



2018 SBA Fact Sheet

Germany

Key points

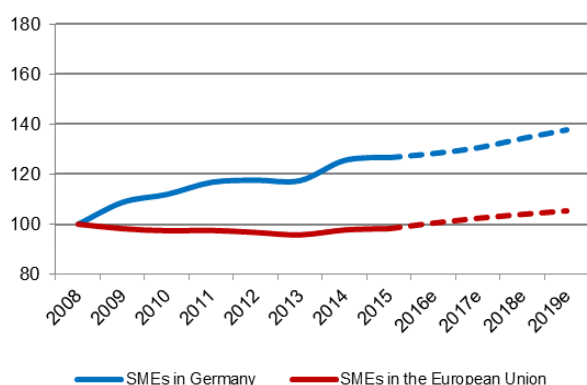
Past & future SME performance¹: In Germany, SMEs account for 54.0 % of total value added and 63.2 % of employment. These figures are lower than the respective average EU shares of 56.8 % and 66.4 %. SMEs have generated healthy growth in recent years, with SME value added and employment increasing by 20.0 % and 11.2 % respectively in 2013-2017. Most recently, in 2016-2017, SME growth continued, with a 4.2 % rise in value added and an increase of 1.8 % in employment. The outlook for SMEs is positive. SME growth is predicted to continue in 2018 and 2019 at a rate of 5.5 % for employment and 12.0 % for value added as compared to 2017.

Implementing the Small Business Act for Europe (SBA): Germany's SBA profile has markedly improved since last year. In addition to its traditional areas of strength in 'second chance', skills & innovation and internationalisation, Germany's score in single market and environment has also improved: on environment it is above the EU average while for the single market it remains close to the EU average. In state aid & public procurement and access to finance, Germany's performance remained close to the EU average. The sole weaknesses in the country's profile are its below-EU-average scores in entrepreneurship and 'responsive administration'.

SME policy priorities: Germany could do more to improve responsive administration for SMEs and to foster entrepreneurship, especially by promoting entrepreneurial education in secondary and tertiary education. Despite continuous efforts over the past few years to reduce the bureaucratic burden on businesses, more could be done as many other EU countries have progressed at a much faster rate. For instance, the 'only once' principle is not yet systematically implemented in most government departments, while the recently implemented measures have to be closely reviewed as regards their effectiveness. Also, the transfer towards e-government has to be sped up, while continued efforts are needed to improve access to capital, in particular for businesses in the scaling-up phase. The number of innovative SMEs has been shrinking since at least 2008, despite a multitude of R&D support initiatives and even allowing for the fact that the available statistics might not cover all relevant innovation activities by SMEs. This phenomenon calls for close monitoring.

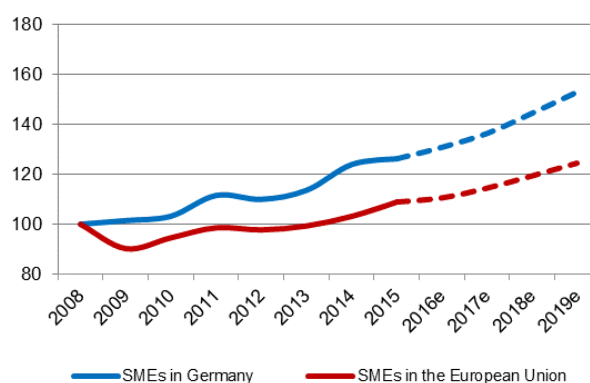
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2016 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2016 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.

Table of Contents

Key points	1
1. SMEs — basic figures.....	2
2. SBA profile	4
3. SBA principles.....	6
3.0 'Think Small First'	6
3.1 Entrepreneurship.....	7
3.2 'Second chance'	8
3.3 'Responsive administration'	9
3.4 State aid & public procurement	10
3.5 Access to finance.....	11
3.6 Single market	12
3.7 Skills & innovation	13
3.8 Environment.....	15
3.9 Internationalisation	16
4. Interesting initiative.....	17

1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Germany		EU-28	Germany		EU-28	Germany		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	2 036 100	82.6 %	93.1 %	5 688 702	19.6 %	29.4 %	255.4	15.2 %	20.7 %
Small	357 651	14.5 %	5.8 %	6 749 152	23.3 %	20.0 %	309.9	18.4 %	17.8 %
Medium-sized	58 878	2.4 %	0.9 %	5 863 981	20.3 %	17.0 %	342.2	20.4 %	18.3 %
SMEs	2 452 629	99.5 %	99.8 %	18 301 835	63.2 %	66.4 %	907.6	54.0 %	56.8 %
Large	11 379	0.5 %	0.2 %	10 651 385	36.8 %	33.6 %	773.5	46.0 %	43.2 %
Total	2 464 008	100.0 %	100.0 %	28 953 220	100.0 %	100.0 %	1 681.1	100.0 %	100.0 %

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 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.

As is the case throughout the EU, SMEs play an important role in the 'non-financial business economy' in Germany. However, SMEs' shares of 54.0 % of total value added and 63.2 % of employment are lower than the respective average EU shares of 56.8 % and 66.4 %. The distribution of SME size classes also differs from the EU average. Micro firms play a less important role, whereas small and medium-sized firms contribute larger shares to value added and employment than average for the EU. Due to the lesser importance of micro firms, the average of 7.5 people employed in German SMEs is much higher than the EU average of 3.9.

SMEs have generated healthy growth in recent years, in tandem with the 'non-financial business economy' as a whole. SME value added and employment increased by 20.0 % and 11.2 % respectively in 2013-2017, outperforming large firms, which grew by only 15.8 % and 6.7 %. Micro firms generated above-average employment growth of 14.7 % in 2013-2017, while value added grew at similar rates across the different SME size classes. Most recently, in 2016-2017 SME growth continued, with a 4.2 % rise in value added and an increase of 1.8 % in employment.

In the *construction* sector, SMEs generated strong growth. In 2013-2017, SME value added and employment rose by 37.6 % and 17.4 % respectively. Large firms play a minor role in the sector, contributing only 9.7 % of overall value added in 2017. Conversely, 72.6 % of value added was generated in firms with less than 50 employees. In the absence of business mergers, and with bankruptcies falling by around 5 % per year in 2008-2014, this size-class distribution has remained stable over recent years².

The recent SME growth in *construction* was largely due to an increase of 18.7 % in residential construction in 2013-2016, due to strong demand for housing, particularly in urban areas³. A large increase in immigration, most significantly in 2014-2015, when the influx of migrants increased by 49 % on the previous year, further stimulated residential construction⁴. In 2015, total net immigration into Germany was 1.14 million people, the highest net immigration total ever recorded⁵. In addition, both commercial and public construction increased in 2013-2016, albeit more moderately, by 9.9 % and 8.4 % respectively⁶. Growth in these two subsectors was driven by the strong willingness to invest among both private and public bodies, stimulated by low interest rates⁷.

SMEs in *manufacturing* experienced mixed development overall; SME value added grew by 10.5 % in 2013-2017, while SME employment remained largely unchanged. New digital technologies and the trend commonly known as the 'fourth industrial revolution' have posed challenges for SMEs⁸. Advances in technology have increased labour productivity, but have also contributed to limited employment growth⁹. Furthermore, digital transformation requires high levels of investment and good access to credit, which is more difficult for SMEs than for large firms. Nonetheless, SMEs have maintained a state of good economic health, evident in the 2.5 percentage point growth in their equity ratio in 2015-2016¹⁰. Rising R&D investment by SMEs in *manufacturing*, most notably an investment increase of 9.5 % in *machinery* in 2014-2015, contributes to good SME growth prospects¹¹.

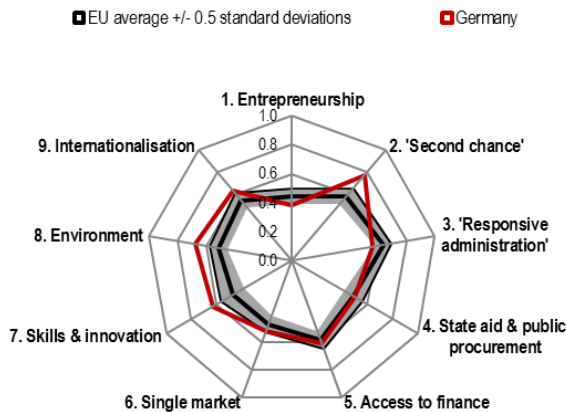
In 2017, 549 700 companies (not including most of the liberal professions) were added to the register, a decrease of 0.9 % on the previous year^{12,13}. Deregistrations also fell. In 2017, 512 700 businesses deregistered, 1.7 % fewer than in 2016¹⁴.

The following segment presents data that has been collected for the EU Startup Monitor and refers mainly to the population of online and technology based start-ups.¹⁵ The German Startup Ecosystem has been developing steadily over the past decade. The typical German founder is male (82.4 %) and holds a university degree (88.8 %). A very positive trend in Germany is the increased share of female founders, both in the population (15.1 % vs the EU average of 15.6 %) and in initiatives. Start-ups in Germany are to be found in many sectors, such as IT and software development (22.6 %) and software as a service (22.1 %), and have a leading role in the bio/med-tech sector (9.3 %, vs the EU average of 6.5 %). German start-ups currently employ an average of 17.2 people and are planning to create an average 9.0 more jobs within the next 12 months. While most German start-ups are generating revenues mainly or completely in a business-to-business setting (72.9 %), a noticeable proportion of start-ups also serve the end customer directly (23.5 %). German start-ups are demonstrating a global approach to internationalisation. While 84.8 % want to internationalise within the euro area, 41.6 % are looking to enter global markets as well. 25.6 % of start-ups are planning to enter the Asian market, where revenues are already being created for 4.2 % of German start-ups (vs the EU average of 2.6 %). The geographical start-up hub for Germany is Berlin, with growing regions for innovation all over the country and in cities such as Munich or Hanover.

The overall healthy economic development is reflected in the falling number of business closures. In 2017, a total of 20 093 companies declared bankruptcy, 6.6 % less than in 2016 and almost half of the peak level of insolvencies in 2003¹⁶. Furthermore, many German firms have successfully scaled up their operations in recent years. In 2015, 37 662 firms — 10.7 % of all firms in the 'business economy'¹⁷ with at least 10 employees — were high-growth firms¹⁸. This exceeds the EU average of 9.9 %. High-growth firms are particularly prevalent in *information and communication*, with a share of 17.6 % — one of the highest shares for this sector in the EU.

The outlook for SMEs is positive. SME growth is predicted to continue in 2017-2019, at a rate of 5.5 % for employment and 12.0 % for value added. The above-average employment growth in micro firms, which started in 2013, is forecast to continue, with annual increases of around 3 % in 2017-2019.

2. SBA profile¹⁹



Germany's SBA profile remains solid in 2018, with the third highest score for the environment, and above-average scores in 'second chance', skills & innovation and internationalisation. Germany's performance on state aid & public procurement, single market and access to finance is average, while on entrepreneurship and 'responsive administration' it is below average.

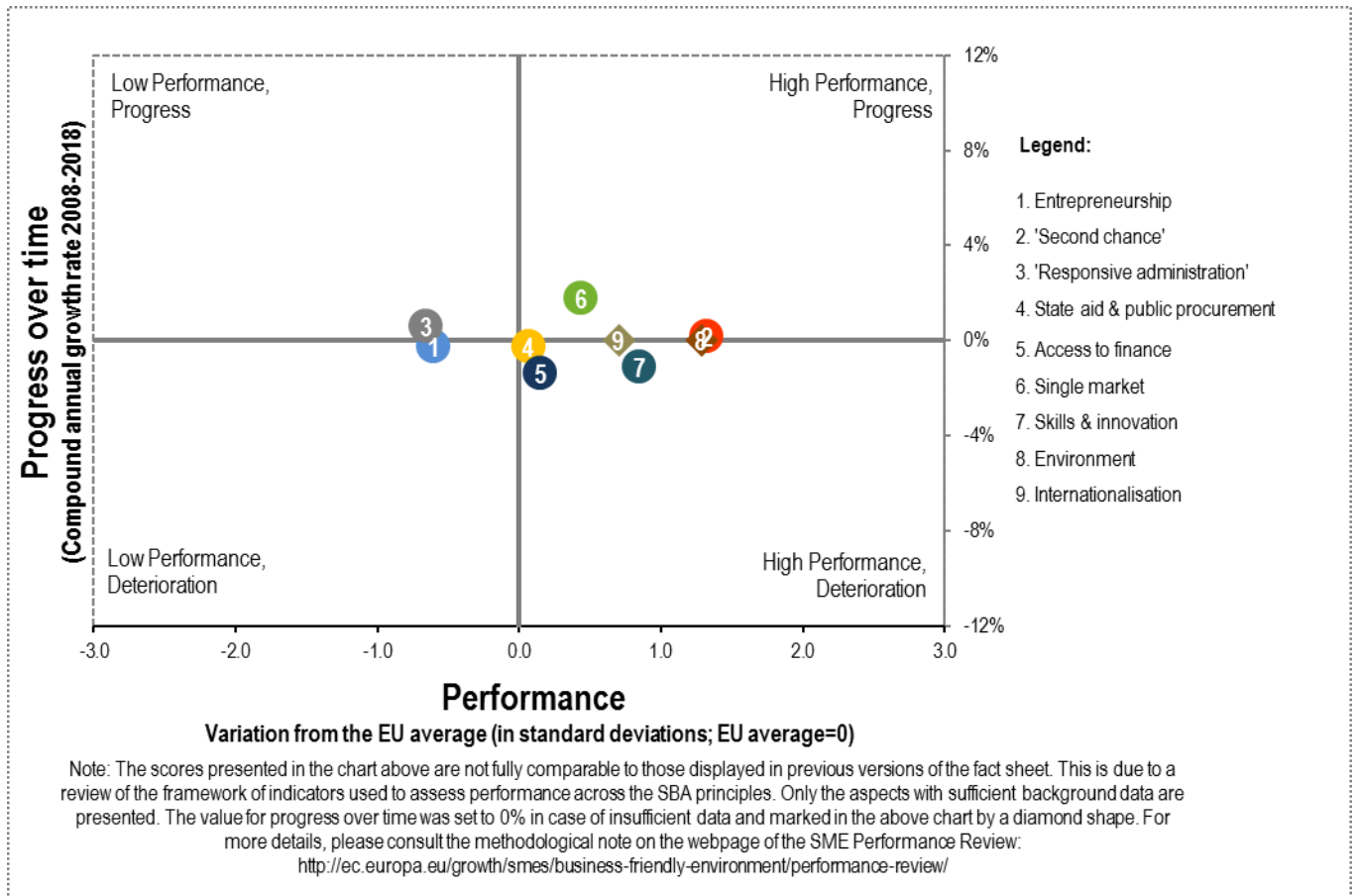
Since 2008, Germany's policy progress against the SBA principles has varied significantly across the different areas. The German government is not pursuing a specific strategy for the implementation of the Small Business Act, though various policy settings focus on similar objectives as the SBA principles. Progress has been made also in the weaker areas such as entrepreneurship and 'responsive administration', but other

countries have progressed at a faster rate. As a result, in relative terms Germany's progress against a constantly improving EU average has been limited. This is related in particular to the digitalisation of administrative procedures, which progresses at a relatively slow pace.

In 2017 and the first quarter of 2018, which is the reference period for this year's fact sheet, the government implemented policies aimed primarily at improving skills & innovation. However, overall policymaking activity has remained subdued due to the German federal elections in September 2017 and the subsequent lengthy negotiations between parties trying to form government, which concluded only in February 2018. During the past observation period (January 2017 to end of March 2018), most progress was made in the areas of skills & innovation, entrepreneurship and access to finance.

In this regard, Germany's SME-related policy activity in the reference period was dominated by measures focused on supporting the digitalisation of SMEs, such as Go-Digital, which was introduced in July 2017 to provide certified IT consulting services to help SMEs in their digitalisation processes. Another focus of the most recent reference period was the economic integration of refugees, for example through the mentoring programme *Gründerpatenschaften* for entrepreneurial refugees in Germany, which is currently being piloted in the Berlin-Brandenburg metropolitan region. Policy measures encouraging R&D activity for service and product innovations were also given attention, such as the ERP-Mezzanine for Innovation, which has an annual budget of EUR 200 million and may fund of up to 100 % of the cost of eligible R&D to a maximum of EUR 5 million.

SBA performance of Germany: state of play and development from 2008 to 2018²⁰



3. SBA principles²¹

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 policymakers to take SME interests into account at the early stages of the policymaking process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

Policies addressing most of the indicators in this SBA area have been in place in Germany since before the SBA's introduction in 2008. Frequent public consultations with multiple stakeholders in the legislative process offer opportunities for SME representatives to influence policy proposals and they take a proactive role, especially in the exchange of EU and national level experiences. The results of the consultation process are generally published by SME stakeholders to inform represented parties.

All new legislations are subject to the 'SME test', and are evaluated in terms of their administrative capacities, budgetary constraints and potential impact on SMEs. Still, over recent years the administrative costs of SMEs have continued to account for a significant share of overall costs and Germany has generally made only moderate progress on implementing supportive regulations to reduce these costs. In this regard, the 'only once' principle still needs to be effectively addressed, as SMEs are still unfortunately required to report similar information multiple times to different authorities.

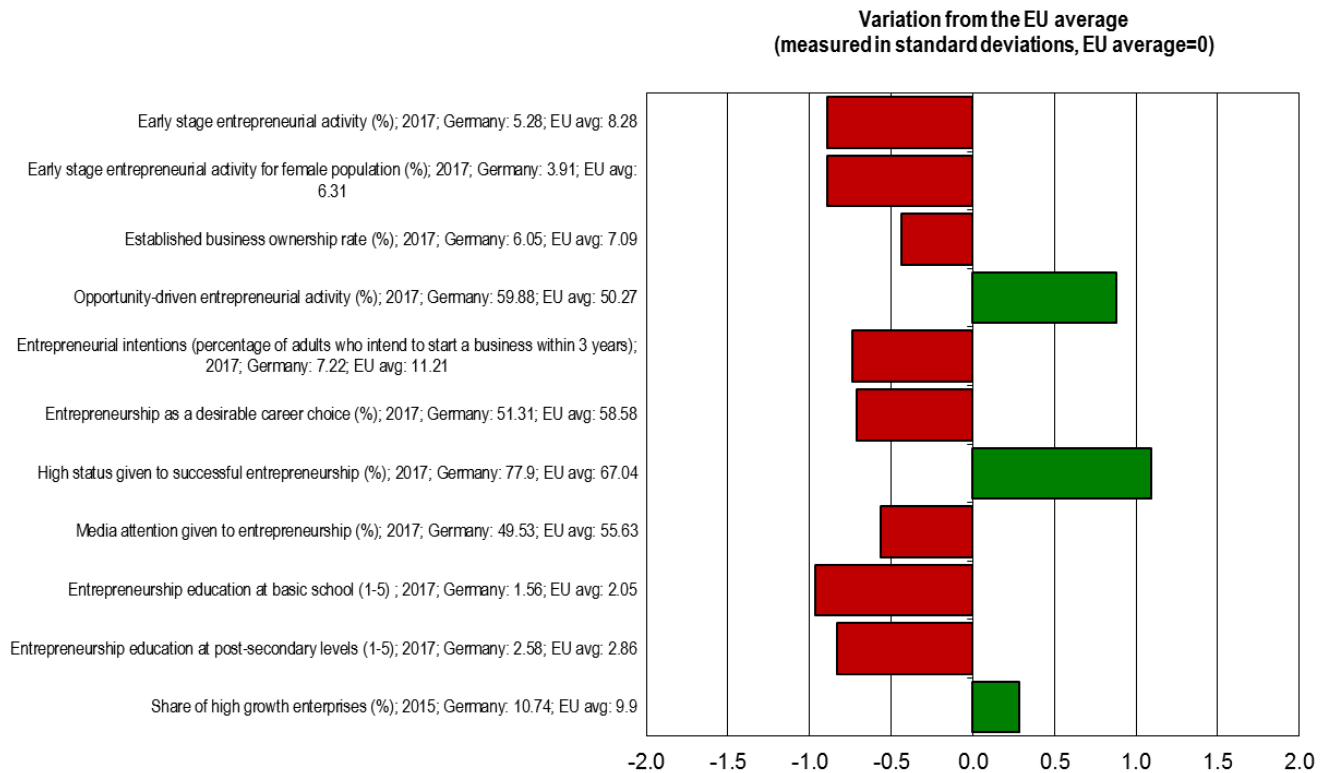
During the reference period, the German government introduced one measure of particular importance in this area: namely, the

Second Bureaucracy Relief Act (*Zweites Bürokratieentlastungsgesetz*), as follow-up legislation to the already implemented first act. The law was designed to benefit businesses typically most heavily burdened by compliance costs, i.e. small businesses with two to three employees in areas such as crafts and trades. One of the new law's innovations is that it simplifies calculations of social insurance contributions, in particular for the time-consuming estimation of contributions for the current month. Furthermore, the ceilings for lump-sum accounting and for income-tax registration of employees were raised. On tax law, the legislation contains a reduction of the minimum retention period for delivery notes.

The German government also implemented a Law against harmful tax practices in relation to transfers of rights (*Gesetz gegen schädliche Steuerpraktiken im Zusammenhang mit Rechtsüberlassung*). By raising the threshold for the minimum value of assets that can be classified as low-value from EUR 410 to EUR 800, the law grants companies a higher allowance in their expenses and reduces the scope of SME assets subject to taxation.

Overall, German policy activity under this principle has remained moderate, as in previous years. However, the traditionally high importance of stakeholder consultation in the German business culture and work of SME representatives balances this out and to an extent alleviates the need for further significant policy changes in this area, at least in the immediate future.

3.1 Entrepreneurship



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

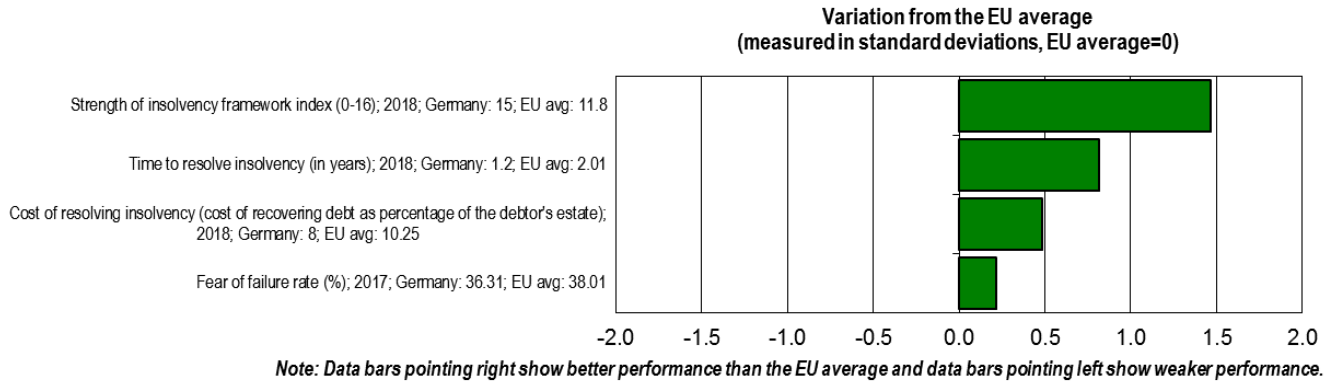
Germany performs below the EU average on entrepreneurship, with some indicators having actually fallen since 2008. It has the third highest rate among Member States of successful entrepreneurs being given high status, though this fell to 77.9 % in 2017, down from 79.6 % in 2008 and from 78.9 % in 2016. Other status-related indicators follow a similar trend, with entrepreneurship as a desirable career choice down from 55.8 % in 2008 to 51.3 % in 2017 (though the figure fluctuated somewhat in between), and media attention for entrepreneurship in 2017 at its lowest level (49.5 %) since 2012 when it was 49 %. Every educational indicator has also fallen compared with 2008 figures, with 7 of the 8 indicators also worse in 2017 than in 2016. As in the past years, two factors are driving this trend. The excellent state of the economy and the large number of job vacancies discourage younger would-be entrepreneurs in particular from taking the risks connected to entrepreneurship. In addition, as the ageing of the overall population accelerates, there are ever fewer younger people to start a new business. However, there are also positive developments. Early-stage entrepreneurial activity grew to 5.3 % in 2017 after a slight contraction in 2016, with the same trend visible for female entrepreneurial activity (3.9 % in 2017 against 3.1 % in 2016). Entrepreneurial intentions and opportunity-driven entrepreneurship both also increased slightly, continuing the generally upward trends seen on these four indicators since 2008. The established business ownership rate, while slightly higher than in 2008, fell to about 6 % in 2017 from 7 % in the previous year.

Since 2008, the promotion of entrepreneurship has received increasing policy attention in Germany, with multiple measures implemented, including support schemes for female entrepreneurs and unemployed people. Despite this, stakeholders report that German entrepreneurial potential is underutilised, and that further leveraging the high underlying structural capacities of the German economy (i.e. strong infrastructure, human and financial capital, stable government institutions) with regard to entrepreneurship would be a positive step.

During the reference period, Germany demonstrated increased effort towards fostering entrepreneurship, both across German society and among specific target groups. For instance, the 5-point plan for a new founder era (*5 Punkte Plan für eine neue Gründerzeit*) is a high-level strategy laid out in September 2017 to stimulate innovative and entrepreneurial mindsets among young people and establish the required infrastructure. In line with this plan, the introduction of the *Gründerplattform.de* (Foundersplattform.de) website has been formally announced to provide support for business founders on all aspects of successfully setting up a business.

The German government also continued its significant efforts to improve the social and economic integration of refugees, launching the 'Godparenthood for Founders' (*Gründerpatenschaften*) pilot project. In this programme, experienced entrepreneurs provide mentoring for refugees who wish to become entrepreneurs in Germany, covering all aspects of successfully establishing a business.

3.2 ‘Second chance’



‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Germany has fallen out of the top three performers in this area, despite its performance remaining well above average. As in previous years, Germany’s insolvency framework is the strongest in the EU and consequently both the time and cost of resolving insolvency score above the EU average (though both remain unchanged from last year). For the first time since 2014, the fear of failure rate in Germany fell below the 2008 level (40.2 %) and below the EU average (38 %) to 36.3 % in 2017, reversing the increase referred to in last year’s fact sheet.

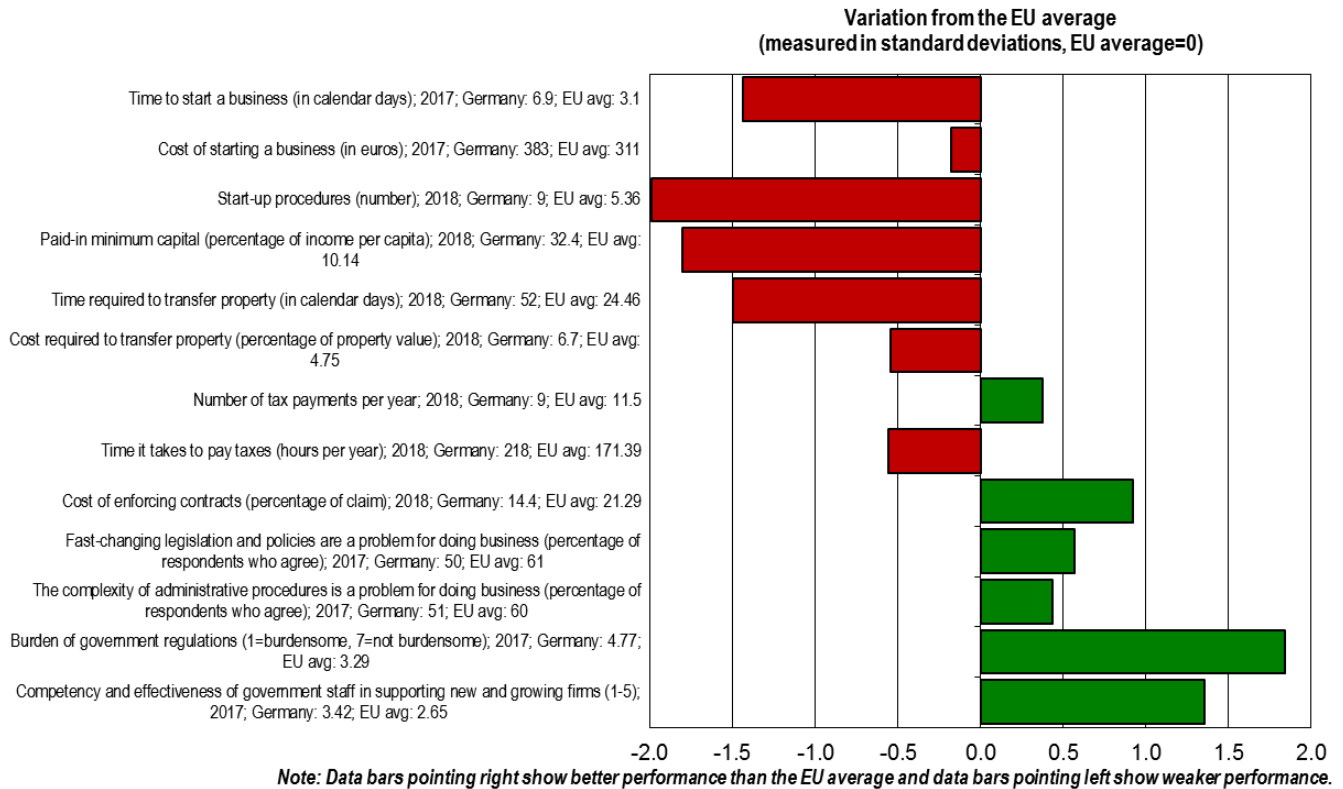
Germany met the policy requirements of the SBA on ‘second chance’ well before 2008, and policy progress in this area since

has therefore been very limited. There have been some significant measures though, including the Company Restructuring Simplification Act of 2012 and individual improvements to the Insolvency Regulation Act 2014, which both further enhanced the regulatory framework.

In sum, bankruptcy laws are generally effective and effectively applied, and restarting entrepreneurs are treated equally to new founders. There could still be further progress on the cultural stigmatisation of failure, although changes to engrained cultural perceptions like this generally occur over the longer term.

Overall, in 2017 and the first quarter of 2018 no significant measures in this area were implemented.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. As performance in entrepreneurship has improved slightly in Germany, 'responsive administration' became the country's worst-performing SBA area over the reference period. Germany has the third highest paid-in capital requirements (at 32.4 % of income per capita) and the highest number of procedures required to start a business (9). This is despite paid-in minimum capital requirements having actually improved (year-on-year) every year since 2008 with the exception of 2011. The time to start a business in Germany remains more than double the EU average (6.9 days against 3.1), longer than the 6.5 days it took in 2008. The cost remains marginally higher at EUR 383 against EUR 311 for the EU overall, though this is less than half of what it cost in 2008. Also, in recent years, new and less costly forms of legal incorporation have been introduced.²²

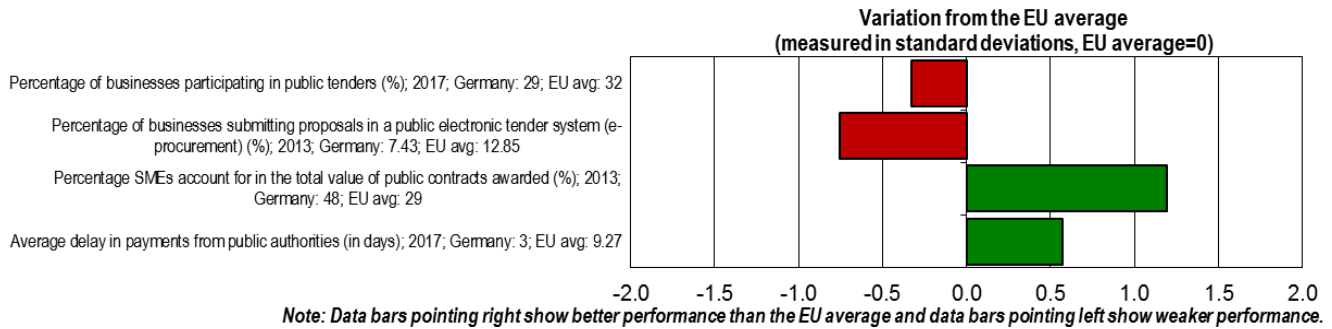
The time to transfer a property, the number of taxes and the time it takes to pay them have all remained largely unchanged since 2014, as has the cost of enforcing a contract. Perceptions of the burden of government regulation seem to have improved by about the same margin over the current reference period as in the previous reference period, continuing a positive trend for this indicator. Over the past decade, Germany's performance has moderately improved on some indicators. However, as other Member States have moved faster in reducing red tape, progress in Germany was slower than in the EU in general.

Since 2008, important steps have been taken to monitor and reduce total administrative compliance costs, such as: (i) the implementation of the 'Bureaucracy Cost Index'; (ii) the strengthened National Regulatory Council (*Normenkontrollrat*); and (iii) numerous initiatives to digitalise administrative procedures. The German government has focused much attention on this field since 2016, notably with the adoption of the Law on the modernisation of tax procedures (*Gesetz zur Modernisierung des Besteuerungsverfahrens*), which significantly improved the efficiency of the fiscal administration and reduced the response burden for SMEs and citizens. Additionally, the Law on the reduction of abdicable written requests (*Gesetz zum Abbau verzichtbarer Anordnungen der Schriftform im Verwaltungsrecht des Bundes*) decreased the required administrative effort by phasing out written requests and introducing simplified procedures that do not contain the requirement to appear in person.

However, Germany still faces challenges over the complexity of its licensing and permits system. The highly diversified nature of government administrative institutions in Germany tends to limit progress in implementing the 'one-stop shop' and 'only once' SBA principles.

No significant measures concerning 'responsive administration' were implemented during the reference period. However, an amended collateral clause for grants (*Änderung der Nebenbestimmungen für Zuwendungen*) is an improvement for SMEs as it simplifies the application process and increases the chances to obtain public funding of R&D procedures.

3.4 State aid & public procurement



Germany’s performance remains in line with the EU average as in previous years, despite the proportion of businesses having taken part in a public procurement procedure falling from 31 % in 2015 to 29 % in 2017. The fall can be attributed to the ongoing high in the German economy, which leaves business with enough opportunities outside the public procurement market. Though the average payment delay by public authorities increased from 1 day in 2016 to 3 days in 2017, scores for this indicator still remain well above both the EU average (9.27 days) and the 2008 figure (15 days). The remaining indicators have not been updated. Recent data from 2017 from DG GROW’s single market scoreboard point to Germany performing at around the EU average on the share of offers submitted by SMEs, the share of contracts finally awarded to SMEs and the share of calls split into SME-friendly lots²³.

Progress since 2008 on state aid & public procurement has been significant, especially with the transposition of the EU procurement directives into national law (*Gesetz zur Modernisierung des Vergaberechts*). The new public framework provides for a number of provisions strengthening the role of

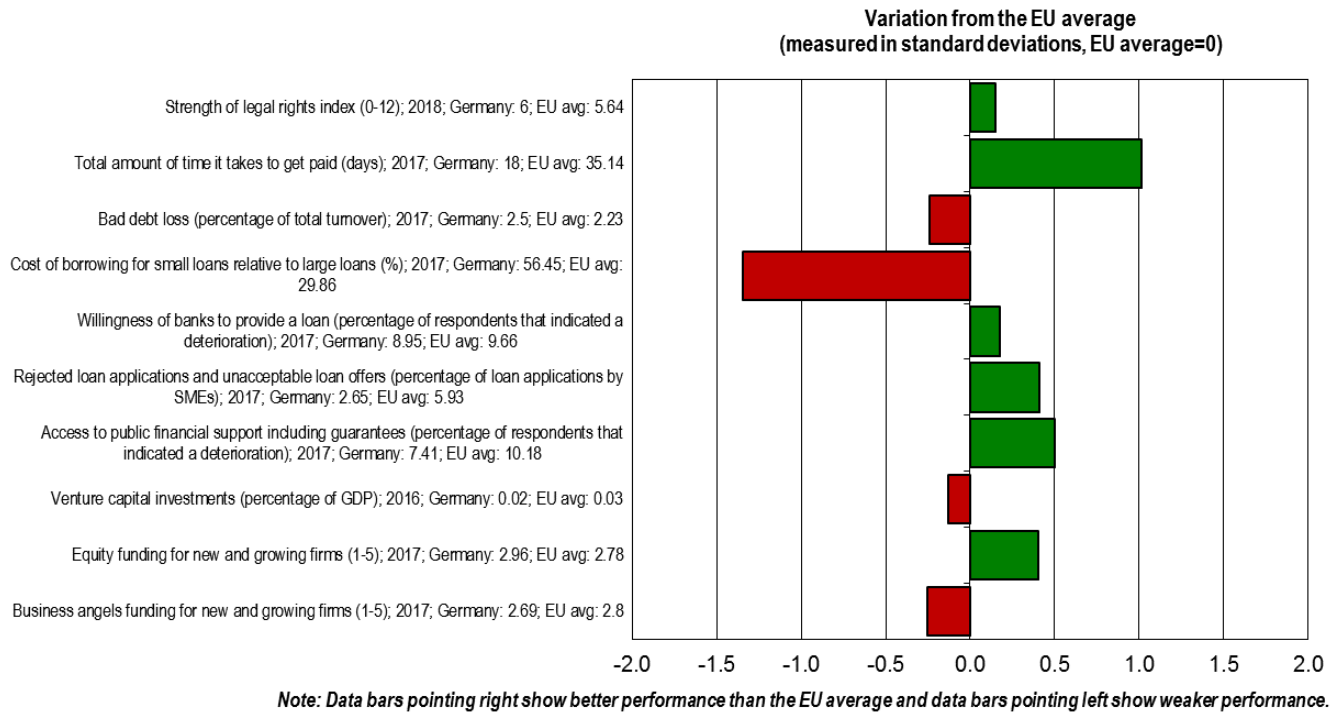
SMEs in public procurement procedures, such as the legal obligation to keep the requirements for businesses participating in procurement procedures as moderate as possible.

Aside from the legal framework, a number of non-legal initiatives to aid SMEs have also been introduced, such as establishing a ‘Centre of Excellence for Innovative Procurement’ in 2013 and a Competence Centre for Sustainable Procurement in 2011. The new legal framework also included modernisation of the e-procurement process, which digitised all processes to simplify public procurement procedures.

Overall, most of the SBA-recommended measures are in place — authorities set proportionate requirements for qualifications and financial viability tenders have to be divided into lots, a requirement that goes further than the EU directives and most other Member States. The public procurement market is open to competition from foreign firms.

During the reference period, there was no significant measure implemented.

3.5 Access to finance



Access to finance in Germany remains in line with the EU average, though the depth of credit information and level of funding from private lenders are among the highest in the EU. Germany also has the shortest period for being paid at 18 days on average, although the figure has risen from 14 days in the previous reference period. The cost differential of borrowing for small loans relative to large loans grew again to 56.5 % vs 52.6 % the previous year and only 15.3 % in 2008. However, in absolute terms interest rates remain very low also for SMEs. The increase in the differential between large and small loans matters much less than in the period when the overall interest rate levels were much higher.

Access to finance itself seemed to improve over the reference period, with rejected loan applications down (2.7 % in 2017 against 8.9 % in 2016) and decreases in: (i) the proportion of respondents that indicated deteriorations in public financial support; and (ii) the willingness of banks to provide loans. Both figures were down almost by 3 percentage points against the previous year. Funding from equity, professional business angels, private lenders and venture capital all improved marginally across the reference period, though venture capital in particular remains below its 2008 level.

Access to finance in Germany has substantially improved since 2008, with the implementation of several starter funds, mezzanines and microcredits among others. Overall, young and growing SMEs have good access to funding and other forms of capital; however, there remains room for improvement on the scale-up phase of successful young businesses.

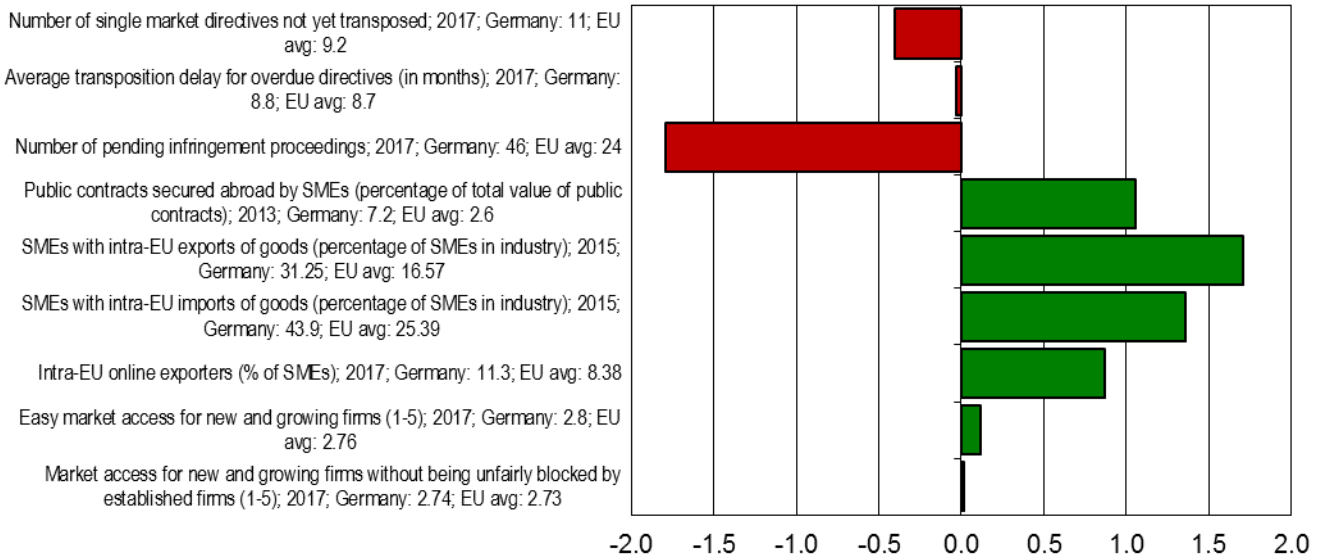
In 2017 and the first quarter of 2018, Germany took significant policy action in this field with the adoption of three measures:

- In July 2017, the Federal Ministry of Economic Affairs and Energy implemented the ERP-Mezzanine for Innovation with an annual budget of EUR 200 million. The measure aims to support research and development activity with high potential for monetisation in the near future, across new products, processes and services. It may fund up to 100 % of the cost, with a maximum ceiling of EUR 5 million. The measure is targeted at companies established at least 2 years ago.
- The government also implemented the ERP digitalisation and innovation credit in July 2017, with an overall annual budget of EUR 800 million. The credit aims to fund and enable innovation activities within enterprises, and may cover up to 100 % of the costs of a project with a maximum ceiling of EUR 25 million.
- The third measure is the High-Tech Fund III — this is an expansion of the High-Tech Funds I and II, with the fund acting as a seed investor and financing high potential, tech-driven start-ups. The fund has an additional EUR 316.5 million to invest, supplementing the first two funds, which have EUR 576 million in total.

Furthermore, in June 2017 it was formally announced that the Federal Promotional Bank KfW will found and implement a new market-oriented investment subsidiary (*KfW Beteiligungsgesellschaft*) to provide the market with venture capital.

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)



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

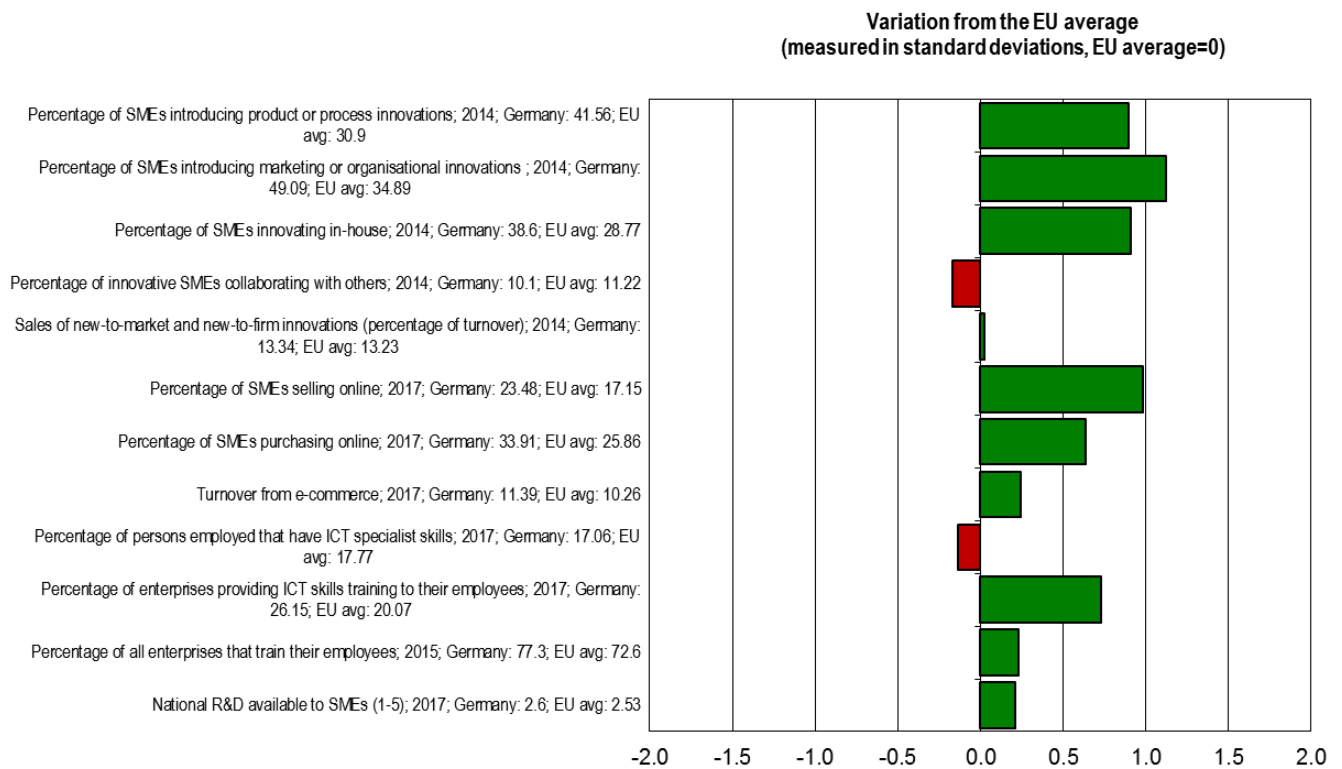
Germany's performance in this area slightly improved over the reference period, but is still in line with the EU average, driven primarily by a drop in the average transposition delay for overdue directives (from 13.9 months in 2016 to 8.8 months in 2017). German SMEs in industry perform strongly, with 31.3 % exporting to locations within the EU and 43.9 % importing from locations within the EU — these are the second and third highest proportions respectively in the EU, and both are at their strongest levels since 2008. The percentage of intra-EU online exporters grew to 11.3 % in 2017 from 9.2 % in 2015, also reaching a record high. However, despite a reduction in the number of pending infringement proceedings (from 57 in 2016 to 46 in 2017), Germany still lags behind the EU average. Germany's competitive environment seems to have deteriorated somewhat, with slight decreases for the ease with which new and growing firms can easily enter new markets and the ease

with which they can do so without being unfairly blocked by established firms.

Since 2008, the single market has not been a policy priority of Germany because most of the SBA requirements were fulfilled prior to the SBA's inception. Despite this, a series of minor measures have been implemented, including seminars, conferences and policies regarding restricted markets. Overall, SMEs are well supported in the single market by German government policy, though infrastructure could be stronger for some aspects, including one-stop shops, SOLVIT centres and the federal information system.

During the reference period, no significant policy measures were implemented.

3.7 Skills & innovation



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

Skills & innovation remains one of Germany’s strongest areas, despite limited progress during the reference period. While turnover from e-commerce reached 11.4 % — a record high — and the share of SMEs purchasing online rose to 33.9 % against 30.8 % in the previous year, the share of SMEs selling online fell to 23.5 % from 25.6 % across the same period. The share of SMEs providing specialist ICT training to their personnel fell from 27.5 % in the previous year to 26.2 %, with the total percentage of employees with specialist ICT skills also falling from 20.5 % to 17.1 % over the same period. There is also evidence that the digital infrastructure, e.g. in the form of the provision of high speed fixed internet connections, is hampering a larger number of businesses, in particular in regions outside larger urban agglomerations.²⁴

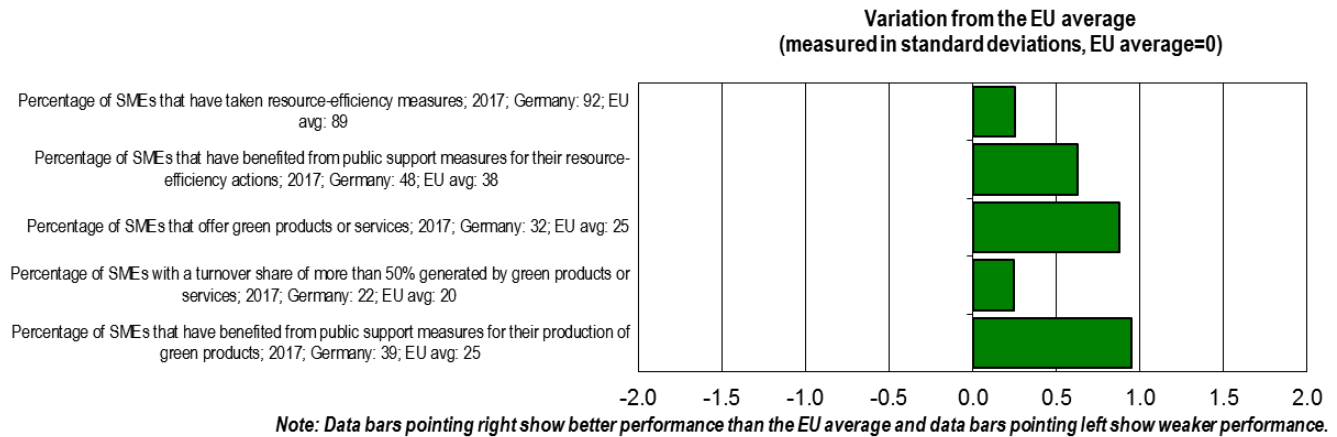
While actual performance appears to have been mixed, there were slight improvements in perceptions of: (i) SME access to research and technology; (ii) the German science and technology base and its support mechanisms; and (iii) government subsidies for technology acquisition. A reason for concern is the long-term downward trend on many innovation-related indicators for SMEs. These suggest that the number of innovative SMEs has been shrinking since 2008²⁵.

Germany’s policy progress in skills & innovation since 2008 has been substantial, meaning that a lack of policy is not the reason for the described downward trend in SME innovation, which is also occurring in many other EU Member States. One of the most important policy measures was the ‘Qualified Professionals Initiative’ of 2011, which helped increase the supply of labour to the German market and mitigated the effects of the lack of skilled labour experienced by many SMEs. In parallel, the Act for Improving the Recognition of Foreign Professional Qualifications of 2012 also had a positive impact. Overall, most SBA requirements are met under this principle. During the reference period, Germany continued to build upon its record, with the following policies implemented:

- SME Innovative: ‘Access Module’ — this measure expanded the German ‘SME Innovative’ programme with a module that provides access opportunities for SMEs and particularly for early-stage start-ups. Currently running as a pilot project, it supports and helps to flesh out ideas and plans for R&D of new products and services by SMEs with little to no experience. The module was established in September 2017 with an annual budget of EUR 5 million.

- Go-Digital, introduced in July 2017 by the Federal Ministry of Economic Affairs and Energy, offers specialised digitalisation support for SMEs in collaboration with certified IT consultants. It aims to enable SMEs to adapt to the challenges and opportunities posed by the vast trend towards digitalisation. The programme's overall budget is EUR 50 million, with SMEs able to request up to 30 days of co-financed support. The contribution from the programme is limited to 50 % of the overall cost and a maximum daily fee of EUR 1 100 (programme contribution maximum).
- 'Merchant in E-Commerce' (*Kaufmann für E-Commerce*) was officially registered as a profession in 2017. This is important to ensure that there are skilled professionals in the online sector. It also facilitates better adaption among entrepreneurs and SMEs to the increasingly digitalised commerce environment. Official registration entitles apprentices to receive specific training, both in their training company as well as in state-financed vocational schools.
- The 'Internationalisation of Leading-Edge Clusters, Forward-Looking Projects and Comparable Networks' is a measure introduced by the Ministry of Education and Research. It is a new policy supporting leading-edge clusters and comparable networks by promoting their collaboration with international partners in R&D activity. With a budget of EUR 135 million, it expects to support 200 to 300 projects between 2017 and 2022.
- In 2017 the 'SME-Digital' network was expanded by more than 10 new competence centres. SME-Digital is offering a broad range of practical information and instruments to support small and medium-sized enterprises in digitising their business processes. Mittelstand 4.0 competence centres all over Germany are providing a range of possibilities to demonstrate and test industry 4.0 applications and digital technologies for SMEs.
- A measure promoting international research collaboration with Canada was also implemented in 2017. This initiative is proceeding under the funding of research projects with Canada and the participation of science, 2+2 projects (*Förderung von Forschungsprojekten mit Kanada unter der Beteiligung von Wissenschaft, 2+2 Projekte*). The initiative aims to foster R&D which may carry significant potential for SMEs in both countries.

3.8 Environment



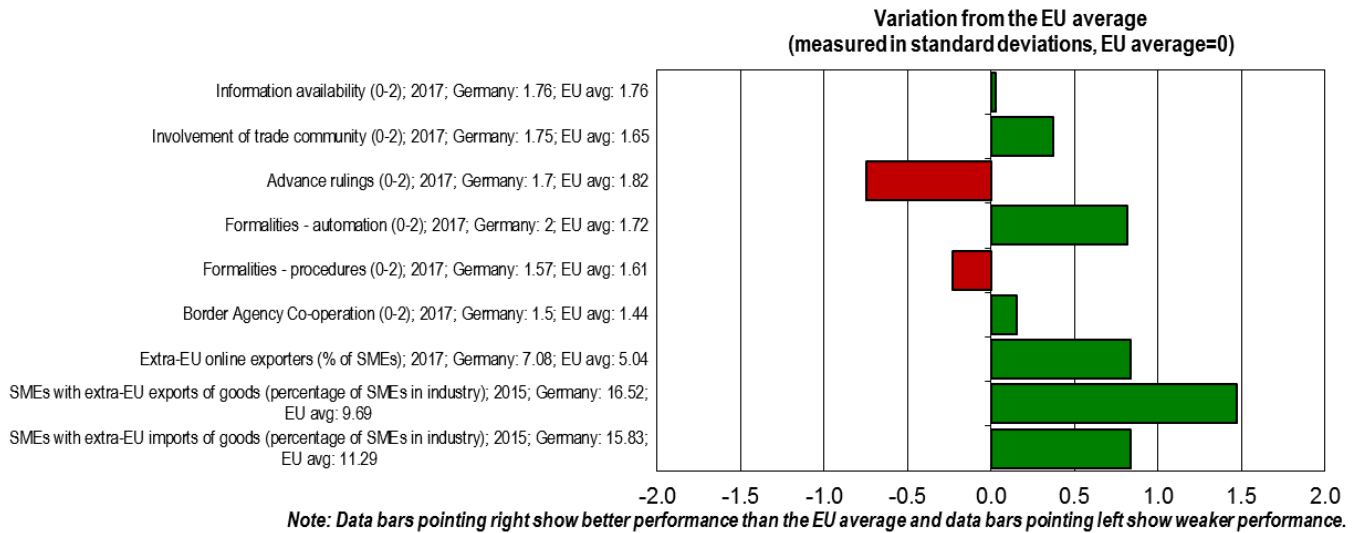
Germany’s performance in this area improved markedly over the reference period; whereas it was in line with the EU average in the previous year, it is now the EU’s third strongest performer. The proportion of SMEs that have taken resource-efficiency measures grew from 88 % in 2015 to 92 % in 2017, surpassing the EU average, which itself fell to 89 % in 2017 from 95 % in 2013, potentially indicating a deterioration in the performance of other countries over the last 4 years. Public support for SMEs increased significantly — the share of SMEs who benefited from it with regard to resource-efficiency actions grew from 37 % in 2015 to 48 % in 2017, while the share who benefited from it with regard to their production of green products grew from 24 % in 2015 to 39 % in 2017. The share of SMEs with more than 50 % of their turnover coming from green products or services also increased from 14 % in 2015 to 22 % in 2017, though the share of SMEs actually offering green products and services remained almost unchanged. While overall performance against the EU average has improved greatly since the last fact sheet, actual performance remains equal to or below figures from 2012-2013 on some of the indicators in this SBA area.

Since 2008, progress under the SBA environment principle has been moderate. Under the overarching policy narrative of the *Energiewende* - i.e. the fundamental re-orientation towards renewable energy sources- in 2011, alternative energy sources were prioritised, with policies focusing primarily on energy efficiency and the use of renewable resources.

In 2017 and the first quarter of 2018, three policy measures were implemented to complement existing efforts:

- District heating 4.0 (*Wärmenetz 4.0*): this programme’s main feature is an investment grant for the installation or transformation of district heating or cooling systems so that they use the most up-to-date technology, with high-level renewable contributions. Feasibility studies, capacity building in cooperation with universities and measures to increase connection rates are also supported under this policy.
- Funding for customised bio-based substances for competitive bio-economy (*Förderung von massgeschneiderten biobasierten Inhaltsstoffen für eine wettbewerbsfähige Bioökonomie*). This policy measure pursues the efficient use of resources and promotes R&D to find and establish solutions for non-fossil fuel resources in the market.
- Energy efficient construction and refurbishment — fuel-cell grant (*Energieeffizient Bauen und Sanieren — Zuschuss Brennstoffzelle*). This policy measure was implemented to support the installation of heating systems based on fuel-cell technology. At the same time it is also a funding scheme, which has had its portfolio widened.

3.9 Internationalisation



Germany performs above the EU average in this area: (i) it has the second highest score for extra-EU exports by SMEs in industry with 16.5 %; and (ii) the proportion of SMEs exporting outside the EU using online channels has grown from 4.7 % in 2015 to 7.1 % in 2017, taking it above the EU average of about 5 % in 2017.

2017 saw changes to the methodologies underpinning indicators for information availability, trade community involvement, advance customs rulings, trade formalities (automation-wise and procedurally) and border agency cooperation. This means that it is not possible to directly compare 2017 results with previous years. Despite this, most of these indicators, with the exception of border agency cooperation and advance customs rulings, appear to have improved somewhat since 2015.

Overall, policy progress in Germany under the internationalisation principle has been moderate since 2008. A central role in Germany's policy stance is held by the market entry programme, which was implemented in 2012. This policy aims to promote the export activities of SMEs with a focus on technology initiatives. Additionally, the sector-specific 'Energy Export Initiative' promotes the market potential of German

energy technologies abroad. These programmes are coordinated under the 'Global SMEs' (*Mittelstand Global*) umbrella initiative, which aims to increase the efficiency of internationalisation procedures and to offer additional support in important sectors for the future such as health economy, civil security technologies, environmental and energy technologies.

During the reference period, the financial components of the Federal Foreign Trade Promotion Scheme (e.g. export credit guarantees, 'Hermes Cover'), were further improved. The scheme aims to provide protection against bad debt losses arising from exports to risky and difficult markets. Further product variations, enhancements or standardisation/simplification have been implemented in order to lower perceived barriers and to facilitate access in particular of SMEs to the instrument. At the same time, these changes aim to boost the motivation and flexibility of export-financing commercial banks to finance 'smaller-sized transactions'. Digitisation of products and processes has been advanced with a focus on SMEs, while a digital supplier credit cover ('click&cover EXPORT') for smaller-sized transactions has been introduced and the set of smart online applications extended.



Interesting initiative

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

Mentoring programme for founders (*Gründerpatenschaften*)

With the policy of *Gründerpatenschaften*, the German government continued its efforts to socially integrate refugees by supporting their entrepreneurial ambitions. This involves providing them with knowledge from experienced local business men and women. In this way refugees gain valuable mentoring insights across all aspects of the start-up process and benefit from important networking effects and opportunities. This initiative has strong social and economic potential, since 1 out of 5 businesses in Germany is founded by migrants, many of whom recently arrived during the refugee crisis. The *Gründerpaten* mentoring programme helps business founders to overcome language barriers and better understand the German public system. Furthermore, to ensure sustainable collaboration among all stakeholders, the programme also seeks to involve established networks and regional players in the early founding phase of the businesses. The pilot was implemented in the Berlin-Brandenburg metropolitan region in May 2017 and will run until end of 2018.

References:

<https://www.startupyourfuture.de/en/>

<https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2016/20161108-pilotprojekt-gruenderpatenschaften-bmwi-unterstuetzt-die-selbstaendigkeit-von-fluechtlingen.html>

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

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

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 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 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/>

² HypoVereinsbank und Roland Berger 2016, Bauwirtschaft im Wandel, available at https://www.rolandberger.com/de/Publications/pub_construction_industry_in_transition.html, last accessed 25.5.2018.

³ Zentralverband Deutsches Baugewerbe, 2017: Baumarkt 2016, available at [https://www.zdb.de/zdb-cms.nsf/res/Baumarkt2016.pdf/\\$file/Baumarkt2016.pdf](https://www.zdb.de/zdb-cms.nsf/res/Baumarkt2016.pdf/$file/Baumarkt2016.pdf), last accessed 25.5.2018.

⁴ Statistisches Bundesamt, 2016, Nettozuwanderung von Ausländerinnen und Ausländern im Jahr 2015 bei 1.1 Millionen https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2016/03/PD16_105_12421.html;jsessionid=4AB21217731D387C3FF8C08B02F65565.cae4, last accessed 25.5.2018.

⁵ Ibid.

⁶ Zentralverband Deutsches Baugewerbe, 2015, Baumarkt 2014, available at [https://www.zdb.de/zdb-cms.nsf/res/Baumarkt2014.pdf/\\$file/Baumarkt2014.pdf](https://www.zdb.de/zdb-cms.nsf/res/Baumarkt2014.pdf/$file/Baumarkt2014.pdf), last accessed 25.5.2018.

⁷ HypoVereinsbank und Roland Berger 2016, Bauwirtschaft im Wandel, available at https://www.rolandberger.com/de/Publications/pub_construction_industry_in_transition.html, last accessed 25.5.2018.

⁸ Friedrich Ebert Stiftung 2016, Herausforderungen von Industrie 4.0 für den Mittelstand, available at <http://library.fes.de/pdf-files/wiso/12277.pdf>, last accessed 31.5.2018.

⁹ BMWI 2015, Erschließen der Potentiale der Anwendung von Industrie 4.0 im Mittelstand, available at <http://www.mittelstand-digital.de/MD/Redaktion/DE/PDF/endbericht-industrie-4.0-kurzfassung.property=pdf.bereich=md.sprache=de.rwb=true.pdf>, last accessed 31.5.2018.

¹⁰ BMWi 2018, Wirtschaftsmotor Mittelstand, Zahlen und Faktoren zu den deutschen KMU, available at https://www.bmwi.de/Redaktion/DE/Publikationen/Mittelstand/wirtschaftsmotor-mittelstand-zahlen-und-fakten-zu-den-deutschen-kmu.pdf?__blob=publicationFile&v=29, last accessed 25.5.2018.

¹¹ Ibid.

¹² Statistisches Bundesamt, 2018, available at https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/03/PD18_105_52311.html;jsessionid=23CC5BAA48357D6C84DB85786C77ED19.InternetLive2, last accessed 25.5.2018.

¹³ The liberal professions are not included in these statistics.

¹⁴ Statistisches Bundesamt, 2018, available at https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/03/PD18_105_52311.html;jsessionid=23CC5BAA48357D6C84DB85786C77ED19.InternetLive2, last accessed 25.5.2018.

¹⁵ The data presented were collected by the EU Startup Monitor project, www.startupmonitor.eu

¹⁶ Statistisches Bundesamt, 2018, Insolvenzen: <https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/UnternehmenHandwerk/Insolvenzen/Tabellen/AnzahlderbeantragenInsolvenzverfahren.html>, last accessed 25.5.2018.

¹⁷ Due to data availability, the data on high-growth firms refers to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁸ 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, last accessed 13.04.2018).

¹⁹ The 2018 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.

²⁰ 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 2018. 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 2018. 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/>

²¹ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW's lead contractor for the 2018 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.

²² The source for this data, the World Bank's Doing Business programme, uses the 'GmbH' form as the basis for this analysis. With the legal incorporation of the 'UG' (Unternehmergesellschaft) form, an alternative exists which offers less costly conditions for would-be entrepreneurs.

²³ http://ec.europa.eu/internal_market/scoreboard/docs/2018/public-procurement/2018-scoreboard-public-procurement_en.pdf

²⁴ The Digital Economy and Society Index (DESI) 2018. <https://ec.europa.eu/digital-single-market/en/desi>. Last accessed 2 November 2018.

²⁵ One note of caution has to be added to these findings: the cited statistical indicators may not cover all forms of innovation. Incremental innovations associated with gradual improvements of already-existing product lines may not require formal R&D activity (see for instance Brink, S., Nielen, S. and May-Strobl, E. (2018) 'Innovation ist mehr als Forschung und Entwicklung' in Mittelstand aktuell, issue 02/2018, pp.1-2). This may imply a somewhat higher level of innovation activity than the indicators suggest. However, it is debatable whether this would also impact the trend over time.