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KfW Research

Palmengartenstrasse 5-9

60325 Frankfurt / Main

Phone +49 69 7431-0, Fax +49 69 7431-2944

www.kfw.de

Author

Dr Georg Metzger, KfW

Phone +49 69 7431-9717

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Start-up activity lacks macroeconomic impetus – self-employed people are becoming more important as multipliers

Number of business starters has increased slightly

Start-up activity in Germany was moderately stronger in 2023 than the year before. The number of newly started businesses grew slightly by 3% to 568,000. However, there was no significant impetus to entrepreneurial activity, neither from the economy nor from the labour market. Full-time and part-time start-up activities drifted apart. Whereas the number of full-time business starters fell by -8% to 205,000, part-time starters grew to 363,000 (+11%). This year is expected to provide only minimal economic impetus as well. The decreased number of start-up plans, i.e. nascent entrepreneurs, in 2023 will weigh on start-up activity in 2024.

Share of female business starters has grown

The share of female entrepreneurs in start-up activity increased to 44% in 2023. However, that share can fluctuate heavily so that it is not possible to discern a positive or negative trend. Entrepreneurial role models have a positive effect on the realisation of start-up plans. This effect appears to be stronger on women than men. Making successful female entrepreneurs more visible can help increase their share sustainably.

People in Hamburg are most likely to seek self-employment

The appetite for self-employment remained on a low level in 2023. Only 24% of the adult population up to the age of 67 would generally prefer self-employment to salaried employment. This preference can be observed most frequently in Hamburg.

Box 1: The KfW Entrepreneurship Monitor

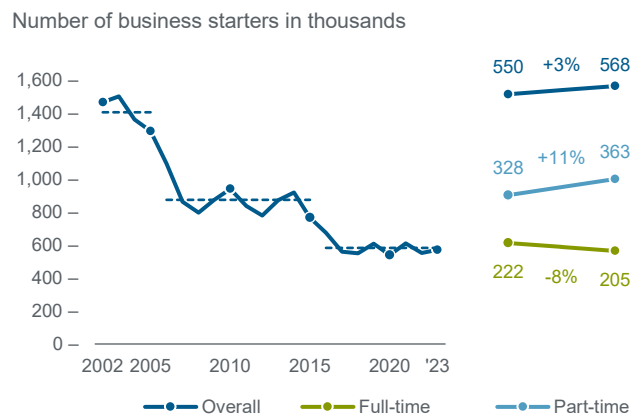
The KfW Entrepreneurship Monitor is based on data from representative population surveys. These are sent to 50,000 randomly selected persons domiciled in Germany each year. The surveys cover a broad range of entrepreneurship categories: full-time and part-time male and female entrepreneurs, self-employed professionals and business owners, new businesses and takeovers. The KfW Entrepreneurship Monitor thus provides a comprehensive picture of start-up activity in Germany.

Part-time business starters grew, while number of full-time starters dropped

Entrepreneurial activity in Germany was slightly more positive in 2023. According to the KfW Entrepreneurship Monitor, 568,000 people on average started a business (Figure 1). That was a moderate increase of 3% on the 550,000 recorded in 2022. The development of part-time and full-time business starters moved in opposite directions. With a share of 36%, some 205,000 businesses were started on a full-time basis in 2023, 8% less than in 2022 (222,000). That leaves 363,000 people who started a part-time business, 11% more than in 2022 (328,000).

The generally positive trend had taken hold because the number of start-up plans had already risen slightly in 2022 and this change is typically a signal of entrepreneurial activity in the following year.¹ There was hardly any impetus to start-up activity from the economy in 2023. The business cycle and the labour market both exhibited little momentum. That was different in the previous years. Negative impetus for entrepreneurial activity in Germany often came from the labour market in particular. For one thing, the falling number of unemployed workers meant that fewer people opted for self-employment as a way out of unemployment, and for another, attractive alternatives in salaried employment emerged more often even for people with start-up ideas.

Figure 1: Number of new business starters rose on a low level from the previous year

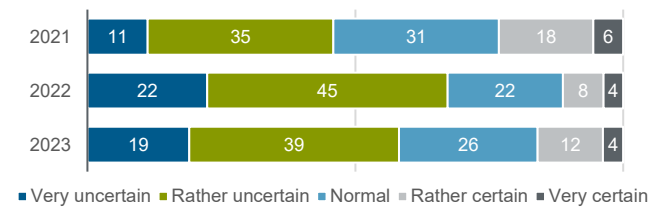


Source: KfW Entrepreneurship Monitor.

Even if impetus from the aggregate economy was lacking, pressure on entrepreneurial activity eased slightly as economic uncertainty decreased in 2023 (Figure 2). Thus, the share of the population aged 18–64 years who viewed the economic situation in Germany as rather or very uncertain decreased to 58% after 67% in the previous year and 46% in 2021. Overall, however, there remains a noticeable majority who perceive the situation as uncertain and that weighs on entrepreneurial activity. When economic uncertainty increases, people become more risk averse and develop a greater preference for or rely more often on income alternatives they view as providing more security, which for many people means salaried employment.²

Figure 2: Declining majority views economic situation as uncertain

How do you perceive the current economic situation in Germany? Population percentages* in per cent.



* Population aged 18 to 64 years

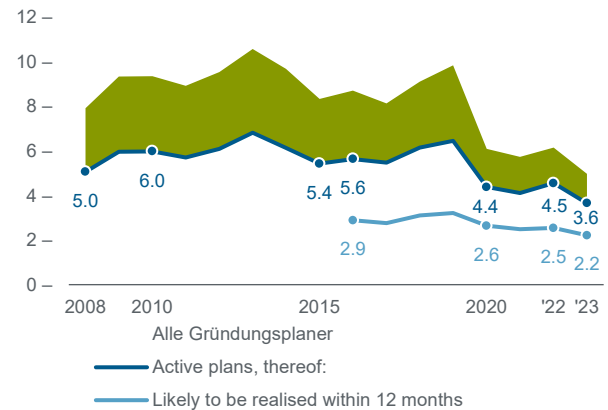
Source: KfW Entrepreneurship Monitor.

Significantly fewer start-up plans in 2023: a negative portent for the current year

Economic developments will generate little impetus for entrepreneurial activity in 2024 as well. Forecasts predict only minor variations for both the business cycle and the labour market. However, the trend in start-up planning activity seen in 2023 is a warning sign for entrepreneurial activity in 2024, as it has decreased significantly. The percentage of planners, that is, the share of active planners aged 18–64 years, slumped from 4.1% in 2022 to 3.6% last year (Figure 3). That means there were fewer active start-up planners – known as ‘nascent entrepreneurs’ than ever.³ As noted at the outset, the development of start-up plans is typically a signal of entrepreneurial activity in the following year. This is because it usually takes several months for an idea to be implemented, even if only a fraction of start-up plans is realised.⁴ The ratio of start-up plans likely to be realised within the next 12 months is now only 2.2%.

Figure 3: Significantly fewer start-up plans

Population (18–64 years) in per cent.



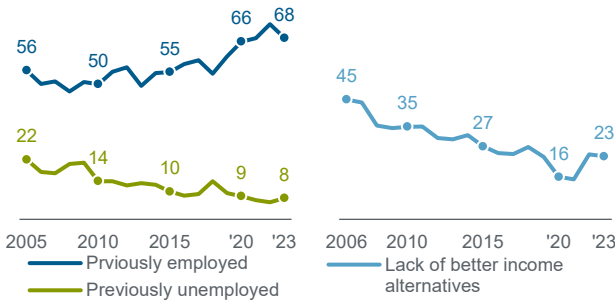
In the past 12 months, have you ever given serious thought to self-employment – either full-time or part-time? Have you given up these plans in the meantime? Do you expect your planned business to begin operating within the next twelve months?

Source: KfW Entrepreneurship Monitor.

As a result of the booming labour market, in recent years entrepreneurial activity has increasingly been undertaken by people who wanted to move away from salaried employment to self-employment. Their share rose to a record level of 73% in 2022 (Figure 4, left). In 2023 it dropped again to 68%. At the same time, more business starters were previously economically inactive or unemployed. The share of businesses started from unemployment fell to an all-time low in 2022 but picked up again slightly to 8% in 2023. One factor that likely played a role here was the change in eligibility criteria for accessing the self-employment grant offered by the Federal Employment Agency. The ‘priority of placement’ criterion that was introduced with the reform of the self-employment grant at the end of 2011 was omitted at the end of 2022.⁵ Unemployed people who want to start a business of their own can now access the self-employment grant more easily again. This could be observed in the number of applicants who received a self-employment grant, which rose by around one quarter, or 26,000, in 2023.⁶ The reform introduced at the time led to a sharp slump in the number of supported start-ups founded by unemployed people from more than 130,000 newly approved self-employment grants in 2011 to around 20,000 in 2012.

Figure 4: Number of business starters launched from salaried employment dropped again

Business starters in per cent



Source: KfW Entrepreneurship Monitor.

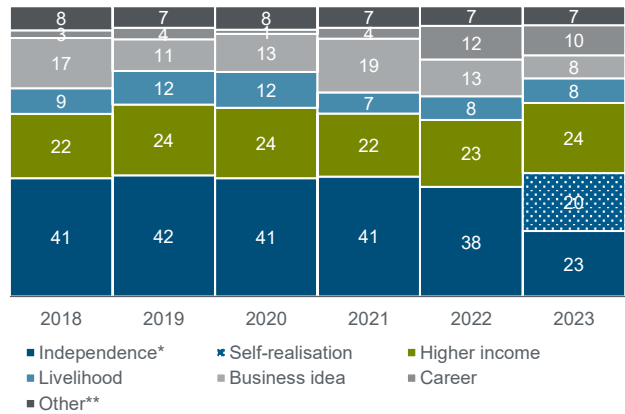
Despite the persistently high absorption capacity of the labour market, the share of businesses started for lack of better income alternatives had risen sharply to 23% in 2022 and remained at this higher level in 2023 as well. (Figure 4, right). Lack of better income alternatives is often spontaneously associated with an employable person’s failure to find an income alternative in the labour market and resulting need to start their own business (‘necessity start-up’). But it may also mean that the person saw self-employment as the better income option despite such alternatives (‘best solution’). In fact, the latter interpretation has gained in importance, particularly in the last two years. Thus, the share of entrepreneurs who started a business for lack of better income alternatives but would generally give preference to self-employment over salaried employment irrespective of their current situation stood at 70% in the past two years (after 56% previously). That was the same level as for entrepreneurs who started a business to seize an opportunity.

A desire for independence and for self-realisation are the most common entrepreneurial motives. On a long-term average, these motives predominate in four of ten entrepreneurs overall (Figure 5). When viewed separately, we see that business starters give independence slightly more importance than self-realisation, at least in the year 2023. For just under one third of business starters, however, the main motive is to earn a higher or additional income or to earn a livelihood. Seizing a business opportunity is a motive for 8% of entrepreneurs, the lowest share over time so far. In 2022, the start-up motive of ‘better job or career prospects’ for the first time was given significantly higher importance than in the past, when this aspect hardly played a role. The career motive remained strong at 10% in 2023 as well. The strengthened career advancement motive is consistent with the assumption

that a larger share of business starters regard self-employment as the best income alternative for them. The motives of ending/avoiding unemployment and securing the continuity of an existing business combined represent the remaining 7%.

Figure 5: Building a career has gained in importance as a motive for business starters

Business starters in per cent



* Up to 2022, independence also included the aspect of self-realisation. ** Other motives comprise avoiding unemployment and securing the continuity of existing businesses.

Source: KfW Entrepreneurship Monitor.

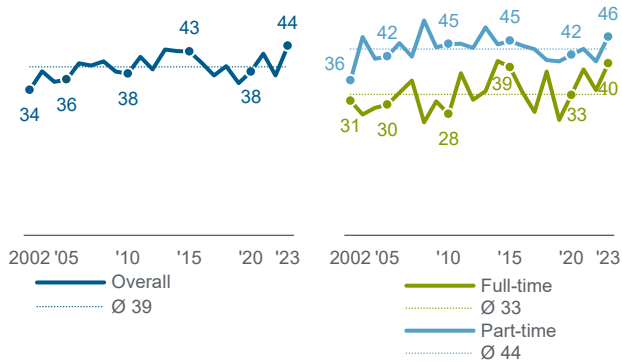
Percentage of female entrepreneurs jumped to highest ever level

In 2023 the percentage of female business starters was 44%, just above the previous high of 43% recorded in the years 2013–2015 (Figure 6). Given that 568,000 entrepreneurs started a business, in absolute numbers that was 251,000 female business founders in 2023. Broken down into full-time and part-time businesses, however, the new shares of 40 and 46% remained below their previous highs of 41 (2014) and 50% (2008). On a long-term average, women account for 39% of start-up activity. So, the last year was quite clearly above the average but remained within the range of fluctuation of ±5 percentage points. The long-term share of female business starters is on the same level as the long-term share of women among people who would generally prefer self-employment to salaried employment regardless of their current situation. The share of women preferring to start a business thus appears to determine their share in business plans realised. However, this would also mean that so long as preference for self-employment does not increase among women in the long term, the share of actual female business starters will not increase sustainably either. But in order to encourage women more broadly to become entrepreneurs, gender clichés in school and education must be cast aside and successful role

models made more visible, which requires patience and stamina.⁷

Figure 6: Share of female business starters continues to oscillate around the long-term average

Female business starters in per cent



Source: KfW Entrepreneurship Monitor.

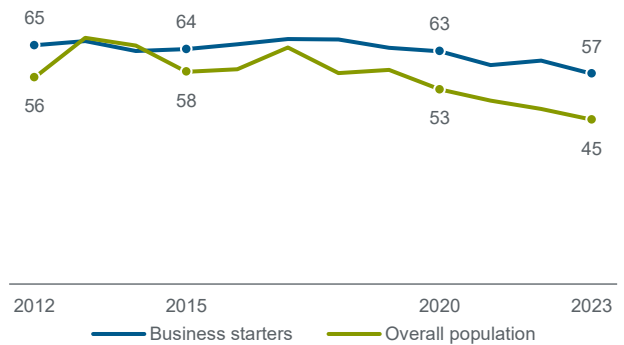
The positive influence of role models on entrepreneurial activity is discussed in the scientific literature as the ‘entrepreneurial role model effect’ (ERM effect).⁸ Having family members or friends who are self-employed positively impacts on people’s desire to start a business. This is also demonstrated by multivariate analyses based on the KfW Entrepreneurship Monitor, particularly for full-time start-ups.⁹ This positive effect typically also manifests itself in the fact that the share of self-employed family members or friends is greater among business founders (before or during the founding process) than in the overall population. This is also true of most start-up cohorts since 2012 (Figure 7). Up until 2017, the average share among female business starters was on a level of 65% (and even a moderately higher 73% for aspiring female business founders), while it was 62% among the overall population aged 18–64 years, so the percentage difference was rather small. But a gap has been opening up since 2018, meaning that the percentage differences are growing, particularly because the share of people with self-employed family members or friends is decreasing more noticeably. This probably reflects the falling share of self-employed people. Among business founders, however, that share has been decreasing less sharply, so that the ERM effect on the realisation of a business plan has evidently increased in recent years.

Despite the demonstrated ERM effect, it can be controversially debated whether a self-employed family member or friend should be automatically regarded as an ideal or role model. Besides, role models can also be found outside a person’s own informal circle. In recent years, 42% of male and female business

starters had a self-employed or entrepreneurially active person as a role model. That was well below the 57% of the share among family and friends. The overlap here is in fact rather small. Thus, only 30% of female business starters in total have both self-employed family members or friends and entrepreneurially active ideals but nine in ten of these are identical.

Figure 7: Business starters are more likely than average to have had informal contact with self-employed persons before starting their business

Share of business starters with self-employed family members or friends, in per cent

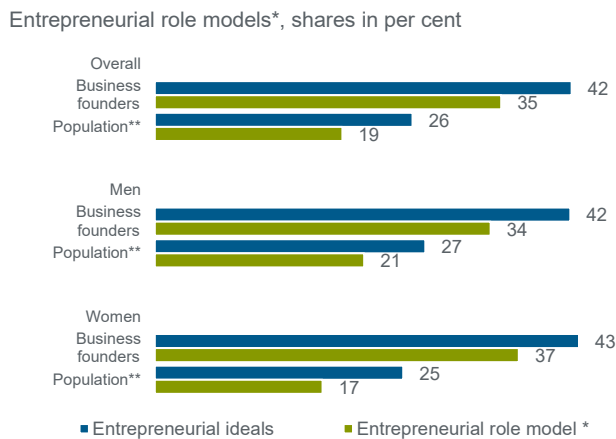


Source: KfW Entrepreneurship Monitor.

Many business starters see a personal similarity to their role models, that is, they are of the same gender, have a similar social background or similar career history, etc. (83%, of which 39% very similar and 44% rather similar). Thus, the role models largely appear to be figures with whom the business founders can identify and who are hence very personal role models. While the percentages of those with friends/family members and role models hardly differ between male and female business starters, female business starters are slightly more likely to see a similarity to their role models (86%) than male starters (81%). Role models thus appear to be more important for female business starters. A comparison among the population corroborates this assumption. Overall, 26% of the population (aged 18–64 years) have an entrepreneurially active role model, and for 73% that person is similar to them. Thus, in total, one in five people have an entrepreneurial role model (19%, Figure 8). That is slightly more frequent among men than women (21% vs. 17%). At the same time, female business founders are more likely to have an entrepreneurial role model than male founders (37% vs. 34%). The positive effect of entrepreneurial role models on the realisation of a business plan thus appears to be stronger on women than men. The conversion to start-up intensities shows this even more clearly.

The current number of 568,000 business starters represents a start-up intensity of 110 business start-ups per 10,000 persons aged 18 to 64 years in 2023. Start-up intensity is higher overall for men at 123 than for women at 98. The picture changes with respect to entrepreneurial role models. Among people with entrepreneurial role models, start-up intensity is 204 overall, so 1.9 times higher. However, start-up intensity increases to only 198 among men (1.6x) but to 212 among women, up by a factor of 2.2 from the baseline of 98. Improved visibility of successful female entrepreneurs could thus significantly increase female start-up activity.

Figure 8: Female business starters have more entrepreneurial role models



Is or was there (before or while you were planning to start your own business) a self-employed or entrepreneurially active person who is a role model for you? Is or was that person similar to you, in other words, has/had the same gender, a similar social background or similar career history?

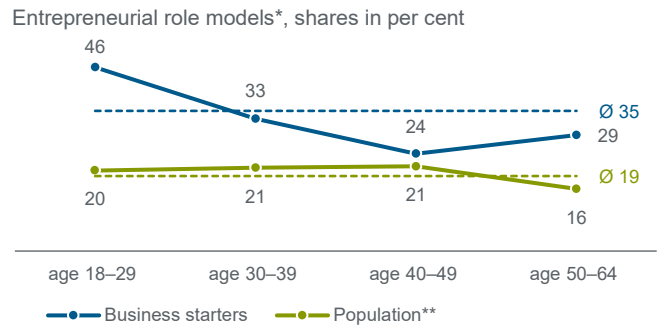
* Role models: Entrepreneurial ideals with sociodemographic similarity. ** Aged 18 to 64 years.

Source: KfW Entrepreneurship Monitor.

Having entrepreneurial role models hardly appears to be a matter of age in the population. The relevant percentages in the age groups up to 49 years sit at 20 to 21%, well in line with the 19% average for the population (Figure 9). The percentage drops to 16% only from the 50+ age group upwards. The picture is different for both male and female business starters. In the 18–29-year age group, significantly more people have an entrepreneurial role model prior to start-up than business starters in their 30s (33%), 40s (24%) and aged 50+ (29%). This, in turn, suggests that the ERM effect traces a U-shaped pattern over age. In younger years, entrepreneurial role models are most likely to increase the probability of a start-up and the effect decreases before rising again. This is at least suggested by the comparatively large percentage difference in the age group of 50+. The U-shaped pattern of the effect is observable for both men and

women. The effect is significantly stronger on women of all age groups than men. Start-up activity of young women, in particular, thus appears to be activated by entrepreneurial role models.

Figure 9: Positive effect of entrepreneurial role models is strongest in younger years



Is or was there (before or while you were planning to start your own business) a self-employed or entrepreneurially active person who is a role model for you? Is or was that person similar to you, in other words, has/had the same gender, a similar social background or similar career history?

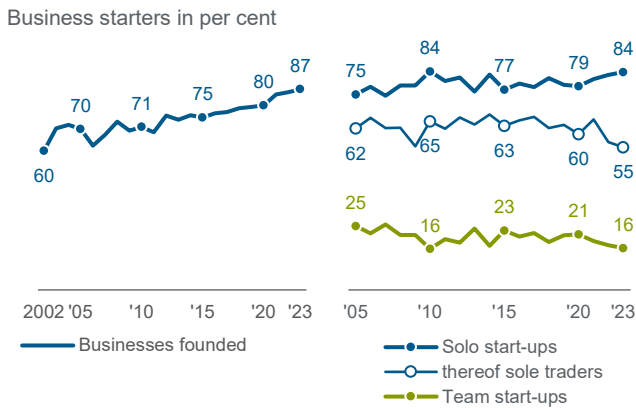
* Role models: Entrepreneurial ideals with sociodemographic similarity. ** Aged 18 to 64 years.

Source: KfW Entrepreneurship Monitor.

Share of businesses founded from the ground up continues to grow

Most new businesses starts are foundings from the ground up. That means these enterprises are new in legal and organisational terms. In general, however, a business start can also be organised by way of a takeover of or participation in an existing firm. These approaches have become increasingly less common, however. Since the mid-2010s there is a trend in business starts to build it from the ground up. The share of businesses founded from the ground up increased again moderately in 2023, recording the eighth consecutive high to reach 87% (Figure 10). For SMEs grappling with succession worries, the fact that takeovers and participations make up only a small portion of entrepreneurial activity is a structural problem. Demographic ageing is increasingly exacerbating the problem because a growing number of business owners want to retire while at the same time the number of people who are interested in founding a business is falling.¹⁰

Figure 10: Newly founded businesses on an all-time high, with more solo start-ups but more often with employees



Source: KfW Entrepreneurship Monitor.

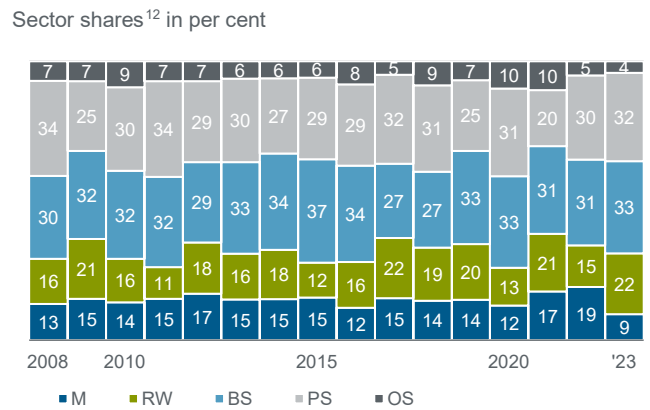
Most businesses are founded not just from the ground up but are started by a single founder. Since 2005, the share of these solo start-ups always hovered between 75 and 85%. In 2023 it reached 84%, which was again at the top of the previous range. The percentage of team start-ups with two or more founders thus stood at 16%. Among the solo start-ups, for their part, a large proportion are sole traders, meaning they have no employees.¹¹ A mild downward trend in the share of businesses founded by sole traders has been observable for some years now. In 2022, their share fell below the 60-per cent mark for the first time. At 55%, businesses started by sole traders were just barely in the majority in 2023. Conversely, the share of solo business founders with employees continued to rise. The already high share of 26% from 2022 rose by another 3 percentage points last year. The proportion of 29% is higher than ever before. The share of employers among start-ups also increased further from 34% to 39% overall in 2023.

Sectoral structure almost carved in stone

Despite the structural change in start-up activity, for example in terms of motivation or size, the sectoral structure remains astonishingly stable. Over the long-term average, business starters are active 68% in services, 17% in trade and 14% in producing industries. Some variations do occur in individual years, including short-term trends, but megatrends that would lead to a lasting change in the sectoral structure are not discernible. The businesses started in 2023 align with this picture. The majority of 69% was in services, 22% in trade and 9% in the producing sector (Figure 11). The share of services was thus very close to the long-term average, and the share of trade slightly above it. Accordingly, the share of the producing sector was well below its long-term average, after entrepre-

neurial activity there was much more active in the two preceding years. In the services sector, personal and business services have similarly strong representation, at 32 and 33%. The former have a strong focus on retail customers (avg. 81%, 2017–2023), while the latter are heavily focused on commercial customers (avg. 62%). Overall, in 2023 one third of business starters focused on retail customers (avg. 36%) and two thirds on commercial customers (avg. 64%).

Figure 11: A good two thirds of business starters are services providers



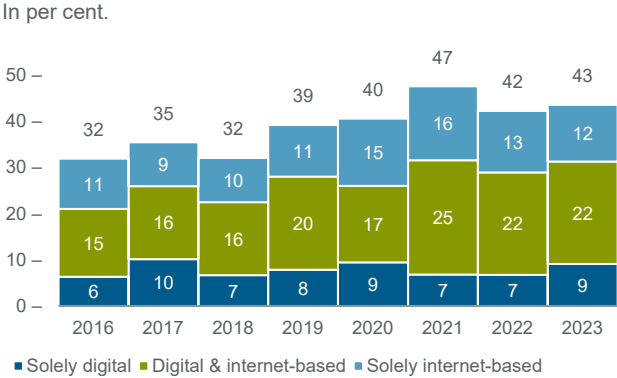
M: Manufacturing, including construction and primary production; RW: Retail/Wholesale; BS: Business services; PS: Personal services; OS: Other services.

Source: KfW Entrepreneurship Monitor.

Importance of digital and Internet-based start-ups has stagnated

In recent years, digital technologies and the internet have played an increasingly important role in start-up activity. Thus, the share of businesses starters that required customers to use digital technologies to be able to use their products and services has risen from one fifth to just under one third since 2016 (Figure 12). At the same time, the share of business starters that sees the internet as a core element of their business also grew from one quarter to more than one third of start-ups. The extra impetus which digital and internet-based business models still experienced after the outbreak of the COVID-19 crisis in 2021 was hence only short-lived. Nonetheless, overall, a good four in ten start-ups last year were digital or internet-based.

Figure 12: A good four in ten start-ups last year were digital or internet-based



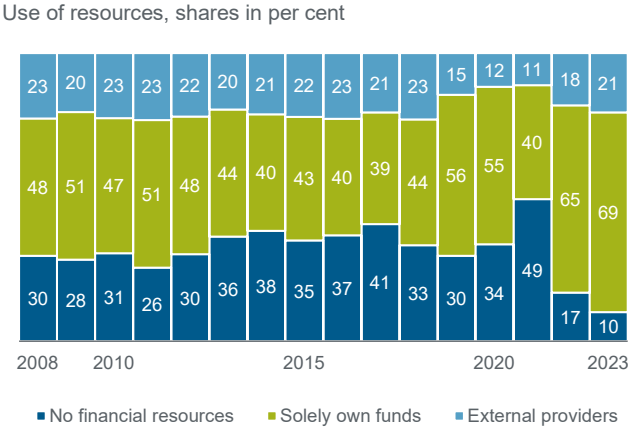
Digital: Is your product / service a digital offering, that is, do your customers have to use digital technologies to be able to use it?
 internet-based: Is the internet a core element of your business?¹³

Source: KfW Entrepreneurship Monitor.

Own financial resources are the mainstay of start-up funding

The structure of funds used to start a new business has hardly changed over many years. In the 2008–2020 period, roughly one fifth of business starters set up their business with no money (but with private materials and equipment, for example) and nearly half used only funds of their own, while one third drew on third-party finance. In 2021, this structure changed noticeably (Figure 13). For the first time, nearly half of business starters used no financial resources and only one in ten start-ups employed funds from third parties. In 2022, there was another trend reversal. External third parties were more common providers of funds and almost two thirds of business starters used nothing but funds of their own – more than ever before. This ‘new’ structure hardened in 2023. Six in ten business starters (62%) used own funds exclusively and three in ten made use of external funds from third parties (28%). Only one in ten business starters was able to start without any funding at all. This may have been impacted by variations in motives and the use of employees.

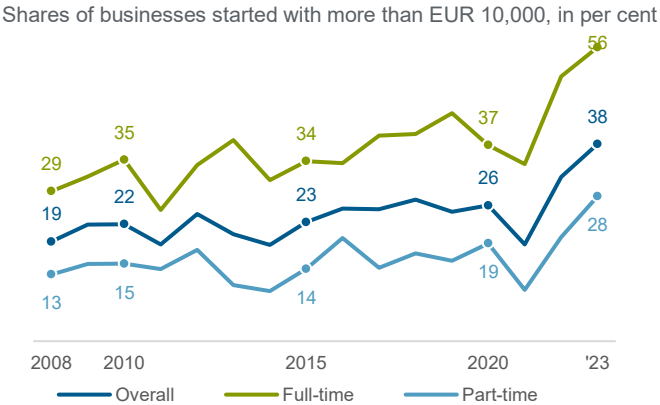
Figure 13: Business starters rely on own resources



Source: KfW Entrepreneurship Monitor.

New businesses are usually founded using up to EUR 10,000 in funds. Over the long-term average, a good three quarters (77%) have managed with not more than EUR 10,000. But this share is decreasing. It has trended downward from a good 80% in 2008 to 60% in 2023. In other words, 40% of start-ups used more than EUR 10,000 last year (Figure 14). Start-ups are obviously becoming more capital-intensive. This trend is emerging in both full-time and part-time start-ups, if on different levels. In full-time start-ups, the share of businesses launched with funds of more than EUR 10,000 increased from just under 30% in 2008 to 55% in 2023, in part-time start-ups from a good 10% to 30%.

Figure 14: Start-ups have become more capital-intensive



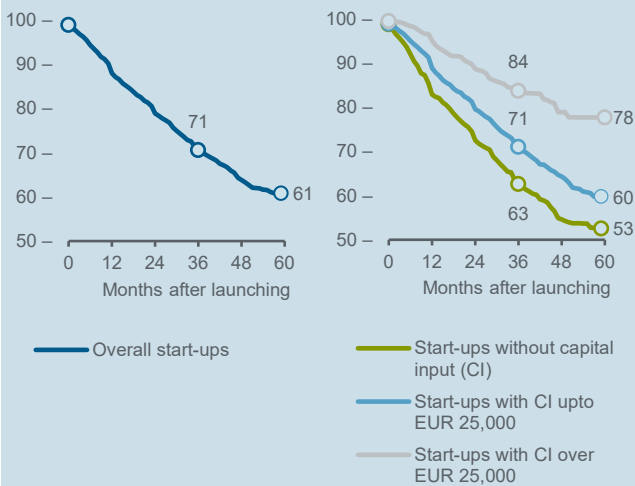
Source: KfW Entrepreneurship Monitor.

Start-up discontinuation rates

The survival rate of business starters is derived from the data of the KfW Entrepreneurship Monitor, with the rule of thumb being that around one third of business starters have closed their business again within three financial years. Around 60% of business starters are still in business 60 months after launching (Figure 15, left). The reasons for aborting are diverse. By far the largest proportion of business starters discontinue their venture in the first five years for personal reasons, not because of immediate financial stress (Figure 16). Examples of personal reasons include family pressures, illness, dissatisfaction with income achieved, or the emergence of a more attractive job alternative.⁷ Besides, many start-ups are planned only for the short term to begin with, particularly part-time businesses.

Figure 15: The more capital a business starter has, the longer it survives

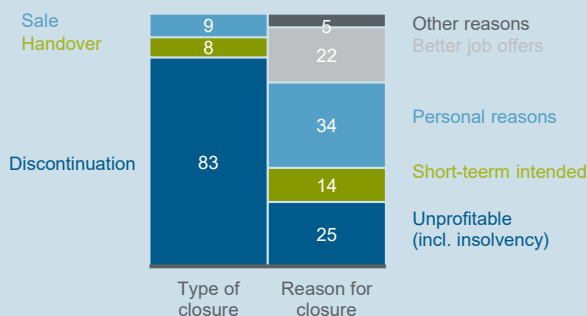
Survival rates of start-ups in per cent (Kaplan–Meier survival function)



Source: KfW Entrepreneurship Monitor.

Figure 16: Start-ups are usually discontinued early for personal reasons

Shares in per cent of all closures in the first five years



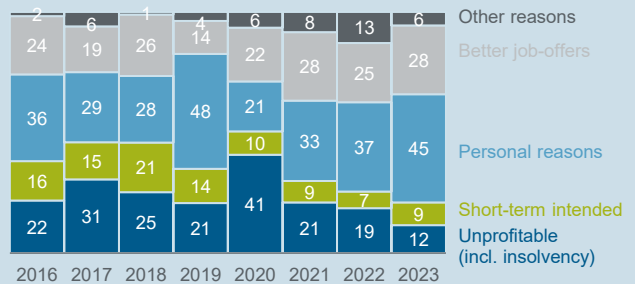
Source: KfW Entrepreneurship Monitor.

Only a small fraction of start-ups ends 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 employ larger sums in excess of EUR 25,000 (regardless of whether these are their own or borrowed funds) have significantly higher survival rates (Figure 15). Discontinuation rates are particularly high among business starters who start off without any financial capital at all. This has to do with the fact that such start-ups are more likely to be intended as a source of temporary income, whereas more highly capitalised businesses are planned for the longer term.⁸

The reasons for closing newly started businesses have changed at structural level since the outbreak of the COVID-19 pandemic. At first, the rate at which businesses were closed because they were unprofitable doubled in 2020. Loss of turnover as a result of pandemic restrictions was the main factor. After that, the rate returned to pre-crisis levels. In 2023 it dropped to 12%, the lowest level recorded. By contrast, closures for personal reasons or because better job offers were available in the labour market became increasingly important again after the COVID-19 crisis. For around half the self-employed people who ended their young start-up in 2023, personal reasons were decisive. The last time personal circumstances dominated as reasons for aborting was 2019.

Figure 17: In 2023, lack of profitability played less of a role in closures

Shares in per cent of all closures of businesses not more than five years old in each year



Source: KfW Entrepreneurship Monitor.

Bureaucracy most common start-up constraint, financial risk highest start-up hurdle

Entrepreneurs, meaning all male and female business starters and start-up planners of a particular year (who either abandoned their plans or wish to realise them in the next 12 months), are typically faced with start-up constraints. These pose a challenge for planning and running a business after it has been founded. Start-up constraints can be so formidable that they become barriers and cause plans to be abandoned. For years, entrepreneurs have viewed bureaucracy as the most common constraint. In 2023, bureaucratic hurdles and delays were a problem for 56% of entrepreneurs (Figure 18).

Viewed individually, the expected pattern typically emerges, which shows that constraints are most common for nascent entrepreneurs who have abandoned their plans, the second most frequent barriers for planners who are still active and the least common barriers for those who were successful in realising their business plan. Thus, analysing successful entrepreneurs for start-up constraints would merely reveal

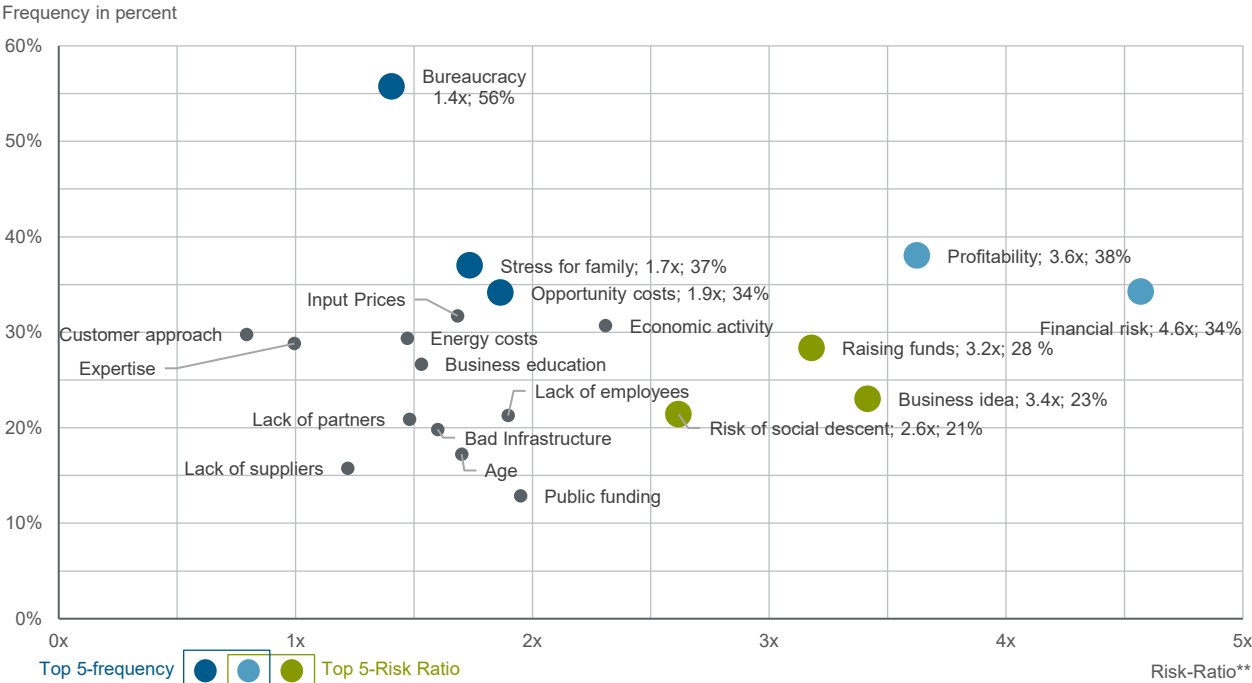
the tip of an iceberg since they were, after all, probably successful precisely because they had fewer problems.

The top five most frequent constraints to start-up activity mentioned by entrepreneurs after bureaucracy, the most frequent constraint by far, are concerns over the potential profitability of a business at 38%, concerns over excessive stress for the relationship or family at 37%, concerns over an unacceptable financial risk at 34% and uncertainty whether better job or career opportunities are achievable in salaried employment, also at 34%.

The group of entrepreneurs is mainly composed of start-up planners who have abandoned their plans or wish to realise them in the next 12 months. On average for 2012–2023, they represented 84% of the entrepreneurs of a year. Accordingly, the remaining 16% are business starters who have realised their plans. Each year, a good four in ten nascent business starters abandon their plans (36% of entrepreneurs). These ‘prevented’ start-ups are roughly twice as common as realised ones.

Figure 18: Frequency and risk impact of start-up constraints

Frequency of start-up constraints among entrepreneurs* in per cent and risk ratio of discontinued plans in response to start-up constraints



* Entrepreneurs are all male and female business starters and start-up planners of a particular year who abandoned their plans or wish to realise them in the next 12 months. ** The risk ratio describes the risk ratio of a plan being abandoned when there is a start-up constraint in relation to when there is no start-up constraint.

Source: KfW Entrepreneurship Monitor.

Start-up constraints may cause start-up planners to give up their start-up project. However, the various constraints lead to discontinuation rates of different levels. This risk ratio can be calculated for each start-up constraint. It is the rate of plan discontinuers among entrepreneurs when a particular constraint exists divided by the rate of discontinuers when this constraint does not exist. The higher the specific risk ratio, the greater the risk of a plan being discontinued if the constraint emerges; in other words, the constraint then acts more strongly as a start-up barrier.

In the past, the highest risk ratio was associated with concerns over unacceptable financial risk. Where such concerns existed, the likelihood of discontinuation on average tripled. Financial risk topped the list in 2023 as well, even more clearly than before (Figure 18). Where concerns over unacceptable financial risk existed, the likelihood of discontinuation among entrepreneurs more than quadrupled (4.6x). The highest drivers of risk of a start-up plan being discontinued, after financial risk, were concerns over the profitability of the business with a risk ratio of 3.6x, concerns that the business idea was not fully thought through at 3.4x, difficulties raising funds at 3.2x, and fear of social descent in case of failure at 2.6x.

Concerns over the long-term profitability and financial risk were among the top five start-up constraints in terms of both frequency and risk ratio in 2023. As such, these two start-up constraints were among the most problematic for nascent entrepreneurs.

Start-up constraints are linked to the attributes of the start-up projects but also to the attributes of the entrepreneurs themselves. Financial literacy is a particularly important determinant. The better entrepreneurs assess their financial literacy, the less likely they are to encounter major start-up constraints such as concerns over financial risk, difficulty raising funds, but also bureaucratic hurdles and delays. Whereas the correlation is obvious in the former, it is not immediately apparent why better financial literacy reduces bureaucratic hurdles and delays. The explanation could be that bureaucracy as a start-up constraint involves many tax issues.¹⁶ Thus, improved basic business education can actively address start-up constraints.

Table 1: Fewer red marks for Germany as a start-up location

Average scores given by entrepreneurs of different start-up cohorts

| | 2015 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|-------------------------------------|------|-----------|------|--------------|------|----------------|------|------|
| Free market access | 2.5 | 2.5 | 2.4 | 2.2 | 2.3 | 2.4 | 2.6 | 2.4 |
| Advisory services | 2.6 | 2.7 | 2.8 | 2.7 | 2.6 | 2.5 | 3.2 | 2.8 |
| Protection of intellectual property | 2.9 | 2.9 | 2.8 | 2.7 | 3.1 | 2.9 | 3.1 | 3.1 |
| Business founder image | 2.4 | 2.5 | 2.5 | 2.4 | 3.1 | 2.9 | 3.0 | 3.1 |
| Infrastructure quality | 2.3 | 2.7 | 2.6 | 2.7 | 3.2 | 3.1 | 3.2 | 3.1 |
| Availability of promotional loans | 3.3 | 3.4 | 3.4 | 3.1 | 3.3 | 3.2 | 3.9 | 3.4 |
| Credit availability | 3.7 | 3.6 | 3.7 | 3.7 | 3.7 | 3.8 | 4.5 | 3.7 |
| Availability of venture capital | 3.3 | 3.4 | 3.3 | 3.1 | 4.0 | 3.8 | 3.8 | 3.7 |
| Policymakers' commitment* | 3.6 | 3.9 | 3.8 | 3.4 | 4.5 | 3.9 | 4.5 | 4.0 |
| Statutory provisions | 3.2 | 3.3 | 3.1 | 3.0 | 4.3 | 3.9 | 4.4 | 4.0 |
| Tax burden | 3.6 | 3.8 | 3.6 | 3.5 | 4.4 | 4.3 | 4.6 | 4.2 |
| Administrative burden | 3.5 | 3.7 | 3.6 | 3.3 | 4.6 | 4.5 | 4.9 | 4.5 |
| Educational system** | 3.9 | 4.2 | 3.9 | 3.9 | 4.5 | 4.5 | 5.0 | 4.8 |
| Scale of marks: | 1.0 | Very good | 3.0 | Satisfactory | 5.0 | Poor | | |
| | 2.0 | Good | 4.0 | Sufficient | 6.0 | Unsatisfactory | | |

* For the concerns of business founders, self-employed persons and entrepreneurs. **With respect to imparting entrepreneurial knowledge and skills.

Source: Years 2015–2019 follow-up interviews to the KfW Entrepreneurship Monitor¹⁷, years 2020–2023 snap polls on Start-up platform (Box 1), unweighted score given by respondents. The marks were given by the entrepreneurs of the prior year in the spring of each following year.

Box 2: The Start-up platform (Gründerplattform)

In cooperation with the key actors of entrepreneurial promotion, the German Federal Ministry for Economic Affairs and Energy, KfW and BusinessPilot¹⁸ developed the start-up platform ‘Gründerplattform’ as a digital working environment for entrepreneurs. The platform is designed to make it easier to start a business in Germany. It has been accessible since April 2018. Aspiring entrepreneurs can use [Gründerplattform.de](https://www.gruenderplattform.de) free of charge to further develop initial ideas on a business model, draw up a business plan and contact potential support and funding partners. Tools from modern entrepreneurial advice and entrepreneurship teaching provide help in taking the next steps towards establishing a new business. An important aim of the platform is to involve start-up promoters with their offerings. The platform bundles the support expertise available in Germany and shows support offers exactly at the stages where they provide specific help in the start-up process.

Business founders are giving Germany better marks as a start-up location again

Up until the outbreak of the COVID-19 crisis, the average scores given to Germany as a start-up location painted a steady picture (Table 1). Then in 2020, however, business founders held much more critical views of the overall environment, particularly where legal regulations and administrative burden were concerned. Business founders of the following year 2021 gave more positive marks again. A similar pattern has now emerged for the last two years as well. As a result of the energy crisis triggered by Russia’s escalating war against Ukraine and the high inflation rate, business founders of the year 2022 held a more critical view of Germany as a location again. The interest rate reversal that was swiftly adopted in response to inflation led to a significantly lower score for credit accessibility, for example.

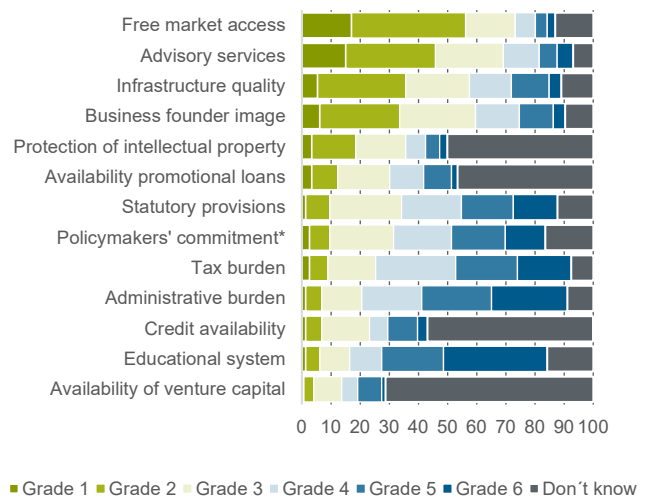
Last year, we carried out another snap poll among the users of the Gründerplattform who founded a business in 2023 (see Box 2). The marks they gave removed some of the red stains from the scoring average. However, for five of the 13 location factors – policymakers’ commitment, legal regulations, tax burden, administrative burden and educational system – the scoring average remained at 4 (sufficient) to 5 (poor). These location factors obviously create the greatest challenges for business founders’ activities and must urgently be improved. More than half the business

founders even gave scores of 5 or 6 for the last two factors (Figure 19). Considering the limited entrepreneurial activity, Germany cannot afford such scores if it wants to be a location for start-ups. By contrast, around half of business founders gave marks of 1 or 2 for availability of advisory services and free market access.

When assessing how entrepreneurs rate the enabling environment, it must be taken into account that some factors are more difficult for them to judge than others. For example, a large percentage of entrepreneurs does not need loans because they can fund their start-up activities with resources of their own. A much smaller proportion consider taking up venture capital. This is also reflected in the probabilities of response. Thus, more than two thirds of business founders abstained from assessing the availability of venture capital (71%, Figure 19).

Figure 19: Stark polarisation in assessments of location factors

Assessments of location factors by business founders of the year 2023, shares in per cent.



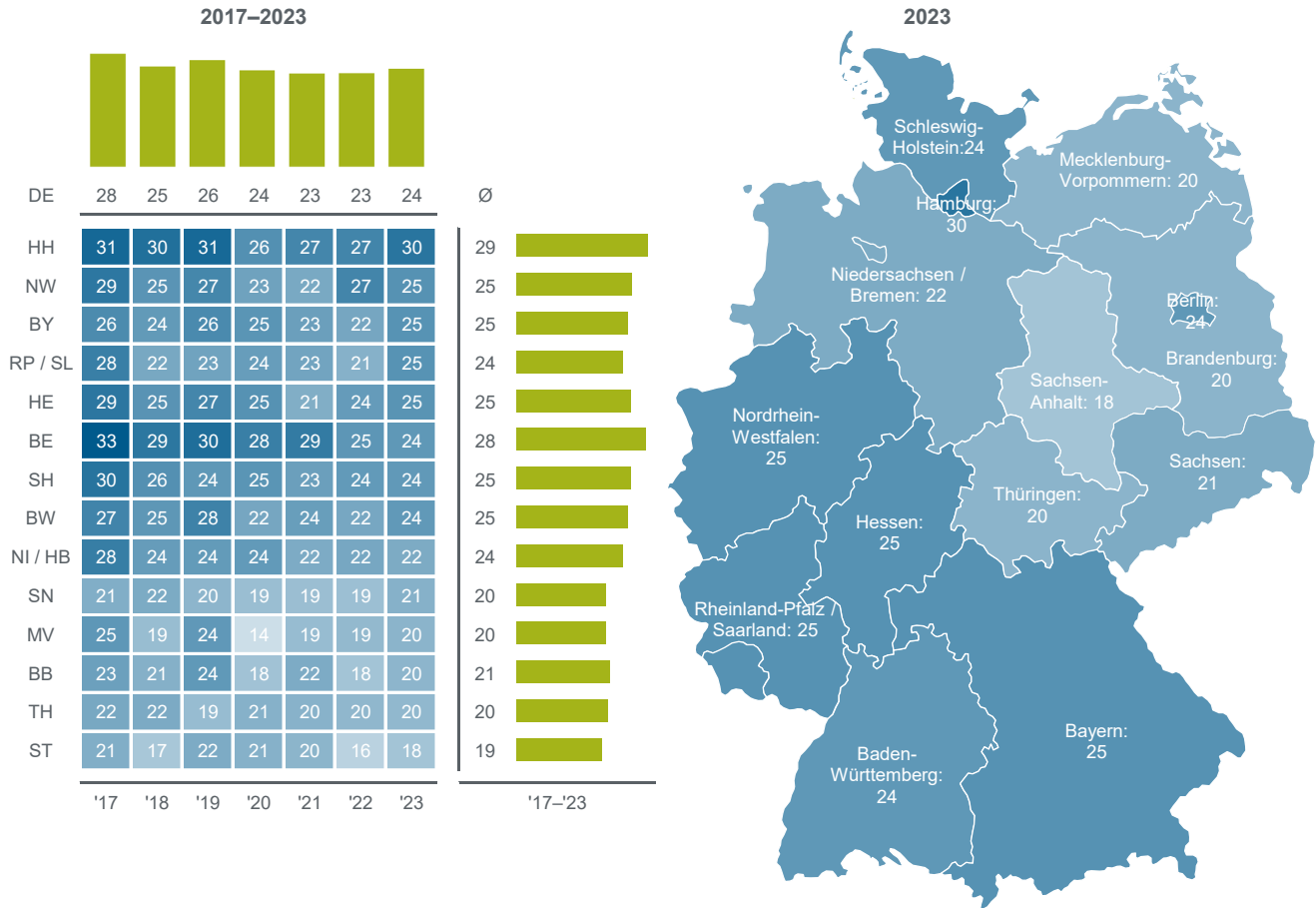
* For the concerns of business founders, self-employed persons and entrepreneurs. **With respect to imparting entrepreneurial knowledge and skills.

Source: Snap poll on Gründerplattform (Box 2), unweighted assessments of respondents.

Very often, credit availability (57%), protection of intellectual property (50%) and availability of promotional loans (47%) were not rated either. The remaining location factors each received very high scores of 80–90%.

Figure 20: Workers in Hamburg are most likely to prefer self-employment to salaried employment

Irrespective of your current personal situation, if you could choose between different types of jobs, would you prefer to be an employee or self-employed? People who prefer self-employment as a percentage of the population aged 18 to 67 years.



Abbreviations for Germany and its federal states in accordance with the Federal Statistical Office: DE: Germany; HH: Free and Hanseatic City of Hamburg; NW: North Rhine-Westphalia; BY: Bavaria; RP / SL: Rhineland-Palatinate / Saarland; HE: Hessen; BE: Berlin; SH: Schleswig-Holstein; BW: Baden-Württemberg; NI / HB: Lower Saxony / Bremen; SN: Saxony; MV: Mecklenburg-Western Pomerania; BB: Brandenburg; TH: Thuringia; ST: Saxony-Anhalt.¹⁹

Source: KfW Entrepreneurship Monitor.

Nevertheless, there are likely to have been business founders who assessed the location factors not on the basis of their own experience but on information such as media reports. The question is what effect this had on the scores given. It appears to have been a positive one. That is because when the scores given for location factors are weighted with the importance which business founders assign them for their business activity, the average scores tend to worsen. Assessments based on a 'gut feeling' therefore cause the average score to appear better than it probably is.

There is little preference for self-employment in Germany, although people in Hamburg top the list

The critical assessment of location factors for start-ups in Germany may potentially help to explain why the preference for self-employment remains in a trough in Germany. In 2023, a mere 24% of 18 to 67-year-olds would have opted for self-employment irrespective of

their current personal situation (Figure 20). Two decades ago, preference for self-employment was still twice as high.²⁰This development is influenced by overall economic trends. One of them is the longest labour market boom since unification, which began in 2006, and demographic ageing, which has accelerated. Preference for self-employment also differs by region because the economic and population structure in Germany differs substantially from one region to another.

Over the long-term, self-employment preferences are highest on average in the city-states of Hamburg (29%) and Berlin (28%). Preference for self-employment in Hamburg was slightly dampened in the 2020–2022 period but returned to the previous level of 30% in 2023. In Berlin, on the other hand, preference for self-employment decreased slightly, allowing Hamburg to take the lead overall. After Hamburg and Berlin,

preference for self-employment is strongest in the large western German states and lowest in Lower Saxony (including Bremen), especially as a result of the past three years.

Preference for self-employment is least common in the large eastern German states, with Saxony-Anhalt exhibiting the lowest preference both on a long-term average and in 2023. As preference for self-employment usually decreases with age, the older population structure in the large eastern German states has a negative effect. At the same time, however, even the younger population there is less likely to opt for self-employment. Only in Saxony and Mecklenburg-Western Pomerania does there appear to be a change happening in the younger generation. In these two federal states, preference for self-employment among people up to the age of 40 is just barely in line with the national average. Thus, other reasons must play a role besides demographics. Several percentage points can be explained by the lower share of people with entrepreneurial experience in the large eastern German states, for example. After all, people who are or have once been self-employed typically have a higher preference for self-employment. Moreover, different attitudes towards business and society are likely to be relevant, although most differences in mentality have vanished since unification and attitudes are converging.²¹

Security needs, bureaucracy and lack of capital prevent many from becoming their own bosses

Irrespective of their views in favour or against self-employment, many people cannot imagine being an entrepreneur at all, or refrain from forging any start-up plans even though they can in principle imagine starting a business. This is mainly due to the triple lock of security needs, red tape and lack of capital. Therefore, the top 5 arguments against self-employment (Figure 21), are concerns over:

1. unacceptably high financial risks (73%),
2. excessive administrative burdens (69%),
3. insufficient income security (64%),
4. inadequate social protection (62%) and
5. funding problems (60%).

Further concerns apply to job security, business skills and abilities, entrepreneurial self-awareness, the business idea, the workload, individual responsibility, fear of failure and social standing.²⁰

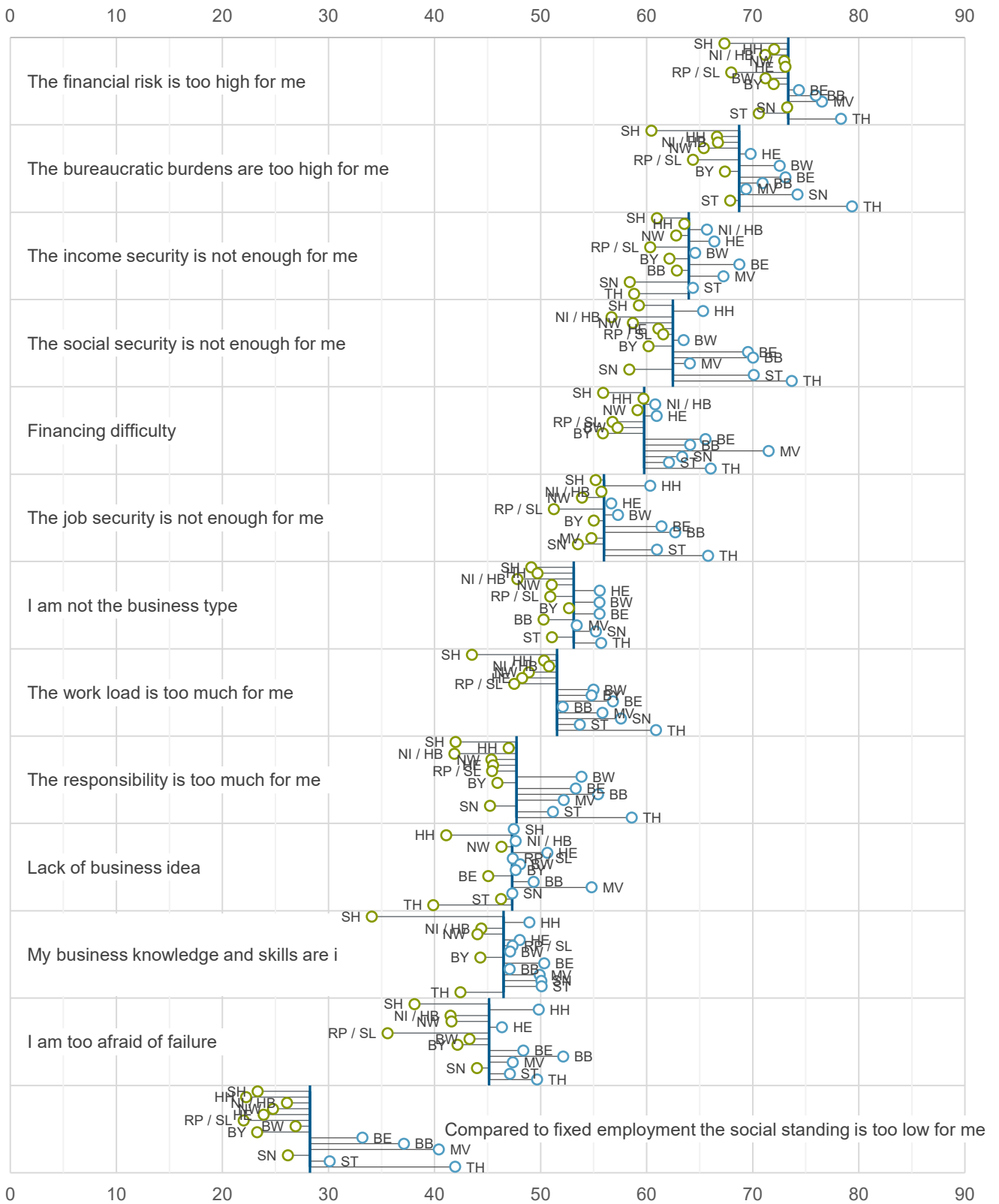
On the whole, the order in which arguments against self-employment are ranked is quite similar across the federal states. The frequencies of the respective arguments may, however, vary by 10–20 percentage points from one federal state to another. (Figure 21). Thus, the frequencies of arguments against self-employment in 2023 were generally

- **above the national average** in Thuringia, Mecklenburg-Western Pomerania, Berlin, Brandenburg and Saxony-Anhalt,
- **in line with the national average** in Baden-Württemberg, Hessen, Saxony and Hamburg, and
- **below the national average** in Bavaria, Lower Saxony (incl. Bremen), Rhineland-Palatinate (incl. Saarland) and Schleswig-Holstein.

Variations in the frequencies may also slightly alter the order of the main arguments. Concerns over unacceptably high financial risks and excessive administrative burdens are consistently among the three most common arguments against self-employment in all federal states. Concerns over insufficient income security round off the top three for Germany as a whole as well as in Schleswig-Holstein, Lower Saxony (incl. Bremen), North Rhine-Westphalia, Hessen, Baden-Württemberg and Bavaria. In Hamburg, Rhineland-Palatinate (incl. Saarland) Berlin, Brandenburg, Saxony-Anhalt and Thuringia, however, the third most common concern is inadequate social protection. Only in Mecklenburg-Western Pomerania and Saxony are funding problems among the three most common concerns.

Figure 21: Similar basic structure of arguments against self-employment in the federal states – although outliers can be seen for some arguments

Why can you not imagine [for those with no intention at all], or what is preventing you [for those ready in principle] going into self-employment? Percentage of the population aged 18 to 67 years without entrepreneurial experience or business plans.



Abbreviations of German states used by the Federal Statistical Office: HH: Free and Hanseatic City of Hamburg; NW: North Rhine-Westphalia; BY: Bavaria; RP / SL: Rhineland-Palatinate / Saarland; HE: Hessen; BE: Berlin; SH: Schleswig-Holstein; BW: Baden-Württemberg; NI / HB: Lower Saxony / Bremen; SN: Saxony; MV: Mecklenburg-Western Pomerania; BB: Brandenburg; TH: Thuringia; ST: Saxony-Anhalt.¹⁹

Source: KfW Entrepreneurship Monitor.

Box 3: Further analyses of entrepreneurial activity and access to data of the KfW Entrepreneurship Monitor

The Appendix of Tables and Methods to the KfW Entrepreneurship Monitor along with further information and publications from KfW Research on start-up activity in Germany can be found on our dedicated page [‘Innovations and Start-ups’](#).

The KfW Entrepreneurship Monitor is a scientific data record compiled for the purpose of economic analysis of entrepreneurial activity in Germany. It is available to external researchers for empirical research work subject to certain access criteria ([more information, German only](#)).

- ¹ Metzger, G. (2023), [Entrepreneurial activity in Germany: between skills shortages and Covid blues](#), KfW Entrepreneurship Monitor 2023, KfW Research.
- ² Metzger, G. (2020), [‘Gründungsgeist’ bei Jüngeren gestiegen – Rücksetzer durch Corona-Krise absehbar](#) (‘Entrepreneurial spirit’ of young people has grown – setback from coronavirus crisis is foreseeable – in German only), Focus on Economics No. 307, KfW Research.
- ³ ‘Nascent entrepreneurs’ are persons who are in the process of starting a business, meaning they have start-up plans. Information on start-up plans has been collected in the KfW Entrepreneurship Monitor since the year 2008. A very steady pattern has emerged since the year 2012: Around 47% of annual start-up plans are in the brainstorming phase, 29% in the phase of conceptual review or feasibility assessment, and 24% in the implementation phase with initial organisational stages.
- ⁴ The planning rate is many times higher than the start-up rate. That means many start-up plans are never realised. On average for the years 2016–2023, 48% of nascent entrepreneurs expected to start their business activity within 12 months. The more advanced they are in their start-up planning, the higher this share: 42% in the brainstorming phase, 54% in the design phase and in 77% the implementation phase.
- ⁵ Metzger, G. and Ullrich K. (2013): [KfW Start-up Monitor 2013, Start-up activity hits rock bottom – no revival in sight](#), KfW Research.
- ⁶ See page 257 Table 7.2 Eintritte und Bestand von Teilnehmenden in ausgewählten arbeitsmarktpolitischen Instrumenten (*Entries and existing participants in selected labour-market policy instruments*) – SGB III in Statistics of the Federal Employment Agency, [Berichte: Blickpunkt Arbeitsmarkt – Monatsbericht zum Arbeits- und Ausbildungsmarkt \(Reports: Focus on the labour market – monthly report on the employment and training market – our title translation, in German\)](#), Nuremberg, December 2023.
- ⁷ Lo, V., Metzger, G. and Viète, S. (2022), [Female Entrepreneurship – Mobilisierung von Gründerinnen ist wirtschaftliche Chance und gesellschaftliche Aufgabe](#) (Female entrepreneurship – Mobilising female entrepreneurship is a societal task and an economic opportunity – in German only), KfW Research.
- ⁸ For an overview see Abbasianchavari, A. and Moritz, A. (2021), [The impact of role models on entrepreneurial intentions and behavior - a review of the literature](#). Management Review Quarterly 71, p. 1–40.
- ⁹ For more on the influence of different personal and project characteristics on the realisation of business start-ups see Metzger, (2023), [KfW Entrepreneurship Monitor 2023, Appendix of Tables and Methods](#), KfW Research, page 7.
- ¹⁰ Schwartz, M. (2023), [Status report on SME succession 2023: Despite successor shortage, three quarters of successions will be sorted by the end of 2024](#), Focus on Economics No. 450, KfW Research.
- ¹¹ The Federal Statistical Office defines them as follows: [‘Solo self-employed are self-employed persons without staff, also referred to as own-account employed.’](#)
- ¹² Start-ups were allocated to sectors on the basis of the descriptions of start-up projects in accordance with the ‘Classification of Economic Activities’, Edition 2008 of the German Federal Statistical Office.
- ¹³ 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.
- ¹⁴ For more on the influence of different personal and project characteristics on the survival rates of business start-ups see Metzger, G. (2023), [KfW Entrepreneurship Monitor 2023, Appendix of Tables and Methods](#), KfW Research, page 24.
- ¹⁵ See also Egelin et al. (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).
- ¹⁶ Leifels, A. (2017), [Existenzgründer und Bürokratie: für jeden Dritten eine Schwierigkeit, aber selten ein Abbruchgrund](#) (Entrepreneurship and red tape: a challenge for one in three start-ups but rarely a reason to give up), Focus on Economics No. 175, KfW Research (in German).
- ¹⁷ In the years 2015–2019 a follow-up interview was conducted for every main survey of the KfW Entrepreneurship Monitor in the spring of the following year. In these follow-up interviews, all start-up entrepreneurs who had been identified in the respective main survey and had given their consent to a follow-up interview were contacted again with a handful of more detailed questions. The results of the follow-up interviews are not representative because of the way the survey was designed, but they do paint an accurate picture of the prevailing sentiment.
- ¹⁸ BusinessPilot is a joint venture between EVEREST, a Hamburg-based project developer for digital platforms (see [everest-x.de](#)), and the Berlin-based software developer individee. BusinessPilot is in charge of content and technical development as well as the operation of Gründerplattform. Snap polls have been conducted among the users of Gründerplattform each spring since the year 2020. Around 500 self-employed people and start-up planners have taken part in each of the online surveys in the past years. The results of the flash polls are not representative because of the way the survey was designed, but they do paint an accurate picture of the prevailing sentiment. We are very grateful to the team at Gründerplattform for facilitating and implementing the snap poll.

¹⁹Federal Statistical Office, [Abbreviations for Germany and its federal states](#).

²⁰ Metzger, G. (2024), [Wunsch nach Selbstständigkeit verharrt auf niedrigem Niveau; Sicherheitsbedürfnis sticht Gründungsgeist aus](#) (Desire for self-employment remains on a low level; need for security outdoes entrepreneurial spirit – in German), Focus on Economics No. 448, KfW Research.

²¹Rainer et al (2015), [Deutschland 2017 – Studie zu den Einstellungen und Verhaltensweisen der Bürgerinnen und Bürger im vereinigten Deutschland](#) (*Germany 2217 – Study on the attitudes and behaviours of citizens in unified Germany* – our title translation, in German), ifo Institute, Munich.