



# 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. Here is an overview of the various funding instruments:

## 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 €100,000 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 - Universal**

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.

### **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**

The German Accelerator offers support for German start-ups seeking to break onto the US and Asian markets. It does so by providing access to its comprehensive network of companies, investors, start-ups and potential customers from the target countries, as well as tailored advice and support from professional mentors. The German Accelerator Tech (GA Tech), which has bases in Silicon Valley and New York, is aimed at start-ups from ICT and from other tech-related sectors (such as media, finance, cleantech, etc.) and offers the opportunity to spend three months at one of the two locations (with the possibility of an extension phase and a combination of locations). A new “jump start program” (4 weeks) is currently within a testing phase and could be integrated into the German Accelerator architecture in the future.

The German Accelerator Life Sciences (GALS) has been set up to benefit start-ups from the life sciences and from medtech and offers companies a tailor-designed stay in Boston. The German Accelerator enables around 70-80 start-ups to spend time in the USA each year.

A new German Accelerator (GASEA) was opened in Singapore in March 2018. GASEA is expanding its contacts in the ASEAN region, and in future in east Asia in general, and offers a 5 months program. To enable the access to the Asian start-up markets a new short term program opportunity (“Next Step Asia”) was introduced in 2019 and is conducted with regional partners of the GASEA. The short term trip (about 2 weeks) helps start-ups to immerse into Southeastern and Eastern Asia start-up hubs (Singapore plus another start-up hub). In general the GASEA aims to support around 30 start-ups each year.

### **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 loan**

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.

### **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 average volume of investment is between €20 million up to a maximum of €60 million (this sum is financed equally by the EIF/ERP Special Fund). The volume of the fund of funds was increased from €1.0 billion to €2.7 billion during the last legislative term. 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 (EAF)**

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**

provides funding for young and innovative companies in the same amount and on the same economic terms as the private-sector lead investor. The investment is limited to €10m per company. coparion is able to allocate this maximum amount over several financing rounds. As a result, the €275 million fund enables innovative young companies to draw on funding worth at least approx. €550 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**

On the basis of a decision by the Bundestag, the Economic Affairs Ministry, the Finance Ministry and the KfW have drafted an overall concept for an organisationally independent, growth-oriented venture capital company; it started operations as "KfW Capital" in October 2018.

Up to 2020, KfW plans to successively double the annual amount of funding provided by KfW Capital to €200 million. This initially takes place primarily via investments in venture capital funds, particularly as part of the ERP-VC Fund Investments programme, which has been in place since 2015 (see below). Also, KfW Capital is a partner in the High-tech Start-up Fund and coparion (see above).

Further to this, KfW Capital aims to improve the quality of the venture capital funding. The aim is to develop a product structure in which the individual financing phases are dovetailed throughout the entire company lifecycle. In total, the expansion should result in funding commitments of around €2 billion in the next ten years or so.

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

KfW Capital invests up to €25 million in selected venture capital funds in Germany and Europe which take stakes in young, growth-oriented technology companies. The risk of the investment is borne by the ERP Special Fund. From 2020, the aim is to invest €180 million p.a.

### **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 will 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.

### **Tech Growth Fund**

The Tech Growth Fund offers venture debt finance to companies in the growth phase. Venture debt is a form of debt financing that is used by commercial banks and funds in addition to equity financing. This market segment is still underdeveloped in Germany compared with other countries. The Tech Growth Fund consists of several modules which are primarily implemented in cooperation with KfW, the European Investment Bank (EIB) and the European Investment Fund (EIF). Established instruments like ERP Venture Capital Fund Financing and the ERP/EIF/Länder Mezzanine Fund of Funds have already been opened up to venture debt financing in this way.

The latest part of the Tech Growth Fund, which commenced operations at the end of 2018, is the KfW programme Venture Tech Growth Financing. In this programme, the KfW can issue €50 million of venture capital loans to innovative fast-growth tech companies each year. Over the entire funding period, at last €500 million in funding will be made available together with private-sector investors to start-ups in the growth phase.

#### **Further information:**

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

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