



Federal Ministry  
for Economic Affairs  
and Energy

# German public supporting policy for Innovative Start-ups

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[www.bmwi.de](http://www.bmwi.de)



## Overview

- I. Facts and figures about venture capital in Germany
- II. Why there is a need for government assistance
- III. The Federal Government's support schemes



# Germany – a country of entrepreneurs?

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## Strength:

- well established physical and public promotional infrastructure
- good protection of intellectual property
- high engagement of policy for issues of entrepreneurship and start-ups
- high reputation of founders in the public opinion.

## Weaknesses:

- distinct fear of failure
- entrepreneurial education
- underdeveloped culture of entrepreneurship
- inadequate supply of **(Venture-) Capital**



# Business Angel in Germany

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## Importance of business angels

- Provide capital to start-ups
- Pass on commercial expertise, involve network contacts
- Support, advise
- Are the most important external funders in the early phases

## Business angels in the international comparison:

- D: 9,000 active BAs; € 650m capital
- GB: 20,000 active BAs; € 800 – 1,600m capital
- USA: 234,000 active BAs; € 25,600bn capital

→ Tax breaks for business angels in all the leading industrial nations!



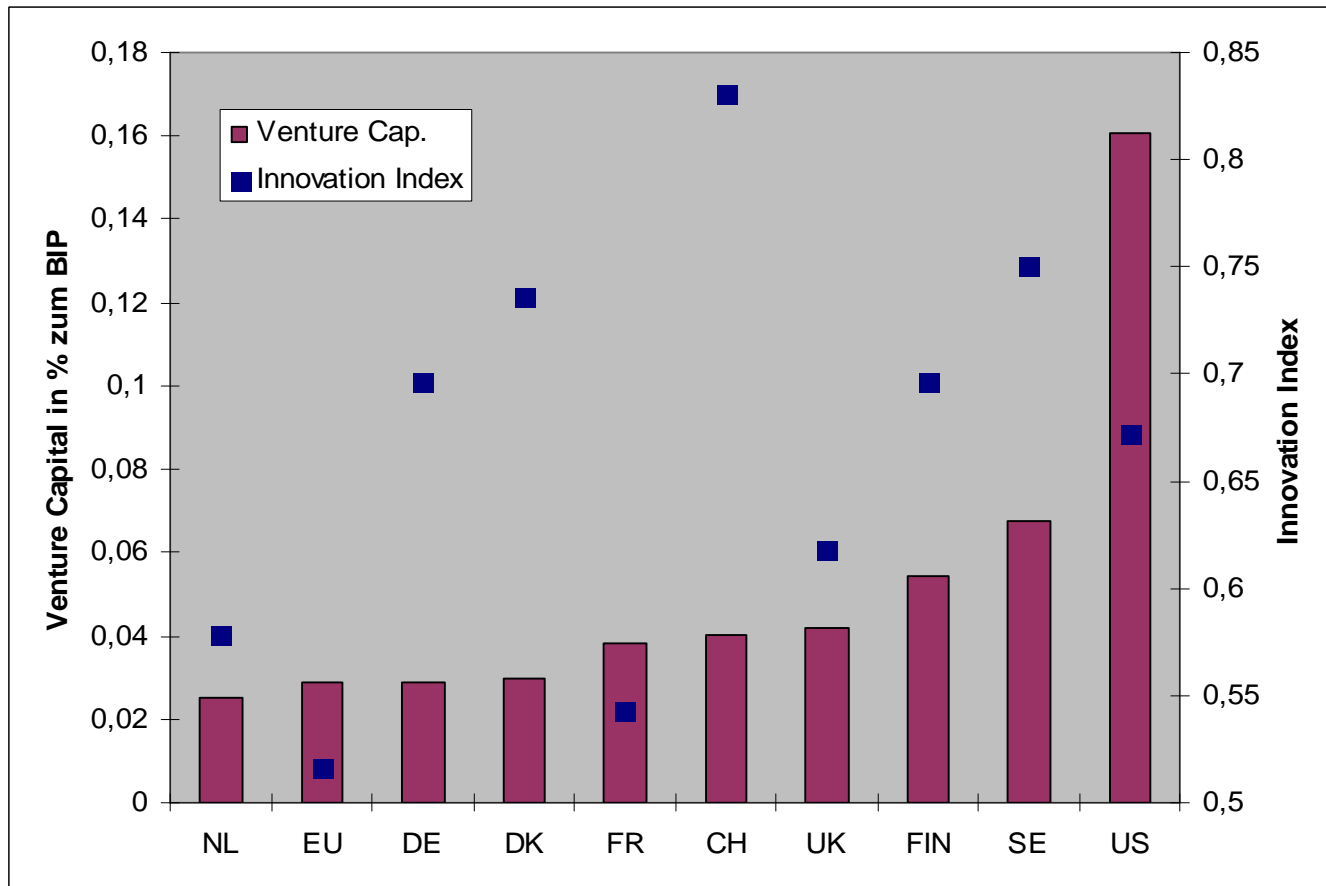
# Venture capital market in Germany

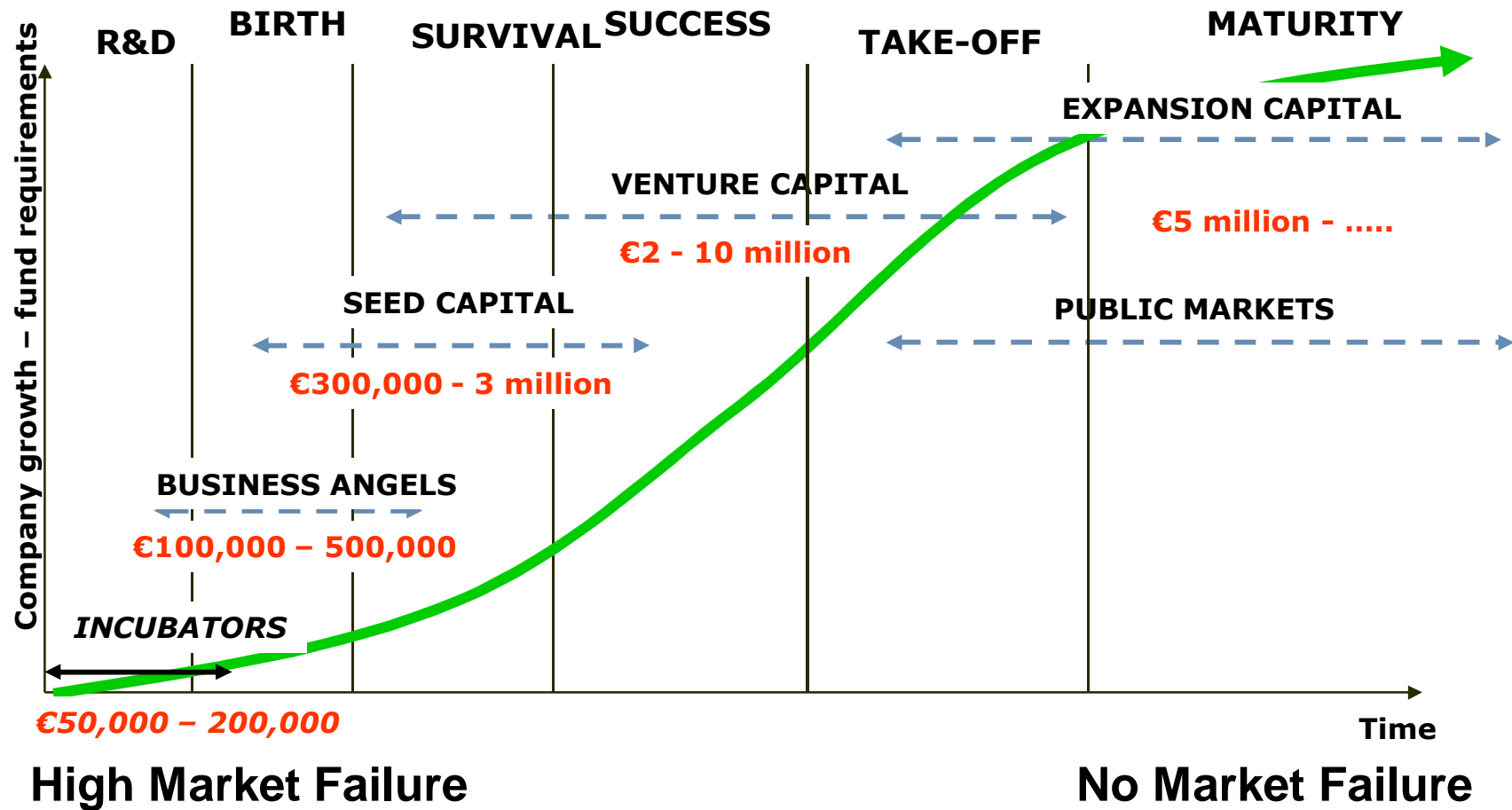
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- Venture capital is of great significance for innovation in Germany.
- In 2013 approx. € 700m of venture capital was invested in German firms  $\cong$  0.3% of GDP.
- So the amount of venture capital invested in Germany is roughly in line with the EU average.
- But: other technology-oriented economies like the USA, France, the UK and Scandinavian countries have substantially higher proportions of venture capital investment.
- Market for venture capital underdeveloped in international comparison.
- Few private-sector players, hardly any large funds (4 funds > €100m).
- Inadequate availability of venture capital is a central weakness in Germany's innovation system.



# Venture capital market in Germany







# Rationale of Public Support

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## General arguments for public support for financing young innovative companies:

1. Asymmetric Information: Need of very specific know-how. Often Start-Up team is neither able nor willing to reveal the knowledge.
2. High Risk: Usual Entrepreneurial and Start-Up Risk is completed by specific risks in markets, technology and management.
3. No securities available, but immense investment capital needed.
4. High Transaction costs: Standardized credit rating not possible because of lack of historical data. No interest payments and debt services possible over many years. Burdensome due diligence.

⇒ Market Failure !





# Rationale of Public Support

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## Why is there hardly any private seed money?

1. Very high risks (especially with respect to founder team).
2. High management costs compared to investment and total fund size.
3. Very long investment periods (holding periods of ten years not unusually) – impact on fungibility.
4. Danger of watering down when there are several rounds of financing.

⇒ Question of right public support instrument!



# Rationale of Public Support

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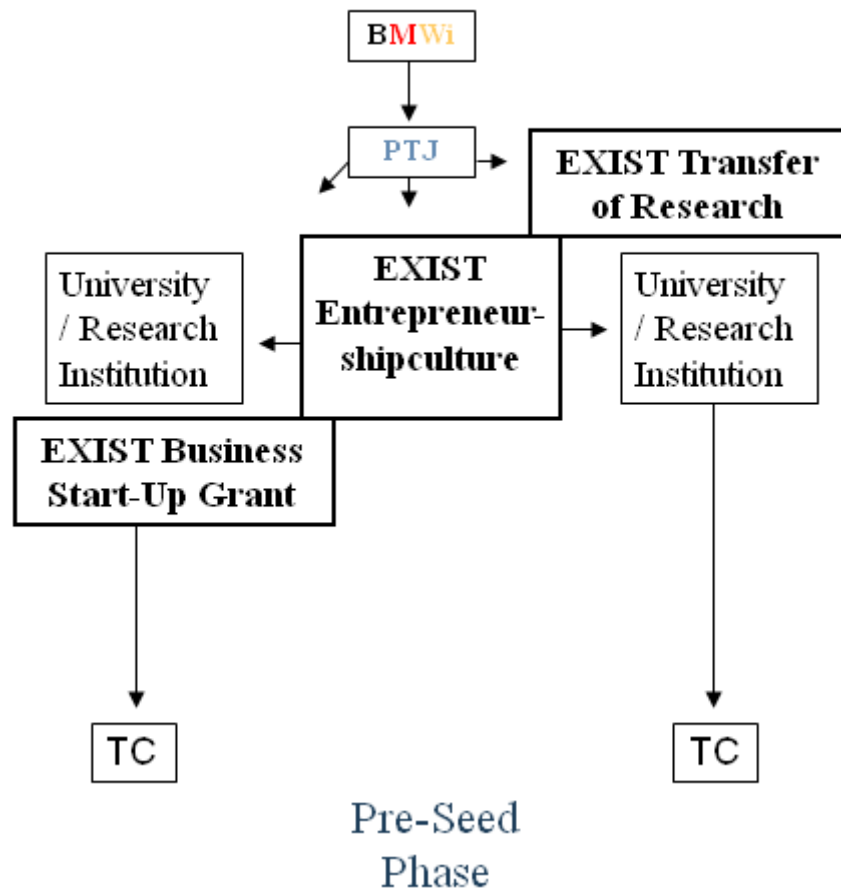
## What are the appropriate instruments?

- For the Pre-Seed Phase only grants may be suitable.
- Once the company is established, commercial financing instruments should be used, that means venture capital.
- Because of the market failure, in the early phase of a business, the state has to provide the greatest part of the capital needed.
- Later, the state must withdraw more and more

⇒ Current support scheme



## Current Federal Measures (Pre-Seed)



### EXIST Entrepreneurship culture

supports projects at universities and research Institutions to build up an infrastructure for technology and knowledge-based innovative ventures

### EXIST Business Start-up Grant

Supports the development of the product/service concept - close to market - and the drawing of a valid business plan through to the establishment of the company

### EXIST Transfer of Research

is designed to increase the number of high-technology start-ups from universities and research institutions. Supports the technical feasibility/ product development up to market entrance

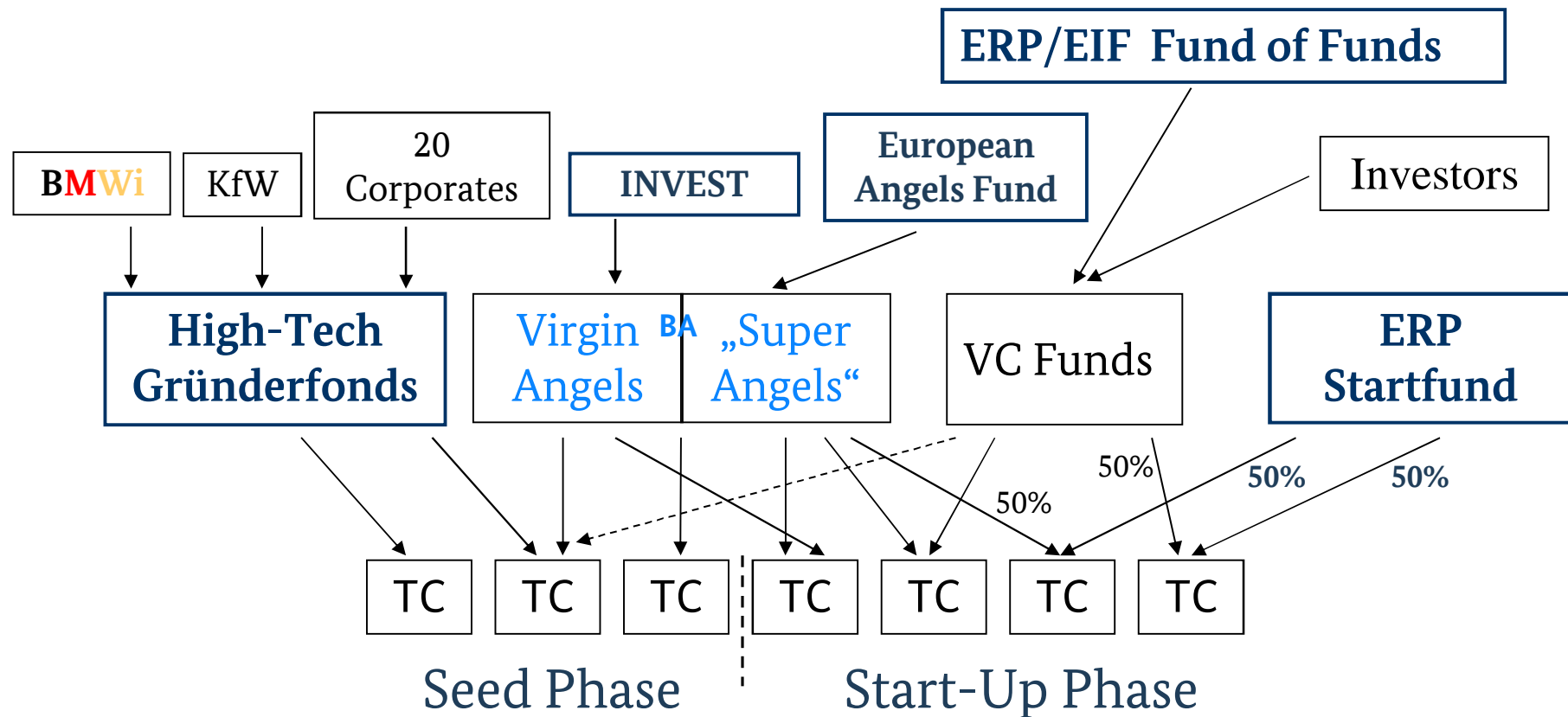


# Current Federal Measures (Seed and Start-up)

- **High-Tech Start-Up Fund (since 9/2005):** Seed fund which acts as main investor and invests in technology start-ups, HTGF I: € 272m; HTGF II: € 303.5m. ~ 30 Mio. € p.a. / 45 companies
- **ERP Start-Up Fund (since 11/2004):** Co-investment fund which invests in young, innovative companies with a lead investor (VC or business angel); equipped with € 250m (ERP special fund), current volume of fund: € 722m managed by KfW; pari-passu approach. ~ 50 Mio. € p.a. / 50 companies
- **ERP/EIF Fund of Funds (since 1/2004):** Fund of funds, participates in VC funds in the early and growth phase; managed by EIF; equipped with € 500m (EIF, ERP special fund); doubling of volume of fund to € 1bn in spring 2010 ~ 3-4 Funds p.a. / 75 Mio. € p.a.
- **European Angels Fund (since 1/2012):** Co-investment fund which provides business angels and other non-institutional investors with equity to finance innovative SMEs; volume of fund : € 120m (EIF/ERP special fund), managed by EIF. ~ 20 Mio. € p.a. / 10 Business Angels
- **INVEST – Grant for Risk Capital (since 5/2013):** If a private investor (Business Angel) invests in a young innovative company and holds the investment for at least 3 years, 20% of the investment will be refunded. Administration Bafa ~ 20 Mio. € p.a. / 500-1000 cases



# Current Federal Measures (Seed and Start-up)





# Crowd Investing

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- This is a very new instrument in Germany, experience is not yet available
- Could play a significant role in the seed phase
- Therefor the Instrument should get a chance
- At the moment legal regulations for the protection of retail investors will be developed
- In his context we need to make sure that there is enough room that crowd investing can develop



**Thank you for your attention.**

Hermann Faas

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Deputy Director General

“Financing of SMEs and Start-Ups, Domestic  
Guarantees”



# EXIST – Culture of Entrepreneurship

[www.exist.de](http://www.exist.de)

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## The EXIST program line „Culture of Entrepreneurship“

- Supports projects at universities and research Institutions to build up an infrastructure for technology and knowledge-based innovative ventures.
- In support of these activities, universities and research institutions receive an allowance from the German Federal Ministry of Economics and Technology over a certain time period (the latest call **Entrepreneurial University** e.g. envisages about 5 years).
- The administrative execution of the program is done by the PTJ agency.

### Main goals:

- to establish a lasting “culture of entrepreneurship” at universities and research institutions,
- to support consistent transfer of scientific knowledge into commercial output,
- to promote the enormous potential of business ideas and entrepreneurial personalities at universities and research institutions,
- to increase the number and the chances of success of innovative business start-ups.





## EXIST – Business Start-up grant

- Program line **EXIST Business Start-up Grant** is a nationwide program to support early-stage start-ups from universities and research institutions
- Subject of promotion: The development of the product/service concept - close to market - and the drawing of a valid business plan through to the establishment of the company
- Program started in Summer 2007
  - Scientists
  - university graduates (Start-up teams of up to three people)
  - students
- Innovative technology-oriented start-up projects / Innovative services with a high customer benefit based on academic findings → all applications are scrutinized by the project management agency / technologically open
- Infrastructure during the pre-start-up phase / technical and start-up-related assistance by the research institution
- Support by Mentor and incubator at the research institution
- Application by university or research institution



## EXIST – Business Start-up grant

- **Maximum support period one year**
- **Grants**
  - Bachelor/Master 2000 € / month
  - PhD 2500 € / month
  - students 800 € / month
  - 100 €/child
- **Expenses**
  - up to 10.000 € for one founder (teams up to 17.000 €) and further 5.000 € for coaching
  - hosting research institution provides the entrepreneurs with infrastructure
- application review by project agency PTJ
- from 2007 - 2013: almost 1000 grants were approved





## EXIST – Transfer of Research

- **Transfer of Research** is a nationwide program designed to increase the number of high-technology start-ups from universities and research institutions. Program line started in 12/2007; projects bear higher risks compared to **Business Start-up Grant**
  - open to all fields of technology
  - Two funding phases (review by PTJ/ independent jury)
  - first phase
    - 18 month, technical feasibility/ product development
    - three scientists or technicians, one graduate from business school → full staff costs (max. 4 participants)
    - 70.000 € expenses
    - 10.000 € of expenses reserved for coaching
  - second phase
    - after formation of the company
    - product development up to market entrance
- 
- 150.000 € for 18 month





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## High-Tech Gründerfonds (HTGF) – Structure

### Features

- Provision of **venture capital for technology-based start-ups** (operating < 1 year)
- HTGF I launched as **Public-Private Partnership** in 2005 and HTGF II in 2011
- **Fund volume HTGF II: € 304 m** (BMW: € 220 m, KfW: € 40 m, 17 major industrial companies: € 41.5 m)

### Financing and Services

- Initial financing in seed phase: up to € 500,000
- Follow-up financing: up to max. € 1.5 m
- Consultancy back-up (coaches, networks)

### Achievements

- Over 350 financed technology-based companies since 2005
- Acquisition of over € 600 m in third-party follow-up financing



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## High-Tech Gründerfonds (HTGF) – Experiences

Positive experiences with **HTGF as market participant**:

- HTGF as **Lead Investor**: active support of the seed market possible, not only with funds but also with market and management knowledge
- **Good market acceptance** (50-70 % market share):
  - **Large fund volume**: HTGF is perceived as long-term financing partner
  - **Large due diligence experience**: Business Angels and smaller VC funds are seeking for co-investments with HTGF
- Most active German seed investor



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## ERP Start-Up Fund – Structure

### Features

- Mobilisation of equity capital for young innovative technology firms (< 10 years)
- Co-investment fund that invests with a private lead investor (VC, Business Angels)
- Initially launched in 2004
- Fund volume: € 722 m
- Managed by KfW

### Financing

- **Pari Passu investments at same economic conditions** as the lead investor.
- Equity restricted to € 5 m per company, several rounds of financing possible, max. € 2.5 m per round.

### Achievements

- Since 2004 rd. 1,200 contracts with some 450 companies
- Invested funds: rd. € 490 m



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## ERP Start-Up Fund – Experiences

- **Public seed funds are well coordinated:** ERP Start-Up Fund often provides follow-up financing for companies initially financed by High-Tech Gründerfonds; ERP Start-Up Fund is the 2nd largest early stage financier.
- Lead Investor receives **carry for profitable exits** → Incentive for a successful support of the investment.
- **Learnings from predecessor fund:**
  - Predecessor funds: co-investment and refinancing programmes with elements of state guarantees; problem: moral hazard → guarantees are drawn to early instead of rescuing the company
  - ERP Start-Up Fund investing pari passu to avoid asymmetric financing



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## ERP/EIF Fund of Funds – Structure

### Features

- Largest European **VC fund of funds** with a focus on VC funds investing mainly in German **high-tech companies in the early and growth phase**
- Launched in 2004
- Fund volume: € 1 bn (50% EIF, 50% ERP)
- Managed by EIF

### Financing

- Acts at commercial conditions.
- Participation of Ø 20-30% of the fund volume

### Achievements

- Participation in 27 funds with a volume of approx. € 670 m
- Mobilisation of approx. € 2.4 bn of private investment funding.





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## ERP/EIF Fund of Funds – Experiences

- **High financial leverage:** fund investment is quadrupled by private investors → important impulses for the German early stage financing market
- **Cornerstone investor** with outstanding market reputation → Quality feature for VC funds that simplifies the fund raising.
- **Managed by EIF:** long experience in the management of equity funds with a broad transnational network



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## European Angels Fund (EAF) – Structure

### Features

- Provision of equity to **Business Angels and other non-institutional investors** for the financing of innovative companies in the form of **co-investments**
- **Fund volume: € 120 m** (EIF/ERP special fund)
- 50-60 „Super Angels“ to be co-financed the next 5 years
- Launched in 03/2012
- Managed by EIF

### Financing

- Co-financing (50:50) of experienced, accredited Business Angels
- Budget for the single Business Angel depends on its planned total investments (€ 250,000 – € 5 m during the contract period).

### Achievements

- 10 contracts with Business Angels since 03/2012, committed capital: € 35 m



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## European Angels Fund (EAF) – Experiences

- Successful cooperation with Business Angels Netzwerk Deutschland (BAND) in designing the contracts
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- Pilot scheme in Germany; will be extended to other European Countries in future.
- Aim:
  - To strengthen the cross-border cooperation of Business Angels
  - To create an European-wide network of financing



## Investment Grant for Business Angels („INVEST - Investitionszuschuss Wagniskapital“)

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- In May 2013, BMWi started a new investment grant for Business Angels investing risk capital in young innovative companies.
- The measure follows the British Enterprise Investment Scheme (EIS) that has successfully mobilised private risk capital
- If a private investor (e.g. Business Angel) invests in a young, innovative company and holds the investment for at least 3 years, 20 % of the investment will be refunded
- For the next 4 years, € 150 m are provided for this measure
- Since May, about 500 companies have applied and over 250 Business Angels.