

# Corporate financing in times of the coronavirus – available government programmes

IN ORDER TO MITIGATE THE ECONOMIC CONSEQUENCES OF THE CORONAVIRUS PANDEMIC, VARIOUS ECONOMIC AND FINANCIAL POLICY MEASURES HAVE BEEN ANNOUNCED, INITIATED AND ADOPTED AT FEDERAL AND STATE LEVEL SINCE MID-MARCH 2020. THE NUMBER OF AID AND RELIEF MEASURES CONTINUES TO GROW ALMOST DAILY. THIS GSK UPDATE INTENDS TO REGULARLY PROVIDE AN OVERVIEW OF ALL OF THE DIFFERENT AID MEASURES.

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Since mid-March, the Federal Government has announced, initiated or adopted comprehensive packages of measures to cushion the impact of the coronavirus pandemic on companies and the labour market as much as possible. With a “protective shield” for the economy worth billions of euros, the Federal Ministry of Economic Affairs and Energy wants to provide fast and unbureaucratic assistance for small and medium-sized companies, corporations, one-person businesses and freelancers. Since the individual federal states are also very active in this respect, the number of aid and relief measures is currently growing almost daily.

## A. Aid Programmes at the federal level

### I. Protective shield for businesses and companies

The protective shield for businesses and companies worth billions of euros is intended to provide liquidity assistance to companies facing financial difficulties through no fault of their own. These measures are unlimited in volume.

#### 1. Easier access to loans from the state-owned *Kreditanstalt für Wiederaufbau (KfW)*

First, access to loan programmes is made easier. The conditions for the KfW Entrepreneur Loan and the ERP Start-up Loan – Universal shall be eased. Both, the KfW Entrepreneur Loan and the ERP Start-up Loan – Universal are now available to companies of all sizes facing temporary financial difficulties due to the coronavirus crisis.

The respective amounts of the KfW Entrepreneur Loan and the ERP Start-up Loan are limited to 25% of the applicant’s annual turnover in 2019 or to its current liquidity need (maximum up to EUR 1 billion). For small and medium-sized companies, KfW offers a 90% risk assumption (release from liability). For all companies above this limit, KfW backs up risks at 80% (release from liability).

The release from liability should be secured by a full federal guarantee. For small and medium-sized companies, the interest rates for these loans range from 1 to 1.46%, for large companies from 2 to 2.12%. In addition, the ERP Capital for Start-Ups is available to small companies that



were founded less than five years ago. It grants working capital loans of up to EUR 30,000.

## 2. Easier access to bank guarantees

Access to bank guarantees will be facilitated for companies that had viable business models as of 31.12.2019. The maximum guarantee amount, the risk share the Federal Government holds in guarantee banks and the maximum share of operating expenses in the total liabilities of the guarantee banks will be increased.

Guarantees for operating and investment expenses up to an amount of EUR 2.5 million are provided by the guarantee banks; guarantees beyond that amount are the responsibility of the federal states and their assistance institutions. For guarantee amounts of up to EUR 250,000, the guarantee banks may now make the decision independently within three days without the participation of the federal states (so-called "fast-track guarantees" (*Expressbürgschaften*)).

The Federal Government's "large guarantee scheme" (*Großbürgschaftsprogramm*) has been opened up to companies outside of structurally weak regions. In these regions, the Federal Government wants to back up to 80% of operating and investment expenses starting at a guarantee need of EUR 50 million. In structurally weak regions, the Federal Government participates from a guarantee amount of EUR 20 million.

## 3. The KfW Special Programme 2020

Additional programmes have been set up at KfW for all corresponding enterprises ("*KfW Special Programme 2020*"). These special programmes were approved by the EU Commission on 22.03.2020. The approved programmes are two loan programmes. The first one, called the "*KfW Special Programme for young and established companies*", is implemented through the sub-programmes KfW Entrepreneur Loan and ERP Start-up Loan – Universal.

In the other loan programme, KfW is working together with private banks in order to provide larger loans as a consortium. These syndicated loans are intended to cover

investments and working capital with a term of up to 6 years. Here, KfW offers a risk assumption for up to 80% of the respective project but not more than 50% of the risks of the total debt.

KfW's participation is then carried out *pari passu* at market conditions. The economic conditions are thus provided by the financing partner and assumed by KfW. The KfW risk share amounts to at least EUR 25 million. It is limited to 25% of the 2019 annual sales in 2019 or alternatively to twice the wage costs of 2019 or the current financing requirements for the next 12 months.

## II. Tax liquidity relief

The Federal Ministry of Finance has reached an agreement with the tax authorities of the federal states on tax liquidity assistance.

In order to improve liquidity for companies, the possibilities for deferring tax payments have been improved. The same applies to the reduction of prepayments on income and corporation tax. The improvements relate to taxes that are already due or will be due up and until 31.12.2020. All taxpayers who are directly or significantly affected can benefit from these measures. The tax authorities have been instructed not to set too strict requirements when examining applications. Tax prepayments can be reduced quickly and easily. For example, applications shall not be rejected because taxpayers are unable to provide detailed evidence of the exact value of the damage they incurred. Until 31.12.2020, enforcement measures will be suspended for tax payments in arrears or due until then. Furthermore, from 19.03.2020 (date of the letter from the Federal Ministry of Finance) until 31.12.2020, late-payment penalties will be waived on these taxes.



### III. The Economic Stabilisation Fund

In addition, the Federal Government has launched the Economic Stabilisation Fund with a volume of up to EUR 600 billion. Among other things, the fund is intended to eliminate liquidity bottlenecks, support refinancing on the capital markets and strengthen the capital base of companies; in addition, it is intended to prevent a sell-off of German economic and industrial interests.

It supplements the “KfW Special Programme 2020” and shall initially be limited in time until the end of this year. Overall, the fund consists of state guarantees for liabilities (EUR 400 billion), direct state investments (EUR 100 billion) and refinancing by KfW (EUR 100 billion). The fund aims to create large-volume support measures with the possibility of directly strengthening a company’s equity. In the context of the recapitalisation of companies, equity is to be made available. Access to the Fund will be granted to companies with a balance sheet total of more than EUR 43 million, sales revenues of more than EUR 50 million and/or more than 249 employees on average per year. Primarily, it should therefore serve important, large companies in the real economy. In order to include as many beneficiaries as possible, the small and medium-sized enterprise (SME) definition was broadened to extend beyond the EU Commission’s definition of SMEs. In addition, the fund is also available to “systemically relevant” smaller companies, companies in the field of critical infrastructure and to start-ups. However, the latter must have been valued by private investors at EUR 50 million (including the capital raised in this financing round) in at least one completed financing round since 1 January 2017.

The Federal Association of German Start-ups e.V. proposes a so-called “matching fund” as part of a four step plan of a comprehensive protective umbrella for start-ups. The association argues it cannot be ruled out that some young growth companies won’t actually benefit from the federal or state support measures (in particular KfW support programmes) for instance because their house bank will not grant them a loan and they have been in the market for less than three years. Whether and to what extent this proposal will be implemented is currently

still unclear. In any case, the Federal Government is currently working on drafting a “Start-up Future Fund”.



### IV. Two-billion aid package for start-ups

In addition, the Federal Government is supplementing its existing aid programmes with a “Two-billion aid package for start-ups”. This package shall be implemented gradually and includes the following measures:

In the short term, additional public funding will be made available to public venture capital investors at umbrella and fund level to be used for co-investments in financing rounds. These include coparion, KfW Capital, the European Investment Fund or the High-Tech Gründerfonds (HTGF). Additional public funds are to be used to help the umbrella investors KfW Capital and the European Investment Fund to take over shares from defaulting financial investors. It will be made easier for start-ups without venture capital providers among their shareholders to use venture capital financing and forms of “capital substitution” financing.

No time frame has yet been announced for the implementation of the start-up support package.

### V. KfW fast loan 2020 for SMEs

On 06.04.2020, the Federal Government announced that it would provide comprehensive KfW fast loans for small and medium-sized enterprises (KfW-Schnellkredit 2020 für den Mittelstand). The KfW fast loan 2020 is intended for medium-sized companies with 11 to 249 employees, provided that they have been in the market since at least



January 2019. The maximum loan amount for each company will be limited to three monthly turnover amounts from 2019. Credit approval should be granted without further credit risk assessment by the house bank or KfW. To receive the loan, it is necessary that the company generated a profit in 2019 or on average over the last three years. House banks receive 100% release from liability from the KfW, which is secured by a guarantee from the Federal Government. KfW is currently working flat out to ensure that applications can be submitted soon.

#### VI. Emergency aid package for micro-enterprises, one-person businesses and freelancers

Small enterprises including farmers, self-employed persons and members of the liberal professions (*freie Berufe*) who are active on the market as enterprises receive direct subsidies. This is a one-off payment of between EUR 9,000 (for up to five employees) and EUR 15,000 (for up to ten employees), paid for a period of three months. Provided that the landlord grants a 20% rent reduction to those affected, the subsidy can also be used for another two months. The above-mentioned entrepreneurs are only entitled to apply if they carry out their activities from a permanent establishment in Germany or from management headquarter in Germany and are registered with a German tax office. Applicants have to affirm that the economic difficulties are a consequence of the coronavirus pandemic. Therefore, the company must not already have been in economic difficulties on 31.12.2019. Applications must be submitted prior to 31.05.2020. The federal states and municipalities process these applications locally. These grants may be combined with other aid related to the coronavirus pandemic, including possibly existing *de minimis* aid. However, any overcompensation must be returned later. The grants are also subject to income and corporation taxes.

Making a further EUR 3 billion available, the Federal Government also intends to provide self-employed individuals with the basic income amount in order to help compensate for the loss of income caused by the crisis. Applications for basic income assistance will be approved provisionally and will be limited to six months.

#### VII. The go-digital support measures for small and medium-sized enterprises

From now on, small and medium-sized enterprises and craft enterprises can receive financial support if they create home office jobs at short notice. The Federal Ministry of Economic Affairs and Energy intends to reimburse up to 50 % of the costs incurred for this, provided that authorised consulting firms of the ministry are involved in the creation of the digital workplace.

#### VIII. Supplementary budget 2020

On 18.03.2020, the Federal Cabinet adopted the key figures for the federal budget 2021 and the financial plan up to 2024. However, the effects of the corona pandemic could not be taken into account at that time due to the lack of meaningful economic data. In the meantime, the Federal Cabinet has therefore adopted the draft of a supplement to the Federal Budget 2020 and the draft of the Act on the Adoption of a Supplement to the Federal Budget for the Financial Year 2020 (Supplementary Budget Act 2020). The additional measures adopted with the supplementary budget should have a volume of around EUR 122.5 billion.

#### B. Support measures at state level

##### I. In Bavaria

The Bavarian State Government has also provided measures to support affected companies.

The Bavarian emergency aid provides for payments ranging from EUR 9,000 to EUR 50,000 depending on the size of the company and can already be applied for. Applications for emergency aid can be submitted by commercial enterprises and self-employed members of the liberal professions (up to 250 employees) who have a place of business or work in Bavaria. Under certain conditions, emergency aid may also be applied for by start-ups that have been active on the market for less than three years. However, this shall only include young companies with an "*innovative, digital and/or technology-based*" business model and that have already developed a product and generated sales on the market.



In addition, companies can be supported with loan programmes of the LfA Förderbank Bayern, the KfW, with various guarantee programmes and a "protective umbrella for crisis support" („Schutzschirm zur Krisenunterstützung“).

According to the draft law on a BayernFonds and a Bavarian Finance Agency (BayernFonds- und Finanzagentur-Gesetz - BayFoG) of 01.04.2020, a BayernFonds shall be created. The structure of the BayernFonds is to be based on the structure of the Federal Government's Economic Stabilisation Fund. The BayernFonds also intends to serve those companies which cannot benefit from the Economic Stabilisation Fund. The draft law on BayFoG contains key points regarding the minimum size of the stabilized companies. The BayernFonds also wishes to support start-ups. For this to happen, however, start-ups must have been valued by private investors at EUR 5 million (including the capital raised in this round) in a completed financing round. According to the draft on a BayFoG, stabilisation by the BayernFonds shall be excluded if such stabilisation is already granted by the Federal Economic Stabilisation Fund. The total fund volume is to be EUR 60 billion.

## II. In Hesse

The Federal State of Hesse offers subsidised financing products via Wirtschafts- und Infrastrukturbank Hessen (WIBank) and Bürgschaftsbank Hessen. For example, small companies in the commercial sector can already receive promotion loans for which, among other things, no standard bank security is required. Start-up and growth financing with working capital loans via the principal bank is also supported. Certain express guarantees are also offered by the Bürgschaftsbank Hessen. As an exception, the state of Hesse will provide state guarantees in special cases.

The Federal State of Hessen has also launched the support programme "Liquidity assistance for small and medium-sized enterprises in Hesse". Under this scheme, support will be provided to companies in the commercial sector, including commercially active for-profit social enterprises, and social enterprises operating on the market in the legal form of a gGmbH. With the so-called "Hessen-Mikroliquidität" Hesse also provides for supplementary loans for small companies and solo self-employed persons.

## III. Other federal states

Other Federal States are also currently in the process of putting together a wide range of aid packages. These include Baden-Wuerttemberg and Berlin in particular, Brandenburg, Hamburg and North Rhine-Westphalia.

Do you want to be uniformly informed about aid and support programmes at federal, state and European level? Then benefit from our overall presentation of state aid due to the Corona pandemic! Here we not only present current developments and measures at federal, state<sup>1</sup> and European level in a uniform manner, but also make the necessary updates for you. GSK Stockmann supports you and your company in these difficult times. Please contact us at any time.

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<sup>1</sup> The comments refer to the states of Baden-Württemberg, Bavaria, Berlin, Brandenburg, Hamburg, Hesse and North Rhine-Westphalia.



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