



### Key points

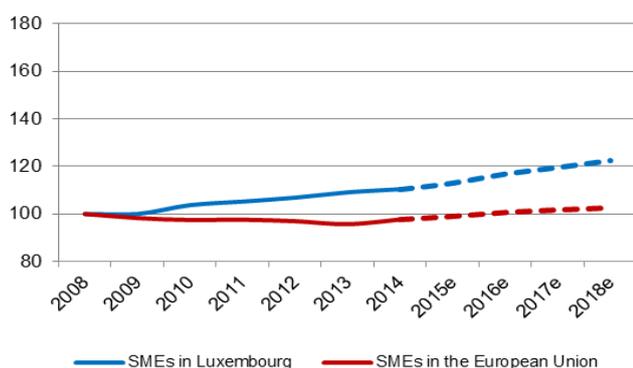
**Past & future SME performance**<sup>1</sup>: In 2012-2016, SME employment rose by 9.3 % and SME value added increased by 26.4 %. This trend was slightly better than that of large firms in the same period. Unlike large firms, SMEs have generated growth consistently, even during the post-2008 crisis. By 2016, SMEs had surpassed 2008 levels in both value added and employment, by 49.3 % and 16.8 %, respectively. Growth was strong in all SME size classes but especially in medium-size firms, where value added rose by 91.8 % in 2008-2016. Most recently, in 2015-2016, SME value added and employment increased by 3.2 % and 3.3 %, respectively. The forecast for SME growth is uneven. Employment growth is expected to remain high, at 2.3 % per year in 2016-2018, corresponding to approximately 8 500 new SME jobs by 2018. Meanwhile, SME value added is projected to rise to 7.0 % per year in the same period.

**Implementing the Small Business Act for Europe (SBA)**: Luxembourg's SBA profile falls in line with the EU average. The country performs particularly well in the environment area, with the strongest performance of all EU Member States, and slightly above the EU average in single market. The country's weakest scores are in 'second chance' and internationalisation where Luxembourg scores below the EU average. Long-term observations since 2008 show a downward trend for 'second chance,' access to finance and skills & innovation and a positive trend for 'responsive administration' and single market.

**SME policy priorities**: Luxembourg has no shortage of individual measures to help SMEs. Areas that deserve particular attention include internationalisation, where targeted measures would facilitate the declaration, release and clearance process for SMEs involved in cross-border activities. The long-awaited improvement of the legal framework for the 'second chance' area should be adopted and implemented without further delay. On the 'Think Small First' principle, existing legislation could be revised and evaluated on a more systematic basis. Quality of ex-ante evaluations of legal proposals could be further improved. On 'responsive administration,' more needs to be done to reduce the cost of starting and transferring a business.

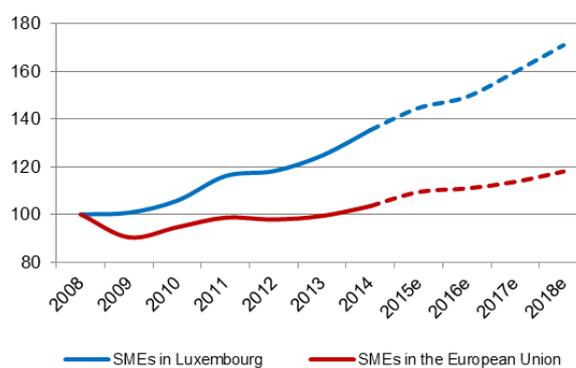
**Number of persons employed in SMEs**

(Index: 2008=100, estimates as from 2015 onwards)



**Value added of SMEs**

(Index: 2008=100, estimates as from 2015 onwards)



### About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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## 1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Luxembourg		EU-28	Luxembourg		EU-28	Luxembourg		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	29 383	87.9 %	93.0 %	49 040	18.5 %	29.8 %	5.4	22.4 %	20.9 %
Small	3 247	9.7 %	5.8 %	65 936	24.9 %	20.0 %	4.9	20.3 %	17.8 %
Medium-sized	638	1.9 %	0.9 %	65 260	24.7 %	16.7 %	6.6	27.1 %	18.2 %
<b>SMEs</b>	<b>33 268</b>	<b>99.6 %</b>	<b>99.8 %</b>	<b>180 236</b>	<b>68.1 %</b>	<b>66.6 %</b>	<b>16.9</b>	<b>69.8 %</b>	<b>56.8 %</b>
Large	148	0.4 %	0.2 %	84 282	31.9 %	33.4 %	7.3	30.2 %	43.2 %
<b>Total</b>	<b>33 416</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>264 518</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>24.2</b>	<b>100.0 %</b>	<b>100.0 %</b>

*These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the non-financial business economy, which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.*

SMEs in Luxembourg play an important role in the non-financial business economy, providing 68.1 % of total employment. This share is close to the EU average of two thirds. However, a distinctive feature of SMEs in Luxembourg is that they generate a higher share of value added than employment; 69.8 % of value added against the EU average of 56.8 %. The average Luxembourg SME employs 5.4 people, which is substantially higher than the EU average of 3.9. Annual SME productivity is also exceptionally high in Luxembourg, with value added per person employed totalling around EUR 93 800, almost double the EU average of EUR 43 500.

SMEs in Luxembourg's non-financial business economy have grown solidly in recent years. In 2012-2016, SME employment rose by 9.3 % and SME value added increased by 26.4 %. This was slightly better growth than that of large firms in the same period. Moreover, unlike large firms, SMEs have generated growth consistently, even during the post-2008 crisis. By the end of 2016, SMEs had surpassed 2008 levels in both value added and employment, by 49.3 % and 16.8 % respectively. Growth was strong in all SME size classes, but especially in medium-size firms, in which value added rose by 91.8 % in 2008-2016. Most recently, in 2015-2016, SME value added and employment increased by 3.2 % and 3.3 % respectively.

One of the key drivers of recent SME growth in Luxembourg has been the information and communication sector. SME employment in this sector increased by 16.4 % in 2012-2016, while SME value added grew by 50.3 %. Luxembourg's role as host to numerous company headquarters, covering a wide range of business sectors, along with its state-of-the-art digital infrastructure, has set the stage for an economic environment which is highly attractive to the information and communication sector<sup>2</sup>.

The government's active and long-standing promotion of IT has further contributed to SME growth. A major example of this government support is the 'Digital Lëtzebuerg' initiative, launched in 2014 to improve the international competitiveness of Luxembourg's IT sector. One of the aims of the scheme is to encourage the development of digital content, cloud computing and big data technologies by increasing domestic demand. This is being accomplished through comprehensive digitisation of the information infrastructures of Luxembourg's public institutions<sup>3,4</sup>. Additional government support is provided by programmes such as 'Fit 4 Innovation,' which provides funding for SME innovation projects, 'Fit 4 Digital,' which helps SMEs improve their business performance through adoption of new ICT systems, and the 'Digital Tech Fund,' which finances ICT start-ups<sup>5</sup>.

Professional activities is another sector which has experienced outstanding growth recently. In 2012-2016, SME employment in professional activities rose by 19.2 % and SME value added increased by 42.9 %. The main growth drivers were the subsectors management and consulting (for SME value added), and legal and accounting (for SME employment). In part this is due to ambitious government support aimed at creating an attractive economic environment for high-innovation companies in fields such as life sciences and clean technologies. The 'Luxembourg EcolInnovation Cluster' is one such support initiative

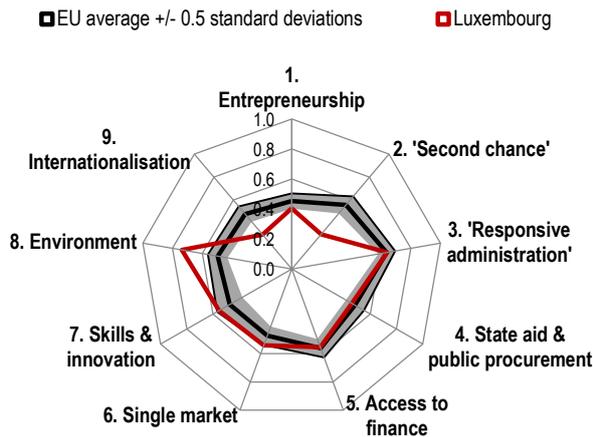
which aims to encourage collaborative business opportunities in sustainable technologies<sup>6</sup>. Another initiative is 'Neobuild,' a centre for technological innovation in sustainable construction. Launched as a public-private partnership in 2012, 'Neobuild' provides specialised coaching and support for research, technology, development, and innovation to the construction sector<sup>7,8</sup>.

The number of registered businesses in Luxembourg has grown consistently in recent years, increasing from a total of 32 006 in 2015 to 32 635 in 2016. However, this 2.0 % increase is slightly lower than the previous growth of 5.0 % in 2014-2015 and 2.3 % in 2013-2014<sup>9</sup>. By contrast, bankruptcies have fluctuated during recent years. In 2015-2016, they increased by 12.6 %, taking the total number of bankruptcies to 983. But this was still lower than the 2012 and 2013 levels of more than 1 000 bankruptcies. The most recent increase was entirely due to a rise in bankruptcies in the services sector. By contrast, bankruptcies in commerce, construction and production dropped<sup>10</sup>.

The share of high-growth firms in the overall total of firms was 9.7 % in 2014, which is slightly higher than the EU average of 9.2 %<sup>11</sup>. However, Luxembourg differs from the EU average for the sector with the most high-growth firms; for Luxembourg, it is real estate activities which, at 14.3 %, is almost double the EU average of 7.2 % in this sector. Self-employment is significantly less common in Luxembourg than in the EU as a whole. In 2016, 8.7 % of all persons employed were self-employed, compared to 14.0 % on average in the EU.<sup>12</sup>

The forecast for SME growth is uneven. SME employment growth is expected to remain high, at 2.3 % per year in 2016-2018, corresponding to approximately 8 500 new SME jobs by 2018. Meanwhile, growth of SME value added is projected to rise to 7.0 % per year in the same period.

## 2. SBA profile<sup>13</sup>



Luxembourg's SBA profile is largely in line with the EU average. The country performs especially well in the environment area, with the strongest score of all EU Member States. It also shows good performance in single market and skills & innovation. Luxembourg's weakest policy area remains 'second chance' in which it has one of the three weakest scores of all EU Member States. Further improvements in this area are essential to increase the country's overall profile strength. An important change in performance in comparison to last year's fact sheet appears in the area of internationalisation, where new indicators for border administration were introduced. As a result, the country's scores dropped from above to below the EU average. Long-term observations of performance since 2008 show a downward trend for 'second chance', access to finance and skills & innovation and a positive trend for 'responsive administration' and single market.

Since 2008, Luxembourg's government has demonstrated a steady commitment to SMEs' interests and a willingness to replicate and adapt good international practices. On 'responsive administration,' many measures have been implemented over the years to reduce the administrative burden on SMEs and simplify procedures. The online portal 'www.guichet.lu.' is continuously being updated and the introduction of the 'e-portal for public procurement' greatly facilitated SMEs' access to public

procurement. At the same time, the 'Digital Luxembourg' initiative aims to further digitise administrative procedures and thus expand the implementation of the 'only once' principle. Over the years, the introduction of various clusters (such as the BioHealth Cluster, the EcoInnovation Cluster, the ICT Cluster, the Space Cluster) and innovative incubators (such as Ecostart, House of BioHealth, Technoport) show Luxembourg's determination to develop a solid ecosystem for innovation.

In recent years, the government has also increased its efforts to promote entrepreneurship by launching support programmes such as the 'Fit 4 Entrepreneurship' initiative or providing resources for the 'Hands Up' initiative of the Chamber of skilled crafts and trades.

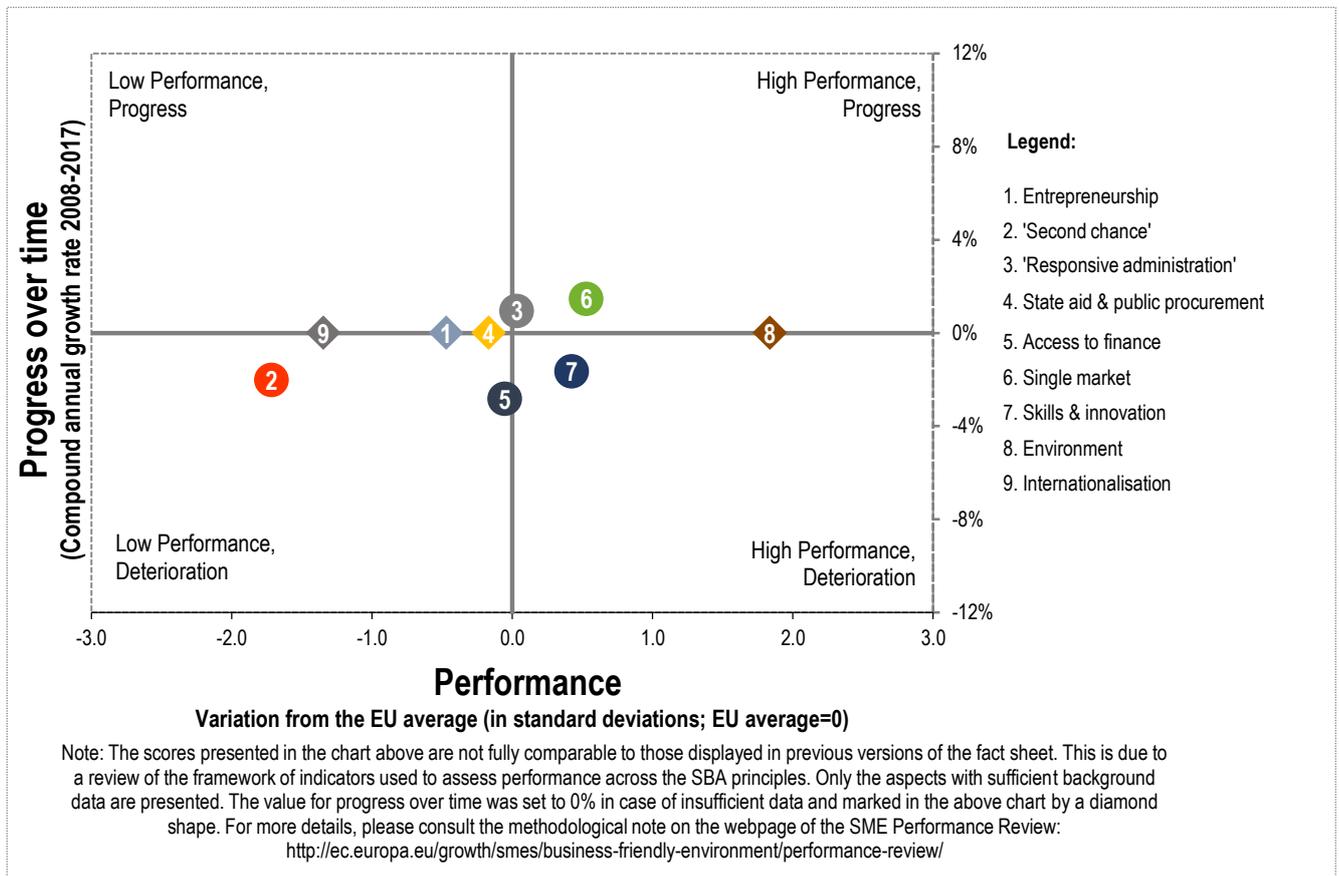
However, there is still room for improvement, especially for the 'second chance' principle where no efforts have yet been made to launch national information campaigns to reduce the stigma of failure, nor have the legal procedures connected to the bankruptcy process been reduced.

In 2016 and early 2017, Luxembourg implemented 25 policy measures addressing 6 out of 10 policy areas under the Small Business Act. However, there is still a general perception that progress on the SBA has been modest this year, as most of the measures focus on the same SBA principles (e.g. 'responsive administration' and skills & innovation).

This might be explained by the country's continuous effort to start implementing the 'Third Industrial Revolution' strategy presented the previous year, which aims at developing a new economic model by creating an intelligent network. To support future economic growth the government has stepped up efforts to prepare the different economic sectors for the challenges of an increasingly digitised world.

Both the Pro-Craftsmanship Pact and the Pro-Commerce Pact, for example, aim at supporting the further development of these sectors while promoting their digitalisation and thus their integration into the third industrial revolution. By affecting the entire national economy, the third industrial revolution will significantly affect SMEs and a series of measures have thus been introduced to gradually prepare these businesses to the new challenges they might face in the future.

## SBA performance of Luxembourg: state of play and development from 2008 to 2017<sup>14</sup>



## 3. SBA principles<sup>15</sup>

### 3.0 'Think Small First'

The 'Think Small First' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Overall, Luxembourg performs well on the 'Think Small First' principle. The principle is consistently applied to both legislation and administrative procedures affecting SMEs, and some progress is being made to reduce the administrative burden.

The regulatory impact assessment (RIA) process is in place and applied consistently. SME consultations and RIA results are regularly shared with SME stakeholders and made publicly available, and the SME envoy is generally seen as visible by SME stakeholders.

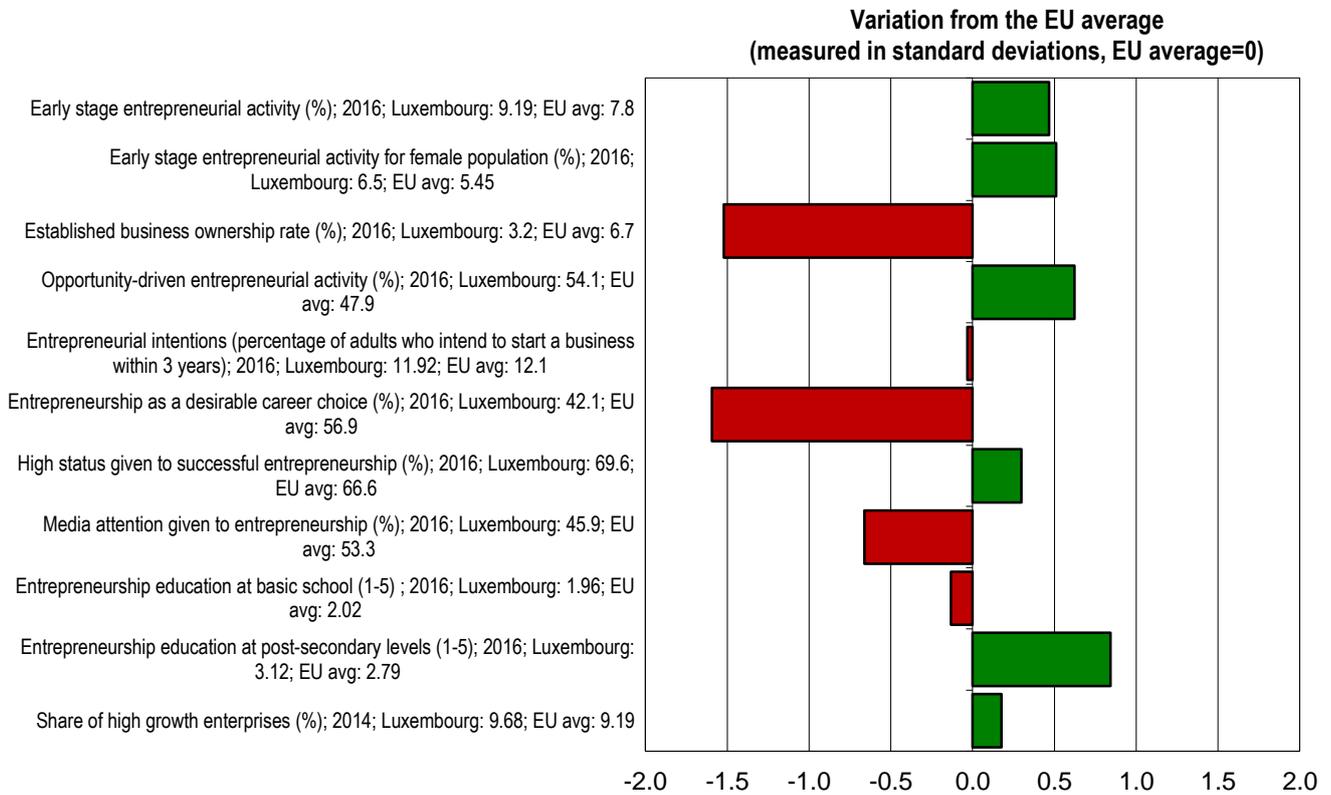
The SME test is applied rather systematically and SME stakeholders are consulted on new legislative proposals. However, the tests' quality should be improved and lead to a more thorough quantitative and qualitative impact assessment of administrative burden on SMEs. The consultation time for stakeholders should also be extended to allow them to perform a more in-depth analysis of the legal measures concerned.

Despite the overall positive evaluation of the principle, Luxembourg still lacks 'common commencement dates' for all new legislation and amendments to existing legislation relevant to SMEs, and there is still no mechanism in place for revising and evaluating existing legislation and changing what is needed based on the impact assessment results. On the lack of progress towards common commencement dates, it should be pointed out that this is not seen as crucial by SME stakeholders.

Some progress has been made on the 'Think Small First' principle during the current reference period (2016 and the first quarter of 2017). Luxembourg's fourth SME action plan includes plans to review and simplify business-related legislation but concrete measures to reach these objectives have not been introduced yet.

Nevertheless, two simplification examples are already available: (1) the legislation governing end of season sales has been simplified (see law of 23 December 2016 on street sales and misleading advertising); and (2) the SME exception has been used in the context of labelling rules for ingredients in food products, by amending earlier legislation (*Règlement grand-ducal du 5 décembre 2016 portant modification au règlement grand-ducal du 25 août 2015*).

### 3.1 Entrepreneurship



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Luxembourg continues to perform in line with the EU average in this area, despite the noticeable decline in early-stage entrepreneurship since last year. The country still lacks an entrepreneurial culture although successful entrepreneurs have higher status and post-secondary education provides better preparation for start-ups than the EU average. A small percentage (about 12 %) of adults has entrepreneurial intentions and few people consider entrepreneurship as a desirable career choice (about 42 % compared with an EU average of 57 %). Luxembourg’s entrepreneurial activity is mainly driven by opportunity; nevertheless, despite a slight increase from 2.4 % to 3.2 % (between 2013 and 2016) the established business ownership rate is the lowest of all EU countries.

From a policy perspective, Luxembourg has been increasing its efforts to support the development of an entrepreneurial spirit. While this policy area might not be the country’s main strength, continuous efforts have been made since 2008 (especially by the Chamber of Commerce, the Chamber of Skilled Trades and Crafts, and the association of young entrepreneurs ‘Jonk Entrepreneuren’). Schemes to facilitate business transfers are in place and various programmes to promote entrepreneurial spirit have been introduced especially to provide support to jobseekers, women and young entrepreneurs. Entrepreneurship education is available at all levels of the national school system.

The association of young entrepreneurs has been especially active by offering entrepreneurial education programmes in primary, secondary and tertiary schools. However, missing measures include specific entrepreneurship support and advice to immigrants and there is still no compulsory teacher training on entrepreneurship.

Additionally, the government has been focusing its efforts on improving the start-up environment in place and stimulating the development of an entrepreneurial culture in Luxembourg. Various initiatives to promote entrepreneurship have been launched in this context (e.g. ‘Entrepreneurial Schools,’ the ‘Fit 4 Entrepreneurship’ programme, ‘6zéro1,’ the ‘House of Biohealth,’ ‘NYUKO,’ the ‘Technoport’ etc.).

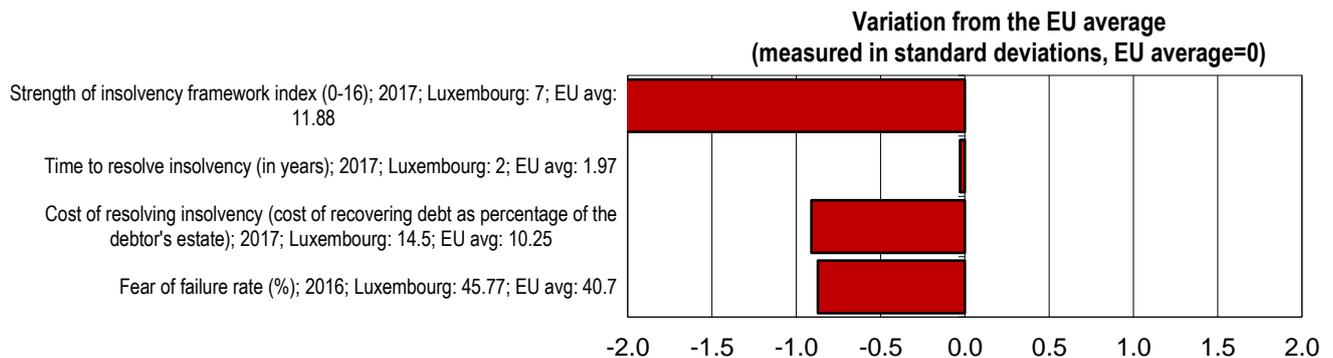
Most scale-up initiatives are privately led, such as the PwC Accelerator which aims to support high-growth potential companies in their further development and support SMEs in their efforts to enter the most relevant markets and find the most appropriate financing solutions.

For this reference period, the following two measures have to be highlighted:

- In November 2016 the Ministry of the Economy and the Ministry of Education, Childhood and Youth presented the 'Entrepreneurial Schools' initiative, which intends to awaken the entrepreneurial spirit of young secondary level students. The initiative aims at introducing courses on entrepreneurship in national secondary schools, thus embedding entrepreneurial education in the national school curricula. A collaboration agreement was signed with three public high schools that will participate in drawing up an educational concept and will implement the newly created branches in 2017-2018.
- Another important step taken to promote entrepreneurship is the opening of 'Gzéro1', the first

social impact company in Luxembourg. 'Gzéro1' is supported by ULESS, the Ministry of Labour, Employment and Social and Solidary Economy, as well as the Foundation of the Grand Duke and the Grand Duchess. 'Gzéro1' assists entrepreneurs with their applications for approval of social impact companies and organises collective training on targeted themes related to the launch and development of economic activity. It also allows project owners to receive financing for the start of their social company and offers individual support to social entrepreneurs as well as arranging meetings with industry experts.

### 3.2 'Second chance'



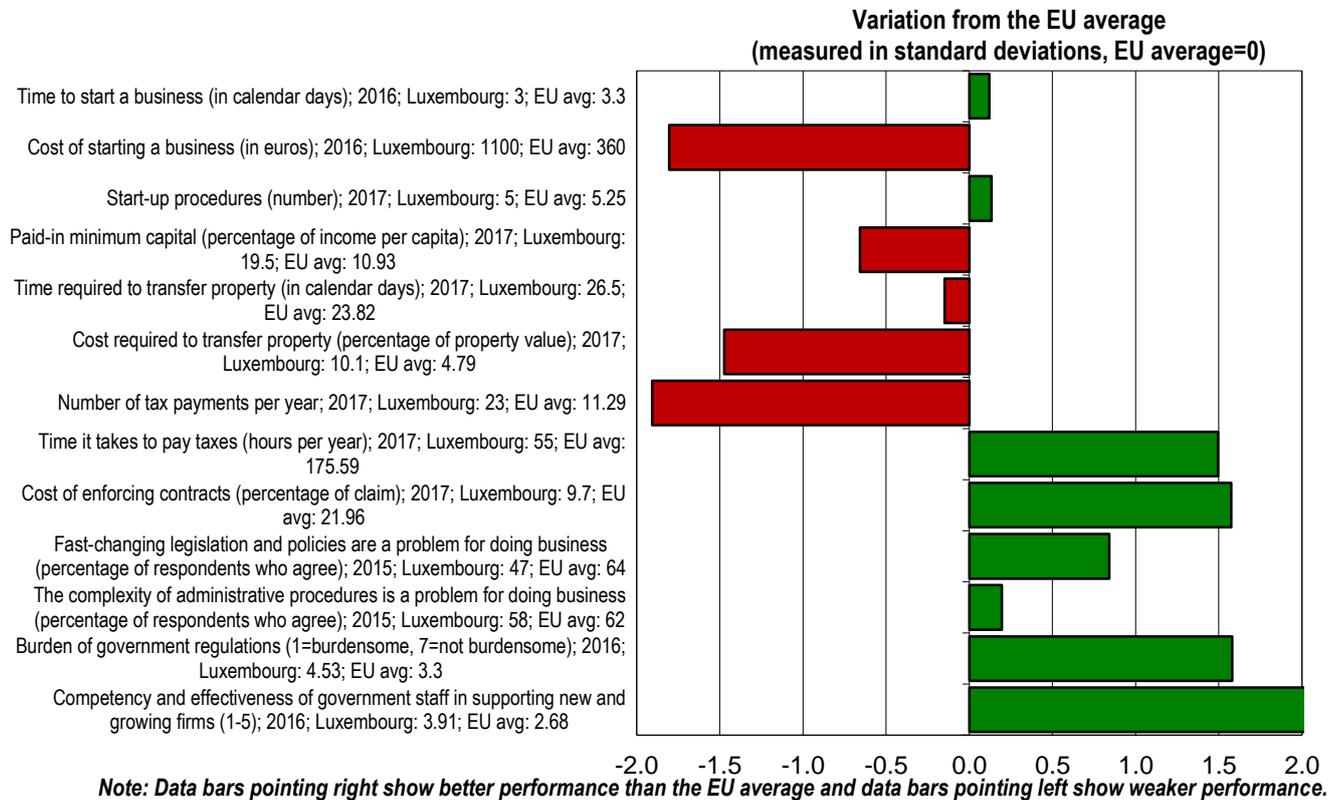
'Second chance' ensures that honest entrepreneurs who have gone bankrupt get a second chance quickly. Luxembourg performs below the EU average in this SBA policy area, presenting the weakest score among all EU Member States. Moreover, since 2008, there is a continuous downward trend. The insolvency framework in place remains extremely weak, scoring well below the EU average, and the costs of resolving insolvency remain high. This difficult environment is further reflected in the fear of failure rate, which increased from 42.6 % in 2015, to 45.77 % in 2016. Luxembourg urgently needs to improve its performance on the 'second chance' principle to encourage entrepreneurship and reduce the stigma of failure associated with the insolvency process.

Since 2008, Luxembourg's performance has been poor in this SBA area in policy terms. Little has been done in recent years to improve the country's performance, and no new measures were

introduced in the current reference period. No significant campaigns aimed at reducing the stigma of business failure have been launched, nor have any specific pre-emptive measures been put in place to help businesses avoid failure in the first place. The legal procedures connected to bankruptcy usually take longer than a year and discharge from bankruptcy is not completed in three years. Honest entrepreneurs are not automatically discharged after liquidation and there are no fast-track procedures in place for SMEs.

The draft legislation on rescuing companies and modernising the bankruptcy law, tabled at the Chamber of Deputies in 2013, would introduce measures to avoid business failures by detecting businesses in financial difficulties at an early stage but the draft has not been passed yet. There is thus significant room for improvement in this SBA area.

### 3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. Luxembourg performs on a par with the EU average in this SBA policy area. Since 2008, the country's performance has been steadily improving. While most of the indicators are unchanged compared to last year, paid-in minimum capital dropped from 22.60 % to 19.5 % suggesting that the business creation process has been further facilitated. Moreover, 2015-2016 saw a further reduction in the burden of government regulations imposed on SMEs. During this period, the country's performance improved from 4.36 to 4.53 in this category. Luxembourg's efforts on the centralisation and digitalisation of the administrative procedures are thus starting to show results. However, further improvements are necessary on the processes for starting and transferring a business.

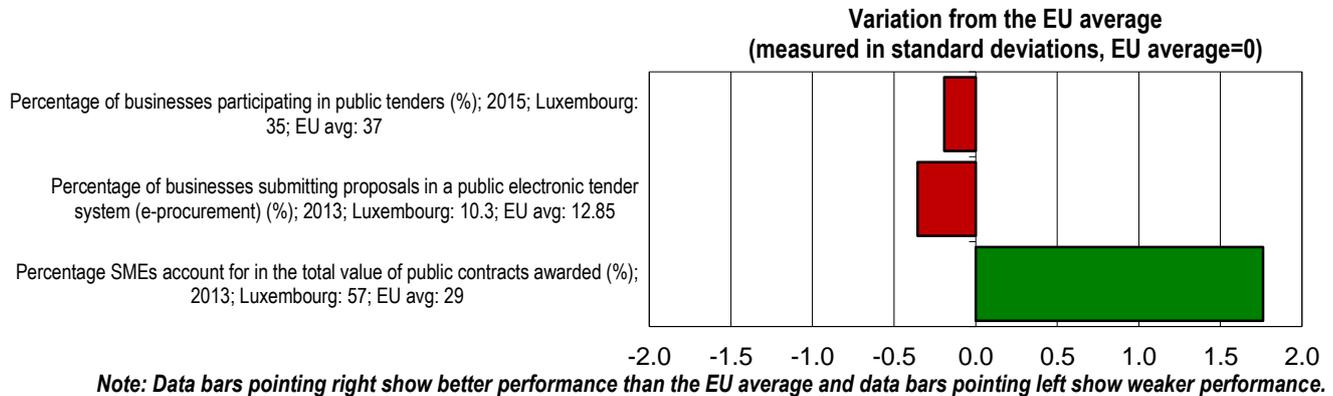
From a policy perspective, Luxembourg has been very active in this SBA area since the start of the evaluation in 2008. Start-up procedures are seen as easily accessible and considerable progress has been made on e-government and the efficiency of entrepreneurs' interactions with government services. While administrative procedures and government regulations were not considered particularly burdensome in previous years, numerous measures were announced or adopted in 2016 and early 2017 to further reduce the administrative burden on SMEs and encourage their growth and development.

The 'House of Entrepreneurship,' founded by the Ministry of the Economy and the Chamber of Commerce, was launched in October 2016 and brings together all stakeholders involved in the business creation process in a single platform, further facilitating the administrative process required to open a business.

The implementation of the 'law on social impact companies' (*loi sur les sociétés d'impact sociétal*) and the 'law on simplified liability companies' (*loi sur la société à responsabilité simplifiée SARL-S*) opened new opportunities for potential entrepreneurs. The 'law on social impact companies' allows for the creation of businesses that want to launch socially innovative activities. It created better social security and tax schemes for these companies, as well as improving their access to public tenders. The 'law on simplified liability companies' reduces the minimum social capital requirement to EUR 1, thus lowering the cost of setting up a business. Both measures facilitate the business creation process and diversify the national SME landscape.

Another important development is the 'Fiscal Reform 2017,' which introduces various new fiscal measures. SMEs will especially benefit from the reduction of the corporate income tax rate and additional incentives for investment. Luxembourg thus saw great progress in this SBA area.

### 3.4 State aid & public procurement



Luxembourg continues to perform on a par with the EU average on state aid & public procurement. The country's indicators have remained unchanged due to the lack of new data available.

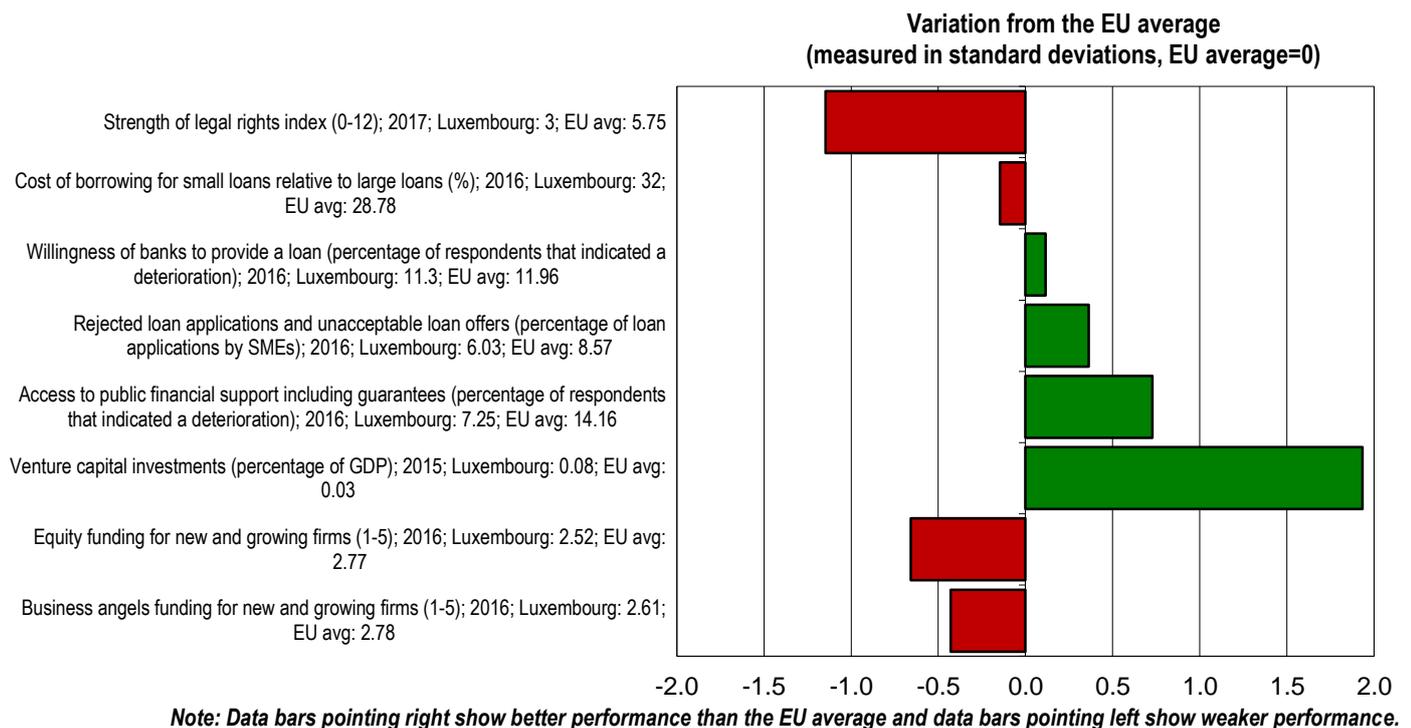
However, the introduction of the e-portal for public procurement is expected to improve the percentage of businesses participating in public tenders and the percentage of businesses submitting proposals via e-procurement.

In policy terms, Luxembourg has been doing well in this SBA area, and SME stakeholders did not express any need for

immediate action. The State aid policy adopted supports the needs of SMEs, an effective e-procurement portal is in place and protective measures for SMEs have been adopted for late payments. SMEs have the option of collective bidding and big tenders are often divided into smaller lots, so SMEs can apply. State aid & public procurement are thus easily accessible to SMEs.

During the reference period, no new policy measures were announced, adopted or implemented, underlining the government's limited focus on this SBA area.

### 3.5 Access to finance



Luxembourg continues to perform on a par with the EU average in this SBA policy area even though a clear downward trend can

be observed in the country's performance since 2008. This year's assessment shows a slight improvement in SMEs' access to

loans. While the cost of borrowing for small loans relative to large loans increased in 2015-2016 from 24.87 % to 32.00 %, the annual average interest rate paid on small loans fell from 1.89 % to 1.75 %. The number of rejected loan applications and loan offers whose conditions were deemed unacceptable also fell, from 9.81 % to 6.03 %. At the same time, the share of respondents who indicated deterioration in banks' willingness to provide loans dropped from 12.41 % in 2015 to 7.25 % in 2016. Overall, access to loan financing has thus improved. This can be explained by the continued growth in the economy and the government's continued commitment to facilitating SMEs' access to finance.

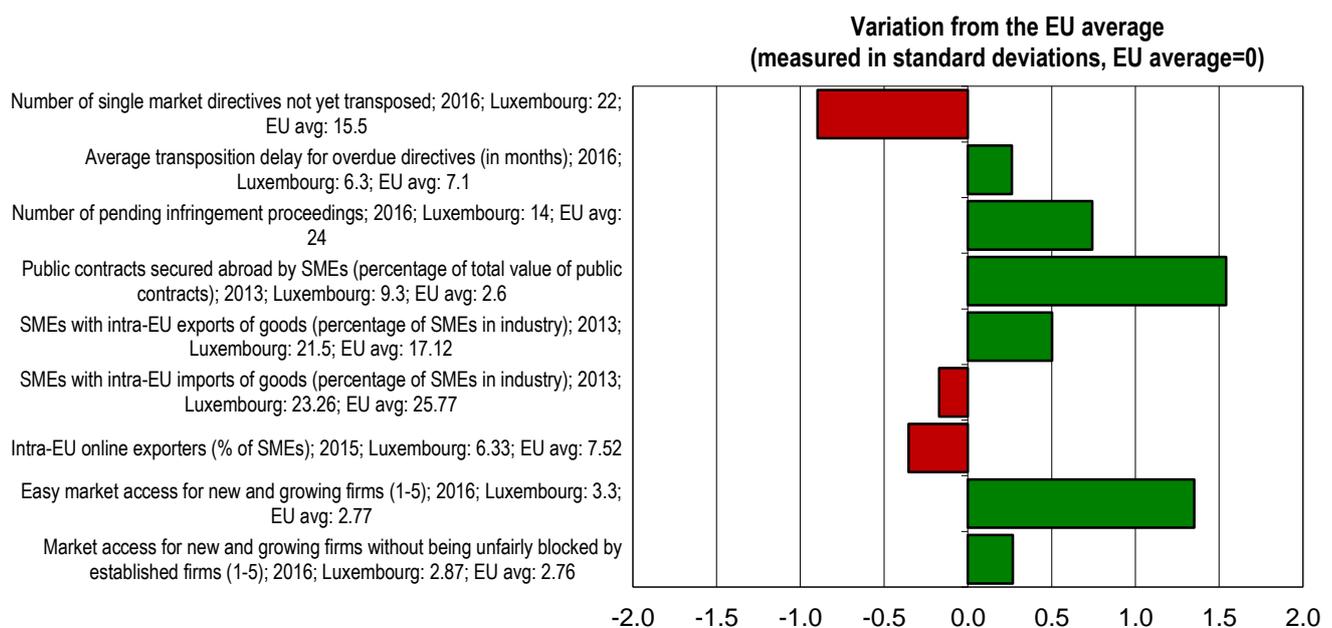
From a policy perspective, Luxembourg's efforts in this SBA area have been substantial since 2008. The country's continued efforts are reflected in the positive feedback from SME stakeholders. Loans are considered easily accessible and mutual societies provide the necessary guarantees. The development of 'business angel' funds is ongoing and several venture capital funds have been established. EU-based funds are also easily available to SMEs through the InnovFin SME Guarantee Facility. Moreover, specific funds are available to those starting up a business, as is risk capital. Various funds are available to those working in innovation or wishing to make their business more environmentally friendly.

During the reference period, two new policy measures were introduced to further support the development of SMEs and facilitate their access to finance:

- 'Microlux' was founded by ADA, BGL BNP Paribas, EIF and ADIE and represents the country's first microfinance institution. It will offer three different types of microcredits and provide support, supervision, coaching and training to social businesses and to individual clients.
- The 'Digital Tech Fund' is part of the 'Digital Lëtzebuerg' initiative and supports promising innovative companies that have existed for less than seven years. The 'Digital Tech Fund' will also support the exchange of new technologies between public research, start-ups and SMEs.

Both measures target small, young and innovative companies in line with the government's desire to further develop an entrepreneurial spirit and promote the development of an innovative economy.

### 3.6 Single market



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Luxembourg performs above the EU average on the single market, having improved its overall performance in this area compared to last year. Since 2008, the country has been steadily improving its performance in this SBA policy area. Even though the number of single market directives not yet transposed

increased from 12 to 22 in 2015-2016<sup>16</sup>, this decline did not change the country's performance in relation to the EU average as the absolute number of directives also increased. The positive assessment is further supported by the drop in the average transposition delay for overdue directives in the same period

(from 6.7 months in 2015 to 6.3 months in 2016). Overall, Luxembourg SMEs continue to be well represented on the single market and score well above the EU average on the number of public contracts secured abroad by SMEs. This and the easy market access for new and growing firms, explain the country's strong performance in this SBA policy area.

In policy terms, Luxembourg fares quite well in this SBA area although progress has only been moderate since 2008. The government tries to transpose EU laws on time, there is an effective Internal Market Information System in place and there are measures to help SMEs develop standards as well as to register patents and trademarks in the single market. The Enterprise Europe Network offers SMEs a single point of contact to support them in the single market. It should be pointed out that the single market was not included in Luxembourg's fourth SME action plan,' suggesting that the government does not consider this area as requiring much action. Interviewed

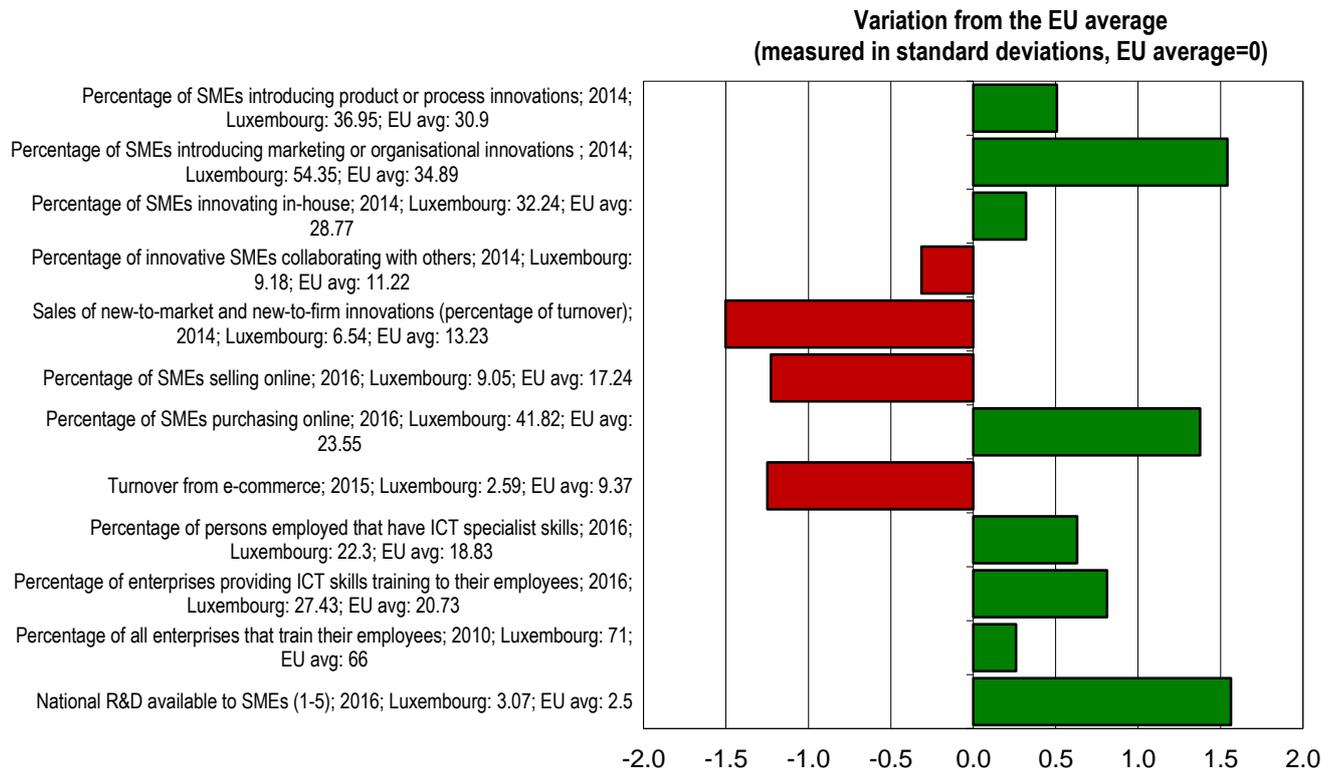
stakeholders also saw no urgent need for new policy measures and confirmed this assessment.

Luxembourg's good performance in this area thus explains the lack of any new policy measures during the reference period. However, Luxembourg continuously tries to improve its integration into the single market.

Further to a political recommendation of November 2015, the Benelux states launched a joint investigation at the end of 2016 into the long-standing problem of territorial supply constraints. First results indicate that the problem is of particular concern for Luxembourg SMEs.

In the context of online sales, Luxembourg has announced in the Pro-Business pact that it will set up a platform encouraging local business to embrace online sales. The new e-commerce platform is scheduled for the end of 2017.

### 3.7 Skills & innovation



**Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.**

Luxembourg performs on a par with the EU average on skills & innovation. This represents a decline in the country's overall performance in this SBA policy area from last year and follows the steady downward trend since 2008.

The percentage of SMEs introducing product or process innovations declined (from 43.06 % in 2012 to 36.95 % in

2014) as did the percentage of SMEs innovating in-house (from 37.21 % in 2012 to 32.24 % in 2014). However, the government expects these indicators to improve with the availability of more recent data as various initiatives to improve SMEs' innovative development and IT skills have been launched since 2014.

From a policy perspective, Luxembourg has been putting substantial efforts into this SBA area since 2008. The national innovation system has been continuously expanded and many support measures have been put in place over the years. For example, SMEs can benefit from public measures to provide training and advisory/support services, and the lifelong learning network has continually been extended. The 'Fit 4 Innovation' programme launched in 2014 further supports the development of SMEs' RD&I competencies and various clusters were introduced to encourage SMEs to take part in innovation partnerships and help them market research results (e.g. Luxembourg ICT Cluster, Luxembourg Space Cluster, Luxembourg Manufacturing Cluster). Moreover, in 2016 Luxembourg announced its intention to create a legal framework for the mining of space materials, making it the first European country to do so and underlining its continued commitment to innovation.

The current reference period saw the implementation of two new policy measures:

- The 'Fit 4 Digital' programme introduced by the Ministry of the Economy and Luxinnovation identifies what ICT opportunities exist for small companies and how they can be introduced in the respective businesses, thus supporting the digitalisation and innovation of SMEs.
- An important project of common European interest has been launched to develop accessible high-power computing and 'big data' infrastructure and

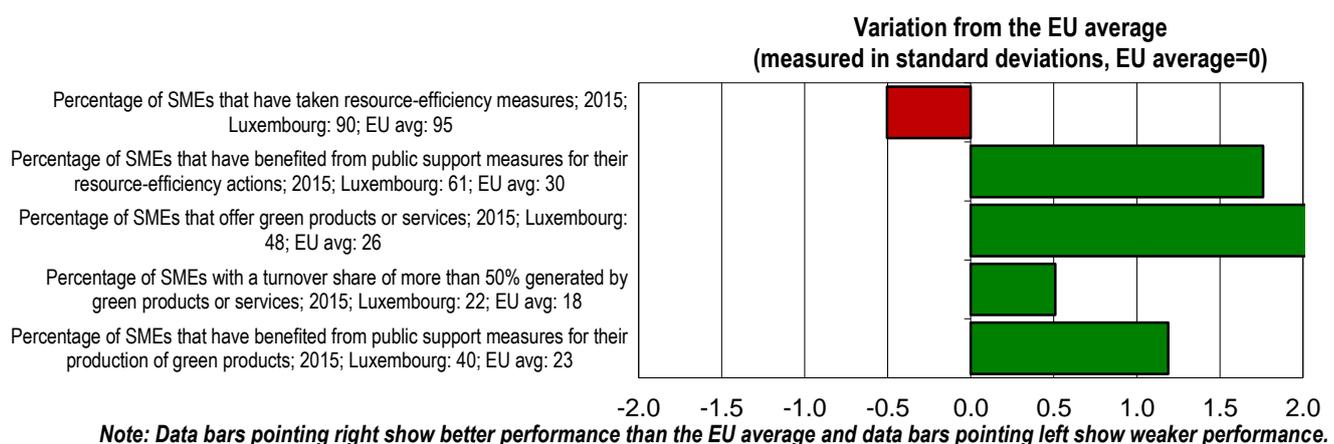
applications for private companies with a specific focus on SME's. This initiative aims to increase business' use of digital technologies.

A number of other measures were announced and — if implemented fully — will set the tone for years to come and demonstrate the government's commitment to further develop Luxembourg into an innovative, modern and attractive country.

- The 'Infrachain' initiative (founded by the Ministry of the Economy, the Ministry of Finance, 'Digital Lëtzebuerg, CTIE, Luxtrust, Telindus and InTech to develop a common blockchain infrastructure) will be especially useful for expanding the FinTech sector and supporting Luxembourg's development into a renowned FinTech hub.
- A cybersecurity competence centre (announced by the Ministry of the Economy) to be set up will offer new services based on intelligence, training and testing by bringing together private and public players. The centre will bring together the expertise and competences of previous public initiatives CASES and CIRCL and pursue their further development.

Overall, in policy terms, considerable progress has been made in this reference period.

### 3.8 Environment



Luxembourg performs well above the EU average in this area, with the best score in the EU.

The proportion of Luxembourg SMEs that offer green products or services is the highest in the EU. Furthermore, the percentage of SMEs that have taken resource-efficiency measures remains high (90 %) even though it is slightly below the EU average. This good performance may be explained by the growing public support offered to Luxembourg SMEs for their resource-

efficiency actions (from 42 % in 2013 to 61 % in 2015) and for the production of green products (from 32 % in 2013 to 40 % in 2015). Luxembourg's score is among the top five in the EU for both indicators.

From a policy perspective, a range of measures have been introduced over the years since 2008. Policy measures to support the energy efficiency of SMEs and the development of innovative eco-efficient products, processes and services are in

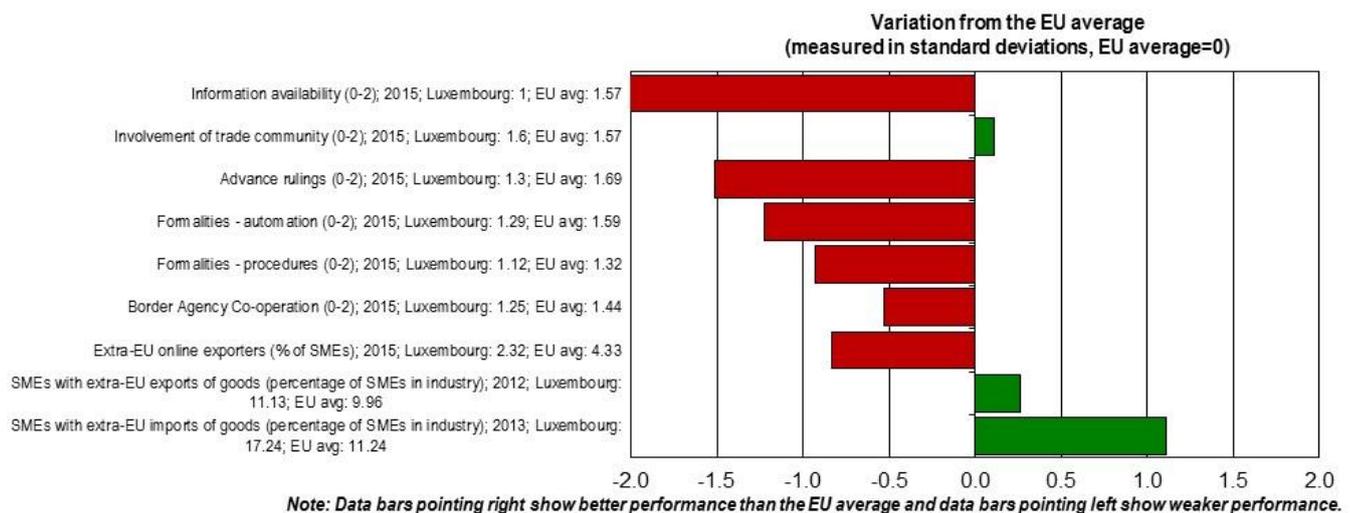
place. However, regulatory incentives for SMEs to get certified by the EU eco-management and audit scheme (EMAS) have not been introduced yet. Stakeholders did not consider this certification crucial, as they believe it might be too complex to introduce in Luxembourg. Moreover, there is already an energy check available through the energy agency. So the introduction of EMAS is seen as superfluous.

During the reference period, efforts in this area were limited. The implementation of the 'Third Industrial Revolution Strategy' set up in the last year was officially launched with the creation of the governance team in February 2017 to supervise the long-term implementation of the roadmap towards a more

interconnected and sustainable economy. The long-term aim of this policy measure is to create an intelligent network by deploying energy sharing technologies, establishing internet technology and transforming people's approach to transport.

The 'Fit 4 Circularity' programme launched by the Ministry of the Economy and Luxinnovation falls within the broader concept of the 'Third Industrial Revolution' strategy by helping SMEs transition to the circular economy. The programme's aim is to ensure sustainable and smart growth for SMEs by helping them identify and assess their growth potential and integrate the circular economy into your general innovation activities.

### 3.9 Internationalisation



Luxembourg scores well below the EU average in this SBA policy area. As most of the indicators in this year's fact sheet have been replaced, overall performance for the country's internationalisation efforts cannot be compared to last year's fact sheet,<sup>17</sup> with the exception of extra-EU imports and exports of goods by SMEs, which have remained unchanged.

The new indicators show that Luxembourg needs to improve the availability of advance rulings and of information about trade procedures and formalities, as the country scores well below the EU average for these indicators. Further efforts are also necessary on the streamlining and automation of customs controls and customs formalities.

From a policy perspective, a number of measures have been put in place in recent years. The institutional framework for promoting international trade is well developed. The Europe Enterprise Network functions as an umbrella organisation

providing all kinds of support to SMEs for their internationalisation. Moreover, the Office du Ducroire, the Luxembourg Export Credit Agency as well as Luxembourg for Business and Luxinnovation offer various support measures and incentives to stimulate exports and trade.

In 2016 and the first quarter of 2017, the government introduced a single significant new policy measure to support internationalisation. The final implementation of the 'Luxembourg Nation Branding' initiative is expected to refresh the image of Luxembourg SMEs abroad. The initiative aims at promoting the country's image as an open, reliable and dynamic country. This new image is meant to attract investors, professionals and visitors to Luxembourg while simultaneously strengthening the presence of Luxembourg businesses abroad. It is still too early to assess the effect this initiative will have on the trade of Luxembourg SMEs, but SME stakeholders have already commented positively on it.



## 4. Interesting initiative

Below is an example of an initiative from Luxembourg to show what governments can do to support SMEs:

### House of Entrepreneurship — one-stop shop

The House of Entrepreneurship offers a single platform for all stakeholders involved in the process of business creation and business development. This one-stop shop was launched in October 2016 and is led by the Ministry of the Economy and the Chamber of Commerce.

Currently the House of Entrepreneurship offers the following different types of services:

1. **Advisory services:** personalised advice and support for setting up a business and for applying for business permits, etc.
2. **Business support services:** support on company takeover through the 'BusinessExchange' initiative and the business disposal/recovery platform, support for initiators of projects with social impact, support to access finance, etc.
3. **Support with administrative formalities and trade exchanges:** issue of certificates of origin, authentication of documents, issue of digital Luxtrust certification, sale of an international and unified customs document which simplifies customs procedures for temporary export of goods, etc.

By bringing together in one place all stakeholders involved in business creation and business development processes, the House of Entrepreneurship makes it significantly easier to set up a company. Entrepreneurs can get all their information here and benefit from a clear support system helping them through the necessary administrative procedures. Bringing these services together will also help the government to evaluate the impact of its measures more easily, as the institution acquires a detailed overview of progress made and the challenges faced.

References:

<http://www.houseofentrepreneurship.lu/en/home/>

## Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

[grow-spr@ec.europa.eu](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

European Small Business Portal:

[http://ec.europa.eu/small-business/index\\_en.htm](http://ec.europa.eu/small-business/index_en.htm)

## Endnotes

<sup>1</sup> The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the non-financial business economy, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.

<sup>2</sup> Cf. OECD ICT Access and Usage by Businesses database, indicators A2, A3 — broadband connections of businesses; available at [stats.oecd.org](http://stats.oecd.org); last accessed 12.4.2017.

<sup>3</sup> Luxembourg Ministère de l'Économie, Programme national de réforme du Grand-Duché de Luxembourg 2016, April 2016, pp. 22, 24; available at: <http://www.gouvernement.lu/5693901/2016-pnr-luxembourg-fr.pdf>; last accessed 12.4.2017.

<sup>4</sup> Luxembourg Ministère de l'Économie, Programme national de réforme du Grand-Duché de Luxembourg 2016, April 2016, pp. 22, 24; available at: <http://www.gouvernement.lu/5693901/2016-pnr-luxembourg-fr.pdf>; last accessed 12.4.2017.

<sup>5</sup> Ibid.

<sup>6</sup> Luxinnovation (National Agency for Innovation and Research) website information, available at: <http://en.luxinnovation.lu/Key-sectors/Life-sciences>, <http://en.luxinnovation.lu/Key-sectors/CleanTech>; last accessed 12.4.2017.

<sup>7</sup> Luxembourg for Business and Innovation website, operated by Luxinnovation (National Agency for Innovation and Research); available at: <https://www.luxembourgforbusiness.lu/en/invest/sectors/cleantech>; last accessed 12.4.2017.

<sup>8</sup> Information by the Luxembourg Portal for Innovation and Research operated by Luxinnovation (National Agency for Innovation and Research) on behalf of the Ministry of the Economy; available at: <http://www.innovation.public.lu/en/cooperer/trouver-partenaires/entreprises/n/neobuild-s-a/index.html>; last accessed 12.4.2017.

<sup>9</sup> STATEC, Répertoire des Entreprises Luxembourgeoises 2016, October 2016; available at: [www.statistiques.public.lu/catalogue-publications/repertoire/2016/fascicule-1.pdf](http://www.statistiques.public.lu/catalogue-publications/repertoire/2016/fascicule-1.pdf); last accessed 12.4.2017.

<sup>10</sup> Creditreform, district courts of Luxembourg/Diekirch, Bankruptcies 2016, December 2016; available at: [www.creditreform.lu/fileadmin/user\\_upload/CR-International/local\\_documents/lu/Konkurse\\_2016/2016\\_Bankruptcies\\_31.12.2016.pdf](http://www.creditreform.lu/fileadmin/user_upload/CR-International/local_documents/lu/Konkurse_2016/2016_Bankruptcies_31.12.2016.pdf); last accessed 12.4.2017.

<sup>11</sup> In line with the Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat ([http://ec.europa.eu/eurostat/web/products-datasets/-/bd\\_9pm\\_r2](http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 10.04.2017). Due to data availability on Eurostat, the data on high-growth firms refers to the 'business economy', which covers sections B-N including section K (financial activities, except activities of holding companies). The non-financial business economy excludes section K.

<sup>12</sup> Persons employed and self-employed persons refer to persons aged 15-64. Source of the data is Eurostat. To calculate the 2016 value, quarterly data from the LFS series was averaged over all quarters for which information was available on 20.3.2017.

<sup>13</sup> The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

<sup>14</sup> The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>15</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2017 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

<sup>16</sup> Data for 2016 were compiled in December 2016, while the 2015 data were collected in May 2015.

<sup>17</sup> All World Bank indicators (time and cost to export and import) have been replaced by six OECD trade-facilitation indicators (following a scale where 0 is the worst and 2 is the best score). Please see Moisé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kg6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>, last accessed 06/07/2017.