

**Good practices on social protection
of new entrepreneurs and assisting
partners and the impact on business
creation**

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1 Introduction

1.1 Background of the study

New enterprise formation, growth and survival, and volatility within the enterprise population are essential for the adaptation of structures in the economy, the improvement of competitiveness, and the generation of employment.

The topic of business demography has become more and more relevant in the policy debate during the last decade. The dynamism of the enterprise sector is viewed by political and economic players in Europe as an important instrument for boosting competitiveness. It facilitates growth and modernisation of the economic system as a whole (both in the manufacturing and tertiary sectors). The creation of new enterprises, as well as their death and their change in size, is one of the main mechanisms that demonstrate a capacity to adapt to changing market conditions, together with investment, innovation, training, co-operative agreements, mergers and acquisitions. Since its communication to the Council on 'Promoting Entrepreneurship and Competitiveness', the European Commission has affirmed its commitment to a policy that promotes entrepreneurship as an essential instrument for improving competitiveness and generating economic growth and job opportunities. Moreover, the 1999 Employment Guidelines adopted by the Council Resolution emphasise the development of entrepreneurship, given that the formation of new enterprises and the growth of small and medium-sized enterprises are essential for job creation.

The Council of Lisbon, in the summer of 2000, set the strategic goal of transforming the European Union into 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'. This strategic goal can be reached, among other things, through the support of entrepreneurship and entrepreneurial dynamism.

In January 2003 the European Commission presented the Green Paper on 'Entrepreneurship in Europe'. This document presents the European entrepreneurial challenge, i.e. it identifies the key factors for building a climate in which entrepreneurial initiative and business activities can thrive. Policy measures should seek to boost the Union's levels of entrepreneurship, adopting the most appropriate approach for producing more entrepreneurs and for getting more firms to grow. The Green Paper was followed in 2004 by the "Action Plan: The European Agenda for Entrepreneurship".

Currently, stimulating entrepreneurship is on the policy agenda in all 27 Member States of the European Union.

Entrepreneurship as an occupational choice¹ has been the subject of analysis in many empirical studies. Determinants of entrepreneurial activity include economic as well as technological, demographic, social and cultural

¹ Also known as business ownership or self-employment.

factors. A potentially relevant determinant that has so far received little attention is social security entitlements. Institutional social security arrangements may influence decisions taken by individuals when choosing between wage employment and self-employment in various ways.

Social security and entrepreneurship

Setting up a business involves considerable risks. Almost 50% of new businesses close or go bankrupt within the first five years. The complexity and cost of social security cover are among the risks, and it is important to be able to analyse the types of safeguards or penalties which apply to entrepreneurs in the event of failure. The issue of social security cover for entrepreneurs is very complex, due both to the interaction between public and private systems and to the fact that, during their careers, entrepreneurs, like many salaried workers in some countries, often go through various changes in their occupational status (unemployment, paid employment, self-employment, education etc.).

It has also been shown that the situation of assisting partners of entrepreneurs, particularly small entrepreneurs, is important for businesses. Partners often assist entrepreneurs with the administrative side of the business, such as book-keeping. The survival of the business is influenced to a large degree by the partner's professional abilities. The social status of assisting partners thus also needs to be clarified.

The problem of social security cover for self-employed persons and small entrepreneurs was a recurring theme in the consultation process which followed the publication of the Green Paper on "Entrepreneurship in Europe" in 2003. Although social security cover (both public and private) in many countries in Europe is highly developed for employed persons, small entrepreneurs only enjoy imperfect cover against significant personal risks (business failure, sickness, unemployment), whether as a result of the limited cover offered by public schemes or because of the high cost of private cover. There are a few countries where self-employed persons have similar social security protection to the employed.

The position of assisting partners has changed over time. Previously, assisting the entrepreneur was seen more as conjugal support. Nowadays they are considered more as co-entrepreneurs. Important in this context is Council Directive 86/613/EEC. The purpose of this Directive is to ensure the application of the principle of equal treatment of men and women engaged in self-employment or contributing to the pursuit of such an activity.

As a result, action on this matter was included in the EC Action Plan on Entrepreneurship (Key Action 4).

In 2006, the European Commission asked EIM to carry out a comparative study of good practices in the area of social protection for new entrepreneurs and their assisting partners and to analyse the degree to which the level of social protection acts as an incentive to business creation. The study covers the 27 EU Member States, Turkey, Iceland, Norway and Liechtenstein.

EIM has carried out this project in close co-operation with the partners of the European Network of Social and Economic Research (ENSR) and Mercer

Human Resource Consulting. The names and addresses of these partners are included in the annex. EIM has also cooperated with the EC Expert Group. EIM thanks all these organisations for their assistance and their fruitful contributions.

EC Expert Group

In connection with this study, the European Commission set up an expert group consisting of representatives of national governments and private organisations representing (new) entrepreneurs and assisting partners. During the study, the expert group met six times and EIM would like to thank the members of this group for their fruitful contributions to the study.

The results of this study are presented in this report.

1.2 Set-up of the study

1.2.1 Sources of information used

As mentioned above, the aim of the project was to carry out a comparative study of good practices in the area of social protection for new entrepreneurs and their assisting partners and to analyse the degree to which the level of social protection acts as an incentive to business creation. As stipulated in the tender specifications, the study consisted of three parts:

- 1 Comparison of national legislation and identification of good practices regarding social cover for new entrepreneurs (start-ups) and/or their spouses.
- 2 Internet survey among young enterprises to gain an insight into the entrepreneurs' knowledge of social security rules and the consequences of social security cover for business creation.
- 3 Survey among the members of the EC expert group on the social security system in their country for new entrepreneurs (start-ups) and/or their assisting partners and the effects on business creation.

1. Selection of good practices

Information on the social security system for entrepreneurs and spouses is provided in the MISSOC Database. The Mutual Information System on Social Protection (MISSOC) was established in 1990 by DG Employment and Social Affairs to promote a continuous exchange of information on social protection among the EU Member States. MISSOC has become the central information source on social protection legislation in all Member States of the European Union and countries of the European Economic Area.

For MISSOC, DG Employment and Social Affairs cooperates closely with a network of official representatives of the Member States. Each Member State is represented by one or two correspondents of national ministries or institutions responsible for the areas of social protection. The correspondents provide the information to MISSOC and ensure that it is accurate and can be published by MISSOC.

The MISSOC database can be found on the following website:

http://ec.europa.eu/employment_social/social_protection/missoc_en.htm.

On the basis of the information from MISSOC 2006 and desk research, EIM and its local partner organisations have prepared a long list of good practices in the field of social security for entrepreneurs and their assisting partners.

For the selection of these good practices the following criteria were used:

- The practice should already exist and still be in force.
- It should have clearly identifiable objectives.
- It should be user-friendly and specifically relevant to new enterprises / start-ups and their spouses.
- Its results should be verifiable.

Other criteria that have been taken into account in selecting the good practices are:

- Reach. A large output and a relatively high reach within the target group indicate the 'popularity' and 'suitability' of an instrument.
- Effectiveness/impact. High effectiveness may be in terms of increased participation by the target group after introduction, an increase in the number of entrepreneurs, growth in peoples' willingness to start an enterprise, raised awareness on the necessity/benefits of insurance, or durability.
- Efficiency. Cost benefit ratio.
- Implementation issues/administrative burden. If the administrative burdens are limited, this is a clear advantage.

In practice, it proved impossible to follow these criteria strictly. In some cases for example, the practices were only recently implemented. For most of them no good evaluations were available.

The long list of good practices was presented to the expert group in July 2006. In the summer of 2006, the experts prioritised the list and 17 practices were selected. These practices were studied more in-depth on the basis of desk research and interviews with stakeholders and the detailed descriptions are included in this report. In Annex III, a short description is included of the good practices that were not selected.

Good practices are considered as good on the basis of the economic, political, cultural and institutional framework of the country in which they are implemented. Therefore these measures cannot be automatically implemented in other countries and one cannot assume that these good practices will be considered good in another country given the difference in the economic, political, cultural and institutional frameworks.

2. Internet survey among young entrepreneurs

As described before, the study was not only aimed at the collection of good practices in the countries covered by the study. A second part of the study was to assess whether the level of social protection acts as an incentive to business creation. To answer this question, an Internet survey was carried out among young enterprises. Young enterprises are defined as enterprises with less than 10 employees, set up in 2000 or later. The questionnaire was available in all the national languages. The results of this survey give an

insight into the entrepreneurs' knowledge of social security rules and the implications of the social security cover for business creation. The results reflect the perception of the entrepreneur.

Some entrepreneurs may fully be covered by social insurance arrangements for employees because of the legal status of their company (e.g. limited liability) or due to their job alongside their self-employment. Therefore, in chapters 3 to 6, the results are based on entrepreneurs who are not completely covered for social security through another job and are not seen as an employee of their own business.

3. Survey of EC expert group

Finally, a survey was carried out among the members of the EC expert group. Through this survey, information was collected on the social security system of entrepreneurs and their assisting partners and the plans of the different governments.

1.2.2 Definitions used

Aspects of social security

The study distinguishes the following 8 aspects of the social security system.

- 1 insurance and the prevention of permanent disability;
- 2 insurance and the prevention of temporary long-term disability/sickness;
- 3 old-age insurance and state pension;
- 4 survivors' benefits;
- 5 social insurance for unemployment (i.e. bankruptcy or ceasing to trade);
- 6 prevention of unemployment (e.g. partial or temporary income support);
- 7 insurance for maternity (leave);
- 8 insurance for (temporary) child care.

- Disability generally refers to long-term and full or partial incapacity for work. This may result from occupational or non-occupational injury or illness.
- General sickness insurance refers to cash sickness benefits. Cash sickness benefits are paid when short-term illness prevents work. Old-age pension refers to payments to compensate for the loss of income as a result of old age or permanent retirement. This is usually paid when a specified statutory age has been reached.
- Survivor's benefits: survivor's benefits refer to benefits that are paid to dependents of insured workers or pensioners who are deceased.
- Unemployment benefits provide compensation for the loss of income resulting from involuntary unemployment. Maternity leave refers to a period of leave during pregnancy and in the first weeks after the birth of the child. During this period of leave a benefit may be received to compensate for the loss in income.
- In some countries the father is also entitled to a period of leave after the birth of a child.
- (Temporary) child care: arrangements for child care may concern child care leave, child care allowance and child benefit. Child care leave refers to a period of leave granted to the parents which may be taken until the

child reaches a certain age. Child care allowance is an allowance that parents receive to compensate for the costs of placing their child in a child care institution. Child benefit refers to the benefit parents receive to compensate for the general costs of the child.

Target group of the study

This study was carried out on behalf of the "Promotion of SMEs' competitiveness" unit of the Enterprise and Industry Directorate-General. In 1993, the Commission published the official definition of SMEs (Com 2003/361/EC). SMEs are defined as enterprises active in the private enterprise sector, excluding agriculture, employing fewer than 250 persons and with an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. In this definition self-employed people are included, but farmers are not.

Assisting partners

In national legislation, assisting partners are defined differently in each country. For this study the following definition is used: "Assisting partners are life partners of entrepreneurs who contribute to their partner's enterprise, but who are not officially recognized as co-entrepreneur in their partner's enterprise, nor are they listed on the payroll of their partner's enterprise as an employee." This definition covers all the definitions that are used in the Member States.

1.3 Set-up of the report

This report is set up as follows. Chapter 2 "Entrepreneurship in an International perspective" presents the situation on entrepreneurship in the European Union. For a number of Member States, comparative data is included on the percentage of entrepreneurs, birth and death rates and the entrepreneurial activity and general characteristics of small/young enterprises. The latter are the target group of this study and so this chapter serves as a background for the remaining part of the report.

Chapter 3 describes the social security situation of new entrepreneurs and their assisting partners. A distinction is made between the 8 aspects of the social security system as listed above. Chapter 4 presents the perception of the social security status of the entrepreneurs as well as the experts participating in the expert group set up by the Commission for this study. Finally, Chapter 5 focuses on the impact of social security on business creation.

2 Entrepreneurship in international perspective

2.1 Introduction

Entrepreneurship contributes to the creation of jobs and growth, and provides society with a diversity of choice for consumers. In this chapter attention is given to entrepreneurship and its determinants. In section 2.2, the level of entrepreneurship and the characteristics of entrepreneurs in Europe are presented. In section 2.3, the determinants of entrepreneurship are discussed, including social security.

2.2 Entrepreneurship in Europe

2.2.1 *Level of entrepreneurship in Europe*

To illustrate the performance of the European Union on entrepreneurship, we can look at the attitude towards entrepreneurship as well as the actual number of entrepreneurs and the dynamism in entrepreneurial activity. Unfortunately no harmonised data is available covering all countries studied in the report. Therefore data is used from the International Benchmark Entrepreneurship 2005 and the Global Entrepreneurship Monitor 2001-2005. The following indicators can be used:

- the number of entrepreneurs in the working populations;
- birth and exit rates;
- total entrepreneurial activity index.

Number of entrepreneurs in the working population

In 2004, 11.6% of the EU-15 working population were entrepreneurs. This percentage differs per country, as presented in Table 1. Over the period 2002-2004, the percentage of entrepreneurs of the EU-15 working population increased slightly. If we look at the individual countries, the percentage has increased most in Germany, Ireland and Italy. Whether there is an increase or a decrease in the percentage of entrepreneurs in the working population depends on the change in the number of entrepreneurs and the change in the working population. For example, in the period 1982-1994, the percentage of entrepreneurs in the working population increased because the number of entrepreneurs grew faster than the working population. Of the EU-15 countries, only France and Denmark saw a decrease in the number of entrepreneurs while the working population grew.

If we compare the EU-15 to the United States and Japan over the period 2002-2004, the percentage of entrepreneurs in the EU-15 working population is somewhat higher.

Table 1 Percentage of entrepreneurs in the working population (private sector excluding agriculture and fisheries), 2002-2004

	2002	2003	2004
Belgium	11.6	11.5	11.1
Denmark	6.7	6.5	6.3
Finland	7.9	8.1	8.2
France	8.1	8.2	8.2
Germany	8.6	8.8	9.3
Ireland	11.2	11.2	11.7
Italy	18.3	18.3	19.3
Netherlands	10.8	10.8	11.4
United Kingdom	10.7	11.3	11.4
EU-15	11.2	11.3	11.6
United States	9.5	10.4	9.9
Japan	9.2	9.1	9.1

Note: Data for 2001 are not available.

Source: EIM, Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005), Zoetermeer 2006.

Birth and death rates

Birth and death rates refer to the number of entries (start-ups and new affiliates) and exits (bankruptcies and other closures) as a percentage of the total number of enterprises. In Table 2 the birth rates of 9 EU countries over the period 2000-2004 are shown. In 2004, the birth rates were highest in Germany, the United Kingdom and Ireland. In the period 2000-2004, the birth rates generally decreased from 2000 to 2001 with the exception of a small increase in Italy. In 2003/2004 the birth rates increased in almost all EU countries. When comparing the year 2000 and the year 2004, the birth rate decreased in Ireland and the Netherlands, whereas the birth rates in the other EU countries have been more stable.

Table 2 Birth rates, 2000-2004

	2000	2001	2002	2003	2004
Belgium	6.7	6.5	6.4	6.4	7.2
Denmark	11.7	10.1	9.2	10.7	-
Germany	9.9	9.2	8.9	10.0	10.6
Finland	8.1	7.9	8.0	8.5	9.0
France	6.9	6.8	6.7	7.8	6.5
Ireland	15.1	12.6	11.9	12.5	13.3
Italy	7.7	7.9	7.7	7.3	7.7
Netherlands	11.1	9.7	8.1	8.0	8.8
United Kingdom	13.3	12.7	12.6	13.2	12.7

Source: EIM, *Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005)*, Zoetermeer 2006.

In Table 3 the death rates of 9 EU countries over the period 2000-2004 are shown. In 2004, the death rates are lowest in France and Italy. However, the birth rates in these countries are also lower. When viewing the period 2000-2004 the birth rates generally decreased from 2001 to 2002 and started to increase in 2003/2004. This trend was not visible in Finland, Italy, and the Netherlands.

Table 3 Death rates, 2000-2004

	2000	2001	2002	2003	2004
Belgium	6.8	6.6	6.3	6.0	6.2
Denmark	9.5	10.1	9.7	13.2	-
Germany	7.3	7.0	7.0	7.1	7.1
Finland	7.4	7.5	7.6	7.7	8.1
France	5.5	4.3	4.1	4.9	5.3
Ireland	5.7	7.6	7.4	3.8	7.6
Italy	5.4	5.5	5.8	5.9	6.1
Netherlands	6.1	6.3	6.1	6.5	6.5
United Kingdom	11.6	10.7	10.4	11.2	11.6

Source: EIM, *Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005)*, Zoetermeer 2006.

In Table 4 the net growth, taking into account the number of births and deaths, is presented for the period 2000-2004. In 2004, net growth was highest in Germany and Ireland. In general, when comparing 2000 and

2004, net growth decreases everywhere apart from Belgium, Germany and Finland.

Table 4 Net growth in the number of enterprises as a percentage of the total number of enterprises, 2000-2004

	2000	2001	2002	2003	2004
Belgium	-0.1	-0.1	0.2	0.4	1.0
Denmark	2.2	-0.2	-0.6	-2.5	-
Germany	2.6	2.2	2.0	2.9	3.5
Finland	0.7	0.4	0.4	0.8	0.9
France	1.4	2.5	2.6	3.1	1.2
Ireland	9.3	5.1	4.6	8.7	5.7
Italy	2.3	2.4	2.0	1.4	1.6
Netherlands	5.0	3.4	2.0	1.5	2.3
United Kingdom	0.2	0.7	0.8	0.5	-0.4

Source: EIM, *Internationale Benchmark Ondernemerschap 2005 (International Benchmark Entrepreneurship 2005)*, Zoetermeer 2006.

Total entrepreneurial Activity index (TEA)

The Total entrepreneurial Activity index has been developed within the Global Entrepreneurship Monitor (GEM). This index is essentially the sum of nascent entrepreneurs (people who are currently involved in positive activities to start up a new business) and owners of young businesses (people currently owning a business that is less than 42 months old). In Table 5, the TEA index is shown for the EU¹. In 2005, the average TEA index for the EU member States was 5.3. From 2001 to 2002 there was a decrease in the index, probably due to slower economic growth. Thereafter, the TEA remained stable for a couple of years. From 2004 to 2005 the index increased, possibly due to the recovering economic situation.

¹ Hessels, J. , N. Bosma, S. Wennekers (2005), "Nieuwe ondernemerschap in herstel; Global Entrepreneurship Monitor 2004", www.gemconsortium.org.

GEM (2005), "Global Entrepreneurship Monitor 2005; Executive report", www.gemconsortium.org.

Table 5 Development of the Total early-stage Entrepreneurial Activity (TEA) index for the European Union (EU), 2001-2005

<i>Year</i>	<i>EU</i>
2001	7.9
2002	5.1
2003	5.1
2004	5.1
2005	5.3

Note: The EU index is based on the indices for the following countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Netherlands, Slovenia, Spain, Sweden, UK.

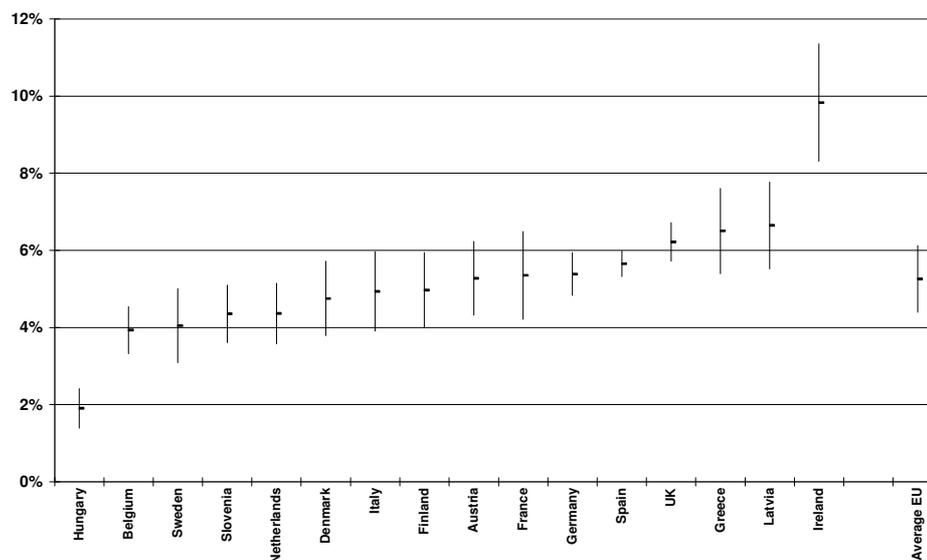
Source: EIM/GEM.

In Figure 1 the TEA index is shown by country. Countries performing above the average on the TEA index are Germany, Spain, the United Kingdom, Greece, Latvia and Ireland. Of the countries presented, the TEA is highest in Ireland and lowest in Hungary.

A possible explanation for the differences in TEA is related to GDP per capita. In countries where GDP per capita is relatively low, positive economic development can lead to a decrease in early-stage entrepreneurial activity. In these countries, people may enjoy more job opportunities in large established firms once the economy starts to grow. Starting a business then becomes less attractive. In countries with higher GDP per capita, people have several options in the labour market. Entrepreneurship may be an attractive option for those people with financial means.¹

¹ Minniti, M., W.D. Bygrave and E. Autio, "Global Entrepreneurship Monitor: 2005 Executive Report", GEM, www.gemconsortium.org.

Figure 1 Total early-stage Entrepreneurial Activity (TEA) indices per country. EU countries participating in GEM, 2005



Note: TEA is defined as the number of nascent entrepreneurs and owners of young businesses per 100 individuals in the adult population aged 18-64.

Source: EIM/GEM. The vertical bars represent the 95 percent confidence interval.

2.2.2 Characteristics of entrepreneurs, assisting partners and enterprises in Europe

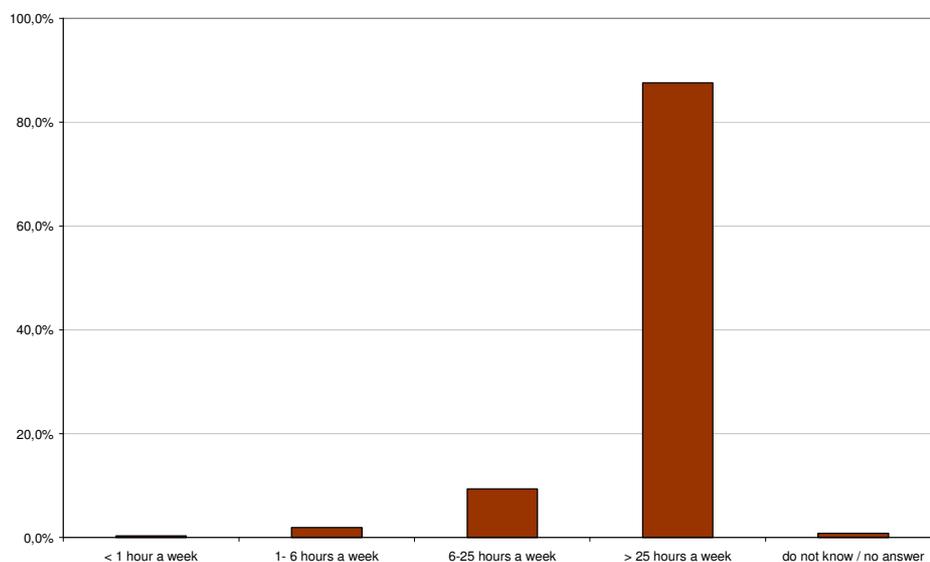
Entrepreneurs

Entrepreneurs in Europe are mostly male. Only one third of entrepreneurs are female. About 87% of entrepreneurs in Europe were employed before starting out as entrepreneurs.

The majority of entrepreneurs (80%) appear only to be active as entrepreneurs. Among the entrepreneurs who do have positions as employees, a large proportion keep this position since the social security is partially or completely covered by this.

A large proportion of the entrepreneurs spend more than 25 hours a week working for their enterprise, as presented in Figure 2. Among the entrepreneurs who are also paid employees outside their own enterprise, approximately 50% spend more than 25 hours a week in their enterprise, but the figure is 90% for entrepreneurs who do not also have a job as an employee. This percentage also varies between entrepreneurs who are fully, partly, or not at all dependent on the income from the enterprise. Of the entrepreneurs who are not at all dependent on the income from their business, about 60% spend more than 25 hours a week. Of the entrepreneurs who are fully dependent, around 93% spend more than 25 hours a week in their enterprise.

Figure 2 Percentage of entrepreneurs with the number of hours they work for their enterprise



Source: EIM Survey Social Security Entrepreneurs 2006.

Enterprises

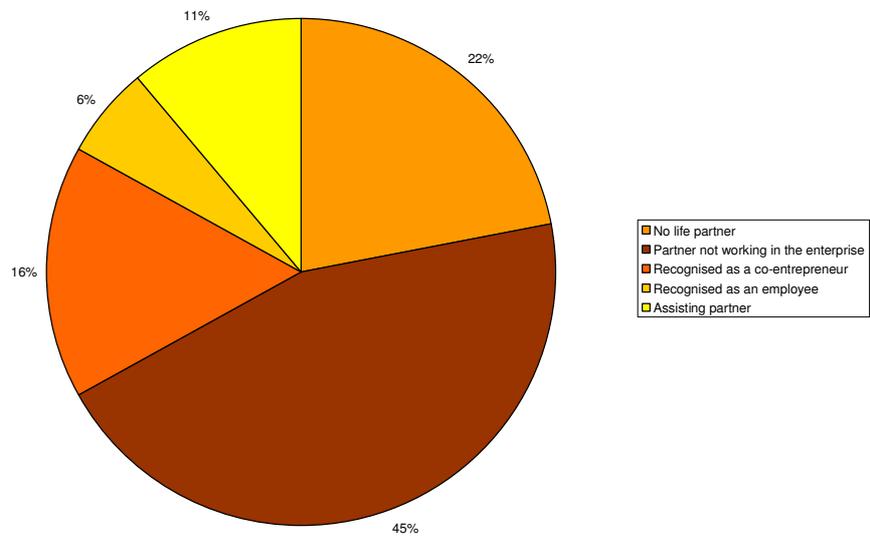
A large proportion of the entrepreneurs in Europe have a company with the legal status of sole proprietor or private limited company. Of the entrepreneurs with a private or public limited company, about 70% are considered as employees by the organisations providing social security benefits. These entrepreneurs are covered for social security benefits based on their employee status.

Assisting partners

Not all entrepreneurs have an assisting partner. About 11% of the entrepreneurs state that they have an assisting partner¹. In Europe two thirds of the assisting partners are female.

¹ Among the entrepreneurs without a job alongside their self-employment 12% have an assisting partner. The breakdown presented in figure 3 also does not differ much when only those entrepreneurs who do not have employee status are viewed.

Figure 3 Percentage of entrepreneurs with an assisting partner

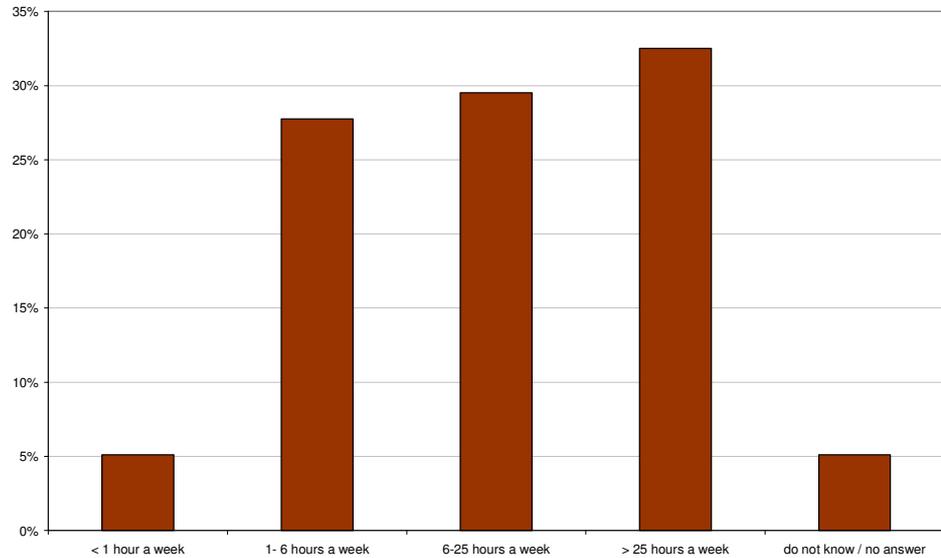


Source: EIM Survey Social Security Entrepreneurs 2006.

Some partners are also employees of another enterprise or in the public sector, as well as assisting partners. About half of the assisting partners appeared to be active only as such and to have no paid job apart from being an assisting partner. Of the assisting partners who do also have a job as an employee, two-thirds are completely or partially insured for social security based on this job. Most of them retain this job because of the social security cover.

About half of the assisting partners work more than 6 hours on average per week for the company, as presented in Figure 4. This percentage does not differ a lot according to whether or not the assisting partner also has a job as a paid employee.

Figure 4 Percentage of entrepreneurs indicating the number of hours the assisting partner works for the company on average per week



Source: EIM Survey Social Security Entrepreneurs 2006.

2.3 Determinants of entrepreneurship

2.3.1 General overview determinants

Many studies have been devoted to the determinants of entrepreneurship. They have viewed the determinants of entrepreneurship at different levels: the individual and the firm (micro), the industry and the country (macro). At the level of the individual, studies mainly focus on the decision-making process of each individual. Factors that may influence this process are for instance: gender, age or level of education¹, financial constraints², risk tolerance, perception of administrative complexities³, family background, previous work experience and preference for self-employment⁴. With regard to gender, most studies find that men are more likely to be engaged in entrepreneurship than women.

At the level of the industry, studies have often focused on market-specific determinants like opportunities created by market demand for goods and

¹ Blanchflower, D.G., "Self-employment more may not be better", Dartmouth college; www.dartmouth.edu, 2004.

² Grilo, I. and J-M. Irigoyen, "Entrepreneurship in the EU: To Wish and not to be", *Small Business Economics* 26 (4), 2006.

³ Verheul, I., R. Thurik and I. Grilo, "Determinants of self-employment preference and realization of women and men in Europe and the United States", EIM SCALES paper, Zoetermeer, 2006.

⁴ Grilo, I. and R. Thurik, "Determinants of entrepreneurial engagement levels in Europe and the US", <http://ideas.repec.org/p/esi/egpdis/2005-25.html>, 2005.

services. At the level of the country, studies focus on environmental factors like technology, economy and culture as well as public regulations and laws including social security.¹

Verheul et al.² have integrated the determinants of entrepreneurship into a theoretical framework. This framework describes the process by which the actual rate of entrepreneurship of a country is established. This process involves both macro and micro components. Individuals may decide to become entrepreneurs and seize entrepreneurial opportunities (enabled by the environment) if they have the right capabilities and personal preferences to do so. This decision is viewed as weighting risks and rewards. The risks and rewards of entrepreneurship may be compared with the risks and rewards of alternative types of employment (wage employment or unemployment). Individuals may consider the financial and non-financial risks and rewards in this context. Among the financial rewards, the expected higher average entrepreneurial income may be mentioned. Financial risks may be the higher dispersion of entrepreneurial income, uncertainty of income especially in the start-up phase, and possibly a loss in social security. Non-financial risks and rewards may be status, (dis)satisfaction and autonomy³.

Where the decision of the individual to become an entrepreneur is mainly driven by the rewards, such as wanting to be their own boss (autonomy) or to earn more money than in wage employment, this may be referred to as opportunity-based entrepreneurship. Individuals may also be pushed into entrepreneurship. They may be pushed because all other options for work are either absent or unsatisfactory. For these individuals, entrepreneurship may be the last resort in terms of work and income. This may be the case, for instance, where one is unemployed and unable to find a paid job. This may be referred to as necessity-based entrepreneurship.

In Table 6 the main motives for starting out as an entrepreneur are presented. Both motives related to opportunity-based entrepreneurship and necessity-based entrepreneurship are included. Almost half of the entrepreneurs indicate that one of the main reasons to become an entrepreneur is to be their own boss. The category 'other' includes ambition, being made redundant after years of employment, and wanting to pursue a hobby.

¹ Thurik, R., I. Verheul, S. Wennekers and D. Audretsch, "An eclectic theory of entrepreneurship", Tinbergen, 2004.

² Verheul, I., S. Wennekers, D.B. Audretsch and R. Thurik, An eclectic theory of entrepreneurship, in: D.B. Audretsch, R. Thurik, I. Verheul and S. Wennekers (eds.) Entrepreneurship: Determinants and Policy in a European-US Comparison, Boston/Dordrecht: Kluwer Academic Publishers, pp. 11-81, 2002.

³ Brouwer, P., J. Hessels, A. van Stel and S. Wennekers, "Social Security entitlements and early-stage entrepreneurial activity; an empirical analysis", EIM Zoetermeer, 2005.

Table 6 Percentage of entrepreneurs indicating what their main motives were for starting as an entrepreneur

Main motives	Percentage
Wish to be my own boss	48
Possibility of earning more money than as an employee	36
Challenge	34
Better chance to combine work and private life	26
Not satisfied with being an employee	25
Perceiving a chance in the market	21
Unemployed or not able to find a job as an employee	12
Possibility of continuing or splitting off from the former employer's business	5
Continuation of family business	4
Other (please specify)	2
Do not know / no answer	2

Note: Entrepreneurs were able to select multiple answer categories; the total therefore does not add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

2.3.2 Social security as a determinant

One of the determinants of entrepreneurship is social security. Social security may have a negative and positive influence on entrepreneurship. This influence depends on whether it is opportunity-based or necessity-based entrepreneurship.

In the case of opportunity-based entrepreneurship, social security may have a negative effect because of the relatively high opportunity costs of entrepreneurship. When entrepreneurship is opportunity-driven, this represents a situation in which people will be able to make a choice between various career options. People may be less inclined to exploit business opportunities when the opportunity costs of entrepreneurship are high. Opportunity costs of entrepreneurship related to social security may be the loss of accrued entitlements when transferring to self-employment, the loss of the right to insurance for certain social security aspects e.g. unemployment, a reduction in the degree of social protection for certain social security aspects, and increased contributions as self-employed people may have to pay both employers' and employees' premiums. When the social security position of entrepreneurs is worse than the position of alternative types of employment, e.g. employee, the opportunity costs are higher. On the other hand, social security may have a positive influence when the difference between the social security position of entrepreneurs and of alternative types of employment is very small. It may also have a positive influence when e.g. a safety net is created in case of business failure.

In the case of necessity-based entrepreneurship, social security may also have a negative influence. Here, however, the opportunity costs of self-employment are not relevant as people have no other (preferred) choices for work. For instance, unemployed people who cannot find a job may prefer unemployment to self-employment when unemployment benefits are generous. There is less 'urgency' to engage in entrepreneurial activity. On the other hand, less generous unemployment benefits may stimulate people to take up (self) employment. ¹

The influence of social security on entrepreneurship may also differ between social security aspects. For instance, it may be expected that social security cover in case of unemployment will have a greater impact on entrepreneurship than in case of illness/disability. The main reason for this is that the risk of business failure is much higher than the risk of unemployment for employees, while the risk of becoming ill is not expected to differ between self-employed and employees².

¹ Bosma, N., S. Hunt and S. Wennekers, 'Regional Commentary: European Union, in: Hancock, M. and P. Fitssimons, Global Entrepreneurship Monitor 2004, national & regional summaries., 2005.

² Brouwer, P., J. Hessels, A. van Stel and S. Wennekers, "Social Security entitlements and early-stage entrepreneurial activity; an empirical analysis", EIM, Zoetermeer, 2005.

3 Social security status of new entrepreneurs and assisting partners

3.1 Introduction

This chapter describes the social security status of new entrepreneurs and assisting partners¹ in the European Union. The focus is on entrepreneurs and assisting partners who are not completely covered for social security as employee. The social security status is described for each social security aspect in sections 3.2 to 3.9. The eight social security aspects viewed are:

- 1 insurance and the prevention of permanent disability;
- 2 insurance and the prevention of temporary long-term disability/sickness;
- 3 old-age insurance and state pension;
- 4 survivors' benefits;
- 5 social insurance for unemployment;
- 6 prevention of unemployment;
- 7 insurance for maternity (leave);
- 8 insurance for (temporary) child care.

For each social security aspect, a general description on the social security arrangements is provided, together with the opinion of the entrepreneur on whether he/she and the assisting partner are insured for this aspect. The good practices are presented at the end of each section. The selection process for the good practices was described in Chapter 1, the Introduction to the report. As a result of the selection process, practices are not described for all aspects. Some practices are applicable to multiple aspects. These practices are presented at the end of the chapter in section 3.10.

As described in Chapter 1, assisting partners are defined as life partners of European entrepreneurs who contribute to their partner's enterprise, but who are not officially recognized as co-entrepreneur in their partner's enterprise, nor are they listed on the payroll of their partner's enterprise as an employee. Entrepreneurs refer to entrepreneurs of European enterprises with less than 10 employees, set up in 2000 or later.

3.2 Insurance and prevention of permanent disability

3.2.1 *General*

Social security arrangements concerning permanent disability relate to:

- Invalidity;
- work-related injuries and occupational illness.

Both aspects are part of the social security arrangements for employees in almost all Member States. Insurance for invalidity is mostly covered by

¹ Sources used for this chapter o.a.: EIM Survey Social Security Entrepreneurs 2006 and EIM Survey Social Security Public Administrations 2006.

specific arrangements, while insurance for work-related injuries and occupational illness may be part of invalidity or health and sickness arrangements.

Invalidity

Insurance for invalidity is a standard aspect of the social security arrangements applicable to entrepreneurs in almost all countries. Only in a few countries (e.g. Ireland and the Netherlands) is invalidity not covered for entrepreneurs. In most countries the insurance arrangements for entrepreneurs are the same as the arrangements for employees. However, in some countries (e.g. Germany, Italy, Lithuania and Slovakia) the arrangements do not (compulsorily) apply to all entrepreneurs.

It may also be that the general social security arrangements apply to the self-employed but that entrepreneurs have to pay higher contributions. This is especially the case where part of the contributions for invalidity insurance is paid by the employer and part by the employee, because in this case the self-employed have to pay both contributions.

Although entrepreneurs in Ireland and the Netherlands, for example, are not insured for invalidity, there is special treatment for starters. Former employees in these two countries who have started an enterprise are entitled to invalidity benefits related to their status of employee, under specific conditions.

Work-related injuries and occupational illness

Insurance for work-related injuries and occupational illness is included in the social security arrangements for entrepreneurs in a majority of countries. However, entrepreneurs are not compulsorily insured in all countries (e.g. Denmark, Finland, France, Germany, Iceland, Liechtenstein and Romania). In some countries, entrepreneurs are excluded from social security insurance for work-related injuries and occupational illness (e.g. Belgium, Bulgaria, Cyprus, Estonia, Ireland, Lithuania, the Netherlands and the UK).

3.2.2 Insurance for entrepreneurs against permanent disability

Although a large number of Member States have public social security arrangements, not all entrepreneurs indicate that they are insured for permanent disability¹. From the survey conducted among self-employed people, only 41% of entrepreneurs indicated that they are insured through social insurance for this aspect. One quarter (25%) of the entrepreneurs covered by social insurance also have private insurance.

¹ Entrepreneurs may not be aware of these arrangements or may choose not to be insured, possibly because of high contributions.

Table 7 Percentage of entrepreneurs insured against permanent disability; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	25%	15%	1%	41%
Not insured	8%	30%	2%	39%
Do not know	7%	10%	3%	19%
Total	41%	54%	5%	100%

Note: The results in this table and the following tables for entrepreneurs are based on entrepreneurs who are not completely covered for social security through another job and are not seen as an employee of their own business.

Source: EIM Survey Social Security Entrepreneurs 2006.

3.2.3 Insurance of assisting partner against permanent disability

The public administrations of most countries have indicated that there are also public social security arrangements for assisting partners. Despite the fact that there are such arrangements, very few of the entrepreneurs indicate that their assisting partner is insured. About 27% of the entrepreneurs who have an assisting partner indicate that the partner is insured for this aspect. Only one-third of the entrepreneurs stated that the assisting partner is insured by private insurance.

Table 8 Percentage of assisting partners insured against permanent disability; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	27%	33%
Not insured	66%	60%
Do not know	7%	7%
Total	100%	100%

Note: The results in this table and the following tables for assisting partners are based on assisting partners who are not completely covered for their position as an employee at another enterprise or in the public sector.

Note: Too few observations for combined social and private insurance.

Source: EIM Survey Social Security Entrepreneurs 2006.

3.3 Insurance and the prevention of temporary long-term disability/sickness

3.3.1 General

In most countries insurance against temporary long-term disability for the self-employed is organized within the same framework as permanent disability. This means that self-employed people are insured for temporary invalidity in nearly all countries and for work-related injuries and

occupational illness in a majority of countries. In some countries, special conditions apply to the self-employed, or benefits are less for self-employed than for employees in case of work-related injuries and occupational illness.

In some countries the general social security arrangements for disability apply to the self-employed, but entrepreneurs have to pay higher contributions. This happens especially when contributions for disability insurance are shared between the employer and the employee, because the self-employed have to pay both contributions and this is perceived as unfair, particularly by entrepreneurs who were employed before.

3.3.2 Insurance of entrepreneurs against temporary long-term disability/sickness

Although there are public social security arrangements covering this aspect in nearly all Member States, not all entrepreneurs are insured. As can be seen in Table 9, 52% of the entrepreneurs indicated that they are covered by social insurance. Only 37% are insured by private insurance. About 24% of entrepreneurs are insured by both social and private insurance for this aspect.

Table 9 Percentage of entrepreneurs insured against temporary disability/sickness; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	24%	26%	2%	52%
Not insured	7%	26%	0%	33%
Do not know	6%	5%	4%	14%
Total	37%	57%	7%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.3.3 Insurance of assisting partner against temporary long-term disability/sickness

Not all countries also have public social security arrangements for assisting partners. The majority (61%) of entrepreneurs who have an assisting partner indicate that the partner is not insured for this aspect. Only 37% indicate that the partner is covered by private insurance.

Table 10 Percentage of assisting partners insured against temporary disability/sickness; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	32%	37%
Not insured	61%	56%
Do not know	7%	7%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.4 Old-age insurance and state pension

3.4.1 General

In the majority of countries there is a dual system for old-age pensions. First, there is a state pension which applies to every citizen irrespective of former income. Second, there is an income-related supplementary old-age pension. State pensions are part of the social security arrangements for *employees* in all countries. Normally the same arrangements apply to the self-employed as well, but in some countries (e.g. Germany, Italy and Slovakia) the general social security arrangements do not apply to all types of self-employment.

Self-employed people can often be voluntarily insured for the second pillar or they may have to take out private insurance for this supplementary pension.

It may happen that the general social security arrangements apply to the self-employed but that entrepreneurs have to pay higher contributions. This happens especially when contributions for old-age insurance are shared by the employer and the employee, because in this case the self-employed have to pay both contributions.

In some countries (e.g. Austria, Finland and, under certain conditions, in France) starters are exempted from old-age pension contributions during the initial period after the start of the enterprise, or they pay lower contributions.

3.4.2 Insurance of entrepreneurs for old-age insurance and state pension

As most of the public administrations indicate, a large proportion of the countries have public social security arrangements for old age. About 65% of the entrepreneurs indicate that they are insured for old age. Half of the entrepreneurs are covered by private insurance. About 37% of the entrepreneurs are covered by both social and private insurance. This is shown in Table 11.

Table 11 Percentage of entrepreneurs insured for old age; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	37%	27%	1%	65%
Not insured	9%	15%	1%	25%
Do not know	4%	4%	2%	10%
Total	50%	46%	4%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.4.3 Insurance of assisting partner for old-age insurance and state pension

Not all public administrations indicate that there are also public social security arrangements for assisting partners in their country. Also, the majority of entrepreneurs who have an assisting partner indicate that the partner is not insured for this aspect. About 58% of the entrepreneurs indicate that their partner is not insured for old age by social insurance and 53% of the entrepreneurs state that their partner is not insured for this aspect by private insurance.

Table 12 Percentage of assisting partners insured for old age; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	35%	41%
Not insured	58%	53%
Do not know	7%	6%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.4.4 Good practices old-age insurance and state pension

This section presents 4 selected good practices. First, a short description of each practice is given. An illustration is also provided of the existence of similar practices in other countries. These practices are not identical to the good practices described in detail in this section, but some elements of the practice are similar. These differences are related among other things to the different social security systems in the countries. There is then a full description of the selected good practice.

Belgium – Voluntary supplementary pension and 'social' voluntary supplementary pension

This practice enables entrepreneurs and assisting partners to voluntarily build up a supplementary pension and a 'social' supplementary pension for

old age. Similar practices can be found also in e.g. Bulgaria, Cyprus, Denmark¹, Finland, Greece, Hungary², Luxembourg, Norway, Portugal³, Romania, Slovakia⁴, Spain and the UK. The practices in these countries mostly concern the supplementary old-age pension and not the 'social' supplementary old-age pension. There are also some other differences. In Bulgaria, for instance, voluntary supplementary pension insurance, organised through a voluntary pension insurance fund or through an occupational pension scheme, also provides a possibility for payment of a survivor's pension⁵. In Cyprus, only the entrepreneur can obtain a supplementary pension⁶. In Spain entrepreneurs and assisting partners can also decide on the amount of contributions they are prepared to pay, in order to receive more benefits upon retirement. In Finland there is also some flexibility in paying pension contributions. In the UK, Class 3 national insurance contributions may be paid to supplement pension provisions if there is a deficiency in contributions which would result in a reduced state pension.

Italy – Family partnership

This practice concerns the extension of social security arrangements for old age applicable to the entrepreneur (both costs and benefits) to cover partners, sons, in-laws and relatives within the third degree involved in the enterprise. Similar practices can be found in e.g. Cyprus, the Czech Republic, Denmark, France, Greece, Romania, Spain and the UK. In the Italian case, the social security arrangements are applicable to the partners and certain other relatives because they are able to share business income and are in this way considered as self-employed. This is similar in the Czech Republic. Due to this sharing of business income, the entrepreneur and cooperating partner are considered as self-employed for social insurance purposes.⁷ It may also be the case that arrangements apply to partners even though there is no income-sharing. In Denmark, for instance, the assisting spouse enjoys the same social security cover as the entrepreneur where old age is concerned. Or in the case of a social pension, all residents including the relatives of the entrepreneur may be entitled to such a pension (e.g. Denmark- Act on Social Pension, LBK nr 759 af 02/08/2005).

Most of the practices in other Member States only apply to the partner of the entrepreneur and not to other relatives. This is the case for example in Greece and the UK. Countries where the practices also apply to other relatives are e.g. Cyprus, Spain and Romania. In Cyprus, the funds of the Provident Fund are transferable to partners, sons, in-laws and certain other relatives. In Spain, the arrangements may be extended only to second-

¹ Act on Supplementary Pension, LBK nr 848 af 21/07/2006.

² Social Security Act Reference: Act LXXX of 1997.

³ Decree-Law 328/93.

⁴ SK Act 461/2003.

⁵ Social Insurance Code, art.212.

⁶ Provident Fund Law – law 44 of 1981 and regulations issued thereafter.

⁷ Act 155/2005 about pension insurance.

degree relatives. Relatives up to the second degree in Romania may opt for the status of 'assisted person' or 'person in the state of being supported by the partner'. In this way they are insured in the state social security system as well.

Lithuania – The Amendments to the Law on State Social Insurance, July 2002

In Lithuania there is obligatory full pension (basic pension plus additional pension) insurance for old age and disability for entrepreneurs with income above the minimum wage level. More or less similar practices can be found in e.g. Austria, Denmark, Norway, Portugal and Slovakia. As seen in the good practice of Belgium above, there are countries where there is an additional pension facility. This additional pension is however not compulsory in all countries, e.g. in Slovakia, Denmark, Norway and Portugal. In Austria, on the other hand, there is obligatory full pension insurance. Entrepreneurs and partners may be exempted from the supplementary insurance where their yearly income and turnover is below a certain threshold.

Luxembourg – Assisting spouse regulation

This regulation in Luxembourg provides assisting partners with the same social security protection as the entrepreneur where old age is concerned. Countries where a similar practice can be found are e.g. Belgium, Denmark, Finland, Hungary, Malta, Romania and Spain. In most of the Member States, the practices concerning arrangements applicable to the entrepreneur also apply to the assisting partner (e.g. Belgium, Denmark, Finland, Hungary, Romania and Spain). These include the arrangements for the social pension applicable to all residents. It may also be that in case of death the assisting partner is entitled to the old-age pension of the entrepreneur (e.g. Malta).

Belgium – Voluntary supplementary pension and 'social' voluntary supplementary pension

Aspect of social security:	Old-age insurance and state pension
Target group:	Entrepreneurs and assisting partners
Original name practice:	Vrij aanvullend pensioen voor zelfstandigen en 'sociaal' vrij aanvullend pensioen

Responsible organisation:

Federale Overheidsdienst Sociale Zekerheid
(Belgian Federal Public Service Social Security- Federal Public Service)
FOD Sociale Zekerheid - DG Zelfstandigen
Eurostation II
Victor Hortaplein 40 bus 20
1060 BRUSSEL
Phone: +32 2 528 64 50
Website: www.socialsecurity.fgov.be

Name of the organisation implementing the practice:

Rijksinstituut voor de Sociale Verzekeringen der Zelfstandigen
(National Institute for the Social Security of the Self-employed - Federal
Public Service)

National Institute for the Social Security of the Self-employed

Jan Jacobsplein 6

1000 Brussel

Phone: +32 2 546 42 11

Website: www.rsvz.be

E-mail: info@rsvz-inasti.fgov.be

A - National context

In Belgium, every entrepreneur has to join the Social Insurance Fund. This fund covers entrepreneurs for the prevention of temporary long-term disability/sickness, old age, bankruptcy and maternity (leave) and child care. Entrepreneurs are not insured for work-related injuries, occupational illness and unemployment. The Social Insurance Fund is funded mainly by contributions and taxes.

Entrepreneurs are compulsorily insured for old age. They pay income-related insurance contributions and may receive old-age benefits when they reach the age of 65. The old-age pension calculation is similar for employees and the self-employed. However, entrepreneurs pay lower contributions than employees. As a result, their old-age pension is lower than that of an employee. In addition to the old-age pension, the self-employed can build up a voluntary supplementary pension. The contributions paid for the supplementary pension are tax-deductible.

B - General description of measures or activity

The voluntary supplementary pension came into force on 7 December 1981 and the 'Social' voluntary supplementary pension on 1 January 2004. Both practices are aimed at the self-employed and their assisting partners.

The main objective of the 2 practices is to enable entrepreneurs and assisting partners to obtain an extra pension on top of the (limited) public pension.

Under the voluntary supplementary pension, entrepreneurs who pay contributions for an independent principal activity and assisting partners (maxi-status) can conclude an insurance contract for a voluntary supplementary pension. They can voluntarily pay contributions to the social security fund or to an insurance company or bank. The entrepreneurs are free to choose a pension institution and have the option of changing between pension institutions. The contributions are a percentage of the business income. The voluntary supplementary pension is paid on top of the public pension in the form of a capital sum or annuity.

Since 1 January 2004, the 'social' voluntary supplementary pension has been a new variant of the 'standard' voluntary supplementary pension. The 'social' voluntary supplementary pension falls under the 'social pension agreement' and offers more guarantees than the 'standard' voluntary supplementary pension. Entrepreneurs (including starters) and assisting

partners who pay contributions at the rate of a primary self-employment activity can build up a 'social' voluntary supplementary pension. For this 'social' pension one can determine the amount that one wants to pay within a minimum and maximum limit. The percentage is based on the professional income of the entrepreneur. One has to pay at least 10% of the total contribution to the social security fund. The benefits one may obtain are:

- The social security fund can assist when entrepreneurs are no longer able to pay their contributions for the supplementary pension. For example, in the situation that they have become inactive because of illness or bankruptcy.
- Current pension interests or survival pensions may be increased.

Under the practices, an entrepreneur is defined as someone who carries out a professional activity without being tied by a contract of employment or a statute. A partner is recognized as an assisting partner where he/she provides effective assistance in the business of the entrepreneur on a regular basis and does not have his/her own income from another professional activity, or a substitute income that entitles him/her to full cover within the social security system.

C - Results (Impact of practice)

The practice is completely funded by the voluntary contributions of the entrepreneur and assisting partners. No official evaluations are available. Both the regular free supplementary pension scheme as the "social" voluntary supplementary pension scheme are frequently used to supplement the limited state pension for entrepreneurs and assisting partners. The general opinion on the measure is positive. This regulation improves the pensions of entrepreneurs and assisting partners.

Statistics from the National Institute for the social security of entrepreneurs show that at the beginning of 2007, 67 355 entrepreneurs were paying contributions to a social security fund for a voluntary supplementary pension scheme or a "social" voluntary supplementary pension scheme. In 2003 the number was 50 387, which means an increase of 17% over 3 years. Moreover, since 2004 entrepreneurs can be contracted by private institutions such as banks or insurance companies. This private share is not included in the statistics, but it means that the total number of contracted entrepreneurs, as well the increase, is even higher. One in four contracted entrepreneurs is female.

A survey of the organisation of entrepreneurs UNIZO¹ (January 2006) shows that 80% of its members are currently paying contributions for a voluntary supplementary pension scheme or a "social" voluntary supplementary pension scheme.

D - Determinants of success and bottlenecks

The organisation of entrepreneurs UNIZO argues that the voluntary supplementary pension is actually necessary for the entrepreneurs because of the low level of the state pension. UNIZO suggests increasing the state

¹ UNIZO = Union of independent entrepreneurs.

pension for entrepreneurs, which would still enable the entrepreneurs to invest in a supplementary pension on a voluntary basis.

E - Elements of good practice and transferability

The measure is considered as good practice as it is:

- recently introduced;
- targeted at entrepreneurs and assisting partners;
- addressing the problem of minimal pensions of the entrepreneurs and co-operating partners.

<i>Italy - Family partnership</i>
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Aspect of social security: Old-age insurance and state pension

Target group: Spouses, relatives (within the third degree) and in-laws (within the second degree)

Original name practice: Copertura Coadiutori

Responsible organisation:

Ministry of Social Security and Labour (Ministry)

Via Flavia

6 - 00187

Roma

Phone: +39 06 46 831

Website: www.welfare.gov.it

Name of the organisation implementing the practice:

INPS (National Institute for Social Security)

Via Ciro il Grande (National Headquarters)

21 - 00144

Roma

Phone: +39 06 59 051

Website: www.inps.it

A - Background

In Italy employees in the private and the public sector are subject to compulsory insurance within the public social security system. The same arrangements, with special provisions, also apply to the self-employed (including contract and professional workers). Where self-employed people are not compulsorily insured for some aspects by the Italian social security arrangements, they can insure themselves on a voluntary basis.

There are four different statuses for self-employed people: craftsmen, merchants/retailers, (tenant) farmers and contracted self-employed. Contracted self-employed refers to self-employed people who are hired as employees by a private company to perform certain tasks. Only the spouses of craftsmen and merchants/retailers have social security cover if they act as a family partnership.

Both employees and self-employed people in Italy are covered by the National Sanitary System as far as medical assistance is concerned. This system is paid for out of income taxes and freely provided by the state to all Italian residents, in some cases with a small charge for each service provided.

Under the Italian social security arrangements, self-employed people are generally covered for invalidity or sickness caused by work, old-age pension, survivor's pension and maternity (a monetary indemnity instead of the 5 months of salary that employees receive). There are no public arrangements for the self-employed as far as unemployment (instead of two years of salary as for employees) and sickness (instead of two years of salary as for employees) are concerned. Assisting spouses are also covered for invalidity, survivor's pension, old-age pension and maternity. In the case of contracted self-employed people, only some coverage is provided for sickness and child care.

For each branch of the Italian economy (private sector, public sector), particularly where pensions are concerned, there is one specific administration responsible for the collection of contributions and the provision of benefits. The system for the self-employed is managed by the National Institute for Social Security (INPS) through a special department. The Italian National Accident Insurance Institute (INAIL) manages contributions both for employees and some categories of self-employed.

B - General description of measures or activity

In 1975, a provision was introduced into the civil code, called a "family partnership". The "family partnership" is aimed at protecting all those workers employed in family enterprises who are otherwise not covered for social security.

This provision enables the entrepreneur to divide among an associate spouse and/or relatives and in-laws (with a registered contract) 49% of the profits of the enterprise. In this way, tax-sharing becomes possible, with a strong fiscal advantage. Furthermore, and probably most importantly, it allows the social security arrangements (both costs and benefits) to be extended to spouses and sons involved in the enterprise.

The target group for this measure is made up of the entrepreneur's spouse, relatives within the third degree and in-laws within the second degree¹ (or "coadiutori") who work habitually (assist) in the family enterprise. This measure provides for people from the target group to apply the same contribution terms (managed by INPS) as the entrepreneur and therefore to enjoy the same insurance cover. Every year the entrepreneur who benefits from the activities performed by his own relatives in his firm must pay to INPS for himself and for every one of the involved relatives the same contribution, calculated as 17.8% of the taxable income produced in the previ-

¹ In-laws within the first degree refer to spouses. In-laws within the second degree refer to brothers and sisters-in-law. Relatives within the first degree are parents, sons and daughters. Relatives within the second degree are uncles, aunts, nephews, nieces, grandparents. Relatives within the third degree refer to first cousins.

ous year. If we consider that an employer must pay for every employed worker a contribution of approximately 28% of their remuneration, the savings from a family partnership are substantial (about 9%). This can be seen as one of the most important benefits of this measure. However, the benefits are lower. Depending on the number of years of contributions paid, the pension for employees ranges from 60% to 80%¹ of their salary in their last year of work before retirement whereas the pension for self-employed ranged from 40% to 60%.

C - Results (Impact of practice)

Out of a total of 4 137 000 independent merchants/retailers and craftsmen in 2006, 446 000 assisting spouses or relatives were registered for family partnerships. That is about 11%. Within the INPS 'Craftsmen' sector, 1 951 477 people are signed up for old-age insurance, of whom 164 955 are assisting spouses and/or relatives. Within the INPS 'Merchants/Retailers' sector, the total number of people enrolled is 2 019 759, of whom 239 492 are assisting spouses and/or relatives.

The aim of these two INPS sectors is to offer pension services to the people entered in the registers of craftsmen and merchants/retailers and their assisting spouses/relatives who regularly work in the family enterprise.

Thanks to the new system, average new liquidated pensions in the years after 1990, with 35 years of contributions, have increased to approximately 84% (in the case of craftsmen) and 73% (in the case of merchants/retailers) of the average pension of an employee (see data for 2004 below).

With this program, the self-employed thus pay approximately 9% less in contributions than employees and receive a similar pension adjusted for the difference in contributions (entrepreneurs pay less in contributions and therefore also receive less pension). The "coadiutori" of craftsmen and merchants/retailers pay the same 17.8% of the shared taxable income in the "family partnership" as the entrepreneur and get a similar pension. However, the number of assisting spouses and relatives represents only a small portion of the total number of the pension beneficiaries.

The objectives of the measure have been attained and the cost-benefit ratio appears reasonable. There are no specific studies on this kind of "population" or evaluation studies of any kind on the matter, but the general opinion on the measure seems to be positive. The contact person of CNA for instance indicated that the system is much appreciated by craftsmen and traders. They can rely on an important "contributive" saving together with a significant pension for themselves and their relatives.

Data from the INPS shows the number of pensions and the average monthly pension subdivided by group:

¹ Now with the new "contributive" pension system this is not true anymore.

	<i>Number of pensions</i>	<i>Average monthly pension</i>
Pension for dependent workers	5 552 482	877.24 (100%)
Craftsmen	870 424	736.43 (84%)
Merchants	792 525	643.15 (73%)

Pensions distributed to relatives represent approximately 10% of the total and the average pension is the same for the assisting spouse and for the entrepreneur in the same "family partnership". If we assume that the total number of pensions distributed by INPS is approximately 8 500 000, the relatives represent approximately 1% of the total. The majority of assisting relatives are craftsmen's and traders' wives, and the rest are sons and other relatives.

D - Determinants of success and bottlenecks

The reasons for the success of this practice may be found in two aspects:

- The ease of admission to the services; in order to register as "coadiutore" it is enough to be a relative of a person entered in the register of craftsmen or merchants/retailers.
- The relationship between contributions paid and services obtained is attractive.

E - Elements of good practice and transferability

Family partnership can be considered a "good practice" as it provides attractive insurance cover for the workers belonging to the interested target groups without an excessive level of expenditure for the Italian social security system.

This measure originated in a specific national context; the bulk of the enterprises are characterized by small size and "family" management. Moreover, because of its flexibility and simplicity, "family partnership" is a measure easily transferable also in other contexts abroad.

Furthermore, eliminating the existing binding requirements for the registration within strictly defined professional categories, these benefits could be extended both to different types of consultants and to new forms of independent workers such as the contracted self-employed who are very common in Italy and have limited social security guarantees. However, there is already a separate INPS management model applicable to them, and their contributions are equal to those of craftsmen and family entrepreneurs in general. The implementation of this good practice for this category of workers should be easy even though, at the beginning, the impact on the overall population would probably not be significant.

This good practice is easy transferable also as there are no substantial added costs for the social security institutions and its effects are substantially positive for workers.

Lithuania – The Amendments to the Law on State Social Insurance, July 2002

Aspect of social security: Old-age insurance and state pension
Disability

Target group: Entrepreneurs

Original name practice: Valstybinio socialinio draudimo įstatymo 34 straipsnio pakeitimo ir papildymo įstatymas (Valstybinio socialinio draudimo įstatymas)

Responsible organisation:

Ministry of Social Security and Labour (Ministry)

A. Vivulskio. 11

LT-03610 Vilnius

Phone: + 370 5 266 42 00

Website: www.socmin.lt

Name of the organisation implementing the practice:

State Social Insurance Fund Board under the Ministry of Social Security and Labour (Budgetary institution, responsible for current administration of social insurance)

Konstitucijos pr. 12

LT-09308 Vilnius

Phone: + 370 5 272 48 64

Website: www.sodra.lt

A - National context

Lithuanian law defines different procedures for compulsory social insurance for individuals with employment contracts and self-employed people. Employees enjoy all kinds of social security cover, while self-employed people¹ are provided only with compulsory pension insurance. They may contract for other kinds of insurance on a voluntary basis, but this option is generally not exercised at all.

The social insurance pension consists of two components: a basic pension, which is uniform for all individuals, and an additional pension related to previous income in respect of which social insurance contributions had been paid, and the experience of retired individuals. Before 2002, self-employed individuals were insured to receive the basic social insurance pension only, irrespective of their income. In this connection, fixed contributions were set in 1995 for self-employed individuals, amounting to half the basic pension. As the structure of employment continued to change and more and more individuals were leaving hired employment and becoming self-employed, the issue of granting better social insurance guarantees to these individuals was raised many times. It was suggested that self-employed individuals would

¹ This category includes owners of individual enterprises, partners of general (true) and trust partnerships as well as advocates, notaries, bailiffs, persons engaged in individual activities and persons conducting activities under business licenses.

be covered with all kinds of social pension insurance, because this was the only way to provide an average pension for self-employed individuals instead of basic benefits in case of their old age or disability.

B - General description of measures or activity

The Amendment to the Law on State Social Insurance, as adopted on 4 July 2002, provided for better social insurance guarantees to self-employed individuals (except for individuals conducting activities under business licenses) in case of their old age or disability. The Law on Social Insurance was amended to oblige self-employed individuals (except for individuals conducting activities under business licenses) to contract for full pension insurance (rather than a basic pension only). These persons have to pay social insurance contributions for a basic pension and an additional portion of pension subject to their income. Contribution rates for the basic social pension (50% of the amount of the basic pension) remained unchanged, while contributions for the additional portion of pension are paid at 15% of the declared annual income chosen by self-employed individuals for the purpose of social insurance. The latter amount may not be less than 12 times the minimum monthly wage.

In order to avoid too heavy a financial burden from compulsory full pension insurance, particularly for those with low incomes, the law provides for an important exception clause. This states that self-employed individuals are insured for the additional portion of pension only when their annual income from individual activities, as calculated by deducting the amount of income tax per tax-year from the taxable income for that year, equals or exceeds 12 times the minimum monthly wage. This means that self-employed individuals are at least entitled to a basic pension (employees are also at least entitled to a basic pension). Providing these individuals with full social insurance pension cover is the only way to guarantee them an average pension rather than a basic payment in case of old age or disability.

In Lithuania, social insurance for self-employed individuals (as for hired employees) is organised by the Board of the State Social Insurance Fund.

C - Results (Impact of practice)

In 2003, 2607 self-employed individuals were insured for full state social insurance pension cover (in addition to the basic pension); in 2004, the figure was 3726 individuals, in 2005, 5141 individuals, and in 2006 (January-September), 5538 self-employed individuals. It is worth emphasising that self-employed individuals are insured for the additional portion of pension only when the annual amount of their income equals or exceeds 12 times the minimum monthly wage.

Most Lithuanian political parties supported the 2002 amendment to the Law on State Social Insurance in respect of obligatory insurance for self-employed individuals for a full social insurance pension. In the same year representatives of the right-wing Lithuanian Union of Liberals also tabled a draft law in the Seimas (Parliament) which proposed to return to compulsory basic state social pension insurance for self-employed individuals. According to them, this would "prevent increased unemployment and the hiding of income of enterprises, and enable the owners of small individual en-

terprises to maintain jobs and pay taxes to the national budget". This proposal, however, was not supported by the Seimas and there is no evidence that the concerns expressed were borne out in practice.

Research on the increase in the coverage of social insurance was conducted in 2002 on behalf of the Ministry of Social Security and Labour. This research reached a generally positive assessment of the 2002 reform. The authors of the research also suggested that "all self-employed individuals (roughly 68 000) would be additionally covered by social insurance against accidents at work and occupational illness. As for the additional portion of pension, only such self-employed individuals whose annual income equals or exceeds 12 times the minimum monthly wage would be insured (as now). In parallel, it is suggested that the terms and conditions for insuring these individuals should be amended (i.e. they should pay social insurance contributions based on a realistic (actual) amount of income). The research also recommended extending unemployment, sickness and maternity insurance only to self-employed individuals with high incomes. Social insurance expenses would grow substantially to pay for benefits to additionally insured persons in respect of social risks against which self-employed individuals have not been insured before". This research also included a questionnaire sent to some self-employed representatives of public organisations. The results of this survey showed that "participation in the system of social insurance would constitute quite a big problem for many self-employed individuals due to insufficient, irregularly received income. On the other hand, respondents believed that quite a big portion of self-employed individuals with higher income would be fully capable of paying social insurance contributions".

D - Determinants of success and bottlenecks

Full social pension insurance for self-employed individuals would provide higher old-age or disability social guarantees for these individuals. That is, they would be guaranteed not only a basic pension, but an average pension as well. This would be a significant decline in living standards for retired individuals who used to receive a higher income. It is true, however, that some politicians are concerned that this will increase the burden on self-employed individuals, assuming that many of them go bankrupt or cease business. In turn, this would provoke increased unemployment. At any rate, in this particular case, attention should be paid to the fact that self-employed individuals would be subject to additional pension insurance only where the annual amount of their income equals or exceeds 12 times the minimum monthly wage. This should prevent compulsory full pension insurance from becoming a heavy burden on persons with low incomes.

E - Elements of good practice and transferability

Taking account of changes in the present labour market, the subject of self-employed individuals and providing social security for these persons should be approached as an area for changes in social policy. Social insurance in Lithuania, as in many other European countries, is too much oriented towards hired employees and hardly covers persons for people in other types of economic activity who may be left without crucial social guarantees. In this respect, the 2002 amendment concerning the provision of better social guarantees to self-employed individuals in case of old age or disability may

be seen as generally positive. However, this will not fully resolve the problem of self-employed individuals in Lithuania (or in many other European countries).

Luxembourg – Assisting spouse regulation

Aspect of social security: Old-age insurance

Target group: Spouses

Original name practice: Régime conjoint-aidant

Responsible organisation:

Ministry for Social Security (ministry)

26 rue Zithe

L – 2763 Luxembourg

Phone: +352 47 86 311

Website: www.etat.lu

Name of the organisation implementing the practice:

Social Security Administration (public administration)

125 route d'Esch

L – 2975 Luxembourg

Phone: +352 40 11 21

Website: www.ccss.lu

A - National context

In Luxembourg there is a general social protection system for all residents including employees and the self-employed. The general system covers sickness, pensions (old-age, survivor's and invalidity), maternity, family benefits, unemployment and accident insurance for the self-employed. The contributions to the general system consist of income-related contributions paid by employees, employers and self-employed. The social security contributions for an employee are covered equally by the employee and the employer. The contributions of an employer however have to be paid entirely by the employer himself. This means that if the dependent worker becomes self-employed, the social security contributions will double, as he has to pay both the employer's and the employee's contributions.

Normally the assisting spouse is covered by the special status of "conjoint aidant", except in the case where the individual decides to opt out (no affiliation under this special status). The status provides the spouse with protection against sickness, an invalidity pension, old-age pension and survivor's pension (pension rights for family members in case of decease). Like all other residents of Luxembourg, the spouse is entitled to family benefits including maternity leave and temporary child care.

If the assisting spouse is not covered by the special status, he/she may be co-insured by the self-employed as an independent person. This also holds for other non-employed family members.

B - General description of measures or activity

The regulation concerning the assisting spouse was implemented in the seventies. The reason for introducing this regulation at that time was to improve social security for the assisting spouse, especially with regard to the old-age pension. In the seventies, the regulation only covered the pension schemes: old-age pension, invalidity pension and survivor's pension. This regulation was however changed on 27 July 1992, by the Luxembourg Code of Social Insurance. (Article 1 point 5). With this change, the regulation now also covers sickness.

The overall objective of the regulation is thus to improve the social security position of the assisting spouse and especially to promote independent old-age pension cover for assisting spouses. This regulation gives the assisting partner the same social security protection as the entrepreneur. The target is to increase the number of assisting spouses taking advantage of this measure.

When a self-employed person signs up for social security, the assisting spouse is covered under a special status ("conjoint aidant") except where the self-employed person decides to opt out. Then the assisting spouse is not insured under the status of "conjoint aidant", but will be automatically covered by the co-insurance of the employer (as an independent person). In order to be insured as a "conjoint aidant" (assisting partner), the partner must carry out an unpaid activity as employee. It is not possible to have the status of assisting spouse and that of employee at the same time. With the new regulation of 1992, only the spouse of e.g. a sole proprietor may be insured under the status of assisting spouse. Previously, assisting spouses in companies such as limited liability partnerships, public limited companies or general partnerships could be insured under this status. The new regulation has changed this; the spouse was given the status of employee and no longer that of assisting spouse.

The measure is funded by social security contributions paid by the self-employed person and the spouse. The entrepreneur pays a maximum of 5 times the legal minimum social wage and the spouse pays a maximum of 2 times the legal minimum social wage. The social security administration collects these contributions and manages the assessment process for pension schemes.

C - Results (Impact of practice)

The overall opinion of the measure is that it is a good regulation. The objectives have been realized as the system offers specific insurance cover to the assisting spouse. The regulation is an important instrument which offers the assisting spouse the opportunity to build up a pension entitlement. It really improves the social security position of assisting partners. This regulation also reduces the dependence of the assisting spouse on the entrepreneur. In case of divorce, the years as an assisting spouse are considered as contribution years by the social security administration.

In 1997, there were 600 assisting partners registered with the social security administration. This number rose to 800 by 2005 and dropped

again to 400 after 2005 when all the assisting spouses working in partnerships were redefined as employees.

In 1997, the "Centre de Promotion et de Recherche of the Chambre des Métiers" published the evaluation study: "Les conjoints aidants dans l'artisanat luxembourgeois (Assisting spouses in small businesses in Luxembourg)". The conclusion of this study was that the old-age pension offered to the assisting spouse by the system was not very significant. This was because the contribution base was limited to twice the legal minimum social wage. An additional private insurance was necessary, in order to benefit from sufficient funds. In 1997, double the minimum wage was EUR 2168.77¹. The monthly contribution to old-age pension insurance derived from this amounted at that time to EUR 493.41. This meant that after 20 years of contributions, the assistant spouse benefited from a monthly pension of EUR 885.87. In case of divorce, which is very frequent nowadays, the entrepreneur has a much higher old-age pension, as he is contributing at five times the minimum wage. The assistant spouse however only receives a personal pension based on twice the minimum wage. Quantitative and qualitative analysis of the system have been performed in order to present more objective results. To gain an indication of the impact of this regulation, the number of assisting spouses involved in this measure has been considered. Today, however, not very many spouses benefit from the system as many of them are now defined as employees.

D - Determinants of success and bottlenecks

This regulation is successful because it makes the social security position of assisting partners the same as the social security position of the entrepreneur. Furthermore, the assisting partner is subject to compulsory insurance, but he/she can be exempted on request.

When the system was introduced, there was a certain resistance from some spouses who worked only a few hours a week within the company. The regulation did not cover these spouses. However, today it also covers the case where the assisting spouse only works for a few hours within the company.

E - Elements of good practice and transferability

This regulation is one of the rare measures taken in favour of assisting spouses in Luxembourg. The regulation can be seen as a good practice for Luxembourg as it recognizes the professional status of assisting partners. The regulation recognizes the professional status by introducing a presumption of exercising a profession, in the form of compulsory insurance. The assisting spouse works in the company, albeit not as employee, and is insured. In this way, new entrepreneurs and their assisting partners can benefit from almost the same level of social protection as employees.

Interesting aspects of this practice concern the opt-in and opt-out clause. In 1996 an unofficial evaluation of this regulation was submitted by the professional organisations, pointing out that too many spouses were

¹ In 2007 the double of the minimum wage amounts to approximately 3140 EUR.

registered as co-insured and not enough under the “assistant spouse” regulation. This was because the entrepreneur had to opt in to insure the spouse under the “assistant spouse status”. Some years ago, the administration took the decision to change the opt-in clause into an opt-out clause.

In transferring this measure to other countries, it is important that there should be an (old-age) pension system, and where the contribution base for the partner is limited there should be private insurance options. Otherwise the pension is not significant. Alternatively, one could consider raising the possible contribution base for the partner.

3.5 Survivor’s benefits

3.5.1 General

Survivor’s benefits are part of the social security arrangements for employees in all Member States. In nearly all countries the general social security arrangements apply to the self-employed as well. In some countries the general social security arrangements do not however apply to all types of self-employed. Some self-employed people have to fulfil different conditions in order to be entitled to survivor’s benefits (e.g. Turkey).

It may be that the general social security arrangements apply to the self-employed but that they have to pay higher contributions. This happens especially when contributions for invalidity insurance are paid partly by the employer and partly by the employee, because in this case the self-employed have to pay both contributions.

In the countries reviewed, no special provisions for starters were found.

3.5.2 Insurance of entrepreneurs for survivor’s benefits

A large number of the public administrations confirmed that there are arrangements for entrepreneurs concerning survivor’s benefits. The percentage of entrepreneurs indicating that they are insured for this aspect is 38%. About one fifth of the entrepreneurs do not know whether they are covered by social insurance. The proportion of entrepreneurs who are covered by private insurance is 47%.

Table 13 Percentage of entrepreneurs insured for survivor's benefits; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	27%	10%	2%	38%
Not insured	12%	31%	1%	43%
Do not know	8%	7%	4%	19%
Total	47%	47%	6%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.5.3 Insurance of assisting partner for survivor's benefits

Similarly, a large number of the public administrations indicate that there are arrangements for assisting partners concerning survivor's benefits. The majority (66%) of entrepreneurs who have an assisting partner however indicate that their partner is not covered for this aspect by social insurance. Also, about 58% indicate that the partner is not covered by private insurance.

Table 14 Percentage of assisting partners insured for survivor's benefits; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	21%	34%
Not insured	66%	58%
Do not know	13%	8%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.6 Social insurance for unemployment

3.6.1 General

Insurance for unemployment is part of the social security arrangements for employees in all countries. Only in exceptional cases (e.g. in the Czech Republic, Denmark, Hungary, Iceland, Poland and Sweden) is unemployment for the self-employed covered by the general social security arrangements.

In some countries (e.g. Bulgaria, Romania, Slovakia and Slovenia) self-employed people can join the social insurance arrangements for unemployment on a voluntary basis.

Irrespective of whether self-employed people are insured against unemployment by the general social security arrangements or voluntarily insured via arrangements for the self-employed, in most cases there are special conditions for the self-employed. For instance, there may be a

requirement for a complete shut-down of the enterprise before the entrepreneur can receive unemployment benefit, or the period of benefits may be shorter for the self-employed than for employees.

In some countries (e.g. Finland, France, Germany, Norway and Sweden) self-employed people who become unemployed during the first (start-up) period of the enterprise are entitled to employee's unemployment benefits.

3.6.2 Social insurance for entrepreneurs against unemployment

A large number of the public administrations confirm that there are often no arrangements for entrepreneurs concerning unemployment. Most entrepreneurs (68%) are not covered either by private or social insurance. This is presented in Table 15. In total, about 14% of entrepreneurs are covered by social insurance and 6% by private insurance.

Table 15 Percentage of entrepreneurs insured against unemployment; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	4%	8%	1%	14%
Not insured	1%	68%	1%	70%
Do not know	0%	12%	4%	16%
Total	6%	88%	6%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.6.3 Social insurance for assisting partner against unemployment

As indicated by a large number of the public administrations, there are often also no public social security arrangements for assisting partners concerning unemployment. The majority (67%) of entrepreneurs who have an assisting partner indicated that the partner is not covered for this aspect by social insurance. About 86% indicated that the partner is not covered by private insurance.

Table 16 Percentage of assisting partners insured against unemployment; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	24%*	5%
Not insured	67%	86%
Do not know	9%	9%
Total	100%	100%

* *This percentage is higher than that of entrepreneurs possibly because there is a relatively high proportion of assisting partners in countries where the partner is insured against unemployment.*

Source: EIM Survey Social Security Entrepreneurs 2006.

3.6.4 Good practice - social insurance against unemployment

The good practice 'Voluntary unemployment insurance for new entrepreneurs' in Germany is described in this section. This practice enables new entrepreneurs to insure themselves against unemployment for a period of 2 years in case their enterprise fails. Similar practices can be found in e.g. Bulgaria, Belgium, Denmark, Finland, Hungary, Spain and Sweden¹. In Spain, unemployment will be included in the new Self-employed Workers' Statute. This statute is also presented as a good practice in this section. The practices in the countries mentioned above are not identical to the good practice of Germany. For instance, in Belgium starters coming from a position as employee are insured against unemployment for 9 years. In Finland there is no time limit (Unemployment Security Act (Act no. 1290/2002)).

With regard to unemployment benefits, in case of business failure in Germany unemployment benefits may be received for a period of 12 -36 months. In Denmark, the unemployment benefit is paid for 48 months (Act on Unemployment Insurance, LBK nr 874 af 11/09/2005). In Hungary, the entrepreneur may receive unemployment benefit for 9 months. Entrepreneurs in Hungary are however obliged to be covered by unemployment insurance.

<i>Germany – Voluntary unemployment insurance for new entrepreneurs</i>
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Aspect of social security:	Social insurance of unemployment
Target group:	New entrepreneurs
Original name practice:	§28 a SGB III Versicherungspflichtverhältnis auf Antrag

¹ Unemployment Funds Act (1997:239).

Responsible organisation:

Ministry of Labour and Social Affairs (Federal Ministry)
Mohrenstrasse 62
10117 Berlin:
Phone: + 49 18 88 52 70
Website: www.bmas.bund.de

Name of the organisation implementing the practice:

Federal Employment Agency
(Agency of Ministry of Labour and Social Affairs)
Regensburger Strasse 104
D-90478 Nürnberg
Phone: + 49 91 11 790
Website: www.arbeitsagentur.de

A - National context

Germany has a public social security system. In most elements of the system, the self-employed may choose to be voluntarily insured within the public system or to take out private insurance. Self-employed people are responsible for arranging their own insurance and pension schemes. There are special schemes for the self-employed and a distinction is made between self-employed people in agriculture, craftsmen, retailers and the liberal professions. Self-employed people in the liberal professions have the right to form associations. These associations have their own self-financed system for social security cover.

The *public unemployment system* is compulsory for employees. This system consists of a contribution-financed social insurance scheme and basic resources for jobseekers. The *basic* resources are financed through taxes. Employees are entitled to the basic resources when they are aged between 15 and 64, are employable, in need of help and not excluded as a result of receiving care, an old-age pension, a student loan or a vocational training grant. The basic resources are calculated on the basis of the needs, the income and the assets of the beneficiary. The basic resources are paid up to the age of 65.

In addition to the basic resources, employees may receive *social insurance benefits*. This system is financed through contributions from employees. They are entitled to the social insurance benefit when they are unemployed, registered at the unemployment office and have been insured for at least 12 months in the past 3 years. The social insurance benefit is dependent on previous income earned, whether there are children to be taken care of and other possible sources of income, e.g. part-time work (partly unemployed). The period for which benefits are received is dependent on the age of the beneficiary and the number of years the beneficiary has been insured.

Self-employed people (craftsmen and retailers) are not subject to compulsory insurance against unemployment. However, the self-employed are entitled to a social unemployment benefit and the use of all other support services provided by the local labour office until 5 years after they have started a business, even though they may not have paid the insurance fees during this period. Where the business of the

self-employed person fails and he/she has been an employee before start-up, the years insured as an employee are not lost. Civil servants do not have this possibility, as they have a lifelong contract, and are not subject to any unemployment insurance scheme.

B - General description of measures or activity

The practice (§28 a SGB III Versicherungspflichtverhältnis auf Antrag) was implemented on 1 February 2006 (restricted until 31 December 2010¹).

The general objectives of the scheme are to:

- increase the attractiveness of entrepreneurship and increase the number of new enterprises;
- stimulate the creation of new jobs through expansion of new enterprises.

Under the scheme new entrepreneurs can voluntarily contribute to unemployment insurance. regardless of income-level, new entrepreneurs pay a contribution between EUR 39.81 and EUR 33.56 per month (according to their level of qualification) for the unemployment insurance. In the event of unemployment they will receive a benefit of EUR 546.90 to EUR 1 364.10 per month. The size of the benefit depends on their level of qualification, their marital status and whether they are located in East or West Germany and it is available for a period of 12 to 36 months. They are also entitled to further assistance e.g. vocational training.

It was also possible for existing entrepreneurs to register for this insurance when the scheme was introduced. They were able to enrol from 1 February onwards until a new amendment was implemented in June 2006. Furthermore, persons working outside the EU-25 (not as entrepreneurs but as employees) can benefit from this insurance as well as persons working in the field of private nursing.

The new entrepreneur must apply for the unemployment insurance within the first month of self-employment. Entrepreneurs who enrol are then insured against unemployment for 2 years. In order to be entitled to unemployment benefit, the entrepreneur must fulfil the following requirements:

- the new entrepreneur must work a minimum of 15 hours per week in the enterprise;
- within the last 24 months the new entrepreneur must have contributed a minimum of 12 months to the unemployment insurance;
- the new entrepreneur must have been employed before or must have received payments according to SGB III (Sozialgesetzbuch).

The practice is financed by the unemployment insurance fund.

C - Results (Impact of practice)

As this law is very new, no evaluations have yet been carried out. The Institute for Employment Research (IAB) plans to carry out an evaluation but no measures have been taken yet. The law has been agreed by the

¹ Whether this limitation is correct under current law has been doubted. Even after 2010 there might be the possibility of getting coverage from this voluntary unemployment insurance.

different parties in the parliament without any problems. The labour unions have been demanding such a regulation for some years already. According to the Federal Employment Agency in Nuremberg, in the first 5 months of implementation, 39 780 persons requested voluntary insurance and of these, 36 625 cases have been accepted (92%). Of these accepted cases, 24 834 persons were entrepreneurs before the new regulation was introduced and had to apply for this new possibility for insuring themselves – not a new start up, 10 484 applications came from new entrepreneurs, and the others are unknown. Compared to more than 300 000 newly founded enterprises for the first half of the year only a small percentage are currently using this new opportunity to insure against unemployment.

For existing entrepreneurs the unemployment insurance seems to be especially attractive where they are not so well established in the market. This kind of insurance might therefore especially attract existing entrepreneurs at a greater risk of unemployment. The fact that this insurance is especially interesting to existing entrepreneurs at risk may be the reason why the possibility of applying for the unemployment insurance has been recently introduced for existing entrepreneurs.

As for new entrepreneurs, §28a SGB III will be especially interesting for persons falling under the newly implemented "Gründungszuschuss". Under the ICH-AG (regulation previous to the Gründungszuschuss) the new entrepreneur could fail with his/her business during the period of receiving unemployment benefit and return to the unemployment insurance scheme. Under the "Gründungszuschuss" using the unemployment insurance benefit means no money is left at the end. One cannot return to the unemployment insurance scheme. So in this, he/she would also need §28 cover and would have to pay voluntarily for the unemployment insurance in order to receive benefits from the unemployment insurance in the future.

This pillar of social security was completely missing for entrepreneurs until now. Before, it was not possible to be insured after establishing a new business, and it was not possible for people previously insured against unemployment to be insured when they started an enterprise. Entrepreneurship has changed in Germany, and there are more and more small businesses earning less than employees at a higher risk. The inclusion of entrepreneurs in unemployment insurance is a paradigm shift within unemployment insurance.

According to Wenner (2006), the financial risks for the Federal Employment Agency from voluntary unemployment insurance seem to be high. He indicates that the monthly premium to be paid seems to be low compared with the benefit in the event of unemployment. Secondly, entrepreneurs will be unemployed according to their own definition and so it will be difficult to evaluate whether they have been responsible for the unemployment themselves. This is different to unemployment insurance for employees. Unemployed people who were formerly employees simply receive the unemployment benefits provided they are not responsible for their unemployment. When they quit the job themselves, for example, they do not receive the benefits.

The German Chamber of Commerce (DIHK) regards the inclusion of entrepreneurs in the unemployment system with scepticism. Until now it has been voluntary, and the DIHK fears a gradual process of change into a compulsory "citizen" insurance, which they do not see as consistent with the current approach. Entrepreneurs are not free to choose to be insured anymore; not all self-employed people might want to be insured.

D - Determinants of success and bottlenecks

As the measure started on 1 January 2006 and was amended in summer 2006, no determinants of success can be identified at this stage.

E - Elements of good practice and transferability

As the implementation started on 1 February 2006 and complementary instruments and measures (e.g. ICH AG) were changed in summer 2006, it is very difficult to make any statement concerning the success of this measure. The first cases of unemployment under this new law cannot be expected before 1 February 2007.

3.7 Prevention of unemployment

In general entrepreneurs and assisting partners are not able to insure themselves to prevent unemployment. A large number of the public administrations support this. More than two-thirds of the entrepreneurs also indicate that they and the assisting partner are not covered for this aspect by social insurance (73% respectively 76%). The majority also indicate that they and their assisting partner are not covered by private insurance (89% respectively 91%). This is presented in Table 17 and Table 18 below. In these tables, the perception of the entrepreneur is presented on his/her insurance and the insurance of his/her assisting partner, if he/she has one.

Table 17 Percentage of entrepreneurs insured for prevention of unemployment; Europe-31

<i>Social insurance</i>	<i>Private insurance</i>			<i>Total</i>
	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	
Insured	3%	5%	1%	9%
Not insured	2%	69%	1%	73%
Do not know	0%	14%	4%	18%
Total	5%	89%	6%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

Table 18 Percentage of assisting partners insured for prevention of unemployment; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	15%	3%
Not insured	76%	91%
Do not know	9%	6%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.7.1 Good practices in prevention of unemployment

In all Member States, national governments have developed measures to stimulate and assist people to start their own enterprises. On the one hand, general measures have been taken to stimulate entrepreneurship such as the establishment of a clear and transparent regulatory and legal system. In addition, governments have set up promotional and awareness campaigns to make people aware of the possibility of starting an enterprise, or they encourage more attention to be given to entrepreneurship in the educational system and changes to be made to curricula in higher education in particular. One result is that more and more special small business courses have been set up at universities, for example.

At the same time, a large variety of measures have been developed directly aimed at new entrepreneurs. These measures are in the field of finance, and provide start-ups with capital in the form of subsidies, loans at lower interest rates, guaranteed loans and venture capital. Also organisations are being set up to provide information and advice to the individual entrepreneur, not only in the pre-start-up phase (e.g. assistance in the development of a business plan, explaining the requirements according to the regulatory and legal system), but also after the start. Training material is also being developed.

In some countries, supporting measures are being developed to stimulate unemployed people in particular to start their own enterprise. These measures often have an effect on the social security position of the starter and/or their assisting partners in the first years after the start-up. Therefore these types of measures are relevant for this study and they have been taken into account in the selection from the long list of good practices.

This section describes 7 good practices. The good practices are targeted at new entrepreneurs (possibly formerly unemployed) and/or existing entrepreneurs.

Austria - Commercial Insurance Act

In Austria entrepreneurs may pay contributions towards old-age pension and sickness benefits on a reduced assessment base in the first three or two years after start-up respectively. Similar practices concerning the reduction

of the contributions may be found in Belgium, Bulgaria, the Czech Republic, France, Germany, Poland, Portugal and Slovakia. The practices in the Czech Republic, Poland, Slovakia and Belgium are related to a reduction in the assessment base. The practices in the Czech Republic and Poland are also presented in this section as good practices. The practice in Slovakia refers to SK Act 461/2003. Here the assessment base amounts to 50% of the minimum wage for the first year instead of 50% of taxable income. In Belgium, entrepreneurs pay provisional contributions on the basis of the minimum wage during the first 3 years following start-up. These provisional contributions will be regularised later, i.e. adjusted to the taxable income of the reference years of this period.

In Germany there is no reduction of the assessment base but there is a subsidy to pay for the social security payments. This practice is presented in more detail below. In Spain, some specific groups (unemployed, women, young people etc) pay reduced contributions during the first year following start-up. Also in Bulgaria, France and Portugal there are practices that reduce the costs of contributions at the start of the enterprise. In Bulgaria, the state may finance the employer's payment of the compulsory social insurance contributions as part of employment promotion programs. In France, entrepreneurs may under certain conditions be exempted from contributions or delay the contribution payments for the first 12 months of activity (ACCRE and Law n°2003-721 (article n°36)). In Portugal, there is no restriction to the start-up period. Here entrepreneurs may choose their income base. Entrepreneurs may thus pay lower contributions during start-up and opt for a higher income base as the enterprise grows older. This is part of the good practice of Portugal which is presented in section 3.10. In some countries, entrepreneurs may be exempted from contributions if their income is too low (e.g. the UK), which may especially occur during start-up.

Czech Republic – Act 589/1992 Coll.

In the first year following start-up, entrepreneurs in Czech Republic may pay contributions on the basis of 50% of the average monthly wage in the national economy. As mentioned above for Austria, similar practices can be found in Poland and Slovakia. Other practices which reduce the cost of contributions during start-up may be found in Belgium, Germany, France, Portugal and Spain.

Germany – New Enterprise Subsidy

In Germany, entrepreneurs are entitled to unemployment insurance payments for a minimum of three months after having established their business. Moreover they may receive a subsidy for nine months to cover their personal unemployment insurance payments. During this period they may also receive a subsidy for payments to the voluntary social security system. The latter may be extended for six more months.

Practices similar to this are found in Austria, Bulgaria¹, France, the Netherlands and Spain. The practices in Austria, Ireland and the Netherlands con-

¹ Law on Employment Promotion, art.30a. art.47.

cern the retention of unemployment benefits for a certain period following start-up. In Austria entrepreneurs are entitled to unemployment benefits during the first months of business activity. In the Netherlands, benefits may be retained for a period of 6 months (WW regulation). In Ireland benefits may be retained over a reducing proportion of 4 years. This good practice is also presented below. The practices in Bulgaria and Spain concern the receipt of the amount of their rights to unemployment insurance benefits as a lump sum. The practice in France is related to both elements. In France, starting entrepreneurs entitled the ACCRE may receive half of the amount of their rights to unemployment insurance benefits. Other new entrepreneurs, who previously received unemployment insurance benefits, may receive part of their monthly unemployment insurance allowance for a maximum of 15 months after starting their enterprise if the income coming from the new enterprise is low.

With regard to the reduction of costs of contributions in the period following start-up, similar practices are presented in the paragraphs above with the good practice of Austria.

Ireland – Back to Work Enterprise Allowance

In Ireland new entrepreneurs may retain their social welfare payments in a reducing proportion over a four-year period. There is also a “spousal swap”, which permits a person who is eligible to the BTWEA scheme to transfer his/her entitlements to a dependent adult. For similar practices regarding the retention of unemployment benefits in the period following start-up, see the practices mentioned for Germany above. No specific practices have been found relating to the transferability of rights of a scheme.

Netherlands – Self-employed Benefit Decree

New entrepreneurs in the Netherlands may receive a supplement to their income for the first 36 months. This supplementary benefit is initially granted as an interest-free loan. Depending on the income of the entrepreneur, it is decided which part of this loan has to be refunded. Entrepreneurs in financial difficulties may also receive a supplement to their income granted as an interest-free loan for a maximum of 1 year. Entrepreneurs who have been obliged to terminate their business within 12 months of start-up are entitled to temporary income support. Practices similar to this are found in Denmark, Hungary, Spain, Sweden and the UK.

The practices in Denmark, Spain, Sweden and the UK are related to benefits in case of business failure. In Spain, the benefit for cessation of activities will be included in the new Self-employed Workers’ Statute. This is also presented as good practice in section 3.10. In Denmark and Sweden, entrepreneurs are entitled to unemployment benefit calculated on the basis of their former employment. In Denmark, the benefit for entrepreneurs who have been self-employed for less than 3 years at the time of termination of their business are calculated on the person’s former salary (Act on Unemployment Insurance, LBK nr 874 af 11/09/2005). In Sweden, the unemployment benefit is based on previous income as an employee if the enterprise ceases to exist within 12 months (Unemployment Funds Act – (1997:238)). In

some countries there is also social assistance in case of business failure (e.g. the UK).

The practice in Hungary is related to support in case of start-up. In Hungary, entrepreneurs may receive an interest-free loan of max HUF 3 million (approximately EUR 12 000).

Poland – Amendments to Social Insurance System ACT of 13 October 1998

For 24 months following start-up, entrepreneurs in Poland are able to pay contributions on the basis of 30% of the minimum salary instead of the normally applied 60% of average remuneration. For practices in other countries similar to this practice, see the practices described at Austria above.

Romania – Law 76/2002 (modified through law 107/2004) & article 86

New entrepreneurs in Romania are able to obtain credit at low interest rates and are exempt from tax on contributions to the unemployment fund. Similar practices are found in Austria, Belgium, Greece, Ireland, the Netherlands and Poland. In Austria, the Wirtschaftsservice-Errichtungsgesetz 2002 is founding a special bank that provides loans to new entrepreneurs. In Belgium, entrepreneurs may obtain credits through the 'Participation Fund'. As mentioned with the Netherlands good practice, entrepreneurs may obtain an interest-free loan as a supplement to their income and an interest-bearing loan as start-up capital. In Poland, entrepreneurs can receive a technology credit on preferential conditions (Loan within the confines of the 'Work for Graduates' programme). An interest-free loan may be obtained by entrepreneurs participating in the BTWEA scheme in Ireland. This is also part of the good practice of Ireland as presented in this section.

Austria – Commercial Insurance Act

Aspect of social security:	Prevention of unemployment
Target group:	Entrepreneurs
Original name practice:	25 Abs 4 Z 1 GSVG (Gewerbliches Sozialversicherungsgesetz/Commercial Insurance Act)

Responsible organisation:

Ministry for Social Security, Generations and Consumer Protection
Stubenring 1
A-1010 Wien
Phone: +43 171100-0
Website: <http://www.bmsg.gv.at>

Name of the organisation implementing the practice:

Sozialversicherungsanstalt der gewerblichen Wirtschaft
(Social Insurance Authority for Business – SVA - Self-administration body)
Wiedner Hauptstrasse 84-86
1051 Wien Postfach
Phone: +43 15 46 540
Website: <http://esv-sva.sozvers.at>

A - National context

The social security system of Austria is based on the ASVG (Allgemeines Sozialversicherungsgesetz or General Social Insurance Act) and the GSVG (Gewerbliches Sozialversicherungsgesetz, Commercial Social Insurance Act). Entrepreneurs not working in the field of agriculture¹ are insured under the GSVG while employees are insured under the ASVG.

The GSVG focuses on old-age pension and sickness insurance, but also covers maternity, child care, permanent disability, temporary or long-term disability and death. Statutory accident insurance for entrepreneurs falls under the responsibility of the General Accident Insurance Authority (AUVA). Unemployment is not covered yet, although the establishment of special unemployment insurance for entrepreneurs has been under discussion for some years. The pension and sickness insurance for entrepreneurs is based on that of employees (which is regulated in the ASVG), but there are differences. In order to receive sickness benefits, for example, entrepreneurs have to be insured for a certain period of time while employees are entitled to them right from the start of their employment. Furthermore, sickness benefits for entrepreneurs may be paid for a shorter period of time and calculated in a different way. Entrepreneurs generally pay a higher contribution (in terms of the percentage of the assessment base) than employees (for whom an additional part of the social security contributions is paid by the employer).

In 2000, more than 50% of entrepreneurs covered by the GSVG paid social insurance contributions for pension and sickness insurance on the basis of the minimum assessment base. Representatives of the Social Insurance Authority for Business and the Austrian Federal Economic Chamber considered this assessment basis as too high in comparison to the actual income situation of entrepreneurs. Consequently, in 2002, § 25 of the GSVG determining the assessment base was amended (becoming applicable in 2003). The amendment to § 25 of the GSVG is described below.

B - General description of measures or activity

The GSVG came into force in 1978. In 2002, § 25 of the GSVG was amended. In § 25 (4) Z. 1 and 2 GSVG attention was drawn to the establishment of lower social insurance contributions for old-age pension and sickness for starters within the first two/three years of business activity. One aim of this amendment was to achieve a decrease in the financial burden on entrepreneurs caused by social insurance contributions.

¹ Farmers are covered by the Bauern Sozialversicherungsgesetz, Farmers Social Insurance Act, a special social insurance law for farmers.

The respective law was passed by the Austrian Parliament. The operational implementation of the law falls within the responsibility of the Main Association of Austrian Social Security Institutions.

§ 25 of the GSVG is aimed at entrepreneurs belonging to one of the following groups:

- members of the Austrian Federal Chamber of Commerce
- under certain conditions, partners in a partnership
- under certain conditions, shareholders of a company with limited liability who are acting as its executive director
- the group of so-called “new entrepreneurs” (all persons who generate “income from a commercial enterprise” or “income from an entrepreneur’s work” according to § 4 (4) GSVG), if their income exceeds a certain threshold.

In general, the assessment base for the yearly social contributions of entrepreneurs is their yearly income. As it can take a long time for the income for a certain year to be determined, the income of the last year but three is used as a temporary assessment base. When the official notification of income becomes available, the temporary assessment base is replaced by the real assessment base (i.e. the real income) and the entrepreneur may have to pay outstanding debts. Where the income is below a certain amount, the contributions to pension and sickness insurance are calculated on the basis of a minimum assessment base determined by law.

With regard to old-age pension, the temporary assessment base is half of the normally applicable minimum base for the first three years after the start-up. No distinction is made between starters with regard to their prior occupation (employment, unemployment or self-employment). The only requirement is that the entrepreneur has not been covered by any GSVG insurance within the last 3 years. Where the monthly income from trade and/or professional and other independent services according to the notice of assessment, plus the prescribed contributions for sickness and pension insurance for the respective calendar year, is above the threshold of half of the normal minimum assessment base, the entrepreneur has to pay the difference between already transferred contributions and still outstanding amounts ex post. After the third year, the minimum assessment base is equal to that of the other entrepreneurs.

Within the first 2 years starters may pay lower sickness insurance contributions. Only 9.1% of the minimum assessment base has to be paid instead of the same percentage of the actual income. This assessment base is fixed for the first two calendar years of business activity. That means that regardless of the level of income no supplementary payments have to be made and a full sickness insurance protection is granted. It has to be kept in mind, however, that a full sickness insurance protection under the GSVG is not entailing the entitlement to receive sickness benefits or daily allowances. In order to receive these kinds of cash benefits the entrepreneur has to contract additional insurance and also has to be insured for at least 6 months (this is the so called waiting period). The entrepreneur then also has to pay 4.2% of the provisional assessment base. Regarding

the third year of business activity, supplementary payments have to be forwarded where the official monthly income is above the minimum assessment basis applied in the first two years. However, this regulation is not valid for entrepreneurs who are insured under the GSVG but are not members of the Social Insurance Authority for Business. These entrepreneurs are able to enjoy a reduced temporary assessment base but their sickness insurance contributions are subject to an ex post assessment when income tax assessment results are available.

This measure is covered by the Austrian social security arrangements of the GSVG¹.

C - Results (Impact of practice)

In 2001, 50% of the entrepreneurs paid their social insurance contributions on the basis of the minimum assessment base. The general opinion on this measure is positive, as one of the most serious barriers for young entrepreneurs/starters is a lack of capital of their own. A clear calculation of commitments was thought to be indispensable for a successful start in business life in the first years.

According to the Social Insurance Authority for Business, some 70 000 entrepreneurs (including some 30 000 starters) per year are positively affected by this measure in that they are allowed to pay lower social insurance contributions. However, the lowering of the minimum assessment base for old-age pension insurance for the first 3 years can lead to lower retirement benefits at the end of working life. In order to avoid this, the final assessment base in the pension insurance scheme can be raised on request to the maximum for pension contributions during the first three years of compulsory insurance on account of business start-up investments.

With regard to the costs of the measure, the loss of income for the social insurance provider for the entrepreneurs was estimated at EUR 8 million for 2003 and EUR 24.5 million annually after 2004 when the amendment would be fully effective. This amounts to 0.6 % of total social insurance contributions (employed and entrepreneurs) for the 2005, amounting to EUR 39.3 billion².

There has not been any evaluation of this regulation. According to the Austrian Federal Economic Chamber there were about 26 000 start-ups in 2003, 28 000 in 2004, 30 000 in 2005 and 31 000 in 2006. In comparison to previous years, a continuous rise in the number of start-ups can be observed. However, this growing start-up figure may be attributed to demographic, socio-economic or economic developments as well as incentives set by the economic policy, rather than to the effects of this law.

¹ The Austrian social security system is financed by the contributions of the insured persons and, as far as pension insurance is concerned, the difference between income and payments from the social security system has to be covered by the federal budget.

² Source: Main Association of Austrian Social Security Institutions
<http://www.sozialversicherung.at/mediaDB/114072.PDF>.

D - Determinants of success and bottlenecks

The main determinant for the success of the measure is the effective lowering of sickness insurance contributions for starters within the first 2 years of their business activities. Full insurance is provided for lower contributions and also no additional contributions have to be made if they are members of the Social Insurance Authority for Business, even if the income turns out to be higher than the applied minimum assessment base.

One must bear in mind that the application of lower minimum assessment bases for the pension contributions also leads to lower pensions in the long run (of which entrepreneurs may not be aware).

E - Elements of good practice and transferability

In welfare states like Austria with a high level of social protection, it is important to strike a balance between the protection of employees and employers. Employers especially have to carry a relatively heavy burden of non-wage labour costs for their employees, to be supplemented by their own social insurance contributions¹. The sickness insurance contributions for the self-employed are also higher than the sickness insurance contributions employees have to bear. Therefore, lower sickness and pension insurance contributions are a good way to support starters.

The success of this measure is related to the specific national context of Austria and is seen to be realised only in social welfare states with a high level of compulsory insurance. Social protection should not be limited to employees but should also be given to entrepreneurs.

Czech Republic – Act 589/1992 Coll.

Aspect of social security: Social insurance of unemployment
Prevention of unemployment

Target group: Entrepreneurs

Original name practice: Zákon 589/1992 Sb., o sociálním pojištění

Responsible organisation:

Ministerstvo práce a sociálních věcí ČR
(Ministry of Labour and Social Affairs – Ministry)
Na Poříčnickém právu 1
128 01 Praha 2
Phone: +420 22 19 21 111
Website: www.mpsv.cz

¹ In Austria starters also pay 15% lower contributions for their employees in the first year.

Name of the organisation implementing the practice:

Česká správa sociálního zabezpečení
(Czech Social Security Administration - Public institution)
Křížová 25
225 08 Praha 5
Phone: +420 25 70 61 111
Website: www.cssz.cz

A - National context

The social insurance system in the Czech Republic includes basic pension insurance and sickness insurance. For the former, participation is compulsory provided that certain set conditions are met. The following pensions are provided under the basic pension insurance: old-age pension (including "early old-age pension"), full/partial disability pension, widow's and widower's pensions and orphan's pension. With reference to sickness insurance, participation is compulsory for employees but has been voluntary for the self-employed since 1994. The following benefits are provided under the system of sickness insurance: sickness benefit, family member care benefit, maternity benefit, and pregnancy and maternity compensation benefit. Self-employed people are only entitled to sickness benefit and maternity benefit.

There is also a national unemployment system, which applies to both employees and the self-employed. This system is financed with income-related contributions paid by employees, employers and the self-employed. Self-employed people pay the total percentage for the employee and the employer on a reduced premium base. Self-employed people are entitled to unemployment benefit for a maximum of 6 months.

The Czech social security system is in principle similar for employed and self-employed people. There are special rules for the self-employed concerning the assessment base for the social security premium. Legal provisions covering social security premiums and state employment policy contributions are provided for in Act No. 589/1992 Coll. The social security premium is collected together with the contributions for the state employment policy. Premiums are collected by the District Social Security Administration offices and are paid by employees, employers and the self-employed.

B - General description of measures or activity

The contributions that insured persons pay are income-related. For employees, this is the gross wage. Self-employed people pay a percentage of their creditable income before tax. The assessment base is 50% (2006) of the monthly average taxed income. Under Act 589/1992 Coll. the assessment base for the self-employed is reduced. Act 589/1992 Coll. came into force on 1 January 1993. It provides some relief for newly self-employed people. Under the Act, the contribution base for social insurance for the self-employed is only 50% of the average monthly wage in the national economy up to July 1 of the year following the first year of business establishment.

The main objective of this measure is to stimulate the establishment of a new enterprise by decreasing the initial costs of starting business. By decreasing the base on which the social security contributions are calculated, self-employed people have to pay lower contributions for a certain period of time. On the other hand, social benefits are related to the insurance base. So a start-up entrepreneur must weigh the advantage of lower contributions against the probability of a situation when he is dependent on social benefits and may receive lower benefits.

The measure is applicable to all persons wanting to start a business, with employees and unemployed people having the same starting position.

The measure is financed by premiums paid to the social insurance system by employers, employees and the self-employed.

C - Results (Impact of practice)

Unfortunately there is no official evaluation specifically regarding the reduction of the contribution base. The social system including effects on self-employed has been regularly evaluated.

Revenues from social security premiums and contributions to the state employment policy constitute almost 40% of all revenues within the state budget and represent approximately 90% of all transfers paid out of the state budget. In this respect, the MLSA is not merely a "spender" of state revenue but rather a substantial contributor to state budget revenues.

Developments in social insurance revenues are affected especially by the number and structure of contributors (and thus trends in employment) as well as the average payments per insured person. The amount of the average payment per insured person is affected by developments in the income of the insured persons and whether they obtained such income as employees or from self-employment. Both the number and structure of contributors and the average payments are determined by demographic and social economic trends. Compliance with contributions is another factor affecting the amount of the payments.

The number of contributors (including employees and self-employed) gradually decreased in the period 1994–2000. However, it has shown a rising trend since 2000, due mostly to the growth in the number of the self-employed paying premium deposits on social security and the state employment policy. This increase was due mainly to changes in legislation. As of January 2004, a self-employed person whose activity is deemed "main" (i.e. full-time self-employed) must pay insurance even when he does not have any income. Self-employed people thus were obliged to pay at least the minimum basic assessment base. The aim of this provision was to draw a part of the self-employed into the scope of insurance. The proportion of self-employed to the number of insured persons increased slowly, from 13.8% in 2003 to 15.2% in 2005.

The self-employed set their assessment base themselves. This amount cannot however be less than 50% of their income from self-employed activities after deducting expenses for achieving, securing and maintaining

such income and it may not be lower than the prescribed minimum. There is also a maximum annual assessment base. This amount decreases proportionally for each calendar month in which the self-employed person did not carry out activities for the whole month, e.g. drew sickness benefits etc. There is only a maximum assessment base for the self-employed, not for employees.

The assessment bases for self-employed people and employees have been compared.

In 1994, the ratio of the assessment base for the self-employed in comparison to the assessment base of employees was 50%, then it decreased quickly and in 1998–2003 it was around 28%. The reform of public finances, which gradually increased the assessment base for self-employed premiums, resulted in an increase of 35% in the ratio of the average assessment base of the self-employed to that of employees in 2005. Among other things, the increase in the assessment base is also supposed to raise the level of benefits so that some self-employed people will not be at risk of poverty in old age.

Since 2002, the average assessment base for the self-employed has been growing faster than the average wage in the national economy. The average wage is made up of the wages of employees in organizations with more than 20 employees. Since 2001, however, the year-on-year increase in the assessment base of employees has always been lower than the year-on-year growth of the average wage in the national economy.

The contributions and entitlements have also been compared for employees and self-employed. Under an amendment to the legislation in 2004, the pension entitlements of employees with average income and insured periods will be approximately 13% lower than what they will pay in premiums. In contrast, the entitlement of the self-employed with an average assessment base will be approximately 52% higher than what they will pay in premiums.

In 2005, CZK 301.4 billion (EUR 10.5 billion) was collected in premiums, not including fines, penalties and premium surcharges. Of this amount, 83% was earmarked for pension insurance, 12% for sickness insurance and 5% for the state employment policy.

D - Determinants of success and bottlenecks

Starting a business is always financially demanding process. The measure provides an option for self-employed to pay minimal premiums at least during the initial phase while keeping participation in social system benefits.

E - Elements of good practice and transferability

The measure may assist in establishing a business. The measure is implemented in the Act on social security and therefore it is part of the social security system. It may be implemented in any other system when its financial sustainability is robust. Potential benefits can outweigh additional costs.

A self-employed person starting his business has an opportunity to trade off a greater concentration of financial resources on rapid development of the business against lower benefits in the case of a social need. This measure is quite comprehensive for entrepreneurs and is therefore used very often.

Germany – New Enterprise Subsidy

Aspects of social security: Insurance and the prevention of temporary long-term disability/sickness
Old-age insurance and state pension
Prevention of unemployment

Target group: New entrepreneurs

Original name practice: Gründungszuschuss (§57 SGB III)

Responsible organisation:

Ministry of Labour and Social Affairs (Federal Ministry)
Mohrenstrasse 62
10117 Berlin
Phone: + 49 18 88 52 70
Website: www.bmas.bund.de

Name of the organisation implementing the practice:

Federal Employment Agency (Agency of Ministry of Labour and Social Affairs)
Regensburger Strasse 104
D-90478 Nürnberg
Phone: +49 91 11 790
Website: www.arbeitsagentur.de

A - National context

Germany has a public social security system applicable both to employees and the self-employed. In most elements of the system, the self-employed may choose to be voluntarily insured within the public system or to take out private insurance. Self-employed people are responsible for their own insurance and pension schemes. Special schemes apply to the self-employed: a distinction is made between self-employed people in agriculture, craftsmen, retailers and the liberal professions.

The business start-up subsidy (Gründungszuschuss (§ 57 SGB III)) relates to insurance against the prevention of temporary long-term disability /sickness and to old-age insurance. Under the German social security system, the general arrangements for employees concerning these aspects also apply to certain groups of self-employed people, with the exception of sickness. There are some differences between the arrangements for employees and self-employed:

- The arrangements concerning invalidity are not compulsory for all groups of self-employed. For example, craftsmen are obliged to be insured against invalidity while retailers have the option of joining the general statutory arrangements.

- The arrangements concerning work-related injuries and occupational illness are not however compulsory for the self-employed, whereas they are compulsory for employees. The contribution for this insurance is paid by the employer or the self-employed person.
- With reference to the sickness scheme, certain groups of self-employed people are subject to compulsory insurance for this aspect under the public health insurance scheme. Self-employed people who are not obliged to be insured under the public health insurance may remain there voluntarily. Employees are compulsorily insured under a sickness insurance scheme.
- The compulsory arrangements for old-age insurance and state pension provision for employees also apply to certain groups of self-employed people. Other groups of self-employed people may opt for private insurance. In general, employees, provided they are not civil servants, will not lose their retirement benefits when they shift from employment into self-employment.

The “business start-up subsidy” is a more recent law replacing the former “New Enterprise Subsidy” (Existenzgründungszuschuss, the so-called “ICH-AG” § 421 SGB III) as well as the “bridging subsidy” (Überbrückungsgeld, formerly § 57 SGB III)¹, which are now being combined.

B - General description of measures or activity

The current version of the practice was implemented on 1 August 2006. The main target group are new entrepreneurs who were formerly unemployed. The objectives of the practice are:

- To stimulate unemployed people to start up an enterprise, thereby ending their state of unemployment and ideally creating additional new jobs;
- To support self-employed people in the initial phase with a subsidy for their living expenses as well as for their social security contributions, and in the second phase only for the social security contributions. This concerns the social security contributions for invalidity, sickness and old-age pension.

New entrepreneurs who were formerly unemployed are entitled to the unemployment insurance payments for a minimum of three months after establishing their business. Moreover, they may receive a subsidy for nine months equivalent to their personal unemployment insurance payments. They also receive EUR 300 for payments to the voluntary social security system. After the first nine months it is assumed that the new entrepreneurs are established in the market and can live off their income. The employment agency can approve the subsidy of EUR 300 for payments to the voluntary social security system for six more months. The condition for this second phase is that the new entrepreneur can demonstrate intensive market activity. The payments for the first phase are guaranteed by law. The second phase is subject to administrative discretion.

¹ In this best practice description the “Gründungszuschuss” has been translated to “business start-up subsidy” – as no official translation could be found and to distinguish it from the “Existenzgründungszuschuss”, which was here called “new enterprise subsidy”.

The practice is financed by the unemployment insurance fund. The organisations involved are the local employment agencies and, for proving market activities, chambers of commerce, tax consultants etc. The local employment agencies provide information on the subsidy and arrange the payments.

The replacement of the two former laws with the "business start-up subsidy" should lead to savings of about EUR 1 billion.

C - Results (Impact of practice)

As the new §57 SGB III was only implemented on 1 August, there is no monitoring data available yet. The Federal Statistical Office cites a slight decline in small and medium-sized business start-ups for the first nine months of 2006, which may be interpreted in the context of changes to new entrepreneurship subsidies. An evaluation of the business start-up subsidy is planned by the Institute for Employment Research (IAB) with a focus on the structural changes of the characteristics of the recipients and medium-term sustainability of the new measure.

In 2005 about 240 000 persons were subsidised under §421 SGB III and about 70 000 under the old § 57 SGB III. According to Buscher (2006) there will not be any savings if the number of recipients remains the same. Savings can only be realised if the second phase of subsidisation is carried out very strictly and the same number of persons is not attracted to the new regulations.

An evaluation of § 421 SGB III and the old § 57 SGB III has been carried out up to July 2006. The detailed results will be published in the future. An extended summary version of the results has recently been published (BMAS, December 2006):

- Increase in the development of small-scale businesses by new entrepreneurs who would not have had this idea without these new labour market instruments.
- It seems that many enterprises are being newly established because of a lack of employment opportunities and not for true entrepreneurial reasons.
- Until now it was easy to receive the subsidy without presenting a well-developed business plan; in the future the business ideas will be evaluated more carefully by the Federal Employment Agency.
- With the so-called ICH-AG, new target groups could be reached. In particular, a relatively large proportion of women are applying for this form of subsidy (43% of total applications; for comparison e.g. 26% of applications for interim aid are from women)
- The subsidy seems to be one of the most effective instruments within active labour market policy; compared to a control group, recipients of the subsidy are less often unemployed, but it has to be taken into account that the subsidy is still ongoing for this group (evaluation was in the 16th month after implementation).
- At the beginning of 2006, around 6 000 recipients were asked about their individual reasons for applying for the subsidy (§ 421 or the old § 57 SGB III) and the most important aspect was the social security and secondly the financial attractiveness.

- In a nationwide study, results show that sickness insurance does not seem to be a problem – only 0–4% were not insured. With regard to old-age insurance, between 0.5 and 2.3% of recipients under § 421 SGB III indicated that they did not pay for any old-age insurance; under the old § 57 SGB III between 13 and 17% do not pay for any old-age insurance.
- A quantitative analysis showed that after 28 months recipients under the § 421 and the old § 57 SGB III were more likely to be self-employed or employed than a comparison group of unemployed (Q3/2003). But it has to be mentioned that under § 421 these persons still received subsidies. To obtain results on sustainability, a further measurement should be made at a later date.
- About 12% of the recipients interviewed indicated that they would still have started their business without the subsidy (“windfall gain”). For 28% the subsidy was not essential, but welcome.

D - Determinants of success and bottlenecks

The fact that two measures (§ 421 and the old § 57 SGB III) have been merged before the success of § 421 SGB III can be finally evaluated raises questions. There are doubts as to whether the new unified measure will attract the same target groups as before. For the first time, a new target group could be attracted into entrepreneurship.

The period of subsidisation is shorter with the new § 57 SGB III (9 plus 6 months instead of up to 36 months under § 421 SGB III), and it has been questioned whether it will be possible in this shorter period for the new entrepreneurs to establish their business without further financial help.

The DIHK¹ suggests changing the new § 57 SGB III into a discretionary measure from the beginning and not just from the 9th month onwards. The verification of market activity for a further 6 months and EUR 300 a month seems to put a high bureaucratic burden on the participants and a better review of the business plan from the beginning could bring more successful start-ups.

Furthermore, there are incentives to first take nearly all payments out of unemployment insurance and then to apply for the new § 57 SGB III.

E - Elements of good practice and transferability

This practice could be seen a good practice since it stimulates start-ups and supports entrepreneurs to be insured. This insurance is however voluntary, where the former ICH-AG was compulsory.

It remains to be seen whether the Gründungszuschuss will be able to reach the target groups like the former ICH-AG. The success of the ICH-AG in reaching new target groups was a surprise. Criticisms have already been mentioned - that it would be a new measure in parallel with the old § 57 SGB III and that it would be more of a replacement than a new measure. However, more women, older male recipients and recipients with an

¹ DIHK (Deutsche Industrie- und Handelskammertag) is the main organisation of 81 industry and commerce chambers in Germany.

immigrant background were included than with other entrepreneur subsidies.

Ireland – Back to Work Enterprise Allowance

Aspect of social security: Prevention of unemployment

Target group: Entrepreneurs and assisting partners

Original name practice: Back to Work Enterprise Allowance

Responsible organisation:

Department of Social and Family Affairs (Ministry)
Áras Mhic Dhiarmada
Store Street
Dublin 1, Ireland
Phone: +353 17 04 30 00
Website: www.welfare.ie

Name of the organisation implementing the practice:

Department of Social and Family Affairs (Ministry)
Áras Mhic Dhiarmada
Store Street
Dublin 1, Ireland
Phone: +353 17 04 30 00
Website: www.welfare.ie

A - National context

The Irish social security system is described as a 'mixed' system. It combines a social security system whereby entitlements to contingency-based benefits are secured largely on the basis of paid contributions linked to income, and a system of social assistance. With the system of social assistance, entitlements to similar contingency-based payments are based on an assessment of the person's means. Under this system, entrepreneurs are not insured for the prevention of unemployment. Assistance is only provided when an employee has lost his or her job.

The Irish social security system does provide a number of supports to people who are in receipt of social security payments e.g. because they are unemployed or have a disability. These supports may facilitate them to become employed or entrepreneurs by allowing them to retain their payments on a reducing basis. The support includes the Back to Work Allowance scheme (BTWA) and the Back to Work Enterprise Allowance (BTWEA). The Back to Work Allowance scheme (BTWA) was first introduced in 1993 to encourage the long-term unemployed and lone parents to take up employment or self-employment opportunities by allowing them to retain a reducing proportion of their social welfare payments plus secondary benefits over three years. The BTWA was part of a series of measures agreed by the social partners (government, trade unions and employers) to combat unemployment in disadvantaged areas at a time when the economy was stagnant and unemployment was high. The self-employment element of

the BTWA was separated out in March 1999 as the Back to Work Enterprise Allowance (BTWEA). The Back to Work Enterprise Allowance (BTWEA) scheme provides a range of supports to eligible people over a four-year period while they establish their business. This scheme is described below.

B - General description of measures or activity

The Back to Work Enterprise Allowance (BTWEA) was originally targeted at the long-term unemployed and lone parents but subsequently eligibility was extended to include other marginalised groups in receipt of social security payments (people with disabilities, ex-prisoners, carers). Eligible people applying to participate on the BTWEA must prove that their business is viable and will not displace another business already in existence. It is compulsory for applicants to produce a business plan and participation on a start your own business training course is also recommended.

Participants on the BTWEA can retain their social welfare payments in a reducing proportion over four years (100% of their social insurance benefits in Year 1, 75% in Year 2, 50% in Year 3 and 25% in Year 4). In addition, they can also retain secondary benefits such as the Fuel Allowance and the Christmas Bonus from the Department of Social and Family Affairs, Medical Card, Rent and Mortgage Interest Supplement, Diet Supplement and Back to School Clothing and Footwear Allowance from the Health Service Executive and rent differential from their local authority for the duration of the four years provided that their household income is less than EUR 317 gross per week. Research has shown that being able to retain their secondary benefits - particularly their Medical Card - is an important consideration for people in receipt of social security payments when deciding to participate in employment support schemes.

People who are being supported by the BTWEA may receive some extra support from the Technical Assistance and Training (TAT) fund. This fund has been established by the Department of Social and Family Affairs. TAT fund provides extra supports in the form of financial assistance for training, market research, equipment, business plans or book-keeping. Assistance may also be provided to cover the cost of public liability insurance. Grants may also be available to take on new employees. Additionally, the Department of Social and Family Affairs has also joined forces with a not-for-profit microfinance funding provider called First Step, to establish a fund that BTWEA participants can approach for interest-free loans for their enterprise of up to EUR 25 000. Other supports such as training and business support advice may be provided by other government departments or publicly-funded SME development agencies.

The BTWEA scheme is financed by central government and is administered by the Department of Social and Family Affairs. Decisions on a person's eligibility to the scheme in specified disadvantaged regions such as Partnership Areas can be made by the Partnership Company.

An innovative aspect of the BTWEA scheme is the concept of the "spousal swap." This means that a person eligible for the BTWEA scheme can transfer their eligibility for the scheme to a dependent adult. For example, a person in receipt of a disability payment can transfer eligibility to his or her spouse

so that they can become an entrepreneur. Women's representative groups have welcomed the introduction of the spousal swap arrangement but have pointed out that, for example, if a man is receiving social benefits and his female adult dependent wishes to access the BTWEA scheme in order to set up a business, she requires his consent and goodwill which may not always be available.

The cost of the combined BTWEA and BTWA schemes was estimated at EUR 53.5 million in 2005. No data were available on the cost of the separate BTWEA scheme.

C - Results (Impact of practice)

The results of an independent evaluation of the Back to Work Enterprise Allowance scheme and its sister scheme, the Back to Work Allowance (BTWA) scheme, were published by the Department of Social, Community and Family Affairs (as the Department of Social and Family Affairs was known then) in December 2000. The evaluation report presented a number of findings in relation to the BTWEA which showed that participants on the scheme had more work experience and somewhat higher educational attainments than participants on the Back to Work Allowance scheme.

The evaluation found that over half of former BTWEA participants would probably have taken up self-employment without the scheme. Thirty eight per cent of BTWEA surveyed said that their business had closed because they could not make a reasonable living from it; a further 24% said their business was not a viable prospect.

The evaluation report made a number of recommendations including that while the BTWEA scheme was important and relevant, given the high level of deadweight, the numbers of participants in the scheme should be reduced.

Data produced by the Department of Social and Family Affairs show that the take-up of the BTWEA during the period 1999–2005 has declined. In 2005, 1 991 people took up the scheme compared to 11 570 in 1999. It should be pointed out that this decline coincided with both a rapid growth in the Irish economy and a substantial decline in unemployment. The drop in BTWEA numbers has allowed the Department to provide a higher level of support to participants.

The Department of Social and Community Affairs considers that the BTWEA is a very successful scheme in assisting the long-term unemployed and other marginalised recipients into self employment with over 75% success rate in remaining independent of social welfare support.

There are no records available on the number of persons availing themselves of the spousal swap option but the available information suggests it is used regularly albeit in small numbers.

D - Determinants of success and bottlenecks

A key determinant of the success of the Back to Work Enterprise Allowance scheme is that it allows eligible people to retain their social security pay-

ments on a declining basis over a four-year period. Additionally, they can also retain important secondary benefits such as access to subsidised health care and accommodation. The scheme also provides a range of financial and other supports to participants to help them establish their enterprise. Eligible people applying to participate on the BTWEA must meet certain requirements. As mentioned, they have to prove that their business is viable, that it will not displace another business already in existence and be able to provide a business plan.

E - Elements of good practice and transferability

The Back to Work Enterprise Allowance Scheme can be considered as a good practice as it enables people who are in receipt of social security payments to establish a business on a self-employed basis by allowing them to retain a reducing proportion of their social security payments over a four-year period. Additionally, the scheme allows eligible people to retain their secondary benefits such as their Medical Card (which provides them with access to subsidised medical care); research has shown that the ability to retain secondary benefits can have a significant impact on a person's decision to participate in labour market support programmes.

Another important aspect of the BTWEA scheme is the availability of financial assistance to help the participant to establish their business. Financial assistance is, for example, provided towards the cost of public liability insurance which is expensive in Ireland.

The option of being able to transfer eligibility to the scheme to a spouse or dependent adult through the "spousal swap" facility is considered an innovative aspect of the scheme. The spousal swap permits a person who is eligible to the BTWEA scheme to transfer his (or her) entitlements to a dependent adult.

Another factor which has potential for transferability is that the BTWEA scheme is classified as an administrative scheme i.e. it is not established in law. The fact that it is an administrative scheme means that it can be amended quickly without recourse to the legislature.

Netherlands – Self-employed Benefit Decree

Aspect of social security: Prevention of unemployment

Target group: Entrepreneurs

Original name practice: Besluit Bijstandsverlening Zelfstandigen (BBZ)

Responsible organisation:

Ministry of Social Affairs and Employment (Ministry)

Anna van Hannoverstraat 4

2595 BJ Den Haag

Phone: +31 070 33 34 444

Website: www.szw.nl

Name of the organisations implementing the practice:

Municipal social services

A - National context

In the Netherlands there are national insurance, public employee insurance schemes and social assistance. With regard to the national insurance schemes, these are related to the basic old-age pension, exceptional medical expenses and survivor's pension. These insurance schemes are compulsory for all residents and they are not means-tested. The benefits received are flat-rate whereas the contributions are income-related.

The public employee insurances consist of public disability insurance (WAO) and public unemployment insurance (WW). Employers and employees pay contributions for these insurances. The public employee insurance schemes are not open for entrepreneurs, with a seldom-used exemption for start-ups on a voluntary basis. Entrepreneurs are able to insure themselves for disability on the private market but not for temporary unemployment risk.

Social assistance is non-contributory and accessible to all citizens. This is paid from the general funds and is means-tested.

Thus, entrepreneurs cannot be insured for unemployment under the social security system in the Netherlands. To support starters, entrepreneurs with financial difficulties and entrepreneurs that have terminated their business, the Self-employed Benefit Decree has been established. This decree is described below.

B - General description of measures or activity

The Self-employed Benefit Decree came into force in 1996 and was replaced by a new version in 2004. The Self-Employed Benefit Decree is aimed at preventing people from streaming into a benefit situation and stimulating people to flow out of a benefit situation, by stimulating entrepreneurship.

The Self-employed Benefit Decree is aimed at:

- unemployed persons starting up a business
- entrepreneurs in financial difficulties
- elderly entrepreneurs in financial difficulties
- entrepreneurs terminating their business.

Unemployed people drawing social security benefits may be entitled to financial support while starting up a business. They may receive a supplement to their income during the first 36 months of their self-employment. This supplement brings their income up to the level of welfare payment. This supplementary benefit will initially be granted as an interest-free loan. Depending on the income of the entrepreneur, the municipality will decide what part of the loan has to be refunded. They are also offered an opportunity to obtain a loan to prepare and to start their own business (start-up capital). This loan is interest-bearing. In addition, unemployed people who have the intention of starting up a company are enabled to draw on entrepreneurship benefits for a maximum of a year. During this preparation period, unemployed people are not obliged to apply for a job

and they may follow e.g. courses and/or conduct market research. One may receive a small compensation for the costs for these essential activities.

Entrepreneurs in financial difficulties may also be entitled to a supplement to their income and an interest-bearing loan (capital). The main conditions for entrepreneurs in financial difficulties are being self-employed for at least 1.5 years and having a viable business. The supplementary benefit is here also initially granted as an interest-free loan. Depending on the income of the entrepreneur, the municipality will decide what part of the loan has to be refunded. Entrepreneurs are entitled to the supplementary benefit for a maximum of a year. Social services may extend this period by a maximum of 2 years.

Entrepreneurs who are obliged to terminate their business are entitled to temporary income support for a maximum of 1 year. The main condition is that the business has to be terminated within 12 months.

Entrepreneurs older than 55 with a non-viable enterprise may receive temporary income support. The main condition is that they have been an entrepreneur for at least 10 years. If the possessions of the entrepreneur are above a certain level, the temporary income support is granted as a loan. If the possessions of the entrepreneur are below this level, then temporary income support is granted as a social assistance payment.

The municipal social services are responsible for enforcement and financing of the decree. The municipality can declare 75% of the costs for the supplementary benefit and the loans at the Ministry of Social Affairs and Employment. The ministry has the legal supervision.

C - Results (Impact of practice)

The BBZ has not recently been evaluated. In the year 2000, there were about 1250 requests granted for temporary income support (to cover living costs) and 1780 requests granted for interest-bearing loans. The estimated number of requests since 2000 is about 7100.

There is one relevant evaluation "Hoe het beter kan". This evaluation was conducted in 1997. It showed that BBZ is a regulation that is an adequate instrument for existing entrepreneurs and starters to prevent streaming into a benefit situation and improve streaming out of a benefit situation respectively. Furthermore, the evaluation showed that:

- New entrepreneurs are, after starting the business, often in need of help as well.
- The loan that starters were able to obtain was too low.
- The period during which the new entrepreneurs were able to receive a supplement to their income was too short.
- Many municipalities appeared not to be familiar with the BBZ. Every municipality had a different approach, especially in the determination of business viability. It appeared that the municipalities did not have the required expertise to assess the credit applications.

As a result of this evaluation, a project group was set up with the task of designing proposals to improve the quality of the BBZ. This project group

consisted of representatives of government, municipalities, the association of Dutch municipalities and the association of Directors of public organisations of Social Labour. The recommendations of the project group were taken into account by the Ministry of Social Affairs and Employment.

The actions taken as a result are:

- The Self-Employed Benefit Decree was amended: the loan ceiling was raised and the income support period was extended to three years.
- Information on BBZ is now provided to the people executing the measure and potential users ((new) entrepreneurs), to overcome the fact that the BBZ is often not well known. Information is provided through a general public folder, the website of the ministry of Social Affairs and Employment, in information meetings for municipalities and by spreading basic information on BBZ to administrators.
- Promotion of regional cooperation between municipalities. In order to facilitate collaboration between the municipal social services, a handbook was written providing practical support for setting up a regional implementing organisation.

From other research, it appeared that when persons in a benefit situation are moving towards entrepreneurship, guidance is very important. This is especially effective if the person intending to start up accepts guidance and is aware of the added value of such guidance. Under the BBZ, starters are able to receive a subsidy from the municipality in the first year of start-up to cover part of the costs of professional guidance.

D - Determinants of success and bottlenecks

The measure provides starters and existing entrepreneurs with support in establishing or continuing their business. Guidance to entrepreneurs is important here.

The income support (loan) is available at the exact points in time when entrepreneurs would otherwise remain in or flow into a situation of public (social) insurance support. Considering this, the actual costs of the measure are low. In addition, the details of the measure ensure that the arrangements never become open-ended.

A barrier was the lack of knowledge of the people at the municipalities executing the measure and potential users of BBZ funds. Therefore action has been undertaken to spread information on the BBZ among these groups. With regard to the former group, small municipalities were often not able to build up sufficient knowledge of the law because the scale of the activities was too small. As a result, attention has been given to cooperation between municipalities in a region. This would increase the scale on which activities are performed, improve the quality of the BBZ-based services provided to users, and possibly lead to an increase in use of the BBZ.

E - Elements of good practice and transferability

This practice may be seen as a good practice as it supports entrepreneurs in financial difficulties and supports entrepreneurs who have terminated their business. This is especially true in the context of the Dutch system, in which entrepreneurs cannot insure themselves against unemployment.

**Poland – Amendments to Social Insurance System
Act of October 13th 1998**

Aspect of social security:	Prevention of unemployment
Target group:	Entrepreneurs and assisting partners
Original name practice:	Ustawa zmieniająca ustawę o systemie ubezpieczeń społecznych

Responsible organisation:

Minister of Labour and Social Policy (public organisation)
Nowogrodzka St. 1/3/5
00-513 Warsaw
Poland
Phone: +4822 661 10 00
Website: www.mpips.gov.pl

Name of the organisation implementing the practice:

Social Insurance Institution (public organisation)
Czerniakowska St. 16
00-701 Warsaw
Poland
Phone: +4822 623 30 00
Website: www.zus.pl

A - National context

Until 31 December 1998, the act passed on 25 January 1986 on the organization and financing of social insurance was in force in Poland. Under this act, the social insurance system was based on the principle of 'pay as you go' (redistribution system). This old system unfairly rewarded some professional groups at the expense of others; it was a burden to the economically active population as employers had to pay huge insurance contributions. At the beginning of the nineties, for example, the contribution rate was 45%.

Since January 1999, the social insurance system in Poland has started to reform. This change was one of the biggest. The act on the social insurance system passed on 13 October 1998 (Act Register No. 137, pos. 887 with later changes) is one of the acts within this reform. This Act specifies among other things the rules of entitlement for social insurance, rules for establishing the insurance contributions, the rules for the operation of the Social Insurance Fund and the Social Insurance Institution.

The insurance contribution that is paid to the account of the Social Insurance Institution and to the OFE (the Open Pension Funds) is a constant, determined percentage of the remuneration of the worker. In 2006, no voluntary increase was possible.

In 2005, the Polish Parliament passed an amendment to this act on the social insurance system (Act Register No. 150 pos.1248), which is very beneficial to fledgling entrepreneurs.

B - General description of measures or activity

On 1 July, the Polish Parliament passed an amendment to the act on the social insurance system (Act Register No.150 pos.1248) which applies to the self-employed. This amendment came into effect on 24 August 2005. The objective of this amendment is to encourage people to start up business activities by reducing the basis on which the social security contributions that they have to pay are based.

According to the legal basis of the amendment (Act Register No.137, pos.887 with later changes), a person starting a business activity may pay contributions based on 30% of the minimum salary for a period of 24 months. For other persons, the basis on which contributions are calculated amounts to 60% of average remuneration.

Persons who can benefit from the reduced contribution base are: people who began non-agricultural business activities after 24 August 2005, partners in civil partnerships and free professional workers (lawyers or medical doctors, for example)¹. Persons who cannot benefit from the reduced contribution base are²:

- persons who were running a non-agricultural business in the last 60 months preceding the day of beginning the new business activity
- people who still work for their former employer, for whom they were working under contract or some cooperative arrangement in the current year or last year, where this type of work is the same as the new activity;
- partners in general partnerships, limited partnerships, professional partnerships, single partners of limited liability companies, and creators and artists.

The Ministry of Labour and Social Policy is the organ that supervises and monitors the implementation of decisions enshrined in the act on the social insurance system. The Social Insurance Institution on the other hand is the executive organ.

The system is financed by taxes, income-related contributions from insured persons and the state budget. The reduction of the contribution base does not have any negative effect on the financing of social insurance schemes. On the contrary, it will probably assure extra receipts and tax receipts through the mobilization of certain groups of people. More new entrepreneurs may decide to take up social insurance.

¹ Legal basis : art 18a of act from 18 October 1998 (Act Register No.137, pos.887 with later changes); art.2 and art.4 of act on freedom of business activity from 2 July 2004 (Act Register No.173, pos.1807).

² Legal basis: art.18a and 18 of act on the social insurance system from 13 October 1998 (Act Register No.137, pos.887 with later changes).

C - Results (Impact of practice)

Under this act, persons who start a business have to pay lower contributions to the Social Insurance Institutions for two years. In 2007, the contribution to be paid is approximately EUR 73. Other people running a business have to pay about EUR 196. By reducing the contribution base for new entrepreneurs, the financial burden to the entrepreneur is lower. This practice thereby:

- provides an incentive to start one's own business;
- tends to mobilize unemployed people;
- provides support for young people wanting to try their hand at business;
- attempts to keep the most entrepreneurial and mobile people in the country;
- stimulates legalisation of business activities by people who operated in the black economy before the introduction of the reduction. The high contribution of EUR 196 may cause people to prefer to operate in the black economy. A reduction of the contribution may encourage people to legalize their business activities.

In general, the opinion of the experts on the measure is positive. The reduction of the contribution base encourages young people to try to start a business and not to emigrate abroad. This is beneficial for the economy, especially when the country is starting to suffer from a lack of skilled workers. The practice has made many persons active, including the unemployed. The more enterprises are started, the more jobs are created.

With regard to unemployment, the reduction of the contribution base was one of the instruments which influenced the downward tendency in the number of jobless. The unemployment rate decreased from 17.6% in December 2005 to 14.9% in October 2006.

Experts emphasize that the popularity of the reduction mainly results from the fact that it meets the expectations of people who intend to start a business. They also mention that the same solution could also apply to employees entering the labour market who have no experience and usually no advanced qualifications – and because of this, are the most exposed to the risk of unemployment. Experts also stress that a general reduction of contribution and tax burdens imposed on work would facilitate the creation of new jobs by companies and many people would legalise the work they now perform in the black economy.

The reduction in the contribution base, and hence also in the contributions that have to be paid, does have certain costs for the entrepreneurs. Entrepreneurs must not forget that the lower contributions will also mean lower welfare benefits. This concerns mainly sickness and maternity benefits, but also applies to invalidity pension during the period of self-employment. The lower contributions will also influence (but not to a high degree) the amount of the future (e.g. old-age) pension. Furthermore, entrepreneurs taking advantage of this reduction do not pay contributions to the Work Fund. They therefore do not have right to unemployment benefit for this period.

The latest data from the Social Insurance Institution show that the number of people establishing their company and benefiting from a reduced contribution base is growing rapidly. In December 2005 the number of companies paying lower contributions was 30 000, while the number in November 2006 had increased to 145 800. The latter figure is out of 1.7 million people registered with the Social Insurance Institution as people running a business and paying insurance contributions on that basis. Thus about one-twelfth pay contributions on a reduced basis.

The latest research carried out by Academic Incubators of the Entrepreneurship Foundation shows that 91% of young people running or intending to establish their own business want a complete abolition of contributions at the beginning of their business activity. They would like this at least for the first year which is the most difficult for the company. Probably many more people would then dare to establish a company; testing whether their idea has a chance of realization. The basic rate on which contributions to the Social Insurance Institution are transferred (60% of average remuneration), is often too high for many people starting a business. Especially during start-up they usually do not make a profit and are unable to pay such high contributions.

D - Determinants of success and bottlenecks

By reducing the contribution base, incentives are given to start a business and to legalise the business. Furthermore, it attempts to stop emigration and reduce the unemployment rate. The reduction in the contribution has been welcomed by new entrepreneurs. A growing number of people are starting a business and are benefiting from a reduced contribution base.

Most of the young persons running or intending to set up their own business would even like to see a complete abolition of contributions to the Social Insurance Institution at the beginning of their business activity, at least for the first year which is the most difficult for the company.

Promotion of the measure may have contributed to its success. The measure has been promoted through the labour offices, the units of the Social Insurance Institution, through websites for entrepreneurs and press articles.

Payment of lower contributions however leads to lower welfare benefits. Entrepreneurs paying lower contributions for these two years, receive lower benefits (which are related to the contributions paid). This may discourage entrepreneurs and limit the positive effects of this measure. However, when comparing possible benefits and losses the balance looks positive. In order to start the business a reduction in costs may be necessary in the first years of business. Entrepreneurs may therefore decide to take this risk and set up their business.

E - Elements of good practice and transferability

The reduction of the contribution base in the period of 24 months following the start of business can be considered as a good practice. In this way, people (including the unemployed) are encouraged to start a business. In Poland the contributions would normally be very high for new entrepreneurs. The contributions are now reduced by more than 50%.

By stimulating entrepreneurship¹, this measure also contributes to the improvement of the economic situation. In addition, an increase in the chance to set-up and stabilize business activity should result after two years in enterprises paying full contributions.

**Romania – Law 76/2002 (modified through law
107/2004) & article 86**

Aspect of social security: Prevention of unemployment

Target group: Entrepreneurs

Original name practice: Legea nr 76/2002 (modificata prin legea 107/2004) & Articolul nr 86)

Responsible organisation:

Ministry of Labour, Social Solidarity and Family (public organisation)
Strada Dem.I.Dobrescu nr. 2-4
sectorul 1 București
Romania
Phone: +40 21 31 36 267 or +40 21 31 58 556
Website: www.mmssf.ro

Name of the organisation implementing the practice:

National Agency for Employment (Public organisation; under the authority of Ministry of Labour, Social Solidarity and Family)
Strada Sfântul Dumitru nr. 3
sector 3 Bucuresti
Romania
Phone: + 4021 31 39 140
Website: www.anofm.ro

A - National context

Romania has a single functional social security system, the state national system. This system makes no distinction between employees and entrepreneurs or partners, except for the fact that for entrepreneurs and assisting spouses the insurance is voluntary. Entrepreneurs and assisting partners may be voluntarily insured for invalidity, work-related injuries and occupational illness, sickness, old-age state pension, survivor's pension, unemployment, temporary leave for childcare and family benefits. This system is financed by contributions paid by employees, employers and the voluntarily insured. Besides contributions, the system is financed from interest, penalties for delayed payments and other revenues in conformity with the law. By way of exception, the deficit in the social security budget is made up with sums from the overall state budget.

¹ Introduction of preferential contributions writes down the assumptions of the National Development Strategy 2007 - 2015. Priority No. 1. of this strategy is 'The increase of the economy competitiveness and innovation Part A - The development of the entrepreneurship'.

Recently, the Government adopted a number of laws regarding the establishment of a so called "private pensions system". This private pensions system aims to add new compulsory and voluntary components to the existing state system. This system is administrated privately.

Prevention of unemployment is part of Law 76/2002. This law covers the rights and obligations of unemployed people, employers and public authorities. The law was modified and supplemented by Law 107/2004, which added further measures concerning the prevention of unemployment and support to entrepreneurs. For example, unemployed people receive courses for retraining and qualification free of charge. A measure more specifically directed at stimulating unemployed people to take up employment is described below.

B - General description of measures or activity

The measure was first implemented in 1991 as Law 1/1991. Later it was transformed into Law 76/2002 and modified and supplemented by Law 107/2004. This law includes the unemployment insurance fund system and employment stimulation. Article 86 of Law 107/2004 concerns the attractive conditions for accessing credit financed by the unemployment insurance fund system. Article 86 is still active. The measure is implemented through a yearly programme. Every year, a budget, part of the unemployment insurance fund, is allocated for this measure.

The objective of the measure is to support entrepreneurship and to create new jobs. The aim is to increase the number of entrepreneurs and to decrease the unemployment rate in those counties where the unemployment rate is higher than the average annual rate in Romania.

In order to support entrepreneurship, stimulating conditions are offered which are mainly targeted at:

- unemployed people who want to start a business or become an entrepreneur running an independent activity (priority);
- family business associations, SMEs;
- students aged up to 30.

The conditions relate to low interest for credit and tax-deductible unemployment contributions once a person becomes an entrepreneur. Once they have become an entrepreneur, they will be exempt from tax on their contribution to the unemployment fund. With regard to interest, entrepreneurs have to pay only 25% to 50% of the Romanian National Bank interest rate. The 50% interest applies to the counties in which the unemployment rate is higher than the annual national average unemployment rate. In order to obtain a credit, one has to fulfil the following requirements:

- Creation of new jobs, of which 50% are for unemployed people;
- Keeping the newly created jobs in the organisation for at least 5 years;
- Personal co-financing must be at least 25% of the total investment;
- The repayment period: maximum 3 years.

The new business must be developed in the production, service and tourism sectors.

The ministry, together with Romanian National Bank, set up the methodological norms for financing the new entrepreneurs from the unemployment insurance fund system. The National Agency for Employment signed a contract with the Romanian Commercial Bank (RCB). First, unemployed people have to contact the Agency to obtain the necessary documentation to apply for a credit from the RCB. The procedure for evaluation, approval, withdrawal, reimbursement and monitoring is carried out by the RCB applying the norms and instructions drawn up by the ministry together with the Romanian National Bank and the provisions identified in the contract signed with the agency.

The measure is financed by the unemployment insurance fund system. The unemployment insurance fund is administrated and supervised by the National Agency for Employment.

This system is financed, like the national system in Romania, with contributions from employees, employers and the voluntarily insured, among other things. The amount of funding provided for this measure depends on the number of new jobs that are created. Priority is given to those projects that involve the employment of disadvantaged persons like university graduates, unemployed single parents, unemployed people over 45 and gypsies.

C - Results (Impact of practice)

For the year 2005, there was a budget of EUR 16 million for this regulation, with approved credits totalling about EUR 5.5 million.

148 entrepreneurs from 25 counties received credits at 50% interest from the Romanian National Bank.

In 2005, 148 people took advantage of the measure to start an enterprise. These people created a total of 1 922 new jobs, with 1 035 unemployed persons becoming employed. For each new job created, the entrepreneurs receive about EUR 2 850 of credit in total.

The cost of this active measure is very low if we take into consideration that the credits are fully paid back with interest to the unemployment insurance fund. Moreover, not continuing to pay the unemployment indemnity to the unemployed leads to significant savings.

Taking account of inflation and risk factors, it may be estimated that the benefit represents more than 90% of the total cost of this measure.

There are no evaluation studies available. The National Agency for Employment evaluates the implementation of this measure using figures such as yearly budget allocated, number of beneficiaries, number of new entrepreneurs and new jobs created.

The evolution of this measure from 2002 to 2005

<i>Year</i>	<i>Credits EUR</i>	<i>Sum for each new created job (EUR)</i>	<i>Total number of beneficiaries</i>	<i>of which: new entrepreneurs</i>	<i>of which: unemployed becoming entrepreneurs</i>
2002	28 565 714	2 140	1 020	377	26
2003	31 314 286	2 850	1 003	345	13
2004	11 400 000	2 850	330	109	19
2005	5 470 571	2 850	148	39	0
Total	76 750 571		2 501	870	58

Source: National Employment Agency.

In the first years of implementation, the measure was more successful than in 2005. This is probably due to the decreasing unemployment rate and national economic growth. In January 2005, the unemployment rate was 6.4% and in December, 5.9%. In January 2006 the unemployment rate was 6.1% and in November it was 5.1%.

This measure is promoted every year by National Agency for Employment (NAE) through mass media and public conferences.

D - Determinants of success and bottlenecks

A main determinant of success was the consultancy provided by the NAE's experts. The experts supported the applicants in drawing up the documentation requested by the contracting bank RCB (usually the procedure for accessing a bank credit is quite complex). Also the low level of the credit interest (25% to 50%) and the wide range of activities financed by this measure (in the production, service and tourism sectors) can be seen as determinants of success.

The main barriers to implementing this measure successfully are:

- The decreasing interest rates in the banking market lead to serious competition with classical low-interest loans;
- Strict conditions imposed by the Competition Council and Regulations regarding state aid stipulated by Law 107/2004, article 86.2: the newly created jobs must be kept for a minimum period of 5 years. This condition was very hard for the entrepreneurs to accept;
- Romanian economic growth between 2002-2006;
- Rapid decrease in the unemployment rate made recruitment very difficult for the credit beneficiaries.

In order to stimulate the interest of people in this measure, the budget allocated to this measure will be increased by 50% from 2007, so the maximum credit will be EUR 430 000. And to encourage the creation of new jobs for unemployed people, the entrepreneur will receive a credit of about EUR 5 700 for each newly created job, an increase of approximately 100%.

E - Elements of good practice and transferability

This measure is considered as a good practice because it stimulates entrepreneurship among unemployed people and encourages family businesses. It contributes to national economic growth by creating new companies, developing existing ones, and creating new jobs which will bring increased tax contributions to the state budget.

3.8 Insurance of maternity (leave)

3.8.1 General

Social security arrangements with regard to maternity may consist of:

- pregnancy/maternity leave;
- paternity leave;
- maternity benefit.

Arrangements for pregnancy/maternity leave are present in most countries. The arrangements for this aspect show a number of differences between entrepreneurs and employees. Arrangements for maternity benefits on the other hand usually do not differentiate between entrepreneurs and employees. In most countries, paternity leave is not covered by the social security system. There are often no special provisions for starters.

Pregnancy/maternity leave

In all Member States, the general social security arrangements for pregnancy/maternity leave cover a period of leave during pregnancy and in the first weeks after the birth of the child. The period of leave varies from a couple of weeks to several months. In most countries the general social security arrangements also apply to entrepreneurs. In some countries (e.g. Bulgaria, Germany, Norway and Poland) entrepreneurs can be insured by the arrangements voluntarily. Sometimes (e.g. in Ireland) special conditions are applicable to entrepreneurs who want to be insured by these arrangements. There are some countries (e.g. Austria, Belgium, France and Norway) in which the facilities provided for pregnancy/maternity leave are less generous for entrepreneurs than for employees. Sometimes pregnancy/maternity leave is facilitated by covering the cost of a replacement person. Only in exceptional cases (e.g. Greece and the Netherlands) are the social security arrangements for pregnancy/maternity leave not applicable to entrepreneurs.

Paternity leave

Especially in the Scandinavian countries, but in some other countries as well (e.g. France, Latvia, and Slovenia), the mother's partner is entitled to a period of paternity leave. Where paternity leave is covered by the social security arrangements, the arrangements do not distinguish between entrepreneurs and employees.

Maternity benefit

Besides allowances that allow (expectant) mothers a period of leave, some countries (e.g. Bulgaria, Cyprus, Estonia, Finland, Greece, Latvia,

Luxembourg, Norway, Slovakia and Sweden) award mothers a maternity benefit. Where maternity benefits are part of the social security arrangements, the arrangements apply equally to entrepreneurs and employees.

3.8.2 Insurance of entrepreneur for maternity (leave)

In most countries there are public arrangements for maternity (leave) for entrepreneurs. This is supported by the public administrations. However, not all entrepreneurs seem to be insured for this aspect by social insurance. A fifth of the entrepreneurs do not even know if they are insured for this. The majority of the entrepreneurs also indicate that they are not insured for this aspect by private insurance.

Table 19 Percentage of entrepreneurs insured for maternity (leave); Europe-31

<i>Social insurance</i>	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	<i>Total</i>
Insured	2%	9%	0%	11%
Not insured	1%	65%	1%	67%
Do not know	0%	17%	5%	22%
Total	4%	90%	6%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.8.3 Insurance of assisting partner for maternity (leave)

With regard to the assisting partner, some public administrations indicated that there are arrangements for this group covering maternity (leave) and some indicated that there are no such arrangements. Overall the entrepreneurs who have an assisting partner indicated that the partner is not covered by social insurance. Also 84% indicated that the partner is not covered by private insurance.

Table 20 Percentage of assisting partners insured for maternity (leave); Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	26%	8%
Not insured	59%	84%
Do not know	15%	8%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.9 Insurance for (temporary) child care

3.9.1 General

Social security arrangements concerning child care may comprise:

- child care leave;
- child care allowance;
- child benefit.

Arrangements concerning child benefits are present in most Member States and usually do not differentiate between entrepreneurs and employees. Also, arrangements for child care allowance usually do not differentiate between entrepreneurs and employees.¹ In none of the countries are there any special provisions for starters.

Child care leave

In most countries child care leave is not covered by the social security arrangements and if these arrangements are offered, they mostly do not apply to entrepreneurs.

Child care allowance

A lot of countries (e.g. Bulgaria, Estonia, Finland, France, Germany, Iceland, Ireland, Luxembourg, Norway, Slovakia, Slovenia, the Netherlands and the UK) grant a child care allowance to compensate for the costs of child care. In some of these countries the child care allowance is paid indirectly by subsidising child care institutions. The conditions of child care allowances differ between countries, but usually they do not distinguish between entrepreneurs and employees.

Child benefit

Granting of child benefits while the children are growing up is very widespread (e.g. Liechtenstein, Malta). There are differences between countries with respect to how many years the child benefit is granted and the amount of the benefit can differ according to the number of children within the family and/or the specific circumstances of the child. Only in a couple of countries (e.g. Greece and Spain) are entrepreneurs excluded from child benefits. Usually child benefits are the same for entrepreneurs and employees.

3.9.2 Insurance of entrepreneurs for (temporary) child care

Of the public administrations, a large proportion also indicates that there are arrangements for entrepreneurs covering child care. When entrepreneurs are asked whether they are insured for this aspect, most of them indicate that they are not insured by social insurance. Also the

¹ Child benefit here refers to the benefit that parents receive to compensate for the general costs of the child. Child care allowance here refers to the allowance that parents receive to compensate for the costs of placing their child at a child care institution.

majority of entrepreneurs indicate that they are not insured by private insurance.

Table 21 Percentage of entrepreneurs insured for (temporary) child care; Europe-31

<i>Social insurance</i>	<i>Insured</i>	<i>Not insured</i>	<i>Do not know</i>	<i>Total</i>
Insured	2%	6%	0%	8%
Not insured	1%	66%	2%	69%
Do not know	0%	17%	6%	23%
Total	3%	89%	8%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.9.3 Insurance of assisting partner for (temporary) child care

Some public administrations indicate that there are arrangements for assisting partners covering child care. The majority of entrepreneurs who have an assisting partner indicate that the partner is not insured by social insurance. Besides, most entrepreneurs indicated that the assisting partner is not insured by private insurance.

Table 22 Percentage of assisting partners insured for (temporary) child care; Europe-31

	<i>Social insurance</i>	<i>Private insurance</i>
Insured	25%	8%
Not insured	58%	84%
Do not know	17%	8%
Total	100%	100%

Source: EIM Survey Social Security Entrepreneurs 2006.

3.10 Good practices relating to multiple aspects of social security

This section presents 5 good practices. Each good practice is briefly described and an indication is provided of the extent to which there are similar practices in other countries. This is followed by a long description of the good practice.

Austria – Commercial Insurance Act (§83)/General Social Insurance Act (§123)

This practice refers to assisting partners who have the opportunity to be co-insured in the sickness insurance of the entrepreneur without making additional payments or by paying very low additional contributions. In other countries also, it is possible for family members to be co-insured for sick-

ness. Similar practices can be found in e.g. Denmark¹, Greece, Luxembourg², Romania and Spain. In Denmark, Luxembourg and Spain, the assisting partner has the same opportunities as the entrepreneur to be insured for sickness. In Spain, family collaborators may be registered under the self-employed social security regime provided that they are not wage earners. Concerning benefits related to cover for medical expenses, in e.g. Greece and Romania the assisting partner is entitled to such benefits. In Romania, all residents are entitled to basic medical service, under certain conditions. In Greece, for instance, entrepreneurs and their family members are entitled, provided they are in possession of a health book that must be renewed every year.

Finland – Self-employed Persons’ Pensions Act (YEL)

In Finland, entrepreneurs and assisting partners are obliged to be insured under the YEL. New entrepreneurs may pay 25% less old-age pension insurance payments for the first 48 months. Entrepreneurs are able to pay more or less than the obligatory contributions for old-age, disability and survivor's pensions. In case of business failure the accumulated pension does not disappear. Similar practices can be found in e.g. Cyprus, Greece and Spain. With regard to the YEL, in Greece for instance entrepreneurs and assisting partners in the liberal professions are obliged to be insured under the O.A.E.E. Fund (Insurance for Liberal Professionals) for invalidity, survivor and old age among other things. In Spain a Self-Employed Workers Statute is being developed. With reference to reduced contributions during the period following start-up, several practices were mentioned in section 3.7. With respect to the retention of the accumulated pension, in Cyprus the provident fund pension does not disappear in case of business failure.

France - Law number 2005-882 of 2 August 2005 in favour of SMEs; Section 3: the collaborating spouse and new forms of activities

This practice from France refers to the compulsory insurance for old-age pension and invalidity of the collaborating spouse. Similar practices can be found in e.g. Belgium, Bulgaria, Finland, Hungary³ and Luxembourg. In Bulgaria, the collaborating spouse must have the status of a partner or employee to be insured under the compulsory social security arrangements for old-age pension and invalidity. In Belgium, the assisting partner and the entrepreneur are obliged to join the Social Insurance Fund. If the contributions are paid regularly, both are entitled to old-age and invalidity pension. Similarly, in Finland, entrepreneurs and their family members are obliged to be insured for YEL. Under YEL they are covered for old age, disability. In Luxembourg, the assisting spouse is covered for old age and invalidity under the assisting spouse regulation, or if the spouse decides to opt out, insured by the co-insurance of the entrepreneur as a self-employed person. In some countries there is no compulsory insurance for old age and invalidity but there is voluntary insurance (e.g. Romania and Slovakia).

¹ Act on Sickness Benefits, LBK nr 1047 af 28/10/2004.

² Assisting spouse regulation, see best practice in section 3.4.

³ Social Security Act Reference: Act LXXX of 1997.

Portugal – Decree-law no. 328/93 (25 September)

The main objective of this law in Portugal was to enhance the social security arrangements for self-employed people and to extend these arrangements to the assisting spouse. Both assisting spouses and entrepreneurs pay contributions on the basis of a conventional income which they may choose themselves. In the first year of start-up however both are exempt from contributions. As mentioned for example in section 3.4 of this report, in Italy the social security arrangements applicable to the entrepreneur are extended to spouses and some relatives. In other countries it is also the case that the social security arrangements applicable to entrepreneurs apply to assisting partners (e.g. Belgium, Finland). With reference to the payment of contributions, in some countries the entrepreneurs determine the contribution by choosing their insurance category (level) (e.g. in Greece). With regard to exemption from contributions, in Spain there are only some specific groups of new entrepreneurs who are exempt from paying contributions in the first year. Other practices related to contributions in the period following start-up have been included in section 3.7.

Spain – The Self-employed Workers’ Statute

Currently a specific legal status for entrepreneurs is being developed in Spain. This also consolidates a number of proposals intended to bring the system applicable to entrepreneurs more into line with the general social security system. In several countries there are acts to bring the arrangements applicable to entrepreneurs more into line with the arrangements applicable to employees (e.g. France, Germany). In France there have been equal rights to basic old-age pension for employees and crafts and tradesmen since 1973, and since 1998 they have also been entitled to the same reimbursements related to care. In Finland, this is done through legislation, e.g. the Unemployment Security Act (Act no. 1290/2002) and the Act on the Right to Pursue a Business (Act no. 122/1919).

Austria – Commercial Insurance Act (§83)/General Social Insurance Act (§123)

Aspect of social security:	All aspects
Target group:	Spouses (also applicable to other residents)
Original name practice:	§ 83 GSVG (Gewerbliches Sozialversicherungsgesetz/Commercial Social Insurance Act)

Responsible organisation:

Ministry for Social Security, Generations and Consumer Protection
Stubenring 1
A-1010 Wien
Phone: +43 171100-0
Website: <http://www.bmsg.gv.at>

Name of the organisation implementing the practice:

Sozialversicherungsanstalt der gewerblichen Wirtschaft
(Social Insurance Authority for Business – SVA - Self-administration body)
Wiedner Hauptstrasse 84-86
1051 Wien Austria
Phone: +43 15 46 540
Fax: +43 15 46 54 385
Website: <http://esv-sva.sozvers.at/>

A - National context

In Austria, social security is organised on the basis of compulsory insurance. This means that in general any person who performs a job (but also the registered unemployed) is subject to compulsory insurance (i.e. sickness insurance, accident insurance and pension insurance). The social security system in Austria is based on the ASVG (Allgemeines Sozialversicherungsgesetz or General Social Insurance Act) for employees and the GSVG (Gewerbliches Sozialversicherungsgesetz or Commercial Social Insurance Act) for self-employed persons.

The GSVG focuses on old-age pension and sickness insurance, but also covers pregnancy, child care, permanent disability, temporary or long-term disability and death. Statutory accident insurance for self-employed persons falls under the General Accident Insurance Authority (AUVA).

Unemployment is not covered yet, although the establishment of a special unemployment insurance for self-employed has been discussed for some years now. The pension and sickness insurance for self-employed is based on that of employees, but there are differences. In order to receive sickness benefits, for example, self-employed people have to be insured for a certain period of time while employees are entitled to them right from the start of their employment. Furthermore, sickness benefits for the self-employed may be paid for a shorter period of time and be calculated in a different way. Besides, self-employed persons generally pay a higher contribution (in terms of the percentage of the assessment base) than employees (for whom an additional part of the social security contributions is paid by the employer).

The Social Insurance Authority for Business is responsible for the administration of the social insurance of all self-employed persons covered by the GSVG with the exception of those employed in agriculture.

The following information applies to business people and business partners who are, generally speaking, subject to compulsory insurance under the GSVG. In detail, the following persons are covered (the category of new self-employed are only subject to compulsory insurance if the income from professional and other independent services according to the notice of

assessment plus the prescribed contributions for sickness and pension insurance for the respective calendar year is above the threshold of EUR 6 453 (in 2006)):

- Members of the Austrian Federal Chamber of Commerce;
- Partners in an ordinary partnership;
- Partners with unlimited personal liability, i.e. full partners;
- General partners in a limited partnership;
- Managing partners of a private limited company.

The insurance protection for this group consists of the following:

- GSVG pension insurance;
- GSVG health insurance;
- ASVG accident insurance.

Generally speaking, the amount of the pension and health insurance contributions is determined by the income of the insured. For accident insurance, a "fixed" annual contribution must be paid. This does not depend on income.

Since the GSVG came into force, there has also been the instrument of co-insurance within the compulsory sickness insurance. Commercial health insurance policies for self-employed people not only protect the person insured, but, under certain necessary conditions, also children and a spouse or partner taking care of the household. All these persons are entitled to claim provided that they do not have their own (statutory) health insurance. One large amendment regarding co-insurance occurred in the year 2000, when the previously wholly contribution-free co-insurance was limited to certain circumstances. Following this amendment, entrepreneurs in some cases have to pay an additional amount for having their dependant relatives insured. The description below focuses on the current state of the co-insurance under the act of § 83 GSVG. The act is targeted at the immediate family members of the entrepreneur. This includes the spouses and children.

B - General description of measures or activity

The objective of § 83 GSVG is to provide a favourable co-insurance within the area of sickness insurance for close relatives. Under this act immediate family members have the opportunity (if there are not insured themselves) to be co-insured in the sickness insurance without making additional social insurance payments or at very low additional contribution.

The following people can be co-insured: legitimate, illegitimate and legitimised children and adopted children; also stepchildren and grandchildren who live in the same household as the insured on a permanent basis, or foster children who are being cared for by the insured without payment, or on the basis of an official authorisation. A person is considered a child until his/her 18th birthday or beyond 18 - and up to the age of 27 - if engaged in school/university education or apprenticeship training. An entitlement beyond this age can only be awarded in exceptional circumstances.

For children, the entitlement is non-contributory. In other words, an additional payment for co-insurance does not need to be made. For spouses and partners, however, a supplementary payment is generally required. If the family member is raising a child who lives in the same household or has done so for at least 4 years in the past, or if the insured person is claiming a level 4 allowance for nursing care or above and is being cared for by the family member, or the family member himself is claiming an allowance for nursing care of level 4 or above the claim entitlement for co-insurance is also non-contributory. A supplementary payment is also not required, if the net income of the insured person falls below the income support threshold for spouses (EUR 1 055.99 per month in 2006), or the insured has a special need for social protection.

If an additional contribution has to be paid, it amounts to 3.4% of the assessment base to be applied for the contributions of the "main-insured" person (i.e. the entrepreneur or employee).

The contributions for the pension and health insurance schemes are limited by a maximum assessment base. In 2006, this amounts to EUR 4 375 per month (EUR 52 500 per annum).

C - Results (Impact of practice)

The opportunity of co-insurance exists under the main health insurance systems of the ASVG as well as the GSVG. About one-third of the Austrian population is co-insured. The majority of co-insurances stem from insurances of employees.

In 2006, there were about 187 000 co-insured people under the GSVG (about 28 000 spouses and 159 000 children, 1 400 liable to contributions). In 2000, before the contribution-free co-insurance was abandoned, about 102 000 people were co-insured (29 000 spouses, 73 000 children). In the years 2002 and 2003, 121 000 and 176 000 people respectively were co-insured under the GSVG.

The increase in co-insured children between 2000 and 2006 is attributable to a dynamic development in the field of start-ups in Austria.

The general opinion on the co-insurance is positive. There has been no evaluation of the effects of co-insurance.

D - Determinants of success and bottlenecks

In total (under the ASVG and the GSVG system), about 7.9 million people are covered by a sickness insurance. That refers to 97.6% of the Austrian population.

As far as known there were no particular bottlenecks that had to be overcome to make this practice successful. The restriction of contribution-free co-insurance mainly to spouses who are or have been fostering children introduced in the year 2000 could be seen as bottleneck. However, the fact that a supplementary contribution had to be made only for a very small number of people while the huge majority is co-insured for free shows that the effects of this amendment have not been severe.

E - Elements of good practice and transferability

This measure can be seen as an opportunity to assure the social protection of close relatives who are not in a position to hold a job providing for compulsory sickness insurance. To provide entrepreneurs (and not only employees) with the opportunity of (low-cost) co-insurance for close relatives within their sickness insurance can be seen as the materialisation of a social acceptance that also entrepreneurs and not only employees are entitled to benefit from the system of a "social state".

The success of this measure is related to the specific national context of Austria and is seen to be realised only in social welfare states with a high level of compulsory insurance. Conditions that have to be in place are acceptance within the society and competent authorities that the social protection should not be limited to employees but also be given to self-employed. Then, however, the (comparatively high) amount of social insurance contributions can be an obstacle to starting a business and may even endanger the liquidity of starters. Consequently, lowering social security contributions can be seen as a good way for balancing the wish for full social protection and the requirement for limiting financial burden in the start-up process.

Since the amendment in 2000, contribution free co-insurance has been linked to the raising of children. However, spouses who are not or have not raised a child must not be seen to have been "abandoned", since as also in other cases of co-insurance contributions amount to "only" 3.4% of the entrepreneurs' assessment base.

This regulation has to be seen within the broader framework of the achievement of a "social state". As the Social Insurance Authority for Business is administrating the only sickness insurance in Austria and whose income is higher than its payments, the small contribution of the immediate family member of the entrepreneur is sufficient to finance this measure.

Finland – Self-employed Persons' Pensions Act (YEL)

Aspect of social security:	General
Target group:	Entrepreneurs and assisting spouses
Original name practice:	Yrittäjien eläkelain mukainen vakuutus (YEL) (14.7.1969/468)

Responsible organisation:

Finnish Centre for Pensions (public organisation)
00065 Eläketurvakeskus
Phone: +358 10 75 11
Website: www.etk.fi

Name of the organisation implementing the practice:

Insurance companies operating in Finland (private organisations)

A - National context

In Finland, the same basic social security benefits are applied to the self-employed as to all other Finnish residents. All Finns are entitled to sickness, maternity and family benefits, basic unemployment benefits and national pensions (invalidity, old-age and survivors pension), which are provided by The Social Insurance Institution of Finland (KELA). Employed and self-employed persons are also covered by the statutory earnings-related pension system. Spouses working in the company without any salary are also entitled and obliged to take out self-employed persons' pension insurance. Self-employed people with a statutory earnings-related pension above a certain limit (around EUR 900-1 000 per month in 2006) are not entitled to a national pension.

For the earnings-related pension the self-employed and their spouses are insured under different acts from employees. Self-employed persons and spouses are insured under the Self-employment Persons' Pension Act (YEL), while employees are insured among others under the (State) Employees Pension Act, Temporary Employees Pensions Act or Local Government Pension Act.

B - General description of measures or activity

The Self-Employed Persons' Pensions Act (YEL) came into force at the beginning of 1970 (Act number 14.7.1969/468). The objective of the Act is to offer protection against old age, sickness, disability and unemployment. The surviving spouse can receive a surviving spouse's pension both from YEL insurance and under the General Survivors' Pension Act, administered by the Social Insurance Institution (KELA). An unmarried partner is not eligible for a surviving spouse's pension. In this respect registered partnership is comparable to a marriage.

In accordance with YEL, entrepreneurs are entitled and also obliged to take out pension insurance. This obligation applies also to any family member who works in the company without being paid and to partners in a general partnership or majority shareholders with a controlling position in a limited liability company. The entrepreneur must fulfil the following requirements: age between 18 to 68 years, resident in Finland regardless of citizenship, working for the business (ownership does not require insurance to be taken out), history of operating as an entrepreneur for an uninterrupted period of at least 4 months since reaching the age of 18. The self-employed person's annual *confirmed income* must be at least EUR 5 850.92 (in 2006) and he should not fall within the scope of any other pension legislation based on the same work performance.

Insurance under the YEL has to be taken out within 6 months after the start of the business. The Finnish Centre for Pensions supervises the pension coverage of entrepreneurs and is entitled to take out YEL insurance on behalf of, and at the expense of, an entrepreneur who has neglected the obligation.

The confirmed income on which the premiums are based corresponds to the wage that would be paid to an equally skilled professional for doing the same work. So it is not based on the turnover or operating income of the

business, but on average wages in the line of business. Consequently, the confirmed income is often higher than the actual income when starting up the business, but may be lower than the actual earnings when the company is performing well. The confirmed income is also the basis for calculating the unemployment subsidies and parental subsidies.

The pension reform in 2005 enabled some flexibility in the pension contributions; the entrepreneur has an option to make some extra payments (10-100% over the obligatory contribution). On the other hand the optional contribution may be 10-20 % lower than the obligatory contribution. The entrepreneur can decide on the extra payments every year, but optional reductions may only be claimed in three years out of seven. The pension contributions paid are tax-deductible.

YEL insurance cover is offered by private insurance companies. These insurance companies are jointly and severally liable for the pension payments. The insurance is funded out of the contributions from entrepreneurs. In 2006, the contribution was 20.8% of the annual income when the entrepreneur is under 53 years old. If the entrepreneur is over 53 years old, the rate is 21.9%. However, older entrepreneurs have some other advantages concerning the accrual of their pensions. If the total contributions received prove to be insufficient, the state finances the deficit.

For entrepreneurs or their YEL-insured spouses aged under 53 years who are working, the accrual rate is 1.5% for each year of employment. For persons aged between 53 and 62 the accrual rate is 1.9% and for persons aged between 63 and 67 the accrual is 4.5%. Especially important for entrepreneurs starting up is the benefit of receiving a 25% discount on the old-age pension insurance payments for the first 48 months. The accumulated pension of the self-employed person does not disappear in the event of business failure

As for employees, the earnings-related pension will be paid also for periods of study, maternity, paternity and parental leave. Pension provision for periods of study is a completely new benefit. A pension will accrue for 3-5 years depending on the level of the degree or qualification. During that time the payments are based on the theoretical monthly income of around EUR 570, and the pension contributions will be financed by the state. One requirement is that the studies end with a degree or a qualification.

C - Results (Impact of practice)

At the end of 2004, 225 099 persons were insured under YEL.¹ Of them 23 298 were retired, 164 696 were entrepreneurs, 36 325 had not retired but were not working either (e.g. entrepreneurs who have become unemployed, are on parental leave etc.) and 780 had died during the year in question. Family members who are insured based on YEL are not registered

¹ Finnish Pension statistics are constructed according to the principle that one person can be classified to one category only. The priority in registering is fixed and YEL 'comes after' Employees' Pension Act. Thus, entrepreneurs who simultaneously work as an employee, are not included in the figures of YEL insured. The same holds for pensioners who receive pension based on two acts.

separately. Statistics Finland indicate on the basis of survey data that around 4000 'family members' were working in the firm of another family member in 2004, and around 5000 in 2005.

There are no recently conducted evaluation studies of YEL available. In 1995, Raili Hyrkkänen studied entrepreneurs' opinions of YEL in the context of business transfer in companies. That study showed that the pension accrued was mostly considered smaller than expected, generally due to a shorter period of accumulation (from 1970 onwards) than in employee pensions, and too low a level of confirmed income. The pension reform in 2005 tried to eliminate this problem.

Entrepreneurs' associations constantly highlight the importance of taking YEL and defining the confirmed income level high enough. The image of YEL among entrepreneurs was previously poor. It was regarded more or less as an extra burden and pointless item of expenditure, especially at the early years of entrepreneurship. The pension insurance payments are more visible to entrepreneurs than to employees, and thus the necessity is more easily questioned. It has been argued that the self-employed love pension contributions as much as they love taxes. The main reason for this might be that the system did not previously match 'the real world'. The new pension reform has enabled more flexibility in payments, so the problem may be disappearing. However, it is expected that it will take time to accomplish changes in people's attitudes.

New entrepreneurs are taken into account in the law. Since the pension reform in 2005, the YEL system motivates and supports new entrepreneurs to set the confirmed income high enough by offering them a 25% discount on old-age pension insurance payments for the first 48 months. After that the flexibility of payment may be applied. Because the contributions are fully tax-deductible the YEL contributions can also be used for income equalisation at the end of the financial year. The choice of a confirmed income based on the average wage is seen as good, as entrepreneurs can normally take out the money in other forms than salary, e.g. dividends.

It has been calculated that the proportion of the voluntary extra payments used for the old-age pension will be returned to the entrepreneur within eight years of retirement, and in the case of incapacity for work all contributions will be recovered even faster. According to this calculation, increasing one's statutory pension contributions is often more profitable than taking a voluntary pension.

It must be remembered that YEL contributions also include other elements than security for old age. The most common reason for leaving working life is incapacity for work. Only about 45% of starting old-age pensions inside the YEL system are new, the rest are disability, part-time or unemployment pensions. The versatility of the measure has been regarded as one of its most important benefits.

D - Determinants of success and bottlenecks

As the Self-Employed Persons' Pension Act was changed substantially in 2005, it is still early to evaluate the successfulness of the practice. In general, the expectations are good.

Bottlenecks and lessons learned are:

- Entrepreneurs must be constantly reminded of the importance of providing for old age and sickness; it is often more tempting to make choices based on short-term rather than long-term factors.
- The system is not supportive of self-employed persons with a low level of income. Any increase in earnings-related pension decreases the national pension by a similar amount. Therefore, the system is not profitable to them.
- The system is not supportive of self-employed persons with a high level of income either. The highest confirmed income possible is EUR 97 605.09 a year (in 2006). When the actual income of an entrepreneur is higher, the insurance contributions cannot be increased. In this respect, employees with high incomes are in a better situation.
- There are also some entrepreneurs who are not entitled to YEL cover but are not employees either. For example, if there are two siblings, who have each inherited 50 percent of a limited liability company, and do not pay themselves a salary, they do not fall within the scope of either YEL or TEL insurance. They are not entitled to YEL cover because they are not majority shareholders in the limited liability company and they are not entitled to TEL because they do not receive a salary.
- A lot of emphasis needs to be placed on spreading information and shaping attitudes, in order to make this kind of system work as intended.

E - Elements of good practice and transferability

YEL insurance can be considered as a good practice as it is a versatile "tool". It encompasses many dimensions of entrepreneurs' social security. It also takes into account the dynamics of the entrepreneurship. YEL is also regarded as a competitive product even compared to the commercial pension insurances.

The process of implementation has revealed the importance of finding the right channels for spreading the information. Especially small-scale entrepreneurs with a poor network, who are not a member of any entrepreneurs' association, are hard to reach.

France - Law number 2005-882 of 2 August 2005 in favour of SMEs; Section 3: the collaborating spouse and new forms of activities

Aspect of social security:	Insurance and the prevention of permanent disability & Old-age insurance and state pension
Target group:	Spouses
Original name practice:	Loi n° 2005-882 du 2 Août 2005 en faveur des PME, Titre III: le conjoint collaborateur et les nouvelles formes d'activité

Responsible organisation:

Ministry of Small and Medium size Enterprises, trades and crafts, professionals – department of trades and crafts, services and professionals (*Ministère des Petites et Moyennes Entreprises, du Commerce, de l'Artisanat et des Professions libérales - Direction du Commerce, de l'Artisanat, des Services et des Professions libérales*)

Address: 3/5 rue Barbet de Jouy

75007 PARIS FRANCE

Phone: +33 01 43 19 36 36

Website: www.pme.gouv.fr

Organisations implementing the practice:

Retirement agencies (private companies)

A - National context

For many years, entrepreneurs' spouses participating in family enterprises had no social recognition of their work and no personal rights to old-age pension benefits (Zarca, 1990). In case of separation or the death of the partner, the lack of individual rights for spouses created major problems. One of the general trends in the 1970s was the development of demands for equal rights for women and men. With this as the background, the associations of the spouses of entrepreneurs called for improvements in their status. Among these was the association of self-employed worker spouses in France (*Association de Conjoints de Travailleurs Indépendants de France*), created in 1975.

In 1982, Law n°82-598 of 10 July gave a status for the spouses of self-employed on a voluntary basis. Three statuses may be chosen:

- Collaborating spouse (*conjoint collaborateur*),
- Associated spouse (*conjoint associé*),
- Salaried spouse (*conjoint salarié*).

The salaried spouses have exactly the same rights as any salaried person in terms of social security cover (sickness, disability, old-age pensions). The associated spouses are registered as partners in the company. They contribute to the same social schemes as other self-employed people and get the same benefits which vary according to the duration and amount of contributions paid.

Collaborating spouses are officially working in the enterprise without being paid. They may get individual rights for old-age pensions by contributing voluntarily to old-age pension schemes. The status of collaborating spouse is only available to married partners.

The 1982 Law showed its limits as only a small minority of spouses were covered. According to a survey by the Federation of Approved Management Centres which provides services to the self-employed (*Fédération des Centres de gestion agréés*), in 2003 half of the small enterprises in the field of trades or crafts were benefiting from the work of the partner of the entrepreneur. Of these, 42% had no status, 31% were collaborating spouses, 25% were salaried, and 3% were associated spouses.

The number of entrepreneurs registered as small businesses by the competent authority, either the chamber of commerce (*Chambre de Commerce et*

d'Industrie) or craft (*Chambre des Métiers*) is around 1 200 000. This means that about 240 000 spouses or non-married partners are working without any status in the SME. Of the 180 000 collaborating spouses, only 28 000 are contributing to an old-age pension scheme. Among the professions, for over 450 000 registered people, only 3 000 have declared a collaborating spouse. In the 2004 survey conducted by the Federation of Approved Management Centres, 79% of the small entrepreneurs mentioned the retirement scheme as a field that needs to be improved.

In recent years, the lack of personal rights for so many entrepreneurs' partners has been seen as a real cause of concern. This is why many different players, such as the associations of self-employed spouses, the Paris Chamber of Commerce (in 2003), and a working group created at the instigation of the Ministry of Small and Medium Size Enterprises (under the presidency of Senator Gérard Cornu), offered several measures for the improvement of the status of the spouses in SME.

B - General description of the measure

According to the Law of 2 August 2005, in all enterprises where the head of the company's partner is working on a regular basis, it is compulsory for the spouse to choose between the three statuses mentioned above. The spouses choose their status with the agreement of the head of the company who is also responsible for transmitting the information on the choice of status to the 'Centres for company formalities' (Centres de formalités des entreprises). If the spouse opts for the status of associate spouse or salaried spouse, the private retirement agencies register this choice and collect the social contributions. In the case of spouses participating in the family enterprise on a regular basis and doing part-time salaried work in another company representing at least a half-time job, it is not compulsory to opt for a status, but this may still be done voluntarily. Since 2002, the spouse of the entrepreneur involved in a liberal profession may also choose to become a collaborating spouse; this is also not compulsory.

The measure is targeted at SME spouses contributing to the company by their work without having any status and/or without accumulating any personal rights for old-age pensions and disability. The main objective of this measure is to create a real status for all spouses working regularly in SMEs, by providing individual rights for old-age and invalidity pensions. This status also provides additional rights to collaborating spouses for training, voting in professional elections, managing and representing the society.

With regard to the old-age pension, all collaborating spouses must contribute to a retirement scheme in order to obtain personal rights to an old-age pension. Disability insurance is also compulsory. The change from the previous law is that being registered and contributing to these insurance schemes is now compulsory and open to professions.

Spouses may choose the basis on which the social security contributions are calculated. They may choose between:

- one third or half of the professional income, with a minimum of the equivalent of 200 hours at the minimum wage per year;

- a specific fixed sum (*revenu forfaitaire*) equal to one-third of the annual social security ceiling (in 2007 revenue forfaitaire amounts to EUR 10 728).

The choice of the basis for contributions may be changed every year. With regard to the payment of the contributions, it is possible to ask for a delay in the payment of the first twelve months' contribution. The payment may be spread over the next five years without any penalties. It will also be possible to pay for the contributions for the previous five years in order to increase old-age pension entitlements for the spouses already involved in the company.

For companies that do not wish to increase the amount of their social contributions, it is possible to share the contribution previously paid only for the head of the company between the head and the spouse, their rights being divided between them.

The expected number of spouses benefiting from the new status and future rights for old-age benefit is between 135 000 and 250 000.

The measure has not been fully implemented yet. The statutory order explaining the definition of collaborating spouses was published on 1 August 2006. This status is only available to companies having less than 20 full time members of staff. The statutory order explaining the different options of calculation for the contributions was published on 11 December 2006. The declaration has to be submitted no later than 2 months after the publication of the statutory orders. The last statutory order only concerns trades and crafts; the statutory order concerning professions is still to be published.

The measure is entirely paid for by employers' contributions.

C - Results (Impact of practice)

It is quite impossible at this stage to draw any conclusions about the impacts of the practice as it has not been fully implemented. At the end of 2006, no specific survey or evaluation was planned. The Ministry of SMEs and the Ministry of Health – especially the Department in charge of the funding of Social Security and Old Age Pensions – carefully monitors the evolution of the number of registered and contributing spouses in small and medium sized enterprises. Those services are in close relation with the private sectors in charge of helping SMEs in their management or dealing with the collection and distribution of old-age pensions and invalidity pensions.

D - Determinants of success and bottlenecks

The success of the Law will depend on the information provided to SMEs about this new regulation and on the behaviour of SMEs faced with this obligation to register spouses and pay for their old-age and invalidity contributions.

One of the limitations of this law is the restriction to married partners of entrepreneurs. This issue was raised by the previous reports before the Law was approved (Chambre de Commerce et d'Industrie de Paris in 2003, Commission Cornu in 2004, Reports of the project of the Law in Parliament

and Senate) as well as during the debates in Parliament and Senate. The general opinion was in favour of an extension of the measure to partners under common law. This was not decided because of the project to reconsider the general status of non-married couples having signed a specific contract organising their life in common (Civil agreement of Solidarity - *Pacte Civil de Solidarité*).

E - Elements of good practice and transferability

This law is generally considered as a good response to the question of the lack of status and individual rights of SME entrepreneurs' spouses. The very recent dates of the statutory orders of implementation and the delays to put them in practice (a whole year) do not provide an opportunity to say more about its success or failure.

It may be feasible to transfer the general idea of providing a status and individual rights to spouses of self-employed workers, although not all countries have different statuses for spouses. The adaptation in each country would depend on the structures existing for organising the Social Security system.

Portugal – Decree-law no. 328/93 (25 September)

Aspect of social security: Permanent disability; temporary long-term disability/sickness; old age; pregnancy/maternity; child care

Target group: Entrepreneurs and assisting spouses

Original name practice: Decreto-Lei nº 328/93, de 25 de Setembro

Responsible organisation:

Secretary of State for Social Security (Department of the Ministry of Labour and Social Solidarity)
Praça de Londres, 2 - 17º
1049-056 Lisboa
Portugal
Phone: +351 21 84 41 700
Website: www.mtss.gov.pt

Name of the organisation implementing the practice:

Social Security Institute (Government agency)
Rua Rosa Araújo, 43
1250-194 Lisboa
Portugal
Phone: +351 21 31 02 000
Website: www.seg-social.pt

A - National context

In Portugal there are arrangements for employees and self-employed people. Alongside these arrangements there is a Voluntary Social Insurance scheme covering people not working but who want to build up contributions

in order to qualify for old-age or invalidity or survivor pensions, volunteer workers/researchers benefiting from scholarships and workers employed by foreign ship-owners. There are also non-contributory arrangements that cover economically or socially disadvantaged people.

With regard to the arrangements for the self-employed, there is compulsory insurance for benefits in case of maternity, occupational illness, invalidity, old-age and survivor's pensions. Self-employed people who earn no more than six times the highest minimum salary are not compulsorily insured. Besides, there is a voluntary insurance for sickness and the self-employed are entitled to child care benefits like all residents. In case of work-related injuries, the self-employed are required to be insured with private insurance companies. The spouse has been included under the arrangements of the self-employed since 1993. Both self-employed people and assisting spouses pay contributions in order to be insured. As the self-employed have to pay both the share of employer's and the employee's share, their contribution is higher. The contribution of the assisting spouses is calculated in the same way as the self-employed.

The arrangements for employees (private sector)¹ are different from the arrangements for self-employed people regarding sickness, maternity and unemployment. There are no insurance arrangements against unemployment for the self-employed. With regard to sickness, the waiting period before receiving sickness benefits is longer for self-employed people than for employees, whereas the period over which benefits are paid is shorter. With reference to maternity, self-employed people are not entitled to paternity leave and the optional leave that follows paternity leave whereas employees are entitled.

Social security arrangements in Portugal are managed by the ISS (Social Security Institute), IGFSS (Social Security Financial Management Institute) and distributed by regional and local social security offices. The ISS also oversees the National Pension Centre, responsible for managing the pensions of the system. MTSS oversees the activities of these bodies and is responsible for policymaking in the labour and social security areas.

B - General description of measures or activity

Decree-Law no. 328/93 was implemented in January 1994. The law is targeted at self-employed people and assisting spouses. The main objective of this law is to enhance the security arrangements for self-employed while also extending these arrangements to the assisting spouse. With reference to the latter, an assisting spouse was defined as "a spouse who works with the self-employed person, collaborating with him/her in carrying out his/her profession on a regular and permanent basis". Under these extended arrangements assisting spouses have the same conditions as the self-employed person as regards contributions, benefits and requirements.

¹ Different arrangements apply to employees from the private and public sector. There are in Portugal specific arrangements for employees of the central, regional and local governments, these fall under the Civil Servants' Pension Fund (Caixa Geral de Aposentações). Employees of some government owned companies and institutes, incorporated under private commercial law (but not the civil servant's), are covered by the compulsory social insurance arrangements of employees.

Under the arrangements introduced in 1993 and amendments to them, contributions paid by self-employed persons (and spouses) are based on a conventional income specified by the self-employed person at the time of registering or at the time changes to the conventional income are notified¹. This conventional income is selected by the self-employed person from 10 levels, defined as multiples of the national minimum wage, starting at 1.5 times and rising to 12 times this minimum wage². The contributions are calculated by applying one of 2 rates to the selected conventional income: 25.4% applies to the mandatory provisions (maternity, occupational disease, invalidity, old age and survivors) and 32% applies to the voluntary extended provisions (same risks plus sickness). Self-employed people with annual income between 6 and 18 times the national minimum wage may ask the social security institution to apply a conventional income below the established brackets, but this income cannot be lower than half of the minimum wage.

Self-employed persons (and assisting spouses) may be exempt from contributions during the first 12 months of activity. This remains an option for the self-employed person. The first contribution is thus paid in the 13th month after the inception of their businesses. This exemption does not apply to the self-employed person resuming an activity that he/she had suspended in the past. If the income of the self-employed person is less than half the minimum wage, registration with the social security system is not mandatory, but remains an option for the self-employed.

The arrangements are funded by the social security budget, which is financed by mandatory contributions from employers and employees, including the self-employed and assisting spouses, as well as the government (on a supplementary basis). The contributions of entrepreneurs and assisting spouses are paid to the IGFSS. Benefits are paid by the ISS. Although the overall contributions are made publicly available by the social security system (contributions are added to the overall budget), there are no figures concerning the overall cost of the arrangements applicable to entrepreneurs and assisting spouses in terms of disbursements paid.

C - Results (Impact of practice)

In recent years the number of self-employed in Portugal has remained stable (around 1.2 million people), showing a small decline, from 24% (1998) to 22% (2005), as a percentage of the total labour force. According to the latest statistics published by MTSS there were slightly more than 400 000 registered self-employed people contributing to the social security system, and thus beneficiaries of the Decree-Law 328/93 arrangements. So only about one-third of the self-employed are taking advantage of the Decree-Law 328/93 arrangements. Not all entrepreneurs are covered under this Decree. This may be because some entrepreneurs are covered by different social security arrangements, e.g. in case of lawyers/solicitors,

¹ Some restrictions apply to these changes, e.g.: changes are accepted on an yearly basis, increases are only allowed to the immediately following level.

² The conventional income of the assisting spouse must not exceed the self-employed conventional income.

where the entrepreneur is seen as an employee of the business or e.g. where entrepreneurs also have a job as employee in public sector and are covered for social security by the Civil Servants' Pension Fund.

The number of beneficiaries of the arrangements, which reached a peak in 1994 immediately after the legislation was passed, has been declining since then. This may be explained by the restriction of coverage in 1996 and 1999 to self-employed people with annual income above 6 times the minimum wage/salary and by the exemption of self-employed people who were already covered by other social protection arrangements. This may also be due to the transfer of people from self-employed status to employee status or to unemployed status:

- Some companies have some of their staff contracted as self-employed to avoid running costs and to make the dismissal process easier in case of downsizing. When there is a strong upturn in the general economic conditions (as in the 2nd half of the 90s), there is a transfer of workers from entrepreneur to employee status. When there is an economic crisis situation, the workers with the status of entrepreneur are the first ones to be dismissed. This resulted in a transfer from entrepreneur to unemployed.
- In 1996 the government decided that workers who had been recruited by government agencies and departments under a temporary system, as self-employed people recruited on a renewable monthly basis, should be covered by the social security arrangements for civil servants.

As no independent evaluation has been carried since the inception of the Decree-Law 328/93 arrangements, the above explanations for the discrepancies between statistically self-employed and beneficiaries among the self-employed are of a qualitative and conjectural nature.

The self-employed social security arrangements have been the object of some criticism by trade union organisations, particularly by the CGTP confederation. There are two main points of criticism¹:

- the self-employed security arrangements are not financially balanced, accumulating losses every year. The losses are compensated by transfers from the budget of the general arrangements. As the latter is funded by contributions from employees², some trade unions feel that employees (who make up the vast majority of the membership of trade unions) are subsidising the self-employed (who tend to have a quite low rate of union membership);
- the self-employed arbitrarily select a conventional income, a multiple of the national minimum wage, which can be quite modest when compared with the income they actually earn.

The government contends that such criticism is not based on facts because there are no financial data available to support the idea that the self-employed arrangements are running at a loss, and the system was designed so that social benefits paid to the self-employed were calibrated to match the contributions paid by the beneficiary.

¹ FENPROF (2005) and Rosa, Eugénio (2006).

² Should read "part-funded", as the general social security system is funded by contributions of the employers (typically 23.75 % of the nominal wage/salary), the employees (typically 11 % of the nominal wage/salary) and should the need arise there might be transfers from the state budget.

D - Determinants of success and bottlenecks

In the view of the government officials within the social security system, the main success factors of the self-employed arrangements are that:

- Decree-law 328/93 concentrates in a single legislative act all the public social security arrangements relevant to the self-employed and assisting spouses;
- the status of assisting spouse is equivalent to the self-employed person in terms of contributions, benefits and requirements, which was a major innovation at the time it was introduced;
- the arrangements were designed to assure its financial sustainability;
- the introduction of the conventional income concept as the basis for the calculation of both the contribution and benefits avoids the bureaucratic difficulties of certifying the real income of the self-employed.

E - Elements of good practice and transferability

This system is considered an example of good practice by the Portuguese social security services, due to the innovative nature of 2 major features at the time it was introduced in 1993:

- it was the 1st time that assisting spouses were covered by social insurance on the same footing as the self-employed;
- the way contributions were calculated, based on conventional income scales, resolved a (then) complex issue for the government agencies concerned of having to cross-check the declared income for social security purposes and the income declared for tax purposes.

With reference to the latter, there are clear indications that the practice of using conventional income scales will be progressively abandoned and replaced by the consideration of the real income of the self-employed person. This component thus is going to be changed in the near future in Portugal to approach the real income of the self-employed.

Although most of the mechanisms of the Portuguese self-employed social security arrangements are transferable to other countries, they must be properly adapted to local conditions and updated in terms of methods and technologies.

Spain - The Self-employed Workers' Statute

Aspect of social security:	Old-age insurance Social insurance of unemployment Others
Target group:	Self-employed
Original name practice:	Estatuto del Trabajador Autónomo

Responsible organisation:

Spanish Ministry of Labour and Social Affairs
Agustin de Bethencourt 4
28071 Madrid
Spain
Phone: +34 91 36 30 000
Website: www.mtas.es

Name of the organisation implementing the practice:

National Institute for Social Security
c/Padre Damián, 4-6
28036 Madrid
Spain
Phone: +34 91 56 88 300
Website: www.seg-social.es

A - National context

On 17 October 2005 a group of experts commissioned by the Spanish Ministry of Labour and Social Affairs presented a report containing a proposal for a new 'legal status for the self-employed' ("nuevo Estatuto para los Trabajadores Autónomos", in Spanish). This proposal of legal status was subsequently discussed by the Spanish Ministry of Labour and Social Affairs with the main representative associations of the Spanish self-employed. After lengthy negotiations, an agreement was reached on 26 September 2006 and signed between the public authority and the main representative associations of the Spanish entrepreneurs, basically the UPTA (Unión de Profesionales y Trabajadores Autónomos) and the ATA (Federación Nacional de Trabajadores Autónomos), as well other less relevant representative organisations (i.e. ASNEPA, CAYPE, CIAE y OPA).. Subsequently, last 24th November 2006, the Spanish Council of Ministers passed the Project of Law ("Proyecto de Ley") for the Status for the Self-Employed for its sending to the Spanish Parliament, where it is expected to be discussed and passed in spring 2007 so it may have legal status in summer 2007.

In essence, this Bill ('Project of Law') tries to provide an answer to some of the main claims amongst the representative associations of the Spanish self-employed. Here it should not be forgotten that self-employed comprise around 3 million workers in Spain, i.e. around 23% of the Spanish working population affiliated to the Spanish social security system.

Under the Special Regime of the Self-Employed, one may be insured for invalidity, sickness, old-age, survivor's pension, child care and risks during pregnancy. Self-employed people are not however insured against unemployment. They may take out private insurance.

B - General description of measures or activity

With the Project of Law a specific legal status for the entrepreneur is established. An entrepreneur is defined as a natural person who carries out an economic or professional activity on a usual and personal basis for lucrative purposes. An economically-dependent entrepreneur is defined as an entrepreneur whose incomes comes at least for 75% from just one client (natural person or legal entity). Furthermore, the rights and obligations of the en-

entrepreneurs are established, collective rights of entrepreneurs are recognised (i.e. right of association and right to collectively defend their professional interests) and a National Council on Self Employment ("Consejo Estatal del Trabajo Autónomo") is intended to be set up.

The Project of Law also consolidates a number of proposals intended to bring the 'General Social Security Regime' ("Régimen General de la Seguridad Social") more into line with the 'Special Regime for the Self-Employed' ("Régimen Especial de Trabajadores Autónomos"), bearing in mind that both regimes have important differences (always in favour of the General Regime). The former regime applies to employees. The latter is for entrepreneurs but family collaborators¹ may also be registered provided that they are not wage earners. The correction of the differences between the regimes has been a traditional demand from the Spanish self-employed population.

The most innovative proposals included under the Project of Law are the following:

- The so-called 'Benefit for Cessation of Activities' ("Prestación por cese de actividad", in Spanish). This benefit is the most important and innovative measure included in the Project of Law. It is intended to protect those self-employed facing an urgent situation due to the involuntary stoppage of activities (it is a kind of unemployment benefit for the self-employed). Specifically, and following the Spanish Economic and Social Council's recommendation, this new benefit system is going to be regulated by a specific Law, which obviously reinforces the legal security aspect. This benefit will be paid by contributions paid by the self-employed themselves.
- The possibility for all self-employed people to benefit from early retirement in case of involvement in toxic, dangerous or painful activities. They are subject to the same conditions as Spanish employees under the General Social Security Regime.
- It is proposed to extend the social protection for temporary sick-leave ("prestación social por incapacidad temporal", in Spanish) for all self-employed people. The self-employed are to receive a benefit from the very first day of leave and if they are economically-dependent self-employed, they will be also covered by protection for work-related accidents and occupational illness.
- The economically-dependent self-employed are covered for the first time in the Spanish legislative corpus. Like other self-employed people, they have the right to enjoy holidays for 15 working days per year and they are also covered by protection for work-related accidents and occupational illness.

In addition, there is an option to make reductions or allowances in the Social Security contribution rates for some particular collectives of self-employed. This basically concerns:

¹ Family collaborators refer to relatives up to the 2nd grade of blood relationship, that is spouses, parents and brothers/sisters, and affinity like father-in-law/mother-in-law and brother or sisters-in-law. These family collaborators have to work with the self-employed in the business and have no labour contract for this.

- Those self-employed who also contribute to the Social Security in connection with another activity, and whose contributions exceed the maximum contribution in the General Social Security Regime.
- The descendants of the self-employed person aged under 30, who start up an economic activity as self-employed people in the same economic activity/sector of the father/mother.
- The self-employed involved in itinerant or house-to house selling activities, as very often these activities are carried out on a part-time basis.

C - Results (Impact of practice)

Because that the Project of Law for the Status for the Self-Employed is not active yet, very little can be said about the results. However, it is possible to argue that the full development of the new Legal Status for the Self-Employed will solve a paradoxical Spanish situation. That is that the extraordinary relevance of the 'self-employment phenomenon' in economic and social terms has not been reflected so far by a comprehensive and systematic legal framework covering all aspects of self-employment (including working conditions and social protection issues). In fact, the existing legislation on the issue up to now can be regarded as partial and scattered in the existing Spanish legal corpus.

Thus, this new Law will allow, for the first time, the establishment of a systematic, uniform and specific legal framework on the self-employment issue. It thereby fulfils several goals: defining several basic rights and duties (both individual and collective), regulating the situation of the economically-dependent self-employed, developing several social protection mechanisms for self-employed people via equalisation with the existing Social Security Regime for employees, reinforcing health and security at work issues and, finally, fostering the promotion of self-employment.

D - Determinants of success and bottlenecks

As mentioned in a previous section, the Project of Law for the Status for the Self-Employed contains a legal and uniform regulation on self-employment that, for the first time in Spain, tries to regulate the main elements of this specific form of employment, that were previously partial and scattered within Spanish legislation.

Furthermore, it is worth stressing that despite the improvements included within the Project of Law, there are a number of issues that are not included but have been requested by the most important Spanish representative associations for self-employed people (i.e. UPTA and ATA). Examples of these claims include the following:

- The possibility for the self-employed person to hire as employees those descendants who live with him/her.
- The possibility of covering through the Social Security Regime 'in itinere' accidents (accidents happening when commuting to/from work).
- The possibility of extending part-time contributions to Social Security to more groups.
- The possibility of extending the option of early retirement to all self-employed people (in line with the possibilities existing for employees),

and not only to those self-employed groups included in the Project of Law (that is those involved in toxic, dangerous or painful activities).

E - Elements of good practice and transferability

The Project of Law includes several aspects and institutions that can be regarded as very innovative (at least in the Spanish general legal corpus), and that can be regarded as elements of "good practice". In this respect, a number of these elements can be highlighted, such as the development of a specific legal status for the economically-dependent self-employed (where a number of innovations have been developed such as the resolution of the existing disputes to the social jurisdiction). Also important are the innovations intended to bring the Special Social Security Regime for the Self-Employed more into line with the General Social Security Regime, including the establishment of an specific protection system for cessation of activities for the self-employed (a kind of unemployment benefit for the self-employed). Interestingly also, the Project of Law regulates the representation of the associations of self-employed people, as well as the setting up of the National Council on Self Employment ("Consejo Estatal del Trabajo Autónomo") (as an specific consultation body) and, finally, the development of several employment support measures intended to promote the entrepreneurial culture and foster adequate tax and continuous training policies specifically aimed at the self-employed.

Finally, it is worth stressing that the new 'legal status for the self-employed ("nuevo Estatuto para los trabajadores autónomos", in Spanish) has been extensively discussed and agreed with all the most important associations representing the interests of self-employed people in Spain.

4 Perception of social security status

4.1 Introduction

The previous chapter described the social security status of the entrepreneur and the assisting partner. This chapter presents¹ the opinion of the entrepreneurs and the public administrations on the social security status. Section 4.2 presents the opinion of entrepreneurs on the social security status and section 4.3 the opinion of the assisting partners. In these sections it is first indicated whether the aspects covered are perceived to be sufficient, and whether the aspects that are not covered should be included. This is followed by a presentation of views regarding the comparison of the social security status of the entrepreneur or assisting partner with the status of employees and non-employed partners. In the last subsection attention is given to the opinion of the entrepreneurs on the changes in their social security status.

As described in chapter 1, assisting partners are defined as life-partners of European entrepreneurs who contribute to their partner's enterprise, but who are not officially recognized as co-entrepreneurs in their partner's enterprise, nor are they listed on the payroll of their partner's enterprise as an employee. Entrepreneurs refer to entrepreneurs of European enterprises with less than 10 employees, set up in 2000 or later.

4.2 Perception of the social security status of entrepreneurs

4.2.1 *Social security status of entrepreneur*

This study distinguishes 8 aspects of social security:

- insurance and the prevention of permanent disability;
- insurance and the prevention of temporary long-term disability/sickness;
- old-age insurance and state pension;
- survivors' benefits;
- social insurance for unemployment (i.e. bankruptcy or ceasing to trade);
- prevention of unemployment (e.g. partial or temporary income support);
- insurance for maternity (leave);
- insurance for (temporary) child care.

As presented in the previous chapter, entrepreneurs are often not covered for all aspects. Entrepreneurs who are insured for certain social security aspects often indicate that the insurance is insufficient. In total, more than half (54%) of the entrepreneurs who are insured by the public system feel that the insurance benefits are insufficient. In Table 23 the results are shown for each aspect. With regard to old-age pension, almost 80% indicated that the insurance for this aspect is insufficient. With the other aspects also, more than half of the entrepreneurs indicated that the insurance is insufficient.

¹ Sources used: EIM Survey Social Security Entrepreneurs 2006 and EIM Survey Social Security Public Administrations 2006.

Table 23 Percentage of entrepreneurs (who are publicly insured for a specific aspect) who are of the opinion that the (expected) social insurance benefits are sufficient

<i>Social security aspects</i>	<i>Opinion of entrepreneur on his/her social insurance benefits</i>		
	<i>Sufficient</i>	<i>Not sufficient</i>	<i>Do not know/ no answer</i>
Permanent disability	25%	66%	9%
Temporary disability/sickness	29%	64%	7%
Old-age pension	15%	80%	5%
Survivor's benefits	34%	59%	7%
Unemployment benefits	29%	65%	6%
Prevention of unemployment	28%	58%	14%
Maternity (leave)	26%	69%	5%
(Temporary) child care	33%	54%	13%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

When there are no public arrangements to cover a certain aspect, most public administrations have indicated in the survey organised among the experts of the expert group that there are also no concrete intentions to develop such arrangements. Chapter 5 describes the policy intentions of the public administrations. A large proportion of the entrepreneurs indicate that aspects not covered should be included by public social insurance. These results are presented in Table 24.

Table 24 Percentage of entrepreneurs (who are not publicly insured for a certain aspect) who are of the opinion that this aspect should be included in the public social security system

<i>Social security aspects</i>	<i>Opinion entrepreneur on inclusion in social security system</i>		
	<i>Yes</i>	<i>No</i>	<i>No opinion</i>
Permanent disability	74%	17%	9%
Temporary disability/sickness	79%	13%	8%
Old-age pension	76%	17%	7%
Survivor's benefits	65%	20%	15%
Unemployment benefits	71%	19%	10%
Prevention of unemployment	66%	24%	10%
Maternity (leave)	70%	19%	11%
(Temporary) child care	61%	24%	15%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

4.2.2 Social security status of entrepreneurs compared with status of other types of employment

As described in chapter 2, the decision to become an entrepreneur may be viewed as weighting risks and rewards. The risks and rewards of entrepreneurship may be compared with the risks and rewards of different types of employment (e.g. wage employment). Social security may be one of these risks. When transferring to self-employment, there may be a loss in social security, e.g. in terms of cover for unemployment. Thus, when the cover enjoyed by the entrepreneur is worse compared to his/her current social security cover, this means that the opportunity costs of entrepreneurship related to social security are higher. As one of the objectives of this study is to view the impact of social security on entrepreneurship, the position of the entrepreneur is compared with alternative types of employment.

To this end, entrepreneurs were asked about changes in expected social insurance benefits when starting as an entrepreneur and whether, in their opinion, the social insurance benefits are better than those of employees. Here the position of the entrepreneur is compared with the position of the employee because, as indicated in chapter 2, about 87% of the entrepreneurs were employees before starting out as an entrepreneur. For employees the opportunity costs of entrepreneurship are of more relevance than for other groups (e.g. unemployed, students). These groups often have less to lose when moving into self-employment.

Both elements are discussed in the sections below.

Changes in social security status when starting as an entrepreneur

One of the factors that should be considered in the decision-making process is the social security position after the start (financial risk). As Table 25 shows, between 35% en 45% of the entrepreneurs indicate that they do not know whether the expected benefits changed when they started as an entrepreneur. Almost one fifth of the entrepreneurs surveyed indicate that the expected benefits decreased when they started as an entrepreneur.

Table 25 Percentage of entrepreneurs indicating whether expected social insurance benefits changed when they started as an entrepreneur

<i>Social security aspects</i>	<i>Opinion of entrepreneur on changes in social insurance benefits</i>			
	<i>Improved</i>	<i>No change</i>	<i>Decline</i>	<i>Do not know</i>
Permanent disability	6%	42%	16%	36%
Temporary disability/sickness	10%	38%	18%	34%
Old-age pension	9%	37%	19%	35%
Survivor's benefits	8%	43%	13%	36%
Unemployment benefits	4%	35%	22%	39%
Prevention of unemployment	3%	36%	21%	40%
Maternity (leave)	3%	35%	19%	43%
(Temporary) child care	3%	36%	16%	45%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

Regarding these aspects, the largest decrease was indicated in the field of unemployment benefits and prevention of unemployment (22% and 21% respectively). This is in line with the results presented in the previous section in which the status of entrepreneurs is compared with the status of employees.

Social security status of entrepreneur and employee compared

When comparing the social security position of entrepreneurs and employees, a majority of the entrepreneurs indicate that the position for entrepreneurs is worse. This is supported by the public administrations.¹ As Table 26 shows, the aspects that are mentioned most in this respect are unemployment benefits (51%) and prevention of unemployment (48%). Temporary disability/sickness is also often mentioned.

¹ The study of De Muijnck et al. (2003) also shows that in most EU countries employees have 'more' social security as compared to self-employed, in terms of lower contributions and higher benefits.

Table 26 Opinion of entrepreneurs on whether the social insurance benefits for entrepreneurs are better, the same or worse compared to social insurance benefits for employees

<i>Opinion of entrepreneur on social insurance benefits compared to employees</i>				
<i>Social security aspects</i>	<i>Better</i>	<i>The same</i>	<i>Worse</i>	<i>No opinion</i>
Permanent disability	6%	25%	45%	24%
Temporary disability/sickness	8%	22%	48%	22%
Old-age pension	9%	21%	48%	22%
Survivor's benefits	6%	25%	38%	31%
Unemployment benefits	4%	19%	51%	26%
Prevention of unemployment	3%	19%	48%	30%
Maternity (leave)	4%	19%	42%	35%
(Temporary) child care	3%	18%	43%	36%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

From Table 25 it can be seen that about 35-43% of entrepreneurs expected no change in social insurance benefits when starting as an entrepreneur. A large number of these entrepreneurs are moving from employment towards self-employment. In Table 26, we see that about 18-25% indicate that the position of entrepreneurs is the same as the position of employees. More entrepreneurs have pointed out that social insurance benefits are worse compared to employees.

A large proportion of the public administrations indicate that where the arrangements offer less insurance cover to entrepreneurs (compared to employees) there are no concrete intentions to reduce these differences. According to most of the public administrations, there are private insurance options on acceptable terms available for entrepreneurs to increase their level of insurance.

4.3 Perception of the social security status of the assisting partner

4.3.1 Social security status of assisting partner

As described in the previous chapter, arrangements do not always exist for all aspects of the social security position of the assisting partner of the entrepreneur. The aspects for which there are arrangements and where the assisting partners are insured are often perceived as insufficient by the entrepreneur. This perception holds for all social security aspects. For the aspects for which there are no arrangements, public administrations often indicate that there are also no concrete intentions to develop such arrange-

ments. The entrepreneurs who have an assisting partner feel that these aspects, for which the partner is not insured, should be included in the public social security system. The opinion of these entrepreneurs on this subject is presented in Table 27.

Table 27 Percentage of entrepreneurs who indicated that the assisting partner is not insured for a certain aspect and are of the opinion that this aspect should be included in the public social security system

<i>Social security aspects</i>	<i>Opinion of entrepreneur on inclusion in social security system</i>		
	<i>Yes</i>	<i>No</i>	<i>No opinion</i>
Permanent disability	87%	11%	2%
Temporary disability/sickness	93%	5%	2%
Old-age pension	94%	5%	1%
Survivor's benefits	63%	12%	25%
Unemployment benefits	58%	15%	27%
Prevention of unemployment	65%	10%	25%
Maternity (leave)	57%	12%	31%
(Temporary) child care	56%	15%	29%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006

As shown in the table, the majority of entrepreneurs indicate that the assisting partner is insured for old-age pension, temporary disability/sickness and permanent disability (97%, 94% and 87% respectively).

4.3.2 Changes in social security status when starting as an assisting partner

The majority of entrepreneurs with an assisting partner indicate that the expected social insurance benefits did not change when their partner started as assisting partner in their business. A quarter of the entrepreneurs do not know whether the social insurance benefits changed. This is presented below.

Table 28 Percentage of entrepreneurs indicating whether expected social insurance benefits changed when their life partner started as a assisting partner in their business

<i>Social security aspects</i>	<i>Opinion of entrepreneur on changes in social insurance benefits assisting partner</i>			
	<i>Improved</i>	<i>No change</i>	<i>Declined</i>	<i>Do not know</i>
Permanent disability	3%	70%	1%	26%
Temporary disability/sickness	2%	72%	0%	26%
Old-age pension	1%	70%	3%	26%
Survivor's benefits	1%	70%	4%	25%
Unemployment benefits	2%	69%	2%	27%
Prevention of unemployment	1%	69%	4%	26%
Maternity (leave)	10%	60%	3%	27%
(Temporary) child care	10%	59%	1%	30%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

As presented in Table 28, there are again not many differences in opinion for the 8 aspects analysed. Taking those entrepreneurs who state that the position of the assisting partner improved after the start-up, a higher proportion are of the opinion that this holds for maternity (leave) and (temporary) child care.

4.3.3 Social security status of assisting partner and entrepreneur and non-employed partners compared

When comparing the position of the assisting partner with the position of the entrepreneur, the public administrations in some countries indicate that the position of the assisting partner is worse while some indicate that it is the same. Many of the public administrations indicate that where the arrangements offer less insurance cover to assisting partners (compared to entrepreneurs) there are no concrete intentions to reduce the difference(s). According to most of the public administrations, there are private insurance options on acceptable terms to increase the level of insurance cover.

When comparing the position of the assisting partner with the position of partners who are not employed, some entrepreneurs with assisting partners indicate that this position is worse and some indicate that it is the same. Very few indicate that the position of the assisting partner is better compared to non-employed partners. The percentage of entrepreneurs who indicate that the position of their assisting partner is better compared to partners who are not employed is lowest for survivor's benefits, old-age pension and prevention of unemployment (all 3%). More than 40% of the entrepreneurs have no opinion. This is presented in Table 29.

Table 29 Opinion of entrepreneur on whether the social insurance benefits for assisting partners are better, the same or worse compared to social insurance benefits for partners who are not employed

<i>Social security aspects</i>	<i>Opinion of entrepreneur on social insurance benefits assisting partners compared to non-employed</i>			
	<i>Better</i>	<i>The same</i>	<i>Worse</i>	<i>No opinion</i>
Permanent disability	12%	23%	23%	42%
Temporary disability/sickness	12%	21%	25%	42%
Old-age pension	10%	25%	23%	42%
Survivor's benefits	3%	33%	22%	42%
Unemployment benefits	3%	34%	21%	42%
Prevention of unemployment	3%	33%	22%	42%
Maternity (leave)	9%	25%	21%	45%
(Temporary) child care	10%	24%	19%	47%

The rows add up to 100%.

Source: EIM Survey Social Security Entrepreneurs 2006.

5 Stimulating business creation

5.1 Introduction

This final chapter focuses on the impact of social protection on entrepreneurship. Section 5.2 discusses the impact of social security on the level of business creation. This section focuses on potential barriers related to social security for people considering starting entrepreneurial activities, thus forming an obstacle to business creation. Section 5.3 assesses the good practices against these potential barriers. Section 5.4 discusses the intentions of the public administrations regarding social protection for entrepreneurs and their assisting partners. Where relevant, the intentions are also discussed in the context of these potential barriers.

5.2 Impact of social security systems on the level of business creation

There are only a few studies that have empirically explored social security as a determinant of entrepreneurship.¹ At the macro level, for instance, Wennekers et al.² investigated the determinants of nascent entrepreneurship across countries, using total social security expenditure as a percentage of GDP as one of the control variables.

Steinberger³ analyses the effects of the social security contribution rate on the level of entrepreneurial activity. The contribution rate refers to contribution as a percentage of income. Both find a negative effect on entrepreneurship. Results suggest that in countries with a generous social security system, people experience fewer incentives to set up their own businesses.

Brouwer et al.⁴ examine the effect of social security on early-stage entrepreneurial activity by looking at replacement rates for employees in case of unemployment and illness/disability. A replacement rate is here defined as the level of (cash) benefits related to the previously income earned. They also explore the additional influence of the relative social security entitle-

¹ e.g. Brouwer, P., J. Hessels, A. van Stel and S. Wennekers, "Social Security entitlements and early-stage entrepreneurial activity; an empirical analysis", EIM, Zoetermeer, 2005.

Parker, S. and M.T. Robson (2004), "Explaining international variations in entrepreneurship: evidence from a panel fo OECD countries", University of Durham.

Steinberger, T., Social security and entrepreneurial activity, Università di Salerno, CSEF, 2005.

Wennekers, A.R.M., Entrepreneurship at country level: Economic and Non-Economic Determinants, Erasmus University Rotterdam, 2006.

Ilmakunnas, P., V. Kannianen and U. Lammi,, Entrepreneurship, economic risks, and risk-insurance in the welfare state, Discussion papers No. 453, Department of Economics, University of Helsinki, 1999.

² Wennekers, S., A. van Stel, R. Thurik and P. Reynolds , Nascent entrepreneurship and the level of economic development, *Small Business Economics*, 2005.

³ Steinberger, T., Social security and entrepreneurial activity, Università di Salerno, CSEF, 2005.

⁴ Brouwer, P., J. Hessels, A. van Stel and S. Wennekers, "Social Security entitlements and early-stage entrepreneurial activity; an empirical analysis", EIM, Zoetermeer, 2005.

ments of self-employed people compared with those of employees. The results show a convincing effect of the unemployment replacement rate for employees, while the effect for the replacement rate in case of illness of employees is not significant in most cases.

At the micro level, Bosch et al.¹ for example, come to the conclusion that social security plays an important role in the decision-making process of potentially self-employed people before they start their own enterprise. Social security may induce individuals to choose not to become an entrepreneur or retain the status of dependent employee when becoming an entrepreneur. With regard to the former, the Eurobarometer (2004), for example, presents the opinion of individuals on the status of dependent employees versus the status of self-employed. It appears that 45% of the individuals prefer self-employment to dependent employment, and 50% prefer dependent employment to self-employment. Of the citizens in the EU-25 who prefer being a dependent employee², 12% indicate that this is due to social security and/or insurance cover. With regard to the latter, the EIM Survey Social Security Entrepreneurs 2006³ suggests that about 20% of entrepreneurs and half of assisting partners also have a position as a dependent employee. About 62% of these entrepreneurs and almost 80% of these assisting partners maintain this position as a dependent employee in order to be partially or completely covered for social security by this position.

Is there any other evidence supporting a negative impact of social security systems on business creation? One answer to this question could lie in the most significant shortcomings of the social security system as indicated by the entrepreneurs. These are:

- the system is too complicated (and information on the system is difficult to find);
- the contributions are too high compared with employees;
- the level of potential benefits is too low (and the level of potential benefits in comparison to those of employees is too low).

This is reflected in Table 30.

In order to evaluate the shortcomings, they need to be placed in their context. The legal and regulatory framework, which is different in each country, plays an important role, but cultural aspects – such as the general attitude towards social security and entrepreneurship – do also. Also, it is very important to note that these shortcomings are based on the perceptions of entrepreneurs, and may not reflect actual circumstances. Besides, paying money is generally speaking not appreciated by entrepreneurs; opinions of entrepreneurs on topics related to paying money tend to be (overly) negative as a result.

¹ Bosch, L.H.M. and F.M.J. Westhof, *Sociale zekerheid en ondernemerschap. Strategische Verkenning (Social security and entrepreneurship. Strategic study)*, EIM, Zoetermeer, 1997.

² The percentage of citizens of the EU-25 who indicated that they prefer the status of employee above the status of entrepreneur is about 45%.

³ The results from the EIM Survey Social Security Entrepreneurs 2006 reflect the perception of the entrepreneur.

The results presented in this part of the report refer to the perception of the entrepreneurs and it is this perception that makes people decide whether or not to enter entrepreneurship.

Notwithstanding this, the most significant shortcomings mentioned by the entrepreneurs are the same as those mentioned by the public administrations (based on surveys of employer organisations), so at least the entrepreneurs appear to be consistent in their opinions.

Table 30 The most significant shortcomings of the social security system for new entrepreneurs in general according to the entrepreneurs

<i>Shortcomings</i>	<i>Percentage</i>
System is too complicated	50%
The contributions are too high compared with employees	49%
The level of benefits is too low	45%
Information on the system is difficult to find	40%
The possible benefits are too low compared with employees	39%
Complex conditions for claiming benefits	36%
Too long a period before benefits can be claimed	34%
Lack of arrangements for family members	27%
The period of benefits is too short	19%
Other (please specify)	7%

Source: EIM Survey Social Security Entrepreneurs 2006.

The system is too complicated

The major shortcoming perceived by entrepreneurs (50%) is the complexity of the social security system. This may be related to the fact that 40% also mention that information on the system is difficult to find.

In general, understanding the legal and regulatory system is difficult for small entrepreneurs. This is especially the case for the self-employed as they do not have staff qualified to handle the material.

However, we must realise that entrepreneurs prefer to focus on the activities of their enterprise, and administrative activities are therefore considered as a burden in any case.

Moreover, the administrative burdens related to this system are not only perceived as high; studies of administrative burdens confirm that the actual costs are considerable. All Member States, as well as the European Commission, have taken action to reduce the administrative burdens for enterprises, including the self-employed.

Within the framework of these activities, and of policies to stimulate entrepreneurship and promote start-ups, many Member States have taken action to simplify the procedures to be followed before the start-up, and have set up information and advice centres for start-ups etc.

The contributions are too high compared with employees

The second major shortcoming is that the contributions are too high compared to those which have to be paid by employees. As described in the previous chapter, in most of the Member States the contributions are shared between employers and employees. In the case of the self-employed, both parts of the contribution have to be paid. This barrier is more clearly perceived by entrepreneurs who held a position as an employee before starting their own enterprise.

In the first instance, entrepreneurs generally associate contributions with paying money. The benefits are only appreciated when they are received. The contributions related to old age for example will only lead to benefits in the long run, while contributions related to long-term disability only refer to situations that are not expected to arise.

As mentioned before, entrepreneurs are generally not fond of paying. Moreover, the contributions for some of the provisions are collected via the tax system and in general paying taxes is also seen in a negative light by entrepreneurs. In this case in particular, there is no one-to-one relationship between contributions and the benefits to which the individual entrepreneur is entitled. Public administrations also have to use these revenues to support other activities such as training the unemployed or financing benefits to be paid to others (such as persons facing permanent disability).

In judging the results we also have to consider the target group studied - entrepreneurs of young small enterprises. These entrepreneurs have just started their own enterprise, and one of the major problems for start-ups and a determinant of success is the availability of sufficient financial resources. The majority start with own money or money from relatives and friends and at the beginning the costs incurred are always higher than the benefits received. Research shows that finance is not only a problem in the start-up phase. Surveys carried out under the Observatory of European SMEs, commissioned by DG Enterprise & Industry¹, reveal that getting funding is the most significant problem for small and medium-sized enterprises

The level of potential benefits is too low (compared to employees)

The negative effect of social security on entrepreneurship is to some extent supported by the results of the EIM Survey Social Security Entrepreneurs 2006² on this issue. A relatively small proportion of entrepreneurs are of the opinion that a decrease in potential social security benefits when becoming an entrepreneur is a reason to reconsider starting as an entrepreneur. As illustrated in Table 26, a substantial proportion of entrepreneurs (45%) are of the opinion that the potential benefits for employees exceed the potential benefits for entrepreneurs. Half of these entrepreneurs think this may be a reason for employees not to become entrepreneurs. About 34% think that this is not a reason, while 16% have no view.

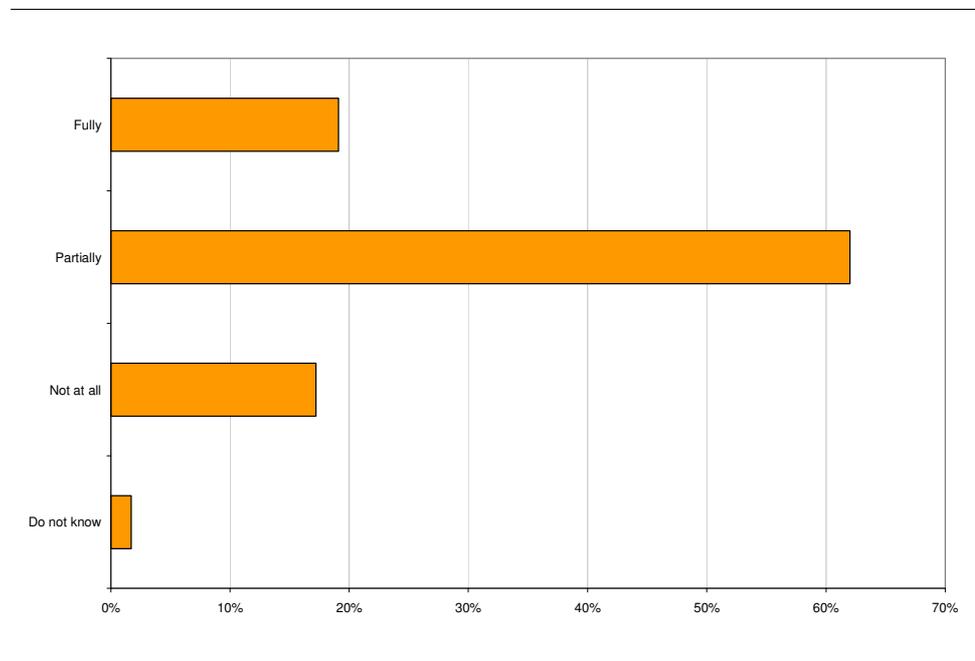
¹ http://ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.htm.

² The results from the EIM Survey Social Security 2006 as presented in this chapter refer to entrepreneurs who are not completely covered for social security through another job as an employee and are not regarded as an employee of their own business.

Most public administrations however do not receive a lot of indications¹ that differences in the social security arrangements for employees and entrepreneurs deter people from starting an enterprise or from taking up work as an assisting partner.

Private insurance schemes may be an alternative to social security. As presented in the previous chapter, less than a quarter of entrepreneurs indicate that social insurance benefits decreased when they became entrepreneurs. Most of these entrepreneurs (68%) were aware of this decrease and a very large proportion (81%) indicate they were able to compensate partially or fully for this decrease by taking out private insurance. In Figure 5 the opinion of entrepreneur on compensation by private insurance is shown.

Figure 5 Percentage of entrepreneurs experiencing a decrease in one or more benefits, indicating the extent to which they could compensate for this by private insurance



Source: EIM Survey Social Security Entrepreneurs 2006.

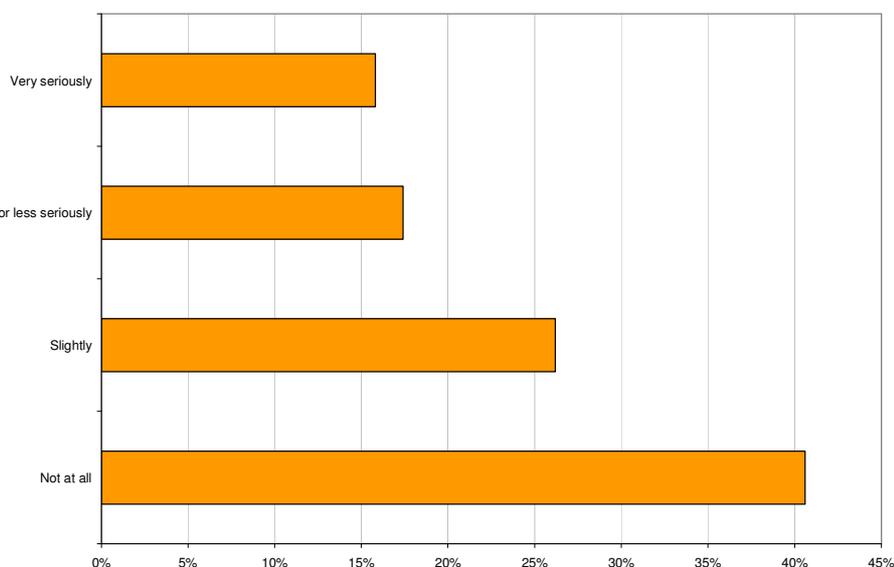
The majority of the public administrations support these results by indicating that there are private insurance provisions on acceptable terms to enable entrepreneurs to increase their level of insurance cover.

Although most of them could compensate, the majority of entrepreneurs perceiving a decrease in potential social security benefits still considered 'slightly' or 'seriously' not becoming an entrepreneur as a result of this

¹ The shortcomings the public administrations have indicated are based on the requests they have received from employer organisations. Most public administrations however indicate not to receive a lot of requests from employer organisations to improve the social security arrangements applicable to entrepreneurs.

decrease. This is presented in Figure 6. Almost 60% of this group also think that a perceived decrease is a reason for other people not to become entrepreneurs.

Figure 6 Percentage of entrepreneurs (who realised that social insurance benefits would decrease when becoming an entrepreneur) indicating to what extent they considered not becoming an entrepreneur because of this decrease



Source: EIM Survey Social Security Entrepreneurs 2006.

Lack of arrangements for family members

With regard to the lack of arrangements for family members, the percentage of 27% seems to be relatively low and suggests that this aspect is relatively unimportant. However when we consider that only a small proportion of the entrepreneurs have an assisting partner and that some entrepreneurs do not have family members working with them, we may conclude that this is an important aspect. It has therefore been included here.

As mentioned in the previous part of the report, the situation is not the same in all Member States. In some countries, the social security cover for assisting partners is similar to that for the entrepreneurs, but in some member States the situation differs and is often worse for assisting partners.

Also, in some countries the assisting partner has no legal status and can then only be insured as an employee of the company or as a member of a partnership.

The public administrations in some countries indicate that the position of the assisting partner is worse and some indicate that it is the same. Many of the public administrations indicate that where the arrangements offer less insurance to assisting partners (compared to entrepreneurs) there are no

concrete intentions to reduce the difference(s). According to most of the public administrations, there are private insurance provisions on acceptable terms to increase the level of insurance cover.

5.3 Good practices addressing potential barriers

Chapter 3 presented selected good practices in the area of social security.

As described there, we must remember that good practices are considered as good on the basis of the economic, political, cultural and institutional framework of the country in which they are implemented. Therefore these measures cannot be automatically transferred to other countries and one cannot assume that these good practices will be considered good in another country given the differences in the economic, political, cultural and institutional frameworks.

The good practices in general relate among other things to the reduction of contributions at the start-up of the company, the ability to build up a supplementary pension and extension of arrangements applicable to entrepreneurs and to assisting partners. When comparing the good practices with the barriers mentioned in the previous section, the following barriers are covered by the practices: contributions are too high, benefits are too low and there is a lack of arrangements of family members.

Not all of the most significant shortcomings (barriers) described above are covered by a good practice. In some cases there is no simple solution, e.g. to reduce the complexity of the system. The barrier that the system is perceived as complex may be related to the barrier that the information on the system is difficult to find. It may be that entrepreneurs perceive the system as complex because they have little information on the system and are lacking an information point where they can ask their questions. Here it may be worth mentioning that in Greece there are Citizen Service Centres. These centres are intended to provide quick and effective information free of charge and assist the self-employed with certain social aspects¹.

In other cases the good practices have a more general approach towards the barriers. For instance the good practice in Spain aims to bring the regime applicable to the entrepreneurs more into line with the general regime (applicable to employees). Making the arrangements applicable to entrepreneurs similar to those applicable to employees may reduce the 'costs' to an employee in becoming an entrepreneur. Social protection is then less of an obstacle to employees becoming entrepreneurs. Practices promoting similar social protection for entrepreneurs and employees address meet barriers such as 'benefits are too low in comparison with employees' or 'contributions are too high in comparison with employees'.

In addition to the good practices, there are also some general improvements or intentions to improve the quality of the arrangements for entrepreneurs and thus to address certain barriers. The plans to improve

¹ A short description of this practice is included in Annex III.

the arrangements are discussed in the next section. The good practices to address each potential barrier are discussed below.

5.3.1 *The level of contributions*

Social security contributions are perceived by entrepreneurs as too high compared with those of employees. In many cases the entrepreneur also pays a higher contribution than the employee. They pay both the employer's and the employee's share.

Various good practices have been selected that are intended to reduce the costs to the entrepreneur, including starters. A reduction in contributions is especially important for starters. In the first years after start-up, entrepreneurs have limited financial resources and need funding to build up their company. In this phase, the costs of social security may be perceived as an extra burden. A reduction in contributions in the period following start-up may lower the barrier for potential entrepreneurs and stimulate them to create a business, as well as promoting growth in the difficult early years after start-up. As described above, not every good practice is relevant for all countries. It is difficult to gain a general insight into this. For instance, the relevance depends on the local fiscal legislation; contributions are not tax-deductible in all countries, for example. In other countries, general deductions exist reflecting the higher risks – or, in other words, costs – of entrepreneurship.

Two main types of good practices can be distinguished. On the one hand, there are practices applicable to new entrepreneurs involving lower contributions and exemption from payment at the start. Then there are practices applicable to other entrepreneurs concerning the choice of the assessment base, greater flexibility in the amount of contributions paid, and tax-deductible contributions. Relevant elements of the good practices are shown in Table 31.

These are the good practices that are described more in detail in Chapter 3. Similar elements can be found in other countries; chapter 3 discussed to what extent there are similar practices in other countries.

Table 31 Good practices addressing barriers relating to contributions

<i>Country - Name of good practice</i>	<i>Type</i>	<i>Relevant element of good practice</i>
Austria - Commercial Insurance Act	I	A reduced assessment base in the first three or two years after start-up for old-age pension and sickness respectively. Contributions are tax-deductible.
Belgium – Voluntary supplementary pension and 'social' voluntary supplementary pension.	II	The contributions paid for the supplementary pension are tax-deductible.
Czech Rep. - Act 589/1992 Coll.	I	In the first year following start-up, entrepreneurs may pay contributions on the basis of 50% of the average monthly wage in the national economy.

<i>Country - Name of good practice</i>	<i>Type</i>	<i>Relevant element of good practice</i>
Finland – Self-employed Persons' Pensions Act (YEL)	I	New entrepreneurs may pay 25% lower old-age pension insurance payments for the first 48 months.
	II	Entrepreneurs are able to pay more or less than the mandatory contributions for old-age, disability and survivor's pension. The pension contributions are tax-deductible.
Germany - New Enterprise Subsidy	I	During the first nine months of start-up, entrepreneurs may also receive a subsidy for contribution payments. Under certain conditions this may be extended by six months.
Poland – Amendments to Social Insurance System ACT of October 13 th 1998	I	For 24 months during start-up, entrepreneurs may pay contributions based on 30% of the minimum salary instead of the normal 60% of average remuneration.
Portugal - Decree-law no. 328/93 (25 September)	I	In the first year of start-up entrepreneurs and assisting partners are both exempt from paying contributions.
	II	Both may also pay contributions on the basis of a conventional income which they may choose themselves.
Romania – Law76/2002 (modified through law 107/2004) & article 86	II	Exemption from tax on contributions to the unemployment fund.

Source: EIM 2007.

5.3.2 The level of benefits

Entrepreneurs may receive social security benefits provided they are insured and comply with certain conditions. Sometimes there may be a waiting period before benefits can be received e.g. in case of sickness. The period during which the entrepreneur can receive the benefit varies among countries and with the social security aspect (e.g. sickness, old age). The level of benefits the entrepreneur can be entitled to may vary with country, social security aspect, the number of contribution years (e.g. old age), income of the entrepreneur and situation of the entrepreneur (e.g. degree of invalidity).

Entrepreneurs are not always insured for all aspects and thus not always entitled to benefits. This is especially the case with prevention of unemployment and unemployment. With regard to the former, for example the good practice of the Netherlands is concerned with support to entrepreneurs in temporary financial difficulties - preventing them from becoming unemployed. Enterprises may receive a supplement to their income in the form of an interest-free loan. With regard to unemployment, entrepreneurs may be provided with an unemployment benefit or given the option to insure themselves voluntarily, or they may retain accumulated

benefits in the case of a change in social security status. Good practices in Finland, Germany, Netherlands and Spain focus on one of these aspects.

If entrepreneurs are entitled to benefits, the benefits may not be very high. To increase the benefits, entrepreneurs could for example build up a supplement or pay extra contributions. Sometimes building up a supplement is compulsory. These elements can be found in the good practices of Belgium, Finland and Lithuania.

In Table 32, we present an overview of the good practices that address certain barriers related to benefits:

- Type I refers to the support given to entrepreneurs in financial difficulties;
- Type II refers to benefits in the event of business failure;
- Type III refers to increasing the level of potential benefits.

The good practices are described in chapter 3. Similar elements can be found in other countries also; in chapter 3, we discussed to what extent there are similar practices in other countries.

Table 32 Good practices addressing barriers related to benefits

<i>Country</i>	<i>Name of good practice</i>	<i>Type</i>	<i>Relevant element of good practice</i>
Belgium	Voluntary supplementary pension and 'social' voluntary supplementary pension.	III	Opportunity to build up a voluntary supplementary pension and a 'social' supplementary pension for old age.
Finland	Self-employed Persons' Pensions Act (YEL)	II	In case of business failure the accumulated pension does not disappear.
Germany	Voluntary unemployment insurance for new entrepreneurs	II	Under this scheme new entrepreneurs have the possibility to insure themselves against unemployment for 2 years in case their enterprise fails.
Lithuania	The Amendments of the Law on State Social Insurance, July 2002	III	Obligatory full pension (basic pension plus additional pension) insurance regarding old age and disability for entrepreneurs of which income equals or exceeds 12 times the minimum wage.
Netherlands	Self-employed Benefit Decree	II	Entrepreneurs who have been obliged to close their business within 12 months of start-up are entitled to temporary income support.
		I	Entrepreneurs in financial difficulties may receive a supplement to their income granted as an interest-free loan for a maximum of 1 year.
Spain	The Self-employed Workers' Statute	III	Benefit for cessation of activities

Source: EIM 2007.

5.3.3 Arrangements for family members

Along with the costs related to changes in social protection for the nascent entrepreneur, the costs related to the social protection of assisting partners may also play a part in deciding whether or not to become an entrepreneur. The partner might for instance be an employee before starting as an assisting partner and could then experience a loss in social security entitlements if the protection for assisting partners is less than the protection for employees. With regard to the social protection of the assisting partner, the partner is not always able to insure him/herself. In some countries the assisting partner has no legal status. The partner can then only be insured as an employee of the company or as a member of a partnership.

Several good practices have been selected that relate to the social security arrangements for assisting partners. These practices refer among other things to the option of co-insurance, compulsory insurance for the partner covering certain social security aspects, and making arrangements applicable to the entrepreneur also applicable to assisting partners and/or other relatives. In Table 33 the relevant elements of the good practices described in detail in chapter 3 are shown.

Table 33 Good practices addressing barriers relating to provisions for family members

<i>Country - Name of good practice</i>	<i>Relevant element of good practice</i>
Austria – Commercial Insurance Act (§83)/General Social Insurance Act (§123)	Assisting partners have the option to be co-insured in the sickness insurance scheme without making additional payments or by paying very low additional contributions.
Belgium - Voluntary supplementary pension and 'social' voluntary supplementary pension	Like entrepreneurs, assisting partners may voluntarily build up a supplementary pension and a 'social' supplementary pension for old age.
Finland - Self-employed Persons' Pensions Act (YEL)	Entrepreneurs and assisting partners are obliged to be insured under the YEL. Under the YEL both are insured for old age, sickness, disability and unemployment.
France - Law number 2005-882 of 2 August 2005 in favour of SMEs; Section 3: the collaborating spouse and new forms of activities	Collaborating partners must be insured for old-age and invalidity pensions. In France the spouse has to choose between three statuses: 1) collaborating spouse, 2) associated spouse 3) salaried spouse.
Ireland – Back to Work Enterprise Allowance	There is a 'spousal swap', which permits a person who is eligible for the BTWEA scheme to transfer his/her entitlements to a dependent adult.
Italy - Family partnership	Extension of social security provisions for old age applicable to the entrepreneur (both costs and benefits) to partners, sons, in-laws and relatives within the third degree involved in the enterprise.

<i>Country - Name of good practice</i>	<i>Relevant element of good practice</i>
Luxembourg - Assisting spouse regulation	The regulation provides assisting partners with the same social security protection for old age as the entrepreneur.

Source: EIM 2007.

5.4 Intentions in the area of social security and business creation

The majority of public administration indicated in the survey that they have no concrete policy intentions in the area of social security. This may be because in their country all aspects of social security are covered (e.g. the Czech Republic, Hungary), or there is little difference between the social security status of entrepreneurs and employees (e.g. Denmark), and/or entrepreneurs and assisting partners have the same position (e.g. Portugal, Poland). The public administrations that have indicated concrete intentions are in the following countries: Austria, Estonia, Italy, the Netherlands, Spain, Sweden and Turkey. Most of the plans in these countries are related to reducing the difference between the social protection of entrepreneurs and that of employees.

Where there are no arrangements, public administrations often indicated that provisions for private insurance on acceptable terms are available.

The intentions are discussed below, in terms of the barriers in the area of contributions, benefits and arrangements for family members.

The level of contributions

In Italy, there are plans to unify the level of social protection between entrepreneurs and employees. There is a parliamentary bill proposing to increase the rate of social security premiums for entrepreneurs in order to equalise the level of benefits between entrepreneurs and employees.

In Turkey, the new Social Insurance and Universal Health Insurance Law is reducing the premium rates for the self-employed from 40% to 33.5–39% (varying according to the risk involved in the economic activity). However, the law is not yet in force and is going to be revised according to the Repeal Decision of the Constitutional Court.

No other concrete intentions relating to contributions have been mentioned. This does not however mean that the public administrations are not active in this field. In Austria, for example, there is currently a discussion on the level of contributions that entrepreneurs should pay.

The level of benefits

Entrepreneurs are not always covered for all social security aspects. In a small number of Member States, the aspects relating to unemployment are covered. Several public administrations have mentioned intentions to improve this aspect. The Netherlands, for example, has concrete intentions to improve the provisions for temporary income support for new entrepreneurs. This is related to the good practice identified in the Netherlands. In

Austria, the possibility of introducing unemployment insurance is under review. In Spain also, there are plans concerning unemployment insurance. Spain intends to develop arrangements covering unemployment for entrepreneurs and assisting partners and to reduce the difference between entrepreneurs and employees in this aspect.

With reference to the latter, there are similar intentions in Sweden, where a study has been commissioned by the government to look into unemployment benefits with equal conditions for entrepreneurs and employees.

With regard to other aspects of social security, there are also plans to reduce the difference between the position of entrepreneurs and employees. In Estonia, for example, the arrangements for permanent disability and sickness will be supplemented with work-related accident insurance and occupational illness schemes. In Turkey, permanent and temporary incapacity, work-related accident insurance and occupational illness schemes and maternity (a lump-sum payment) will be implemented for the self-employed as well as employees in Turkey. Also in Turkey, the differences in the conditions of entitlement to permanent incapacity, sickness insurance, old-age pensions and survivor's benefits will be reduced, to get rid of the discriminatory insurance regime and to create a single insurance regime for all employees and the self-employed people.

In Austria there is also a more general intention to improve social security for the entrepreneur. There is a government programme covering the second pillar of pensions for self-employed people. In the Netherlands there is an ongoing discussion on the development of a social security measure providing benefits for pregnant self-employed women.

Arrangements for family members

In Turkey there are some plans to improve the social protection of the spouse of the self-employed person. Maternity (a lump-sum payment) will be implemented for spouses who are not working and who are not covered as actively insured persons within the social security system. Furthermore, because permanent incapacity payment will be in operation for the self-employed (after Law 5510 comes into force), the widows and the orphans as well as the parents of the deceased pensioner may be entitled to a survivor's pension if they qualify the requirements of the Law.

In the Netherlands there are intentions to introduce pregnancy and maternity leave for entrepreneurs.

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ANNEX II References - good practices

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- www.cancava.fr (national insurance fund old-age pensions of craftsmen - *caisse nationale d'assurance vieillesse des artisans*)
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- Office of Social Policy, Department of Trade, Craft, Services and professions, Ministry of SPE (*Adjointe au chef de bureau Politique sociale, Direction du Commerce, de l'Artisanat, des Services et des Professions libérales, Ministère des PME*) and Fabienne Lebon, member of the Office' staff

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ANNEX III Long list of practices

This annex includes the list of good practices that have not been studied in depth.

Austria - § 251a General Insurance Act (Original name: (§ 251a ASVG Allgemeines Sozialversicherungsgesetz)

Aspect: Disability, old-age and survivor pension insurance

People who were insured under both systems (GSVG and ASVG) will not lose their acquired pension insurance months when changing between the systems. The ASVG applies to employees and certain residents whereas the GSVG applies to self-employed.

Belgium - Compulsory maxi-status for co-operating partners (Original name: Verplicht maxi-statuuat voor de meewerkende echtgenoot)

Aspect: Multiple aspects of social security

The regulation gives co-operating partners the same social security status as the self-employed, covering all aspects: pensions, family allowances, health insurance and maternity. The self-employed person and the assisting partner must be affiliated with the same social insurance fund. The co-operating partner has to pay a compulsory contribution.

Czech Republic - Act 435/2004 Coll. about employment (Original name: Zákon 435/2004 Sb. o zaměstnanosti)

Aspect: Prevention of unemployment

The labour office may provide the unemployed with a contribution in order to have them perform a social beneficial job. This also includes self-employment. In this framework the labour office provides unemployed a bridging contribution for at most three months.

Estonia - Funded Pensions' Act (Original name: Kogumispensionide seadus)

Aspect: Old-age insurance and state pension

The Funded Pensions Act was amended to enable self-employed people to acquire mandatory funded pension units (II pillar) previously available to employees only.

France - Allowance for helping the unemployed to create or take over a company (Original name: Aide au Chômeur Créateur Repreneur d'Entreprise; Code du travail n°L351-24, R351-41 to R351-49; Code de sécurité sociale L616-1, L161-24, D161-1, D161-1-1-1)

Aspect: Multiple aspects of social security

For the first twelve months they do not have to pay social contributions for all the social security aspects: invalidity, old-age pension, survivor's benefits, unemployment insurance, pregnancy (leave) and child care.

Greece - Citizen Service Centres, L. 3013/02 (Original name: Κέντρα Εξυπηρέτησης Πολιτών, Ν. 3013/02)

Aspect: All aspects, with special attention to pensions, healthcare and survivors' benefits

Citizen Service Centres provide quick and effective information free of charge and assist the self-employed especially in relation to the social aspects of healthcare, pensions and survivors' benefits.

Malta - Start Your Own Business (Original name: INT; Ilda Negozju Tieghek)

Aspect: Prevention of unemployment

Unemployed people receive support in preparing for and starting a business. The support includes advice, guidance and consultancy, training, mentoring, grant, reimbursement of expenses for child care services. Unemployment will not cause them to relinquish their unemployment benefits.

Malta - Social Security Act 1987, originally The National Insurance Act 1956

Aspect: Multiple aspects of social security

The Social Security Act had the aim of establishing a comprehensive social security system.

It also covered a number of issues related to self-employed people who are still active today. The aim of the section concerning the self-employed is to provide assistance in terms of state insurance covering sickness, work-related injuries, unemployment, widowhood and old age.

Norway - Daily unemployment benefit / rehabilitation benefit during enterprise establishment (Original name: Dagpenger / atføringsspenger under etablering. Folketrygdloven (1997 - 02 - 28 - nr. 19 § 4-6, § 11-9, §§ 3-8 - 3-11))

Aspect: Prevention of unemployment

Unemployed people may continue to receive daily unemployment benefit / rehabilitation benefit for nine months while establishing an enterprise.

Romania - Law 76/2002 (modified through law 107/2004) & article 71 (Original name: (Legea nr 76/2002 modificata prin legea 580/2004 privind sistemul asigurarilor pentru somaj si stimularea ocuparii fortei de munca & Articolul 71)

Aspect: Prevention of unemployment

Free consultancy and assistance services in order to support start-ups.

Slovakia - Act 461/2003 Coll. (Original name: (Zákon 461/2003 Z.z.)

Aspect: Prevention of unemployment

The contribution base for social insurance for the self-employed is only 50% of the minimal wage up to 1 July in the year following the first year of business establishment.

*Sweden - The Act (1997:238) of Unemployment Insurance
(Original name: Lag om (1997:238) arbetslöshetsförsäkring 37§)*

Aspect: Social insurance of unemployment

If the entrepreneur discontinued her or his operation within 12 months after the business started, the benefit is based on the entrepreneur's previous employment.

*Sweden - Right to Leave to Conduct a Business Operation Act
(Original name: Lag (1997:1293) om rätt till ledighet för att
bedriva näringsverksamhet)*

Aspect: Prevention of unemployment

An employee is entitled to leave from his/her employment to run a business. One may discontinue leave and resume work at the same level as prior to the leave. An employee may not be dismissed solely on the grounds that he/she requests or claims the right to leave.