



# **A map of social enterprises and their eco-systems in Europe**

**Country Report: Germany**

**European Commission**

*This report provides a non-exhaustive overview of the social enterprise landscape in Germany based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.*

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## Document Control

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## Headline summary

### Definition(s) and concepts

The delimitation of the term “social enterprises” is not easy in Germany – probably more difficult than in most other Member States, given the strong presence and traditions of the “third sector” comprising a colourful spectrum of organisations supplying social services instead of public bodies and state enterprises, or engaging in commercial activities with a social mission. Depending on the definitional approach taken, a smaller or larger part of these traditional organisations –cooperatives, a large mass of welfare organisations, commercially active foundations and associations, and self-help groups that adopt an entrepreneurial approach in their work and do not fully base their operations on state-regulated fees, grants and donations – may be indeed labelled as “social enterprises”.

Hence there is no clear, broadly accepted definition: responsible public bodies or traditional welfare organisations will generally have a broader set of organisation in mind when speaking about “social enterprises” (or “Sozialunternehmen”) than stakeholders from the rather new but vivid ecosystem around the ‘new-style’ enterprises which following the Anglo-Saxon approach to social entrepreneurship. These stakeholders may often refer to this new type of enterprises in English as “Social Enterprises”.

### Policy and legal framework

There is no specific legislation on social entrepreneurship in Germany, not even a formal definition, and there are no plans to introduce such acts in the near future.

Due to traditions and its exceptional significance, a large part of the policy discourse and legal framework concerns the traditional ‘third sector’: the delivery of social services as enshrined in the German Social Code, other social services and various forms of civic engagement dominated by a strong biotope of foundations and associations.

### Public support and initiatives

There is considerable public support for the “third sector” in Germany, including traditional and new-style social enterprises. However, the level of engagement of the state in support towards new-style social entrepreneurship is considered to be moderate, and not having clearly defined target groups amongst social entrepreneurship initiatives.

### Networks and mutual support mechanisms

Service providers servicing social enterprises are complemented by a number of networks, information events, cooperation platforms, self-help initiatives and competitions.

### Marks, labels and certification systems

There are no official marks, labels or certification systems for social enterprises in Germany, nor are corresponding initiatives in the pipeline. Notably, there seems to be no strong interest from public actors, practitioners and academics to introduce such systems. In fact, there is not even unambiguous support for a clear-cut definition of the concept of ‘social enterprise’.

### Social investment markets

Germany shows examples for all possible sources of finance - foundations, public grants, subsidies and tax benefits; private donors such as large funds and family trusts; social venture funds and other equity financing; business angels; and loan capital - for social enterprises, although some are much more developed and prevalent than others.

## Spectrum of social enterprise

There is no specific institutional form nor a legal status, exclusively for social enterprises. However, the “public benefit” status can be awarded to all forms of limited companies, associations, foundations and cooperatives provided they fulfil certain legal requirements (notably: the primary objective of the organisation must be in line with the legally defined public benefit purposes, no distribution of surplus and the existence of an asset lock). However, this tax status does not imply any specific governance requirements, and the scope of “public benefit” activities is rather limited.

Besides this established group of social enterprises with institutionalised status, there are also types of organisations among which there are entities which can be de facto regarded as social enterprises. These include classical cooperatives with a social purpose (i.e. housing cooperatives), certain type of operational foundations, volunteer agencies or associations with commercial activities. In addition, there is also a relatively small but growing number of ‘new-style’ social enterprises i.e. enterprises with a social mission - or civil organisations with an entrepreneurial spirit and strong economic activities - established in the past 15-or-so years, independent from the state, often with participatory governance structures, mostly innovative, and applying sustainable business models based to a relatively large extent on market revenues. Having started from a very low base, they still lack visibility and critical mass, but stakeholders see them as a booming sector in Germany.

Therefore, social enterprises are best described as different “families” of social enterprise. Such ‘families’ take into account the legal form used, but also historical developments; aims and identity of the social enterprise; and cooperative structures. The ‘families’ include traditional welfare organisations who provide most of health and social services; ‘operational’ foundations; economically active associations; cooperatives with a social mission (de facto “social cooperatives” but not legally recognised as such in Germany); WISEs and other special companies.

## Scale and characteristics

Lacking a clear delimitation of the term ‘social enterprise’, estimates tend to be vague and reflect social entrepreneurship concepts that are not fully in line with definitional approaches that enjoy broader consensus. Recent studies tend to focus only on new-style social enterprises (and perhaps cooperatives), which inevitably results in much lower figures than current definitional approaches would warrant. Existing estimates range from a couple of hundred to some 100,000 social enterprises depending on definitions and methodologies used by the authors of these studies.

## Factors constraining the start-up and development of social enterprise

Key barriers mentioned by stakeholders particularly relate to the lack of articulated demand in certain areas; unwillingness of public sector actors to innovate and/ or partner with social enterprises; weak management skills and access to affordable support services for certain start-ups; problems with sustainable business models and with scaling up; as well as the relatively small scale of social impact financing and private funding for innovative approaches. The barriers are however generally not seen as insurmountable - given the size of the German market, the traditions for social entrepreneurship and already pre-existing ecosystems, knowledge and practical experience that can be shared.

## 1 Definitions and concepts of social enterprise in Germany

Social enterprises and the social economy look back at a history of more than 150 years in Germany. In fact Germany was one of the countries spearheading the development of the social economy for a very long time.

In Germany, as in most continental European countries, the notion is strong that the economy and economic interactions should serve higher goals.<sup>1</sup> They are just the means to produce goods and services to fulfil people's needs, and can involve different actors, different motives and different modes of operation, depending on the circumstances. It was thus self-evident for social movements seeing unmet needs and/or unsolved conflicts that they could resolve these directly through engaging in non-traditional (we might call them 'innovative') economic activities – rather than only mandating politics to regulate existing for-profit market actors or redistributing profits generated by the traditional economy. These social mission-driven economic actors, together with a strong cohort of church-operated social establishments, formed a colourful 'social economy' conglomerate, to be later also known as the 'third sector', or the 'third system', delimiting them from the 'first sector' (private for-profit businesses) and from the 'second sector' (public bodies and enterprises of the public economy).

Four major branches of this 'third sector' can be identified:

1. Joint economic self-help organisations with democratic governance structures: cooperatives and mutual associations of the early workers movement
2. Charitable organisations helping others directly through supplying clearly defined social services or on-the-ground activities with a social mission: welfare organisations and citizens' responsibility initiatives
3. Philanthropy supplying ad-hoc or continuous finance and other support to the social economy: foundations, donations and socially responsible entrepreneurship
4. Voluntary community action and volunteering: civic and/or community associations

### 1.1 History and traditions

The early stages of the 'social economy' movement were coined by the – in many instances ground-breaking – innovations of *Herman Schultze-Delitzsch*<sup>2</sup>, politician and organiser of co-operatives including the first co-operative for craftsmen focusing on the joint purchasing of material in 1849, and founder of the first credit unions/co-operative savings and loan bank (*Vorschußverein*) in 1850 and later in 1865 the central co-operative bank *Deutsche Genossenschafts-Bank*; *Friedrich Wilhelm Raiffeisen*<sup>3</sup>, founder of the first rural aid association in 1847, the first rural cooperative bank in 1864 (the *Heddesdorfer Darlehnskassenverein*), a rural central bank in 1872, and other types of co-operatives and aid societies; or *Adolph Kolping*<sup>4</sup>, a Catholic priest who united existing associations of apprentices and established new ones, together with health insurance and savings co-operatives, supporting the professional training of apprentices and later the establishment of their own business.<sup>5</sup>

From the second half of the 19<sup>th</sup> century, Industrialising Prussia - then unified Germany - put a great emphasis on securing citizens' welfare. Chancellor Bismarck introduced the first true

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<sup>1</sup> For instance, Article 151 of the constitution of Bavaria states that „all economic activities serve the public good“.

<sup>2</sup> Source: DGRV Die Genossenschaften website: <http://www.dgrv.de/en/cooperatives/historyofcooperatives.html>

<sup>3</sup> Source: *ibid*

<sup>4</sup> Source: Kolping International website: [http://www.kolping.net/en/who\\_we\\_are/adolph\\_kolping.html](http://www.kolping.net/en/who_we_are/adolph_kolping.html)

<sup>5</sup> The Kolping Society (and the 'Kolpingwerk' conglomerate) is to this date the largest social association in Germany

social security system with mandatory social insurance covering more or less everyone, supplying direct financial support to those in need and funding a wide range of in-kind benefits and subsidised services. The actual services were generally supplied by a large number of non-governmental charities, comprising a major pillar of the ‘third sector’. These charity organisations were delivering state-mandated welfare services, reimbursed for these activities from social security. Charity organisations could of course also undertake social activities that were not mandated by the state, but had to secure financing from other sources – market revenues or donations.

On the other hand, the ‘third sector’ also covered a cohort of organisations based on the idea of self-support, working mostly, but not necessarily exclusively for their members: co-operatives (including farmers’ cooperatives, production or marketing co-operatives, but also consumption or homebuilders’ co-operatives), credit unions, as well as various associations. Small local co-operatives and credit unions grew quickly, occasionally merging and/or establishing strong structures for institutional collaboration, such as networks or central co-operative banks, at regional and national levels. Co-operative banks offered credit – microcredits in many cases – and paid dividends to their members (subscribers), proportional to the deposit they made, and were led by a board comprising of elected members. Although these banks received some support from philanthropist in their early days of operation, they were designed to work under a commercially viable business model, to be sustainable in the long-term - which was generally achieved. The German Co-operatives Act (*Genossenschaftsgesetz*, GenG), setting out the legislative framework for these types of organisations was adopted in 1889.<sup>6</sup> Already in the 1870s cooperatives started joining forces via umbrella organisations – federations – with the aim of creating centres of professional excellence and improved the financial stability of the sector. The economic success of this model allowed the cooperative sector to build a stronghold within the mainstream economy. It is therefore no accident that the cooperative model is still at the forefront in discussions about the social economy.

As another form of self-help initiative – not primarily directed at undertaking economic activities – associations of workers, professionals, craftsmen, traders or just local citizens mushroomed in the 19<sup>th</sup> century. They played, for instance, a major role in organising access of workers to sport and culture in the 19<sup>th</sup> century. A large number of private philanthropic foundations were also established with a social mission, e.g. by major industrialists in order to support the access of their workers and families to healthcare services, education, sports and culture, or the development of the local community in general, that did not use public funds. Foundations were also established to operate costly welfare institutions such as local hospitals. The Protestant (“Evangelical”) Churches in Germany established their joint welfare association already in 1848 (the predecessor of today’s *Diakonisches Werk*, one of the large faith-based welfare federations). The welfare organisation of the Catholic Church, German Caritas, was established in 1897.

The organic development of the ‘third sector’ led to an even stronger economic significance of these establishments up to the 1920s, but also a stronger proliferation of party-affiliated or at least clearly ideological self-support associations and co-operations. Trade unions and other non-state actors established a host of new enterprises outside the co-operative sector and operating differently than co-operatives (e.g. the Bank der Deutschen Arbeit) to demonstrate that these new forms of enterprises working primarily for the attainment of social objectives can compete well with traditional for-profit organisations.

The Nazi leadership all but destroyed this ‘third sector’, imposing control by Nazi party structures upon them (*Gleichschaltung*). After World War II, however, a quick recovery took place. The development of the sector even gained new impetus during post-war reconstruction, as a strong rejection of state *dirigisme* led to the pursuit of new ways to supply welfare and social services in a bottom-up and democratic approach.

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<sup>6</sup> The Act, subject to significant modifications since its adoption, is still in force.

Whereas the German pre-war welfare system - based on non-state actors providing social services and the state organising the financing of the services through social security - was not dissimilar to other European nations' welfare systems, it became distinct after the war. Other European countries have nationalised the supply side, making it part of the public sector, but Germany has not changed much: their pre-war system has only been reinforced and further institutionalised. This period saw the solidification of the three main principles of the 'third sector' (Priller-Zimmer 2001:14):

- subsidiarity, giving activities of 'third sector' providers generally a priority against state intervention, which became a key characteristic of German thinking about public-private relationships, including the provision of welfare services;
- self-administration, which also became a decisive feature of labour relations (tariff negotiations between employers' and employees' organisations and its enforcement, and bipartite dialogue in other areas of labour law), industrial policy, education, health and social services; and
- 'social economy' (*Gemeinwirtschaft*), a specifically German and Austrian understanding of an alternative business model to mainstream for-profit organisations (in banking, insurance, retail trade etc.), with the aim of offering cheaper products or services to the population, sometimes also integrating social considerations e.g. in pricing. Social businesses were mainly operated by trade unions (members might have received specific discounts) or the large charities.

These principles and the *modus operandi* of welfare organisations and mutual insurance associations based on them were the blueprint for the creation of the 'welfare state' in the Federal Republic (West Germany).<sup>7</sup> Higher expenditure on welfare services has of course increased the weight of the 'third sector'.

Charities grouped into large conglomerates at regional or Länder-level (or by dioceses for Catholic welfare organisations and *Landeskirchen* for Protestant welfare organisations) sometimes comprising hundreds of individual units, further aggregating up to national-level welfare federations (see the six acknowledged *Freie Wohlfahrtsverbände*: the *Freie Wohlfahrtsverbände*: the Catholic *Caritas*, the Protestant *Diakonie*, the Jewish central welfare organisation, the *Arbeiterwohlfahrt*, the *Paritätische* welfare association and the German Red Cross). They have received a semi-public status, not only supplying the social services but also receiving a seat at the table where the rules were made and where decisions on what and how much to supply were taken by municipalities or Länder. The welfare organisations expanded their role in providing social services greatly in the 1970s. By 1990, a total of 68,466 institutions in the area of healthcare, youth and family services, services for the handicapped, elderly and the poor were run by the charities, who in total employed 548,420 full-time and 202,706 part-time staff, as well as about 1.5 million volunteers. It was estimated that they were providing about 70 per cent of all family services, 60 per cent of all services for the elderly, 40 per cent of all hospital beds, and 90 per cent of all employment for the handicapped (Anheier-Seibel 1993:19).

Cooperatives remained strong, albeit the number of independent organisations fell due to a consolidation and concentration process. The number of primary cooperatives was reduced from 26,000 in 1950 to merely 5,436 by the new Millennium. The number of cooperative banks decreased from 12,000 to 1,138, the number of rural commodity and service cooperatives from 21,000 to 2,604. Over the same period, the number of members in co-

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<sup>7</sup> This section focuses on developments in Western Germany for the period when the country was split. The state was of course almost the exclusive provider of welfare services in the socialist Eastern part of Germany, leaving little room for private initiatives. Cooperatives have become an essential part of the state-dominated economy, so that after unification the cooperative idea was almost discredited. Therefore most new social enterprises in East Germany embarked on other legal forms like associations and limited companies. Exceptions are craftsmen' cooperatives (*Handwerker Genossenschaften*) that managed to stay independent and have become a starting point for a revival of workers' cooperatives in East Germany.

operatives rose from 4.4 million to 18.1 million (the increase was explained by the boom in cooperative banking membership).<sup>8</sup> Cooperatives typically remained within their traditional areas of savings/banking, consumption and homebuilding, agriculture, trade and crafts, but with the economic crisis of the 1970s and 1980s a new cooperative movement emerged, taking up the cooperative principles, but organising outside the traditional cooperative structures. Eventually this led to the introduction of principles of self-help and solidarity into other types of organisations and legislation governing these.

Foundations grew and have also established working groups and later associations or federations at Länder or national level.<sup>9</sup> In addition, environmentalist, feminist and other new social-political movements gave a new impetus to the establishment of self-help groups and other organisations with social objectives, working under the principle of subsidiarity, helping to relieve the financial pressure resting on the state to provide or subsidise welfare services. By the mid-1980s, there were an estimated 35,000 self-help groups, operating in six main fields of activity (Anheier-Seibel 1993:9): “unemployment, training, and employee-managed enterprises (40 per cent); handicapped and health problems (28.7 per cent); homeless, homosexuals, ethnic minorities, and delinquency (15.4 per cent); the disadvantaged (11.9 per cent); leisure, education and culture (2.9 per cent); and neighbourhood initiatives (1.3 per cent).” Some of these remained independent; others associated themselves with the national welfare federations.

However, the ‘third sector’ suffered significant hits in the 1980s. With increasing mass unemployment starting in the eighties and globalisation the post-War ‘social consensus’ (a tripartite social partnership of employers, trade unions and the state) has started to erode. This process strongly affected welfare organisations, with cuts in funding and deregulation in their core markets (allowing for-profit enterprises and other, new types of providers to enter), encouraging them to become more economical as well as entrepreneurial, finding new streams of income. The large co-operatives and other businesses started to exhibit competitiveness problems. The trade-union-owned homebuilder giant ‘*Neue Heimat*’, the Bank for Social Economy (*Bank für Gemeinwirtschaft*, BfG), the retail company ‘*co op*’ went bankrupt amidst scandals of mismanagement. Others were either sold or transformed into commercial businesses. The principle of ‘social economy’ (*Gemeinwirtschaft*), the generic alternative to commercial businesses operating in the mainstream economy, began to crumble.

On the other hand, this backdrop also helped new organisations to emerge, outside of the official welfare system, including work integration enterprises, self-help initiatives, volunteer agencies, socio-cultural centres etc. Most of these were designed to address three major social problems:

- inadequate and insufficient supply of services in childcare, care for the elderly, health and safety, education and training, social housing, protection of urban and rural environment;
- mass unemployment and social exclusion (including the long-term unemployed, migrants and disabled persons), leading to the emergence of a significant secondary labour market. Sheltered workshops operated mainly by the charities were a prime tool to achieve this objective; and
- gentrification, rural ‘de-population’ and generally inadequate approaches in local (urban as well as rural) development.

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<sup>8</sup> Source: DGRV Die Genossenschaften website: <http://www.dgrv.de/en/cooperatives/historyofcooperatives.html>

<sup>9</sup> Source: Bundesverband Deutscher Stiftungen website: <http://www.stiftungen.org/de/verband/ueber-uns/geschichte.html>

## 1.2 Concept and definitions

The definitional basis for social entrepreneurship and social enterprises has not yet solidified in Germany, and different conceptual frameworks and delimitations are given amongst academics, policymakers and in the public discourse among stakeholders. Importantly, there does not seem to be a strong demand for a strict definition. German stakeholders interviewed did not express concerns that social enterprise is a fluid concept. There is no specific legislation on social enterprises that would necessitate a clear delimitation. Current delimitations are rather broad and fluid.

This is partly explained by rich history and the important role of the 'third sector', which produced a vivid biotope composed of many distinct organisational forms: the large welfare organisations, 'social cooperatives', associations providing social services etc. Stakeholders engaged with one of these forms would have a different view on the characteristics of social enterprises than others. The terms used to describe the sector as a whole already show divergence and ambiguity: the concept of social enterprises is often closely linked in public discourse to the more general concept of the 'third sector' (*'das dritte System'*), hinting at a possible – philosophical - third way for organising the economy; 'social economy' (*Sozialwirtschaft*), describing a subset of the economy delivering social services or working towards the achievement of a social mission; or 'solidarity economy' (*solidarische Wirtschaft*), referring to an altruistic approach to operations, possibly excluding the viable business models of new-style social enterprises.

Within Germany, it is mostly the sub-national level, i.e. certain Länder or cities, behind public initiatives towards supporting social enterprise. The role of the federal government in developing the concept of social enterprise has been relatively benign: there is no dedicated strategy specifically for social enterprise, and no dedicated action plan. The desk research and interviews conducted for this country case study suggest that even the *chef de file* on the topic of social entrepreneurship within the federal government, the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) is somewhat undecided how and what depth it should define social enterprises – given the conceptual difficulties and political sensitivities in this area. The BMFSFJ has presented in the national (social) engagement strategy adopted by the federal government to supporting social entrepreneurship (*'Nationale Engagementstrategie der Bundesregierung'*) social entrepreneurs as persons "who, as part of their individual civic engagement, found social organisations that address social challenges with innovative and entrepreneurial approaches" (Bundesregierung 2010:5).

This definition emphasises the social motive/mission of the entrepreneur, the entrepreneurial approach, and very clearly the need to be innovative. The legal form of the organisation is here of no consequence<sup>10</sup>. The application of democratic decision-making procedures, asset or profit locks do not seem to be necessary from the perspective of this definition, either. Behind this definition there was a very narrow approach to outlining the sector at that time: the Ministry was referring to the work of the Mercator research consortium (a series of independent surveys by consortium members)<sup>11</sup> which estimated the number of social enterprises only to a few hundreds (all 'new-style') – adding that there is a much larger group of persons in the civic engagement movement who could make their way into social entrepreneurship.<sup>12</sup> At the same time, the public development bank KfW (*Kreditanstalt für Wiederaufbau*), implementing a newly set up financing programme in support of social enterprises, has taken over this definition, but as they were funding only organisations under

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<sup>10</sup> As confirmed in the response of the Federal Government from 05 October 2012 to the parliamentary question about support to social enterprises (Deutscher Bundestag, Drucksache 17/10731). Web: <http://dipbt.bundestag.de/doc/btd/17/107/1710731.pdf>

<sup>11</sup> See the publication „Sozialunternehmen in Deutschland - Analysen, Trends und Handlungsempfehlungen“ (Jansen 2013)

<sup>12</sup> Response of the Federal Government (Deutscher Bundestag, Drucksache 17/10731)

a company statute, they also added the criterion of being a small or medium-sized enterprise.<sup>13</sup>

But these narrow approaches should not necessarily be regarded as an ultimate and official definition. Discussions around the nature of social entrepreneurship seem to be going on in the Ministry, and – responding particularly to questions from the welfare organisations – the understanding of social enterprises seems to be moving towards a broader, more inclusive definition. The responsible official interviewed mentioned the entrepreneurial activity and the social mission, but also the “quality” of the service. Innovativeness was not emphasised, and the legal form of the organisation still does not play a role. In the Anglo-Saxon tradition, participatory governance structures and a high degree of (voluntary) transparency are usually regarded a defining element of social enterprises, but this is much less the case in Germany. The entrepreneurial activity may take place under free competition but also on the ‘sheltered’ markets of the welfare organisations. Under the approach of the Ministry, the focus of social entrepreneurship is still on supplying social/welfare services: prevention or care. Most of these services are part of the social code (to which citizens thus have a right, and which is financed from social security budgets or from private insurance providers), but not necessarily so.

Traditional actors of the third sector, of course, advocate a broad approach to delimiting social entrepreneurship which includes them. For instance welfare organisations, as explained during interviews, have a clear social mission, limits on profit distribution, are active on a competitive market (depending on the market segment they may be in competition with for-profit organisations, NGO offerings, institutions run by municipalities) and have to be more and more entrepreneurial and innovative, reinventing themselves and their services. The newly enshrined ‘social cooperatives’ (i.e. cooperatives with a social or mission) add the democratic decision-making dimension.

Some foundations and associations (apart from a large number of welfare organisations, such foundations and associations can be found e.g. in education and culture) now obtain revenues from trading. Welfare organisations now sometimes sponsor innovative spin-off projects which may later develop into independent social enterprises under the respective welfare federation – this development path is called ‘social intrapreneurship’ by academics (Schmitz-Scheuerle 2013). These enterprises have the benefit of starting up in a somewhat ‘sheltered’ environment, being part of a vivid network of establishments, receiving advice and other services from the federations’ central organisations and even enjoying good access to funding at the member banks of the federations (e.g. the cooperative banks of the Catholic or Protestant federations: Caritas and Diakonie). Although it is acknowledged that many of the local welfare organisations and NGOs are not acting like social enterprises, stakeholders of the traditional third sector are convinced that a significant and growing number are – and are supported by federations and centralised organisations which have put social entrepreneurship clearly on their agenda.

On the other hand, the new-style organisations and their supporting ecosystem, when talking about social entrepreneurship, would normally think of innovative start-ups like themselves. They appear to be somewhat hesitant to include established providers who are not fully exposed to market forces and are not basing their business model on transformative innovation under the definition.

Meanwhile, there is an ongoing scientific debate around the definitions in Germany – still in relatively early stages. The fact that it is not yet even clear whether ‘social entrepreneurship’ is an old or new concept (Lorentz-Streiter 2013) demonstrates the level of ambiguity surrounding this sector. Research and studies tend to focus in this first stage on defining the

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<sup>13</sup> In its brochure it defines the social enterprises eligible for support as „small and medium sized enterprises that want to solve social problems in Germany with an entrepreneurial approach and an innovative business model“. Web: <https://www.kfw.de/Download-Center/F%C3%B6rderprogramme-%28Inlandsf%C3%B6rderung%29/PDF-Dokumente/6000002294-Merkblatt-Programm-zur-Finanzierung-von-Sozialunternehmen-091.pdf>

'boundaries' and building a common and widely accepted understanding of terms, limitations and underlying concepts.

Already in the 1990s, a set of large-scale research involving organisations in the 'third sector' were carried out (Anheier et al. 1993, European Network for Economic Self-Help and Local Development 1996<sup>14</sup>). These investigations have not focussed on the concept of social enterprise at the time, hence their findings are only partially relevant to the pre-2000s social enterprise scene. However, it emerged that whilst social enterprises were understood to be part of the civil society, a considerable amount of social enterprises used more innovative legal frameworks not taken into account in these studies.

A detailed academic contribution to the definitional debate was recently delivered by the Mercator research network.<sup>15</sup> Jansen (2013:75), after a thorough review of approaches in German and international literature, as well as outlining the analytical dimensions for delimiting the concept of Social Entrepreneurship from other organisational forms, gives a working definition as follows:

*“Social enterprises are either (1) new establishments (“social entrepreneurship”) or (2) transformations of existing social organisations (“social intrapreneurship”) which have a (3) high degree of institutionalisation, primarily (4) via incorporation or an association statute and (5) the corresponding formal governance structures, and contribute (6) with an individualistic structure of motives to the (7) entrepreneurial development of (8) innovative and scalable blueprints (9) for the mitigation and resolving of social problems - as defined by the social enterprise.*

*Doing so, social enterprises build upon (10) self-legitimation (through media) and on (11) mobilising external resources, and operate either (12) in competition with previously public services or (13) through developing a new market in an analogy with classic enterprises.*

*Social enterprises have (14) generally no self-preservation interest when the social problem addressed is resolved or is treated more efficiently by other – market, public or semi-public – structures. In case this is not possible, exhibit social enterprises (15) a commercial business model for self-financing, supplemented if needed with donations.”*

The key characterising elements of the definition above are:

- formal organisation, primarily as an enterprise or an association;
- start-up organisation or a reorientation of existing organisations (in line with the hybridisation trend of certain welfare organisations and associations);
- solving social problems as mission;
- entrepreneurial approach;
- mostly use of innovative solutions (although this is not necessarily characteristic of social “intrapreneurs”);
- revenues are not restricted to market revenues but may come from donations.

In the wider public, a traditional model of the 'third sector' ('social economy') with its welfare services (*Wohlfahrtspflege*), cooperatives with an (implicit) social mission and associations/foundations engaged in delivery of social services, neighbourhood initiatives and similar are well known. The new concept of 'social enterprise' using sustainable

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<sup>14</sup> <http://www.european-network.de/englisch/texts.htm>

<sup>15</sup> The Mercator Research Network “innovative social behaviour - social entrepreneurship”, funded by the Mercator Foundation, teamed up 30 researchers to do extensive field work and analysis, based in eight German universities and research institutes, including the Zeppelin University in Friedrichshafen, the Technical University of Munich, the Centre for Social Investment (CSI) at the University of Heidelberg, Ruhr-University Bochum, Jacobs University Bremen, the University of Lüneburg, Greifswald University and the Institute for Ecological Economic Research in Berlin. Partners were Germany Ashoka and the Schwab Foundation for Social Entrepreneurship.

The main results are published in Jansen S.A., Heinze R.G., Beckmann M. (ed.) (2013) Sozialunternehmen in Deutschland - Analysen, Trends und Handlungsempfehlungen. Springer Verlag.

business models has appeared in the media and policy discourse, but does not yet have the same weight.

Some stakeholders (and researchers) talk about two types of social entrepreneurship: the 'traditional' and the 'new-style' one. But a clear-cut distinction between the two groups cannot be easily made, as key features of these new-style enterprises (business approach, innovativeness) is also present in the traditional group, and 'new-style' social enterprises very often also rely to a large extent on non-market revenues. Many of the traditional organisations are generally included under the "social enterprise" umbrella term, but the definitions have not yet been established and views on the scope of social entrepreneurship may thus differ significantly.

## 2 The ecosystem for social enterprise in Germany

### 2.1 The policy and legal framework for social enterprise

As already explained, there is no specific legislation on social entrepreneurship in Germany, not even a formal definition, and there are no plans to introduce such acts in the near future.

A partially relevant concept is the “public benefit” status that recognises organisations that have a social mission and strict limits on profit distribution (although no governance criteria). This status can be awarded to organisations running under various legal forms, which then do not have to pay corporate tax on their profits, but have to face - apart from profit and asset locks - inflexibilities in their accounting policy, such as difficulties in accumulating retained earnings.

#### 2.1.1 Delivery of social services

Due to traditions and its exceptional significance, a large part of the policy discourse and legal framework concerns the traditional ‘third sector’: the delivery of social services as enshrined in the German Social Code, other social services and various forms of civic engagement dominated by a strong biotope of foundations and associations.

The Social Code (*Sozialgesetzbuch, SGB*)<sup>16</sup> which also incorporates since 2005 welfare services regulated by the former Federal Social Assistance Act (*Bundessozialhilfegesetz, BSHG*) sets out forms of financial support and in-kind welfare services, financed from social security funds, which citizens in corresponding life situations have a right to claim: unemployment benefits and active measures for the unemployed, work integration, child and youth care and support, care for the elderly, rehabilitation and integration of the disabled, healthcare services and pensions. It also references additional social services that are regulated in detail by separate pieces of legislation to date: support for vocational training, veteran support, victim compensation, housing support and family support. The organisation of the sector – strategic planning, budgeting for non social security funded services, support for infrastructure development, service contracts with suppliers – is the responsibility of the municipalities.

Individuals entitled to a welfare service have the right of choice of the institution delivering that service (*“Wunsch- und Wahlrecht”*). This was originally referring to a choice between institutions belonging to different confessions or non-religious welfare organisations, but the concept can today also be understood to refer to the opening up of the market of supplying certain welfare services of the SGB to providers not affiliated with the welfare federations, for-profit companies and a number of municipality-operated services. This liberalisation occurred in the 1990s, coupled with an ongoing process of transforming the sector to performance-orientation and replacing the traditional simple cost-covering principle with funding modalities that put a certain amount of economic risk on the supplier, thus pushing also the traditional actors towards taking on a more entrepreneurial spirit.

#### 2.1.2 Public policies

The federal government is keen on preserving the recently established competition in the ‘social economy’ (possibly opening up smaller additional segments of the market) and welcomes the entrance of new, innovative actors. But generally only for-profit providers catering for a wealthier clientele (usually financed through private insurance) have appeared in larger numbers following the liberalisation of the social services sector. Regarding the delivery of social services, small organisations – new-style social enterprises – are only a fringe phenomenon so far and it is widely thought that their market share will remain small in the foreseeable future. They are visible in municipalities where the traditional approach to

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<sup>16</sup> See at <http://www.sozialgesetzbuch-sgb.de/>

supplying social services is not financeable or where professional staff is not available (e.g. care for children and the elderly in depopulated rural areas) (Göler von Ravensburg 2013). These markets – unlike in other Member States – have always been dominated by non-public actors: the more or less entrepreneurial welfare organisations or fully entrepreneurial for-profit suppliers.

Nevertheless, the further development of new-style social entrepreneurs is within the focus of the federal government. As part of the National Engagement Strategy of 2010 which covers a very broad spectrum of civic engagement: associations, foundations, volunteering, charities, welfare federations, hospice activities, neighbourhood initiatives, cultural projects, self-help groups – and ‘new’ social enterprises promoting social innovation. The strategy promised:

- To improve (in collaboration with the welfare federations) the framework conditions for social enterprises, including: a better involvement of social enterprises and other actors of the relevant ecosystem (venture philanthropy funds, international donor organisations) in the policy dialogue about social innovation and engagement; a review of the conditions for risk capital investments into public benefit companies; explore possibilities for specific competitions and awards for social enterprises to raise awareness; and include social enterprises as separate target group categories in public support schemes.
- To make public bodies/organisation more aware of, and responsive to, social innovation by creating the necessary forums for exchange; setting up BMFSFJ as the main contact point for social innovators; supporting initiatives aimed at establishing common standards to measuring and reporting impact; promoting cooperation between social enterprises, other businesses, chambers, associations, social institutions and public actors at different regional levels (Bundesregierung 2010).

Financial support for the starting up and operation of traditional and new-style social enterprises at federal level is channelled through the national development bank KfW (see next sub-section), and funds are also available from the EU's Structural Funds.

The federal government is also committed towards promoting different forms of volunteering – which may be well connected to social entrepreneurship. BMFSFJ carries out since 1999 a large-scale survey of volunteering (*Freiwilligensurvey*) every five years to collect detailed statistics about the civic engagement of the population.<sup>17</sup>

The major revision of the German Cooperatives Act (*GenG*) in 2006 has very clearly put new-style cooperatives with a social mission at the same level as traditional ones. Prior to that, the focus of the *GenG* was on the economic objectives of cooperatives and their members. With the revision, the act explicitly acknowledges cooperatives with an explicit social or cultural mission (*Sozialgenossenschaften*, *Kulturgenossenschaften* – although other forms of cooperatives can also focus on social objectives), and these can be incorporated as such. The policy towards these ‘socially-oriented’ cooperatives is flexible: they can focus on non-market oriented self-help or solidarity activities by relying heavily on volunteer work, or can be more entrepreneurial by establishing themselves in market niches that were not sufficiently serviced by traditional actors (see e.g. village shops in depopulated rural areas).

The engagement of public actors is not restricted to the federal level. *Länder* and municipalities are also engaged in promoting and supporting social entrepreneurship. For instance, the Land Nordrhein-Westfalen has set up a support scheme especially dedicated to enterprises working ‘for the common good’. Bavaria puts an emphasis on promoting ‘social cooperatives’. The major cities Berlin and Munich are actively promoting new-style

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<sup>17</sup> Bundesministerium für Familie, Senioren, Frauen und Jugend (2010): Hauptbericht des Freiwilligensurveys 2009; Engagementpolitik, Zivilgesellschaft, soziales Kapital und freiwilliges Engagement in Deutschland 1999 – 2004 – 2009. Web: <http://www.bmfsfj.de/BMFSFJ/Service/Publikationen/publikationen.did=165004.html>

social entrepreneurship and closely collaborate with stakeholders in setting up support mechanisms and networking opportunities.

Although policy emphasis is geared towards 'classical' social entrepreneurship topics - work integration, social integration, supply of social services not provided by traditional actors - initiatives in culture or ecology are also promoted. For instance, the Ministry for Environment in Nordrhein-Westfalen supports civic engagement in the protection of the environment, which may include social entrepreneurial approaches.<sup>18</sup>

Public stakeholders (at regional level) are also interested in exploring new financing methods, including vouchers and personal-assistance-plan-based financial support (assistance for the disabled, education outside school), trying to support consumer choice and customer power (Göler von Ravensburg 2013). The first Social Impact Bond initiative of continental Europe ("Juvat")<sup>19</sup>, launched by the Benckiser Foundation 'Zukunft' just started its operations in summer 2014.

## 2.2 Public support schemes targeting social enterprises

There is considerable public support for the "third sector" in Germany, including traditional and new-style social enterprises. As the large majority of the most important social/welfare services – revolving predominantly, but not exclusively, around care and work integration – have traditionally been 'contracted out' to non-state entrepreneurial actors (the welfare organisations: *Wohlfahrtsorganisationen*), ongoing public support to this sector – in various formats - is self-evident. Support comes from social security funds and the different levels of governments: (i) partly through well-regulated, more and more performance-indicator based funding for services and investments; (ii) through tax benefits for organisations with a public benefit status (welfare organisations directly providing care services generally have this public benefit status: see '*gemeinnützig*' in Section 2.1); and (iii) through a range of 'soft' activities, e.g. promoting volunteering, the further setting up of work-integration enterprises within the *Wohlfahrtsorganisationen* (with work opportunities for the disabled being the primary focus), and closely involving the welfare organisations and their federations in policy discussions.

New-style social enterprises started to appear in the political discourse in the 2000s, around the adoption of the federal government's high-level reform blueprint "Agenda 2010", and with support of the ESF Community Initiative "EQUAL". A number of initiatives were launched and even some direct support initiatives were set up in the following years, including the below:

- To support the development of a National Engagement Strategy (Bundesregierung 2010), a National Forum for Engagement and Participation ("*Nationales Forum für Engagement und Partizipation*")<sup>20</sup> was established in 2009. The forum gathered relevant stakeholders of civil participation – the BMFSFJ, political parties, Länder, municipalities, businesses, civil organisations, academics and other experts - who collected and discussed scientific evidence and views under four priority themes: (1) education and learning; (2) care; (3) rural areas; (4) hybrid organisations. The forum has ceased its operation since, but the contributions helped shaping policy and its implementation.
- Mandated by the National Engagement Strategy, the BMFSFJ has funded studies and surveys about local civic engagement (which may include entrepreneurial approaches). The work undertaken has been used to develop a guide for the strengthening of this infrastructure of civic engagement.<sup>21</sup>
- The web platform *engagiert-in-deutschland.de* (eiD) of the BMFSFJ is an important virtual marketplace for information exchange and cooperation between all stakeholders

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<sup>18</sup> <http://www.munlv.nrw.de>

<sup>19</sup> <http://www.juvat.org>

<sup>20</sup> <http://www.forum-engagement-partizipation.de/>

<sup>21</sup> <http://www.uni-muenster.de/imperia/md/content/ifpol/mitarbeiter/zimmer/engagementfoerderungvorort.pdf>

of civic engagement: citizens, businesses, state and municipalities.<sup>22</sup> It brings together information on civic engagement initiatives, volunteering opportunities and also enables visitors to donate on-line.

- The forum “Civic Engagement and Integration” (*Bürgerschaftliches Engagement und Integration*), operated jointly by the BMFSFJ and head officials for integration of the Länder and municipalities, involves *inter alia* discussions around social entrepreneurship as a tool for the better integration of migrants.
- The Federal Ministry for Transport, Construction and Urban Development (Bundesministerium für Verkehr, Bau und Stadtentwicklung, BMVBS; today BMVI) has been issuing regular calls for application for socially innovative entrepreneurial initiatives targeting sustainable urban development. For instance, one of the possible themes in 2013 was the revival of depressed urban areas through local retail/service centres (such as those following the DORV-concept developed by Michael Frey<sup>23</sup>).
- Since 2012, the national development bank KfW – at the initiative of the BMFSFJ – has a funding programme to invest in social enterprises, defined as “small and medium sized enterprises that want to solve social problems in Germany with an entrepreneurial approach and an innovative business model”, that have already established themselves in their respective market and are in the growth phase.<sup>24</sup> Also, the foundation of the KfW bank (*KfW Stiftung*) supports various social initiatives with grants or investment.

A number of social enterprises and support organisations in this ecosystem (e.g. wellcome gGmbH, social impact, arbeiterkind.de) have furthermore received grants funding from the federal government on a project basis. However, researchers still consider the level of engagement of the state in new-style social entrepreneurship as moderate, and not having clearly defined target groups amongst social entrepreneurship initiatives (Gebauer-Ziegler 2013).

Support is also given to social entrepreneurs at lower levels of government: *Länder* and municipalities. E.g. the State Bavaria supports, *inter alia*, the start-up of ‘social cooperatives’: the Bavarian Ministry for Social Affairs can allocate a maximum of €30,000 kick-start funding, co-financed from the European Social Fund, to the establishment of innovative, exemplary cooperatives with a social mission.<sup>25</sup> The model project “Engaged in cooperation – civic engagement in the area of integration” (*„Gemeinsam engagiert – Bürgerschaftliches Engagement im Bereich Integration“*) looked at good practice in the area of associations of migrants, volunteer agencies, mother and family centres.<sup>26</sup> An expert group established by Bavaria in 2012 under the ‘Initiative Social Cooperatives’ (*Zukunftsinitiative Sozialgenossenschaften*) is tasked with providing ideas and advice on how to further develop the sector, involving a practical guide for cooperatives.<sup>27</sup>

Large cities such as Berlin, Munich or Cologne have specific policies towards the promotion of social entrepreneurship, organise networking events and may supply initiatives with financial and non-financial support (civic engagement initiatives, social enterprises etc.). Also some smaller municipalities are actively promoting social enterprises: e.g. the town of Minden - following examples from the Netherlands - organises regular exhibitions and market exchange opportunities for NGOs and social entrepreneurs, potential donors, cooperating companies, customers and volunteers.<sup>28</sup> Many local municipalities have forums

<sup>22</sup> <http://engagiert-in-deutschland.de>

<sup>23</sup> <http://www.dorv.de/>

<sup>24</sup> <https://www.kfw.de/inlandsfoerderung/Unternehmen/Unternehmen-erweitern-festigen/Finanzierungsangebote/Programm-zur-Finanzierung-von-Sozialunternehmen-neu/>

<sup>25</sup> ‘Sozialgenossenschaften in Bayern – Der Ratgeber zur erfolgreichen Gründung’. See at: <http://www.stmas.bayern.de/sozialpolitik/sozialgenossenschaft/>

<sup>26</sup> <http://www.gemeinsam-engagiert.net/>

<sup>27</sup> [http://www.stmas.bayern.de/imperia/md/content/stmas/stmas\\_internet/sozialpolitik/sozialgenossenschaften.pdf](http://www.stmas.bayern.de/imperia/md/content/stmas/stmas_internet/sozialpolitik/sozialgenossenschaften.pdf)

<sup>28</sup> <http://www.minden.de/internet/page.php?site=14&id=7002123&rubrik=7000025>

around civic engagement concerning social inclusion, integration of migrants, ecology and sustainability (e.g. Ravensburg).

**Table 2.1 Overview of publicly funded schemes specifically designed for or targeting social enterprises**

Support type	Are there any schemes specifically targeting social enterprises?	Are any of these schemes funded by ERDF/ ESF?
Pre-start support (e.g. incubators)	✓	✓
Awareness raising (e.g. awards)	✓	
Social entrepreneurship education (e.g. school for social entrepreneurs) (1)	(✓)	
Business support (e.g. business planning, management skills, marketing etc.)	✓	✓
Training and coaching schemes	✓	
Investment readiness support (2)		
Dedicated financial instruments	✓	
Physical infrastructure (e.g. shared working space) (3)	(✓)	(✓)
Collaborations and access to markets	✓	
Networking, knowledge sharing, mutual learning initiatives	✓	

*Notes: (1) Mainstream courses offered by publicly funded universities and institutions of the welfare organisations. (2) Investment readiness support is offered by development banks/social banks themselves, linked e.g. to KfW-credit lines. (3) Indirect support: organisations offering infrastructure can be supported. Public universities can also engage*

### 2.3 Other specialist support and infrastructure available to social enterprises

A vivid ecosystem is surrounding social entrepreneurs in Germany, especially if the strong institutional support framework of the welfare federations is counted in.

Public universities and institutes affiliated with the welfare federations offer courses on ‘third sector’ studies, covering operations, business strategy or marketing management etc. (these are only indirectly supported from public funds).<sup>29</sup> These courses and accompanying research activities are important elements of the ecosystem. Some institutions go beyond teaching and offer consultancy services and even fund social innovation projects. The “Social Entrepreneurship Academy” (*Social Entrepreneurship Akademie*) was established in 2010 as a cooperation network between four Munich universities. The Academy has its own study curriculum, supports social start-ups with incubation centres and consultancy, and is building a broad network of stakeholders around social entrepreneurship.<sup>30</sup> Courses in Corporate Social Responsibility and the new ISO 26000 norm on social responsibility are also abundant.

<sup>29</sup> Universität Heidelberg; Leuphana Universität Lüneburg; Zeppelin Universität Friedrichshafen; Universität Augsburg; TU München; SRH Hochschule Berlin; Evangelische Hochschule Freiburg; Institut für Diakoniewissenschaft und Diakonienmanagement at the Kirchliche Hochschule Wuppertal; and many others.

<sup>30</sup> <http://www.seakademie.de>

There is a large number of – smaller and larger - support organisations in the ecosystem around social enterprises. Some offer infrastructure and accompanying consultancy services for social start-ups, others focus on training or networking. Financed usually from own capital, by private foundations and from private donations, occasionally supported from public budgets (project-based financing), these offers are usually free-of-charge or come at a reduced price.

- Ashoka and the Schwab Foundation help social enterprises with research, general information, advice, matchmaking, networking, funding and other support.
- The Social Impact Labs in Berlin, Hamburg, Frankfurt and Leipzig (operated by the Social Impact gGmbH)<sup>31</sup> as well as the Social Lab Köln (in the field of education)<sup>32</sup> offer various services especially for start-up social enterprises: co-working infrastructure, consultancy, financial matchmaking, networking, research and pilot projects. The project “AndersGründer” of the Social Impact gGmbH supplies all-round support to social innovators.<sup>33</sup>
- The Impact HUBs in Munich and Berlin offer co-working space, meeting rooms and other business infrastructure for persons establishing themselves as social entrepreneurs.<sup>34</sup>
- COLABOR in Cologne supplies young social enterprises, NGOs, especially those with an ecological mission, and supporting professionals with work facilities and a networking platform.<sup>35</sup>
- *IdeaCamp* from Berlin targets young (student) social entrepreneurs with a co-working facility, a mentoring programme, guidance material, workshops and seminars, as well as networking opportunities.<sup>36</sup>
- In the cooperative sector, *innova eG* trains and advises founders of new cooperatives and connects them to experienced professionals from the sector.<sup>37</sup>

Some professional consultancies such as IQ-Consult are specialised at advising social entrepreneurs and their partners in business and civil society.<sup>38</sup>

Websites such as *betterplace.de* complement the state-founded portal *engagiert-in-deutschland.de*, and allow civic engagement projects as well as social enterprise start-ups to collect donation and volunteers.<sup>39</sup> Volunteering agencies help social enterprises, foundations and associations find collaborators. The talent search company *Talents4Good*, established in 2011, works from Berlin and Munich, the two hotspots for new-style social entrepreneurship, providing HR consultancy services specifically for the not for profit sector.<sup>40</sup> Their fee structure takes the size – hence financing power – of the client in account, effectively subsidising smaller ‘third sector’ organisations.

The support landscape further includes counselling offices for senior citizens, self-help support offices, local engagement offices, financial consultancies, ‘rating’ agencies, organisations undertaking social impact analysis, developing social reporting standards and publicising results. A bi-monthly national magazine (“*Enorm* - circulation 35,000 - which itself

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<sup>31</sup> <http://socialimpact.eu/>

<sup>32</sup> <http://sociallab-koeln.de/>

<sup>33</sup> <http://andersgruender.eu/>

<sup>34</sup> <http://munich.impacthub.net/>

<sup>35</sup> <http://www.colabor-koeln.de/>

<sup>36</sup> <http://www.ideacamp.de>

<sup>37</sup> <http://www.innova-eg.de>

<sup>38</sup> <http://iq-consult.com/>

<sup>39</sup> <https://www.betterplace.org/de>

<sup>40</sup> <http://www.talents4good.org/>

is a social enterprise with an investment of the social finance fund “Bonventure”) is specifically focused on social entrepreneurship, ethical consumption and related topics.<sup>41</sup>

Since 2007, the annual “Vision Summit”<sup>42</sup>, organised by the Genisis Institute, brings together hundreds of thought leaders on key issues and solutions in social innovation and social entrepreneurship, social entrepreneurs, business, education and civil society

The ecosystem of business infrastructure and supporting services around traditional ‘third sector’ organisations is even more elaborate. The large welfare federations have their own financing, research, education and training, advisory and support structures. The Catholic Caritas, for instance, includes:

- a range of sector-specific federations at national level that supply member establishments *inter alia* with market analysis, advice and networking opportunities (e.g. education, youth care, rehabilitation services, care for the disabled, family support services, children’s day care, care for the elderly);
- regional federations in the 27 dioceses;
- associations serving as exchange forums for professionals;
- own social service providers at the federation level (care, ambulance services etc.);
- outsourced professional service providers (which are non-public benefit companies as the mainstream welfare establishments);
- cooperative banks; and
- a cooperative pension fund.

The national umbrella federation of the six German welfare federations, the Federal Association of Non-Statutory Welfare Services (*Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, BAGFW*) collects statistics about the sector and provides lobbying and other policy-related services to its members. They also established the „Bank for the Social Economy“ (*Bank für Sozialwirtschaft; Sozialbank*), a key financing institution of social enterprises.

## 2.4 Networks and mutual support mechanisms

Service providers servicing social enterprises are complemented by a number of networks, information events, cooperation platforms, self-help initiatives and competitions.

The Austro-German ‘Public Good Economy’ (*Gemeinwohlökonomie-Initiative*)<sup>43</sup>, active in several cities across the country, is developing through publications and networking new approaches in ‘solidarity economy’ since 2010, and is advising businesses and mapping their contribution to the ‘public good’. The civic forum ‘Solidary Economy’ (*Solidarische Ökonomie*) organises conferences and smaller meetings at local level for social enterprises and other projects and stakeholders from the ‘third sector’.<sup>44</sup>

Social entrepreneurship is getting more and more often covered in large exhibitions such as start-up conferences. Smaller local initiatives include e.g. the *SensAbility* conference for students on social entrepreneurship, organised by the student group of the Otto Beisheim School of Management, part of WHU University. The two-day conferences also give a platform for the initiation and development of projects.<sup>45</sup>

The site *machbarschaft.de* was originally set up for an Ashoka conference but has been continued to provide information about Ashoka fellows and organisations that can help future

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<sup>41</sup> <http://enorm-magazin.de/>

<sup>42</sup> <http://www.visionsummit.org>

<sup>43</sup> <https://www.ecogood.org/>

<sup>44</sup> <http://solidarische-oekonomie.de/index.php/forum-soe>

<sup>45</sup> <http://www.whu-sensability.de/>

social entrepreneurs.<sup>46</sup> Munich’s *WACKSTUM GmbH* connects social enterprises (with a focus on the technology sector) to finance providers, including banks, business angels and social venture capital funds.<sup>47</sup>

Several competitions are held for social entrepreneurs and social innovation projects:

- The ‘*start social*’ competition for innovative social projects, including entrepreneurial approaches, was called into life in 2001 in partnership between the federal government and private sponsors.<sup>48</sup> The competition awards a three-month operational grant, screening, advisory services and networking possibilities to organisers of 100 social projects and additional prizes for a few exemplary projects. The initiative grew into an association which engages, apart from carrying out the annual competition, in transferring know-how to third sector actors (see also in Section 2.4).
- The German Sustainability Award (*Deutscher Nachhaltigkeitspreis*), established in 2008, had a special award category between 2009 and 2011 for the ‘Social entrepreneur of sustainability of the year’ (*Social Entrepreneur der Nachhaltigkeit*).<sup>49</sup> Although this special award has been abolished, social entrepreneurs with a sustainability focus still can compete in several categories opened up for companies (see also in Section 2.4).
- The ‘Lighthouse’ competition of *WACKSTUM GmbH* awards the best ideas for social entrepreneurship with a prize of €10,000 and in-kind support (help for the establishment of the enterprise) from sponsoring partners.<sup>50</sup>
- The “Gemeinsam anpacken” (“Get it on together”) competition of the *Generation-D* initiative, with support of corporate sponsors, targets start-up ideas of students that try to solve social problems.<sup>51</sup>

**Table 2.2 Overview of privately funded schemes specifically designed for or targeting social enterprises**

Support type	Are there any schemes specifically targeting social enterprises?
Pre-start support (e.g. incubators)	✓
Awareness raising (e.g. awards)	✓
Social entrepreneurship education (e.g. school for social entrepreneurs)	✓
Business support (e.g. business planning, management skills, marketing etc.)	✓
Training and coaching schemes	✓
Investment readiness support	✓
Dedicated financial instruments	✓
Physical infrastructure (e.g. shared working space)	✓
Collaborations and access to markets	✓
Networking, knowledge sharing, mutual learning initiatives	✓

<sup>46</sup> <http://www.machbarschaft.net/>

<sup>47</sup> <http://www.wackstum.de>

<sup>48</sup> <http://www.startsocial.de>

<sup>49</sup> <http://www.nachhaltigkeitspreis.de>

<sup>50</sup> <http://www.wackstum.de/wettbewerbsorganisationveranstaltungsmanagement/social-entrepreneurship-ideenwettbewerb-leuchtturm.html>

<sup>51</sup> <http://www.gemeinsam-anpacken.de/wettbewerb/>

## 2.5 Marks, labels and certification systems

There are no official marks, labels or certification systems for social enterprises in Germany, nor are corresponding initiatives in the pipeline. And according to interviews with stakeholder, there seems to be no strong interest from public actors, practitioners and academics to introduce such. In fact there is not even unambiguous support for a clear-cut definition of the concept of 'social enterprise'.

Nevertheless, there are at least two areas where some form of external quality control was deemed necessary by the market:

- Assurance of the quality of the social initiative - in terms of sustainability of the business model and its social impact - to potential financiers, especially philanthropic venture funds and foundations who plan to invest in social enterprises. By far the largest actor here is *PHINEO*, a public benefit venture established by Deutsche Börse, the Bertelsmann Foundation, KPMG, PwC and the Mercator Foundation, which awards the "*Wirkt*" stamp ("It Works"), a sort of quality label, to initiatives that are viable and effective enough to deserve the attention of social impact investors.<sup>52</sup> This voluntary private certification scheme involves a multi-stage screening process starting with an online self-assessment questionnaire and including on-site visits. Through giving recommendations, analysts can explain even unsuccessful organisations how they could improve their impact in the future. Only about 20 per cent of the organisations screened receive the "*Wirkt*" label.<sup>53</sup>
- Social impact reporting standards, in order to synthesise and streamline the reporting requirements of various donors, hence relieving the administrative burden on multi-donor funded organisations, but also to better publicise the impact of social enterprises (and other 'third sector' actors) among the wider public, and to facilitate benchmarking between the organisations themselves. The most prominent reporting standard developed in Germany is the *Social Reporting Standard (SRS)*.<sup>54</sup>

### Box 2.1 Social Reporting Standard (SRS)

The SRS – together with templates and best practice examples – was developed in 2011 by the Social Reporting Initiative e.V, a collaboration between Ashoka Germany, Auridis, BonVenture Management, PHINEO, the Vodafone Foundation Germany, the Schwab Foundation, The University of Hamburg and the Technical University of Munich, with support from the BMFSFJ. The standard is based on the review of an intervention theory built upon a chain of effects from inputs over outputs, outcomes to impacts. The reports should discuss:

- the social problem and its drivers;
- the overall vision, concept and intervention logic for the service;
- inputs, outputs, outcomes and impacts (IOOI);
- the organisational and financial framework conditions

In specific, Part A of the reports explains the vision and the approach to services for the target groups; Part B gives a detailed description of the service (including the problem addressed, earlier solutions, own solution, IOOI; monitoring and evaluation methods, comparison with last year's performance, plans for the next period, risks, and the team); and Part C presents general information about the organisation and the framework conditions for its operations. The organisations using the SRS should find suitable indicators to measure IOOI and calculate derived metrics; the SRS does not impose a pre-defined set of indicators upon users but gives some guidance.

The SRS has been adopted until July 2014 by 69 German organisations - including Ashoka, betterplace.org or wellcome gGmbH from among the organisations mentioned in this country report,

<sup>52</sup> <https://www.phineo.org/>

<sup>53</sup> Another well-established quality label - the *DZI-Spendensiegel* - is issued by DZI (Deutsches Zentralinstitut für Soziale Fragen) to non-profit organisations that operate transparently, effectively and efficiently.

<sup>54</sup> <http://www.social-reporting-standard.de/>

as well as some organisations working under the welfare federations, and 7 organisations from abroad (Czech Republic, Switzerland and the Netherlands). Many of the organisations adopting the SRS have used it already for their 2011 and 2012 reports, others started more recently. Source: <http://www.social-reporting-standard.de/en/>

In the traditional welfare sector, the model project '*GemeinwohlArbeit*' of the non-confessional federation 'Die Paritätische' developed a quality label, awarded between 2006 and 2012 to effective new approaches to the work placement of unemployed, in connection with the then new, heavily subsidised public €1-jobs scheme. The project set out minimum standards for work integration mentoring for the relevant organisations. Following changes in national policy, the initiative was discontinued in 2013.<sup>55</sup>

A further relevant instrument is the ISO 26000 international standard for social responsibility (developed by an international multi-stakeholder working group under the International Organisation for Standardisation), which can be acquired by companies, public and civil organisations that want to contribute to sustainable development. ISO 26000 is not a traditional certification standard as the well-known ISO 9001 or ISO 14001, but a voluntary guidance.<sup>56</sup>

## 2.6 Social investment markets

### 2.6.1 The supply of finance

Germany shows examples for all possible sources of finance - public foundations, public grants, subsidies and tax benefits; private donors such as large funds and family trusts; social venture funds and other equity financing; business angels; and loan capital - for social enterprises, although some are much more developed and prevalent than others.

The social security system (for services under the SGB) and public budgets - primarily those of the municipalities (for most activities that are not mandated by the SGB) - are the key source of finance for the services provided by welfare organisations, of which the 'marketed' (SGB-related) services alone accounted for an estimated turnover of 38 billion euro in 2008 (Deutsche Bank 2010).

Public resources - mostly grants from public budgets and foundations, some equity funding and subsidised loans, but also the implicit funding through tax benefits - are also very relevant in financing the activities of the 'third sector' outside welfare federations.

The German Federal Foundation for the Environment (Deutsche Bundesstiftung Umwelt)<sup>57</sup>, with an endowment of €1.3 billion one of the largest public foundations in Europe, provides financial support of max. €70,000 *inter alia* to innovative pilot projects addressing the protection of the environment, sustainability education, sustainable land use and similar areas, which may involve initiatives with a social entrepreneurial approach.

Since 2012, the national development bank KfW – at the initiative of the BMFSFJ – has an equity funding programme to invest in social enterprises, defined as “small and medium sized enterprises that want to solve social problems in Germany with an entrepreneurial approach and an innovative business model”, that have already established themselves in their respective market and are in the growth phase.<sup>58</sup> This stage of the enterprise lifecycle was identified at that time as facing a particular financing gap. KfW acts as a co-investor; its financial contribution is granted *pari passu* to the involvement of a private lead investor. As the funding – between 50,000-200,000 euro, and maximum 50 per cent of the total equity -

<sup>55</sup> <http://www.gemeinwohlarbeit.org/content/e388/>

<sup>56</sup> <http://www.sr.din.de/>

<sup>57</sup> <https://www.dbu.de/>

<sup>58</sup> <https://www.kfw.de/inlandsfoerderung/Unternehmen/Unternehmen-erweitern-festigen/Finanzierungsangebote/Programm-zur-Finanzierung-von-Sozialunternehmen-neu/>

comes in form of a capital investment, social enterprises as investees need to have a legal form that allows such equity finance (and exit), i.e. they cannot be public benefit organisations. The business model of the investees needs to be self-supporting in the medium or long term. This Programme is scheduled to be terminated by the end of 2014. Apart from equity funding, KfW has long been providing – through various intermediaries – low-interest-rate loans to welfare organisations and other 'third sector' actors, e.g. for infrastructure investments of welfare organisations.<sup>59</sup>

Private donors – Corporate Social Responsibility funds (Volkswagen, BASF, the Otto retail group etc.), private foundations, family trusts, other philanthropic donors – are an indispensable financing source for social enterprises in Germany. In a national survey of social enterprises (Mercator Research Network study), 8 per cent of respondents identified private foundations as their primary source of revenue (Spiess-Knafl, 2012). According to statistics of the umbrella organisation *Bundesverband Deutscher Stiftungen* (2012), a total of 18,946 private foundations (*Stiftungen des bürgerlichen Rechts*) exist, and the volume of private donations in 2008 was estimated at €2.1 billion to €4.6 billion (Sommerfeld 2009). Such donations normally go to organisations with a public benefit status: the ability to receive donations is – besides their tax exemption - the primary rationale for the 'public benefit' status in the first place (as this makes the donation tax-deductible).

Relative to the country's GDP, the weight of private donors supporting the 'third sector', including social enterprises, is apparently already approximating the corresponding figure of United States donors (Scheuerle et al. 2013). However, their funding behaviour is more conservative. They usually provide traditional non-repayable funding for established initiatives (which may be entrepreneurial activities), reliable long-term contributions to ongoing operations or one-off investment funding for the scaling up of good practice examples, and may sometimes finance the start-up investment needs of new initiatives. Foundations may also engage through refundable financing, but this is rare to date.

A major framework for bundling private donations is the 50-years-old '*Aktion Mensch*' programme of the state lottery.<sup>60</sup> In the action, the gaming revenue from a specific lottery type is donated to social initiatives (which may or may not be social enterprises). In 2013, a total of €153 million was donated to ca. 7,500 organisations and projects active in care and integration services for the disabled, children and youth. The two other lottery funds, the '*Stiftung Deutsches Hilfswerk*' and the '*GlücksSpirale*' are similarly significant financial supporters of civic engagement projects and the social enterprise landscape including the welfare federations.

Crowd funding (crowd donating) is more and more successful, with public (*engagiert-in-deutschland.de*) and private-run web platforms (e.g. *betterplace* or *startnext* – see Section 2.4) enabling visitors to donate small amounts to showcased social initiatives, and micro-donation projects such as '*Deutschland rundet auf*' ('Germany rounds up'), in which national retail chains offer their customers to round up their purchase to the next 10 euro cent, bundling these very small amounts from a huge number of clients (44 million within two years from its start in March 2012) to reach respectable sums, which is then donated to a selected social project or enterprise (around €200-300,000 per supported initiative).<sup>61</sup>

Classic enterprise financing tools - bank loans, bonds etc. – have a limited role in the financing of small social enterprises and smaller organisations of the 'third sector' (Achleitner et al., 2013). The most prominent exception are welfare organisations (that can be very big companies): the large welfare federations have their own banks (the Bank für Sozialwirtschaft BFS, five cooperative banks of the Caritas and three of the Diakonie, the

<sup>59</sup> <https://www.kfw.de/KfW-Konzern/Newsroom/Pressematerial/KfW-Themendienst/Archiv/Themendienst-2011/Sozial-investieren-mit-der-KfW/>

<sup>60</sup> <http://www.aktion-mensch.de/>

<sup>61</sup> <http://www.deutschland-rundet-auf.de/>

bank of AWO) which have excellent knowledge about the sector and the right know-how - and seem to be in dominant position in providing loans. Traditional commercial banks have less weight here. The loans offered are often coupled with extensive financing advisory work, done on a basis of mutual trust.

Microcredit providers exist (see e.g. the Mikrofinanzfonds Deutschland, an initiative of the GLS Bank and the German Microfinance Institute – open until 2015), but have not reached yet maturity according to interviewees.

A Social Impact Bond initiative (“Juvat”) has recently been launched – in summer 2014 – in Bavaria, but was not fully operational at the time of completing this report.

Equity financing is generally less widespread in Germany. Whilst impact investors, blended value investors, or socially responsible investors are present – and may also face difficulties in finding investment candidates in sufficient volumes – organisations in the welfare sector that generally all have a ‘public benefit’ status are more or less fully excluded from this form of financing due to legal restrictions on paying yields for investors and paying back the invested amounts; and new-style social enterprises without ‘public benefit’ status may be too small for the engagement to make sense, or simply not ready for investment. Social impact investing and venture philanthropy is present in Germany, but – given the low market share of ‘investable’ social enterprises in comparison with that of the public-benefit-status companies of the welfare sector – relatively small. Actors such as BonVenture<sup>62</sup>, the Social Venture Fund<sup>63</sup> or Tengelmann Ventures<sup>64</sup> have only a handful of social enterprises in their current portfolio (BonVenture reports of 2-5 deals per year each between 200,000-1 million euros; the Social Venture fund reports having 10 social enterprises in its current portfolio with 1.5 million euro committed). An interesting concept that tries to establish a bridge between loan and equity capital with a clear social investment approach (with favourable conditions) – appearing to be the only one to date in Germany – is the ‘hybrid’ Mezzanine Fonds of the *Bank für Sozialwirtschaft*. The mezzanine instruments, and equity funding, from private venture funds tend to be seen as less ‘social’ and more ‘venture capitalist’ by social investors.<sup>65</sup>

The recently established financing agency for social entrepreneurship FASE<sup>66</sup> - although its track record so far is short given the little time it has been in operation - provides valuable services to social enterprises, helping them plan, combine and realise suitable financing - donations, public funds, loans, venture philanthropy investments etc.

### 2.6.2 The demand for finance

Given the diversity of the ‘third sector’ (if including welfare organisations), all kinds of short, medium- and long-term financing, loan and equity capital, smaller to larger amounts are sought after by social enterprises. The size, management structures and financing needs of social enterprises move on a very broad scale in Germany: the large ones are typically welfare organisations, complemented by a few cooperatives; whereas new-style social enterprises are normally very small.

Correspondingly, the situation of individual organisations in the sector is very different with regard to financing. Medium and large-sized welfare organisations are – although not for profit – generally well-established businesses with sustainable business models, and have easy access to excellent financing opportunities within the federations. Their own banks know them very well, have established long-term financing partnerships, can work with

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<sup>62</sup> <http://www.bonventure.de/home.html>

<sup>63</sup> [www.socialventurefund.com](http://www.socialventurefund.com)

<sup>64</sup> <http://www.tev.de/>

<sup>65</sup> According to findings from the TEPsIE research project.

<sup>66</sup> <http://www.fa-se.eu/>

special-purpose properties (e.g. hospitals) as securities and can often supply KfW-subsidised loans.

A large part of social enterprises set up in the form of a cooperative are also financially strong and have no problems accessing finance from the mainstream financing market, whilst they might enjoy relatively favourable conditions offered by cooperative banks. Energy cooperatives and agricultural cooperatives also typically have sufficient market-based revenues and are not reliant on donations and public subsidies.

Smaller new-style social enterprises and civic engagement organisations do, on the other hand, more often face difficulties concerning access to financing – as well as access to the SGB-mandated quasi-markets or public-private innovation partnerships with state actors. These organisations almost always rely on hybrid financing, mixing in the first place public grants and subsidies and private donations (including in-kind donations and voluntary work) with some own revenues; more established organisations may add significant amounts of market and quasi-market revenues as well as loans and perhaps in some cases even private equity funding to the mix. Venture philanthropy funds or impact investment suppliers (or social impact bonds) are not as widespread as in the Anglo-Saxon world - given different traditions and eco-system. Public funding is available to a certain extent but it is usually only project financing and not always easy to access for organisations active in the borderlands between the mainstream market, state-funded activities and civic engagement. There is a wealth of traditional private donors – foundations, family trusts, companies etc. - but most of them act relatively conservatively and only few of them can be approached to finance new, innovative activities.

Social entrepreneurs – especially the small ones – operate in difficult markets and value their own autonomy and flexibility greatly, which might be jeopardised when allowing an investor participate in its enterprise. Consequently, many of the smaller social enterprises do not want external finance other than donations and grants and in-kind support. Also, they are often very closely linked to their location of operations; they rely on a highly motivated local staff and on discretionary management techniques.

### 2.6.3 Market gaps/ deficiencies

No major gaps are reported in the financing of welfare organisations, although smaller cuts in welfare spending in the past decades and an increase in labour costs in parallel, as well as insufficient funding for accompanying services that are not specifically mandated by the SGB endanger the quality of services provided and requires welfare organisations to raise their own revenues (out-of-pocket contributions of patients or other sources).

Notable gaps seem to exist, according to the above discussions, in the financing of newer and smaller social enterprises. Demand for external funding still is predominantly directed towards public grants and subsidies and donations (and in-kind donations including volunteer work), often with only minimal own revenues. Interestingly, experts observe that the larger a social problem is the less likely is that social entrepreneurial approaches could be based primarily on market revenues (given the lack of purchasing power of the target group, for instance): this calls for public funding or donations, at least in the early stages.

Debt financing may be included in the mix generally if the interest rate is sufficiently low – which may be possible through offering them publicly subsidised loans or through the involvement of social banks. Practitioners interviewed highlighted the risk however that the smallest social enterprises might not be able to access these due to a lack of ‘critical mass’, history and suitable securities. Equity financing is typically not preferred by social entrepreneurs, although some venture philanthropy funds have been set up. According to interviews with various stakeholders, foundations are ready to fund tried-and-tested solutions but a large number of them will tend not to engage with new, small, innovative initiatives, or only help them with small-scale one-off project grants. Finding follow-up financing once a project runs out is often a problem.

Apart from a few crowd-funding (incl. mini-donations) and micro-donation initiatives which can cope with the correspondingly large relative transaction costs for the operations of the scheme, financiers are generally looking for low transaction costs – necessitating sufficiently large individual transactions as well as sufficiently large aggregate volumes. This is seldom possible for start-up social enterprises, given their small initial scale and higher business risks before maturity. The commercial case for investing in enterprises and company forms that have limits on profit distribution and/ or asset locks in place is very difficult to justify in any case for investors who would want to get their money back eventually.

Furthermore, most social investors would require some proof about the social impact generated and the business model is sustainable (business risk is manageable). Few have the capacity to verify this in-house (e.g. the large traditional foundations donating to or investing in social enterprises), and even if this was the case this would hugely increase transaction costs because of the analytical work involved (compared to the relatively low financing volume). Such validation services are available from a few providers (for effectiveness and business models, PHINEO is the most significant), but they would only cover social enterprises that already have a history and are generally fee-based. According to stakeholder views, many of the social enterprises (especially the younger ones) are not well prepared to attract and manage external financing: they have vulnerable business models and inadequate management/governance structures and knowledge. Actors such as FASE are also helping in combining funding sources thus increasing efficiencies and lowering risks and transactions costs, but stakeholders think more interaction between financiers is needed.

The risk-return ratio of investing in social enterprises is perceived by many potential financiers and often even by social enterprises themselves as too high, although one expert said that social entrepreneurs are less likely to default due to their strong commitment to their mission.

On the plus side, the current low-yield environment encourages impact investing as the financial return on available funds (this might include the endowment of foundations as well) would be benign in any case.

**2.7 Overview of the key actors in the social enterprise ecosystem**

The table below provides a snapshot of the main actors involved in the social enterprise ecosystem. This should, however, not be seen as an exhaustive list.

<i>Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures</i>	Federal Ministry for Family (BMFSFJ) Ministries for families or social affairs in the Länder Also to some extent the Federal Ministry of Transport; and the Federal Ministry for the Environment
<i>Customers – authorities contracting social enterprises</i>	Social security funds Länder, regions and municipalities
<i>Organisations promoting, certifying and awarding social business labels</i>	PHINEO and a few smaller organisations
<i>Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models</i>	Social Entrepreneurship Akademie Universität Heilderberg Leuphana Universität Lüneburg Zeppelin Universität Friedrichshafen Universität Augsburg TU München SRH Hochschule Berlin Evangelische Hochschule Freiburg

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	Institut für Diakoniewissenschaft und Diakonienmanagement at the Kirchliche Hochschule Wuppertal etc.
<i>Organisations that have the capacity act as an observatory and to monitor the development and to the assess needs and opportunities of social entrepreneurs/social enterprises</i>	DGRV for the cooperative sector BAGFW for welfare organisations
<i>Providers of social enterprise start up and development support services and facilities (such as incubators)</i>	Social Impact gGmbH (Berlin, Hamburg, Frankfurt, Leipzig) Social Lab Köln HUB München, Berlin COLABOR IQ Consult etc.
<i>Business support providers</i>	IQ Consult Talents4Good FASE etc.
<i>Facilitators of learning and exchange platforms for social enterprises</i>	engagiert-in-deutschland.de Welfare federations and BAGWF Ashoka Gemeinwohlökonomie-Initiative Solidarische Ökonomie Vison summit Enorm magazine etc.
<i>Social enterprise (support) networks, associations</i>	Welfare federations and BAGWF Ashoka etc.
<i>Key providers of finance</i>	<p><b><u>Crowdfunding</u></b></p> <ul style="list-style-type: none"> <li>■ engagiert-in-deutschland.de</li> <li>■ betterplace.de</li> <li>■ startnext.de</li> <li>■ etc.</li> </ul> <p><b><u>Micro-donations</u></b></p> <ul style="list-style-type: none"> <li>■ “Deutschland rundet auf”</li> </ul> <p><b><u>Social banks</u></b></p> <ul style="list-style-type: none"> <li>■ Bank für Sozialwirtschaft</li> <li>■ Triodos Bank</li> <li>■ Liga Bank</li> <li>■ Banks of the welfare organisations</li> </ul> <p><b><u>Social impact investors</u></b></p> <ul style="list-style-type: none"> <li>■ BonVenture</li> <li>■ Social Venture Fund</li> <li>■ Tengelmann Ventures</li> </ul> <p><b><u>Foundations (mainly grants)</u></b></p> <ul style="list-style-type: none"> <li>■ Bertelsmann Stiftung</li> <li>■ BMW Eberhardt von Kuehnheim Stiftung</li> <li>■ BMW Stiftung Herbert Quandt</li> <li>■ Robert Bosch Stiftung</li> <li>■ Mercator Stiftung</li> <li>■ Siemens Stiftung</li> <li>■ Unicredit Stiftung</li> <li>■ Vodafone Stiftung</li> <li>■ etc.</li> </ul>

## 3 Mapping social enterprise activity in Germany

### 3.1 The spectrum of social enterprises in Germany

The landscape of German social enterprises - the scope of which of course depends on the definitional approach taken – is wide and colourful. There are no specific institutional forms designed for use by social enterprises, so a more complex typology is necessary, which structures the landscape into individual “families” of social enterprise. The proposed typology<sup>67</sup> contains around a dozen ‘families’, developed taking also into account the legal form used, but more importantly historical developments; aims and identity of the social enterprise; and cooperative structures. Some overlaps are inevitable but these are usually minor.

#### 3.1.1 Cooperatives

Cooperatives (*Genossenschaften*) have in been historically set up to fight against poverty and social exclusion of certain vulnerable groups by engaging in economic self-help. Many of them still have social aims as part of their identity. Different types of cooperatives can be distinguished by their main activities: agricultural, workers, housing, consumers, or savings cooperatives. Affordable housing as well as affordable consumer goods may be regarded as social objectives, and even access to finance could be considered as such. However, many cooperatives have changed their character and are primarily following pure commercial aims, especially cooperative banks, but also some of the larger housing, retail and agricultural cooperatives. On the other hand, the original social aims of the cooperatives movement have reemerged recently, leading to the foundation of ‘new-style’ cooperatives which sometimes call themselves ‘social cooperatives’ (following the Italian example). This group also includes village or neighbourhood cooperatives, as well as the booming sector of new energy cooperatives organising equitable and affordable local energy systems based upon renewable energy sources. Cooperatives usually distribute earned profits to the members, but some of them also voluntarily use profits to support non-member beneficiary groups. Self-governance and democratic decision-making procedures are defining characteristics of all cooperatives.

Cooperatives in Germany are organised into a multi-layered system of federations. The top-level coordination committee *Freier Ausschuss der deutschen Genossenschaftsverbände* groups the national federation of homebuilder cooperatives (*GdW Bundesverband Deutscher Wohnungs- und Immobilienunternehmen*) as well as the federation of German Cooperative and Raiffeisen Confederation (*Deutscher Genossenschafts- und Raiffeisenverband, DGRV*), which itself is composed of<sup>68</sup>:

- Four national federations: *Bundesverband der Deutschen Volksbanken und Raiffeisenbanken* (BVR), *Deutscher Raiffeisenverband* (DRV), *Der Mittelstands-verbund* (ZGV), *Zentralverband Deutscher Konsumgenossenschaften* (ZdK).
- Five regional associations and six special auditing federations, operating at the national level, essential organisations of the self-governance of the industry.
- 22 national centres and specialised institutions, e.g. the central DZ Bank, the retailers EDEKA and REWE, the central organisation of the consumption cooperatives *Zentralkonsum eG* etc.
- 34 specialised regional institutions.

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<sup>67</sup> The proposed typology rests upon the work of Birkhölzer 2004. Though originally developed in 2004, it still is a good reflection of the third sector “landscape” of 2014

<sup>68</sup> Source: DGRV website <http://www.dgrv.de/en/members.html>

### 3.1.2 Welfare organisations

Welfare organisations (*Wohlfahrtsorganisationen*) are one of the backbones of the 'social economy', but some act more like quasi-public service providers or hybrids between entrepreneurial actors and public service providers. The lion's share of welfare organisations' revenues come from public sources – but usually not as subsidies or institutional funding (like universities or other public bodies), but as regulated fees for certain services supplied to clients on a quasi-market. Moreover, in the last few decades most welfare organisations have introduced new commercial activities to generate additional income from private sources (out-of-pocket payment of clients, donations and other). This strategy of reaching a more balanced mix of financing sources has become a characteristic of more or less all types of social enterprises. Acting under charity law, welfare organisations (which are public benefit companies or public benefit foundations) have to spend all of their earnings on fulfilling their social mission.

Welfare organisations are independent from the state, but three of them are controlled by churches (i.e. they are not fully autonomous), and the German Red Cross is also affiliated with hierarchical international structures. The '*Paritätische*' – and its lower-level federations - on the other hand, is a member-based and member-controlled association.

### 3.1.3 'Operational' foundations

The activity of traditional foundations is usually restricted to offering grants and other form of funding to initiatives, but some (the so-called '*operationale Stiftungen*') may also develop their own projects and commercial activities. Especially the recently booming community or neighbourhood foundations ('*Bürgerstiftungen*') are good examples for that. Their objectives are not necessarily social but this is the norm. As per law, 100 per cent of profits must be spent on the social objective. Foundations are independent from the state, but they are under the control of the founder(s) and not open to other stakeholders.

### 3.1.4 Traditional associations

The legal status of being a registered association ('*eingetragener Verein / e.V.*') does not necessarily include economic activities. When this legal status was introduced in the 19<sup>th</sup> century, their objectives were understood as 'idealistic' respectively 'non-economic' (hence the name '*ideelle Vereinigungen*'). This has dramatically changed and the majority of social enterprises today seem to use the status of an association. To avoid legal problems a number of associations have split into an 'idealistic' part according to their mission (for which they can accept tax-free donations) and an 'entrepreneurial' part (called '*Zweckbetrieb*': a special purpose company) to gain additional income for their overall objectives. If these objectives include the production of goods and service than they can also be understood as economically active, even without the declaration of a '*Zweckbetrieb*'. Associations do not necessarily have a social or community-focussed mission. This is however mandatory if they want to be registered as '*gemeinnütziger Verein / g.e.V.*' (public benefit association).

All associations have to spend their earnings on their objectives, while g.e.Vs are obliged to spend it explicitly on the 'public benefit' objective declared (which in return offers certain tax exemptions). Democratic decision-making is automatic: associations are controlled by their members and by law they are open to all who want to support their overall objectives.

### 3.1.5 Volunteer agencies

Volunteer agencies (*Freiwilligendienste und –agenturen*) offer services for volunteers seeking work opportunities and social enterprises looking for additional help, as such they could be regarded as performing an economic activity. This activity is financed by donations as well as fees. They do not necessarily have a legal status (those without legal status would not be considered social enterprise). Their main mission is social: to support and develop civic engagement ('*bürgerschaftliches Engagement*'). They are not for profit organisations.

The agencies are independent from the state, are membership based and open to other stakeholders.

### 3.1.6 Socio-cultural centres

Socio-cultural centres (*Soziokulturelle Zentren*) exist in order to develop and support so-called everyday cultural activities ('*Alltagskultur*') and/or to preserve local cultural traditions. Although some of them receive funding from public authorities, they have to generate income from trading (according to their records up to 50 per cent). All earnings must be spent on their declared (social) objectives. They are independent from the state, but work often in partnership with local authorities.

### 3.1.7 Self-help enterprises

Self-help enterprises (*Selbsthilfeunternehmen*) may develop out of self-help groups which gather around unmet needs or unsolved conflicts in almost all parts of the society. They often start and act as informal groups, and economic activities are not in the forefront, at least in the beginning. But to fulfil their mission they need to generate income, and have necessarily to start with economic activities, often remaining informal or in the shadow economy. Although these activities are mostly hidden or invisible, they have an economic impact which is often neglected. And they play an important role in the emergence of new social enterprises.

As (formal as well as informal) self-help enterprises arise from the need to tackle social problems or conflicts, they could be understood as indicators for what are the most relevant social problems or conflicts in the country as well as in individual local communities (today, they are primarily active in the following fields: childcare, care for the elderly, educational issues in general, healthcare, migration, ethnic minorities, homelessness, long term unemployment, healthy food, affordable housing, environment protection and nature conservation). Self-help enterprises have de facto a social mission, and are member-based initiatives with collective decision making.

### 3.1.8 Self-managed alternative enterprises of women's- and eco-movements

The mission of self-managed alternative enterprises (*Selbstverwaltete Alternativ-, Frauen- und Umweltbetriebe*), first set up during the students' movement of the 1960-es, was twofold: on one hand to introduce non-hierarchical democratic structures in the economic sphere (*Selbstverwaltung*), on the other to engage in practical solutions for neglected social, cultural and environmental problems. It was always assumed that earnings will be spent on the social mission, but this was not made compulsory. Some alternative enterprises introduced internal statutes declaring themselves as not for profit companies and became the origin for a new type of social enterprise in Germany. Others turned into traditional for-profit companies. Most of the alternative enterprises were not set up as cooperatives, foundations or associations, but mostly as limited companies ('*Gesellschaft mit beschränkter Haftung / GmbH*'). Some have become 'gemeinnützige GmbHs', others act on the basis of internal regulations to reinvest 100 per cent of their profits. Although not obligatory, most of these companies use cooperative governance and decision-making structures.

### 3.1.9 Neighbourhood and community enterprises

The main objective of neighbourhood and community enterprises (*Nachbarschafts- und Gemeinwesenbetriebe*, also 'quartier enterprises' = *Stadteilbetriebe*) is the restructuring of local economies and strengthening local economic development in areas of economic crisis or disadvantaged neighbourhoods in the context of growing social segregation in urban and rural areas. Hence they have a de facto social mission. They are membership-based organisations with a multi-stakeholder approach, often organised as local partnerships with participation of local authorities and private companies.

### 3.1.10 Integration enterprises

Integration enterprises (*Integrationsbetriebe*) aim at the work integration of disabled people. The status of an integration enterprise gives some additional funding for the employment of disabled (so-called '*Minderleistungsausgleich*' according to a special law for the integration of disabled). All earnings must be spent on reaching the declared social objective. Integration enterprises are independent from the state. Two types exist: older ones work like 'sheltered workshops' organised by traditional charities; newer ones are increasingly membership-based organisations with full membership of the clients.

### 3.1.11 Work integration enterprises

Like other WISEs, the aim of German work integration enterprises (*Beschäftigungs- und Qualifizierungsgesellschaften*) is to bring unemployed people back to work by investing the corresponding unemployment benefit or other social benefit into creating new job opportunities. They were originally set up by and for workers which have been made redundant in the context of technological change in traditional industries (esp. during the unification process in Eastern Germany), aiming at creating new job opportunities as well as new enterprises mobilising the existing skills basis of the former employees. Therefore, training on new technological and entrepreneurial skills became one of their main activities. The legal framework for these benefits changed rapidly during the last decades: the benefits could not be invested anymore in the creation of permanent jobs in new (social) enterprises, but were restricted to be used to improve the employability of individuals on short term contracts, what is called in Germany a secondary labour market ("*Zweiter Arbeitsmarkt*").

All earnings must be spent on reaching the social objectives, but the benefits (with permanent cuts and bureaucratic hurdles) generally did not even cover the costs, and it was not permitted to pull into the mix revenues from other sources, leading to the closure of many of these companies.

WISEs in Germany are not really independent from the state. Furthermore, only some have been membership-based, others are owned and controlled by charities, and some are directly owned and controlled by local authorities or hybrids of public and private institutions. With their numbers declining after their peak time in Eastern Germany, a public debate has been started recently to convert WISEs into independent social enterprises.

### 3.1.12 New-style social enterprises

The aim of new-style social enterprises (broadly based on the 'Anglo-Saxon' tradition of philanthropic entrepreneurship) is to solve social problems through commercial activities. In the German context, a special emphasis on 'social innovation' is usually implied. These new-style social enterprises may operate under many legal forms: as associations, cooperatives, public benefit companies (usually gGmbH). Current policy and stakeholder understanding regards them as innovative organisations, usually establishing themselves in niche markets. As for most other forms of social enterprise, market revenues are rarely the sole source of income (often enough not even the major source): they need to secure other sources such as grant funding or donations - and in-kind donations including volunteer work - to be able to carry out their mission.

## 3.2 Application of operational definition: determining the boundaries

The four criteria of social enterprises in the EU-level operational definition – economic activity; primary social aim; profit and asset locks; independence and participatory operations – are only partly usable to describe the German landscape of social enterprises, according to current policy discussions and research in the topic. Some of the social enterprise models presented above are more or less in conformity with the four criteria, but others would not meet all of them.

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The following table summarises compliance of the individual forms with the operational criteria, giving – where necessary – additional information on why conformity is limited.

**Table 3.1 Mapping the characteristics of the German ‘family’ of social enterprises against the EU definition**

Social enterprise families	Engagement in economic activity	An explicit and primary social aim	Limits on distribution of profits and/or assets	Organisational autonomy	Inclusive governance
<b>Cooperatives</b>	Yes	Historically yes, but today only a subset, e.g. cooperatives for affordable housing, ‘social cooperatives’	Generally yes, for those with a primary social aim	Yes	Yes
<b>Welfare organisations</b>	Mostly yes	Yes	Yes (public benefit status)	Usually not; many are affiliated to churches, others to other networks.	Usually not participatory
<b>‘Operational’ foundations</b>	Yes, a significant part of their activities	Mostly yes but not all. Not a statutory requirement	Yes	Controlled by founder	Usually not participatory
<b>Traditional associations</b>	Only a part of them; can form special purpose company	Mostly yes but not all. Not a statutory requirement. Can have public benefit status	Yes, if in public benefit status	Yes	Yes
<b>Volunteer agencies</b>	Yes, but some are affiliates of other organisations	Yes	Yes	Yes	Yes
<b>Socio-cultural centres</b>	Yes, partly (significant part of activities)	Yes	Yes	Not necessarily independent, may be joint ventures with local authorities	Not necessarily participatory
<b>Self-help enterprises</b>	Yes	Yes	Yes	Yes	Yes: membership-based organisation, collective decision-making structures
<b>Self-managed alternative enterprises</b>	Yes	Yes	Yes if in public benefit status, but not all	Yes	Yes for most of them (cooperative structures)
<b>Neighbourhood and</b>	Yes	Yes	Yes	Not necessarily: may	Yes: membership-based

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Social enterprise families	Engagement in economic activity	An explicit and primary social aim	Limits on distribution of profits and/or assets	Organisational autonomy	Inclusive governance
<b>community enterprises</b>				include municipalities among members	organisations, but may include municipalities among members
<b>Integration enterprises</b>	Yes	Yes	Yes	Yes	Many are membership-based
<b>Work integration enterprises</b>	Yes	Yes	Yes	Generally not independent; many are owned by municipalities or welfare organisations	May be participatory
<b>New-style social enterprises</b>	Yes	Yes	Not necessarily, depends on legal form	Yes	Not necessarily participatory

### 3.3 Measurement of social enterprises

Various sources supply statistics on the colourful landscape of social enterprises in Germany, complemented by estimates in academic research papers. The statistical sources include:

- *Deutscher Genossenschafts-und Raiffeisenverband* (DGRV) figures.
- DZ Bank (*Deutsche Zentral-Genossenschaftsbank*).
- Statistics of the Federal Association of Non-statutory Welfare (*Bundesarbeitsgemeinschaft der freien Wohlfahrtspflege* – BAGWF).

Lacking a clear delimitation of the term ‘social enterprise’, concrete estimates made in academic literature are vague and reflect social entrepreneurship concepts that are not fully in line with definitional approaches that enjoy broader consensus. Recent studies tend to focus only on new-style social enterprises (and perhaps ‘social cooperatives’), which inevitably results in much lower figures than current definitional approaches would warrant. However, the estimates also tend not to properly account for ‘innovativeness’, which is widely regarded in Germany as a key criterion for social entrepreneurship.

‘Social cooperatives’ are not a legal category, as the German Cooperative Law makes no reference to this legal form nor does it provide a definition of the term<sup>69</sup>. There are no readily available estimates of the number of ‘social cooperatives’ in Germany. There is however, a general consensus that ‘social cooperatives’, though only representing 2 to 5 per cent of the total population of cooperatives, are the fastest growing type of cooperatives.

The Bank for the Social Economy (*Bank für Sozialwirtschaft*, BFS) has estimated the number of ‘social cooperatives’ in 2010 at around 100, a figure commonly used by authors on the subject (Göler von Ravensburg 2013). In DZ Bank’s 2013 sector report, the total number of new ‘social cooperatives’ (under their definition, see above) established between 2011 and 2012 was 61 (DZ Bank 2013:41), putting the likely number of ‘social cooperatives’ at ca. 160 by the end of 2012. Other estimates including village shops, cooperatives of self-employed persons and professionals supplying social services, as well as homebuilders’ and consumer cooperatives are in the area of 250-300. Most of these establishments are very small, with the exception of certain secondary coops formed by sheltered workshops, cooperatives started by social institutions, and homebuilders’ cooperatives.

The most relevant surveys on third sector organisations from which estimates can be made, include:

- Mercator Forschungsnetzwerk Social Entrepreneurship<sup>70</sup>
- GEM - Global Entrepreneurship Monitor – Report on Social Entrepreneurship<sup>71</sup>
- WZB investigation “*Organisationen heute - zwischen eigenen Ansprüchen und ökonomischen Herausforderungen*”<sup>72</sup>
- *Zivilgesellschaft in Zahlen*<sup>73</sup>, the follow-up survey of the Johns Hopkins Comparative Nonprofit Sector Project from 1995.

<sup>69</sup> Although cooperatives with a social or cultural mission are de facto “social cooperatives”, the revised Cooperatives Act does not create a legal distinction between ‘classical’ cooperatives serving the interests of their members and cooperatives with a social or cultural mission.

<sup>70</sup> Jansen S.A., Heinze R.G., Beckmann M. (ed.) (2013) *Sozialunternehmen in Deutschland - Analysen, Trends und Handlungsempfehlungen*. Springer Verlag

<sup>71</sup> <http://www.gemconsortium.org/docs/2519/gem-2009-report-on-social-entrepreneurship>

<sup>72</sup> <http://www.wzb.eu/en/research/completed-research-programs/civic-engagement/survey-organisationen-heute>

- The Theoretical, Empirical and Policy Foundations for Building Social Innovation in Europe (TEPSIE)<sup>74</sup>

The most recent estimates for the social enterprise population in Germany were made in a study<sup>75</sup> of CSI (Centre for Social Investment at Heidelberg University) which compared all relevant surveys. The authors define social enterprise by three criteria: i) Priority of social and ecological aims; orientation on the common good; ii) innovation and iii) earned income. Social enterprises meeting the narrow definition meet all three criteria, those falling under the wider definition would only meet the first criterion. In estimating the number of social enterprise, the authors conclude that “*the number of social enterprises in the narrower sense, which feature a particularly high eligibility for support in view of their innovativeness in favour of social problems, is even harder to quantify because there are almost no data regarding innovation activity in the social field. According to conservative estimates based on the existing funding landscape, one has to act on the assumption of a small four-digit number*”.

**Table 3.2 Rough estimate of the number of social enterprises in the Germany on the basis of existing data (as of March 2013)**

Category	Highly innovative	Non / less innovative
Strong income based (including quasi-markets)	approximately 1,000-1,500	approximately 40,000 to 70,000 <sup>76</sup> (Social economy and social enterprises in the broader sense)
Non / low-income based	1,500 – 2,500	No social enterprises

Source: Scheuerle T., Glänzel G., Knust R., Then (2013)

<sup>73</sup> Fritsch, S., Klose, M., Opfermann, R., Rosenski, N., Schwarz, N., Anheier, H. K., & Spengler, N. (2011). *Zivilgesellschaft in Zahlen - Abschlussbericht Modul 1*. Destatis und Centrum für soziale Investitionen und Innovationen. Berlin

<sup>74</sup> Glänzel, G., Krlev, G., Schmitz, B., Mildenerger, G. (2013). Report on the feasibility and opportunities of using various instruments for capitalising social innovators. A deliverable of the project: “The theoretical, empirical and policy foundations for building social innovation in Europe” (TEPSIE), European Commission – 7<sup>th</sup> Framework Programme, Brussels: European Commission, DG Research. <http://www.tepsie.eu/images/documents/tepsie43final.pdf>

<sup>75</sup> Scheuerle T., Glänzel G., Knust R., Then, . (2013) *Social Entrepreneurship in Deutschland – Potentiale und Wachstumsproblematiken*. Universität Heidelberg

<sup>76</sup> CSI estimate of the upper limit: 106,000 organizations (data from the study Fritsch et al (2011), organizations with charitable statute and at least 1 person subject to social insurance contribution or € 17,500 taxable income)

./ 25,000 parishes (own research on congregations in Germany)

./ 10,000 grant-making foundations (directory of German Foundations)

CSI estimate lower limit:

about 9000 gGmbHs / gUGs

+ 8000 cooperatives (due participatory governance structure also usually associated with the social economy)

+ 3.000-operative or support foundations (data from WZB study “Organization Today” and directory of German foundations)

+ unknown number of additional social enterprises which have often legal forms without public benefit status (GmbH, Gbr etc.), partly as a legal entity in connection with a registered association or foundation;

+ In addition, market-based enterprises with social / ecological orientation (e.g: 800 World Shops, approximately 1,240 companies in the network of public welfare economy, etc.), for which no data exist

## 3.4 Characteristics of social enterprises

### 3.4.1 Development pathways and the evolving landscape

Despite the setback to the *Gemeinwirtschaft*, the traditional ‘third sector’ – financed by the state, social security, by volunteer work, by philanthropists and through Corporate Social Responsibility budgets – remains strong in Germany. The failure of some of the large social ventures only led to giving back certain mainstream economic activities to commercial businesses: not for profit companies with a social or ecological mission kept on operating in areas where such third-sector approaches were warranted.

All sectors of the social economy have undergone more or less pronounced transformations since the 2000s, to a large part in connection with the adoption of the federal government’s social reform programme “Agenda 2010” in 2003.

In the cooperative sector, change is marked by the appearance of new and often innovative cooperatives that follow a social mission, delivering social services or activities primarily aimed benefitting local community. After a nadir of new activity in the cooperative sector in the 1970s and 1980s, a new trend in the 2000s emerged, introducing innovative new types of cooperatives to the country and aided by reinforced support from the national federation DGRV and state actors for the setting up of new initiatives. These new cooperatives are mainly established in non-traditional fields of cooperative activity: local energy production, shops for local produce, delivery of community services through self-help approaches, and account for some fifth of all cooperatives currently (DZ Bank 2012:20). Important social needs and national policy initiatives gave the recent impetus to the sector: the major reform of the country’s energy policy (*Energiewende*) which includes support to small, decentralised local energy production using renewable energy sources; initiatives tackling the depopulation of rural areas; the crowding out of local brick-and-mortar shops by online retail (DZ Bank 2013:25). The country’s aging problem and the resulting increased need for care services, new transport collaborations, the establishment of local economic systems and Fair Trade initiatives are additional topics that might be relevant for the establishment of future innovative cooperatives.

The welfare organisations (*freie Wohlfahrtspflege*) have maintained their status as a decisive socio-economic factor in Germany. Despite the partial opening up of their core markets and a loss of market share, when combining the figures of individual organisations under the national federations they are still the largest employers in Germany (Deutsche Bank Research 2010) - with the Catholic Caritas being the largest (with its individual organisations employing a total of around 560,000 staff in 2010, and involving in addition over 500,000 volunteers<sup>77</sup>) - and account for the lion’s share of almost all health care and social services in the country. Employment in the sector has increased strongly since the 1990s to 1.54 million professionals in 2008 (BAGFW 2009), and a similar number of volunteers. This increase is mainly explained by demographic change and a greatly increased demand for social services, as well as the availability of funding to finance this demand.

Welfare organisations grew in both traditional advocacy (which are mostly financed through donations and volunteerism), and the larger ‘quasi-market’ activity area (healthcare, social care, mandated by the German Social Code */Sozialgesetzbuch/*, based on competition between public, private and third sector suppliers, the free choice of patients/clients between establishments, and on reimbursement of acknowledged costs through a fee system). The competitive position of providers in this latter sector is solid, although somewhat compromised by the inflexibilities coming from their public benefit status – which is a general feature of welfare organisations. This led to losing some market share to private service providers catering for a more well-off clientele. Still, establishments of the welfare federations supplied 38.5 per cent of ambulant care, 55.1 per cent of nursing home places, 26.0 per cent

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<sup>77</sup> Source: Caritas Institutional Statistics 2010, Caritas factsheet 2012

of rehabilitation and prevention services, 37.5 per cent of hospitals, 51.1 per cent of kindergarten in 2007-2009 (Deutsche Bank Research 2010).

Welfare organisations do not face new major challenges. Germany has weathered the financial crisis well and cuts to welfare spending channelled through welfare organisations were not introduced – it must be noted however that some restrictions were applied to the funding of social services already before the crisis, making it difficult for service providers to maintain or further improve the quality of their services (which has probably also contributed to losing market share). Some cost pressure also comes from for-profit competitors who do not pay the relatively high wages that are negotiated in master contracts between employers and unions (*Flächentarifverträge*) and are mandatory for the welfare federations.

### Key figures for welfare organisations in Germany (2008)

Service areas	No. of establishments	No. of beds/places	Full-time employed	Part-time employed
Health care	7,481	192,005	232,870	159,318
Youth care	38,367	2,076,693	151,641	211,309
Family support	4,570	41,082	9,392	21,914
Care for senior citizens	18,051	520,727	132,902	312,075
Care for people with disabilities	16,446	509,395	135,944	181,009
Care for socially disadvantaged people	8,830	53,650	18,464	20,534
Other support	9,914	242,447	33,369	27,406
Education and training services	1,636	66,246	13,112	12,602
<b>Total</b>	<b>105,295</b>	<b>3,702,245</b>	<b>727,694</b>	<b>946,167</b>

Source: BAGFW (2014)

Germany has always been characterised by a strong civic engagement. Many associations (*Vereine*) are active in filling gaps in the supply of services on a not for profit basis and in pursuing local development objectives. Their work may involve to smaller or larger extent commercial (market) activities, but they generally do not have an entrepreneurial focus. The vivid landscape of self-help groups created in the 1970s and 1980s by a wave of civic engagement has remained strong. These groups mostly supply specialist services to their members (e.g. family day care using special pedagogic approaches, care for children with specific development needs) and third parties on niche markets, financed by the 'clients' themselves. Also, private foundations (*Stiftungen*: mostly launched by companies or families) aiming at achieving social impact have a very long history. But the permanent cuts in public expenditure in the 1990s encouraged philanthropic initiatives to expand and new foundations to emerge. These foundations may have their own projects achieving social impact on-the-ground, may fund and support social enterprises, or engage in research and knowledge sharing, advocacy work and lobbying.

In the 1990s and the new Millennium, influenced to a large extent by the work of the globally active platform and support organisation *Ashoka* or the *Schwab Foundation* who promoted a new (Anglo-Saxon) concept of social enterprises and raised awareness, a group of 'new-style', innovative social enterprises emerged to complement the 'third sector', establishing themselves in many smaller and larger market niches. They are responding to trends such as ageing, rural depopulation, changing family structures, stronger demands for integration and autonomy (in employment in care for the elderly etc.), ethical trade, special pedagogic approaches or care solutions that are not in the social code, hence not financed through the traditional social security or the private insurance system.

This new movement of social entrepreneurship has also had an impact on how the traditional third sector worked and understood itself: social innovation, an entrepreneurial spirit and a better performance-based management have in recent years become important elements in the strategies of the welfare federations and civic organisations. Many of the organisations started to transform, experimenting with innovative in-house approaches and looking at solutions developed by new participants. Following a period where ‘old’ and ‘new’ actors saw themselves rather as competitors than partners, in recent years a certain degree of cooperation has been established. Experts consider the establishment of an innovation system linking them up as an important step towards the creation of a more effective and efficient third sector. Transformative innovation often comes from small actors who are not burdened with the inertia and blank spots of large organisations. But the solutions developed need the knowledge (a deep understanding of the legal and institutional framework of social care, for instance) of the established organisations, their market access and their capacities and financing power for scaling up. Also, as large organisations are not crippled by unsuccessful projects, teaming up seems to be beneficial for the innovator already in the development phase of the solution.

Stakeholders also see a process of mutual learning among a good number of for-profit companies and third-sector organisations: whereas the third sector (welfare organisations, ‘social cooperatives’, associations, foundations) start to become more entrepreneurial and innovating, the classic for-profit enterprise sector also starts to be concerned about the social impact they make. To a certain extent, this is nothing new: since the times of industrialisation entrepreneurship in Germany usually involved some social objectives as well - doing good to society, the local community, the families of employees, disadvantaged groups (through the way the company operates, not only the owners/shareholders “giving back” to society from the profits achieved, which is more the Anglo-Saxon approach – although this latter approach was and is also present in Germany).

### 3.4.2 Legal forms

There is no specific legal form for social enterprises in Germany, as explained in the above sections. Almost all existing legal company forms are available for social enterprises, and some of them (GmbH, UG, AG and eG) – if legally possible and if it is reasonable for the entrepreneur to do so – also can also hold public benefit status (*‘Gemeinnützigkeitsstatus’*). Public benefit companies are often identified by adding a “g” to the abbreviation of the legal form, e.g. gGmbH is a public benefit limited company.

The main available legal forms for companies (omitting a few small special cases) are listed in Table 3.3. For social enterprises, sole proprietorship and business partnerships (which lack essential criteria of the operational definition) are rarely used, except perhaps for starting a business (and later transform).

**Table 3.3 Main available legal company forms**

Legal form	Original German name and abbrev.
Sole proprietorship	Einzelunternehmen
Civil Law Partnership	Gesellschaft bürgerlichen Rechts, GbR
Limited Liability Partnership	Kommanditgesellschaft, KG
Limited Liability Company	Gesellschaft mit beschränkter Haftung, GmbH
Entrepreneurial Company (limited liability)	Unternehmergesellschaft UG (haftungsbeschränkt)
Stock Corporation (private/public company limited by shares)	Aktiengesellschaft, AG
(Registered) Cooperative	(eingetragene) Genossenschaft, eG

A significant part of the sector (especially welfare organisations) is a registered limited liability company, however these either have to, or tend to, operate under a public benefit status ('*Gemeinnützigkeit*'). Cooperatives are also relatively frequent. Many of both traditional and new social enterprises work under civic organisational forms, mainly associations (*eingetragene Vereine, eV*) or 'operational' foundations ('*operative Stiftungen*').

### 3.4.3 Business models

#### 3.4.3.1 Sources of income

The most recent survey in the topic was undertaken as part of the Mercator Research Network (*Mercator Forschungsnetzwerk für Sozialunternehmen*). The relatively small sample (244 respondents) was focussed on 'new-style' social enterprises identified through Ashoka and Schwab Foundation, the competition '*start social*', national associations of work integration companies (ca. 900), web search and respondent driven ('snowball') sampling. Almost all of the respondents (87 per cent) were registered public benefit organisations, however, many of the organisations regarded themselves as actors of the competitive (business) sector and not as part of the 'third sector'. Most of the surveyed organisations were active in education, work integration, social integration or in supplying social services. The social enterprises surveyed were generally very small: half of the participants had annual revenues of less than €250,000 only.

**Table 3.4 Size breakdown of social enterprises, by estimated revenue**

Less than €50,000	€50,000 - €100,000	€100,000 - €250,000	€250,000 - €500,000	€500,000 - €1,000,000	€1,000,000 - €5,000,000	€5,000,000 or more
28%	9%	12%	10%	10%	23%	8%

Source: Mercator Research Network (*Spiess-Knafl, 2013*)

Consequently, most of them are heavily reliant on volunteer work. Revenues can be broken down into sales to target group/market revenue (21.0%), service fees paid from public budgets (usually social services under the Social Code) (20.8%), public grants and subsidies (usually project-related) (15.4%), private donations (10.3%), contributions from foundations (7.1%), sponsoring/CSR (8.0%), members' contributions (5.0%), other (awards, capital income etc.) (12.6%). In total, public funding accounted for 36.2% of total revenues of the organisations in the sample, and commercial revenues only accounted for 21.0%.

The most recent third sector study (Priller 2012), based on a sample of associations, gGmbHs, cooperatives and foundations, reports on large differences in the financing sources. Public grants and subsidies and donations are still very important sources, although their share has generally fallen in the last years for the organisations for which data was available.

**Table 3.5 Sources of finance of 'social enterprises' (Priller, 2012)**

Type of revenue	Associations	Public benefit ltd. companies (gGmbH)	Cooperatives	Foundations
Public grants and subsidies	29%	21%	4%	20%
Regulated service fees (SGB quasi-markets)	38%	55%	17%	9%
Donations, sponsoring	13%	3%	<1%	6%
Own revenues (sales, membership fees, return on capital invested)	19%	19%	77%	64%
Other	1%	2%	2%	1%
Total	100%	100%	100%	100%

Source: WZB (Priller, 2013)

### Social impact

The avenues taken by social enterprises in Germany to attain social impact differ between social enterprise groups. Welfare organisations mostly supply health- or social-care related services as defined in the SGB, as actors on well-regulated quasi-markets that usually also includes public service providers and more and more private competitors. They might have additional activities delivered to the same or different target groups which are not covered and regulated by the SGB. Integration enterprises, work integration enterprises achieve the social impact through employing people. Most of the remaining actors - associations, foundations, cooperatives etc. – pursue their specific (and primary) social objective for which the organisation was created.

### Use of paid workers

Volunteer work is very important in the German Social Economy “sector”, although not to the same extent for all categories of social enterprises. E.g., welfare organisations tend to rely on paid (and qualified) workers to deliver SGB-regulated care services. Associations, on the other hand, are much more reliant on volunteer work. The latest available German national survey of volunteering (BMFSFJ, Freiwilligensurvey 2009) shows that 36 per cent of the population aged 14+ was performing some voluntary (civic) work, although most of this is not related to economic activities. Sports and leisure volunteering was the most popular (not likely to be linked to social entrepreneurship) with involving 10.1 per cent of the population, followed by schools and kindergarten work 6.9 per cent, churches (6.9 per cent) and the social sector (5.2 per cent).

47 per cent of volunteering takes place in associations (may include social enterprises), 14 per cent in church organisations, 13 per cent in self-help groups and initiatives (some social enterprises), 9 per cent in public organisations, 7 per cent in interest groups, 3 per cent in political organisations, and 7 per cent in ‘other’ organisations (likely to involve some social enterprises).

### 3.4.4 Fields of activity

There is no authoritative database on the activities of all social enterprises – as the concept itself has not been fully agreed upon in politics, academia or practitioners. The WZB survey of third-sector organisations (Priller, 2013) – note that this sample included associations and foundations that should were not necessarily social enterprises - shows social services and assistance to be the most frequent field of activity, followed by education and child care, sports, arts and media.

**Table 3.6 Breakdown of the activities of third sector organisations by field of activity (Priller 2013)**

Field of activity	Corresponding share of SEs in sample
Social services and assistance	22%
Education and child care	17%
Sports and outdoor activities	14%
Arts and media	13%
Health care	8%
Housing	5%
Leisure	4%
Nature conservation and environment protection	3%
Civic interest representation	2%

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Research	2%
International activities	2%
Communal services	2%
Work relations	1%
Enterprise/household services	1%
Other	3%

### 3.5 Summary of mapping results

The table below summarises the results of the mapping exercise. It maps the main characteristics of the identified family of social enterprises in Germany against the three dimensions and operational criteria of the SBI definition.

**Table 3.7 Mapping the universe of social enterprises in Germany**

Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Cooperatives	Welfare organisations (charities)	'Operational' foundations	Traditional associations
Entrepreneurial dimension	The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	Yes, primary activity	Yes, service provision on a quasi-market (although home organisations do not define themselves as entrepreneurial)	Yes, a significant part of activities	Significant part of activities only for a (small) subset of associations
Social dimension	It must pursue an explicit and primary social aim: a social aim is one that benefits the society	Historically yes, but today true only for a subset (e.g. housing and 'social cooperatives', village or neighbourhood cooperatives etc.);	Yes (they have public benefit status)	Mostly yes, but not mandatory requirement (only for public benefit foundations)	Mostly yes, but not mandatory requirement (only for public benefit associations)
Independence and governance	It must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making	Yes, generally to members, some also to beneficiary target groups	Yes, mandatory for charities	Yes	Yes
	It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	Yes	Most are not independent from churches or the Red Cross. <i>Paritätische</i> is a federation of independent welfare organisations	Independent from state, but controlled by founder	Yes
	It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	Yes for members, not for external stakeholders	Usually not, especially large healthcare providers; certain initiatives may be participatory	Generally not participatory	Yes, open and membership-based
<b>Estimated number (2013)</b>		<b>7,881 (2012)</b>	<b>105,295 (2012)</b>	<b>7,900 (an estimated 39% of 20,150 foundations) (2013)</b>	<b>580,298 (2011)</b>
<b>Estimated % meeting core criteria (appx)</b>		<b>30%</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

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Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Cooperatives	Welfare organisations (charities)	'Operational' foundations	Traditional associations
<b>Estimated number meeting core criteria</b>		<b>2,400</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

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Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Cooperatives	Welfare organisations (charities)	'Operational' foundations	Traditional associations
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	Overwhelmingly trading income	Overwhelmingly regulated fee income (from social security)	Generally small share of revenues from trading	Generally small share of revenues from trading
	The use of paid workers	Generally yes	Generally yes, but volunteering very significant	Mostly volunteer work	Mostly volunteer work
Social dimension	Fields of activity	Saving and financing, affordable housing, ethical consumption, healthy food, village and neighbourhood initiatives, renewable energy, care services etc.	Health care, care for children, youth, elderly, disabled etc.	Care services, education, culture, housing, integration etc.	Care services, education, culture, housing, integration etc.
	Target groups (customers/ users of goods and services provided)	Members, customers	Patients/customers	Beneficiaries (users of services)	Beneficiaries (users of services)
Independence and governance	Transparency - a system for measuring and reporting impact	No	Varied; impact measurement is spreading	Varied; impact measurement is spreading	Not characteristic
	Legal forms	(Registered) Cooperative	gGmbH, eV, Stiftung etc.	Stiftung	eingetragener Verein

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Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Volunteer agencies	Socio-cultural centres	Self-help enterprises	Self-managed alternative enterprises
Entrepreneurial dimension	The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	Yes, intermediary services for the third sector	Yes, significant part of activities is entrepreneurial	Yes	Yes
Social dimension	It must pursue an explicit and primary social aim: a social aim is one that benefits the society	Yes	Yes	Yes	Yes, social, cultural, environmental goals in addition to own democratic self-management purpose
Independence and governance	It must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making	Yes	Yes	Yes	Yes if they have public benefit status
	It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	Some are affiliated to other organisations	Yes	Yes	Yes
	It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	Yes, open and membership-based	Yes, open organisations	Yes, open and membership-based, collective decision-making structures	Not mandatory, but most of them have collective decision-making structures
<b>Estimated number (2013)</b>		<b>500+</b>	<b>ca. 500</b>	<b>n/a</b>	<b>n/a</b>
<b>Estimated % meeting core criteria (appx)</b>		<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Estimated number meeting core criteria</b>		<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

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Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Volunteer agencies	Socio-cultural centres	Self-help enterprises	Self-managed alternative enterprises
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	A share of revenues is fee income	Revenue generated from trading is generally above 50 per cent	Substantial share of income from trading	Substantial share of income from trading
	The use of paid workers	Mostly volunteer work	Mostly volunteer work	Yes, but start-ups use mostly volunteer work	Yes, but volunteer work is significant
Social dimension	Fields of activity	Care services, youth work, international development, environment protection, etc.	Neighbourhood initiatives, culture, ecology, youth work, equal opportunities, social involvement of the elderly, migrants etc.	Local economy, neighbourhood initiatives, work integration, etc.	Care services, equal opportunities, ecology, culture etc.
	Target groups (customers/ users of goods and services provided)	Social initiatives reliant on volunteer work	Customers, wider beneficiaries	Members, wider beneficiaries	Mostly members
Independence and governance	Transparency - a system for measuring and reporting impact	Not characteristic	Varied	Not characteristic	Not characteristic
	Legal forms	eV etc.	eV etc.	gGmbH, cooperative etc.	gGmbH etc.

Country Report: Germany

Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Neighbourhood and community enterprises	Integration enterprises	Work integration enterprises	New-style social enterprises
Entrepreneurial dimension	The organisation must engage in economic activity: this means that it must engage in a continuous activity of production and/or exchange of goods and/or services	Yes	Yes	Yes	Yes
Social dimension	It must pursue an explicit and primary social aim: a social aim is one that benefits the society	Yes	Yes, to integrate the disabled into work	Yes, retraining and skills development of redundant for workers in traditional industries	Yes
Independence and governance	It must have limits on distribution of profits and/or assets: the purpose of such limits is to prioritise the social aim over profit making	Yes	Yes	Yes	Yes if they have public benefit status
	It must be independent i.e. organisational autonomy from the State and other traditional for-profit organisations	Yes, although members may include municipalities	Yes, but some 'sheltered workshops' are run by charities	Yes	Yes
	It must have inclusive governance i.e. characterised by participatory and/ or democratic decision-making processes	Yes, open and membership-based	Many (mostly new ones) are open, membership-based organisations with participatory governance	Generally not independent; many are owned by municipalities or welfare organisations	Not mandatory (except for 'social cooperatives', eV etc.), but many have collective decision-making structures
<b>Estimated number (2013)</b>		<b>n/a</b>	<b>700+</b>	<b>A few hundred</b>	<b>A few hundred</b>
<b>Estimated % meeting core criteria (appx)</b>		<b>n/a</b>	<b>100%</b>	<b>n/a</b>	<b>100%</b>
<b>Estimated number meeting core criteria</b>		<b>n/a</b>	<b>ca. 700</b>	<b>n/a</b>	<b>few hundred</b>

Country Report: Germany

Dimension	Criterion	Non-institutionalised organisations traditionally regarded as social enterprises			
		Neighbourhood and community enterprises	Integration enterprises	Work integration enterprises	New-style social enterprises
Entrepreneurial dimension	Share of income derived from : fees (incl. membership fees);trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc.	Substantial share of income from trading	Substantial share of income from trading, also public subsidy	Substantial share of income from trading, also public subsidy	Substantial share of income from trading
	The use of paid workers	Mostly volunteer work	Yes (subsidised), volunteer work is also present	Yes (subsidised)	Mixed, volunteer work is usually significant, can be dominant
Social dimension	Fields of activity	Neighbourhood initiatives, local economic development, social integration	Work integration of the disabled	Retraining and skills development of redundant workers	Care services, education, culture, ecology, social integration, local economic development, neighbourhood initiatives etc.
	Target groups (customers/ users of goods and services provided)	Wider beneficiaries	Employees	Employees	Various: members, customers, wider beneficiaries
Independence and governance	Transparency - a system for measuring and reporting impact	Not characteristic	Varied	Not characteristic	Not characteristic
	Legal forms	gGmbH etc.	gGmbH etc.	gGmbH etc.	gGmbH, 'social cooperatives', eV etc.

### 3.6 Opportunities and barriers

The social enterprise sector in Germany is to one part – especially the welfare federations, but also the cooperative sector, foundations and associations, self-help enterprises - a very strong, well-established milieu, with sustainable business models and a robust ecosystem. The level of public funding (social security) of health and social care is still considered relatively good, although somewhat more restrictive than it was two decades ago. Available private funds are significant, albeit they are often somewhat conservatively managed and are not necessarily accessible for innovative social entrepreneurship start-ups. New-style social enterprises are visible but still a niche phenomenon compared to the mass of traditional “third sector” organisations.

New opportunities exist in local development and community initiatives, energy, environmental protection, non-regulated care services for children, youth and the elderly, and in several additional niche markets (or niche approaches in large markets). Opportunities are maybe less identifiable in mainstream SGB-regulated health and social care, which is already very well covered by traditional social enterprises (and their competitors).

Key barriers mentioned by stakeholders have been detected around: the lack of articulated demand in certain areas; unwillingness of public sector actors to innovate and/or partner with social enterprises; weak management skills and access to affordable support services for certain start-ups, problems with sustainable business models and with scaling up, as well as the relatively small scale of social impact financing and private funding for innovative approaches. The barriers are however generally not seen as unsurmountable - given the size of the German market, the traditions for social entrepreneurship and already pre-existing ecosystems, knowledge and practical experience that can be shared.

The Mercator research association formulated in 2012 a set of proposals for politics, entrepreneurs, education institutes and funders that revolve around addressing these and additional barriers perceived as important. They include, *inter alia*:

- Further strengthening the civic engagement culture in society in combination with entrepreneurial thinking, including new approaches in education;
- Facilitate innovation in public policies;
- Setting up a fund for social innovation;
- Introducing Social Impact Bonds;
- Adjusting tax, public procurement and public benefit regulations to cater better for hybrid financing;
- Expanding coaching offers for social entrepreneurs;
- Establishing a transfer agency for the networking of social entrepreneurs and financial intermediaries;
- Simplifying bureaucracy around donations and project grants;
- More transparent and impact-oriented financial support;
- Improving the measurement of social impact in social enterprises.

## Annex 1 Comparative overview of legal forms commonly used by social enterprises in Germany

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
Definition	<p>A Sole Proprietorship is a natural person doing business (and employing other people) in their own name. Sole Proprietorship can be easily adapted to pursue any legal purpose. It cannot be tax-privileged.</p>	<p>A limited liability company is a form of company commonly used by for-profit organisations. A limited liability company is typically established with commercial aims, to distribute profits to its members. A company established with solely commercial aims would not be considered a social enterprise. The shareholders are the owners of the company.</p> <p>A social enterprise can use a limited liability company as its legal form. The constitution (Articles of Association) of a limited liability company can be drafted to provide for the features of a social enterprise. For example, the Articles can include social purposes and provisions which cap the dividends that may be paid to shareholders.</p> <p>However, without 'entrenchment provisions' in the Articles, which seek to embed these features in the Articles, these 'social' features can be amended by a special resolution of 75% or more of the company's members. Any entrenched provision can still be amended if all of the company's members agree.</p> <p>Tax-privileged limited liability company</p> <p>A limited liability company can have tax-privileged</p>	<p>An entrepreneur company has generally the same features of a limited liability company, but can be founded with a minimum statutory capital of one euro and has to accumulate part of its annual profits.</p> <p>As soon as the statutory capital amounts to 25,000 euros, the rules for an entrepreneur company do not apply anymore, and the company may replace the addition "UG (haftungsbeschränkt)" by "GmbH".</p> <p>Tax-privileged entrepreneur company</p> <p>An entrepreneur company can have tax-privileged status. In this case, often the abbreviation "gUG (haftungsbeschränkt)" is used.</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		<p>status (“Gemeinnützigkeit”) provided certain provisions are included in its Articles. In this case, the abbreviation “gGmbH” can be used.</p> <p>The company’s stated purpose has to be a tax-privileged one (e.g. advancement of culture, science, education, health care, etc.) and must be pursued selflessly, exclusively and imminently. Profits have to be spent on the tax-privileged purposes and must not be distributed to shareholders and members of the entity.</p>	
Key national legislation governing legal form	<p>German Civil Code; (Bürgerliches Gesetzbuch, BGB) German Commercial Code; (Handelsgesetzbuch, HGB) German Income Tax Act; (Einkommensteuergesetz, EStG) German Value-Added Tax Act. (Umsatzsteuergesetz, UStG)</p>	<p>German Limited Liability Company Act Code; (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG) German Corporate Income Tax Act; (Körperschaftsteuergesetz, KStG) German Value-Added Tax Act; (Umsatzsteuergesetz, UStG) Fiscal Code – for tax-privileged entities. (Abgabenordnung, AO)</p>	<p>German Limited Liability Company Act Code; (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG) German Corporate Income Tax Act; (Körperschaftsteuergesetz, KStG) German Value-Added Tax Act; (Umsatzsteuergesetz, UStG) Fiscal Code – for tax-privileged entities. (Abgabenordnung, AO)</p>
Whether the legal form is used exclusively or not exclusively for social enterprise	<p>Not designed for social enterprises.</p> <p>A sole proprietorship can carry out any business purposes.</p>	<p>Not designed exclusively for social enterprises.</p> <p>A limited liability company can carry out any business purpose.</p> <p>A social enterprise can use a limited liability company as its legal form by drafting the Articles to provide for the features of a social enterprise.</p>	<p>Not designed exclusively for social enterprises.</p> <p>An entrepreneur company can carry out any business purpose.</p> <p>A social enterprise can use an entrepreneur company as its legal form by drafting the Articles to provide for the features of a social enterprise.</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
Methods of creation	<p>The sole proprietor has to notify the local commercial authority and the tax authority about the start of the business. There are no specific application documents.</p>	<p>To establish a limited liability company the Memorandum and Articles of Association must be signed and notarized and the first managing directors must be appointed by the signatories.</p> <p>The notary then submits an application for registering the company with the local commercial register.</p> <p>The Articles of Association must comply with the minimum contents requirements of the GmbHG. At least 50% of the statutory capital must be paid in prior to the filing of the registration. The limited liability company comes into existence upon registration.</p> <p>In case of a tax-privileged limited liability company an opinion of the tax-authorities has to be produced stating that there are no objectives concerning the future tax-privilege.</p>	<p>To establish an entrepreneur company the Memorandum and Articles of Association must be signed and notarized and the first managing directors must be appointed by the signatories.</p> <p>The notary then submits an application for registering the company with the local commercial register.</p> <p>The Articles of Association must comply with the minimum contents requirements of the GmbHG. the statutory capital must be fully paid in.</p> <p>The entrepreneur company comes into existence upon registration.</p> <p>In case of a tax-privileged entrepreneur company an opinion of the tax-authorities has to be produced stating that there are no objectives concerning the future tax-privilege.</p>
Required capital or assets	<p>There is no requirement for the legal form to hold a minimum level of capital or assets.</p>	<p>€25,000</p>	<p>€1</p>
Management and corporate governance	<p>There are no specific requirements on governance.</p>	<p>Management is monitored by the member(s).</p> <p>A board can be provided for in the Articles. There must be at least one managing director (Geschäftsführer) which can be the sole member of the limited liability company.</p>	<p>Management is monitored by the member(s).</p> <p>A board can be provided for in the Articles of Association. There must be at least one managing director (Geschäftsführer) which can be the sole member of the entrepreneur company.</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		<p>The responsibility for administration and management of the company is delegated to the managing directors by the members, subject to company law and the company's Articles.</p> <p>The managing directors are appointed and removed by the member(s).</p> <p>Managing directors have fiduciary duties towards the company and must act in the best interests of the company.</p>	<p>The responsibility for administration and management of the company is delegated to the managing directors by the members, subject to company law and the Articles of Association of the company.</p> <p>The managing directors are appointed and removed by the member(s).</p> <p>Managing directors have fiduciary duties towards the company and must act in the interest of the company.</p>
Rights of members	The legal form does not have members.	<p>The legal form has members.</p> <p>The ultimate control of the company rests with the members. The members can pass resolutions which give directions to the managing directors or change the Articles of Association. They also have the power to appoint or remove directors.</p> <p>The members have the right to receive the annual accounts, including the directors' and auditors' reports (if any).</p>	<p>The legal form has members.</p> <p>The ultimate control of the company rests with the members. The members can pass resolutions which give directions to the managing directors or change the Articles of Association. They also have the power to appoint or remove directors.</p> <p>The members have the right to receive the annual accounts, including the directors' and auditors' reports (if any).</p>
Voting and representation of members in general meetings	Not applicable to legal form.	Members are represented in a general meeting. They can also pass resolutions outside of a general meeting.	Members are represented in a general meeting. They can also pass resolutions outside of a general meeting.

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		<p>If not otherwise required by the Articles or by company law, resolutions are passed with the majority (&gt;50%) of the votes cast.</p> <p>General meetings may be called at any time by the directors. Members can also require the directors to call a general meeting.</p>	<p>If not otherwise required by the Articles or by company law, resolutions are passed with the majority (&gt;50%) of the votes cast.</p> <p>General meetings may be called at any time by the directors. Members can also require the directors to call a general meeting.</p>
Types of shares, if any	Not applicable to legal form.	The legal form has shares by way of membership units.	The legal form has shares by way of membership units.
Distribution of dividends on share capital	Not applicable to legal form.	<p>Subject to profits available for distribution, there are no limits on dividends unless the articles of association include such limits.</p> <p>Profit of a tax-privileged limited liability company must not be distributed; as such the Articles of a tax-privileged entity have to provide for a non-distribution constraint.</p>	<p>Subject to profits available for distribution, there are no limits on dividends unless the articles of association include such limits.</p> <p>Profit of a tax-privileged limited liability company must not be distributed; as such the Articles of a tax-privileged entity have to provide for a non-distribution constraint.</p>
Distribution of reserves	No legal provisions regarding reserves.	Surplus reserves may be distributed within the following years to the members. Funds have to be allocated to reserves under accounting law in case of possible future liabilities.	<p>There is a compulsory legal reserve of one quarter of the profits.</p> <p>Even if tax-privileged entities' accumulation of income is generally restricted to 10 per cent per year, a tax privileged entrepreneur company may allocate its legal reserve to the above-described extent.</p>
Allocation of the	No requirement to allocate surpluses to	The statutory capital must be preserved and may	The statutory capital must be preserved and

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
surplus particularly to compulsory legal reserve funds	compulsory legal reserve funds.	not be distributed. Furthermore, funds have to be allocated to reserves under accounting law in case of possible future liabilities.	<p>may not be distributed. Funds have to be allocated to reserves under accounting law in case of possible future liabilities.</p> <p>In addition, the legal reserve of one quarter of the profits may only be used for (i) increasing the capital, (ii) balancing an annual deficit which is not covered by accumulated profits of the previous year, or (iii) balancing a debit carryover as far as it is not covered by an annual profit.</p> <p>The legal reserve cannot be distributed whereas other reserves may be distributed within the following years to the member.</p>
Distinction dividends/refunds and distribution of refunds	Refunds not applicable to legal form.	There is no distinction between the distribution of dividends and refunds.	There is no distinction between the distribution of dividends and refunds.
Restrictions on ability to trade	<p>Certain regulated activities can only be pursued by company or limited partnerships (e.g. financial services).</p> <p>In most cases, such limitations are not relevant to social enterprises which are in the form of a sole proprietorship.</p>	<p>Certain regulated activities require a governmental permission (e.g. financial services, insurance, air transportation). Insurance companies may not operate in the form of the limited liability company at all.</p> <p>In a tax-privileged limited liability company, economic activities must not become a (hidden) purpose of the company; the company shall pursue exclusively its tax-privileged purposes.</p> <p>A two-tier structure is an option to overcome</p>	<p>Certain regulated activities require a governmental permission (e.g. financial services, insurance, air transportation). Insurance companies may not operate in the form of the entrepreneur company at all.</p> <p>In a tax-privileged entrepreneur company, economic activities must not become a (hidden) purpose of the company; the company shall pursue exclusively its tax-privileged purposes.</p> <p>A two-tier structure is an option to overcome</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		these limits.	these limits.
Internal financing (e.g. investment title, member investors, increase in members contributions)	The sole proprietor can reinvest any proceeds from a social enterprise into the legal form.	<p>The members (shareholders) of the company can invest in the company in various ways, e.g. by giving loans to the company (also in the form of loans substituting equity) or by payment of supplementary contributions to the company's capital.</p> <p>For tax-privileged entities there are restrictions as to interest-bearing loans of shareholders. A member may fund the entity by a charitable gift.</p>	<p>The members (shareholders) of the company can invest in the company in various ways, e.g. by giving loans to the company (also in the form of loans substituting equity) or by payment of supplementary contributions to the company's capital.</p> <p>For tax-privileged entities there are restrictions as to interest-bearing loans of shareholders. A member may fund the entity by a charitable gift.</p>
External financing (e.g. banking loans, issuing bonds, specific investment funds) including possibility for non- member investors	The sole proprietor can receive loans.	<p>In general, different forms of external investment are possible, in particular by subscribing to member units / increasing the statutory capital. The taking up of loans from a third party might require a license under the German Banking Act (depending on the structure of the loan).</p> <p>Investments can be structured in different ways. Typically, an investor will either be a creditor and/or a member.</p> <p>Tax-privileged limited entities may attract charitable gifts or means from sponsorship agreements.</p>	<p>In general, different forms of external investment are possible, in particular by subscribing to member units / increasing the statutory capital. The taking up of loans from a third party might require a license under the German Banking Act (depending on the structure of the loan).</p> <p>Investments can be structured in different ways. Typically, an investor will either be a creditor and/or a member.</p> <p>Tax-privileged entities may attract charitable gifts or means from sponsorship agreements.</p>
Transparency and publicity requirements (and	Annual returns and accounts do not need to be made publicly available.	Requirements to publish annual accounts vary depending on the size of the company. Large companies are required to publish their annual	Requirements to publish annual accounts vary depending on the size of the company. Large companies are required to publish their annual

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
related auditing issues)		<p>accounts, business report, auditor's certification, as well as the supervisory board's report on its review of the annual accounts.</p> <p>Small companies only need to provide their balance sheet.</p> <p>Corporate income tax returns have to be filed annually with the fiscal authorities.</p> <p>Tax-privileged entities have to comply with additional reporting requirements. They have to file a report on its activities, its accounts on the usage of funds, and a report on the accumulation of reserves with the tax authorities annually.</p> <p>The bookkeeping, annual accounts and business report of large and medium-sized companies must be audited by qualified auditors or in the case of medium-sized companies by certified accountants.</p>	<p>accounts, business report, auditor's certification, as well as the supervisory board's report on its review of the annual accounts.</p> <p>Small companies only need to provide their balance sheet.</p> <p>Corporate income tax returns have to be filed annually with the fiscal authorities.</p> <p>Tax-privileged entities have to comply with additional reporting requirements. They have to file a report on its activities, its accounts on the usage of funds, and a report on the accumulation of reserves with the tax authorities annually.</p> <p>Typically, an entrepreneur company is a small company in terms of German Commercial Law and thus there are no auditing requirements. However, medium-sized companies these must be audited by certified accountants.</p>
Employee involvement systems	Staff participation in decision making is solely up to the sole proprietor. Employees cannot, however, receive a proportion of the legal form's profits.	<p>Staff participation in the decision making is solely up to the managing directors.</p> <p>Only if the company reaches a certain size does staff participation become mandatory (Mitbestimmung).</p> <p>A worker's council must be established upon</p>	<p>Staff participation in the decision making is solely up to the managing directors.</p> <p>Only if the company reaches a certain size does staff participation become mandatory (Mitbestimmung).</p> <p>A worker's council must be established upon</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		<p>request once the company reaches a certain size (i.e. at least five permanent employees).</p> <p>Employees can receive a proportion of the legal form's profit via a transfer of shares to the employee or profit-sharing agreements.</p> <p>In case of a tax-privileged entity the legal restrictions have to be observed, e.g. the non-distribution constraint.</p>	<p>request once the company reaches a certain size (i.e. at least five permanent employees).</p> <p>Employees can receive a proportion of the legal form's profit via a transfer of shares to the employee or profit-sharing agreements.</p> <p>In case of a tax-privileged entity the legal restrictions have to be observed, e.g. the non-distribution constraint.</p>
Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)	The winding up of a sole proprietorship is up to the sole proprietor.	<p>The limited liability company is wound up after the company has been dissolved.</p> <p>Reasons to dissolve the company may be expiry of a time period if the company has only been established for a certain time or purpose, a court order, or insolvency. Additionally, the company can be dissolved by a member resolution.</p> <p>A debt restructuring outside an insolvency procedure is possible, but has to involve all creditors. If such a restructure attempt fails or is not attempted, the ordinary insolvency proceedings apply.</p> <p>A tax-privileged entity will lose its tax-privileged status upon initiation of insolvency proceedings.</p>	<p>The entrepreneur company is wound up after the company has been dissolved.</p> <p>Reasons to dissolve the company may be expiry of a time period if the company has only been established for a certain time or purpose, a court order, or insolvency. Additionally, the company can be dissolved by a member resolution.</p> <p>A debt restructuring outside an insolvency procedure is possible, but has to involve all creditors. If such a restructure attempt fails or is not attempted, the ordinary insolvency proceedings apply.</p> <p>A tax-privileged entity will lose its tax-privileged status upon initiation of insolvency proceedings.</p>
Distribution of the proceeds of	Not applicable to legal form.	After liquidation of the company (ending running business, fulfilling all payment obligations,	After liquidation of the company (ending running business, fulfilling all payment obligations,

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
dissolution, liquidation, disinvestment (in particular provision of asset lock)		<p>realizing the company's outstanding claims and transferring all of the company's assets into money), the remaining capital is distributed to the members of the company according to the value of their units (unless another distributions is set out in the Articles of Association). The remaining capital may only be distributed after all liabilities have been discharged and a one year period has expired.</p> <p>A tax-privileged entity has to distribute its remaining capital to another tax-privileged entity.</p>	<p>realizing the company's outstanding claims and transferring all of the company's assets into money), the remaining capital is distributed to the members of the company according to the value of their units (unless another distributions is set out in the Articles of Association). The remaining capital may only be distributed after all liabilities have been discharged and a one year period has expired.</p> <p>A tax-privileged entity has to distribute its remaining capital to another tax-privileged entity.</p>
Conversion to another form of company	<p>Not applicable for legal form.</p> <p>A sole proprietor can transfer his or her business into a different legal form by setting up such new legal form.</p>	<p>There are different conversion possibilities available under the German Conversion Act (Umwandlungsgesetz).</p> <p>The requirements and procedure for a conversion of the company vary depending on what conversion is intended (e.g. cooperative or partnership).</p> <p>The shareholders of the involved legal entities have to agree to the conversion by shareholder resolution.</p> <p>In a last step, the conversion is then to be registered with the commercial register. In relation to legal form's assets, the rule in conversions</p>	<p>As soon as the statutory capital amounts to 25,000 euros, the entrepreneur company becomes a limited liability company.</p> <p>A conversion of the entrepreneur company into a partnership or into a cooperative is possible under the German Conversion Act (Umwandlungsgesetz).</p> <p>A tax-privileged entrepreneur company will lose its tax-exemption upon conversion into a partnership.</p> <p>The shareholders of the involved legal entities have to agree to the conversion by shareholder resolution.</p>

Legal form:	Sole Proprietor	Limited Liability Company Gesellschaft mit beschränkter Haftung (GmbH)	Entrepreneur Company Unternehmergeellschaft (haftungsbeschränkt) (UG (haftungsbeschränkt))
		according to the German Conversion Act is universal succession.	In a last step, the conversion is then to be registered with the commercial register. In relation to legal form's assets, the rule in conversions according to the German Conversion Act is universal succession.

## Annex 2 Annex: List of Information Sources

### A2.1 References

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## A2.2 List of consultees

Stakeholder category	Organisation/ Role	Name of the person interviewed
Government	Bundesministerium für Familie, Senioren, Frauen und Jugend	Andreas Kirner Referent
Government	Permanent Representation of Germany to the European Union	Mark Kamperhoff Head of Division for Family Affairs, Senior Citizens, Women and Youth
Social bank	Bank für Sozialwirtschaft	Prof. Dr. Harald Schmitz Generalbevollmächtigter

Stakeholder category	Organisation/ Role	Name of the person interviewed
Social bank	KD Bank (Bank für Kirche und Diakonie)	Jörg Moltrecht Vorstandsmitglied
Social impact financing	Eberhard-von-Kuenheim-Stiftung der BMW AG	Carl-August Graf von Kospoth Geschäftsführender Vorstand
Social impact financing	BMW Stiftung Herbert Quandt	Markus Hipp Geschäftsführender Vorstand
Social impact financing, expert	Bertelsmann Stiftung	Jeremy Birnbaum Project manager
Social enterprise	Neue Arbeit Sozialunternehmen gGmbH	Marc Hentschke Geschäftsführer
Social enterprise	Stiftung Liebenau	Prälat Michael H. F. Brock
Foundation, expert	Hephata GECES	Christian Dopheide Theologischer Vorstand
Social enterprise	Laufer Mühle	Michael Thiem Geschäftsführer
Social enterprise activities	wellcome gGmbH	Rose Volz-Schmidt, Geschäftsführerin
Welfare federations	Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege	Malte Lindenthal Referent EU social policy
Welfare federations	Diakonie Deutschland	Katharina Wegner EU affairs
Social intermediary, support organisation	Social Venture Fund	Johannes Weber Managing Partner
Social intermediary, support organisation, expert	Ashoka	Michael Vollmann Programme director
Support organisation	Social Impact Lab (Berlin)	Norbert Kunz, CEO
Support organisation	Talents4Good	Anna Roth-Bunting, Geschäftsführerin
Support organisation	PHINEO	Dr. Andreas Rickert Vorstandsvorsitzender
Expert	Universität Heidelberg Centrum für soziale Investitionen und Innovationen   Centre for Social Investment	Dr. Volker Then Managing Director