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Boosting the German VC Ecosystem

Start-ups are a key driver of structural change. They put new, innovative ideas into practice, create jobs and safeguard the foundations for future prosperity and growth in Germany and Europe. People who start new businesses can be valuable innovators, and they play a tremendously important role in the development of the German economy. The Federal Government has therefore set itself the objective of improving legislation and tax rules for venture capital and of making Germany more attractive to venture capital.

In recent years, Germany's venture capital market has advanced significantly. In particular, Germany is doing comparatively well in the area of early-stage financing for start-ups, thanks in part to the many public funding programmes in place at the federal and state (Bundesländer) levels. However, despite the international attention directed towards Germany's start-up scene, the venture capital market in Germany remains too small, especially when compared internationally or when viewed in relation to the size of the German economy. In some countries, venture capital investment is many times higher than in Germany. Start-ups in Germany have inadequate access to capital especially when it comes to second-stage and third-stage financing.

For this reason, the German government has already adopted a number of instruments to promote financing for innovative start-ups. This support is provided both (a) indirectly via funds such as the ERP/EIF Fund of Funds and KfW Capital's ERP Venture Capital Fund Investment programme, which invest in private venture capital funds and (b) directly via public funds such as the High-Tech Gründerfonds (HTGF) and coparion, which invest directly in start-ups. In addition, the German government set up a €2 billion programme to help start-ups during the coronavirus pandemic. For regulatory reasons, and to ensure consistency with EU competition and state aid law, funding from these instruments is typically contingent upon significant contributions from private investors. In this way, such funding expands the amount of financing available on the German venture capital market.

Closing remaining gaps: Germany is committed to improve financing opportunities during the capital-intensive scale-up stage. To this end the German government is currently setting up an €10 billion equity fund for emerging technologies (Beteiligungsfonds für Zukunftstechnologien, or Zukunftsfonds ("Future Fund") for short), which will be set up at KfW. With this Future Fund the German government will multiply its existing funding structure both quantitatively and qualitatively.

Moreover, the German government proposed several regulatory and tax-related measures to increase Germany's attractiveness for investment funds (VAT exclusion to management fees of VC funds, new tax regulations for employee investment schemes, less red tape and more flexibility for investment fund managers).