

FACTS & FIGURES

Incentives in Germany

Supporting Your Investment Project

ISSUE 2024



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. Germany and the individual states also make their own incentive funds available.

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

Promoting Innovation

The importance of innovation to the positive development of the German economy means that research and development (R&D) activities are a major focal point of the financial support made available in Germany. Industry and the public sector spent more than three percent of national GDP overall on R&D activities in 2022. This is equivalent to more than EUR 121 billion R&D spending. The federal government has set the goal of increasing spending to 3.5 percent of GDP by 2025. The “Future Strategy Research & Innovation” campaign – a successor initiative of the “High-Tech Strategy 2025” – was launched by the German government in February 2023 to foster the advancement of new technologies.

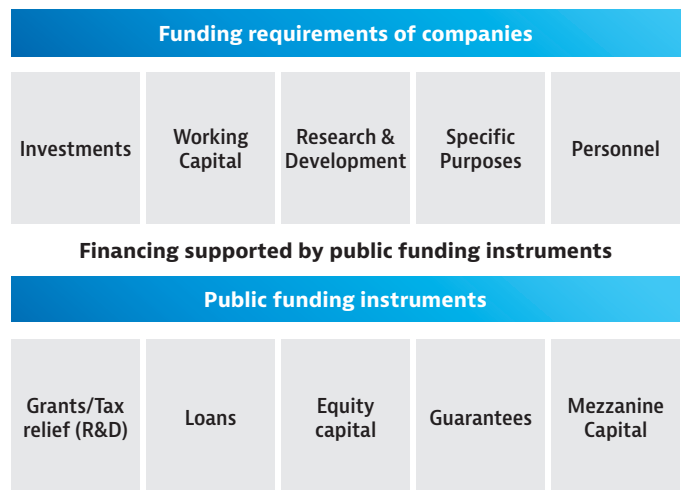
Incentive Instruments

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 incentive 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 121 billion in 2022
- Efficient incentive support according to company’s project needs

Incentives in Germany



Meeting the Capital Needs of Investment Projects

Germany’s economic promotion policy is strongly aligned to meeting the needs of enterprises. Incentive support is guided by the financial needs of individual company projects, thereby making business activity assistance highly efficient. During the investment phase (when capital needs are high), cash incentive 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 incentive programs support companies during all stages of putting a workforce together. Particular emphasis is placed on R&D activities which are eligible for 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: grants, public loans, public guarantees, and equity/venture 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 that is used in designated support areas. GRW grants are mainly designed to reduce the investment costs for building new business premises, for energy efficiency and environment protection measures and for the transition to a net-zero economy. Other grant programs are used to stimulate activities related to research and development or for specific energy and resource efficiency measures and are offered by a wide range of specialist institutions. Grant programs for employment purposes are also worthy of note.

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, 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. Financing solutions –including project loans and intermediate loans – are also offered by the European Investment Bank (EIB) in Germany. Complementary public guarantees are used to simplify investor access to financing by strengthening their collateral.

Project Financing by Private Equity

Innovative start-ups in particular have to rely largely on financing through equity such as venture capital (VC). Depending on the strategic objective of the entrepreneur, VC in the form of venture debt and/or venture equity is available 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 a Glance

- International companies benefit from incentive support with same conditions as German companies in connection with investments in Germany
- Combination of different incentive instruments usually possible
- SMEs often benefit from preferential program terms

Criteria Determining Company Size

Company size	Staff head count	Annual turnover	Annual balance sheet total
Small	< 50	≤ EUR 10 million	≤ EUR 10 million
Medium-sized	< 250	≤ EUR 50 million	≤ EUR 43 million
Large	≥ 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 2003

How to Determine Investment Project Incentive Levels

Each incentive 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 (e.g. company size, planned investment project and investment location) which determine individual investment project incentive 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 incentive programs offer the highest incentive 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 incentive programs and federal state regulations.

Incentives Calculation Example

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

Here we provide a basic example of how investment project finance can be complemented with financial support from Germany’s different incentive 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, ten 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 43 million, the company meets the EU Commission’s criteria for classification as a medium-sized enterprise. An investment of EUR 8 million in manufacturing building, machinery and equipment is necessary for a successful realization of the project. The company has EUR 2.375 million equity for the investment in place. The financial shortfall amounts to EUR 5.625 million.

Incentive Instrument I: Investment Grants

The calculation basis for determining the possible amount of grants for new production facility investment 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. Beside investment grants to set up new production capacities, the GRW program offers grants for climate/environment protection investments, energy efficiency measures and investments in energy generation from renewables for own energy demand coverage.

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 federal state level). In this scenario, the calculation of the maximum possible grants amount is based on the number of 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 7.5 million investment costs would be eligible when creating ten new quality jobs. The company’s planned EUR 8 million investment lies outside 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 anticipate GRW investment grant funding of EUR 2.625 million.

Incentives Instrument II: Public Loans

The outstanding funding amount of EUR 3 million (Investment: EUR 8 million – Equity: EUR 2.375 million – Grants: EUR 2.625 million) for the planned investment could be covered by a public promotional loan. The “ERP – Promotional Loan SME” is a prominent loan program 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. In addition, 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.

Investment Project Funding Structure ME settling in C region bordering Poland

Investment Case Scenario	
Investment costs	EUR 8,000,000
Jobs to be created	10 (permanent)
Equity capital	EUR 2,375,000
Financing gap	-EUR 5,625,000
Incentives Instrument I: Investment Grants	
Max. eligible investment costs	EUR 750,000 per workplace
Max. eligible investment costs	EUR 7,500,000
Basic incentive level	35% of eligible investment costs
Amount of cash incentives	EUR 2,625,500
Remaining financing gap	-EUR 3,000,000
Incentives Instrument II: Public Loans	
Public promotional loan (“ERP – Promotional Loan SME”)	EUR 3,000,000

Effectively Reducing Investment Costs

The *Gemeinschaftsaufgabe "Verbesserung der regionalen Wirtschaftsstruktur"* (GRW – Joint Task for the Improvement of Regional Economic Structures) is the major program directing the allocation of investment grants in defined regions of Germany. Non-repayable grants are an effective means of significantly reducing manufacturing or service facility set-up costs. This funding instrument is also available for investments in environmental/climate protection, energy efficiency measures, the transformation to net-zero economy and to cover own energy demand from renewables.

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 regions. The main objectives are promoting regional economic development by job creation, environment/ climate protection and energy efficiency measures and the transformation to a net-zero economy. Subject to the individual investment purpose, eligible costs may include the

- capital expenditures for setting up new facilities or expanding or diversifying existing facilities
- additional costs to achieve environmental/climate protection and/or energy efficiency effects beyond German or EU norms,
- costs in case of investments to cover the own energy demand from renewables,
- costs for investments to transform to a net-zero economy.

The GRW program is focused on manufacturing and service industries. Pure sales and marketing activities are not covered by the program.

GRW Regions in Germany

The European Commission defines the 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 maximum funding rates. The funding rates in C-regions depend on the degree the criteria are met. The C regions are located mainly in eastern Germany.

GRW Grant Conditions

The GRW program defines industries as well as forms of investment eligible for funding. International investors are subject to exactly the same conditions that are available to German investors. GRW grants can be combined with other funding instruments such as public loans or guarantees. However, at least 25 percent of the eligible investment costs must be financed from non-subsidized sources. Who and what can be funded with GRW grants is determined at the federal level by the GRW coordination framework.

GRW Aid Intensity Levels

The maximum level of support that is permitted varies across the country. At its simplest, it depends on two factors: the size of the requesting company (classification as a small, medium-sized, or large enterprise) as well as its investment location within Germany. Furthermore, the aid intensity levels vary subject to the investment purpose.

When setting-up a new facility 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 the Czech Republic. To cite another example, a company can receive up to 65% (in the case of a small enterprise) of the additional costs as a subsidy for environmental protection investments that exceed existing German or European standards in C regions.

Calculating Possible Cash Incentives

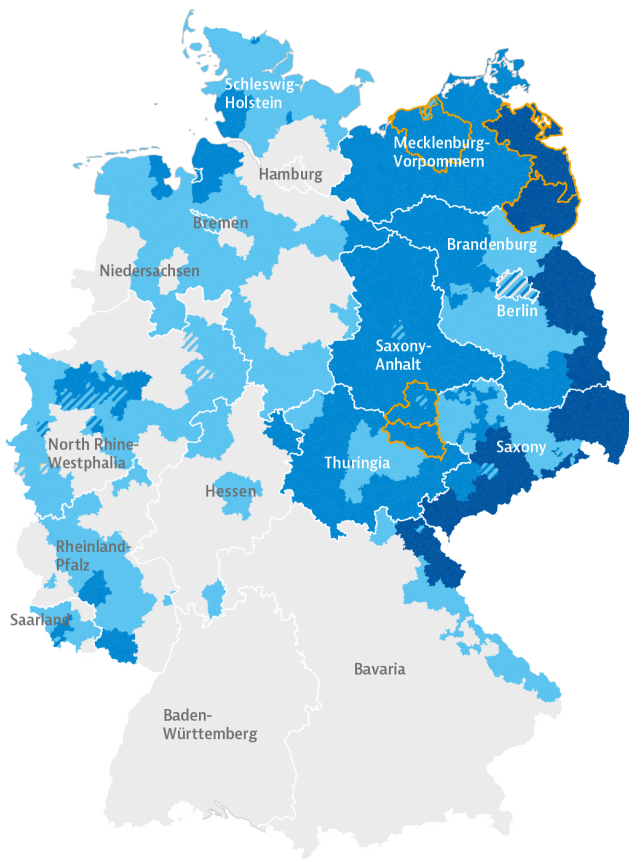
Project costs and the grant level subject to the eligible investment costs form the calculation basis for determining the possible amount of cash incentives receivable through the GRW program. If a company intends to build a new business premises, the eligible costs are either project-related capital expenditures (e.g. for new buildings, equipment, machinery) occurring in the defined implementation period of three years after project start or the personnel costs of the newly created jobs in the first two years of operations. 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 incentive level determined by the GRW coordination framework. 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.

GRANTS FOR INVESTMENTS

GRW Cash Grants: Funding regions



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 or an authorized institution which is responsible for administering investment grant applications. Please note that applications must be submitted before the actual start of the investment project.

The application process is swift. Investors should prepare the following documents: Official application form; bank statement on secured project financing; business plan; expert evidence depending on the investment project; SME status verification (if applicable).

Investor Support Services

Germany Trade & Invest's Finance & 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.de

Incentive Rates for Investment

New Site Establishment until 2027			
Region/Company size	Small	Medium	Large
● C (Border areas)*	max. 45%	max. 35%	max. 25%
● C (Unemployment + Population)*	max. 40%	max. 30%	max. 20%
● C (Population)*	max. 35%	max. 25%	max. 15%
● C	max. 30%	max. 20%	max. 10%
● D	max. 20%	max. 10%	max. EUR 300 k

Energy Efficiency/Environment Protection Measures, Green Energy Production for own needs until 2027				
Region/Company size	Investment	Small	Medium	Large
●● C	Environment protection	max. 65%	max. 55%	max. 45%
● D		max. 60%	max. 50%	max. 40%
●● C	Energy efficiency	max. 55%	max. 45%	max. 35%
● D		max. 50%	max. 40%	max. 30%
●● C	Green energy production for own needs	max. 65%	max. 55%	max. 45%
● D		max. 65%	max. 55%	max. 45%

Transition towards a Net-Zero Economy until 2025				
Region/Company size	Incentive Instrument	Small	Medium	Large
●● C	Cash Grant max. 200 m EUR	max. 40%	max. 30%	max. 20%
● D		max. 35%	max. 25%	max. 15%
●● C	Tax relief, Loans, Guarantees	max. 45%	max. 35%	max. 25%
● D		max. 40%	max. 30%	max. 20%

📍 Funding areas of the GRW special program, applications are possible until 31.12.2032 (City of Halle/Saale is not a funding area of the GRW special program)

Note: *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 2024

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 financing for all industry sectors. Depending on a company's growth phase status and industry sector, different amounts of equity capital will be needed. In Germany, equity from public sources is available from a number of different channels.

National Level Activity

The KfW Group provides equity capital as part of its economic development activities. Equity capital is provided by the KfW Group entity KfW Capital with the objective to strengthen the venture and growth capital supply for innovative technology enterprises. KfW Capital invests on behalf of the German Federal Government in German and European venture capital funds that are committed to invest at least in innovative German technology companies. 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. Against this background public equity capital is provided indirectly through 85 VC-funds/entities, including, through the HTGF - High-Tech Gründerfonds, coparion GmbH & Co. KG and through the DeepTech & Climate Fund.

High-Tech Gründerfonds (HTGF)

The High-Tech Gründerfonds (HTGF) is the largest and most active seed stage fund in Germany focusing on technology driven start-ups. The initial investment (seed phase) totals EUR 1 million. The maximum possible investment level available amounts to EUR 4 million per enterprise. The HTGF has financed more than 750 high-tech start-ups since its establishment in 2005. More than 180 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. The HTGF 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, more than 45 renowned German corporations have provided capital to the fund.

coparion GmbH & Co. KG

Coparion GmbH & Co. KG offers young companies in the start-up and early growth phases direct access to funds of up to EUR 15 million in several rounds. The VC company is focused on investing in technology and does not have an exclusive industry preference. Coparion invests in companies headquartered in Germany together with private investors subject to the same conditions and amounts. With a fund volume of total EUR 275 million, coparion has the flexibility required to invest in promising businesses.

DeepTech Climate Fund (DTCF)

Established in 2023, the one-billion-euro DeepTech & Climate Fonds (DTCF) is a VC fund for innovative ground-breaking technology ("deep tech") and climate-tech companies with high financial requirements and validated business models. The DTCF acts as a co-investor together with private investors with investment focus on computing, climate, life science, industrial. The DTCF has made six investments since its launch. The initial investment totals EUR 1 million with a maximum investment level of EUR 30 million available per enterprise.

SPRIND

SPRIND GmbH (Federal Agency for Disruptive Innovation) is driving groundbreaking innovations on behalf of the federal government. The agency supports and accelerates the development of potentially disruptive projects or business concepts. It's the concept to assist high potentials from universities, research institutions or economy with funds and know-how.

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

Federal State Level Activity

Public Venture Capital Companies

Venture capital (VC) companies in the federal states offer equity financing to young and innovative enterprises. These VCs 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 mainly on industry sectors including ICT, life sciences, and new materials. Subject to the regulations of the individual venture capital company, financing volumes of around EUR 10 million are achievable.

Public-Private Equity Companies

For established companies seeking to finance further growth, as well as for start-ups, 15 MBGs (*MBG: Mittelständische Beteiligungsgesellschaften* – “Public-Private Equity Companies for Small and Medium-Sized Enterprises”) are available as financing partners in the federal states. Acting as independent institutions, they are supported by the federal states. These MBGs operate primarily through silent participation by providing subordinated capital. The investment focus is not limited to special industry sectors. An equity 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. They do not operate to maximize profits primarily. A further advantage is that an MBG investment is recognized as economic capital and thus improves the company’s rating. With an improved rating, a company has easier access to bank financing.

European Level Activity

EIC Accelerator (European Innovation Council)

As a funding program under Horizon Europe (see R&D), the objective of the EIC Accelerator is to develop and to scale up innovations to disrupt existing markets or to develop new ones. The predefined TRL is five to nine. Start-ups up to mid-caps are area of focus. Subject to company size, company phase and TRL level reached, the EIC Accelerator offers grants, direct investment and blended finance. National contact points provide valuable information and assistance.

European Investment Bank (EIB)

The European Investment Bank (EIB) offers a wide range of financing solutions. Equity financing from the EIB is provided for SMEs and mid-cap companies among others through equity funds. The equity funds that the EIB has invested in are published on the EIB website. Venture debt from EIB provides liquidity for terms of five or more years to fast growing early-stage enterprises backed by equity investors. The investment focus of the EIB as patient investor corresponds to the strategic objectives of the European Union.

At a Glance

Public equity companies at national, European level and federal state level

- Up to EUR 30 million investment
- Capital available for companies in different life cycle stages

Private Equity in Germany

> 470 private equity companies in Germany

> 770 companies financed in 2023

> 5,500 portfolio companies

EUR 293 bn revenue of portfolio companies

EUR 10.5 bn invested in 2023

EUR 76 bn invested in 2018-2023

Source: BVK 2023

Choosing Appropriate Equity Providers

There are different channels available for enterprises seeking equity to acquire capital, subject to the company’s growth phase status as well as industry sector. Germany Trade & Invest’s financing experts help investors in identifying potential equity partners.



For further information please contact our financing experts at: invest@gtai.de

Supporting Human Resources

Labor-related support plays a role in reducing the costs when setting up new businesses. Germany's *Bundesagentur für Arbeit* ("Federal Employment Agency") and the German states offer a range of labor-related support programs designed to fit different company needs when building a workforce.

Four Main Labor-related Support Groups

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

Matching Personnel: Recruitment Support

With 600 branches and 300 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 and agency branches offer a competent service as well as market expertise to help identify prospective employees. Assistance provided covers everything from job vacancy advertising and preselection of candidates. Because the Federal Employment Agency and its job centers are governmental institutions, all services are provided entirely free of charge.

Enhancing Qualification: Training Support

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. The Federal Employment Agency offers a variety of on-the-job training programs to advancing professional development. Companies can be supported with subsidies covering up to 75 percent of the wage costs for the training term and up to 100 percent of the training costs subject to company size. European Union (EU) authorization is required if the amount awarded to a single company exceeds EUR 2 million.

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

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.

Services include:

- Placement in training places and workplaces
- Vocational guidance and employer counselling
- Promotion of different kinds of training
- Promotion of professional integration of people with disabilities
- Benefits to retain and create workplaces
- Labor market research and reporting

contributions. They may be provided for a period of up to 12 months. 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.

Labor-related Incentives at Different Stages of the Hiring Process



Special Programs: Grants for Hiring Personnel

Besides general labor-related 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. Other 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 the case of new company sites being established, personnel costs can also form the basis for cash incentives calculation within the GRW program.

GRW Program Options

The GRW program (Joint Task for the Improvement of Regional Economic Structures) provides an opportunity to reduce personnel costs in the set-up phase. This instrument 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.

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 prior to the application. 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.

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. Research and development 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.

Residence Permit for Skilled Employees

In general, residence permits for qualified professionals are issued where applicants have a concrete job offer, a sufficient qualification and approval from the Federal Employment Agency (FEA). A reform of the Skilled Immigration Act has further opened the German labor market to qualified professionals from outside the EU. Qualified professionals include university graduates and persons who have successfully completed quality vocational training. Foreign qualification - both academic and vocational - must be checked for equivalence with German qualifications and officially recognized. A new feature is the possibility to do this after entry into Germany.

For this purpose, skilled workers and employers must agree on a recognition partnership. In specific cases, even job experience and qualification obtained and recognized abroad may be adequate.

The EU Blue Card allows qualified professionals with a German university degree (or a proven comparable qualification) to be fast-tracked into employment in Germany. Through the reform, the EU Blue Card is now available to a greater number of skilled workers as the statutory minimum salary threshold has generally been lowered. In addition, the scope of the EU Blue Card for professions in special demand has been significantly expanded.



For detailed information on German visa and residence permit procedures, please see our "Investment Guide to Germany" online: *Visa and Residence Permit for Business in Germany* (gtai.de)

Investor Support Services

The experts from GTAI's Finance & Incentives team support investors in identifying appropriate programs to finance personnel costs using 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.

➔ Contact: invest@gtai.de

Financing Investment Projects with Public Loans

Investors can access publicly subsidized loan programs in Germany. These programs offer loans at attractive interest rates in combination with additional favorable terms (e.g. grace periods). They are provided by business development banks – publicly owned and organized banks which exist at European, national and federal state level. Investors benefit from public loans as a means of acquiring capital in a cost-effective way during the investment or expansion phase – thereby easing long-term financial planning.

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 collateralized by the usual loan securities. Applications are made through the investor's main bank to the respective business development bank. Promotional 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 equity capital. Thanks to its 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. This program is available for larger, mainly privately owned enterprises with an annual group turnover of up to EUR 500 million. Further loan programs focus on, for example, renewable energy and energy-efficient investments.

Business Development Bank Loan Programs

Each German federal state has its own business development bank that finances projects within the respective federal state. These loan programs are generally tailored to mainly meet the requirements of small and medium-sized enterprises.

Application Procedure

The respective business development bank (at national or federal state level) is contacted via the applicant's main bank, the intermediary bank, which complements the financial package. A sound business plan and loan collateral

At a Glance

- Public loans offer reduced, fixed interest-rates, long loan terms, repayment-free periods
- Up to EUR 100 million loan amount depending on the promotional loan program
- Loan solutions from public sources are available on regional, national and European level

are the basis for the integration of public promotional loan programs. Investors should have a German bank or a subsidiary of their domestic bank in Germany to carry out the application process.

Alternative Incentive Tool

One advantage is that public promotional loans offer the opportunity to finance investments not eligible by the GRW program. Investments and/or costs that can be financed by promotional loans depend on the single loan program 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. One other option is the combination of a public guarantee with the public loan. The basis for using this option is the credit term of the respective public loan program and successful public guarantee application.

European Investment Bank

The European Investment Bank (EIB) offers different loan solutions in its broad product portfolio. As the bank of the European Union, the EIB finance investments in predefined areas, e.g. climate and environmental sustainability; innovation, digital and human capital; sustainable energy and natural resources; SMEs. Subject to the loan amount requested, an enterprise can apply for a project loan directly or intermediated loans in the case of SMEs.

Investor Support Services

The experts from GTAI's Finance & Incentives team are on hand to assist investors in identifying appropriate public promotional loan programs to finance projects using further public financing instruments.

➔ Contact: invest@gtai.de

Securing Bank Loans with Public Guarantees

Loans for financing economically appropriate projects requires adequate collateral. In individual cases, the provision of accepted collateral can be a challenge for enterprises. Public guarantees are cost-efficient loan security or are a supplement in the case of any shortfall in collateral. Public guarantees, in this function, encourage financial institutions (i.e. commercial banks) to offer loans to companies.

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 2023, more than EUR 1.1 billion in public guarantees was used to secure 4,223 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 subject to individual examination. Subject to the required guarantee amount the application is submitted via the investor's main bank to the respective guarantee bank or the mandatory in order to initiate the necessary evaluation and approval procedure. If a smaller loan should be guaranteed the applicant company can apply to the respective regional guarantee bank directly. 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 for 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 organized 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 and the regulation of the respective federal state. Public guarantees up to EUR 3 million are generally offered by the business development banks of the federal states. A check of the offerings of the respective business development bank is necessary. A guarantee amount of above EUR 3 million can be guaranteed by the respective federal state.

Application Process

Before starting the investment, the guarantee application has to be submitted to the respective guarantee bank or state mandatory via the investor's commercial bank in order to initiate the necessary evaluation process. In the case of federal state guarantees, a committee deliberates on the application and submits a recommendation. Finally, the respective 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.

➔ Contact: invest@gtai.de

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 121,4 billion R&D spending in 2022.

Choosing the Right R&D Program

Research and development 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. Research and development incentive 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. The R&D program guidelines specify the eligible costs in detail.

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

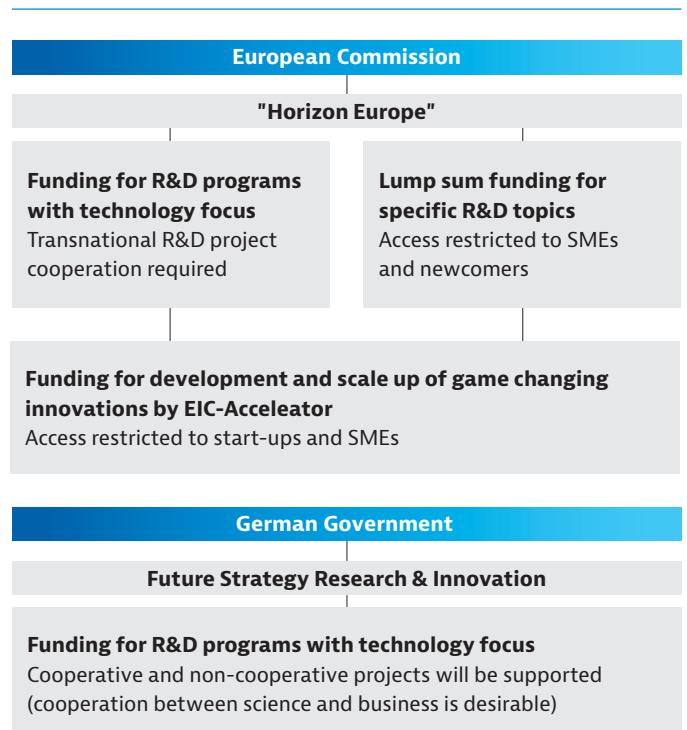
All research programs financed by the German federal government have been concentrated within the Future Strategy Research & Innovation. The Future Strategy Research & Innovation defines six priority areas for tackling transformation challenges anticipated in the upcoming years. Each area consists of a number of different R&D programs. R&D projects support is offered in the form of nonrepayable grants. Grant rates can reach up to 50 percent of eligible project costs in the research category experimental development. Higher rates may be available for SMEs and projects carried out in cooperation. The federal government periodically calls for R&D project proposals followed by a competition of best project ideas.

There are also a number of national programs without a specific technological focus. 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. The R&D project viability can be determined by carrying out 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

Research and development 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.

R&D-Tax Credit: Research Allowance

Germany supports R&D activities of companies flexible by tax relief. Enterprises with tax status in Germany and performing R&D activities can benefit from a tax credit of up to EUR 2.5 million annually. The eligible expenditure is the cost to company of salaries paid to employees working on the project, depreciation on project connected assets and/or remuneration for contract research. The tax credit is set at 25 percent of eligible costs to a maximum of EUR 10 million annually. Companies wishing to benefit from the research allowance must obtain a certificate from the Certification Body Research Allowance 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 at: invest@gtai.de

At a Glance

- Support focuses on R&D grants
- Aid intensity level depends on: company size, research category, degree of partnership cooperation
- Future Strategy Research & Innovation focusing on R&D in priority areas for tackling transformation challenges
- 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

Future Strategy Research & Innovation: Shaping Transformation Processes (core areas)



Source: Federal Ministry of Education and Research (BMBF), 2023

Germany Trade & Invest Helps You

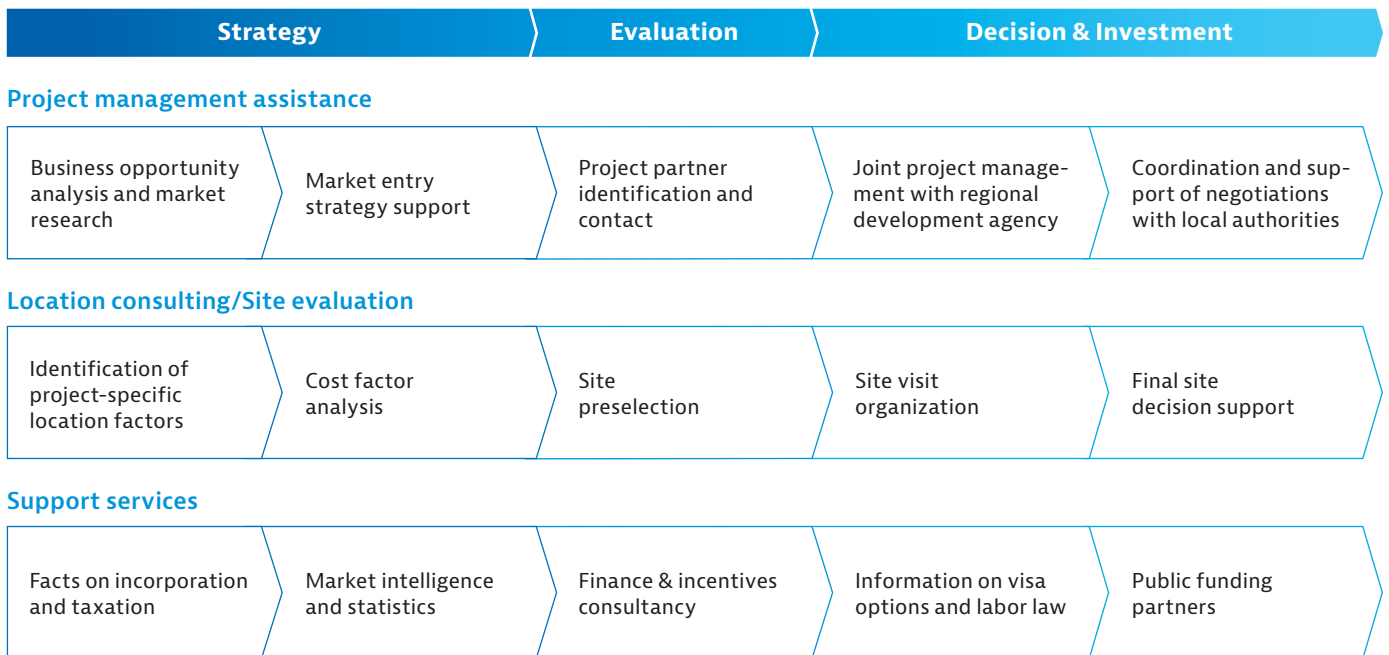
Germany Trade & Invest's teams of industry experts will assist you in setting up your operations in Germany. We support your project management activities from the earliest stages of your expansion strategy.

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.

The finance 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 info@gtai.de

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.de/investment-guide

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Notes

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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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