

Germany Fund: Private capital for investments in Germany's future

Fact sheet: The Germany Fund

The Germany Fund ("Deutschlandfonds") contributes to stimulating investments in key future areas, and thus future-proof our country. The transition of our economy to affordable, reliable and climate-friendly energy, a dynamic supply of venture capital for start-ups and scale-ups, as well as the necessary investments in digital technologies and greater resilience require capital and a wide range of financial instruments for companies. The majority of these investments come from the corporate world and not the state.

With various instruments under the Germany Fund, the state is providing impetus to mobilise private capital for future projects. Complementary instruments create transparency and bring market participants together. The aim now is to act quickly and decisively so that the German economy becomes competitive again. The Germany Fund is now being launched and will be continuously refined in a market- and need-based manner. In the coming years, it will be crucial to evaluate the effectiveness of the existing instruments and, if necessary, develop new instruments and products.

This fact sheet summarises the most important key figures, target groups and measures of the Germany Fund at the time of its launch.

1. What is the Germany Fund?

Under the umbrella of the Germany Fund, various measures are bundled to mobilise private capital for investments in Germany. This is done, for example, through government risk hedging to finance the energy transition or through government-hedged investments in raw materials projects, venture capital (VC) funds or start-ups. Accordingly, the Germany Fund is not a fund in the traditional sense. It focuses on three target groups: energy supply companies, industry/SMEs, and start-ups & scale-ups.

2. Why do we need the Germany Fund?

Germany is facing enormous investments to modernise and expand its infrastructure, as well as in the area of innovative technologies. However, most of the investment needs are not covered by the state, but by private actors. That's why private investors or

banks are needed to fund these investments and companies to undertake these investments.

The Germany Fund helps to facilitate these investments. With state guarantees or investments and the removal of investment barriers, the Germany Fund improves the framework conditions and creates incentives to mobilise a large amount of private capital and thus ensure that Germany remains competitive, achieves its climate targets and increases its resilience. The state shares in the Germany Fund are therefore temporary start-up financing for the modernisation of our country and the German economy.

3. Who is the Germany Fund aimed at?

The Germany Fund is aimed at companies and investors who play a central role in the transformation of the economy and in ensuring its competitiveness:

Industry and SMEs: For example, companies planning investments in German energy infrastructure or the production of the systems that

such infrastructure requires, the accelerated development and use of decarbonisation technologies, the extraction of raw materials or in the field of security and defence.

Energy supply companies: Actors investing in new, sustainable infrastructure in the areas of heat supply, electricity distribution and the expansion of renewable energies.

Start-ups and scale-ups: Young technology companies with significant growth potential and substantial investment requirements – particularly in the fields of DeepTech, AI, BioTech, ClimateTech and DefenceTech – depend on the provision of growth capital from VC funds. Various Future Fund ("Zukunftsfonds") components are bundled together in order to better address this need. The Future Fund is being expanded.

The new, additional funds from the "Growth and Innovation Capital ("Future Fund II")" will be used for venture capital financing, in particular in the areas of DeepTech, BioTech and security and defence, as well as to cover existing financing needs in SMEs.

4. Who are the initiators of the Germany Fund?

The Germany Fund is supported by the German Federal Government. Overall coordination is the responsibility of the Federal Ministry of Finance (BMF) and the Federal Ministry for Economic Affairs and Energy (BMWE). KfW is responsible for implementing the Germany Fund: It uses financial instruments such as guarantees, loans and investments. The Federal Government is further developing these financing instruments in accordance with needs and market conditions in dialogue with the real economy and the financial sector.

5. How is the Germany Fund financed?

The German Federal Government provides public funds for the Germany Fund, including guarantees, amounting to around 30 billion euros.

These funds are used to secure investments and enable private investors or companies to invest, or to enter into partnerships on equal terms with private investors. Guarantees do not affect the budget directly, only when they are used. For example, up to 8 billion euros in guarantees are being offered to hedge investments in the industry and SMEs component. For the new "KfW Geothermal Energy Promotional Loan", the government is providing a guarantee framework (warranty) of 600 million euros and around 50 million euros in budget funds. This instrument supports the financing of drilling operations and also serves to hedge the exploration risk.

KfW also uses its own leeway to strengthen the future viability of Germany as an economic hub. This includes loans – for example, KfW IPEX-Bank has decided to increase its financing for defence exports in the future. KfW will also leverage its financial strength to strategically acquire securitisations intended to enhance the financing conditions for SMEs.

The aim is to create attractive financing and investment opportunities to enable urgently needed investments in energy networks and the expansion of renewable energies.

6. What specific measures are offered?

The Germany Fund offers tailor-made financial products for the respective target groups. It uses traditional loans, as well as more complex instruments to optimally distribute risk:

Target group	Financing instrument	Explanatory notes
Industry & SMEs	Hedging tool for transformation industries	<u>Bank guarantees</u> for large transformation projects, such as expansion of production capacities, e.g. advance payment, contract performance and retention guarantees
	Securitisation	<u>Securitisations</u> group receivables into negotiable securities to relieve bank balance sheets and facilitate lending to SMEs.
	Raw Materials Fund	The <u>Raw Materials Fund</u> provides capital for investments in projects related to mining, refining and recycling of critical natural resources.
	Growth and innovation capital ("Future Fund II")	The new, additional funds from the "Growth and Innovation Capital ("Future Fund II")" will be used for venture capital financing, in particular in the areas of DeepTech, BioTech and security and defence, as well as to cover existing financing needs in SMEs.
Energy supply companies	Geothermal Energy promotional loan	<u>Bank on-lended KfW loan</u> for financing deep geothermal drillings, combined with hedging of the exploration risk by the Federal Government and MunichRe
	Promotional loan Renewable Energies Plus for energy supply companies	<u>Interest-reduced KfW loan</u> for installations generating electricity, heat and cooling from renewable energy sources and storage. Federally guaranteed risk relief for the on-lending banks increases willingness to lend.
	Investment loan/ syndicated loan for energy supply companies	<u>Bank on-lended KfW loan</u> or <u>KfW financing</u> together with other banks; enhances the banks' willingness to grant loans by partial assumption of credit risks.
Start-ups & scale-ups	Strengthening and focusing fund investments	Various Future Fund components are bundled together in order to better address needs in the areas of DeepTech, AI, BioTech, ClimateTech and DefenceTech. The Future Fund is being expanded.
	Growth and innovation capital ("Future Fund II")	The new, additional funds from the "Growth and Innovation Capital ("Future Fund II")" will be used for venture capital financing, in particular in the areas of DeepTech, BioTech and security and defence, as well as to cover existing financing needs in SMEs.
	Scale-up Direct	As a co-investor, KfW Capital invests directly in innovative start-ups together with private fund managers from the KfW Capital fund portfolio.
	First-of-a-kind loans	New programme for investments in innovative private sector funds is being prepared. This programme will invest in so-called novel industrial first-of-a-kind technologies, products and processes from innovative start-ups and scale-ups.

7. Outlook: What's next?

The Germany Fund will gradually be developed and refined. In the energy sector, given the high need for investment, it is necessary for private and municipal energy supply companies to have the equity base required for financing. In light of the significant role of municipal utilities in the field of electricity distribution and heat networks, the Federal Government will engage in dialogue with the federal states to promptly develop suitable instruments to address the equity issue. According to the German Constitution, solving the equity issue of municipal companies is primarily the responsibility of the federal states. Many municipal utilities already rely on the strong commitment of their state governments. In some federal states, municipal regulations facilitate the strengthening of equity through municipal shareholders, or subordinated capital guaranteed by state programmes is made available to municipal utilities. The good approaches, some of which are already in place, should quickly become the “German standard” in cooperation with the states.

In this context, we are working to make it easier for investors and energy suppliers to connect. The aim is to create attractive investment opportunities to enable urgently needed investments in energy networks and the expansion of renewable energies, where applicable including through the coordinated pooling of projects. In addition, we are examining further opportunities to develop equity-enhancing measures together with the federal states.

A coherent overall concept could be presented with the states at the Energy Ministerial Conference from 20 to 22 May in Norderney.

The mobilisation of private capital is also important in the construction sector for affordable and sustainable housing in Germany. For this reason, the Federal Government has initiated a process in collaboration with KfW to develop a new module for housing construction under the umbrella of the Germany Fund. The aim of this module is to improve

the situation on the housing market and boost private investments in housing construction.

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Further information: deutschlandfonds.info