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Portugal

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1. Introduction

Self-employment and the business cycle

The economic crisis started to produce effects in the Portuguese labour market in the fourth quarter of 2008. In previous years, self-employment showed a pro-cyclical trend. During the current crisis, self-employment declined by 5.4 % between the fourth quarter of 2008 and the first quarter of 2010. The cyclical behaviour presented by self-employment in the current crisis is in line with the pattern of previous years.

General attitude towards self-employment (citizens and public authorities)

Over the last decade, self-employment represented 20.3 % of overall employment. In terms of composition, the group of self-employed with no employees represented on average 14.3 % and the group of employers represented 5.9 %.

Starting with the general attitude of the government regarding these groups, employers are seen as crucial to economic growth and competitiveness and therefore several measures were put in place in order to stimulate this type of labour market pathway. On the other hand, self-employment with no employees is considered a precarious labour market situation for some persons in this group. In terms of policy issues, the government's main concern in this area is the fact that the self-employed with no employees sometimes are engaged to do the work of paid employees, but under a self-employed status. These practices aggravate the level of segmentation in the labour market.

In 2010, the Eurobarometer conducted a survey on entrepreneurship which shows that the overall population has a positive image of both entrepreneurs and liberal professionals (although more favourable of entrepreneurs than liberal professionals, as shown in Table 1 below). But there are some differences about how citizens evaluate self-employment when compared to other labour market pathways. One of the conclusions of the 2004 Portugal Executive Report, for the Global Entrepreneurship Monitor (GEM) was that "much of the Portuguese population regards a good career choice as moving up the organization within their actual job, or changing to a better job, rather than being an entrepreneur". This means that citizens have a positive image of entrepreneurs but would prefer a different labour market situation.

Table 1: Image of entrepreneurs and liberal professions, % (2010)

	Rather favourable	Neutral	Rather unfavourable	DK/NA
Entrepreneurs	60.5	27.3	8.2	4
Liberal professions	52.6	34	8.8	4.6

Source: Eurobarometer n° 283

Self-employment as a labour market pathway

A study conducted by the Business Creation Observatory (*Observatório de Criação de Empresas*) shows that new firms are usually created by former salaried workers or by individuals that had previously been employers. According to this study, the unemployed represent 13 % of the overall number of employers. For this group, self-employment is probably not their first choice (involuntary self-employment). The 2004 GEM collects evidence that points in the same direction. According to their data, the majority of the Portuguese entrepreneurs are opportunity-driven and not necessity-driven (75 % of

entrepreneurial activity was opportunity-based). These results are also confirmed by Eurobarometer n° 283, as is shown in Table 2, below.

Table 2: Business Creation according to Opportunity/Necessity, %

Year	Opportunity	Necessity	Both	DK/NA
2010	49.8	19.8	24.5	5.9

Source: Eurobarometer n° 283

Although there are no figures about necessity/opportunity driven self-employment with no employees, evidence seems to suggest that the share of necessity-driven self-employment is higher in this group. Simoes (2009) concludes that the likelihood of exit from self-employment is higher if the self-employed have no employees which seems to signal that self-employed with no employees try to move to salaried jobs when they can.

Government action and the problems related to self-employment and entrepreneurship

Most of the problems affecting entrepreneurship and self-employment are different and therefore we will analyse their problems separately.

Starting with self-employment with no employees, precariousness is probably one of the most important problems affecting this group. The government's response to this problem includes two lines of action: (a) changes in the Contributory Code and (b) changes in the Labour Code. Firstly, the relatively high self-employment rate observed in Portugal is in part explained by the fact that many firms sometimes use the self-employed status for some of their collaborators who do the work of employees, in order to reduce the employer's social security costs. Self-employed persons working under these circumstances will have to bear a higher contributory rate for social security¹ which decreases their net income and therefore their welfare. Regarding this problem, the new Contributory Code that will come into force in 2011 is expected to improve the situation of these workers for several reasons. Firstly, the new Code foresees that firms start to support 5 % of the contributions of the self-employed. Secondly, to prevent firms from using this type of labour arrangements incorrectly, higher sanctions were introduced in the new Labour Code launched in February 2009 and the number of labour inspectors from ACT has been increased in order to intensify inspections. These measures might improve the situation of the self-employed workers with no employees. Nevertheless they will probably be insufficient to change how most individuals perceive this type of job.

Regarding entrepreneurs, recent reforms have prioritized a decrease in bureaucracy, a dematerialization of procedures, more financial solutions, and incentives for businesses in strategic economic activities. Despite the implementation of some measures, there are two other areas in which progress is still lagging behind and where further action is necessary: education and vocational training; and interconnection between firms and universities in R&D.

¹ Self-employed workers can choose between two social protection schemes:

- 1) A more restricted compulsory scheme which covers maternity, invalidity, old age and death;
- 2) A voluntary scheme which also provides protection in case of illness, and occupational diseases.

The contribution rates are: 25.4 % of income in the case of the mandatory regime and 32 % for the voluntary scheme. In the general regime for paid employees, the total contribution rate is 34.75 %, 23.75 % of which is paid by the employer and 11 % by the employee.

Attitudes towards self-employment in times of crisis

The current recession provides a good example on attitudes towards self-employment in times of crisis: the self-employment rate has decreased during this crisis despite the government's introduction of incentives to foster self-employment among the unemployed. As explained before, the self-employment rate has been showing a pro-cyclical trend that these incentives were unable to change (i.e. despite these incentives, there continued to be fewer opportunities to start new businesses at times of decreased demand).

2. National LM policies and recovery measures

Measures taken in order to promote business creation and self-employment as an alternative to inactivity or unemployment

In recent years several measures were taken to promote self-employment, namely:

- Decrease in the bureaucracy associated with business creation through several measures (most of them included in SIMPLEX – Programme for Administrative and Legislative Simplification):
 - a) Implementation of a system of business information and of structured information and knowledge about national industries;
 - b) Development of the (a) “Company in 1 hour” project, permitting the creation of a company in one visit to a public department; and (b) the “Brand in 1 Hour” project;
 - c) A “Company Portal” has also been set up. Through this portal, varied information relevant to business life can be accessed, firms can interact with the Public Administration, and have access to a broad range of on-line services;
 - d) The Simplified Business Information declaration was created, putting several legal obligations in a single act, previously dispersed over various Public Administration departments.
- Incentives for the unemployed to enter self-employment include: subsidized credit lines; anticipated unemployment benefits; and specialized consultancy;
- The Support Programme for Projects of Potential National Interest (PIN) has been launched;
- Solutions of microcredit and micro risk capital have been introduced;
- The development of a strategic matrix for the Framework Programme of Financial Innovation (INOFIN) to provide enterprises and particularly small and medium enterprises with an effective advantage in accessing financing, and contributing to the sustainability of the business projects;
- The awareness raising activity for innovation and entrepreneurship among young people aged between 15 and 20 years' old through the Empreender+ Programme.

Since the beginning of the crisis, additional measures were launched to foster entrepreneurship, especially among those facing the greatest difficulties in socio-professional integration (e.g. young people, the unemployed and disadvantaged persons). To that end, the “Support programme for entrepreneurship and the creation of one's own job” was launched in

September 2009. The Support Programme for Entrepreneurship provided aid for the start up of small, for-profit companies of less than 11 workers, regardless of their legal form that created jobs and contributed to the stimulation of the local economies. The Programme covered people registered with the job centre and who were available for work and able to work and were in one of the following situations:

- Unemployed registered for 9 months or less in a situation of involuntary unemployment, or for those registered for more than 9 months regardless of the reason for enrolment;
- Young first time job seekers aged between 18 and 35 years with secondary education qualifications or attending a qualification course leading to this level of qualifications and who have not had an open-ended work contract;
- People who have never exercised a professional activity;
- Independent workers whose average monthly income is less than the guaranteed monthly minimum income, assessed on the months worked in the last year.

This programme created two credit lines (MICROINVEST and INVEST+) with reduced interest rates to support individuals that want to create their own firm. The total amounts foreseen for the credit lines were: MICROINVEST with EUR 15 million for projects requiring an investment below EUR 15 000 and INVEST+ with EUR 85 million for projects requiring an investment between EUR 15 000 and EUR 200 000.

On the other hand, the “Creation of One’s Own Job by Unemployment Insurance Beneficiaries” Programme, supported unemployment insurance beneficiaries in creating their own full-time job. The support provided to these unemployed included:

- The overall amount of unemployment benefits that the beneficiary would receive during the maximum period of entitlement;
- Incentives associated with local employment initiatives;
- Access to a credit line with a reduced interest rate.

The beneficiaries would also receive technical support to develop their project.

Due to the effort to decrease the public deficit from 9.4 % of gross domestic product in 2009 to 3 % in 2013, the government announced that short term measures would be terminated.

Scientific evaluation of the measures to foster self-employment/business creation and best practices

For Portugal, there is scientific research concerning self-employment and its determinants. Nevertheless, with the exception of one study (Centeno, 2000) the remaining studies are not focused on policy evaluation. Centeno (2000) tries to assess the ability of labour market rigidity to explain self-employment. This study gave some indications for future research by recommending that it would be important to determine the effects of each individual policy on self-employment. However, no research studies have explored this further in the meantime.

As presented previously, several measures have been launched to foster self-employment and entrepreneurship but there is a lack of policy evaluation studies to assess whether these initiatives can be considered best practices. Even though there is no research available to support this assessment, SIMPLEX was a programme that lead to a considerable decrease in

bureaucracy and to the simplification of many procedures concerning business creation. This programme thus contributed to facilitating business creation and to simplifying the operation of enterprises in a short period of time. SIMPLEX provides a reference in this area to other Member-States that may need to take action in this area.

Priorities and target groups of measures aiming to foster self-employment and entrepreneurship

There is an asymmetry in the priorities and target groups of different measures. Starting with the priorities, it is possible to say that:

- (a) Measures to incite self-employment among the unemployed aim to present this as an employment solution for the long term unemployed and for other groups of unemployed with reduced employability;
- (b) Measures in the field of education aim to develop the entrepreneurial spirit of young people in order to try to increase the likelihood of them choosing this kind of pathway and to give them more skills to enhance their chances of success as entrepreneurs;
- (c) Incentives for business creation, simplification of procedures, incentives for internationalization and for firms in strategic sectors, aim to promote economic growth. In this case, by offering better conditions for developing business activities, the government expects to increase the attractiveness of this labour market pathway for those with more potential of being a successful entrepreneur.

Regarding the target groups, it is important to differentiate between long term and short term measures. Long term measures have been targeting: current and potential entrepreneurs; women; unemployment insurance beneficiaries; and young people. Women, the unemployed and the young, have a lower likelihood of choosing this path (Simoes, 2009) and therefore the government's incentives aim to increase this likelihood. Current and potential entrepreneurs can be stimulated through incentives for economic activity, through decreases in bureaucracy and through the simplification of procedures. Last but not least, short term measures target the unemployed with low employability and the unemployed with reduced labour market experience.

3. Quality of self-employment jobs

The assessment of job quality

The available research and data do not examine the quality of the work of self-employed workers. Also in terms of policies/measures these issues have not been considered so no significant action has been taken to improve the job quality of the self-employed. As referred to before, the only issue in which there has been more focus is that of the level of precariousness facing self-employed workers with no employees.

Self-employment and the flexicurity framework

The social security system is very similar for employees and for the self-employed. Nevertheless, the self-employed do not have access to protection in unemployment. In terms of social security, this is probably the area with more scope for progress in terms of job security. Protection in unemployment would improve the situation of both entrepreneurs and the self-employed with no employees especially due to the higher risk that characterizes their

activity. In the recent past, there has been some debate over this issue but this question has been dropped from the agenda, initially due to the economic crisis and currently with the measures to reduce the public deficit.

Regarding Labour Law, some firms choose to use self-employed instead of fixed-term contracts due to the limitations on the use of fixed-term contracts. For these self-employed, a fixed-term contract would probably be a better labour market situation. Firms will probably start hiring more only if there is a reform of the Labour Code facilitating these contracts and at the same time stronger control from authorities on the improper use of self-employed as employees.

4. Conclusions

Over the last decade, self-employment has represented approximately 20 % of overall employment. During this period, self-employment has shown a pro-cyclical trend which means that people are more prone to enter self-employment in periods of higher demand. Following this trend, self-employment has been decreasing since the beginning of the current economic crisis. Most of Portuguese entrepreneurship is opportunity-based. The proportion of entrepreneurs that were previously unemployed is 13 % according to a survey carried out by the Business Creation Observatory. Although there is no study to assess whether self-employment with no employees (liberal professions) is more opportunity or necessity driven, this type of employment is usually associated with a precarious situation in the labour market, from which individuals tend to move. Some self-employed with no employees, sometimes do apparently autonomous work but under conditions that are characteristic of a work contract. In addition to this unfavourable situation, they have to bear all the social security costs which reduce their income and welfare. To prevent these situations, this issue was considered in the last reform of the Labour Code and of the Contributory Code.

Several measures have been implemented over the past five years to facilitate business creation mainly in terms of reducing the degree of bureaucracy and to simplify several procedures. This simplification process has also been extended to other procedures related to business activity. In addition, initiatives have been launched to support strategic economic sectors and to facilitate access to micro-credit and incentives were created to promote this labour market pathway among the unemployed. Despite the implementation of some measures to stimulate the spirit of entrepreneurship among the young and to provide training to entrepreneurs, this area could benefit from additional intervention. Targeting another group, there are also incentives for the transition of the unemployed, notably beneficiaries of unemployment insurance, to self-employment which seems to suggest that the government considers this as an alternative way of addressing unemployment. This is confirmed by the fact that short term measures launched during the current economic crisis contributed to strengthen the measures to foster self-employment among the unemployed.

In the Portuguese flexicurity model, the level of security of the self-employed could be increased if social protection given to these workers started to include unemployment protection and more protection in illness. Investment in well designed training policies to enhance the management skills of these workers could also have a positive impact on security.

There is no data, research or other studies regarding the quality of self-employment jobs. Only with this knowledge, will it be possible to identify policy areas requiring more action.

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