

Financing Investment Projects with Public Loans

Investors may benefit from publicly supported loan programs available in Germany. Available through public development banks at European, federal and state level, public loans can provide favourable terms, including competitive interest rates and grace periods. Public loan financing can complement private financing sources and support the implementation of investment projects.

Public Loan Features

Each loan program offered through public development banks is generally available to foreign investors financing projects in Germany under the same conditions as those applying to domestic investors. Public loans are typically subject to standard lending requirements, including the provision of appropriate collateral. Applications are generally submitted through the investor's principal bank to the relevant public development bank. Subject to the applicable funding rules, public loans may also be combined with other public funding instruments.

National Public Loan Programs

KfW, Germany's national development bank, offers a broad range of financing solutions for business investment projects. One of the most important programs for larger companies is the *KfW-Förderkredit großer Mittelstand* (KfW Promotional Loan for Large SMEs). The program allows financing of up to 100 percent of eligible investment costs and is available to predominantly privately-owned enterprises with annual group turnover of up to EUR 500 million. In addition, KfW provides specialised loan programs supporting areas such as renewable energy, energy efficiency, innovation, and sustainable transformation.

Business Development Bank Loan Programs

Each German federal state has its own business development bank that finances projects within the respective federal state. The loan programs offered are generally designed to meet the financing needs of small and medium-sized enterprises. Depending on the respective federal state, financing solutions are available for investment projects, company growth, innovation, digitalization, and sustainability-related measures. State-level promotional loans may also be combined with other public funding instruments, subject to the applicable program conditions.

Application Procedure

The respective business development bank at national or federal state level is approached through the applicant's

At a Glance

- Public loans offer competitive, fixed interest-rates, long maturities, repayment-free periods
- Loan amounts of up to EUR 100 million may be available, depending on the promotional loan program
- Public loan solutions from public sources are available at regional, national and European level

principal bank, which acts as the intermediary lender. A sound business plan and appropriate loan collateral are generally required for the use 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.

European Investment Bank

The European Investment Bank (EIB), the financing institution of the European Union, provides a broad range of loan solutions for business investment projects. EIB financing is available for investments that contribute to EU policy objectives, including climate and environmental sustainability, innovation, digitalization, human capital, sustainable energy, natural resources, and SME development. Depending on the financing requirements and project size, companies may access EIB funding either through direct project loans or, particularly in the case of SMEs, through intermediary financial institutions.

Complementary Financing Instrument

One advantage of public promotional loans is that they can finance investments that are not eligible under the GRW program. The investments and costs that may be financed depend on the conditions of the respective loan program. Some public promotional loan programs also feature liability waivers, which reduce the loan default risk for the intermediary bank. Another option is the combination of a public loan with a public guarantee. The availability of this option depends on the terms and conditions of the respective loan program and the successful approval of the public guarantee application.

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

Securing Loans and Export Transactions with Public Guarantees

Bank loans for economically viable projects generally require adequate collateral. In individual cases, the provision of accepted collateral can be a challenge for enterprises. Public guarantees are cost-efficient loan security and an instrument to protect export business into developing and emerging markets. By reducing risk, public guarantees encourage financial institutions to provide financing and support the internationalization of the German economy.

How Public Guarantees Work

A public guarantee serves as a payment commitment by the guarantor in the event of borrower default or political payment risks arising in export business with developing and emerging markets.

General Terms and Conditions

The guarantee maturity is generally connected to the financing or the underlying business the guarantee is used for. Each guarantee application is assessed individually. Depending on the guarantee amount, the company size, and the nature of the underlying transaction, applications are submitted to the responsible guarantee institution for evaluation and approval. For smaller loan guarantees, companies can usually apply directly through the relevant regional guarantee bank. The guarantee costs are divided into one-off costs (e.g. document fee) and an annual fee. The annual fee usually paid is a percentage of the pending guaranteed amount for the year in question.

Different Public Guarantee Programs

Public guarantees are a highly flexible financing instrument. Different guarantee programs are available to support a broad range of business activities in Germany. The most appropriate program depends on factors such as the guarantee amount required, company size, project location, and the nature of the underlying business activity.

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. Depending on the federal state and guarantee volume

At a Glance

- Facilitate loan financing where collateral is insufficient
- May cover up to 80% of the secured loan amount
- Available through different programs and institutions depending on the guarantee volume required

required, public guarantees may be provided by regional guarantee banks, federal state development banks, or the respective federal state government. It is necessary to evaluate the different provisions made available by the respective development banks. Larger guarantee volumes may be covered through federal state guarantee schemes, subject to the applicable regulations and approval procedures.

Application Process

Guarantee applications must generally be submitted before the investment project has commenced 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. The respective state minister of finance makes a final decision on the allocation. Concurrent EU notification is necessary for guarantees above EUR 15 million.

Federal Export Credit Guarantees

International companies engaged in the export of goods, with a legal presence and establishment in Germany can benefit from State Export Credit Guarantees ("Hermes Cover"). Such guarantees are a financial instrument provided by the Federal Republic of Germany to support foreign trade and open up markets which are difficult to access. Export Credit Guarantees of the Federal Republic of Germany administered by Allianz Trade (formerly Euler Hermes) protect exporters and banks from the risk of commercial and political payment defaults.

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