

# COVID-19 Update

## Venture Capital and Private Equity

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23 April 2020

### Support measures for startups announced by the Swiss federal government

**On 22 April 2020, the Swiss Federal Council announced financial support measures for startup companies to help them mitigate the economic impact of the coronavirus pandemic. With the new support measures, the Swiss Federal Council sent a clear signal of the government's intention to help promising startups to survive the current crisis and to preserve the innovative capacity and long-term value of the Swiss startup ecosystem as a whole.**

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Over the past few weeks, the Swiss federal government has taken various measures to curb the spread of the COVID-19 pandemic and to counter the economic effects caused thereby. Such support measures for the economy included, amongst others, state-backed bridge financings at zero or low interest rates to re-establish liquidity, hardship indemnities to reduce labour costs, and the extension of tax and social security payment due dates.

However, the current crisis had left young startups particularly exposed at their vulnerable early development stage:

- › This is in part because the majority of startups has had so far practically no access to the state-backed emergency bridge financing measures enacted by the Swiss Federal Council in late March 2020 for affected SME (small and medium sized enterprises). This is largely because the bridge financing under these measures is generally limited to 10% of the sales generated by an SME in the preceding business year.
  - › Such sales-based financing criteria have not helped Swiss startups, as many of them do not yet have significant sales and hence do not qualify to a meaningful extent for such special bank loans generally available to SME.
  - › Also and unlike more mature SME, startups cannot usually rely on a wide customer base, existing financial reserves and a proven track-record.
  - › Not least, fund raising from common sources for startups – such as VC investors, business angels, corporate VCs, etc. – has become even more challenging during the current crisis as these classical investors of first resort are being kept busy themselves in trying to mitigate the effects of the current crisis on their own businesses.
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The Swiss Federal Council has therefore come under increasing pressure to offer specific financial support for startups. In acknowledging the importance of maintaining the innovative capabilities of the Swiss startup ecosystem for the Swiss economy as a whole, the Swiss Federal Council announced on 22 April 2020 a new instrument to mitigate the risk of COVID-19 related insolvencies of promising startups. The key features of the new instrument are the following:

- › The Federal Council decided to use the existing guarantee scheme for SME under the Federal Act on Financial Aid to Guarantee Organizations for SME (*Bundesgesetz über die Finanzhilfen an Bürgschaftsorganisationen für KMU*) to provide supplementary support for startups by way of a new procedure specifically for startups that is to be established until 30 April 2020.
- › Pursuant to such new procedure, startups may apply for a guarantee of up to CHF 1 million, whereby the Swiss confederation will guarantee 65% and the cantons (or other sponsors selected by the cantons) will guarantee 35% of loans.
- › The Swiss confederation may provide guarantees of up to CHF 100 million in total. Including the cantons' share, guarantees for loans of up to CHF 154 million will thus be available for startups.
- › It will be up to each canton to decide whether it wishes to offer such guarantee scheme (originally intended for SME) to startups domiciled in such canton.
- › If a canton decides to offer the new instrument, startups can submit a guarantee application to the relevant cantonal office by 31 August 2020.

- › Where necessary, a cantonal office may seek advice from an advisory board set up by the Swiss Innovation Agency (Innosuisse) to assess the viability and the prospects of a startup.
- › If the cantonal office approves the application, it is passed on to one of the federally recognized guarantee organizations.
- › The latter will then issue the guarantee confirmation, which the startup can use to apply for a loan from any bank.
- › By 30 April 2020, the State Secretariat for Economic Affairs (SECO), in consultation with interested cantons and the guarantee organizations, will prepare the practical criteria for using the new instrument and will publish a list of participating cantons and relevant offices as well as further details on the procedure.

Recognizing the need of emerging companies for long-term financing, the new procedure under the existing guarantee scheme is aiming at facilitating access for startups to longer-term credit funding rather than mere short-term liquidity ensured by the COVID-19 emergency loans. A number of cantons (such as Zurich, Berne, Fribourg, Vaud, and others) have in the meantime also launched their own measures to support startups.

Time will tell to what extent the new measures will provide promising Swiss startups the required help in real life to bring them through the crisis and beyond. Challenges will be many – including for the cantonal authorities to select promising startups as well as for startups to accept and absorb (unsubordinated) debt financings as opposed to equity financings.

**Please do not hesitate to contact us in case of any questions.**

**Legal Note:** The information contained in this COVID-19 Update is of general nature and does not constitute legal advice. In case of particular queries, please contact us for specific advice.

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