



European Employment Observatory

EEO Review: Self-employment, 2010

Italy

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1. Introduction

The rapid spread of self-employment is one of the main peculiarities of the Italian labour market. In 2009 self-employed workers represented 22.5 % of total employment, against the 14.3 % EU-27 average (Eurostat). Gender differences are however relevant: self-employment is a prerogative of male workers (their share was 27 % in 2007), although self-employment among women in Italy, is higher than the European average (15.9 % against 9.6 %). The likelihood of being self-employed increases with age, reaching its maximum in the age group 55-64 (where 33.6 % of workers are self-employed, against 13.1 % in the age-group 15-24). Self-employment is more widespread in the Southern regions, where labour market conditions are worse and self-entrepreneurship represents a way out of unemployment.

While entrepreneurs amount to only 4.5 % of the total and professionals to 20 %, the self-employed in the strict sense (farmers, craftsmen, salesmen, etc.) represent the highest share (61.7 %). A low but significant share (6.8 %, or 400 000 workers, according to official ISTAT estimates – unofficial ones being higher¹) identifies occasional workers and *collaboratori coordinati*, i.e., employer-coordinated freelance workers. These workers are only formally self-employed, as they are usually economically dependent on a single employer.

The recent debate on self-employment mainly regarded the issue of tax evasion and the actual independence of the different categories of self-employed workers; less attention was paid to self-entrepreneurship as a way out of the economic crisis. Although several instruments/incentives to favour enterprise creation exist, little has been done as a response to the crisis. More attention has been paid to the support for SMEs, by increasing access to partial unemployment benefits and short-term working arrangements in order to maintain current jobs.

2. Assessment of national labour market policies and recovery measures

Several typologies of start-up incentives exist in Italy. The main distinction occurs between national level incentives and those provided by regional administrations. According to the last report on state aid to economic and productive activities issued by the Ministry of Economic Development (2009), six measures in favour of business creation, worth EUR 3.9 billion, were in force at the national level in the period 2003-2008, while 54 measures, worth EUR 500 million, were in force at the regional level.

Start-up incentives operating at national level target specific categories of beneficiaries, namely young entrepreneurs, unemployed and entrepreneurs in urban depressed areas. Until 2006, a specific measure (law 215/92) provided incentives for female entrepreneurship. This law funded start-ups or innovative business projects led by female individual entrepreneurs or by SMEs having a significant share of women (not less than 60 %) among their partners and in their boards. Periodical calls for proposals (six from 1997, when the law became operational) were published in order to define evaluation and funding criteria (a detailed business plan had to be presented in order to access funds). The results of this law are assessed quite positively, as evidenced by IPI (2008): more than 16 000 female enterprises have been supported (out of 90 000 applications) through EUR 750 million overall funding,

¹ According to the ISFOL-PLUS survey, carried out by the National Institute for Vocational Training, in 2006 the numbers of free-lance collaborators was 713 000. For the methodological differences between this survey and the LFS, see Mandrone (2008).

the total amount of investment generated amounting to EUR 1.3 billion. Notwithstanding this success, the incentives granted by this law have been discontinued in 2006, when the competencies on female entrepreneurship were transferred from the Ministry of Economic Development to the Ministry of Equal Opportunities. From then on, no more funding for female start-ups has been available, excluding those granted at regional level.

The main measure promoting self-employment currently in force at the national level dates back to 2000. The legislative decree 185/2000 provides for two different typologies of incentives: start-up incentives (*autoimprenditorialità*) and incentives to self-employment (*autoimpiego*). The former typology promotes the development of young entrepreneurship (age class 18-35) in disadvantaged areas, concerning: i) agriculture, manufacturing, craftsmanship or business services (with planned investments not exceeding EUR 2.5 million); ii) services in tourism, environmental protection, fruition of cultural heritage, technological innovation, etc. (with planned investments not exceeding EUR 516 000); and, iii) the development of social cooperatives in agriculture, manufacturing, craftsmanship or business services (with planned investments not exceeding EUR 516 000). The incentives include free grants (covering investments, current expenditures and training) as well as access to subsidized loans. The amount of resources granted by this typology of funding amounted to EUR 158.4 million in the 2005-2008 period (for 230 requests). Accordingly, this measure appears to finance a small number of big investments, rather than being directed to the self-employed in a strict sense. It should also be noted that, according to monitoring data, revoked grants almost equal disbursed ones in overall terms. This raises doubts on the effectiveness of the measure in promoting successful entrepreneurship.

The second measure promoted by Law 185/2000 concerns self-employment and the promotion of small business more specifically, and is directed to unemployed people or first-time jobseekers. Three typologies of actions are available: i) incentives for self-employment (up to EUR 25 823); ii) incentives to micro-enterprises (up to EUR 129 114); iii) incentives for the start-up of franchising activities (through agreements with accredited franchisors). Both free grants and access to subsidized loans are offered. EUR 750 million were granted in the 2005-2008 period, corresponding to 28 571 applications (but a declining trend is observed in recent years, the number of applications falling from more than 13 000 in 2004 to about 5 000 in 2008). The share of revoked funds (around EUR 200 million in the 2005-2008 period) appears relatively low, but still almost one quarter of selected business projects can be estimated as unsuccessful. Unfortunately, an impact evaluation of this measure is not available.

Another measure currently in force at the national level (Law 266/1997) supports business creation in depressed urban areas. Incentives are defined by municipalities, and include several kinds of facilitations, including grants. In the 2005-2008 period, 955 applications were accepted, corresponding to funding of EUR 17.3 million.

Besides direct support to start-ups, there are also other countrywide incentives promoting self-employment. Two measures are particularly relevant. The first is a fiscal one: a special (facilitated) fiscal regime is applicable, since 2001, for the first three years of activity to the self-employed starting their own business, provided that their annual revenues are lower than EUR 30 987 (in case of services; the amount is doubled in case of other activities). This special regime consists of an income tax fixed at 10 % and of the exemption from VAT

payments. Although effective in helping young entrepreneurs at the beginning of their activities, the low income threshold for accessing this measure, allows it to be used to hide employee positions under positions on self-employed status. These risks are examined in more detail, in the next section.

The other measure consists of the option, offered to the beneficiaries of the so-called “mobility” allowance (the unemployment benefit granted in case of collective dismissals, in industrial firms with more than 15 employees) to ask for the lump-sum payment of the whole benefit, with the aim to start a new business. Some regional interventions (as in the case of the Lazio Region) add to this scheme by providing extra funding, support and training for new entrepreneurs. However, the existing evidence points to several problems for the recipients of this measure, who, having worked as employees, often face difficulties becoming entrepreneurs. Nevertheless, this intervention is quite relevant in the crisis period, as the “mobility” allowance has now been extended to several categories of firms and workers that were previously not eligible (through the *ammortizzatori in deroga* system).

At the national level, the so-called anti-crisis package (Law 2/2009) introduced a specific fund for the support of youth employment and entrepreneurship, substituting three funds previously allocated to the Ministry of Labour, and assigned its competencies to the Ministry of Youth. However, no information on the utilization of this fund is available yet, hence, an assessment of this measure is not possible at this stage.

No other measures promoting business creation and self-employment have been introduced as a response to the crisis: this demonstrates that the support to new entrepreneurship has not been considered as a priority by the government, although some measures in favour of existing self-employed and SMEs have been adopted (e.g. simplification of fiscal rules, banking facilitations, introduction of an early retirement allowance directed to self-employed or small entrepreneurs working in retail trade, etc.).

Different measures in favour of business creation can instead be envisaged at the regional level. In Italy, the regions and provinces manage active labour market policies and the activities of the public employment service (PES). Unfortunately, the evidence on regional start-up incentives is sparse. The activities carried out range from the services offered by Business Innovation Centres (currently 36 throughout the country) to “honour loans” for young entrepreneurs, grants, micro-credit, training for business creation etc. Several of these interventions are financed through the European funds (mainly ESF and ERDF).

3. Quality of self-employment jobs

Self-employment is characterized by a high degree of heterogeneity. It appears difficult, in fact, to reconcile under the same definition typologies of workers who entail different income levels, career prospects and access to social security provisions. As mentioned in the introduction, the three most relevant categories which can be identified are: professionals, the self-employed (including entrepreneurs) and employer-coordinated freelance workers. The main distinctions among these categories emerge on both social security coverage and the degree of economic independence.

In terms of social security coverage, there is no single pension scheme applicable to all self-employed persons. In particular, professionals (such as lawyers, medical doctors, pharmacists, engineers, etc.) adhere to specific social security funds (*Casse di previdenza e assistenza per i*

liberi professionisti), currently covering eleven categories of workers, which, within minimum standards defined by law, offer social security schemes to their members according to specific rules and provisions. These schemes cover old age, early retirement and invalidity pensions, as well as maternity leave (compulsory, for five months, since 2001) and healthcare assistance (which is voluntary). Self-employed farmers, salesmen and craftsmen adhere to a specific fund within INPS, the National Social Security Institute, paying different social contributions depending on their sector of activity, income and number of working days. While sickness benefits are not provided, maternity leave is covered (for five months, two before and three after delivery). Moreover, family benefits (though very modest in absolute value) are provided to those self-employed falling under specific income thresholds. Finally, employer-coordinated free-lance workers adhere to another INPS fund, the so-called *gestione separata*. This fund was created in 1995 with the aim to offer minimum social assistance to workers employed under this contractual typology, which until that moment was not covered by any compulsory pension scheme. However, the initial social contribution level (almost 10 %) was so low that it encourages the widespread use of these contracts, which have been largely used by employers to substitute paid employee contracts.

The level of social security granted to free-lance collaborators has gradually increased: maternity leave and sickness benefits (although to a lesser extent than those granted to employees) have been introduced, and social contributions have increased up to 26 % (still largely below the 33 % paid by employees). An open problem remains concerning the status of these workers: although since 2003, freelance collaborators working in the private sector should be committed to specific projects (hence the definition of *project workers*), the border between self-employment and economically-dependent employment remains shaded. A similar problem concerns the so-called “false VAT numbers”, i.e. workers with a self-employed status who offer their services to a single client, thus hiding a dependent employment relationship (this behaviour is facilitated by the special fiscal regime described in the previous section).

According to the Isfol PLUS survey, which is the main available source to investigate the nature and the characteristics of self-employment in Italy, in 2006 65.6 % of employer-coordinated workers, 81 % of specific project workers and 7.3 % of “VAT numbers” (the small percentage here involves a high absolute value, due to the larger denominator) were self-employed upon the request of their employer, rather than out of free choice. Mandrone (2008) classifies “improperly self-employed” workers by looking at the number of employers, the occurrence of rigid working hours, the utilisation of employer’s structures, etc. The exercise (classifying self-employed as “false” if at least three out of six criteria are respected) estimates almost 1.3 million of false self-employed in 2006, that is 22.4 % of total self-employment and 5.6 % of total employment.

This issue is relevant in a flexicurity perspective. The incidence of “false” self-employed adds elements of duality in the labour market, while the absence of labour market segmentation is one of the basic prerequisites for a flexicurity model. As Lucidi and Raitano (2009) show, collaborators not only suffer from a negative wage gap with respect to standard employees, but also from higher job instability which, together with the lower level of social

contributions paid, leads to lower expected pension benefits². Estimates suggest that workers employed as collaborators for their whole working life at an average wage will receive a pension comparable to the means-tested subsidy granted to the over 65 (*assegno sociale*).

The higher job instability of collaborators and, more generally, of self-employed workers appears as particularly worrying in the current economic downturn. Between 2007 and 2009, the number of self-employed workers decreased by 4.6 %, against a reduction of total employment of 1.4 %. Looking at transitions, according to CNEL (2009), the yearly transition rate to unemployment or inactivity (estimated using LFS data) amounted, between 2007 and 2008, to 7.2 % for employees, to 6.5 % for self-employed in a strict sense, and to 18.7 % for collaborators (the same figures between 2006 and 2007 amounted to 6.7 %, 7.3 % and 16 %, respectively)³. These data appear relevant when considering that the level and coverage of unemployment benefits is not equally distributed across these categories. The self-employed are generally not insured against unemployment (excluding private schemes). If this can be considered as part of the business risk for those who choose to work as self-employed, this is clearly not the case for “false VAT numbers” (which, according to the Isfol PLUS survey, were almost 300 000 in 2006). As for collaborators, an unemployment allowance has been introduced, in an experimental way, only in 2009 (as part of the “anti-crisis package”, law 2/2009). This benefit is paid as a lump-sum to those collaborators working for a single employer and whose annual income falls into specific (and quite rigid) thresholds; its replacement ratio has been gradually increased from 10 % to 30 % (still largely unable to guarantee a sufficient level of security). No data are available to evaluate this measure, although it has been criticized by several observers as hardly influential. More interesting is the possibility, introduced by the Budget Law for 2010, to cumulate periods spent as collaborators (up to three months) with periods spent as employees in order to achieve the insurance prerequisites necessary to apply for the ordinary unemployment benefit, currently granted to employees⁴.

These aspects call for legislative changes in order to reduce labour market segmentation, by limiting the diffusion of “false” self-employment and reducing the incentives to hire collaborators instead of regular employees. The increase of social contributions up to the level paid by the latter employees is necessary, as well as the introduction of unemployment insurance, at least for those individuals primarily working as collaborators. Abuses in the utilisation of self-employment by fraudulent employers should also be monitored through adequate inspections.

4. Conclusions

Notwithstanding the large diffusion of self-employment and of its “culture” in Italy, incentives for start-ups and business creation have not been considered as a possible remedy for unemployment. Much more effort has been devoted to increasing the coverage of the unemployment benefits system (although on a temporary and discretionary basis) and to maintain people at work through the use of short-term working arrangements and partial

² As per the notionally-defined contribution pension system, introduced in 1992, pensions will be computed according to the amount of social contributions paid during the whole working life

³ Note that the transition rates *towards* self-employment in a strict sense amounted to 2.1 % for the unemployed or inactive, to 6.4 % for collaborators and 1.4 % for the employed.

⁴ 52 weeks of contributions over the previous two years and at least one contribution paid two years before (as employee) are necessary in order to be eligible for the ordinary unemployment benefit.

unemployment benefits (*Cassa Integrazione Guadagni*). Eligibility has been increased, through regional agreements, also for SMEs to assist the self-employed and small entrepreneurs facing temporary difficulties, due to the crisis. A larger use of start-up incentives targeted to the unemployed (in particular, using European funds) can be observed at regional level, although the evidence on these interventions is sparse and a proper assessment is not possible.

Looking at the existing national measures, available data do not allow to present a positive evaluation of their activity, both in terms of number of participants (which has declined in recent years) and of success of the supported business projects. It would be necessary to examine the mortality of new firms after some years, and their economic results, in order to properly assess the effectiveness of these measures. Yet, the fact that the law on female entrepreneurship (whose evaluation proved clearly effective) has not been re-financed, appears as a missed opportunity, in particular when considering the wide employment gender gap currently observable.

As for the quality of self-employment jobs, the main issue concerns the diffusion of contractual arrangements which often hide economically dependent working positions. This results in labour market segmentation, particularly in times of crisis, due to the higher exposure of these workers to the risk of unemployment, and calls for corrective measures which, unfortunately, have been until now only partially introduced.

5. Bibliography

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