COVID-19: Government financial support measures for start-ups

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Key takeaways

- **As of 7 May 2020, eligible start-ups can apply for federal and cantonal guaranteed loans with a total amount of CHF 154 million.**
- **The maximum amount for each start-up will be capped at the lower of CHF 1 million or one third of the start-up's running costs.**
- **The programme is targeted at science- or technology-based and innovative start-ups domiciled in participating cantons.**
- **Practice will show whether this measure will fairly provide the necessary relief to the liquidity bottlenecks of the affected start-ups.**

1. Chronology

As of 7 May 2020, first start-ups can apply for federal and cantonal guaranteed long-term loans. The introduction of this support measure became necessary given that start-ups were practically excluded from the SME bridging loans programme introduced on 25 March 2020 by the Federal Council (see our legal update of 27 March 2020). This is due to the fact that the amount of the bridging loan is essentially calculated based on the turnover of the preceding business year – a figure close to zero for many start-ups as they have not yet left the pre-revenue phase.

Although several cantons had in the meantime implemented their own support measures for start-ups, the Federal Council has now also acknowledged the need for further action – in recognition of the importance of innovative and promising start-ups for the Swiss economy and in view of the continuing withdrawal of investors and consecutive delays or cancellations of funding.

Pestalozzi Rechtsanwälte AG
Feldeggstrasse 4
CH-8008 Zürich
T +41 44 217 91 11
zrh@pestalozzilaw.com

Pestalozzi Avocats SA
Cours de Rive 13
CH-1204 Genève
T +41 22 999 96 00
gva@pestalozzilaw.com

pestalozzilaw.com

Thus, on 22 April 2020, the Federal Council announced in its press conference that it would implement a guarantee scheme to support promising startups affected by the consequences of the COVID-19 pandemic.

Meanwhile, the State Secretariat for Economic Affairs (SECO) has elaborated on the practical criteria for this support measure; these were communicated on 4 May 2020. The key features are outlined below.

2. Key features

In order to provide for a quick implementation, the new measure is based on the existing system of guarantees for SMEs under the Federal Act on Financial Aid to Guarantee Organisations for SMEs (Bundesgesetz über die Finanzhilfen an Bürgschaftsorganisationen für KMU). The four federal government-accredited loan guarantee organisations (BG Mitte, BG OST-SÜD, Bürgschaftsgenossenschaft SAFFA, and Cautionnement romand (Bürgschaft Westschweiz)) are already involved in the bridging loan programme for SMEs and shall facilitate access to bank loans for start-ups.

The loans provided to start-ups under the present programme shall be granted by Swiss banks and guaranteed by the guarantee organisations at 65% and by the canton or a third party brokered by the canton and 35%. As several cantons have already committed considerable resources to other kinds of support measures for start-ups (for instance, the canton of Zurich already implemented in mid-March a cantonal credit default guarantee of CHF 425 million to secure loans to companies (including start-ups) in the amount of CHF 500 million), it is up to the individual cantons to decide on their involvement in this programme. As of 8 May 2020, the cantons of Fribourg, Geneva, Lucerne, Neuchâtel, Schaffhausen, Uri, Valais and Vaud had confirmed their participation. The list of participating cantons is updated on an ongoing basis here.

In total, the Confederation can guarantee up to CHF 100 million within this programme. Including the cantons, guarantees of up to CHF 154 million are available to start-ups. The maximum amount for each start-up will be capped at the lower of:

- CHF 1 million; and
- one third of the start-up's running costs (consisting of, in particular, wages, non-capitalisable investments, rents, costs for patent applications and patent attorneys, as well as costs for internal or outsourced research and development processes) in 2019.

In justified cases, the canton may deviate from these limits. Any loans granted under the bridging loan programme need to be included in the calculation of the maximum amount.

3. Procedure

From 7 May 2020 to 31 August 2020, start-ups with a scalable, science- or technology-based and innovative business model domiciled in cantons participating in the programme can submit a guarantee application online. The application is then sent to the participating canton where an appointed body reviews the application. In its assessment, the cantonal body may seek the

expertise of an advisory board set up by the Swiss Innovation Agency (Innosuisse). If assessed positively, the application will be forwarded to one of the four guarantee organisations. The latter will make the final decision on the loan guarantee, taking into account the evaluation by the cantonal body. In case it reaches the same positive evaluation, it will issue a confirmation of guarantee, which the start-up can then use to apply for a loan from any bank.

4. Eligibility criteria for start-ups

To be eligible under the programme, start-ups must:

- have their date of incorporation after 1 January 2010 but before 1 March 2020
- be incorporated under the legal form of a company limited by shares (AG/SA) or a company with limited liability (GmbH/Sàrl)
- have their registered office in one of the participating cantons
- not be part of the agricultural sector
- not be insolvent pursuant to Art. 725 para. 2 of the Swiss Code of Obligations (CO)
- not be subject to bankruptcy or composition proceedings or be in liquidation
- suffer from significant financial and liquidity problems caused by the COVID-19 pandemic
- have a scalable, science- or technology-based and innovative business model

5. Conclusion

Whilst detailing legislation on the specific terms and conditions of the loans (including, for example, the interest rate) is yet to be published, the positive signal that the Federal Council has sent to the start-up scene is to be welcomed. In recognition of the importance of the long-term innovation potential of start-ups for the Swiss economy as a whole, this programme is intended to help promising start-ups to survive the COVID-19 pandemic by facilitating access to longer-term credit funding. Nonetheless, the programme also presents several challenges. In particular, authorities are required to evaluate the innovation and future potential of applicant start-ups in a just way, while start-ups need to deal competently with this new form of financing, i.e. debt rather than equity financing.

Author: Daniela Fritsch (Associate)

No legal or tax advice

This legal update provides a high-level overview and does not claim to be comprehensive. It does not represent legal or tax advice. If you have any questions relating to this legal update or would like to have advice concerning your particular circumstances, please get in touch with your contact at Pestalozzi Attorneys at Law Ltd. or one of the contact persons mentioned in this Legal Update.

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Oliver Widmer

Partner
Attorney at law
Head Financial Services

Pestalozzi Attorneys at Law Ltd
Feldeggstrasse 4
8008 Zurich
Switzerland
T +41 44 217 92 42
oliver.widmer@pestalozzilaw.com