



Federal Ministry
for Economic Affairs
and Energy



CHAMPIONS VON HIER
DER MITTELSTAND

VALUING SMEs

**STRENGTHENING
OPPORTUNITIES**

EASING THE BURDEN

THE GERMAN SME STRATEGY

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Preface



Germany's small and medium-sized enterprises (SMEs) – the German *Mittelstand* – are stronger than ever. SMEs are the backbone of our economy and a central pillar of our society. However, they increasingly face numerous hurdles and difficulties: external economic developments, skilled labour shortages, growing bureaucracy, a high tax burden, high social security contributions and high energy costs.

With our SME Strategy, we are presenting the first comprehensive approach to show more appreciation for SMEs, strengthen their position and reduce the burden on the SME sector. Following the broad support for the “key points” of the SME Strategy presented on 29 August 2019, we conducted an extensive process of discussion and consultation with many stakeholders and were able to take many valuable additional suggestions and ideas on board. The result is a bold strategy that now needs to prove effective in practice. Together with the stakeholders concerned and their parliamentary representatives, we will rise to this challenge with energy and conviction.

A stylized, handwritten signature in blue ink, consisting of a large initial 'P' followed by a series of loops and a long horizontal stroke.

Peter Altmaier

Federal Minister for Economic Affairs and Energy

Introduction



Germany is a country of small and medium-sized enterprises. SMEs account for over 99 per cent of all businesses. They provide over 80 per cent of training places and roughly 60 per cent of all jobs subject to compulsory social security contributions. Germany's SME sector is extremely diverse, running the gamut from large family-run businesses established generations ago in rural areas, crafts and trades businesses, liberal professions and self-employed persons to start-ups and a disproportionately high number of "hidden champions" – largely unknown global leaders in niche markets. This diversity is one of its assets, and makes an important contribution to the resilience and agility of our economy. A strong SME sector also means a strong economy.

SMEs stand for responsibility. In owner-managed businesses, management regularly assumes full responsibility and liability for the firm. SMEs shoulder the business risk using their own capital to ensure investment, growth, jobs, training and prosperity in the country. Through corporate taxation and social security contributions, SMEs make significant contributions towards government investment in infrastructure and effective social welfare systems. The financing of our community would be impossible without the SME sector. The importance of the SME sector for our country cannot be explained by economic data alone, as the role it plays in our society is much broader than this.

In structurally disadvantaged regions – particularly eastern Germany – small and medium-sized enterprises are the most important vectors for economic development. Businesses with deep roots in the regions are often greatly involved at the community level, making a key contribution to increasing the appeal of rural areas. SMEs play an important social and cultural role in the local area. It is often SMEs that help at short notice, support clubs and cultural amenities, and promote a sense of community. This entrepreneurial spirit and sense of responsibility on the part of the owners, and the dedication and commitment shown by their employees, will play a decisive role in the future of our country.

Sustainability has long been the guideline and philosophy of the majority of Germany's SMEs. Many of the goals set down in the German Sustainability Strategy – such as the reduction of air and water emissions to a minimum, the economical use of energy and the use of renewable energy sources, the efficient use of raw materials, as well as particular responsibility for vocational education and continuing training, and the further advancement of innovative products and processes – are already an integral part of SME culture and strategy. Added to this, owner-managed companies, in particular, tend to think in generations rather than in quarters, making them the perfect example of sustainability in practice.

In the public domain, the contribution SMEs make to our community and the responsibility they assume is often underestimated and not fully appreciated, with the result that the needs and concerns of the SME sector frequently do not receive adequate attention. Excessive amounts of regulation and more and more reporting obligations leave many businesses feeling ignored and disheartened. With our SME Strategy, we are therefore also initiating a socio-political discussion process with the goal of ensuring the SME sector is given the adequate respect it deserves.

The economic climate on national and global markets is changing. Demographic change is producing a shortage of skilled workers and labour. Digitisation and the development of artificial intelligence (AI) are changing business models and redefining opportunities in the competitive arena. Climate change is prompting a rethink in society, business and politics. Sustainability is becoming an increasingly important issue. Further to this, changing framework conditions abroad – including increasing (and sometimes state-influenced) competition – are posing new challenges for SMEs.

With the SME Strategy, our aim is to support SMEs in overcoming the economic challenges in a changing world, and in maintaining and consolidating their strong position in the face of national and international competition now and in the years ahead. The Strategy is to help ensure that the SME sector remains resilient even during weak economic periods and continues to be the mainstay of the economy it has always been. It contains measures that will take effect on the short term, but also actions that will help safeguard the competitiveness of the SME sector over the longer term. Our focus here is primarily on creating a clear, consistent and stable framework, complemented by suitable forms of assistance. After all, one of the fundamental principles of the Social Market Economy is that the state should define the framework, but interfere in the market as little as possible. This will give businesses the flexibility, freedom and certainty they need to be equipped to face the challenges of the future and develop their innovative talent to the full.

We presented the key points of this Strategy on 29 August 2019 and discussed them with entrepreneurs and key stake-

holders, also as part of a three-day trip to visit SMEs across the country. We would like to thank everyone who participated for their valuable input and feedback regarding the key points, much of which has been incorporated into the SME Strategy presented in this brochure.

The priority now is to implement the measures swiftly. Progress has already been made with some of the measures contained in the key points: since the presentation of the key points, the Third Act to Reduce Bureaucracy (*Drittes Bürokratieentlastungsgesetz*) has been adopted in the Federal Cabinet, the return of compulsory master-level qualification has been agreed in twelve crafts and trades, and a deal brokered at the political level regarding tax incentives to promote the energy retrofitting of buildings. There are also indications that an SME-friendly solution will be reached regarding the ability of contracting entities to offset expenses for contract research. Other actions that fall within the scope of the Federal Ministry for Economic Affairs and Energy will be addressed shortly.

However, there are also areas of policy that are of central importance to the SME sector but are the direct responsibility of other government departments. Given that a competitive and successful SME sector is in everyone's interest, we are counting on the cooperation of the competent departments to implement the set of measures that are necessary for Germany's SMEs. These measures include **comprehensive corporate tax reform, relief with regard to social security payments and a legally binding agreement to cap social security contributions at 40 per cent, the flexibilisation of the labour market and additional measures to reduce unnecessary red tape**. For the SME sector, it is critical that these measures be implemented swiftly and the necessary legislative processes initiated. To this end, we will formulate key points for the necessary legislative packages that will form the basis for forthcoming negotiations.

The aim of this SME Strategy is to ensure the German *Mittelstand* continues to be successful in the years ahead. For this reason, the measures for this Strategy are not only geared towards the current political constellation. Rather, the decisive factor is what is good, important and right for the SME sector in Germany.

I. Improving the policy environment



We are committed to reducing the tax, contribution and bureaucratic burden on the SME sector. Furthermore, we must make employment laws more flexible, develop powerful and efficient infrastructures, and guarantee a secure and affordable supply of energy. Of equal importance is the need to create an investment- and innovation-friendly environment that enables flexibility, rewards research and encourages broad-scale digitisation in the SME sector.

1. Improving Germany's tax policy

We want to safeguard Germany's attractiveness from a tax perspective and in doing so guarantee the future competitiveness of the German economy in the international arena – particularly in light of the tax reforms implemented in the USA, Great Britain and France. This calls for stronger tax incentives for private investment, growth and employment. To ensure greater planning certainty the taxation policy principle of “no tax increases” must apply: with the introduction of a “tax cap” we want to make sure that the tax burden on partnerships cannot exceed 45 per cent. We reject non-earnings-related taxation, particularly the reintroduction of the wealth tax. To guarantee business succession, we need provisions under inheritance tax rules that are friendly towards the SME sector.

Comprehensive corporate tax reform

If Germany is to remain an attractive place to do business, this requires a **thorough overhaul of the corporate tax system** that improves the tax conditions, particularly for the SME sector. For this reason, we will vigorously advocate a reform that comprises the following measures, among other elements.

The **solidarity surcharge** must be abolished completely in the foreseeable future. The first step towards this is the bill to phase out the solidarity surcharge, which is currently going through the parliamentary legislative procedure. In this legislative procedure, we believe it is important to replace the envisaged exemption threshold with a basic allowance so that all tax-payers paying the solidarity surcharge – including SMEs – are granted at least partial relief on the short term. Furthermore, a binding date must be set for the complete phase-out of the solidarity surcharge, also for incorporated enterprises.

At the core of any comprehensive reform of the corporate tax system must be the reduction of the **tax charged on retained earnings** to 25 per cent. This goal is achieved for partnerships through improvements and relief measures under the system of **preferential tax treatment** for retained earnings in the Income Tax Act (*Einkommensteuergesetz*) and – complementing this – through the introduction of an option model that allows businesses to switch to the corporate tax system. These measures allow us to create a system of taxation that is neutral with regard to the legal form of the business entity.

A central element of relief measures is the improvement to the **framework for offsetting trade tax payments** against personal income tax and – in the case of incorporated companies – the introduction of trade tax offsetting also for corporation tax; complementing this, it could be possible to moderately reduce the current **corporation tax rate** of 15 per cent. Furthermore, there is a need to gradually reduce **trade tax additions** on non-earnings-related values, with the ultimate aim of abolishing them entirely, to improve depreciation conditions (including for digital innovation goods) and to raise the threshold for the depreciation of **low-value assets**. Up to now, it has been possible to depreciate such assets immediately up to a value of €800. Raising this threshold to €1,000, and the abolition of the **collective item** which this would entail, would increase companies' liquidity while also reducing the bureaucratic burden on companies.

The increasing internationalisation of small and medium-sized enterprises must be accompanied by a modern overhaul of the **taxation of controlled foreign corporations**. A low foreign tax rate of 25 per cent is outdated. The design of the **exit tax** in the law governing the taxation of international transactions is also becoming increasingly relevant and must be brought into line with the realities of mid-sized family-run businesses, particularly by improving the exemption clauses, reducing the regulatory burden and avoiding double taxation.

In the ongoing low-interest-rate environment, the current **tax-related interest rates** place a burden on small and medium-sized enterprises. Fiscal authorities charge 6 per cent per year for back taxes, far more than currently the norm in commercial transactions. This allowed the state to generate revenue of approx. €2.9 billion through business audits alone in 2017. Therefore, we are calling for tax-related interest rates to be at least halved to 3 per cent per year to ease the burden on SMEs.

For businesses, it is important that less time passes between the individual tax years and associated audits than is currently the case. This would give businesses more legal certainty, they would have to pay less interest on back tax and the costs of bureaucracy on businesses would be reduced. **Company audits** performed by the Länder tax authorities should be conducted sooner. The Federation and the Länder must develop practical joint solutions to this end.

We are endeavouring to ensure that the Coalition swiftly adopts and implements the improvements for partnerships in particular. With regard to the aim to cap tax on retained earnings at 25 per cent, we will discuss and define the concrete form this will take with all stakeholders involved, engaging with public finance, parliament and businesses.

Tax monitoring

We want to introduce a **regular tax monitoring system** in order to track developments in corporate taxation worldwide and get a better understanding of where Germany ranks internationally with regard to the attractiveness of its taxation system. This system is also intended to ensure that we can react quickly to developments abroad that affect Germany's tax competitiveness.

2. Capping social insurance contributions, reducing unemployment insurance contributions

The SME sector also needs relief with regard to the burden of social insurance contributions. With pension insurance, unemployment insurance, health insurance and long-term care insurance combined, the rate of social insurance contributions currently amounts to roughly 40 per cent. According to the current state of affairs, contributions are expected to exceed the 40 per cent mark by 2024 at the latest, and the total contribution rate is likely to increase further.

Capping social insurance contributions at 40 per cent

We are pushing hard for social insurance contributions to be capped at 40 per cent in a legally binding agreement. Social insurance contributions must be kept stable at below 40 per cent in the interests of both employers and employees. To this end, we will work to ensure that a **social contribution cap is enshrined in Germany's Basic Law**.

Reducing contributions to unemployment insurance

The substantial reserves in the unemployment insurance system must be used to deliver a further reduction in the unemployment insurance contribution rate. Despite the reduction of the unemployment insurance contribution rate to 2.5 per cent – with effect from 1 January 2019 – the Federal Employment Agency's reserve fund will continue to grow. Therefore it is possible to moderately reduce the size of the reserve by lowering the **unemployment insurance contribution rate** to 2.2 per cent without this watering down the principle of precaution.

Report on Total Social Insurance

To track the development of the total contribution rate and therefore be able to take swift action to respond to the threat of the contribution rate exceeding the defined threshold, an annual **Report on Total Social Insurance** – along the lines of the Pension Insurance Report – is to be introduced as an accompanying measure.

3. Continuing to reduce bureaucracy

Unnecessary bureaucracy places a particularly heavy burden on small and medium-sized enterprises. The reduction of the bureaucratic burden is a long-term task which requires the commitment of the entire Federal Government.

Third Act to Reduce Bureaucracy

With the **government bill for a Third Act to Reduce Bureaucracy** – which was adopted by the Federal Cabinet on 18 September 2019 – we have taken an additional step towards cutting red tape and delivered on a measure set down in the key points of the SME Strategy. The measures enshrined in the Act provide total relief of around €1.1 billion and will significantly ease the bureaucratic burden on enterprises in their day-to-day business.

The government bill for a Third Act to Reduce Bureaucracy centres on regulatory relief regarding the **archiving of tax documents stored electronically** (five years after a change of system or data vaulting, businesses will, in future, only be required to keep a data storage medium containing the archived tax documents), the introduction of the electronic **certificate of incapacity for work**, digital alternatives to the

paper registration forms used in the hotel industry, and the provision that businesses are only required to file preliminary turnover tax returns every quarter instead of every month in the first two years of operation.

Further to this, the Third Act to Reduce Bureaucracy contains a **package of measures** to relieve the burden both on the business community and on private citizens. This includes measures to raise the turnover tax threshold for small business from €17,500 to €22,000, raise the wage limits for short-term employment, introduce a flat rate of income tax for employees with limited tax liability, and abolish the requirement to register with accident insurance for businesses that have applied for a trading licence.

Further action to reduce red tape

It is important to expedite additional policies to further reduce the bureaucratic burden. For this reason, we will start work on further measures to reduce the regulatory burden once the Third Act to Reduce Bureaucracy has been adopted in the German Bundestag.

Key priorities for the business community continue to be action to reduce the **retention period for documents under tax and commercial law** from ten years to five, an **increase in the turnover limit for actual taxation** from €500,000 to €600,000 under the Turnover Tax Act (*Umsatzsteuergesetz*) and further improvements in **potential uses of digitisation** – particularly also with regard to the obligatory declaration of income tax, corporation tax and trade tax – to deliver further relief in the tax system.

The regulations surrounding **obligatory documentation of the minimum wage** also need to be relaxed and adjusted to reflect reality. In this regard, we will work towards a general reduction in the remuneration threshold defined in the Ordinance on Minimum Wage Documentation Obligations (*Mindestlohdokumentationspflichtenverordnung*) from the current gross amount of around €2,900 to €2,000.

Another key measure should be concentrated in relieving the regulatory burden deriving from provisions of the **General Data Protection Regulation**. At national level, we will continue to advocate raising the **threshold for the appointment of a company data protection officer** from 20 employees to at least 50 employees. This would exempt more than 100,000 small and medium-sized businesses from the obligation to appoint a company data protection officer.

Further to this, we will do our utmost to encourage a revision of the General Data Protection Regulation at European level, with particular attention given to the concerns of the SME sector.

Beyond these measures, many SMEs are hoping to see a reduction in bureaucracy in their day-to-day business activities. Compliance costs place a particular burden on businesses. These costs are in addition to the costs for complying with information and documentation requirements, which still amount to almost €40 billion each year. We will engage in dialogue with SMEs, start-up entrepreneurs and the *Länder* to identify the rules and regulations which – in terms of compliance costs – are thought to be particularly bureaucratic and burdensome. Our goal is to put forward suitable proposals for bureaucracy-cutting measures and implement them.

A1 certificate

We are committed to reducing the bureaucracy associated with the **posting of employees to another EU Member State**, particularly regarding the “A1 certificate” for business trips and postings. Once negotiations to amend underlying EU regulations resume, we will work towards setting a specific time threshold below which an A1 form is generally not required for international postings and business travel to an EU Member State.

We will work together with our European partners and the departments concerned to reach SME-friendly agreements facilitating the deployment of workers in other EU countries with the most important countries of destination.

Fair disclosure requirements, no corporate criminal liability law

We reject a **national reporting obligation for tax-related arrangements** that goes beyond the EU Directive on mandatory disclosure of international tax arrangements. As the fiscal authorities are generally aware of purely national tax arrangements, mandatory disclosure would only generate additional compliance costs for business.

We oppose any obligation to publish sensitive company data in a **public country-by-country reporting system** at EU level. Public reporting would place German businesses competing internationally at a disadvantage. It would also

call into question the system developed by the OECD and already proven in practice. Previously non-public country reports are currently shared with the fiscal authorities of the participating countries across the OECD, i.e. also with third countries. If public reporting were in place, these countries would not need to supply information to EU countries if they could publicly access the EU countries’ information anyway.

A **corporate criminal liability law** is neither justified nor required for the appropriate and proportionate penalisation of companies and should therefore be opposed.

Online Access Act

For small and medium-sized enterprises, the submission of applications and reports to authorities needs to be as uncomplicated as possible. Therefore, we are putting our weight behind the swift **digitisation of administrative services** for the business sector. In this context, it is important to ensure that consistent, end-to-end digital solutions are implemented. With the Online Access Act (*Onlinezugangsgesetz*), the Federal Government has undertaken to make all public administration services also available online by the end of 2022 at the very latest.

The creation of a basic register of standard company data combined with a standardised national business number is a valuable simplification measure, particularly for small and medium-sized enterprises. This basic register allows us to implement the **“once-only principle”** according to which businesses need to save their data (e.g. standard business data) in one register only, ruling out the need for additional reporting to other authorities. We will work towards the implementation of this register in the very near future.

Faster planning and approval processes

The Federal Government has already rolled out measures to expedite planning and approval processes (e.g. Act to Accelerate the Power Grid Expansion 2.0 (*Netzausbaubeschleunigungsgesetz*), the 2018 Act to Accelerate Planning Procedures (*Planungsbeschleunigungsgesetz*), and the Structural Development Act (*Strukturstärkungsgesetz*) with shorter legal proceedings for projects specifically identified in the Act). Nevertheless, we will examine planning and approval processes for **additional potential for the acceleration of procedures**.

While still requiring thorough investigation, the following areas could offer additional scope for expediting procedures: a more streamlined project approval process where the regional planning procedure is integrated in the plan approval procedure in individual cases; shorter legal proceedings in other specific cases by defining high courts as the courts of first instance; and the facilitation of knowledge transfer regarding environmental data and mapping in plan approval procedures.

Interests of SMEs at EU level

At EU level we are calling for the creation of a new political framework for SMEs, building on the 2008 Small Business Act and the lessons learned since then. Therefore, we welcome the fact that the new EU Commission has announced an “**EU SME Strategy**”. As part of the SME Envoy Network, we will be actively involved in the development of this Strategy.

We are committed to ensuring that greater attention is given to the needs and concerns of small and medium-sized enterprises in EU legislation. This also includes the consistent application of the “Think Small First” principle in all EU legislative proposals.

We appreciate that the European Commission is committed to the “**one in, one out**” principle, and will do our utmost to ensure that this principle is also applied in practice. Specifically this means that if new regulations result in additional, ongoing compliance costs for business, a corresponding amount of relief must be generated elsewhere by removing unnecessary ongoing compliance costs, without impacting existing standards. We will also ensure that European law is transposed exactly into German law.

4. A more flexible labour market

SMEs must be able to respond flexibly to fluctuating order levels. We will push for more flexible rules under labour law so that businesses have sufficient leeway to safeguard jobs on the longer term.

Mini-job threshold

We are committed to making the **mini-job threshold** of €450 per month more dynamic by coupling it to general

wage developments. By introducing a one-time increase and then adapting the threshold annually to general wage developments, we want to boost incentives to work. As wages increase, so too will the mini-job threshold. In this way, the agreed number of working hours can remain constant and does not need to be reduced.

Working Hours Act

In a modern, digital working world, the **Working Hours Act (Arbeitszeitgesetz)** with its rules for the maximum number of hours that may be worked daily is no longer in keeping with the times. Businesses and workers want more flexible working arrangements. It is therefore necessary to reform the Working Hours Act, making use of the leeway afforded under EU law. For this reason, we want to set a maximum number of weekly working hours, rather than daily working hours. The rules are to apply both to businesses that are subject to collective wage agreements and those that are not.

Liability of contracting entity

Under the current terms of the Minimum Wage Act (*Mindestlohnengesetz*), the contracting entity assumes liability for the payment of the minimum wage to its contractors' workers – and across all subcontracting levels – irrespective of whether or not it is at fault. The hiring of subcontractors can therefore entail considerable liability risks from minimum wage entitlements for contractual relationships over which the contracting entity has no control. To be able to concentrate on the problematic cases, we will work towards limiting **contracting entity liability for the payment of the minimum wage** to the first subcontractor level in the chain and to business sectors that are open to abuse.

No restrictions on fixed-term employment

The plan to restrict **fixed-term employment contracts without an objective reason**, as set down in the Coalition Agreement, needs to be reconsidered. Companies need flexibility, particularly as the economic climate becomes more difficult. If the Federal Ministry of Labour and Social Affairs insists on the restrictions on fixed-term employment, as agreed in the Coalition Agreement, the same rules that apply for the private sector must also apply for the public sector. The actual problem of fixed-term contracts lies in the public sector, and not in the private sector.

Labour leasing

We see digitisation as an opportunity for SMEs in Germany and welcome new work models such as **project-related work** in the field of IT, consulting and research. In this context, we must ensure that the legal provisions of the Temporary Employment Act (*Arbeitnehmerüberlassungsgesetz*) provide adequate scope and legal certainty for the specific nature of project-based work in these fields. Businesses' experience in this regard must be taken into consideration in the evaluation of the Temporary Employment Act, which is planned for 2020, and modifications must be made where necessary.

5. Developing and building strong, efficient infrastructures

The entire economy needs reliable, efficient infrastructures in order to remain competitive.

Transport routes

A modern, efficient and strong **transport infrastructure** is fundamental to the competitiveness of the German economy and therefore for growth and prosperity in our country. For this reason, the Federal Government assigns top priority to the forward-looking expansion and development of the traffic and transport infrastructure. This encompasses both the optimisation of existing networks and projects involving the upgrading and new development of routes in road, rail and water transport and in the field of aviation. The main concern is to eliminate bottlenecks on main routes and in important transport hubs.

We want to create the infrastructure conditions to ensure that we can exploit to the full the enormous opportunities afforded by digital innovations in the transport sector, and for this reason we support the digitisation of the transport infrastructure across all modes of transport.

Broadband and mobile communications

Efficient, high-speed broadband and mobile coverage are of paramount importance for the SME sector. The infrastructure framework must be quickly put in place to ensure that small and medium-sized enterprises in all regions of Germany can equally benefit from the opportunities of digitisation. For this reason, we will **fully support the expansion**

of future-proof gigabit networks in as much of Germany as possible by 2025 and work towards accelerating this development.

In the course of amending the Telecommunications Act (*Telekommunikationsgesetz*), we will improve the climate for investment through **regulatory facilitations** for cooperation-based network expansion. Furthermore, we are providing **additional funding** (particularly also for business parks) from the Special Fund for Digital Infrastructure, which has a financial volume of approximately €9 billion. Of this Special Fund, 70 per cent will be invested in the expansion of gigabit networks, particularly in rural areas, while the remaining 30 per cent is earmarked for the Digital Pact for Schools.

With regard to mobile communications, we will push ahead with the expansion of a reliable LTE mobile network in all regions of the country and make Germany a leading market for 5G applications. The completion of the frequency auction, and the coverage requirements tied to frequency allocation, are an important step in this regard. With an **Overall Mobile Communications Strategy**, we will follow up with additional effective steps, such as the extension of frequencies in conjunction with appropriate coverage commitments, specific funding measures, white area auctions and the establishment of a federal mobile communications infrastructure company to eliminate remaining white areas.

Data infrastructure

We support the development of a **secure, independent data infrastructure** in Germany and Europe which is also to involve cloud service providers from the SME sector. Trusted and secure cloud solutions and a broad data basis can be made available to SMEs in this way.

With this approach, we are creating the framework to ensure that small and medium-sized enterprises get to benefit from the efficiency gains and competitive advantages generated through the use of cloud computing, and are able to leverage the vast volumes of data to (further) develop and use algorithms themselves, thereby paving the way for the development of innovative products and business models. A data infrastructure of this kind also supports the SME sector in establishing successful digital platforms.

6. Energy and climate policy

A **secure and affordable supply of energy** is a central prerequisite for our economy to run smoothly and remain competitive in the international arena. As the SME sector particularly feels the impact of high energy costs, we will continue to take the particular concerns of small and medium-sized enterprises into consideration in all future energy and climate policy measures.

Negotiations held in the Cabinet Committee for Climate Action on 20 September 2019 also focussed on the particular financial burden placed on SMEs. In order to achieve the CO₂ reduction targets of the **2050 Climate Action Plan**, the Cabinet Committee for Climate Action has set down the key points for the 2030 Climate Action Programme. With regard to the concrete reduction of CO₂ emissions, these key points take a two-pronged approach: funding programmes and incentives on the one hand, and – on the other hand – a **national emissions trading system (NETS)** for the transport and heating sectors.

Under the NETS, a fixed-price system is to be introduced, and certificates sold at the upstream trading level to companies that place heating fuel and motor fuel on the market. Companies participating in the NETS are those that market or supply heating fuel and motor fuel.

At the same time, a trading platform will be set up that enables the auctioning of certificates and trading.

Carbon pricing

In the interests of delivering a business-friendly solution, a moderate **starting price for CO₂ emissions** was chosen: starting at €10 per t CO₂ in 2021, this is to increase at staggered intervals to €35 per t CO₂ by 2025 (2022: €20; 2023: €25; 2024: €30). Starting in 2026, a **maximum emission volume** will be set; this volume will be reduced from year to year. The auctioning of certificates will commence in 2026, with the auction price ranging between a minimum of €35 per t CO₂ and a maximum of €60 per t CO₂.

In 2025, a decision will be made on the extent to which minimum and maximum prices are appropriate and necessary for the period after 2027.

By staggering the increase in carbon over time, this gives companies planning certainty and enables an orderly trans-

formation process, particularly for businesses in the SME sector.

Reducing electricity costs by lowering the EEG surcharge

At the same time as the system of carbon pricing starts, the Federal Government will relieve the burden of the **price of electricity** on private citizens and the business community by gradually paying for the **EEG surcharge** and (where applicable) other price components imposed by the state (grid charges, surcharges and levies) using the revenue generated from the carbon pricing system.

The reduction in the EEG surcharge will provide particular relief for families and small and medium-sized enterprises. If the revenue from carbon pricing increases, the electricity price will be further reduced along the pricing path. This also provides incentive for increasing electrification and drives the energy transition forward across all sectors of the economy.

The other measures in the Climate Action Programme that could trigger an increase in electricity price components will be rolled out at a pace that ensures that the reduction in the electricity price is maintained. The compensation of the electricity price in the EU emissions trading system will be continued.

Measures to promote the switch to electric cars – extension of the company car rule

Under the provisions of the Act on Tax Incentives to Promote Electric Mobility (*Gesetz zur steuerlichen Förderung der Elektromobilität*), the **company car rule** for the use of a battery-powered electric vehicle or a plug-in hybrid vehicle will be extended until 2030. Furthermore, in future the **company car tax** is to be reduced from 0.5 per cent to 0.25 per cent for all-electric vehicles with a maximum price of €40,000. In addition, the tax exemption regulation under Section 3d of the Motor Vehicle Tax Act (*Kraftfahrzeugsteuergesetz*) will be extended through to 31 December 2025. Limited to a period of 10 years, the tax exemption will be permitted until 31 December 2030 at the very latest. In a further step, it is planned to extend the **purchase premium** for vehicles with an electric, hybrid or hydrogen/fuel cell drive from 2021 onwards and increase this premium – which has been paid by the Federal Government and vehicle manufacturers up to now – for cars under €40,000. This gives SMEs, in particular, incentive to switch to electric vehicles.

Putting low-carbon trucks on the road

The Federal Government will support the purchase of trucks with alternative, climate-smart drives, including hydrogen technology, and support the development of a **refuelling and charging infrastructure** that meets demand. The aim is for around one third of the distance travelled by road-based heavy goods vehicles to be covered by electrified vehicles or on the basis of electricity-based fuel by 2030. To promote the expansion of the charging infrastructure, the Federal Government will present the Charging Infrastructure Master Plan by the end of this year. Furthermore, the Federal Government will also pursue the differentiation of the **truck toll** according to CO₂ emissions in favour of climate-friendly drive systems and the necessary amendment to the Eurovignette Directive. Utilising the legal leeway available, the Federal Government will introduce a CO₂ surcharge on the **truck toll** with effect from 2023. This measure also provides incentive – particularly to SMEs – to make the move to climate-smart drive systems.

Energy retrofitting of buildings

The building sector is directly responsible for 14 per cent of total carbon emissions in Germany. A central measure to promote the reduction of CO₂ emissions in the building sector focuses on the introduction of a **system of favourable tax treatment** for the energy retrofitting of owner-occupied properties from 2020 onwards, in addition to existing assistance programmes. The favourable tax treatment is to enable the reduction of tax liability over a period of three years with a uniform rate of support amounting to 20 per cent of the investment costs. This provides an alternative to current assistance programmes for individual measures. Assistance for individual measures under the current CO₂ Building Modernisation Programme or the Market Incentive Programme – which have now been incorporated into the new Federal Funding Programme for Efficient Buildings – will be increased by 10 per cent.

Small and medium-sized enterprises – particularly those in the crafts and trades sector – will also particularly benefit from the agreed incentive measures.

7. Financing for the SME sector

Small and medium-sized enterprises will continue to need a sufficient supply of credit at reasonable terms and condi-

tions in the future. In this context, SMEs benefit from the well-established triad of private banks, public credit institutions and cooperative banks. Added to this are offerings from the *Kreditanstalt für Wiederaufbau* (KfW) – Germany's development bank – and guarantee banks. We will work to ensure that SMEs can avail of an effective range of financing options even in times of persistently low interest rates. We are closely following discussions at European and national level on sustainable finance, with the aim of ensuring these discussions can work to the advantage of the German *Mittelstand*.

Maintaining the SME Supporting Factor in Basel IV

To ensure that SMEs continue to have access to loan financing even with the implementation of Basel IV, it is essential to maintain the SME Supporting Factor, which enables easier access for SMEs to loans through capital requirements under Basel III that adequately reflect risk. To prevent more restrictive lending by banks, we will press for the continuation of the SME Supporting Factor at national and European level.

Continued development and strengthening of financial instruments

Germany is in a good position with regard to the **early-stage financing** of innovative start-ups. For this reason, we will continue our successful instruments that are designed to help finance business start-ups – such as the High-tech Start-up Fund, EXIST and INVEST. Under the EXIST programme, we will provide further impetus for the creation of university-based start-ups with effect from 2020.

Our financing models need to be developed further, particularly with regard to the business **growth phase**, as businesses often lack sufficient capital when they want to scale up the business quickly in order to be able to compete internationally. Therefore we are already working to ensure the even greater involvement of KfW Capital in the area of growth financing.

We are examining the development of a suitable incentive model so that institutional investors – such as insurance companies or foundations – can play a bigger role in the German **venture capital market**. Furthermore, we also want to involve long-term private investors in the financing of future-oriented deep-tech projects, which are often very capital intensive.

The KfW's "Climate Campaign for the SME Sector"

Germany's climate targets call for a far-reaching process of transformation in which the German *Mittelstand* will play a central role. By gearing their activities early on to the sustainability requirements of the future, Germany's SMEs can build on their pioneering position, while also helping to achieve our climate policy targets. For the finance sector, the EU taxonomy will define which financed activities are deemed "environmentally sustainable" in the future. The KfW's "Climate Campaign for the SME Sector" will apply the EU taxonomy criteria as funding criteria to help German SMEs on the path to greater protection for the environment, climate and resources. The new KfW funding programme is to offer **low-interest loans** and "**climate grants**" of up to €100 million per year in order to mobilise an investment volume of up to €10 billion in the German SME sector alone over an investment period of three years.

Improving the tax framework for venture capital

To make Germany attractive again at international level for venture capital funds, we intend to improve the tax framework for venture capital investments. The exemption of administrative services provided under venture capital funds from **turnover tax** can make an important contribution towards this goal. Furthermore, it is imperative that Germany maintain the exemption from taxation of **gains from the sale of free-float shares**. This is crucial to safeguard the financing of future-oriented, innovative businesses and strengthen Germany's position as a centre for venture capital and business angels, as private investors, particularly business angels, give innovative start-ups important early-stage financing, but often only have very limited stakes in the newly established business.

8. Strengthening entrepreneurship

Germany needs a stronger entrepreneurial spirit so that we will continue to drive the German economy in the future on the basis of new businesses with innovative products or services. Furthermore, we must facilitate the access of SMEs – including start-ups – to public service contracts.

Start-up Campaign

With the launch of the "**GO!**" **Start-up Campaign** at the end of 2018, we are working together with the business community to encourage people to enter self-employment and start their own business. Our aim is to reverse the downward trend of new business start-ups. One key aspect of our Start-up Campaign is to increase the appreciation for the contribution that successful business entrepreneurs and their staff make on a daily basis. To make it easier for people to start their own business, we are committed to further reducing the barriers and bureaucratic obstacles to be overcome on the path to self-employment. For this reason, we want to press ahead with digital business establishment and digital start-up financing through channels such as the Business Entrepreneur Platform, for example.

Women still tend to set up their own business far less frequently than men. With our nationwide "**WOMEN Mean Business**" initiative, we want to present role models of women-led start-ups to encourage girls and young women to enter self-employment. And with project partners across the country participating in our "Entrepreneurship in Schools" initiative, we want to raise entrepreneurial awareness among young people at an early stage.

The business successions that are set to take place over the coming years will pose a serious challenge for the SME sector. The new initiative "**Business Succession – Lessons from Practice for Application in Practice**", which was launched on 30 August 2019, is designed to promote pilot projects and innovative approaches, such as discussions on best practice, successor facilitators or coaches and networks of commerce-related organizations.

Access to public service contracts

We have already put a number of different **procurement-related instruments** in place that are designed to make it easier for small and medium-sized enterprises – some of which are highly specialised and innovative – to gain access to public service contracts. Rules such as the requirement to divide contracts into **batches that are suitable for SMEs**, as well as the possibilities – significantly enhanced since the modernisation of procurement law in 2016 – to take innovative, social or environmental criteria into consideration in the award decision support this objective. We will campaign to ensure that these possibilities are even better exploited in practice in the future.

II. Attracting, training and skilling specialised workers



More than six out of ten businesses consider the shortage of skilled labour to be their biggest business risk, with small and medium-sized enterprises particularly feeling the brunt. In our opinion, it is absolutely crucial to support the SME sector in recruiting, training and skilling staff.

Skilled Immigration Act

We need more skilled professionals, also from abroad. This not only applies to university graduates but also to skilled workers with a vocational qualification. The Skilled Immigration Act (*Fachkräfteeinwanderungsgesetz*), which will enter into force on 1 March 2020, is a milestone in skilled labour policy in this legislative term and will make Germany more attractive for international skilled workers. As a result of this Act, it will be easier for **international skilled workers with a vocational qualification to gain access to the labour market**.

Active recruitment of skilled workers

Solely improving the framework for international skilled professionals to access the labour market is not enough, however. We will reach out more actively to international skilled workers and make the case for Germany and the good prospects the country offers – e.g. as part of the

“**Make it in Germany**” umbrella initiative. This is a task for the Federal Government as a whole, involving actions such as more streamlined **visa procedures**, faster and more efficient procedures for **the recognition of professional qualifications obtained abroad** and the expansion of **German language training programmes** in Germany and abroad.

In tandem with the business community and the Federal Employment Agency, we are developing **pilot projects** for the targeted recruitment of skilled workers from non-EU countries. Through the pilot projects we want to trial and optimise recruitment channels. The projects comprise various stages of the immigration process – ranging from the identification of requirements and liaison work through to integration into the labour market.

Further to this, we are opening up our **Market Entry Programme** for the recruitment of skilled workers from abroad. In this context, our goal is to develop a low-threshold process for the immigration of skilled workers with the direct involvement of the business community.

By **concentrating paperwork and bureaucratic procedures** in a one-stop-shop approach, we are committed to making it easier for international skilled workers to enter the German labour market.

Modernising regulations surrounding initial and further training

Our objective is to tap the **domestic pool of skilled labour** to an even greater extent, make the system of dual vocational training and education more appealing, and underline the equivalence of this qualification to university-based training.

Working together with the business community – and with the involvement of the social partners – we are continuously adapting the training regulations in over 300 professions to the specific needs of business. Modernisation efforts are currently under way, inter alia, for the 19 professions in the construction trade and the four professions in the electrical trade. The same applies for the modernisation and re-adoption of examination regulations to obtain a master-level qualification in a trade/craft, and regulations relating to further training.

Reinforcing compulsory master-level qualification

To strengthen skilled crafts and trades with regard to their ability to innovate, their performance capacity and their importance for the system of dual vocational education and training, we are preparing draft legislation that makes provisions for the reintroduction of compulsory master-level qualification for **twelve professions**.

The reintroduction of compulsory master-level qualification pursues the following objectives: to protect life and health in crafts and trades involving particular risks; to protect cultural assets and intangible cultural heritage; and to guarantee knowledge transfer and knowledge preservation in the crafts and trades concerned. The Act is due to enter into force at the start of 2020.

Flexible pension

On account of demographic developments, not only will Germany experience a shortage of labour but also a shortage of revenue in the social security systems – a development which is set to become more pronounced in the coming years. To enable older workers to stay in employment for longer, we will work to further improve the transition from working life to retirement with the **flexible pension**.

We want to replace the current rigid rules regarding retirement age and limits on supplementary earnings (standard retirement age, deductions for an early pension) with a flexible retirement window. From the age of 63, workers are themselves to decide when they would like to retire. Positive incentives will be provided in this regard: a longer working life is to be rewarded with supplements to the pension, and earned income is no longer to be counted towards the pension.

Employee equity participation

Employee equity participation schemes are an important instrument – particularly for businesses in the SME sector – to recruit skilled workers and strengthen their commitment to the company. For this reason, we are pushing for action to improve the framework for employee equity participation. This also includes the long overdue adjustment to the **tax free allowance**. We are also examining the **framework conditions for start-up businesses**, which rely particularly on employee shareholding as an instrument for staff recruitment.

III. Supporting SMEs in the areas of innovation and digitisation

To further improve the competitiveness of the SME sector, it is essential to drive innovation forward and systematically seize the opportunities presented by digitisation. The development of new products, processes and services on the basis of innovative cross-cutting and game-changing technologies, such as artificial intelligence (AI), blockchain technology or biotech, along with other digital innovations, requires investment in technological and organisational know-how and a high level of capital. More innovation and increasing digitisation are essential if SMEs are to remain fit for future challenges and adapt quickly to new market conditions and opportunities. The downward trend in the innovator rate (share of businesses that have implemented an innovation in the past three years), which has persisted for many years, must be reversed. The aim is to raise the innovator rate to 40 per cent in 2025.

Transfer Initiative

The industrial SME sector is of central importance in this context and is therefore also the focus of the **Transfer Initiative**. Based on the concept of “from an idea to market success”, this Initiative offers tailored support to SMEs in all stages of the innovation process across all fields and technologies, and has the objective of generating even more ideas and successful innovations. In a series of dialogue involving all the relevant stakeholders, approaches are developed on the best way to further optimise existing tools to promote the transfer of knowledge and technology.

The **Central Innovation Programme for SMEs (ZIM)** and **Cooperative Industrial Research (IGF)** – both successful programmes for the promotion of innovation – will be enhanced even further. In the IGF programme, for example,

innovation could be stimulated further with the targeted involvement of young businesses and even better dissemination of research results. From the start of 2020, the ZIM programme will address the needs of innovative businesses even more effectively. Further to this, we are broadening the focus of innovation policy to include support for non-technical innovations. To this end, pilot funding under the **Innovation Programme for Business Models and Pioneering Solutions (IGP)** is to start by the end of this year, and is designed to address target groups like ambitious start-ups and businesses in the cultural and creative industries even more effectively. The Transfer Initiative is supported by a nationwide roadshow to raise SME awareness of support and funding instruments that are perfectly tailored to their specific needs and pave the way for more innovation.

Agency for Break-through Innovations

Based in Leipzig, the planned **Agency for Break-through Innovations** will be tasked with bringing revolutionary new ideas to the market. With its innovative approach and freedom to act quickly and flexibly, it will strengthen the development of innovative ideas and their transfer into commercial practice. The work of the agency is open to all subject areas and technologies. This goal is also advanced by forging closer links between digital start-ups and the established SME sector – such as under the framework of the Digital Hub Initiative.

Tax credit for research and development

With the tax credit for research and development, we are sending a strong signal for an innovation-driven economy in Germany. The aim is to generate more research and innovation, and therefore greater competitiveness, particularly in the SME sector. The **tax credit for research and development will be introduced in 2020**. This is an independent fiscal supplementary statute to the Income Tax and Corporation Tax Act (*Einkommensteuer- und Körperschaftsteuergesetz*) which promotes private-sector investment in research and development (basic research, industrial research, experimental developments). The allowance can be granted in addition to project funding (duplicate support is not permitted however), and is given towards personnel costs for research and development. The planned support measure has a financial volume of roughly €1.15 billion in 2021, rising steadily each year to approximately €1.34 billion in 2024.

We will also actively seek an SME-friendly solution for **contract research** so that the contracting entity can claim corresponding expenses.

Mittelstand 4.0 Centres of Excellence

With the **nationwide network of 26 Mittelstand 4.0 Centres of Excellence**, we are helping SMEs move into the digital age. The Centres of Excellence provide a free, scientifically based range of services that are specifically tailored to SMEs and the skilled crafts and trades sector. They bring businesses together in networks, support the transfer of knowledge and technology to the businesses and also share the knowledge and insights gained by a broad variety of

other enterprises. By providing specific opportunities to demonstrate and test solutions, the Centres offer practical assistance to small and medium-sized enterprises in the use of *Industrie 4.0* applications.

The Centres of Excellence will develop additional transfer offerings for AI, such as a **nationwide network of “AI trainers”**, whose primary tasks will be to raise awareness among SMEs and the crafts and trades sector of the technological and economic potential of AI, to teach them about the opportunities and challenges presented by AI, and to assist entrepreneurs and tradespeople in implementing specific AI applications.

Furthermore, in future the Centres will further strengthen the ability of SMEs to build wider networks in order to integrate new technologies, like AI, more quickly and effectively into their organisation, production and work structure.

“Digital Agency”

To forge ahead with the networking and digitisation process in all business sectors and regions and to accelerate local broadband roll-out, we intend to **concentrate digital expertise within public administration** in a **“Digital Agency”**.

Germany must strengthen its digital expertise at an institutional level, both nationally and internationally. With a new centre for digitisation and networking, we want to create a **“Federal Government Expertise and Service Centre”**. Taking a holistic approach, this Centre will serve as a think tank, continuously analysing digitisation processes and identifying solutions. In addition, this Centre is to assist in the development of strategies, support pilot projects and increase public acceptance of digital services through extensive dialogue.

Further to this, digitisation and networking processes in the SME sector are to be supported and presented in a transparent manner. In this context, a new centre for digitisation and networking can complement and support the work of the SMEs Digital initiative and the *Mittelstand 4.0* Centres of Excellence (central point of contact and information for SMEs, primary contact at international level, monitoring of funding programmes and digital innovation hubs of supranational organisations, examples of best practice etc.).

IT security

IT security is a concern for every business organisation. The “**IT Security in Business**” initiative supports projects that develop concrete, practical and free support, awareness-building and skills development services for small and medium-sized enterprises.

We are creating an “**IT Security in Business**” **transfer centre**. This centre brings together existing support services (e.g. website checks, guidelines, training and teaching material) and prepares them in a practice-oriented, informative and comprehensible manner, thereby making it easier for businesses to identify the services and offerings that best suit their needs. To complement the transfer centre’s free range of services, we are also promoting projects – based on market needs – that develop additional support services for the SME sector that focus on the safe and secure use of digitised processes and business models.

Investment grant programme

The business sector needs stronger incentive for greater investment in digital technologies and digital know-how. Starting in 2020, we will be launching the new **investment grant programme entitled “Digital Now – Investment Support for SMEs”**. This programme is designed to help SMEs and businesses in the skilled crafts and trades sector with between 3 and 499 employees in two specific modules: (i) investment in digital technologies, particularly hardware and software, and (ii) investment in the training and skilling of staff in digitisation-related issues. The aim of the programme is to promote the digitisation of business processes and to make new business models accessible to small and medium-sized enterprises. It is also designed to give workers the tools to identify the opportunities presented by digitisation, assess these opportunities and encourage new investments in the business.

As part of this grant programme, we will also introduce additional assistance for investment in structurally disadvantaged regions.

AI technologies

Our aim is to make Germany and Europe a leading centre for the development and application of AI technologies.

This is also contingent upon the faster uptake and commercial application of AI in small and medium-sized enterprises. In support of this goal, we have launched a series of measures, one being the “**AI Innovation Competition**”. Also targeting the SME sector, the aim of this competition is for businesses to build key AI skills and expertise in house and enter into necessary partnerships and collaborative alliances. The winners of the AI Innovation Competition were announced on 19 September 2019 and now have the opportunity to execute their project in a sponsored, three-year implementation phase starting in 2020.

Further to this, since September 2019 the 12 hubs in our Digital Hub Initiative have also been supported in employing AI consulting services in the form of workshops and other information offerings. This seeks to ensure that the digital hubs and their start-ups are supported in the use of AI.

Data economy and the competitive framework

We will campaign for a data economy that is appropriate for SMEs, and will modernise competition law. With the planned amendment to the Act against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*), we will strengthen the position of small and medium-sized enterprises competing with larger digital companies and platforms and greatly facilitate collaboration, particularly in the digital field. This is because in times of enormous – and sometimes distorted – international competition, it is particularly important for small and medium-sized enterprises to be able to utilise synergies with other companies and collaborate or merge with them. We will raise the merger control turnover threshold to reduce the number of mergers to be notified to the Federal Cartel Office, and in doing so will relieve the burden on SMEs. In addition, we will improve control of abusive practices to enable better market access – particularly for small and medium-sized enterprises – in the era of the data economy. This applies in particular to data access in the event of joint value creation with larger companies.

Further to this, we held a workshop with industry associations and data protection supervisory authorities on 30 September 2019 on the topic of “AI and data protection in business applications”. This is intended to provide clarity for SMEs on the data protection framework and enable the use of AI systems with legal certainty.

Quality infrastructure, norms and standards

We will take action to strengthen and improve our **quality infrastructure** with regard to innovations and new digital technologies and processes. The digitisation of the quality infrastructure will particularly benefit businesses in the SME sector.

Steps must be taken to make it easier for small and medium-sized enterprises to actively participate in the development of national, European and global **norms and standards**. We will hold intensive dialogue with the SME sector and the skilled crafts and trades sector to this end. As a first step, small and medium-sized enterprises participating (or having participated) in national or international standardisation committees for the first time (or more than three years ago) will receive assistance in the form of a grant of up to 70 per cent towards the travel costs, participation fees etc. incurred as a result of active participation in national and international committees with the principle of delegated authority (e.g. DIN, CEN/CENELEC, ISO, IEC).

If digitisation is to be affordable and utilisable for the SME sector, this will require the large-scale application of **uniform ICT standards**. To this end, we are promoting innovative solutions developed by the SME sector that are also designed to help weaken the dominant position of individual conglomerates in platforms and digital technologies.

Greater use of **accreditation and certification** to guarantee “Made in Germany” quality will help businesses with regard

to the rapid market penetration of innovations. Access to international markets is supported through the **removal of technical barriers to trade**.

ERP digitisation and innovation loan

The **ERP digitisation and innovation loan** is now also open to start-up entrepreneurs with a market presence of less than two years, and also to innovative businesses. This allows tech-savvy businesses to receive financial assistance in their digitisation and innovation activities right from day one.

Regulatory Sandbox Initiative

With the **Regulatory Sandbox Initiative**, we are helping SMEs to test and implement their innovative business models and technologies in Germany. Among other elements, this involves the application of experimentation clauses that allow greater flexibility for innovation in laws and ordinances.

In addition, we are strengthening the exchange of information between businesses and the scientific community and administrative bodies in the Regulatory Sandbox Network, and provide practical information and best practice examples in a Handbook for Regulatory Sandboxes. We oversee and support specific projects and are launching an ideas competition in autumn 2019 to this end.

IV. Supporting SMEs in the regions



Our aim is to create equal living conditions across all parts of Germany. To deliver on this goal, we need a strong SME sector with deep regional ties that safeguards and creates income and jobs in the local area.

National funding system for structurally weak regions

Building on the **joint programme for the Improvement of Regional Economic Structures**, the national funding system for structurally weak regions will enter into force on 1 January 2020.

Funding programmes that were previously limited to eastern Germany will be continued and rolled out to all structurally disadvantaged regions in the country. Furthermore, programmes provided nationwide for the promotion of innovation, digitisation, skilled labour development or the expansion and upgrading of regional infrastructures will receive special funding conditions. These are designed to specifically support the economic development of structurally weak regions. Eastern Germany will continue to particularly benefit from this approach given that the majority of the region is structurally weak.

Nationwide broadband and mobile coverage

The swift nationwide roll-out of high-speed broadband services and powerful mobile communication infrastructures will also particularly benefit structurally weak regions.

With more pro-investment regulations, funding that is focussed on gigabit networks and a broad set of measures in the field of mobile communications (service coverage requirements, faster approval procedures, provision of mobile communications sites, funding measures etc.), we will ensure that the potential for investment, growth and innovation afforded by digitisation can be harnessed by all small and medium-sized enterprises.

Act to Strengthen Structures in Coal-mining Regions

With the **Act to Strengthen Structures in Coal-mining Regions (*Strukturstärkungsgesetz Kohleregionen*)**, we will provide up to €14 billion for significant investments by the Länder and municipalities to develop lignite-mining regions on a sustainable basis, bring about successful structural change, and build economically strong regions with competitive small and medium-sized enterprises.

Within its own area of responsibility, the Federation will also implement additional measures for the coal-mining regions (e.g. infrastructure development, location of research institutes and federal agencies) with a financial volume of up to €26 billion. This will also benefit SMEs in

the regions. These measures will create the necessary framework for the modernisation of economic structures in the coal-mining regions.

The Act to Strengthen Structures in Coal-mining Regions was adopted by the Federal Cabinet on 28 August 2019 and is to enter into force at the start of 2020. In addition, the Federation is planning to launch a new programme to make lignite regions nationwide models of GHG-neutral, resource-efficient and sustainable development.

V. Developing new markets in Germany and abroad



We are helping SMEs to tap into new markets both in Germany and abroad. The strength of the German economy with its internationally renowned industry is based on the interaction of successful SMEs and large corporations in highly efficient, precisely coordinated global value chains.

Industrial Strategy in Germany and Europe

The goal of the **2030 National Industrial Strategy** is to boost the competitiveness of industrial enterprises in Germany on a lasting basis. This Strategy gives particular attention to the industrial SME sector, which is crucial to Germany's competitive edge. The central action areas of the Strategy concentrate on improving the policy environment, strengthening key enabling technologies and maintaining technological sovereignty. The focus includes efficient network and cluster structures and the faster transfer of research findings to small and medium-sized enterprises.

Simultaneously, at the European level the Federal Government is calling for the development of a comprehensive and long-term **European Industrial Strategy** with concrete measures.

A level playing field

To expand into new markets, Germany's SMEs rely on open markets, rules-based trade and a **level playing field**. This is

what the Federal Government continuously lobbies for at all levels in the context of the coordination of EU trade policy.

At the international level we are pushing for **uniform financing standards** and access for European companies to public contracts in non-EU countries. In the EU, we helped to launch an initiative for the fundamental reform of OECD financing standards and played a significant role in driving this forward. Together with the EU we advocate global rules to create a level playing field for all exporting nations.

We support the EU in its efforts to **reform the WTO**, also with the goal of making it viable for the future and fit for purpose to deal with new topics (e.g. digital trade). In this context, the Federal Government also actively campaigns for the specific situation of small and medium-sized enterprises to receive greater attention than has previously been the case.

To make foreign markets more transparent and accessible, we are also actively involved in EU negotiations on ambitious **trade and investment agreements** with strategically impor-

tant partners, most recently with Japan, Mercosur, Singapore and Vietnam. In these negotiations, the Federal Government regularly pushes for ambitious outcomes which result in specific and substantial advantages particularly for small and medium-sized enterprises.

At EU level, our goal is to improve the actual use of **preferential trade agreements** among small and medium-sized enterprises, and increase the rate of utilisation by the SME sector to at least 85 per cent over the medium term. To this end, we will strengthen collaboration at European level, develop best practice examples with the other EU Member States and promote mutual exchange of information and experience.

Within the **EU Market Access Partnership**, we will continue to support the European Commission in improving information on free trade agreements in the SME market access database and in providing practical IT tools, such as the rules of origin platform.

Promotion of foreign trade

We continuously adapt our institutions and instruments for the promotion of foreign trade to the needs of the German SME sector. We will continue the systematic expansion of the **Network of Chambers of Commerce Abroad and Delegations of German Industry and Commerce (AHK network) and Germany Trade & Invest (GTAI)**, our economic development agency. The GTAI provides small and medium-sized enterprises with tailored information to help them set up in foreign markets, and in future will play an even stronger role as a central service provider for German foreign trade.

Further to this, we will be expanding the **Market Entry Programme, the Foreign Trade Fair Programme** and the **Manager Training Programme**. Through the “Young and Innovative Businesses” programme, we also help start-ups gain a foothold in the export market.

We recently introduced significant improvements to the **financing instruments** with the simplified guarantee system for low-volume export transactions. Additional product developments are currently under review, such as the guarantee of “shopping lines” for large international customers so they can purchase deliveries and services particularly also from small and medium-sized German enterprises. Further to this, small and medium-sized enterprises are to be even more closely involved in suitable **strategic projects abroad**.

Business networks

With the **Africa Business Network**, we will be providing a new package of measures to deliver targeted support to German businesses expanding into up-and-coming African markets. The package involves a stronger AHK/GTAI presence (Ethiopia and Ivory Coast), the expansion of the **Market Entry and Foreign Trade Fair Programme**, and targeted outreach, advice and assistance for businesses. For this, we provide businesses with “Africa partners” who oversee SME projects in Africa and identify suitable support and funding measures. To organise the business network in line with needs, we work closely with the central associations of German industry and commerce and other relevant stakeholders in the promotion of foreign trade.

In order to specifically support the internationalisation activities of start-ups and young businesses, we intend to expand the **German Accelerator Programme** further, particularly in Asia. The mentors in the German Accelerator Programme support start-ups during their stint abroad, lasting several months, in either Silicon Valley, New York, Boston or Singapore (e.g. assistance in gaining access to local networks, acquiring customers and partners, or setting up an office in a new location).

VI. Committee of State Secretaries for the SME Sector



SME policy is a **cross-cutting issue** that requires a concerted effort from the entire Federal Government. For this reason, we want to set up a “Committee of State Secretaries for the SME Sector,” which will examine the plans and initiatives of all government departments for their compatibility with the needs of the SME sector. The improvement of the competitiveness of Germany’s small and medium-sized enterprises must serve as the guiding principle for economic policy decisions within the Federal Government.

