



## Ten years of access to finance for business start-ups

2000 to 2009

### OSEO's record

- Major economic and social implications
- Lasting foundations through a combination of bank borrowing and public support
- Business leaders keen to expand following initial successes

From 2000 to 2009, France saw a new development with major social and economic implications: the renewal of the country's business fabric independently from the business cycle, with the number of business start-ups each year showing a lasting rise from 200,000 to 300,000.

This trend gained added impetus in 2009 with the introduction of the new *auto-entrepreneur* status for the self-employed, and has had a significant impact on macro-economic indicators. According to the study summarized in this document, **business start-ups in 2006 generated 500,000 jobs and productive investments totalling €8 billion**. OSEO made a major contribution, backing some 150,000 new businesses with guarantees or loans (*Prêts à la Création d'Entreprise* or *PCE*) over the ten years. Adjusted for double counting, this means that nearly one out of every eight start-ups had OSEO's support.

Starting a business naturally involves risk, but figures show that this can be significantly reduced by facilitating access to finance. Thus, less than one-third of business start-ups backed by a PCE loan fail within five years, compared with half as a general rule. Beneficiary profiles vary widely: over a quarter are women, and a similar proportion describe themselves as craftsmen (*artisans*). The amount invested averages around €80,000, with intangibles accounting for a rising share of the total. From 2000 to 2006, the contribution of loans to financing rose from 60 to 70%, pointing to the generalization of this practice.

After launch, three out of four new businesses are keen to grow, although this is more often the case when they are larger. To achieve growth, they adjust their offerings, and half of the total surveyed consider that they had innovated in this area. Seven out of ten express satisfaction with start-up conditions as regards both investments committed and the financing made available.

Looking at the typology of business start-ups, around 13% run into difficulties due to a mismatch with the market. Some 43% are small operations concerned primarily with preserving their existence over time, while 34% are successful start-ups mainly in industry and serving professional customers, and 10% are groupings and franchises with relatively fast-growing businesses focused on retail customers.

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*The study of business start-ups with bank backing still in operation at present is based on an original combination of findings from:*

- ◆ *OSEO documentation relating to business start-ups in the first six months of 2002 and 2006 that benefited from its support, either in the form of guarantees for bank credit (1,000 applications considered) or of PCE loans (2,000 loans);*
- ◆ *a qualitative survey conducted by IPSOS in 2009 with a sample of 1,000 business creators asked about operating conditions and the fulfilment or otherwise of their expectations.*

*This study is a contribution to the continuing work of OSEO's Economic Research and Assessment Department on the situation and development of SMEs in France. It can be consulted here:*

[www.oseo.fr/notre\\_mission/publications](http://www.oseo.fr/notre_mission/publications)

*See also the SINE (Système d'Information sur les Nouvelles Entreprises) periodic surveys of new businesses published by INSEE, France's national institute of statistics and economic studies:*

[www.insee.fr/fr/publics/default.asp?page=entreprises/sine.htm](http://www.insee.fr/fr/publics/default.asp?page=entreprises/sine.htm)

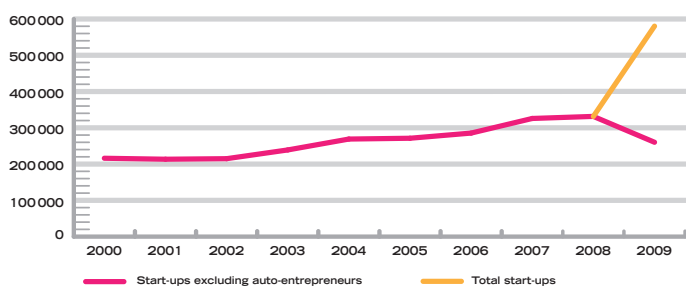
# 1. Business start-ups in France, 2000-2009

## 1.1. Overview

The decade now ending has been marked by a brisk acceleration in business start-ups. After stagnating at around 200,000 a year at the beginning of the period, they showed a lasting rise to top 300,000 in 2007 and 2008. The figures for 2009 show a modest decline, reflecting the combined effects of recession and the new *auto-entrepreneur* simplified regime for the self-employed. This was introduced under legislation that came into force in January 2009 (*Loi de modernisation de l'économie* or LME).

Of the 580,000 new business set up in 2009, 320,000 chose *auto-entrepreneur* status. While this suggests widespread enthusiasm for entrepreneurship, it is often hard to determine what proportion is due instead to the impact of the economic slump and its social consequences. It is equally hard to measure impacts in terms of sales and job creation.

**Business start-ups in France from 2000 to 2009**



Source: INSEE

On the negative side, this trend has been associated with a rise in bankruptcies of both new and better-established businesses. While failures had been holding steady at around 40,000 a year up to 2008, the economic downturn raised the total to 53,500 in the year to December 2009.

## 1.2. Public support for business start-ups in France

Throughout the decade, French public authorities have provided significant support for business start-ups with a wide variety of assistance structures and subsidies:

- 1997: ACCRE (*Aide aux Chômeurs, Créateurs ou Repreneurs d'Entreprise*), a nationwide programme in favour of the unemployed, business founders and business purchasers.
- 2002: PRE/PRCE (*Primes Régionales à l'Emploi et à la Création d'Entreprises*) programmes in favour of employment and business start-ups, administered by French regions.
- 2004: extension of EDEN (*Encouragement aux Nouvelles Entreprises*), a programme promoting new businesses.

- 2009: NACRE (*Nouvel Accompagnement pour la Création et la Reprise d'Entreprises*) combining the EDEN programme with *Chèques Conseils* for the payment of advisory fees.

Public financial support for business start-ups in France goes back further, as illustrated by the subsidized loans of the 1980s and the guarantee fund initially operated by Sofaris and then by BDPME and OSEO. On this point, it was shortly after the merger of guarantee and financing structures under the leadership of BDPME that PCE (*Prêt à la Création d'Entreprise*) loan mechanisms were set up to provide the resources necessary for business start-ups. In 2005 the tie-up between ANVAR, the national innovation agency, and BDPME, the bank for SMEs, led to the creation of OSEO. This gave definitive shape to the structure, whose mission was extended to include support for innovative businesses in general, albeit with a special focus on new ventures.

## 1.3. OSEO's role

OSEO is a public credit institution dedicated to the support and development of SMEs. It is the successor to various entities that it has since integrated, providing support for business start-ups since 1980. From 2000 to 2009, support was in the form of guarantees for bank loans to start-ups and medium-term financing, in particular PCE loans.

**Over the past ten years, OSEO has set up nearly 136,000 guarantees for bank loans totalling €6.4 billion.**

**Number and amount of loans guaranteed by OSEO 2000-2009**

Sector (NAF Rev2 classification)	Number of guaranteed loans	% of total	Total guaranteed loans (€ millions)	% of total	Average amount of bank loan guaranteed (€ thousands)
Commerce, vehicle repairs	35 813	26 %	1 536	24 %	43
Manufacturing	13 318	10 %	1 015	16 %	76
Lodging and catering	13 285	10 %	958	15 %	72
Construction	27 390	20 %	541	8 %	20
Services & miscellaneous	46 179	34 %	2 367	37 %	51
<b>Total</b>	<b>135 985</b>	<b>100 %</b>	<b>6 417</b>	<b>100 %</b>	<b>47</b>

(including guarantees for PCE loans)

From 2000 to 2009, the number of guarantees was multiplied by a factor of 11 and the amounts concerned by a factor of 4. Since 2000, OSEO support has also been in the form of PCE loans, which have now reached a total of 150,000 representing a cumulative amount of over €800 million and contributing to the financing of investments totalling €4 billion over the period. OSEO thus backed nearly one out of every eight pure start-ups alongside banks.

## 2. Main conclusions

### 2.1. Investments and jobs from business start-ups in 2006

Investment by new businesses may be estimated at over €8 billion in 2006, representing approximately 3.5% of total business investments outside the financial sector in the year. The contribution to employment was in line with this, with start-ups generating approximately 500,000 new jobs for a total private-sector workforce of 15 million.

#### Estimated investments by new businesses in the first half of 2006

Range of start-up investments (€ thousands)	Average investment per business (est.) (€ thousands)	Total investments by start-ups without access to bank finance (€ thousands)	Total investments by start-ups with access to bank finance (€ thousands)	Total investments by start-ups (€ thousands)
Under 2	1	24	2	26
2 to 4	3	45	11	56
4 to 8	6	80	37	117
8 to 16	12	127	130	257
16 to 40	28	143	409	552
40 to 80	60	106	449	556
80 to 160	120	92	674	766
160 and more	320	191	1 740	1 931
<b>Total</b>		<b>808</b>	<b>3 453</b>	<b>4 260</b>

Source: INSEE, OSEO calculations (In red: within the scope of the OSEO study)

Bank borrowing made a contribution (and in some cases a major contribution) to an estimated 80% of start-up investments in 2006.

### 2.2. Survival rates for business start-ups

New businesses are particularly prone to failure. Nearly half do not make it beyond five years, although it should be emphasized that failure does not necessarily entail cessation of operations, which concerns one out of ten businesses every year.

Survival rates improve when start-ups benefit from access to finance, in which case six out of ten are still in operation after five years.

#### Five-year survival rate of 2002 start-ups, with or without bank support (%)

Status at start-up	Not in operation after 5 years	Still in operation after 5 years	Total	%
Not bank supported	52 %	48 %	100 %	55 %
Bank supported	41 %	59 %	100 %	45 %
<b>Total</b>	<b>47 %</b>	<b>53 %</b>	<b>100 %</b>	<b>100 %</b>

Source: INSEE

Survival rates are higher for start-ups with OSEO support. Fewer than one out of three benefiting from a PCE loan fail within five years.

### 2.3. Profile of business creators

A study based on a sample of businesses set up in 2002 and still in operation in 2009 showed a majority of men, accounting for 75%, a proportion that rose to 83% in construction and wholesaling but eased to 58% in household services. Creators' average age was 37, which is close to the national average calculated by INSEE. Among those aged under 25, 44% claimed experience of the area of business concerned, compared with 82% in the 45-to-50 age bracket. In these groups, the respective proportions with management experience were 13% and 49%.

#### One out of four creators is on the trade registry (*registre des métiers*)

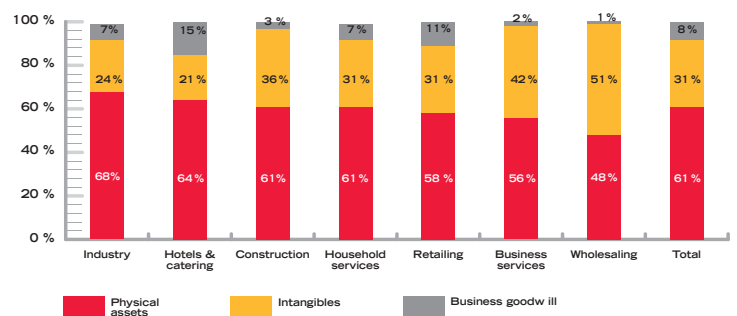
Two-thirds of the businesses in the sample targeted retail markets, while a quarter focused exclusively on business-to-business sales. Half of all the business heads in construction and industry are self-employed craftsmen (*artisans*).

### 2.4. Type and size of investments by sector

The amounts invested in physical assets are double those for intangibles. At the same time, 88% of companies made intangible investments, while 82% invested in physical assets.

Business sector is a decisive factor: physical assets are the main focus of investments in industry and in hotels & catering, while intangibles are main items for wholesalers (working capital requirements) and business services.

#### Breakdown of investments by sector and amount for business start-ups in the first six months of 2002 and 2006 (%)



Individual investments average €80,000 but vary significantly according to the type of support from OSEO (PCE loan or guarantee) and the sector concerned. The average amount is thus €130,000 in industry but only €29,000 in building, where contenders are more often small business backed by PCE loans.

## 2.5. ■ Financing plans and leverage

From 2000 to 2006, there was a significant decline in the equity contributions involved in start-ups with OSEO guarantees.

### Financing plans for start-ups in 2000, 2002 and 2006 (%)

Utilization	2000	2002	2006	Resources	2000	2002	2006
Property	30	31	33	Equity capital	37	31	27
Equipment	32	35	30	Medium & long-term debt	60	66	69
Intangibles	38	34	37	Subsidies	3	5	4
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>		<b>100</b>	<b>100</b>	<b>100</b>

The comparison shown in the table below the structures (average of averages) and amounts involved (euro averages) highlights differences between projects backed by guarantees and those backed by PCE loans.

### Financing structures and amounts for business start-ups in 2002 and 2006 (%)

Structure	Utilization				Resources		
	Guarantee	PCE loan	Total		Guarantee	PCE loan	Total
Physical assets	61	48	51	Equity	26	16	19
Intangibles	39	52	49	Debt & other	74	84	81
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>
				<b>Leverage</b>	<b>2,8</b>	<b>5,3</b>	<b>4,3</b>
By amount							
Physical assets	65	47	61	Equity	25	19	24
Intangibles	35	53	39	Debt & other	75	81	76
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Each euro of equity capital thus allows a business to borrow 2.8 euros when it is backed by a guarantee and 5.3 euros when it benefits from a PCE loan -- a difference that principally reflects the size of the projects involved.

## 3. ■ Leaders of lasting businesses keen to expand

Questioned at the end of 2009, three-quarters of the business leaders benefiting from bank support and still in operation stated that they had aimed to maximize sales, while 7% were focused on remaining in business, and 18% on continuing existing operations at the same pace.

Altogether 87% of respondents considered the type of initial investments generally well-chosen, although a quarter judged the amount too low and 10% found it excessive, suggesting some mismatches in financing plans.

Seven out of ten business leaders made additional investments after launch, either to make up for lags or in connection with outlays for integration into a larger group. These additional investments provide significant support for employment, generating an average of five new jobs in the case of projects launched in 2002 and three new jobs in 2006.

At the end of 2009, a third of the businesses surveyed were encountering difficulties, in particular as regards finances.

Despite that, nearly eight out ten said that they had achieved their initial objectives in whole or in part. Less positively, only 62% considered the resulting revenues satisfactory.

## 4. ■ Typology of new businesses in this study

Six basic types of business can be distinguished on the basis of strategies favouring organic growth or acquisitions and observed growth rates:

- Small, stable entities (including those in rural areas), making up 43% of the survey sample and for the most part involving individuals with PCE loans.
- Successful start-ups, accounting for 34% of the sample. These businesses are complete successes: they innovate and aim to reach broader markets (a goal for 69% in this category). Most are industrial businesses serving professional markets.
- Groupings and franchises together with some beneficiaries of guarantees, making up 10.5% of the sample. Targeting local markets, they generate high sales with a focus on individual customers. They are expanding and optimistic about the future.
- Finally, two groups, each representing around 6% of respondents, represent businesses in difficulty:
  - those focusing on survival after over-investing
  - those encountering operational problems due to under-investment.