

**MUTUAL LEARNING PROGRAMME:**  
**HOST COUNTRY DISCUSSION PAPER - SPAIN**

Promoting self-employment and the transition from temporary to open-ended contracts for young people in the midst of the economic crisis: could there be light at the end of the tunnel?

Peer Review on “***Pathways to support young people into self-employment***”  
Spain, November 2011

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## 1 QUICK SUMMARY

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on the policy example of the Host Country for the Peer Review – in this case, Spain. For information on the views of the countries participating in the Peer Review, please refer to the relevant Peer Review Comment Papers.*

In a negative and volatile economic context that has had serious negative effects on the domestic labour market, the Spanish Government has launched two measures with the objective of generating employment. Firstly, there has been a modification of the unemployment benefit capitalisation regime for young people (males aged up to 30 and women up to 35) who want to become self-employed. This includes the payment of unemployment benefit as a lump-sum in order to set up a business. Secondly, a new employment stimulation programme aimed at the conversion of temporary to open-ended contracts, specifically aimed at young and long-term unemployed people, has been implemented.

Thus, the main considerations in evaluating these two measures concern their short trajectory and the difficult context in which they were carried out. Moreover, their development must be seen in context alongside the rest of the plans and programmes which are specifically aimed at the young unemployed, and the multiplicity of initiatives related to employment stimulation carried out by the PES (public employment service), both at national and regional level.

As a consequence, their implementation has intended to cushion the most negative effects of the economic downturn. On the one hand, the revision to the unemployment benefit capitalisation regime has included an increase in the proportion of the benefit – from 60 % to 80 % - that a job seeker, who wants to become self-employed, can receive in one payment. The remaining amount can be used to discount social security contributions once the self-employment has started. Moreover, the unemployed worker who wants to become self-employed should also submit a business plan and once the benefit is approved, s/he must start the business activity in one month. On the other hand, self-employed individuals or companies that hire young or long-term unemployed workers within some specific types of part-time contracts (50-75 % of the ordinary working day) are entitled to a 100 % reduction in their social security contributions for one year (or the length of the contract, if it is less than that, but, in any case, it must be longer than six months).

Although the measures are relatively recent, the main indicators related to these areas of influence show relatively promising signs of recovery in comparison to the same period in the previous year. However, it is still too early to draw firm or definite conclusions on their efficacy. In fact, it is impossible to say whether they are helping the Spanish labour market to see the light at the end of the tunnel or not. Furthermore, some limitations have been detected. The economic context and their very configuration may be constraining their development. Still, some success factors can be transferred to other territorial contexts. For example, the existing critical mass, the flexibility and the simplicity of the unemployment benefit capitalisation regime have been highlighted as vital elements of its success. Moreover, the evaluation of the viability of the business projects contributes to improving the efficacy of the measure. The subsidies for the transition to stable employment has the virtue of focusing on specific groups (young people) combined with a great coordination with the rest of the employment creation measures, especially with the subsidies for companies that transform temporary to open-ended contracts. This is the core of the initiative and reinforces its transitional nature. Lastly, the mechanism established to avoid recycling of job seekers is also a crucial factor.

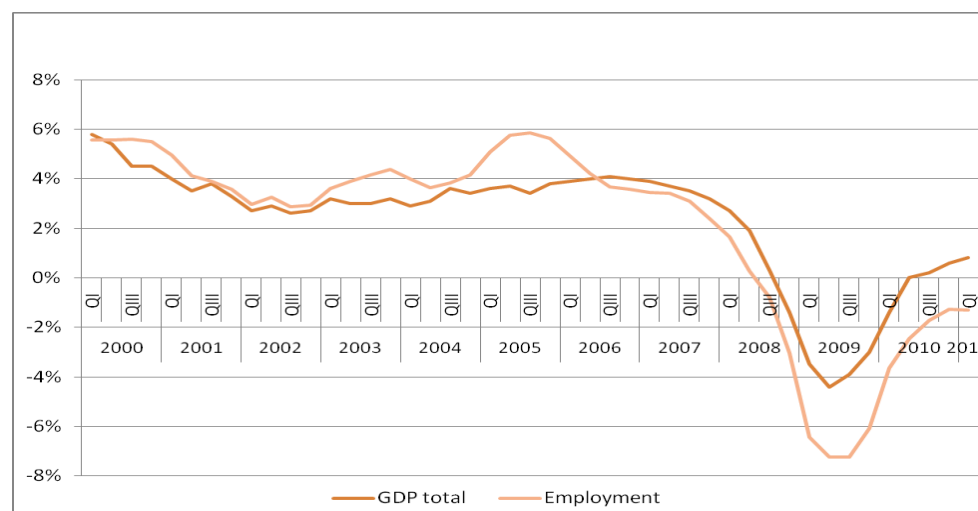
## 2 LABOUR MARKET SITUATION IN THE HOST COUNTRY

The Spanish labour market has deeply deteriorated during the last three years. The extent of the deterioration and the difficulties that must be overcome are based on factors that can be explained briefly.

The current situation of the Spanish labour market has been directly affected by the consequences of the collapse of the domestic economic development model; this had been very much focused on growth in the construction sector, a strong feature since the mid-1990s. However, in 2008 a combination of the burst of the construction bubble and the crash of the world economy resulted in a significant fall in economic growth rates in Spain. Indeed, growth is now not expected to be more than 0.8 % in 2011 and 1.6 % in 2012<sup>1</sup>. Unemployment has dramatically increased to 4.9 million people (a 21.29 % unemployment rate in the first quarter of 2011).

How could the Spanish economy move from a context of economic boom to such a situation? In order to answer this, it must be stated that the boom was based on the massive inflow of capital from abroad in order to compensate for the persistently high external deficit<sup>2</sup>. In this context, the Spanish economy could benefit from high economic growth rates (around 3-3.5 %) combined with substantial external and internal funding. This imbalance gradually configured a weakly competitive economy whose strategic sector - building and construction - was stimulated by cheap credit provided by the banking system and its engagement with the real estate business. Once the economic boom ended, the economy crashed and unemployment rose to enormous levels. Moreover, the traditional Spanish labour market obstacles remained: high temporality and segmentation, high early school leaver rate, low productivity, dualism and low high skilled labour demand, among others.

**Graph 1: Economic and employment annual growth rate (2000-2011)**

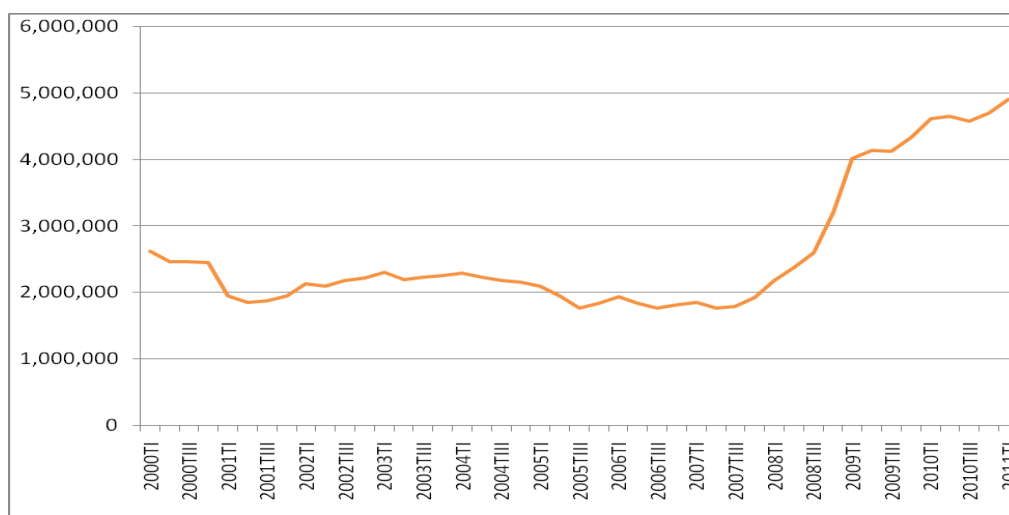


Source: INE (2011)

<sup>1</sup> IMF Economic Outlook (June 2011).

<sup>2</sup> This constitutes the highest level among all the countries of OECD, including the United States.

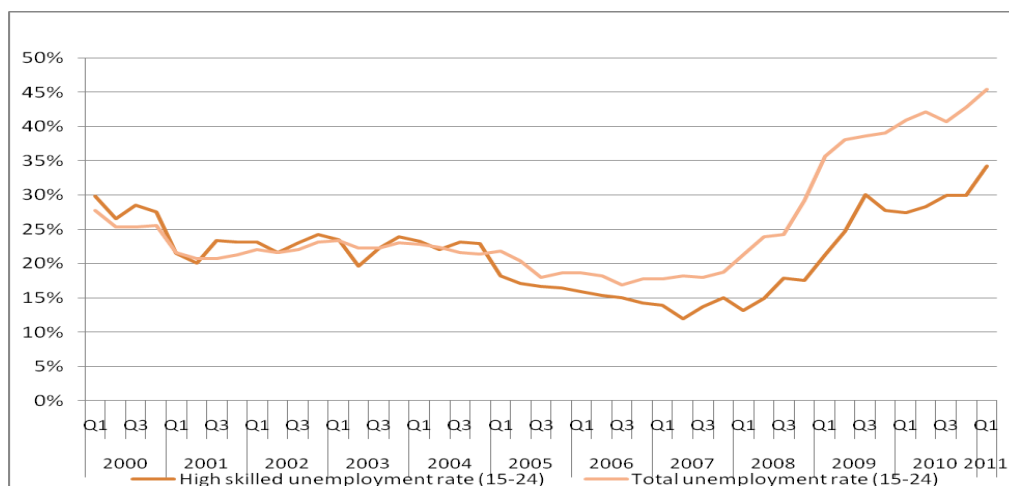
**Graph 2: Spanish unemployment rate (2000-2011)**



Source: INE (2011)

In this framework, the negative labour market performance has especially affected young people (15-24). They have lost 795,000 jobs during the crisis (2008-2010) while the number of young unemployed people has risen to 409,000 (one out of seven unemployed is aged 15-24). As a consequence, their unemployment rates have grown far above the average in an exponential increase since 2008, reaching 45 % in 2011. Thus, it can be remarked that young people have been one of the most damaged groups. Even the more highly skilled young people are experiencing high unemployment rates (35 %), stimulating migration to other European countries. Simultaneously, temporality rates have always been one of the main features of their working conditions, as well as low wages and sometimes, over-qualification associated with low quality employment<sup>3</sup>.

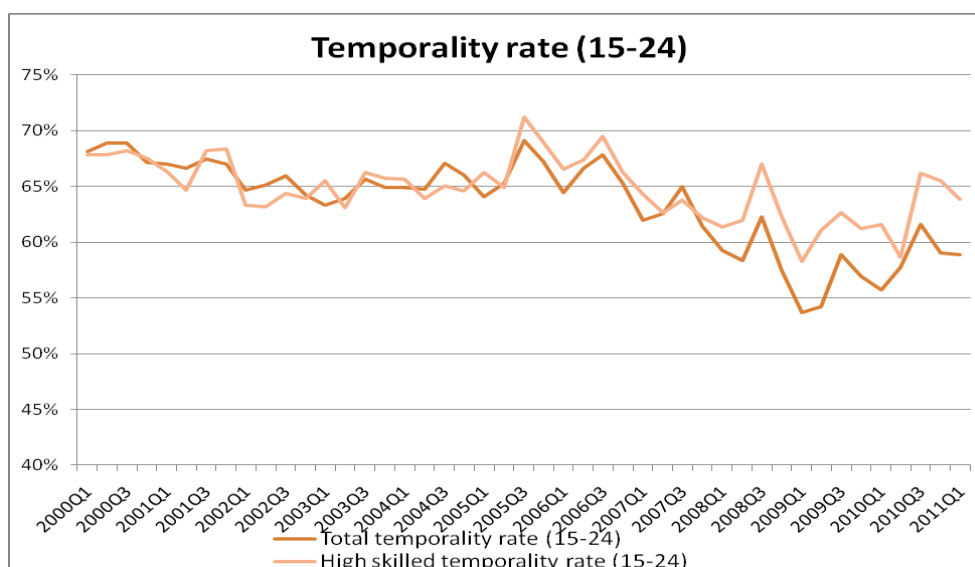
**Graph 3: Young unemployment rate (total and high skilled workers)**



Source: Eurostat (2011)

<sup>3</sup> Temporality rises to 25 % even among those aged 25-29, proving that this is one of the key factors that configure the Spanish labour market structure. The descending path is explained by the fact that the destruction of jobs has concentrated on fixed-term jobs.

**Graph 4: Young temporality rate (total and high skilled workers)**



Source: Eurostat (2011)

On this basis, active labour market policies have focused on improving the situation of the youngest members. Accordingly, different initiatives have been launched in order to boost youth employment. Measures have especially focused on monetary subsidies for companies that hire young people and transform temporary to open-ended contracts. In addition, training and personalised pathways have also been implemented. Simultaneously, social protection of those most affected by the economic downturn has been improved, and restrictions to switching from one temporary contract to another were imposed, while severance pay has been slightly and gradually increased. Training contracts are also subsidised. However, the youth unemployment rate is still above 40 %.

In this context, the promotion of an entrepreneurial culture among young people is one of the most important issues to be dealt with regarding employment development. In fact, entrepreneurship is highly untapped due to historic and cultural factors. Currently, only 40 % of people show any inclination for self-employment, 5 percentage points below the EU-27 average (European Commission, Eurobarometer Series 283, p. 13). The lack of job and income stability outweigh the perceived positive elements of becoming an entrepreneur (autonomy, self-empowerment and self-determination). In fact, the lack of an entrepreneurship culture seems to be a consequence of the minor efforts to promote self-employment, the poor economic perspectives and low quality of self-employment (51.4 % of entrepreneurs have a lower income than that before starting their business). Loneliness and lack of support are their most typical complaints (Sage, 2011). In fact, the current economic situation has provoked a drop in the number of young self-employed workers, in comparison with the 2008 level (32.7 %)<sup>4</sup>.

Regarding self-employment, active labour market policies have developed especially in the last decade and were particularly pushed by the 20/2007 Law (Self-Employed Statute). The legislative advances were aimed at, on the one hand, improving the security of self-employed workers, equating their position to the ordinary workers, and on the other hand, boosting self-employment initiatives among young workers and unemployed people. Thus, the new legislation recognised the status of the 'dependent self-employed' (*TRADE* in Spanish), whose professional activity is linked, for at least 75 % of their income, to a single

<sup>4</sup> In 2010, there were 3.1 million self-employed (only 69,700 are young aged 15-24). The drop in the total number of self-employed was 7.2 % and 30.8 % among the young people. However, in the first six months of 2011, there has been an increase in self-employment among young people of 3.3 % (from January to June) while the total collective has only risen by 0.9 %.

company using their services. The dependent self-employed cannot hire any other workers, and must develop their activity in a specific environment and assume the risk of the business, with its own infrastructure. The protection of this status has been strengthened in the past decade and the income protection scheme has also been extended for cases of temporary disability, work-related accidents and occupational illnesses. Furthermore, the 295/2009 Royal Decree regulates paternity and maternity leave, risks during the pregnancy and breastfeeding period, equating the conditions with those which apply for ordinary workers. Finally, the 32/2010 Law has been adopted to regulate the cessation of activity benefit, a sort of unemployment benefit (paid for a maximum of 12 months), specifically aimed at self-employed people (who must have been working for at least 12 months, without interruption, and the amount is 70 % of the contributions base and it can be increased depending on the type of household).

The promotion of self-employment started, in particular, in the mid-1980s, with the objective of pushing business creation and generating employment and economic activity. Apart from the capitalisation of unemployment benefit, many initiatives have been taken in the 25 years since then. The Self-Employment Promotion Plan, launched in 1986, is one of the most important. Currently, it offers four different kinds of support that promote: 1) business establishment (minimum EUR 6,000 for young people, EUR 7,000 for young women and up to EUR 10,000 to certain groups depending on their degree of difficulty in accessing the labour market); 2) financial support (the same amounts); 3) technical assistance (up to EUR 2,000 to finance external services in order to develop the activity); 4) and training (EUR 3,000 for organising and attending courses related to business management, new technologies, etc.).

Moreover, the self-employed can apply for ICO loans (Official Credit Institution) whereby they can finance up to 100 % of their business investment through the support of a 'financial facilitator'. There are many other specific support schemes that help the unemployed access self-employment (such as the programme called '*Emprender en Femenino*' aimed at boosting female entrepreneurship). Furthermore, many regional support schemes have been established. The most prominent schemes include: monetary support to initiate business activities; reduction in interest rates; microcredits; technical assistance; etc. The amount of funding support is increased when the beneficiaries belong to a harder-to-help group. Subsidies for training activities are also contemplated. In addition, some fiscal incentives have been launched to foster self-employment (through VAT and income tax reductions). Lastly, rebates of 30 % of Social Security contributions (during 30 months) is one of the most effective measures to foster, specifically, young self-employed entrepreneurship.

To finalise, the European Social Fund (ESF) has launched numerous projects in order to boost entrepreneurial culture. Both Axis 1 (encouraging entrepreneurship and improving the adaptability of workers) and Axis 2 (development of employability, social inclusion and equality between men and women) are contributing to improving the access of young people to self-employment activities.



### 3 POLICY MEASURE

In the current economic context the Spanish Government has launched, among others, two initiatives with the objective of contributing to the creation of net employment. They encompass:

- The modification of the unemployment benefit capitalisation regime for young people who want to become self-employed (or join cooperatives and worker-owned firms).
- Benefits for the self-employed and companies that hire young or long-term unemployed people on a part-time basis.

A detailed description of both measures follows.

#### **3.1 The modification of the unemployment benefit capitalisation regime for young people**

##### **3.1.1. Description**

The recessive context of the Spanish economy and the negative effects on the labour market have taken a heavy toll on self-employment. There are two inter-related elements to this:

- The fall of domestic demand caused by the economic recession and the rise in unemployment levels.
- The finance problems derived from the lack of credit.

As a consequence, the number of self-employed started to fall in 2008 prompting the Government to gradually turn its attention to this group. Therefore, some initiatives to improve their situation have been launched. However, it must be stated that the possibility of capitalising unemployment benefit into a single payment is not new. In fact, it has historically been one of the most relevant programmes to promote self-employment. The option to capitalise benefit has existed since the introduction of the 31/1984 Law and its effective implementation started with the 1044/1985 Royal Decree. Although it was eliminated for the self-employed in 1992, the 45/2002 Law definitively re-introduced the regime in its current form. Its initial main features were:

- Unemployed people who want to become self-employed were entitled to receive unemployment benefit in one sum up to 20 % of the total amount of the benefit. The rest of the benefit could be used to pay social security contributions.
- The remaining unemployment benefit could be paid quarterly to afford the social security contributions.
- For people with disabilities (of 33 % or over<sup>5</sup>), unemployment benefit could be paid in one sum when they wanted to become self-employed. This was also the case for members of cooperatives or worker-owned firms when they had not been previously dismissed (this condition was later removed), or when they intended to establish such cooperatives or firms.

Subsequently, the 2/2008 Law increased the amount to be received in the one sum modality to 60 %. Finally, in the framework of the urgent measures addressed at the self-employed, worker-owned and cooperative members, the 1300/2009 Royal Decree introduced additional changes to the regime. Thus, it was established that:

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<sup>5</sup> Grade of incapacity

- Unemployed people can apply for the benefit even if they have worked for the worker-owned firm or cooperative.
- Young unemployed (men aged below 30 and women under 35) can apply for 80 % of the unemployment benefit in one sum.

Finally, the 39/2010 Law extended this initiative indefinitely. Moreover, if the amount of the single payment does not exceed EUR 15,500, the unemployed do not have to declare it through income tax.

To sum up, unemployed workers that seek to become self-employed are entitled to apply for the unemployment benefit in one sum. Thanks to recent reforms, they can receive 60 % of the benefit, and 80 % if they are young (men aged below 30 and women under 35). The single payment is used to set up the business activity. Disabled workers can apply for 100 % of their unemployment benefits. Simultaneously, there is a second modality of the unemployment benefit capitalisation regime through which the amount still outstanding can be used to finance social security contributions during the business activity.

### 3.1.2 Objectives

The main objective of this modification of the unemployment benefit capitalisation regime is to boost self-employment or the incorporation of the unemployed workers to existing companies, such as cooperatives or owner-worker firms, as a viable option in enabling young people to find their place in the labour market. Accordingly, this transformation constitutes an innovative measure, implemented in order to facilitate business creation. This measure is also intended to reinforce the territorial entrepreneurship structure from the social economy perspective.

### 3.1.3 Procedures

The main procedures to be followed when seeking entitlement to the unemployment benefit capitalisation regime start in the employment office (a competence of the Regional Governments), where the unemployed apply for the benefit. The applicant can request it at any time before having commenced the business activity. However, unemployed people can submit their application only if the outstanding amount of their benefit reaches, at least, the equivalent of three months of their unemployment benefit. The process can be completed online. The applicant should describe the type of contract for which s/he wants to apply.

Apart from the application, a complete and detailed explanatory memorandum of the business project is required. Thus, the PES plays an important role in the configuration of the new born entrepreneurs. Besides, the capitalisation regime is compatible with other income support for self-employed, in particular, that which provides technical assistance (business advice, specifically) and training.

The total amount of unemployment benefit is calculated in relation to the value of the unemployment benefit regarding the interest rate. To receive the payment the employment office has to evaluate the viability of the business project and must resolve the application in 15 or 30 days depending on the moment of the recognition of the unemployment benefit.

Once the payment is received, the main obligation of the entrepreneur is to initiate the business activity within a maximum of one month. In addition, if the business project fails, the self-employed cannot apply for unemployment benefit until a period, equivalent to the value of the benefit that was received in the single payment, has elapsed. Moreover, the self-employed cannot apply again for the capitalisation regime for four years. If the unemployed worker has spent all the unemployment benefit, the system does not allow him or her to receive any money from unemployment benefit schemes, even if s/he ceased the business activity. If the amount of the unemployment benefit has not been fully received, the self-employed worker cannot receive the outstanding amount of the benefit until the capitalisation period has concluded (the self-employed individual has to wait until this period

is finished and then receive the outstanding amount month by month, as usual). However, if the economic activity has failed, two years (or over) after the payment was received, the self-employed worker is not entitled to receive the outstanding amount.

### **3.2 Exceptional measure for transition to stable employment**

This exceptional measure is intended to stimulate the transition from temporary to open-ended recruitment by subsidising part-time contracts and offering the possibility to combine part-time contracts with other mechanisms to support the transformation of temporary to open-ended contracts. The initiative encompasses subsidies aimed at companies that hire unemployed workers in part-time jobs (defined as occupying between 50 % and 75 % of the ordinary working day) and who are:

- aged 30 or less; and
- long-term unemployed (for 12 months in the last 18).

The measure is exceptional and shall only remain in force until 12<sup>th</sup> February 2012 (one year duration). The benefits are aimed at companies, self-employed and worker-owned firms.

Regarding the benefit, in cases where the company has 250 workers or less, the beneficiaries are entitled to a 100 % reduction in their social security contributions for 12 months (75 % if the company numbers more than 250 workers). Temporary employees only benefit when the length of their contract is six months or more. Some contract types (internships, bridging contracts and training contracts) are not eligible.

The most significant feature of the initiative is that the transition from temporary (six months minimum) to open-ended contracts can be made prior to the expiry of a period of 12 months from the date of the signature of the contract. The main purpose is to facilitate such transitions. Firstly, hiring is boosted and, secondly, subsidies for transforming the (usually) temporary contract to an open-ended one are put into practice. The main result is that self-employed, worker-owned firms and cooperatives can hire temporary workers and then transform their contracts into open-ended ones, thereby receiving two different subsidies.

Finally, in order to avoid recycling, the initiative contemplates that the new recruitment should result in a net increase in company staff. As a consequence, the new worker should only join a company, in which the average number of workers has not fallen in the last 90 days at the time of the recruitment, excluding dismissals for disciplinary reasons.

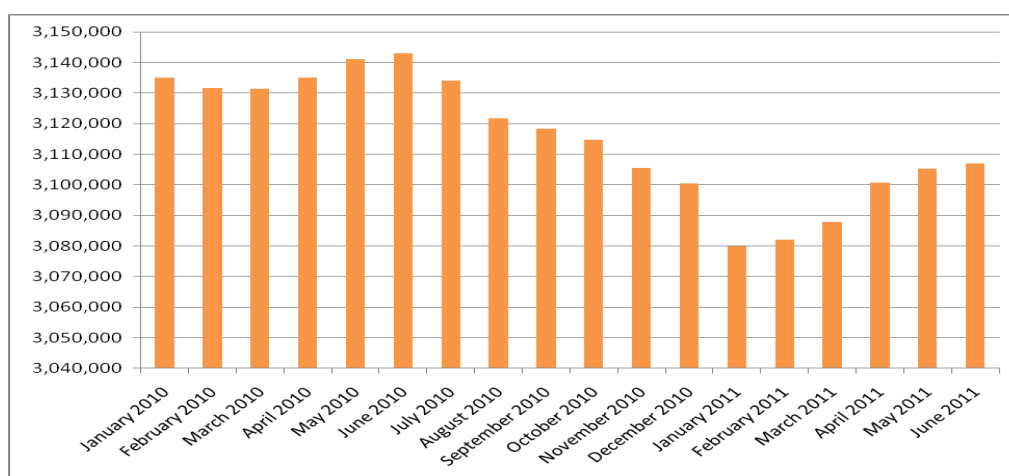
## 4 RESULTS

In this chapter, the main results related to the initiatives will be described. However, as the measures are so recent, it is still too early to carry out comprehensive assessments in order to draw rigorous conclusions and recommendations based on proven impact. Moreover, given the lack of available data and the statistical difficulties in assessing them, it is difficult to explore the specific effects of the initiatives on the evolution of the Spanish labour market. However, the quantitative evolution of the possible beneficiaries of both measures has been explored where possible. It is expected that the most significant effects are expected to become apparent at the end of this year.

### 4.1 The modification of the unemployment benefit capitalisation regime for young people

In 2010, 3.1 million Spanish workers developed their activity as self-employed. This number has diminished by 3.4 % since 2009. In this negative context, the main effect of the modification of the regulation of the unemployment benefit capitalisation regime has apparently been to contribute to sustaining the number of self-employed, while the economy is slowly recovering from the downturn. In fact, the number of self-employed has grown by 0.9 % in the first six months of 2011 (especially, as has been mentioned, among the young self-employed, who have registered an increase of 3.3 %)<sup>6</sup>. This recent trend can be observed in Graphs 5 and 6.

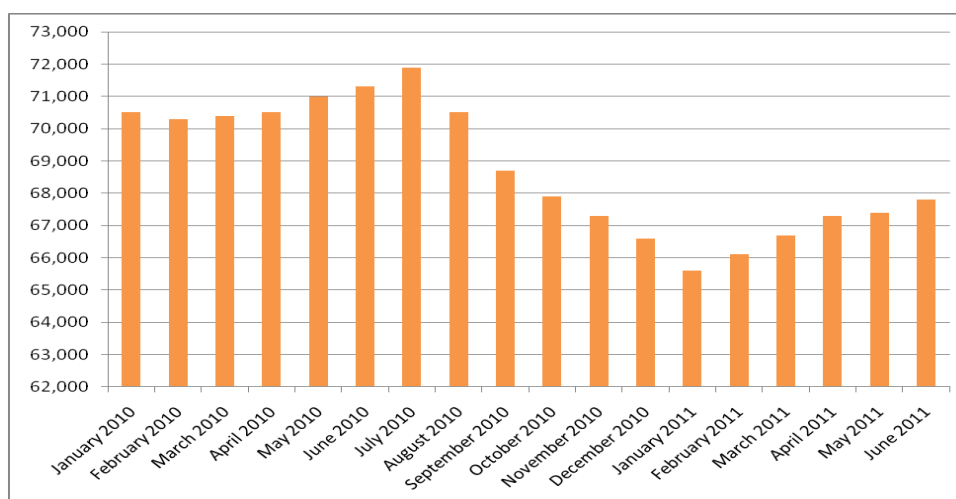
**Graph 5: Number of self-employed (2010-2011)**



Source: Ministry of Labour and Immigration (2011)

<sup>6</sup> The average increase in the number of ordinary workers registered for Social Security was 0.7 %. Thus, self-employed show a slightly more dynamic evolution, especially younger ones.

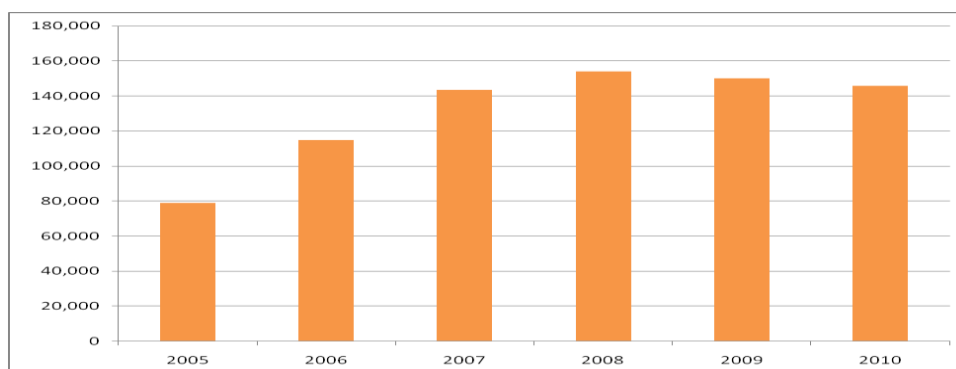
**Graph 6: Number of self-employed (aged 15-24) (2010-2011)**



Source: Ministry of Labour and Immigration (2011)

However, the number of beneficiaries in the system has slightly reduced, as can be observed in Graph 7. This is particularly significant in the context of the increase in unemployment (4.7 million at the end of 2010). The number of entrepreneurs who have applied for the single payment benefit is 145,666 (2.9 % less than in 2009), representing 3.1 % of the total of unemployed people.

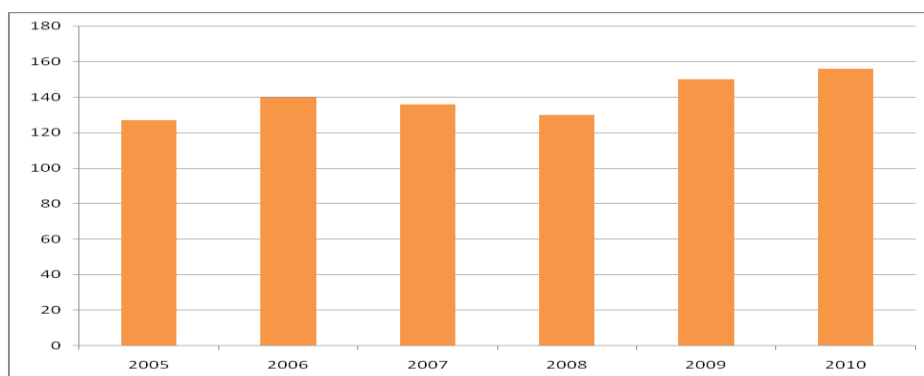
**Graph 7: Average number of beneficiaries of the unemployment benefit capitalisation regime**



Source: Ministry of Labour and Immigration (2011)

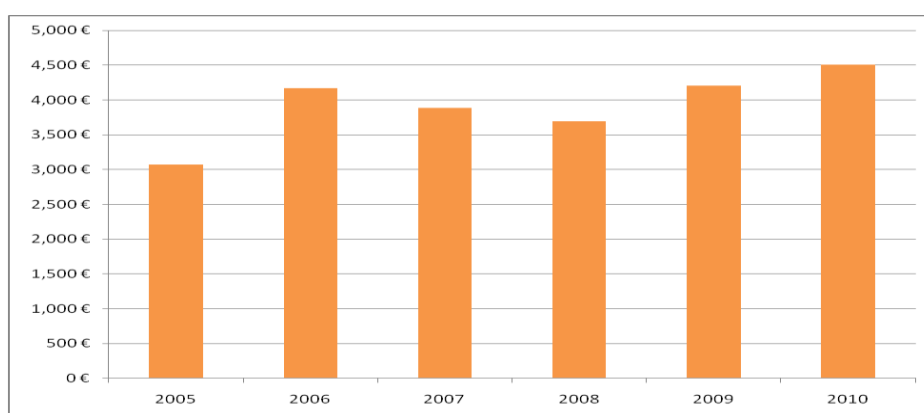
As the years have passed, the amount of the benefit that the capitalisation involves has been increased in order to help self-employed people establish their business activities. As can be observed in Graph 8, the period of capitalisation (measured as the number of days in the unemployment benefit period) has been slowly increasing since 2005. Thus, the average unemployed worker who applies for the benefit to be paid in one sum is entitled today to 156 days of benefits (22.8 % more than five years previously). Quantitatively, this amount reaches EUR 4,510 per person (147 % more than in 2005).

**Graph 8: Average amount of capitalisation period and income support (days of unemployment benefit)**



Source: Ministry of Labour and Immigration (2011)

**Graph 9: Average amount of capitalisation period and income support (in €)**



Source: Ministry of Labour and Immigration (2011)

#### 4.2 Exceptional measure for transition to stable employment

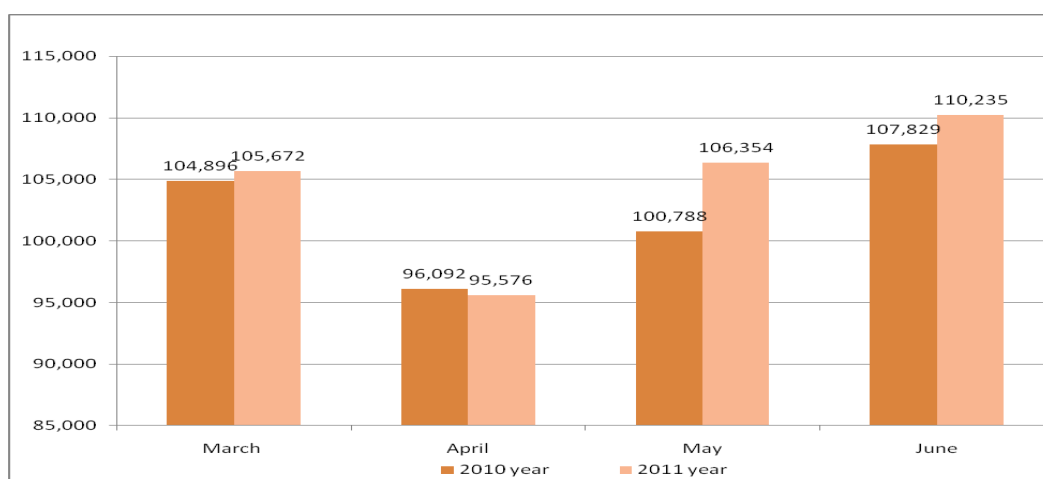
The short period over which the measure for transition to stable employment has been in operation presents a great obstacle in assessing it. However, the main features of the pattern of part-time recruitment can be described, comparing the same periods of 2010 and 2011.

The severe difficulties encountered in creating employment must be taken into account. In fact, according to the 2010 GEM Report (Güemes, 2010), companies in the entrepreneurial phase (defined as the first three months of their activity) have reduced their levels of employment creation. Thus, the proportion of firms that have hired any workers has reduced from 60 % to 34 %, between 2007 and 2010. However, employment expectations have apparently stabilised: the proportion of companies that do not expect to recruit workers in the following year has remained at one in five. Thus, four out of five still intend to create net employment. In contrast, the obstacles to creating new economic activities have deepened, according to entrepreneur's opinions. In 2010, 68.8 % of them considered it to be difficult or very difficult to start a business, 4.4 percentage points more than in 2009.

Apart from the fact that the measure was adopted as recently as mid-February 2011, there is a further complication in assessing its impact; employees in some types of contracts (internships, bridging contracts and training contracts) cannot benefit from the measure. Therefore, these types of contracts have been removed from the analysis. In addition, contracts signed during a six month period, from when the measure was adopted in mid-February, through to June 2011 (the last month for which official data are available), have been analysed. There are three main conclusions arising from the analysis, as follows.

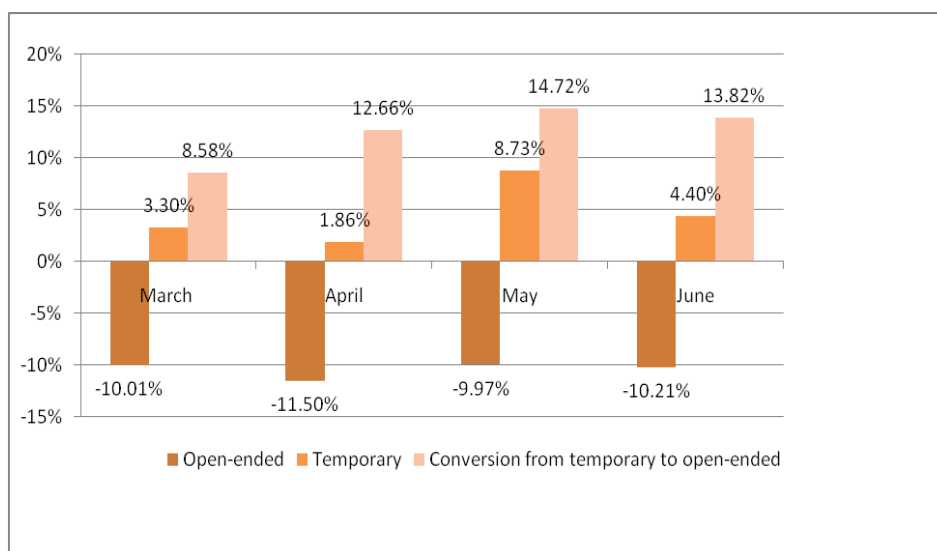
Firstly, a slight increase in recruitment into part-time employment has been detected during the execution of the programme<sup>7</sup>. This trend was particularly marked during May and June. Accordingly, a 2 % increase has been identified in the number of contracts in the whole period (from March to June 2011), in comparison with the same period of 2010. Almost 420,000 part-time contracts likely to be subsidised were signed in this period<sup>8</sup>. However, this increase has been generated exclusively among temporary contracts while open-ended ones have been reduced. As a consequence, 85 % of the total part-time contracts likely to be subsidised were temporary. Around 50,000 temporary contracts have been transformed into open-ended ones. In addition, these conversions have increased by 12.2 %, which reinforces the fact that this programme has significantly contributed to transforming temporary into indefinite contracts.

**Graph 10: Number of contracts likely to be subsidised recruitment (2010/2011)**



Source: Ministry of Labour and Immigration (2011)

**Graph 11: Recruitment growth rate of contracts likely to be subsidised and conversions from temporary to open-ended contracts (2010/2011)**



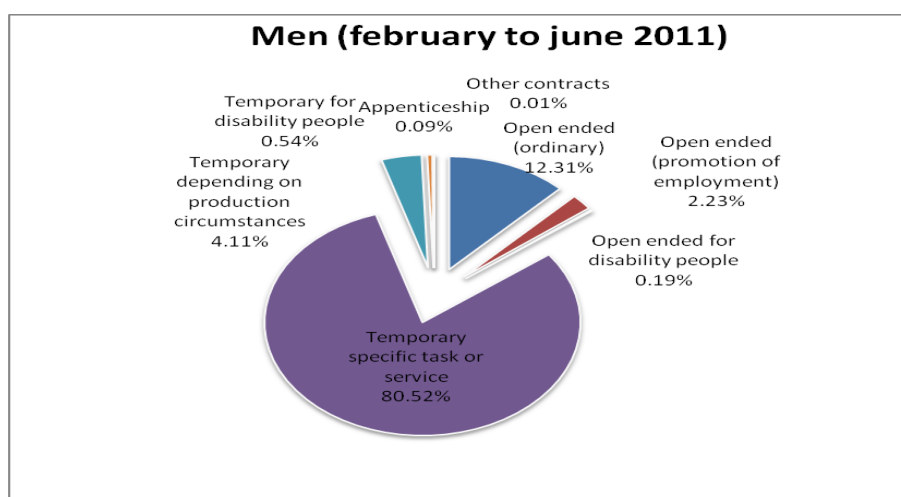
Source: Ministry of Labour and Immigration (2011)

<sup>7</sup> Only those contract types likely to be subsidised are included (and among them, only those open-ended or temporary contracts lasting six months or more).

<sup>8</sup> This number can include people aged over 30 or not long-term unemployed.

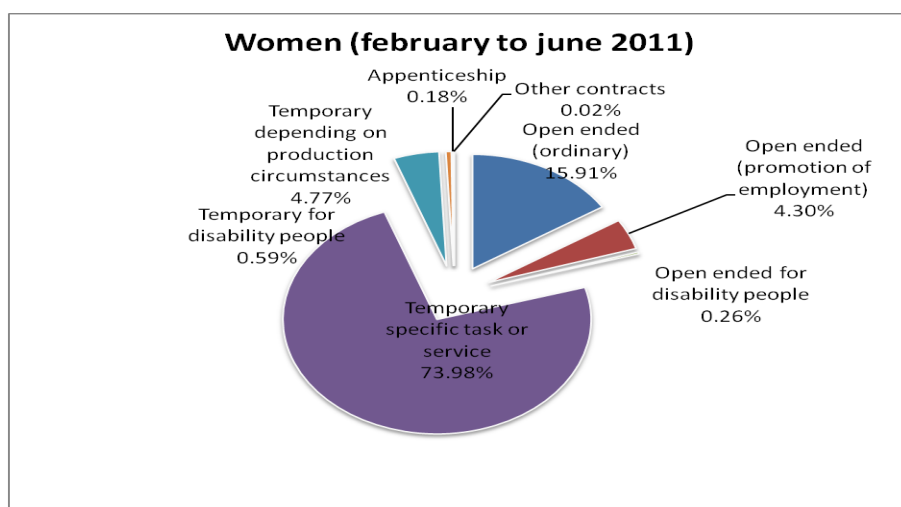
Secondly, it must be stated that the majority of the contracts signed with unemployed workers are temporary. As can be seen in Graphs 12 and 13, more than eight out of ten contracts are temporary. However, the traditionally marked influence of those depending on production circumstances is reduced in favour of those related to complete a specific task. Thus, the obstacles to enhancing open-ended recruitment (not only part-time contracts) still remain as one of the most significant challenges for Spanish active labour market policies.

**Graph 12: Composition of contracts by modality (men) (February to June 2011)**



Source: Ministry of Labour and Immigration (2011)

**Graph 13: Composition of contracts by modality (women) (February to June 2011)**



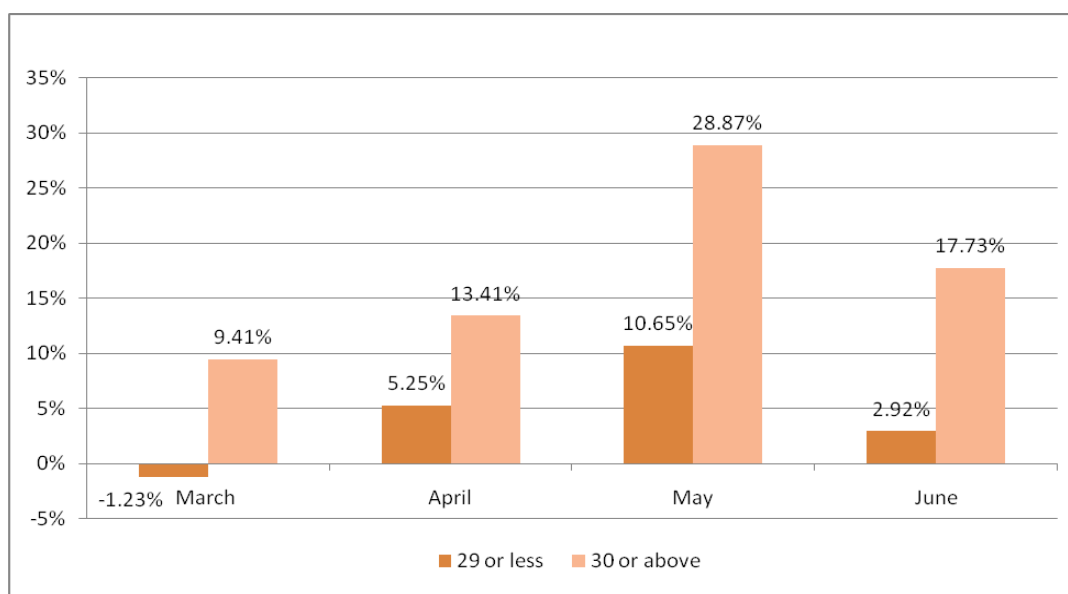
Source: Ministry of Labour and Immigration (2011)

Finally, when analysing only those contracts aimed at young people (aged 30 or less)<sup>9</sup>, a slight increase in the total number of part-time contracts has been identified compared to 2010. However, this increase is slower than the average for all age groups.

<sup>9</sup> However, this data includes all the modalities of temporary contracts, even those that are not likely to be benefitting (internships, bridging contracts and training contracts).

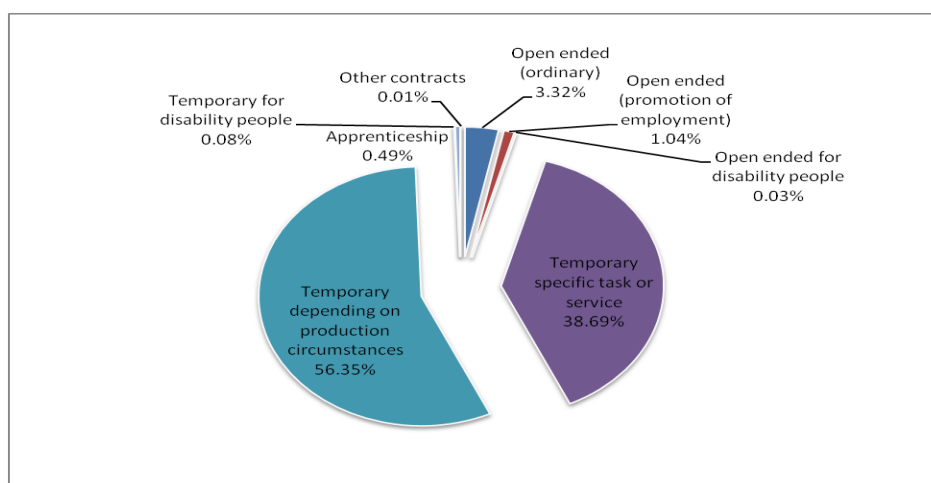


**Graph 14: Recruitment growth rate of part-time contracts by age group (February to June)**



Source: Ministry of Labour and Immigration (2011)

**Graph 15: Composition of part-time contracts of young people (25 years or younger) (February to June)**



Source: Ministry of Labour and Immigration (2011)

To sum up, the main features of the pattern of recruitment into part-time contracts have been analysed over the short period of implementation of the initiative (four complete months). There are three conclusions: a slight increase in recruitment into part-time work in this period; the persistence of temporary hiring; and a significant rise in the transformation of fixed-term into open-ended contracts. However, the positive trend that can be identified from this analysis is less significant for the younger employees involved.

## 5 DIFFICULTIES AND CONSTRAINTS

The initiatives that have been described above have been carried out in a well-known difficult economic context, especially in terms of net employment creation. The slow GDP growth rate expected for 2011 and 2012 will not change this pattern and will result in unemployment rates around 18-20 %. The Spanish labour market has been very flexible to start processes of employment creation during the economic booms, but on the contrary, it is able to destroy jobs even more quickly in recessive contexts. In this framework, in the current economic situation it is difficult for policy makers to improve employment levels, and therefore, the Spanish labour market faces an extremely negative situation in which almost 5 million people remain unemployed (31 % unemployment rate in the first quarter of 2011).

As a consequence, the economic downturn is the most important factor to be taken into account when assessing all measures aimed at creating net employment growth. Beyond this, the modification of the unemployment benefit capitalisation regime to promote self-employment among young people has to fight against the following obstacles in the Spanish context:

- The promotion of an entrepreneurial culture is still a difficult task in Spain. Although it is one of the most important objectives of the Education Law (2/2006), the linkages between the education system and the promotion of an entrepreneurial culture are still underdeveloped. As a consequence, unemployed people are not frequently stimulated to become self-employed and run their own business. The education system is, to a certain extent, responsible for this trend that hinders the possibility of new business development. Thus, in addition to the current economic situation, there are complex cultural and political factors.
- Moreover, the efficacy of the modification of the unemployment benefit capitalisation regime does not exclusively depend on the amount of the benefit that the unemployed worker is able to receive in one sum. Frequently, the lack of efficacy of a comprehensive supportive environment articulated by the PES usually hinders the start-up of a business activity. Therefore, providing and enhancing integrative mechanisms or pathways, with the help of highly skilled staff, in order to meet the needs of entrepreneurs, is one of the key factors to improve the success of the newly self-employed.
- Given that active labour market policies are now transferred to the regional employment offices, a territorial approach must be enforced in order to stimulate and support young entrepreneurs. As a consequence, inter-administrative and inter-territorial coordination to implement tailor-made plans and programmes is quite limited, since territories have different conditions, features and intervention cultures. Local and regional stakeholder participation is also a significant challenge in order to adjust public policies to territorial needs.
- In addition, the design and implementation of the unemployment benefit capitalisation regime registers an inner difficulty derived from the unemployment contribution system itself. Accordingly, this income support scheme discriminates against those people who have accumulated lower levels of social protection, such as young unemployed people or those who have been employed in low-paid jobs. Therefore, the configuration of the system itself precludes, to a great extent, satisfaction of the needs of the harder-to-help groups (women, immigrants, young people with temporary jobs, etc.), and deters them from becoming self-employed. Other mechanisms have to be put into effect to complement the initiative in order to face these difficulties, so as to reach the most vulnerable groups within the labour market.

There are three main limitations and obstacles with regards to the subsidies for companies that recruit young and long-term unemployed workers into part-time jobs:

- In general, it must be stated that employment creation measures which entail subsidies, for companies or for the self-employed that hire unemployed workers, traditionally have a limited efficacy within the Spanish labour market (Rocha, 2010). Accordingly, the massive unemployment rate has been a great obstacle to be overcome and job creation initiatives have not historically had a significant role in improving employment levels.
- Furthermore, such initiatives can be interpreted as mechanisms that foster temporary recruitment without enhancing stable employment. This is reinforced by the proportion of this kind of contract signed in 2011 (even more than in 2010). This trend is dangerous as it can become a double-edged sword, encouraging temporary employment (which is not penalised), while conversions to open-ended contracts depend entirely on the will of the employer (as these conversions were already stimulated).
- Finally, from a gender perspective, the failure to convert fixed-term into open-ended contracts could reinforce gender stereotypes, since in the Spanish labour market context part-time jobs are associated with female workers. This can amplify sexual division of labour and cause negative effects on female empowerment, contributing to an increasingly patriarchal model in which females are increasingly hired for part-time work (based on their gender-imposed roles) and males are still considered as the breadwinners.

## 6 SUCCESS FACTORS AND TRANSFERABILITY

The revision of the unemployment benefit capitalisation regime and the promotion of part-time recruitment for young people and the long-term unemployed, have recently been implemented. As a consequence, their evaluation is a complicated task. Moreover, the difficult context of the intervention, derived from the economic downturn and the effects on the Spanish labour market, makes this assessment even more challenging than other active labour market policies. However, some success and transferable factors can be identified.

Regarding the modification of the unemployment benefit capitalisation regime for young people, the key success factors and transferable elements are:

- An existing critical mass of beneficiaries. The initiative is well-known among self-employed workers given that it has been in place since 1985, in the framework of programmes for the promotion of self-employment. Thus, it constitutes a well-known initiative that has been working for more than two decades (although it was withdrawn for some periods). Following the same line has helped to reach a critical mass which easily assumes the legislative changes. As a consequence, this contributes to facilitating the implementation of the possible revisions that PES can introduce in its operations.
- Amount: the revision in the proportion of the benefit that unemployed workers are entitled to receive in one sum is an extremely simple measure.
- Simplicity: in addition, the legal and administrative procedure presents no significant difficulties for the unemployed workers who want to become self-employed. It can even be applied for online. In fact, the existing critical mass is heavily connected with the fact that this initiative is viewed positively.
- Flexibility: as has been mentioned before, the initiative can be used in two different but complementary modalities. On the one hand, the unemployed can receive up to 80 % of his/her unemployment benefit in one sum. On the other hand, the remaining amount can be used to pay Social Security contributions. This flexibility in the implementation of the measure contributes to the adaptation to the different needs of entrepreneurs and their business perspectives.
- Support for planning business start-ups: the approval of the application for the capitalisation of the unemployment benefit depends upon the viability of the entrepreneur's project. This contributes to ensuring the quality of the new business activity and the efficacy of the programme in terms of net employment creation.

Regarding the subsidies for self-employed or companies that hire young and long-term unemployed workers for part-time jobs, the main success factors and transferable elements are:

- Specialisation: the initiative is aimed at promoting the employment of two crucial groups within the Spanish labour market: young people and the long-term unemployed. This approach contributes to increasing the efficacy of the employment promotion programmes (Rocha, 2010) since it has encouraged the PES to give attention to two particular groups who face severe obstacles in the labour market.
- Coherence: the measure is intended to stimulate the transition from fixed-term into open-ended recruitment. For this reason, the reduction of Social Security contributions can be applied in case of temporal recruitment and then, the same company can apply for other benefits to transform the temporary contract to an open-ended one. This two-step process tries to overcome the obstacles to hiring young

people within open-ended contracts, by encouraging the conversion of contracts once a young person is employed.

- No recycling: the legislative regulation has established a specific mechanism in order to avoid companies keeping their workers while the subsidy is paid and then firing them, in order to recruit another subsidised job seeker. To ensure this, the initiative has established that the recruitment of any worker must result in a net increase in staff.

## ANNEX 1: REFERENCES

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## ANNEX 2: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> <li>• Accordingly, the current situation of the Spanish labour market is directly affected by the consequences of the collapse of the economic development model that features its economic growth during the last 15 years.</li> <li>• Different initiatives have been launched in order to boost youth employment. They have especially stressed monetary subsidies for companies that hire young people and transform contracts from temporary to open-ended. Regarding the promotion of self-employment, active labour market policies have especially developed since the last decade.</li> <li>• The objectives of self-employment boosting were, on the one hand, to improve the security of self-employed workers equating their position to the ordinary workers, and on the other hand, boosting the self-employment initiatives among young workers and unemployed people.</li> <li>• Particularly, the promotion of self-employment started in the mid 1980s with objective of pushing business creation and generating employment and economic activity. The Self-Employment Promotion Plan is one of the most important, offering four types of supports: business establishment, financial support, technical assistance and training. The self-employed can apply for other national and, specially, regional support schemes.</li> <li>• ESF has launched numerous projects in order to boost entrepreneur culture.</li> </ul>
Key features of the policy measure
<ul style="list-style-type: none"> <li>• On the one hand, the unemployment benefit capitalisation regime through a single payment, has historically been one of the most relevant initiatives to foster self-employment. This option has existed since the introduction of 31/1984 Law and the implementation started with the 1044/1985 Royal Decree, which established the unemployment benefit capitalisation regime.</li> <li>• Thus, unemployed workers that want to become self-employed are able to apply for the unemployment benefit in one sum. Thanks to the recent reforms, they can be entitled to receive 80 % if they are young people (aged below 30 for men and 35 for women).</li> <li>• The main aim of the modification of the unemployment benefit capitalisation regime is to boost self-employment as a viable option for young people to join the labour market.</li> <li>• Apart from the application, a complete and detailed explanatory memorandum of the business project is required. Once the payment is received, the main obligation of the self-employed worker is to initiate the activity in a maximum of one month.</li> <li>• On the other hand, the exceptional measure to boost transition from temporary to open-ended contracts encompasses subsidising part-time contracts and the possibility to combine it with other mechanisms to support the transformation of temporary to open-ended contracts.</li> <li>• The measure shall remain in force until 12<sup>th</sup> February 2012 (one year before it was adopted). The length of the working day is part-time (50-75 % of the ordinary working day). If the company employs 250 workers or less, the beneficiaries are entitled to a 100 % reduction in social contributions.</li> </ul>



Results
<ul style="list-style-type: none"> <li>• The main effect of the modification of the unemployment benefit capitalisation regime seems to be the contribution to sustain the number of self-employed while the economy is slowly recovering from the downturn.</li> <li>• As the years have gone by, the system has increased the amount of the benefit that the capitalisation implies in order to help the self-employed establish their business activities.</li> <li>• Regarding the employment promotion programme to boost the transition to stable employment, a slight increase in the number of part-time recruitments has been detected during its execution. This trend has been enhanced, especially, during May and June 2011.</li> <li>• Moreover, it must be stated that more than eight out of ten of the likely to be subsidised contracts were temporary.</li> <li>• However, when analyzing only those contracts addressed to young people (aged 30 or less) the positive trend is less positive than the average.</li> </ul>
Difficulties and constraints
<ul style="list-style-type: none"> <li>• The improvement of the unemployment benefit capitalisation regime has to fight against four obstacles in the Spanish context: the linkages between the educative system and the promotion of an entrepreneurial culture are still underdeveloped, the lack of comprehensive supportive mechanisms usually hinders initiating business activity, inter-administrative and inter-territorial coordination to implement tailor-made plans and programmes is quite limited, and the unemployment contributive system itself discriminates against those people that have accumulated fewer levels of social protection (young people, in general).</li> <li>• The main limitations and obstacles with regards to the subsidy for companies that hire young and long-term unemployed workers within part-time jobs are mainly three: in general, it must be stated that the different promotion employment plans have a limited efficacy within Spanish labour market; this initiative can be interpreted as a mechanism that fosters temporary recruitment, and from a gender perspective, the failure in the objective of converting temporary into open-ended contracts could reinforce gender stereotypes as part-time jobs are highly associated with female workers.</li> </ul>
Success factors and transferability
<ul style="list-style-type: none"> <li>• Regarding the modification of the unemployment benefit capitalisation regime for young people: an existing critical mass of beneficiaries, the simplicity of the procedures, the flexibility of the implementation and the mechanism implemented in order to support the planning the business projects.</li> <li>• The main success and transferability factors of the subsidy for companies that hire young and long-term unemployed workers within part-time jobs include the specialisation to concrete collectives, the coherence with other employment promotion measures and the mechanisms established to avoid recycling workers.</li> </ul>