

FACTS & FIGURES

Incentives in Germany

Supporting Your Investment Project

ISSUE 2022



Public Funding of Investment Projects: Objectives

Germany offers a number of project financing incentives to all investors – regardless of country of provenance. Funds are provided by the German government, the individual federal states, and the European Union (EU). Incentives in Germany have a sustainable effect as they support companies in different project stages: from setting up new production or service facilities to R&D activities.

Supporting New Investments

Many incentives target new investments with a specific focus on promoting economic growth. Funding to the tune of approximately EUR 21 billion has been freed up by the EU (co-financed using means obtained from German federal and federal state budgets) for the period 2021 to 2027. In addition, Germany and its individual states also make their own incentives funds available.

When it comes to investor production or service facility set-up costs, investors can count on a number of different public incentives programs. Cash incentives provided in the form of non-repayable grants form an important instrument used.

Promoting Innovation

A major focus of financial support available in Germany is put on assisting research and development (R&D) activities as they are considered to be among the most important areas for the development of the German economy. Industry and the public sector have made a commitment to spend around 3.5 percent of national GDP per year on R&D activities until 2025. This amounted to EUR 106 billion R&D spending in 2020. The campaign "High-Tech Strategy 2025" - as successor initiative of the "High-Tech Startegy" - has been launched by the German government to foster the advancement of new technologies.

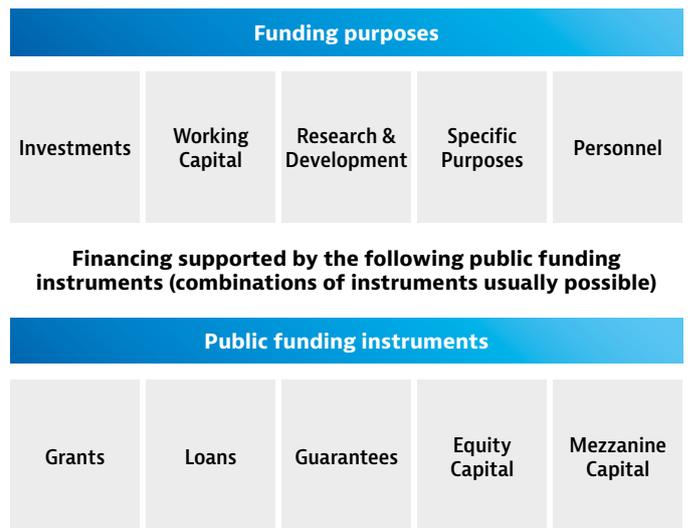
Incentives Instruments

Incentives in Germany are available through different public funding instruments, different institutions and for different funding purposes. The individual funding requirements may, for example, result from investment projects, research and development activities, personnel recruitment, working capital needs or other specific purposes. The different incentives instruments including grants, loans and guarantees are generally available for all funding purposes and can normally be combined; thereby matching different business activity needs at different development stages of the company.

At a Glance

- Amount of EU-funding (EU Cohesion and Structural Policy) available 2021-2027: EUR 21 billion
- Annual R&D spending (industry and public sector): EUR 105 billion in 2020
- Efficient incentives support according to company's project needs

Incentives in Germany



Meeting the Capital Needs of Investment Projects

Germany has organized its economic promotion policy according to the needs of enterprises. Incentives support is guided by the financial needs of a company's individual project, thereby making the business activity assistance very efficient. During the investment phase (when capital needs are high), cash incentives programs reimburse direct investment costs by providing non-repayable cash grants. Public loan programs and guarantees round off investment project financing. Once operations have started, labor-related incentives programs support companies during all stages of putting together a workforce. Particular emphasis is placed on R&D projects which receive financial assistance from a number of different programs.

Public Funding of Investment Projects: Instruments

Public funding in Germany is multifaceted and is essentially structured into four pillars: direct grants, public loans, public guarantees, and equity capital. The various instruments are used in a wide range of incentive programs.

Grants for Investments, R&D, and Hiring Personnel

Direct grants are of central significance within the Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur" (GRW - Joint Task for the Improvement of Regional Economic Structures) incentive program, which is used in designated support areas. GRW grants are mainly designed to reduce the investment costs for building new business premises. Other grant programs are used to stimulate activities related to research and development or the deployment of new technologies and are offered by a wide range of specialist institutions. Grant programs for employment are also noteworthy.

Project Financing by Public Loans

Public promotional loans are another attractive and important funding instrument. Such loans are available for investments, working capital, R&D projects, recruitment or other specific purposes relating to the investment project in Germany. These funds are awarded by the publicly owned KfW Group at the national level, and by the business development banks at federal state level. Complementary public guarantees are used to simplify investor access to financing by strengthening their collateral (leverage).

Project Financing by Private Equity

Innovative start-ups in particular have to rely largely on financing through equity such as venture capital (VC). In Germany, appropriate VC partners can be found through the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V. (BVK - German Private Equity and Venture Capital Association). Special conferences and events like the Deutsches Eigenkapitalforum (German Equity Forum) provide another opportunity for young enterprises to come into direct contact with potential VC partners. Public institutions such as the VC-entities of the different business development banks and public VC companies may also offer partnership programs at this development stage.

At a Glance

- International companies profit from incentives support with same conditions as German companies
- Combination of different incentives instruments normally possible
- SMEs often profit from preferential program terms

Criteria Determining Company Size

Company category	Staff head count	Annual turnover	Annual balance sheet total
Small enterprise	< 50	≤ EUR 10 million	≤ EUR 10 million
Medium-sized enterprise	< 250	≤ EUR 50 million	≤ EUR 43 million
Large enterprise	≥ 250	> EUR 50 million	> EUR 43 million

The criterion concerning the head count is compulsory. In addition, either of the annual turnover or the balance sheet criteria must also apply.
Source: European Commission

How to Determine Investment Project Incentives Levels

Each incentives program defines industries as well as forms of investments (e.g. greenfield or expansion projects) eligible for funding. International investors enjoy exactly the same conditions available to German investors. Each program has a set of criteria (such as company size, planned investment project and investment location) which determine individual investment project incentives levels. Company size is determined according to a European Union-wide classification system in which enterprises are categorized as being small, medium-sized or large according to their employee numbers, and annual turnover or annual balance sheet total. Most incentives programs offer the highest incentives rates to small and medium-sized enterprises (SMEs). Some programs may even specifically target SMEs. Other criteria determining project eligibility may be defined subject to individual incentives programs and federal state regulations.

Incentives Calculation Example

Germany Trade & Invest provides a range of inward investment services to international investors including project-specific financing and incentives consultation. We focus on a comprehensive incentives assessment based on the investor's project plan; followed by a calculation of available incentives support that simplifies incentives negotiations with local authorities.

Here we provide an example of how investment project financing can be complemented with financial support from Germany's different incentives instruments. The possibility to combine different instruments makes it easier for investors to structure project funding. Our example shows the opportunities that a combination of key public funding instruments offers.

Investment Case Scenario

An enterprise has decided to set up a production facility near the Polish border. Besides management, five new jobs will be created in order to run the facility. The company has more than 50 but less than 250 employees. With an annual turnover of EUR 30 million and a balance sheet total of EUR 35 million, the company meets the EU Commission's criteria for classification as a medium-sized enterprise. An investment of EUR 2 million in machinery and equipment is necessary for a successful realization of the project. The company has EUR 500,000 equity for the investment in place. The financial shortfall amounts to EUR 1.5 million.

Incentives Instrument I: Investment Grants

The calculation basis for determining the possible amount of investment grants receivable through the GRW program might be the actual investment costs (e.g. for buildings or machinery) or (assumed) wage costs for two subsequent years. The costs for the new facility's equipment and machinery are eligible for investment grants (the specific eligible costs for equipment are defined in the GRW regulations at the national and regional level). In this scenario, the calculation of the maximum possible grants amount is based on the number of new jobs to be created. The maximum eligible investment costs per new job are EUR 750,000 (as defined by GRW regulations), meaning that up to EUR 3.75 million investment costs would be eligible when creating five new jobs. The company's planned EUR 2 million investment lies within the scope of the maximum amount of eligible investment costs. Based on the incentive level in the Polish border region (35 percent for a medium-sized enterprise), the company can calculate with GRW investment grant funding of EUR 700,000.

Incentives Instrument II: Public Loans

The outstanding funding amount of EUR 800,000 (Investment: EUR 2 million – Equity: EUR 500,000 – Grants: EUR 700,000) for the planned investment could be covered by a public promotional loan. The "ERP – Promotional Loan SME" is one of the prominent loan programs provided by the KfW, the national business development bank of Germany. It offers long-term fixed attractive interest rates and loan maturities as well as no principal payments during the start-up years. A very interesting feature of the "ERP – Promotional Loan SME" is the available liability waiver of 50 percent of the pending loan amount. The liability waiver reduces the default risk for the intermediary commercial bank and creates an incentive to finance the project. Another option in such cases is to secure the loan using a public guarantee. The investor can apply for a public guarantee to reduce the risk from the project financing up to 80 percent of the remaining credit balance.

Final Investment Project Financing Structure ME settling in C region bordering Poland

Investment Case Scenario

Investment costs	EUR 2,000,000
Jobs to be created	5 (permanent)
Equity capital	EUR 500,000

Financing gap -EUR 1,500,000

Incentives Instrument I: Investment Grants

Max. eligible investment costs	EUR 750,000 per workplace
Max. eligible investment costs for actual project	EUR 2,000,000 (total investment sum)
Basic incentive level	35% of eligible investment costs
Amount of cash incentives	EUR 700,000

Remaining financing gap -EUR 800,000

Incentives Instrument II: Public Loans

Public promotional loan ("ERP - Promotional Loan SME")	EUR 800,000
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Effectively Reducing Investment Costs

Non-repayable grants are an effective means of significantly reducing production/manufacturing or service facility set-up costs. Germany offers one major program directing the allocation of investment grants throughout Germany: *Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur"* (GRW – Joint Task for the Improvement of Regional Economic Structures).

GRW Cash Grants

The GRW is a national incentive program that steers the distribution of direct subsidies for different investment projects across Germany in specified areas. Its main objective is promoting regional economic development by job creation. Eligible costs include capital expenditures or personnel costs during the establishment phase.

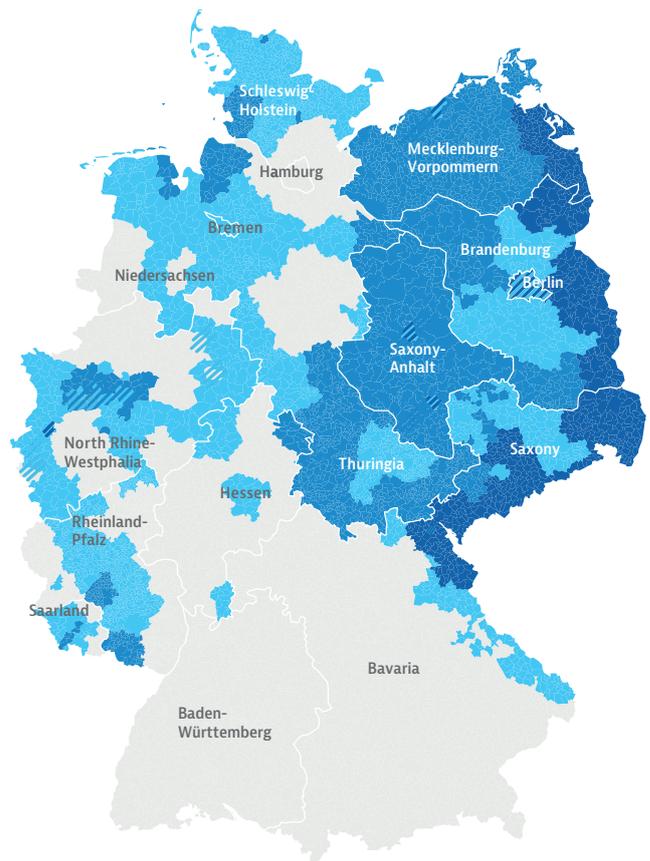
GRW Regions in Germany

The European Commission defines the assisted regions and the maximum funding rates across the entire EU, conducting audits at regular intervals. A new GRW regional aid map came into effect in Germany in January 2022, and is valid until December 2027. The region's previous economic performance, unemployment and population shrinkage are used to define so-called C and D areas with different funding rates. The funding rates in C-regions depend on the degree the criteria are met. C-regions are located mainly in eastern Germany. A special set of circumstances applies to German municipalities and administrative regions along the Polish and Czech border. Here, companies are eligible to apply for a compensatory differential to the Polish and Czech assisted regions until the end of the present funding period. These regions have the highest funding rates in Germany.

GRW Aid Intensity Levels

The maximum level of support that is permitted varies across the country. At its simplest, it depends on two factors: size of the requesting company (classification as a small, medium-sized, or large enterprise) as well as its investment location within Germany. In the maximum-support areas in Germany, large companies can receive up to 25 percent of their eligible investment costs reimbursed; medium-sized companies up to 35 percent; and small companies up to 45 percent. These maximum-support areas are located in border regions to Poland and Czech Republic. In C-regions (excluding the above mentioned border regions) large companies can receive up to 20 percent of their eligible investment costs reimbursed; medium-sized companies up to 30 percent; and small companies up to 40 percent.

GRW Cash Grants: Available Incentives Rates by Region until 2027



Available Incentives Rates in Incentives Regions Defined by the GRW Program

Region/Enterprise size	Small	Medium	Large
● Border areas	max. 45 %	max. 35 %	max. 25 %
● C region (unemployment + population) ¹	max. 40 %	max. 30 %	max. 20 %
● C region (population) ¹	max. 35 %	max. 25 %	max. 15 %
● C region	max. 30 %	max. 20 %	max. 10 %
● D region	max. 20 %	max. 10 %	max. EUR 200,000

Note: ¹ In predefined areas in C Regions an increased incentive level is confirmed by the EU Commission.

Source: Federal Ministry for Economic Affairs and Climate Action 2022

GRW Grant Conditions

The GRW program defines industries as well as forms of investment (e.g. greenfield projects or expansions) eligible for funding. International investors are subject to exactly the same conditions available to German investors. A set of criteria (including company size, planned investment project location et al.) determines individual investment project incentive levels. Who and what can be funded with GRW grants is determined at the federal level by the GRW coordination framework.

Project Eligibility

Investment projects are primarily eligible for GRW grants for setting up new or expanding existing facilities, for diversification of production, for fundamental changes to production processes, and for investment projects of companies to go beyond the national and EU rules on environmental protection or to improve environmental protection where such regulations do not exist. Even the acquisition of businesses threatened with closure can be eligible under certain conditions. Special terms and conditions may apply to large companies. The GRW program is focused on manufacturing and service industries. Pure sales or marketing activities are not covered by the program.

Calculating Possible Cash Incentives

Project costs and the grant level depending on the eligible investment costs form the calculation basis for determining the possible amount of cash incentives receivable through the GRW program. Eligible costs are either project-related capital expenditures (e.g. for new buildings, equipment, machinery) occurring in the first three years after project start or the personnel costs of the newly created jobs in the first two years. In the case of the wage cost option, lower and upper wage limits apply subject to federal state GRW regulations.

GRW Regulations at Federal State Level

The individual federal states are free to determine individual ceilings for cash grant support but are bound to the maximum incentives level determined by the GRW coordination framework for their respective location. The GRW regulations adopted by each federal state specify in more detail what investments they are intended for as well as any other conditions that must be met. The opportunity that GRW grants can be combined with other funding instruments such as public loans or guarantees is a very interesting feature of the program. Applicable subsidy ceilings have to be taken into account. However, at least 25 percent of investment project financing must be derived from own resources or external financing free of any subsidy.

At a Glance

- Non-repayable grants in specified regions throughout Germany
- Eligible costs: purchase/production costs of new buildings, machinery, and equipment; purchase costs of new intangible assets OR salary costs for two years
- Eligible projects: setting up of new or expanding existing facilities, diversification of production, fundamental changes to production processes
- Eligible industries: most manufacturing and service industries

GRW Cash Grants Application Process

GRW cash grants must be applied for at the federal state in which the investment project will be located. Each federal state operates a state owned business development bank which is responsible for administering as well as approving of cash incentives applications. Please note that applications must be submitted before the actual start of the investment project. It is advisable to discuss possible GRW funding with the relevant business development bank during the elaboration of the investment strategy.

The application process is swift and efficient. Investors should prepare the following documents:

- Official application form
- Bank financing statement on secured project financing
- Business plan
- SME status verification (if applicable)

Investor Support Services

GTAI's Financing & Incentives team develops project-specific recommendations for investment financing based on available public incentives. The team also provides comprehensive information on the different funding programs available and how to apply for them.

➔ invest@gtai.com

Research and Development Project Incentives

Research and development (R&D) is considered to be among the most important areas for the development of the German economy. Industry and the public sector have made a commitment to spend around 3.5 percent of national GDP per year on R&D activities until 2025. This amounted to EUR 106 billion R&D spending in 2020.

Choosing the Right R&D Program

R&D projects can count on numerous forms of financial public support. There are many programs allocating R&D grants, interest-reduced loans and special partnership programs. Financing is provided by the European Union (EU), the German government, and the individual German federal states. R&D incentives programs in the form of grants generally provide money for R&D project personnel expenditure. Other costs for instruments and equipment may also be eligible if they can be clearly assigned to the relevant R&D project. R&D program guidelines specify in detail the eligible costs.

EU R&D Incentives

The EU's Horizon Europe program offers financial support to research and innovation projects at the European level and will run until the end of 2027. Support is allocated in the form of grants covering up to 100 percent of eligible project expenditures. With a total budget of nearly EUR 100 billion, Horizon Europe is the world's largest research funding program. Support is provided to R&D projects working at the transnational level with different project partners. The EU usually issues a call for proposals announcing the research area, eligibility guidelines and the available budget.

German Federal Government R&D Grants

All research programs financed by the German federal government have been concentrated within the High-Tech Strategy 2025. The High-Tech Strategy 2025 defines "future fields of activity" with a high dependency on ongoing high-tech research and development: health & health care; sustainability, climate protection & energy; mobility; urban & rural areas; security; economy & workplace 4.0. Each area consists of a number of different R&D programs. R&D project support is offered in the form of non-repayable grants. Enterprises usually can reach grant rates of up to 50 percent of eligible project costs. Higher rates may be available for SMEs and projects carried out in cooperation. Partnership between project partners, especially between enterprises and research institutions, is usually required. The federal government periodically calls for R&D project proposals followed by a competition of best project ideas.

In addition, a number of national programs without a specific technological focus also exist. Of these, the Central Innovation Program for SMEs (ZIM) is the most prominent. Application for incentives available under this program is possible at any time and without any prior calls for proposals. It makes provision for individual as well as for cooperation projects. It is possible to check the R&D project viability by a feasibility study.

German Federal State Funding

In addition to programs run by the federal government, each German federal state has its own R&D funding programs in place. Regional conditions and structures influence the R&D funding programs available. Some states place particular focus on specific industry clusters. However, there are also a number of programs where a specific technological focus is not required. Cooperation between project partners is not always necessary.

R&D Grant Programs



GRANTS FOR RESEARCH AND DEVELOPMENT

Further R&D Project Subsidy Options

R&D loans can be an alternative to R&D grants and entail several advantages: They are usually not attached to a specific technology field, application is possible at all times, and they can cover higher project costs. R&D loans are provided by different publicly owned development banks at the national and federal level. Equity is offered by both the KfW Group and federal state-owned or public-private venture capital companies to technically oriented companies. Conditions are negotiated on a case-by-case basis.

Research Allowance Act

The German government supports R&D activities of companies flexible by tax relief. Companies with tax status in Germany and performing R&D activities are eligible for a tax credit of up to EUR 1 million annually. The eligible expenditure is the cost to company of salaries paid to employees working on the project, with the tax credit set at 25 percent of eligible costs to a maximum of EUR 4 million. Contract research is also eligible by the research allowance act. Projects qualify for the credit as long as they fall under one of the three broadly-defined research categories (see below). Companies wishing to benefit from the research tax credit act must get a certificate from a statutory body determining whether a project is eligible.

How to Benefit from Public R&D Spending

To participate in R&D grant programs, companies must define an R&D project with clear objectives and a fixed timeline. Projects should be intended to develop a new product, process or service that substantially surpasses existing products, processes or technical services in terms of their functions, parameters or features. An application for R&D funding also has to set out a commercialization plan, detailing how research results will be transformed into marketable products, processes or services that generate additional turnover and/or employment in the region where the R&D project is located.

The aid intensity level for a project depends on the size of the enterprise (small, medium-sized or large); whether the project is conducted in cooperation with other companies or research institutes; and the research category of the project. The research category expresses the scope of the intended project. There are three research categories: (1) fundamental research; (2) industrial research; (3) experimental development.



For individual R&D incentives support please contact GTAI's incentives experts: invest@gtai.com

At a Glance

- Support focuses on R&D grants
- Aid intensity level depends on: company size, research category, degree of partnership cooperation
- National High-Tech Strategy 2025 with planned funding volumes of 3.5 percent of GDP annually (public and private sector together) provided for projects focusing on R&D in "future fields of activity"
- Technology-open programs – with focus on SMEs – also available

Three Research Categories:

- **Fundamental Research**
Experimental or theoretical work aimed at gaining new knowledge
- **Industrial Research**
Research with a specific practical objective aimed at developing new products, processes, or services, or at improving existing ones
- **Experimental Development**
Research aimed at producing drafts, plans, and prototypes

The High-Tech-Strategy 2025



Plastic in the environment is to be reduced.



Industry is to be greenhouse gas neutral.



Mobility is to be clean and networked.



Biodiversity is to be conserved.

Source: The Federal Government 2022

Public Equity Capital Sources in Germany

Certain business situations call for, or even require, an injection of equity capital instead of debt capital. Equity is the owner's capital and therefore represents capital at risk. A solid equity capital foundation increases the company's flexibility in executing its objectives and opens up access to other sources of financing on better terms.

Start-ups and technology companies are often financed by a high degree of equity. However, equity capital also represents an efficient method of business activity financing for companies from the classical industry sectors. In Germany, equity capital from public sources is available from a number of different investor channels.

National Level Activity

The KfW Group provides equity capital as part of its economic development programs. Equity capital is provided indirectly through different channels, for example, through the "High-Tech Start-up Fund" (HTGF - *High-Tech Gründerfonds*) specialized on financing the seed phase of a company or through the coparion GmbH & Co. KG, focusing on the start-up and early growth phase of a company or through the "DeepTech Future Fund" whose investment focus are hidden champions/deep-tech companies with the potential to become a global market leaders.

In 2021, a total of EUR 4 billion of venture capital was invested in Germany.

BVK – German Private Equity and Venture Capital Association e.V.

High-Tech Gründerfonds (HTGF)

The HTGF is the largest and most active seed stage fund in Germany focusing on technology driven start-ups. Investments of up to EUR 1 million are possible in the seed phase. The maximum possible investment level available is EUR 3 million per enterprise. The HTGF has financed more than 670 high-tech start-ups in the last 17 years. More than 150 portfolio companies have successfully exited in that time – proof positive of the HTGF's importance in providing capital to Germany's thriving start-up scene. High-Tech Gründerfonds support goes beyond providing money for realizing new business ideas. It also offers a high level of technology expertise, a broad network of scouts and capital providers to secure further growth of the new company after the seed

phase. Besides the KfW Capital and the Federal Ministry for Economic Affairs and Climate Action, more than 32 renowned German corporations have provided capital to the fund.

coparion GmbH & Co. KG

KfW's coparion GmbH & Co. KG offers young and innovative companies in the start-up and early growth phases direct access to funds of up to EUR 15 million in several rounds. Coparion adheres to a principle of investing in companies who have their headquarters in Germany, and together with other investors subject to the same conditions and amounts. With a fund volume of EUR 275 million, coparion has the required flexibility to invest in promising businesses.

KfW Capital

The KfW Group has concentrated its venture capital (VC) activities within the KfW subsidiary. Its main focus lies in optimizing the accessibility of VC for young, innovative technology enterprises. VC is channeled via investments in venture capital funds and venture debt funds. The investment volume was EUR 200 million annually at the end of 2020. Investments of up to EUR 50 million by KfW Capital per fund are possible. Through this subsidiary the KfW coordinates all its VC activities, such as in the HTGF and coparion GmbH & Co. KG.

Public Private Equity Capital Provider Conditions

	coparion GmbH & Co. KG	High-Tech Gründerfonds (HTGF)
Foundation	2016	2005
Available investment volume per start-up	max. EUR 15 million	max. EUR 3 million
Investment amount	EUR 0.5-8 million	EUR 1 million in the seed phase
Focus	Start-up and early growth phase	Seed financing
Type of investment	Co-investment (pari passu)	Autonomous investment

EQUITY CAPITAL

Federal State Level Activity

Public Venture Capital Companies

Venture capital companies (VCCs) in the federal states offer equity financing to young and innovative enterprises. These VCCs act as subsidiaries of the business development banks of the federal states and support companies actively by providing risk capital as well as management and industry knowledge for their further development. The investment focus is on innovation and is mainly in industry sectors including ICT, life sciences, and new materials. Subject to the regulations of the individual venture capital company, financing volumes of up to EUR 10 million in several financing rounds are achievable.

Public-Private Equity Companies

For established companies seeking to finance further growth, but for start-ups as well, *Mittelständische Beteiligungsgesellschaften* (MBGs - "Public-Private Equity Companies for Small and Medium-Sized Enterprises") are available as financing partners in the federal states. As independent institutes, they are supported by the federal states. MBGs operate primarily through silent participation through the provision of subordinated capital. They have no investment focus on special industry sectors. A capital searching company can expect a financing volume of up to EUR 1 million. It is characteristic that the individual MBGs are only active in their respective federal state. An advantage of financing by capital from the federal state MBGs for companies is that they have easier access to the financing network of the respective business development bank. That is why they are an important instrument for the economic development policy of the federal states.

Choosing Appropriate Equity Providers

There are different channels available for enterprises seeking equity to acquire capital, depending on the company's growth phase status as well as industry sector. A start-up is normally looking for seed financing to develop the business and/or for market entry. In this case, the selection of a venture capital provider is a suitable solution. KfW Capital invests in venture capital and venture debt funds. The list of the invested funds is published online. So called "pitch events" are one way of getting in touch with venture capital companies.

A growing enterprise with a sound track record usually needs capital in order to further expansion. Regional active MBGs are in place to offer capital for expansion financing. Enterprises in a later stage of development are often contacted directly by providers of equity capital looking for investment opportunities. They may also contact equity capital providers directly.

At a Glance

- Public equity companies at federal state level and national level
- Up to EUR 10 million investment
- Capital available for companies in different life cycle stages

Role of Private Equity in Germany

> 400 private equity companies in Germany

> 1,000 companies financed each year

> 5,500 portfolio companies

EUR 274 bn revenue of portfolio companies

EUR 12.6 bn invested in 2021

EUR 68 bn invested in 2017-2021

Source: BVK 2022



GTAI's financing experts support investors in identifying potential equity partners. For further information please contact our financing experts: invest@gtai.com

Financing Investment Projects with Public Loans

Investors can access publicly subsidized loan programs. These programs offer loans at below current market interest rates in combination with grace periods. They are provided by business development banks. Public loans offer investors the opportunity to acquire capital to finance investments or expansions cost-effectively.

Public Loan Modalities

Each financial tool or program offered by business development banks is accessible to foreign investors to finance a respective project in Germany subject to the same financing conditions available to investors from Germany. Loans are secured with the usual collateral. Applications are made through the investor's commercial bank to the respective business development bank. Interest-reduced loans can usually be combined with other public funding instruments.

National Public Loan Programs

The KfW Group is the nationally operating development bank of the Federal Republic of Germany. It makes a number of financing tools available to different target groups. The wide range of financing instruments encompasses promotional loan programs as well as mezzanine financing and private equity. Thanks to its high level of flexibility, the *KfW-Förderkredit großer Mittelstand* ("KfW - Promotional Loan Large Mittelstand") is an important KfW loan program. It is possible to finance up to 100 percent of eligible costs using this loan program. A liability waiver of 50 percent of the pending loan amount in favor of the investor's commercial bank is possible. This program is available for larger, mainly privately owned enterprises with an annual group turnover of up to EUR 500 million.

Business Development Bank Loan Programs

In addition to the KfW Group, each German federal state has its own development bank that finances projects within the respective federal state. State development bank loans are generally tailored to mainly meet the requirements of small and medium-sized enterprises.

Application Procedure

The respective business development bank is contacted via the applicant's commercial bank which complements the financial package. A sound business plan and sufficient collateral are the basis for the integration of public promotional loan programs. Investors should have a bank in Germany to ease the application process.

At a Glance

- Public loans offer reduced, fixed interest-rates, long loan terms, repayment-free periods
- Up to EUR 50 million loan amount at national level

KfW's new business reached EUR 107 billion in 2021. The largest share of new commitments was attributable to business in Germany with a volume totalling EUR 82.9 billion. There was strong demand for the promotion of energy-efficient residential buildings, commercial energy efficiency and renewable energies.

KfW Group

Alternative Incentive Tool

One advantage is that public promotional loans offer the opportunity to finance investments not supported by the GRW program. A classic example is investment made in vehicles usable in public traffic not supported by the GRW cash grants program. Investments and/or costs that can be financed by public promotional loans depend on the single loan program terms and conditions. Also of note is the fact that some public promotional loan programs feature liability waivers. A liability waiver reduces the loan default risk for the intermediary bank and creates an incentive to finance the project. One other option to partially release the intermediary bank from risk of default is the combination of a public guarantee with the public promotional loan. The basis for using this option is the regulation of the respective public loan program and successful public guarantee application.

➔ Investor Support Services

The experts from GTAI's Financing & Incentives team are in place to assist investors in identifying appropriate public promotional loan programs to finance projects using further public financing instruments. invest@gtai.com

Securing Bank Loans with Public Guarantees

Occasionally, loans required for investment projects can only be collateralized partially. Where this is the case, for companies it could be a challenge to attract financing. Public guarantees serve as a loan security or supplement in the case of any shortfall in loan collateral. Public guarantees, in this function, encourage financial institutions (i.e. commercial banks) to offer loans to companies. It should however be noted that public guarantees do not provide cash support or any kind of credit.

How Public Guarantees Work

The guarantee functions as a promise by the guarantor to the lender that, in the event of the borrower defaulting on payment, the guarantor will repay the lender a specified proportion of the foregone principal. In other words, guarantees will be provided by a guarantor to pay all or part of the loan in the case of borrower payment default.

In 2018, more than EUR 1.1 billion in public guarantees was used to secure 5,800 financing projects in Germany.

VDB – Association of German Guarantee Banks

General Terms and Conditions

The guarantee maturity is generally connected to the financing the guarantee is used for. Commitments vouched for within public guarantees are normally subject to intensive individual examination. The applicant has to submit relevant documents (i.e. business plan, company economic documents etc.) to the respective guarantee bank or the mandatory in order to initiate the necessary evaluation procedure. The guarantee costs are divided into one-off costs (e.g. document fee) and an annual fee. The annual fee paid is a percentage of the pending guaranteed amount of the year in question.

Different Public Guarantee Programs

As a financial instrument, the public guarantee is very flexible. Different types of public guarantee programs exist to support different types of investment projects within Germany. The most suitable guarantee program depends on the required amount, the size of the enterprise, and the investment region.

At a Glance

- Ease loans in case of insufficient collateral
- Cover up to 80 percent of respective loan amount
- Available through different programs and institutions depending upon the loan amount to be secured

Loan Guarantee Procedure

Guarantee banks, which have a presence in each federal state as privately organised economic developers, support short-term, mid-term, and long-term loan financing for small and medium-sized enterprises with guarantees generally of up to EUR 1.25 million. The specific maximum possible guarantee amount depends on the regulation of the respective guarantee bank. Public guarantees of up to EUR 3 million are generally offered by the business development banks of the respective federal state. A public guarantee offerings check of the business development bank of the individual federal state would be necessary. A guarantee amount of more than EUR 3 million can be guaranteed directly by the federal states. In individual federal states, a mandatory is in charge of assessing applications for a federal state guarantee.

Application Process

Before starting the investment, the guarantee application has to be submitted to the respective guarantee bank or state mandatory in order to initiate the necessary evaluation process via the investor's commercial bank. In the case of federal state guarantees, a committee deliberates on the application and submits a recommendation. Finally, the state Minister of Finance decides on the allocation. Concurrent EU notification is necessary for guarantees above EUR 15 million.

Germany Trade & Invest's financing experts assist investors in identifying appropriate public guarantee programs and inform about the application procedure.

➔ invest@gtai.com

Supporting Human Resources

Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses. Germany's Bundesagentur für Arbeit (Federal Employment Agency) and the German states offer a range of labor-related incentives programs designed to fit the different company needs when building a workforce.

Four Main Labor-related Incentives Groups

The range of programs offered can be classified into four main groups: programs focusing on recruitment support, training support, wage subsidies, and on-the-job training. Labor-related incentives are available throughout Germany – independent of factors such as company size, industry sector or investment project location. Programs can be carried out and adjusted by the local job center according to investor needs.

Matching Personnel: Recruitment Support

With over 400 local job centers located throughout Germany, the Federal Employment Agency assists companies in finding new employees. Regardless of the qualification or experience level required, job centers offer a competent and professional service as well as market expertise to help identify prospective employees in all sectors. Assistance provided covers everything from job vacancy advertising and pre-selection of candidates (i.e. assessment centers) to the provision of facilities for conducting job interviews. Because job centers are governmental institutions, all services are provided entirely free of charge.

Enhancing Qualification: Pre-Hiring Training

Prospective employees often need to participate in appropriate training measures before operating machinery and technical equipment. Such measures can be organized and administered by external specialist institutions. In general, training program costs of up to 100 percent can be subsidized.

Supporting Integration: Wage Subsidies

Employers can be granted a direct cash payment paid as a proportion of the employee's wage. Grants can account for up to 50 percent of wage costs including social security contributions. They may be provided for a period of up to 12 months. Wage subsidies can be granted when hiring unemployed people. When hiring unemployed people who have disabilities or who are older, wage subsidies can be raised

to a maximum 70 percent of wage costs paid for a period of up to eight years. Wage subsidies are generally allocated if investors provide long-term employment contracts. Please note that wage subsidy applications should be made in advance of the contract being signed.

Professional Development: On-the-Job Training

The German federal states offer a variety of on-the-job training programs. Companies can be supported with subsidies covering up to 50 percent of all training costs. European Union (EU) authorization is required if the amount awarded to a single company exceeds EUR 2 million.

Visa for Highly Qualified Employees

The so-called "EU Blue Card" allows highly qualified non-EU citizens to be fast tracked to employment in Germany. Foreigners may apply for this kind of residence permit if they hold a German university degree (or a proven comparable qualification) and demonstrate a job contract with an annual gross salary of at least EUR 56,400 for 2022. The annual gross salary level is lower but at least EUR 43,992 for 2022 in professions with a particular skill shortage. The EU Blue Card contains the permit to stay and the permit to work in Germany.

➔ For detailed information on German visa and residence permit procedures, please see our "Investment Guide to Germany" online: www.gtai.com/coming-to-germany

Labor-related Incentives at Different Stages of the Hiring Process

Stages of Building a Workforce	Available Incentives
Finding Suitable Staff	Recruitment Support
Testing Candidates	Pre-Hiring Training
Hiring Employees	Wage Subsidies
Further Education	On-the-Job Training

Special Programs: Grants for Hiring Personnel

Besides general labor-related incentives programs that provide support during the hiring process and beyond, there are also special programs that offer support in the form of non-repayable grants throughout Germany. Such programs are usually intended to support companies with a certain need for specialized or highly qualified employees, e.g. when launching research and development (R&D) projects or setting up new company sites. In case of setting up new production sites, personnel costs can also form the basis for cash incentives calculation within the GRW program.

Grants for Hiring Highly Qualified Staff

The hiring of university graduates can also be supported through grants in the form of "Innovation Assistant" programs available in individual federal states. The respective candidate must not have graduated more than two years ago. The Innovation Assistant must also be employed with the purpose of carrying out an innovation project within the company. Small and medium-sized enterprises (SMEs) are eligible for support. Up to 50 percent of the respective labor costs can typically be financed for a period of one to two years subject to the individual program.

GRW Program Options

Another way to reduce personnel costs in the set-up phase is to use the GRW program (Joint Task for the Improvement of Regional Economic Structures). This mainly supports the setting up of new production and service facilities in specific regions in Germany with non-repayable grants. Within the GRW, there is the possibility to calculate funding based on the assumed wage costs instead of project-related capital expenditures.

The availability of this option depends on the GRW funding guideline of the respective federal state. Wage costs can be co-financed for a period of two years per job and also include the employer's contribution to the social security system. Minimum and maximum eligible wage requirements do apply, usually starting at EUR 30,000 per year (employer's gross).

Grants for R&D Project Personnel Costs

A large amount of non-repayable grants is provided to R&D projects each year. These grants are provided through programs operating at regional, national and European level. The grant amount a project is eligible for is normally calculated based on the employee labor costs of the respective project. R&D projects may profit considerably from this type of funding as personnel costs are typically the most significant expense. It is also possible to make multiple applications during any R&D funding program, with several R&D projects active at the same time.

At a Glance

- Available throughout Germany independent of industry and location
- Programs administered by the Federal Employment Agency and the federal states
- Program focus on supporting employee training measures
- Wage subsidies are available

Federal Employment Agency

Germany's Federal Employment Agency offers a broad range of services in the labor and training market for private individuals as well as companies and institutions. To perform these service tasks, it has a nationwide network of employment agencies and branch offices at its command. It also conducts labor market and occupational research, labor market observation and reporting as well as recording labor market statistics.

Services include:

- Placement in training places and workplaces
- Vocational guidance
- Employer counselling
- Promotion of different kinds of training
- Promotion of professional integration of people with disabilities
- Benefits to retain and create workplaces
- Compensation for reduced income, e.g. unemployment benefit or insolvency payments

Investor Support Services

The experts from GTAI's Financing & Incentives team support investors in identifying appropriate programs to finance personnel costs using further public financing instruments. They can also carry out a check to identify what programs can be combined and will put you in contact with the right institution to apply for funding.

➔ invest@gtai.com

Germany Trade & Invest Helps You

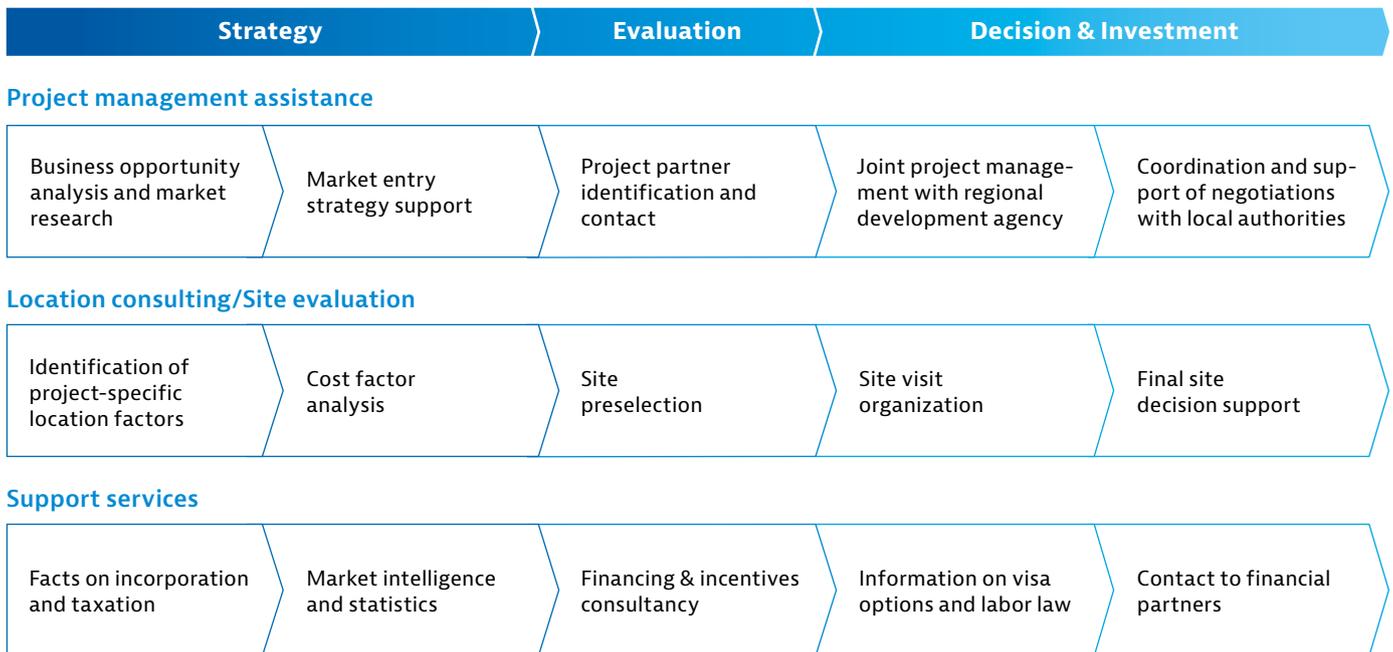
Germany Trade & Invest's teams of industry experts will assist you in setting up your operations in Germany. We support your project management activities from the earliest stages of your expansion strategy.

We provide you with all of the industry information you need – covering everything from key markets and related supply and application sectors to the R&D landscape. Foreign companies profit from our rich experience in identifying the business locations which best meet their specific investment criteria. We help turn your requirements into concrete investment site proposals; providing consulting services to ensure you make the right location decision. We coordinate site visits, meetings with potential partners, universities, and other institutes active in the industry.

Our team of consultants is at hand to provide you with the relevant background information on Germany's tax and legal system, industry regulations, and the domestic labor market. Germany Trade & Invest's experts help you create the appropriate financial package for your investment and inform you about suitable financial partners. Incentives specialists provide you with detailed information about available incentives, the application process, and arrange contacts with local economic development corporations.

All of our investor-related services are treated with the utmost confidentiality and provided free of charge.

Our support services for your investment project



Investor Support Services

Investors can count on Germany Trade & Invest's financing and incentives consultancy services from project beginning to project completion. The team has more than a decade of experience and a proven track record in helping international companies set up their business operations in Germany. Investors receive first-hand information on available public assistance for their individual project. A team of experts focuses on a comprehensive incentives assessment based on the investor's project plan, followed by a detailed calculation of available support for smoother incentives negotiations with local authorities.

The financing and incentives team is part of Germany Trade & Invest's Investor Support Services division. This division also provides a range of other services including tax and legal information services addressing the questions most often posed by international companies regarding incorporation; corporate taxation; entry and residence regulation; and employee and social security obligations.

For questions on financing investment projects in Germany please contact us at invest@gtai.com

For more information about the incentives framework as well as all relevant information on how to set up your business in Germany please visit our website: www.gtai.com/investment-guide

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About Us

Germany Trade & Invest (GTAI) is the economic development agency of the Federal Republic of Germany. The company helps create and secure extra employment opportunities, strengthening Germany as a business location. With more than 50 offices in Germany and abroad and its network of partners throughout the world, GTAI supports German companies setting up in foreign markets, promotes Germany as a business location and assists foreign companies setting up in Germany. All investment services and related publications are free of charge.

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