

LUXEMBOURG

1. Introduction

Luxembourg has one of the most open economies worldwide. Despite challenges relating to the insolvency framework, access to skilled workers and regulatory burden, Luxembourg is among the EU's most innovative economies.

Small and medium-sized enterprises (SMEs) in Luxembourg have weathered the COVID crisis better than those in other EU countries and several policy measures were taken to fight the pandemic and to support the economy. In 2020, SME value added is estimated to have dropped by 0.8%, while SME employment increased by 1.6%¹. This relatively good performance may be explained by the Luxembourg economy being driven by sectors that have not been severely affected by the crisis.


The sectors that are suffering the most from the crisis such as *tourism, events, culture and entertainment*² only represent a minor percentage of employment in Luxembourg (around 5% of the country's total)³.

The downturn in SME value added was most severe in the *accommodation and food services* sector, with value added dropping by 32.4%, and in the *manufacturing* sector, with value added falling by 11.2%. Both sectors also declined in terms of employment, by 1.1% and 0.9%, respectively. The *information and communication* sector, in contrast, performed strongly, generating 9.3% growth in SME value added and 2.7% growth in employment in 2020.

For 2021, a complete recovery is expected, with increases of 5.1% in SME value added and 1.3% in employment. Overall, SME value added and employment in 2021 are predicted to exceed their respective 2019 levels by 4.2% and 2.9%.

SMEs play an important role in the 'non-financial business economy' of Luxembourg, especially in terms of their contribution to total value added, which, at 67.2% in 2020, was substantially higher than the EU average of 53.0%. Conversely, the SME contribution of 66.1% to total employment was roughly in line with the EU average of 65.2%. SME productivity, measured as value added per person employed, was substantially higher in Luxembourg than in the EU as a whole, amounting to EUR 92 400, more than double the EU average. SMEs in Luxembourg also employed more people, an average of 5.5 in 2020, compared with 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		
	Luxembourg		EU-27	Luxembourg		EU-27	Luxembourg		EU-27
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	31 960	87.6%	93.3%	52 658	17.6%	29.6%	5.7	21.0%	18.7%
Small	3 622	9.9%	5.7%	72 224	24.1%	19.7%	5.2	18.9%	17%
Medium-sized	735	2%	0.9%	73 374	24.5%	15.8%	7.5	27.4%	17.3%
SMEs	36 317	99.5%	99.8%	198 256	66.1%	65.2%	18.3	67.2%	53%
Large	172	0.5%	0.2%	101 654	33.9%	34.8%	8.9	32.8%	47%
Total	36 489	100%	100%	299 910	100%	100%	27.3	100%	100%

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

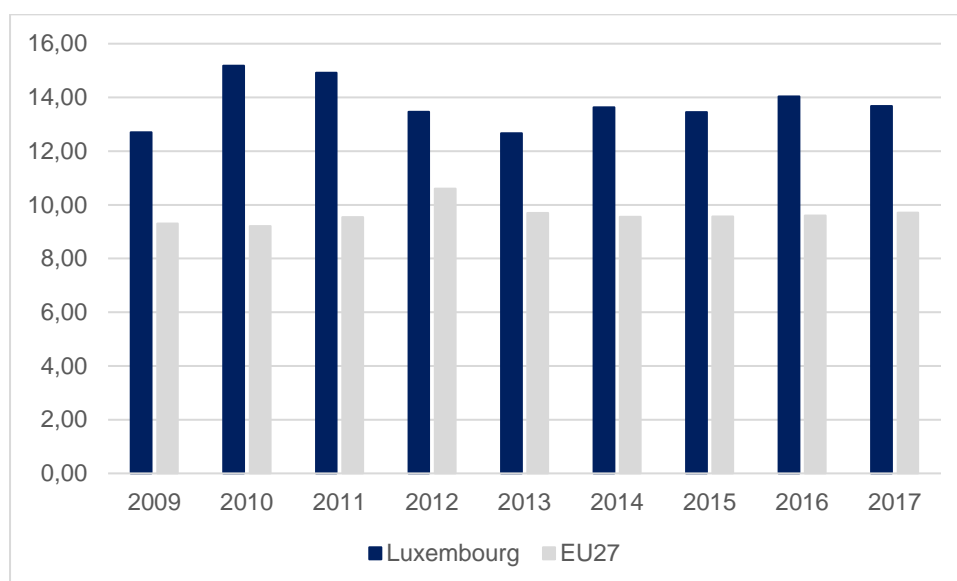
Luxembourg SMEs are open to foreign trade

Luxembourg's economy has been identified as one of the most open in the world, which benefits SMEs active in the country.

Up to 80% of the goods produced in Luxembourg are exported, highlighting the country's international outlook⁴. When looking at the Open Market Index from the International Chamber of Commerce, Luxembourg ranks third, behind Hong Kong and Singapore, and outperforms Belgium (ranked fourth)⁵. The internationalisation of Luxembourgish SMEs is also illustrated by the percentage of them that export goods outside the EU, 13.7%, which is significantly above the EU average of 9.7%⁶.

In 2020, to encourage SMEs to export abroad despite the COVID-19 crisis, the *Reinforcement of export and international development aid*⁷ was put into operation by the Office DuCroire, the Luxembourg government's one-stop-shop designed to promote exports.

Figure 2: Share of SMEs in industry which export goods outside the EU (%)



Source: Eurostat, 2017⁸

Luxembourgish SMEs are amongst the most innovative in the EU, in a country striving to create a strong digital environment for companies

SMEs in Luxembourg are more innovative than the average EU SME. Both the number of SMEs introducing product or process innovation (47.2% of SMEs in 2020) and the number of SMEs introducing marketing or organisational innovation (47.4% of SMEs) are significantly above the respective EU-27 averages (39.3% and 36.4%⁹). The country also has a high ranking as regards taking advantage of the opportunities presented by new technological advancements, being one of the top performers in the Global Technology Awareness Index (third position in 2019)¹⁰.

Several measures are in place in Luxembourg to help SMEs with development projects in innovation. LuxInnovation is one of the main bodies in the country encouraging companies to innovate, including SMEs for whom it is increasing the number of support initiatives. For instance, with its *Fit 4 Digital initiative*, LuxInnovation helped 11 SMEs in 2017 and 88 SMEs in 2018¹¹. In October 2019, the *Fit 4 Digital packages* were launched targeting micro and small companies only¹². The goal of this measure is to address the main challenges SMEs, and in particular the smallest ones, face when going digital¹³. In 2019, 230 applications were completed for both the *Fit 4 Digital initiative* and *Fit 4 Digital Packages*¹⁴. The *Fit 4 Digital Packages* are seen as a significant improvement in helping all companies in the country, especially the smallest ones, to step up their digitalisation.

In 2019, Luxembourg also adopted *the data-driven innovation strategy for the development of a trusted and sustainable economy in Luxembourg*. One of the main priorities of this strategy is to encourage the digital transformation of the economy¹⁵. This strategy is strongly focused on SMEs, and complementary action plans detail how SMEs could seize the opportunities stemming from it¹⁶.

Luxembourg has a strong business climate for developing and growing companies

In Luxembourg, government agencies are perceived as quite capable and effective in supporting new and growing firms (on a 5-point Likert scale, Luxembourg scored 3.4 against an EU average of 2.8 in 2020)¹⁷.

In addition, Luxembourg places a strong emphasis on developing a climate favourable to entrepreneurship. When it comes to providing adequate attention to teaching in entrepreneurship and new firm creation in primary and secondary education, Luxembourg performs better than the EU average – scoring 2.49 against 2 for the EU (on a scale from 1 to 5, 1 being the worst and 5 the best). Likewise, when it comes to colleges and universities providing good and adequate preparation for starting up and growing new firms, Luxembourg performs better than the EU average – scoring 3 compared to 2.8 for the EU¹⁸. Furthermore, when it comes to vocational, professional, and continuing education systems providing good and adequate preparation for starting up and growing new firms, Luxembourg also performs better than the EU average, scoring 3.3 compared to 2.8 for the EU¹⁹.

Luxembourg is also among the top players on the Global Competitive Index (15th position in 2020), where it ranks particularly high in international trade (6th position), international investments (10th position), public finance (7th position), institutional framework and business legislation (9th position), finance (13th position) and productivity (15th position)²⁰. Luxembourg also ranked 10th in the 2019 Global Talent Competitiveness Index (GTCI)²¹, which looks at the ability of countries to develop, attract and retain talent²². All together these structural and economic factors create a climate conducive to the development and growth of both small and large companies active in Luxembourg's market.

Furthermore, when looking at the public procurement practices in place for SMEs in Luxembourg, the country has a strong focus on its SMEs. In 2019, the percentage of contracts awarded to SMEs (61%) and the proportion of bids coming from SMEs (90.3%) in Luxembourg are both higher than the EU averages (58.3% and 71.6)²³.

3. Key challenges

Access to staff with adequate skills and qualifications remains a challenge for SMEs

In 2019, ADEM (the Luxembourg Employment Development Agency) declared that there were more than 7 000 unfilled job vacancies²⁴. In Luxembourg, a large number of companies are having issues with recruiting staff with suitable skills and qualifications. In 2017, up to 28% of the job offers sent to ADEM could not be filled due to a lack of suitable candidates.

According to the barometer of the economy published by the Luxembourg Chamber of Commerce in 2019²⁵, the main difficulties for recruiters are the following:

- required profiles are not present in Luxembourg and throughout the Greater Region (i.e. Wallonia, Lorraine, Luxembourg, Saarland and Rheinland Pfalz);
- job candidates are not sufficiently qualified
- there is an inadequacy between the offer and the candidates' salary expectations.

In order to address the Luxembourg economy's growing need for manpower and other current needs, the Ministry of the Economy is coordinating the development of a national strategy for attracting, retaining and training suitable staff²⁶.

Administrative procedures should be further improved

The regulatory burden remains relatively high in Luxembourg for SMEs. According to a survey conducted by the Chamber of Commerce in 2019 in Luxembourg, 41% of the surveyed business leaders thought that administrative procedures had become more complex²⁷.

Complex administrative procedures are considered a recurrent problem by SMEs in the country. For instance, in 2018, the cost of starting a business in Luxembourg (EUR 1 100) was significantly higher compared to the EU average of EUR 270. Similarly, up to 2020, companies in Luxembourg had to make around 23 tax payments per year compared to an EU average of only 10.3 tax payments²⁸.

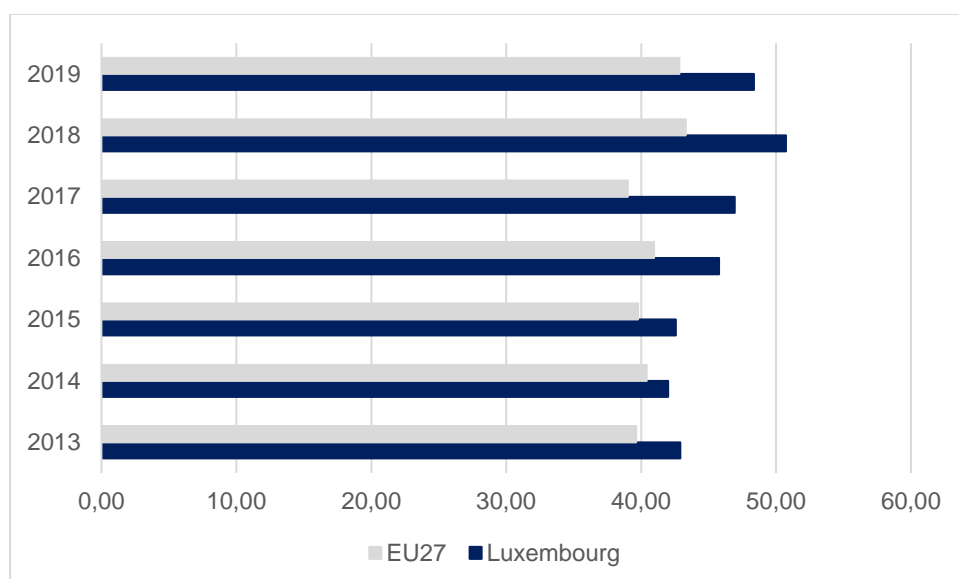
However, 2019 saw the bodies involved in creating and developing businesses in Luxembourg being centralised within the *House of Entrepreneurship*, becoming the single point of contact for all stakeholders involved in starting a business. Centralising all the administrative procedures related to entrepreneurship in a single place is seen as being an effective way to help simplify administrative procedures and speed up the establishment and development of companies in Luxembourg. In total, 25 partners including the Ministry of Economy, Chamber of trades and ADEM are represented in the House of Entrepreneurship²⁹.

Moreover, while the administrative burden remains high for SMEs in the country according to business leaders, Luxembourg still performs slightly better than the EU average in this area. Fast-changing legislation and policies are considered as a problem when doing business by only 45% of the businesses in the country (compared to 57.7% for the EU average) while the complexity of administrative procedures is seen as a problem when doing business by 52% of the businesses in the country, compared to 57.4% for the EU average³⁰.

Insolvency procedures should be further improved in Luxembourg

The fear of failure still exists among entrepreneurs in Luxembourg, hindering people who may want to become entrepreneurs. In 2019, 48.4% of those who saw good opportunities to start a business stated that fear of failure could have prevented them from starting a business³¹. Moreover, the fear of failure in Luxembourg has been increasing over recent years, even before the COVID-19 crisis, from 42.6% in 2015, to 47% in 2017, peaking at 50.7% in 2018.

Figure 3: Fear of Failure in Luxembourg (% of population aged 18-64 with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business)



Source: Global Entrepreneurship Monitor, 2019, Entrepreneurial Behaviour and Attitudes³²

In addition, Luxembourg also performs below the EU average in the World Bank's insolvency framework index. The index is based on the sum of the scores of 4 underlying indices: i) the commencement of proceedings index; ii) the management of debtor's assets index; iii) the reorganization proceedings index; and iv) the creditor participation index. The index ranges from 0 to 16, with higher values indicating insolvency legislation that is better designed for rehabilitating viable firms and liquidating non-viable ones. In 2019, Luxembourg scored 7, compared to an EU average of 11.7³³.

The reform of the bankruptcy law, which has been on the Luxembourg government's agenda for years, has still not been adopted.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

The Luxembourg government has quickly addressed the liquidity issues experienced by businesses, including SMEs, due to the COVID-19 crisis, by providing direct non-reimbursable funds, with SMEs receiving over EUR 127 million³⁴.



SCALE-UP ENVIRONMENT

In order to support its scale-up environment, the House of Startups in Luxembourg launched *EU-Tribe*³⁵, a networking platform connecting the Greater Region's innovation ecosystems.



GREEN TRANSITION OF SMES

Luxembourg introduced the *NeiStart Package*, which focuses on helping the country undergo a green and sustainable economic recovery after the Covid-19 crisis ends³⁶. Under this package, the government has implemented a range of measures to accelerate the ecological transition of the economy and further support responsible mobility and consumption as well as energy efficiency.



START-UP ENVIRONMENT

Luxembourg deems the green transition of its SMEs a priority. In 2017, up to 74% of Luxembourgish SMEs benefited from public support measures when carrying out their resource efficiency measures, against an EU average of 41%³⁷. In the same year, 85% of Luxembourgish SMEs carried out resource efficiency measures (EU average – 82.8%) while 26% provided green products or services (EU average – 25.3%)³⁸.

In order to support its start-up environment, Luxembourg launched the *Luxembourg Digital Innovation Hub*³⁹ and the *Luxembourg Acceleration Bootcamp (LAB)*⁴⁰, a four-day programme for local and international start-ups, focusing on growth acceleration, fundraising, and European expansion.

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- ¹ 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).
- ² Chamber of Commerce Luxembourg (2020), *Présentation de nouvelles mesures de soutien aux secteurs les plus touchés par la pandémie COVID-19*, available at: <https://www.cc.lu/en/news/detail/presentation-de-nouvelles-mesures-de-soutien-aux-secteurs-les-plus-touchees-par-la-pandemie-covid-19-1/>
- ³ Data.public.lu (2020), *Emploi salarié par secteur d'activité, statut et caractéristiques individuelles*, available at: <https://data.public.lu/en/datasets/emploi-salarie-par-secteur-dactivite-statut-et-caracteristiques-individuelles/>
- ⁴ Chamber of Commerce (2017), *Luxembourg economy Open Dynamic Reliable*, available at: https://www.luxinnovation.lu/wp-content/uploads/sites/3/2017/10/web_en_brochure_eco_lux_0917_cdc-1.pdf
- ⁵ International Chamber of Commerce (2017), ICC OPEN MARKETS INDEX 2017, available at: <https://iccwbo.org/publication/icc-open-markets-index-2017/>
- ⁶ Eurostat (2020), available at: <http://epp.eurostat.ec.europa.eu/newxtweb/setupdimselection.do>
- ⁷ Le Gouvernement du Grand-Duché de Luxembourg (2020), *Reinforcement of export and international development aid measures (ODL)*, available at: <https://guichet.public.lu/en/entreprises/financement-aides/coronavirus/renforcement-aides-exportation.html>
- ⁸ Comext (2017), *International trade by enterprise characteristics*, available at: <https://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- ⁹ European Commission (2020), European innovation scoreboard, available at: https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en
- ¹⁰ UNDP (2019), *The Future of Knowledge: A Foresight Report 2019*, available at: https://knowledge4all.com/reports/Future_of_Knowledge_2019_English.pdf
- ¹¹ The Government of the Grand Duchy of Luxembourg (2019), *Publication of the 2018 Luxinnovation annual report*, available at: https://gouvernement.lu/en/actualites/toutes_actualites/communiqués/2019/05-mai/07-rapport-annuel-luxinnovation.html
- ¹² Ibid.
- ¹³ Based on discussion with the General Management - Middle Classes from the Ministry of Economy
- ¹⁴ Ibid.
- ¹⁵ Le Gouvernement du Grand-Duché de Luxembourg (2019), *The Data-Driven Innovation Strategy for the Development of a Trusted and Sustainable Economy in Luxembourg*, available at: <https://gouvernement.lu/en/publications/rapport-etude-analyse/minist-economie/intelligence-artificielle/data-driven-innovation.html>
- ¹⁶ Ibid.
- ¹⁷ Global Entrepreneurship Monitor 2019, *Entrepreneurial Behaviour and Attitudes*, available at: <https://www.gemconsortium.org/data/key-aps>
- ¹⁸ Global Entrepreneurship Monitor (2019), *National Expert Survey (NES) of the Global Entrepreneurship Monitor (GEM)*, available at: <http://www.gemconsortium.org/data/key-nes>
- ¹⁹ See Note 18.
- ²⁰ The Government of the Grand Duchy of Luxembourg (2020), *Global Competitiveness Index 2020 - the attractiveness barometer proposed by IMD places Luxembourg in 15th place worldwide*, Available at: <https://luxembourg.public.lu/en/invest/competitiveness/cgi.html>
- ²¹ INSEAD (2019), 2019 Global Talent Competitiveness Index, available at: <https://www.insead.edu/sites/default/files/assets/dept/globalindices/docs/GTCI-2019-Report.pdf>
- ²² INSEAD (2020), 2020 Global Talent Competitiveness Index, available at: <https://gtcistudy.com/introduction/>
- ²³ European Commission (2019), Public Procurement Team - Single Market Scoreboard, available at: http://ec.europa.eu/internal_market/scoreboard/
- ²⁴ Merkur (2019), *Stratégie des talents: Trouver les profils dont l'économie a besoin*, available at: https://www.cc.lu/uploads/tx_userccmerkur/Merkur_Merkur_2019_6.pdf
- ²⁵ Chambre de Commerce (2019), *Baromètre de l'économie*, available at: https://www.cc.lu/uploads/tx_userccpublications/Barometre_economie_S1_2019.pdf
- ²⁶ Le Gouvernement du Grand-Duché de Luxembourg (2019), Interview de Étienne Schneider dans l'Echo de l'Industrie – *La politique de 'multi-spécialisation' sera poursuivie*, available at: https://meco.gouvernement.lu/fr/actualites.gouvernement%2Bfr%2Bactualites%2Btoutes_actualites%2Binterviews%2B2019%2B07-juillet%2B22-schneider-echo-industrie.html
- ²⁷ Chambre de Commerce (2019), *Business Growth And...Recruitment Difficulties*, available at: <https://www.cc.lu/en/news/detail/croissance-de-lactivite-et-difficultes-a-recruter/>
- ²⁸ The World Bank (2020), Doing Business 2020, available at: <https://www.doingbusiness.org/>
- ²⁹ Chamber of Commerce Luxembourg (2019), *Le ministère de l'économie, la chambre de commerce et la chambre des métiers renforcent leur collaboration pour mieux servir les entreprises*, available at: <https://www.cc.lu/actualites/detail/le-ministere-de-leconomie-la-chambre-de-commerce-et-la-chambre-des-metiers-renforcent-leur-collabo/>
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- ³¹ See Note 17.
- ³² See Note 17.
- ³³ World Bank (2020), World Bank Doing Business, available at: <http://www.doingbusiness.org/methodology/resolving-insolvency>
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soutien aux secteurs les plus touchés par la pandémie COVID-19, available at:
https://gouvernement.lu/fr/actualites/toutes_actualites/communiqués/2020/11-novembre/13-delles-fayot-tanson-mesures.html

³⁵ <https://www.siliconluxembourg.lu/eu-tribe-the-greater-region-incubator-network/>

³⁶ Gouvernement du Luxembourg, (2020), Neistart, available at: <https://meco.gouvernement.lu/dam-assets/dossiers/Neistart-Letzebuerg-Tableau-Mesures.pdf>

³⁷ European Commission (2017), Eurobarometer survey of SMEs and the environment, available at:
http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/index_en.htm

³⁸ See Note 37.

³⁹ Luxembourg Digital Innovation Hub, available at: <https://www.dih.lu/>

⁴⁰ Luxembourg Acceleration Bootcamp, available at: <https://lab.host.lu/>