



**European Employment Observatory**

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

**France**

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July 2010

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## **1. Introduction**

In France, the level of self-employment has been relatively stable since the beginning of 2000. Self-employment represented 9.3 % of total employment in 2000 while in 2007 (latest data) the level was at 9 %, remaining less than the European level. Since the 1970s, the number of self-employed has diminished. The Institut national de la statistique et des études économiques (INSEE) (National institute of statistics and economic studies) shows that this trend no longer continues and the number of self-employed is again increasing. In this context, the period 2000 to 2007 is marked by stability. The gender balance has remained approximately the same over the years, with 6.1 % of women and 11.5 % of men in self-employment as a proportion of total employment<sup>1</sup>. The rate for women was a little higher in 2000 with 6.7 %.

The impact of the economic crisis is difficult to establish as data is not recent enough. Furthermore, specific data to describe the French situation is also not very recent. In 2005, 2.2 million people were considered as independent workers according to INSEE, which includes the self-employed (in French terms, 'independent workers' can also contain the top management tier of companies depending on the legal form of the company). Other data, for example from the Regime social des indépendants (RSI)<sup>2</sup> (Social System of Independents) shows that there were 1.8 million contributors to this system in 2007.

The general attitude towards self-employment is somewhat ambivalent in France. On one hand, liberal professions are valorized, while on the other hand the conditions of many self-employed are precarious. Despite some improvements, social protection for the self-employed has been very much less defended than for employees. Many business start-ups have a problem with sustainability over the middle and long term.

Since the economic crisis, but also earlier (since the end of the 1990s), the encouragement of self-employment (and with it job creation) as an alternative to traditional employment has been carried forward by public policy. For example, there was a programme related to young people, 'New services, youth employment' (launched at the end of 1997), which was based on the idea of people creating their own jobs. Since then a great deal of help and subsidy has been given, and support for business creation has become one of the main features of employment policies.

Starting a business is one of the best ways to create at least one job (the job of the founder and also the jobs linked to the new business), but it is not well adapted in the context of crisis. Furthermore, the major problem for effectiveness is the sustainability of such businesses, especially in France, where administrative constraints are complex and at a high level, and where social taxes are also high. The proportion of firms surviving five years after their creation is 52 % (only 46% when the business founder is a single individual). Starting a business is consistent with long-term goals, as far as it contributes to effective and potential growth. Starting a business usually stimulates research and development and investments in the real economy, and therefore has an effect on the labour market.

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<sup>1</sup> Eurostat gives for France in 2007: 13.5 % for men (13.4 % in 2000) and 6.2 % for women (5.8 % in 2000).

<sup>2</sup> Regime social des indépendants : this system can not be applied for farmers. For this category the relevant system is MSA (Mutualité sociale agricole).

## **2. Assessment of national labour market policies and recovery measures**

In less than five years, the French landscape, both legal and fiscal, of self-employment has changed significantly.

The main policies and measures supporting business creation in France can be classified in a three part typology. First, the measures aimed at providing **support to business founders**, through the creation of specific structures (such as incubators) or through a new legal status (self-entrepreneur status) facilitating their development. We can also underline the implementation of programmes for unemployed people that include a business creation project. These programmes are mostly carried out by the Public Employment Service and involve training and specific financial help.

Second, **financial help for business creators** are measures aimed at supporting self-employment and business creation in France; either through direct help, financial support, or through the reduction of social charges and taxation for business founders.

Thirdly, support for self-employment is addressed through the **improvement of social protection for self-employed** and assisting spouses (maternity leave etc.). Only the most well developed of these measures are highlighted in this report.

One such measure is the new fiscal and social status '**auto entrepreneur**', created by the Law for Modernisation of the Economy and implemented on the 1 January 2009. This was conceived to help employees, students and retired people to build their income through establishing a small activity (up to a maximum of EUR 80 000 for commercial affairs and EUR 32 000 for service activities). It also introduces a real simplification of administrative procedures and has led to an immediate and important success (in the first quarter of the initiative, 182 000 persons registered as auto entrepreneurs). Sixteen months after its implementation, in April 2010, 452 700 persons were registered. Opening the measure in January 2010 to a new population (independent workers and some liberal professions) has certainly made a large contribution to this important development. More recently, the status has been made compatible with the NACRE (New accompaniment for business creation and restart) disposal. According to the latest data, two thirds of auto entrepreneurs are men with an average age of 40. One third are craftsmen, another third are merchants and the remaining third are in the liberal professions. It is interesting to note that one third were unemployed before registration and the new compatibility of the status with NACRE will certainly increase this proportion.

A first statement on the '**auto entrepreneurship**' regime has been made. If we consider the level of businesses starting, the impact of this new status is very important. In 2009, 580 000 start-up businesses were registered, which represents an increase of 75 % compared to 2008. Half of these have chosen this new status. The success of the scheme is undisputable in these terms. However, besides these successes, only 149 000 of the businesses declared a positive turnover at the end of 2009, representing only 40 % of the declared auto entrepreneurs. Furthermore, the businesses are said to have an average turnover of EUR 1 400 per month and an estimated average personal income of EUR 775 is estimated, which corresponds to the poverty threshold. In conclusion, we can see that the level of activities developed under this status is quite low and the status seems to be a good option only as a complement to income at the moment. Two thirds of the businesses have other activity or revenue. The volume of

retired people who are self-entrepreneurs is progressively increasing. On the other hand, only 16 % of auto entrepreneurs are less than 30 years old: this is a paradox when the high level of youth unemployment is considered.

Nevertheless, some **abuses in the implementation of the new provision** can be noted. For instance, some employers are using it to pay fewer taxes, by forcing their employees to adopt this regime. In particular, we can observe this behaviour in companies where certain initiatives are very well developed, such as counselling, IT development and communication, or in companies with a high level of part time jobs (the care sector for example). Professional organisations, mainly in the building industry, have rejected the status under the pretext of unfair competition. In fact, however, 13 % of auto entrepreneurs registered are active in the construction sector, second to the car trade and repairs industry (23 %). A better control mechanism is needed to counteract the abuses by these kinds of employers. Some other gaps are apparent, mainly the fact that there is no specific mobilisation of technical and financial support to auto entrepreneurs. As a result, the Union pour un Mouvement Populaire, UMP (Union for a Popular Movement) group at the French parliament asked the deputy Pierre Morel à L'Huissier to instigate a thorough assessment of the status in June 2010. The report will be ready by the end of 2010.

Also on a legal aspect, in April 2010 the Senate adopted **the new status of the Individual enterprise with limited responsibility** (EIRL). This new legal form allows business founders to have a complete separation between their professional and their personal heritage, which protects them in case of bankruptcy. From a fiscal point of view, henceforth the individual entrepreneurs will have the choice between adopting a personal tax or a firm tax system, which was previously not possible (only a personal tax system was applied). Therefore, this reform introduces more flexibility for those who create their own job.

Accompanying this welcome trend, a measure called the new NACRE (new support for business creation or recovery) was implemented in early 2009 for a global cost of EUR 37.5 million (the Government has doubled the financial resources). While this kind of policy is not recent in France (support for the unemployed has existed for 90 years), the measure was entirely redefined following an evaluation in 2008. The aim is to **decrease by a third the number of unemployed by helping them to create a business**; 7 000 business creators were receiving support at the beginning of 2009 and the goal is to reach 20 000 in 2010. The measure principally targets unemployed people, which is a good targeting strategy. The objective of 20 000 would appear achievable.

**Given all the important efforts to stimulate entrepreneurship amongst the unemployed**, the number of enterprises created by the unemployed in the last five years has more than doubled from 40 000 in 2004 to 115 000 in 2009. Forty per cent of French business creators were unemployed directly prior to their new activity. It is interesting to note that this percentage is has risen in recent years mainly due to the economic crisis.

To reach these objectives, **easier access to loans** (access to zero rate loans is possible thanks to a partnership with Caisse des Depots & Consignations and the commitment of EUR 100 million) and **ex ante and ex post assistance** is forecast by a **global partnership** headed by Pôle Emploi. This partnership consists of a network of the major actors (the Association pour le Droit à l'Initiative Economique, ADIE, France Initiative, France active, private operators etc.) that intervene in this field, as indicated by the Ministry of Employment.

Even though it was presented as a recovery measure, this measure is more a middle term to long term measure than a recovery measure in the proper sense. This is because, first, there is an issue about the sustainability of new businesses in the context of economic crisis, and second, the measure mainly consists of an administrative rationalisation, which is one of the structural reforms recommended both by OECD and EU.

Other specific financial supports have been implemented; beyond NACRE (carried out by Pole Emploi, see above), there is micro credit (carried out by ADIE), loans with zero rates and no guarantee allowances (carried out by France Initiative) and more recently PCE (Prêt à la création d'entreprise - Business creation loan) carried out by OSEO, a public body dedicated to entrepreneurs in the field of innovation support, bank loans guarantees etc., helping them to develop their activities). Other bodies can intervene such as France Active, Créa-sol<sup>3</sup>, CSDL (Caisse Sociale de Développement local at Bordeaux (Social fund for local development); or Fonds de cohésion sociale (FCS) (Social cohesion fund) created by a law in January 2005 and managed by Caisse des Dépôts. Some Public authorities ('Conseils Régionaux' and 'Conseils Généraux' - Departmental and regional authorities) can also facilitate access to credit for business founders.

A study on micro credit<sup>4</sup> has showed the effectiveness of this tool in term of social reintegration in France. The inclusion rate of micro entrepreneurs supported by ADIE<sup>5</sup> reached an average of 80 %, and 68 % of micro enterprises are still active two years after creation (59 % three years after). These results are closely comparable to those observed for business creation, proving the success of supported micro entrepreneurs. A recent assessment of **micro credit** launched by the Ministry of Economy has led to the adoption of measures facilitating access to this provision. Following the conclusions of an IGF report (Financial Inspection), the Ministry of Economy has announced four measures to encourage micro credit. Of these four measures, two will be integrated on the **project of Act on consumption credit**, recently adopted by the Parliament: **the first one** consists in allowing individuals to finance micro credit associations through the Internet (a system only existing until now for development aid). Adoption of these measures entails an internet platform accessible for France. As a result, French people will now be able to finance micro entrepreneurs from their own country. **The second** is to improve the information given to the public on the possibilities and measures possessed by banks in this field. This is achieved through an annual obligation to publish their micro credit activities. Other measures, such as statistical and governance improvements are expected.

Regarding public policies to address youth unemployment, young people are offered opportunities to be assisted in the creation of their own business. In the case of the 'contrat d'autonomie', which is dedicated to 16 to 25 year olds living in suburban areas with social difficulties, young people have personalised and intense support over six months, with an allowance of EUR 300 per month. In the case of the contrat d'insertion à la vie sociale (contract for integration in society, CIVIS), another provision accessible to all unemployed and low qualified young people (without a baccalaureate), personalised and intense support

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<sup>3</sup> Association supported by the French Bank Group Caisses d'Epargne de Provence, Alpes, Corse and Côte d'Azur.

<sup>4</sup> Micro credit is mainly dedicated to help people who faced difficulties finding bank loans and who had small loans to start their business, or for personal help.

<sup>5</sup> 30% of micro entrepreneurs supported by ADIE have chosen the status of auto entrepreneur.

over one year is given, with an allowance of up to EUR 450 per month (depending on individual circumstances) which can be dedicated to starting their own business. In fact, self-employment as a sustainable solution to youth employment seems to be very limited, as demonstrated by the stated results of the provisions, not to mention the very small percentages involved. The operators responsible for these provisions (Missions locales as well as private operators) prioritise solutions based on employee training or employment rather than self-employment solutions, as results may be more rapidly effective.

Public policies do not focus on minority ethnic groups. Indeed, it is prohibited in France to dedicate public policies to such groups due to questions of discrimination. A recent study (2008) focused on the question of self-employed immigrants and showed that 7.3 % of business founders come from minority ethnic communities, which is less than their relative proportion (12%) in the active population. The author estimated that the proportion could increase with the 'auto entrepreneurship' status; as such self-employment gives a better perspective to accessing employment and fighting against discrimination. As a result, public policies do not support enough minority groups in their effort to create a business. For instance, more than 70 % do not use bank loans. Assessment on credit for consumption purposes is easier for these groups but personal indebtedness is unfavorable for business creation purposes. Also, minority ethnic groups tend to neglect training and support during initial business creation, reducing the likelihood of success.

Finally, concrete improvements are also in place on the issue of social protection for the self-employed, with the implementation of the Régime social des Indépendants (RSI) (Social system of independents) in 2006. Indeed, independent workers and the self-employed are covered by the RSI. Under this provision improvements have been made in terms of social protection for independent workers, even if there are still important differences with the status protection for employees (régime general), particularly in the field of child benefit (which is lower), health (accident, disease) and maternity. In the same way, retirement pensions are less than those for employees. Nevertheless, independent workers can subscribe to complementary insurance to make-up the difference. Also, in the field of unemployment, the self-employed are not able to access unemployment allowances, although recent measures have opened RSA provisions (see below) to them. Some self-employed, especially executives and professionals, can utilise an employee status by accommodating their activities within a company (e.g. 'société de portage salarial' - Company of employee bearing). In this case they can access not only unemployment benefits but also the entire social protection given to employees.

With the decree law of April 2009, the RSA provision, which can complete incomes for poorer workers, is now accessible under certain conditions to independent workers and the self-employed (arts and craft, trade, liberal professions) registered in the social system of RSI and 'auto entrepreneurs'. This allowance, of around EUR 454 per month for a single person, increased by 50 % for two person families (+30 % for supplementary people), can really help poor workers, especially when starting a business.

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

According to INSEE studies in this field, there are mainly **four categories of self-employed**<sup>6</sup> in France, composed each of approximately 600 000 people: 1) farmers, 2) managers in the building industry and industry and transports, 3) managers in trade and local services and 4) liberal professions and similar such as lawyers, doctors, etc. The diversity of self-employed jobs is quite considerable (for example, between lawyer, surgeon, and mason). If people have various statuses inside those groups (such as individual entrepreneur, manager of SARL, CIO...), most have an average age older than among employees (45 years old on average compared to 39 years old for employees). As we observed before, there are less self-employed women (27 %) than there are female employees (42 %).

Related to the diversity of jobs within the self-employed category, there is a variety of levels of initial education. For example, the last group, liberal professions, are very well educated (80 % have a university degree). On the contrary, 70 % farmers and those in the aforementioned groups 2 or 3 (managers) do not have a bachelor degree. Globally, except for the liberal professions, self-employed people are generally less educated than employees.

A further job quality indicator is working time. The self-employed have declared working of more than 55 hours per week on average, against 39 hours for employees. Very few have part time hours compared to employees (7 % against 16 % for employees). Furthermore, due to the various groups of self-employed jobs, the gaps are very significant in terms of earnings depending on the level of education, whether it is a protected job or not, and the degree of competition. However, the average earnings of the self-employed are at around EUR 36 000<sup>7</sup> per year, more than 40 % above that for employees. But the gaps between women and men are higher: women's earnings are 40 % below men, which is much deeper than the observations made for the employee population where the gap between men and women is actually around 25 %. The INSEE study also showed that around 10 % of these cumulated two kinds of resources (as an independent and as a wage) mainly in the health sector and in agriculture.

#### **4. Conclusion**

To conclude, self-employment in France is not well developed and needs to be reaffirmed as a solution to routes into employment, even if some abuses do exist. Recent new legislation contributes to making self-employment more easily accessible to all (with the 'Auto entrepreneur' status especially), showing that it was not so difficult to begin business creation in France. However, with the 'auto entrepreneur' status, for instance, the perception is much more that it is more 'a good idea for complementing earnings' (retired people, for instance) than for starting a business. As we saw before, a lot has been done since the beginning of the 2000s to stimulate business creation through self-employment, with some concrete results but also with some important gaps to fill (e.g. the proportion of women, immigrants and young people starting their own business). In general, the spirit of enterprise and spirit of business creation is still missing in France in comparison to elsewhere in Europe.

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<sup>6</sup> In French these are called 'indépendants': independent people are identified as non employee jobs in contrast to employee jobs.

<sup>7</sup> Last data accessible: 2005 - does not concern the agriculture sector.

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