



# **European Employment Observatory**

## **EEO Review: Self-employment, 2010**

### **Slovenia**

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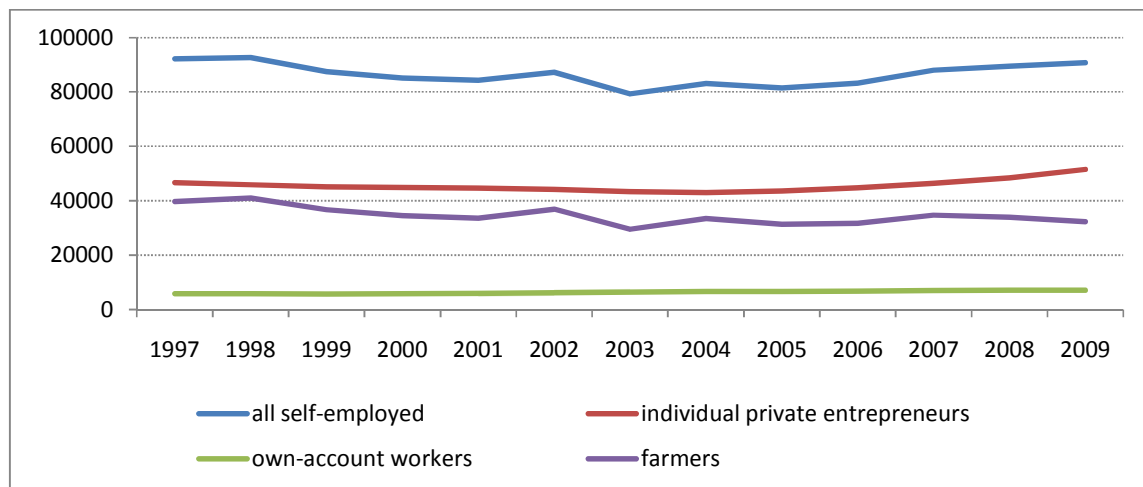
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## 1. Introduction

In the past 20 years, self-employment has been a relatively important part of Slovenia's labour market – as an important measure of Active Labour Market Policies (ALMP) in times of increasing unemployment as well as offering an (especially true for Slovenia) atypical form of employment in times when there have still been relatively high shares of persons in employment.

As in other countries the notion of self-employment in Slovenia covers different groups of persons in employment and covers a wide range of statuses, working conditions and opportunities in the labour market. Official statistics recognise three different statuses (individual private entrepreneurs (mostly craftsmen), farmers and own account workers) which contribute differently to the share of the self-employed in the Slovenian labour market (see Chart 1). Two important features are the relatively high number of farmers and the relative lack of employees in some of the craft activities. The second feature is related to the relatively low status and payment of some of those activities.

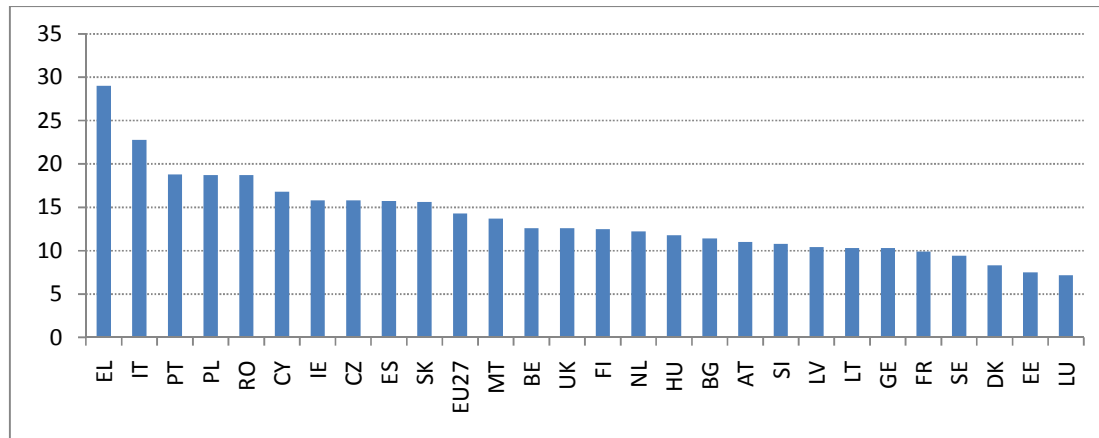
**Chart 1: Annual averages of self-employed persons among persons in employment according to the registers, 1997-2009**



Data source: ESS 2007, 2009

In an international perspective, self-employment in Slovenia is not especially high. The comparison (see Chart 2) of shares of the self-employed among persons in employment in the EU countries reveals that Slovenian share (10.8 %) is below the EU27 average (14.3 %).

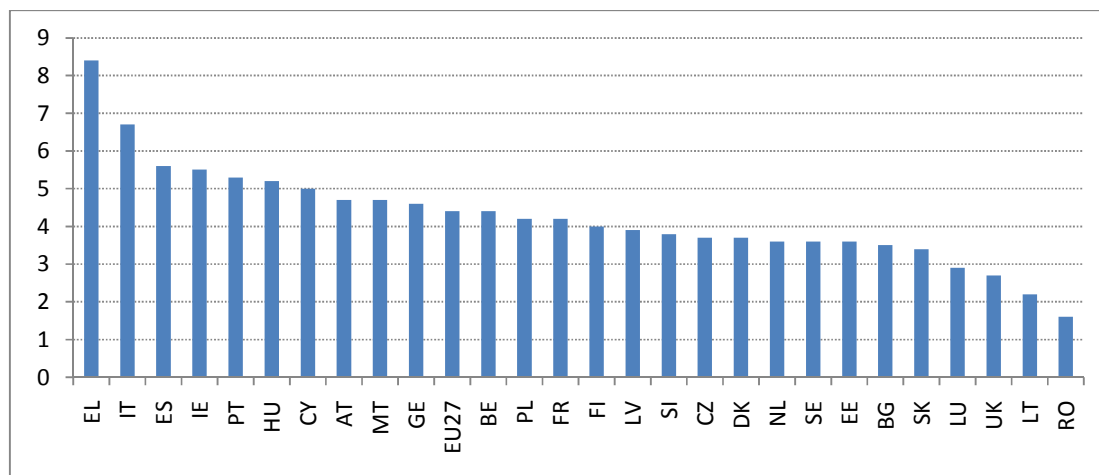
**Chart 2: Percentage of self-employed (employers and self-employed) among persons in employment (15-64), Labour Force Survey (LFS) 2<sup>nd</sup> quarter 2009**



Data source: Eurostat 2010, 2010a

The Slovenian type of self-employment is also predominantly “individualistic” and “non-productive” regarding the creation of new jobs since the majority of self-employed are not employing other people. Again, the share of employers (self-employed that are employing others) in Slovenia (3.8%) is lower than the EU27 average (4.4%).

**Chart 3: Percentage of employers among persons in employment (15-64), LFS 2<sup>nd</sup> quarter 2009**



Data source: Eurostat 2010, 2010a

## 2. Assessment of national Labour Market policies and recovery measures

As already stated, self-employment is regarded as one of the important ALMP measures which were adopted for the first time in the beginning of 1990s. Following a high increase in unemployment and the unemployment rate due to numerous factors (among others, loss of markets, and transition to a market economy) the Slovenian government introduced a programme for stimulating self-employment and entrepreneurship in 1990, thus seeking to reduce unemployment and to offer the possibility of a new start to those without any other option and those with new ideas and motivation.

The programme attracted two large groups of participants. Firstly, unemployed managers and professionals who were able to use efficiently their knowledge, experiences and established business networks when faced with the problems within companies. This group saw the possibility for independence and had the vision and well-thought business ideas but required only financial assistance from the Employment Service of Slovenia (ESS) for their business start-ups. The second group was unemployed unskilled workers who suddenly lost their jobs, young people with no work experience and disabled persons; all were unprepared to take any action by themselves, since they had lived most of their lives in a society that offered almost full employment (full time jobs for an indefinite period, for anyone). “Psychologically, they have not seen a career as entrepreneurs, and while proficient in technical areas, lacked appropriate essential business skills” (Glas and Cerar 1997, 4) and were exposed to additional risk by entering the programme.

The programme itself introduced new training approaches which included an awareness raising workshop providing the unemployed with information on the programme, presenting basic procedures for establishing an enterprise, and dealing with the dilemmas of being self-employed. After the workshop the participants had two options for receiving subsidies:

- the unemployed who opted for self-employment immediately after the loss of their jobs had the opportunity to capitalise their future unemployment benefits as single starting-up capital;
- the unemployed who needed more time to make the decision and had already received their unemployment benefits were entitled to a grant/subsidy.

The programme reached its peak in 1993 (when a large number of highly skilled participants became unemployed due to bankruptcies of large companies) and slowed down afterwards, due to lack of finances.

Nevertheless, it offered an opportunity to unemployed persons and provided jobs to many of them. According to some, fairly rare, evaluations (Glas and Cerar 1997) of this period and the programme for self-employment, it contributed with 24 % of newly established enterprises<sup>1</sup> in the period 1991-1995.

“The programme is the most comprehensive programme of assistance to start-up entrepreneurs, accounting for nearly a quarter of all new businesses during the period between 1991 and 1995. It has generated considerable employment - ventures created during 1993 on average account for 2.5 new jobs in 1996. The programme has triggered the investment of savings and the engagement of other resources of unemployed and their families. It also contributed visibly to the restructuring towards the service economy, enriching the local supply of goods and services.” (Glas and Cerar 1997, 1)

On the other hand, as already explained, the self-employment programme, as well as previous and current individual private enterprises, provides only a modest employment potential for others. According to estimates, 50 992 craft plants operating in 2008 employed 115 000 workers or 2.3 workers per plant. (Obrtno-podjetniška zbornica Slovenije 2009, 18)

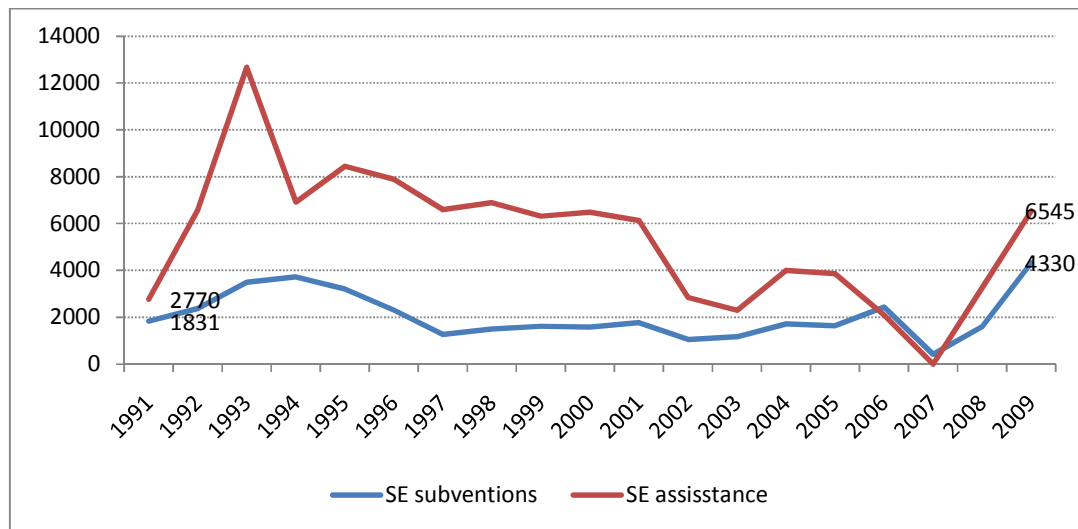
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<sup>1</sup> Although “only approximately 60 to 65 % of all registered companies actually operated (Glas, 1993) and acted as »just in case« firms for founders who were still employed in large companies.” (Glas and Drnovšek 1999, 3-4)

The ALMP programme for promoting self-employment gradually faded<sup>2</sup> in the new millennium until the new economic crisis. Another considerable increase of unemployment from the last quarter of 2008 onwards brought back already proven measures. In 2009 the number of subsidised unemployed persons increased to 4 330 (see Chart 4) – until the finances were available (EUR 20 million in 2009 – partially subsidised by ESF).

In 2010 approximately EUR 12.5 million have been earmarked for subsidies for self-employment. In the first five months of 2010 already 1 349 unemployed persons have received this subsidies (EUR 4500 per person).

**Chart 4: Number of self-employment subsidies and self-employment assistance cases in the period 1991-2009, awarded through ESS programme**



Data source: ESS Annual Reports 2004-2009

The programme was slightly changed in 2010. It still consists of two stages: 1) preparation for self-employment and 2) subsidy. Preparation for self-employment enables registered unemployed persons or those in the lay-off process to receive initial knowledge for entering into entrepreneurship and subsequently receiving the subsidy for self-employment. The only prerequisites are: to have a business idea, have not been self-employed in the past 12 months and have not received a subsidy for self-employment in the past five years. Participants are entitled to the following services:

1. Free expert assessment of business idea and its feasibility for inclusion in the training for self-employment by an external business counsellor.
2. Free of charge participation in the training or workshop for self-employment according to the judgement of business counsellor. The workshop lasts three days (24 hours) (two days in 2009) and offers knowledge required in the fields of entrepreneurship, business, legislation, accounting, book-keeping, marketing and supporting enterprise environment.

<sup>2</sup> With allocation of finances to other measures, and GDP growth which contributed greatly to the rise of employment and decrease of unemployment.

3. Those successfully accepted onto the workshop, have the chance to receive a subsidy for self-employment – non-repayable financial assistance providing the business is successful for at least one year (two years<sup>3</sup> in 2009).

In May 2010 the Slovenian government approved the Action plan for implementing the Small Business Act. In this document the government offered responses – activities - to selected principles for improving those areas which have been partly or not at all dealt with in the previous period. Those principles and activities are:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded. The preference in Slovenia is to promote an innovative and entrepreneurial mentality among young people in school curricula and in supplementary programmes.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance (in particular by completing all judicial proceedings for bankruptcy in one year).
3. Design rules according to the “Think Small First” principle, assuring the implementation of the policy along with reducing costs and burdens for the enterprises.
4. Make public administration responsive to SMEs’ needs, implementing the directive on services and establishing single contact points for enterprises.
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs.
6. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments.
7. Help SMEs to benefit more from the opportunities offered by the Single Market.
8. Promote the upgrading of skills in SMEs and all forms of innovation.
9. Enable SMEs to turn environmental challenges into opportunities.
10. Encourage and support SMEs to benefit from the growth of markets.

According to the Chamber of Craft and Small Business of Slovenia, Slovenia is ranked first in accomplishing the ‘Think Small First’ principle and fifth overall – regarding the implementation of whole Small Business Act.

### **3. Quality of self-employment jobs**

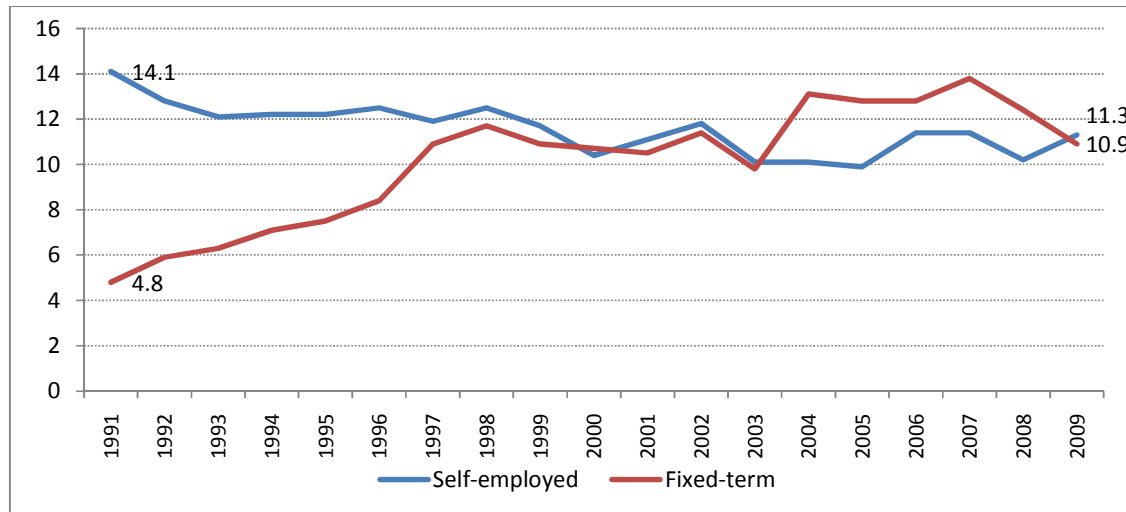
As in the case of any other ALMP measure implemented in Slovenia, systematic and thorough analyses and evaluations of self-employment programmes are rare or simply do not exist. A similar statement could be used for the status and working conditions of self-employed persons, although they still represent considerable part of the Slovenian labour force. Nevertheless, we will present some basic characteristics of self-employed in Slovenia.

Due to the recent economic crisis and firms not extending fixed term contracts, the self-employed again became the predominant category of atypical forms of employment (see Chart 5).

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<sup>3</sup> Even with this criterion, the programme was quite successful in 2008 and 2009 since approximately 70 % of subsidised persons remained self-employed after 2 years.

**Chart 5: Shares of self-employed and persons with fixed-term contracts among persons in employment, 1991-2009, LFS data**



Data source: SORS 1991-2009

In general, it should be pointed out that the notion of self-employment covers in practice very different categories of workers and working conditions, “ranging from poorly-treated and poorly-paid people whose self-employed status is effectively bogus, to well-paid and well-educated autonomous workers, for example in consultancy sectors” (Plachtej and Trbanc 2009).

The current status of a self-employed person is partly related to the reasons for self-employment. For some of the self-employed, the current status is the consequence of the restructuring processes in the past period. Many enterprises, especially in construction, transport, cleaning and courier services tried to reduce costs and become more competitive by forcing their own workers to become self-employed (even helping them by loans) and contracting out afterwards some of their activities. Organisations lowered their costs by maintaining the competition among self-employed providers, but with the emergence of a new economic crisis and the solvency problems of many organisations, the status of many self-employed contractors worsened considerably.

Regarding the social security of the self-employed, they are “fully integrated into the general public pension insurance scheme (covering old age, long term incapacity for work and survivorship) and into the general health insurance scheme (covering health care and short term incapacity for work). They are compulsorily insured if their earnings attain a fixed minimum level (linked to the yearly statutory defined minimum salary). In principle self-employed persons build up the same rights in the social security system as the employed persons. The main differences are related to the insurance rating base that is the basis for the calculation of both the contributions and the level of the pensions and other earnings replacement benefits. Besides this, the self-employed are not insured on a mandatory basis for unemployment. They can enter the scheme on a voluntary basis. If insured, they have, according to the law, equivalent rights to benefits from the unemployment insurance as employed persons. The general legal provisions on the voluntary unemployment insurance are

not elaborated, so the practical enforcement of the provisions is not clear” (Plachtej and Trbanc, 2009).

In the case of pension and invalidity insurance, health insurance and parental (maternity) insurance, self-employed persons face considerably higher costs than those in paid employment: the self-employed have to finance both contributions – the insured person's contribution and the employer's contribution (for the employed person). Similarly, the self-employed are entitled to sickness benefits from the 31st day of continuous incapacity for work. This means that the first 30 days of absence from work are not covered (while the first 30 days of an employed person's absence from work are covered by the employer). Moreover, in the case of social security payments, there are many reports on frauds among the self-employed. “... the common practice of individual entrepreneurs is officially paying themselves the lowest possible wages (to avoid payment of high taxes and social security contributions)” (Plachtej and Trbanc 2009).

The above mentioned practice could be also one of the explanations for the situation regarding the data on at risk of poverty rates for self-employed (despite the official access to different social security schemes). Overall, according to the available statistical data on at risk of poverty rates for different categories of the Slovenian population, the self-employed have a higher probability of reaching the poverty threshold than the average (see Table 1) Slovenian citizen. On the other hand, self-employed women are, although in the minority among the self-employed, in an even worse situation with an even higher probability of falling into poverty.

**Table 1: At risk of poverty rates for the self-employed for selected (available) years in comparison to general at risk of poverty rate**

	2000	2001	2002	2003	2005	2007
At risk of poverty rate (ARP) - total	13.0	12.9	11.9	11.7	11.7	11.5
ARP – self-employed	18.6	19.1	15.2	15.6	18.0	16.3
ARP – self-employed men	17.4	18.4	13.9	14.7	-	-
ARP – self-employed women	20.9	20.6	18.2	17.4	-	-

Data source: SORS 2005, 2007

Unfortunately, recent publicly available statistical data do not offer any information on self-employed status<sup>4</sup> regarding the at-risk of poverty rate.

In general, as stated above, men prevail among self-employed workers (according to LFS data for 2<sup>nd</sup> quarter 2009 only 24 % of the self-employed are women). Similarly, younger generations are, due to the lack of finances, experience and social networks, rarely involved in self-employment (only 7.8 % of all self-employed in the 2<sup>nd</sup> quarter of 2009 were aged between 15 and 29 years) (SORS 1991-2009, calculated by Miroljub Ignjatović).

According to LFS data the self-employed work on average considerably more (usually 46.1 hours and actually 43 hours per week in the 2<sup>nd</sup> quarter of 2009) than their employed

<sup>4</sup> They are included in the broader group – persons in employment.



counterparts (40.5 and 33.7 hours, respectively) (SORS 1991-2009, calculated by Miroljub Ignjatović). On the other hand, the self-employed have more control over their working hours and can be more flexible in their working time. An ad-hoc survey on reconciliation between work and family life incorporated in LFS in 2005 revealed that 77.9 % of self-employed persons are usually able to organise working time in order to take whole days off for family reasons, while the same is usually possible only for 44.9 % of persons in paid employment. Self-employed men are more able (80.4 %) to do so than self-employed women (71.5 %). At the same time, among self-employed persons 81.2 % are usually able to vary the start and the end of the working day for family reasons for at least one hour, while among persons in paid employment the corresponding percentage is 46.4 % (SORS 2007a).

#### **4. Conclusions**

Regardless of the officially declared support for entrepreneurship in the Slovenian economy and some success in this field, the current situation is far from excellent.

The current economic crisis worsened the status of many self-employed persons – according to the AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services) the loss of individual private entrepreneurs almost doubled in 2009.

On the other hand, the same crisis brought back to the fore old and proven measures for the unemployed, including the programme for self-employment, among others. The number of subsidies is rising, and with that the number of those (self) employed in, possibly, a precarious situation in the labour market.

At the same time, the problems detected a decade ago still remain, more or less, the same:

“Slovenian small businesses specifically need:

- Less administrative procedures and bureaucracy;
- Tax incentives and a pro-business environment for new venture creation, new employment, R&D activities;
- Educational institutions, which promote leadership knowledge, marketing skills, internationalisation;
- Accessible financial funds, either debt or equity financing;
- Entrepreneurial networks and business clusters to link entrepreneurs and share resources and experiences;
- Greater co-operation between large and small companies;
- Development of an entrepreneurial infrastructure (hard and soft support)”. (Glas and Drnovšek 1999, 18)

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