



2016 SBA Fact Sheet

Germany



Key points

Past & future SME performance¹ Germany boasts one of the most vibrant SME sectors in the EU. The number of people employed in SMEs stood at almost 17.1 million in 2015, up 9% over the last five years and 22% since 2008. Total SME value added increased by 18% between 2010 and 2015. The continuing SME employment growth is the cornerstone of Germany's positive labour market situation. Expectations for the foreseeable future remain good. It is estimated that SMEs of all size classes will create almost one million new jobs in 2016 and 2017, with medium-sized firms creating 3.6% new jobs per year, small companies 2.4% and micro-firms 2.6%.

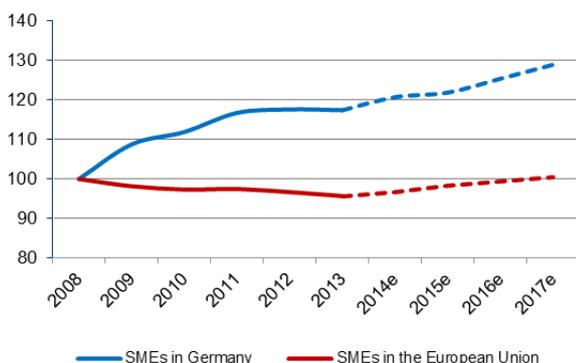
Implementing the Small Business Act for Europe (SBA): Germany has a solid SBA profile. Skills & innovation and 'Second chance' stand out as the policy areas where Germany outperforms the EU. By contrast, on 'Responsive administration' and Entrepreneurship, Germany trails the EU average. Despite considerable policy efforts by Germany since 2008, other countries have been improving faster than it.

The vast majority of SBA recommendations have been implemented, even in the absence of a dedicated strategy to apply the SBA. Since 2008, SME-related policy has been given a new impetus, especially in the light of SBA principles on Skills & innovation and Internationalisation. A lot of policy measures benefiting SMEs have also been recently adopted in the area of 'Responsive administration'.

SME policy priorities: The emergence of a more dynamic start-up market is one of the most pressing issues for Germany. The creation of more entrepreneurship support programmes for specific groups (e.g. migrants, female entrepreneurs and young people) should be further encouraged to fully exploit the country's untapped entrepreneurial potential. Additional steps to preserve Germany's innovative edge should be a priority, in particular by achieving more widespread integration of innovative ITC technologies in SME business models.

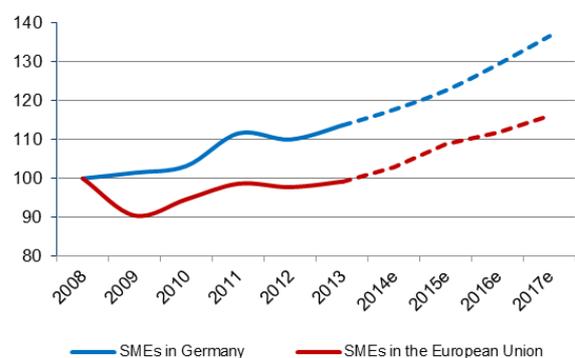
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2014 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2014 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. Published annually, the SBA fact sheets 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		
	Germany		EU28	Germany		EU28	Germany		EU28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	1 842 862	82,2 %	92,8 %	5 150 030	18,9 %	29,5 %	236,7	15,4 %	21,2 %
Small	333 531	14,9 %	6,0 %	6 373 843	23,4 %	20,2 %	277,6	18,1 %	18,0 %
Medium-sized	55 688	2,5 %	1,0 %	5 553 493	20,4 %	17,0 %	302,0	19,7 %	18,2 %
SMEs	2 232 081	99,5 %	99,8 %	17 077 366	62,8 %	66,8 %	816,3	53,1 %	57,4 %
Large	10 816	0,5 %	0,2 %	10 127 097	37,2 %	33,2 %	719,8	46,9 %	42,6 %
Total	2 242 897	100,0 %	100,0 %	27 204 463	100,0 %	100,0 %	1536,1	100,0 %	100,0 %

These are estimates for 2015 produced by DIW Econ, based on 2008-13 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 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.

With more than 53 % of value added and approximately 63 % of employment, SMEs in Germany provide the majority of jobs and value added in the non-financial business economy, similar to the rest of the EU. The difference is that the average German SME is bigger than the European average, implying that micro-firms play less of a role. However, German micro-firms are more than 25 % more productive than the average for micro-firms in Europe.

SMEs fully participated in the economic upswing of the German economy: SME value added in the 'non-financial business economy' increased by 19 % between 2010 and 2015. The number of people employed in SMEs stood at almost 17.1 million in 2015, up 9 % over the last five years and up 22 % since 2008. This continuing SME employment growth is the cornerstone of Germany's positive labour market situation.

Construction and professional activities are two sectors in which employment growth in SMEs has been particularly pronounced. There are several reasons for the extraordinary 34 % growth in employment in the construction sector since 2010:

- a catch-up effect in housing construction following a period of reduced demand;²
- economic stimulus packages running in 2008-2011;³
- simplified public procurement laws (e.g. reducing financial thresholds for construction works procured without tender).⁴

Low interest rates have also fuelled construction activity.⁵

SMEs in professional activities increased the number of people they employ by 18 % and generated 32 % more value added compared with 2010. This growth has largely been driven by the

management and consultancy activities sector, which has benefited from the improved overall business climate and growth in the manufacturing sector. Another strong driver of growth in this sector is the move towards digital transformation, which has resulted in business models being reassessed in many industries. Consultants specialising in fields such as IT, management and legal services benefited from this trend.⁶ New types of consultancy services on digitisation issues are also being developed.⁷ Moreover, according to a survey of SME consultants, the use of digital tools has improved their operating income.⁸ The growing *construction* sector has also been responsible for fuelling growth in *professional activities* by increasing demand for architectural and engineering activities.⁹

With an increase of 22% in value added and 21% in employment, SMEs in the *real estate* sector also showed remarkable growth between 2010 and 2015. At the end of 2014, turnover in the residential buildings sector had increased to EUR 12.8 billion, the second highest turnover since 2009. Historically low interest rates and a healthy economy have encouraged this higher turnover and boosted property investors' interest in the German housing market. Real estate companies have used these favourable conditions to strategically adapt their property portfolios. The growth of value added in this sector is also partly the result of increased prices for residential property.

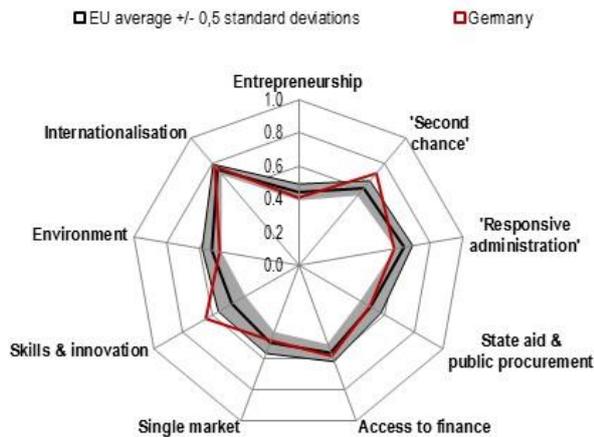
Although Germany has experienced strong economic development in recent years, it has not performed so well when it comes to start-up activities. In 2015 the number of newly registered businesses (excluding liberal professions) dropped to roughly 300 000, i.e. 11 000 less than the year before.¹⁰ De-registrations fell to 328 000, 20 000 less than in 2014. This amounts to a net loss of 29 000 and was the fifth consecutive year in which Germany recorded a fall. However, this difference is caused by micro-enterprises, which are not subject to VAT due to their very small turnover. If we ignore this type of firm, registrations outnumbered de-registrations between 2014 and 2015.

The number of start-ups in the liberal professions is also growing. From 2014 to 2015, their number increased by 2.7%¹¹ and now account for 20% of the total number of all business start-ups.

Nevertheless, the number of companies being founded in Germany has been slowing for years. The inherent financial risks of starting a company, along with the current favourable employment situation, discourage unemployed people from starting new businesses. In addition, the overhaul of the start-up funding by the German Government in 2012 has had a lasting negative effect on start-up activities among the unemployed. As a consequence, 33 253 entrepreneurs were supported in 2015, which is 77% less than in 2011.¹²

Expectations are good for the non-financial business economy as a whole and for SMEs in particular. It is estimated that SMEs of all size classes will create almost one million new jobs by 2017, with medium-sized firms creating 3.6% new jobs per year, small companies 2.4% and micro-firms 2.6%.

2. SBA profile¹³



Germany continues to have a solid SBA profile. Skills & innovation and 'Second chance' are two SBA areas where the country surpasses the EU average by a substantial margin. However, in Entrepreneurship and 'Responsive administration' Germany is trailing the EU average, even though its performance has improved in both areas since the SBA's introduction in 2008.

While many other Member States improved conditions faster, Germany has failed to catch up. For Entrepreneurship, structural factors such as the country's ageing population are harming its performance. On 'Responsive administration' Germany's ranking has suffered, especially due to the conditions for start-ups and

the slow implementation of broad-based e-government services. In all other SBA areas, conditions are not much different from those in the rest of the EU.

Since 2008, Germany has made considerable progress in implementing the SBA and the vast majority of measures implementing the SBA principles are now in place. The country has numerous policy measures in place in almost all SBA areas. This guarantees an environment that supports growth and helps support SMEs' innovation potential.

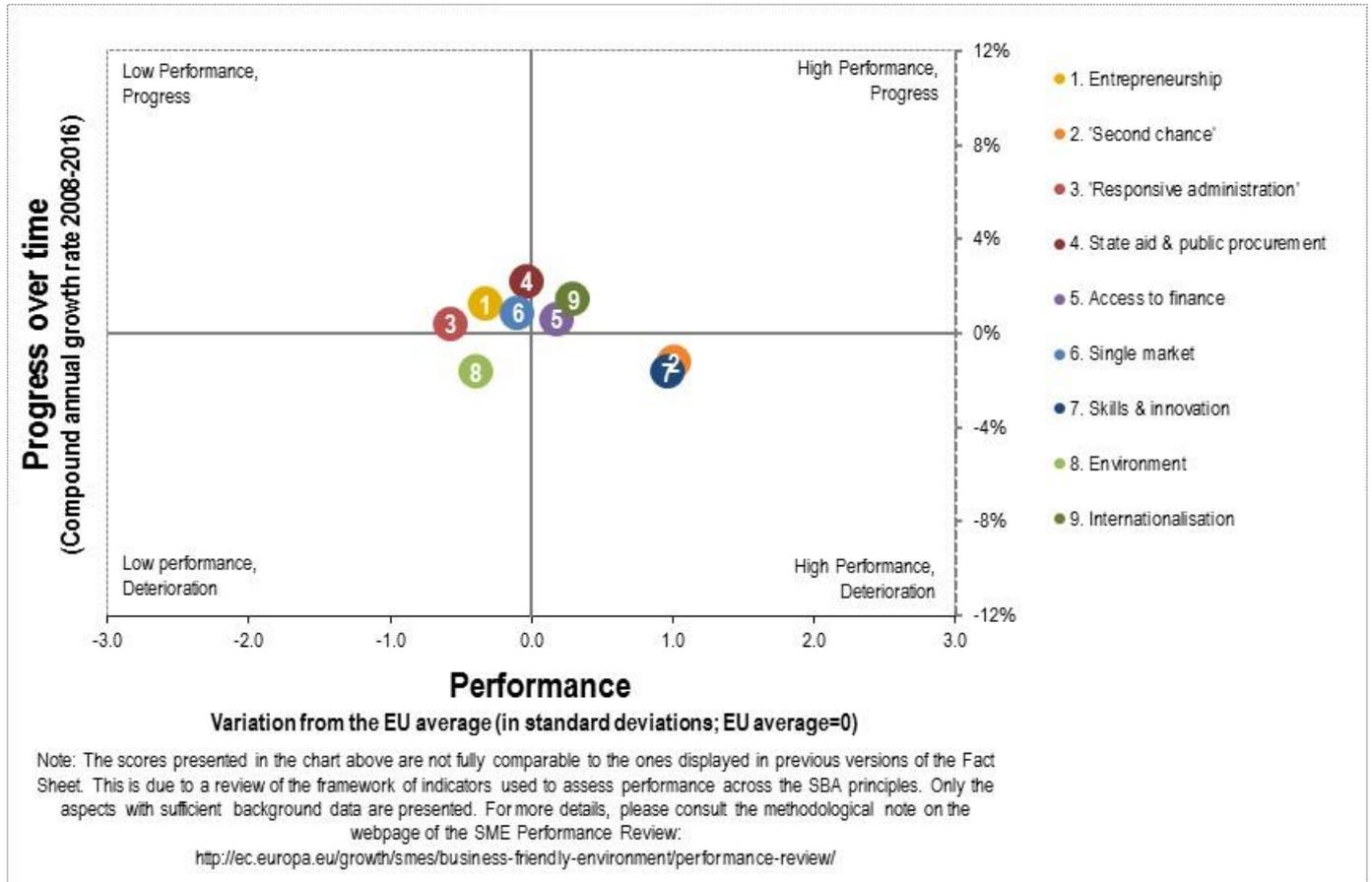
The highest level of policy activity was in 'Responsive administration', Access to finance and Skills & innovation.

In 2015 and the first quarter of 2016, which is the reference period for policy measures in this year's fact sheet, Germany adopted 23 policy measures (a substantial number), addressing 8 out of the 10 policy areas under the SBA. Germany has also announced a further set of measures covering 'Think Small First' and 'Responsive administration' for the second half of 2016.

Germany's overall progress in implementing the SBA is also up on the previous reference period, especially since a lot of previously announced measures were implemented this year.

Two SBA areas experienced the most significant progress in the reference period: 'Think Small First' and Skills & innovation. On 'Think Small First', the 'one-in, one-out' rule has been implemented in federal legislation together with other measures to cut red tape. On Skills & innovation, Germany consolidated and simplified several key programmes supporting innovation and technology transfer and improved access conditions for SMEs.

SBA performance of Germany: state of play and development from 2008 to 2016¹⁴



3. SBA principles¹⁵

3.0 Think Small First

The 'Think Small First' principle is intended as 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.

Most of the procedures covered by 'Think Small First' had already been put in place before 2008. SME stakeholders are regularly consulted in the legislative process (in primary and secondary legislation) and they have a real opportunity to influence proposals. The visibility of the SME envoy has improved over recent years. The current envoy is taking a proactive role, especially in the exchange of experience and mutual learning at European and national level.

In general, all new laws and regulations have already been tested in advance against:

- their budgetary implications;
- the availability of administrative capacities;
- the impact on businesses (including SMEs).

Due to a lack of data and feasible methodology on SMEs, these procedures have in most cases been carried in a formalistic way only so far. This should be improved by the new binding methodological guidelines for the 'SME test', but it is too early to judge whether the implementation will be successful. Germany's decentralised federal structure makes it particularly difficult to create a common commencement date for all new and amended legislation.

By and large, progress on 'Think Small First' has been moderate in Germany. In comparison to large companies, SMEs' administrative costs account for a disproportionate share of overall costs. SMEs would benefit greatly from deregulation and reductions in administrative costs. Legal regulations as well as norms and standards have to be critically reviewed. In addition, the 'report only once' principle has yet to be addressed by the legislative and the executive branch. As a result, businesses have to report the same information multiple times to different government authorities. Tax simplification will continue to be an ongoing task: the Federal Government aims to proceed step by step here. In particular it wants to use the technical possibilities offered by modern data processing and digitisation.

Germany's progress on implemented measures in the 'Think Small First' policy area has been substantial. The numerous measures announced in 2014 by the new government were implemented during 2015 and the first quarter of 2016. The most important measures concern:

- a law to reduce red tape for SMEs (*Bürokratieentlastungsgesetz*);
- improving the 'SME test';
- introducing the 'one-in, one-out' rule in federal legislation.

The law to reduce red tape for SMEs entered into force in January 2016. What it mainly does it to raise the thresholds for particular accounting rules and company statistics. Companies in their first three years of existence are exempted from certain reporting requirements. Further measures to cut red tape for SMEs will be developed in response to the findings of a 2015 Federal Government survey on the perception of red tape in the lifecycle of a company.

A second law to cut red tape (*Bürokratieentlastungsgesetz II*), again with a strong focus on SMEs, is scheduled for parliamentary consideration in the second half of 2016. The law is part of a new working programme on better regulation that was adopted by the Federal Cabinet in June 2016.

The Cabinet adopted the 'one-in, one-out' rule in summer 2015. The rule is valid for any new federal regulation adopted as from 1 July 2015. New burdens can now only be introduced if they are compensated for somewhere else. This rule helps prevent federal policy-makers from creating new regulations that increase costs for business.

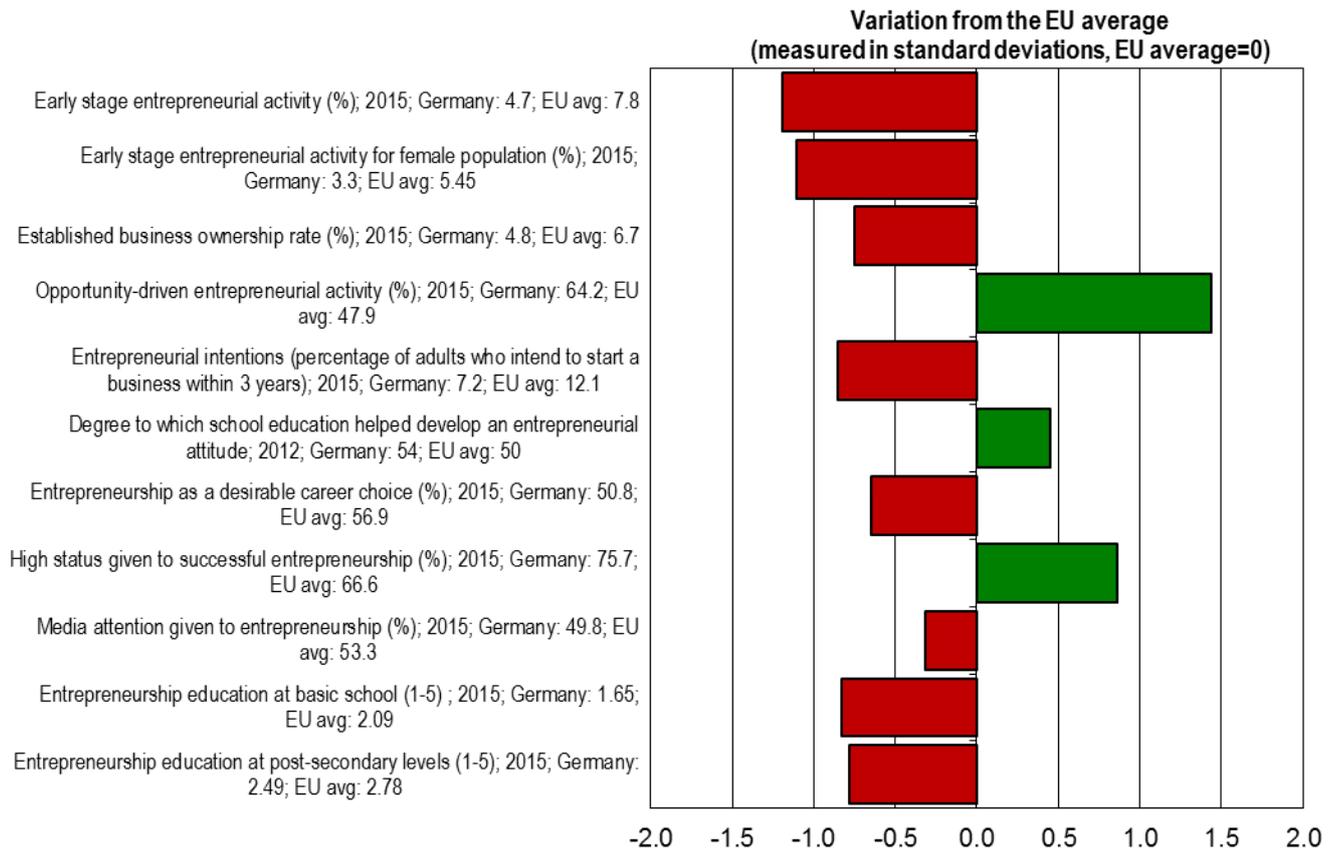
Another noteworthy measure is the 'Reform of the national accounting law', which introduced exemptions from financial and accounting reporting rules for the smallest SMEs.

The most pressing needs for policy action in this area are to better implement the 'report only once' principle and to use digitisation in tax procedures and further simplification. To this end, the Law on Statistics for Federal Purposes (*Bundesstatistikgesetz*) was recently amended (June 2016). A new provision gives precedence to existing information over new statistics. In the future, before a new set of statistics can be proposed, an in-depth review will have to be carried out to determine whether the same information cannot be obtained

from statistical material already available. An increased use of evaluations of existing laws and programmes could also serve to

ensure that the efficiency of laws and programmes is reviewed systematically.

3.1 Entrepreneurship



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

Germany’s performance is, as last year, in line with the EU average. Despite a slight improvement since 2008, Entrepreneurship remains one of the weaker parts of its SBA profile. The main factors behind its mediocre overall ranking are the comparatively low rates of entrepreneurial activity, business activity and entrepreneurial intentions among the adult population. The long-running decline in the number of business registrations cited in section 1 is the logical result of this. There are also indications that entrepreneurship education is not yet sufficiently integrated into school curricula. The overall modestly positive trend since 2008 has been mainly caused by a marked increase in opportunity-driven entrepreneurship. The share of entrepreneurs launching a business motivated by a specific business opportunity in the total population of entrepreneurs went up from 49% in 2008 to 64% in 2015. On this indicator, Germany is among the top three Member States. The good business environment over recent years is the main reason for this trend.

At the same time, the healthy state of the economy and the labour market is also one of the principal reasons for the low dynamism in entrepreneurship. Existing firms continue to provide attractive and low-risk employment conditions to highly qualified and well skilled professionals who could otherwise be potential entrepreneurs. Germany still needs to make considerable progress to fully exploit its entrepreneurial potential, especially since business succession has become an increasingly important challenge in recent years.

Since 2008, the promotion of entrepreneurship has been tackled through a wide spectrum of measures such as business plan competitions and support schemes for unemployed people and female entrepreneurs. Digital entrepreneurship has been a particular policy focus in recent years.

‘EXIST’, the support programme of the Federal Ministry of Economic Affairs and Energy (implemented in 2010), is also helping improve the entrepreneurial Environment of universities and research institutions. The programme intends to increase the number of technology and knowledge-based business start-ups.

During the reference period, Germany implemented two new policy measures promoting entrepreneurship:

- The 'EXIST Start-Up Germany — Israel' programme aims to foster cooperation and exchange between German and Israeli entrepreneurs. The programme encourages young entrepreneurs from Israel to start their tech-related business idea through the EXIST programme in Germany. The programme then helps the Israeli entrepreneurs to find the right match in the EXIST network of universities in Germany.
- Under the 'women (who) undertake' (*FRAUEN unternehmen*) programme, successful female entrepreneurs (business ambassadors) take part in a network organising visits to schools and universities at regional level and participating in events to share their entrepreneurial experience. The

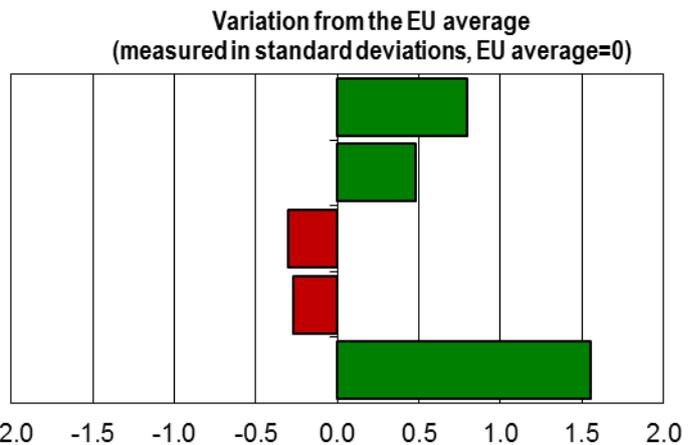
programme aims to encourage women to start their own company and become more visible in the business world.

Both programmes target an area where there is still real potential for additional entrepreneurial dynamism. While Germany is not lacking any important policy initiatives in this area, there is considerable potential to boost the volume of existing entrepreneurship programmes. This applies especially to programmes in support of specific target groups such as migrants, female entrepreneurs and young people. This is important, especially as the country's ageing population is expected to exacerbate this problem in the foreseeable future.

In addition, SME stakeholders emphasise the need to increase entrepreneurship education in schools. Better coordination of Länder-led activities in this area is necessary to increase the impact of entrepreneurial skills teaching throughout the educational system.

3.2 Second chance

Time to resolve insolvency (in years); 2016; Germany: 1.2; EU avg: 1.97
 Cost of resolving insolvency (cost of recovering debt as percentage of the debtor's estate); 2016; Germany: 8; EU avg: 10.25
 Degree of support for a second chance (%); 2012; Germany: 80; EU avg: 82
 Fear of failure rate (%); 2015; Germany: 42.3; EU avg: 40.7
 Strength of insolvency framework index (0-16); 2016; Germany: 15; EU avg: 11.82



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

'Second chance' means ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Germany continues to perform above the EU average in this area. Together with Finland and the Netherlands, it is one of the three top performing Member States. Its strong position is based mainly on the efficiency of its insolvency framework. As a result, the cost and the time required to resolve insolvencies are low compared to other EU Member States.

Recent measures such as the 2012 'Company Restructuring Simplification Act' and the 2014 'Amendments to the insolvency regulation' reducing the discharge time from six to three years have helped to improve the framework further. The persisting problems in this area are mainly cultural: in German society, as elsewhere in the EU, bankrupt entrepreneurs are still stigmatised for failure. The persistently high rate of failure since 2008 can

be seen as evidence of this stigmatisation, which can only be mitigated in the long run.

Policy progress since 2008 has been limited apart from the reforms mentioned above. However, this is because Germany met the main SBA requirements long before 2008. Bankruptcy laws and procedures are in place and are effectively and systematically applied. All legal procedures can be completed within a year and re-starters are treated on an equal footing with new start-ups.

Against this backdrop, no additional significant measures were adopted or announced during the reference period.

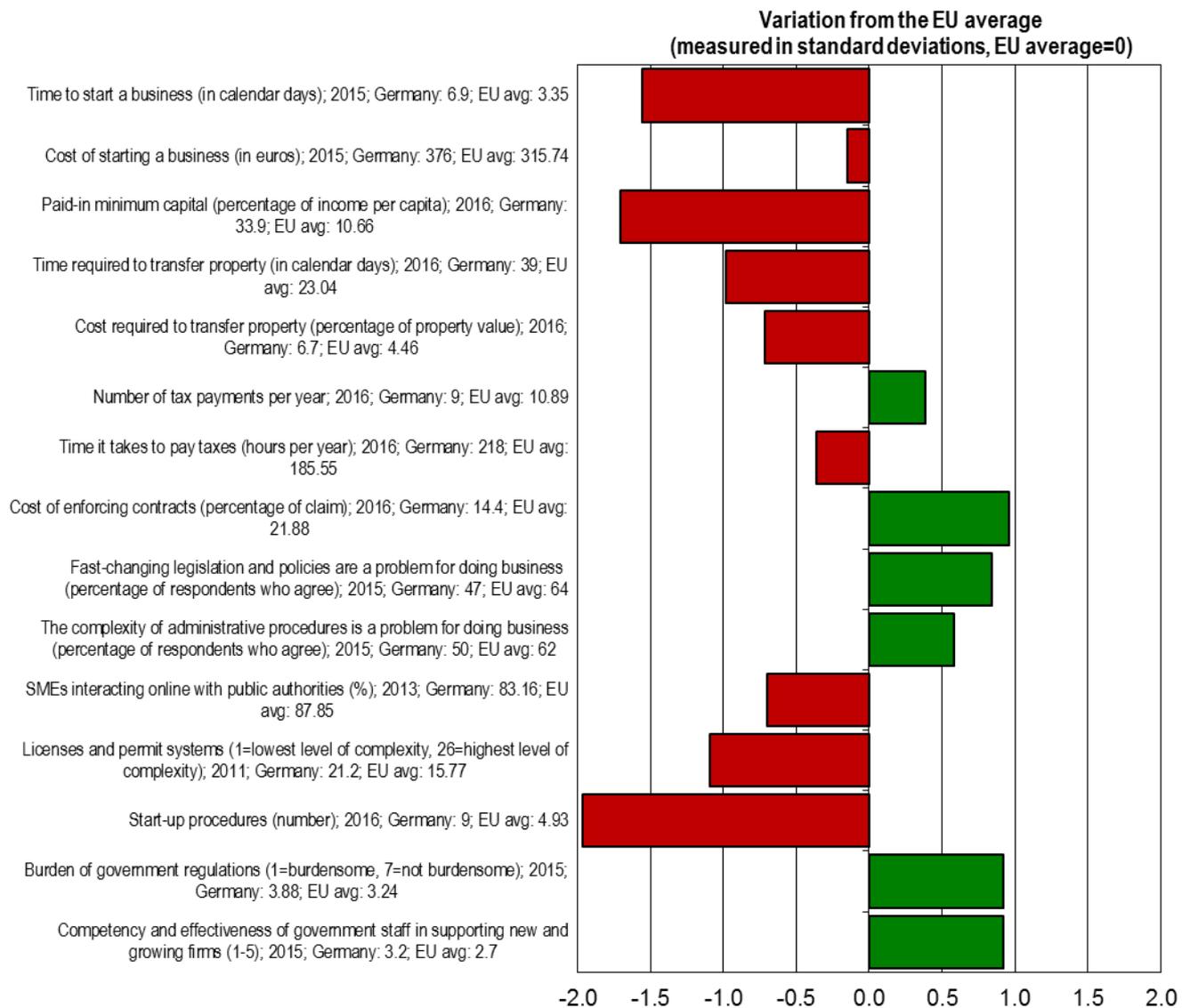
There are still some SBA recommendations Germany needs to address more comprehensively. For instance:

- specific pre-emptive measures have not yet been put in place to help businesses avoid failure in the first place, apart from some measures to support turn-around advice;
- information campaigns against stigmatisation of business failure and other similar initiatives have not been widely implemented so far.

This issue may have been given a lower priority as bankruptcy rates have reached record lows thanks to the country's strong economic situation. However, given that business failure is a long-standing problem, such campaigns should be run even during good times.

Against this backdrop, no additional significant measures were adopted or announced during the reference period.

3.3 Responsive administration



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

'Responsive administration' means public administration being responsive to the needs of SMEs. This is the weakest area of the Germany's SBA profile, with the country performing below the

EU average. Its performance has moderately improved since 2008 thanks to the reforms of recent years, but many EU Member States have seen much faster progress over the past 8

years. Despite improvements, Germany still faces challenges, in particular over the administrative aspects of business creation. The costs, time and number of procedures involved in starting a business are still less business-friendly than in the EU in general. The same applies to the level of paid-in minimum capital,¹⁶ the time required to transfer property and the complexity of the licence and permit systems, all of which are also issues of particular concern for new businesses. These specific problem areas aside, the general administrative environment remains favourable to business. The burden on business in general is regarded as less problematic than in the EU as a whole. The regulatory framework is also seen as more stable and less prone to sudden changes. The competence and effectiveness of staff in government agencies dealing with businesses are rated more highly than their peers in most other EU Member States.

On the policy front, the progress achieved since 2008 can be ascribed to a number of high-profile policy reforms:

- The most important measure introduced since the adoption of the SBA is the network of regional 'Single Points of Contact', which will be further improved.
- In 2012 Germany reached the ambitious goal it set itself to reduce the total measured compliance costs of federal legislation in the economy.
- The Federal Government introduced a 'bureaucracy cost index' demonstrating the change in the burden on enterprises resulting from information requests.
- Another important policy development in the area of 'Responsive administration' was the strengthening of the National Regulatory Council (*Normenkontrollrat*).

The Federal Government also put in place a law facilitating e-government in order to reduce the administrative burden on companies. This will be achieved by improving the pre-conditions for digital communication between companies and public administration.

During the reference period, the government continued to tackle the problems in the area of administrative burden reduction. Three main new measures were implemented:

- A fundamental reform of public procurement was launched, leading to digitisation of procurement processes ranging from the identification of needs, to calls for tender and contract awards, through to invoicing. Existing infrastructures will be expanded, such as the e-awarding and ordering platforms. The reform will make it easier for SMEs to access tenders and will help cut red tape in public procurement. The government plans to draw up framework contracts that will make it easier for SMEs to participate. The government initiative also includes provision for making electronic

procurement binding for the federal administrations by 2016. This will lead to substantial progress in e-procurement. The reform is critical as the extension of e-procurement, as that of e-government in general, could reduce burdens substantially, especially for SMEs.

- An improved second generation of more business-friendly Points of Single Contact has been created. This was achieved by removing electronic barriers, ensuring digitisation of all procedures and enhancing usability and better integration with other e-government structures and projects. SMEs are mainly expected to benefit from the new infrastructure. The process will be implemented through 2016 and 2017.
- The 'Digital Declarations Project' was promoted by federal ministries, the Federal State and the National Regulatory Control Council. The project involves reviewing requirements in federal administrative laws and regulations for written forms or requests to appear in person. Again the aim is to simplify administrative procedures.

Moreover, a new law to cut red tape (*Bürokratieentlastungsgesetz II*) is currently due for parliamentary consideration in the second half of 2016. One of the ways the law should further reduce the administrative burden on SMEs is by simplifying the tax code.

An amendment in the e-government law is intended to achieve better coordination between the local, state and federal levels of administration. To this end, information about federal legislation, such as conditions for eligibility for government support programmes, will be harmonised. The harmonised information can then be used across the different levels of government, creating a more seamless, integrated e-government. This will make it easier for the public and (small) companies alike to use government services.

The new law is part of a new working programme on better regulation that was adopted by the Federal Cabinet in June 2016. The new working programme contains some 30 additional measures, including several initiatives for e-government.

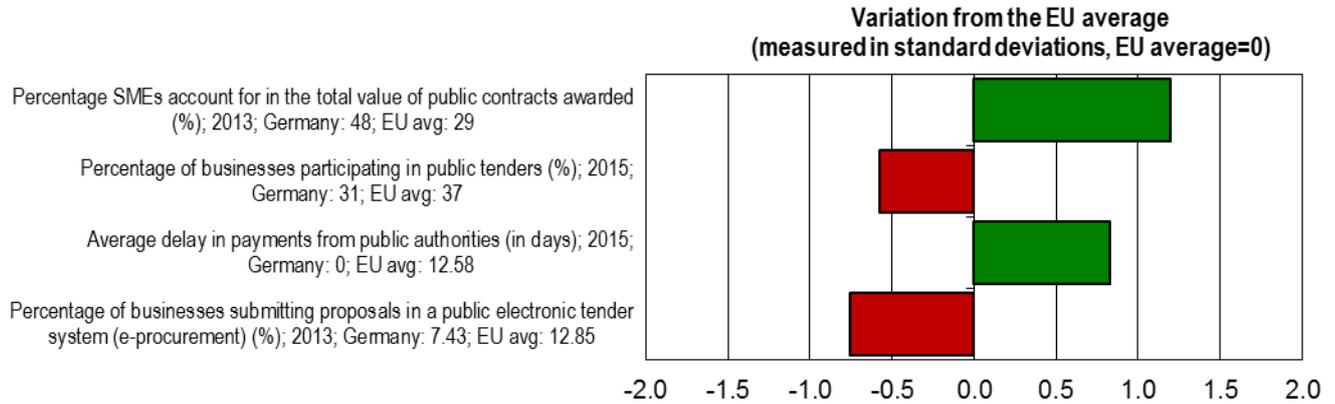
Despite the comprehensive list of actions taken since 2008, some SBA goals and recommendations are still to be fully addressed. For example, start-up conditions need to be made easier and in particular the goal of reducing costs to no more than EUR 100 and 3 days needs to be fulfilled.

Germany's federal state system poses problems when it comes to achieving certain SBA recommendations such as:

- implementing 'common commencement dates' for regulatory changes;
- establishing 'one-stop-shops';
- applying the 'only once' principle.

In connection with the 'only once' principle, progress in implementing comprehensive e-government services needs to be accelerated.

3.4 State aid & public procurement



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

Germany’s performance was in line with the EU average in 2015, but deteriorated from last year. The main cause was an abrupt drop in 2014 and 2015, from 47 % to 31 %, in the share of firms participating in public procurement. In all other areas, Germany’s performance remained unchanged.

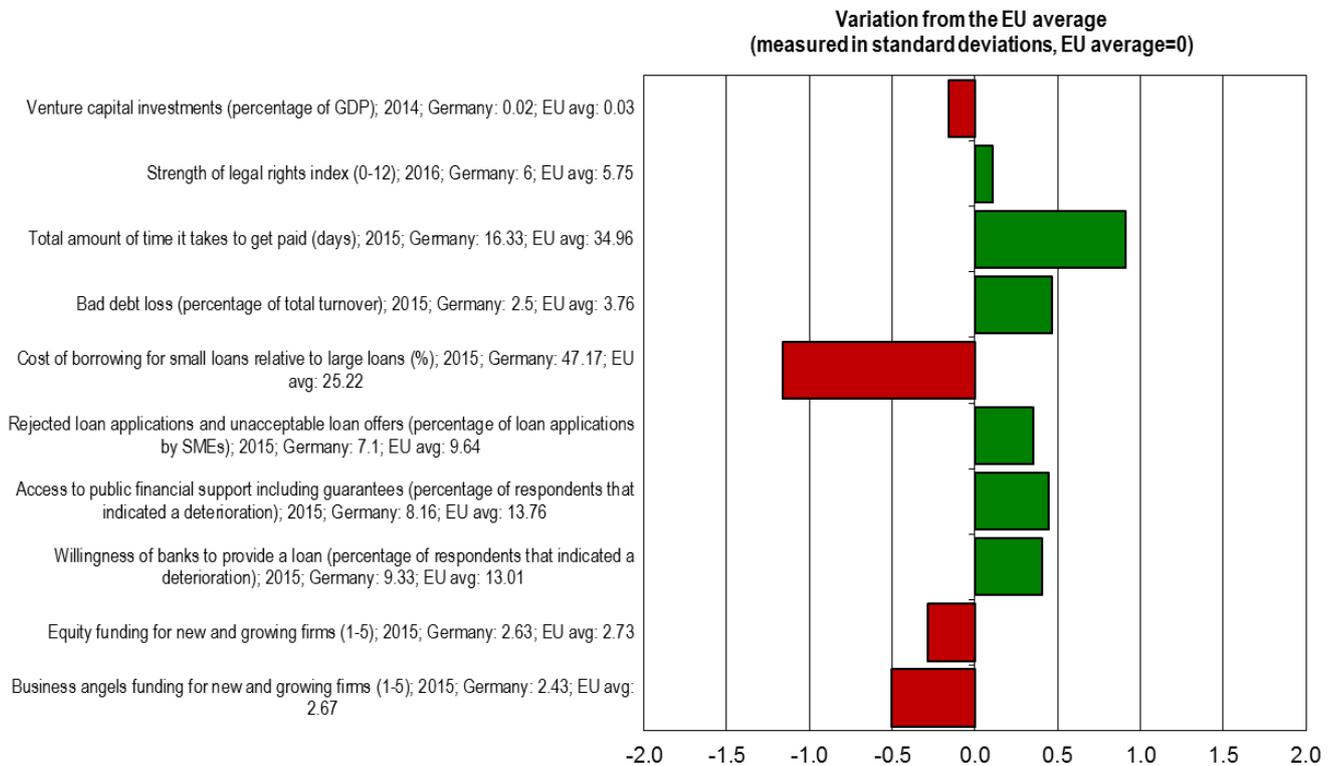
Overall, Germany’s procurement system remains comparatively SME-friendly thanks to the strategic procurement initiatives and anti-corruption measures in place. These are complemented by efforts to foster SME participation. Also, information on public procurement opportunities is available through electronic portals. Tenders are divided into lots, although the procurement offices still seek advice on this topic.

Public authorities set proportionate requirements for qualifications and financial viability, which are also of importance to SMEs. The public procurement market is open to foreign businesses, although in recent years a rather high number of cases of non-publication of tenders in the EU’s

Official Journal have been noted. The most important policy measure on procurement since 2008 was the establishment of a ‘Centre of Excellence for Innovative Procurement’ in 2013. However, to date the Centre’s effectiveness has not been properly assessed.

The ‘Modernisation of E-procurement’ (*Gesetz zur Modernisierung des Vergaberechts*) reform of the public procurement system mentioned above in connection with ‘Responsive administration’ also had an impact on State aid & public procurement during the reference period. By digitising all processes, the reform will make public procurement procedures more simple, flexible and user-friendly and will modernise the overall public procurement system. In addition, the Federal IT Council decided to make the use of a central interface (*XVergabe*) mandatory. When fully operational, this is expected to significantly reduce complexity.

3.5 Access to finance



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

Germany's score is above the EU average in this area. Since 2008, SME financing conditions have substantially improved and at a faster pace than for the EU in general. Loan financing conditions continue to improve and are, in general, much more favourable than in the EU. The sole exception is the costs for small loans. These have gone up substantially compared to those for larger loans of more than EUR 1 million. While the mark-up was a mere 15% in 2008, by 2015 it had gone up to 47%. This may well be the result of distressed financial institutions trying to cut costs and streamline their operations. While the generally low interest rates do mitigate this effect in absolute terms, the situation needs to be monitored, especially given the potential for future increases in interest rates. On debt financing, the government expanded the ERP 'StartGeld' start-up loan as it now benefits from the European Fund for Strategic Investments.

On equity finance, the overall context is less positive. Most indicators, including those on venture capital financing, equity funding for new and growing firms and business angel funding, show a performance more or less in line with the EU average. Nevertheless, there has been some, albeit insufficient, improvement in recent years. Progress is insufficient despite the considerable policy activity in this area since 2008 and a range of dedicated measures, led by the introduction of a hi-tech starters fund ('High-Tech Gründerfonds' — HTGF), a mezzanine

capital fund (*Mezzanine Dachfonds*) and an investment grant for business angels. Partially as a result of these measures, first-round funding has improved. There is, however, a still unmet demand for scale-up financing for start-ups ready to expand their operations on an industrial scale.

It is also still difficult for SMEs to access available funding opportunities. There is no one-stop-shop for accessing funding at federal level either. The Federal Ministry of Economic Affairs and Energy operates a special website,¹⁷ which contains information on all available programmes at federal, regional and EU level and enables users to undertake tailor-made searches. The Federal Ministry also operates a business start-up portal¹⁸ giving an overview of all existing support programmes for entrepreneurs and containing all the relevant links.

During the reference period, the Government continued to implement measures favouring particularly — but not exclusively — venture capital financing. Three new measures have been implemented:

- The 'Fund Micro Mezzanine' was created in 2013 to provide mezzanine capital up to EUR 50 000 to improve the equity capital base of SMEs. Since then, a second EUR 85 million fund was launched in January 2016. The fund is co-financed by the European Social Fund. It is dedicated to specific target

groups such as female entrepreneurs and start-ups by migrants and unemployed people.

- A 'Microcredit fund' (*Mikrokreditfonds*) was created by the Federal Ministries of Labour and Social Affairs and for Economic Affairs and Energy. The aim of the fund is to ease access to finance for micro-enterprises with low capital requirements, whose access to traditional bank loans is quite limited and complex. Loans range from EUR 1 000 to EUR 20 000 and can run for up to four years. The total guarantee volume of the fund amounts to EUR 80 million. In 2015 400 microcredits per month were granted.
- The 'ERP/EIF Co-investment Growth Facility' (*ERP-EIF-Wachstumsfazilität*) was established for the purpose of co-investing with successful venture capital managers and other institutional investors in innovative fast growing German SMEs with capital requirements in the range of EUR 30-40 million. The volume of the fund is EUR 500 million, funded by the Federal Ministry of Economic Affairs and Energy on behalf of the European Recovery Programme and by the European Investment Fund.

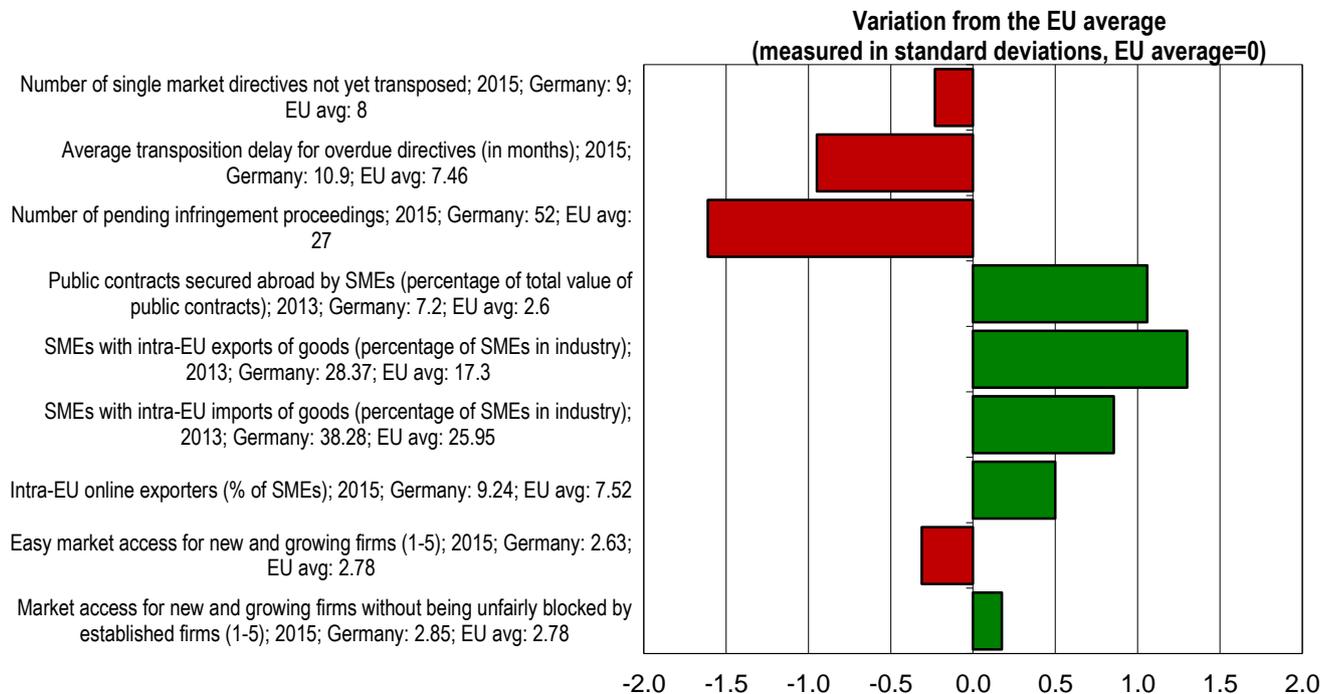
Other measures to improve conditions for venture capital include:

- a top-up for the ERP/EIF-Venture-Capital-Dachfonds (fund-of-funds) to EUR 2.7 billion (including EUR 300 million for business angels);
- tax exemption for the German Government's INVEST grant for venture capital.

The Federal Government decided to expand the INVEST grant in 2017. The main points will be the doubling of the maximum amount up to EUR 50 000 per investor and a tax compensation for selling investments profits.

Overall, the SBA agenda in this area is being comprehensively implemented. However, the existing measures for venture capital finance need to be extended, given for example the country's ambitious plans to digitalise industry under its 'industry 4.0' strategy.

3.6 Single market



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

Since 2008 Germany has gradually improved its performance with regard to the Single market and in 2015 it finally ranked above the EU average. Much of this improvement is due to the strong presence of German SMEs on the Single market. In fact, although the degree of SME internationalisation in the EU is moderately increased in recent years, German SMEs are still way

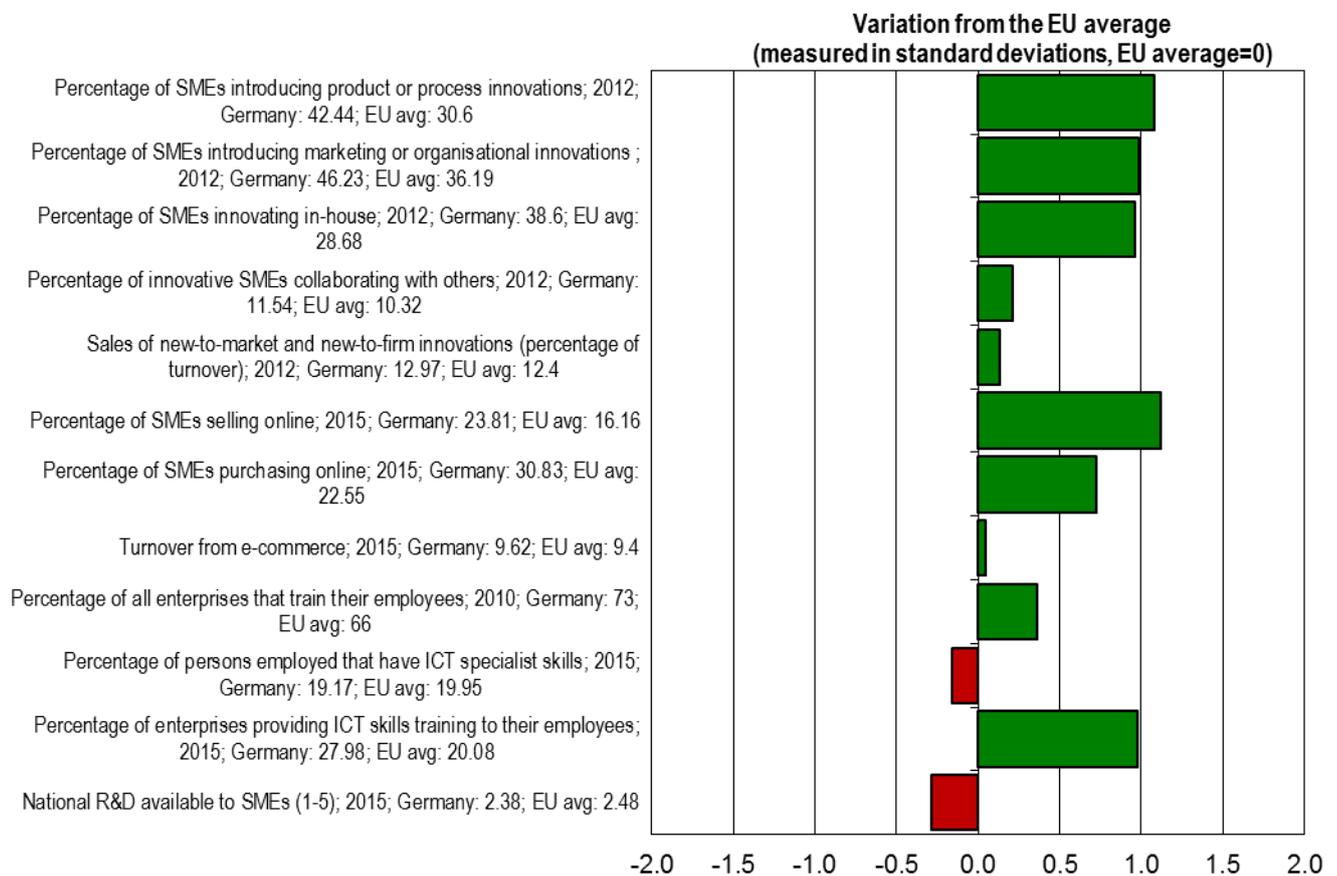
ahead. Almost 3 in 10 are exporting directly to other EU Member States, while many more are doing so indirectly as sub-contractors to larger firms. The number of SMEs exporting online has been also increasing, with now almost 1 in 10 doing so. Germany's overall importance in this area is held back by the indicators describing the regulatory framework.

Germany still needs to do some catching-up on the implementation of Single market legislation. As a result, the indicators pointing to the ease of market access for new and growing companies show only an average performance. This situation has not been helped by relative policy inactivity since 2008. Only very few and minor policy initiatives have been implemented in this area in recent years (e.g. seminars, conferences, measures for restricted markets). Having said that, many measures on the participation of SMEs in the Single market were already in place before 2008. However, there is still

room to improve the visibility of existing infrastructures for SMEs (e.g. one-stop-shops, SOLVIT centres, information systems).

The situation did not substantially improve during the reference period as no significant additional measures were adopted or announced.

3.7 Skills & innovation



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

This area continues to be one of the strongest areas of Germany's SBA profile. The statistics confirm the innovative edge the German SME sector still possesses. About 4 in 10 SMEs can be described as active innovators, against 3 in 10 for the EU in general. Some figures point to a weakening of innovation among SMEs, even though the larger firms and the country in general kept up investments in R&D in recent years and many measures have been put in place to foster cooperation between the different players involved in innovation. Overall, the evidence of a potential slowdown in SME innovativeness is still ambiguous but the issue needs to be followed closely. By contrast, the trend

is generally positive for the uptake of IT in SME business operations, while the share of SMEs trading online moderately increased. Also, while the share of staff with IT skills has remained stable at around 20% in recent years, the percentage of SMEs investing in IT training for their personnel has considerably increased. Between 2012 and 2015 this share increased from less than 22% to almost 28%, showing that SMEs have realised the importance of this issue.

The government has implemented a host of measures in the area of Skills & innovation to help SMEs to maintain their

competitive edge. A key measure was the 'Qualified Professionals Initiative ('Skilled Labour Concept'), which ensures a sufficient supply of skilled labour for German companies (implemented in 2011). Also of note is the 'Act for improving the recognition of foreign professional qualifications' implemented in 2012, which assists the recruitment of highly-skilled foreign workers.

In general, Germany meets most of the SBA requirements under Skills & innovation. For instance, several funding programmes have been created to support SMEs' R&D competences and human resources development. In addition, the professional integration of workers with skills acquired abroad will gain in importance on the SBA agenda given the expected skilled labour shortage in SMEs and the concurrent influx of refugees into Germany.

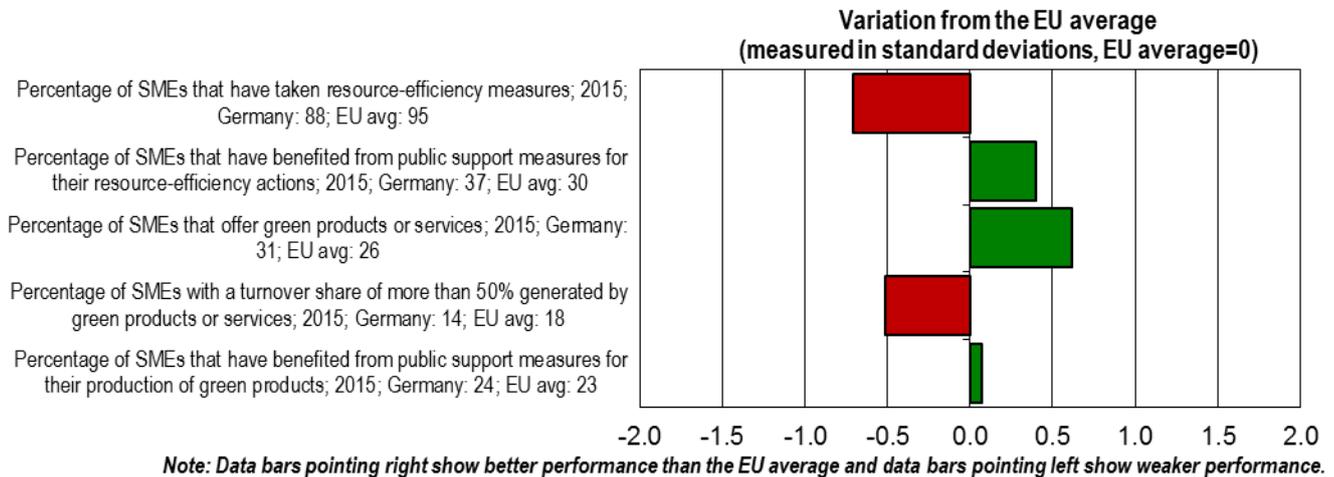
During 2015 and first quarter of 2016, Germany's strong record on Skills & innovation continued, with six new significant policy measures implemented.

- The 'Central Innovation Programme for SMEs — ZIM Programme' was substantially improved by the Federal Ministry of Economic Affairs and Energy to provide better funding for ambitious R&D projects from SMEs in cooperation with research institutes. Such R&D projects should be focusing on developing new products, technical services and better production processes. Guidelines for the programme's implementation were improved in April 2015. One of the improvements targets much stronger incentives for transnational R&D projects. The total budget of the programme was EUR 543 million in 2015. The programme is considered successful because it is helping strengthen German SMEs' competitiveness and accelerate their growth.
 - The Federal Ministry of Economic Affairs and Energy has also set up www.bq-portal.de, a website containing detailed information on foreign professional qualifications. The aim is to address the issue of skills shortages and the mutual recognition of qualifications. The portal is aimed at authorities in charge of assessing professional qualifications obtained abroad. All relevant information on the equivalence of a wide range of foreign vocational training systems and individual foreign professional qualifications is consolidated in a single database. Companies can access the portal to find detailed information on professions and vocational training systems abroad. The portal achieved significant results such as producing 73 country profiles and more than 1 400 professional profiles. The BQ portal was awarded the European Public Sector Award trophy 2015 as the

most innovative and successful project in the public sector.

- The Federal Ministry of Education and Research has been promoting an extended 'Innovative SME initiative' to give small companies easier access to R&D funding and to support their high-tech research. The measure has been expanded to cover new technology fields such as safety & security research, photonics and new materials in general (up to 2016 it only covered nanotech). Several new regulations entered into force during 2015, relating to different fields of technology. In some technology fields the target group has been expanded to include medium-sized companies (i.e. companies with up to 1 000 employees). The applications and approval procedures are very fast. For small innovative companies, the solvency checks follow simple rules, ensuring that top researchers can also implement their ideas in small and young companies.
- In January 2016 the Federal Ministry of Education and Research issued a new SME strategy entitled 'Give Way to SME — the Ten-Points-Programme of BMBF for More Innovation in Small and Medium-Sized Enterprises'. The strategy builds on the experiences in the 'Innovative SME initiative' and the participation of SMEs in measures to support cooperation between companies, universities and research institutions, such as the Leading-edge Cluster Competition (*Spitzencluster-Wettbewerb*). The strategy also contains a number of new measures addressing SMEs that are as yet less involved in R&D and public support. It is also intended to open a wider discussion with stakeholders.
- The Federal Ministry of Economic Affairs and Energy launched the 'Knowledge and Technology Transfer by Patents and Engineer Standards' — WIPANO (*Wissens- und Technologietransfer durch Patente und Normen*) to simplify the support for technology transfer in SMEs through patent applications and engineering standards and norms. The programme has an overall budget of EUR 23 million.
- The Federal Ministry of Economic Affairs and Energy has also created a 'Consulting programme for SMEs' that groups together three previously implemented programmes providing consulting services, turn-around advice and training programmes for SMEs, founders and entrepreneurs. The consolidated programme allows for online registration and significantly simplifies guidelines. In 2016 a total budget of EUR 16 million was earmarked to implement the programme.

3.8 Environment



Germany's performance was in line with the EU average in 2015. However, this is a relative decline on the previous year when it was still ranking above average. Two factors largely explain this change:

- firstly, the share of SMEs taking resource-efficiency measures dropped from 95 % to 88 %;
- secondly, the share of SMEs which have a turnover from green products of more than 50% almost halved between 2013 and 2015 (from 27 % to 14%).

The figure for the EU as a whole dropped by only 4 percentage points, i.e. from 22% to 18%. The figures for SMEs reporting public support for resource-efficiency action and offering green products also dropped but are still higher than those of most other EU Member States. In general, the decline is part of a general pattern in the EU where cuts in public spending have also resulted in a reduction in environmental support measures. In addition, the results for the sub-group of firms with a turnover of more than 50% of green products are comparatively small and allow for larger fluctuations, so the importance of this negative trend needs to be put in perspective. A longer time series might be needed to confirm a potential negative trend.

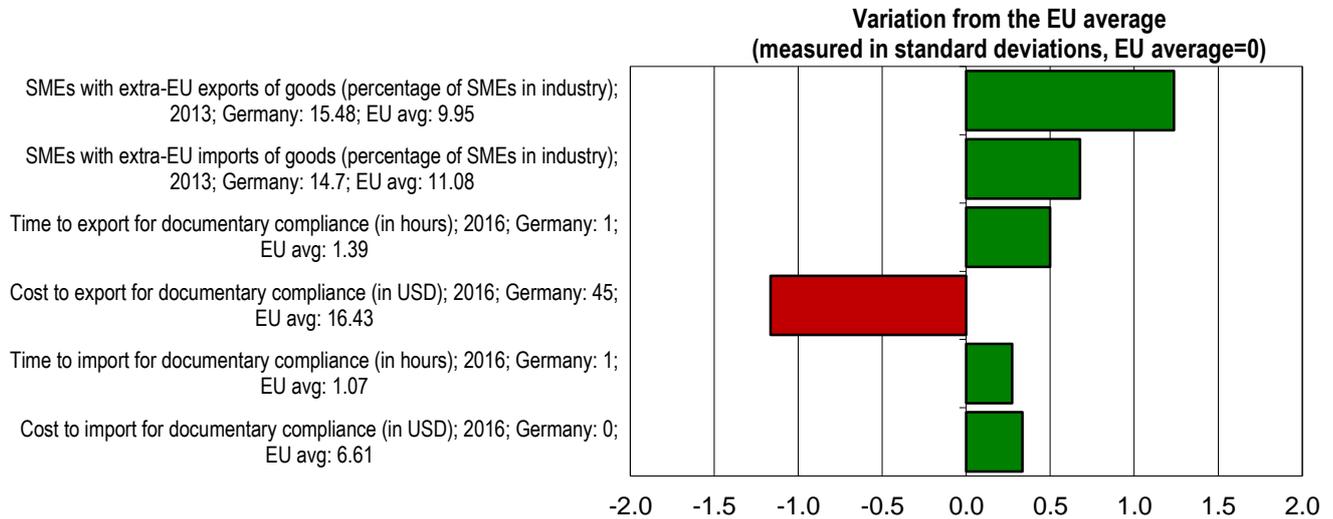
Still, the results are intriguing given the importance assigned to environmental policy, especially in the light of the 'Energiewende' of 2011, which led to a political focus on energy reforms to achieve a shift towards renewable energies. Most measures initiated since 2011 aim to provide guidance and advice to companies in order to tap into their potential to save

energy and resources. The measures focus in particular on energy efficiency and the use of renewable resources, but also cover support for enhancing qualification and the promotion of exchange of experiences. Against the backdrop of recent figures for SMEs and resource-efficiency as well as SMEs' development of green products, it could be useful to review the measures to gauge how appropriate they are for SMEs.

Only three measures were implemented in the area of Environment during the reference period.

- As of January 2016, grants under the 'Energy Consulting for SMEs' programme have been increased and can now include implementation support for at least one proposed energy efficiency measure. This will further enhance services for SMEs.
- In 2015, 2050 consulting projects (energy consulting and implementation support) with a total funding of EUR 10.5 million were approved, followed by about EUR 51 million in investments in energy saving measures in SMEs. 10-20% energy savings per SME are expected as a major impact of implementing the programme.
- In addition, to improve energy efficiency in SMEs and energy saving by contracting, financial support to energy performance contracting was extended through the newly-established 'Funding of contracting for energy savings' (*Förderung von Energiespar-Contracting*). The existing guarantee facilities have been expanded to lessen the default risk for banks, thus encouraging energy efficiency investments in SMEs in the form of energy performance contracts.

3.9 Internationalisation



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

Germany’s performance in this area has dropped to average, although this change can be largely explained by changes to the definitions of the World Bank indicators in this set of indicators. These encompass the figures measuring the time and costs for exporting and importing. For one such indicator — the costs to export for documentary compliance — the change led to a rather abrupt drop in Germany’s relative ranking vis-à-vis most other EU countries. According to the new definition, costs related to administrative export documentation are almost three times larger in Germany than elsewhere in the EU. This is the single most important factor behind the change in relative position. Otherwise, Germany’s SMEs continue to be among the EU frontrunners on extra-EU trading, especially on the export side. The share of German SMEs exporting and importing outside the EU is among the highest in the EU and is continuing to rise. Also, even factoring in the methodologically-induced changes in the indicators measuring costs and time for trading, most of these point to rather competitive conditions in Germany as compared to the EU as a whole.

This good performance is partially due to the policy priority given to this area in recent years. Numerous measures have been taken on Internationalisation over the last few years. The ‘SME market entry’ programme introduced in 2010 is one of the most important Internationalisation measures. The programme aims

to promote export activities of SMEs such as technology-oriented export initiatives for German security technologies.

Some measures were implemented by Germany during the reference period. These included the ‘Welcome Pilots for refugees’ and ‘Network IQ — Integration through Qualification’ initiatives to improve the state of the labour market for migrants and better tackle the need for integration of refugees. Such measures should help Germany achieve a more inclusive international labour market and attract labour from abroad.

The most important Internationalisation measure is the ‘German Accelerator Life Sciences’ (GALS) adopted by the Federal Ministry of Economic Affairs and Energy. GALS helps young German life sciences start-ups to forge contacts with the life sciences community in Boston, Massachusetts. The accelerator provides advice and support to German start-ups and young life sciences companies in their business plan, processes and product development. It also helps companies to draw on the skills of experienced mentors and consultants and to establish networks of potential clients, partners and investors. The measure is expected to boost cooperation between German and American start-ups and to support market entry of German countries in the US market. GALS is an extension of the existing German Accelerator, which has branches in Silicon Valley and New York. EUR 2 million has been allocated for this project.



4. Interesting initiative

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

'Micro Mezzanine Funds' (*Mikromezzaninfonds*)

In 2015, the budget of the 'Micro Mezzanine Fund' was increased by EUR 13 million. The 'Micro Mezzanine Fund' was created in 2013 with an initial budget of EUR 35 million. By the end of 2015 the total volume reached was EUR 75 million (Fund I). The fund provides mezzanine capital of up to EUR 50 000 with a term of 10 years. The fund is co-financed by the European Social Fund and will reach a total volume of EUR 85 million in the 2014-2020 period (Fund II). Special attention is given to specific target groups such as female entrepreneurs, migrants and unemployed people and to training employers. More than half of the supported entrepreneurs belong to these target groups. The fund is coordinated by NBank (Investment Bank Lower Saxony), but SMEs have to apply for funding in the region where the investment is made. The application procedure is easy and fast (it usually takes less than 4 weeks between the first contact and the result of the application).

The financial instrument addresses the typical market weaknesses that SMEs and start-ups face when trying to access finance. Mezzanine financing is considered to be a hybrid financial instrument as it has characteristics of both an equity and debt instrument. Companies can raise capital without dilution of control. The instrument improves the equity capital basis of SMEs and gives them new leeway to obtain other credits. However, it can only support relatively small investments, which is why it particularly serves the requirements of small enterprises. According to an assessment of the fund carried out before its launch, the fund is expected to finance up to 2 200 SMEs, of which 1 200 are newly established companies.

References:

<http://www.mikromezzaninfonds-deutschland.de>

http://www.mikromezzaninfonds-deutschland.de/tl_files/mikro/content/downloads/2015_09_28_%20Zusammenfassung%20Ex-ante-Bewertung.pdf

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, the fact sheets 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/index_en.htm

grow-spr@ec.europa.eu

Small Business Act:

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

Endnotes

¹ 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 2014, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2013 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/index_en.htm

² ZDB (2014) 'Analyse & Prognose, Bauwirtschaftlicher Bericht 2013/2014', p. 6.

³ Gesetz für Stabilität und Beschäftigung <http://www.bmwi.de/BMWi/Redaktion/PDF/Gesetz/gesetz-fuer-stabilitaet-und-beschaeftigung.property=pdf.bereich=bmwi2012.sprache=de.rwb=true.pdf>; last accessed 21.3.2016.

⁴ http://www.bmvi.de/SharedDocs/DE/Anlage/BauenUndWohnen/vob_erlass_B15-8163_6_1_vom_26_07_2012.pdf?__blob=publicationFile; last accessed 21.03.2016.

⁵ ZDB (2014) 'Analyse & Prognose, Bauwirtschaftlicher Bericht 2013/2014', p. 6.

⁶ See e.g. Annual Report of Ernst & Young GmbH 2015 [http://www.ey.com/Publication/vwLUAssets/EY-Geschaeftsbericht-2015/\\$File/EY-Geschaeftsbericht-2015.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Geschaeftsbericht-2015/$File/EY-Geschaeftsbericht-2015.pdf); last accessed 14.3.2016.

⁷ Bundesverband Deutscher Unternehmensberater (BDU): Facts & Figures zum Beratermarkt 2015/2016 <http://www.bdu.de/media/174316/ergebnisse-marktstudie-unternehmensberatung-2016.pdf>; last accessed 14.3.2016.

⁸ Die KMU-Berater Bundesverband Freier Berater e.V.: KMU-Beratermonitor Digitalisierung 2016. https://www.kmu-berater.de/fileadmin/user_upload/downloads/KMU-Beratermonitor_Digitalisierung_2016_Auswertung_-_Die_KMU-Berater.pdf; last accessed 14.3.2016.

⁹ Gesetz für Stabilität und Beschäftigung <http://www.bmwi.de/BMWi/Redaktion/PDF/Gesetz/gesetz-fuer-stabilitaet-und-beschaeftigung.property=pdf.bereich=bmwi2012.sprache=de.rwb=true.pdf>

¹⁰ IfM Bonn, <http://www.ifm-bonn.org/statistiken/gruendungen-und-unternehmensschliessungen>; last accessed 4.7.2016.

¹¹ Ibid.

¹² Federal Employment Agency, Labour Market in Figures, Support Statistics, March 2016.

¹³ The 2016 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.

¹⁴ 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 2016. These are measured against the individual indicators which make up the SBA area averages. This means that 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 2016. 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/index_en.htm

¹⁵ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2015 and the first quarter of 2016. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2016 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 a policy database on the DG GROW website.

¹⁶ In Germany it is possible to start a limited liability company (GmbH) with EUR 1. However, given that incorporation as a 'traditional' GmbH with a much higher paid-in capital is still more popular, it was therefore used by the original source of the data (the World Bank) as the benchmark for this indicator.

¹⁷ Website of the Federal Ministry of Economic Affairs and Energy, providing an overview of the available programmes at federal, regional and EU level: <http://www.foerderdatenbank.de>, last accessed 31.8.2016.

¹⁸ Business start-up portal of the Federal Ministry of Economic Affairs and Energy: www.existenzgruender.de, last accessed 31.8.2016.