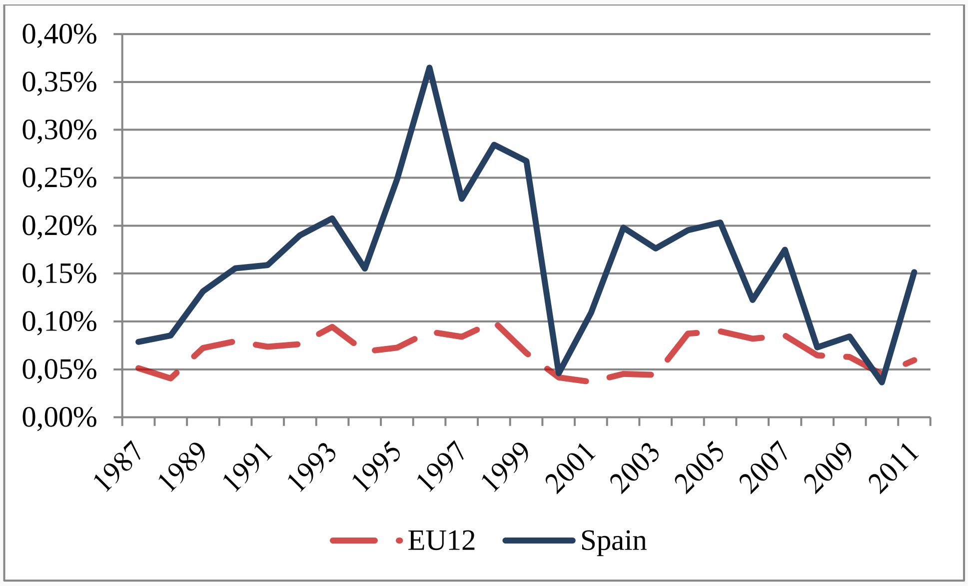
Appendix A. Active Labour Market Policies and the European Social Fund in Spain. The principle of additionality.

The European Social Fund (ESF) is the oldest of the Structural Funds and its creation was stated in the Treaty of Rome in 1957, with the original task of promoting within the Community employment facilities and the geographical and occupational mobility of workers. Its target is to improve workers opportunities and wellbeing by enhancing public expenditure is ALPMPs[1]. Spain joins the European Communities in 1986, simultaneously to Portugal. The maximum allocation of the Structural Funds is decided in the European Council for every programming period. The budget is distributed across funds, countries and category objectives, as EU regions are divided into several objectives according to indicators of economic development. The estimation of the model in this paper covers the programming periods 1989-1993, 1994-1999, 2000-2006 and 2007-2013. The European Social Fund was the only fund that covered of all objective-regions during these years, although the focus in the poorest regions (with a GDP per capita below 75% of the EU average, which were considered *objective 1* in 1989-2006 and then re-labelled as *convergence regions* for the program 2007-2013) became more accentuated in the two latest programing periods. Apart from a simplification of the variety in the classification of targeted objectives, the budget, main objectives, co-financing rates and supervision remained almost unchanged among the several programing periods.

Figure A1. The European Social Fund in Spain: Currents transfers as a percentage of GDP



Source: Eurostat

At this stage, it is important to give a brief mention about the extent to which member states are constrained to spend ESF transfers on ALMPs. The ESF regulation[2] defines the conditions under which projects are eligible to be financed. These conditions refer to particular targets or ‘policy fields’, and do not follow a standardized definition. For that reason, there is no direct link between the functional (or economic) categories of public expenditure reported in the accounting of the public administration[3] and the targets on the ESF legislation[4]. Nevertheless, the definition of the targets corresponds, mostly, to activities related to ALMPs, as analysed in European Commission (2010).

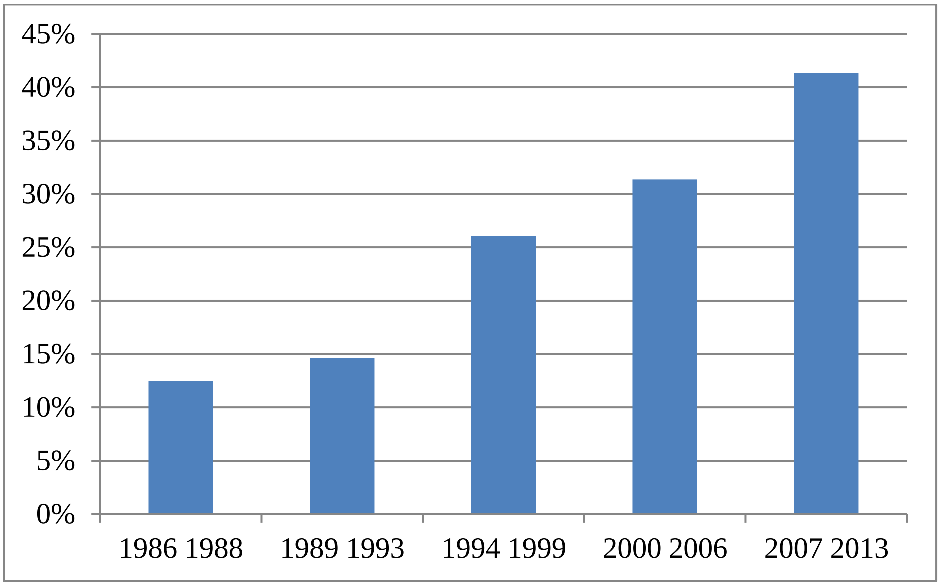
Once the maximum allocation of funds has been decided, the funds are not transferred automatically. The European Commission negotiates with the member states the implementation of several Operational Programmes[5] (OPs), which include mention to the particular projects and policy areas to be co-financed. The Structural Funds never finance the total cost a project, as transfers are subject to the maximum co-financing rates stated in the Regulation of every programming period, which differ also across fund and category objective. For that reason, very often Structural Funds are not fully absorbed by member states

(Tosun, 2014). In fact, the capacity of Spanish regions to spend the budget allocated for every programming period is relatively heterogeneous across regions as revealed in Mota & Noferini (2010). Their work also illustrates the vertical distribution of Structural Funds among levels of the public administration.

Generally, all levels of the public administration are involved in projects financed by the Structural Funds. But the Spanish economy has gone through a fiscal decentralization process since its adhesion to the European Union which is not common to other EU Member States (Molero, 2002; González-Alegre, 2010). This process is mainly associated with a transfer of fiscal autonomy from the central to the regional governments. Spain, de facto, evolved to a federal form without the proper coordination mechanism needed for a federal system (as stated in Irepoglu Carreras, 2016) in which regional parliaments have gained normative and fiscal autonomy. Regions raise their revenues mostly from tax collection[6] and current unconditional, transfers from the central government[7].

Due to this decentralization process, as some competencies were transferred from the central government to the regions, Spanish regional governments have also gained additional control over the administration of the Structural Funds attached to these policies. The following chart illustrates[8] this phenomenon for the case of the ESF. Immediately after joining the European Union, Spanish regional governments controlled around 10% of the ESF transfers from the EU to Spain, while during the last programming period this share has climbed to over 40%.

Figure A2. The European Social Fund in Spain: Evolution of the share of the ESF distributed to regional government to the total ESF allocated to Spain



Self-elaboration from the data used in the estimations and INE (National Statistical Office)

Like the other funds, the ESF is transferred under the principle of additionality[9]. This requires a minimum level of contribution of the subsidized administration on the projects financed. The regulation for every programming period includes rules for verifying additionality, although the effectiveness of the system of verification is –at least- controversial[10]. In fact, the co-financing rates could drive the principle of additionality, when subsidized regions do not reach the maximum budget allocated in the programming period[11].

Nevertheless, one might doubt about the application, in practice, of the principle of additionality ruling the Structural Funds, as the budgetary limits for every country and priority objective are set for every programming period by the European Council[12]. There is a clear political commitment of the European Commission to get as close as possible to these budgetary limits (Mijs & Schout, 2015). The distribution among regions of the same Member State, however, is not as rigid as the allocation among countries.

The crowding-in effect disappears if regions –aware of the political pressure to reach the maximum budget- perceive these transfers as unconditional[13]. The European Commission may be unable to observe the quality of the projects submitted by the regional governments (Gomis-Porqueras & Garcilazo, 2003), so that regions have incentives to submit projects that would be fully funded with own sources otherwise[14].

Appendix B. Robustness Check.

The baseline model estimated in table 3 assumes dynamics, allows some of the explanatory variables to be endogenous and spatial autocorrelation in the form of a Spatial Durbin Model. Table A.1 explores the sensitiveness of the baseline model to these assumptions and to the omission of relevant variables: Column [1] reports the estimation of the equivalent panel-data model, estimated through fixed-effects, assuming an autocorrelated error term instead of the lag of the dependent variable. This model also ignores the endogeneity problem; Column [2] uses the GMM Arellano-Bond estimator, assuming endogeneity in a dynamic model, but ignoring spatial correlation; Column [3] assumes a spatial SAR model, instead, that includes only the spatially lagged value of the dependent variable; Column [4] ignores the spatial correlation of all explanatory variables but esf; and Column [5] and [6] omit relevant variables.

The coefficients accompanying *unemployment rate* and *population* are sensitive to the omission of the spatial lags, and the later also to endogeneity. The importance of *regional expenditure* is also overestimated with fixed-effects, while the omission of spatial dependence provokes volatility of the coefficient attached to *esf*.

Table B1. Determinants of public expenditure in ALMP s in Spanish regions. Restricted versions of the baseline model

	[1] F-E	[2] A-Bond	[3] Spatial SAR	[4] Spatial SDM	[5] SDM	[6] SDM
$almp_{t-1}$		0.6035***	0.5228***	0.5628***	0.5355***	0.8971***
		0.041	*0.040*	*0.039*	*0.041*	*0.033*
esf	-0.0432	-0.3686**	-0.1621	-0.2480	-0.1021	-0.0821
	0.173	*0.184*	*0.179*	*0.187*	*0.186*	*0.239*
regional_exp	0.0685***	0.0326***	0.0238***	0.0348***	0.0255***	
	0.006	*0.004*	*0.004*	*0.004*	*0.004*	
unemploy_rate	0.0006	0.0033	-0.00046	-0.0046**		
	0.003	*0.002*	*0.002*	*0.002*		
population	0.0036***	0.0013**	-0.0010*	0.0011**		
	0.001	*0.0005*	*0.0006*	*0.0004*		
w*esf				-1.062527**	-1.1467***	-0.4655
				0.429	*0.415*	*0.529*
w*regional_exp					0.0249***	
					0.004	
w*almp			0.3274***			
			0.056			
Additional assumptions	*Exogeneity No spatial No dynamics*	*No spatial*	*Spatial lag of dependent variable only*	*Spatial lag of ESF variable only*	*Omission of relevant variables*	*Omission of relevant variables*
Specification		*Sargan test* (p-val.) 307 (.56)	*AIC*[3] -12.55	*AIC*[3] -12.48	*AIC*[3] -12.52	*AIC*[3] -12.23
Autocorrelation tests (p-value)	*B-W*[1] 0.954	*A-B*[2] *[1]* -2.1 (.02) *A-B[2]* 1.4 (.15)	*LM SAC*[4] 0.176 (.91)	*LM SAC*[4] 37.64 (.00)	*LM SAC*[4] 22.30 (.00)	*LM SAC*[4] 83.96 (.00)
F-test (p-value)	8.88 (.00)		250.3 (.00)	54.82 (.00)	284.6(.00)	261.1(.00)
R^2	0.307		0.810	0.437	0.801	0.688
Obs (groups)	374 (17)	374 (17)	374 (17)	374 (17)	374 (17)	374 (17)

*,**,*** denote significance levels at the 10%, 5% and 1% respectively

[1] *Baltagi-Wu LBI statistic*

[2] *Arellano-Bond [order] Autocorrelation test*

[3] *Akaike information criterion*

[4] *Lagrange Multiplier General Spatial Autocorrelation test*

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[1] EUROSTAT covers seven main categories of ALMPs, following a nomenclature similar to the one suggested by the OECD: (1) Public Employment Services (PES) and administration, which includes job placement activities and refers job seekers to available slots on labour market programmes; (2) training and employment programmes; (3) Job rotation and job sharing; (4) Employment incentives and subsidized employment focused on hiring subsidies; (5) Supported employment and rehabilitation; (6) direct job creation; and (7) assistance for starting a business

[2] For the period under consideration in this article, there are three subsequent Regulations: The Council Regulation (EEC) No 2052 / 88 of 24 June 1988, The Regulation (EC) No 1784/1999 of the European Parliament and of the Council of 12 July 1999 on the European Social Fund and Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund.

[3] In our case, the European System of Accounting (ESA)

[4] In addition, only from the 2007-2013 programming period onwards there is information about ESF expenditures disaggregated by fields of activity. Although there is some –ambiguous- link between these fields of activity and some categories of expenditure created ‘ad hoc’, there is no correspondence with the priorities described in the legislation. See Grijpstra, Buiskool, Eshuis, & Milio (2013)

[5] In Spain there are usually regional OPs, covering projects undertaken at the regional level, and specific OPs for other policy areas, which are conducted at all levels of the public administration. As an example, there were 45 OPs for the programming period 2007-2013. The document that includes the indicative allocation across regions, funds and categories and the initial distribution of OPs is called “National Strategic Reference Framework”, usually released during the first year of the programming period.

[6] Regions also have gained substantial autonomy to alter tax rates and create new taxes.

[7] Computed according to equalization formulas that depend, mostly, on demographic variables. The level of fiscal autonomy is larger on the expenditure side of the budget. The studies cited also reflect the consensus about this fact.

[8] Important milestones, for the problem under consideration in this paper, are the devolution of competencies regarding education, completed in 1999 and the law 56/2003, which transfers the management of the public employment services to the regional governments. The process of decentralization does not affect all regions simultaneously.

[9] The principle of additionality means precisely that the EU contribution may not replace the national expenditure by a Member State.

[10] As stated, for example, by the former Commissioner in charge of Regional Policy, in Samecki (2009). The verification process includes the agreement of a minimum level of expenditure of the member states, for every programming period, in the national strategic reference framework. The general rule is that member states should maintain, at least, the previous level of expenditure in subsidized policy areas.

[11] Or in the absence of such limits, as demonstrated by Brandsma, Ciaian & d'Artis (2013). The problem here is that the European Commission is politically committed to get as close as possible to the budgetary limits.

[12] See, for example, El-Agraa (2015) to know more about the political process ruling the distribution of the Structural Funds

[13] This vision is compatible with the prediction of some studies on intergovernmental grants that underline the importance of the expected duration of the grant program. When the subsidized administration perceives that grant revenues will be persistent over the long term, they will easily substitute their own revenues. Alternatively, when considered transitory, they will serve better to their purpose of enlarging expenditure in the targeted policy, using these funds for one-time ventures (see Bahl & Duncombe, 1988; Bahl & Sjoquist, 1990; and Deller & Walzer, 1995)

[14] Barca (2009) makes a similar critique and recommends to focus the Structural Funds to fewer and better defined objectives, as well as improving accountability, in order to avoid deviation of funds