

Investment Incentives



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This FactSheet provides initial information for foreign companies on financing a new venture in the City of Lübeck. Apart from general remarks concerning the financing of the German operation a first overlook is given on potential sources of incentives. Due to the frequently changing legislation on European Union, federal and state level this FactSheet can only be considered as a preliminary information. The LÜBECK Business Development Corporation is happy to discuss your individual investment case in order to identify potential support programmes.

Setting-up a business needs careful preparation - this fact sheet delivers the necessary background information



Before we talk about incentives ...

Before talking about incentives we recommend to take an in-depth look at the overall financial situation of the investment project. Foreign companies investing in a new German operation („greenfield investment“) or acquiring an existing company in Lübeck need to look at a complex financial structure. We recommend to become clear about such issues as equity, mezzanine capital, debt

financing and alternative financing before considering incentives.

In about all investment projects banks will have to be involved in providing at least some part of the overall financing. A recent study by KPMG (KPMG Leveraged Finance Study 2004) revealed that banks rate a variety of issues before committing such financing. The Top-10 issues (with rating 5 = very important) are:

1	Financial Structure	(5,0)
2	Cash Flow	(4,9)
3	Due Diligence	(4,5)
4	Competitive Position	(4,5)
5	Management	(4,3)
6	Financial track	(4,0)
7	Equity portion	(3,7)
8	Track record of fin. investor	(3,7)
9	Industry / No „new economy“	(3,6)
10	Sales Revenues	(3,5)

Although in general foreign investors are subject to the same conditions as German investors, experience has shown that those looking for project and/or investment financing often have to meet additional requirements. They frequently have to show a good investor rating, a successful track record with similar projects and a good project size in relation to investor size.

Again experience has shown, that depending on the size of the investor the chances to acquire different means of financing – that is mezzanine or debit financing – are higher for larger investors

(with a good investment rating). The following overview is based on experience.

Large investors usually need to provide an equity rate of 25-30%, mezzanine and debt financing are generally available with investment incentives being in the area up to 15 %. Small companies frequently have to show an equity rate of 30-50% with mezzanine financing potentially available in cooperation with local financing partners. Debt financing is potentially available. Investment incentives are potentially available up to 20%. Basically the same conditions apply to start-up or very small companies with the exception that debt financing is usually not available.

Taking these pre-conditions into consideration the following chapters will provide you with initial background information on potentially available incentives.

The list of possibilities ...

The list of possibilities includes about 3,000 potential incentive programs for investors in Lübeck. These programs exist on various levels, that is European Union, federal (Bund) and state (Land) level. The following classification by target should help Swedish investors finding their way through the programs. The target areas include the promotion of

- investment,
- research and development,

- human resource development and
- the promotion of the European market.

Information is provided on grants and incentive programs as well as guarantees and loans potentially available to promote investments, since these are considered to be of primary importance for foreign investors in Lübeck. Other areas such as research and development and human resource development will also be presented in a general manner.

Financial assistance is usually provided in the following ways:

- Subsidies,
- Loans at concessionary interest rates,
- Capital Resources Aid,
- Guarantees.

Subsidies

The „Joint Agreement for the Improvement of the Regional Economic Structures „ (Gemeinschaftsaufgabe program - in short form: GA) aims at improving the structure of regional economies and the economy as a whole through providing irrecoverable subsidies.

The process of distributing the subsidies provided by the GA program is subject to approval from the EU. Each EU country has its own framework for the implementation of these schemes. In Germany, this is the GA program administered by the German federal and state governments.

The focus is on promoting investment in small and medium-sized enterprises (SME). The EU defines an SME as a small or medium-sized enterprise with fewer than 250 employees; with an annual turnover of no more than Euro 40 million or a balance sheet total of no more than Euro 27 million, and on which 25% or more of the equity or voting stock is not held by one or more companies which do not fulfill these requirements.

Eligible investments include the establishment and expansion of a permanent establishment; the conversion/fundamental rationalization/modernization of a permanent establishment and the acquisition of a permanent establishment that has been shut down or is in danger of being shut down.

In Lübeck the maximum incentive levels for the permanent establishment of SMEs is 20% of eligible investment costs while other permanent establishments are subsidized up to 15%. These levels represent the maximum possible funding and may only be claimed in full if the project is expected to significantly improve the availability of jobs.

The provision of funds from the GA program is restricted to projects in manufacturing, businesses serving manufacturers/industry-related services such as data processing, R&D, technical design, call centres and in the tourist industry. Projects in the area of agriculture, fisheries, energy supplies, water supplies,

transport and retail trade among others can not be subsidized. Special conditions apply for projects in the area of steel, automotive, shipbuilding or textile industries.

Before deciding to apply for a cash grant under the GA program please consider the following conditions:

- Funds from the Joint Agreement are granted at the authorities' discretion;
- Applications must be filed before the start of the investment;
- Investors must make a considerable contribution (according to EU regulation least 25% including equity of 15% and loans without any state aid) to the investment project from their own capital as proof of their commitment;
- Cash grants are subject to taxation;
- An investment period may take up to 36 months from the start of a project. Within this time-frame, all project-related investments must be completed and the permanent new jobs indicated in the application must have been created;
- There is a binding period of 60 months immediately following the investment period. Within this period, the investor must secure existing as well as newly-created jobs. Equipment bought and subsidized with GA program funds must remain within the permanent establishment for the duration of the binding period (replacements are allowed under certain circumstances);

- An investment constitutes a special commitment to a permanent establishment. A special commitment is generally deemed to exist based on the amount of the total investment and the number of permanent jobs thereby created. Investments involving new permanent establishments automatically fulfill the criteria for special commitments;
- The proportion of the total investment eligible for funding under the GA program depends on the number of jobs the project will create or secure;
- All assets eligible for funding must be recorded as fixed or intangible assets in the investor's balance sheet;
- Only new assets are funded under the GA program; used assets may not be included for funding. If used assets are replaced with new ones in the course of the planned investment, revenue resulting from the sale has to be deducted from the investment sum applied for to acquire new assets.
- At least 50% of the expected turnover must be generated outside a 50 km radius.

A formal application proposal must be filed with the respective authorities before the start of an investment. The LÜBECK Business Development Corporation will assist with this process. Applications may be made at any time, but always before the actual investment commences. Initial negotiations with the respective authorities normally establish if the authorities are willing to support a project

with GA program funds or not. The LÜBECK Business Development Corporation will assist with these negotiations based on detailed investment plans to be provided by the investor.

The rules and conditions for both cash grants under the GA program may change in the coming years. Investors are therefore advised to keep close contact with the LÜBECK Business Development Corporation to keep track of regulations and restrictions associated with investments. Also a mid- to long-term financial planning is required to account for changes in certain conditions relating to investment projects can affect a subsidy like sale and lease-back cases.

Loans at concessionary interest rates/ Reduced interest loans

Loans at concessionary interest rates are granted by public credit institutions like KfW Kreditanstalt für Wiederaufbau. The application for funds must be made via a private credit institution, they can not be applied for directly by the company. The loans typically have maturities of ten to twenty years. The maximum amount of the loan is between Euro 500,000 and Euro 5.0 million, depending on the subsidy scheme.

Granting of loans is limited to certain types of projects. These include, for example, the following:

- Projects relating to permanent employment for unemployed individuals,
- Investments by SMEs,
- Investments in environmental protection,
- Construction or expansion of photovoltaic plants,
- Investments in renewable energy sources (biomass, biogas, geothermal and hydroelectric power plants),
- Development and launch of innovations.

Interest-subsidized loans for start-ups are currently available for amounts between Euro 25,000 and Euro 2.0 million.

Capital resources aid / Guarantees

Capital Resources Aid programs are available from public institutions. They are intended to help companies to receive funds from a private bank. Applications can be made through private credit institutions for Capital Resources Aid which is provided in the form of loans at concessionary interest rates. The maturities may be up to ten years. The equity nature of the loans is assured, in particular, by the relinquishment of security, the subordinated liability and the 20-year maturity, as well as ten redemption-free years. Funds of up to a maximum of Euro 1.0 million may be provided.

Grants

Grants for research and development are available in certain fields of technology through specialist programs run by the German Federal Minister for Education, Science, Research and Technology. Support is given for projects, which are of considerable interest and are associated with a high level of technical and economic risk. Currently, the grants apply to five fields:

- Research in the natural sciences and climate and environmental research, energy,
- New technologies,
- Information and communications technology,
- Biotechnology, health research, job organization and design,
- Transport, space travel, construction,

Those entitled to apply are industrial enterprises, research institutes and higher education establishments. The R&D grants are targeted particularly at small and medium-sized businesses, which are equipped with the personnel and materials to carry out the appropriate research and development activities. The grants (which are project-linked and non-repayable) of up to 50% of the eligible costs require expert approval prior to the commencement of the project.

Disclaimer

This FactSheet has been prepared by the LÜBECK Business Development Corporation. Its aim is to provide background information for setting up and running a business in Lübeck in compliance with legislation in force in September 2004.

It is written in general terms and is not intended to be comprehensive. Before taking decisions advice should be sought from the LÜBECK Business Development Corporation.