

Chapter 9

Social security and inclusive entrepreneurship^{1, 2}

Social security systems can influence business creation decisions even though their overall objectives do not normally include the promotion of entrepreneurship. The costs and benefits of social security for the employed and the self-employed differ and this often has the effect of lower levels of coverage for the self-employed. This chapter considers the ways in which social security affects inclusive entrepreneurship and the policy approaches which have been made to mitigate perverse effects of social security systems on self-employment and business creation.

1. Note by Turkey:

The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

2. Note by all the European Union member states of the OECD and the European Union:

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Social security systems

- Social security systems vary widely between member states in terms of costs, benefits, funding mechanisms, and eligibility criteria.
- Social security systems can impact on decisions related to entrepreneurship and self-employment by influencing the opportunity costs, as well as direct costs and benefits of setting-up in business.

Social security systems are systems of social protection that aim to assist people when they face unforeseen or difficult circumstances. There are a wide range of benefits available in sophisticated social security systems and this chapter focuses on those that have the most significant impact on entrepreneurship (Panteia/EIM, 2007):

- insurance related to permanent disability;
- insurance related to temporary long-term disability/sickness;
- old-age insurance and state pension;
- survivors' benefits;
- social insurance for unemployment (i.e. bankruptcy or ceasing to trade);
- income support (preventing unemployment through subsidy of low-earners);
- insurance for maternity (leave);
- insurance for (temporary) child care.

Other aspects of legislation have a bearing on the security, for example Employment Protection Legislation has an impact on labour flexibility, including the degree to which it is easy to move from employment to self-employment.

While all EU countries have social security systems, the composition of the systems varies widely in terms of contribution rates, cost allocations, and levels of benefits (see Table 9.1).

The influence of social security systems on entrepreneurship

Evidence demonstrates that at the macro level, more developed social security systems with more extensive benefits tend to have a negative effect on entrepreneurial activity (Parker and Robson, 2004; Panteia/EIM, 2007; Hessels et al., 2007). In addition, specific programmes (for example welfare bridges, see below) have been shown to have a significant impact on self-employment which appears to substantiate the idea that the social security system has a negative impact on entrepreneurship in some areas. However, there is very limited research about how specific elements of the general social security system impact entrepreneurship and self-employment decisions.

Table 9.1. Contribution rates for social security programmes, 2010
In per cent of salary

	Old age, disability, survivors			All social security programmes ¹		
	Insured person	Employer	Total	Insured person	Employer	Total
Austria²	10.25	12.55	22.8	17.2	25.15	42.35
Belgium²	7.5	8.86	16.36	13.07	24.77	37.84
Bulgaria²	7.1	8.9	16	12.1	16.8	28.9 ⁴
Croatia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cyprus²	6.8 ³	6.8 ³	13.6 ³	6.8	6.8	13.6 ⁴
Czech Republic²	6.5	21.5	28	11	34 ⁵	45 ^{4,5}
Denmark	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Estonia⁴	2	20	22	2.6	33.3	35.9 ⁴
Finland	4.5	17.1	21.6	7.1	20.38	27.48 ⁴
France²	6.65 ⁷	9.9 ⁷	16.55 ⁷	9.8	32.68 ⁵	42.48 ⁵
Germany²	9.95	9.95	19.9	19.25	19.61	38.86 ⁴
Greece²	6.67	13.33	20	11.55	22.1	33.65
Hungary²	9.5 ³	24 ³	33.5 ³	17	27	44 ^{4,8}
Ireland	4 ³	8.5 ³	12.5 ³	4	8.5	12.5 ¹²
Italy²	9.19	23.81	33	9.19	30.17	39.36
Latvia	9 ³	24.09 ³	33.09 ³	9	24.09	33.09 ⁴
Lithuania	3	23.3	26.3	9	30.98	39.98
Luxembourg²	8	8	16	12.35	11.4	23.75 ⁴
Malta²	10 ³	10 ³	20 ³	10	10	20
Netherlands²	19	5.7	24.7	22.5 ⁸	17.5	40 ^{4,8}
Poland²	11.26	14.46	25.52	22.71	17.61	40.32 ⁴
Portugal	11 ³	23.75 ³	34.75 ³	11	23.75	34.75
Romania	10.5	20.8	31.3	16.2	27.8	44 ⁴
Slovak Republic	4	14	18	10.4	27.2	37.6 ⁴
Slovenia	15.5 ³	8.85 ³	24.35 ³	22.1	16.1	38.2 ⁴
Spain²	4.7 ³	23.6 ³	28.3 ³	6.25	31.08	37.33 ⁴
Sweden	7 ⁷	11.91	18.91	7	23.43 ¹²	30.43 ^{4,12}
United Kingdom	10 ³	12.8 ³	23.8 ³	11	12.8	23.8 ⁴

1. Includes Old Age, Disability, and Survivors; Sickness and Maternity; Work Injury; Unemployment; and Family Allowances. In some countries, the rate may not cover all of these programmes. In some cases, only certain groups, such as wage earners, are represented. When the contribution rate varies, either the average or the lowest rate in the range is used.

2. Contributions are subject to a ceiling on some benefits.

3. Also includes the contribution rates for other programmes.

4. Government pays the total cost of family allowances.

5. Employers pay the total or most of the cost of work injury benefits.

6. Portion of set amount for Old Age, Disability, and Survivors. Central and local government and other types of contributions for the other programmes.

7. Contributions finance old-age benefits only. Additional contributions are required for survivor and disability benefits.

8. Plus flat-rate contributions for medical benefits.

9. Government pays for most of the cost of family allowance benefits.

10. Government pays the total cost of unemployment benefits.

11. Disability benefits are paid under another program.

12. Government pays the total cost of basic unemployment insurance; employer and employee pay the cost of voluntary unemployment insurance.

Source: SSA (Social Security Administration), Office of Retirement and Disability Policy, Office of Research, Evaluation, and Statistics, (United States of America), (2010), Social Security Programs Throughout the World: Europe, 2010, Washington, United States of America.

- At the macro level, there is evidence that the quality of social security systems is inversely correlated with the level of business creation and self-employment activities.
- Social security systems can exert a negative influence on entrepreneurship because relative to employees, self-employed people may pay more for the same benefits (e.g. paying for both the employer's and employee's contributions); receive fewer benefits for the same costs (e.g. lower pension benefits); be ineligible for certain benefits (e.g. unemployment insurance); have difficulty working with complex systems (which the employer would normally deal with); fear losing existing benefits; have changed benefits around maternity and childcare; and face requirements to contribute to systems for longer before being eligible for benefits.
- The social groups that are disadvantaged and under-represented in entrepreneurship are more likely to be already using the social security system, possibly in multiple ways. Therefore the detailed provisions of measures can be more important for, for example, the disabled than for general entrepreneurs.

Social security systems impact entrepreneurship by influencing the costs and benefits setting-up in business. The contribution rates for individuals can vary depending on their employment status, and eligibility and benefit levels can also vary. Since the general objectives of social security systems do not normally include the stimulation of entrepreneurship, many systems have perverse disincentives to entrepreneurship through differences in costs and benefits because the self-employed have either higher costs or lower coverage than normal employees. Thus business growth is restricted due to social security considerations.

The influences of social security systems on business creation and self-employment are more acute for socially disadvantaged groups due to their higher vulnerability within society (Boylan and Burchardt, 2002). In particular, disadvantaged groups are more likely to be involved in the existing social security system and to be claiming benefits from it. Moreover, members of disadvantaged groups are more likely to interact with several different aspects of the social security system (e.g. multiple different benefits) and therefore the net effect is likely to be greater.

The principle influences of the various components of social security systems include direct financial disincentives, reduced benefits, the fear of losing entitlements, administrative costs, maternity and childcare provisions, value for money in pensions and the need to contribute before claiming benefits.

Direct financial disincentives

Social security systems in the EU operate on a contribution system that involves the state, employers and employees. In many countries, those who become self-employed have to cover both the employee and employer premiums to receive the same level of coverage that they would have as an employee (Panteia/EIM, 2007). This therefore increases the costs of setting-up in business in many EU countries. In Slovenia and Hungary, for example, the self-employed pay the contributions for both employees and employers, resulting in a higher contribution rate overall. In Slovenia, 15.5% of social security contributions usually come from employers, with 8.85% from employees: for self-employed people this becomes 24.35%. In Hungary the division is 8.5% and 27% respectively, both of which are covered by the self-employed (MISSOC, 2013).

Reduced benefits

Those who are self-employed are not covered by unemployment insurance schemes in most EU countries, including Estonia, France, Ireland, Cyprus and Malta (MISSOC, 2013). However, they are often required to contribute. Thus they pay for a support system that they cannot access. This has a negative influence on the decisions to start a business, particularly for those who were previously employed, because there is no protection in the event that the business start-up is unsuccessful.

Additional areas where the self-employed have fewer benefits than employees are health insurance and pensions, although this varies widely across EU countries (MISSOC, 2013). Furthermore, some countries such as the Slovak Republic do not provide protection for occupational or work-related injuries for self-employed people (MISSOC, 2013).

Fear of losing existing entitlements

The fear of losing benefits may be as strong a disincentive as the actual knowledge of the changes that self-employment brings about. For people in disadvantaged groups, the level of benefits may be significant and therefore they are likely to be very risk-averse, unless they have clear information regarding any changes that self-employment may bring about.

This can especially be a barrier of perception when systems are complicated. For example disability benefits are typically computed based on the level of disability and the level of support needed. This complexity in the computation of benefits can create confusion for those considering self-employment because new entrepreneurs may not know how their existing benefits will be impacted. As a result, business creation is often abandoned.

Administrative costs

The costs of complying with the administrative requirements of social security systems increase the costs of being self-employed because the time and cost of filing and paying contributions is relatively fixed, regardless of firm size. Moreover, the perceived complexity can be a deterrent to business creation because small businesses lack the resources to invest in fully understanding the details of the administrative obligations (Hessels et al., 2007). It is even more difficult for entrepreneurs who have no experience with complying with administrative obligations (Guyot and Lohest, 2008). Recent Eurobarometer data indicate that 72% of people cite administrative burden as a disincentive to self-employment (European Commission, 2012).

Maternity and childcare provisions

For both entrepreneurs, and employees, the coverage for maternity leave and childcare varies across EU countries. At the national level, evidence shows that there is a negative relationship between the supportiveness of a welfare state to maternity and childcare and the level of entrepreneurship in a country (Elam and Terjesen, 2010).

For individuals, self-employment women face two challenges related to maternity benefits that those in employment do not. First those in self-employment typically do not receive any payments (i.e. wages or salary) which create a disincentive to self-employment for young women considering having a family. Second, in the few countries that do provide

some maternity benefits for the self-employed, a financial disincentive to self-employment remains because employers typically cover the costs of this coverage.

The availability of childcare services generally has a positive influence on self-employment. Where childcare services are offered in abundance, self-employment can be encouraged because women may have more time to pursue business creation opportunities (Elam and Terjesen, 2010; OECD, 2012).

Value for money in pensions

Older workers considering self-employment often face financial disincentives to creating a business or taking one over because switching from employment into self-employment reduces the length of time contributing to a pension associated with employment. The result is a lower time period of contributing to the pension and this typically reduces the entitlements that would be received in the future (MISSOC, 2013; Zissimopoulos et al., 2003). At the same time, some EU countries offer pension schemes for the self-employed. However, these pension plans are typically less attractive than those for employees (Betzelt, 2004).

Conversely, pensions can be a stimulus for older people to become entrepreneurs when they have not accumulated enough entitlements to retire and have the lifestyle that they desire (Efrat, 2008). Self-employment can therefore be an effective method of supplementing pension benefits.

Need to contribute before claiming

For both employees and the self-employed, many elements of the social security system require a period of contribution before an individual is eligible to draw on the benefits. This requirement can have a positive influence for business creation because some disadvantaged groups may have difficulty accessing social benefits if they cannot obtain employment. Therefore, self-employment can become one method of gaining access to at least a minimum level of social security coverage. This is particularly true for new immigrants (OECD, 2010).

Policy approaches to address disincentives to entrepreneurship

The primary ways in which policy makers can encourage and support entrepreneurship through the social security system are by reducing the risk of going into self-employment (European Commission, 2012). Specific approaches include the use of welfare bridges, reducing contribution and tax rates, extending social security benefits to families of the self-employed, providing voluntary additional coverage for self-employed people and providing equal treatment in the social security system regardless of an individual's labour market activity.

Welfare bridges

The term “welfare bridges” is used to categorise policies that allow an individual to keep receiving benefits or entitlements (e.g. small grants) while they set-up their own enterprise. Through these “bridges”, unemployed individuals receive a base income while they are setting-up an enterprise to provide a means of sustenance to encourage self-employment.

- Despite the widely differing nature of social security systems, there are a number of common approaches used by EU governments to address the negative influences of social security systems on entrepreneurship. Approaches include:
 1. Welfare bridges allowing claimants to continue receiving benefits in some form while they are establishing their own businesses. This eases the financial transition from welfare to self-employment and in some cases provides for a certain amount of start-up capital.
 2. Lowering of contributions for self-employed people can ensure that the contributions are commensurate with benefits accrued. This can help ease the financial strain of starting a new business.
 3. Extending benefits to family can reduce the level of risk that an entrepreneur and family face in the event of an unsuccessful business.
 4. Offering voluntary extra coverage that allows for the purchase of additional benefits when those for self-employed people are inferior to those in employment. In this case, the coverage for entrepreneurs is made more flexible so that they are not forced into overly expensive or inadequate coverage.
 5. Providing equal treatment of the self-employed and employees under the social security systems.

A number of EU countries have welfare bridge provisions, which provide support to entrepreneurs coming from unemployment. An overview of the different measures and arrangements is presented in Table 9.2. An often-cited example is the German policy of the Enterprise Subsidy, or *Gründungszuschuss*, which is similar previous welfare bridge policies, the Start-Up Subsidy and Bridging Allowance (Panteia/EIM, 2007). The Start-up Subsidy was a subsidy provided to unemployed people under the age of 65 years for the first three years of their business start-up. The Bridging Allowance measure was for unemployed individuals under the age of 65 and provided a monthly allowance to cover the living costs which setting-up in self-employment. Entry requirements for the Bridging Allowance required that receivers had been registered as unemployed for at least 4 weeks and had a viable business plan. Beneficiaries of this programme received unemployment benefits for 6 months, plus an additional lump sum of 68.5% of their benefits to cover their social security payments. These two schemes were merged to create the Enterprise Subsidy.

A similar programme is the Back to Work Enterprise Allowance in place in Ireland. This measure specifically targets those who receive benefits from a social welfare scheme and offers financial support with the continuation of social security benefits. This measure is examined in more detail in Box 9.1.

Other countries have introduced similar measures. In the United Kingdom for example, the New Enterprise Allowance provides financial support for business creation to registered unemployed people and those receiving income support benefits (Eurofound, 2011). The allowance provides a loan to aid with start-up capital and a weekly allowance of up to GBP 1 274 (approximately EUR 1 500) over 26 weeks. Similar approaches are also used in Denmark, Sweden and the Netherlands.

A slightly different type of Welfare Bridge is one that provides a lump sum payment of future benefits rather than a continuation of benefit payments. This approach is found in Spain and Portugal. In Spain unemployed people can receive up to 60% of their total benefits

Table 9.2. **Overview of main welfare bridge policies in Europe**

Classic welfare bridge	
Denmark	Continued provision of unemployment benefits to people starting an enterprise
Germany	“Bridging Allowance” for people receiving unemployment benefits, under age of 65
Ireland	“Back to Work Allowance” for people receiving social security benefits
Sweden	Continued provision of unemployment benefits to people starting an enterprise
United Kingdom	“New Enterprise Allowance” for people receiving unemployment benefits, or income support, or disability benefits
Payment of benefits as a lump sum	
Portugal	Unemployment benefits are paid as a lump sum in one payment to help start up the new business
Spain	A proportion of unemployment benefits are paid as a lump sum in one payment to help start up the new business
Subsidy based on Specific social security status	
Croatia	National Employment Policy: providing loans and grants to unemployed people who want to become self-employed.
Czech Republic	Subsidies for the Unemployed in buying machinery, office space etc. to person who presents a viable business plan. (European Employment Observatory Review, 2010)
Estonia	Start-up grant for people who are receiving unemployment benefits
France	“Contrat d’insertion à la vie sociale”(CIVIS): personalised and intense support for a year plus an allowance of up to EUR 450 per month for the unemployed and low qualified young people (European Employment Observatory Review, 2010)
Hungary	Subsidy scheme for registered unemployed entering self-employment: three prongs to the scheme aimed respectively at the disabled, 50+ market entrants and young mothers, and the registered unemployed. Groups are granted start-up subsidies for setting up businesses
Italy	Start-up incentives for young and unemployed people in urban, underdeveloped areas (European Employment Observatory Review, 2010)
Netherlands	Support services aimed at the unemployed: loans to the unemployed and to welfare recipients to set up a business; costs of receiving coaching and market surveys can be refunded
Slovak Republic	Employment Services Act of 2004: financial subsidy for job seekers and parallel subsidy for disabled people wanting to set up an enterprise

Box 9.1. **Back to Work Enterprise Allowance, Ireland**

Description: This initiative is aimed at those who receive assistance from one of the following social welfare schemes: Jobseeker’s Allowance; Jobseeker’s Benefit; One-Parent Family Payment; Blind Pension; Disability Allowance; Career’s Allowance; Farm Assist; Invalidity Pension; Incapacity Supplement; Pre-Retirement Allowance; Widow’s/Widower’s or Surviving Civil Partner’s (Non-Contributory) Pension; Deserted Wife’s Benefit or Allowance; Prisoner’s Wife’s Allowance; or, Illness Benefit for 3 or more years. The measure includes information provision and referrals, provision of finance, and checking the viability of the business plan (Panteia/EIM, 2007).

Problem addressed: The principle aim of this initiative is move unemployed people who are at risk of poverty back into the labour market through self-employment.

Approach: The allowance provides benefits at a decreasing rate over 2 years to long-term unemployed people who wish to create a business. To be eligible, the individual must have been unemployed and have been receiving welfare benefits of some kind for 12 months. Participation requires the submission of a viable business plan that has been approved by a Local Area Partnership Company/Integrated Local Development Company or a Department of Social Protection Jobs facilitator. The duration of benefit reception was initially 4 years, but in May 2009 this arrangement was altered. Now a person receives 100% of their benefits throughout the first year and 75% in the second.

Impact: Between 1997 and 1999, 86.8% of beneficiaries had not made a social welfare claim. Only 5.9% made a brief welfare claim and 7.3% of beneficiaries fully returned to being back on welfare (Department of Enterprise Trade and Employment, 2002). The impact of the recent changes to the allowances has not yet been measured.

Conditions for success: A condition for success is the broad scope of the target group. By being open to a variety of social groups the coverage of this measure is higher.

in one payment, while women under the age of 35 can receive 80% of the unemployment entitlements in one payment (European Employment Observatory Review, 2010). In Portugal, claimants can receive 100% of the benefits as a lump sum (Naumann, 2011).

A third type of Welfare Bridge is one that provides a fixed grant to entrepreneurs starting from unemployment, regardless of their level of unemployment benefits. In Estonia, for example, a start-up grant of up to EUR 6 400 is available for the registered unemployed who receive benefits. However, entrepreneurs are required to cover 20% of the start-up costs from their own savings or other sources (European Employment Observatory Review, 2010).

Please see Chapter 6 for additional discussion of welfare bridges.

Lowering contribution rates and taxes

Self-employed people often pay proportionally more than employees as they cover the contributions usually paid by both an employer and an employee together (Panteia/EIM, 2007) and several governments have taken steps to reduce the burden of social security contributions for self-employed people. One approach is to lower the required contributions for self-employed people for different aspects of social security coverage in order to make the system more equitable. In Finland, for example, the Earnings-Related Pension Scheme (YEL) provides some flexibility for Finnish entrepreneurs to choose how much is contributed to the compulsory age, disability and survivor's pensions (European Employment Observatory Review, 2010). Moreover, these contributions are tax deductible for the self-employed (see Box 9.2 for more details). This approach is also found in Spain, where its National Action Plan on Social Inclusion, 2008-2010, stipulates a collection of fiscal measures to help entrepreneurs, including a 20% reduction in taxes on income and a 50% reduction on contributions to be paid by the entrepreneur for a newly recruited worker for up to 24 months (European Employment Observatory Review, 2010).

A second approach, although less common, is to provide exemptions to contributions for the self-employed. In Lithuania for example, the 2010 Amendments to the Law of Support for Employment stipulates that job seekers wishing to start a business can be exempted from social insurance contributions and can receive reimbursement for the training costs involved in starting their business (Panteia/EIM, 2007). Self-employed and employees in Lithuania are compulsorily insured under the Law on State Social Insurance and thus such lowered contributions are a positive incentive for entrepreneurs.

The Czech Republic also has an earnings-related contributory scheme. The social security system is uniform for all members of the active population and covers health care, disability and maternity benefits. The self-employed can opt for an assessment based on less than their actual earnings (but no lower than 50% of the difference between income and expenses), although this will result in lower earnings-related benefits. This does not include family benefits, which in the Czech Republic are state financed (MISSOC, 2013). While such earnings-based contribution reductions are quite universal in their target, their advantage towards socially disadvantaged groups is clear. These groups have a more vulnerable position in the labour market and society and such measures offer more flexibility within compulsory social security arrangements. The State coverage of family benefits in the Czech Republic is especially useful for those long-term unemployed people and women, especially those who bear the responsibility of raising children.

Box 9.2. 2005 Reform of the Self-Employment Pension's Act (YEL), Finland

Description: In Finland, the same basic social security arrangements are applied to both the employed and self-employed, namely sickness, maternity and family benefits, as well as basic unemployment benefits and national pensions. Prior to 2005, the self-employed were entitled and obliged to be insured under the Self-employment Pension's Act (YEL). The 2005 reform introduced an earnings-related element to the contributions paid by the self-employed towards their social security thus providing the self-employed more financial freedom. This is an indirect way of improving the availability of finance.

Problem addressed: Prior to the reform, self-employed people were bound to set amounts of contributions for their coverage under the social security system. This created a financial burden for many entrepreneurs, who often could not draw on the benefits.

Approach: Though YEL was introduced in 1970, the reform of 2005 introduced an earnings-related element. The entrepreneur was given more flexibility, being able to pay what they wish within certain parameters for their social security. The entrepreneur can also opt to pay for extra coverage and can pay a percentage of between 10 and 100% of their obligatory contribution amount. The Finnish Centre for Pensions supervises contributions and also co-ordinates with entrepreneurs the levels of contributions to be paid based on income. In 2006 for example the contribution was 20.8% of the entrepreneurs' annual income, which is funded entirely by the entrepreneur. If the contributions prove to be insufficient, the state pays the deficit. Pension contributions are also tax-deductible for entrepreneurs. The freedom to select the level of contribution for both the compulsory and optional extra pension insurances allows entrepreneurs to save where possible, reducing the financial constraints coupled with starting a business (Eurofound, 2013b).

Impact: In 2011 the Finnish Centre for Pensions commissioned two separate evaluations of the pension system. While both reports found the system to be comprehensive and sustainable (Eurofound, 2013b), both identified issues related to too much of an incentive to retire early and that the pensions are administratively inefficient (Barr, 2013; Ambachtsheer, 2013). Another study suggests that the system is less than ideal for those with low incomes (whose coverage decreases with their income) and for those with higher earnings (who are no longer eligible for national coverage when they earn more than a certain income) (Panteia/EIM, 2007).

Conditions for Success: This pension reform requires a high administrative capacity to annually calculate earnings-based contributions. However, the greatest challenge going forward is addressing the lack of coverage of those whose earnings are too low.

Bulgaria adopts a similar system of income-based contributions for the supplementary coverage for general illness and maternity benefits. The basic pension concerns invalidity and sickness, old age pension and survivor insurance alone.

Family or partner coverage

Policies classified under this "Family or Partner Coverage" category aim to expand the coverage of the social security system by allowing a spouse or family member to be covered in connection with the enterprise. This approach aims to reduce the risk of self-employment because more members of a household can receive the benefits of social security in the event of a business failure.

For example, in Denmark all residents are insured equally under the Act on Social Pension 2005, regardless of their labour market status. Thus spouses and extended family automatically receive the same coverage as the self-employed person in the Danish system (MISSOC, 2013). A supplementary pension can be arranged to provide basic coverage for old age and can be extended to all relatives of an entrepreneur as well. However, there are residency requirements for these provisions, which renders this support inaccessible to migrant entrepreneurs.

An example of a more deliberate approach to providing coverage to the self-employed is in Luxembourg. In the “Assisting Spouse Regulation”, partners are insured in the same way as the entrepreneur for all social security areas, including old age pensions and sickness and unemployment benefits. However, entrepreneurs pay the contributions for both the employer and employee and therefore pay more than an employee would to extend benefits to their spouse or dependants (Panteia/EIM, 2007).

Another example is in Italy, where entrepreneurs can insure their family members who contribute to the enterprise under the “Family Partnership” measure. The entrepreneur can distribute 49% of the enterprise’s income across family members with registered contracts and in doing so, share the taxes as well.

Voluntary extra coverage

Most EU countries have some form of basic social security coverage for the self-employed though generally less than that for employees. Therefore, some countries make an extra supplementary form of insurance available so that entrepreneurs have the option of upgrading their coverage. For example, the Basic Pension Insurance (*Duchodové pojištění*) for old-age, survivor’s and invalidity pensions are compulsory for all members of the active population in the Czech Republic. However, sickness insurance is not compulsory for the self-employed, but they may join on a voluntary basis (MISSOC, 2013). In Belgium the Voluntary Supplementary Pension and “Social” Voluntary Supplementary Pension provide voluntary coverage (Panteia/EIM, 2007). Under this programme entrepreneurs pay lower contributions towards their compulsory old age pension and can make tax deductible payments on contributions towards the supplementary pension. Besides this, the partners of entrepreneurs are also fully insured for old age.

In Bulgaria too there is a compulsory insurance for invalidity and sickness, old age pension and survivor insurance. Entrepreneurs may insure themselves further for general illnesses and maternity care as well (MISSOC, 2013). Similarly, the 2002 Amendments to the Law on State Social Insurance in Lithuania provides for a supplementary extra coverage for all active members of the population and therefore also the self-employed (Panteia/EIM, 2007).

This approach can also be taken to protect against business failure. Germany has a system that gives formerly unemployed individuals the ability to voluntarily apply for public insurance against unemployment. Evaluation suggests that this has worked well, although better targeting and making it compulsory for some categories of entrepreneur may be appropriate (Evers et al., 2013).

Levelling the playing field

It is quite common for countries to not cover unemployment benefits for the self-employed in their security systems, and to a lesser degree, to not cover occupational or

work related accidents or injury. The lack of unemployment benefits can understandably form a hurdle for potential entrepreneurs because there is no protection to fall back on if the enterprise fails, making entrepreneurship more risky than employment. One approach taken by policy makers to make self-employment more attractive is to try to equalise the treatment of the employed and the self-employed within the social security system. Different approaches are described below.

Broad legislative changes

A number of EU countries have started adopting broad legislative changes in recent years to improve support for the self-employed. Countries that have adopted this approach include Lithuania, and Poland.

The Lithuanian Amendment to the Law of State Social Insurance of 2002 is a mechanism which helps to equalise the position of employees and the self-employed in terms of social security protection (Panteia/EIM, 2007). Under this amendment the self-employed are provided with increased social insurance guarantees, specifically for old age and disability, allowing them to receive the additional earnings-related pensions that are available to employees as well as the basic state pensions that are available to everyone. Self-employed people make compulsory insurance contributions and supplementary insurance can be arranged according to their income. If the income from the enterprise is equal to, or exceeds, 12 times the minimum wage, self-employed individuals are entitled to have the full additional pension and are fully covered. However, in the event that individuals cannot cover these contributions, they are still entitled to the basic pension and therefore have some basic social protection.

In Poland a similar change was made through an amendment to the Social Insurance System Act of 1998. This amendment came into effect in 2005 and extended coverage of the social insurance system to the self-employed (MISSOC, 2013). This introduced coverage for old age, survivors and invalidity pensions, as well as occupational injuries. Although this coverage is mandatory, the self-employed are not eligible for the same benefits as employees. Accordingly, their contributions are lower. For the first 24 months, contribution rates for the self-employed are set at a minimum of 30% of the earnings and increase in the third year (Panteia/EIM, 2007).

Targeted policy changes

An alternative approach used in the EU is to equalise the treatment of the self-employed and employed within social security systems through targeted actions. For example, in the Netherlands, self-employed people have been given a lower threshold for some tax exemptions (European Employment Observatory Review, 2010). Changes have also been made to specifically promote maternity leave and childcare. The Netherlands re-introduced a law in 2008 which entailed the right to maternity and paternity leave among the self-employed as well as the same access to day care as employees (European Employment Observatory Review, 2010).

Denmark and Spain have adopted a similar approach. In Denmark entrepreneurs and their spouses have the same right to unemployment and maternity or paternity benefits as the employed. Similarly, Spain has introduced the Self-Employed Workers' Statute, which came into force in 2007, and stipulates the working conditions for male and female self-employed people, with a specific focus on maintaining a good work-life balance. Right to

maternity and paternity leave are now therefore the same as among employees under the General Insurance Scheme, which applies to all employees. This case is described further in Box 9.3.

Box 9.3. The Self-Employed Workers' Statute, 2007, Spain

Description: The Self-Employed Workers' Statute (*Estatuto del Trabajador Autónomo*) came into force in 2007 in Spain. The measure was aimed at legally defining self-employed people and protecting them under labour law, and at promoting equal working conditions for the male and female self-employed. The law also lays down provisions to bring the general social security system more in line with the special security system available for self-employed. Notable is the provision of both maternity and paternity leave under this law.

Problem addressed: The self-employed workforce has not been well regulated and they have had less social protection than those working as employees. There is a specific focus on also equalising the positions of men and women with regards to self-employment possibilities and as such paternity and maternity care are both provided. In doing so the issue of getting women to entering the labour force is also addressed.

Approach: The statute defines distinct employment categories for the self-employed with workers and those without. By legally defining these categories and by providing legal frameworks covering important aspects of self-employment, a substantial part of the labour market is drawn into and covered by labour law. From a social security perspective a number of provisions are included which among others, allow self-employed people to obtain benefits in case the enterprise activities cease, benefits in case of temporary sick leave, and early retirement opportunities. As was mentioned above, maternity and paternity care is also included. Not only do self-employed people now have a more equal footing in the eyes of the law, which provides an improvement in their social security position, women are specifically targeted as well through the introduction of childcare. Spanish surveys demonstrate that some 32% of women indicated that maternity may have hindered their professional career (Eurofound, 2009). Childcare thus helps to free up the time and thus the opportunities of women and this statute promotes this.

Impact: Establishing the impact of this measure is difficult, in part because other additions to the self-employment laws have been added. The right to unemployment benefits for the self-employed was added in 2010 for example (European Employment Observatory Review, 2010). Added to the effects of the economic crisis which has hit Spain especially hard, the impact of such a measure as the Self-Employed Workers' Statute is difficult to discern in terms of entrepreneurship levels. Policy evaluations on the effects of this statute were also difficult to procure. However it should be borne in mind that the effect of attributing a legal status to the unemployed is likely to have effects which are also soft and difficult to quantify.

Conditions for success: While few concrete success or failure factors could be distinguished for such an overarching policy reform, in Spain the issue of getting women to participate more in the labour market has been on the policy agenda for some time evident in the Law on Childcare services, of 2006, implemented to stimulate, among others, female employment (Organic Law on Education, 2006). Childcare is seen as a key tool to this and also forms the subject of much policy debate. Bearing this in mind and reviewing the Spanish context in 2009 that almost a third of its work force were in self-employment, the Self-Employed Workers' Statute is likely to have had significant backing (Pereiro, 2008). Indeed the social partners and their discussions on this topic appear to have played an important role.

Conclusions and policy recommendations

Social security systems are designed with broad objectives that typically do not include supporting entrepreneurship. However, these systems can influence decisions about business start-up and self-employment by altering the opportunity costs and direct costs and benefits. This is especially true for entrepreneurs from disadvantaged groups who are more likely to interact with social security systems, and often many elements of it.

Social security systems vary widely across the EU in terms of the coverage available, how it is funded and the extent to which the self-employed can access these supports. Nonetheless, some conclusions can be drawn regarding the impacts of social security policies in supporting inclusive entrepreneurship. A large-scale overhaul of the social security system to provide more equal treatment of self-employed and the employees would not be feasible in most countries (Ascoli and Pavolini, 2012). Without adequate political and public support for such an exercise, such an overhaul would not be realistic.

Instead smaller policy changes may hold more immediate value. The efforts being made by countries to equalise the position of both groups of workers, such as in Spain and the Czech Republic could hold the key for changes to improve the situation of (inclusive) entrepreneurship from within the social security system. Smaller policy changes tend to require less political and public support: as such smaller adaptations of a social security system seem more efficient and feasible. While the Self-Employed Workers' Statute in Spain was by no means a small alteration, it was not so large or contentious that it caused public or political outcry. Rather it targeted a specific social need which had been prevalent in Spain for some time, namely, getting women in to work and increasing the protection of Spain's many self-employed.

Smaller changes such as reducing the taxes needed from entrepreneurs (e.g. the Netherlands) or introducing income-based social security coverage (e.g. Poland, Bulgaria, Finland, Ireland), may also be useful in stimulating inclusive entrepreneurship. These measures improve the flexibility experienced by entrepreneurs from a financial and social coverage perspective. While the freedom such measures provide is attractive to entrepreneurs, in certain cases the means or income-based coverage systems also coincide with less coverage in the case of lower contribution payments. As noted already the trade-off between flexibility and security needs to be explicitly considered.

Those policies that target the main problems facing entrepreneurs directly seem most effective. In the absence of systematic evaluation this judgment is based on the long-term continuation of such measures and the statistics, which are available on the use of those measures. From this perspective the Irish Back to Work Enterprise Allowance is a good practice in that it has survived throughout times of economic adversity and helped 86% of its participants (at last count in 2002) to be weaned off of social welfare. The German Enterprise Subsidy appears to have been successful given that it is the merging of two other, long running subsidy programmes (partly to reduce administrative complexity). Considering once again the Eurobarometer survey, which pointed to "administrative" burden as being a significant disincentive to entrepreneurs, the clear set-up of this instrument could understandably also make it more effective. Programmes and instruments providing financing or welfare bridges for people receiving benefits, and which do so in a clear manner therefore appear to be among the more effective instruments: they target a main problem directly and do so transparently.

Socially disadvantaged groups suffer from similar obstacles to entrepreneurship to those of entrepreneurs generally. In this vein, those policies helping the self-employed generally are likely to also have a positive impact on the socially excluded. In more extreme cases of socially disadvantaged individuals, however, this reasoning may not hold as well. In some cases, a more tailored approach may be appropriate to target the specific issues relevant to a particular social group. For seniors, pension related measures could be introduced and communicated to this group, seeing as this is one of the elements which is thought to form a strong deterrent to entrepreneurship. In the case of women, childcare and maternity/paternity leave have shown themselves to be effective, and disabled people benefit from grants where the equipment and disability-specific adjustments to the work environment are paid in combination with their existing benefits. The reasons for discrimination and for being more vulnerable on the labour market differ: as such the social security instruments to stimulate inclusive entrepreneurship could also benefit from a tailored approach. However implementing such specific regulations could come at the cost of becoming rather complex and making the social security systems of a nation less transparent, creating a different kind of barrier to inclusive entrepreneurship.

Key policy recommendations

- Increase the amount of society security coverage available to the self-employed to provide them with the same safety net that is available to those who work in paid employment.
- Increase the availability of information related to social security coverage and options for entrepreneurs more visible and clear to potential beneficiaries. This is needed especially for disadvantaged entrepreneurs who draw on more than one element of social security. It is important that they understand how their benefits interact with each other and how they would be impacted by business creation or changes in status within the social security systems.
- Provide flexibility in the how social security entitlements are paid by allowing for lump sum payments to support business creation.
- Reduce the complexity of social security systems by streamlining administrative requirements for the self-employed. Where this is not possible, make sure that training and information is available in order to demystify the intricacies of the system
- Undertake regulatory impact analysis when making amendments to social security systems and include the impacts on entrepreneurship in general, and inclusive entrepreneurship in particular. This would help avoid perverse incentives, in particular financial incentives to avoid self-employment.

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From:
The Missing Entrepreneurs 2014
Policies for Inclusive Entrepreneurship in Europe

Access the complete publication at:
<https://doi.org/10.1787/9789264213593-en>

Please cite this chapter as:

OECD/European Union (2014), "Social security and inclusive entrepreneurship," in *The Missing Entrepreneurs 2014: Policies for Inclusive Entrepreneurship in Europe*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264213593-12-en>

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