

## 4 Incentive Programs

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Germany offers numerous incentives for foreign investors. There is a variety of programs available, designed to fit the needs of diverse economic activities at different stages of the investment process. Support ranges from cash incentives to labor-related, and incentives for research & development (R&D). Find out how your investment project can benefit from public funding.

## Incentives at a Glance

### Providing Funds

Germany offers numerous incentives to all investors - regardless of whether they are from Germany or not.

Funds are provided by the German government, the individual federal states, and the European Union (EU). These are predominantly aimed at new investments geared towards fostering economic growth.

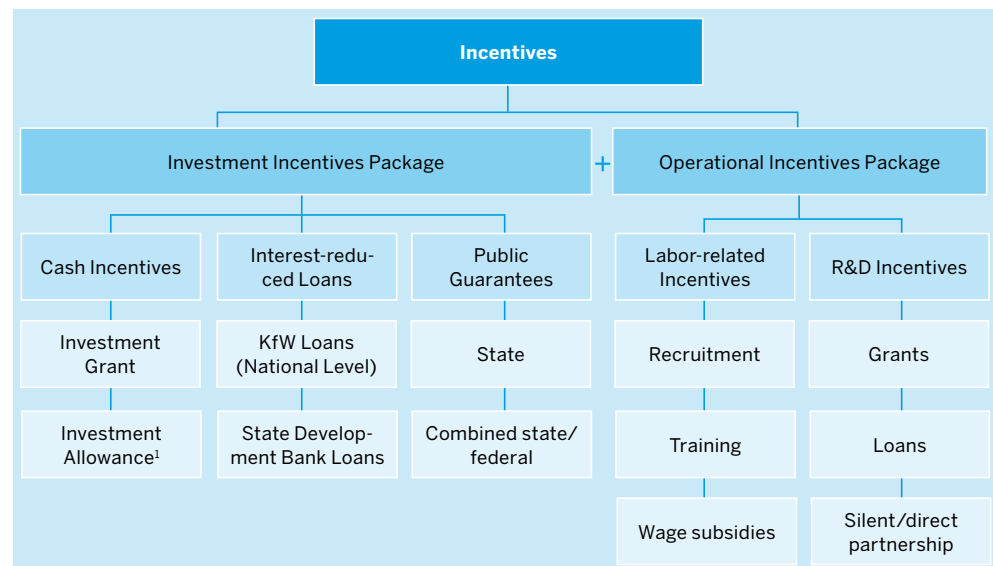
Germany has EUR 26.3 billion funding provided by the EU (co-financed using means obtained from German national and regional budgets) at its disposal until 2013. In addition, Germany and its individual states make their own incentives funds available.

### Incentives Programs in Germany

There are a number of incentives programs available which can be grouped into two overall packages:

- the investment incentives package with different measures to reimburse investment costs
- the operational incentives package to subsidize expenditures after the investment has been settled

Each package consists of a different number of programs, ranging from cash incentives for the reimbursement of capital expenditures to incentives for research and development (R&D).



<sup>1</sup>Only in Eastern Germany

## Determining Eligibility

Each incentives program defines industries as well as forms of investments (e.g. green-field projects or expansions) eligible for funding. Foreign investors are subject to exactly the same conditions available to German investors.

Each program has a set of criteria (such as company size, planned investment project location, etc.) which determine individual investment project incentive levels.

## EU Criteria Determining Company Size

Company size is generally determined according to an EU-wide classification system in which companies are categorized as being small, medium-sized or large according to their staff headcount, annual turnover or annual balance sheet total.

The size of a company is an important criteria to determine the possible incentives level a company may receive. Most incentives programs offer the highest incentives rates to small and medium-sized enterprises (SMEs). Some programs may even specifically target SMEs (this is very often the case with R&D programs).

Enterprise Category	Staff Head-count	Annual Turnover		Annual Balance Sheet Total
Small Enterprise (SE)	< 50	≤ EUR 10 million	or	≤ EUR 10 million
Medium-Sized Enterprise (ME)	< 250	≤ EUR 50 million	or	≤ EUR 43 million
Large Enterprise (LE)	≥ 250	> EUR 50 million	or	≥ EUR 43 million

The criterion concerning the headcount is compulsory. In addition, either of the annual turnover or the balance sheet criteria must also apply. Please refer to the explanation of the European Commission for more information.

SME Definition of the European Commission  
<http://ec.europa.eu>

## Regional Economic Development Program North Rhine-Westphalia

In addition to the development programs of the EU and the German government, North Rhine-Westphalia has established its own investment incentives for the creation and securing of long-term jobs and training positions in the structurally weak regions of the state with its Regional Economic Development Program (RWP). The RWP grants are intended for industrial investments which create or secure jobs.

Promotion is provided primarily for supraregionally operating companies: Small and medium-sized enterprises (SMEs) are subsidized provided that



- they have fewer than 250 employees,
- their annual sales do not exceed € 50 million or their balance sheet total is not more than € 43 million, and
- they do not exceed these limits by including participations or partnerships (EU checking procedure),
- and large enterprises managed along SME lines.

In individual cases, other large enterprises can also be subsidized, with the maximum subsidy lying at € 2.5 million.

The development areas include large parts of the Ruhr region, Mönchengladbach and the districts of Heinsberg, Herford, Höxter and Lippe.

The companies receive grants up to 28 percent of the investment sum. The maximum invested amount eligible for subsidy per newly created jobs is € 500,000 (per secured job € 250,000). Applications should be submitted to NRW.INVEST or NRW.BANK.

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## Public Loans

Investors can access publicly subsidized loan programs in Germany. These programs usually offer loans at below current market value interest rates in combination with attractive grace periods. These loans are provided by so-called development banks: publicly owned and organized banks which exist at the national and state level.

Each financial tool or program offered by such banks is accessible to foreign investors and subject to the same conditions available to investors from Germany.

Investors profit from interest-reduced loans as they are a means of acquiring capital in a cost effective way during the investment phase, thus easing financial long-term planning. Small and medium-sized enterprises (SMEs) in particular can profit from interest-reduced loans.

### Loan Programs of the European Investment Bank (EIB)

At the European level, the European Investment Bank (EIB) finances investment projects in cooperation with private banks. The EIB provides loans below general market conditions, offers long-term repayment periods, and is a host of other favorable conditions. It specializes in large investment projects.

To receive support, projects must be viable in four areas:

- Economics
- Technology
- Environment
- Finance

The EIB only finances projects contributing to the EU's general economic policy objectives - enhancing the development and integration of economically weaker regions and building up the general structure of the EU as a business location. The EIB acts as a financial partner until the investment project is completed. Loans are granted to projects in both the public and private sectors. EIB loan programs are open to large enterprises as well as SMEs. As a rule, the EIB lends up to 50 percent of investment project costs.

The main financing tools are intermediated loans. Credit lines to banks and financial institutions help them to provide financial means to SMEs with eligible investment programs or for projects costing less than EUR 25 million.

EIB Loan Programs for Investment Projects  
[www.eib.org](http://www.eib.org)

## German KfW Banking Group Loan Programs

The KfW Banking Group (*Kreditanstalt für Wiederaufbau, KfW*) is the nationally operating development bank of the Federal Republic of Germany. It makes available a number of different financing tools such as promotional loan programs, mezzanine financing, and private equity.

The KfW is organized into different departments - each specialized according to different target groups and available financing tools.

The most important institution for investment project financing is the KfW Mittelstandsbank which offers a number of loan programs for investment projects including the Entrepreneur Loan (*Unternehmerkredit*) and Entrepreneur Capital (*ERP Unternehmerkapital*).

KfW Entrepreneur Loan (*Unternehmerkredit*)  
[www.kfw.de/](http://www.kfw.de/)

The KfW is usually contacted via the applicant's private bank which normally complements its own financial package using the range of KfW financing tools available. Investors should have a German bank or a subsidiary of their domestic bank in Germany to ease the KfW loan application process.

## State Development Bank Loan Programs

In addition to the KfW, each German state has its own development bank financing projects within the respective state. They offer own loan programs, especially targeted at start-ups and growing companies.

Compared to KfW programs, state development bank loans are generally tailored to meet the requirements of small and medium-sized enterprises (according to the EU Commission's SME definition).



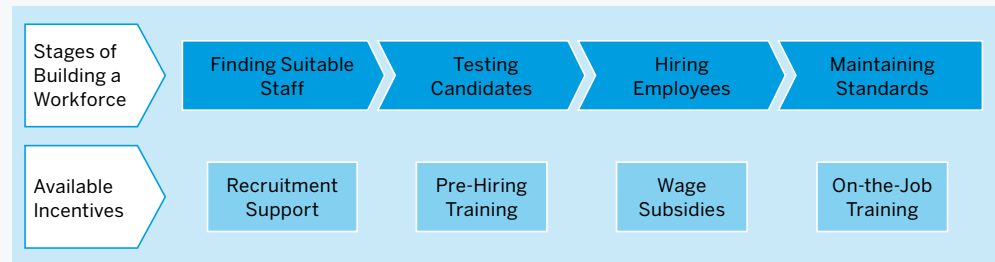
Loans are collateralized with the usual securities. Applications are made through the investor’s private bank to the respective state development bank. Interest reduced loans constitute a subsidy and can usually be combined with other public funding. Please be aware, that the total amount of cash incentives available may be reduced when combined with other programs.

## Labor-Related Incentives

Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses. Germany’s Federal Employment Agency (*Bundesagentur für Arbeit*) and the German states offer a range of labor-related incentives programs designed to fit the different company needs when building a workforce. The range of programs offered can be classified into four main groups: programs focusing on recruitment support, training support, wage subsidies, and on-the-job training.

Labor-related incentives are available throughout Germany; independent of factors such as company size, industry sector, or investment project location. Programs can be carried out and adjusted by local authorities according to investor needs - usually in close cooperation with the investor.

### Time Frame for Labor Related Incentives



### Matching Personnel: Recruitment Support

With over 800 local job centers located throughout Germany, the Federal Employment Agency assists companies in finding new employees. Regardless of the qualification or experience level required, the job centers offer highly competent and professional services as well as market expertise to help identify prospective employees in all sectors.

Assistance provided covers everything from job vacancy advertising and preselection of candidates (i.e. assessment centers) to the provision of facilities for holding job interviews. Because the job centers are governmental institutions, all services are provided entirely free of charge.

### Enhancing Qualification Measures: Training Support

Prospective employees often need to participate in appropriate training measures before operating machinery and technical equipment. Such measures can be organized and administered by external specialist institutions. In general, the costs for

training programs of this nature can be covered by up to 100 percent by regional program managing authorities.

### Supporting Integration: Wage Subsidies

Wage subsidies aim at helping job seekers experiencing difficulties securing work (e.g. as a result of long-term unemployment). Employers can be granted a direct cash payment paid as a proportion of the employee's wage. Grants can account for up to 50 percent of wage costs including social benefits. They may be granted for a period of up to twelve months.

When hiring long-term unemployed people who have disabilities or who are older, wage subsidies can be raised to a maximum 70 percent of wage costs paid for a period of up to 96 months.

Wage subsidies are generally allocated if investors provide long-term employment contracts. Note that wage subsidy applications should be made in advance of the work contract being signed.

### Advancing Professional Development: On-The-Job-Training

The German states and the European Social Fund (ESF) offer a variety of on-the-job training programs. Companies can be supported with subsidies covering up to 50 percent of all training costs. Authorization by the European Union (EU) is required if the amount awarded to a single company exceeds EUR two million.

## R&D Incentives

Research and development (R&D) is considered to be amongst the most important areas for the development of the German economy. Industry and the public sector have made a commitment to spend around three percent of national GDP per year on R&D activities. This amounts to approximately EUR 70 billion R&D spending each year.

### Different Types of R&D Incentives

R&D projects can count on numerous forms of financial support. There are many programs allocating R&D grants, interest-reduced loans, and special partnership programs. Financing is provided by the European Union (EU), the German government, and the individual German states.



- EU R&D Grants
- R&D Grants in Germany
- Further Subsidy Options

R&D incentives programs generally provide money for R&D project personnel expenditure. Other costs for instruments and equipment may also be eligible if they can be clearly assigned to the relevant R&D project (if such instruments and equipment are used beyond the lifetime of the R&D project, only the depreciation costs for the duration of the R&D project are considered eligible).

### How to Profit from Public R&D Spending

To participate in R&D funding programs, companies must define an R&D project with clear objectives and a fixed time line. The project application should highlight the innovative character of the project and the technological risks involved.

An application for R&D funding also has to set out a commercialization plan, detailing how research results will be transformed into products, processes or services which generate additional turnover and/or employment in the region where the R&D project is located. The total amount of incentives a project may receive depends on the size of the company (small, medium-sized, or large), whether the project is conducted in cooperation with other companies or research institutes, and the research category of the project. The research category expresses the scope of the intended project.

### Research Categories

There are three basic research categories:

- fundamental research (experimental or theoretical work aimed at gaining new knowledge)
- industrial research (research with a specific practical objective aimed at improving existing products, processes, or services)
- experimental development (research aimed at producing drafts, plans, and prototypes)



## EU R&D Grants

### Seventh Research Framework Program

At the European level, financial support for R&D projects is offered by the 7th Research Framework Program (FP7).

Support is allocated in the form of grants covering up to 75 percent of project expenditures for SMEs. FP7 will run until the end of 2013.

Seventh Research Framework Program (FP7)  
<http://cordis.europa.eu>

### Budget and Research Fields

FP7 is the world's largest research funding program with a total budget of more than EUR 50 billion, the majority of which is allocated to ten research fields:

- Health
- Food, agriculture and fisheries, biotechnology
- Information and communication technologies
- Nanosciences, nanotechnologies, materials and new production technologies
- Energy
- Environment (including aeronautics)
- Socioeconomic sciences and the humanities
- Space
- Security

FP7 support is usually provided to R&D projects operating on a transnational level with different project partners.

### Application Process

Applications are submitted in the form of a proposal by all transnational project partners (so-called "consortium"). The EU usually issues a call for proposals announcing the research area, eligibility guidelines, and the available budget.

## R&D Grants in Germany

### The High-Tech Strategy

All research programs financed by the German federal government are concentrated within the federal High-Tech Strategy.

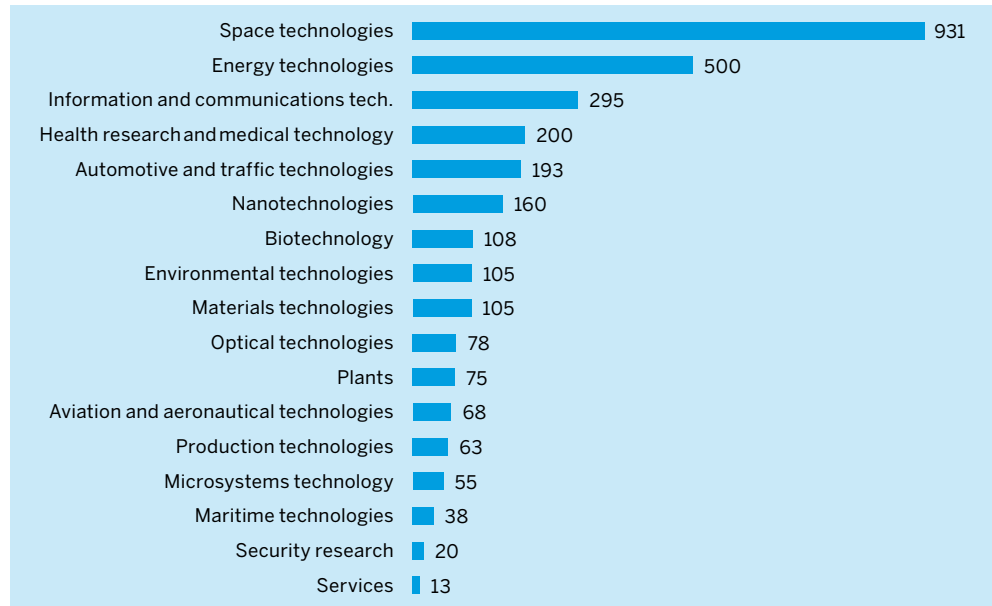
The High-Tech Strategy defines specific industry sectors with a high dependency on constant high-tech research and development. Each defined industry sector consists of a number of different R&D programs.

Germany's High-Tech Strategy  
[www.hightech-strategie.de](http://www.hightech-strategie.de)

## Budgets and Research Sectors

Approximately EUR 4 billion yearly is reserved for R&D projects in the form of non-repayable project grants. Grant rates can reach up to 50 percent of eligible project costs. Higher rates may be possible for SMEs. Cooperation between project partners, especially between enterprises and research institutions, is usually required.

THE HIGH-TECH STRATEGY:  
 SECTORS AND APPROXIMATE  
 ANNUAL BUDGETS  
 (IN EUR MILLION)



Source: German Federal Ministry for Education and Research (BMBF)

## Application Process

The federal government periodically calls for R&D project proposals for specific research topics followed by a competition of best project ideas. A specific funding scheme called “KMU-innovativ” focuses on the participation of SMEs in some of the High-Tech-Strategy’s industry sectors. Funding applications within the framework of the “KMU-innovativ” scheme are possible on an ongoing basis and are not connected to a specific research topic.

KMU-innovativ  
[www.hightech-strategie.de](http://www.hightech-strategie.de)

## German Federal State Funding

In addition to programs run by the federal government, each German state has R&D grant programs - generally targeted at SMEs - in place. Some states put particular focus on specific industry clusters but programs without specific technological focus also exist. Cooperation between project partners is not always necessary.

## Further Subsidy Options

### Public R&D Loan Programs

R&D loans can be an alternative to R&D grants and entail several specific advantages: they are not usually attached to a specific technology field, application is possible at all times (no deadlines), and they can cover higher project costs.

R&D loans are provided by different governmental programs. For instance, the ERP Innovation Program offers 100 percent financing of eligible R&D project costs up to EUR five million.

### Public Partnership Programs

Public (silent) partnerships are offered by both, the KfW Banking Group and state-owned venture capital companies to technically oriented companies. Direct shareholding by a public investment company is also possible. Conditions are negotiated on a case-by-case basis.

KfW Bankengruppe  
[www.kfw.de](http://www.kfw.de)

## NRW.BANK Development Programs

NRW.BANK offers a wide range of financial support for business start-ups and to ensure company survival: investment grants, subordinated loans, venture capital, and releases from liability.

NRW.BANK Start-Up Loan: Business founders can be supported with loans ranging from 25,000 to 5 million euros. The financing portion may amount to up to 100 percent of the eligible investment costs or working capital. The acquisition of land and buildings as well as furniture and fixtures and the takeover of existing SMEs are also eligible for funding. The NRW.BANK start-up loan is offered with terms of five, ten or twenty years. The start-up loan includes an optional indemnity bond from the Bürgschaftsbank NRW, for which business founders may apply as part of a standardized process.

NRW.BANK SME Loan: This is a low-interest loan from NRW.BANK to finance business start-ups, small and medium-sized enterprises, and independent professionals. The NRW.BANK SME Loan is available as both an investment loan and a working capital loan. The amount of the loan can range from 25,000 to 5 million euros. This promotion program is offered jointly by NRW.BANK and KfW.

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