The local public action in portuguese municipalities: a study based on transfer os skills and financial independence

Abstract

This study analyzes the administrative decentralization process initiated in Portugal in 2018, focusing on the effects of the autonomy of powers granted to the 308 Portuguese municipalities. In the first phase, the research centers on the budgetary and financial impacts resulting from decentralization, analyzing four fundamental indicators of municipal financial situation: budget balance, indebtedness, financial independence, and solvency. In the second phase, the study delves into the political-administrative costs associated with the allocation of resources in the area of local public service provision, considering the hierarchy of needs and preferences of portuguese municipalities.

The objectives of this research are: to identify the areas subject to decentralization of powers to Portuguese municipalities; to identify and justify the political-administrative costs arising from the process of transferring powers in the allocation of resources; to comparatively analyze the effect of accepting powers on the budget balance, indebtedness, financial independence and solvency between municipalities that accepted and did not accept powers in the areas of education, health and social action, in the period 2018–2024; and to understand to what extent the process of transferring powers conditions local public action.

The research design is structured in two sequential and interdependent phases, combining quantitative and qualitative methodologies. The first phase, predominantly quantitative and longitudinal in nature (2018–2024), analyzes the financial effects of the acceptance of competences using secondary data and difference-in-differences econometric models. The second phase, qualitative in nature (2023–2024), delves into the practical implications of the decentralization process, focusing on the political and administrative costs associated with the allocation of resources and the provision of public goods and services.

This methodological choice is justified by the multidimensional complexity of the phenomenon of financial decentralization, which simultaneously requires the rigorous measurement of its budgetary and financial effects and a thorough understanding of its political and administrative implications in the context of local public action. The

integration of results is based on data triangulation, allowing for a robust and multidimensional interpretation of the impacts of decentralization.

The investigation combines different research typologies — descriptive, explanatory, and quasi-experimental — and mobilizes a diverse set of data collection and analysis techniques, including documentary analysis of the legal framework, exploration of financial databases, semi-structured interviews, and econometric analysis through difference-in-differences models. Data processing is carried out using Stata software for quantitative analysis and NVivo for qualitative analysis.

In the quantitative phase, the analysis distinguishes two groups: a treatment group, consisting of municipalities that accepted competences, and a control group, composed of municipalities that did not. The difference-in-differences method is based, firstly, on comparing the means of the outcome variables between the two groups before and after decentralization and, secondly, on estimating the difference of these differences, allowing the isolation of the causal effect of the acceptance of competences.

The research assumes a longitudinal nature, characterized by the observation of the financial and budgetary behavior of municipalities over time, allowing the identification of variations and trends associated with the implementation of the decentralization policy (Chein, 2019). The existence of a clearly defined moment of institutional change—the acceptance of competencies as a political decision—gives the analysis a quasi-experimental character, allowing the comparison of groups exposed and not exposed to the treatment before and after its occurrence (Creswell, 2009; Chein, 2019).

The first phase of the research uses regression models with multiple time periods, suitable for contexts where treatment does not occur simultaneously for all units of analysis. The model is based on an exogenous policy change—the transfer of competences—to define the treatment and control groups, allowing the estimation of the causal effect of accepting competences on the financial and budgetary situation of municipalities (Callaway & Sant'Anna, 2021). In the initial analysis period, none of the groups are exposed to the policy; in subsequent periods, only the municipalities that accept competences become subject to treatment, while the others remain as the control group. The data structure is two-dimensional, considering both the cross-sectional and temporal dimensions, and dummy variables can be included to capture period-specific effects (Chein, 2019).

The phased adoption model proves particularly suitable for the Portuguese context for three main reasons. Firstly, it allows for the control of pre-treatment trends, verifying whether municipalities that accepted responsibilities earlier already presented distinct financial patterns. Secondly, it enables the analysis of dynamic effects, identifying whether financial and budgetary impacts arise immediately or accumulate over time. Thirdly, it allows for the capture of the heterogeneity of impact between pioneering municipalities and municipalities that joined later, considering the phased evolution of the process and the financing through the Decentralization Financing Fund.

The dependent variables considered are the budget balance, financial independence, indebtedness, and solvency, with the independent variable being the acceptance of competences in the areas of education, health, and social action. Given that the application of difference-in-differences models with phased adoption requires a high number of observations to ensure statistical robustness, the quantitative analysis focuses on the entire universe of 308 Portuguese municipalities, allowing the exploration of intermunicipal and intratemporal heterogeneity associated with the decentralization process (DGAL, 2024).

In the second phase of the research, data collection takes on a predominantly qualitative nature, using primary data complemented by in-depth document analysis, with the aim of identifying and justifying the political and administrative costs arising from the process of transferring powers. The analysis focuses mainly on the years 2023 and 2024, a period in which the Decentralization Financing Fund assumes effective relevance as a financing instrument, registering significant growth from 2022 onwards.

The qualitative component is based on two main procedures. The first consists of a systematic documentary analysis of the current legal framework, focusing on the main structuring decrees of the decentralization process in Portugal, with a view to deepening the political, administrative and financial framework of the public policy (Cellard, 2008). The second procedure consists of conducting semi-structured interviews with mayors of selected Portuguese municipalities, allowing the capture of perceptions, experiences and decision-making strategies associated with the concrete implementation of the transferred competences.

For the qualitative analysis, a non-probabilistic intentional sampling strategy was adopted, based on the typology of extreme or deviant cases (Patton, 2015). The sample consists of 12 municipalities, selected based on the intersection of two fundamental criteria: financial independence and population density. This option aims to guarantee maximum variability and allow the analysis of contrasting territorial, demographic, and financial contexts, reinforcing analytical robustness through a logic of theoretical replication (Yin, 2018). Some municipalities show overlapping criteria, approaching the concept of paradigmatic cases (Flyvbjerg, 2006).

The research formulates the following hypotheses: H1 – The acceptance of powers worsened the budgetary balance of municipalities; H2 – The acceptance of powers increased municipal indebtedness; H3 – The acceptance of powers decreased the financial independence of municipalities; H4 – The acceptance of powers decreased the solvency of municipalities. These hypotheses reflect the theoretical expectation that the acceptance of powers, when not accompanied by adequate, stable, and predictable financing mechanisms, can exert negative pressures on the municipal financial situation, translating into significant financial and political-administrative costs.

Additionally, the qualitative analysis is guided by the following analytical propositions: P1 – Municipalities exhibit different levels of autonomy depending on their size and profile; P2 – The type of good or service to be provided, as well as the municipal profile, condition the allocation of resources; P3 – The proximity of political decision-making to the citizen tends to make the process more transparent and adjusted to the local reality; P4 – The transfer of powers can limit local public action, imposing political and administrative costs on municipalities.

Regarding the expected results of the quantitative phase, it is anticipated that the acceptance of responsibilities will be associated with a worsening of the budget balance and an increase in municipal debt, especially in the first years after the transfer, reflecting time lags between costs and financing. A reduction in financial independence is also expected, resulting from greater dependence on transfers, and a negative impact on solvency, particularly in smaller municipalities with less fiscal capacity. Additionally, heterogeneous effects are expected among municipalities, with more pronounced impacts in municipalities that accepted responsibilities earlier or in areas with higher expenditure intensity, such as health.

Regarding the qualitative phase, it is expected to identify significant political and administrative costs associated with the implementation of decentralized competences, namely in terms of increased administrative complexity, the need for increased human resources, organizational adaptation, and limitations on the scope of local decision-making. Relevant differences are anticipated depending on the municipal profile, population size, and financial capacity, as well as tensions between the proximity of political decision-making and the financial constraints imposed by the funding model.

Taken together, the results should show that, although decentralization can strengthen the alignment of public policies with local needs, its institutional and financial design significantly conditions local public action. These results will contribute to the academic and political debate on decentralization, local finance, and multilevel governance in contemporary Portugal.

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