

Self-employment in France

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Contents

Executive summary

Section 1 : Quantitative and qualitative analysis of self-employment

1. Sociological analysis.....
2. Sectoral analysis.....
3. Start-ups/ Take-overs in 1997 : description.....
4. Survival rates of one-man businesses
5. Trend of self-employment.....
6. Profile of the self-employed
7. Conclusion

Section 2 : Legislative and regulatory framework

1. The most common legal form :
the unincorporated enterprise
(*entreprise individuelle en nom propre*)
2. Tax regime for unincorporated enterprises.....
3. Approved Management Centres
4. Social cover for the self-employed.....
5. Entrepreneur's liability
6. Status of spouse

Section 3.1 : Self-employment policies and programmes

1. Lack of an overall policy
2. Sectoral policies and policies aimed at specific categories of the
population.....
3. Schemes and measures.....

Section 3.2 : An example of a programme that provides support to the self-employed and business creation: the ESPACE association in the Nord - Pas-de-Calais

1. A body that supports the creation of new businesses in a
redevelopment area
2. The many functions of ESPACE
3. Sources of funding
4. Outcomes
5. Measuring the costs of support

Section 4 : Analysis and proposals

Annexe 1 : Methodological note: sources and concepts

Annexe 2 : Sectoral breakdown of one-man businesses

Executive summary

1. “Enterprise” and “self-employment”

In France, **no distinction is made between “self-employment” and “enterprise”** in statistics, law or taxation. It is known that one out of two existing enterprises and three out of four new enterprises do not have any employees; however, we do not know what becomes of them later. It is also known that the status of “*entreprise individuelle en nom propre*” (unincorporated enterprise) is better suited than others to “self-employment” though not all of the self-employed opt for it. Lastly, there are tax measures that favour very small businesses and thus people working on their own, but they are not reserved to them.

The difference is rather of a **sociological** nature with, on the one hand, the self-employed being people who are primarily interested in earning a living by working on their own, and, on the other, “entrepreneurs” who think in terms of markets and development. The first category of people are to be found especially in the itinerant and retail trade, and certain services and professions (nurses, doctors, etc.).

One-man businesses -- i.e. the self-employed -- are more **volatile** than other businesses, with a mortality rate of 39 per cent after two years, though some of them disappear because the owner decides to do something else.

Among the features of one-man businesses are the following:

- they need less capital
- their customers are usually households from the surrounding area
- the proportion of unemployed among those who create them is higher than for other business creations (50 per cent instead of 36 per cent)
- only a small proportion of them -- 18 per cent -- intend to recruit in the future.

2. Legislative and regulatory framework

67 per cent of people starting a one-man business opt for the **status of unincorporated enterprise**, virtually all the others choosing a limited liability company.

The advantage of the former status is the ease with which a business can be set up and run; the drawback is that the person’s liability is unlimited and the possibilities of self-financing are limited.

Tax exemptions and a flat-rate tax regime may apply to very small businesses (and thus to the self-employed).

There is a compulsory **social security scheme** for the self-employed and a special status for the spouse if he/she helps in the business.

3. Self-employment policies and programmes

There are no specific policies for promoting enterprise creation and self-employment.

There are, however, the following programmes and measures:

- counselling, back-up and training for people starting their own business;
- simplified administrative and tax formalities;
- exemptions from social security contributions for unemployed persons starting up a business
- financing for small businesses.

The ESPACE Association in the Nord-Pas de Calais is an example of what can be done at regional level, through a combination of public measures and private initiative, to help people who want to start their own business.

4. Analysis and proposals

Changes are taking place in the nature of self-employment as result of various factors pulling in opposite directions:

- Growing job insecurity
- Mounting unemployment and exclusion
- Employers' search for greater flexibility
- A lack of entrepreneurship
- The desire for security on the part of employees in large firms
- The growth of moonlighting

Central and local government have adopted two kinds of response to this situation:

- Local economic development, the aim being to develop the factors of production in a given area in order to promote business creation and development
- Social measures to facilitate access to self-employment for those who are excluded from the labour market.

There are four ways in which self-employment can be developed:

- increase support for those who create their own jobs;
- make it easier for people to exercise more than one occupation;
- simplify tax formalities
- reduce the personal risks involved.

Section 1: Quantitative and qualitative analysis of self-employment

48 per cent of the heads of existing businesses and 75 per cent of those starting up new businesses are self-employed, i.e. they work by themselves (without any employees).

Self-employment will be considered to include all new businesses or existing businesses that have been taken over, which do not have any employees, irrespective of the sector of activity or legal form of the company. Insofar as possible, businesses without any employees will be compared with those with employees, the main distinction being that nothing is known about how the employment situation evolves during the five years following the creation of one-man businesses. It is not possible to distinguish self-employment which is lasting from that which is confined to the start-up phase.

***This section is divided into six parts:** 1. A sociological analysis of entrepreneurship 2. An economic analysis. 3. Analysis of new one-man businesses and take-overs of one-man businesses in 1997 4. The survival rate of one-man businesses after 5 years 5. Trend of self-employment over a 10-year period 6. Profiles of one-man businesses and their founders.*

1. Sociological analysis

Self-employment stems above all from the desire to be one's own boss.

The fact that three-quarters of new businesses and take-overs or half of existing businesses do not have any employees is not explicable solely by the sectors of activity involved or by market constraints; above all, it reflects the personal choice of the person setting up or taking over a business.

There are two dominant cultures: the first is the independent exercise of a skill, often on a self-employed basis; the second is entrepreneurial i.e. an entrepreneur thinks in terms of establishing himself in the market, leading on naturally to the idea of the growth of the enterprise.

- The first culture, **the independent exercise of a skill**, is the most common, whether among those already running a one-man business or planning to start one.

The person starting a one-man business is seeking a place in society via the income earned from a skill or trade. More than half of the people starting up a new business do so for this reason, after being made redundant. A minority of them, however, would like to find a salaried job again.

- The second culture -- **the desire to set up and expand a company, to win markets and compete with other companies** -- is an entrepreneurial one and not usually found in combination with the first culture.

This group tends to include people who set up a company with partners, those who hire workers and invest the most, and those who have done the most preparation. An employee is considered

indispensable for the survival of the company. Human resource management thus becomes important; it may be confined to complying with labour legislation or relating personnel management to financial objectives (company margins) or it may be seen as a pivotal resource. A quarter of company founders, and a third of the heads of companies still in existence after five years, fall into this category.

Analysis of new entrepreneurs also shows that some of those in the first group gradually move into the second group. Through their day-to-day contacts with customers (customer targeting, product diversification), and through competing with other firms (their company's specific features, tactics to be used to strengthen them), they develop an awareness that they are running a structure, their own enterprise. Advice and follow-up is essential to facilitate this transition.

2. Sectoral breakdown of one-man businesses: 47 per cent of French companies have no employees

1 109 000 enterprises had no employees at 1 January 1998; however, they accounted for 8 per cent of jobs (employed and self-employed) in the traded sector.

The type of activity has an influence on the size of the company, and thus on the proportion of one-man businesses.

Their share (in %) by sector is as follows:

| Services to households | Transport | Business services | Retail and allied trade | Construction | Hotels and catering | Industry | Agro-food | Average |
|------------------------|-----------|-------------------|-------------------------|--------------|---------------------|----------|-----------|---------|
| 62 | 55 | 54 | 44 | 41 | 38 | 34 | 23 | 47 |

Services and the retail trade have a large proportion of one-man businesses.

Businesses in the agro-food sector (which both produce and sell e.g. pork butchers, bakers) and hotel and catering are much more likely to have employees

The sectors in which the self-employed predominate (at least 60 per cent) are the following:

Sectors in which the self-employed predominate:

| | Percentage | Number |
|--|------------|--------|
| Non-food market traders | 90 | 35 714 |
| Entertainers | 90 | 16 129 |
| Paramedical (nurses, physiotherapists, etc.) | 88 | 86 099 |
| Taxis | 87 | 24 500 |
| Other personal services (graphology, valeting, matrimonial agencies, etc.) | 82 | 13 875 |
| Sport (and sports facilities) | 78 | 13 875 |
| Secretariat and translation | 73 | 10 560 |
| Market food traders | 72 | 16 903 |
| Sales agents and intermediaries | 71 | 26 994 |
| Second-hand goods retailers | 70 | 9 281 |

| | | |
|--|----|---------|
| Repairs (footwear, domestic electrical appliances) | 68 | 12 138 |
| Vehicle and plant hire | 67 | 9 645 |
| Doctors | 64 | 69 065 |
| Business administration | 64 | 16 068 |
| Beauty care | 61 | 5 895 |
| Business and management advice | 61 | 25 920 |
| Grocery trade | 60 | 15 445 |
| Ancillary production services | 60 | 13 389 |
| Real estate | 60 | 38 850 |
| Education, teaching | 60 | 16 599 |
| | | 472 829 |

21 activities or groups of activities account for 43 per cent of one-man businesses.

These activities have certain common features:

- they usually require little investment in equipment and furnishings
- many of them are mobile (market traders, taxis, nurses, entertainers, etc.)

They can be divided into two sub-categories:

- the professions; many of the people are highly qualified;
- retailing and dealing; the amount of experience varies and some of the people have come from other walks of life or switched from other occupations

In contrast, some activities have very few self-employed persons (less than a third)

Activities with very few self-employed:

| | Percentage | Number |
|--|------------|--------|
| Hairdressing | 33 | 18 771 |
| Vehicle repairs | 32 | 11 116 |
| Traditional catering | 32 | 28 730 |
| Wholesale trade | 31 | 38 406 |
| Book-keeping | 31 | 5 656 |
| Manufacturing of medical, precision and optical instruments | 30 | 3 760 |
| Meat industry | 29 | 4 242 |
| - of which cooked meats | 29 | 3 050 |
| Hotel trade | 28 | 10 549 |
| Manufacture of computer, office and electrical equipment, radios and televisions | 28 | 6 318 |
| Car industry and other transport equipment | 26 | 1 291 |
| Oil, milk, cheese and ice-cream industry | 24 | 422 |
| Fish industry | 22 | 115 |
| Auto sales | 22 | 6 616 |
| Metal-working | 22 | 6 667 |
| Grain and flour industry | 20 | 10 008 |
| - of which bakers and confectioners | 20 | 8 840 |
| Hotel with restaurants | 17 | 6 328 |

| | | |
|---|----|---------|
| Refining, chemical, rubber and plastics | 16 | 1 541 |
| | | 160 536 |

These 18 activities or groups of activities account for 14 per cent of one-man businesses.

They include:

- industrial activities: chemicals, agro-food, medical and precision instrument-making, vehicle manufacturing
- service activities: car repairs, hairdressing, book-keeping, hotels and catering
- .wholesale trade and car dealing.

Paradoxically, many activities have a self-employment rate of between 40 and 60 per cent:

- construction
- many business services (legal advice, computer services, architecture, advertising)
- a large proportion of industry (clothing, textiles, leather, wood-working, publishing, printing) with many craft trades (cabinet-makers, upholsterers, agricultural machinery repairers, prosthodontists, orthopaedists).

One-man businesses are thus to be found in many sectors, it being understood that though the end-product might be the same, the trade can be exercised in very different ways. A further breakdown would be needed to pin-point exactly the nature of one-man business start-ups.

For want of specific information about the profiles of the people who start and run one-man businesses, we shall therefore concentrate on this classification by activities. We shall, however, look closely at creations and take-overs.

3. Start-ups/take-overs 1997

In 1997, 204 782 new one-man businesses were created, out of a total of 271 088 (76 per cent).

3.1 *Most one-businesses are new (89 per cent), very few are take-overs of existing businesses (11 per cent)*

The breakdown between new businesses and take-overs of existing businesses is as follows:

| | Not known | No employees at outset | Employer from outset | Total |
|----------------|-----------|------------------------|----------------------|---------|
| New businesses | 2 620 | 182 097 | 39 986 | 224 703 |
| Take-overs | 1 295 | 22 685 | 22 405 | 46 385 |
| Total | 3 915 | 204 782 | 62391 | 271 088 |

75 per cent of start-ups thus had no employees. 81 per cent of new businesses had no employees, while the corresponding figure for take-overs was 49 per cent.

3.2 *The share of one-man businesses varies across sectors; it is larger in services than in production*

Comparison of the share of new one-man businesses or take-overs, with the share of one-man businesses among existing enterprises, by sector of activity

| | % of one-man businesses among | | |
|---|-------------------------------|--------------------|---------------------------------------|
| | New businesses in 1997 | Take-overs in 1997 | Existing enterprises at start of 1998 |
| Industry excluding agro-food | 75 | 28 | 34 |
| Construction | 79 | 27 | 41 |
| <i>Sub-total Production</i> | 76 | 28 | 38 |
| Transport | 81 | 49 | 55 |
| Business services | 84 | 38 | 54 |
| <i>Sub-total enterprises</i> | 84 | 42 | 54 |
| Retailing and repairs | 82 | 54 | 48 |
| Hotel and catering trade | 69 | 58 | 38 |
| Agro-food | 67 | 34 | 23 |
| Services to households | 90 | 44 | 62 |
| <i>Sub-total retail trades and services to households</i> | 82 | 53 | 51 |
| Total | 81 | 49 | 47 |

Production was the sector with the smallest share of one-man businesses, whether among existing firms or firms that were created or taken over in 1997.

In contrast, the retail trade, business services, and especially services to households, had a much larger proportion of one-man businesses. However, the share in two activities in this sub-group -- agro-food and hotels and catering -- was similar to that for production.

Annex 2 gives a more detailed breakdown of the number of enterprises which start up or are taken over with or without any employees

3.3 *One-man start-ups or take-overs usually opt for the status of unincorporated enterprise*

A distinction will also be made between new businesses and existing businesses which have been taken over. The source used is not the SIRENE file but the 1994 SINE survey of

30 000 entrepreneurs starting or taking over a business.

| In % | Created from scratch | | Taken over | |
|-------------------------|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Unincorporated business | 67 | 23 | 79 | 49.5 |
| Company (incorporated) | 33 | 77 | 21 | 59.5 |
| Total | 100 | 100 | 100 | 100 |

The majority of new businesses (and an even larger proportion of take-overs) without any employees are unincorporated, while those which start with employees are usually incorporated -- 78 % are SARL and 96 % joint-stock companies, partnerships being very rare in France.

The SINE survey gives no information about businesses that were reactivated; however, we do know that almost all of them were unincorporated and had no employees (86 %). **The share of unincorporated businesses in start-ups in 1997 can be estimated at 76 %, compared with 79 % for take-overs.**

4. SURVIVAL RATES OF ONE-MAN BUSINESSES

We shall use consider two survival rates:

- the survival rate of the entrepreneur in the business which he or she had started or taken over 5 years previously,
- the survival rate of the enterprise, i.e. irrespective of whether the entrepreneur who started it or took it over 5 years earlier is still in charge of it; for example, take-overs, three-quarters of which are going concerns, have high survival rates but this is to be expected given that they are more likely to be passed on.

The analysis relates to the survival rate of the generation of entrepreneurs who had started or taken over a business in 1987, 5 year later, but excludes reactivated businesses.

In 1998, the 5- and 7- year survival rates of the generation of entrepreneurs who started or took over a business in 1990 will be known.

4.1. *Survival rates are always lower for the self-employed*

The survival rates of both entrepreneurs and enterprises created from scratch or taken over in 1987, five years on, were as follows :

| In % | Created from scratch | | Taken over | |
|--------------------------------|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Survival rate of entrepreneurs | 43 | 53 to 57 | 51 | 61 to 77 |
| Survival rate of enterprises | 47 | 58 to 61 | 79 | 83 to 86 |

- It can be seen that an enterprise with employees from the outset has a much better chance of surviving, irrespective of whether it is completely new or a take-over.
- The survival rates for both entrepreneurs and enterprises are very similar for businesses created from scratch but very different for take-overs. The most typical example is the hotel and catering trade: the 5-year survival rate for entrepreneurs is 43 % whereas for the businesses themselves it is 83 %. This disparity can be explained by the high turn-over of businesses in this sector.

4.2. *Many one-man businesses created from scratch fold within the first two years*

We shall now compare mortality rates year by year, i.e. the percentage of entrepreneurs who disappear every year.

Mortality rates during the first five years of existence are as follows:

| | Created from scratch | | Taken over | | |
|-----------------|----------------------|----------|--------------|------------------|---------------------|
| | No employees | Employer | No employees | 1 to 2 employees | 3 or more employees |
| 1st anniversary | 22 | 6 to 8 | 10 | 7 | 3 to 4 |
| 2nd anniversary | 17 | 11 to 12 | 14 | 10 | 5 to 6 |
| 3rd anniversary | 14 | 12 to 14 | 14 | 10 | 6 to 8 |
| 4th anniversary | 12 | 11 to 13 | 13 | 10 | 6 to 8 |
| 5th anniversary | 12 | 10 to 13 | 12 | 10 | 6 to 8 |

The highest mortality rates during the first two years of existence are among entrepreneurs who create their enterprise from scratch and do not have any employees.

Thereafter, their mortality rates are similar to those for entrepreneurs who create their enterprise from scratch and have employees from the outset.

In contrast, the mortality rates for enterprises that were taken over vary little from one year to the next, and fall with the size of the enterprise from the start.

Thus, 78 % of the enterprises that fold within 5 years had been set up or taken over by entrepreneurs on their own, while 46 % of those which begin without any employees fold in the first two years.

4.3 *Unincorporated traders have the lowest survival rates*

It is instructive to compare survival rates by legal form even though we have no information specifically about self-employment; we do, however, know that most unincorporated enterprises do not have any employees, unlike companies.

The survival rates for entrepreneurs after 5 years are the following:

| | Unincorporated | | | | Company |
|----------------------|----------------|-----------------|--------|--------------|---------|
| | Artisan | Artisan -trader | Trader | Professional | |
| Created from scratch | 44 | 49 | 27 | 49 | 59 |
| Taken over | 64 | 63 | 46 | 77 | 68 |

Traders thus have the lowest survival rates; they are also those who have done the least preparation and who have the least experience. A larger proportion of them are women re-entering the labour market by starting their own business.

Traders thus have the highest mortality rates during the first three years. The mortality rates for entrepreneurs who have started an unincorporated business from scratch are as follows :

| | 1st anniversary | 2nd anniversary | 3rd anniversary | 4th anniversary | 5th anniversary |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Trader | 35 | 25 | 20 | 17 | 16 |
| Other unincorporated enterprises | 16 to 21 | 15 to 16 | 11 to 14 | 9 to 14 | 10 to 13 |

Traders (who represent a large proportion of start-ups) **are thus the most vulnerable..**

5. Trend of one-man businesses

5.1 *The number of one-man businesses started from scratch has fallen slightly in 10 years while that of take-overs has fallen much more.*

The changes in 1996 on the 1987-1996 average, and between 1987 and 1996 are shown below, in percentage:

| | New businesses | | Take-overs of existing businesses | |
|------------------------|-----------------|--------------|-----------------------------------|--------------|
| | Change 87/87-96 | Change 96/87 | Change 87/87-96 | Change 96/87 |
| No employees at outset | - 1.4 | - 1.2 | - 19 | - 37 |
| Employer at outset | - 15 | - 14 | - 5 | - 2 |

Contrary to a received idea, self-employment, and especially take-overs of existing businesses, has lost ground in 10 years. The decline dates from the period 1991-1996; over the period 1987 -1990, however, self-employment increased.

5.2 *Trend of self-employment over a 10-year period and a 20-year period (all sizes of enterprises)*

It was seen that the number of entrepreneurs starting a business from scratch with employees from the outset has fallen sharply during the past 10 years.

This trend has been evident in most sectors, including services, the trend of which has been very flat.

The situation in 1996 compared with 1987-1996 for new businesses and take-overs by major sector of activity was as follows, in decreasing order:

% change

| Industry excluding agro-food | Construction | Transport | Retailing and repairs | Hotel and catering trade | Business services | Services to households | All activities |
|------------------------------|--------------|-----------|-----------------------|--------------------------|-------------------|------------------------|----------------|
| - 19 | - 10 | - 10 | - 9 | - 4 | - 2 | + 4 | - 6 |

The trend of self-employment over a 20 year period (1975-1995) was also unfavourable.

Contrary to what is often claimed, the number of enterprises (excluding agriculture) increased by only 5,4 %.

The following figures are from INSEE publications and concern persons in employment. They include spouses and family members who are not salaried employees.

The trend by major category of self-employed between 1975 and 1995 was the following :

| | Number | | Change | Share in labour force | | Change |
|--|---------|---------|--------|-----------------------|------|--------|
| | 1975 | 1995 | | 1975 | 1995 | |
| Artisan | 862 000 | 816 731 | - 5.2 | 4 | 3.2 | - 20 |
| Trader | 792 000 | 780 557 | - 1.4 | 3.6 | 3.1 | - 14 |
| Professional | 208 020 | 338 996 | + 63 | 1 | 1.3 | + 30 |
| Entrepreneur with more than 10 employees | 109 000 | 140 464 | + 29 | 0.5 | 0.6 | + 20 |

Source Job survey

6. Profile of the self-employed and one-man businesses

The following information is taken from the 1994 SINE survey of a significant sample of 30 000 entrepreneurs. It was carried out by the INSEE in collaboration with the APCE. The figures do not include reactivated businesses despite the fact that many one-man businesses fall into this category.

6.1 Profile of one-man businesses: less initial capital, more private customers

We have already looked at the types and legal forms of one-man businesses. The structure of self-employment (at start-up) in 1997 is shown below:

| | Started from scratch | Taken over |
|--------------------------------|----------------------|-------------|
| Industry (excluding agro-food) | 5.7 | 8 |
| Construction | 12.9 | 17.3 |
| <i>Sub-total production</i> | <i>18.6</i> | <i>25.3</i> |

| | | |
|--------------------------|-------------|------------|
| Transport | 4 | 4.3 |
| Business services | 22.8 | 17.8 |
| <i>Sub-total</i> | 26.8 | 22.1 |
| Retailing and repairs | 29.8 | 29 |
| Hotel and catering trade | 17.3 | 8.3 |
| Agro-food | 1.4 | 3 |
| Services to households | 6.1 | 12.2 |
| <i>Sub-total</i> | 54.6 | 52.5 |
| Total | 100 | 100 |

Turning to the initial capital and type of customers of the self-employed, we see that:

The self-employed have less initial capital

Enterprises started from scratch:

| | Less than 25 KF | From 25 KF to 49 KF | From 50 KF to 99 KF | From 100 KF to 249 KF | From 250 KF to 499 KF | 500 KF + | Total |
|--------------|-----------------|---------------------|---------------------|-----------------------|-----------------------|----------|-------|
| No employees | 39.5 | 20 | 21 | 12 | 4.5 | 3 | 100 |
| Employer | 18 | 16 | 27 | 18 | 11 | 10 | 100 |

60 % of one-man businesses created from scratch had at most FF 50 000 in initial capital (own capital and family contributions, loans, subsidies, excluding contributions in kind); only 20 % had more than FF 100 000 compared with 39 % for entrepreneurs with employees from the outset.

Take-overs:

| | Under 25 KF | From 25 KF to 49 KF | From 50 KF to 99 KF | From 100 KF to 249 KF | From 250 KF to 499 KF | 500 KF + | Total |
|--------------|-------------|---------------------|---------------------|-----------------------|-----------------------|----------|-------|
| No employees | 33 | 12 | 16 | 18 | 12 | 9 | 100 |
| Employer | 17 | 10 | 15 | 19 | 16 | 23 | 100 |

It is more costly to take over an existing business than to start one from scratch. However, 45 % of businesses taken over on a self-employed basis had an initial capital of less than FF 50 000. Admittedly, some of them may be businesses taken over by the spouse, or an employee may take over the business of his former employer (nearly 50 per cent in the case of craft businesses).

Customers are essentially local and households

| In % | Started from scratch | | Taken over | |
|-----------------|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Households | 58 | 47 | 85 | 72 |
| Local customers | 40 | 36 | 64 | 55 |

Most of the customers of businesses which have been taken over (especially shops) are households, those of enterprises created from scratch (including those supplying business services) much less so.

42 % of the customers of one-man businesses created from scratch are enterprises.

6.2 *Profile of new entrepreneurs: many have been unemployed and have less experience of running a company*

Five differences :

- The self-employed are much more likely to have been unemployed -- 50 % in the case of those starting a business from scratch. The figures are the following :

| | Business started from scratch | | Taken over | |
|---------------------------------|-------------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Unemployed for less than a year | 30 | 25 | 26 | 19 |
| Unemployed for more than a year | 20 | 11 | 15 | 8 |
| Total | 50 | 36 | 41 | 27 |

- Entrepreneurs setting up a business from scratch have usually had some management experience (as managers, supervisors or in other middle-ranking positions); furthermore, those setting up or taking over a business with employees from the outset have often already been heads of companies.

The socio-occupational origin is shown in the following table :

| | Started from scratch | | Taken over | |
|-------------------|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Head of company | 13 | 22 | 16 | 27 |
| Manager | 31 | 34 | 19 | 25 |
| Non-manual worker | 28 | 22 | 35 | 17 |
| Manual worker | 15 | 12 | 17 | 13 |
| Inactive | 13 | 10 | 13 | 8 |
| Total | 100 | 100 | 100 | 100 |

- There is little age difference between those who have employees and those who do not; those without any employees are, however, usually slightly younger (28 % are under 30 compared with 21 % for those who are employers).

The age structure of new entrepreneurs in % is the following :

| Under 30 | 30 to 39 | 40 to 49 | 50 + | Total |
|----------|----------|----------|------|-------|
| 27.5 | 35 | 27.5 | 10 | 100 |

- A large proportion of those who have taken over an existing business on a self-employed basis are women (40 %).

The proportion of women among entrepreneurs who have started a business from scratch or who have taken over an existing business is as follows:

| | Started from scratch | Taken over |
|--------------|----------------------|------------|
| No employees | 28 | 40 |
| Employer | 27 | 32 |

- Those without any employees often have less experience in the particular line of business or similar activity (whether starting a new business or taking over an existing one) : 64 % compared with 74 % for employers.

Two similar characteristics :

- Three quarters of entrepreneurs, whether starting a business from scratch or taking over an existing one, come from a background of entrepreneurs. This is broadly true whether they have employees at the outset or not.
- As regards qualifications, the difference is between those starting from scratch and those taking over an existing business rather than between those who have employees and those who do not, as shown below:

| | Vocational diploma (CAP) or no qualifications | CAP or BEP | Bac | Bac + 2 or more | Total |
|----------------------|---|------------|-----|-----------------|-------|
| Started from scratch | 19 | 36 | 16 | 29 | 100 |
| Taken over | 27 | 45 | 14 | 14 | 100 |

Those starting a business from scratch are more qualified (45 % have the Baccalauréat or a higher qualification) compared with 28 % for those taking over an existing business.

6.3. Start-up: businesses without any employees at the outset are less likely to seek advice or to use previous business contacts

- They make less use of the customers and suppliers they knew previously.

Supplier contacts

| | Started from scratch | | Taken over | |
|---|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| % | 32 | 46 | 31 | 41 |

Customer contacts

| | Started from scratch | | Taken over | |
|---|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| % | 43 | 52 | 31 | 38 |

- Those without any employees are slightly less likely to seek counselling.

| | Started from scratch | Taken over |
|--------------|----------------------|------------|
| No employees | 51 | 48 |
| Employer | 57 | 58 |

In contrast, there was little difference between those who did seek counselling: 20 % to 24 % took counselling for at least 3 days, 21 % to 26 % for between 5 hours and 3 days, and half for less than 5 hours.

- Those who took over an existing business without any employees did slightly less financial homework than those with employees (60 % compared with 72 %) ; on the other hand, they were less likely to do studies of the competition (35 % for new businesses, with or without employees, as against 25 % for take-overs with or without employees).
- Those starting a business from scratch without any employees had slightly less recourse to bank loans; the main difference, however, was between entirely new businesses and those that had been taken over.

Recourse to bank finance was as follows :

| | Started from scratch | | Taken over | |
|---|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| % | 21 | 27 | 43,5 | 49,5 |

6.4 The future: only a small proportion of one-man businesses intend to take on workers later

- Only a small proportion of one-man businesses intend to recruit in the coming year.

18 % of those starting a business without any employees plan to recruit, compared with 39 % for those who are employers at the outset, but 30 % of both groups could not say. Similarly, only a small proportion of businesses that had been taken over intended to recruit: 12 % of those without any employees and 22 % of those with employees.

- As regards future prospects, businesses with employees at the start more often intended to expand. However, half of new businesses without any employees were also planning to expand in the coming six months.

| | Started from scratch | | Taken over | |
|------------|------------------------|--------------------|------------------------|--------------------|
| | No employees at outset | Employer at outset | No employees at outset | Employer at outset |
| Expansion | 50 | 59 | 33 | 35 |
| Stability | 24 | 23 | 38 | 44 |
| Difficulty | 10 | 7 | 11 | 10 |
| Don't know | 16 | 11 | 18 | 11 |
| Total | 100 | 100 | 100 | 100 |

In contrast, businesses that had been taken over and that had employees at the outset were more inclined to think in terms of stability.

7. Conclusion

The self-employed account for a large share of existing businesses, new businesses and take-overs.

The share varies according to sectors: the self-employed are more common in services and retailing, while enterprises in the production sector (construction, industry, agro-food, etc.) are much more likely to have employees.

Self-employment has declined over the past 0 years, mainly to due to a decline in the number of take-overs of one-man businesses. It has grown little over the past 20 years (and even fallen considerably if we include agriculture).

New one-man businesses also account for the majority of enterprises that fail: 46 % of failures after 5 years have elapsed consist of one-man businesses that failed in the first two years.

However, there is no uniform pattern. Three groups can be distinguished:

- people who take over an existing business providing traditional services to local households (taxis, retailers, cafés, etc.),
- people who set up a business from scratch or existing entrepreneurs whose method of working is dictated by the nature of their activity (professionals, consultants, entertainers), but which does not prevent them from networking,
- people who set up a business from scratch or heads of existing enterprises who have chosen to work on their own because they great store by their independence. Some of them did not choose to be self-employed and are unable to compete.

However, it is necessary to look at the three groups after 5 years to see how many are still self-employed and how many of them are no longer so.

Section 2 : Legislative and regulatory framework

Anybody who sets up a company, including the self-employed, has to comply with company law, tax law and labour law. The self-employed have a specific legal status and specific measures apply to them. These are discussed in this section.

1. The most common legal status for the self-employed is the unincorporated enterprise

67 % of people setting up a one-man business opt for the status of unincorporated enterprise (see page -). The main features of this status are:

Financial commitment: No notion of capital; business assets are inseparable from the entrepreneur's personal assets.

Liability : The entrepreneur has unlimited liability, creditors have access to all his assets -- the choice of property arrangements at the time of marriage can thus be important.

Operation: The entrepreneur takes all the decisions. He is not accountable for his management and does not have to publish accounts.

Tax regime: Income tax (see below)

Social security: Self-employed scheme, with minimum contributions (see below).

Main advantages :

- no compulsory minimum capital,
- ease with which a business can be set up (“Centre de Formalités des Entreprises”),
- Ease of operation, freedom of management
- all profits tax-free (including the entrepreneur's remuneration) in the case of a genuine creation of a commercial, industrial or craft business.

Main drawbacks :

- unlimited liability,
- tax regime (income tax) limits the **self-financing capacity of a growing business.**

2. Tax regime for unincorporated enterprises

2.1 Income tax

It is the entrepreneur's income (and not profits, as in the case of company) that is taxed. For tax purposes, no distinction is made between the enterprise's profits and the entrepreneur's remuneration.

The progressive scale of personal income tax applies. The rate of tax thus varies according to the entrepreneur's other income and that of the spouse if any.

A flat-rate applies when annual turnover is less than FF 500 000 F inclusive of all taxes (retailing) or FF 150 000 F inclusive of all taxes (services).

2.2 VAT

Unincorporated enterprises are liable to VAT above an annual turnover of FF 100 000 exclusive of tax. A flat rate applies between FF 100 000 and 500 000 inclusive of all taxes (retailing) or FF 150 000 inclusive of all taxes (services).

3. Approved Management Centres

Unincorporated entrepreneurs and small businesses are encouraged to join an authorised management centre or association. These bodies are "approved" by the local tax authorities. Their purpose is to advise their members on management and tax.

Tax reliefs (in particular tax reductions) are provided to encourage membership.

4. Social cover for the self-employed

The self-employed have their own:

- health and maternity insurance
- pension scheme
- invalidity and death insurance
- family allowances

Contributions are based on net income. By way of example, they amount to at least 28% of a net income of FF 400 000 and to 40 % of a net income of FF 150 000.

Social cover is as follows:

- medical expenses and hospitalisation refunded at the rate of 80%
- « major risks » (such as costly long-term illness) 100% refunded
- minor risks (visits to the doctor, medicines, etc.) refunded at the rate of 50 %
- no sickness benefit (per diem) (except for artisans)
- no industrial accident insurance
- basic pension

5. Entrepreneur's liability

The self-employed are criminally and civilly liable, just like a company manager.

- They are criminally liable for (a) breaches of the law relating to their specific activity (licensed victuallers, buildings, etc.) (b) breaches of general regulations (tax, pollution, etc.).

Most of these offences are punishable by fines or prison sentences.

- They are civilly liable for mismanagement, non-compliance with tax and social security obligations, etc.

6. Status of spouse

Very often, the self-employed are helped by their spouse. When they are, the spouse enjoys, subject to certain conditions, the following advantages:

- The right to perform administrative formalities on behalf of the business
- Maternity and sickness insurance
- Old-age insurance
- Deduction of optional social security contributions from income.

Section 3.1 : Self-employment policies and programmes

In France, there is no overall policy for promoting enterprise creation. There are, however, policies aimed at specific sectors and categories of the population and other measures that can help to foster self-employment.

1. Lack of an overall policy

As a recent report by the Commissariat Général du Plan on aids to enterprise creation noted: «*there are no state aids, so to speak, specifically for enterprise creation, though there are several policies that benefit essentially a limited number of entrepreneurs*» . It also added that «*there are a plurality of actors but their actions are not well co-ordinated....*»

2. Sectoral policies and policies aimed at specific categories of the population

2.1 *The State* helps certain categories of the population to start a business. It also provides various aids to finance the growth of the business. Without claiming to be exhaustive, the following table summarises the main forms of aid :

| Ministry | Category concerned |
|----------------------------|---------------------------|
| Employment and Solidarity | Job-seekers |
| Youth and Sport | Young people (under 26) |
| Agriculture | Young farmers |
| Trade and craft businesses | Those starting a business |

The assistance consists mainly of advice and training. There are also social security exemptions for job-seekers (see 2.4).

2.2. *Many local authorities* (in particular the Conseils Régionaux) also have job creation policies that can help people wishing to set up a business on their own. An example is given in Section 3.2, which describes a scheme in the Nord - Pas de Calais region.

2.3 *The Conseil National à la Création* d'Entreprise is a forum for consultation and discussion on enterprise creation. The *Agence pour la Création d'Entreprise (APCE)* helps small businesses to get off the ground and to grow.

3. Schemes and measures

The schemes and measures which concern the self-employed can be divided into five categories :

⇒ Preliminary assistance, counselling and training

There are three main national networks of bodies that provide preliminary assistance, counselling and training to people wishing to start a business, and in particular to those wishing to start one on their own. Two of them are networks of public bodies --- Chambers of Commerce and Crafts -- and one is a network of non-profit private bodies -- *Boutiques de gestion*, or management shops. The latter specialises in providing assistance to people starting up their own business, many of them on their own. It currently has a hundred offices throughout France.

In addition, there are bodies whose primary role is to provide financial assistance but which also give advice (see below), and structures which often depend on local authorities.

All told, there are between 600 and 700 « help centres » for would-be entrepreneurs, most of which belong to « Entreprendre en France ». The APCE estimates that 400 000 potential entrepreneurs received assistance from these various bodies in 1994, and that training was dispensed to 70 000 of them. The total cost of the services provided in 1994 is estimated at FF 500-700 million (i.e. 10- 20 % of the funds committed for business creation).

Most of these services are publicly funded (by central government, Regional Councils, European Structural Funds).

⇒ Financing

Two types of private non-profit bodies distribute public funds in the form of “loans on trust”: “Plates-formes d’Initiatives”, which belong to the « France Initiative Réseau », and the ADIE.

Funding for those wishing to set up a business on their own is disbursed primarily by the ADIE in the form of loans which, though modest (FF 20 000 or so), are sufficient to enable the person to get started..

⇒ Assistance to the unemployed who want to start or take over a business

First introduced in 1977 and allocated to hundreds of thousands of people (80 000 in 1994 at a total cost of FF 2.5 billion), this public subsidy (managed by the Ministry of Employment and Solidarity) has since been cut back sharply¹. It is now reserved to the unemployed who are receiving benefit from the ASSEDIC or who are eligible to. The beneficiaries:

- are exempted from social security contributions for a year,
- receive counselling vouchers which cover 75 % of the cost of counselling on the basis of an hourly cost of FF 400,
- continue to receive the solidarity allowance for a period of six months if they were already receiving it.

In 1997 34 000 people received this assistance, including 95 000 counselling vouchers.

⇒ Simplification of tax returns

This is described in Section 2.

¹ In 1994, each beneficiary received a subsidy of FF 32 000 plus exemption from social security charges.

⇒ **Funding for craft businesses**

Craft businesses can receive low-interest loans (the State pays the interest subsidy). Just over 20 % of the loans given are to one-man businesses.

Section 3.2 : An example of a programme that provides support to the self-employed and business creation: the Espace Association in the Nord Pas-de-Calais.

1. A body that supports the creation of new businesses in a redevelopment area

The Espace Association in the Nord Pas-de-Calais is a non-profit-making management shop founded in 1979 under the 1901 Act on associations. Its purpose is to assist the creation of job-generating businesses and, more specifically, to help those who want to create their own job or business.

The Association provides assistance in the Nord Pas-de-Calais region in the north of France. The region has 4 million inhabitants and for more than a century its main industries have been coal, steel, textiles and ship-building.

In the past thirty years, the region has been gradually closing down its old industries and trying to develop new activities. There has been a rapid growth in services, facilitated by the region's geographical location in the heart of industrial Europe and its high-speed rail connections with Paris (1 hour), Brussels (30 minutes) and London (1 1/2 hours).

The regional context is both unfavourable and favourable from the standpoint of starting a business and self-employment:

- Unfavourable because entrepreneurship is not very developed among the population, which has lived, and all too often still lives, on the myth of the big company that provides life-time employment.
- Favourable because of the opportunities opened up by redevelopment, and because an appreciable proportion of the unemployed² as well as employees who fear for their job security, create their own jobs --- 6 280 of them in 1996³.

Several other organisations besides Espace help people in region who want to create their own jobs:

- Chambers of Commerce and Industry (CCI) and Chambers of Crafts: they provide support and counselling.
- The ADIE, which specialises in lending to would-be entrepreneurs with modest incomes.
- There are also associations that provide loans on trust to those with projects with job-creating potential. For example, the « Plates-formes d'Initiatives », which distribute public funds

² The average unemployment rate is 16%, and over 25% in some towns in the region.

³ More than half of them were unemployed.

(especially those of the Regional Council) and « Nord Entreprendre », most of whose funding comes from private donations.

Mention should also be made of the « Caisse Solidaire », a financial institution that provides funding for small local enterprises that create jobs.

There is also a « Mission Régionale à la Création d'Entreprises » (MRCE), which comes under the Regional Council. This carries out studies and generally seeks to promote the creation of new businesses.

Espace has gradually put in place a comprehensive range of measures to encourage and support would-be entrepreneurs, which are described below.

2. The many functions of Espace

Espace seeks to:

- promote entrepreneurship
- provide support to those wishing to start a business
- foster the emergence of new business ideas
- provide counselling and training
- “test” the validity of business ideas

Each of these functions is described in detail below.

2.1 Promoting entrepreneurship

Espace endeavours to encourage more favourable attitudes to self-employment and to promote entrepreneurship through a number of initiatives aimed at the general public.

2.1.1 A 16-page magazine describing job initiatives and experiences and examples of people who have started their own business or created their own jobs is published three times a year. It is distributed free-of-charge to 6 000 opinion-leaders (politicians, civil servants, heads of business, etc.).

2.1.2 **Meetings** are organised throughout the region, comprising a presentation on starting a business (statistics, methods, etc.) followed by a discussion with people who have actually started one. The local mayor sends out invitations to all those concerned by job creation and new businesses, including would-be entrepreneurs. In 1996, 35 meetings were held, attended by 600 people.

- 2.1.3 Discussions are also organised regularly with high-school pupils and students **on the subject of entrepreneurship** ⁴
- 2.1.4. **Local competitions and a regional competition were organised with sponsors in 1997 to promote entrepreneurship.** 120 people took part. These competitions helped to give greater media prominence to entrepreneurship. They gave rise to fifty articles in the press and ten reports on the radio. They will be repeated in coming years.
- 2.1.5 Talks are held in large enterprises to inform employees about the opportunities for starting a business. Espace designs the material for them.
- 2.1.6 “Prospecteurs d’initiative locale” (P.I.L.) will be put in place in some towns and districts. Their role will be to identify business opportunities, ideas and projects, as well as potential entrepreneurs.
- 2.1.7 Espace also operates networks of advisors whose role is to influence potential entrepreneurs. They comprise, inter alia, officials from the State Unemployment Service (ANPE), municipal employees and bank managers.

⇒ Via these measures and initiatives, more than 3 000 people receive preliminary guidance and information from Espace every year.

2.2 *Preliminary guidance to would-be entrepreneurs*

Preliminary guidance is considered by Espace to be its pivotal activity. It is provided in one of the 11 offices in the region. During an interview lasting between one and two hours:

- a preliminary assessment is made of the would-be entrepreneur and his/her business idea;
- the association guides applicants towards one of two options: self-employment or starting a company. Alternatively, it may dissuade them from pursuing their application as it stands.

On completion of this phase, about 40 % of applicants embark upon one of the two options.

2.3 *Fostering the emergence of business ideas*

A method called “MORAINE”, which was derived by Espace from work by the University of Stirling in Scotland, with the aid of the University of Lille I, is used to foster the emergence of viable business ideas. It works as follows: a group of 15 to 25 people meet for two full days, at one week’s interval.

⁴ ESPACE also helped to launch « Boule et Bill créent une entreprise », which is published and distributed by the Regional Development Agency.

The first day is devoted to 12 brainstorming exercises designed to stimulate the imagination and creativity: at the end of the day, each participant has mastered techniques for generating ideas. During the ensuing week, he or she exploits these techniques in his/her environment and comes up with at least one good idea or develops one they already had. During the second day, they draw up the outline of a business plan.

It is planned gradually to make MORaine available to all would-be entrepreneurs⁵. It will also be used with groups of unemployed young people in distressed urban areas.

2.4. *Counselling and training*

Espace proposes personalised counselling, possibly supplemented by training, to all those wishing to start a business or create their own job, enabling them to put together a business plan and assess its feasibility in the right conditions since they are advised by somebody who has experience of setting up a business.

All told, each year 1 200 people receive counselling.

2.5. *Testing the viability of business ideas*

From May 1998, a number of individuals wishing to become self-employed will be “nurtured” during their first year in a “business incubator”. They will have the status of paid trainees before becoming salaried employees with fixed-term contracts of the association running the incubator. During that time, they will work normally. The value added they generate will be placed on a bank account. If, at the end of the period in the incubator, their activity seems viable, the savings will be used as their start-up capital⁶.

2.6. *Counselling and follow-up after the business has been set up*

The work of Espace continues even after the business has been set up or the person has started working on their own. Those who wish to can continue to receive mentoring during the first three years, with personalised counselling.

3. Sources of funding

Espace has an annual budget of some FF 10 million (1 600 000 Ecus)⁷, consisting of two parts:

- 1 - a core budget
- 2 - one-off funds.

⁵ The method has been adopted by Lan Ekintza, the development agency of the city of Bilbao, where it is planned to use it with all the job-seekers, whether intending to start a business or not (about 1200 a year), enrolled on the short training schemes (50 hours) which the agency organises.

⁶ A prior feasibility study will have been done by ESPACE, dealing with the financial and legal aspects (company, tax and labour law).

⁷ Plus FF 3 million for other work which does not concern enterprise creation.

3.1. The bulk of ESPACE’s funding is provided by the Conseil Régional Nord-Pas-de-Calais, the Conseil Général du Nord and the Conseil Général du Pas-de-Calais, and central government

The funding comes from the budgets of the relevant regional and local authorities or, in the case of central government, from appropriations for national policies.

It is renewed each year, though it may vary slightly. It breaks down as follows:

| Purpose | Main sources of funding | Budget line |
|--|---|-----------------------------|
| Promoting entrepreneurship | Conseil Régional Nord Pas-de-Calais | Economic action |
| Preliminary guidance for those starting a business | Conseil Régional Nord Pas-de-Calais | Economic action |
| Support | | |
| → Counselling | Central government | Counselling vouchers |
| | Conseils Généraux..... | Economic action |
| → Training | Central government | Training for the unemployed |
| | Conseil Régional Nord Pas-de-Calais..... | Training for the unemployed |
| Follow-up | Central government..... | Counselling vouchers |
| | Conseil Régional Nord Pas-de-Calais..... | Regional Development Agency |
| | Conseils Généraux..... | Counselling vouchers |

3.2. One-off funding is obtained for experimental initiatives from various sources: the main funding sources already mentioned, which may contribute on a one-off basis, and other sources, particularly the European Commission under its Community Initiative Programmes or “pilot actions”.

ESPACE’s R&D activity is also funded from these sources; for example, the MORAINÉ method was devised with European funding under the Leonardo programme.

4. Outcomes

During the period 1991/1995 (5 years) Espace helped 2 121 start-ups. Analysis of what they had become by the end of 1996 sheds light on the survival chances of new businesses and the self-employed. The following were analysed:

- the failure rate
- the factors conducive to survival
- the contribution to job creation
- the profile of the entrepreneurs.

4.1. Failure rate

Of the 2 121 businesses created between 1991 and 1995, 406 had disappeared by the end of 1996, i.e. an average failure rate of 19.14 %. The failure rate varied, of course, according to the year of start-up:

| | 1991 | 1992 | 1993 | 1994 | 1995 | TOTAL |
|---|-------|-------|-------|-------|------|-------|
| Still in business | 234 | 314 | 349 | 390 | 428 | 1715 |
| No longer in business | 137 | 106 | 80 | 49 | 34 | 406 |
| Total | 371 | 420 | 429 | 439 | 462 | 2121 |
| Failure rate by year of start-up | 36.93 | 25.24 | 18.65 | 11.16 | 7.36 | 19.14 |
| INSEE rate(*) | 52 | 46 | 39 | 29 | 17 | |

(*) Source : VIENNET (INSEE) - creations and take-overs excluding subsidiaries

4.2. Survival factors

4.2.1. Support both before and after start-up, in the form of counselling and training, is an important determinant of whether a business will survive; comparison of the failure rate in the Espace sample and that in the INSEE sample shows that start-ups in the first group have a much lower failure rate. Furthermore, the more recent the business (and thus the more recent the pre-start-up counselling and training), the bigger the gap is between the failure rates, as the following table shows:

| | YEAR OF START-UP | | | | |
|--------------------|------------------|------|------|------|-------|
| | 1991 | 1992 | 1993 | 1994 | 1995 |
| Espace rate | 71 | 55 | 48 | 38 | 43(*) |
| INSEE rate | | | | | |

(*) For every 100 failures in the INSEE sample, there are only 43 in the Espace sample.

4.2.2. Other survival factors :

- Level of initial training: the survival rate for the most highly qualified is 3 points higher than that for those without any qualifications
- Experience in the particular line of activity : the survival rate for those with 10 or more years experience is 6 points higher than that for those with the least experience
- Age is important too: the survival rate is on average 3 points higher for entrepreneurs in the 35 to 49 age-bracket.

4.2.3. Contribution to job creation

The 1 715 businesses created between 1991 and 1995 and which were still going in 1996 employed in total 4 439 people(including the entrepreneurs).

But the contribution to job creation varied widely between one-man businesses and the others, as the following table shows:

| Breakdown of enterprises still in business in 1996 by number of employees | | | | |
|--|------------------------------|-------------------------|-----------------------|------------------|
| | Number of enterprises | % of enterprises | Number of jobs | % of jobs |
| One-man | 1001 | 58 | 1001 | 23 |
| 1 to 4 employees | 636 | 37 | 2191 | 49 |
| 4 to 9 employees | 45 | 3 | 405 | 9 |
| more than 9 employees | 33 | 2 | 842 | 19 |
| Total | 1715 | 100 | 4439 | 100 |

➡ The average number of employees when the enterprises at start-up was 1.9, compared with 2.6 in 1996.

4.3. Profile of entrepreneurs

The following data were collected on the 2 121 people starting a business during the period 1991 - 1995 :

| Sex | Male | Female |
|------------|----------------|---------------|
| | 1479 (66 %) | 642 (34 %) |

| Age | - 25 | 25 to 34 | 35 to 49 | + 50 | no answer |
|------------|---------------|-----------------|-----------------|-------------|------------------|
| | 261 (12 %) | 808 (38 %) | 905 (43 %) | 89 (4 %) | 58 (3 %) |

| Initial training | No qualifications | BEP-CAP | Bac or higher | No answer |
|-------------------------|--------------------------|----------------|----------------------|------------------|
| | 142 (7 %) | 945 (44 %) | 896 (42 %) | 138 (7 %) |

| Employment status at start-up | Unemployed | EMPLOYEE | OTHER |
|--------------------------------------|-------------------|-----------------|--------------|
| | 1799 (85 %) | 133 (6 %) | 189 (9 %) |

5. Measuring the cost of support

- The businesses founded between 1991 and 1995 with the assistance of ESPACE and which were still going in 1996 created 4561 jobs. Espace's business creation budget for the same period was about FF 50 million.

The average cost of each job created was thus about FF 10 962 (1680 Ecus), and FF 29 000 Francs (4 500 Ecus) for businesses that had been taken over.

- If we consider that the only significant measure of the efficacy of the measures implemented by ESPACE is the highest survival rate, then the average cost per enterprise that survives is FF 156 000 Francs and FF 60 000⁸ for each of the corresponding jobs created (respectively 24 000 Ecus and 9 250 Ecus).

⁸ These figures were arrived at as follows: if the INSEE failure rate is applied to the enterprises created by ESPACE over the period 91-95, only 1 363 would have survived (compared with 1 715 in fact), i.e. 352 less. FF 50 million divided by this figure gives FF 156 000. We kept the same average number of jobs per business (2.6).

Section 4 : Analysis and proposals

In a context of structural crisis in the economy and rapid change, the nature of self-employment seems to have partially changed. For the authorities, however, the creation of new businesses continues to be important for two reasons -- economic on the one hand, social on the other. They seek to promote local economic development via the creation of new businesses, and to give people the opportunity to create their own jobs.

This section will analyse the key features of the context of self-employment and propose ways in which policies for promoting self-employment can be improved.

1. Key features : changes in the nature of self-employment ?

1.1. *Three factors which are not « positive » should contribute to the growth of self-employment:*

- **The growing insecurity** of dependent employment is the first of these factors. Fewer and fewer people can now expect to spend their entire working career in the same company with a full-time indefinite-term contract. Often, it is young people and the least skilled who have the least job security. It is thus less difficult, psychologically, for those whose jobs are insecure, to become self-employed since they are already exposed to risk and uncertainty just like the self-employed. Would-be entrepreneurs who formerly would have hesitated to give up the security of a salaried job no longer have this impediment.
- **Unemployment** is the second factor. Many job-seekers no longer have much hope of finding a lasting, satisfactory job either because they are too old or too young or under-qualified. Self-employment may then be the only solution.
- **Increasingly flexible work organisation** is the third factor : many companies now contract out activities which were previously performed in-house, to small firms and self-employed workers, thereby helping to increase share of self-employment in the economy.

1.2 *Conversely, three specific factors (in addition to economic factors) impede the development of self-employment:*

- **The lack of entrepreneurship** is certainly the most important. It is partly cultural. Very few young French people have received the kind of education that would bring out natural capacities for entrepreneurship or, at a more basic level, the information or training that would encourage them to start their own business.
- **The security** of some salaried jobs is, paradoxically, the second factor. It particularly affects the most qualified people with indefinite-term contracts in big companies; Understandably, they are reluctant to make a leap into the dark, since it is difficult to find a job again if the attempt to start a business fails.
- **Moonlighting**, which has grown considerably in the past decade, is the third factor, since it is seen as being a less risky alternative to self-employment .

1.3 *These six factors, three conducive, three not conducive, to the growth of self-employment, have partially changed its nature in recent decades; increasingly, it has become the refuge of those no longer able to find dependent employment.*

One of the indicators of this underlying trend is the percentage of the unemployed among those starting a business -- it is now 50 % compared with only 25 % for those who come straight from dependent employment.

At the same time, in the past 20 years the number of self-employed and entrepreneurs has risen only slightly (by 4 per cent). There has thus been a change in the nature of self-employment and in the profile of entrepreneurs.

2. Two policy approaches

- Central government and local authorities seek to develop the economy and to combat unemployment. Business creation and self-employment help to achieve this two-fold goal by promoting local development and giving job-seekers access to employment
- These two aims - economic and social- translate into different (though not necessarily conflicting) policies towards enterprise creation and self-employment :
 - (a) The goal of economic development, example, may be pursued by means of measures to develop the « factors of production » and the resources which entrepreneurs need, such as the provision of venture capital, aids to research and innovation, construction of incubators, assistance with prospecting markets elsewhere.
 - (b) The social goal entails giving youth and adult unemployed access to employment - inter alia, by helping them to create their own job. This requires not only financial incentives but also, and perhaps especially, support in the form of counselling, training or even psychological support.

3. Proposals for promoting self-employment

Proposals have been made for promoting the creation of new businesses and self-employment, principally by the Agency for the Creation of New Businesses (APCE) and by a group of bodies specialised in providing aid to would-be entrepreneurs.

The following proposals relate more specifically to self-employment. They have three aims:

- To strengthen support for the unemployed (and especially to the long-term unemployed).
- To make it easier for people to have more than one occupation.
- To reduce the personal risks involved in self-employment and to distinguish the entrepreneur's personal assets from his business assets.

3.1 *Strengthen support for people wishing to create their own job*

Four types of measures are proposed to help people who want to create their own job to “make the leap” (and to increase the number of people doing so):

- Do more to increase awareness of the possibilities of self-employment (including among young people).
- Develop support before, during and after the creation of a new business, and strongly encourage those wishing to start a business to take advantage of it.
- Organise facilities such as business incubators to facilitate access to self-employment.
- Make it easier to obtain capital, for example in the form of the small personal loans provided by the ADIE.

3.2. *Make it easier to have several occupations*

There are a number of occupations which are complementary and which could be performed by the same person in sectors like agriculture, tourism, crafts, retailing, etc. In practice, however, it is difficult to do so because each occupation has a different social security scheme or tax regime.

It is therefore proposed that a single system of social cover and a single tax regime be put in place for people exercising several occupations concurrently and, by the same token, that it be made easier for people in dependent employment to exercise a complementary activity that would subsequently allow them to become self-employed.

3.3. *Simplify the tax regime*

It is also proposed that the tax regime for self-employment be simplified.

3.4. *Reduce the personal risks*

To reduce the personal risks involved in self-employment, it is proposed that:

- business assets be distinguished from personal assets
- business income be distinguished from personal income
- the third-party liability of the self-employed be diminished to bring it into line with that of a company manager.

Annex 1: Methodological note: Sources and concepts

All French companies are registered in the SIRENE file; it is thus possible to monitor changes in the population of companies (new businesses or take-overs, changes in the legal form, activity or location of a companies, or companies that go out of business).

- a) This study deals only with enterprises and not with establishments since the latter are legally subordinate to the enterprises that own them.
- b) All businesses in the traded sector are registered in the SIRENE file: the professions, artistic activities, craft businesses, small and medium-sized enterprises, industrial firms. Agriculture, fisheries, forestry, banking and insurance are excluded. The file thus covers industry, trade and services. This study addresses solely these sectors.
- c) There are three main ways of creating a business in France:
 - From scratch (62 % of new businesses, excluding reactivations).
 - Reactivating a one-man business which is legally and economically dormant (21 % of new businesses). This possibility has existed since 1987.

For the sake of simplicity, the term “new creation” will be taken to mean both businesses created from scratch and those which have been reactivated.
 - Take-overs of existing enterprises by a new owner, whether by inheritance, donation or buy-out.
- d) The legal form of the enterprise can vary. It can be a one-man business (the owner has unlimited third-party liability, personal assets are not distinguished from business assets, etc.) or a corporate entity. Most businesses are companies with share capital (especially SARL, and SA). The SARL’s manager may have a majority stake (he or she is not an employee by virtue of being the majority share-holder) or a minority stake (and be an employee of the company).

As regards self-employment, most enterprises are one-man businesses but some self-employed may be their only employee, as managers with a minority stake in the business. The figures available do not allow employees who are also the manager to be distinguished from those who are not. We shall therefore **consider only enterprises that have no employees**. This is warranted by the fact that the terms “self-employment” and “one-man business” are often used interchangeably.

- e) The SIRENE file identifies enterprises which have no employees, or by size category, at the time of start-up. Some of the bosses of these businesses get help from members of their family (though it is rare); usually it is the spouse who helps. We do not provide any figures for this kind of help. However, it may be noted that the employment survey of March 1997 estimated their number at 219 600. Similarly, 18 per cent of those intending to start a business prepare and implement their business plan with the help of their spouse.

Annexe 2 : Sectoral breakdown of one-man businesses

The breakdown by sector and method of creation is as follows:

New businesses

| | Not known | No employees at outset | % without employees | Employer from the outset | Total |
|---------------------------------|--------------|------------------------|---------------------|--------------------------|----------------|
| Industry (excluding agro-food*) | 259 | 10 291 | 75 | 3 219 | 13 769 |
| Construction | 421 | 23 413 | 79 | 6 935 | 30 769 |
| <i>Sub-total</i> | <i>680</i> | <i>33 704</i> | <i>76</i> | <i>10 154</i> | <i>44 538</i> |
| Transport | 79 | 7 386 | 81 | 1 707 | 9 172 |
| Business services | 642 | 41 506 | 84 | 7 120 | 49 268 |
| <i>Sub-total</i> | <i>721</i> | <i>48 892</i> | <i>84</i> | <i>8 827</i> | <i>58 440</i> |
| Retailing and repairs | 602 | 54 304 | 82 | 11 578 | 66 484 |
| Agro-food | 61 | 2 589 | 67 | 1 230 | 3 880 |
| Hotel and catering trade | 204 | 11 036 | 69 | 4 867 | 16 107 |
| Services to households | 352 | 31 572 | 90 | 3 330 | 35 254 |
| <i>Sub-total</i> | <i>1 219</i> | <i>99 501</i> | <i>82</i> | <i>21 005</i> | <i>121 725</i> |
| Total | 2 620 | 182 097 | 81 | 39 986 | 224 703 |

The first sub-total corresponds to production, the second primarily to business services and the third to services to households (retailing and services).

New one-man businesses represent between 67 and 90 per cent of new businesses in each sector.

Services to households have the highest percentage of one-man businesses (90 per cent); 40 % of them are health care services (doctors, nurses). They also include training, leisure, culture and sport.

* 80% of the agro-food industry consists of bakers, confectioners, pork butchers. It is for this reason that we classified them with retailing and not with industry as they would be if we were talking about jobs in existing enterprises.

In contrast, two sectors have, proportionately, fewer one-man businesses: agro-food and the hotel and catering trade, which, by the nature of their activity, often need at least part-time permanent staff from the start.

Take-overs

| | Not known | No employees at outset | % without any employees | Employer from the outset | Total |
|--------------------------------|--------------|------------------------|-------------------------|--------------------------|---------------|
| Industry (excluding agro-food) | 92 | 715 | 28 | 1 702 | 2 509 |
| Construction | 142 | 916 | 27 | 2 337 | 3 395 |
| <i>Sub-total</i> | <i>234</i> | <i>1 631</i> | <i>28</i> | <i>4 039</i> | <i>5 904</i> |
| Transport | 20 | 438 | 49 | 444 | 902 |
| Business services | 77 | 783 | 38 | 1 174 | 2 034 |
| <i>Sub-total</i> | <i>97</i> | <i>1 221</i> | <i>42</i> | <i>1 618</i> | <i>2 936</i> |
| Retailing and repairs | 390 | 8 027 | 54 | 6 555 | 14 972 |
| Hotel and catering trade | 379 | 8 763 | 58 | 5 915 | 15 057 |
| Agro-food | 74 | 1 036 | 34 | 1 893 | 3 003 |
| Services to households | 121 | 2 007 | 44 | 2 385 | 4 513 |
| <i>Sub-total</i> | <i>964</i> | <i>19 833</i> | <i>53</i> | <i>16 748</i> | <i>37 545</i> |
| Total | 1 295 | 22 685 | 49 | 22 405 | 46 385 |

Half of take-overs thus have no employees, though the situation varies widely across sectors. For example, those in the production sector mostly have employees, whereas those in retailing, hotels and catering, are less likely to.