

Germany Provides Public Funding for Recapitalization and Startup Equity

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Original post [here](#).

In response to the COVID-19 pandemic, Germany has announced two programs that would use public funds to purchase equity in domestic companies. EUR 100 billion is available for recapitalization of companies impacted by COVID-19 and EUR 2 billion is available for startups.

A central component of the German fiscal response is the [Economic Stabilization Fund](#) (Wirtschaftsstabilisierungsfonds or “WSF”), which the Bundesrat (the German federal council) approved on March 27. The WSF has EUR 600 billion in funding, of which EUR 100 billion is earmarked for recapitalization of nonfinancial companies, EUR 400 billion is for loan guarantees, and EUR 100 billion is for direct lending. The new legislation amends a 2008 law that authorized the government to [recapitalize financial institutions](#).

The Federal Ministry of Finance and the Federal Ministry of Economic Affairs and Energy will decide measures for companies that apply for support under the WSF. The agencies will consider the importance of the company in the German economy, the urgency, and the impact on the labor market and competition.

Using the EUR 100 billion earmarked for recapitalization, the WSF can acquire subordinated debt, hybrid bonds, profit participation rights, silent participations or convertible bonds. The WSF can also acquire shares or other components of equity. Recapitalization measures can be implemented until December 31, 2021, and will be based on market terms. The recapitalization measures must ensure that the company is a going concern after the pandemic.

In order to benefit from recapitalization under the WSF, a company must require financial support because of the COVID-19 pandemic and could not be considered in difficulty (per the EU’s definition) as of December 31, 2019. Eligible companies must be unable to access other sources of finance in order to benefit from the WSF funds. Eligible companies must also meet two of the following size requirements:

- At least EUR 43 million in total assets
- At least EUR 50 million in turnover
- More than 249 employees on average

However, exceptions can be made for smaller companies, on the condition that they are important for critical infrastructure or economic and national security. Companies that have been valued at minimum of EUR 50 million in a financing round since January 1, 2017, can also receive support.

On [April 1](#), Germany announced a EUR 2 billion package to support startups during the COVID-19 pandemic. The [package is designed](#) for companies that are unable to receive assistance from the other government support measures. The package has three elements which will be implemented gradually and will leverage existing programs.

[First](#), a portion of the EUR 2 billion in funding will be available for public venture capital investors. These include KfW Capital, the investment arm of the national development bank; the European Investment Fund (EIF); the High-Tech Startup Fund (High-Tech Gründerfonds); and [Coparion](#), a co-investment fund established by KfW and Federal Ministry for Economic Affairs and Energy. These state-owned venture capital investors can co-invest alongside private investors in financing startups. The public funding cannot exceed 70% of the total co-investment. KfW Capital and the EIF will receive additional public funding in order to take over the stakes of funds that pull out. Also, venture capital financing and equity replacement financing will be facilitated for small businesses and new startups that do not have existing venture capitalist shareholders.

The government will also continue to work on a [EUR 10 billion](#) “future fund” for startups. Additional information about this fund is not yet available.

During non-crisis times, Germany provides various financing instruments to support startups, as they are less likely to secure traditional bank financing. The [Federal Ministry for Economic Affairs and Energy](#) provides grants, equity investment, promotional loans, and guarantees to startups. The German Micro-Mezzanine Fund (Mikromezzaninfonds Deutschland) and the High-tech Startup Fund (High-Tech Gründerfonds) are sources of direct investment, while other programs offer incentives for private investors to provide equity to startups, such as the INVEST Grant for Venture Capital.