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**The relevance of commuting zones for regional spending
efficiency**

WP 17/2013/DE/UECE/ADVANCE

WORKING PAPERS

ISSN Nº 0874-4548



The relevance of commuting zones for regional spending efficiency^{*}

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August 2013

Abstract

We use Data Envelopment Analysis (DEA) efficiency scores to show that clustering municipalities into encompassing regional clusters improves spending efficiency of single stand-alone municipalities. We propose a new geographic aggregation based on municipalities-to-municipalities commuting flows, defined using hierarchical cluster analysis. Our example for Portugal shows that from an output oriented perspective, between 85 and 95 percent of municipalities would increase their efficiency scores, while from an input oriented perspective, between 81 and 97 percent of municipalities would also be better off in terms of efficiency. Our strategy and results are naturally quite relevant in a context of public spending control.

JEL: C14, H72, R50.

Keywords: public spending efficiency, local government, data envelopment analysis (DEA), commuting.

^{*} The opinions expressed herein are those of the authors and do not necessarily reflect those of the ECB or the Eurosystem.

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1. Introduction

Reducing local government spending and increasing the efficiency of regional governments has been a significant issue in public finance and regional economics for quite a long time. This is particularly relevant when governments try to reign in public spending, as it is the case, for instance, in many European Union (EU) countries.

This paper contributes to the literature by showing that having a cluster of several municipalities improves the spending efficiency of once single stand-alone municipalities. We draw on the labor market concept of commuting zones and on the Data Envelopment Analysis (DEA) framework. Our geographic unit of analysis is community zones, groups of municipalities where the majority of the inhabitants live, work or study. This geographic concept was based on municipalities-to-municipalities commuting flows of working population. To compute the DEA efficiency scores, we use a composite indicator of municipal outputs, as in Afonso and Fernandes (2008), and we use local government spending as the input. We test our approach for the case of Portugal, both for the mainland and for the European Union Nomenclature of Territorial Units for Statistics (NUTS) regions.

Portugal provides an excellent context in which to analyze the impact of clustering municipalities on spending efficiency. First, Portugal is one the OCDE's countries with more spending per 100,000 inhabitants. Second, the Portuguese municipalities are all covered by the same rules and legislation but the local politicians have some discretionary power on how to implement their policies and to use their resources. Finally, the Portuguese government agreed on April 2011 with the EU and with the International Monetary Fund (IMF), in the context of the Memorandum of Economic and Financial Policies (MEFP), to reduce the number of parishes and municipalities and in this way reduce public spending and increase its efficiency.

Our results show that indeed, there are potential efficiency gains, from clustering municipalities. This is true notably from an output oriented perspective, given that between 85 and 95 percent of municipalities would be able to increase their efficiency scores. In addition, we obtain a similar result from an input oriented perspective, with between 81 and 97 percent of municipalities being better off in terms of efficiency scores if one follows our commuting zone aggregation via hierarchical cluster analysis. Our conclusions hold both for an overall mainland assessment and for the NUTII regions. Our results are also robust considering different clustering criteria. In fact, our results are likely to extend beyond the context of this study, and might be

particularly relevant to reduce local and regional spending, and for countries wishing to restructure its administrative regions.

The organization of the paper is as follows. Section 2 reviews the related literature. Section 3 presents the methodology. Section 4 reports and discusses the empirical results. Section 5 is the conclusion.

2. Related Literature

In the literature that assesses production efficiency, it is rather common to use frontier analysis to evaluate technical efficiency (a concept stemming from Farrell, 1957). In fact, and to assess the efficiency of government spending, many studies usually estimate non-parametrically a production function frontier and derive efficiency scores based on the relative distances of inefficient observations from the frontier.

Several specific government functions such as education and health have been addressed notably by Afonso and St. Aubyn (2005, 2006, 2011). Moreover, St. Aubyn et al. (2009) studied the case of Universities in the European Union, and Eugène (2008) assessed the relative efficiency of Belgian general government as provider of public order and safety, in addition to health care and education services. On the other hand, Afonso et al. (2005, 2010) studied the overall public sector efficiency, taking into account the level of general government spending. Overall, those studies show the existence of room for improvement regarding public spending efficiency.

Conversely, public spending efficiency studies covering services provided by local governments include, for instance, Van den Eeckaut, Tulkens and Jamar (1993), De Borger et al. (1994), De Borger and Kerstens (1996, 2000), Athanassopoulos and Triantis (1998), Worthington (2000), Prieto and Zofio (2001), Balaguer-Coll, Prior-Jiménez and Vela-Bargues (2002), Afonso and Fernandes (2006, 2008), and Afonso and Scaglioni (2007). Once again, the results of this strand of the literature points to the fact that governments can attain efficiency gains at the municipal level as well.

Still, the novel approach that we develop in this paper, showing the increase in efficiency via the clustering of municipalities based on commuting flows, has not been done the literature so far.

3. Methodology

3.1. Commuting Zones

Portugal's administrative regions are organized into three tiers: districts and two autonomous regions of Azores and Madeira, municipalities and parishes. There are 18 districts, 308 municipalities and 4261 parishes.¹ In this study, we define a new geographic unit of analysis, community zone: groups of municipalities where the majority of the inhabitants live, work or study.

To construct our new measure (geographic unit), we use the methodology defined by Tolbert and Killian (1987) and Tolbert and Sizer (1996). We start by constructing a matrix with the commuting flows between municipalities. To account for variations in municipality work population, we convert these absolute flows into proportional measures. The strength of commuting ties between two municipalities i and j , T_{ij} , is measured according to:

$$T_{ij} = \frac{c_{ij}}{\min(r_i, r_j)} \quad (1)$$

where r_k is the number of all workers residing in municipality k , ($k=i,j$) and c_{ij} is the number of workers who reside in municipality i and work or study in municipality j or vice versa.

The statistic T_{ij} depicts the relationship between the flow of workers who commute between two municipalities, independent of the direction and the number of individuals who live in the smallest municipality. In this way, the statistic defines better the commuting tie between municipalities with large size differentials. The proportional matrix of T_{ij} is a similarity matrix. The stronger the commuting relationship between two municipalities, the higher is the value of T_{ij} .

We employ a hierarchical cluster analysis to delineate the labor market areas. This analysis starts by grouping the municipality pairs with largest value of T_{ij} and subsequently forms clusters of interrelated municipalities. As suggested by previous literature, we choose the average linkage between clusters as a statistical algorithm. In the average-linkage method the distance between two clusters is obtained by taking the average distance between all subjects in the two

¹ For statistical purposes, the EU redefined the Portuguese territory into Nomenclature of Territorial Units for Statistics (NUTS) regions. The NUTS system subdivides the country into three levels: NUTS I (Portugal mainland and 2 autonomous regions of Azores and Madeira), NUTS II (7 regions) and NUTS III (30 sub-regions). These latter classifications were developed for the purpose of delivering structural funds for less favored regions and sub-regions.

clusters. Alternatively, we also consider other sets of algorithms (single linkage, centroid linkage and ward linkage). All of them point to similar market labor areas.

As defined in Dorn (2009), municipalities with stronger ties are the ones with an average value of T_{ij} above 0.02.

3.2. DEA Efficiency Analysis

The DEA methodology, which originates with Farrell's (1957) seminal work and was further used by Charnes, Cooper and Rhodes (1978), assumes the existence of a convex production frontier. The production frontier in the DEA approach uses linear programming methods.² The general relationship that we consider is the following function for each municipality i :

$$Y_i = f(X_i), i=1, \dots, n \quad (2)$$

where Y_i is the composite output measure for municipality i and X_i is the per capita municipal expenditures registered on municipal accounts for the year 2001 as a measure of the municipal resources used in local services' provision input in municipality i .

If $Y_i < f(X_i)$, it is said that municipality i exhibits inefficiency. For the observed input levels, the actual output is smaller than the best attainable one and inefficiency is measured by computing the distance to the theoretical efficiency frontier.

In an output-oriented framework, we provide here the description of the linear programming problem in the variable-returns to scale hypothesis. Suppose there are k inputs and m outputs for n Decision Management Units (DMUs). For the i -th DMU, y_i is the column vector of the inputs and x_i is the column vector of the outputs. We can also define X as the $(k \times n)$ input matrix and Y as the $(m \times n)$ output matrix. The following mathematical programming problem, for a given i -th DMU, specifies the DEA model:³

$$\begin{aligned} & \text{Max}_{\delta, \lambda} \delta \\ \text{s. to } & -\delta y_i + Y\lambda \geq 0 \\ & x_i - X\lambda \geq 0 \\ & n\mathbf{1}'\lambda = 1 \\ & \lambda \geq 0 \end{aligned} \quad (3)$$

² Coelli et al. (1998) and Thanassoulis (2001) offer introductions to DEA.

³ This is the equivalent envelopment form, derived by Charnes et al. (1978), using the duality property of the multiplier form of the original programming model.

In (3), δ is a scalar (that satisfies $1/\delta \leq 1$), and specifically is the efficiency score that measures technical efficiency, the distance between a municipality and the efficiency frontier, defined as a linear combination of the best practice observations. With $1/\delta < 1$, the municipality is inside the frontier (i.e. it is inefficient), while $\delta = 1$ implies that the municipality is on the frontier (i.e. it is efficient).

The vector λ is a $(n \times 1)$ vector of constants that measures the weights used to compute the location of an inefficient DMU if it were to become efficient, and $n1$ is an n -dimensional vector of ones. The inefficient DMU can theoretically be on the production frontier as a linear combination of those weights, related to the peers of the inefficient DMU. The peers are other DMUs that are more efficient, and used as references for the inefficient DMU. The restriction $n1'\lambda = 1$ imposes convexity of the frontier, accounting for variable returns to scale. Dropping this restriction would amount to admit that returns to scale were constant. Problem (3) is solved for each of the n DMUs in order to obtain the n efficiency scores.

4. Empirical analysis

4.1. Portuguese Commuting zones

Data on community flows and workers population per municipality are from the 2001 Census data.⁴ With these commuting patterns, the clustering procedure yielded 107 commuting zones for the entire country and 91 commuting zones for mainland Portugal. For purpose of our analysis, we exclude the two autonomous regions of Azores and Madeira and we only consider the mainland region.

Figure 1 presents a map of the 91 labor market areas. The labor market areas are outlined in bold while the municipalities are outlined in thin grey. From the picture, we can infer that all areas are geographically contiguous. Note that these set of labor market areas result from a data-driven method without requiring any subsequent ad-hoc manipulation to exclude unusual distant commuting patterns. By using solely the commuting data, we partition the country very sensibly without manually imposing region restrictions. In the Appendix, we present the entire list of municipalities included in each community zone in 2001 for mainland Portugal.

⁴ These data are available from the Portuguese Statistic Office's website under the variable names "Commuting of the employed or student resident population by place of residence or destination and place of destination or residence" and "Resident population by place of residence (at the date of Census), sex and by main source of livelihood".

[Figure 1]

Column 1 of Table 1 presents the summary statistics for the commuting zones in Portugal mainland for T_{ij} above 0.02. On average, 48.000 workers reside in a commuting zone in mainland Portugal and the largest labor market is Lisbon with over 1,100,000 work inhabitants. Each commuting zone includes roughly three municipalities, with the number of municipalities ranging from 1 to 16. Isolated commuting zones (single municipalities) accounted for approximately 14% of the total municipalities in Portugal mainland. Table 1 also reports statistics for alternative clustering thresholds, notably based on geographic distances.

[Table 1]

4.2. Baseline DEA efficiency scores

The DEA efficiency scores computed by Afonso and Fernandes (2008), for Portugal mainland and for the NUTS II regions, use municipal spending as an input measure and as an output measure a composite of the Local Government Output Indicator (LGOI). This composite is a single measure of municipal performance evaluated in terms of social services, Y1 (local inhabitants above 65 years old as a percentage of resident population); basic education Y2 (school buildings per capita measured by the number of nursery and primary school buildings in percent of the total number of corresponding school-age inhabitants, Y21, gross primary enrolment ratio, the number of enrolled students in nursery and primary education in percent of the total number of corresponding school age inhabitants, Y22); cultural services, Y3 (number of library users in percentage of the total resident population); sanitation, Y4 (water supply, Y41, solid waste collection, Y42); territory organization, Y5 (licenses for building construction); road infrastructures, Y6 (length of roads maintained by the municipalities per number of the total resident population). Table 2 provides a summary of the DEA results obtained for 2001.

[Table 2]

The purpose of an input-oriented assessment is to study by how much input quantities can be proportionally reduced without changing the output quantities produced. Alternatively, and by computing output-oriented measures, one can assess how much output quantities can be proportionally increased without changing the input quantities used. In the case of the baseline

for the NUTS II regions, we can see from Table 2 that input efficiency scores range between 0.567 and 0.654, implying that inputs could be theoretically lower by around 35%-45%, keeping the same level of output. On the other hand, output efficiency scores range between 0.353 and 0.681, which means that one might envisage an output increase of around 32%-65% with the same level of inputs.

4.3. Cluster DEA efficiency scores

Afterwards, the main question of our study is to assess, using the commuting zones explained above, whether the resulting regional clusters would provide a gain in efficiency. For that purpose, and as an intermediate step, we computed the municipal spending and the composite local government output indicator (the so-called LGOI) for each commuting zone using the approach defined in Afonso and Fernandes (2008). Then we have calculated the DEA efficiency scores, both for the mainland new aggregation of regions, and also for the new aggregations inside each NUTS II region.

Therefore, using the commuting zone methodology for T_{ij} above 0.02, we are able to identify 91 clusters for Portugal (mainland) down from the number of existing 278 municipalities. On the other hand, and for the case of the NUTS II aggregation, we had to consider only three regions, North, Centre (aggregating *Centre* and *Região de Lisboa e Vale do Tejo*) and South (aggregating *Alentejo* and *Algarve*). In this way, we have arrived to the following number of clusters: 32, 50, and 28 respectively for the North, Centre, and South (see lines 9, 10, and 11 in Table 3). The number of municipalities in each of those aggregations is 86, 129, and 63, respectively.

Using this alternative aggregation, we have then computed the DEA input and output oriented efficiency scores, for the country and for the NUTS II area, for the corresponding clusters.⁵ Table 3 summarizes those results. For the country case we can compare lines 1 (baseline) and 2 (commuting zones clustering) and observe several points. The average efficiency scores are higher both for input (0.692 vs. 0.225) and for output (0.543 vs. 0.246) oriented approaches, when the clusters are used for the DEA calculations. Indeed, around 93% and 96.8% of the municipalities would theoretically increase respectively output and input efficiency (as depicted in the last two columns of Table 3).

⁵ We also had to make these calculations for the baseline, since we are now aggregating into three NUTS II regions instead of five, as was reported in Afonso and Fernandes (2008).

[Table 3]

In terms of the new aggregation for the NUTS II classification, obtained also via the commuting zones approach considering $T_{ij} > 0.02$, we can compare the results in lines, 6, 7 and 8 (baseline) with lines 9, 10, 11 (commuting zones clustering) respectively for the North, Centre, and South. Again, there is an overall increase in the average efficiency scores, both input and output oriented, with the exception of the South area. In addition, the number of DMUs (municipalities) that are on the efficiency frontier are still rather similar.

Therefore, promoting such aggregation in terms of municipalities would be helpful in terms of increasing the overall government spending efficiency of the local authorities. Given the geographic closeness of the ensuing partition via the commuting clusters, one can expect in fact the existence of scale economies in the provision of several local public services.

4. 4. Robustness Analysis

We have conducted several robustness exercises. As an alternative, we used a different threshold for the commuting ties between municipalities widening a bit more the geographic incidence of those commuting flows (we used an average value of T_{ij} above 0.01 instead of 0.02). The descriptive statistics for this new regional definition are presented in Column 2 of Table 1. As expected, the commuting zones are larger in terms of workers and number of municipalities. With this regional aggregation, on average 66,000 workers reside in a commuting zone and each commuting zone includes roughly four municipalities (they were around three before). Table 3, in line 3, reports the DEA alternative sets of results for the country case, and in lines 12, 13, and 14, for the NUTS II analysis. The results for the country case are quite similar to the ones with the previous threshold, and the same holds true for the NUTS II.

Another exercise that we carried out was to aggregate municipalities according to their geographic distance instead of looking at the commuting flows between municipalities. From the Portuguese Geographic Institute, we retrieved information on the geographic distance (in straight line) between the municipality capitals. On average, municipality capitals in Portugal mainland are 188 km apart. Then, we employ a hierarchical cluster analysis using the nearby algorithm to delineate the new geographic regions. In our nearby approach, we defined ex-ante the distance between the municipalities. Therefore, we limited that distance to both 20 km and to 30 km, in order to partition the country and NUTS II regions into clusters. Summary statistics for these two

geographic aggregations are presented in Column 3 and 4 of Table 1. Again, the DEA results presented in Table 3 (for the country in lines 4 and 5 and for the NUTS analysis in lines 15 to 20) show higher efficiency scores implying the existence of efficiency gains from such aggregation.

5. Conclusion

This study shows that clustering municipalities improves local government spending. Using hierarchical clustering methods to define new encompassing geographic units and DEA framework to define the efficiency scores, we find that from an output oriented perspective, 85 to 95 percent of municipalities are able to increase their efficiency scores. Whereas from an input oriented perspective 81 to 97 percent of municipalities are better off in terms of efficiency scores. Our results hold both for Portugal mainland and for its NUTII regions.

This conclusion comes with some caveats. We did not consider possible economies of scales that might occur when we cluster municipalities together. For example, costs with electricity, personnel and other inputs might decrease. Therefore, the conservative nature of our approach could bias our previous efficiency estimates downward. In addition, we use data from the year 2001, since then, the Portuguese macroeconomic context has deteriorated. Therefore, this study does not consider possible efficiency gains that might have occurred afterwards.

This study is motivated by the growing need to reduce government spending and increase its efficiency given the global economic and financial context. In fact, our novel approach is particularly relevant for countries like Portugal that have signed international financial support programs, and to meet the terms of the agreement, the respective governments have to cut public expenditure among other policies. Moreover, our approach to efficiency gains via commuting zones clustering has obvious policy implications for decision makers.

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Figure 1 - Geography of Labor Market Areas in 2001: Mainland Portugal
(91 labor market areas)

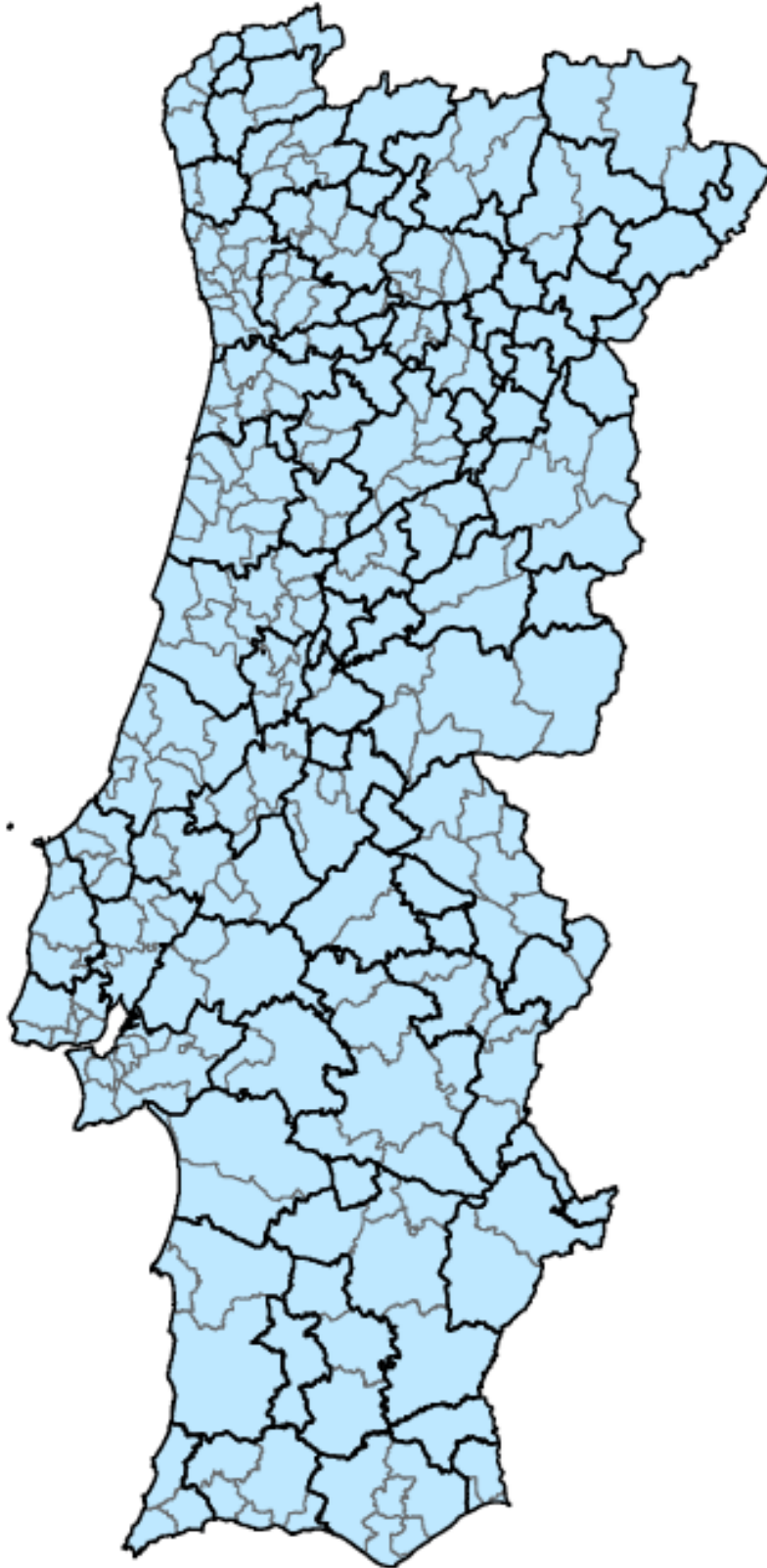


Table 1: Descriptive Statistic on Commuting Zones

| | Commuting Zones T<0.01 | Commuting Zones T<0.02 | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|--|---------------------------|---------------------------|----------------------------------|----------------------------------|
| | (1) | (2) | (3) | (4) |
| Number of areas | 91 | 66 | 115 | 69 |
| Panel A: Resident Workers | | | | |
| Mean | 48,157 | 66,398 | 38,107 | 63,511 |
| Standard Deviation | 143,906 | 186,472 | 91,074 | 145,930 |
| Median | 11,846 | 9,359 | 10,225 | 19,412 |
| Minimum | 607 | 607 | 607 | 607 |
| Maximum | 1,170,514 | 1,274,633 | 729,268 | 1,077,398 |
| Panel B: Municipalities Composition | | | | |
| Mean | 3.05 | 4.21 | 2.42 | 4.03 |
| Standard Deviation | 2.74 | 4.26 | 1.70 | 2.85 |
| Median | 2 | 2 | 2 | 3 |
| Minimum | 1 | 1 | 1 | 1 |
| Maximum | 16 | 21 | 10 | 13 |
| Sole Municipalities | 14% | 10% | 15% | 4% |

Table 2: Baseline DEA efficiency results

| Region | N. of DMUs | Efficient DMUs | | Average efficiency scores | |
|----------|---------------|--|----------------------------|---------------------------|--------------------|
| | | N. of DMUs (municipality) | % of DMUs in the region | Input oriented | Output oriented |
| Alentejo | 47 | 4 (Santiago Cacém, Évora, Castelo de Vide, Portalegre) | 8.5 | 0.654 | 0.610 |
| Algarve | 16 | 3 (Faro, Olhão, Monchique) | 18.8 | 0.608 | 0.681 |
| Centro | 78 | 3 (Aveiro, Coimbra, Figueira da Foz) | 3.9 | 0.237 | 0.353 |
| LVT | 51 | 3 (Lisboa, Caldas Rainha, Sintra) | 5.9 | 0.606 | 0.479 |
| Norte | 86 | 4 (Braga, Vizela, Gondomar, Porto) | 4.7 | 0.567 | 0.397 |
| Mainland | 278 | 3 (Miranda do Corvo, Seia, Gondomar) | 1.1 | 0.225 | 0.246 |

Source: Afonso and Fernandes (2008).

Table 3: DEA efficiency scores comparisons (VRS)

| | | Efficient DMUs | | Input | | | | Output | | | | Cz-baseline (a) | | |
|----|------------------------------|----------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-------|------|
| | | DMUs | DMUs | Average | Max | Min | Stdev | Average | Max | Min | Stdev | Output | Input | |
| 1 | Country, baseline DEA | 278 | 3 | 0.225 | 1.000 | 0.017 | 0.134 | 0.246 | 1.000 | 0.075 | 0.146 | - | - | |
| 2 | Country cz 91 (T<0,2) (b) | 91 | 5 | 0.692 | 1.000 | 0.060 | 0.180 | 0.543 | 1.000 | 0.276 | 0.200 | 93.2 | 96.76 | |
| 3 | Country cz 66 (T<0,1) | 66 | 3 | 0.720 | 1.000 | 0.061 | 0.177 | 0.584 | 1.000 | 0.335 | 0.174 | 95.0 | 96.76 | |
| 4 | Country nearby 20km | 115 | 4 | 0.431 | 1.000 | 0.096 | 0.130 | 0.421 | 1.000 | 0.274 | 0.123 | 88.8 | 90.3 | |
| 5 | Country nearby 30km | 67 | 3 | 0.588 | 1.000 | 0.140 | 0.154 | 0.447 | 1.000 | 0.271 | 0.131 | 89.9 | 95.3 | |
| 6 | Baseline Nuts II | N | 86 | 4 | 0.567 | 1.000 | 0.224 | 0.213 | 0.397 | 1.000 | 0.182 | 0.211 | - | - |
| 7 | | C | 129 | 6 | 0.380 | 1.000 | 0.189 | 0.254 | 0.403 | 1.000 | 0.056 | 0.171 | - | - |
| 8 | | S | 63 | 7 | 0.642 | 1.000 | 0.264 | 0.205 | 0.628 | 1.000 | 0.354 | 0.184 | - | - |
| 9 | Nuts II cz (T<0.2) (b) | N | 32 | 5 | 0.686 | 1.000 | 0.330 | 0.136 | 0.640 | 1.000 | 0.419 | 0.149 | 87.2 | 73.3 |
| 10 | | C | 50 | 3 | 0.670 | 1.000 | 0.334 | 0.173 | 0.530 | 1.000 | 0.268 | 0.179 | 72.9 | 89.9 |
| 11 | | S | 28 | 4 | 0.659 | 1.000 | 0.449 | 0.130 | 0.574 | 1.000 | 0.357 | 0.137 | 47.6 | 55.6 |
| 12 | Nuts II cz (T<0.1) | N | 27 | 5 | 0.690 | 1.000 | 0.333 | 0.136 | 0.656 | 1.000 | 0.429 | 0.152 | 88.4 | 73.3 |
| 13 | | C | 42 | 5 | 0.686 | 1.000 | 0.344 | 0.175 | 0.699 | 1.000 | 0.408 | 0.159 | 89.1 | 83.7 |
| 14 | | S | 23 | 4 | 0.665 | 1.000 | 0.455 | 0.116 | 0.580 | 1.000 | 0.464 | 0.131 | 47.6 | 60.3 |
| 15 | Nuts II, nearby 20km | N | 31 | 5 | 0.816 | 1.000 | 0.392 | 0.160 | 0.786 | 1.000 | 0.512 | 0.164 | 93.0 | 90.7 |
| 16 | | C | 49 | 2 | 0.469 | 1.000 | 0.100 | 0.143 | 0.482 | 1.000 | 0.294 | 0.129 | 69.0 | 60.5 |
| 17 | | S | 44 | 3 | 0.756 | 1.000 | 0.383 | 0.169 | 0.698 | 1.000 | 0.394 | 0.169 | 71.4 | 84.1 |
| 18 | Nuts II, nearby 30km | N | 18 | 3 | 0.810 | 1.000 | 0.549 | 0.156 | 0.834 | 1.000 | 0.471 | 0.147 | 95.3 | 81.4 |
| 19 | | C | 26 | 2 | 0.711 | 1.000 | 0.158 | 0.159 | 0.571 | 1.000 | 0.312 | 0.183 | 77.5 | 86.0 |
| 20 | | S | 25 | 3 | 0.799 | 1.000 | 0.402 | 0.131 | 0.736 | 1.000 | 0.530 | 0.135 | 81.0 | 82.5 |

Notes: N - North; C - Centre; S – South. C = C + LVT; S = Algarve + Alentejo. cz - commuting clusters.

Efficient DMUs for Nuts II, we report in this column the number of efficient DMUs in the Nuts II.

(a) % of cases (municipalities) where there is a gain in efficiency as a result of the clustering strategy, by comparing the initial standalone efficiency score of the municipalities and the efficiency score of the cluster where the municipality would be allocated. (b) As defined in Dorn (2009), municipalities with stronger ties are the ones with an average value of T_{ij} above 0.02.

Appendix

Table A.1 - List of municipalities included in each community zone for 2001 in Mainland Portugal

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----|------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| 101 | Águeda | 33 | 24 | 1 | 20 |
| 102 | Albergaria-a-Velha | 33 | 24 | 2 | 21 |
| 103 | Anadia | 33 | 24 | 1 | 20 |
| 104 | Arouca | 15 | 11 | 3 | 46 |
| 105 | Aveiro | 33 | 24 | 4 | 21 |
| 106 | Castelo de Paiva | 9 | 7 | 3 | 46 |
| 107 | Espinho | 8 | 6 | 5 | 47 |
| 108 | Estarreja | 15 | 11 | 2 | 21 |
| 109 | Santa Maria da Feira | 15 | 11 | 2 | 46 |
| 110 | Ílhavo | 33 | 24 | 4 | 21 |
| 111 | Mealhada | 33 | 24 | 1 | 20 |
| 112 | Murtosa | 15 | 11 | 2 | 21 |
| 113 | Oliveira de Azeméis | 15 | 11 | 2 | 46 |
| 114 | Oliveira do Bairro | 33 | 24 | 1 | 20 |
| 115 | Ovar | 15 | 11 | 2 | 21 |
| 116 | São João da Madeira | 15 | 11 | 2 | 46 |
| 117 | Sever do Vouga | 34 | 24 | 2 | 21 |
| 118 | Vagos | 33 | 24 | 4 | 21 |
| 119 | Vale de Cambra | 15 | 11 | 2 | 46 |
| 201 | Aljustrel | 79 | 57 | 6 | 1 |
| 202 | Almodôvar | 79 | 57 | 7 | 2 |
| 203 | Alvito | 80 | 58 | 8 | 3 |
| 204 | Barrancos | 81 | 59 | 9 | 4 |
| 205 | Beja | 82 | 60 | 10 | 5 |
| 206 | Castro Verde | 79 | 57 | 11 | 2 |
| 207 | Cuba | 82 | 60 | 12 | 3 |
| 208 | Ferreira do Alentejo | 82 | 60 | 13 | 1 |
| 209 | Mértola | 82 | 60 | 14 | 6 |
| 210 | Moura | 83 | 60 | 15 | 7 |
| 211 | Odemira | 66 | 47 | 16 | 8 |
| 212 | Ourique | 84 | 61 | 11 | 2 |
| 213 | Serpa | 83 | 60 | 17 | 5 |
| 214 | Vidigueira | 82 | 60 | 12 | 3 |
| 301 | Amares | 5 | 4 | 18 | 48 |
| 302 | Barcelos | 6 | 1 | 19 | 49 |
| 303 | Braga | 5 | 4 | 18 | 48 |
| 304 | Cabeceiras de Basto | 10 | 5 | 20 | 50 |
| 305 | Celorico de Basto | 7 | 5 | 20 | 50 |
| 306 | Esposende | 6 | 1 | 19 | 49 |
| 307 | Fafe | 7 | 5 | 21 | 51 |
| 308 | Guimarães | 7 | 5 | 21 | 51 |
| 309 | Póvoa de Lanhoso | 5 | 4 | 18 | 48 |
| 310 | Terras de Bouro | 5 | 4 | 18 | 48 |
| 311 | Vieira do Minho | 5 | 4 | 18 | 48 |
| 312 | Vila Nova de Famalicão | 8 | 6 | 22 | 49 |
| 313 | Vila Verde | 5 | 4 | 18 | 48 |

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----------|--------------------------|--|--|---|---|
| 314 | Vizela | 7 | 5 | 21 | 51 |
| 401 | Alfândega da Fé | 26 | 20 | 23 | 52 |
| 402 | Bragança | 27 | 15 | 24 | 53 |
| 403 | Carrazeda de Ansiães | 16 | 12 | 25 | 54 |
| 404 | Freixo de Espada à Cinta | 17 | 13 | 26 | 55 |
| 405 | Macedo de Cavaleiros | 19 | 15 | 27 | 56 |
| 406 | Miranda do Douro | 28 | 21 | 28 | 57 |
| 407 | Mirandela | 19 | 15 | 29 | 56 |
| 408 | Mogadouro | 29 | 22 | 30 | 55 |
| 409 | Torre de Moncorvo | 18 | 14 | 31 | 52 |
| 410 | Vila Flor | 19 | 15 | 23 | 52 |
| 411 | Vimioso | 27 | 15 | 32 | 57 |
| 412 | Vinhais | 27 | 15 | 24 | 53 |
| 501 | Belmonte | 60 | 39 | 33 | 22 |
| 502 | Castelo Branco | 48 | 35 | 34 | 23 |
| 503 | Covilhã | 60 | 39 | 33 | 22 |
| 504 | Fundão | 60 | 39 | 35 | 22 |
| 505 | Idanha-a-Nova | 48 | 35 | 36 | 24 |
| 506 | Oleiros | 48 | 35 | 37 | 25 |
| 507 | Penamacor | 59 | 43 | 38 | 26 |
| 508 | Proença-a-Nova | 49 | 35 | 39 | 27 |
| 509 | Sertã | 42 | 31 | 40 | 27 |
| 510 | Vila de Rei | 50 | 36 | 41 | 27 |
| 511 | Vila Velha de Ródão | 48 | 35 | 42 | 23 |
| 601 | Arganil | 37 | 27 | 43 | 28 |
| 602 | Cantanhede | 33 | 24 | 44 | 20 |
| 603 | Coimbra | 35 | 25 | 45 | 28 |
| 604 | Condeixa-a-Nova | 35 | 25 | 46 | 29 |
| 605 | Figueira da Foz | 35 | 25 | 47 | 29 |
| 606 | Góis | 38 | 28 | 43 | 28 |
| 607 | Lousã | 35 | 25 | 48 | 28 |
| 608 | Mira | 33 | 24 | 44 | 20 |
| 609 | Miranda do Corvo | 35 | 25 | 48 | 28 |
| 610 | Montemor-o-Velho | 35 | 25 | 47 | 29 |
| 611 | Oliveira do Hospital | 37 | 27 | 49 | 30 |
| 612 | Pampilhosa da Serra | 39 | 29 | 37 | 25 |
| 613 | Penacova | 35 | 25 | 45 | 28 |
| 614 | Penela | 40 | 25 | 48 | 28 |
| 615 | Soure | 35 | 25 | 46 | 29 |
| 616 | Tábua | 37 | 27 | 50 | 30 |
| 617 | Vila Nova de Poiares | 35 | 25 | 45 | 28 |
| 701 | Alandroal | 75 | 55 | 51 | 9 |
| 702 | Arraiolos | 76 | 48 | 52 | 10 |
| 703 | Borba | 75 | 55 | 51 | 9 |
| 704 | Estremoz | 75 | 55 | 51 | 9 |
| 705 | Évora | 76 | 48 | 52 | 10 |
| 706 | Montemor-o-Novo | 77 | 48 | 53 | 11 |
| 707 | Mora | 68 | 48 | 54 | 12 |
| 708 | Mourão | 78 | 56 | 55 | 13 |
| 709 | Portel | 76 | 48 | 12 | 3 |
| 710 | Redondo | 76 | 48 | 51 | 9 |
| 711 | Reguengos de Monsaraz | 75 | 55 | 55 | 13 |
| 712 | Vendas Novas | 77 | 48 | 56 | 11 |

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----------|-----------------------------|--|--|---|---|
| 713 | Viana do Alentejo | 76 | 48 | 8 | 3 |
| 714 | Vila Viçosa | 75 | 55 | 51 | 9 |
| 801 | Albufeira | 87 | 63 | 57 | 64 |
| 802 | Alcoutim | 88 | 64 | 58 | 65 |
| 803 | Aljezur | 89 | 65 | 59 | 66 |
| 804 | Castro Marim | 90 | 66 | 60 | 67 |
| 805 | Faro | 91 | 66 | 61 | 68 |
| 806 | Lagoa | 87 | 63 | 62 | 64 |
| 807 | Lagos | 89 | 65 | 62 | 64 |
| 808 | Loulé | 91 | 66 | 61 | 68 |
| 809 | Monchique | 87 | 63 | 63 | 66 |
| 810 | Olhão | 91 | 66 | 61 | 68 |
| 811 | Portimão | 87 | 63 | 62 | 64 |
| 812 | São Brás de Alportel | 91 | 66 | 61 | 68 |
| 813 | Silves | 87 | 63 | 62 | 64 |
| 814 | Tavira | 91 | 66 | 64 | 67 |
| 815 | Vila do Bispo | 89 | 65 | 65 | 69 |
| 816 | Vila Real de Santo António | 90 | 66 | 60 | 67 |
| 901 | Aguiar da Beira | 43 | 32 | 66 | 31 |
| 902 | Almeida | 54 | 39 | 67 | 32 |
| 903 | Celorico da Beira | 54 | 39 | 68 | 31 |
| 904 | Figueira de Castelo Rodrigo | 55 | 40 | 67 | 32 |
| 905 | Fornos de Algodres | 52 | 38 | 68 | 31 |
| 906 | Gouveia | 53 | 27 | 69 | 22 |
| 907 | Guarda | 54 | 39 | 70 | 31 |
| 908 | Manteigas | 56 | 41 | 69 | 22 |
| 909 | Meda | 57 | 42 | 71 | 33 |
| 910 | Pinhel | 54 | 39 | 67 | 32 |
| 911 | Sabugal | 54 | 39 | 72 | 26 |
| 912 | Seia | 53 | 27 | 69 | 22 |
| 913 | Trancoso | 58 | 39 | 68 | 31 |
| 914 | Vila Nova de Foz Côa | 20 | 16 | 31 | 52 |
| 1001 | Alcobaça | 36 | 26 | 73 | 38 |
| 1002 | Alvaiázere | 40 | 25 | 74 | 34 |
| 1003 | Ansião | 40 | 25 | 74 | 34 |
| 1004 | Batalha | 36 | 26 | 75 | 35 |
| 1005 | Bombarral | 61 | 44 | 76 | 39 |
| 1006 | Caldas da Rainha | 61 | 44 | 76 | 39 |
| 1007 | Castanheira de Pêra | 41 | 30 | 48 | 28 |
| 1008 | Figueiró dos Vinhos | 40 | 25 | 40 | 34 |
| 1009 | Leiria | 36 | 26 | 75 | 35 |
| 1010 | Marinha Grande | 36 | 26 | 75 | 35 |
| 1011 | Nazaré | 36 | 26 | 73 | 38 |
| 1012 | Óbidos | 61 | 44 | 76 | 39 |
| 1013 | Pedrógão Grande | 42 | 31 | 40 | 34 |
| 1014 | Peniche | 62 | 44 | 77 | 39 |
| 1015 | Pombal | 35 | 25 | 74 | 29 |
| 1016 | Porto de Mós | 36 | 26 | 75 | 35 |
| 1101 | Alenquer | 63 | 45 | 78 | 40 |
| 1102 | Arruda dos Vinhos | 63 | 45 | 78 | 40 |
| 1103 | Azambuja | 63 | 45 | 79 | 41 |
| 1104 | Cadaval | 61 | 44 | 76 | 39 |
| 1105 | Cascais | 65 | 45 | 80 | 42 |

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----------|--------------------------|--|--|---|---|
| 1106 | Lisboa | 65 | 45 | 81 | 42 |
| 1107 | Loures | 65 | 45 | 81 | 42 |
| 1108 | Lourinhã | 62 | 44 | 77 | 39 |
| 1109 | Mafra | 62 | 44 | 82 | 40 |
| 1110 | Oeiras | 65 | 45 | 80 | 42 |
| 1111 | Sintra | 65 | 45 | 80 | 42 |
| 1112 | Sobral de Monte Agraço | 62 | 44 | 78 | 40 |
| 1113 | Torres Vedras | 62 | 44 | 82 | 40 |
| 1114 | Vila Franca de Xira | 63 | 45 | 78 | 40 |
| 1115 | Amadora | 65 | 45 | 81 | 42 |
| 1116 | Odivelas | 65 | 45 | 81 | 42 |
| 1201 | Alter do Chão | 69 | 49 | 83 | 14 |
| 1202 | Arronches | 70 | 50 | 84 | 15 |
| 1203 | Avis | 71 | 51 | 85 | 16 |
| 1204 | Campo Maior | 72 | 52 | 86 | 15 |
| 1205 | Castelo de Vide | 70 | 50 | 87 | 14 |
| 1206 | Crato | 70 | 50 | 83 | 14 |
| 1207 | Elvas | 72 | 52 | 86 | 15 |
| 1208 | Fronteira | 73 | 53 | 88 | 16 |
| 1209 | Gavião | 74 | 54 | 89 | 17 |
| 1210 | Marvão | 70 | 50 | 87 | 14 |
| 1211 | Monforte | 70 | 50 | 84 | 15 |
| 1212 | Nisa | 70 | 50 | 42 | 14 |
| 1213 | Ponte de Sor | 71 | 51 | 90 | 17 |
| 1214 | Portalegre | 70 | 50 | 87 | 14 |
| 1215 | Sousel | 75 | 55 | 88 | 16 |
| 1301 | Amarante | 7 | 5 | 91 | 58 |
| 1302 | Baião | 11 | 8 | 91 | 58 |
| 1303 | Felgueiras | 7 | 5 | 21 | 51 |
| 1304 | Gondomar | 8 | 6 | 5 | 47 |
| 1305 | Lousada | 12 | 6 | 92 | 51 |
| 1306 | Maia | 8 | 6 | 5 | 47 |
| 1307 | Marco de Canaveses | 12 | 6 | 91 | 58 |
| 1308 | Matosinhos | 8 | 6 | 5 | 47 |
| 1309 | Paços de Ferreira | 12 | 6 | 92 | 51 |
| 1310 | Paredes | 12 | 6 | 92 | 51 |
| 1311 | Penafiel | 12 | 6 | 92 | 51 |
| 1312 | Porto | 8 | 6 | 5 | 47 |
| 1313 | Póvoa de Varzim | 8 | 6 | 19 | 49 |
| 1314 | Santo Tirso | 8 | 6 | 22 | 49 |
| 1315 | Valongo | 8 | 6 | 5 | 47 |
| 1316 | Vila do Conde | 8 | 6 | 19 | 49 |
| 1317 | Vila Nova de Gaia | 8 | 6 | 5 | 47 |
| 1318 | Trofa | 8 | 6 | 22 | 49 |
| 1401 | Abrantes | 51 | 37 | 89 | 43 |
| 1402 | Alcanena | 64 | 46 | 93 | 43 |
| 1403 | Almeirim | 85 | 46 | 94 | 41 |
| 1404 | Alpiarça | 85 | 46 | 94 | 41 |
| 1405 | Benavente | 86 | 62 | 79 | 41 |
| 1406 | Cartaxo | 63 | 45 | 79 | 41 |
| 1407 | Chamusca | 85 | 46 | 93 | 43 |
| 1408 | Constância | 51 | 37 | 93 | 43 |
| 1409 | Coruche | 86 | 62 | 95 | 44 |

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----------|--------------------------|--|--|---|---|
| 1410 | Entroncamento | 64 | 46 | 93 | 43 |
| 1411 | Ferreira do Zêzere | 64 | 46 | 41 | 43 |
| 1412 | Golegã | 64 | 46 | 93 | 43 |
| 1413 | Mação | 51 | 37 | 89 | 27 |
| 1414 | Rio Maior | 85 | 46 | 76 | 39 |
| 1415 | Salvaterra de Magos | 86 | 62 | 79 | 41 |
| 1416 | Santarém | 85 | 46 | 94 | 41 |
| 1417 | Sardoal | 51 | 37 | 89 | 43 |
| 1418 | Tomar | 64 | 46 | 96 | 43 |
| 1419 | Torres Novas | 64 | 46 | 93 | 43 |
| 1420 | Vila Nova da Barquinha | 64 | 46 | 93 | 43 |
| 1421 | Ourém | 36 | 26 | 96 | 43 |
| 1501 | Alcácer do Sal | 67 | 47 | 97 | 18 |
| 1502 | Alcochete | 65 | 45 | 81 | 42 |
| 1503 | Almada | 65 | 45 | 81 | 42 |
| 1504 | Barreiro | 65 | 45 | 81 | 42 |
| 1505 | Grândola | 67 | 47 | 98 | 18 |
| 1506 | Moita | 65 | 45 | 81 | 42 |
| 1507 | Montijo | 65 | 45 | 81 | 42 |
| 1508 | Palmela | 65 | 45 | 99 | 45 |
| 1509 | Santiago do Cacém | 66 | 47 | 100 | 19 |
| 1510 | Seixal | 65 | 45 | 81 | 42 |
| 1511 | Sesimbra | 65 | 45 | 101 | 45 |
| 1512 | Setúbal | 65 | 45 | 99 | 45 |
| 1513 | Sines | 66 | 47 | 100 | 19 |
| 1601 | Arcos de Valdevez | 1 | 1 | 102 | 48 |
| 1602 | Caminha | 2 | 1 | 103 | 59 |
| 1603 | Melgaço | 3 | 2 | 104 | 60 |
| 1604 | Monção | 3 | 2 | 105 | 59 |
| 1605 | Paredes de Coura | 4 | 3 | 105 | 59 |
| 1606 | Ponte da Barca | 1 | 1 | 102 | 48 |
| 1607 | Ponte de Lima | 1 | 1 | 102 | 48 |
| 1608 | Valença | 2 | 1 | 105 | 59 |
| 1609 | Viana do Castelo | 2 | 1 | 106 | 61 |
| 1610 | Vila Nova de Cerveira | 2 | 1 | 103 | 59 |
| 1701 | Alijó | 21 | 8 | 107 | 54 |
| 1702 | Boticas | 30 | 23 | 108 | 62 |
| 1703 | Chaves | 30 | 23 | 108 | 62 |
| 1704 | Mesão Frio | 11 | 8 | 91 | 58 |
| 1705 | Mondim de Basto | 7 | 5 | 20 | 50 |
| 1706 | Montalegre | 31 | 4 | 109 | 62 |
| 1707 | Murça | 32 | 8 | 107 | 54 |
| 1708 | Peso da Régua | 21 | 8 | 110 | 58 |
| 1709 | Ribeira de Pena | 13 | 9 | 111 | 50 |
| 1710 | Sabrosa | 21 | 8 | 107 | 54 |
| 1711 | Santa Marta de Penaguião | 21 | 8 | 110 | 58 |
| 1712 | Valpaços | 30 | 23 | 29 | 56 |
| 1713 | Vila Pouca de Aguiar | 30 | 23 | 111 | 50 |
| 1714 | Vila Real | 21 | 8 | 110 | 58 |
| 1801 | Armamar | 22 | 10 | 110 | 58 |
| 1802 | Carregal do Sal | 44 | 33 | 50 | 30 |
| 1803 | Castro Daire | 45 | 33 | 112 | 36 |
| 1804 | Cinfães | 9 | 7 | 91 | 58 |

| ID | Municipality Name | Commuting Zones $T_{ij}<0.01$ | Commuting Zones $T_{ij}<0.02$ | Nearby Municipalities 20Km | Nearby Municipalities 30Km |
|-----------|--------------------------|--|--|---|---|
| 1805 | Lamego | 22 | 10 | 110 | 58 |
| 1806 | Mangualde | 44 | 33 | 113 | 37 |
| 1807 | Moimenta da Beira | 23 | 17 | 66 | 63 |
| 1808 | Mortágua | 46 | 34 | 50 | 30 |
| 1809 | Nelas | 44 | 33 | 113 | 37 |
| 1810 | Oliveira de Frades | 47 | 33 | 114 | 36 |
| 1811 | Penalva do Castelo | 44 | 33 | 115 | 37 |
| 1812 | Penedono | 24 | 18 | 71 | 63 |
| 1813 | Resende | 14 | 10 | 91 | 58 |
| 1814 | Santa Comba Dão | 46 | 34 | 50 | 30 |
| 1815 | São João da Pesqueira | 25 | 19 | 25 | 54 |
| 1816 | São Pedro do Sul | 47 | 33 | 114 | 36 |
| 1817 | Sátão | 44 | 33 | 115 | 37 |
| 1818 | Sernancelhe | 23 | 17 | 66 | 63 |
| 1819 | Tabuaço | 23 | 17 | 110 | 58 |
| 1820 | Tarouca | 22 | 10 | 110 | 58 |
| 1821 | Tondela | 46 | 34 | 50 | 30 |
| 1822 | Vila Nova de Paiva | 44 | 33 | 115 | 37 |
| 1823 | Viseu | 44 | 33 | 113 | 37 |
| 1824 | Vouzela | 47 | 33 | 114 | 36 |