



MICROFINANCE AND START-UPS IN THE EU

Spanish country profile

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*The views expressed herein are strictly personal views and only reflect those of the writer



EUROPEAN
MICROFINANCE
NETWORK



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1. THE BIG PICTURE

Post-crisis recovery in Spain is projected to be substantial in 2017-2018, supported by domestic demand and favourable external conditions. Structural reforms have helped foster competition and employment growth, although more incisive labour market policies and better access to vocational education and training are needed; fostering innovation and business skills are essential to increase productivity and reduce unemployment¹. Unemployment is still dramatically high and reflects the unbalanced income distribution characterising the country, where the top 20% of the population earn almost seven times as much as the bottom 20%². Starting a business in Spain is still more costly and cumbersome than the EU

average, although data show incremental improvement³. Entrepreneurship education, bureaucracy, taxes and access to finance have been identified as the main obstacles to entrepreneurial development⁴. Although a variety of training programs exist for entrepreneurs, there is still need to strengthen business skills and culture at school level⁵. A further hindrance is the overlapping of competences and legislation of the different governments at the national, regional and local levels, which increases transaction costs. Access to finance is particularly difficult for new businesses due to the lack of a validated business model, which in turn cannot guarantee sufficient profit generation and increases the risk of a traditional credit operation.

Figure 1: Spain key-data

Population (2017 - S1)	46,528,966
GDP (2016)	1.232 trillion US \$
Unemployment rate (2017)	18.75%
Population below the poverty line (2012)	21.1%
Human development index	0.876 (Rank: 26)
Ease of Doing Business Rank	32 (1-190)

Sources: INE, World Bank, UNDP, CIA World Factbook

1 OECD. 2017. OECD Economic Outlook, Volume 2017 Issue 1, OECD Publishing, Paris. http://dx.doi.org/10.1787/eco_outlook-v2017-1-en

2 OECD. 2017. "Better Life Index – Spain". Accessed July 13. <http://www.oecdbetterlifeindex.org/countries/spain/>

3 World Bank. 2017. Doing Business 2017: Equal Opportunity for All. Washington, DC: World Bank. Please refer to Appendix 1 for further details on Spain Ease of Doing Business Indicators.

4 These factors, identified by the experts interviewed to collect primary data for the present country report, are aligned with the relevant literature on this topic.

5 Peña, I., Guerrero, M. y González-Pernía, J.L. 2017. Global Entrepreneurship Monitor. Informe GEM España 2016. Editorial de la Universidad de Cantabria.

2. START-UP BUSINESS LANDSCAPE

2.1 Size and sectors

The increasing dynamism of the business sector is confirmed by data: 20.1% of the active businesses in 2016 were less than two-year-old start-ups. The majority of start-ups operate in the service sector (especially trade and hospitality sector), although the highest proportion of new enterprises in 2015 came from real estate, human health and social work activities sectors. The sectors showing the

highest level of business closure were retail trade and R&D. The relation between young enterprises and business size confirm that start-ups remain quite small during the first years of operations: only 22.1% of 0-2 year-old businesses employ more than 5 people (only 4.2% employ 20 or more). Around 26% of 0-2 year-old start-ups have no employees, although this figure falls substantially

in the following stages of business development⁶.

Young firms are crucial for job creation in Spain, showing a higher level of employment growth compared to older firms: start-ups which survive the first 3 years will create at least 7% of the total new jobs created over those 3 years⁷.

2.2 Funding model

According to primary data collected with key-actors in the entrepreneurial sector, the most common sources of funding for Spanish start-ups are: a) 3Fs: family, friends and fools; b) traditional financial products (loans, credit lines); c) unemployment benefit capitalization; d) microcredit.

Recent trends indicate the increasing role of private equity, business angels and crowdfunding, although access to these types of funding is more likely for projects with a strong innovation and/or technological

component. According to the opinion of the interviewees, these instruments are, on average, suitable for start-ups, although they highlight the importance of other sources of support, such as subsidies and guarantees, to access capital, lower risks and encourage entrepreneurship, investments and innovation. Financial exclusion particularly affects the more vulnerable segments of population, which cannot sustain their business with their own resources, have no access to the traditional banking

system and whose type of activity is not aligned with more sophisticated funding models. In 2016, 26% of the total entrepreneurial population declared to have started their own business due to the impossibility of finding an employee job and to maintain a sufficient level of income⁸. This group of “entrepreneurs by necessity” is more likely to be weaker in terms of entrepreneurial skills and spirit, thereby needing specific mentoring and training services.

6 Instituto Nacional de Estadística. 2016. Estructura y dinamismo del tejido empresarial en España. Directorio Central de Empresas (DIRCE) a 1 de enero de 2016, Notas de Prensa, 29th of July.

7 Calvino, F., C. Criscuolo and C. Menon. 2015. Cross-country evidence on start-up dynamics, OECD Science, Technology and Industry Working Papers, 2015/06, OECD Publishing, Paris.

8 Peña, I., Guerrero, M. y González-Pernía, J.L. 2017. Global Entrepreneurship Monitor. Informe GEM España 2016. Editorial de la Universidad de Cantabria

3. THE SURROUNDING ECOSYSTEM

3.1 Government support

Over the last years the Spanish government has been implementing a set of labour market and financial reforms to foster economic growth. This included a tax reform to encourage entrepreneurship and investment, reducing the tax burden and facilitating tax compliance⁹. The corporate income tax rate for new businesses created on or after 1st of January 2013 was reduced from the previous standard 30% to 15% for the first € 300,000 and 20% thereafter (for existing businesses it was progressively reduced to 25%). As a

result, the effective tax rate for capital gains was reduced from 24% to 8%, although some types of expenses have limited deducibility and therefore expand the tax base¹⁰. On this point, the need for further fiscal measures focused on early-stage companies was still clearly pointed out by some of the interviewees. Among other measures, the 2013/2016 national strategy for youth employment and entrepreneurship, renewed until 2020, includes: a) the promotion of business incubators and tech-based co-working spaces to offer guidance

and physical infrastructure where young people can develop and consolidate their projects; b) support to mutual guarantee schemes and c) microfinance initiatives to increase access to finance at favourable conditions for young entrepreneurs and social businesses. These measures target young people who are less than 30 years old and aim to improve the quality of youth employment, guarantee equal opportunities and encourage entrepreneurial spirit¹¹.

Figure 2: National legal framework for entrepreneurial promotion

Law 11/2013	Facilitate entrepreneurial growth, job creation, alleviation of structural problems
Law 14/2013	Support to internationalisation and post-crisis economic recovery
Royal Decree 126/2014	Inclusion of entrepreneurship as one of the basic competences of primary school curriculum
2013/2016 Strategy for Entrepreneurship and Youth Employment (EEEJ)	Youth unemployment alleviation: 15 short-term and 85 long-term impact measures
Royal Decree 1/2015	Tax burden reduction, administrative and fiscal streamlining, employment promotion
Law 31/2015	Self-employment support, unemployment benefit capitalization, fiscal bonuses

Source: Aragonese Entrepreneurship Strategy 2015-2020, own elaboration

⁹ World Bank. 2015. Doing Business in Spain 2015. Washington, DC: World Bank.

¹⁰ World Bank. 2016. Doing Business 2016: Measuring Regulatory Quality and Efficiency. Washington, DC: World Bank

¹¹ Ministerio De Empleo Y Seguridad Social. 2013. "Estrategia de Emprendimiento y Empleo Joven 2013-2016". http://www.empleo.gob.es/ficheros/garantiajuvenil/documentos/EEEJ_Documento.pdf

3.2 Autonomous Communities

At the regional level, each Autonomous Community developed its own entrepreneurship support framework. The range of services offered varies substantially by region: some regions only offer general advisory services (focused on business or self-employment creation), while others provide more tailored services (for instance, to different juridical forms, such as cooperatives) and rely on a budget for grants and other forms of financial support, mainly to start-ups¹². It is important to highlight the presence of regional or local public organizations that constitute a point of reference for entrepreneurs: they offer comprehensive services helping to develop, reformulate, check and implement business ideas. They also create synergies among entrepreneurs, stimulate competitiveness and give and/or facilitate access to funding. Among the wide range of public entities for entrepreneurship support, a prominent role is played by the regional Institutos de Finanzas – that primarily focuses on financial support and consulting for regional business development – and the network of local chambers of commerce – which in turn created INCYDE Foundation, dedicated to foster entrepreneurial spirit through trainings, advisory services and business incubation centres¹³. Likewise, the 28 CEEIs (European Business and Innovation Centres) existing in the country encourage innovation and R&D in the business sector, working with ministries, universities and schools (e.g. EOI, Spain’s School of Industrial Organisation), public banks (ICO) and funding bodies (e.g. ENISA)¹⁴.

Figure 3: Examples of organisations for entrepreneurial promotion

WHERE	NAME
Catalonia	Catalunya Emprén
Catalonia	Acció – Agencia para la competitividad de la empresa
Barcelona	Barcelona Activa
Madrid	Madrid Emprende
Valencia	Valencia Emprende
Comunidad Valenciana	Portal del Emprendedor
Andalusia	Andalucía Emprende
Extremadura	Extremadura Avante
Castille León	SIAE - Sistema Integral de Ayuda al Emprendedor
Murcia	Instituto de Fomento de Murcia
Rioja	Emprende Rioja
Baleares	Institut d’Innovació Empresariales
Baleares	Palma Activa
Canarias	Emprender en Canarias
Basque Country	Euskadi Emprende
Cantabria	Cantabria Emprendedora
Aragón	Emprender en Aragón
Navarra	Navarra Emprende

Source: own elaboration

¹² CEAJE. 2014. Estudio Comparado, a Nivel Nacional, de las Ayudas/Incentivos al Autoempleo. http://contenidos.ceaje.es/resources/image/Estudio_CEAJE_2014.pdf

¹³ Fundación Incyde. 2017. “Quiénes somos”. Accessed August 7. <http://www.incyde.org/quienes-somos>

¹⁴ ANCES. 2017. “Qué es ANCES”. Accessed August 3. <http://www.ances.com/que-es-ances/>

3.3 Entrepreneurship education

In addition to the measures taken to create a favourable legal, economic and technological framework for entrepreneurship, the Spanish government included entrepreneurial skills as a cross-curricular component of education in several acts (Law 08/13, Law 14/2013). Specific subjects, such as “Business and Entrepreneurial Activity” and “Business Economy” have also been introduced. They can be compulsory (school-based initial vocational education and training), or optional (lower and upper secondary education), but key topics are also be embedded in other subjects,

such as economics or philosophy. In primary education, the priority is the development of attitudes, such as personal initiative, while in secondary education the objective is the consolidation of entrepreneurial attitudes or business-related actions. One of the key objectives of the 2013/2016 EEEJ is to nurture entrepreneurial spirit and the acquisition of relevant key competences¹⁵. If a specific strategy for entrepreneurship education has not been implemented at the national level, some Autonomous

Communities have well-developed entrepreneurship education strategies at the regional level (Andalusia, Asturias, Basque Country, Cantabria, Extremadura, Galicia, Murcia, Navarra). These strategies cover all education levels, are usually funded with regional resources and try to include external stakeholders in order to create virtuous synergies. Entrepreneurship education is also included in initial education and professional development courses for teachers, although it is rarely their main focus¹⁶.

Figure 4: Relevant EEEJ middle and long-term measures

1	Increase the contents related to entrepreneurship and labour relations in the school curricula
7	Ensure constant updating of school and university curricula to meet the needs of the social and entrepreneurial sectors
9	Create cooperation strategies between university and enterprises
10	Encourage the entrepreneurial spirit, initiatives, and innovation in the academic context
23	Implement training programmes with specific differential funding for young people to acquire skills in certain activities and employment opportunities that may involve the creation of jobs and opportunities for entrepreneurship

Source: EEEJ 2013-2016

15 Ministerio De Empleo Y Seguridad Social. 2013. “Estrategia de Emprendimiento y Empleo Joven 2013-2016”. http://www.empleo.gob.es/ficheros/garantiajuvenil/documentos/EEEJ_Documento.pdf

16 European Commission/EACEA/Eurydice. 2016. La educación para el emprendimiento en los centros educativos en Europa. Informe de Eurydice. Luxemburgo: Oficina de Publicaciones de la Unión Europea.

3.4 Other support organisations

Within the ecosystem for start-up support, it is important to highlight the role of third sector organisations. They mostly provide non-financial support to entrepreneurs in the form of training courses, individual mentoring, networking opportunities with other businesses and/or service providers, or even with volunteers providing professional support to start-up enterprises to help them thrive. These organisations often have a specific focus in terms of the population segment they serve (e.g. women, immigrants, minorities, socially excluded, etc.), as many of them have a variety of social

programmes among which they include a specific line of action focused on labour inclusion and entrepreneurship promotion. In some cases, these organisations work together in order to ensure that each aspiring entrepreneur enters in contact with the organisation that, because of its own expertise, can best serve him/her. However, many interviewees reported a lack of cooperation.

It is also worth mentioning the role of organisations working in the social economy sector, which encourage the creation of businesses – such as cooperatives, mutual societies,

and associations – whose model and economic performance are aligned with the general interest, democratic governance and the primacy of people over capital. This sector represents 10% of the Spanish GDP, 12.5% of total employment and generates inclusive and secure jobs, especially for people at risk of social and labour exclusion¹⁷.

A growing number of business incubators and accelerators have been created over the last few years: they are mostly located in the biggest cities, such as Madrid, Barcelona and Valencia, and primarily focus on technology start-ups.

¹⁷ CEPES. 2017. “Empresas de Economía Social en España”. Accessed July 17. <http://www.cepes.es/cifras>

4. NEEDS OF ENTREPRENEURS

The vast majority of the experts interviewed agreed on the need to provide additional training and mentoring services to start-ups in order to test business ideas, improve knowledge and skills, and keep track of business performance over time to support the entrepreneur in difficult times. The focus of the existing programmes is generally on the inception phase, but more effort should be put in the post-creation stages, when unexpected issues could come up and new entrepreneurs might need specific and professional advice and/or training.

According to the Global Entrepreneurship Monitor, the average initial capital needed to start a business in Spain is around € 15.000¹⁸. However, obtaining this capital is still reported to be one of the main hindrances to entrepreneurship development. Increased financial support programmes for start-ups

(including subsidies, tax bonuses, etc.), with broader selection criteria to include a wider range of start-ups (e.g. not limited to tech start-ups), would improve access to funding and foster business creation.

The interviewees also pointed out the need for guarantee schemes for young enterprises, and the need to expand access to microfinance services to reach more “unbankable” entrepreneurs. Innovation in the microfinance sector should also be promoted, in order to identify new services which could complement the current offer: flexible credit lines could be a more suitable product than traditional microcredit to satisfy working capital needs; financial education could be paired with complementary products such as microinsurance, which would cover, for an affordable premium, clearly identified risks faced by vulnerable entrepreneurs.

5. CURRENT MICROFINANCE INITIATIVES

5.1 Introduction

The post-financial crisis banking sector restructuring led to the elimination of the Spanish saving bank system and to restrictions on credit policies, which worsened the level of financial exclusion of the most vulnerable part of the population. Nowadays, 2.6 million people in Spain are considered financially excluded (55% of whom are women) and 12.1 million are under-served. Financial and social exclusion are the main focus of entities combining finance,

entrepreneurship and ethics to design tailored training programmes and create specific lines of funding to support business and job creation, thereby fostering inclusion¹⁹.

In Spain, microfinance initiatives are usually collaborations between various actors. Generally, banking institutions (e.g. Microbank, Laboral Kutxa, Banco Popular, Colonya Caixa Pollença, etc.) provide microloans while other entities – public or private organisations promoting

entrepreneurship, self-employment and labour inclusion – deliver Business Development Services (BDS) and other non-financial services and act as moral collaterals and/or “liaison point” between banks, investors and entrepreneurs. Some non-banking organisations also have their own funds for microloans, but currently their resources are still limited.

5.2 Third sector organisations

As mentioned earlier, there is a significant number of organisations²⁰ in the Spanish third sector (e.g. Autoocupació, Youth Business Spain, Montemadrid, to mention a few), which provide a wide range of non-financial services to start-ups and entrepreneurs: BDS, entrepreneurial training, mentoring, financial education, e-learning courses. The target group they serve varies depending on the mission of the organisation; therefore, some organisations work mainly or exclusively with women, youth, vulnerable groups, immigrants, etc. According to primary data collected, the majority of the beneficiaries come from urban areas. The type of start-ups supported range from self-employment activities to cooperatives and social enterprises, with a smaller

group of entities serving informal income-generating activities. Although less frequently, tech start-ups are also served. This is the case for businesses needing resources to test or improve their product or service before being able to access other forms of funding (bigger loans, funding rounds, etc.).

The financial product offered by third sector entities is normally limited to business microloans (<25,000 €). The interest rate depends on a combination of factors: funding structure of the organisation (grants/donations, debt financing, equity, guarantees, etc.), credit conditions, additional services offered and target population. An interesting alternative is offered by CAFs (self-funded communities, such as Winkomun) that create funds for business microloans

through collective savings.

The majority of third sector organisations currently have limited or no budget for microlending activities (compared to financial institutions offering microloans). Among the entities that have an internal budget earmarked for microloans we find: Treball Solidari, specialised in women group-lending, Fundación Montemadrid and Fundación Cajasol, which are rebuilding the activity of the former saving banks in the field of microfinance, and Fundación Oportunitas, which has been recently created with the aim of being the first Spanish self-sustainable social microfinance institution.

Although third sector entities offer much needed non-financial services, they often cannot complement them with their own financial products. The

19 Oiko Credit. 2015. Exclusión social y exclusión financiera, un mal endémico de nuestra sociedad, October 17. <http://catalunya.oikocredit.es/k/es/n5690/news/view/133048/59957/exclusion-social-y-exclusion-financiera-un-mal-endemico-de-nuestra-sociedad.html>.

20 Although it is possible to estimate the presence of hundreds of third sector organisations supporting entrepreneurship and labour inclusion throughout the country, it is difficult to define their exact number because the existing databases apply different criteria of inclusion (geographical scope, legal status of the organisation, etc.) and offer limited advanced search tools (e.g. sectors addressed, target population, etc.), which means data overlaps or is missing.

drawback of this gap is twofold: first, it can frustrate entrepreneurs who, after receiving training and advisory services, eventually do not succeed in obtaining external funding because they do not meet traditional financial selection criteria (this is particularly likely for vulnerable groups); second,

it hampers third sector organisations' self-sustainability, as microlending could generate an income that would scale their activity, reach and social impact. As further illustrated in Section 3, these organisations need stronger support to create their own financial infrastructure. However,

organisations which cannot count on their own budget to grant microloans normally have collaboration agreements with financial institutions or other public or private funding schemes to facilitate start-ups' access to finance.

5.3 Financial institutions

Financial institutions make up the largest share of Spanish microlending activity measured by the number of people served and the microloan portfolio size. Financial institutions use partnerships with BDS providers and third sector organisations (in some cases, their own banking foundation) for two main reasons: a) to provide their clients with non-financial services to start or strengthen client businesses, and b) to reach more vulnerable groups, who are better equipped to start their entrepreneurial activity after receiving training and guidance by these organisations. Aside from business microloans, financial institutions can also offer personal microloans, business loans that exceed the threshold of € 25,000, saving products, bank accounts, money transfers and mobile banking services. Target populations include microentrepreneurs, start-ups, self-employment activities, and small businesses (less than 10 employees). A number of public and private financial institutions also have specific credit lines for the promotion and development of the social economy. Ethical finance institutions – such as Fiare Banca Etica, Triodos

Bank, Financoop, Coop 57 – are at the forefront of these programmes, but other prominent public entities (ENISA, Institutos de Finanzas, etc.) and private banks also design specific products with favourable conditions to promote the growth of this sector of the economy.

To date, the institutions that have been successfully selected by the EU Progress Microfinance and EaSI programmes have been banking

institutions, except a public body (ICREF) and a foundation²¹ (Fundació Pinnae, whose microfinance programme is currently suspended). This is another indication of the weakness currently affecting non-banking microfinance actors in Spain, since access to EU microfinance support instruments would encourage their growth and allow them to better serve vulnerable entrepreneurs.

Figure 5: Microfinance intermediaries under Progress and EaSI

Progress Microfinance	EaSI Guarantee
Caja Rurales Unidas	Banco Popular Español S.A.
Colonya Caixa Pollenca	Colonya Caixa Pollenca
Laboral Kutxa	Laboral Kutxa
ICREF	
Fundació Pinnae	

Source: EIF

21 EIF. 2017. "Micro-credit providers under Progress Microfinance". Accessed August 1. http://www.eif.org/what_we_do/microfinance/progress/Progress_intermediaries.htm;
EIF. 2017. "EaSI – Guarantee Financial Instrument". Accessed August 1. http://www.eif.org/what_we_do/microfinance/easi/easi-signatures.pdf

5.4 Public entities

As illustrated above, the network of public organisations at the local, regional and national levels offering support to entrepreneurs is quite developed and diverse. As for financial support, in most cases public entities offer a set of financial services that include credit lines at favourable conditions, guarantee instruments, participating loans, and products specifically designed for certain types of businesses (tech, agriculture, etc.) that normally exceed the amount of € 25,000. However, specific microloan programmes do exist at the local level, such as those managed by Bizkaia Seed Capital²² and SODEBUR²³. In other cases, public organisations have specific agreements with local or national banks to encourage access to finance.

²² Seed Capital Bizkaia Mikro. 2017. "Seed Capital Bizkaia Mikro". Accessed August 1. <http://www.seedcapitalbizkaiamikro.org/>

²³ Diputación de Burgos. 2016. Boletín Oficial de la Provincia, n. 24, February 5. http://www.sodebur.es/docftp/Bases_CONVOCATORIA_2016.pdf

6. POLICY RECOMMENDATIONS

The economic crisis and disappearance of a large number of savings banks heavily affected the Spanish microfinance sector, which is now starting to slowly recover. In order to encourage this process, the Asociación Española de Microfinanzas (AEM – Spanish Microfinance Association²⁴), has elaborated the following policy recommendations.

²⁴ The AEM was created in 2013 and counts with 16 members (i.e. banking institutions, foundations, university, associations, individual experts/practitioners). It's mission consists on supporting the development and professionalisation of the microfinance sector in Spain through advocacy in front of public and private bodies and through services to its members.

6.1 At the microcredit provider's level

When analysing the microfinance sector in Spain, we first note the lack of a regulatory framework. Although the AEM has actively promoted the creation of a law to regulate the sector since 2012, following the lead of countries such as Italy and France, there does not seem to be a political will to implement the framework. However, while some see this lack of regulation as a barrier to sector development, others consider this flexibility as an opportunity to grow without constraints.

The microfinance sector (including all actors: i.e. banks, third sector, public programmes, academia) unanimously agrees that two elements are considered key to the development of microfinance in Spain and require the participation of the public sector as a promoter.

1. There are scarce resources for the promotion of self-employment. While most of the Autonomous Communities have programmes to boost employment and self-employment, the vast majority of these resources are earmarked for the promotion of employee jobs. Therefore, it is important that active employment policies, as well as the employment activation plan, review budget lines to support a greater number of self-employment initiatives. In this sense, Catalunya Emprèn and the Servei d'Ocupació de les Illes Balears are successful examples of self-employment promotion.

2. Lack of clarity in the definition of entrepreneurship and target

audience of current entrepreneurship programmes. In fact, most national and regional entrepreneurship support programmes (e.g. ENISA, CDTI) are focused on technology-based start-ups. It is important to distinguish this type of entrepreneurship, generally led by entrepreneurs with a university degree and integrated in their social environment, from self-employment initiatives, which should be understood as an alternative for labour, financial and social inclusion that focus on vulnerable populations. For this reason, not only it is necessary for active employment policies to focus more on self-employment, but to also create specific programmes promoting self-employment among vulnerable populations.

In this context, the AEM advocates for the creation of a national public programme for the promotion of self-employment and microfinance. Under this model, microfinance providers would receive public support in the form of loans and grants so that they, as experts in the support of self-employment, can efficiently channel these benefits to entrepreneurs. This proposal, based on the positive experience of the European Commission's Employment and Social Innovation (EaSI) programme, would be based on three main axes.

The first axis entails a series of grants allocated to microfinance providers and other non-profit entities, aimed at supporting the provision of non-financial services. As shown by numerous studies, non-financial

services are an integral part of microfinance: while the success rate of entrepreneurship projects at the European level (after 5 years of activity) is 44%²⁵, training and mentoring services can increase the business success rate up to 75% in countries such as France (after 3 years)²⁶ and even to 95% for businesses supported by a local programme in Madrid²⁷. Training and mentoring services are difficult for microcredit providers to carry out today due to the considerable budgetary burden that these tailored-made services represent for the institutions. This line of grants, which would increase the time dedicated to each entrepreneur, as well as the range of services provided, would improve the start-up process and the success rate of self-employment initiatives.

The second axis involves the provision of funding for microfinance providers. Today, public grants do not fund loan portfolios. For this reason, many providers find it difficult to expand their activities. The European

experiences show that the use of public financial instruments in the form of debt such as portfolio guarantees and loans are having a positive impact on the development of the European microfinance sector. Increasing the loan portfolio of microcredit providers enables them to increase the number of business microcredit beneficiaries and, consequently, self-employment initiatives. This is a win-win situation: on the one hand, a larger loan portfolio allows for economies of scale and helps the sustainability of microfinance institutions, and, on the other hand, generates a cost efficient (i.e. reduced investment due to the use of guarantees and loans instead of grants) alternative to foster job creation for public authorities.

The third axis aims to strengthen the performance and sustainability of microfinance institutions through institutional capacity building subsidies (e.g. investment in technological infrastructure, employee training, digitization and communication plans, etc.). Once

operational, these measures will help entities reduce their expenses, which will improve the entrepreneur "experience" in terms of interest rate reductions, faster internal management of their applications (e.g. less time required to study their project), and better support to their businesses. This public national programme for microfinance promotion would aim at pushing microfinance institutions into the financial sector so that they have the required capacity to provide both financial and non-financial services to financially excluded people (self-employment activities and micro-businesses).

The AEM also signals the importance of promoting national programmes that encourage collaboration between entities through the creation of consortia (e.g. need to generate a candidature with a minimum number of entities) to generate positive synergies that would strengthen the sector.

6.2 At the entrepreneur's level

As for direct support to entrepreneurs, the general impression from the microfinance sector is that recent

laws (see section 1.3.1) have provided notable improvements for entrepreneurs. However, more

progress is still required to increase the entrepreneur's overall well-being.

6.2.1 PUBLIC SUPPORT

A first measure would require public organisations to better adapt instruments to suit the categories/profiles of entrepreneurs. The different forms of support that currently exist,

including some of the contributions that entrepreneurs pay, do not take into account the particularities, nor understand the income variation of the various entrepreneur profiles

and we consider more support should target individuals that are in vulnerable situations (i.e. at risk of social and financial exclusion).

Another important measure

²⁵ Eurostat. 2016. "Business demographic statistics". Accessed July 27. http://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics#Death_rate

²⁷ ILO, CSA. 2014. Microcrédit professionnel et accompagnement à la création d'entreprise: Quel devenir des créateurs trois ans après la création/reprise?, study n. 1300669, May. http://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/csa_enquete-microcredit-final_juin20141.pdf

²⁷ Primary data collected through interviews (anonymous participant).

would increase the duration of the €50 monthly flat rate that entrepreneurs pay to be registered as self-employed. This measure has proven to be successful, but is only valid for 6 months in many Autonomous Communities (the new

entrepreneur's law²⁸ - recently voted on but not yet implemented – extends this period to 1 year). In addition, supporting entrepreneurs who have failed by allowing them to continue to benefit from all the incentives that entrepreneurs receive when they

start is also essential (i.e. with the new entrepreneur's law, they can only benefit from those incentives after a two year break from self-employment).

6.2.2 SOCIAL BENEFITS AND WELFARE

There is concern regarding the difficulties faced by entrepreneurs to enjoy social benefits and welfare compared to traditional employees. For instance, in case of sick leave, a self-employed individual is still obliged to pay his contribution to social security despite the fact that he

didn't generate any income, thereby affecting business cashflow. Likewise, it would be advisable to implement a proper public pension scheme for entrepreneurs' retirement. Today entrepreneurs have full discretion over their contributions to the pension fund, which leads to salaried

employees earning an average pension 41% higher than self-employed individuals. For this reason, entrepreneurs should pay according to their earnings, as is the case for salaried employees.

6.2.3 BUSINESS FOLLOW-UP

Finally, we believe reviewing the mentoring services entrepreneurs receive is an important task. The

majority of national programmes focus on the start-up phase of businesses, rather than ensuring

the project's survival and the encouragement of scalability as a source of job creation and wealth.

28 "Ley de Reformas Urgentes del Trabajo Autónomo" voted in Congress on the 29.06.2017 [http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?_piref73_2148295_73_1335437_1335437.next_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&QUERY=\(122%2F000043*.NDOC.\)](http://www.congreso.es/portal/page/portal/Congreso/Congreso/Iniciativas?_piref73_2148295_73_1335437_1335437.next_page=/wc/servidorCGI&CMD=VERLST&BASE=IW12&FMT=INITXDSS.fmt&DOCS=1-1&DOCORDER=FIFO&QUERY=(122%2F000043*.NDOC.))

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Appendix 1 - Ease of doing business

Ease of doing business rank (1-189)	32	Overall distance to frontier (0-100)	62
Starting a business (rank)	85	Paying taxes (rank)	37
<i>DTF score for starting a business (0-100)</i>	<i>86.61</i>	<i>DTF score for paying taxes (0-100)</i>	<i>83.30</i>
Procedures (number)	7	Payments (number per year)	8
Time (days)	13	Time (hours per year)	152
Cost (% of income per capita)	5.0	Total tax rate (% of profit)	49.0
Minimum capital (% of income per capita)	12.9	Postfiling index (0-100)	92.55
Dealing with construction permits (rank)	113	Enforcing contracts (rank)	29
<i>DTF score for dealing with construction permits (0-100)</i>	<i>65.95</i>	<i>DTF score for enforcing contracts (0-100)</i>	<i>69.48</i>
Procedures (number)	13	Time (days)	510
Time (days)	205	Cost (% of claim)	18.5
Cost (% of warehouse value)	5.2	Quality of judicial processes index (0-18)	11.0
Building quality control index (0-15)	11	Trading across borders (rank)	1
Getting electricity (rank)	78	<i>DTF score for trading across borders (0-100)</i>	<i>100.00</i>
<i>DTF score for getting electricity (0-100)</i>	<i>72.99</i>	Time to export	
Procedures (number)	7	Documentary compliance (hours)	1
Time (days)	107	Border compliance (hours)	0
Cost (% of income per capita)	216.1	Cost to export	
Reliability of supply and transparency of tariffs index (0-8)	8	Documentary compliance (US\$)	0
Registering property (rank)	50	Border compliance (US\$)	0
<i>DTF score for registering property (0-100)</i>	<i>73.88</i>	Time to import	
Procedures (number)	5	Documentary compliance (hours)	1
Time (days)	12.5	Border compliance (hours)	0
Cost (% of property value)	6.1	Cost to import	
Quality of land administration index (0-30)	22.5	Documentary compliance (US\$)	0
Getting credit (rank)	62	Border compliance (US\$)	0
<i>DTF score for getting credit (0-100)</i>	<i>60.00</i>	Resolving insolvency (rank)	25
Strength of legal rights index (0-12)	5	<i>DTF score for resolving insolvency (0-100)</i>	<i>75.83</i>
Depth of credit information index (0-8)	7	Time (years)	1.5
Credit bureau coverage (% of adults)	17.9	Cost (% of estate)	11
Credit registry coverage (% of adults)	49.6	Recovery rate (cents on the dollar)	78.3
Protecting minority investors (rank)	32	Strength of insolvency framework index (0-16)	12
<i>DTF score for protecting minority investors (0-100)</i>	<i>65.00</i>		
Extent of disclosure index (0-10)	5		
Extent of director liability index (0-10)	6		
Ease of shareholder suits index (0-10)	6		
Extent of shareholder rights index (0-10)	10		
Extent of ownership and control index (0-10)	4		
Extent of corporate transparency index (0-10)	8		

Appendix 2 - Strategy for Entrepreneurship and Youth Employment 2013-2016²⁹

OBJECTIVES AND LINES OF ACTION

Objectives

- To help improve the employability of young people
- To increase the quality and stability of youth employment
- To promote equal opportunities
- To promote entrepreneurship

Lines of action

INSTITUTIONAL VIEWPOINT

- Management by Public Administrations
- Guidance and support

SUPPLY VIEWPOINT

- Education
- Training
- Improved foreign language skills and use of technological tools
- Promotion of entrepreneurship and self-employment

DEMAND VIEWPOINT

- Incentives for hiring
- Job flexibility
- Public-private collaboration in job seeking
- Equal opportunities

SHORT-IMPACT MEASURES

Education, training and improved employability

- Extending training programmes leading to proficiency certificates and programmes which include a commitment to employ school leavers to complete their compulsory secondary education
- Development of programmes for unemployed early

Promotion of entrepreneurship and self-employment

- Flat rate on social security contribution: establishment of a flat 50 € contribution at the start of self-employment activities
- Compatibility of unemployment benefits with the start of a business
- Extending the possibility of capitalising unemployment benefits
- Improving access to finance for entrepreneurs
- Continuation of unemployment benefit payments after being self-employed
- Establishing reference offices in public employment services that specialise in providing advice and support to new entrepreneurs
- Generation contract: incentives (100% reduction in Social Security contributions) to employ people with experience in new business projects started by young entrepreneurs
- Promotion of the social economy and collective entrepreneurship

Guidance, support and improvement of mediation by public employment services and partner organisations

- Single job portal for job searches

Incentives for hiring

- On-the-job training. Incentives for part-time contracts including training (reduction of Social Security contributions for up to 12 months)
- “Micro-SMEs and self-employed persons”. Elimination of social security contributions for permanent contracts for young people with micro-SMEs and self-employed persons
- First job contract for young people (annual discount in Social Security contributions of between 500-700€)
- Work experience contract. Incentives for work experience contracts for the first job (reduction of Social Security contribution up to 50%)

MEDIUM AND LONG-TERM MEASURES

Education

- To expand on the curriculum content that relates to entrepreneurship and career opportunities, as well as knowledge of labour relations and the job market.
- To reinforce the value of respect and the key role played by teachers, and to foster a culture of accountability and personal growth.
- To have the Public Administration guarantee equal opportunities through prevention, intervention and compensation measures, with the aim of encouraging permanence in the educational system and improving the results obtained in it, and thus to guarantee access to the job market in conditions of equality.
- To reinforce any actions in the educational context designed to reduce the numbers of early school leavers.
- To devise mechanisms to enable the educational system to reinstate young people who return after losing their jobs, so they can get an academic qualification that allows them access to jobs which are different from those they have done previously.
- To design and implement an information campaign on the National System of Vocational Training Qualifications through the Internet and social networks.
- To implement measures to ensure that universities are more responsive to the country’s socioeconomic demands. In this sense, and in line with the contents of Article 61 of the Sustainable Economy Act, the continuous improvement of university programmes and curricula must be guaranteed in terms of the needs of the various business and social sectors.
- To contribute to the development of quality research with transparent results, which must focus on the economic and social development of the local context, and cooperation with other national and international institutions to encourage knowledge transfer with other universities, research centres, vocational training centres (through specific gateways), companies, etc.
- To create strategies for cooperation between businesses and universities, in order to foster permanent and systematic interaction between the two, through actions such as improving flexibility and achieving greater transparency in the management of universities, and also encouraging practices related to obtaining a college degree and R+D+i.
- At universities, to encourage entrepreneurship and innovation and to promote entrepreneurial initiatives.

Training

- To extend Vocational Training with Employment Scheme or Dual Vocational Training, in coexistence with the current Vocational Training system, as a set of measures and initiatives aimed at the professional qualification of workers by combining the teaching and learning processes both in the workplace and at the training centre.
- To promote pilot projects in work-linked vocational training in order to ensure the adequacy of training to the productive fabric which is ultimately being addressed, mainly for students who have dropped out of the education system prematurely and are seeking employment.
- To review training for employment programmes in depth, in the context of social dialogue, and to revitalize the General Council for Vocational Training.
- To regulate the National Register of Training Institutions and Centres in order to have a single registry, which will be connected to the various registers in the regions.
- To review and give preference to employment and training initiatives that include the Training School Workshops, Trade and Employment Centres, and activities which relate to emerging sectors: green jobs, white jobs, information and communication technology, etc.
- To extend Vocational Training with Employment Scheme or Dual Vocational Training, in coexistence with the current Vocational Training system, as a set

of measures and initiatives aimed at the professional qualification of workers by combining the teaching and learning processes both in the workplace and at the training centre.

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- To implement specific programs in rural areas in order to give young people real opportunities for employment or self-employment, so as to promote the rejuvenation of the population and its establishment in the area.
- To establish lean management procedures which produce results in the shortest possible time to continuously update the National Catalogue of Professional Qualifications.
- In line with the above, and in partnership with social partners, to update the Catalogue of Vocational Training Qualifications and the National Register of Proficiency Certificates, in order to meet the needs of young people, the requirements of businesses and the necessity for a

sustainable productive system.

- To increase the number of processes of certifiable training and recognition of work experience, as well as e-learning opportunities.
- To make progress in the implementation of the training account, which is associated to each employee and which will be managed by the Public Employment Services, so that the full training history of each person is taken into consideration.
- To anticipate the skills required by companies in the ICT sector and to tailor existing qualifications, using the communication channels with the private sector to perform the relevant analyses on qualifications and occupations.
- To promote, both in training courses and in designing e-learning courses, the use of advanced technology-based educational tools.
- To implement training programs with specific differential funding for young people to acquire skills in certain activities and employment opportunities that may involve the creation of jobs and opportunities for entrepreneurship, promoting the establishment of population in the area.
- To facilitate the transition from training to employment and to establish a regulatory framework to improve social protection for traineeships.
- To extend the implementation of internship programmes in companies linked to academic or professional qualifications in the finishing stages of study.
- To enable young people who have completed their training to gain, as soon as possible, their first professional experience or to continue to improve their skills in line with the provisions of the Youth Employment Guarantee Scheme.

Improving foreign language skills and the use of technological tools

- To promote, in collaboration with the regional authorities, and through the systems defined in the framework of the applicable educational legislation, foreign language learning among students, with the goal that by the end of compulsory education, all students must be able to speak a foreign language.
- To increase the range of language learning courses already available at employment training centres and official language schools, adapting it to needs.
- To incorporate original version programmes in the

audio-visual media in those languages most in demand, particularly focusing on children and the young.

- To promote the learning of the languages that are most in demand and used in productive sectors requiring higher professional qualifications. It will be necessary to design training programmes which are suited to the requirements of the highly qualified jobs on offer.
- To facilitate the use of tools that enable access to digital content in order to promote self-learning.

Promoting entrepreneurship and self-employment

- To facilitate entrepreneurship among university and Vocational Training students through incentives to help them accompany their training with self-employment.
- To study the feasibility of creating a “Passport to Entrepreneurship”, to be connected to a residence permit.
- To conduct an impact assessment of the administrative burdens which the self-employed have to undertake in order to reduce them to a minimum and to remove administrative barriers, facilitating electronic setting-up of a business project.
- To consolidate the system of prior authorization through the statutory statement of accountability for certain activities and in some cases in regard of the circumstances of the premises, or the business or professional activity.
- To encourage young entrepreneurs to undergo training courses on e-marketing and to promote the use of social networks and other digital communication forums as a promotional platform and a showcase for ideas.
- To consider schemes which will allow part-time Social Security contributions for the self-employed in certain cases, such as multiple activities or compatibility of self-employment activities with study.
- To disseminate and increase the social protection measures established by current legislation for the self-employed as well as any to be implemented in the future.
- To continue to promote measures to ensure Market Unity in Spain in order to encourage the operation of any activity undertaken under regional legislation in the rest of the national territory.
- To analyse measures allowing the self-employed and entrepreneurs who have not been successful to get a second chance, while preserving balance with any rights affected.
- In the context of the Social Security, and in order to facilitate maintenance of the activity or a second chance, deferrals will be available and the conditions for repayment of any debts incurred by the self-employed will be made more flexible.
- To promote business incubators and co-working spaces with a technological or innovative basis in order to provide guidance for young people and equip them with a space to start a business, to encourage the creation of infrastructure for the incubation and development of entrepreneurial projects and to coordinate existing resources so that they become powerhouses for business development and consolidation.
- To raise the profile of the role of Mutual Guarantee Societies, especially in order to promote access to finance on preferential terms for young people and for independent Social Economy organisations.
- To seek alternatives such as microloans in order to help young people start up businesses.
- To promote the internationalisation of companies created by young people and to encourage participation by Spanish companies in projects and public tenders at EU or at other international levels, especially in sectors with high added value component.
- To promote the role model of the young ‘intrapreneur’, which highlights how important it is that employees also engage in the search for alternative and innovative activities for their business, in order to make it more competitive.
- To encourage the media to communicate a positive outlook on young people’s entrepreneurship and the importance of employers and workers in society. Also, to encourage the dissemination of values related to compliance with labour laws and regulations and a commitment to take action in the context of Corporate Social Responsibility.
- To support R&D+i initiatives so that authorities promote entrepreneurial projects with high added value and practical applications, which will ensure high returns for society at large.

Management of the public administration

- To modernise public employment services and to promote new management models that incorporate flexibility, specialisation, innovation, transparency and proximity to people, so that their needs are best met.
- To promote the assessment of Government employment policies.
- To create an Inter-ministerial Committee for the development and monitoring of the Strategy.
- To provide the necessary tools and to organise forums on good practices with other countries’ Public

Administrations that have may have implemented programmes, courses of action and measures that are consistent with the objectives outlined in this Strategy.

- To coordinate, from a synergistic point of view, all actions arising from the implementation and development of the Strategy with other Central Government plans which may include measures that affect entrepreneurs and youth employment.
- To make inroads in granting greater freedom of access and operation of professional activities, removing unjustified barriers to the provision of professional services, which could help facilitate access and improve

competition.

- To promote monitoring and control policies in recruitment processes in order to ensure compliance with labour and Social Security legislation in respect of young people, with special attention to the proper use of the system of internships and work practice. Also, to strengthen control over potential fraud in the collection of benefits or Social Security fraud.
- In the context of the training of employees of Public Employment Services, to ensure they can offer personalised attention which is suited to the diversity of unemployed people.

Guidance, support and improvement of mediation provided by public employment services and collaborating organisations

- To enhance the role played by occupational observatories regarding the local dimension of employment in order to facilitate the adaptation of employment policies to the real needs of the labour market in each geographical area and to identify and anticipate the needs and challenges of the future.
- To develop a Practical Guide for the Entrepreneur.
- To increase the information that young people receive about the situation of the job market, both in secondary schools and in universities, so that they know the job opportunities that their studies can lead to and the regulatory framework of labour relations.
- To improve the quality of the information provided and to intensify advice and guidance to employers on these supporting measures and the employability of young people.
- To favour the adoption of agreements with social partners in order to carry out information and training activities for employers about the different types of contract that current legislation contemplates.
- To implement, through the agents and providers of Continuing Education programmes, ad hoc training activities, in line with the specific requirements of companies seeking specific job profiles.
- To adopt and expand programmes that facilitate and promote the return of young people who have started their careers in other countries and encourage their participation in entrepreneurial projects.
- To channel, through the Public Employment Services,

job offers from outside Spain, assuring the labour rights of those who choose to search for employment abroad.

- To enhance and extend the activities of the Public Employment Services in their commitment to the unemployed who want to start a business on their own. In line with the above, to identify unemployed people who are registered at the Public Employment Services and who meet the appropriate training and experience requirements in order to inform them of the possibilities of access to the job market as entrepreneurs.
- To establish specific programmes on guidance for collective self-employment for young entrepreneurs through the social economy organisations. These programmes must include training processes, and bureaucratic and administrative support for business start-up, and other types of assistance for the start of the activity.
- To create a working group which includes the presence of social partners with the aim of modernising the operation of Public Employment Services in order to deploy, amongst others, tools to ensure that the information provided on jobseekers meets the information needs of employers when offering jobs.
- To have Public Employment Services identify niches of employment and business opportunities in rural areas from the standpoint of sustainable economy principles and to promote channels of collaboration between organisations representing workers and entrepreneurs in rural areas with the relevant administrative structures.

Promoting employment contracts

- To promote open-ended contracts through existing contractual formulas and to encourage the conversion of existing training contracts into open-ended contracts.
- An incentive to the bridging contract covered under Article 12.7 of the Workers' Statute of Rights, is being proposed for study and consideration in the context

of the Toledo Agreement, whereby a new employee is contracted by a company as a result of partial retirement of another employee who has reached the statutory retirement age and therefore has voluntarily extended their professional lifespan.

- To establish mechanisms to promote youth participation

in cooperatives and worker-owned companies, through stimulus measures that will allow generational change, incorporating new members to replace those who complete their working life.

- To promote the use of different types of training

Flexibility

- To further develop formulas for part-time employment for those who want to combine work with their studies or other training activities or for personal reasons.
- To encourage the implementation of measures, through collective bargaining, as stated in Agreement II for Employment and Collective Bargaining, which allow the adoption of flexible work schedules and work-life

Equal opportunities

- To channel resources from the European Social Fund and the European Globalisation Adjustment Fund towards employability policies for groups with greater difficulties.
- To ensure effective implementation of the principle of equal treatment and opportunity through adequate specialisation of Public Employment Services offices, so that they become referential as providers of specialist guidance adapted to the profile of the applicants (people at risk of social exclusion, people with disabilities, etc.), with staff specifically trained to provide personalised and comprehensive attention to job seekers.
- To launch new incentives for social insertion companies to offer job contracts to young people at risk of social exclusion.
- To promote corporate social responsibility policies, especially with regard to the management of human resources, so as to facilitate the access of young people and other groups with greater difficulties to enter the job

Public-private sector collaboration in job searching

- To make progress in the modernisation, specialisation, efficiency and effectiveness of Public Employment Services in the tasks of mediation and relocation of the unemployed, especially those who are most disadvantaged, focusing on the provision of a personalised service.

contracts, as contemplated by current labour legislation and to promote the use of Contracts for Training and Learning, whose objective is to provide professional qualifications to people in jobs by combining training with paid work in a company.

balance.

- To promote teleworking, especially by means of mixed formulas that combine this mode with physical presence, assuring the employment and social rights that pertain to all workers. This mode of work favours work-life balance and allows combining training and employment.

market, as well as people with disadvantages derived from their personal and/or social status.

- To reinforce incentives for entrepreneurship and for recruitment both in sheltered employment (Special Employment Centres) and in general conditions, on behalf of young people with disabilities or at risk of social exclusion.
- To develop the special arrangement for people with disabilities, with difficulties for entering and remaining in employment, so that they can pay Social Security contributions even if they are not in employment.
- To promote the development of career plans for young women with different levels of responsibility in companies.
- To encourage the access of women to career paths where they are underrepresented and encourage the hiring of women in production sectors where they have a smaller presence.

Source: EEEJ 2013-2016



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