

»» Migrant start-ups – a stronger desire for self-employment

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Migrants make an above-average contribution to start-up activity in Germany in a long-term comparison. A special analysis of the KfW Start-up Monitor 2018 shows that there are two main reasons for this. First, migrants have a stronger desire for occupational independence. Second, migrants have fewer prospects in the labour market and therefore become business founders more often for lack of good job alternatives (known as necessity entrepreneurs).

These entrepreneurial patterns are particularly pronounced among migrants who speak a language other than German at home. Many of them are migrants who do not stay in Germany for long. They are even slightly more inclined to set up a business than other migrants. They also have a much larger share of necessity entrepreneurs. Language barriers in the labour market, which can only be reduced with sufficient time (and support), also likely play a role.

Migrants have a stronger entrepreneurial drive

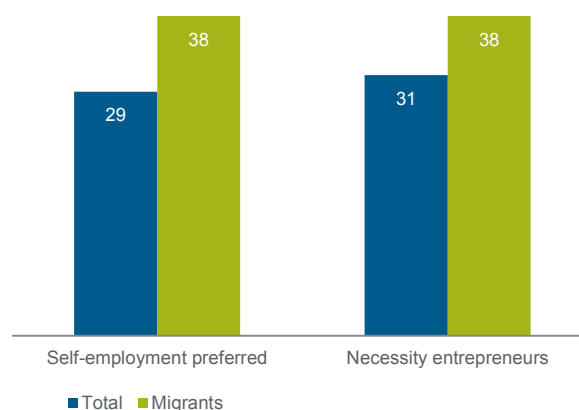
In Germany, migrants account for one business founder in five (21% on average in the years 2013–2017). Relative to their share of the population (18%), they were more active entrepreneurs than the average in the past years, according to the KfW Start-up Monitor.¹ The literature provides a number of arguments for this. These include migrants' personality traits, above all a greater appetite for risk, and more entrepreneur role models in their home country. Both can potentially generate more entrepreneurial spirit. This proposition is supported by data collected in the KfW Start-up Monitor 2018 for the first time. Irrespective of their actual income situation, 38% of migrants in Germany would generally prefer to work for themselves than for someone else. At 29%, that share is significantly smaller in the overall working-age population (Figure 1). Migrants thus prefer self-employment more than the average.

Labour market opportunities are particularly important for migrants

A major reason that migrants are more active entrepreneurs – besides their entrepreneurial drive – is that they have more limited labour market opportunities on average. After all, personal job prospects always have to be considered before venturing into self-employment and these mainly depend on (formal) qualifications. Migrants are at a disadvantage in this regard, as 46% of them in the 18–64 age bracket have no (recognised) qualifications. Across the working-age population, that rate is 22%.

Figure 1: Stronger entrepreneurial drive, more limited labour market opportunities

Share of working-age population that generally prefers self-employment over salaried employment / share of necessity entrepreneurs in all business founders (2013–2017), in per cent



The question posed was: 'Irrespective of your current personal situation, if you could choose between different types of gainful activity, would you prefer to be an employee or self-employed?'

Source: KfW Start-up Monitor 2018

The labour market disadvantages affect not just the extent but the structure of start-up activity. While 'opportunity entrepreneurs' who put an explicit business idea into practice are clearly the majority among migrants as well, at 47% (50% for all business founders), there is a relatively high number of 'necessity entrepreneurs'. Thus, migrants start a business more often than average for lack of a better income alternative in the labour market. The share of necessity entrepreneurs among migrants in the years 2013–2017 was 38%, clearly above the total average of 31% (Figure 1).

Language barriers in the labour market

Besides qualifications, another factor that determines labour market opportunities is proficiency in the host country's language. Almost all jobs require basic knowledge of German and in most cases complex conversations have to be held in German. Little is known about the language skills of migrants in Germany. A rough indicator is whether they speak mostly German or another language at home.

The KfW Start-up Monitor 2018 shows for the first time that the majority of 18 to 64-year-old migrants – two thirds – now speak mainly German at home. Only 35% live in a household that communicates primarily in a language other than

German. These are often households whose members have all migrated – some of them only recently. Obviously, the majority of these households communicate in their first language. But after around ten years in the country they mainly communicate in German, which they have acquired gradually.² Integration and language acquisition both take time – and, of course, require support in the form of adequate courses.

Using a non-German household language, however, does not mean the persons living in the household have poor command of German. Bilingual couples, for example, speak the non-German language at home so that the children also learn the language of the respective parent. Multilingualism may provide migrants with specific job opportunities. Nevertheless, migrants from non-German-speaking households on average have more limited labour market opportunities. They are more often unemployed or economically inactive than migrants overall (12 vs. 8% and 27 vs. 23%). Similar differences also exist for those who have formally equivalent qualifications.

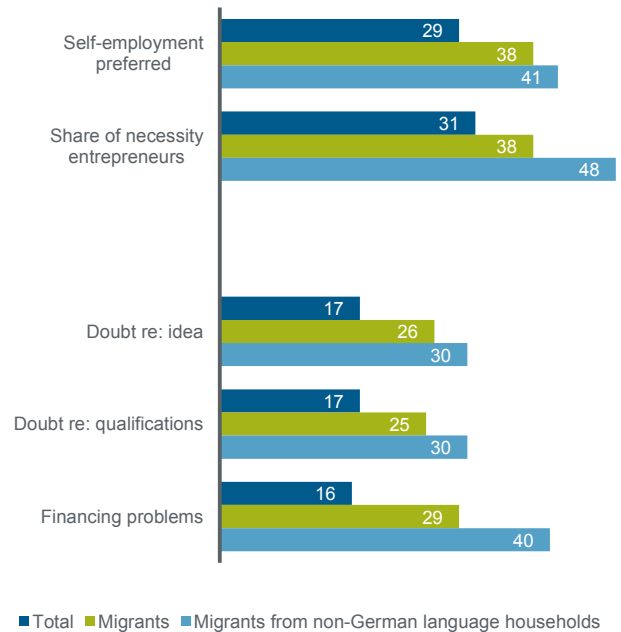
Non-German-speaking households have more self-employed persons – thanks to the labour market and entrepreneurial drive

The more limited labour market opportunities of migrants from non-German-speaking households are also reflected in the start-up activity of the years 2013–2017. They exhibit a particularly high share of necessity start-ups (48%, see Figure 2). This illustrates the significance of entrepreneurship as an important gateway to economic activity in the face of more limited employment opportunities. Regression analyses using data from the KfW Start-up Monitor 2018 generally indicate that the likelihood of migrants from non-German-speaking households to start a business is statistically slightly higher than among migrants who speak German at home. Their share of business start-ups³ is thus above average (9 vs. 7% among migrants overall).

What drives this start-up activity besides labour market disadvantages is the stronger entrepreneurial spirit of migrants from non-German-speaking households. Forty-one per cent of them generally prefer self-employment over salaried employment – an even slightly higher proportion than migrants overall (38%, Figure 1). Most migrants from non-German-speaking households have come to Germany recently, so they are presumably still embracing risk and entrepreneurial role models in the country of origin more strongly (see above).

Figure 2: Financing is a greater challenge for migrants from non-German-speaking households

Percentages of desire for self-employment / necessity entrepreneurs as in Figure 1 / frequency of start-up problems in per cent (start-ups 2013–2017)



Source: KfW Start-up Monitor 2018

Migrants from non-German-speaking households start up with more workers and are more pessimistic

Start-ups by migrants from non-German-speaking households exhibit several structural peculiarities. They start their business even more often with employees than migrants overall (36 vs. 32%).⁴ Their sectoral focus is on personal services (42 vs. 35%), particularly hospitality. Migrants from non-German-speaking households also perceive some challenges even more strongly than migrants overall. They are more likely to be worried about their professional skills (30 vs. 25%, Figure 2) and their business ideas (30 vs. 26%). Moreover, they perceive financing difficulties particularly strongly (40 vs. 29%). These three problems are much less common across the start-up spectrum and affect only 16 to 17% of entrepreneurs. KfW Research has previously shown that migrants’ above-average financing problems are also linked to their more limited financial literacy.⁵ Beyond that, the difficulties which migrants from non-German-speaking households experience are presumably an indication of language barriers affecting their access to finance. ■

¹ Here, migrants are defined as the group of naturalised immigrants, late repatriates or persons with non-German citizenship only. For more details, see: Metzger, G. (2015): **Migrants are more active entrepreneurs – mostly as a result of labour market conditions**, Focus on Economics No. 115, KfW Research.

² According to the 2018 micro-census, non-German languages predominate mainly in households whose members all have a migrant background (60%). In households with a partial migrant background that share is only 7%. Initially, migrant households very predominantly speak a non-German language and it is only after more than ten years in the country that German prevails as the household language (53% of households).

³ Percentage share of employed population who are self-employed according to the ILO definition.

⁴ Cf. Leifels, A. (2017): **Migrants have more and larger start-ups, more hours a week, more employees**, Focus on Economics No. 165, KfW Research.

⁵ Cf. Metzger, G. (2016): **Migrants are more active entrepreneurs – mostly as a result of labour market conditions**, Focus on Economics No. 115, KfW Research.