

Overview of Covid-19 financial aid

21 July 2020

In order to mitigate the economic impact of the Covid-19 pandemic on businesses, numerous financial aid measures have been set up at federal and state level and most of them have now been implemented. For example, the bridging aid to provide financial aid to small and medium-sized enterprises and the German government's economic stimulus package of EUR 130 billion have now been approved.

Financial aids include in particular:

KfW Special Programme 2020 (“KfW-Sonderprogramm 2020”)

- **KfW Entrepreneur Loan** to secure house bank loans (risk assumption up to 80% risk, SMEs 90%)
- **ERP Start-Up Loan** to secure house bank loans (risk assumption up to 80% risk, SMEs 90%)
- **Direct participation for syndicated loans** (“*Direktbeteiligung für Konsortialfinanzierung (855)*”) with KfW as syndicate partner (risk assumption up to 80%, 50% of overall indebtedness)
- **KfW Express Loan 2020** (“*KfW-Schnellkredit 2020*”) to secure house bank loans (risk assumption up to 100% risk, max. €800,000)

Guarantee Programmes (“Bürgschaftsprogramme”)

- **Guarantees of the guarantee banks at state level** to secure house bank loans by guarantee banks (risk assumption of up to 90% risk and €2.5 million guarantee limit)
- **Large State Guarantee Programme** (“*Großbürgschaftsprogramm*”) at federal and state level, to secure loans to commercial enterprises with a viable concept (risk assumption up to 90%)

Bridging Aid

- **Bridging aids** to support small and medium-sized enterprises with up to €50,000 per month maximum over 3 months (generally max. amount EUR 150,000)

Stimulus Package

- **Extensive economic stimulus package** with a volume of €130 billion, which i.a. includes reduction of VAT, child bonus for families, strengthening of local

communities (*Kommunen*), relief for electricity cost and incentives for research into future technologies

Immediate Coronavirus Aid (“Corona-Soforthilfe”)

- **Federal Immediate Coronavirus Aid** for small enterprises, self-employed individuals, and farmers by way of liquidity grants (up to €15,000 in individual cases, total volume up to €50 billion)
- **Immediate Coronavirus Aid at state level** for small companies (in some cases also companies up to 250, e.g. in Bavaria), self-employed individuals and farmers (in individual cases up to €60,000)

Protective shield for supplier loans (“Schutzschirm für Lieferantenkredite”)

- The Federal Government is setting up a **protective shield of up to €30 billion** to secure supplier loans by a guarantee for German companies

Stabilisation fund at individual state level

- In some states (e.g. Bavaria, Saxony), funds have been planned to avert the economic damage that has occurred and is still expected due to the Covid-19 pandemic
- For example, the establishment of the **BayernFonds** serves to stabilise companies in Bavaria through the assumption of guarantees and recapitalisation measures

In addition, the Federal Parliament (“*Bundestag*”), with the approval of the Federal Council (“*Bundesrat*”), established an **Economic Stability Fund** (“ESF”). The ESF will be able to provide guarantees, loans and recapitalisation measures (i.e. equity investments) (further information on the ESF can be found [here](#)). The European Commission (“Commission”) approved the ESF on 8 July 2020 (further information on the approval of the ESF can be found [here](#)). Support measures from the WSF can already be applied for via PwC [here](#).

In order to support Start-ups and young growth companies during the corona crisis, the German federal government announced a EUR 2 billion assistance package for Start-ups (“Assistance Package”). The Assistance Package has two pillars. Pillar 1 is the **coronavirus matching facility** (“CMF”) and pillar 2 has been created for **start-ups and small companies**. The existing collaborations with the fund of funds (KfW Capital and the European Investment Fund) will provide the start-ups with additional public funding via the CMF. Alternative ways to secure funding will be opened up to start-ups and small companies with no access to the CMF. To do so, there will be close collaboration with the federal states via the regional development banks. The eligibility requirements for the use of the CMF (pillar 1) were finalized mid-May and the application process has since launched. Since 8 June 2020, KfW Banking Group is making global loans with exemptions from liability available to the regional state aid banks to finance Start-ups

without access to pillar 1 and small SMEs. These funds enable the regional state aid banks to refinance promotional programmes tailored to the needs of the individual federal states. Depending on the respective programme, this can be mezzanine or equity financing (further information on the state support for start-ups can be found [here](#)).

The financial aid is coordinated with the “[Temporary Framework](#)” for state aid measures adopted by the Commission on 19 March 2020 (first amendment adopted on 3 April 2020, second amendment adopted on 8 May 2020, third amendment adopted on 29 June 2020). All national financial aid programmes falling within the scope of the Temporary Framework must comply with the conditions of this Framework if individual approvals by the Commission and corresponding delays are to be avoided (further information can be found [here](#)). The Commission already approved most of the federal government’s financial aid measures in March 2020.

Further, the EU Heads of State and Government agreed on a comprehensive recovery programme called Next Generation EU totalling €750 billion for Europe's economic recovery after the Corona crisis on 21 July 2020. According to this programme, €390 billion is to be provided as non-repayable grants and €360 billion as loans to EU member states. The loans and grants are intended to revitalise and strengthen the European single market, ensure a level playing field and support much-needed investment for environmental and digital change. Information on the national legal structure and framework within which the loans and grants under the aid package will be disbursed can be expected shortly.

Below is an overview of the relevant aid programmes:

1. KfW Special Programme 2020 (“KfW-Sonderprogramm 2020”)

Since 23 March 2020, the KfW Special Programme provides subsidised loans at low interest rates with an increase in the KfW’s indemnity against liability of up to 90% for operating funds and investments by small and medium-sized enterprises (SMEs). There is no further risk assessment of loans up to €3 million by KfW under the KfW-Entrepreneur Loan and the KfW-Start-up loan programmes. For loans of between €3 million and €10 million KfW's risk assessment is greatly simplified.

The basic requirements for all KfW aid programmes under the KfW Special Programme 2020 are (cumulatively):

- The beneficiary companies must **not have been in difficulty** as of 31 December 2019 (according to the definition of [Regulation No. 651/2014](#)), e.g. opening of insolvency proceedings, certain financial ratios).
- There were **no deferral agreements** which are attributable to creditworthiness-related suspension of repayment and are therefore equivalent to a loss of creditworthiness or **covenant breaches** equivalent to a loss of creditworthiness as of 31 December 2019.

- At the time of application, the company must be in a position to bear the relevant loans. After the crisis, the company must - assuming that the overall economic situation returns to normal after three months at the latest - **continue to be viable beyond 31 December 2020** and thus be in a position to take out appropriate follow-up financing.
- **Profit and dividend distributions, granting shareholder loans as well as the repayment of shareholder loans** are not permitted during the term of the loan. This also applies to profit and dividend distribution resolutions already resolved by general meetings.
- **A positive going concern forecast** is not required.

1.1. KfW Entrepreneur Loan (037/047) and ERP Start-Up Loan (075/076)

- (a) The KfW Entrepreneur Loan and the ERP Start-Up Loan are used to finance investments, working capital as well as acquire assets from other companies.
- (b) The on-lending financing partners (banks and “Sparkassen”) are provided with an indemnity of **80%** or, for SMEs, **90%**.
- (c) **Up to €100 million** may be applied for per group of companies (the previous limit of €1 billion has been reduced accordingly). The maximum loan amount is limited to 25% of the annual turnover in 2019 or twice the wage costs of 2019 or the current financing requirements for the next 18 months for SMEs or 12 months for large enterprises. For loans exceeding €25 million, the loan amount is limited to a maximum of 50% of the overall indebtedness or 30% of the balance sheet total of the group of companies. The higher of the two aforementioned limits is decisive for the maximum loan amount.
- (d) Companies that are eligible to apply are generally domestic and foreign SMEs and large enterprises in the commercial sector which are mainly privately owned, as well as individual entrepreneurs and self-employed individuals. Companies must have been **active on the market for at least 5 years**. Under the ERP start-up loan, companies may **not have existed for 5 years, but must have been active on the market for 3 years** (or be able to present two annual financial statements).
- (e) Under the KfW Entrepreneur Loan and ERP Start-up Loan, **projects in Germany** can be financed (including investments by foreign companies investing in Germany or financing working capital for their German subsidiaries or the financing of working capital for German companies with foreign subsidiaries).
- (f) Large companies are eligible without turnover limitations with risk assumption of 80%. SMEs are eligible with risk assumption of 90%, i.e. companies with less than 250 employees and an annual turnover of no more than €50 million or an annual balance sheet total of no more than €43 million.

- (g) The **term is up to 6 years** for a loan amount of over €800,000 and **up to 10 years** for a loan amount of up to €800,000.
- (h) The loan is not to be applied for directly at KfW but at the company's house bank.

1.2. Direct Participation for Syndicated Loans (855)

- (a) KfW participates in syndicated loans for investments and working capital.
- (b) KfW **assumes up to 80% of the risk, but no more than 50% of the company's overall indebtedness**. KfW's share of the risk is usually at least €25 million and does not exceed (i) 25% of the total turnover in 2019 or (ii) twice the annual payroll in 2019 or (iii) the current liquidity requirements for the next 12 months. For loans exceeding €25 million, the loan amount is limited to a maximum of 50% of the overall indebtedness or 30% of the balance sheet total of the group of companies. The higher of the two aforementioned limits is decisive for the maximum loan amount.
- (c) Companies that are eligible are domestic and foreign commercial enterprises which are mainly privately owned, **for projects in Germany** (including investments by foreign companies investing in Germany or financing working capital for their German subsidiaries or financing of working capital for German companies with foreign subsidiaries).
- (d) KfW participates in financing with a **term of up to 6 years** in a standard market manner on the same terms as other financing partners.
- (e) KfW's participation is carried out at the invitation of the relevant financing partner.

1.3. KfW Express Loan 2020 (078) ("KfW-Schnellkredit 2020")

The KfW Express Loan 2020 ("KfW Express Loan") serves as a funding loan for acquisitions and operating costs and has been announced by the Federal Ministry of Economics and the Federal Ministry of Finance on 6 April 2020 and **approved by the EU Commission on 11 April 2020**. As of 15 April 2020 the KfW Express Loan can be applied for. The programme includes the following key points:

- (a) Eligible are medium-sized companies with **more than 10 employees** with business seat in Germany that have been active on the market at least since 1 January 2019 and have reported **profit** on average over the years 2017 to 2019 - or in a shorter period if the company has not yet been on the market since 2017.

- (b) The loan volume per group of companies amounts to up to 25% of the turnover in 2019, a **maximum of €800,000** for companies with more than 50 employees and a maximum of €500,000 for companies with up to 50 employees.
- (c) The bank receives a **100% indemnity to finance investments and working capital** from KfW, secured by a guarantee from the federal government.
- (d) **The term is up to 10 years.** The interest rate is based on the development of the capital market and is determined at the latest upon KfW's commitment.
- (e) The KfW Express Loan can be applied for until 31 December 2020 at the latest. **No further KfW loan can be applied for until that date.** Further, cumulation with instruments of the ESF or with programmes of guarantee banks, which were expanded due to the Covid-19-pandemic, is also excluded.
- (f) **Compensation** (including gratuities, non-cash benefits and other, also profit-related, components of compensation) for managing directors and managing partners may not exceed a maximum amount of €150,000 per year and per person during the term of the loan.
- (g) The loan approval may be granted without a detailed loan risk assessment by the bank in order to be able to approve the loan quickly.

2. Guarantee Programmes

- 2.1. Under the existing **guarantee programmes** of the guarantee banks, the framework conditions for default guarantees at federal and state level have been extended. Thus, a loan requirement of up to €2.5 million (guarantee limit) will be guaranteed assuming a default risk of up to 90%. Eligible are commercial SMEs and the liberal professions
- 2.2. The existing **Large State Guarantee Programmes** have also been extended. The purpose of the Large Guarantee Programme is to provide security for loans to commercial enterprises with a viable concept whereby standard bank collateral is not available to the extent required.

The programme has been extended to companies outside structurally weak regions until 31 December 2020. The Federal Government herewith enables security for working capital financing and investments requiring a guarantee of €50 million or more. In addition, the assumption of credit risk is increased to a maximum of 90%, which means that the house bank still has to assume 10% self-commitment. Eligible are commercial companies that are wholly or mainly privately owned.

3. Bridging Aid

- 3.1. On 12 June 2020, the Federal Cabinet adopted key points for the programme "Bridging aid for small and medium-sized enterprises which have to discontinue all or a significant part of their business operations as a result of the COVID-19 crisis".
- 3.2. The aim of the programme is to secure the economic existence of small and medium-sized enterprises which suffer considerable decreases in sales due to corona-related total or partial shutdowns or restrictions.
- 3.3. Eligible to apply are enterprises and organisations from all sectors of the economy, provided that they do not qualify for the ESF and provided that they have had to cease their business activities completely or to a significant extent on a permanent basis as a result of the COVID 19 crisis. A cessation of business activity in full or to a significant extent is assumed if sales in the months of April and May 2020 combined have decreased by at least 60 % compared to April and May 2019. For young enterprises founded after April 2019, the months of November and December 2019 are considered for comparison instead of April and May 2019. Loss of sales in the application month is another precondition. Only if the sales volume has decreased by at least 40% compared to the same month of the previous year is the enterprise eligible for application.
- 3.4. Funding will be granted for continuous fixed costs incurred during the funding period, whether contractually agreed or established by public authorities, which cannot be altered unilaterally.
- 3.5. The maximum grant is generally EUR 150,000 for three months. The bridging aid reimburses a portion of
 - (a) 80% of the fixed costs in the event of a sales decrease of more than 70%,
 - (b) 50% of the fixed costs in the event of a sales decrease between 50% and 70%,
 - (c) 40% of the fixed costs in the event of a sales decrease between 50% and 70%in the funding month compared to the same month last year. If the turnover in the funding month is at least 60% of the turnover of the previous year's month, the bridging aid is not applicable on a pro rata basis for the respective funding month. Any overcompensation must be repaid. The grants must be repaid if the enterprise discontinues its business operations before August 2020. Payments to enterprises that have ceased business operations or filed for insolvency are excluded.
- 3.6. In the case of small enterprises with very high fixed costs, the maximum funding amounts may be exceeded in justified exceptional cases. A justified exceptional case exists if the bridging aid based on the eligible fixed costs is at least twice the maximum aid amount.

- 3.7. The programme will run **from June to August 2020**, with a maximum grant period of three months.

4. Economic Stimulus Package

The economic stimulus package with a volume of EUR 130 billion adopted by the Federal Government in mid-June 2020 includes in addition to the programme of bridging aid (see section 3):

- 4.1. **Reduction of VAT:** From 1 July to 31 December 2020, the VAT rate will be reduced from 19% to 16% and for the reduced rate from 7% to 5%.
- 4.2. **Support for companies:** In order to secure liquidity, companies should be more easily able to offset their losses against profits from previous years. To this end, the tax loss carry-back for 2020 and 2021 will be increased to EUR 5 million - or to EUR 10 million in the case of joint taxation.

For 2020 and 2021 there will also be improved depreciation options for business assets. This should motivate companies to invest now and not to postpone investments.

Despite the COVID-19 crisis, companies should also be able to invest in research and development and thus in the sustainability of their products. To this end, the assessment basis for tax research funding will be doubled to EUR 4 million per company per year for a limited period until the end of 2025.

- 4.3. **Future package:** €50 billion of the package will go into a future package including tax incentives for research into the development of quantum computing and artificial intelligence. Increased use of hydrogen energy and improved promotion of electric vehicles are also part of the package.
- 4.4. **Strengthening of local communities (Kommunen):** The federal government is increasing its share of costs for the accommodation of the needy, compensating half of the trade tax losses of the local communities and strengthening local public transport and the health sector.
- 4.5. **Relief for electricity costs:** The EEG apportionment is to be reduced from 2021 onwards through subsidies from the federal budget.
- 4.6. **Child bonus for families:** Parents will receive a one-time bonus of €300 per child. For single parents, the tax allowances will be doubled.

5. Coronavirus Emergency Aid – Immediate Aid on Federal and State Level

- 5.1. The Federal Government is making available up to €50 billion to provide emergency aid by way of (foremost) non-refundable grants for small businesses and self-

employed individuals. The grants will be awarded once for operating costs for three months and do not have to be repaid. The Coronavirus emergency aid serves to secure the economic existence of the companies and to bridge urgent liquidity bottlenecks in the wake of the Coronavirus crisis.

5.2. The Coronavirus emergency aid complements the programmes at individual state level. The applications are processed by each individual state. Payment is also made by the individual state.

5.3. The relevant key points of the Coronavirus emergency aid are as follows:

- (a) Eligible are self-employed individuals, members of the liberal professions and small enterprises with up to 10 employees who are commercially active on the market as enterprises. They must carry out their activities from a German permanent establishment or a German management headquarters and be registered with a German tax office.
- (b) Applicants must certify that they are in financial difficulty as a result of the Covid-19 pandemic. Damage occurred after 11 March 2020. Applicants must not have already been in financial difficulties as of 31 December 2019.
- (c) The amount granted is up to €15,000. For up to 5 employees, for example, a one-time payment of up to €9,000 for three months can be applied for. Companies with up to 10 employees are eligible for a one-time payment of up to €15,000 for three months.
- (d) Cumulation with other aid in connection with the Covid-19 pandemic is possible in principle. However, any overcompensation must be repaid.
- (e) The funding amounts of the individual states may deviate from the funding amounts determined by the Federal Government. An overview of the competent authorities or agencies in each state, issued by the Federal Ministry of Finance, can be found [here](#) (German only).

6. Protective shield for supplier loans

The Federal Government is providing a guarantee of up to €30 billion for compensation payments made by credit insurers for the year 2020 (up to 31 December 2020). Credit insurers will thus be able to maintain their current cover note and also take on new ones despite increased default risks and help safeguard supply chains.

The credit insurers will pass on 65% of their income from premiums in 2020 to the federal government. In addition, they will bear losses up to €500 million themselves and assume the default risks exceeding the guarantee provided by the federal government.

7. Stabilisation fund at individual state level: BayernFonds

In some federal states, funds to avert economic damage that has occurred and is expected to occur due to the Covid-19 pandemic are planned. With regard to the special fund planned by Bavaria (so called **BayernFonds**), the following applies:

- 7.1. The law on a BayernFonds and a Bavarian Financial Agency (“BayFoG”) was announced in the Bavarian Legal Gazette on 30 April 2020 and came into force on 1 May 2020. The BayernFonds (“Fund”) will be managed by Bayerische Finanzagentur GmbH, which is solely owned by the federal state of Bavaria.
- 7.2. The aim of the Fund is to **stabilise the economy in Bavaria by overcoming liquidity bottlenecks** and by creating the **framework for strengthening the capital base of companies at risk**, the failure of which would significantly impact the economy, technological or economic sovereignty, supply security, critical infrastructure or the labour market in Bavaria.
- 7.3. As possible stabilisation measures, the Fund can assume guarantees and participate in the recapitalisation of companies.
 - (a) The Fund can assume guarantees of up to €26 billion in debt securities issued by 31 December 2021 and underlying liabilities from companies to resolve liquidity bottlenecks and support the refinancing of the capital market. The maximum time limit is 60 months.
 - (b) The possible recapitalisation measures beyond the Fund include the acquisition of subordinated debt, hybrid bonds, rights to profit, silent participations, convertible bonds, the acquisition of shares in companies and the acquisition of other capital components of these companies, if necessary for the stabilisation of the company. However, the fund is only meant to participate if Bavaria has a key interest in stabilising the company and the purpose pursued by Bavaria cannot be achieved equally well or better in another manner. The Fund has been granted authorisation for loans of up to €20 billion.
- 7.4. **Commercial enterprises which have their registered office or the main focus of their business in Bavaria are eligible to apply** if in the last financial year before 1 January 2020 two of the three following criteria have been met: (i) balance sheet total of more than €10 million, (ii) turnover of more than €10 million or (iii) at least 50 employees. Regardless of the above limits, start-ups may also be eligible to apply if since 1 December 2017 they have been valued by private investors at a minimum of €5 million including the equity acquired in at least one completed round of funding.

- 7.5. The conditions for stabilisation measures are that (i) enterprises must not have any other funding options, (ii) the stabilisation measures must lead to an independent going concern perspective after the Covid-19 pandemic has been overcome and (iii) companies that apply for aid under this law must **not have been in difficulty** as of 31 December 2019. The relevant contact institution for granting stabilisation measures is the State Ministry of the Economy, Regional Development and Energy, which will decide on the company's application in accordance with the State Ministry of Finance and Home Affairs at its reasonable discretion.

As the Fund still has to be approved by the Commission, it is not operational yet. The final implementation of the Fund in alignment with the Temporary Framework can be expected shortly.

8. Aid programmes on federal state level

In the meantime, the all states have set up aids, usually emergency aid measures by way of liquidity grants. The amount of the subsidies varies between €5,000 and €60,000 depending on the number of employees and the state.

An overview of the competent authorities or agencies in each individual state, prepared by the Federal Ministry of Finance, can be found [here](#) (German only).

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