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.

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

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 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.
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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.

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

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.

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.
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