

# THE NETHERLANDS




## 1. Introduction

The Netherlands is the most competitive economy in Europe and an innovation leader. The start-up and scale-up ecosystem is growing quickly, with plenty of alternative financing opportunities. The digitisation of small and medium-sized enterprises (SMEs) is also progressing well.

In 2020, Dutch SMEs were badly affected by the ongoing COVID-19 pandemic. It amplified structural issues such as declining investments in innovation and in upskilling<sup>1</sup>. SME value added dropped by 1.3%<sup>2</sup>, while employment fell by 0.1%<sup>34</sup>. Most notably, SME value added in the *accommodation and food services* sector declined by 31.9% and by 5.7% in employment. The *construction* sector, in contrast, generated strong growth, increasing SME value added by 7.9% and in employment by 1.1% in 2020.

SMEs play an important role in the Netherlands. They generated 62% of overall value added in the 'non-financial business economy' in 2020, against the EU average of 53%. In terms of employment, SMEs generated 64.9% of overall employment, close to the EU average of 65.2%. Average SME productivity, calculated as value added per person employed, was around EUR 63 400, significantly higher than the EU average of EUR 40 000. The average number of SME employees in 2020 was 3.1, slightly lower than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Netherlands		EU-27	Netherlands		EU-27	Netherlands		EU-27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
<b>Micro</b>	1 190 624	95.8%	93.3%	1 693 933	28.3%	29.6%	85.9	21.6%	18.7%
<b>Small</b>	42 126	3.4%	5.7%	1 096 670	18.3%	19.7%	69.8	17.5%	17%
<b>Medium-sized</b>	8 953	0.7%	0.9%	1 097 943	18.3%	15.8%	90.9	22.8%	17.3%
<b>SMEs</b>	<b>1 241 703</b>	<b>99.9 %</b>	<b>99.8%</b>	<b>3 888 546</b>	<b>64.9%</b>	<b>65.2%</b>	<b>246.6</b>	<b>62.0%</b>	<b>53%</b>
<b>Large</b>	1 724	0.1%	0.2%	2 102 771	35.1%	34.8%	151.4	38.0%	47%
<b>Total</b>	<b>1 243 427</b>	<b>100%</b>	<b>100%</b>	<b>5 991 317</b>	<b>100%</b>	<b>100%</b>	<b>398</b>	<b>100%</b>	<b>100%</b>

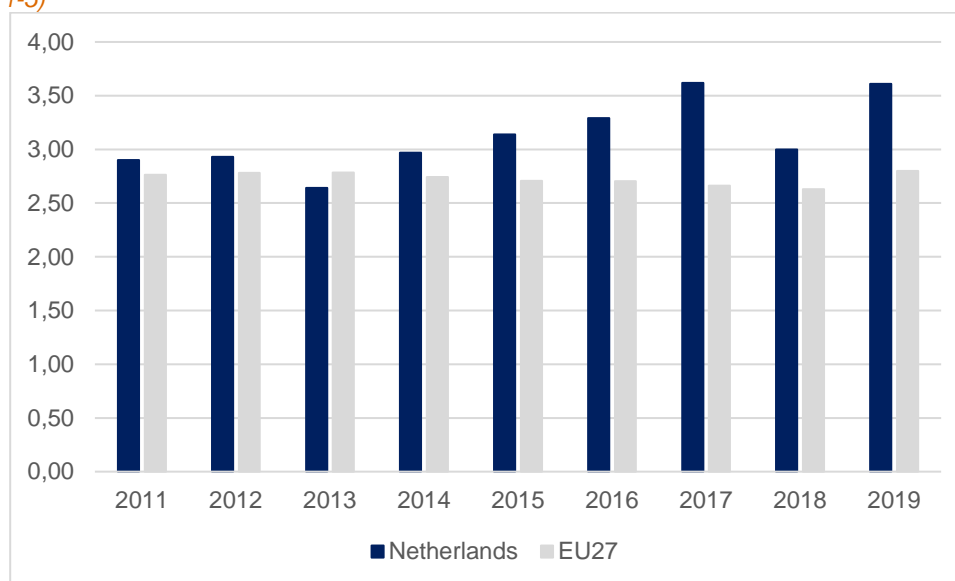
Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

## 2. Key strengths

### The Netherlands has an excellent business climate, being the most competitive economy in Europe

According to the World Economic Forum, the Netherlands had the most competitive economy in Europe in 2019 and ranked fourth in competitiveness in the world, which is two places better than in 2018<sup>5</sup>. The 2020 International Institute for Management Development (IMD) rankings confirm the country's strong position in doing business: it is the fourth most competitive nation, up two places compared to 2019<sup>6</sup>. Although the Netherlands fell one place compared to 2019, the country was still fifth in the 2020 Global Innovations Index<sup>7</sup>. Dutch government agencies are seen as competent and effective in supporting new and growing firms, a situation that has improved since 2014 (see figure below).

Figure 2: Perception of government agencies as competent and effective in supporting new and growing firms (Likert scale 1-5)



Source: National Expert Survey of the Global Entrepreneurship Monitor<sup>8</sup>

When looking at the share of growth enterprises (14%) and the employment share of high-growth enterprises (21.8%), the Netherlands also outperforms the EU average of 11% and 15.3%<sup>9</sup> respectively.

According to the European Innovation Scoreboard, the Netherlands is an innovation leader. It praises in particular its research system, the innovation climate and the Dutch culture of cooperation (joint public-private publications and cooperation between SMEs)<sup>10</sup>. A new eye-catching policy measure to further strengthen the country's leading position in innovation is the Thematic Technology Transfer Regulation, created to encourage private investors to invest in knowledge-based start-ups through a thematic technology transfer fund<sup>11</sup>.

### Digitisation of Dutch SMEs is progressing well

In 2020, three-quarters of Dutch SMEs used digitisation for administrative tasks and half of SMEs saw digitisation as an opportunity for their businesses<sup>12</sup>. SMEs regard 'simplified administration', 'working efficiently' and 'following the trends' as the main advantages of digitalisation. The degree of digitisation in Dutch companies is strongly related to the size of the company. 65% of large companies (500 or more employees) have digitised their operations to a large degree. This percentage drops to 49% in companies with between 50 and 100 employees, and to only 24% in the smallest companies (2 employees)<sup>13</sup>.

The Netherlands ranks fourth in the 2020 Digital Economy and Society Index. On connectivity, it ranks sixth in Europe, on human capital fourth, and on the use of Internet Services third. On Integration of Digital Technology, it ranks fourth and on Digital Public Services, seventh (2020)<sup>14</sup>.

## **The Dutch start-up and scale-up ecosystem is growing quickly in importance in Europe as well as worldwide and is already home to 12 unicorns**

According to the Startup Genome report<sup>15</sup>, the Netherlands has improved its start-up ecosystem, and now ranks 3rd in Europe and 12th worldwide. The Techleap<sup>16</sup> non-profit organisation (the successor to Startup Delta) plays a pivotal role in the local start-up ecosystem. The FastLane programme for start-ups and scale-ups has been set up to optimise the use of government support for companies that aim to become the largest competitor in their field of activity<sup>17</sup>. The One Single Hub Regulation encourages all stakeholders in the regional start-up and scale-up ecosystem to bundle their efforts. The Startup in Residence programme<sup>18</sup> also allows start-ups to use participating ministries, provinces and municipalities as sparring partners to create new products and services. An exception to the favourable start-up climate is the situation facing knowledge-intensive start-ups (see Section 3 for more information on this topic).

Amsterdam ranks very high in connectedness, benefiting from the Netherlands' excellent logistical and social connectedness to the world. The Netherlands ranks first in DHL's Global Connectedness Index<sup>19</sup>. The country is also home to 12 unicorns (companies valued at over \$1 billion): Interxion, Adyen, Crucell, GlobalCollect, Flow Traders, Takeaway, Coolblue, Acerta Pharma, Elastic, GitLab, TomTom and Booking.com.

## **Alternative financing opportunities are very diverse in nature and continue to grow and reach more SMEs**

The Dutch market for non-banking financing is very diverse. It consists of credit unions (0.19%), SME Stock Exchange (0.97%), real estate (3.74%), direct lending (8.96%), crowdfunding (12.39%), factoring (22.03%) and lease (51.72%)<sup>20</sup>.

In 2020, the availability of equity funding continued to grow and remains well above the EU average (see figure below).

*Figure 3: Equity funding available for new and growing firms (Likert scale 1-5)*



Source: National Expert Survey of the Global Entrepreneurship Monitor<sup>21</sup>

The market continues to grow in terms of both value and the number of SMEs reached. In 2019, SMEs received a total of more than EUR 2.7 billion through non-banking funding, up 26% compared to 2018. The number of non-banking loans granted to SMEs rose to 49 120 in 2019, an increase of 41% compared to 2018<sup>22</sup>.

Other forms of alternative financing could arise due the expected ban on collateral security (*Afschaffing verbod op verpanding*). The first draft version of the law, published on 4 July 2018, was criticised in a stakeholder consultation. This was mainly because of expected legal uncertainties and the non-subsidiarity of some measures compared to the goal formulated in the original proposal<sup>23</sup>. A new draft was presented to the Dutch Parliament on 2 June 2020.

### **The gap between the average productivity of medium-sized firms and large companies is closing**

The average productivity of medium-sized firms is nearly at the same level (EUR 96 000 per full-time employee/FTE in 2018) as for large companies (EUR 102 000 per FTE in 2018) and was growing faster (22% between 2010 and 2018) than for large companies (16% between 2010 and 2018). Statistical data on the productivity of Dutch SMEs for 2019 are not available yet<sup>24</sup>.

## **3. Key challenges**

### **Structural shortages of skilled workers remain in the technology, ICT, education and healthcare sectors**

According to a regular inventory carried out by the Dutch Employee Insurance Agency (*Uitvoeringsinstituut Werknemersverzekeringen*), there are persistent structural shortages of skilled workers in the technology, ICT, education and healthcare sectors. This situation has not changed since the COVID-19 crisis. For example, there is still a high demand for ICT professionals with knowledge of Cloud applications and for cybersecurity professionals. Nevertheless, a positive trend was reported in the tech ecosystem<sup>25</sup>.

Dutch SMEs have a hard time finding tradespersons like fitters/installers, machine operators, planners and carpenters. Examples of other shortages of professionals include gardeners and sales staff in the areas of housing, interior design and electronics<sup>26</sup>.

Although entrepreneurs expect total staffing to show modest growth in 2021, staff growth is expected specifically in areas where there is already a high shortage, such as in ICT and professional services<sup>27</sup>. Even in the construction sector, 1 in 10 entrepreneurs expect growth in staff.

### **The growth of knowledge-intensive start-ups is stalling**

According to the Advisory Council for Science, Technology and Innovation (*Adviesraad voor Wetenschap, Technologie en Innovatie*), scaling-up conditions are not favourable for knowledge-intensive start-ups. Compared to other countries with a good basis of knowledge institutions, the growth of knowledge-intensive start-ups is stalling in particular<sup>28</sup>.

There are several reasons for this: knowledge-intensive start-ups often see their business models develop slowly, their ambition is limited, agreements made at the start can hamper their growth later on, and most importantly: they lack funding. Access to finance for large amounts is a real issue, and entrepreneurs have difficulty accessing EU funds.

## Average productivity of one-person companies is deteriorating

The average productivity of one-person companies (ZZP'ers) is falling. At EUR 43 000 per FTE in 2018, it is less than half of that of medium-sized enterprises (EUR 96 000 per FTE in 2018) and has also been falling (-7% between 2010 and 2018)<sup>29</sup>.

Their productivity is becoming an issue, while the number of one-person companies is growing very fast: between 2008 and 2020, the number more than doubled. One of the reasons for this growth is new business opportunities in the professional services sector, facilitated in particular by the emergence of opportunities for gig workers in the platform economy<sup>30</sup> (eg Takeaway).

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

Since March 2020, the Dutch SME policy has been dominated by measures to counter the effects of the COVID-19 crisis on SMEs. The measures aim to save jobs through the deferment of payments, compensation (losses, fixed costs) and loans (loan guarantee extension, postponement of loan repayments, bridging loans and small business credit guarantees), schemes and other targeted support (e.g. support for freelancers)<sup>31</sup>.

The effect of the COVID-19 crisis on SMEs has been unprecedented. Of all SMEs employing between 2 and 250 people, 40% have made use of at least one of the three major emergency financial measures<sup>32</sup>. One of the main measures implemented for SMEs aims to maintain employment and targets employers facing a substantial loss of turnover as a result of the coronavirus crisis (temporary emergency measure bridging the employment gap/Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid)<sup>33</sup>.



### SOCIAL ASPECTS OF SUSTAINABILITY

A more accurate application of the EU rules on nitrogen emissions near nature reserves has heightened tensions with farmers, who are being forced to reduce emissions<sup>34</sup>. There is considerable potential for reskilling and upskilling in SMEs. In the financial services sector, 1 in 3 employees is involved in upskilling (33.9% in 2018), compared to only 1 in 7 (13.9%) in micro firms<sup>35</sup>.



### MARKET ACCESS

To strengthen the competitive position of the Netherlands, the government created a public-private partnership (*Internationaal Strategisch Overleg Nederland*<sup>36</sup>), in which NL International Business, Trade& Innovate NL and NL International Works are represented. The strengthening of the internal European SME market is a priority for the Dutch government, and it will seek to play an active role in the EU's Single Market Enforcement Task Force<sup>37</sup>.



### REGULATORY BURDEN

The focus on lowering the administrative burden has shifted from saving costs to checking feasibility, with SMEs now having to be consulted. Interesting initiatives to help them deal with administration include the new Franchise Act<sup>38</sup>, which is about forging better relationships between large companies and SMEs, and modernisation of the bankruptcy law<sup>39</sup>, which will create more efficient and transparent bankruptcy procedures.



## GREEN TRANSITION OF SMEs

Due to the COVID-19 crisis, the involvement of Dutch SMEs in sustainable entrepreneurship has deteriorated. Before the crisis, nearly two-thirds of entrepreneurs planned to invest in sustainable energy. According to the Online Knowledge Centre on Sustainable Entrepreneurship (*Online Kenniscentrum Duurzaam Ondernemen*), 60% of SMEs decided to postpone, slim down or cancel their investments<sup>40</sup>.

In its 'Circular Economy 2016 – 2050 policy', the Dutch government set out three goals for the Dutch economy: 1) ensure production processes use raw materials more efficiently; 2) when new raw materials are needed, use sustainably produced renewable (inexhaustible) and widely available raw materials like biomass – raw materials made from plants, trees and food waste; 3) develop new production methods and design new products aligned with the circular economy principles<sup>41</sup>.

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- <sup>1</sup> Jaarbericht Staat van het mkb 2020, Ondernemen is vooruitzien, Nederlands Comité voor Ondernemerschap, available at: <https://www.staatvanhetmkb.nl/jaarbericht/jaarbericht-2020>
- <sup>2</sup> Average decline in EU Member States of 7.6%.
- <sup>3</sup> Against average decline in EU Member States of 1.7%.
- <sup>4</sup> The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- <sup>5</sup> WEF (2019), *Global Competitiveness Report 2019: How to end a lost decade of productivity growth*, <https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth>
- <sup>6</sup> IMD (2020), IMD World Competitiveness Ranking 2020, <https://www.imd.org/news/updates/IMD-2020-World-Competitiveness-Ranking-revealed/>
- <sup>7</sup> WIPO (2020), Global Innovation Index, [https://www.wipo.int/global\\_innovation\\_index/en/2020/](https://www.wipo.int/global_innovation_index/en/2020/)
- <sup>8</sup> Global Entrepreneurship Monitor (2020), available at: <http://www.gemconsortium.org/>
- <sup>9</sup> Eurostat 2017, available at: <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- <sup>10</sup> European Commission (2020), European Innovation Scoreboard, available at: [https://ec.europa.eu/growth/industry/policy/innovation/scoreboards\\_en](https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en)
- <sup>11</sup> Netherlands Enterprise Agency. Thematische Technology Transfer (TTT), available at: <https://www.rvo.nl/subsidie-en-financieringswijzer/thematische-technology-transfer-ttt>
- <sup>12</sup> Kantar (2020), Flitspeiling digitalisering MKB, <https://www.rijksoverheid.nl/documenten/publicaties/2020/04/08/flitspeiling-digitalisering-mkb>
- <sup>13</sup> CNS (2020), *Kleinere bedrijven minder gedigitaliseerd*, available at: <https://www.cbs.nl/nl-nieuws/2020/08/kleinere-bedrijven-minder-gedigitaliseerd>
- <sup>14</sup> European Commission (2020), The Digital Economy and Society Index, available at: <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>
- <sup>15</sup> Startup Genome (2020), The Global Startup Ecosystem Report, available at: <https://startupgenome.com/report/gser2020>
- <sup>16</sup> <https://www.techleap.nl/articles/verkiezingsmanifest-lets-kickstart-nl/>
- <sup>17</sup> Netherlands Enterprise Agency, FastLane: programme for fast-growing startups and scaleups, available at: <https://english.rvo.nl/onderwerpen/innovative-enterprise/fastlane-programme-fast-growing-startups-and-scaleups>
- <sup>18</sup> City of Amsterdam, Startup in Residence, available at: <https://startupinresidence.com/>
- <sup>19</sup> DHL, (2019). DHL Global Connectedness Index, available at: <https://www.dhl.com/content/dam/dhl/global/core/documents/pdf/g0-en-gci-2019-update-complete-study.pdf>
- <sup>20</sup> Stichting MKB Financiering, (2019). Onderzoek non-bancaire financiering 2019, available at : [https://www.stichtingmkbfinanciering.nl/contentfolder/uploads/2020/06/SMF\\_MKB\\_Onderzoek\\_Non\\_Bancaire\\_Financiering\\_2019.pdf](https://www.stichtingmkbfinanciering.nl/contentfolder/uploads/2020/06/SMF_MKB_Onderzoek_Non_Bancaire_Financiering_2019.pdf)
- <sup>21</sup> Global Entrepreneurship Monitor, (2019), National Expert Survey of the Global Entrepreneurship Monitor. Available at: <http://www.gemconsortium.org/data/sets>
- <sup>22</sup> Ibid.
- <sup>23</sup> For further reading: *Het concept wetvoorstel « Wet opheffing verpandingsverboden »*, Sean Barrett, Master Rechtsgeleerdheid, 17 mei 2019, <http://arno.uvt.nl/show.cgi?fid=148997>
- <sup>24</sup> Nederlands Comité voor Ondernemerschap (2020), *Investeren in herstel en groei van het mkb*, available at <https://www.rijksoverheid.nl/documenten/rapporten/2020/08/26/investeren-in-herstel-en-groei-van-het-mkb>
- <sup>25</sup> <https://www.techleap.nl/articles/5-key-takeaways-for-the-netherlands-atomico-state-of-european-tech-2020-report/>
- <sup>26</sup> UWV, (2020). Inventarisatie van acute personeelstekorten en -overschotten: Arbeidsmarkteffecten coronacrisis, available at: <https://www.werk.nl/arbeidsmarktinformatie/images/acute-personeelstekorten-en-overschotten-26-juni.pdf>
- <sup>27</sup> CBS, EIB, MKB Nederland, VNO-NCW & KVK, Conjunctuurenquête Nederland, Vierde kwartaal 2020, available at: <https://ondernemersplein.kvk.nl/coen/>
- <sup>28</sup> Adviesraad voor Wetenschap, technologie en innovatie, (2020). AWTI adviseert Tweede Kamer over betere doorgroei van kennisintensieve start-ups, available at : <https://www.awti.nl/actueel/nieuws/2020/10/07/awti-advies-beter-van-start-de-sleutel-tot-doorgroei-van-kennisintensieve-start-ups>
- <sup>29</sup> See Note 24.
- <sup>30</sup> [https://www.thuiswinkel.org/data/uploads/belangenbehartiging/Vision\\_on\\_the\\_Platformeconomy\\_-\\_by\\_the\\_Dutch\\_Business\\_Organizations.pdf](https://www.thuiswinkel.org/data/uploads/belangenbehartiging/Vision_on_the_Platformeconomy_-_by_the_Dutch_Business_Organizations.pdf)
- <sup>31</sup> Ministerie van Economische Zaken en Klimaat, (2020). Vernieuwend mkb heeft de toekomst - MKB-actieplan Voortgangsrapportage 2020, available at : <https://www.rijksoverheid.nl/documenten/rapporten/2020/10/30/bijlage-vernieuwend-mkb-heeft-toekomst>.
- <sup>32</sup> CBS, (2020). Helpt gesteunde mkb-bedrijven gebruikt meer dan één noodregeling, available at: <https://www.cbs.nl/nl-nieuws/2020/34/helpt-gesteunde-mkb-bedrijven-gebruikt-meer-dan-een-noodregeling>
- <sup>33</sup> Rijksoverheid, (2020), Coronavirus. Available at: <https://www.rijksoverheid.nl/>
- <sup>34</sup> Raad van State, (2019). Programma Aanpak Stikstof, available at: <https://www.raadvanstate.nl/programma-aanpak/>
- <sup>35</sup> Rijksoverheid, (2020), Investeren in herstel en groei van het mkb, Nederlands Comité voor Ondernemerschap, 2020. Available at: <https://www.rijksoverheid.nl/documenten/kamerstukken/2020/08/26/aanbiedingsbrief-bij-rapport-investeren-in-herstel-en-groei-van-het-mkb>
- <sup>36</sup> Ministerie van Economische Zaken en Klimaat, (2020). Vernieuwend mkb heeft toekomst - MKB-actieplan Voortgangsrapportage 2020, available at : <https://www.rijksoverheid.nl/documenten/rapporten/2020/10/30/bijlage-vernieuwend-mkb-heeft-toekomst>



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<sup>37</sup> Ibid.

<sup>38</sup> Franchise NL, *Franchise wet treedt per 1 januari 2021 in werking, het is nu definitief*, available at: <https://www.franchise.nl/Franchise-Informatie/Franchisewet>

<sup>39</sup> Overheid.nl, (2020). Faillissementswet, available at :

[https://www.eerstekamer.nl/wetsvoorstel/34740\\_wet\\_modernisering](https://www.eerstekamer.nl/wetsvoorstel/34740_wet_modernisering)

<sup>40</sup> Duurzaam Ondernemen (2020), MKB investeert minder en later in verduurzaming energievoorziening door coronacrisis, available at: <https://www.pbl.nl/sites/default/files/downloads/pbl-2021-integrale-circulaire-economie-rapportage-2021-4124.pdf>.

<sup>41</sup> Government of the Netherlands, *Accelerating the transition to a circular economy*, available at:

<https://www.government.nl/topics/circular-economy/accelerating-the-transition-to-a-circular-economy>