

Support for start-ups in Switzerland

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The COVID-19 pandemic is affecting the economic activity of all businesses. Among the most severely affected are young and innovative companies (ie, start-ups). Not only is the general market downturn affecting their sales, growth prospects and ability to attract financing from business angels and venture capitalists, but – until now – such businesses seem to have been only marginally considered by the emergency measures put in place by the federal government.

Emergency economic measures – an overview

Following the widespread outbreak of COVID-19 in Switzerland, the Federal Council implemented several emergency measures to mitigate the virus's economic impact. Among other things, the Federal Council has:

- ordered a temporary stay of debt enforcement to protect debtors from enforcement proceedings;
- extended tax and social security payment due dates;
- relaxed the requirements for and extended the scope of so-called 'short-time work compensation' for employees;
- amended the insolvency regime by relaxing board of directors' obligations relating to over-indebtedness and introducing a new so-called 'COVID-19-moratorium'; and
- established an emergency liquidity aid programme for businesses through guaranteed bridge loans in the (record) amount of up to Sfr40 billion under the COVID-19 Joint and Several Loan Guarantee Ordinance of 25 March 2020 (for further details please see "[Liquidity aid for businesses in times of coronavirus: emergency aid through guaranteed COVID-19 bridging loans](#)").

Unfortunately, so far these measures have been of limited benefit to most start-ups. The COVID-19 guaranteed bridge loan requirement linking the loan amount to a company's turnover (the disbursed amount is capped at 10% of the preceding business year's generated sales) has been particularly unfavourable to start-ups. As many start-ups are not operative or do not yet have a marketable product, such a sales-based requirement has meant that they have only limited or even no access to the emergency facilities. Further, there are signs in the market that fundraising from business angels and venture capitalists is becoming more challenging, as the latter concentrate on their portfolio companies and – if they invest at all – price the increased risk in their calculation, thereby lowering the valuation of companies.

Liquidity support for start-ups

On 22 April 2020, after weeks of pressure from the growing Swiss start-up ecosystem, the Federal Council acknowledged that start-ups had little or no access to the existing emergency aid and, considering their importance for the economy as a whole, stated that it would devise a liquidity support programme specifically designed for innovative start-ups. On 4 May 2020 further details of this programme were communicated to the public.

The scheme encompasses the following points:

- It is based on an existing guarantee scheme for small and medium-sized enterprises, whereas the federal government guarantees 65% of a loan and the respective participating canton the remaining 35%. The scheme is not mandatory – each canton can decide whether it wishes to participate.
- Corporations and limited liability companies founded after 1 January 2010 but before 1 March 2020 and with domicile in a participating canton may apply for a loan of up to Sfr1 million. However, the total amount guaranteed may not exceed one-third of the start-up's

AUTHORS

[Alexander Vogel](#)



[Marco Fusi](#)



2019 running costs, which in particular comprise wages, investments that are ineligible for capitalisation, rents, costs of patent applications and patent lawyers as well as costs for internal or outsourced R&D processes.

- The total liquidity support guaranteed by the confederation and participating cantons amounts to Sfr154 million.
- When submitting the application for funds, a start-up cannot be in bankruptcy or composition proceedings or liquidation, nor may it be over-indebted pursuant to Article 725 of the Code of Obligations. Further, it must have suffered significant financial and liquidity problems due to the COVID-19 pandemic.
- A start-up's business model must be scalable, science or technology-based and innovative. To evaluate these criteria, a canton may seek advice from an expert group, which is coordinated by Innosuisse, the Swiss Innovation Agency.
- As regards the procedure, from 7 May 2020 start-ups with domicile in a participating canton may submit the application for funds via the following website: <https://covid19.easygov.swiss/en/for-startups>. The application will then be forwarded to the respective canton's appointed reviewing body. Once evaluated and approved by the canton, the application is further reviewed by a loan guarantee organisation, which makes the final decision. Start-ups which receive the guarantee confirmation may apply for a loan from any bank.
- Any loans granted pursuant to the COVID-19 Joint and Several Loan Guarantee Ordinance will be deducted from the disbursed amount.

At the time of writing, 12 cantons have confirmed their participation in the new scheme. However, several 'start-up rich' cantons such as Zurich, Zug and Bern, which had already put in place their own emergency support measures for start-ups, have not decided yet. If they do, they will have to coordinate the efforts with their own pre-existing measures. It remains to be seen whether the two-tier decision-making process mentioned above proves to be too cumbersome and – given the somewhat unclear requirements – arbitrary for start-ups in dire need of additional financing.

For further information on this topic please contact [Alexander Vogel](#) or [Marco Fusi](#) at Meyerlustenberger Lachenal by telephone (+41 44 396 91 91) or email (alexander.vogel@mll-legal.com or marco.fusi@mll-legal.com). The Meyerlustenberger Lachenal website can be accessed at www.mll-legal.com.

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