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»»» KfW Entrepreneurship Monitor 2019
Start-up activity in Germany has stabilised: Has the downturn just slowed or is it over?

Imprint

Published by

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Frankfurt am Main, May 2019

Start-up activity in Germany has stabilised: Has the downturn just slowed or is it over?

Number of business starters virtually unchanged

Bolstered by a healthy domestic economy, start-up activity in Germany stabilised in 2018 after declining for many years. The number of business founders was 547,000, down slightly by 10,000 (-2%) on the previous year. Conflicting factors are shaping start-up activity in 2019. Labour market and growth forecasts translate into a negative signal. By contrast, more businesses are in planning, which points to a positive trend.

More female business starters

The number of women starting businesses grew by 4%, while male start-ups continued trending downward (-5%). The share of women has thus rebounded to 40%. For women, independence is often a decisive aspect of starting a business. This independence was obviously missing from many job offers on the labour market and that made self-employment appear to be the better income alternative for more women in 2018.

Creating new businesses is in trend

Start-up activity has always been dominated by new business creation. The year 2018 saw more of it than ever before. Eight in ten business starters ventured into self-employment by setting up new businesses. But there has also been a positive trend regarding business creation through the takeover of existing firms for some time now. Its share has grown gradually to 13% up to 2018. As many owner-managers of SMEs want to place their business into the hands of a successor in the foreseeable future, that is good news. Active participation in existing firms as a third option for starting-up, on the other hand, has become less significant.

Business starters use significantly more capital

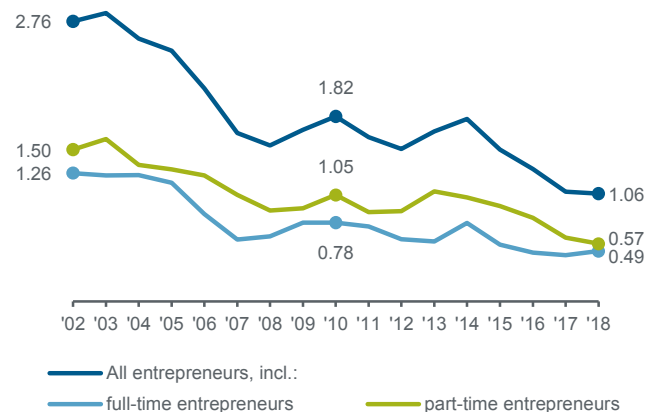
Business starters have invested noticeably more capital in their business on average in the past ten years. Full-time business starters in particular are investing larger amounts. Overall, start-up finance is an insurmountable challenge for many starters already during the planning stage. The barrier effect of financing difficulties has recently increased yet again. Financing problems are the most formidable barrier to start-ups before financial risk.

Number of business starters has hardly changed – more in full-time and fewer in part-time

Record employment levels have weighed on start-up activity in Germany for years. Bolstered by a robust domestic economy, however, start-up activity has now stabilised. In 2018 there were 547,000 business starters, which means only 10,000 fewer than in 2017 (-2%). The start-up rate (starters per 100 employable persons) is thus hardly changed at 1.06%, just above the one per cent mark (Figure 1). The number of full-time starters grew to 255,000 persons (+21,000). The number of part-time business starters, in turn, fell for the fifth consecutive year to now 292,000 persons (-31,000).

Figure 1: Start-up rate hovers just above the one per cent mark

Start-up rate in per cent



Start-up rate: share of business starters in the working-age population (18 to 64 years).

Source: KfW Entrepreneurship Monitor.

Box 1: The KfW Entrepreneurship Monitor

The KfW Entrepreneurship Monitor is based on the information provided by 50,000 randomly selected persons domiciled in Germany. They are interviewed by telephone on an annual basis as part of a representative survey of the population. The survey covers a broad range of business starters: full-timers and part-timers, self-employed professionals and commercial business owners, new businesses and takeovers. That makes the KfW Entrepreneurship Monitor the only data source in Germany to provide a comprehensive picture of start-up activity.

Robust domestic economy supports start-up activity but no trend reversal

Overall economic development in 2018 was very positive. Adjusted for price variations, domestic demand grew by 1.8% (2017: +2.0%)¹ while unemployment dropped to 3.2% (-0.3 percentage points)². The positive cyclical pull outweighed the negative absorption effect of the labour market so that the healthy economic development also had a generally positive effect on entrepreneurial activity. On the other hand, the general interest in starting a business in the population has been declining for years, partly due to demographic change. The positive economic trend could only mitigate the resulting negative effect on start-up activity, so that the number of business starters ultimately fell yet again.

Opportunity entrepreneurs are clearly the majority

A large number of entrepreneurs start up in order to seize a business opportunity. In 2018 the share of these opportunity entrepreneurs³ remained unchanged from the previous year at 70% (Figure 2). Along with the total number of business starters, the number of opportunity entrepreneurs therefore hardly changed, at 382,000 (2017: 390,000). The proportion of persons who started a business for want of a better income alternative, in turn, rose slightly to 27%. The number of these necessity entrepreneurs thus rose to 148,000 (2017: 135,000).

Not having a ‘better’ income alternative often means not having ‘another’ income alternative. The enduring robustness of the labour market therefore affects primarily the number of necessity entrepreneurs. In other words, the number of those who started their own business for want of a better income alternative has more than halved since the years prior to 2012.

The increase in the number of necessity business starters is an unexpected development in light of the abundant job vacancies which the record labour market has brought but it is not unusual over time and therefore no indication of a trend reversal. In addition, the lack of ‘better’ income alternatives to necessity entrepreneurs may also mean that other income alternatives existed but did not meet personal aspirations. These entrepreneurs then saw the need to start their own business in order to fulfil their aspirations regarding independence, income or career advancement, for example. A good one third of necessity entrepreneurs therefore mentioned ‘independence’ as their main motive (Figure 3).

Table 1: Number of business starters by group

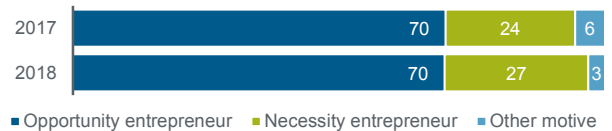
Number of business starters in thousands

	2016	2017	2018
Total	672	557	547
Full-time business starters	248	234	255
Part-time business starters	424	323	292
Opportunity entrepreneurs³		390	382
Necessity entrepreneurs³		135	148
Women	270	208	216
Men	402	349	331
New business founders	515	430	432
Takeover entrepreneurs	62	58	72
Solo business starters	439	371	341
Employer business starters	162	115	147
of whom: new business founders	104	74	83
Innovative business starters	58	76	58
Digital business starters	140	144	122
Growth business starters	115	127	130

Source: KfW Entrepreneurship Monitor.

Figure 2: Most business starters seize a business opportunity – its share is steady

In per cent of all business starters

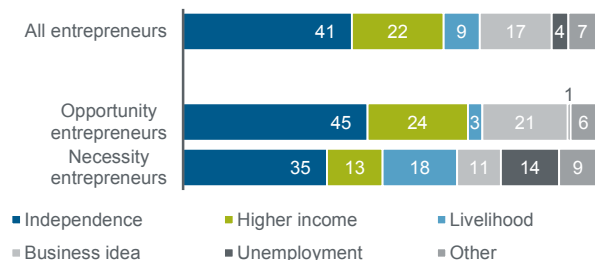


The question asked about the motive for self-employment was: ‘Which statement would you rather agree with: You started your own business because you saw an *opportunity* or you started your own business out of *necessity*?’³

Source: KfW Entrepreneurship Monitor.

Figure 3: Independence is the most common motive – for opportunity and necessity entrepreneurs

Start-up motives in per cent



Source: KfW Entrepreneurship Monitor.

More female business starters

The growing number of female business starters made a significant contribution to stabilising start-up activity in 2018 (Figure 4): After the share of women declined unexpectedly for two consecutive years, it has now rebounded to 40% (2017: 37%). The number of female business starters thus grew by 4% to 216,000. Start-up activity among males, on the other hand, dropped further. In 2018, 331,000 men started a business, 5% fewer than in the previous year.

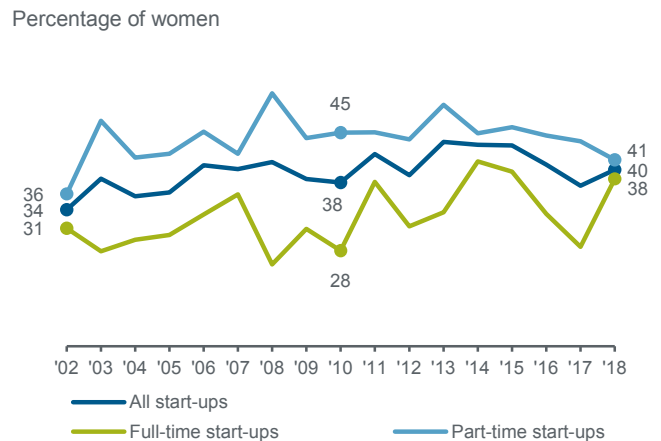
The share of women grew most strongly in areas where it dropped most sharply in the preceding two years. Full-time business start-ups were up sharply from 29 to 38%. In part-time business start-ups, on the other hand, the share of women again hardly changed. However, at 41% (2017: 43%) it is now clearly below the long-term average of 44%.

A look at the motives initially muddies the positive picture of increased levels of female start-up activity because the growth is the result of necessity start-ups, with 34% of women founding a business for lack of better income alternatives (2017: 29%). Still, the aspect of ‘independence’ generally plays a major role for female business starters, as half the women stated independence as their most important motive (Figure 5). At the same time, independence is relevant not only to opportunity start-ups but also to necessity start-ups. A good four in ten women stated independence as their main motive as opposed to just under three in ten men. Among full-time business starters, nearly two thirds of women stated independence as the decisive factor. With regard to their drive for independence, women obviously tend to see self-employment as the better alternative – especially as a full-time occupation or when they have underage children to look after (‘momprenuers’)⁴.

Slightly fewer innovative and digital business starters, steady share of growth business starters

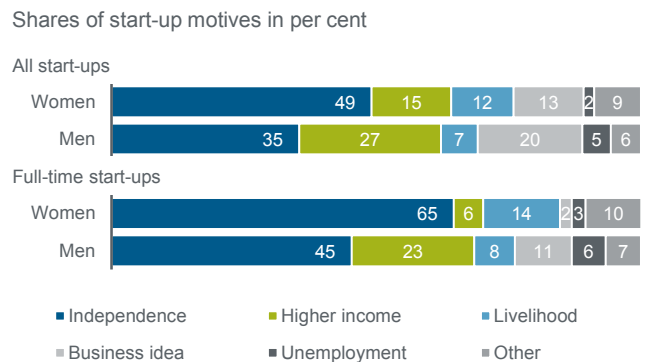
Specific economic expectations are associated with different groups of start-ups. Because they are so close to new technologies, innovative founders and digital entrepreneurs⁵ play the role of ‘creative destroyers’ in Schumpeter’s characterisation. They, in particular, target established markets or create entirely new ones, thereby driving structural change. Because growth business starters want their business to grow ‘as large as possible’, it is hoped that they will make a lasting contribution to sustainable employment.

Figure 4: Female business starters (full-time) have increased again



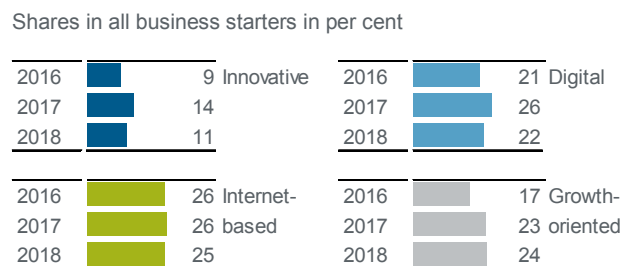
Source: KfW Entrepreneurship Monitor.

Figure 5: Independence is a more important start-up motive for women than for men



Source: KfW Entrepreneurship Monitor.

Figure 6: Share of digital and innovative entrepreneurs has dropped slightly



Note: Digital business starters are those whose offering is accessible exclusively through the use of digital technologies;⁵ internet-based business starters are those for whom the internet is a core element of their business model; innovative business starters are persons who conduct research and development in order to make a technological innovation ready for the market; growth business starters are persons who want their business to grow ‘as large as possible’.

Source: KfW Entrepreneurship Monitor.

The increase in innovative and digital entrepreneurs in 2017 was apparently only temporary. In 2018 their shares dropped to 11 and 22%, the same level as two years ago. Internet-based business starters (25%) and growth business starters (24%), on the other hand, were able to maintain their shares (Figure 6).

Business starters that begin with new-to-market innovations also have the potential for ‘creative destruction’. But most of them are concerned with being the first to bring existing products or services to market in a different area – from other regions into their own or from other countries into Germany. On a long-term average, 16% of business starters offer new-to-market innovations. Most of them operate on a regional scale (9%) and at national level (4%). Worldwide new-to-market innovations, which are by definition indeed ‘unprecedented’, are least common at 3%.

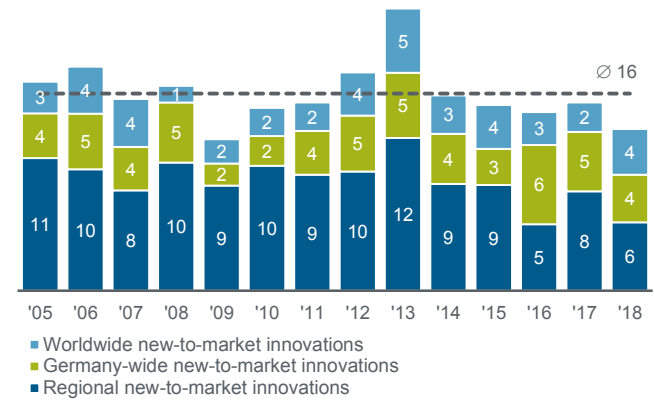
In 2018 the proportion of business starters with new-to-market innovations fell to 13% overall (Figure 7). That is slightly above the 12% low of 2009. However, whereas those crucially missing in 2009 were business starters with supra-regional (Germany or worldwide) new-to-market innovations, that is, those with a higher degree of novelty, those missing in 2018 were business starters with regional new-to-market innovations. Their share fell to 6% (-2 percentage points). Business starters with Germany-wide or worldwide new-to-market innovations (4% each) were above their long-term average with a combined 8%.

New business start-ups predominate, takeovers are up

Businesses can be started in different ways. The most frequent mode is ‘from the ground up’, that is, by building new business structures. In the year 2018, eight in ten business starters were new business founders (Figure 8). The trend towards founding new businesses predominates, primarily at the expense of active participations in existing businesses. The same effect is not discernible in businesses started by taking over existing firms. Their share varies considerably in a long-term comparison, however. But a positive trend has evolved here recently. Whereas takeover business starters represented a mere 6% of business founders in 2013, their share has grown gradually to 13% up to 2018. The higher proportion of full-time business starters last year has likely contributed to this as well. Takeovers are more common among full-time than part-time business starters – and more than ever in 2018 at 22% (Figure 9). That is good news given the high number of SMEs awaiting succession in the foreseeable future.⁶

Figure 7: Fewer business starters with new-to-market innovations

Shares of business starters with new-to-market innovations in per cent

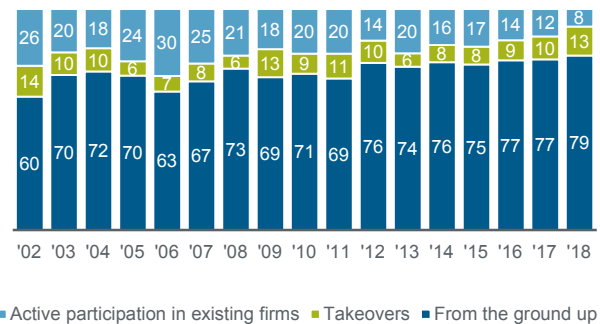


Note: New-to-market innovations are products or services viewed by the surveyed business starters as being new to either the regional, the national or the global market.

Source: KfW Entrepreneurship Monitor.

Figure 8: Founding ‘from the ground up’ is still the trend – but takeovers have picked up slightly

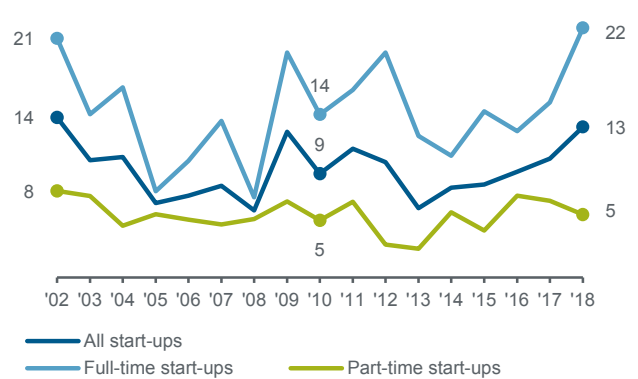
Types of start-up in per cent



Source: KfW Entrepreneurship Monitor.

Figure 9: More full-time business starters by takeovers – but proportion varies heavily

Share of takeovers in per cent



Source: KfW Entrepreneurship Monitor.

Start-up activity by state:

Brandenburg nudges into the top five

In the state ranking of start-up activity, Berlin is sitting comfortably at the top of the leaderboard (Table 2). On average for the years 2016 to 2018, 193 out of 10,000 employable persons started a business there each year (Figure 10). Hamburg remains in second place, with 146 business starters. Brandenburg continued its positive trend and climbed to third place with 134 business starters per 10,000 employable persons. It can be assumed that the above-average start-up activity in Berlin also radiates to its periphery, which would directly benefit Brandenburg. Fourth and fifth places continue to be occupied by Bavaria and North Rhine Westphalia, with 126 and 118 business starters per 10,000 employable persons.

Start-up activity is higher in conurbations

Urban agglomerations are characterised by short distances and high population and business density. That benefits service providers and retailers most of all. These are precisely the sectors where self-employment is a more common form of economic activity. As a result, the higher population density of western German (non-city) states is probably one reason they typically follow the city states in the start-up ranking.

Table 2: Berlin comfortably tops the list

Start-up activity by federal state

	Rank new	.	Rank old
Berlin	1	•	1
Hamburg	2	•	2
Brandenburg	3	▲	8
Bavaria	4	•	4
North Rhine-Westphalia	5	•	5
Lower Saxony	6	▼	3
Baden-Württemberg	7	▲	9
Rhineland-Palatinate	8	▲	11
Saxony	9	▲	10
Hesse	10	▼	6
Schleswig-Holstein	11	▲	12
Saarland	12	▲	14
Bremen	13	▼	7
Mecklenburg-Western Pomerania	14	▼	13
Saxony-Anhalt	15	▲	16
Thuringia	16	▼	15

Rank by number of business founders per 10,000 employable persons between 2016 and 2018 (new ranking) and 2015 and 2017 (old ranking).

Source: KfW Entrepreneurship Monitor.

However, the federal states' particular economic structure also plays an important role. Thus, start-up activity in Hamburg and Berlin is strongly driven by the media and IT industries with their high shares of self-employed persons. An industrial economy, in turn, tends to have less start-up activity. Large enterprises typically offer attractive jobs that are also of interest to potential business starters. The bottom of the ranking list is consistently populated with large eastern German states. Start-up activity there is hampered by lower average purchasing power. Their older population structure also has an adverse effect on start-up activity as the propensity to start a business usually declines with age.⁶ These characteristics still apply to Brandenburg, even if the state is only third in the start-up ranking. The positive effect of start-up activity in Berlin appears to overcompensate the negative impact of these characteristics.

Figure 10: Berlin's activity is rubbing off on Brandenburg

Number of business starters per 10,000 employable persons between 2016 and 2018, average p. a.



Source: KfW Entrepreneurship Monitor.

Business starters as employers: Opposing trends in full-time and part-time start-ups

Most business starters are solopreneurs, that is they have no partner nor do they have any employees and they make up nearly two thirds of business starters. Solopreneurs are slightly more strongly represented among new business founders, with seven in ten persons. The share of business starters with employees, known as ‘employer business starters’, however, has been trending downward since the year 2010 (Figure 11). This was mostly due to part-time business starters, who are increasingly less likely to employ workers. Among full-time business starters, on the other hand, the trend has been slightly positive since 2012.

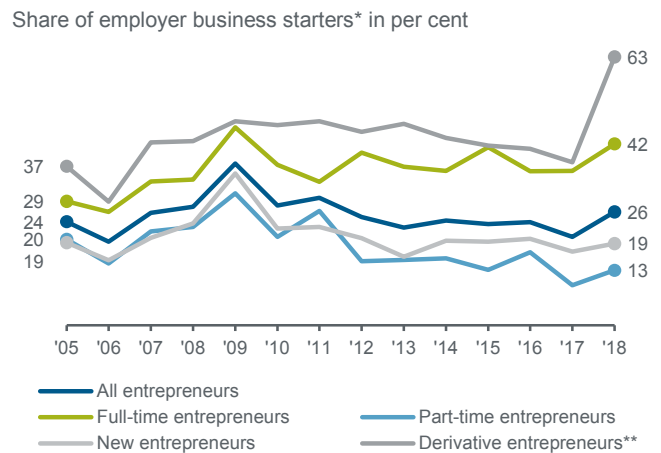
Most recently, full-time business starters had three to four times as many employees as part-timers. In an annual comparison, the share of employer business starters has risen in all groups of entrepreneurs, however. In 2018 the share rose from 21 to 26% on 2017 – from 36 to 42% among full-timers and from 9 to 13% among part-timers. Entrepreneurs who start a business by takeover or active participation (derivative founders) are more likely than new business founders to have employees because existing firms often employ a relevant number of workers already. In 2018 that share was actually an unusually high 63%. This may reflect the increased readiness of owner-managers of SMEs to take on the challenge of generational transition.⁸

New business founders’ contribution to employment

Including the existing employees of derivative entrepreneurs in the calculation of an employment effect of start-up activity would unjustifiably overstate that effect. A separate analysis of new business starters would therefore be necessary to assess their contribution to employment. The direct gross employment effect is measured in full-time equivalents (FTEs, cf. note below Figure 12). In 2018 the gross employment effect was 481,000 FTEs, which was significantly higher than the 424,000 FTEs in the previous year. There are four reasons for this increase: The higher share of new business founders, the generally higher share of employer business starters explained in the previous section, the higher number of full-timer business starters (as these are more likely to have employees) and the increase in the average number of employees of full-time business starters.

Each new business founder provided 0.5 full-time equivalent jobs per capita in 2018. New business founders thus created 219,000 full-time equivalent jobs. This shows how relevant new business start-ups are for employment in Germany.

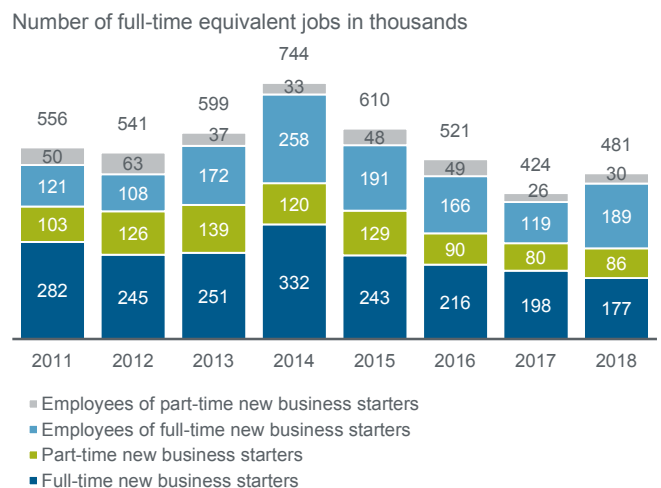
Figure 11: More employer business founders than in the previous year – a good one in four founders have employees



* Founders with employees; ** takeover and co-founder entrepreneurs

Source: KfW Entrepreneurship Monitor.

Figure 12: More jobs through full-time business starters – employment effect rises to 481,000



Note: Employee full-time equivalents (FTEs) of new start-ups are expressed as their number weighted with their individual weekly working hours. Employee FTEs reflect the sum of full-time employees and part-time employees, which are counted half. Outliers of employee numbers and weekly working hours are not included.⁹

Source: KfW Entrepreneurship Monitor.

Despite the increased contribution to employment, it can be assumed that the booming labour market is making it harder for young businesses to hire workers. This is because young businesses generally have greater difficulty attracting workers than established enterprises. For example, many potential employees fear losing their job if the start-up fails. For business founders it is far more challenging to find workers at a time when even established firms are unable to fill ‘secure’ and well-paid positions.

Hiring problems had a resounding impact particularly in the past two years, during which the labour market broke one record after another. Thus, the share of new founders reporting difficulties finding workers increased again to 20% in 2018 (Figure 13). A good one in ten new founders has not yet succeeded in hiring workers because of these problems.¹⁰ Those who were able to attract workers had to fight harder for them again in 2018. After 52% in the previous year, 60% of new founders with employees now reported problems filling positions. These problems have become twice as common compared with the past five years.

Service providers have a two-thirds majority

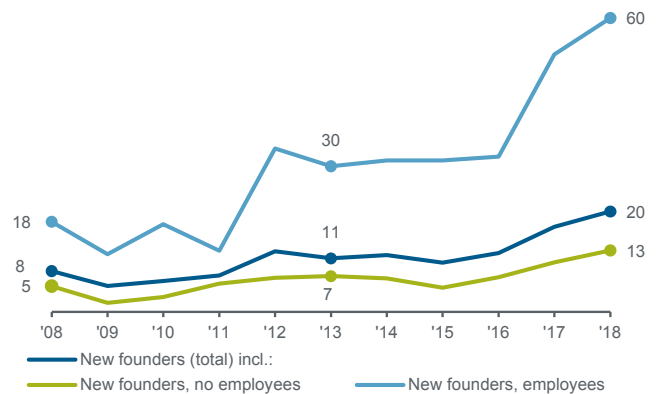
The sectoral structure of start-up activity is very stable over time. Most business starters typically operate in the services sector. In 2018 service providers represented two thirds, slightly more than in the previous year (Figure 14). Service providers who focus on commercial customers (business services) are usually more common than those who focus on retail customers (personal services). As was already the case in 2017, however, the proportions differed in 2018 as well. The share of personal service providers was 31%, higher than business service providers, which was a much lower 27%. Other service providers (financial services, transport and communications services) took a relatively large share of 9% of start-up activity in 2018 (+4 percentage points). Start-ups in retail (19%) and the producing sector (14%) fell slightly.

Most business starters need capital

The overall population of business starters is very mixed. Their resource requirements are shaped by their motives and goals and by the sector in which they operate. In general, most business starters have to employ financial resources to realise their start-up project (2018: 67%, Figure 15). The percentage of business starters using own funds exclusively rose to 44% from the previous year's 39%. Just under one quarter of business starters (23%) mobilised external funds from third-party providers. Of these, 14% were microfinance (up to EUR 25,000 in external capital) and 9% macrofinance (more than EUR 25,000). Microfinance is usually provided by family and friends, while macrofinance tends to come from credit institutions.

Figure 13: Hiring has become even more difficult

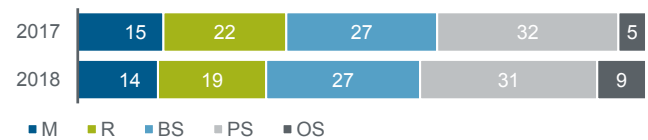
Share of new business founders with difficulty filling positions



Source: KfW Entrepreneurship Monitor.

Figure 14: Sectoral structure has hardly changed – two thirds of business starters are service providers

Sector shares in per cent

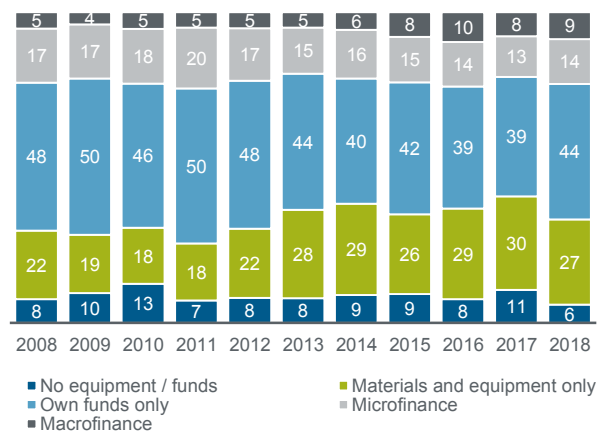


Note: Start-ups were allocated to particular branches of economic activity in accordance with the 'Classification of Economic Activities' of the German Federal Statistical Office, Edition 2008, on the basis of project descriptions provided by the business founders. Sectors: Manufacturing (M); Retail (R); Business services (BS); Personal services (PS); Other services (OS).

Source: KfW Entrepreneurship Monitor.

Figure 15: Two thirds of business starters use finance, whereas self-funding has increased

Resources used in per cent



Note: Microfinance is external start-up capital up to EUR 25,000, macrofinance is more than EUR 25,000. Differences may be due to rounding.

Source: KfW Entrepreneurship Monitor.

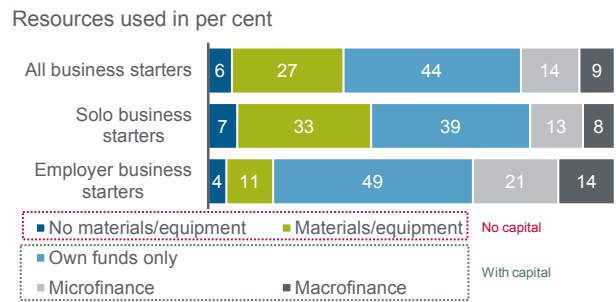
If business starters use different resources over time, this may be due to changes in overall conditions or even structural causes. The low interest rate environment of the past years, for example, has likely provided additional incentive for those requiring finance to use more external capital. Changes in the composition of business starters, however, have probably had a stronger impact. Thus, the larger proportion of employer business starters also increased the share of founders using capital in 2018. This is because most employer business starters (85%) rely on start-up capital (Figure 16). By contrast, for example, one third of solo-preneurs can run their business merely by employing personal materials and equipment.

Business starters have invested much more capital in their business on average in the past ten years. Whereas business starters employed only around EUR 10,000 in own and external funds in 2008, that figure rose to nearly EUR 16,000 in 2018 (Figure 17) – including zero-resource starters. As zero-resource business starters tend to have a higher share of total start-up activity today, business starters that use capital have thus become significantly more capital-intensive. Full-time business founders in particular are investing larger amounts. In 2008 the average capital inputs of full-timers and part-timers were still equal at around EUR 10,000 each. Since then, part-time founders have trended down while full-timers invested on average more than twice as much in 2018, or just under EUR 25,000.

Start-ups are at a disadvantage for financing compared with established businesses – financing problems are a high barrier

The share of business starters with financing difficulties increased to 17% in 2018 (2017: 14%, Figure 18). Financing difficulties occur when start-up finance cannot be obtained as expected. This happens when the business starters' own funds are insufficient, when they cannot obtain external capital, or only in insufficient amounts, or when they have to put in more planning work and persuasion than expected. Business starters are systematically at a disadvantage compared with established entrepreneurs specifically when seeking external finance. They tend to lack confidence-building and risk-minimising elements such as a corporate history or collateral. Besides, business starters often have relatively low credit requirements. But because of the fixed costs, giving loans in lesser amounts is less attractive to lenders. The effort required to secure start-up finance can therefore be substantial.

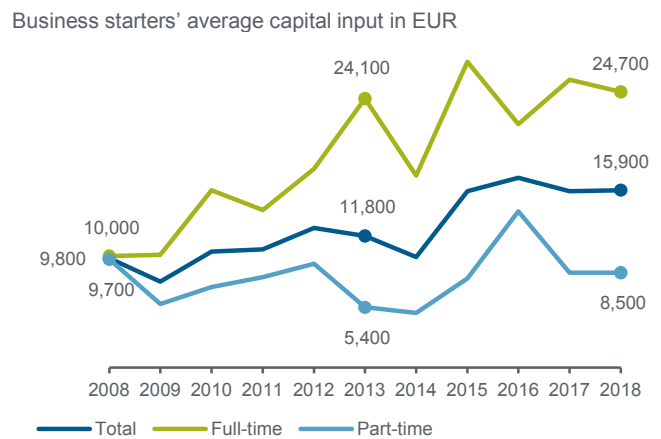
Figure 16: Employer business starters can hardly succeed without start-up capital



Note: Microfinance is external start-up capital up to EUR 25,000, macrofinance is more than EUR 25,000. Differences may be due to rounding.

Source: KfW Entrepreneurship Monitor.

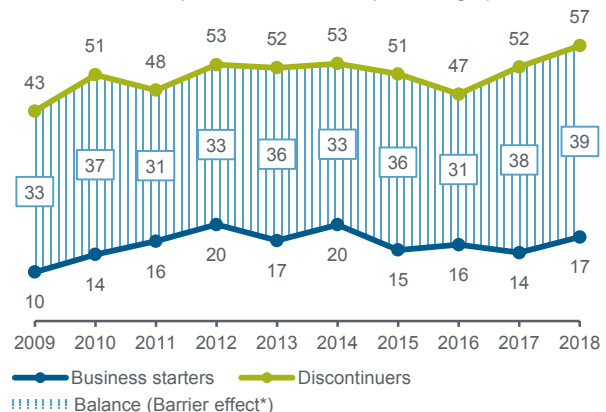
Figure 17: A full-time business starter employs more than twice as much capital as 10 years ago



Source: KfW Entrepreneurship Monitor.

Figure 18: Financing difficulties as a start-up barrier on the rise

Share of persons with financing difficulties in actual business starters and discontinuers in per cent / balance in percentage points



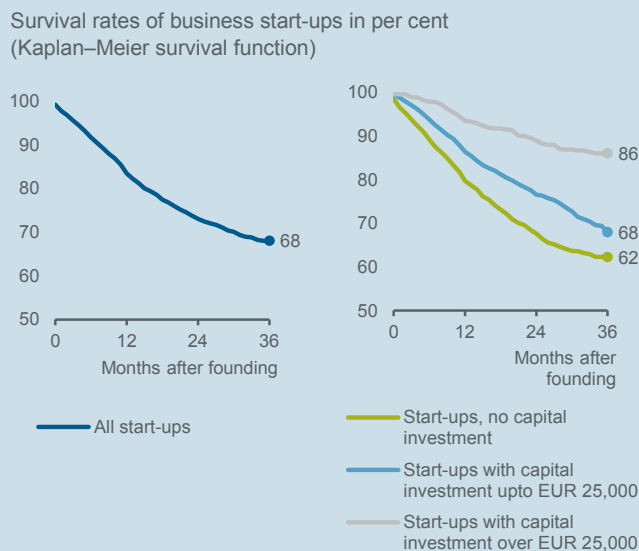
* The more often discontinuers faced a particular problem compared with actual business starters, the more often this problem is likely to have posed a barrier to entrepreneurship and effectively prevented start-up.

Source: KfW Entrepreneurship Monitor.

Start-up discontinuation rates

The KfW Entrepreneurship Monitor shows a stable empirical pattern in the survival rate of business start-ups. Some 30% of business start-ups close down again within the first three years (3–30 rule of thumb). That means some 70% of business start-ups are still in business 36 months after launching (Figure 19, left). The reasons for aborting are diverse. By far the largest proportion of business starters discontinue their venture for personal reasons, not because of immediate financial stress (Figure 20, right). Examples of personal reasons include family pressures, illness, dissatisfaction with income achieved or the emergence of a more attractive job alternative.⁹ Besides, many businesses are planned only for the short term to begin with, particularly part-time businesses.

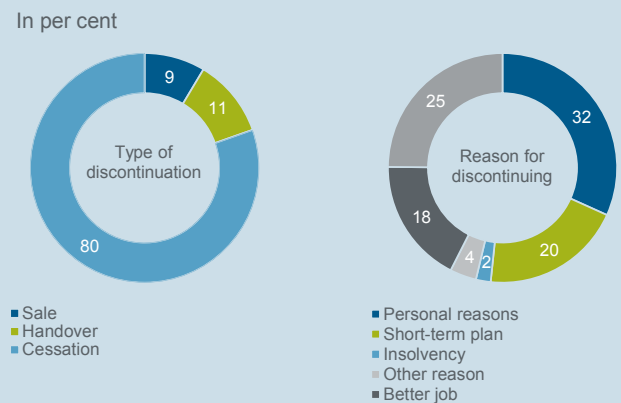
Figure 19: The more funds a business has, the longer it survives



Source: KfW Entrepreneurship Monitor.

Only a small fraction of business starters quit because of insolvency. Discontinuation rates therefore cannot be equated to ‘default rates’. That would also be wrong because a large portion of businesses start without external capital input, so they would not be able to ‘default’ at all. By comparison, business starters who apply larger sums in excess of EUR 25,000 (regardless of whether these are their own or borrowed funds) have significantly higher survival rates (Figure 19, right). Discontinuation rates are particularly high among business starters who start off without any financial capital at all. This has to do with the goal of their venture: such start-ups are more likely to be designed to achieve temporary income, whereas more highly capitalised businesses are designed for the longer term.¹⁰

Figure 20: Start-ups are usually discontinued for personal, not financial reasons



Source: KfW Entrepreneurship Monitor.

Securing start-up finance is therefore a challenge that many fail to meet already during the planning stage. Financing difficulties are common among discontinuers (i.e. prospective business starters who have abandoned their start-up plan). In the long-term average, roughly half the discontinuers reported having had financing difficulties and that share was particularly high of late, at 57% (Figure 18). The barrier effect of financing difficulties has thus increased slightly as well. This is because the more often discontinuers encountered a particular problem compared with actual business starters, the more often this problem is likely to have posed a barrier to start-ups and effectively prevented business foundation. The corresponding balance between the shares of discontinuers and business start-

ers with financing difficulties increased slightly to 39 percentage points in the year 2018.

Financing difficulties therefore represent the entrepreneurial barrier with the greatest impact. It is true that concerns about the financial risk of starting a business are more widespread among discontinuers than financing difficulties, at 66% (Figure 21). But business starters who realise their plans nonetheless have these concerns as well, at 28%. However, the balance of 38 percentage points is only marginally smaller than for financing difficulties. The risk of social decline in case of failure, opportunity costs (i.e. the benefits of salaried employment vs. self-employment) and doubts about

the business idea round off the top five start-up barriers with the greatest impact.

Start-up barriers, such as pressure on the family (e.g. from greater income insecurity or longer working hours) and red tape, are the obstacles most commonly named – by both discontinuers and actual business starters. Their barrier effect, accordingly, is low. That means many people worry about their family and bureaucratic requirements before and while they set up their business. But this effectively deters only few of them from realising their start-up plans. These entrepreneurial challenges are therefore not so much a hindrance as a side-effect. Nevertheless, economic policymakers should work to take down these entrepreneurial barriers.

Business starters are on the economic-policy agenda

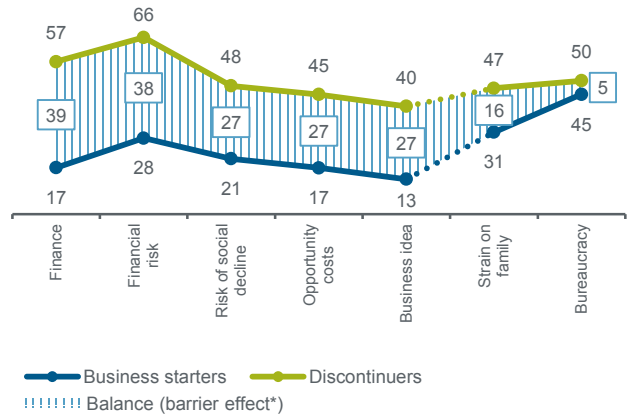
In recent years, the concerns of business starters have received more attention from economic policymakers. The agenda for the 19th legislative term includes five projects that pertain to business starters specifically: Lowering minimum statutory health insurance premiums, introducing mandatory contributions to a pension fund, reducing turnover tax advance return requirements, introducing entitlements to time off for employees and facilitating the reconciliation between work and family life.¹³ These projects have already been partly implemented or initiated. The reduction of premiums paid by self-employed persons with voluntary minimum statutory health insurance coverage was already implemented on 1 January 2019 with the act regulating the reduction of statutory insurance premiums (*GKV-Versicherten-entlastungsgesetz*).¹⁴ A bill to regulate mandatory contributions to a pension fund for self-employed persons has been announced for the end of the year.¹⁵ However, the reduction of turnover tax advance return requirements, the introduction of an ‘entrepreneurial leave’ for employees and relief for parents who are in the start-up phase have not yet been implemented.

Positive response to coalition proposal

In the follow-up interviews to the KfW Entrepreneurship Monitor (Box 2), the business starters were asked how they rated the projects mentioned. Last year’s report already showed that the projects were broadly supported.¹⁶ Women in particular rate the reduction of minimum statutory health insurance premiums, which has already been implemented, as ‘very good’ (Figure 22). This is probably because women tend to start businesses on a smaller scale than men. The minimum statutory health insurance premium is therefore more often relevant to them, so it weighs more heavily.

Figure 21: Fear of financial risk is highest start-up barrier after financing challenges

Percentage of persons with specific problems or concerns in actual business starters and discontinuers/balances in percentage points



* The more often a particular problem occurs in discontinuers compared with actual business starters, the more strongly this problem is likely to act as a general barrier to entrepreneurship and prevent planners from starting up.

Source: KfW Entrepreneurship Monitor.

Box 2: Follow-up interviews 2018 and 2019

For an in-depth analysis of business starters of the years 2017 and 2018, follow-up interviews to the KfW Entrepreneurship Monitor were conducted in March of the following years. In these follow-up interviews, all business starters who had been identified in the respective main survey and had given their consent to a follow-up interview and provided their contact details were contacted again.

Figure 22: Reduction of minimum statutory health insurance premium is strongly supported by women

Business starters’ response to the reduction in minimum statutory health insurance premiums, in per cent



Source: Follow-up interviews to the KfW Start-up Monitor 2018 and KfW Entrepreneurship Monitor 2019 (Box 2), unweighted assessment of the participating interviewees.

As in the previous year, the projects not yet implemented received approval ratings (sum of ‘very good’ and ‘good’ rating) between 70 and 85% (Figure 23). What is striking is that approval ratings for these projects have trended down. Only the introduction of mandatory contributions to a pension fund, which received

the highest disapproval rating last year, has received more support. It may take some time for a business to become profitable after it has been established. Understandably, contributions to a privately managed pension fund are therefore a cost factor at first and not a priority – but unfortunately then often forgotten. Introducing mandatory contributions to a pension fund would change this and reduce the risk of poverty in old age for self-employed persons. Old-age poverty was a much-debated topic last year. That public debate may have contributed to a more positive view among business starters. The legal requirement to pay into a pension fund would probably lead to fewer micro or small businesses, however, which may not be able to afford such compulsory provisions.

Although topics around start-ups are on the economic-policy agenda, business starters perceive policy-makers' advocacy for their concerns as merely sufficient.¹⁷ Entrepreneurship experts have also noticeably downgraded their assessment of governmental support.¹⁸ They have rated the entrepreneurial framework conditions second-worst for the third time since 2012 – again most recently for 2018.

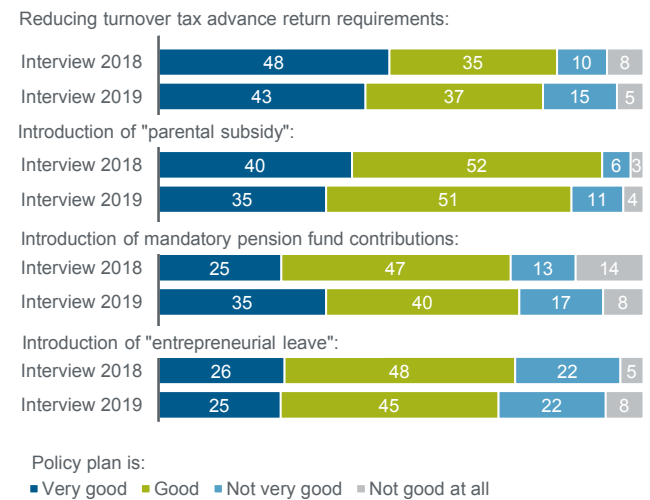
Start-up activity 2019: Contradictory signals

The early indicators for start-up activity in 2019 are inconsistent. This year we expect a slightly weaker pull from the domestic economy on start-up activity than in 2018.¹⁹ At the same time, the decline in the unemployment rate looks set to slow down again.²⁰ Both the negative absorption effect of the labour market and the positive cyclical pull effect would weaken accordingly and the latter slightly more. Besides, start-up activity continues on a downward trend. The economic signal is therefore negative overall.

The higher share of start-up planners, however, is a positive signal (Figure 24). The share of persons entertaining serious thoughts about starting a business grew in 2018 on the previous year. The share of planners is many times higher than the share of business starters because many who have a plan never put it into practice. The ratio of full-time planners to full-time business starters is particularly high, which is indicative of higher opportunity costs and, hence, a higher barrier to setting up a full-time than a part-time business. However, what is decisive is not the share of planners but how it evolves. The process from the idea to implementation often takes several months and founders in 2018 took an average of nine and a half months of preparation.

Figure 23: Support for mandatory contributions to a pension fund has grown among business starters

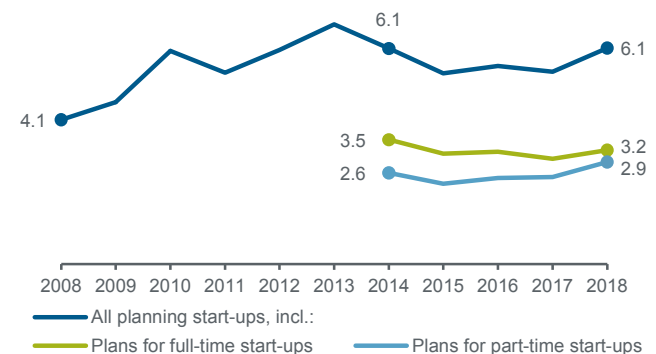
Business starters' views of policy proposals, in per cent



Source: Follow-up interviews to the KfW Start-up Monitor 2018 and KfW Entrepreneurship Monitor 2019 (Box 2), unweighted assessment of the participating interviewees.

Figure 24: Rate of planners is growing

People seriously considering starting a business in per cent of the working age population



Source: KfW Entrepreneurship Monitor.

The variation in the share of planners is thus a good indicator of the development of the start-up rate in the following year. With two exceptions, the signals emitted by the trend in the share of planners have proven accurate so far.

Whether the overall economic trend or the development of the share of planners ultimately prove to be the right signals for start-up activity in 2019 remains to be seen. The question 'Has the downturn just slowed, or is it over?' therefore remains open. ■

Box 3: Analyses of entrepreneurial activity and data access

The **Appendix of Tables and Methods** along with further information and publications from by KfW Research on start-up activity in Germany can be found on our theme page '**Innovations and Start-ups**' at www.kfw.de/research-innovation-gruendung.

The KfW Entrepreneurship Monitor is a scientific data record compiled for the purpose of economic analysis of start-up activity in Germany. It is available to external researchers for empirical research work subject to certain **access criteria**.

¹ Federal Statistical Office (2019), **Deutsche Wirtschaft ist im Jahr 2018 um 1,5 % gewachsen** (*German economy grew by 1.5% in 2018*), press release No. 018 of 15 January 2019 (in German only).

² Own calculations on the basis of the **national accounts, inhabitants and labour market participation (resident concept)** of the Federal Statistical Office, as at 2 January 2019.

³ In the reporting on the KfW Entrepreneurship Monitor 2019 the definition of 'opportunity entrepreneurs' was adapted to research practice. Opportunity entrepreneurs are those who seize a business opportunity that presents itself to them. This definition was applied one-to-one. Previously, opportunity entrepreneurs were identified as those who put a business idea in practice. The share and number of opportunity entrepreneurs is therefore no longer comparable to earlier publications containing data of the KfW Entrepreneurship Monitor.

⁴ Mompreneurs are defined as women with underage children living in the household; see. Metzger (2017), **Starting a business with kids: mompreneurs balance work and family life**, Focus on Economics No. 184, KfW Research.

⁵ Digital entrepreneurs are those whose product or service can be accessed only through digital technologies. The business models of digital start-ups are diverse: They can be purely digital, as in the case of app providers, operators of web portals or web hosting services; they can have a major digital component, as in the case of online traders or providers who sell products or services (they produce themselves) exclusively via online marketplaces ('gig economy'), or they comprise an activity that is essentially based on digital technology, such as that of software developers, web designers or IT consultants, or in online marketing or digital photography.

⁶ Schwartz (2019), **Status report on SME succession: Planning steady at a high level**, Focus on Economics No. 241, KfW Research.

⁷ Metzger (2015), **Are start-ups the same throughout Germany? Hardly! A comparison of German states**, Focus on Economics No. 111, KfW Research.

⁸ Schwartz (2019), **Status report on SME succession: Planning steady at a high level**, Focus on Economics No. 241, KfW Research. The share of SMEs with succession plans for the next five years has grown on the previous year, particularly among firms with employees (own evaluations on the basis of the KfW SME Panel).

⁹ Full-time equivalents (FTEs) of new start-ups reflect the sum of their individual weekly working hours in relation to a standard workweek of 40 hours. As full-time business founders typically work more and part-time founders work significantly less than a standard workweek, their contribution as measured in FTEs is regularly higher and lower, respectively, than their headcount. In order to calculate the employee FTEs, those working full-time are counted in full and those working part-time are treated as half jobs. Outliers of workforce numbers and weekly working hours are not counted.

¹⁰ In 2018, 81% of new founders had no employees, 13% of them had difficulty finding workers, so a good one in ten new founders (81*13%) remained without staff despite their best efforts.

¹¹ See also Egelin, Falk, Heger, Höwer and Metzger (2010), **Ursachen für das Scheitern junger Unternehmen in den ersten fünf Jahren ihres Bestehens** (*Causes for the failure of young enterprises during the first five years*), study commissioned by the Federal Ministry for Economics and Technology, Mannheim and Neuss, March 2010 (in German only).

¹² For more on the influence of various business founder and project characteristics on the survival rates of start-ups see Metzger (2018), **KfW Start-up Monitor 2018, Appendix of Tables and Methods**, KfW Research, page 22.

¹³ See coalition agreement '**Ein neuer Aufbruch für Europa, Eine neue Dynamik für Deutschland, Ein neuer Zusammenhalt für unser Land**' (*A new awakening for Europe, new momentum for Germany, new cohesion for our country – our title translation*) between the CDU, CSU and SPD of February this year (retrieved on 24 April 2018, specifically the following sections (in German only): Prüfung der Einführung einer „Gründerzeit“ analog zur Familienpflegezeit (Z 1859ff), Unterstützung für Eltern in der Gründungsphase, wie durch Zuschüsse für haushaltsnahe Dienstleistungen (Z 1861ff), Befreiung von der monatlichen Umsatzsteuervoranmeldung in den ersten beiden Jahren (Z 2850f), Einführung einer Altersvorsorgepflicht (Z 4306ff), Reduktion der Mindestkrankenversicherungsbeiträge für kleine Selbstständige (Z 4313ff).

¹⁴ Press and Information Office of the Federal German Government, **Mindestbeitrag für Selbstständige sinkt** (*Minimum contribution for self-employed persons reduced* – our title translation, in German only), 23 November 2018.

¹⁵ 'I will present a bill for including self-employed persons in the pension insurance system at the end of the year', **Interview with Hubertus Heil, Federal Minister of Labour and Social Affairs** (in German only), in the daily **Rheinische Post**, No. 82 – Düsseldorf-Mitte/West, 6 April 2019, p. 5.

¹⁶ Metzger (2018), **KfW Start-up Monitor 2018 – Start-up activity remains in a trough but growth, innovation and digitalisation are gaining importance**, KfW Research.

¹⁷ Ibid. In the follow-up interviews to the KfW Start-up Monitor for the years 2015 and 2017, business founders gave governmental support average scores of 3.6 and 3.9, which represents the third-worst and second-worst score given for start-up conditions. In the founders' current assessment for 2018 (follow-up interview 2019), political support was again rated second-lowest with an average score of 3.8.

¹⁸ Ibid. The experts' verdict on governmental support in Germany remained steady in the middle of the range for the 12 entrepreneurial framework conditions assessed in the Global Entrepreneurship Monitor until 2012. In the years 2013, 2016 and 2018, however, it slipped to second from last place. **Data of the German expert survey of the Global Entrepreneurship Monitor** (Entrepreneurial Framework Conditions) for Germany, retrieved on 30 April 2019.

¹⁹ Federal Ministry for Economic Affairs and Energy (2019), **Jahreswirtschaftsbericht 2019, Soziale Marktwirtschaft stärken – Wachstumspotenziale heben, Wettbewerbsfähigkeit erhöhen**, Eckwerte der gesamtwirtschaftlichen Entwicklung in der Bundesrepublik Deutschland, Jahresprojektion 2019, (*Annual Report 2019, Strengthening the social market economy – leveraging growth potentials, enhancing competitiveness, key figures of aggregate economic development in the Federal Republic of Germany, annual projection 2019* – our title translation, in German only), p. 64.

²⁰ Based on Fuchs, Gehrke, Hummel, Hutter, Klinger, Wanger, Weber and Zilka (2018), **Aufschwung bleibt, verliert aber an Tempo** (*Upswing continues but is losing pace* – our title translation, in German only, IAB Forecast 2018/2019, IAB Short report No. 21, 20 September 2018).