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On the Tenth Report on economic, social and territorial cohesion

Chapter 3.3 Subnational reforms

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Chapter 3.3
Subnational reforms

3.3.1. Typology of subnational reforms

This chapter sets out a typology for grouping subnational reforms. It also reflects on the actors that need to be involved and the preconditions for successful reform outcomes. The typology (see Figure 3.3.1) is based on the OECD's analytical framework for subnational reforms, which has been adapted based on the analysis undertaken for the European Semester.

The typology spans four interconnected domains, each addressing a distinct facet of regional development. Governance forms a large cluster aimed at strengthening institutional capacity and coordination across different levels of administration. A smaller set of fiscal reforms targets the financial foundations that enable territorial authorities to deliver on their mandates. A third group concerns competitiveness and strategic planning, reflecting the central role of 'competitiveness' in the European Semester exercise, but also the role of regional economic performance and long-term vision in closing development gaps. Finally, reforms related to local public services focus on everyday delivery mechanisms critical for people and businesses alike and central to the 'right to stay'. Administrative capacity is a cross-cutting dimension, given the extent to which it plays a systematic role across all reform areas. Annex 18 of the 2026 country reports identified a number of needs for all Member States which fall under these four categories.

The term 'subnational reforms' encompasses a range of configurations, due to variations in the actors involved and the governance level that they target. The level at which reforms are implemented depends on a country's governance structure (see Chapter 3.2) and the type of reform. For example, in unitary countries, many reforms targeting the subnational level are implemented at a national level due to the configuration of legislative powers. In other cases, subnational reforms are carried out at the subnational level – for instance in federalised systems or for targeted reforms with limited implementation requirements. Importantly, national-level reforms could have asymmetric impacts subnationally, even if unintentionally.

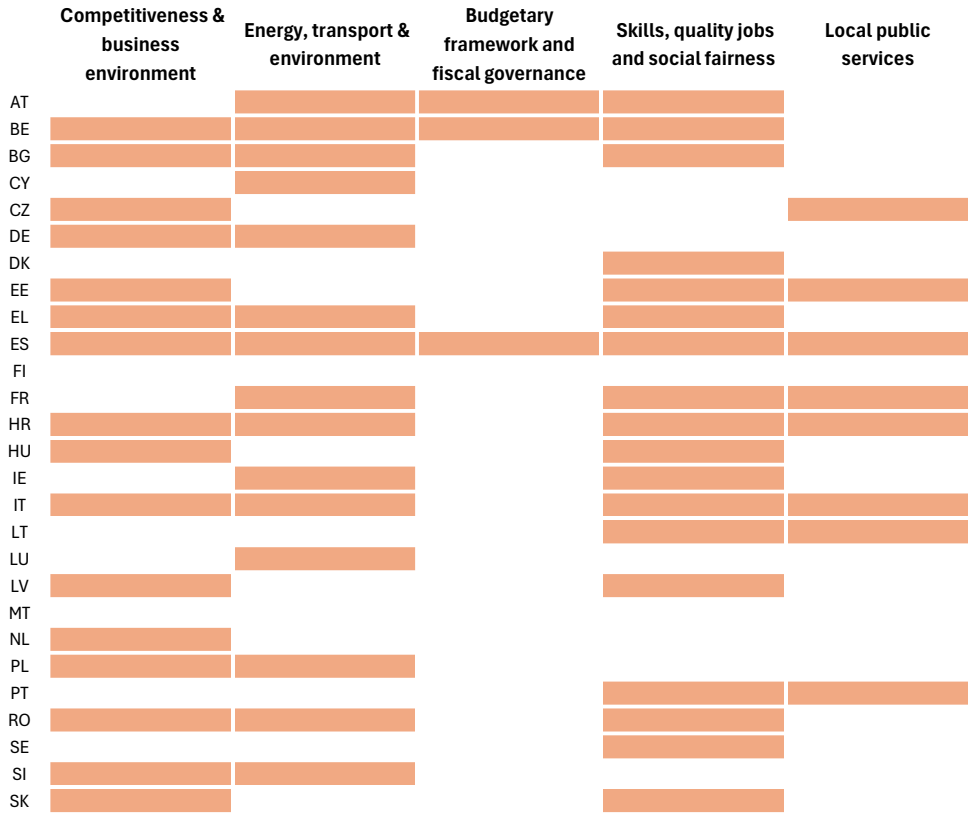
The 2026 cycle of the European Semester analysis examined the subnational dimension more systematically, recognising that many of the structural barriers to economic growth and convergence at regional and territorial level cannot be sufficiently addressed through cross-cutting action or requirements (e.g. the enabling conditions under cohesion policy). The outcome of that analysis lead to 74 country-specific recommendations (CSRs) addressed to Member States, and 9 additional CSRs specifically on Eastern border regions (see Table 3.3.1).

Figure 3.3.1: Typology of subnational reforms



Source: DG REGIO based on OECD, World Bank, national studies and government publications.

Table 3.3.1: Subnational elements in the 2026 country-specific recommendations

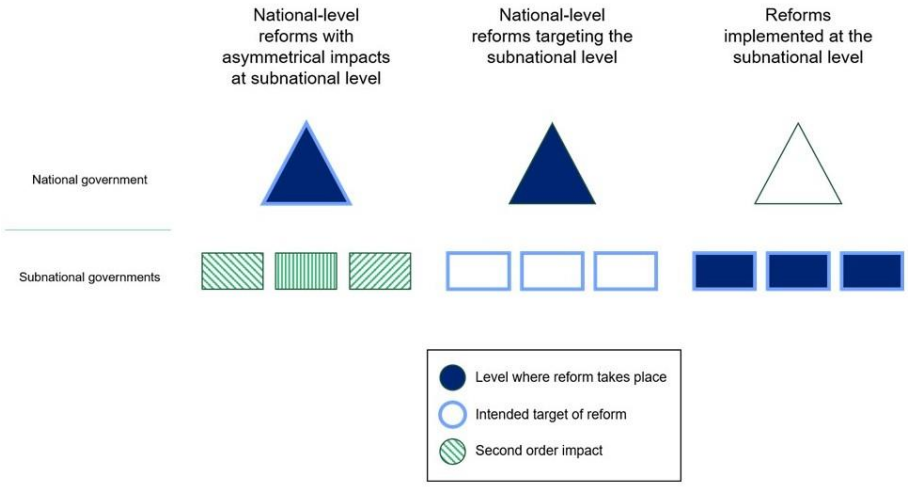


(1) Assessment based on the CeSaR database tracking Country-Specific Recommendations. Policy areas were filtered based on regional relevance and aggregated by category for the purposes of this table. Assessment reflects all CSRs, and elements thereof, within these policy areas, providing a proxy for their regional dimension.

Source: European Commission

The interplay between governance levels is important when assessing the impact and feasibility of reform measures. As discussed in Chapter 3.2, legislative powers can be distributed in varying configurations. In unitary countries, subnational entities may have limited or non-existent legislative powers, therefore reforms targeting municipal fiscal frameworks are usually channelled towards the national level. However, in all the configurations of the ways that competencies are assigned (Figure 3.3.2) it is clear

Figure 3.3.2: Three main types of reforms by level at which they are implemented



Source: DG REGIO elaboration

that the specific role of subnational entities requires close consideration.

Subnational governments play a significant role in public investment in most EU Member States (Chapter 3.2). This includes the investment and management of EU funds, national policies for regional and urban development, as well as spatially blind national public investment programmes (Chapter 3.1). Strengthening the subnational investment environment via targeted reforms will contribute to regional development and EU's competitiveness..

3.3.2. Unpacking subnational reforms

3.3.2.1. Governance reforms

Subnational governance reforms target the alignment of different actors and their responsibilities, clarify roles, and ensure adequate capacities for delivering on responsibilities (OECD, 2022). These reforms can help ensure that there is coherence between the numerous policy inputs (national and EU; targeted and spatially blind) that can make up the investment landscape within a Member State (Chapter 3.1). Reforms to coordination can either apply vertically (multi-level governance) or horizontally. For example, service provision in Estonia is undermined by limited cooperation between municipalities, which is particularly evident in the water sector (Republic of Estonia, Ministry of Climate, 2025). The provision of water services is highly fragmented, contributing to regional disparities in water prices, environmental compliance and quality of service. The case is similar for water governance and waste management in Italy, with regional disparities in infrastructure (Utilitatis-Utilitalia, 2025). In Spain, less developed regions in particular face challenges in ensuring vertical coordination between national, regional and local actors (Alda-Fernández and Ramos, 2024). This creates bottlenecks for policy implementation and service provision. Governance reforms can also target capacity building. The administrative capacities of Romania's local and regional institutions have been hampered by frequent amendments to the legal framework. The resulting volatility and the changing rules weaken local staff capacities, ultimately impacting the provision of quality local public services([147]) .

3.3.2.2. Fiscal reforms

Sound capacity for investment and service delivery is important for fulfilling specific responsibilities that are held locally and, more broadly, for delivering national and EU funding([148]). Fiscal reforms can contribute to this, in synergy with reforms targeting local public services. Fiscal reforms can be achieved in a number of ways, targeting the local level (e.g. reforms to facilitate subnational governments' access to external financing) or implemented nationally (such as adjusting inter-governmental transfers to better match municipal spending responsibilities). Subnational reforms for reviewing intergovernmental transfers to municipalities may be a way to ensure the effective delivery of services and implementation of policies at the local level. This is the case, for example, in Czechia and Germany, where unfunded mandates exist for subnational responsibilities (such as schooling, childcare and the administration of social benefits), which are organised at the municipal level in Germany (Grundke and Sunel, 2025); (OECD, 2025c).

The mismatch between revenues and expenditure responsibilities of subnational governments are also a relevant factor hindering their ability to fully perform their competencies. Addressing this mismatch can support the development of the municipalities that are most constrained by the lack of own resources. This can be especially important in cases where fiscal decentralisation is asymmetric (i.e. spending and revenue powers differ), as is the case in Slovakia([149]). Governance weaknesses may also relate to investment frameworks: in Sweden, major infrastructure investments at the municipal level (for example renewable energy projects in the north of Sweden) are hampered by the significant financial risks for the municipality([150]). Risk-sharing between the national and municipal level could help to unlock such investments and boost competitiveness in northern regions facing the green transition.

3.3.2.3. Competitiveness and strategic planning reforms

Regulatory decisions are made primarily at national level, with profound consequences at the regional level. At the same time, land planning is often a subnational competence. As a precondition

([147]) See 2026 Country Report – Romania, including Annex 18.
([148]) See also Chapter 3.2, Subnational finance.
([149]) See 2026 Country Report- Sweden, Annex 18.
([150]) See 2026 Country Report- Sweden. Annex 18.

for competitiveness, it is critical to ensure fit-for-purpose regulatory environments (such as harmonised permitting and procurement rules), and data-driven spatial policies and land planning (European Commission, 2024). As an example, business support in Germany is weaker in rural areas where public support services such as one-stop-shops and e-permitting systems face inefficiency constraints with an impact on local competitiveness (Council of the European Union, 2026).

Subnational reforms for strategic planning also serve to improve the targeting and efficiency of territorial policies and investments. In Slovenia, significant untapped regional potential in the deployment of renewable energy (particularly in Pomurska, Podravska and Koroška) could be unlocked by reforming the complex permitting procedures([151]). This is also the case for offshore wind on the west coast of Ireland and the north of Sweden([152]). In France's outermost regions, opportunities for renewable energy infrastructure would be boosted by introducing comprehensive land use planning – a subnational reform that would also improve the provision of services such as water networks and social housing. Meanwhile, in Bulgaria streamlined spatial planning would allow for local priorities to be more securely embedded in the programming of public investments.

Additionally, robust data, monitoring and evaluations are prerequisites for effective strategic planning at the territorial level. Reforms targeting the data and monitoring frameworks of public administrations can help to better tailor the services they provide. For example, the quality and responsiveness of local public services in Hungary would be improved by addressing shortages in local data (Varró and Szalai, 2022).

3.3.2.4. Reforms to local public services

Local public services are a core responsibility of subnational governments across most of the EU. Depending on the administrative set-up and assignment of competencies in a Member State (see Chapter 3.1), they can encompass a broad range of sectors and services: healthcare, various levels of education provision, public transportation, utilities such as water, social services, and digital connectivity. Deficits and inefficiencies in the provision of services like these have a significant impact on ensuring the right to stay in regions, particularly rural areas (Alessandrini et al., 2025). Moreover, reforms to local public services are often connected to investments and can have strong synergies with reforms targeting the development of local capacity (i.e. governance reforms). This link is also visible in the CSRs. For example, in 2026, Finland has been advised to '*continue improving the efficiency of the social and healthcare services while pursuing efforts to enhance access to services, including elderly care*' (Council of the European Union, 2026).

A concrete example is poor healthcare accessibility in Portugal's remote rural areas, exacerbated by the lack of public transport. The long time it can take to travel to medical facilities is coupled with a very low coverage of licenced medical doctors, particularly in the most remote rural areas and the outermost regions. Subnational reforms can increase the availability and accessibility of medical care for these territories - for example by strengthening coordination between local health units and increasing the incentives for medical professionals in remote areas - that can be critical for ensuring the right to stay for residents. In the case of Portugal, the Council urges to "Ensure equal access to quality long-term care, including by addressing regional disparities"([153]).

Uneven service provision can undermine both the right to stay and territorial competitiveness, as demonstrated by the limited access to digital services and gigabit connectivity in Greece's rural areas, mountainous regions and islands([154]).

([151]) See CSR 4 and 2026 Country Report – Slovenia, especially Annexes 5, 8 and 18

([152]) See CSR 4 and 2026 Country Report – Ireland and Sweden, including Annex 18

([153]) See CSR 5 and 2026 Country Report Portugal. Annexes 15 and 18.

([154]) See 2026 Country Report – Greece, including Annex 18

Box 3.3.1: Success factors for subnational reforms

With the right conditions in place, subnational reforms can remove structural bottlenecks to regional development and enhance the impact of investments. The main reform types outlined in this chapter require different preconditions for effective deployment, depending on the Member State or region's governance composition. However, several main factors for success can be highlighted based on existing reform measures and findings in the European Semester Country Reports.

Political backing: complex but high-impact reforms, including fiscal decentralisation and municipal mergers, require strong buy-in across all levels of actors. Even when there are clear plans and technical feasibility, when established institutional arrangements are challenged, the backing of relevant stakeholders is vital.

Case study: Commissions of Coordination and regional development (CCDRs) of Portugal, which define and implement regional development strategies.

Governance: Reform actors/implementers need to be clearly defined, based on governance arrangements and legislative powers (see section 3.2). The absence of coherent arrangements can result in a "governance complexity tax", whereby even well-designed reforms can lose momentum due to ineffective steering. Additionally, subnational reforms require clear timelines, with effective monitoring and follow-ups built in for course correction.

Administrative capacity: sufficient public sector know-how and capacity are necessary for implementing reforms and ensuring sufficient monitoring/follow-up. This is particularly true for highly technical reforms, where capacity gaps at the subnational level can lead to asymmetric implementation.

Case study: Greece's cadaster reform faced delays and fragmented implementation across cities, due to staffing challenges and capacity constraints (World Bank, 2020) that have since been addressed with the reform completed in 2026.

Funding: even though subnational reforms ultimately serve to deliver strong long-term economic returns through boosting regional competitiveness, ensuring sufficient 'upfront' funding for their delivery is essential. This is especially true for high-priority subnational reforms related to local public services, that may come with capital requirements for infrastructure investment. Clear financing systems are key to enabling successful reform delivery.

Clear technical definitions: guidance on the objectives of reforms, as well as the technical details of implementation have not been clearly defined. This is particularly the case for highly specialised and technical reforms, to ensure even implementation (including avoiding gold-plating) and outcomes.

Case study: Croatia's legal framework does not fully define the approaches facilitating stakeholder contribution to the environmental impact assessment (EIA) process, leaving room for ambiguity and uneven implementation across cities (World Bank, 2024).

3.3.3. Relationship between subnational reforms and investment

When reforms are closely coupled with investments, they can serve to strategically 'target' the investment – the most common example being reforms related to local public services. This makes subnational reforms combined with investments qualitatively different from those self-standing which address broader structural problems (relating to governance, planning, fiscal arrangements, etc.). This is clearly evident from the sectoral angle of challenges identified by the 2026 European Semester (see Table 3.3.1) which often focus on specific sectors or themes. Reform-investment relationships can also serve a range of other purposes: reforms can enable more effective future investment (e.g. streamlining rules hinder infrastructure development) or increase the impact of investment (Table 3.3.1). In doing so, they also help overcome bottlenecks to investments that support cohesion (see Chapter 3.1).

Table 3.3.2: Relationship between reform and investment types

Reform-investment relationship	Description	Typical reform types	Examples
Enabling	Enabling by removing bottlenecks to investment.	Governance, Competitiveness and strategic planning (e.g. permitting).	Building-permit simplification and property-tax reform in housing, procedural simplification and harmonised benchmarks, streamlining accreditation and licensing frameworks for training providers, integrating digital infrastructure into building/road construction rules.
Targeting	Strategic targeting of investment to the right territories / actors.	Local public services, Competitiveness and strategic planning, Fiscal.	Stronger Regional Development Councils and regionally integrated programmes, professionalisation and shared-service logics, reforming ALMP governance to target training and hiring subsidies at the long-term unemployed.
Amplifying	Raising the productivity and spillovers of investment.	Competitiveness and strategic planning (e.g. business environment), Governance.	Cluster-based competitiveness support and stronger ecosystem logic, reforming local social services to enable "one-stop-shops", dual-use manufacturing clusters.
Sustaining	Increasing the financial, institutional and operational durability of investment.	Fiscal, Governance (e.g. administrative capacity), Competitiveness and strategic planning (e.g. monitoring and evaluation).	Fiscal decentralisation and improved equalisation; tariff, subsidy and monitoring frameworks in water and services, setting up predictable financing mechanisms for social assistance schemes, clearer multi-level governance and shared planning hubs.

Source: European Commission based on European Policies Research Centre .

Investments interact with reforms in different ways, depending on their type and the distribution of competences across different levels of governance. For example, systems where investment responsibilities are decoupled from the implementation of reforms require strong governance structures or rules to ensure harmonised action. Understanding how reforms and investments interact is thus important for creating the right conditions for success, and for maximising impact.

3.3.4. Towards a comprehensive policy approach to cohesion

Addressing the root causes behind many structural issues that hinder regional convergence requires action both in terms of investments and reforms and the involvement of governments at various levels. Public investment is a key driver of cohesion, but without accompanying or even self-standing reforms many of the underlying bottlenecks – administrative capacity, fragmented governance, regulatory complexity, or gaps in the delivery of local services – cannot be resolved effectively. Reforms are therefore a complement to investment, ensuring that resources translate into tangible improvements on the ground and the increased growth potential of regions.

As outlined in Chapter 3.1, Member States maintain national frameworks to pursue territorial cohesion, combining investment instruments, strategic planning and fiscal arrangements. These are complemented by dedicated EU policies in support of convergence, with cohesion policy the most important. These national frameworks are more effective when coordinated with EU-level investments to strengthen economic, social and territorial cohesion. Tailored and well-targeted reforms may have a decisive impact on increasing the growth potential of regions and effectiveness of both national and EU investments, including by aligning institutional conditions with strategic objectives. Subnational levels of government often play a major role in both the design and implementation phases, depending on the constitutional arrangements of the Member State.

The four subnational reform categories resulting from the mapping of the 2026 Semester cycle described in this chapter are deeply interconnected. Progress in one area often depends on, or reinforces, progress in the others. This is particularly true for combined reform-investment needs, where reforms can strategically target investments to increase their effectiveness. The ultimate success of reforms at the subnational level depends on sustained political commitment, meaningful coordination across different levels of government, sufficient administrative capacity, and the active engagement of regional and local stakeholders.