

COVID-19: PRESSURE POINTS: GERMAN START-UP LIQUIDITY PROGRAMME 2020 (GERMANY)

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Legal Briefings

On 31 March 2020, the German Federal Government (through the German Federal Ministry of Finance and the German Federal Ministry of Economy and Energy) has announced to provide further liquidity measures in light of the ongoing COVID-19 crisis, this time specifically tailor-made and shaped to protect and nourish the German Start-Up community.

According to the German Start-Up Monitor 2019 (published by the German Federal Association of German Start-Ups (*Bundesverband Deutsche Startups eV*)), the German Start-Up community counts around 4,700 founders, 1,950 start-ups and 24,059 employees as of 2019. Please click [here](#) for the full report and [here](#) for the outcomes of a recent survey relating to the particular challenges Start-Ups face in times of the COVID-19 crisis.

In contrast to already well-established businesses, many Start-Ups rely on a different corporate and financial basis, including a small number of employees, a not yet "bankable" business structure together with a still negative EBITDA and only thin liquidity buffers being available, if any. The newly announced measures are particularly designed to address such features.

I. WHICH COVID-19-RELATED ACTIONS HAVE NOW BEEN ANNOUNCED FOR THE GERMAN START-UP COMMUNITY?

- As most of the Start-Ups generally struggle or completely fail to meet the criteria set to access other liquidity programmes announced in relation to the Covid-19 crisis, including, but not limited to the [KfW Liquidity Programme 2020](#), the German Federal Government has now reacted to the demand of Start-Ups to likewise protect the steadily

growing German community.

- German Federal Finance Minister Olaf Scholz, in close cooperation with the German Federal Government's Representative for Start-Ups, Thomas Jarzombek, has therefore announced to provide liquidity measures with a volume of up to EUR 2 billion particularly tailor-made and shaped to help the German Start-Up community. The German Federal Ministry for Finance and the German Federal Ministry for Economy and Energy have issued a brief joint statement relating thereto which can be accessed [here](#).

II. WHO MAY ACCESS THE GERMAN START-UP LIQUIDITY PROGRAMME 2020 AND HOW IS IT STRUCTURED?

- The German Start-Up Liquidity Programme 2020 aims to support businesses being characterised by specific equity or equity-like elements, i.e. Start-Ups and technology-focused companies of the German "Mittelstand" which currently hold cash liquidity in form of large equity portions or convertible bonds. Further specific criteria to access the programme are currently not considered, however some due diligence and assessment features, taking into account the specific character of the Start-Ups continue, will apply.
- Pursuant to the German Federal Government's Representative for Start-Ups, Thomas Jarzombek, the liquidity will however rather not be provided directly to the individual Start-Ups but to private investors who aim to support struggling Start-Ups, in particular through additional financing rounds.
- The relevant formal applications may be submitted by private Venture Capital investors as well as shareholders such as the founders of a Start-Up. When applying, such private investors will have to demonstrate in which Start-Ups in their portfolio they want to invest the requested liquidity and the suitability of such choice will be checked.
- In addition, public Venture Capital investors such as KfW Capital and the European Investment Funds will also benefit from the programme to invest as co-investors jointly with private investors and thereby to avoid shortages and failures of private-only investments. Such backing could also include the acquisition of shares from ceasing private investors by public investors, if necessary and feasible.
- The provided liquidity is structured as debt, which should ideally return to the German taxpayer with a surplus at some point in time, and not as grant.

III. WHEN ARE FUNDS ACTUALLY AVAILABLE?

- Specific dates are yet to be confirmed but the German Federal Government aims to start the programme in the nearest possible future, if feasible, still in April 2020.
- Some parts of the German Start-Up Liquidity Programme 2020 which focus at boot strapped businesses require prior formal approval from the European Union which may delay the introduction of such parts.

IV. ARE THERE ADDITIONAL LIQUIDITY SOURCES AVAILABLE IN GERMANY?

- Yes. In parallel to the implementation of the German Start-Up Liquidity Programme 2020, the German Federal Government prepares the launch of the already announced "Future Funds" (*Zukunftsfond*) for Start-Ups which will offer additional liquidity up to EUR 10 billion. The German Minister of Economy and Energy, Dr. Peter Altmaier, has confirmed that such Future Funds should be available in the foreseeable future.
- The KfW Liquidity Programme 2020 includes measures for businesses being in the market for less than five years. For more information see the [Client Briefing about the KfW Liquidity Programme](#).
- Further international and national instances, such as the European Union, the Federal Republic of Germany and the Federal States of Germany provide additional liquidity measures related to the COVID-19 crisis in general.

For more information on the German Government's response click [here](#).

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