



Financing start-ups and growth: Overview of funding instruments

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People setting up new businesses are drivers of structural change. They realise innovative new ideas, create jobs and safeguard the foundations for future prosperity and growth in Germany and Europe. Entrepreneurs can be valuable innovators and are tremendously important for Germany's economic development. They not only need classic financing via loans, but require access to sufficient venture capital. Despite the international awareness of Germany's start-up scene, the German venture capital market is too small – both in an international comparison and in relation to Germany's economic strength. The Federal Government has therefore set itself the objective of improving legislation and tax rules for venture capital and of making Germany more attractive to venture capital. The following is a brief overview of the various financing instruments available (the Federal Government has additionally launched a package of measures containing more financing instruments for companies to help them tackle the impact of the coronavirus. Further information is available at <https://www.bmwi.de/Redaktion/DE/Coronavirus/kleine-mittlere-grosse-unternehmen.html>):

During the start-up phase:

ERP-Gründerkredit Startgeld # ERP Start-up Loan - Start-Up Money

The ERP Start-Up Loan – Start-up Money is available for start-ups and young firms that have been active for less than 5 years. It provides maximum financing of up to €125,000 with a term of 5 or of 10 years. Funding is especially awarded to small companies. The bank that provides the financing to the company receives an 80% release from liability.

ERP-Gründerkredit Universell # ERP Start-up Loan – Universal¹

The ERP Start-Up Loan – Universal is available for start-ups and young firms that have been active for less than 5 years. It provides financing for investments and working capital for new companies, for takeovers or for active stakes, at attractive rates. Long-term loans of up to €25 million are available. Companies that have been active on the market for a minimum of 3 years can opt to take advantage of a 50% liability release for investment financing.

¹ This promotional programme is subject to special regulations that apply until 31 December 2020 as part of the KfW SpecialProgramme 2020. For details, please see <https://www.bmwi.de/Redaktion/DE/Coronavirus/coronahilfe.html>.

ERP-Kapital für Gründung # ERP Capital for Start-ups

The ERP Capital for Start-ups is available for start-ups and persons taking over existing companies in the first three years. It provides subordinated loans of up to €500,000 with a term of 15 years, at attractive rates. No repayments are due for the first seven years. The aim is to improve the equity base of the company in order to facilitate further external financing. Only investments are eligible for funding.

ERP-Innovationsfinanzierung # ERP innovation financing

The ERP Digitisation and Innovation Loan is available to companies during their start-up phase. Further information can be found in the following overview of funding instruments in the growth phase.

Mikrokreditfonds Deutschland # German Micro-loan Fund

The Federal Government has used this fund to establish a nationwide system for the allocation of micro-loans in Germany in order to respond to the financing needs of small companies which would otherwise have no access to borrowing. The fund is aimed at small and young start-ups and companies, as well as at persons with a migrant background and at persons who are self-employed and pursuing a creative venture. Funding of between €1,000 and €25,000 is granted in the form of a loan with a term of up to four years.

EXIST

The EXIST Start-up Grant is a broad-based programme that provides one-year grants to university graduates and scientists prior to or during the start-up phase so they can implement their business plans (approx. 200 projects per year). The amount of the grant which is awarded to a nominated individual depends on how advanced he or she is in his/her programme of study: students €1,000/month; technical staff: €2,000/month; graduates: €2,500/month; those holding a Doctor's degree: €3,000/month. In addition to this, funding of up to €30,000 can be provided for material costs and up to €5,000 for coaching.

EXIST Research Transfer was created in early 2008 to support particularly challenging technical start-up projects at universities and research centres (approx. 40 projects per year) by first supporting the product development at a scientific institution and then the set-up phase of the company. In funding phase I, personnel costs for up to 4 positions can be funded, as well as material costs of up to €250,000; in funding phase II, a grant of up to €180,000 is provided.

High-Tech Gründerfonds (HTGF) # High-tech Start-up Fund

The High-tech Start-Up Fund (HTGF) is an early-phase funding programme for highly innovative and technology-oriented companies whose operative business activities were started less than three years ago. To be eligible for financing, projects must have spawned promising research findings, be based on innovative technology, and the market situation for the product must be bright. In addition to providing capital, the fund ensures that the management of young start-ups receives the necessary help and support. An initial funding amount of up to €1,000,000 is provided, with a total of up to €3 million usually being available per company. In the first phase of the fund (up to November 2011), a total of €272 million was available. The follow-on fund (HTGF II) is providing total funding of €304 million. A third fund, HTGF III, was launched in autumn 2017. In addition to the support from the Economic Affairs Ministry and the KfW, more than 30% of the €319.5 million fund has been provided by 33 private investors – either well-established SMEs or large corporations.

INVEST-Zuschuss für Wagniskapital # INVEST – Grant for Venture Capital

INVEST is a grant programme run by the Federal Ministry for Economic Affairs and Energy. It has been set up to support private investors who want to acquire a stake in young and innovative companies. Under this programme, business angels that invest in innovative start-ups receive an acquisition grant worth 20% of the sum invested. In addition, natural persons can receive an exit grant if they sell their shares. The amount provided is equivalent to 25% of the capital gains from the sale and thus more or less covers the tax imposed on the profit from the sale. The shares must be held for a minimum of three years. Both grants are tax-free for the investor. Funding can be provided for a maximum of €500,000 of investment per investor per year. The maximum amount eligible for funding that can be invested in a single company per year is €3 million. The shares can be held by either a natural person or by an associated company (with the legal status of a GmbH or UG, but in that case there is no exit grant). Follow-up financing is also available for shares that have already received funding under the INVEST programme, as well as for convertible loans.

Mikromezzaninfonds # Micro-Mezzanine Fund

The Micro-Mezzanine Fund was launched in 2013 and provides dormant equity of up to €50,000 for small companies and business starters and of up to €150,000 for companies within the special target group. The fund's special target group are companies that provide training, are operated by women or people with a migration background, or were founded by persons who were formerly unemployed. Social enterprises operating commercially are also eligible to apply for financing at the terms of the special target group, as are companies with a focus on environmentally compatible production. The fund is financed by both the European Social Fund (ESF) and the European Recovery Programme (ERP). The volume of the first fund was €74.5 million. The current fund (MMF II) has a volume of €153.2 million.

German Accelerator

By drawing upon its experience and expertise, the German Accelerator helps the most promising German start-ups break into international markets and expand their global activities. Participants take part in intensive workshops and engage with experienced experts, enabling them to enter a steep learning curve and to achieve their goals more quickly.

Start-ups that want to expand into the USA can choose between the German Accelerator locations in Silicon Valley and New York. For companies in the life sciences sector, there is a special programme run in Boston. Every year, around 60-70 start-ups are given the opportunity to make an extended stay in the USA. The German Accelerator office in Singapore serves as a gateway to the Southeast Asian markets, with approximately 20 start-ups supported here per year. Start-ups that would like to explore the first opportunities for their business in the Asian region can enter the German Accelerator's two-week 'Next Step' market discovery programme. The offices in Munich and Berlin act as a control centre and contact point in Germany. All services are tailored to the individual needs and goals of the respective start-ups, and the team of experienced mentors and experts actively supports the selected companies and their founders by providing local knowledge, a wide range of training and workshops and intensive coaching. In addition, the companies receive free office space and direct access to the global network of partners and investors.

The German Accelerator team consists of successful entrepreneurs, investors and experts who work with great passion to turn German start-ups into true global players. Since its launch in 2012, 288 start-ups, such as Celonis, N26 and Proglove, have successfully completed one of the programmes and have received more than US\$ 4.9 billion in funding to date. Further information is available at www.germanaccelerator.com

Ausfallbürgschaften der Bürgschaftsbanken # Default guarantees

Default guarantees serve as a substitute in the start-up phase for collateral in order to secure bank loans in the case of an absence or insufficiency of usual banking collateral. The guarantee covers up to 80% of a loan, making it possible to finance investment or working capital. The maximum amount for such guarantee is €1.25 million.

During the growth phase:

KfW-Unternehmerkredit # KfW corporate loan²

This provides external capital to established companies which have been active on the market for more than 5 years. It provides maximum financing of up to €25 million with terms of up to 20 years. The funding particularly goes towards investments in Germany and abroad and towards working capital. Applications must be made via the bank providing the loan, with the KfW assuming half of the risk.

² This programme is subject to special regulations that apply until 31 December 2020 as part of the KfW Special Programme 2020. For details, please see <https://www.bmwi.de/Redaktion/DE/Coronavirus/coronahilfe.html>.

ERP-Innovationsfinanzierung # ERP innovation financing

The ERP Digitisation and Innovation Loan serves to finance digitisation and innovation projects and investment and working capital for innovative companies. Funding goes to established commercial companies and to professional service providers. The instrument is also available to business starters and young companies to finance their projects. The funding takes the form of a low-interest loan of up to €25 million per project and up to €7.5 million per financing needs of innovative companies. Funding is provided both for investments and for working capital. The bank processing the application can be relieved of up to 70% of its liability.

ERP Mezzanine Financing for Innovation can be used for long-term financing of market-related research and development for new products, production processes and services, and of major further developments in these products, processes and services.

Funding goes to established commercial companies with an annual group turnover of up to €500 million and to professional service providers who have been active on the market for at least two years.

The funding is provided as an integrated financial package consisting of a traditional loan and a subordinate loan amounting to a maximum of €5 million per project.

ERP/EIF-Dachfonds # ERP/EIF venture capital fund of funds

participates in venture capital funds that invest in young technology companies (mainly in Germany). The fund has a volume of €2.7 billion and the average volume of investment is between €20 million up to a maximum of €60 million (financed equally by the EIF/ERP Special Fund). The investment always involves other private co-investors on the same economic terms. This creates great incentives for and leverages a significant level of private-sector investment.

European Angels Fund Germany (EAF)

is part of the ERP/EIF-Dachfonds (with a volume of €270 million) and co-finances investment alongside selected, experienced business angels investing in innovative companies. In this way, the fund increases the financial strength of investors, thereby supporting the financing of innovative companies in their start-up, early and growth phases. The level of participation is dependent on the level of investment planned to be undertaken by the respective business angel and is usually between €250,000 and €5million.

coparion

coparion provides funding for young and innovative companies at the same commercial terms as the private-sector lead investor. The investment is limited to €10 million per company, extended to up to €15 million per company until mid 2021 due to the coronavirus crisis. The coparion fund is able to allocate the maximum amount over several financing rounds. With a total volume of von €275 million, this makes coparion an important player on the German venture capital market.

The fund's resources are provided by the ERP Special Fund, KfW Capital and the European Investment Bank (EIB).

ERP/EIF/Länder-Mezzanin-Dachfonds # ERP/EIF/Länder Mezzanine Fund of Funds

participates in private-sector professional mezzanine funds (including venture-debt funds) which invest heavily in German SMEs and young fast-growing companies. The average volume of investment is between €10 million and €20 million. The Mezzanine Fund of Funds was established with an initial volume of €200 million (EIF: €100 million, ERP Special Fund: €68.54 million, LfA Förderbank Bayern: €16.67 million, NRW Bank €14.79 million) and was topped up by €400 million in October 2016, reaching a total of €600 million (EIF: €200 million, ERP Special Fund: €133.32 million, LfA Förderbank Bayern: €33.34 million, NRW Bank: €33.34 million).

KfW Capital

KfW Capital is a 100% subsidiary of the KfW banking group and has been operating since October 2018. KfW Capital invests in venture capital and venture debt funds, which in turn invest in innovative, technology-oriented companies in the start-up and growth phase. The investments are mainly made through the ERP Venture Capital Fund Investments programme. In addition, KfW Capital is a shareholder in the High-tech Start-up Fund (I-III) and the coparion co-investment fund, and is playing a central role in the implementation of the €2 billion package of measures for start-ups and small SMEs adopted to help tackle the impact of the coronavirus pandemic.

ERP-Venture Capital-Fondsinvestments # ERP Venture Capital Fund Financing

Under the ERP Venture Capital Fund Investments programme, KfW Capital invests up to €180 million p.a. in venture capital and venture debt funds, which then invest in innovative, technology-oriented companies in the start-up and growth phase. The risk of the investment is borne by the ERP Special Fund. KfW Capital invests a maximum of €25 million per fund and a maximum of 19.9% of the fund volume and always on the same terms (pari passu) as private investors.

ERP/EIF Wachstumsfazilität # ERP/EIF Growth Facility

The ERP/EIF Growth Facility is equipped with €500 million capital, and is used by the ERP Special Fund and the EIF to give fast-growing companies access to growth capital. The ERP Special Fund and the EIF cooperate with other successful venture capital fund investors in the ERP/EIF portfolio in order to set up co-investment funds that take stakes in fast-growing innovative companies. The level of participation in the respective co-investment fund is between €20 million and a maximum of €60 million. This instrument is also expected to produce major leverage effects.

Ausfallbürgschaften der Bürgschaftsbanken # Default guarantees

Default guarantees serve as a substitute in the growth phase for collateral in order to secure bank loans in the case of an absence or insufficiency of usual banking collateral. The guarantee covers up to 80% of a loan, making it possible to finance investment or working capital. The maximum amount for such guarantee is €1.25 million.

Rückgarantien des Bundes und der Länder # Counter-guarantees from the Federal Government and the Länder

Counter-guarantees from the Federal Government and the Länder serve to strengthen the equity base of SMEs. They support the SME investment companies operating in the individual Länder, which provide equity capital to SMEs – mainly in the form of mezzanine capital (silent participation). In return, the SME investment companies receive guarantees from guarantee banks, which themselves are counter-guaranteed by a federal/Länder-level guarantee. The counter-guaranteed equity investments can be used to finance investments. The maximum amount for a counter-guaranteed participation is €1.25 million, which can be extended to €2.5 million in exceptional cases.

Venture Tech Growth Financing

The KfW Venture Tech Growth Financing programme launched by the Federal Government and the KfW banking group is used to promote young technology-oriented growth companies. The programme is part of the Federal Government's Tech Growth Fund initiative, which is designed to provide venture debt financing, particularly for start-ups in the growth phase. The KfW programme offers loans to finance further growth for technologically innovative and fast-growing companies that have a resilient and promising business model. KfW will provide up to €250 million under the programme up to 2022. The Federal Government covers 95% of the risk. Financing under the KfW Venture Tech Growth Financing programme must be provided jointly together with a private lender. As a rule, the lender must provide 50%. In addition, private venture capitalists must already have a stake in the company. The funds are provided directly to the company at market conditions. The participation by KfW is made at the invitation of the private financing partner.

Further information:

<http://www.bmwi.de/Redaktion/DE/Dossier/mittelstandsfinanzierung.html> und

<https://www.existenzgruender.de/DE/Gruendung-vorbereiten/Finanzierung/Foerderprogramme/inhalt.html>