addition, the sectors most exposed to seasonality tend to place less value on qualifications, and promoting, during certain periods, the departure of more qualified young adults seeking a promising future in other regions or abroad. This results in a high number of early school leavers (19.9% in 2019, which contrasts with 10.6% at the national level) (CCDR Algarve, 2021), and reflects the low qualifications of workers in the labour market, which places downward pressure on salaries. The effects of seasonality combined with the labour model constitute an obstacle to improving stability, enhancing qualification, and offering competitive salaries, particularly for those with higher education. Another issue is the difficulty in accessing housing that points to the need for robust measures to promote affordable housing policies. Despite the challenges, Algarve is taking steps to improve the quality of employment and enhance the value of well-being and social recognition of careers linked to seasonality and inner areas. For instance, the region has created the Algarve Tech Park, a centre to aggregate skills and competencies, focusing on consolidated and emerging sectors with regional impacts, such as Information and Communication Technology (ICT); Electronics, Health and Well-being; and Energy (Box 2).

Box 2. Building a technological ecosystem for investors and talent in Algarve

The *Algarve Tech Park* in Faro, managed by the University of Algarve and supported by the regional community and private tech companies in collaboration with local councils and central government, was launched in 2020. It aims to attract regional, national and international companies and seeks to attract innovative companies with R&D strategies to grow their businesses (particularly in external markets) and who are willing to develop a relationship with the University and regional stakeholders.

The goal is twofold: to provide the necessary conditions for small and medium-sized enterprises (SMEs) to be able to overcome challenges and barriers to internationalisation and to increase co-operation among various stakeholders to favour innovation. Composed of two main parts, the infrastructure area for hosting companies is expected to be 6 134 square metres, comprising the *Science and Technology Park infrastructure (Algarve Tech Hub)* and the *Knowledge Transfer and Valorisation Center (Clinical Simulation Center)*. The total expected investment is EUR 6.6 million, with the *European Regional Development Fund (ERDF)* co-financing EUR 4.6 and self-financing of EUR 2 million.

Its priorities are to adapt and expand existing spaces; guarantee adequate conditions for R&D and innovation; and accelerate companies and technologies. In so doing, it makes it possible to both develop intersectional projects based on knowledge transfer and interaction among the university's research units and promote the creation of new, knowledge-based companies open to international connections.

Source: Algarve Tech Hub (2021), "About", <https://algarvetechhub.com/about/> (accessed on 22 August 2022).

² Water scarcity is a pressing issue in the region, particularly, during summer, when the region has a high demand for water use in agriculture, tourism, and human consumption. This high demand consumed with the limited availability of water resources urges conservation measures and more efficient practices to ensure sustainable water management in Algarve. Furthermore, the region has been exploring alternative sources and techniques, such as desalination and water reuse, to meet the increasing demand and the impact of climate change on water availability.

The attraction of new market segments for tourism, the expansion of low-cost travel, and tourism seasonality strongly influence the regional economy. Supporting the development of new and emerging destinations can reduce negative impacts on existing destinations and local communities under pressure, and promote economic development opportunities in regions and rural areas, with positive impacts on local supply chains and agriculture and rural sectors more broadly (OECD, 2021^[9]). Such factors create new solutions as well as increase pressure on the territory and its resources. Although the Region has progressively tackled these issues in the last decade with the close co-ordination between *Turismo de Portugal*, the Regional Tourism Body and the Regional Agency for Tourism Promotion³, the development and improvement of new and existing products (e.g. golf, reference centre for active and healthy ageing, nautical and nature tourism) also increase the demand for a better strategy and prioritisation of public investment. In addition, public awareness is growing on the need for adjustments in policies and actions to better preserve and safeguard particularly in a framework requiring adaptation to the effects of climate change. To stimulate in-depth knowledge of the impacts of the activity on the territory and greater efficiency in planning and managing destinations, the Region created the Algarve Tourism Sustainable Observatory (AlgSTO). The creation of AlgSTO aligns with other existing initiatives in the region and the strategic objectives of *Turismo de Portugal*, which aim to consolidate sustainability observatories in the various Portuguese regions to contribute to make Portugal an international leader in sustainable development.

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. Algarve's administrative region is divided into) made up of 16 municipalities and 67 parishes, organised in one Inter-Municipal Community (IMC). The Portuguese system of governance is highly centralised (OECD/UCLG, 2019^[10]). To co-ordinate central government services (e.g. regional development and environment) 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 of the economy, culture, education, health, nature conservation and forests, spatial planning, infrastructure, professional training, agriculture and fisheries. However, it remains unclear how the CCDRs will fund their new responsibilities and how they will interact with inter-municipal bodies beyond European Funds management.

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^[11]). 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 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^[12]), particularly considering the possibility for ICMs to participate in the management of regional funds.

³ International promotion is the responsibility of *Turismo de Portugal*, which works with seven Regional Agencies for Tourism Promotion (ARPTs), working as public-private partnerships to ensure marketing plans are aligned with the national tourism strategy. There are also five Regional Tourism Bodies (ERTs), having responsibility for domestic promotion and product development. (OECD, 2020^[16]).

CCDR Algarve is working to advance a multi-level governance model with the 16 municipalities to attract talent, investors and visitors. An integrated and intersectoral approach was put in place by CCDR Algarve to co-ordinate the preparation of the Algarve 2030 Strategy (CCDR Algarve, 2020^[11]) and the *Action Plan to Diversify Algarve*, including close co-ordination with municipalities through the Intermunicipal Community of the Algarve (CIM-AMAL). The example of the “Team France Invest” initiative to regionalise attractiveness policies while involving all levels of government and private partners could inspire Algarve. The region 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. Working together to ensure that the strategy is effective, particularly to align with the region's goals, and continuously improved it. For instance, Algarve is working to simplify administration through measures such as digitalisation, process improvement, a customer-centric approach, and collaboration. The goal is to reduce bureaucracy and improve the experience of citizens and other stakeholders interacting with the government. However, the monitoring and evaluation process needs to better track the progress of the implementation of existing strategies, with clear criteria, to provide guidance and support. Also, there is a lack of collaboration platforms that could facilitate engagement among stakeholders.

Algarve is also developing specific networks to better co-ordinate the implementation of the *Algarve 2030 Strategy* and the *Action Plan Diversify Algarve*. This includes, for instance, the development of “integrated territorial co-operation networks”, working to accelerate its digital transition, involving municipalities, universities, R&D centres, business companies and civil society. Algarve also has a network of *business hosting areas (Rede AEA)* that are geographically distributed and have different characteristics, namely in territorial management instruments and models, location, accessibility, size, ownership, legal nature, business attraction capacity, type of services provided and specialisation profiles. These co-operation networks can help to structure actions and support business investment and can be boosted by improvements in connectivity and infrastructure, including, for example, those planned in the programming period 2021-2027 ERDF investments in broadband (Very High Speed Broadband). In addition, by fostering a bottom-up approach to innovation and smart specialization in Algarve, the region can better leverage its unique strengths and assets by maximizing local expertise, encouraging entrepreneurship, fostering collaboration, and building on regional strengths. This can result in a dynamic local economy that leverages its unique advantages and encourages innovation and growth.

Nevertheless, certain challenges arise, both from a multi-level governance and regional attractiveness perspective. For instance, municipalities in the region vary in their capacity to generate revenue, creating differences in fiscal, administrative and strategic capacity. As in other Portuguese regions, municipalities on the coast have higher revenue levels per inhabitant than those inland, making the latter highly dependent on central government transfers. In fact, the EU funding has been instrumental to enhance regional development in Algarve and complement the capacity of Portuguese government to ensure public investments and support local authorities through the national budget. For example, to 31 August 2022, 1570 projects were approved in the *Algarve Operational Programme*, accounting for an eligible investment of EUR 615 million. 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). As most of these investments are located in the coastal area (CCDR Algarve, 2022^[13]) for diverse reasons, there is a risk of reinforcing the territorial disparities, highlighting the need for more integrated approaches to enhancing attractiveness based on strategic investments. Developing the necessary connections between coastal and inland municipalities, and between rural and urban areas, would strengthen their complementarities, increase the quality of access to essential networks (in particular broadband and sustainable transport) and lead to more inclusive territorial development, reinforcing the attractiveness of the region to investors, talent and visitors. This would enable, for instance, i) investors to access more affordable land in inland areas and with local SMEs distribute their products more easily; ii) talent (including digital nomads) to settle in places with a good quality of life; and iii) visitors to access and explore new and emerging attractions. In terms of exports, it could also be a way to promote local products and crafts from across the region.

Policy considerations

Outlined below are several policy considerations to development and impact of the internationalisation and attractiveness strategies of the Algarve region:

- **Enhance the region's attractiveness beyond tourism to develop a more diverse and resilient economy.** This includes leveraging the various existing and emerging regional assets like as maritime industry, cultural and creative industries, agribusiness to develop new economic activities that fit with available resources and environmental conditions. It also means supporting innovation in strategic sectors that are more resilient to sudden shocks. For instance, promoting quality of life and Algarve's support for its innovation ecosystem would help attracting new investors, particularly by increasing high-speed connectivity in innermost areas and continuing to develop its new technological park.
- **Increase incentives to attract and retain talent, including in inland municipalities.** This means enhancing the conditions to retain existing talent and attract new ones to the region, including offering good quality work, access to general public services, and access to resources and technology. For instance, Algarve could create more opportunities for remote working in rural areas to help tackle ageing and rural depopulation, and also evaluate if the region could take further advantage of the national grants programme "*More Jobs in the Hinterland*" ("Emprego Interior Mais") to support workers and entrepreneurs who wish to relocate to inland territories. Also, favouring training to accelerate the intensification of smart specialisation may promote education, decreasing the high number of early school leavers and strengthening participation in lifelong learning.
- **Build on Algarve's cultural heritage and creative economy to advance territorial attractiveness for visitors.** Several areas could benefit from such focus in Algarve, like Sagres, Rota Vicentina, Algarviana, Geopark, Guadiana. For instance, the Region could build on the promotion of the municipality of Tavira, which was recently recognised by the *United Nations Educational, Scientific and Cultural Organization* (UNESCO) as an emblematic community of the Mediterranean Diet and its surrounding areas.
- **Strengthen regional and municipal capacities and co-ordination mechanisms to increase Algarve's attractiveness.** In addition to the ongoing reform to transfer more responsibilities to CCDRs and the need to clarify and simplify the responsibilities of the different levels of local government in various policy areas, , the region could strengthen the capacities of the 16 municipalities and the *Intermunicipal Community of the Algarve* (CIM-AMAL) by expanding the working force of local and regional staff and allocating access to revenue to enhance its internationalisation and attractiveness strategies. Developing adequate development strategies at the relevant scale requires not only a certain degree of autonomy in decision making and access to resources to implemented mandates but also coordination tools for regional attractiveness.
- **Set up a territorial marketing approach by carrying out a regional branding strategy.** For instance, the region could develop a branding strategy to boost the Algarve's image and attract tourists in a balanced and environmentally responsible manner and potential new residents and businesses. This approach is also a key method to bring together regional development stakeholders (public and private actors, academia, and civil society) to develop a common image and message to promote the region.

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 to present the indicator at the most relevant and comparable unit of analysis (OECD, 2023^[14]).

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