Key points

**Past & future SME performance**: SMEs generate 54.4% of overall value added and 63.7% of overall employment in the German ‘non-financial business economy’, slightly less than the respective EU averages of 56.4% and 66.6%. In 2014–2018, overall SME value added in the ‘non-financial business economy’ in Germany increased by 17.9%, with the greatest rise of 21.1% generated by small firms. Over the same period, SME employment grew by 8.6%. For German SMEs, the outlook is very positive, with predicted value added growth of 10.2% and employment growth of 5.1% in 2018-2020, although global trade disputes and other risks may dampen this outlook.

**Implementing the Small Business Act for Europe (SBA):**

Germany remains strong in skills & innovation and internationalisation, and its score in ‘second chance’ and environment puts it among the top performing EU Member States. For State aid & public procurement and access to finance, the country’s profile has remained in line with the EU average. However, Germany’s performance in single market decreased slightly and is now also in line with the EU average. On entrepreneurship and ‘responsive administration’, Germany has room for improvement as it scores below the EU average.

**SME policy priorities:**

Although Germany is making continued efforts to reduce the burden on businesses caused by bureaucracy, many other EU Member States have progressed at a faster rate. Rapid progress towards an efficient e-government system is crucial in this respect. Evidence pointing to a gradual decline in SMEs’ R&D activities should lead to a review of the underlying causes. Skill shortages in practically all areas of the economy remain a serious competitiveness threat to many SMEs. In addition, the country could strengthen the teaching of entrepreneurial activities, particularly in secondary and tertiary education.

**About the SBA fact sheets:**

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

<table>
<thead>
<tr>
<th>Class size</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Germany</td>
<td>EU-28</td>
<td>Germany</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
<td>Number</td>
</tr>
<tr>
<td>Micro</td>
<td>2,079,078</td>
<td>82.0%</td>
<td>5,795,011</td>
</tr>
<tr>
<td>Small</td>
<td>381,739</td>
<td>15.1%</td>
<td>7,208,212</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>62,073</td>
<td>2.4%</td>
<td>6,096,584</td>
</tr>
<tr>
<td>SMEs</td>
<td>2,522,890</td>
<td>99.9%</td>
<td>19,099,807</td>
</tr>
<tr>
<td>Large</td>
<td>11,897</td>
<td>0.5%</td>
<td>10,884,283</td>
</tr>
<tr>
<td>Total</td>
<td>2,534,787</td>
<td>100.0%</td>
<td>29,984,090</td>
</tr>
</tbody>
</table>

These are estimates for 2018 produced by DIW Econ, based on 2008-2016 figures from the Structural Business Statistics Database (Eurostat). The data cover the ‘non-financial business economy’, which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs generate 54.4% of overall value added and 63.7% of overall employment in the German ‘non-financial business economy’, slightly less than the respective EU averages of 56.4% and 66.6%. However, average SME productivity, calculated as value added per person employed, amounted to around €50,700 in 2018, exceeding the EU average of €44,600. German SMEs employ an average of 7.6 people, almost double the EU average for SMEs.

In 2014-2018, overall SME value added in the ‘non-financial business economy’ in Germany increased by 17.9%, with the greatest rise of 21.1% generated by small firms, while SME employment grew by 8.6%2. Large firms’ value added and employment growth similar to that of SMEs, but the increases were lower, at 14.1% and 6.2% respectively. Most recently, in 2017-2018 SME value added continued to grow, increasing by 4.4%. Micro firms contributed most to this growth, with an increase in value added of 5.9%. In the same period, SME employment increased more moderately, by 1.5%.
In recent years, developments in two sectors — wholesale and retail trade and professional services — have been particularly noteworthy. SMEs in the wholesale and retail trade sector, the largest sector in terms of SME value added in Germany, have grown significantly in recent years. In 2014-2018, SME value added increased by 26.8% and SME employment by 7.3%. The growth of large firms was also healthy, albeit not as strong as that of SMEs, with value added rising by 18.5% and employment by 4.6%. One factor likely to have contributed to this growth differential between SMEs and large firms was their different approach to e-commerce. Small businesses and start-ups, in particular, have exploited the opportunities of e-commerce more extensively than large firms. Many start-ups, especially in the wholesale and retail trade sector, have chosen to focus their business models almost entirely on digital distribution of their goods and services. In addition, the difference between value added and employment growth, in both SMEs and large firms, can be explained by the ongoing decoupling of GDP from job creation in the overall German economy. This is largely due to the increasing use of automation, which enables businesses to generate higher value added without needing to increase labour input to the same extent.

In 2014-2018, the professional activities sector generated strong overall growth. SMEs, as an important part of the sector, have contributed significantly to this growth, with SME value added increasing by 15.7% and SME employment by 15.2%. Large firms were unable to match the value added growth of SMEs, with an increase of only 12.5%. However, they surpassed SME employment growth, with a rise of 18.3%. In recent years, the sector’s overall growth, generated by both SMEs and large firms, has been supported by major public and private investment in innovation and research and development (R&D) activities. For example, Germany has already exceeded the Europe 2020 strategy target to spend at least 3% of annual GDP on R&D. As a result, Germany accounts for 30% of all R&D expenditure in the EU as a whole, and ranked ninth in the ‘Global Innovation Index’ in 2018. A further factor in the strong growth of SME value added and employment in the professional activities sector has been the support given to innovative SMEs by the German Federal Ministry of Education and Research. For example, the ‘10 Point Programme — Priority for SMEs’ has made an important contribution to the sector’s strong SME growth by increasing grant provision for innovative SMEs and by supporting collaboration between universities and SMEs.

In 2018, a total of 542,500 new businesses were registered in Germany, 1.3% fewer than in the previous year. Despite deregistrations did not change (0.0%) in the same period, totalling 512,800, the outcome was still net growth of 29,700 firms. Information on liberal professions is not included in the figures. Reflecting Germany’s overall strong economic growth, the number of bankruptcies fell by 3.9% in 2018, totalling 19,302 businesses. This represents the lowest level of bankruptcies since the introduction of the current Bankruptcy Code in 1999. However, despite the economic upturn, the overall number of start-ups in Germany has declined, partly because the buoyant job market has reduced the need to set up a new business purely to avoid unemployment. As a result, the start-ups that entered the marketplace have largely done so by choice, and therefore tend to be of a higher business calibre.

As per the data collected by the European Startup Monitor 2019 project, 69% of the German startups that responded to the online questionnaire were set up by one male founder or an all-male team of founders. 6% were set up by one female founder or an all-female team of founders. The remaining 25% were set up by at least one man and one woman. In terms of their stage of development, 13% are in the pre-seed or seed stage, 47% in the start-up stage, 6% in the steady stage and 34% in the growth stage. Regarding financial aspects, 69% are operating at a loss, 13% currently break-even and 19% are profitable. Of those start-ups that are operating at a loss, 64% expect to break-even in less than 2 years, while 36% expect that it will take them over 2 years to break-even. 69% have a turnover between €1 and €500,000, 13% report having no turnover yet and the remaining 19% have a turnover of over €500,000. They have 15 employees on average, of which around 36% work on a part-time basis. On average, they plan to hire 4.8 people within a year.

In 2016, 39,529 firms (11.1% of all firms in the ‘business economy’2) with at least 10 employees were high-growth firms, compared with the average EU of 10.7%. In 2018, German SMEs in the specialised knowledge-intensive services and high-tech manufacturing sectors, both of which are usually R&D-intensive, accounted for 32.9% of SME value added in the manufacturing and services sectors. This almost matches the EU average of 33.0%.

For German SMEs, the outlook is very positive, with predicted value added growth of 10.2% and employment growth of 5.1% in 2018-2020. As a result, some 968,000 new SME jobs are likely to be created by 2020. These estimates are of course subject to recent developments and future developments.
2. SBA profile

Germany’s SBA profile remains solid in 2019, having posted the third highest score for ‘second chance’ and environment, and scoring above the EU average in skills & innovation and internationalisation. The country’s performance on State aid & public procurement, single market and access to finance remains in line with the EU average, while on entrepreneurship and ‘responsive administration’ it is below average.

In 2018 and the first quarter of 2019, the reference period for policy measures in this year’s fact sheet, Germany implemented and formally announced 24 policy measures addressing 8 out of 10 policy areas under the Small Business Act, namely entrepreneurship, ‘think small first’, ‘responsive administration’, State aid & public procurement, access to finance, skills & innovation, environment and internationalisation.

While the German Government is not pursuing a particular Small Business Act implementation strategy, several policy settings specifically target areas similar to the SBA principles. While the country’s performance has improved in its weaker areas such as entrepreneurship and ‘responsive administration’, other EU Member States have advanced more quickly.

Consequently, Germany has slipped back in relative terms compared to the constantly improving EU average. This is particularly visible in the slow pace of the promotion of entrepreneurship of Germany’s start-up scene.

During the reference period, the most policy effort was on entrepreneurship, access to finance and skills & innovation. In this context, Germany’s SME-related policy activities focused on strengthening the German culture of entrepreneurship. An example of this is the GO! campaign (GO! Gründungsoffensive: Gut für Dich. Gut für Deutschland), which encourages people to identify and take on opportunities to start their own business. In addition, the German Federal Ministry of Education and Research has established the ‘Young Entrepreneurs in Science’ scheme, which helps PhD students develop business ideas and found their own companies. Another focus within the current reference period was on access to funding for young and innovative start-ups, particularly in their early and growth phases. An example for this is the establishment of KfW Capital, which aims to develop the venture capital and venture debt funding landscape within Germany and improve access to capital for young tech start-ups. Finally, focus was also placed on policy measures promoting international knowhow in Germany’s SMEs, such as the ‘coherent strategy to attract skilled workers from abroad’, which aims to increase the share of skilled international workers employed by German SMEs.
SBA performance of Germany: state of play and development from 2008 to 2019\textsuperscript{17}

Legend:
1. Entrepreneurship
2. "Second chance"
3. "Responsive administration"
4. State aid & public procurement
5. Access to finance
6. Single market
7. Skills & innovation
8. Environment
9. Internationalisation

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review:
3. SBA principles\textsuperscript{18}

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 the ‘think small first’ SBA principle were already in place well before 2008. Frequent public consultations including multiple stakeholders in the legislative process give SME representatives the opportunity to have a say and play an active role in policy proposals. SME stakeholders systematically announce the decisions of these consultations in order to educate represented parties.

In addition, new legislation is subject to the ‘SME test’, and evaluated based on administrative capacity, budgetary constraints and potential impact on SMEs. However, in recent years, the administrative costs faced by SMEs have accounted for a significant portion of total costs; Germany has made limited progress on implementing supportive regulatory measures to decrease this burden.

As in previous years, Germany’s policy activities under this principle have remained moderate. Nevertheless, the traditionally significant importance placed on stakeholder consultations in the German business culture and the work of SME representatives counteract and mitigate this need for further policy implementation, at least in the short term. During the reference period, Germany formally announced a draft bill to promote fair competition (Referentenentwurf eines Gesetzes zur Stärkung des fairen Wettbewerbs). The bill aims to reduce the risk of cease and desist actions, while increasing and strengthening fair competition.
3.1 Entrepreneurship

Germany’s performance is below the EU average for the SBA principle of entrepreneurship. In fact, entrepreneurship is among the country’s weakest SBA principles, and since 2008 the growth rate in entrepreneurship has been stagnating. Germany ranks third lowest among all EU Member States for early-stage entrepreneurial activity and specifically for female entrepreneurship. Its performance is the third weakest in entrepreneurial intentions, which is caused by only 49.6% claiming entrepreneurship to be a desirable career choice. However, Germany’s performance regarding the newly introduced indicator on job creation expectation rate reveals that the percentage of early or nascent entrepreneurs who expect to create 6 or more jobs in 5 years surpasses the EU average. Moreover, the country significantly improved its established business ownership rate from 6% to 7.5% in 2018 and the first quarter of 2019. Finally, Germany has slightly improved its entrepreneurial education at primary, secondary and post-secondary levels, and ranks in line with the EU average in 2018.

Since 2008, Germany has increased its policy attention on the promotion of entrepreneurship by implementing various measures, such as support schemes particularly focusing on women entrepreneurs (FRAUEN unternehmen) and refugee entrepreneurs (Start Up your Future) and on providing support on all aspects of successfully setting up a business (existenzgruender.de). However, Germany does not take full advantage of its entrepreneurial potential and needs to continue to leverage on the economy’s fundamental structural capacities (e.g. human and financial capital, stable government institutions and strong infrastructure) in order to boost levels of entrepreneurship.

In 2018 and the first quarter of 2019, policy activity in this field was significant in Germany, notably through the adoption or formal announcement of the following five measures:

- In August 2018, the German Federal Ministry of Education and Research began implementing the ’Young Entrepreneurs in Science’ workshop series, with events in some 15 university towns so far. The workshops help PhD students develop business ideas by introducing them to practice-oriented methods and tools in various areas such as design thinking and other creativity techniques. The students will be encouraged to become young entrepreneurs and found their own start-ups. The workshops are run by the Falling Walls Foundation, in cooperation with start-ups and partners from large corporations.

- In November 2018, the Federal Ministry for Economic Affairs and Energy implemented the GO! Start-Up Campaign (Gründungsoffensive GO! Gut für Dich. Gut für Deutschland). The campaign aims to promote...
business start-ups, strengthen entrepreneurship culture in Germany and encourage people to identify opportunities to start a business and put their own ideas into practice. The campaign will support business creation and business succession and improve the conditions for start-up financing. The initiative bundles several existing and new measures in 10 areas. It is supported by a comprehensive communication campaign involving outdoor, print and online advertising, postcards, a website, trade fairs and conferences.

- In March 2018, the Federal Ministry for Economic Affairs and Energy and the Federal Promotional Bank (KfW) established the ‘Gruenderplattform.de’ founders platform. Gruenderplattform.de is an innovative interactive portal that provides support for founders on all aspects of successfully setting up a business. It achieves this by providing relevant information such as business plan templates and financing guidance and by offering offline support through an expert network, where wanted.

- In March 2019, the FinTech Council (FinTechRat) founded by the German Ministry of Finance was re-elected and will continue to promote the digitalisation of the financial industry. The Council improves the framework conditions for Germany as a fintech location and legal certainty for new business models. The Council’s tasks include creating dialogue between politics, economy and the scientific community on fintech, and strengthening the resilience of the financial sector’s cyber and IT security. The objective of this measure is to embrace innovation by mitigating potential risks.

- During February and March of 2019, the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance held a public consultation to help develop the German government’s blockchain strategy, which was officially adopted in September 2019. The strategy aims to seize the opportunities associated with blockchain technology and mobilise its potential for the digital transformation. One element of the strategy is to create an appropriate regulatory framework for crypto assets. A public consultation on the blockchain strategy was held in February and March 2019.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Germany has re-joined the top three performing Member States in this area, after having fallen out of the top three last year. The strength of its insolvency framework is among the highest in Europe. Germany’s fear of failure is lower than the EU average, despite having increased slightly from last year’s low of 36.31% to 38.72% in 2018. However, this issue is still less of a problem than in the rest of the EU. In contrast, Germany’s performance on the time and cost required for resolving insolvency trails the rest of the EU.

Since the SBA policy recommendations on ‘second chance’ were met already before 2008, Germany’s policy progress in this field has been limited. However, significant measures to further strengthen Germany’s regulatory framework have been adopted since 2008, such as the Company Restructuring Simplification Act of 2012 and the amendment to the Insolvency Regulation Act in 2014.

In general, Germany’s bankruptcy laws are applied in an effective manner, and entrepreneurs restarting a business are considered on the same footing as new founders. There is still room for improvement on the cultural perception of failure, while acknowledging that such culturally engrained notions are usually transformed in the long term. Overall, in 2018 and the first quarter of 2019 no significant new policy measures were implemented in this area.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Germany is below the EU average in this SBA principle, which has been its weakest. Having said that, its progress in this area since 2008 has been positive. The time required to start a business (7.6 days[5]) and transfer property (52 days) are among the highest in the EU. In the case of the former, however, this is solely due to the time delay with regard to obtaining a VAT number. Also, start-up times tend to differ substantially from region to region. Just as last year, according to the World Bank, Germany has one of the highest numbers of start-up procedures (9) and paid-in minimum capital (31%) in the EU. However, Germany’s government staff are viewed as among the most competent and effective in supporting new and growing firms in the EU, which bodes well for further improvement in this field, particularly as its performance on this issue has been improving steadily in recent years.

Since 2008, Germany has taken significant steps to monitor and decrease total administrative compliance costs. For example, in 2011 it implemented the ‘Bureaucracy Cost Index’, and in 2012 implemented the enhanced National Regulatory Council (Normenkontrollrat). It has also rolled out various initiatives to digitalise administrative procedures further. Germany has increased the attention it pays to this area since 2016, particularly through the Law on the modernisation of tax procedures (Gesetz zur Modernisierung des Besteuerungsverfahrens), which led to a significant improvement in the efficiency of the tax administration and a reduction of the response burden for SMEs and taxpayers. In addition, the Law to reduce unnecessary written requests in federal administrative proceedings (Gesetz zum Abbau verzichtbarer Anordnungen der Schriftform im Verwaltungsrecht des Bundes) lowered the required administrative steps by eliminating written requests and by launching simplified measures that do not require applicants to appear in person before the authorities.

Nevertheless, Germany is still facing challenges, particularly in its complex licensing and permits system. The highly diversified nature of Germany’s administrative institutions limits progress in implementing the ‘one-stop shop’ and the ‘once-only’ SBA principle.

In the third quarter of 2017, Germany adopted the Law on improving online access to administrative services (the Online Access Law, Onlinezugangsgesetz or ‘OZG’). The implementation of the OZG started in 2018. Under the OZG, the Federal Government, the federal states and the municipalities are obliged to provide their administration services in a digital format by 2022. This will take place in the context of the digitalisation programme, which aims to digitalise administrative services in a citizen- and enterprise-friendly manner. By the end of 2022, all administrative services have to become digitalised.
The objective is to increase and promote the acceptance of digitalisation among individuals and enterprises and to increase the use of such digital services. Access to digitalised administrative services will reduce the amount of effort that individuals and entrepreneurs have to make to comply with administrative requirements. In addition, attaining the relevant information for administrative procedures will be made easier and more accessible.

3.4 State aid & public procurement

Important methodological changes have been introduced for this principle. Three new indicators from the TED (Tenders Electronic Daily) database have been added:

- percentage of awards for which the winner was an SME;
- proportion of bids coming from SMEs;
- percentage of calls for tenders which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year's.

Germany's performance in this SBA principle is in line with the EU average. However, since 2008 its performance has deteriorated slightly. The average payment delay by public authorities has steadily increased, from 1 day in 2016 to 3 days in 2017 and 4 days in the current reference period. This is, however, still better than the EU average of 8.12 days. Moreover, the percentage of public contracts won by SMEs increased significantly from 48% in 2013 to 64.2% in 2018. This is well above the EU average of 51.4%. On the new indicators, Germany scores well below the EU average for the percentage of calls split into lots. This is in line with the EU average for the proportion of bids coming from SMEs, and slightly below the EU average for the percentage of SMEs with winning bids. The relatively weak performance on the division into lots merits further analysis given that Germany has undertaken important policy measures in this field, such as the mandatory splitting into lots of public tenders to make it easier for SMEs to participate.

Since 2008, Germany has made significant progress on this principle, particularly with the adoption of the EU procurement directives into national law in 2016. This legal framework increases the role of SMEs in public procurement procedures, for instance by keeping the requirements for procurement procedures as limited as possible for businesses. The new framework also modernises the e-procurement process, in which all processes are digitalised for a simplified public procurement procedure.

In addition to adjustments to the legal framework, several non-legal measures to assist SMEs have been adopted. Among these are the establishment of the Competence Centre for Sustainable Procurement in 2011 and of the ‘Centre of Excellence for Innovative Procurement’ in 2013.

In general, most of the recommended SBA policies are in place. The German authorities actually go beyond the requirements of the EU directives on facilitating access for SMEs by setting proportionate requirements for eligibility and by dividing financial viability tenders into lots. Germany’s public procurement market is likewise open to foreign competition.

During the reference period, policy activity in this field was significant in Germany with the adoption of the following measure:

- The ‘Federal Ministry of the Interior (Bundesministerium des Innen) adopted the IT procurement strategy (IT-Beschaffungsstrategie) at the end of 2018. The strategy supports the federal administration’s IT procurement system. The Ministry will offer strategic support to SMEs on IT procurement.
3.5 Access to finance

Germany's performance in this principle has remained in line with the EU average, although the country has experienced a slight downward trend since 2008. Germany's bad debt loss has significantly improved since last year, from 2.5% to 1.6% in 2018. However, the cost of borrowing for small loans relative to large loans remains well above the EU average (57.4%). The cost has in fact increased in recent years, while the EU average has decreased slightly. In addition, the amount of time needed to get paid has increased significantly from 18 days in 2017 to 24.7 days in 2018. While this is still better than the EU average of 33.36 days, this significant increase means that Germany is no longer among the EU's top-performing countries. The other indicators are in line with the EU average.

Since 2008, access to finance has significantly improved in Germany. The availability of capital in the early stages has been strengthened, in particular thanks to the HighTech Start-up Fund (High-Tech Gründerfonds) created in 2005. Other measures include the renewal of the microcredit fund (MikrokreditFonds) in 2015 and the establishment of the ERP Mezzanine for Innovation (ERP-Mezzanine für Innovation) in 2017. However, the demand for scale-up financing for start-ups looking to expand their operations on an industrial scale is still not fully met.

In 2018 and the first quarter of 2019, Germany took significant action on access to finance, with the adoption of the following four measures:

- In July 2018, the Federal Ministry for Economic Affairs and Energy and KfW introduced the ERP Credit for Digitalisation and Innovation (ERP-Digitalisierungs- und Innovationskredit). This loan scheme focuses on funding innovation and digitalisation for SMEs established at least 2 years ago. The objective is to finance digital and innovative practices of SMEs between €25,000 and €25 million. Due to increased demand, the annual budget went up to €1.6 billion in the reference period.

- Secondly, the Federal Ministry for Economic Affairs and Energy and KfW adopted the ERP Mezzanine for Innovation (ERP-Mezzanine für Innovation) in July 2018. This mezzanine supports R&D in companies with high potential by providing appropriate funding. Loans can range from €25,000 to €5 million. The aim is to help companies secure funding to promote their research and innovation activities. Due to increased demand, the annual budget went up to €400 million in the reference period.

- KfW Capital, a KfW subsidiary, was established in October 2018. Its objective is to develop the venture capital and venture debt funding landscape in Germany and Europe, thereby improving access to capital for young, innovative, fast-growing German tech companies in the start-up and growth phase. KfW
Capital promises to offer a qualitative expansion of equity financing and aims to develop a product structure where the individual financing phases intertwine throughout the company’s complete lifecycle. KfW Capital intends to build on the professional foundations already established by KfW and the Federal Ministry for Economic Affairs and Energy.

- KfW also implemented the ‘Venture Tech Growth Financing’ programme in December 2018. It provides €50 million of venture debt per year to growing and innovative technology companies. During the funding period, the fund, together with private investors, will offer financing for tech start-ups in their growth phase of at least €500 million.

3.6 Single market

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

In the reference period, Germany’s performance is in line with the EU average rather than above it, which was the case last year. Since 2008, Germany’s performance has been impressive and the single market is its strongest growing SBA principle. Germany has one of the highest number of single market directives transposed. Still, it trails the EU average of 7.4. However, the number of pending infringement proceedings fell well below the EU average. In fact, Germany is the third worst performing country for this indicator, although it has slightly reduced the number of pending infringement proceedings from 46 to 44 compared to 2017. On the other hand, the country has improved its average transposition delay from 8.8 months to 7.1 months, keeping it line with the EU average. In addition, German SMEs’ intra-EU exports and imports of goods are both among the highest performing in the EU, while intra-EU online exports are also above the EU average.

Many measures addressing SMEs’ involvement in the single market were already in place before 2008. This is particularly the case for advisory services supporting SMEs on the single market (one-stop shops, SOLVIT centres and federal information system), but also applies to the use of standards, patents and trademarks.

In general, Germany’s government policies provide good support for SMEs in the single market. Nevertheless, the visibility of the infrastructure for SMEs (e.g. one-stop shops, SOLVIT centres, information systems) could be greater.

During the reference period, no significant policy measures were implemented or formally announced.
3.7 Skills & innovation

Once again, Germany’s performance in the principle of skills & innovation was above the EU average, and it remains one of Germany’s strong points. However, since 2008 the country’s performance in this area has been experiencing the strongest downward trend among all SBA principles. The short-term developments since last year have been more ambiguous. On the one hand, the percentage of German national R&D available to SMEs increased slightly from 2.6 to 2.77 in the current reference period, and has surpassed the EU average. The percentage of enterprises employing information and communications technology (ICT) specialists has also increased compared to last year, from 17.1% to 18.2%, which may be a direct result of the increase in ICT training since last year. On the other hand, the percentage of SMEs that sell their products online fell from 23.5% in 2017 to 19.2% in 2018, and now remains within the EU average. Moreover, turnover from e-commerce sank from 2017’s record high of 11.4% to 8.7%, and SMEs purchasing online remained at 33.9% for 2017. Overall, it is not completely clear whether some of the very recent positive developments are a mere temporary uptick or evidence of a change in trend. Some long-running structural challenges, such as the increased concentration of R&D activities in large firms and worsening skilled labour shortages, has become one of the main obstacles to firms’ innovation in Germany, suggest the former rather than the latter.

Germany’s policy efforts in skills & innovation since 2008 have been considerable. In 2011, the ‘Qualified Professionals Initiative’ supported the increase of labour supply to the German economy and reduced the impact of a reduction of skilled labour on SMEs. In addition, the ‘Act for Improving the Recognition of Foreign Professional Qualifications’ implemented in 2012 also affected this need positively. In general, most SBA recommendations have been met for this SBA principle.

During the reference period, Germany continued to build on its record, with the implementation and formal announcement of the following measures:
- The Federal Ministry for Economic Affairs and Energy expanded its competence centres in the ‘Mittelstand 4.0’ initiative. Mittelstand 4.0 supports the digitalisation of SMEs by providing information, knowledge and examples of best practice via its competence centres, which form a nationwide network and provide more than 130 contact points for SMEs. In the reference period, three new competence centres were established, and seven existing centres had their operations extended by 2 years.

- In January 2019, the budget of the federal economy ministry’s ‘IT Security in Commerce’ (IT-Sicherheit in der Wirtschaft) initiative was increased significantly, from €2 million to €5 million. The initiative aims to support SMEs in the field of IT security by (i) strengthening SMEs’ competitiveness and innovation by ensuring safe implementation of digital processes and business models and by increasing SMEs’ IT security standards; and (ii) helping SMEs take competent decisions on IT security issues.

- In September 2018, the BMI and the Bundesverband der Deutschen Industrie BDI launched the ‘Cyberalliance with the economy’ initiative. Cyber incidents are viewed as one of the most frequent obstacles for successful business operations, particularly in an increasingly digitalised economy. The objective of this joint initiative is to ensure cybersecurity for a safer economy in Germany and for companies to have more efficient business models. The initiative will also ensure closer cooperation between the government and the private sector to promote cybersecurity initiatives for the German economy.

- In January 2019, the BA and BMAS adopted the support for employment training programmes (§ 82 SGB III Förderung beschäftigter Arbeitnehmerinnen und Arbeitnehmer im Rahmen der Arbeitsförderung). The objective of this measure is to help employers adapt to the structural changes caused by the increasing use of technology in the workplace and the digitalisation of labour. It provides full or partial financial support for professional training taken by employers.

- The Federal Ministry of Labour and Social Affairs (BMAS) formally announced in March 2019 the establishment of its ‘Hubs for tomorrow’ project (Zukunftszentren). The objective of this programme is to help regions of eastern Germany successfully deal with digital and demographic change. The programme focuses on developing and testing innovative in-house training for employees in SMEs to help them acquire the appropriate skills and enable them to tap the full potential of the digital transformation. In each of the regions of eastern Germany, a ‘Hub for tomorrow’ will be established to analyse and evaluate regional needs, and develop and test innovative training concepts for SME employees. A supra-regional ‘Centre for Digital Work’ will support the hubs by providing research findings on the effects of digital and demographic change on the employment market consequences. In addition, the ‘Haus der Selbstständigen’ (‘a planned communication exchange for all groups of self-employed’) will be established to strengthen the competences, working conditions and social security of individual self-employed people and platform workers in the digital age. The projects will start work from Q4-2019 and end in June 2022.

- In October 2018, the Federal Government (with the Federal Ministry for Economic Affairs and Energy as the lead ministry) formally announced a ‘coherent strategy to attract skilled workers from abroad’ (Kohärente Strategie zur Gewinnung von Fachkräften aus dem Ausland). The aim is to make it easier for international skilled workers to access the German employment market and at the same time to mitigate the skilled labour shortages, which is a particular burden for SMEs.
3.8 Environment

Germany has been the third-best performing country for this SBA principle. The percentage of SMEs that have taken resource-efficient measures was among the highest within the EU. In addition, Germany is among the strongest Member States for the percentage of SMEs providing green products and services and of SMEs that have benefitted from public support measures for their green products. Overall, all indicators are in line with or above the EU average.

Since 2008, policy progress on this principle has been moderate in Germany. The country’s 2011 energy transition plan (Energiewende) resulted in a fundamental restructuring towards prioritising renewable energy sources and led to an increase in policies focusing primarily on energy efficiency and renewable resources.

During the reference period, one policy measure was implemented to complement existing efforts. In April 2018, the Federal Ministry for Economic Affairs and Energy adopted the Research Network for Energy Start-ups (Forschungsnetzwerk Energie Startups). The seventh energy research programme will establish new and appropriate promotions for start-ups. Through this programme, the German Government will be able to better reach key players in the energy revolution and involve them in energy research. This will be achieved by expanding the energy research programme to cover non-technical innovation and business and the research network for start-ups. Owing to start-ups’ agility and willingness to experiment, they support the transformation of research on innovation and technology into concrete practical application in a unique way. The German Government seeks to harness this potential by developing an exchange between start-ups and established players within the fields of research, economy and politics. This is an open network of experts, who will meet face to face at least once a year, while further meetings in the form of webinars are possible. The preliminary meeting was in April 2018, and the first workshop on improving entry requirements for start-up financing was held in November 2018.
3.9 Internationalisation

Germany’s performance on internationalisation has been above the EU average, and this is its third-best performing SBA principle. It is among the top performing EU Member States in two indicators. Firstly, Germany is one of the highest-ranking Member States in the automation of formalities. Secondly, the percentage of German SMEs with extra-EU exports of goods was 16.9% in 2016, compared to the EU average of 9.8%, putting Germany in second place in the ranking. Most of the indicators have remained the same as the previous year or have not changed.

This SBA principle has experienced only a moderate amount of policy progress since 2008. The market entry programme has played a central role in Germany’s policy stance; it was implemented in 2012 and recently expanded in the current reference period (see below). The programme’s objective is to support SMEs’ export activities. Another important policy measure, first adopted in 2002, is the ‘Energy Export Initiative’, which promotes the market potential of German energy technologies outside of Germany. Both programmes aim to increase the efficiency of internationalisation processes that provide additional help for significant future areas such as the health economy, civil security technologies and environmental and energy technologies.

In the reference period, the following policy measures were implemented to complement existing efforts:

- In March 2018, the Federal Ministry for Economic Affairs and Energy implemented the New German Accelerator in Singapore (GASEA). The objective of GASEA is to empower German start-ups to scale up in ASEAN and southeast Asia. GASEA offers customised mentoring and extensive networking opportunities, and provides strategic advice and free office space and tactical support for 20 start-ups each year.

- In July 2018 and February 2019, the Federal Interministerial Committee on Export Credit Guarantees improved the conditions for the granting of export credit guarantees (Exportkreditgarantien — ‘Hermes cover’). The new digital products can be accessed via digital portals, which offer special new products for SMEs’ supplier credits and for banks’ small tickets. The objective is to offer a quick and easy decision for greater planning security.

- The Federal Ministry for Economic Affairs and Energy also greatly expanded the market entry programme (Markterschließungsprogramm) in 2019. This programme was first adopted in 2012, but from 2019 its financial resources have been substantially increased, from €5 million to €10 million, and new service offers are planned. It supports small and medium-sized companies entering or positioning themselves in new foreign markets. The objective of this programme is to enable companies interested in exporting goods to enter new foreign markets.
4. **Interesting initiative**

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

**GO! Campaign: Good for you. Good for Germany.**  
*(Gründungsoffensive: GO! Gut für Dich. Gut für Deutschland)*

The GO! start-up campaign of the BMWi encourages German entrepreneurial spirit. GO! aims to promote business start-ups, strengthen the culture of entrepreneurship in Germany, and encourage people to identify opportunities to start a business and put their own ideas into practice. The GO! initiative bundles several existing and new measures in 10 areas such as: improving social and political appreciation for self-employed people; providing economic knowledge and entrepreneurial thinking; making company succession easier; improving the start-up environment; and encouraging women and migrants to found their own companies. The initiative seeks to simplify business creation and business succession and improve the conditions for start-up financing. It is accompanied by a joint declaration by the Federal Ministry for Economic Affairs and Energy with key business organisations, and supported by a comprehensive communication campaign including outdoor, print and online advertising, postcards, a website, trade fairs and conferences.

References:

https://www.existenzgruender.de/DE/GO/inhalt.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:
grow-spr@ec.europa.eu

Small Business Act:

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 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 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 When talking about the growth of the SME sector, it should be noted that the present figures are not based on panel data. Therefore, the year-on-year changes may be affected also by methodological factors such as firms changing size-class categories, etc. This applies of course, also to the corresponding figures in all other country fact sheets.


9 Ibid.


13 www.europeanstartupmonitor2019.eu

14 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.

15 In line with 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 15.4.2019).

16 The 2019 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.

17 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. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. 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 2019. 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/.

18 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2019 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.

19 The figure refers to limited liability companies (Ltd). While this form does represent the most common form of incorporation for SMEs in Germany, it accounts for a last share of companies and is the only figure that is comparable with other EU countries.