

# State of Startup Investments in Berlin

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Senate Department  
for Economics, Energy  
and Public Enterprises

**BERLIN**



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# 1. Foreword by the Senator



Our startups play a central role on the way to becoming the number one innovation location in Europe. The new study "State of Startup Investments in Berlin" shows that startups are a key driver of development in our city, even in difficult economic times. This is where innovations are developed and applied to make the next steps towards a sustainable and liveable future and create jobs.

In Berlin, the rise in interest rates and inflation has led to an overall decline in investment activity. This is a development that can not only be observed in Berlin. We want to better understand this development and, where possible, counteract together with the Berlin ecosystem.

In 2021 and 2022, the volume of venture capital investments in Berlin startups was dominated by a few very large, so-called "mega-rounds" - particularly in the fintech sector and in quick commerce. This heating up in the VC sector has cooled due to the changed macroeconomic environment, as this report also shows.

The experts surveyed are unanimous in their assessment: growth will continue to be a key factor for startups. Investors are paying more attention to whether the business idea will also generate profits.

Berlin will remain one of the top European locations and is clearly the startup capital in Germany. This shows that the Berlin startup ecosystem is resilient. "Those who get through this crisis can only win," I hear in various places.

Our Investitionsbank Berlin is making an important contribution to the Berlin ecosystem. With its venture capital company, IBB Ventures, the state of Berlin has been investing in Berlin startups for many years and is acting anti-cyclically, which balances out strong fluctuations in the investment cycles. The activities of Berlin's business angels are also particularly valuable in the city.

The results of this report are in line with this: the ecosystem has regained its self-confidence after the current crises. Berlin can continue to look to the future with optimism.

The close and regular exchange with the Berlin startup and tech scene is very important to me and I look forward to continuing this collaboration successfully in the future.

Many thanks to everyone contributing to this collaboration.

**Senator Franziska Giffey**

## 2. Executive Summary

### **Berlin remains a startup hotspot in 2023**

Even though there is a decline in overall funding volume, Berlin continues to be an attractive destination for startups and investors. The city maintains its position as a significant centre for innovation and entrepreneurship.

### **Slight decrease of funding rounds**

In 2023, the Berlin startup scene experienced a decline in funding rounds and volume, indicating an adjustment following the years 2021 and 2022. Growth financing stands out in this downtrend.

### **Emerging trends clearly stand out**

With more selective funding decisions, capital is allocated towards fewer startups. Currently favoured sectors by investors include Artificial Intelligence, Deeptech and Climate Tech.

### **Special challenges of the new market**

Many experts perceive adjustments to external macroeconomic conditions as well as substantial corrections in valuations as a normalisation process that supports a more sustainable development of the industry.

### **Berlin's ecosystem proves resilience**

The Berlin startup ecosystem demonstrates overall resilience and robustness. Despite a higher number of insolvencies currently affecting all kind of market participants, the adaptability and stability of the local ecosystem are emphasised.

### **Optimism increases for 2024**

An optimistic outlook for 2024 suggests that the Berlin startup scene anticipates positive market developments. This could indicate a renewed willingness to increase volume and frequency of funding rounds in the short term.

### **Encouraging trends towards a more diverse scene**

Despite many positive developments in terms of diversity, it is emphasised from all kinds of stakeholders that there is a long way to go to achieve full gender parity and diversity in the various dimensions.

### **The funding landscape continues to evolve**

Many local funding programs are being further developed, and there are trends indicating an increased demand for support through government programs. A strong connection with local universities is developing positively and continues to support aspiring young entrepreneurs.

## 3. Introduction

The investment landscape in Berlin and Germany has undergone significant changes in recent times. These are reflected in the behaviour of founders, investors and other market participants as well as in the general market dynamics across the different phases of a company. This report aims to provide a comprehensive overview of the current state of the startup ecosystem, with a particular focus on the year 2023 in comparison to previous years. In addition to the investment landscape, a comparison with other federal states will also be made and other relevant topics, such as sustainability aspects, the robustness of the startup scene or its diversity, will be discussed. To this end, the relevant market data from recent years was enriched with the knowledge of experts. The results of these interviews are presented at various points in the following report. From changes in financing preferences to the impact of global economic conditions, this expertise also made it possible to describe the macroeconomic and political dimensions that have influenced the startup ecosystem in recent years. This report is therefore aimed at entrepreneurs who have a direct influence on the dynamics of the Berlin ecosystem, as well as economic and political decision-makers who help shape the future viability of the local startup ecosystem.

## 4. Methodology

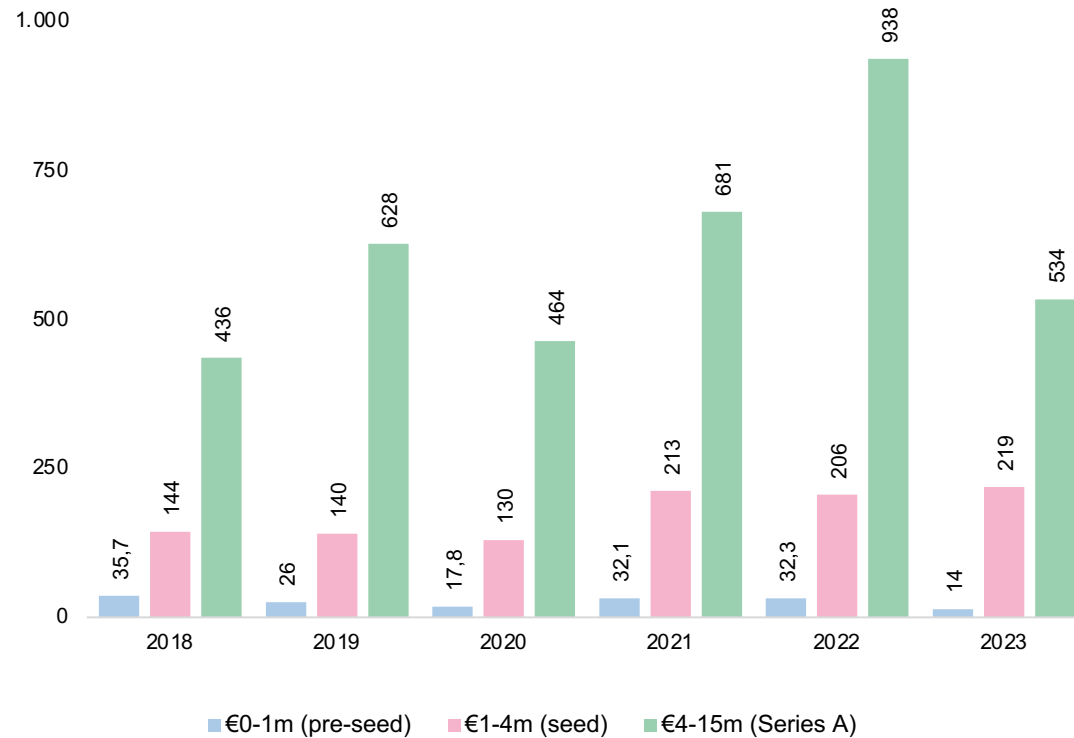
The report aims to compile a comprehensive report on investment activity in Berlin startups and compare it with previous years. To this end, the relevant data was enriched with expert interviews in order to provide a practical insight into the development of the Berlin ecosystem. First of all, the status quo in 2023 was presented quantitatively in comparison with previous years, which tended to be more heavily financed. The data basis for this consisted primarily of Startup-map.berlin and the Dealroom databases. Other sources such as Startup Detector, Crunchbase and Pitchbook were also consulted. In addition, the results of the Startup Association and the German Startup Monitor (GSM) were a great help for structuring. An empirical validation and transfer to the local ecosystem was carried out through more than thirty expert interviews with various decision-makers from the local economy and politics. The interviews are intended to provide an insight into individual perspectives on current developments and potential trends. In addition, the assessments of selected topics were also surveyed on an ordinal basis. The results were selectively presented as opinion patterns for greater differentiation. A broader evaluation of news and other media sources was not included. Please note that technical terms are used in this report, which are marked with a clear asterisk\* and described in the attached glossary to make them easier to understand.

# 5. Current Status of Startup Financing in Berlin



# Current Status of Startup Financing Volumes from 2018 to 2023 in Berlin

## Financing volume of Berlin startups in 2023 in millions of euros



## Capital available for early-stage financing even in a difficult market environment

The financing situation for Berlin startups was more challenging in 2023 than in the boom years of 2021 and 2022. Many startups were confronted with more competitive, lengthier and more complex financing rounds in direct comparison. In addition, challenging macroeconomic and political influences had a negative impact on the availability of capital. In 2023, Berlin startups were able to raise €767 million in early financing rounds (including Series A). This corresponds to a decline of 35% compared to the record year of 2022. Although less capital was raised by startups in 2023 in general, the adjacent chart shows that the availability of capital was not the same across all phases of a startup company.

## Seed financing performs best, stronger decline in Series A financing

Particularly pre-seed\* and seed\* financing, with financing volumes of up to €4 million, remained comparatively stable in 2023. In 2023, Berlin startups were able to raise €14 million in pre-seed rounds, €219 million in seed rounds and €519 million in Series A financing.

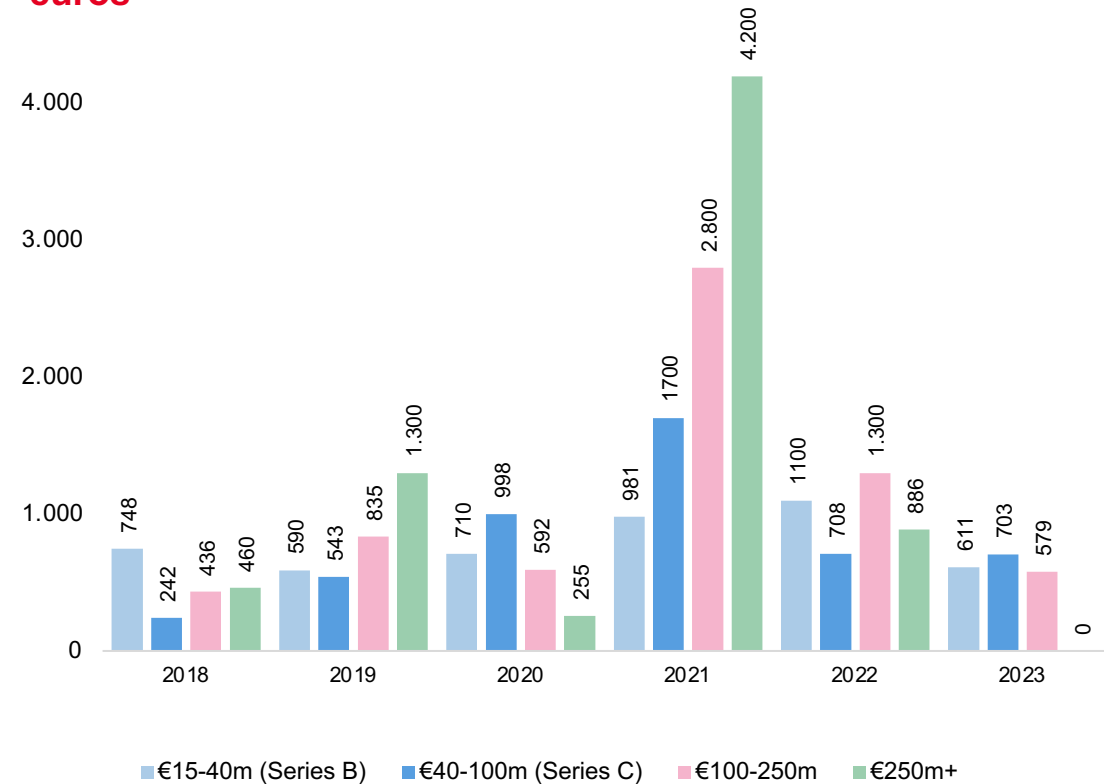
# Current Status of Startup Financing Volumes from 2018 to 2023 in Berlin

## Many startups faced difficulties in closing larger financing rounds in 2023

The financing environment for startups in the later stages (Series B and above) is more difficult than for early-stage financing. In 2023, Berlin startups were able to raise around €1.3 billion in Series B and Series C, which corresponds to a decrease of 27% compared to 2022. In financing rounds between €100-250 million, only €579 million was raised, which corresponds to a decrease of 55% compared to the previous year. So-called megadeals (financing with a volume of over €250 million) were completely absent in 2023. Nevertheless, the experts surveyed were positive. 87% of those surveyed stated that they expected the financing volume to develop healthily in the long term, ignoring the boom years.

In contrast, the mood was gloomier when it came to the availability of growth capital in Germany. For 92% of interviewees, there is a need to improve the availability of domestic growth capital for late-stage companies. Increasing the availability of growth capital for late-stage investments in Germany could help to ensure that successful startups in Germany do not necessarily have to approach foreign investors.

## Financing volume of Berlin startups in 2023 in millions of euros



# Current Status of Startup Financing Rounds from 2018 to 2023 in Berlin

## Number of financing rounds of Berlin startups by phase

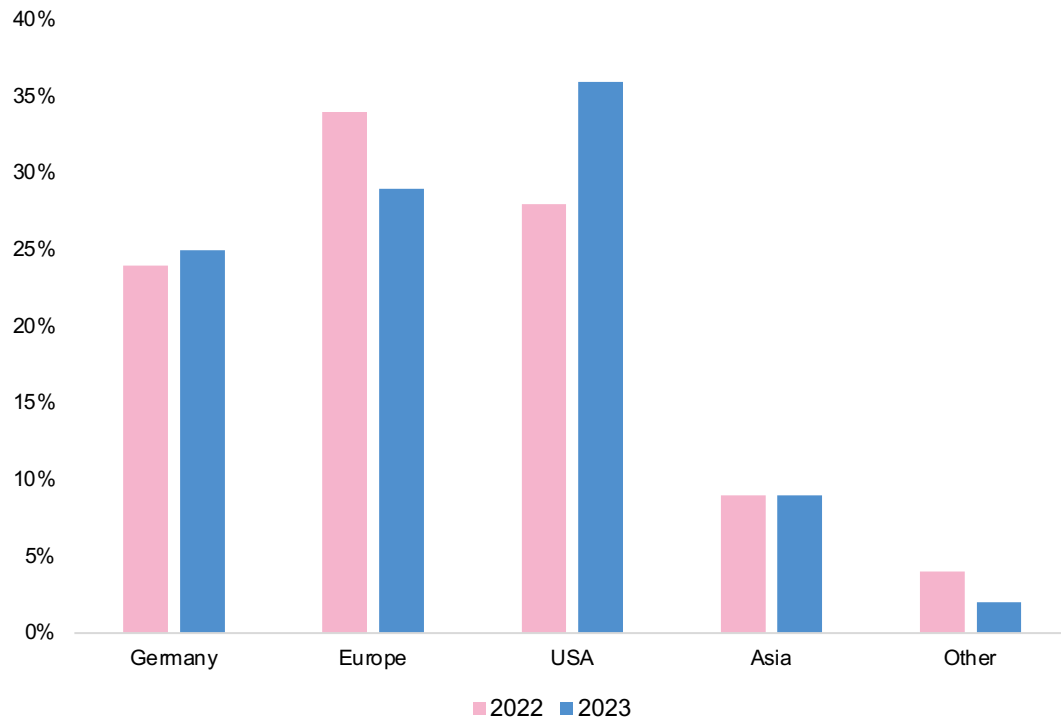


## The number of early-stage deals remains high in 2023, seed financing shows no decline

Even though the total number of financing rounds fell in 2023 compared to the previous year, not all financing rounds showed the same changes. The number of pre-seed financing rounds in 2023 was 44% lower than in the previous year. The figures for seed and series A financing were more stable. In both cases, the financing rounds in 2023 were only just below the previous year's figures. There was also a decline in late-stage financing rounds (from Series B) in 2023. In addition, there were no megadeals in 2023, as already described. The interviewees provide further insights into the market. The majority were convinced that, in principle, capital is available for promising startups. However, the selection of startups is much more stringent and only a few startups manage to convince investors. Accordingly, it has become much more difficult for a large proportion of startups to convince investors. The experts surveyed emphasised that, especially in the current market environment, founders must pay even more attention to a clear vision, a robust strategy and a clear path to structural profitability in addition to the usual key figures in order to convince investors.

# Increased Share of Foreign Investors in Berlin Startups in 2023

## Share of investor origin of Berlin startups with at least one financing round



## More investment from abroad for Berlin startups

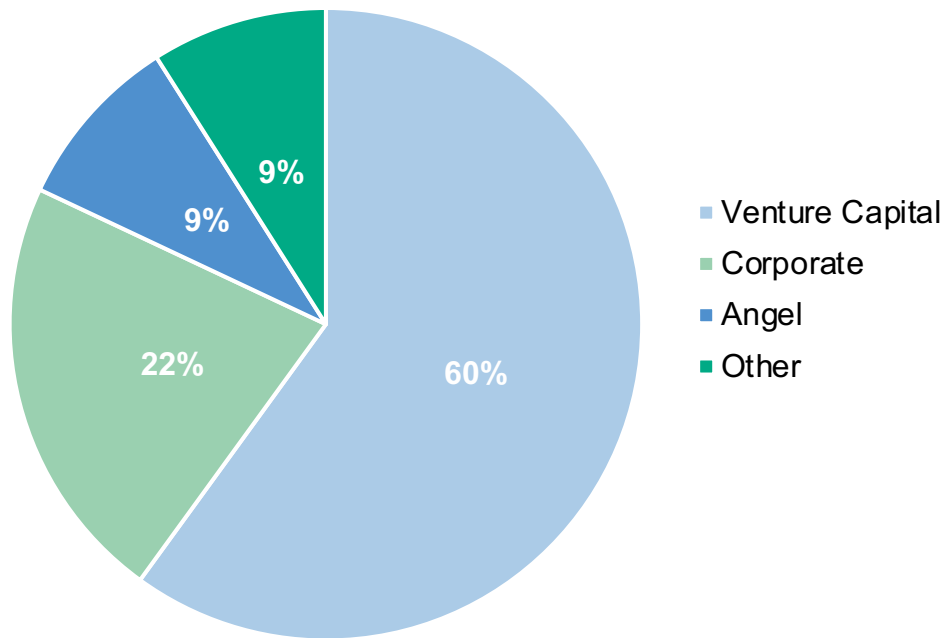
The Berlin startup landscape is considered to be one of the most diverse in Germany, also in terms of the origin of capital. Investors from the USA in particular are increasingly investing in Berlin startups and coming to the capital with their own investment teams. The proportion of investors from the US rose from 28% in 2022 to 36% in 2023. It should be emphasised at this point that the interviewees observed a trend that runs counter to the figures. With regard to European investors, there was a slight decline, with their share of total financing falling from 34% in the previous year to 29% last year, while interest from the rest of the world remained the same.

## Foreign investors continue to dominate, particularly in growth financing

The evaluation of the survey also showed that foreign investors in particular continue to be very active in growth financing. According to the interviewees, however, there is little to no change in the participation of foreign investors compared to recent years, as participation has always been high. For pre-seed and seed rounds, domestic business angels and venture capital funds remain in the foreground.

# Berlin's Investor Landscape Continues to be characterised by a flourishing Venture Capital Scene

Financing structure of Berlin startups with at least one financing round



60% of equity-financed startups in Berlin used venture capital as a source of capital in 2023

The majority of equity-financed startups use venture capital as a source of financing. However, the experts also emphasise the greater use of other forms of financing, which can often be seen in spin-offs from the university environment or from SMEs. The growing importance of Berlin universities as a starting point for entrepreneurial initiatives underlines the relevance of promoting the local framework conditions for closer cooperation between companies, startups and investors. The functioning business angel network, which is particularly well-developed thanks to several generations of successful exits, can act as an anchor point here.

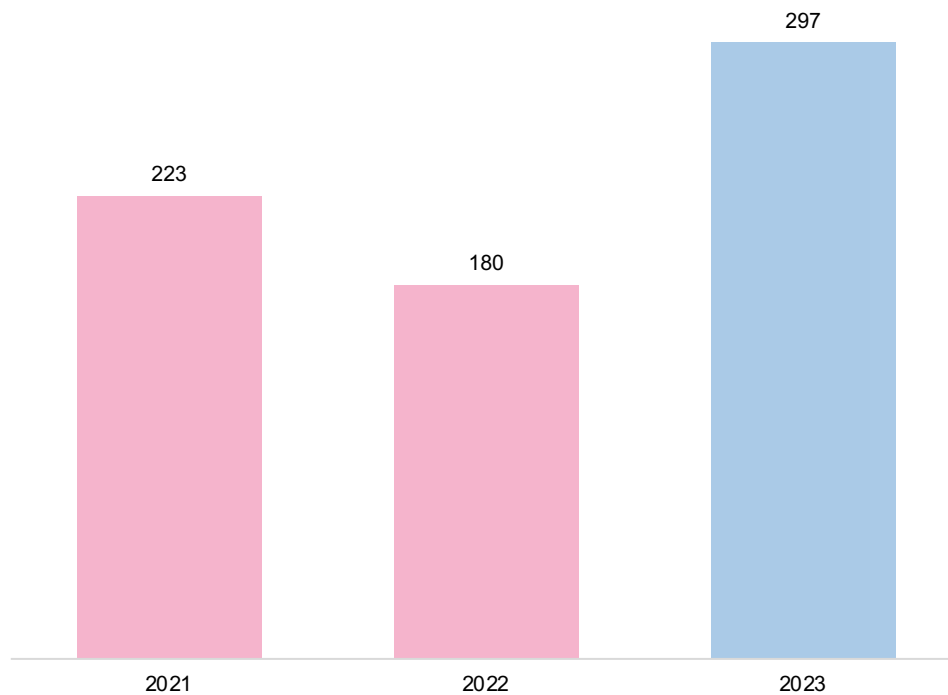


Berlin's scientific institutions produce many innovations. In order to better leverage spin-offs, we need networked, entrepreneurial structures, a qualification offensive for entrepreneurship, a digital twin of the ecosystem and more efficient incentive systems.

Volker Hofmann, Humboldt-Innovation

# A more challenging Environment will lead to an Increase in Insolvencies among German Startups from 2023

**Number of insolvencies of German startups from 2021 to 2023**



**The number of insolvencies among German startups rises to 297 in 2023**

A sharp rise in the number of insolvencies in 2023 has had a lasting impact on the startup landscape in Germany. Driven by macroeconomic and cyclical factors as well as the lack of or longer-lasting financing rounds, the pressure on startups has grown and many are not getting their follow-up financing implemented. This development may indicate a certain degree of consolidation in some sectors and the interviewees also assume that there will be an increase in insolvencies in 2024.

It can be assumed that the increase in insolvencies will also have an impact on the further development of company valuations in the medium term in particular, as market players are acting more cautiously and the threat of defaults is being priced in.

The experts surveyed also state that the increase in alternative forms of financing such as convertible loans and state subsidies has allowed some insolvencies to be postponed for the time being. However, the uncertainty for 2024 remains that some stumbling companies will also have to file for insolvency.

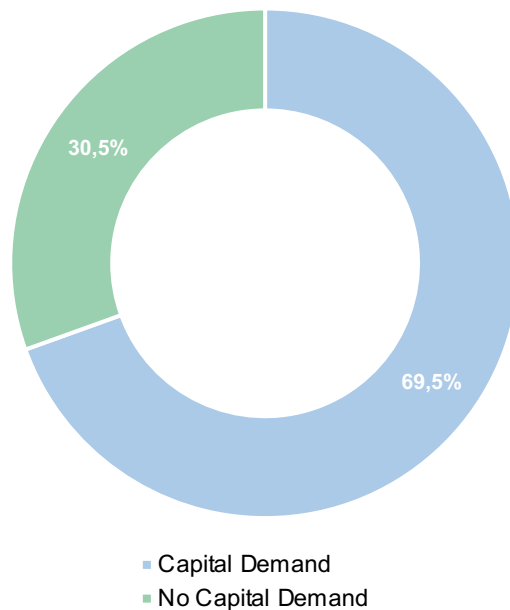
## 6. Special Challenges of the "New Market"



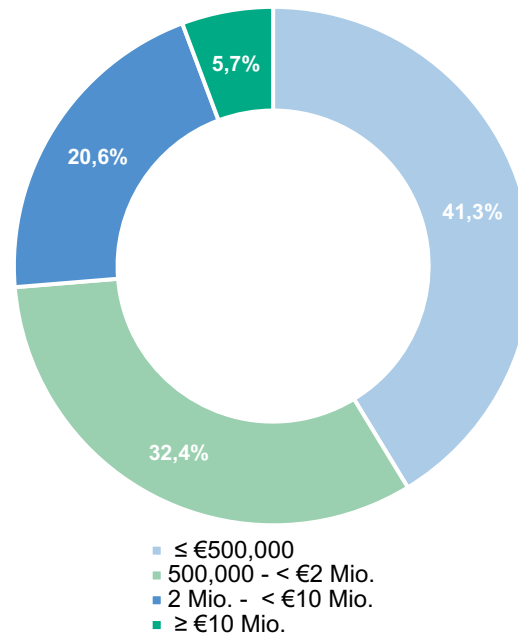
# Startups Capital Requirements remain high, especially in challenging Times

## Capital requirements of German startups in 2023

Capital requirements in the next 12 months



Amount of capital required in the next 12 months



## Around 70% of startups have capital requirements in the next 12 months

A survey of startups conducted by the German Startup Monitor (short: GSM) revealed that almost 70% of startups will need capital in the next 12 months. A closer look reveals that these requirements vary in size and only just under a quarter of startups need more than €2 million.

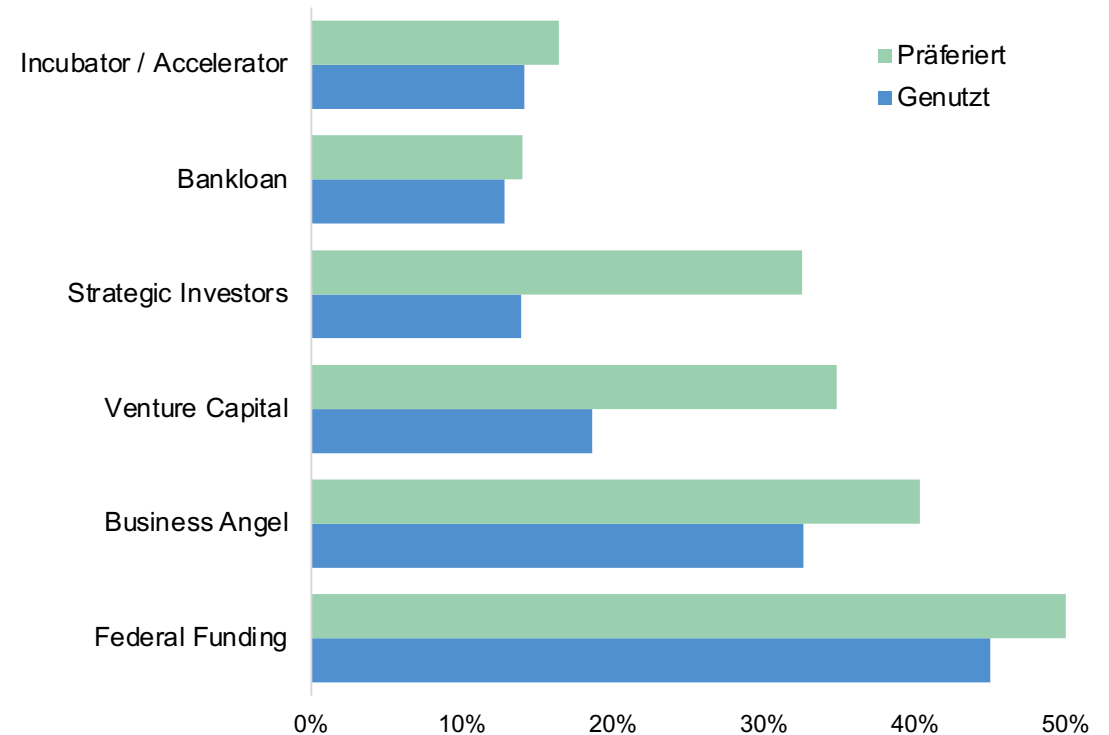
The largest proportion, 41.3%, require an amount of up to €500,000 while 32.4% have a capital requirement of between €500,000 and €2 billion. Only 5.7% of the startups surveyed have a financing requirement of over ten million euros in the next 12 months. These figures make it clear that, on the one hand, the capital requirements of startups cannot be reduced in the short term and, on the other, that startups continue to be confronted with a variety of financial challenges and obligations. A change in capital requirements usually results from the general economic downturn or changed circumstances for securing the startups' operations.

# Preferred and utilised Sources of Capital for German Startups in 2023

## State funding most in demand among German founders.

Government funding is the most popular means of financing for startups and founders in 2023, according to a study by the German Startup Association. Another positive aspect of funding is that it can be used in full by founders. Business angels are the second most important source of capital. Especially in the startup metropolises, there is often a good network of former founders and entrepreneurs who provide capital for new companies. Venture capital investors and strategic investors show a similar trend. Both sources of capital can be used significantly less than startups and founders would like. This may be due to the fact that institutional investors are very selective when choosing their investments and that funds are often tied to specific sectors and fund terms, which makes the selection even more selective. The results of the study also showed that venture capital investors are well known in the startup scene and that startups hope that venture capital investors will have positive synergy effects on their own company. Bank loans for corporate financing and incubators/accelerators for the startup phase were used by just under 20% each.

## Overview of preferred and utilised financing methods of startups in Germany



# Company Valuations in 2023 - Recession or Normalisation in a heated Market?

## Company valuations are changing in the new market environment

Current valuations, especially in later stages, are currently characterised by a high degree of uncertainty. In pre-seed, seed and Series A rounds, lower valuations than two years ago and the use of convertible loans are widespread. The latter is mainly provided by existing investors with the aim of extending the run rate\* without having to set a valuation in the current financing environment. It should be explicitly mentioned here that financing rounds via convertible loans are usually difficult to determine because these capital injections are generally not published. The interviewees also emphasise that early-stage companies have to show strong traction\* and milestones at an earlier stage due to the increased demands of investors. Clear winners in the current valuation environment are some specific sectors such as AI, deep tech and ESG tech\*, some of which have even seen positive developments in valuations compared to recent years.

## Valuations for growth financing more affected

The decline in valuations for more established startups (Series B and above), on the other hand, is perceived as more painful. Since more complex valuation processes are applied here and the exit market is also much more difficult due to the burdened stock market developments, the general decline in valuations for startups is more significant in these phases. The interviewees sometimes experience valuation drops of 50-80%, although the financing volume per round is often smaller and more attractive conditions apply for investors. In addition, follow-up rounds without uplifts or downrounds\* are not uncommon, even for strong companies.



"Companies are valued differently in the current market, which has numerous implications for founders and investors. This new reality presents challenges, but also opportunities: it is now all about building resilient companies that can be successful in the long term."

Judith Dada, La Famiglia VC

# 7. Startup Financing by Industry and Technology



# Financing by Sector with the most Financing Rounds in 2023

## The time of financing deals that are completed in a few days/weeks seems to be over for the time being

Financing has declined, as already described. Nevertheless, it is possible that the "very good" startups can still obtain sufficient capital quickly. But what are the "very good" startups and how does the availability of capital differ in the various sectors? The interviewees are certain of one thing - startups that focus exclusively on hype topics and incur high losses in the process face a variety of challenges. A sole focus on short-lived trends without simultaneously focusing on building sustainable business models is generally no longer financed. In the new market environment with geopolitical tensions and higher interest rates, investors tend to focus more on long-term value. Startups that rely primarily on short-term hype could therefore find it difficult to gain the trust of investors and build long-term partnerships. This applies across all sectors, technologies and business models. In this context, the importance of a sustainable strategy and solid financial foundations becomes even more important. Startups looking for long-term value and stability should not just rely on short-term hype, but rather on a sound business strategy that can sustain even in volatile market phases.

## Consumer and FinTech startups in particular are currently facing challenges

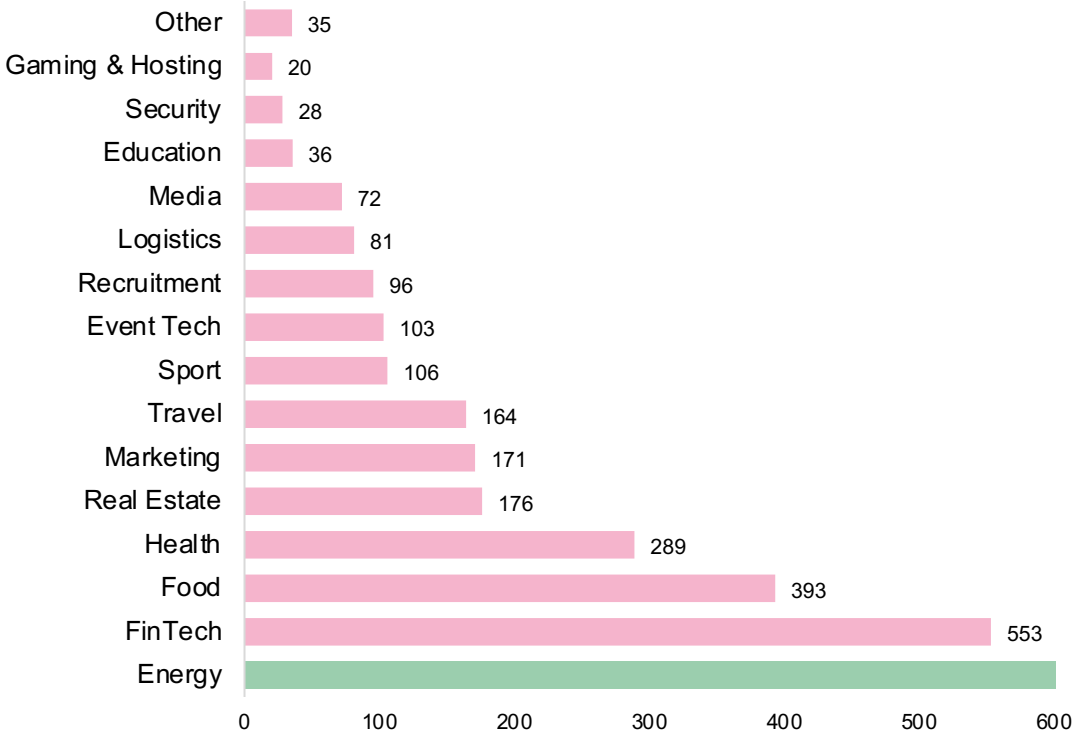
Consumer and fintech startups in particular (especially B2C\* startups) are facing challenging times. Consumer startups are currently suffering from the subdued purchasing power of consumers. Consumer needs and preferences are constantly changing and companies in this sector must adapt quickly to remain relevant. The pressure to continuously offer innovative products remains high and the models are often very capital-intensive. In the fintech sector, startups face challenges as they are not only confronted with regulatory requirements, but competition in the fintech industry is also intense. There is also the need to initially gain the trust of customers, which requires considerable resources. While fintech startups in Berlin were still able to close the most financing rounds in 2023, many interviewees expect investors to be more cautious in the coming years.

## Straight exit route right from the start

Due to the high level of interest rates and investors analysing their potential investments much more selectively, it is all the more important for young companies to have a clearly structured exit route with realistic options.

# Financing Volume by Sector in Berlin in 2023

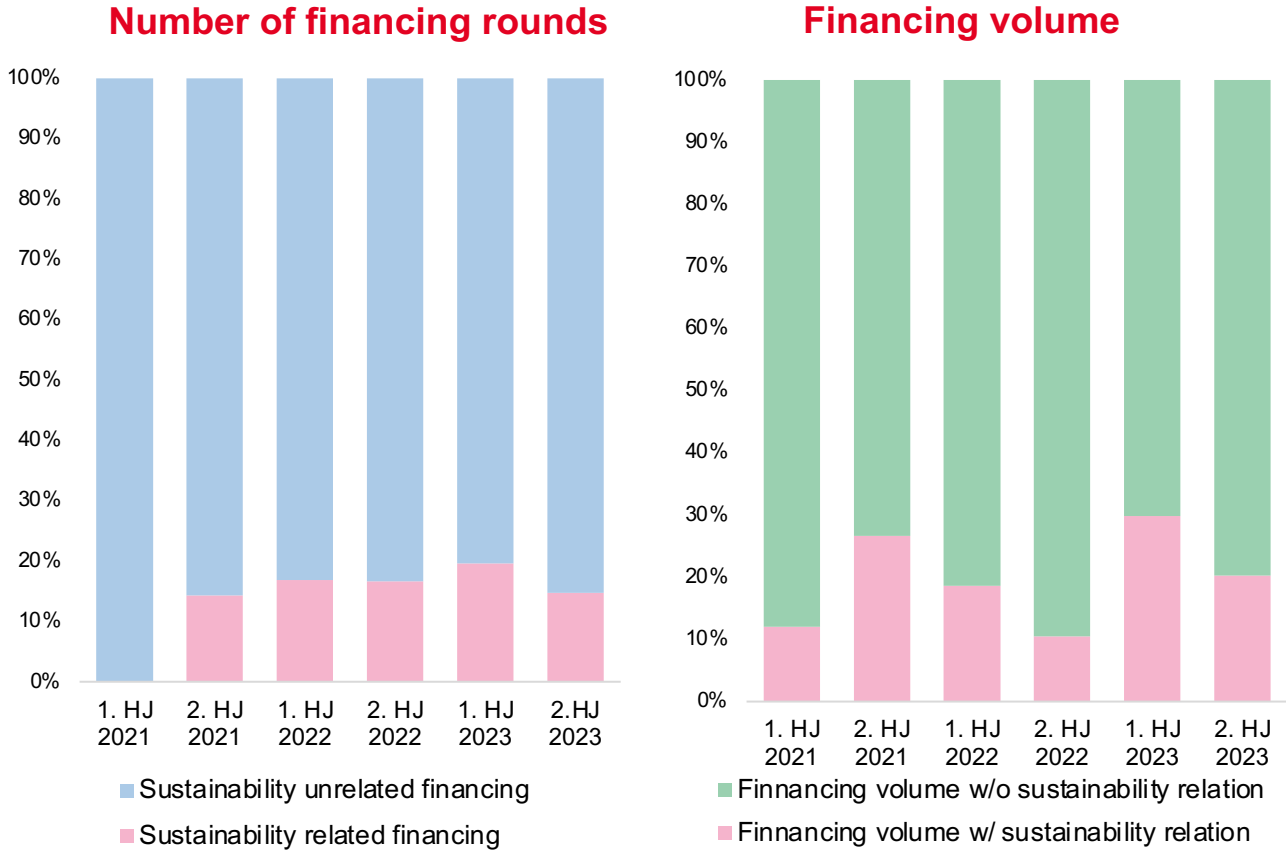
## Financing volume of startups by sector in Berlin in 2023



## Energy, FinTech and food startups with the highest financing volume in 2023

2023 was challenging for all companies and of course there are also major differences in the absolute financing volume of individual sectors within the startup scene. Companies from the Energy, FinTech and Food sectors were able to allocate the most capital with a total of over €1.5 billion. Health was described as a business area that continues to grow at €289 million, while real estate is described as uncertain by the interviewees despite a financing volume of €176 million in 2023, mainly due to the difficulties in the real estate industry. Nevertheless, according to the experts, FinTech, food and general consumer topics are facing tougher times in general, even if the financing volume in 2023 was high and does not suggest this for the time being. Most interviewees stated that further challenges are to be expected for these sectors. The interviewees also unanimously saw a high level of interest in topics related to digitalisation and artificial intelligence, which are likely to see an increased volume of financing in the coming months. In addition, the experts also described some former niche topics as exciting for investment decisions, such as defence and space-tech.

# Sustainable Business Models defy the challenging Market Environment for Startups



## Sustainability-related financing rounds remain constant despite the gloomy market situation

The positive trend in financing activities for sustainable business models is continuing, as data from the EY Startup Barometer 2024 shows. While the percentage share of the number of financing rounds remained constant at 17% compared to the previous year, the financing volume for startups with a sustainability focus increased to 25% in 2023. In 2022, the ratio was still around 15%.



"Sustainable startups will always be booming. It is important that the business model and product are based on solid foundations. This is the only way to reinforce true innovation."

Anvita Mudkani, IBB Ventures

# 8. Startup Financing in federal Comparison



# Current Status of Startup Financing by federal State in 2023

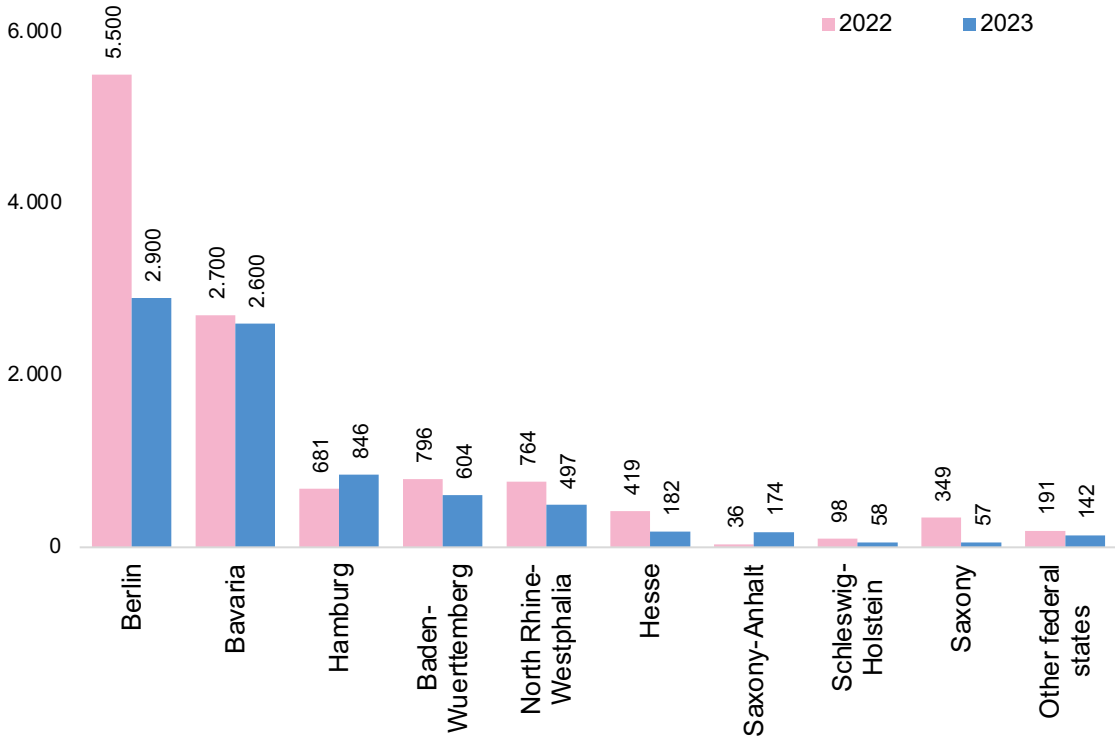
## Berlin startups raise €2.9 billion

In a national comparison, Berlin startups will continue to attract the most venture capital in Germany in 2023. They will secure 36% of the total amount of venture capital invested, which corresponds to around €2.9 billion. Of the remaining €5.2 billion of invested capital, another very large share of €2.6 billion will flow into startups from Bavaria. Hamburg and Baden-Württemberg occupy third and fourth place, with startups in these two regions together raising around €662 million in capital.

## Berlin offers a wide range of events, funding and networking opportunities for young founders

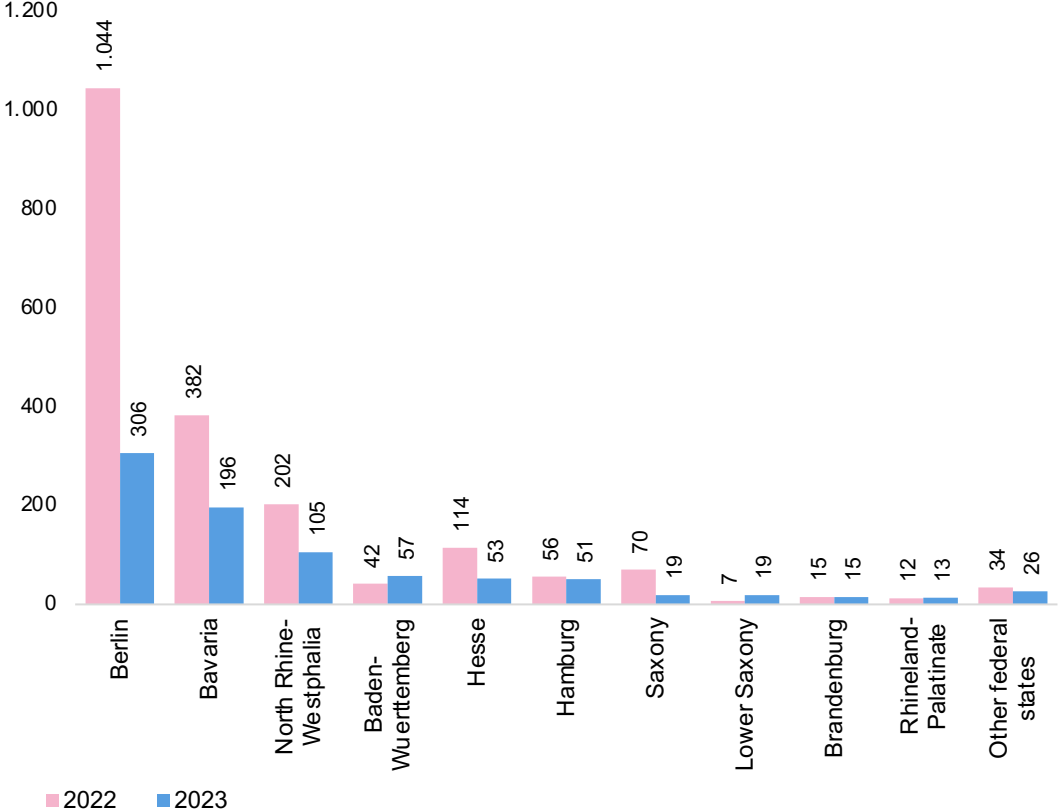
Berlin continues to offer a dense network of coworking spaces, incubators and capital providers that revitalise the ecosystem and facilitate the founding and development of startups. In addition, Berlin's diversity and openness attracts talented professionals from all over the world, promotes cultural diversity and thus creates access to the international labour market. In our survey, more than 90% of interviewees stated that they remain confident about Berlin as a startup location and the city's role as an important startup hub.

Financing volume of startups in 2023 compared to the rest of Germany in millions of euros



# Current Status of Startup Financing by federal State in 2023

## Number of financing rounds in a comparison of federal states



## One of three financing rounds goes to Berlin startups

Berlin will also retain a leading position in the German startup scene in terms of the number of financing rounds in 2023. The city recorded 306 financing rounds, which corresponds to 35% of all financing rounds in Germany. Berlin offers good access to capital, especially for early-stage companies. This is often due to the fact that successful founders have been setting up their own funds for many years or, as business angels, can provide other young entrepreneurs with startup capital from previous, successful company sales. The second most financing rounds took place in Bavaria, although the relative slump compared to 2022 was not as high as in Berlin. North Rhine-Westphalia and Baden-Württemberg took third and fourth place with 105 and 57 financing rounds respectively. Overall, these figures also underline Berlin's role as an important startup location in Germany. However, in the eyes of the interviewees, other federal states are developing rapidly, meaning that the capital will see itself competing even more strongly with other federal states in the future. It is often mentioned that the attractiveness for startups and investors must be maintained through political support for housing, office rents and the cost of living. In addition, the networking of startups with universities and the digitalisation of administration continue to be essential for the respective locations.

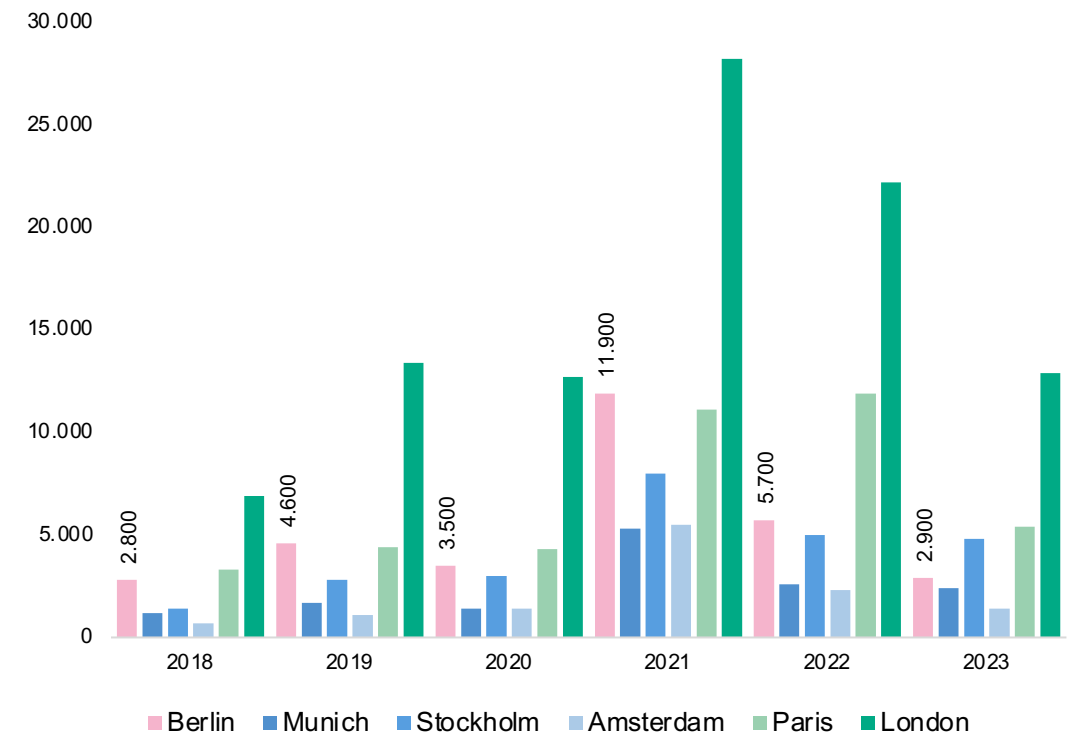
# Investment Volume in Berlin Startups in 2023 compared to other major European Cities

## European capitals attract founders and capital

Berlin continued to play a significant role in a comparison of European cities in 2023. Even though no other German city was able to raise more capital than Berlin in a national comparison, there were international changes. In 2018 and 2019, Berlin's financing volume was still significantly higher than that of other major Central European cities. Paris and Stockholm in particular were able to catch up with Berlin in terms of financing volume in 2023. Faced with similar market and geopolitical challenges, a more founder-friendly policy seems to be allocating more capital here.

This strong shift underlines the dynamism and adaptability of various major cities in Europe. It also makes clear that the need to adapt to constantly changing market conditions is imperative in order not to jeopardise Berlin's good position in the global competition for economic (startup) success and capital. Berlin, like other German locations, must continue to promote innovation and talent, strengthen access to capital and create a political framework to support and attract young companies more strongly.

## Financing volume in a comparison of European cities from 2018-2023 in millions of euros



# 9. Robustness of the Startup-Scene and the Profitability Factor



# Berlin's Startup Scene remains robust and is optimistic about the Future despite current Market Challenges

## Berlin is characterised by a robust ecosystem

Berlin's startup ecosystem is seen as robust by the interviewees, especially in terms of the availability of capital and the sheer number of players. There is a healthy environment that has grown over many years and Berlin as a city offers a good infrastructure and attracts international talent from all over the world. The diversity of the startup scene also determines the high degree of robustness which is characterised by the availability of business angel capital through to venture capital investors. In addition, Berlin is still often the home of choice for founders. Despite the challenging times, there is a growing number of international companies and individuals. It should also be mentioned at this point that despite the many insolvencies and fewer financing rounds in 2023, the startup scene is holding together. Berlin offers a variety of networking events and events that support founders and promote intensive exchange.

"The local scene is robust and vibrant in comparison, also due to its diversity and various opportunities for creative development. However, the promotion and networking of universities, startups and established businesses should be an integral part of strategic urban planning."

*Daniel Breitinger, BITKOM e.V.*



## Despite some criticism, Berlin remains popular among founders

Even though Berlin's startup scene is flourishing, there are some problem areas. The lack of investors for later rounds, especially from Series B onwards, is clearly recognisable and was mentioned by many interviewees as a factor to consider. This leads to concerns regarding the dependence on foreign investors for such late-stage investments and, due to the reluctance of national investors, startups must increasingly look abroad for growth financing. In addition, political aspects such as the protection of working hours, the reform of the ESOP, which is only now being added, tax burdens and other regulatory hurdles are seen as challenges that can have a negative impact on competitiveness. The interviewees are also concerned about the increased number of insolvencies and the changed environment for company valuations compared to previous years. Taken together, this is perceived as a potential - albeit only short-term - risk if this trend continues. To summarise, Berlin is said to be in a robust and strong position, from which the startup scene is optimistic that it can collectively overcome future challenges.

# The Focus on profitable Growth as a Guide for Startups in 2023

## **Growth remains one of the most important key figures for young startups**

Even if the current market environment suggests an increased focus on profitability, the overall picture has not shifted significantly. In the venture capital environment, growth continues to take precedence over profitability. The focus on solid planning and an adaptable, intelligent approach also remains important for startups. Abrupt, hasty changes in strategy are viewed rather critically by the interviewees, especially in economically difficult phases.

## **The path to profitability, on the other hand, is becoming more relevant for investment decisions**

Particularly in later financing rounds, however, the profitability of startups is also increasingly weighted in the investment decision and examined accordingly in the audit process. The planned route to the break-even point and the milestones that can be achieved and realised within a phase of the company thus come to the fore. The importance of the continuous analysis of capital efficiency for startups is also already evident in earlier phases, which is ultimately due to more careful monitoring by investors in the use of funds.

## **Each phase of a company has its own challenges**

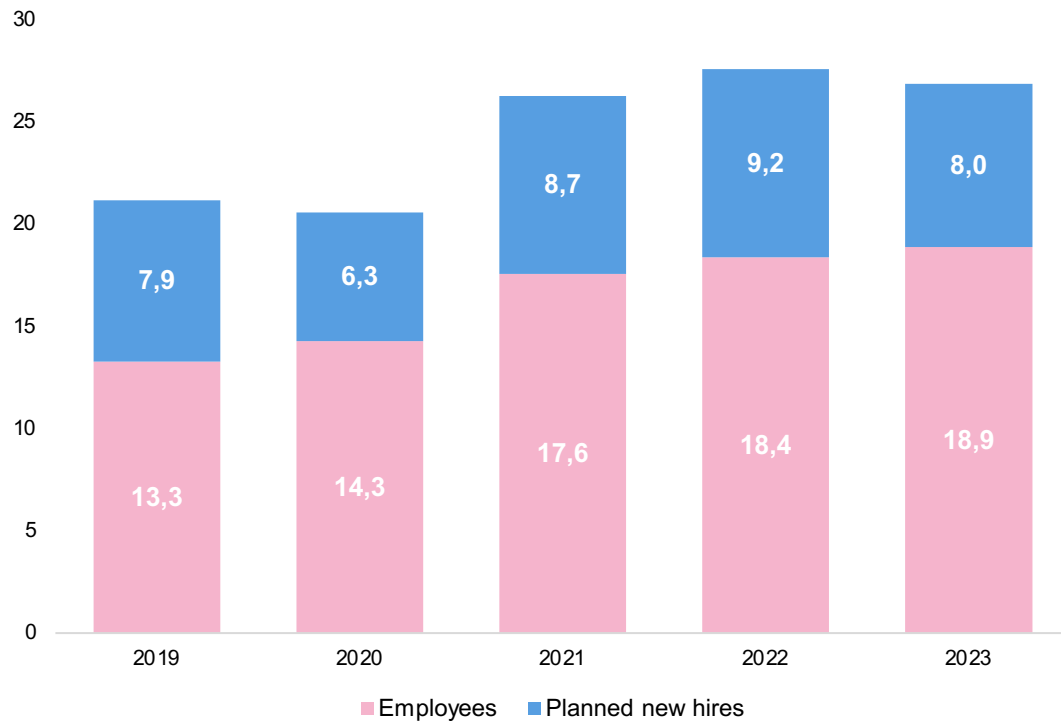
The often high ratio of growth rates to burn rate\* has been significant in recent years and was also viewed critically by the majority of interviewees. In times of low interest rates, this was still a path accepted by investors, but many startups now have to adapt their strategies in the new interest rate environment. On the one hand, focusing on topics such as first-order profitability\* and cost controlling and, on the other, streamlining the product portfolio can be used as leverage to reduce the burn rate and work more profitably. The run rate, the length of time in months that a startup is still financed, is also considered intensively in order to delay the need to close a financing round as much as possible in the current difficult environment. However, the circle of investors makes it clear that measures such as laying off employees or discontinuing marketing activities are particularly dangerous for small companies. This is due to the minimum level of growth required to secure future financing and the cost-intensive search for personnel. For later-stage startups, other measures are usually taken to become more profitable. These include price adjustments, redundancies of many employees, general cost reductions and refraining from experimenting with new lines of business.

# 10. Diversity & Impact Investing



# Impact of the current Financing Situation on the Labour Market

## Average number of employees and planned new hires at startups from 2019 to 2023



## Even in difficult market conditions, startups are looking for the right talent

Even in economically difficult times characterised by more uncertainty, the demand for suitable employees and talent in German startups remains high. Even though many interviewees stated that common cost-cutting measures (for medium-sized and large startups) primarily include personnel cost savings, the evaluation of the German Startup Monitor in 2023 shows a somewhat more positive trend. The average number of employees per startup rose to 18.9 in 2023 compared to 13.3 in 2019. However, this is only a small increase compared to the previous year, but is all the more significant in an economically weaker environment. The number of employees being sought also remains at a decent level with an average of eight advertised positions. Talent in more diverse areas and with different experience continues to be in demand, but the search for talent with backgrounds in tech, IT, marketing and sales predominates.

# The multifaceted Startup Scene reflects the Diversity of Berlin

## Berlin promotes diversity in the startup scene

The development shows positive trends within the startup scene, but there is still a long way to go to create a fully diverse and inclusive startup scene. First of all, some women-focused initiatives stand out, such as female funds that are primarily committed to female investment. On the other hand, there are also active recruitment requirements for women in certain areas at some investors and startups. What can of course be highlighted here at state level is the Berlin Women's Promotion Act, which strives for a balanced gender distribution in teams at state level.

In the STEM sector in particular, there are many good approaches in the early training of women, which could actually make a very good contribution to closing gender gaps. However, it also highlights the increased pressure on policymakers to help close these gaps at an early stage. The startup scene also mentions that diversity in C-level positions also remains a challenge, even though good progress is being made in hiring women at junior level. As a result, it is assumed that gaps will close as seniority increases, but that there is still a long way to go to achieve parity.

## Bridging gaps remains very important

Compared to other diversity dimensions, gender parity shows the strongest training, but unfortunately a uniform approach still lags somewhat behind. Positive trends can also be seen particularly among female migrants and people with a migration background, although the effects of the general recruitment of talent from abroad must also be taken into account here. Other diversity dimensions such as inclusion are still lagging behind, as voices from the scene confirm. There is also talk that the startup ecosystem has been male-dominated in recent decades. However, this is also recognised and reflected by the scene that there is a need for a more diverse and inclusive industry. In conclusion, it can be said that, according to the interviewees, the startup community is slightly ahead of society when it comes to diversity, but there is a long way to go to achieve complete diversity.

## Diversity criteria important for investment decisions

Some investors are actively implementing recruitment practices and training to ensure that their own teams bring diverse perspectives to the table. This should not only serve as a reflection of wider society, but also as a strategic approach to attracting the best talent and ensuring that innovation is not overlooked.

# Impact of social and environmental Factors on Investment Decisions

## The environment and society have a tangible impact

For some years now, social and environmental factors have come more to the fore, particularly in the context of Art. 8 and Art. 9 of the SFDR\*. Special due diligence procedures\* are increasingly being applied and many funds use the option of defining various sustainability guidelines in investment documents. Overall, the importance of sustainability governance among investors and startups has also increased considerably, which is seen as positive by all experts.

## Increasing requirements for startups and investors

On the other hand, the compliance effort for startups and investors is increasing with the growing requirements for sustainability reporting and guidelines, which can slow down growth due to the increased need for operational resources for implementation. Regulation with regard to compliance with ESG standards is currently still considered challenging. Many companies are calling for regulation to be simplified and standardised in order to achieve broader acceptance.

Despite these challenges, the influence of social and environmental factors on financing decisions is expected to continue to increase

as investors increasingly focus on long-term sustainability and ethical practices. This will also be reinforced by the demands placed on venture funds by their own limited partners\*.



*Isabelle Canu,  
Green European Tech Fund*

"The progress in venture capital funds and startups in terms of gender parity and diversity is encouraging, but to bring about real change, we must continue to work towards more talented women moving into decision-making roles. Diversity and inclusion are cornerstones of successful businesses."

# Sustainable Future, sustainable Returns: The thriving Landscape of Berlin's Impact Startups

## Impact investment landscape evolves for startups and investors

The investment landscape for impact startups is developing very positively and is defying the current challenges better than other sectors in some cases. Impact startups, particularly in the climate and environmental sectors, are currently seen as having great prospects and a lot of capital is available. However, the focus on other dimensions of impact, such as social and human, is also attracting more attention from investors. The scene continues to develop and more and more dedicated venture capital funds with an impact focus are emerging in Berlin. Examples include IBB funds, the Green Generation Fund, Green European Tech Fund and many more.

"Impact startups dominate the current perspective on the market and there is a lot of money in this segment. However, it must be emphasised that climate and environmental impact is clearly ahead of social impact, for example."

*Peter Dorfner, Green Generation Fund*



## Impact investing as a path to sustainable change

Impact investing in its broad definition\* is increasingly being accepted as a trending topic due to its applicability as a factor in various industries, but there are only a few examples of companies that are actually operationally active in this area. Accordingly, it is often still seen as a niche topic and there is a certain reluctance to link sustainability and returns. On the other hand, many interviewees stated that they had noticed noticeable developments in the market. In recent years, many players still had the feeling that there was a lot of "greenwashing" going on, but now the market is increasingly engaging with the topic and there is growing depth in discussions about sustainability.

Making impact investing the "new normal" will probably still take some time. It remains important to keep sustainability criteria measurable and assessable in order to ensure uniformity for all players and to support startups and investors along the way.

# 11. Funding Landscape & Political Framework



# Berlin's Funding Landscape - more important than ever for the Startup Scene

## Broad support for the development of the startup ecosystem

Berlin's innovation policy is shaped by the cross-state innovation strategy "innoBB 2025", which was developed by Berlin in cooperation with Brandenburg. This strategy forms the framework within which a total of eight individual innovation funding programs of the Senate Department for Economic Affairs, Energy and Public Enterprises contribute to strengthening Berlin as a favourable location for business and innovation as well as the cross-state cluster. The programs promote activities in the areas of research, development and innovation. They also provide targeted support for private innovations and startup activities. The promotion of startups and the development of the startup ecosystem requires a joint, coordinated and continuous approach by all parties involved. To achieve this overarching goal, Berlin founded the Berlin Startup Unit in 2015 together with business development organisations, which is responsible for the further development of Berlin's startup landscape.

## The experts have wishes regarding support and praise the funding landscape

The majority of interviewees stated that government support should consist of creating favorable framework conditions and indirect subsidies rather than providing capital directly. For example, exemptions or simplifications for startups with regard to general bureaucracy and complex tax issues as well as the digitalisation of administrative procedures were mentioned. The latter could also be offered in English for foreign talent and visa processes could be simplified in order to integrate skilled workers more quickly and make Berlin more attractive. Simplification of participation in procurement processes and greater involvement of startups in government contracts were also cited. However, the experts also state that some of these initiatives are already being addressed, but underline the importance of communicating these initiatives and programs more strongly.

The existing funding programs described below are predominantly rated positively by the experts. However, some unclear structures and efficiency losses due to overly bureaucratic processes for startups were pointed out. Even if the "INVEST" program is set up at federal level, there is criticism of the latest reform, which disadvantages business angels as initial venture capital providers.

# IBB's Funding Landscape as an Innovation boost for Startups

## Large selection of funding programs for Berlin startups

Investitionsbank Berlin (Investment Bank Berlin, short: IBB) offers a wide range of funding programs to support the [funding and development](#) of startups in Berlin.

A central instrument is the [Berlin Startup Scholarship](#) ("Berliner Startup Stipendium"), which supports selected founders with technology-based startup concepts over a period of six to twelve months with up to 2,200 per person per month as well as other benefits.

This is supplemented by the [GründungsBONUS](#), which provides innovative startups with a cost subsidy of up to €50,000 for setting up their business. Recently added to this is the so-called [GründerinnenBONUS](#), which promotes both an increase in the proportion of women in business startups and improved equal opportunities between female and male entrepreneurs. Companies that have received the GründungsBONUS in the calendar year 2023 and are predominantly made up of female founders can receive a one-off grant of €10,000 per company.

Another offer is the "[Berliner Innovationsfachkräfte](#)" program, under which companies receive up to 50% of wage costs, up to a maximum of €20,000 for one year, if they hire university and technical college graduates. This also promotes the integration of qualified talent into the economy.

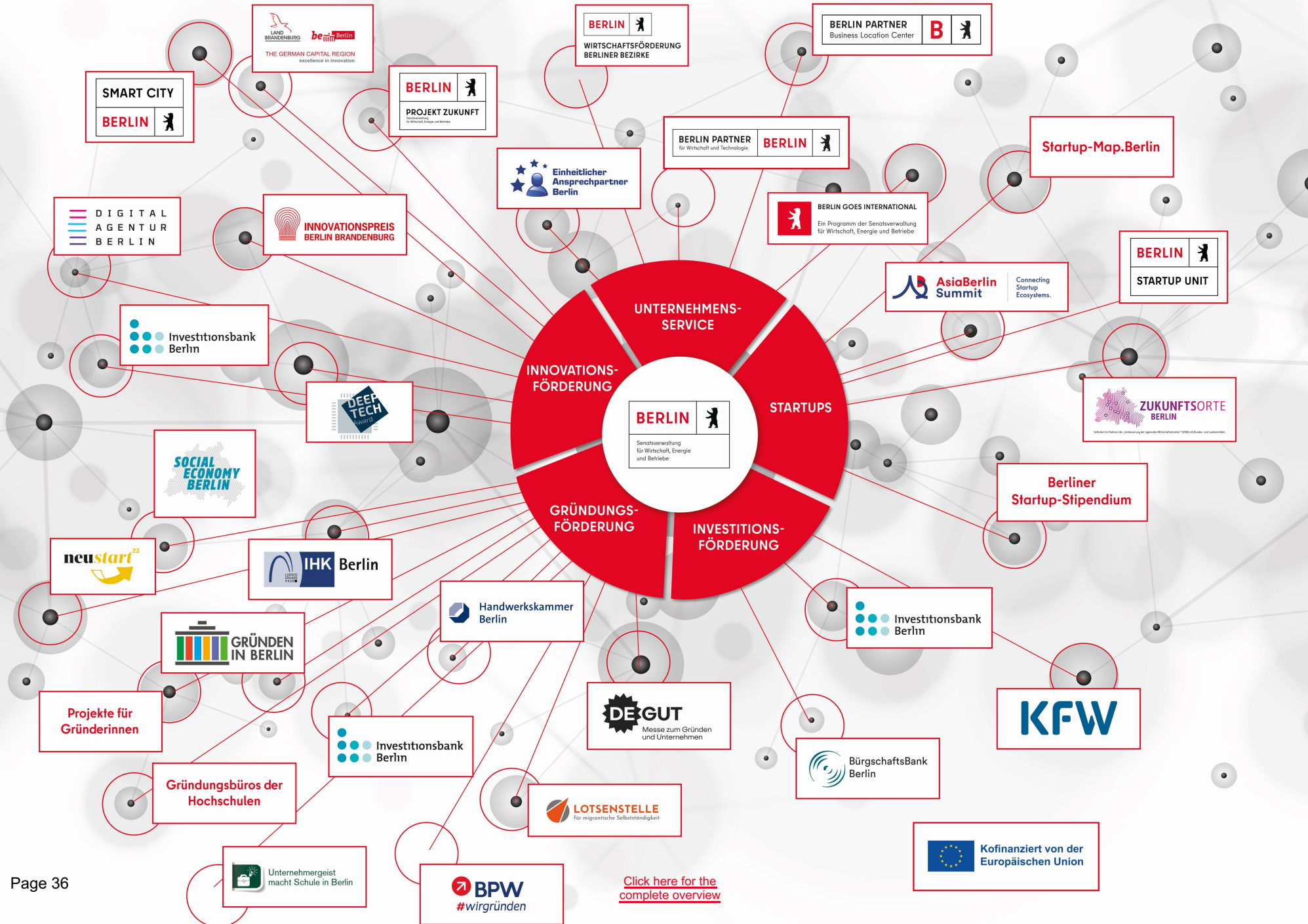
## IBB also offers suitable funding programs for growing companies

The "[Pro FIT](#)" program is available for technological innovation projects, offering up to €500,000 to finance startup costs. In parallel, the "[ProNTI](#)" program offers grants to innovative small and medium-sized enterprises (SMEs) for non-technological innovations.

The range of funding is rounded off by [IBB Ventures](#), which provides venture capital for startups in various technology sectors and for the creative industries.

## Berlin's Startup Agenda 2022 - 2026

The agenda, which was developed together with associations and startups, aims to strengthen the startup ecosystem and at the same time establish Berlin as a role model for sustainable business. This involves setting new priorities with more diversity, sustainability and cooperation. Since the mid-2000s, the startup ecosystem has developed into an indispensable part of Berlin's economy. In recent years, Berlin startups alone have created tens of thousands of new jobs - with over 600 new startups being founded every year.



# Looking beyond Borders helps with new Perspectives

## Berlin's bureaucracy also needs to be improved

There are several cities that have implemented successful measures to promote startups with the support of the federal states and offer correspondingly attractive incentives. Many market participants criticise the slow and overly bureaucratic processes in Berlin and frequently cite Austria, the Netherlands and France, which score points with online certifications, fast and streamlined bureaucratic processes and simplified interaction with the tax office.

## Many cities show advantages over Berlin

Although tax incentives are less frequently requested, there are of course some countries that generate locational advantages for startups with corresponding tax breaks. These primarily include **London (United Kingdom)** and **Tallinn (Estonia)**, which also offer particularly easy settlement opportunities for foreign talent.

Cities such as **Amsterdam (Netherlands)** and **Barcelona (Spain)** stand out due to their quality of life and attractive framework conditions for expats, and even cities less well-known as startup hubs, such as **Warsaw (Poland)**, are subjectively perceived as better than Berlin due to their strong infrastructure, access to international schools and English-speaking bureaucracy.

## Networking with universities must improve

The networking of universities with the ecosystem, which is still perceived as insufficient in Berlin in a direct comparison of cities, is particularly positively emphasised in **Wageningen (Netherlands)**. In recent years, there has been a strong link between universities, large corporations and the VC ecosystem, particularly in the life sciences and biotech sectors. France is also often perceived as politically more founder-friendly and more open to technological topics, ultimately due to the Macron government's open innovation policy, which primarily strengthens the technology sector and offers the startup ecosystem a much stronger platform through various political influences. The overall assessment of the interviewees shows a mixed perception regarding recent political changes, with a slightly positive trend, but some strongly negative outliers.

"Usually only three important factors are needed to offer startups a success platform: Talent, capital and low bureaucracy."

*Dr. Marc-Olivier Lücke, Atlantic Labs*



# 12. Appendix

The background image shows the Reichstag building in Berlin, Germany, with its iconic glass dome. In the foreground, a person is riding a bicycle, slightly out of focus, moving from right to left. The scene is set on a city street with trees and a clear sky.

## **Publisher**

Senate Department for Economic Affairs, Energy and  
Public Enterprises  
Martin-Luther-Str. 105  
10825 Berlin  
Contact: Norbert Herrmann  
Consultant for Startup Affairs  
Norbert.Herrmann@senweb.berlin.de

## **Editorial Team**

T2 Ventures UG  
Jannes Meier  
Nicolas Pless  
Contact:  
info@jmverwaltung.com, nicolas@np3v.de

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- Steffen Seifarth, Managing Director, Berlin Angel Fund

# Definitions, Abbreviations and Acronyms 1/2

## Definition, abbreviation or acronym

Adj.  
Burn rate  
Business Angel  
B2C  
DE  
Downround  
GSM / DSM  
Due Diligence  
ESG  
EUR  
First Order Profitability  
IBB  
Impact Investing  
Capital Efficiency

## Description

Adjusted  
Liquidity loss [per month]  
Private Investors  
Business to Consumer  
Germany  
Financing round with lower valuation than in previous round  
German Startup Monitor / Deutscher Startup Monitor  
Analysis and evaluation process of a company  
Environmental, Social and Corporate Governance  
Euro  
First Order Profitability  
Investitionsbank Berlin / Investment Bank Berlin  
Investments in sustainable companies / business models  
Ratio of capital employed to corporate earnings

# Definitions, Abbreviations and Acronyms 2/2

## Definition, abbreviation or acronym

---

LP / Limited Partner

Pre-Seed

Run rate

Seed

SFDR

Traction

VC / Venture Capital

## Description

---

(Venture) capital investors with limited liability and without a management role

Period before the foundation/startup phase of a company

Timing of liquidity in young companies

“Starting-Up” phase of a company

Sustainable Finance Disclosure Regulation

Measure of the speed of a company's success

Venture capital; generally used to invest in companies

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