

»» Migrants are more active entrepreneurs – mostly as a result of labour market conditions

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Migrants make an above-average contribution to start-up activity. They are more inclined to set up a business than the general working-age population. Besides, they create more jobs more often after they have established their business. This reinforces the positive impetus of start-up activity for the German economy.

Migrant entrepreneurs are younger than average entrepreneurs and more frequently full-timers. At the same time, the motivation to start a business is exceptionally high among graduates. Migrants take up self-employment more often in the retail sector and trade in market novelties slightly more often. Start-up teams are also more common, partly because more of their businesses are based on takeovers.

Nevertheless, migrants are more likely to encounter difficulties setting up a business. They identify start-up obstacles more frequently than entrepreneurs in general, although they are less likely to be discouraged from putting their business plans into practice. When they are, then most often after weighing the financial risk and financing restrictions, as all entrepreneurs do.

For migrants, the decision to start a business depends more on the labour market than for the working age population in general. They often come from unemployment and cite lack of employment alternatives more often as a motive for starting up a business. In addition, they abandon their self-employment more frequently when they find attractive salaried employment.

Entrepreneurs place constant pressure for innovation and efficiency on existing businesses. In doing so, they make an economy stronger and more sustainable. In 2014, 915,000 persons started their own business in Germany, among them around 179,000 migrants. Over a long-term average, roughly one out of every five entrepreneurs is a migrant, meaning they do not have or were not born with German citizenship.

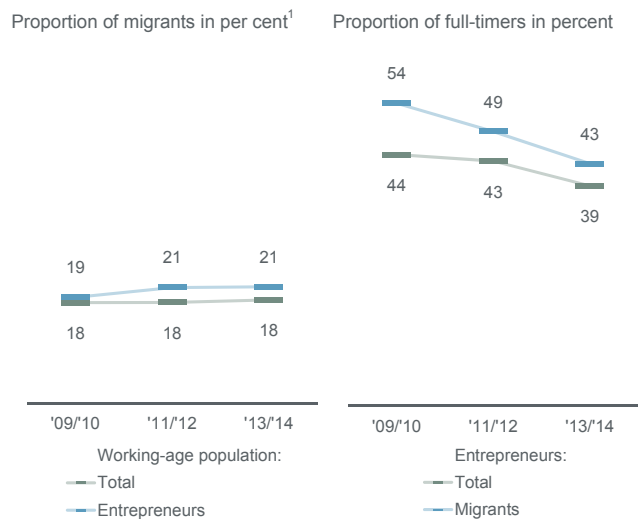
Migrant start-up activity is higher than average

The proportion of migrant entrepreneurs has risen slightly in recent years, reaching 21 % on average for the years 2013/2014.¹ Their share among entrepreneurs is typically higher than their share in the total working-age population (18%) (Figure 1, left). Thus, migrants tend to have a higher propensity to start a business than the working-age population in general. From 2009 until today, the annual share of migrant entrepreneurs has been 1.86 %, while the total an-

nual share of entrepreneurs is 1.68 %.

Migrants start a full-time business more often than average entrepreneurs. Although the general trend towards part-time start-ups can also be seen among migrants, the proportion of full-time start-ups on average in 2013/2014 was 43 %, still well above the average of 39 % (Figure 1, right).

Figure 1: Migrants are more active entrepreneurs than the average, especially full-timers



Note: The term "migrant" includes naturalised persons, late repatriates and persons of non-German citizenship.

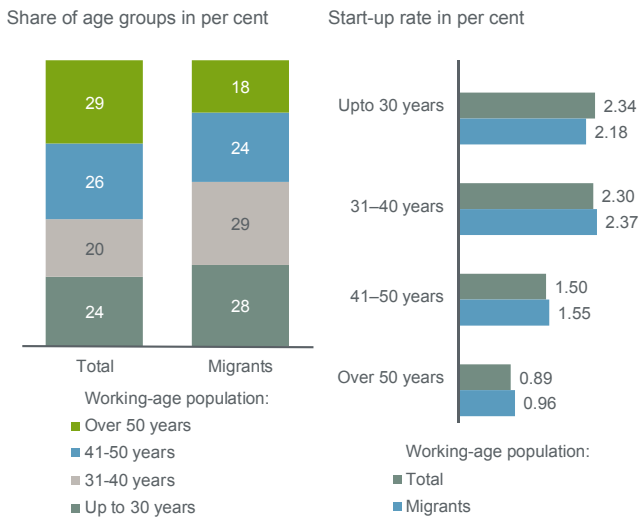
Data source: KfW Start-up Monitor

Migrants are younger

The average age of migrants who made the move into self-employment since 2009 was 36 years, one and a half years younger than the average start-up entrepreneur. This is due to the lower proportion of older working age migrants. Twenty-nine per cent of the entire working age population is over 50 years old but less than one in five migrants are in this age bracket (Figure 2, left side).

The lower age of potential entrepreneurs lowers the average age of actual entrepreneurs. As a result, migrants are younger at the time they start their business than entrepreneurs overall, even though younger migrants are slightly less inclined and older migrants more inclined to be their own boss than the average (Figure 2, right side).

Figure 2: Entrepreneurial motivation weaker only among younger migrants



Note: For entrepreneurs the reference values of the working age population refer to all persons aged 18 to 64 and for migrants to all migrants aged 18 to 64.

Data source: KfW Start-up Monitor

Migrant start-up activity highest among university graduates

The proportion of graduates is roughly the same among migrant entrepreneurs as among entrepreneurs overall. In contrast, migrant entrepreneurs with no qualifications are heavily overrepresented (Figure 3, left). This may suggest that migrants with a degree are similarly inclined and migrants without qualifications significantly more inclined to venture into a start-up than is typically the case. This image is deceptive, however. The proportion of entrepreneurs with degrees is much higher among migrants than in the total working age population (Figure 3, right), while the share of entrepreneurs among persons without qualifications is almost the same.

The high proportion of entrepreneurs with no qualifications among migrants is due to the fact that the proportion of persons without qualifications is higher among migrants of working age overall. It must be noted, however, that a lack of formal qualifications is often a reflection of difficulties in obtaining recognition of formal qualifications obtained outside Germany.² Lack of formal qualifications cannot be equated with lack of skills.

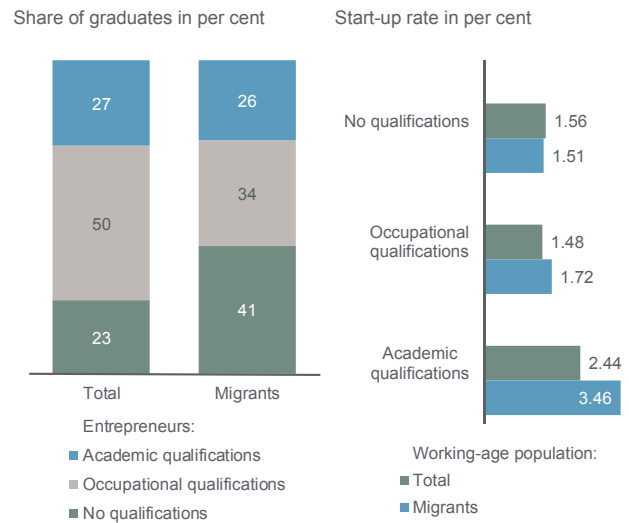
Migrants' move into self-employment often influenced by labour market

The literature mentions three aspects that determine migrants' higher start-up motivation:³

1. a stronger presence of relevant role models,
2. higher willingness to take risks and
3. limited labour market opportunities.

The third aspect is clearly evident. The share of entrepre-

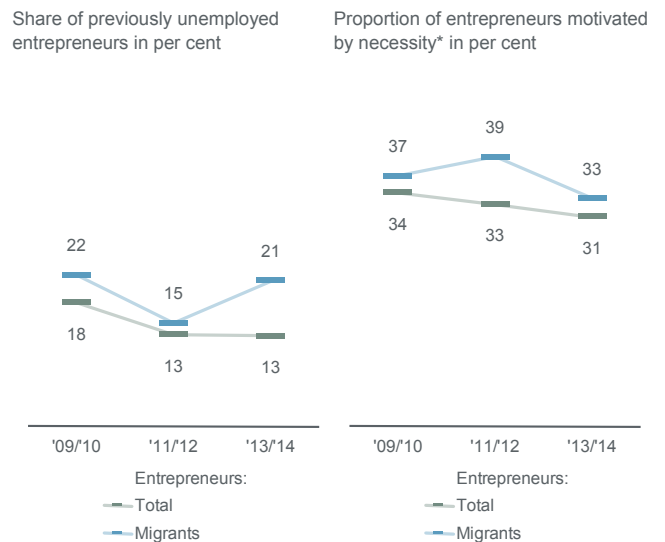
Figure 3: Graduates have highest start-up rate among migrants



Data source: KfW Start-up Monitor

neers who were previously unemployed is higher among migrants than in the total working age population and more migrant entrepreneurs admitted having started their business for lack of better employment alternatives (Figure 4).

Figure 4: The labour market is a significant push factor for migrants



*Entrepreneurs motivated by necessity made the move into self-employment "for lack of better employment alternatives".

Data source: KfW Start-up Monitor

Migrants start businesses most often in retail

The majority of new entrepreneurs are service providers and that also applies to migrants. The main difference is that the latter group starts more often in the retail sector.⁴ From 2009 to 2014, an average 21% of new migrant entrepreneurs started in retail, as opposed to just 17% of start-ups overall (Figure 5, left). One factor may be the advantage of knowing the market for goods coming from their home countries,

which migrants can put to good use more often in start-ups.

Their stronger inclination to start a business in the retail sector is probably the main reason migrants offer market novelties slightly more often (20 against 18%). Market novelties are products or services that are new to the relevant (and possibly regional) market, irrespective of whether they are technologically innovative.

Migrants are more likely to have team partners and employees

Migrant entrepreneurs are less likely to rely solely on their own manpower. They start businesses more often in teams and more of them have employees (Figure 5). One reason for this is that migrants take over existing businesses more often (along with their employees). From 2009 to 2014 takeovers accounted for 14% of migrants' start-ups and 10% of all start-ups.

However, the higher share of takeovers doesn't equate to more often having employees in general. Migrants starting their own company from scratch are also more likely to hire employees. On average for 2013/2014, one out of every four migrants with a new company had an employee (Figure 6). Overall, only 18% of entrepreneurs hired employees during their founding year. The higher willingness to employ staff is also reflected in the number of employees. At 2.0 FTEs per new company entrepreneur, it is also higher in the group of migrants than for all entrepreneurs on average for the last two years, if only slightly.

Migrants' willingness to hire employees contributes to the employment effect of start-up activity in a significant manner. The gross effect on employment (GEE) from start-up activity in the years 2011 to 2014 was 611,000 full-time equivalent jobs – 400,000 jobs for the new entrepreneurs themselves and 211,000 for their employees (Figure 7). Migrants had a share of 21% in GEE, which is an above-average proportion

given their share in new companies (i.e. without takeovers and active holdings in existing companies) of 19%.

Migrants perceive start-up finance problems more often

Migrants typically complain more often about financing problems than entrepreneurs in general (Figure 8, left section). On average for the years 2013/2014, 28% of migrants claimed to have encountered difficulties in obtaining start-up finance. By comparison, only one out of five new entrepreneurs overall had financing difficulties.

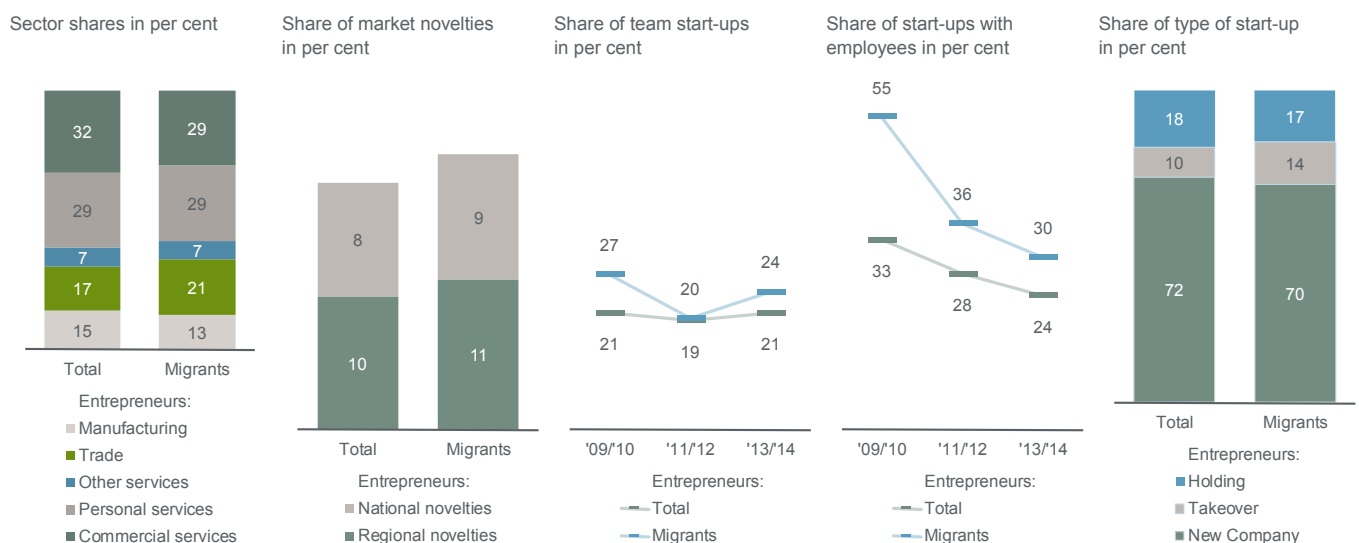
Financing difficulties do not necessarily mean not obtaining any start-up finance. On the contrary – new entrepreneurs who ultimately employ borrowed funds have financing problems more often. Financing problems evidently reflect the need for new entrepreneurs to convince lenders that they are a good risk. That is why they mention them more often as their funding needs increase.

Self-employed persons and entrepreneurs generally display higher financial literacy than the rest of the population.⁵ This is an advantage because good financial literacy also improves start-up success. New entrepreneurs with good financial literacy on average have fewer financing difficulties, use more favourable and convenient financing sources and can hold their own against their competitors for longer. This finding may serve to explain why migrants report financing problems more frequently. Migrant entrepreneurs have significantly lower financial literacy than entrepreneurs overall (Figure 8, right section).⁶ Moreover, language barriers may hamper migrants' negotiations with lenders.

Similar volume despite more frequent problems

Nevertheless, migrants start new businesses with borrowed funds just as frequently as all entrepreneurs and invest similar amounts (Figure 9). In a long-term average, three out of ten entrepreneurs invest no borrowed funds at all. These include lecturers, programmers or sales representatives who

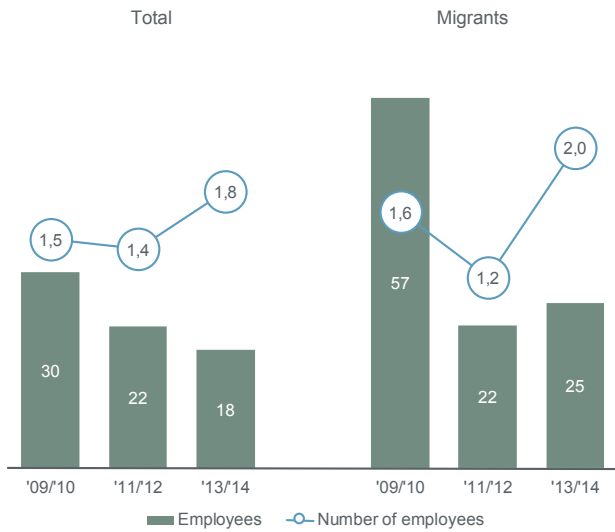
Figure 5: Selected characteristics of start-up projects from 2009 to 2014



Data source: KfW Start-up Monitor

Figure 6: Migrant start-ups employ staff more often

Start-ups with employees as a proportion of new enterprises in per cent / average number of employees in FTEs*



*Full-time equivalents (FTEs): Full-time employees count in full, part-time employees count as half an FTE. In order to prevent double counts the number of employees in team start-ups was normalised with the team size.

Data source: KfW Start-up Monitor

manage entirely without financial resources or solely with private material resources. Just under half of all new entrepreneurs employ funds of up to EUR 10,000. Only two in ten entrepreneurs invest more than EUR 10,000, one of whom receives EUR 10,000 or more from external capital providers. These figures were last seen for migrant start-up businesses.

Migrants face higher start-up obstacles but proceed nevertheless

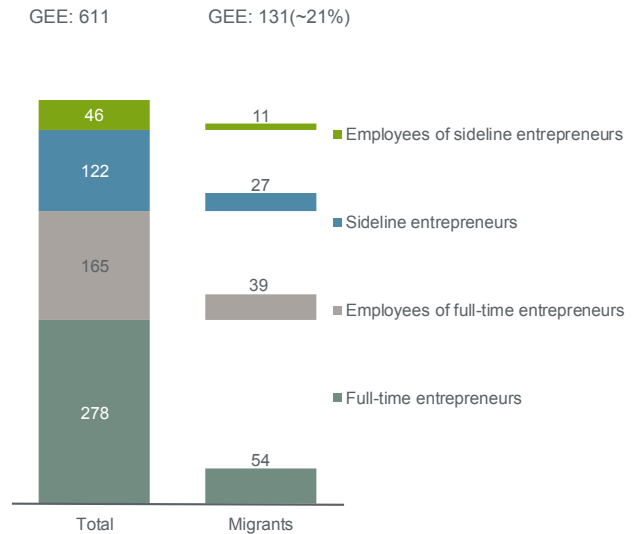
Thirty-one per cent of all people who planned to start up a business between 2009 and 2014 abandoned their project. Only 27% of migrants abandoned their plans to start up a business. But even though fewer of them gave up, migrants report obstacles more frequently.

How often start-up obstacles are reported is indeed no indication of how strongly they prevent entrepreneurs from going ahead. How much of a barrier the obstacle is, that is how effectively it prevents the realisation of start-up plans, is expressed by how often it is indicated by persons who abandon their start-up project on the one hand and by undeterred entrepreneurs on the other hand. The difference between the frequencies with which they are mentioned represents the barrier effect. The lower it is, the less entrepreneurs allow an obstacle to deter them.

Example: 37% of potential entrepreneurs who abandoned their plans stated bureaucracy as an obstacle (Figure 10, left section). Bureaucracy was also regarded as an obstacle by 33% of entrepreneurs. The balance between the two is therefore low, at four percentage points, which confirms that bureaucracy indeed is a deterrent for only few entrepreneurs.

Figure 7: Immigrants with above-average employment effect

Average direct gross employment effect p. a. in FTEs*

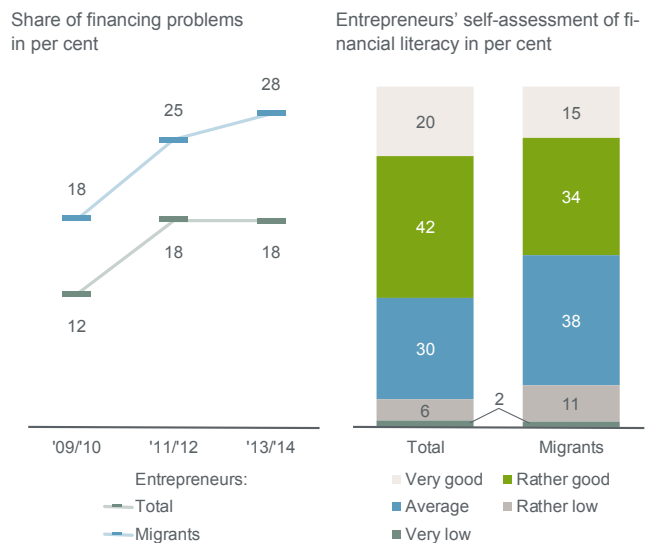


*Full-time equivalents (FTEs): Full-time employees count in full, part-time employees count as half an FTE. In order to prevent double counts the number of employees in team start-ups was normalised with the team size.

Data source: KfW Start-up Monitor

The financial risk of a start-up is a different story, however. It was significantly more relevant for potential entrepreneurs who abandoned their project (64%) than for entrepreneurs who proceeded (22%). The barrier effect is very strong (balance: +42). Its overall effect for migrants can be regarded as average compared with the corresponding balances of the individual obstacles (Figure 10, right section).

Figure 8: Migrants more likely to perceive financing problems and have lower financial literacy

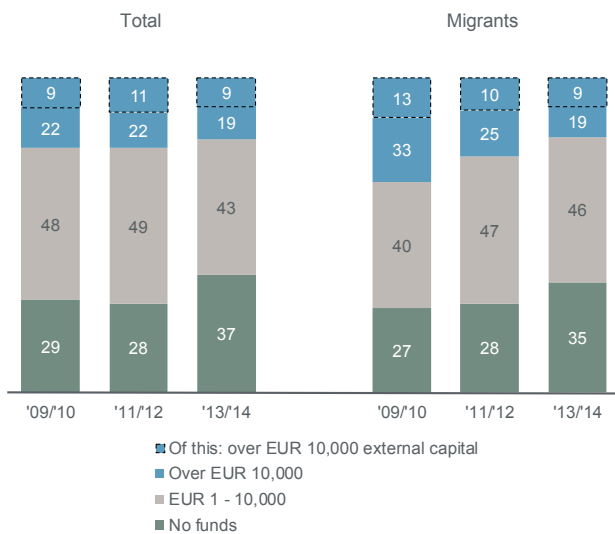


Data source: KfW Start-up Monitor

Financial risk and the difficulty of obtaining start-up finance are the biggest deterrents that discourage or prevent poten-

Figure 9: The differences in start-up financing are few

Share of borrowed funds used by entrepreneurs in per cent



Data source: KfW Start-up Monitor

tial entrepreneur from implementing a start-up project. This is true of entrepreneurs overall and applies to migrants as well.

Migrants abandon start-ups more often

After the business has been started, however, the project is

often short-lived. The cessation rate of start-ups is relatively high in general. After 12 months, 85 % of start-ups are still running, but after 36 months just 70 % (Figure 11)⁷. The survival rate among migrants' start-ups is somewhat lower than the average. After 12 months, 79 % of start-ups are still in business but after 36 months only 60 %.

High cessation rate is mostly due to unfavourable conditions

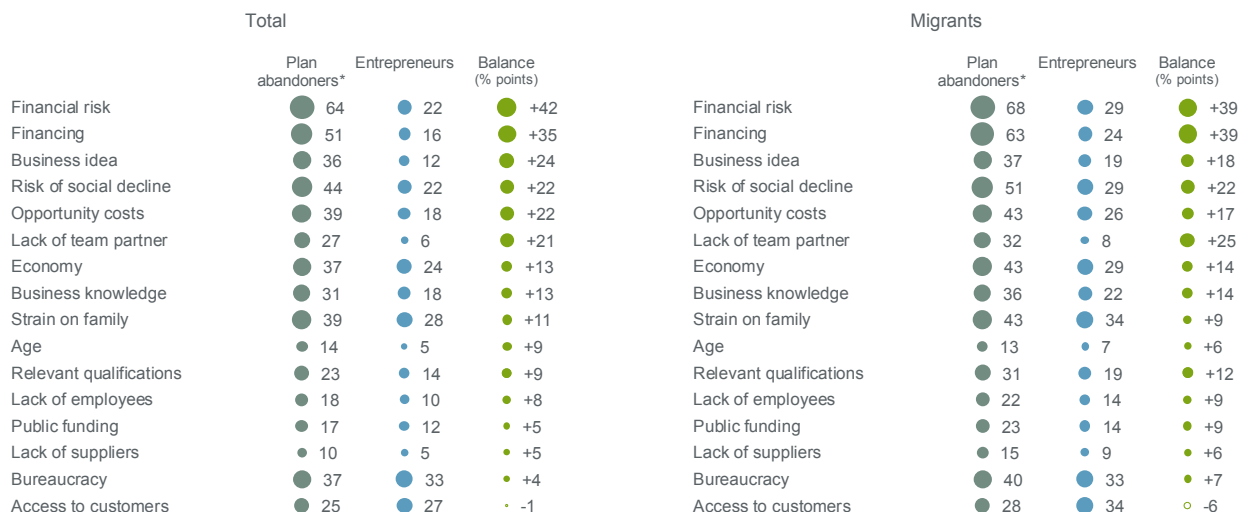
The high cessation rate of migrant start-ups is mostly the result of unfavourable conditions. Statistically relevant risk factors are found more often in migrant founders.⁸ These include a younger age, previous unemployment, lack of income alternatives, retail activity or financing difficulties⁹. Cumulatively they account for the significantly increased cessation risk of migrant start-ups.

The effects of the risk factors can be deducted with the aid of a multivariate analysis to ensure that the risk of migrants aborting their plans is considered under the same conditions. On the basis of such an analysis, migrants per se have a 0.2 % additional risk of aborting in each business month in which their start-up project is running.¹⁰

The regression analysis also shows that education pays off. For migrants a university degree means a start-up abort rate that is significantly lower than for entrepreneurs in general.

Figure 10: Migrants report start-up obstacles more often

Frequency of start-up obstacles in per cent

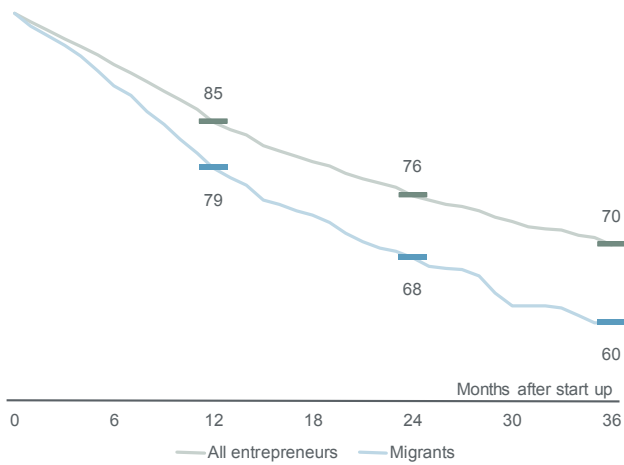


*Aborted start-up plans: Refers to persons who seriously considered the move to self-employment, but have abandoned this plan again. Guide: 37% of potential entrepreneurs who aborted their plans cited bureaucracy as an obstacle, but so did 33% of actual entrepreneurs. The difference between the two is therefore low, at four percentage points, confirming that bureaucracy indeed is an obstacle for only a few.

Data source: KfW Start-up Monitor

Figure 11: Risk of aborting slightly higher among migrants

Share of surviving start-ups in per cent



Note: Survival rates according to Kaplan-Meier.
Guide: After 12 months, 85% of all business start-ups on average are still in business.⁷

Data source: KfW Start-up Monitor

A significant number of migrants abort their start-up when offered paid employment

With all conditions being equal, why do migrants abandon their young business venture more often? At the top of the list of causes for aborting, among entrepreneurs in general as well as among migrants, is the concern that they may miss an attractive job while they are self-employed. For migrants, however, these 'opportunity costs' play a particularly important role (Figure 12). This is illustrated by the balance between the number of times they are mentioned by entrepreneurs who abort their project and entrepreneurs who stay in business. Overall, 34 % of those who abort their project and 17 % of those who stay in business regard opportunity costs as an obstacle. On balance, therefore, opportunity costs are partly responsible for 17 % of aborted start-up projects. For migrants, the advantages of paid employment are the reason for one in every four start-ups abandoned (balance: +23 percentage points).

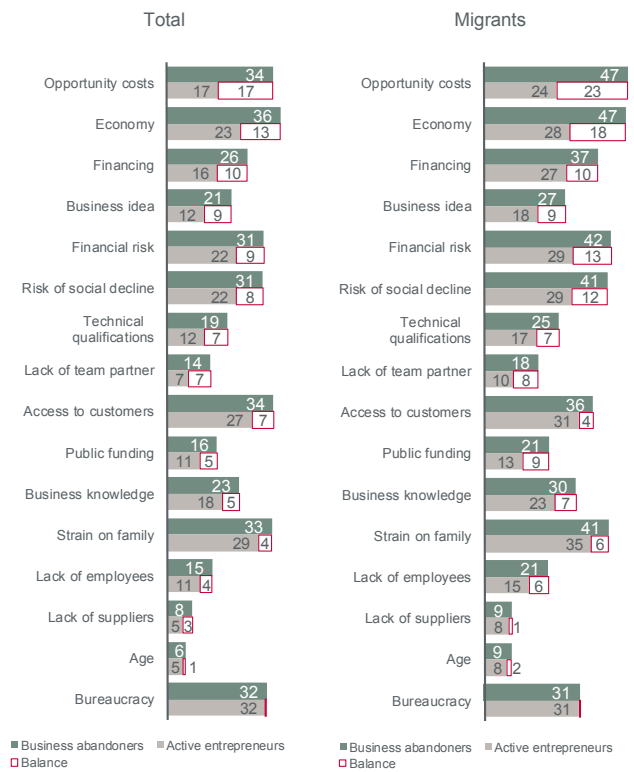
Further reasons for aborting start-ups that are cited more frequently by migrants are poor economic (or sector) performance (+18 compared with +13 for all entrepreneurs), concern over financial risk (+13 compared with +9), concern over social decline in the event of failure (+12 compared with +8) and lack of support from the state (+9 compared with +5), particularly from the Federal Labour Office.¹¹

Important contribution to start-up activity

Migrants engage in their start-up projects more proactively, for example by hiring staff, even if the decision to found a business was due to lack of income alternatives. With their higher propensity to start a business and the associated higher job creation effect, migrants thus make an important contribution to start-up activity in Germany. The clearly high-

Figure 12: Opportunity costs are the main reason for aborting business start-ups

Frequency of start-up obstacles in per cent



Note: The start-ups of the entrepreneurs considered here were launched up to three years before the respective survey. The data collected for the KfW Start-up Monitor for the years 2009-2014 were combined for the analysis.

Guide: Thirty-three per cent of people who aborted their start-up plans responded that the strain on their family was an obstacle to entrepreneurship. Of the entrepreneurs who remained active on the market, 29% regarded the strain on their family as an obstacle. The difference between the two groups is four percentage points. Thus, the strain on the entrepreneurs' family is not a major reason for aborting start-up projects.

Data source: KfW Start-up Monitor

er rate of aborted migrant start-ups is mostly the result of more unfavourable preconditions. With the same pre-requisites, migrants abandon their start-up projects only slightly more often – in many cases for better jobs in salaried employment. This illustrates that the labour market plays an important role for migrants to move into self-employment. There is no indication that they have insufficient financial resources despite their lower financial literacy. Nevertheless, it cannot be objectively asserted that migrants lack start-up skills.

On average, migrants are younger than the overall population. The age structure of entrepreneurs also reflects this. Young entrepreneurs play a special role as more of them have a university degree than older entrepreneurs, which goes hand-in-hand with higher survival rates of migrant start-ups. So younger entrepreneurs give cause for optimism that migrants' more active start-up activity will also lead to higher entrepreneurial participation in the long term. ■

¹ The term “immigrant” includes naturalised persons, late repatriates and persons of non-German citizenship. Other data sources describing start-up activity also focus on individuals’ citizenship in calculating the proportions of immigrants. Nevertheless, variations do occur in relation to the proportions of business start-ups by immigrants surveyed as part of the KfW Start-up Monitor. Thus, according to the statistics of business notifications, in 2007 one out of every four individual full-time companies (businesses founded by a main branch and small enterprise start-ups without sideline activity) was registered by an entrepreneur with a non-German passport, while this proportion climbed to nearly 50 % in the year 2013 (Leicht, R. and M. Langhauser (2014), *Ökonomische Bedeutung und Leistungspotenziale von Migrantenunternehmen in Deutschland (Economic importance and performance potentials of immigrant entrepreneurs in Germany)*, WISO diskurs, publisher: Friedrich-Ebert-Stiftung, Bonn, September 2014), in German). The freedom of movement of workers under the EU enlargement to the East is responsible for this increase, which probably consists ‘to a considerable degree in pseudo self-employment and subcontracting’ (Leicht, R. and M. Langhauser (2014), p. 26). The KfW Start-up Monitor presumably does not capture pseudo-self-employment since the surveyed individuals very probably claim to be employees when interviewed.

² The Professional Qualifications Assessment Act which entered into force on 1 April 2012 provides for formal qualifications acquired outside Germany to be assessed and recognised. Applications have good chances of approval and are worth the effort. The ‘Act on the Improvement of Verification and Recognition of Professional and Vocational Qualifications Obtained Abroad’ establishes ‘a general legal entitlement to the assessment of qualifications obtained abroad [...] irrespective of the applicant’s immigration status and citizenship.’ (Press release of the Federal Ministry of Education and Research (BMBF) dated 3 April 2013, <http://www.bmbf.de/press/3430.php>). In addition, the federal states have enacted laws of their own for the occupations in their area of responsibility. All state acts on skills recognition have been in force since 1 July 2014 (BMBF website of 4 August 2014, <http://www.bmbf.de/de/15644.php>). ‘The vast majority (82 per cent) [of the applications submitted under the Federal Recognition Act in the first year 2012] were completed with full recognition of vocational qualifications acquired abroad’ (press release of the Federal Ministry of Education and Research (BMBF) of 15 October 2013, <http://www.bmbf.de/press/3520.php>, our translation).

³ Brixy, U., Sternberg, R. and A. Vorderwülbecke (2013), *Unternehmensgründungen durch Migranten (Business start-ups by immigrants)*, IAB-Kurzbericht 25/2013, Nuremberg, in German.

⁴ This study can only provide an average view of sectoral distribution, as with all other observed characteristics. The preferred sectors for entrepreneurial activity, however, may vary substantially by ethnic origin (see Leicht, R. and M. Langhauser (2014), *Ökonomische Bedeutung und Leistungspotenziale von Migrantenunternehmen in Deutschland (Economic significance and performance potentials of immigrant businesses in Germany)*, WISO diskurs, publisher: Friedrich-Ebert-Stiftung, Bonn, September 2014, in German).

⁵ Leifels, A. and G. Metzger (2015), *Financial literacy helps with business start-ups: easier, better funded, more competitive*, Focus on Economics No. 107, 6 October 2015, Frankfurt am Main.

⁶ The variations in the respondent’s self-assessment of their financial literacy are largely consistent with the variations that are measurable through ‘test questions’ (see Leifels, A. and G. Metzger (2015), *Financial literacy helps with business start-ups: easier, better funded, more competitive*, Focus on Economics No. 107, 6 October 2015, Frankfurt am Main). Calculations made in accordance with the methodology applied by Leifels and Metzger also corroborate this for immigrant entrepreneurs’ self-assessment. They display lower measurable financial literacy than entrepreneurs overall.

⁷ In relation to start-ups that began up to three years before the respective survey. The data collected for the KfW Start-up Monitor for the years 2009-2014 were combined for the analysis.

⁸ See table in Metzger, G. (2014): *Existenzgründungen durch Migranten: Gründungslust belebt das Geschehen (“Start-ups by migrants: thirst for self-employment livens up the scene”*, in German), Focus on Economics No. 67, 22 August 2014, Frankfurt am Main.

⁹ Metzger, G. (2015), *KfW Start-up Monitor 2015, Appendix of Tables and Methods*, Frankfurt am Main, May 2015, page 21.

¹⁰ Metzger, G. (2015), *KfW Start-up Monitor 2015, Appendix of Tables and Methods*, Frankfurt am Main, May 2015, page 21.

¹¹ Twenty-three per cent of entrepreneurs with financing problems who abandoned their projects reported that they failed to obtain grant funds they applied for from the Federal Labour Office. Among immigrants this share is 28 %. In contrast, 19 % of entrepreneurs who were still in business did not receive grant funds from the Federal Labour Office (source: KfW Start-up Monitor 2009-2014). Failure to obtain start-up loans was reported by only 14 % of entrepreneurs with financing problems who aborted their projects (13 % of immigrants) and 12 % of entrepreneurs who were still in business (source: KfW Start-up Monitor 2009-2012).