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SOCIAL ENTERPRISES
AND THEIR ECOSYSTEMS
IN EUROPE

Country report

GERMANY

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Social Europe

This report is part of the study “Social enterprises and their ecosystems in Europe” and it provides an overview of the social enterprise landscape in Germany based on available information as of May 2018. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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This report provides an overview of the social enterprise landscape in Germany based on available information as of May 2018. The report represents a comprehensive update of a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Nicole Göler von Ravensburg (Frankfurt University of Applied Sciences), Gorgi Krlev and Georg Mildenberger (University of Heidelberg) with the support of Ute Bongertz, have revised this report.

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Countries included in the three social enterprise mappings by the European Commission

		TYPE	2014	2016	2018-19
1	Albania	Fiche			
2	Austria	Report			
3	Belgium	Report			
4	Bulgaria	Report			
5	Croatia	Report			
6	Cyprus	Report			
7	Czech Republic	Report			
8	Denmark	Report			
9	Estonia	Report			
10	Finland	Report			
11	France	Report			
12	Former Yugoslav Republic of Macedonia	Fiche			
13	Germany	Report			
14	Greece	Report			
15	Hungary	Report			
16	Iceland	Fiche			
17	Ireland	Report			
18	Italy	Report			
19	Latvia	Report			
20	Lithuania	Report			
21	Luxembourg	Report			
22	Malta	Report			
23	Montenegro	Fiche			
24	The Netherlands	Report			
25	Norway	Fiche			
26	Poland	Report			
27	Portugal	Report			
28	Romania	Report			
29	Serbia	Fiche			
30	Slovakia	Report			
31	Slovenia	Report			
32	Spain	Report			
33	Sweden	Report			
34	Switzerland	Report			
35	Turkey	Fiche			
36	United Kingdom	Report			

TABLE OF CONTENTS

List of acronyms	9
List of illustrations and tables	11
Executive summary	12
1. BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS	15
1.1. Traditions and trends—historic predecessors and modern types	18
1.1.1. Associative tradition, charitable roots and the development of the welfare state	18
1.1.2. Cooperative traditions	20
1.1.3. Mutual traditions	22
1.1.4. Philanthropic traditions	22
1.1.5. Work inclusion and work integration social enterprises (WISEs)	24
1.1.6. From community action to neighbourhood and community enterprises	26
1.1.7. Business background	27
1.2. Public policy influence	27
2. CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK	31
2.1. Defining social enterprise borders	32
2.1.1. The EU operational definition of social enterprise	32
2.1.2. Application of the EU operational definition of social enterprise in Germany	32
2.2. Legal evolution	52
2.3. Fiscal framework	54

3. MAPPING	57
3.1. Measuring social enterprises	58
3.2. Social enterprise characteristics	64
3.2.1. Fields of activity	64
3.2.2. Sources of income	65
3.2.3. Labour characteristics	66
3.2.4. Governance models and regional differences	68
4. ECOSYSTEM	69
4.1. Key actors	700
4.2. Policy schemes and support measures for social enterprises	73
4.2.1. Support measures addressed to all enterprises that fulfil specific criteria	73
4.2.2. Support measures addressed to social economy/non-profit organisations	73
4.2.3. Support measures specifically addressed to social enterprises	75
4.3. Public procurement framework	79
4.4. Networks and mutual support mechanisms	84
4.5. Research, education and skills development	86
4.6. Financing	93
4.6.1. Demand for finance	93
4.6.2. Supply of finance	94
4.6.3. Funding gaps and deficiencies	98

5. PERSPECTIVES	101
5.1. Overview of the social enterprise at the national level	102
5.2. Constraining factors and opportunities	104
5.2.1. Constraints	104
5.2.2. Opportunities	106
5.3. Trends and future challenges	109
6. APPENDICES	112
Appendix 1. The EU operational definition of social enterprise	113
Appendix 2. Methodological note	116
Appendix 3. Data availability report	119
Appendix 4. Reference list	120
Appendix 5. List of stakeholders engaged at national level	133

List of acronyms

- > **AG** Public limited company (*Aktiengesellschaft*)
- > **AO** German fiscal code (*Abgabenordnung*)
- > **AWO** Workers' Welfare Organisation (*Arbeiterwohlfahrt*)
- > **BAGIF** Federal association of inclusive enterprises (*Bundesarbeitsgemeinschaft Inklusionsfirmen*)
- > **BAGWF** Federal Association of Non-statutory Welfare (*Bundesarbeitsgemeinschaft der freien Wohlfahrtspflege*)
- > **BAGWfbM** Federal Association of Workshops for Persons with Disabilities (*Bundesarbeitsgemeinschaft Werkstätten für behinderte Menschen*)
- > **BMAS** Federal Ministry for Labour and Social Affairs (*Bundesministerium für Arbeit und Soziales*)
- > **BMFSFJ** Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (*Bundesministerium für Familie, Senioren, Frauen und Jugend*)
- > **BMVBS/BMVI** Federal Ministry of Transport, Building and Urban Development (*Bundesministerium für Verkehr, Bau und Stadtentwicklung*)
- > **BMWi** Federal Ministry for Economy and Energy (*Bundesministerium für Wirtschaft und Energie*)
- > **BVR** National association of German cooperative banks (*Bundesverband der Deutschen Volksbanken und Raiffeisenbanken*)
- > **CSR** Corporate Social Responsibility
- > **DGRV** National German cooperative association (*Deutscher Genossenschafts- und Raiffeisenverband e.V.*)
- > **DRV** German Raiffeisen association (*Deutscher Raiffeisenverband*)
- > **EaSI** EU programme for employment and social innovation
- > **eG** Registered cooperative society (*eingetragene Genossenschaft*)
- > **ERP** European Recovery Programme
- > **ESF** European Social Fund
- > **e.V.** Registered association (*eingetragener Verein*)
- > **FEAD** Fund for European aid to the most deprived
- > **GbR** Civil law partnership (*Gesellschaft bürgerlichen Rechts*)
- > **GDP** Gross domestic product

10 | List of acronyms

- > **GDW** Federal association of German housing and real estate companies (*Gesamtverband der Wohnungsunternehmen*)
- > **GEM** Global Entrepreneurship Monitor
- > **GenG** Cooperative act (*Genossenschaftsgesetz*)
- > **gGmbH** public benefit Limited Liability Company (*gemeinnützige GmbH*)
- > **KfW** Bank for reconstruction (*Kreditanstalt für Wiederaufbau*)
- > **NPO** Non-profit organisation
- > **PWV** The Paritätische (*Paritätischer Wohlfahrtsverband*)
- > **SGB** Social code (*Sozialgesetzbuch*)
- > **SME** small and medium enterprise
- > **VAG** Insurance supervision act (*Versicherungsaufsichtsgesetz*)
- > **VvaG** Mutual insurance society (*Versicherungsverein auf Gegenseitigkeit*)
- > **WfbM** Sheltered workshop (*Werkstatt für behinderte Menschen*)
- > **WISE** Work integration social enterprise
- > **WZB** Berlin Social Science Center (*Wissenschaftszentrum Berlin*)
- > **ZdK** Central association of German consumer cooperatives (*Zentralverband Deutscher Konsumgenossenschaften*)
- > **ZGV** SME Groups Germany (*ZGV - Der Mittelstandsverbund*)
- > **ZiviZ** Civil Society in Numbers (*Zivilgesellschaft in Zahlen*)

List of illustrations and tables

- > **Illustration 1.** *Mission Leben* (welfare organisation)
- > **Illustration 2.** Historical lines of the cooperative idea
- > **Illustration 3.** *Bremer Heimstiftung* (operational foundation)
- > **Illustration 4.** *Nordberliner Werkgemeinschaft gGmbH* (work integration social enterprise)
- > **Illustration 5.** BUND (traditional association)
- > **Illustration 6.** *Cooperative Mensch* (formerly *Spastikerhilfe eG Berlin*)
- > **Illustration 7.** *Dialogmuseum Frankfurt gGmbH* (new-style social enterprise)
- > **Illustration 8.** Latest developments with regard to concessionary contract allocation versus public tenders
- > **Illustration 9.** Social Reporting Standard (SRS)

- > **Table 1.** Comparing the characteristics of the German “family” of social enterprises with the EU definition
- > **Table 2.** Available legal company forms
- > **Table 3.** Tax exemptions for companies with public-benefit status
- > **Table 4.** First estimate of the number of social enterprises in Germany (as of March 2013) based on the CSI study
- > **Table 5.** ZiviZ data on social enterprise
- > **Table 6.** Estimate of the number of German social enterprises based on ZiviZ data
- > **Table 7.** Earnings of social enterprises, based on ZiviZ data
- > **Table 8.** Number of employees in social enterprises, based on ZiviZ data
- > **Table 9.** Share of part-time employment in social enterprises, based on ZiviZ data
- > **Table 10.** Mapping the universe of social enterprise in Germany
- > **Table 11.** Third sector’s income sources, considered as indicative for “social enterprises”
- > **Table 12.** Size breakdown of social enterprises by estimated revenue
- > **Table 13.** Prevalence of employment types in social enterprise types
- > **Table 14.** Overview of key actors

Executive summary

Background

This report provides an overview of the roots, concepts, legal evolution, numbers and ecosystem of social enterprises in Germany and the challenges they face. The first section describes a number of roots and drivers that have paved the way for the current understanding and landscape of social enterprise in Germany. These roots include the associative and welfare tradition, the cooperative movement, the tradition of mutuals, the philanthropic tradition, the roots of work integration social enterprises (both inclusive and integrative), community activism as well as the business and the policy background.

Concept legal evolution and fiscal framework

The second section sketches out the legal evolution of social enterprise, identifying eight distinct types, though some fit the EU operational definition better than others: traditional associations, welfare organisations, operational foundations, certain types of cooperatives, mutual, work integration social enterprises (as enterprises for the inclusion of persons with disabilities and work integration social enterprises for long-term unemployed persons), new-style social enterprises and neighbourhood and community enterprises. This section additionally outlines the legal and fiscal framework for social enterprise.

Mapping

The third section, which focuses on “measuring” social enterprises, first explains the characteristics of all the models identified. It then presents figures on activities, sources of income, employment and governance. The second half of this section aims to estimate the number of social enterprises of each organisational type, and assesses to which degree each type fits the operational definition.

Ecosystem

The fourth section reviews the main actors in the social enterprise ecosystem in Germany and its various regions. The authors devote significant attention to policy schemes and support structures accessible and tailored to social enterprises at the national, regional and local levels, while recognising the role of EU funds. An in depth discussion of the main features of the public procurement framework then follows. This section further presents networks and federations of different types, and identifies relevant bodies for

research, education and skills development. Another subsection addresses the demand for and supply of finance to social enterprises.

Perspectives

Lastly, this closing section discusses some of the debates, constraints and opportunities around social enterprise in Germany. It explores several trends and challenges in the present and future.

The appendices include the EU operational definition of social enterprise, a methodological note, a data availability report, a list of references for further exploration of the social enterprise landscape in Germany and the list of stakeholders who exchanged their knowledge and experience for this report.




1

BACKGROUND SOCIAL ENTERPRISE ROOTS AND DRIVERS

German social enterprises have strong roots in several traditions: from associative and philanthropic action, to cooperative, mutual and other group-self-help motives or work integration, communitarian and business-driven traditions. Rather than seen as one social economy they self-identify according to their specific roots and continued to do so with the development of the democratic welfare state after World War II. As subsidiary delivery agents of social services at local levels they receive preference over public suppliers, are granted self-administration and frequently given a tax relevant status “for the common good”.

Federal government began to recognize the topic in the 2000s and has remained relatively passive. Still no definition, no concerted strategy or any general action plan stand clear in dedication to social enterprises. While the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) focuses on improving the supply of local welfare services, the Ministry of Labour and Social Affairs (BMAS) emphasizes the organisational and enterprising elements of social enterprise and their innovative potential. The latest drive to popularize social enterprise comes from the Federal Ministry of Economic Affairs and Energy (BMWi) with the latest coalition treaty (2018) placing social enterprise in a section titled “Competitive Economy”. Recently established and well-publicized social enterprises continue to substantiate the latest official statements, rather than relating to the entirety of phenomena which could obtain a social enterprise status under the mapping definition.



16 | Background

In Germany, as in most continental European countries, a strong notion persists that the economy and economic interactions should serve higher goals.¹ Economic and entrepreneurial activities in general serve 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. For past social movements, it appeared self-evident to resolve issues of unmet needs and/or unresolved conflicts directly. This manifested by engaging in non-traditional (one might call them "innovative") economic activities, rather than merely mandating politics to regulate existing for-profit market actors or to redistribute profits generated by the traditional economy. Both unconventional economic activities as well as the tendency towards self-help have dwindled with the "German Economic Miracle" and the evolution of the welfare state. Yet, there still exist many social-mission-driven economic actors, together with a strong cohort of church-operated social establishments. Together, they have formed a colourful "social economy" conglomerate over the last 150 years, though the term itself cycled into use in Germany only about 15 years ago and is still somewhat disputed (see Hubrich *et al.* 2012).

The organisations examined relate to what is called the "third sector", or the "third system", as distinct from the "first sector" (private for-profit businesses) and from the "second sector" (public bodies and enterprises of the public economy). The notion of a third sector in Germany goes beyond the social economy, as it also comprises organisations without any entrepreneurial activities (see Bode and Evers 2004).

Non-profit organisations supplying social services have existed from medieval times in Germany. Many of these acted in an entrepreneurial way (e.g. cloisters). Securing citizens' welfare first became a political issue as a consequence of industrialisation, urbanisation and agrarian reforms. German industrialisation began in Prussia as recently as the second half of the 19th century, and soon spread to what later became a unified Germany. Chancellor Bismarck introduced the first true social security system with mandatory social insurance, supplying direct financial support to those in need and funding a wide range of in-kind benefits and subsidised services. A large number of non-governmental charities, some of which outdate the beginnings of the welfare state, have and continue to mandate and deliver many such services.

As detailed in the following, many associations and corporations developed on account of growing welfare legislation in the 1920s. However, the Nazi leadership nearly destroyed the entire "third sector" by imposing control by Nazi party structures upon them (*Gleichschaltung*).

(1) For instance, Article 151 of the constitution of Bavaria states, "all economic activities serve the public good".

After World War II, the German pre-war welfare system—based on non-state actors providing social services and on the state organising the financing of the services through social security—was re-installed and further institutionalised. Esping-Andersen's categorizes the German welfare system as a conservative-corporatist type (Esping-Andersen 1990). It is governed by three basic principles (Priller-Zimmer 2001):

- > subsidiarity: activities led by social economy providers generally receive priority over state intervention. This 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 enforcement of the results of such negotiations, and bipartite dialogue in other areas of labour law), industrial policy, education, health and social services; and
- > “public benefit” (*Gemeinnützigkeit*) (see section 2.3), a specifically German and Austrian understanding of the not-for-profit economy. The organisations registered under this status form a major part of the social economy and aim at offering cheaper products or services to the population, also integrating, for example, social considerations into pricing.

One part of the social economy that deserves mention was formed by social businesses operated by trade unions (*Gemeinwirtschaft*). Unfortunately, scandals and bankruptcies in the 1970s severely damaged these organisations (e.g. Neue Heimat), and have since disappeared.

1.1. Traditions and trends—historic predecessors and modern types

Social enterprises currently active in Germany anchor themselves in several historic precursors. These include strong associative roots as well as cooperative, mutual and other group-self-help traditions, all seen as the backbone of the “social economy” in much of Western and Southern Europe; support by philanthropic actors through donations and “social investment”; and inputs from more business-oriented actors. Very few public authorities own social enterprises, apart from a few cases of “de-officialised”, local-government-owned, entrepreneurial social service providers (e.g. childcare management companies in larger cities such as Frankfurt), which this exercise neglected. All other roots have led to specific social enterprise models, which so far tend to emphasise their differences rather than their communalities. A roughly chronological presentation of these roots’ emergence will better illuminate their nature, role, and historical drive in Germany.

1.1.1. Associative tradition, charitable roots and the development of the welfare state

Germany exhibits a very strong tradition of voluntary associations. Historically, associations for the common good, rather than for the exclusive benefit of members, were set up during the era of renaissance and reformation (BAGFW 1988). Many of the early associations stemmed from local churches: they maintained Christian values and managed hospitals, soup kitchens and the like from religious orders. Others developed the same activities from a secular origin such as a guild. These kinds of associations were accepted as private law entities by the beginning of the 19th century (Hartwig 1997). During the same time frame, voluntary associations filled many of the gaps left by the end of feudal structures, including gaps in the management of natural resources (e.g. forest owners associations, drainage and irrigation associations). The original model of many 20th-century associations was that of a leisure association (Kirchheim 2013).

Mission Leben (illustration 1) provides an example of a welfare organisation focusing on a broad range of key social-service areas (youth, disability, old age) in combination with its original urge to promote entrepreneurial action within the organisation and to promote the emergence of spin-offs independent from the organisation.

Illustration 1. *Mission Leben (welfare organisation)*

Mission Leben, one of the welfare organisations with a very long tradition, provides a typical example of the German welfare landscape. The organisation has a wide geographic scope of operations, while not operating itself at the national level.

It is part of protestant Diaconia (Evangelisches Werk für Diakonie und Entwicklung e.V.), which, together with catholic Caritas, clearly operate as the two largest conglomerates of welfare organisations in Germany.

The history of Mission Leben dates back to 1849 and it became a registered association in 1899. The initiative of court chaplains like Ferdinand Bender jump-started the provision of social work. Mission Leben gGmbH, the main service-providing entity, is held by foundation Innere Mission Darmstadt and operates nine separate enterprises. Its main stakeholders include: (1) the holding foundation; (2) employees; (3) users; (4) the church; and (5) the municipalities in which it operates. Mission Leben claims a rather wide range of target groups, including older people, people with disabilities, socially disadvantaged people, youth, and young refugees. It holds 1,835 employees (1,092 of which are part-time employees) and 520 volunteers who work in Hesse and Rhineland-Palatine across 19 locations in more than 40 organisational establishments.

Mission Leben covers a broad range of activities that are typical of traditional welfare organisations, including: housing and care for older people; care for people with disabilities; life counselling for people in difficult circumstances; child and youth welfare services; and—a recent addition—help for underage, unaccompanied refugees.

In 2016, the organisation experienced a turnover of 77.9 million EUR, composed of 54 million EUR from old-age care, 9 million EUR from disability-linked services, five million EUR from services to disadvantaged people, 7 million EUR from services to children and youth, and 3 million EUR from running an academy. This resulted in earnings of 389,000 EUR, which must be totally reinvested, due to an asset lock. Mission Leben's revenues derive mainly from contracting in quasi-markets regulated by the German Social Code (SGB). The organisation's areas of interest and influence in policy lean toward social affairs, though it also runs a few spin-off activities under the "INTRA Lab" initiative, fostering entrepreneurial action among employees. It additionally runs an academy for training professionals in social services.

<https://www.mission-leben.de/>

History: <https://www.mission-leben.de/mission-leben-darmstadt/ueber-mission-leben/>

Annual report: https://www.mission-leben.de/fileadmin/redaktion/public/pdf/Jahresberichte/ML_Jahresbericht_2016_scr.pdf

Slowly, federative structures for associations beyond the local level developed through a process matching the building of the German nation state and the later development of the welfare state. The first umbrella organisations developed around the middle of the 19th century. With the codification of the welfare state in the Weimar republic, the federal structure became important for liaising with the federal government, so most of the welfare organisations organised into one of the six federal organisations.

These federated groups of voluntary associations, together with hundreds of non-affiliated local associations, have increasingly acted as the service delivery agents of the growing welfare state started by Bismarck's social reforms (see above). Due to the significant growth in the diversity of the services needed and expenditure by the welfare state, the relative importance of the social economy at large—and of associative-type social enterprises in particular—has grown tremendously. But while the number of associations increased, the average number of members continues to shrink (Stiftung für Zukunftsfragen 2014). While 62% of all Germans were members of at least one association in 1990, this was only true for 44% of the population in 2013.

Municipalities and districts largely contract out social services. While concessionary contract allocation still acts as the norm at this level, providers now largely receive paid fees rather than compensation for costs, placing them in real economic risk (Zimmer *et al.* 2014). Most have developed professional management structures or delegated economic functions to the next higher level. Professional non-profit organisation (NPO) managers see their organisations as social enterprises (*Sozialunternehmen*). They faced increasing competition as non-traditional providers became accepted as potential suppliers in the 1970s and 1980s (self-help movement) and again in the 1990s, on account of the *Neue Steuerungsmodell*, a reform of local administrative processes and structures based on the Dutch Tilburg model (Boeßenecker 2014). In the 2000s, most services (e.g. employment authorities, work integration services) became subject to tendering (e.g. Brinkmann 2010, BAGWF 2011, Boeßenecker 2014). The same applied to many youth recreation projects and programmes, traditionally paid for by local authorities (Boeßenecker 2014). A great deal of controversy also erupted over the possible instillation of a compulsory-needs planning in regard to integration services for people with disabilities: this might have implicated that their work integration services would be financed on the basis of tenders, too (BAGFW 2011).

1.1.2. Cooperative traditions

The structural upheaval that occurred during the second half of 19th century, caused by rapid industrialisation and urbanisation, resulted in dire distress among small farmers, craftspeople and small retailers. The cooperative idea seemed a functional antidote (see illustration 2 for historical lines of the cooperative development). Supported by effective public relations activities, cooperative numbers grew massively during

the second half of the 19th and early 20th century. The model of credit and savings cooperatives soon dominated. In rural areas this mostly paired with agricultural purchasing and marketing activities, while in urban areas separate cooperatives usually handled credit and purchasing. The urban housing shortage, coupled with the public benefit status (*Gemeinnützigkeit*) granted to cooperatives by several municipalities and regional governments, exempted them from most taxes and also brought about a strong movement a little later in the 19th and early 20th century. The number of consumer cooperatives remained rather small, and worker cooperatives have always been a marginal phenomenon. Generally speaking the German cooperative history has always oriented itself towards small and medium enterprises and farmers rather than towards the working class (Engelhardt 1990).

Illustration 2. Historical lines of the cooperative idea

The liberation of serfs and the introduction of freedom of trade, which both happened between 1805 and 1850, are considered the root causes for the inception of cooperative ideas in Germany (Brendel 2018). Three names link most prominently to this tradition.

Hermann Schultze-Delitzsch, a politician and organiser of cooperatives for craftsmen (from 1849 onwards) focused on the joint purchasing of material and credit unions/ credit and savings cooperative banks (*Vorschußvereine*) in urban areas.²

Friedrich Wilhelm Raiffeisen was the founder of the first rural aid association (1847), the first rural cooperative bank (1864), a rural central bank (1872), as well as purchasing cooperatives for farmers.³

Adolph Kolping, a Catholic priest, united existing associations of apprentices and established new ones, together with health insurance and savings cooperatives, thus supporting the apprentices' professional training and later their own business establishments. The Kolping Society (and the "Kolpingwerk" conglomerate) remains to this date the largest social association in Germany.⁴

For historical reasons, German cooperatives have focused intently on adopting commercially viable business models and achieving autonomy from the state since their inception. In order to achieve this, all cooperative sectors established strong

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

(3) Source: ibid

(4) Source: Kolping International website: http://www.kolping.net/en/who_we_are/adolph_kolping.html

structures for institutional collaboration, such as procurement networks (*Verbände*), central cooperative banks, and federations (*Verbände*) at regional and national levels. In order to protect cooperative members from possible abuse, the federations assumed auditing responsibilities and the state obliged all cooperatives to become member of at least one auditing federation.

1.1.3. Mutual traditions

A rich tradition lives in mutual accident, fire, health and (originally) burial insurance in Germany (*Versicherungsvereine auf Gegenseitigkeit*, or VvaG). In the early stages of the welfare state, many of these mutual insurances were commissioned into the compulsory health insurance scheme introduced by the state. As non-profit entities, they used surplus predominantly to improve their services for the members and practiced asset locks (Wendt 2013). Many of them have since amalgamated several times, bought in other types of insurance firms, formed a myriad of daughter firms, and grown enormously. Mutuals covered about 22% of the entire insurance market in Germany in 2003 (Wendt 2013). They frequently offer household insurance, health insurance augmenting the basic legal insurance, car insurance as well as private pension funds.

1.1.4. Philanthropic traditions

Robust philanthropy frequently resulted in the formation of foundations and trusts. In the 19th century, many industrialist families started foundations or gave their money to humanist, religious or art initiatives. One example is the Städelsche Stiftung (1815) in Frankfurt, which until today owns the largest Art Collection and Museum in town. The Bremer Heimstiftung, presented in illustration 3 below, is exemplary for the many operational foundations in Germany. These organisations often have a long history, though their operations tend to have a narrow focus. The typical fields of activity include health provision and care for the elderly.

Many foundations survived the 20th century, but few new ones blossomed in this century until the late 1990s. Since then, politically supported initiatives for more civic engagement (change of trust law and public benefit law in 2000) have catalysed the creation of many thousands of new foundations. Although they mostly fund third-party endeavours, several of them are operative foundations. One example of a funding foundation also supporting social enterprise is the BMW & Heribert Quandt Stiftung. It assists a famous German social enterprise called Rock your Life as well as professional voluntarism (i.e. pro bono).

Illustration 3. *Bremer Heimstiftung* (operational foundation)

After founding *Bremer Heimstiftung* in 1953 with the initiation of the Senate of Bremen, mayor Wilhelm Kaisen decided to transfer all the care homes of Bremen State to a foundation. Initially equipped with about 10,000 € endowment, the foundation ran five facilities, providing services to 500 inhabitants. Its main stakeholders include local communities and municipalities. Mainly older people comprise the target groups, though their families and the neighbourhoods in which they live also receive care. *Bremer Heimstiftung* has about 2,200 employees (no information is available about part-/full-time shares and number of volunteers) and 30 locations in Bremen, with around 3,000 inhabitants living in the facilities.

In terms of its activities, *Bremer Heimstiftung* focuses on housing for elderly people, with an additional interest in providing community-development services. This means that living facilities for older people combine with kindergartens, community centres or other community infrastructures. In addition to housing, the foundation also runs long-term in-patient care facilities and out-patient care for senior citizens.

Detailed accounts of revenues are only available for the out-patient-care provider “Bremer Trust outpatient senior care” (*Ambulante Pflege Bremer Heimstiftung gGmbH*); they show that this organisation mainly relies on fees for services provided to individuals. The 2017 turnover was 7.6 million EUR, with earnings of 19,500 EUR. All earnings must be reinvested, due to an asset lock. The overall annual turnover of Bremer Heimstiftung in 2017 was 75 million EUR and its foundation endowment accrues to 8 million EUR. The organisation directs its areas of interest and influence in policy toward senior citizens and care policies.

Homepage (including history): <https://www.bremer-heimstiftung.de/kundencentrum/ueber-uns/>

Structure (Trägerkonzeption): https://www.bremer-heimstiftung.de/fileadmin/uploads/Flyer/Traegerkonzeption_03-2016.pdf

Annual report: https://www.bremer-heimstiftung.de/fileadmin/uploads/Infos-eigene/aP_Jahresabschluss.pdf

From the late 1990s onwards, a new kind of foundation also emerged, namely the civil society foundation (*Bürgerstiftung*). The Federal government as well as several governments of Federal States (*Landesregierungen*) popularised this form of foundation for civic engagement. Rather than relying on the funds of a few big benefactors, this kind of trust can collect small donations from many people. *Bürgerstiftungen* gear

themselves towards establishing a sustainable financial base for local development initiatives, thus their objectives usually reach wider than those of traditional foundations (Tietze 2013). Again, they can merely donate funds to other organisations, they can develop their own projects or they can do both.

1.1.5. Work inclusion and work integration social enterprises (WISEs)

In Germany, two different types of social enterprise offer work inclusion opportunities and integration into labour markets to different groups of people. One type serves only people with disabilities (in Germany, the term “work inclusion” is now preferred for this group of people); the other one is much broader and specialises in offering work opportunities to long-term unemployed people.

Inclusion of persons with disabilities into work

Germany’s tradition of sheltered work for people with severe physical or mental handicaps or irreversible psychological problems began in the late 19th century. The National Socialist Regime drastically interrupted it in the 1930s, and post-World War II developments of regulating work integration for the handicapped did not begin in earnest until the passing of the Social Welfare Act (*Bundessozialhilfegesetz*) in 1961 (BAGWfbM 2013). It offered the financial basis for sheltered workshops (*Werkstätten für behinderte Menschen*, or WfbM). Partially as a result of an increasingly popular assisted-living movement, more legislation passed in 1974 to regulate the eligibility criteria and employment conditions for the then 50,000 heavily impaired workers hired in sheltered workshops. Another type of work integration social enterprise, employing a mix of persons with and without disabilities, became more and more popular. First called “integration enterprises” (*Integrationsbetriebe*), they have changed to call themselves “inclusion enterprises” (*Inklusive Unternehmen*), and have received legal acknowledgement since 2001. *Nordberliner Werkgemeinschaft gGmbH* (illustration 4) offers a typical case of WISE with a focus on people with disabilities.

Illustration 4. *Nordberliner Werkgemeinschaft gGmbH* (work integration social enterprise)

Nordberliner Werkgemeinschaft gGmbH operates under the legal form of a limited liability company and is acknowledged as a public-benefit organisation.

A group of organisations combined their experience in the area of support to people with disabilities to found *Nordberliner Werkgemeinschaft gGmbH* in 1992. These entities included the Heidehof Stiftung GmbH Stuttgart, the DRK Landesverband Berliner Rotes Kreuz e.V., the Lebenshilfe für Menschen mit geistiger Behinderung e.V., and the Lebenshilfe gemeinnützige Gesellschaft mit beschränkter Haftung.

The organisation offers a variety of services and products to its customers, including the digitalisation of documents, secure destruction of files, a letter-shop, woodworks, basic services for the electronic industries, and laundry and gardening services. It simultaneously offers its clients job opportunities, coaching, education and other support to develop their skills and support them on their way into the labour market. A special division focuses on providing support for the advancement of clients to help them lead their lives as independently as possible.

Nordberliner Werkgemeinschaft gGmbH has a workforce of 174 fully abled employees and 693 employees with disabilities. Four workers are employed within the frame of a Voluntary Year of Social Service.

In 2016, *Nordberliner Werkgemeinschaft gGmbH* received a total income of 17.8 million EUR, of which 56% came from public procurement, 18% came from public subsidies, and 26% came from the income of products and services sold.

<https://nbw.de/>

Since 1980, sheltered workshops have functioned as places of work integration rather than employment, with the state paying a part of the salaries as well as integration services and the employees remaining safe from dismissal. The number of employees grew dramatically. In 1996, revisions in the Welfare Act forced workshops to reduce their services. Yet this did not stop the increase in the number of jobs created (see sections 2.1 and 3.2). Both the numbers of inclusive enterprises and the jobs they provide also grew significantly in the same time.

Several laws and regulations strictly regulate the activities and financial basis of both kinds of WISE for persons with disabilities, and both kinds of organisations are registered with state authorities. The latest discussions on the implementation of the International Convention on the Rights of Persons with Disabilities will likely force more change on this system in the near future (Göler von Ravensburg and Zillinger 2017).

Work integration for long-term unemployed persons

German work integration social enterprises (WISEs) (*Beschäftigungs- und Qualifizierungsgesellschaften*) aim to bring unemployed people into work by investing the corresponding educational and unemployment benefits as well as other (regional) structural funds into creating new job opportunities (Evers *et al.* 2004). The first WISEs established in the 1980s for workers otherwise considered “redundant” in the context of technological change in traditional industries, e.g. in Nordrhein-Westfalen. Other workers with the aid of trade unions (Holst 1990) and local authorities (Holst 1990) helped initiate them. Later on, consortia of local authorities, welfare associations, churches and educational institutions took over, particularly where WISEs aimed at re-qualifying their workers (Holst 1990).

As a consequence of the unification process between East and West Germany, about 260 WISEs were established in East Germany (FES 1991). They aimed to create new job opportunities as well as new enterprises, mobilising the existing skills basis of the former employees. Therefore, training in new technological and entrepreneurial skills became one of their main activities.

1.1.6. From community action to neighbourhood and community enterprises

In the 1970s and 1980s, many so-called “alternative initiatives” launched forward (see Birkhölzer and Lorenz 2001 on grassroots initiatives). Largely environmentally and ecologically oriented, they soon formed a movement, which eventually created the political party *Die Grünen/Bündnis 90*. In entrepreneurial terms, these movements helped form many self-governing enterprises, active in a broad array of activities and initiatives including: left-wing book shops, the first cooperative-type producers of solar cells, organic grocery stores, the first car-sharing arrangement organisations, and initiatives similar to Local Exchange Trading Systems (*Tauschringe* or LETS). Many of these never formalised, and thus automatically received treatment as civil law partnerships (*Gesellschaft bürgerlichen Rechts*, or GbR). Others grew and became limited liability companies. Many tried to form cooperatives but usually shied away from this option, due to compulsory membership in the federations and relatively costly auditing.

Although alternative initiatives frequently launched with an explicit emphasis on entrepreneurship, and a focus on transformative orientation, emancipation and participation—all characteristics that might well have qualified them as social enterprises then—today most of them have digressed into more or less “traditional” private enterprises. The ones that still continue to embody transformative ideas do not appear to tend toward identifying with the term social enterprise, although they frequently show significant market sales and economic autonomy.

1.1.7. Business background

The advent of social enterprises of a social-business kind and of corporate social responsibility (CSR) activities in the Anglo-Saxon understanding of the term dates to the early 2000s. Initial systematic assessments of CSR practises began in 2005 (see Bertelsmann Stiftung 2015). One of the milestones in the promotion of social entrepreneurship was the foundation of Ashoka Germany in 2003.⁵ Inspired by information gained through and new possibilities on the Internet, individual and groups of social entrepreneurs created enterprise models relying on innovation, niche markets and local or regional needs unmet by existing actors. Typical examples entail non-formal or complementary education, up-cycling, fair trade and community services. These initiatives place a great deal of emphasis on the business approach as a means to cater to underserved communities, such as migrants and people with certain handicaps.⁶ They frequently rely on public relations in order to obtain the needed additional non-market, private-sector funding.

These kinds of innovative start-ups frequently find support from organisations such as Ashoka, Grameen Creative Labs, Genesis, Phineo, Schwab Foundation, BonVenture, enorm, Social Lab or Social Hub.

1.2. Public policy influence

The role of the federal government in developing the concept of social enterprise only began in the 2000s and remained relatively passive in the early years (phase 1). Social enterprise got first—though negligible—attention in the report on the “Future of Civic Engagement” commissioned by the German Bundestag in 2002 (Deutscher Bundestag 2002). Some years later, the task force on civic engagement dismissed the concept as irrelevant in the German context (Deutscher Bundestag 2009, Krlev 2013).

Circa 2010, interest in social enterprise increased, yet still no concerted strategy or action plan dedicated itself to social enterprises. The desk research and interviews conducted for the present country case study in 2014 suggest that 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) felt somewhat undecided as to how and to which “depth” it should define social enterprises, given the conceptual difficulties and political sensitivities in this area. However, in the national (social) engagement strategy (*Nationale Engagementstrategie der Bundesregierung*) adopted by the federal government, the BMFSFJ put forward a first definition centering

(5) See <https://www.ashoka.org/de/country/germany-0>

(6) Some organisations call themselves *Soziale Unternehmen* instead of *Sozialunternehmen*.

on social entrepreneurs as individuals and expressing a positive view towards social entrepreneurship (Bundesregierung 2010).

The BMFSFJ, thereby, has and continues to focus on improving the supply of those social/welfare services, which the social code obliges lower level state agencies to make available to those qualifying. The Ministry of Labour and Social Affairs (BMAS) adopted a similar definition (Bundesministerium für Arbeit und Soziales 2010) but developed a stronger focus on the organisational and enterprising elements of social enterprise and on innovation. Behind the definitions of both ministries, one notes a narrow approach to outlining the sector at that time: the BMAS expressly referred to the work of the Mercator research consortium (a series of independent surveys by consortium members) (see Jansen *et al.* 2013), estimating the number of social enterprises to only a few hundred. This included all WISEs and “new-style” initiatives (referring to innovative start-ups often recognised by social enterprise promoters like Ashoka and Schwab Foundation), and the report bluntly stated that there existed a much larger group of persons in the civic engagement movement who could make their way into social entrepreneurship.⁷

Until today, the level of direct government support has remained low and the priorities of the different ministries seem to differ. The second “civic engagement strategy” commissioned by BMFSJ only briefly mentions social enterprise, and although it recommends fostering innovation of social entrepreneurial actions, it remains vague on how to execute this (Klie *et al.* 2016). The latest drive to popularise social enterprise came from the Federal Ministry of Economic Affairs and Energy (BMWi). An issue of its periodical publication for entrepreneurs, “GründerZeiten”, dedicated to social entrepreneurship in 2016 currently stands as the most important document, as regards the definition of the concept (Bundesministerium für Wirtschaft und Energie [BMWi] 2016). It highlights (1) the pursuit of a social mission, (2) enterprising for sustainability, and (3) a contribution to social cohesion as important defining elements of social entrepreneurship. It also distinguishes social enterprise from CSR and “corporate citizenship”, yet mentions that the borders between these concepts are permeable. This falls in line with new conceptions covering sustainable enterprising, for instance (Ahrend 2016). The document further highlights that social enterprises draw on a diverse set of funding sources, including grants from foundations and donations. Thus, despite its market-orientation, the Ministry’s understanding of social enterprise remains influenced by its proximity to the social economy approach. It clearly underpins the fact that manifold legal forms employed by social enterprises exist.

The current political understanding of social enterprise thus seems to reach more broadly. One could say that BMFSJ and BMAS have begun to embrace the idea of “social entrepreneurship” in the social service fields, emphasising the element of innovation, while BMWi embraces the concept of social enterprises in private-sector

(7) Response of the Federal Government (Deutscher Bundestag, Drucksache 17/10926).


markets. The latest coalition treaty (2018), the base on which the current government operates, only briefly states that social entrepreneurship should be supported (margin numbers 1881-1883). Interestingly, this sentence stands in a section titled “Competitive Economy”, which reflects the fact that official statements regarding social enterprise are frequently based on recently established social enterprises (present in the media) rather than relating to the entirety of the phenomenon which could be considered as social enterprise under the EU operational definition (see section 2).

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

While comparing conceptions currently discussed in Germany with the EU operational definition, several aspects become obvious: None of the German conceptions emphasize the EU's dimensions of governance and inclusive ownership. Germany emphasizes the topic of innovation a great deal whereas the EU operational definition does not; the application of asset or profit locks enshrines itself so deeply in the German "public benefit status" that it rarely features in German discussions while most social enterprises aspire to it for tax reasons; the legal form of social enterprise seems less important, yet in practice the associative form with its asset lock and democratic control still prevails.

Applying the given operational definition, seven distinct types of formal German organisations can be considered social enterprises. Civic associations, frequently affiliated to or developed into complex welfare organisations, behave increasingly entrepreneurially. A distinct part of all socially aimed foundations behave entrepreneurially and are democratically controlled. Socially aimed cooperatives form an increasing part of all coops, while most work integration and work inclusion enterprises along with many new style social businesses can identify as social enterprises although one must pose the question of democratic control. The real governance patterns of German mutuals have frequently ceased their democratic processes, and their social aims no longer seem to be interpreted as commercial risks in regard to what they insure their members against.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition put forward by the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers, and stakeholders affected by its business activity.

This definition organises social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to the governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can combine in different ways, and their balanced combination matters most when identifying the boundaries of the social enterprise.

Building upon this definition, the Commission identified a set of operational criteria during the previous stages of the Mapping Study (European Commission 2015; 2016) and refined them again for the purpose of the current phase of the study (see Appendix 1 for further details).

2.1.2. Application of the EU operational definition of social enterprise in Germany

This section gives a brief overview of eight different types of organisations that might be considered as social enterprises in the German context.⁸ By order of relevance, this section describes each type by pointing out their major characteristics and attempting to answer whether or not they conform to the given operational definition.

No specific legislation on social enterprise exists in Germany. As a consequence, neither does any legal delimitation of the phenomenon, and public agencies still diverge in their understanding of the concept. At this stage, the involved ministries do not seem bothered by the absence of an ultimate or official definition of the term (BMW 2016).

(8) The proposed typology rests upon the work of Birkhölzer (2004).

Academic views and the public discourse among stakeholders appear equally diverse. When comparing the academic and policy conceptions currently under discussion in Germany with the EU definition, two things become particularly obvious:

- > none of the German conceptions emphasise the EU's dimensions of governance and inclusive ownership,
- > the topic of innovation finds great emphasis in German conceptions though not in the EU concept. Therefore, this report explicitly excludes this aspect of innovation when discussing the different organisational types and will only add a reflective comment on this aspect at the end of this chapter.

Furthermore, the application of asset or profit locks does not feature highly in Germany, neither in the political nor in the academic discourse. This comes as a little surprising in the light of the strong German public-benefit tradition and the actual practice of many social enterprises not to distribute profits (Spiess-Knafl *et al.* 2013).⁹

The traditions outlined above have produced relatively distinct types of formal organisations with a social aim, more or less pronounced entrepreneurial activity and certain governance patterns. The following represents an attempt to further describe these types by applying the EU conception of social enterprise in the form of this project's operational definition.

Due to the strong associative tradition and to the way in which the welfare state has developed, the German social enterprise landscape encompasses many civic associations. For a long time, the idea prevailed that any formal organisation aiming at the public benefit had to concretize as an association and this "*idée fixe*" remains quite powerful in the minds of the public.¹⁰ Later on, though, economic activities carried out by associations became widely accepted. A good example of this is the German Automobile Club (ADAC), which hived off entrepreneurial activities into limited liability companies and later on, from the 1970s onwards, into shareholding companies. Most foundations were not entrepreneurial until fairly recently, and they also have their own legal form. This leaves a fairly recent wave of entrepreneurial social start-ups, which frequently assume a capital-oriented legal form from the beginning.

(9) As confirmed in the response of the Federal Government from 5 October 2012 to the parliamentary question about support to social enterprises (Deutscher Bundestag, Drucksache 17/10926). Available at <http://dipbt.bundestag.de/doc/btd/17/109/1710926.pdf>

(10) This idea is based on the interpretation of the legislation governing associations that the association is an ideal rather than an entrepreneurial entity from which both, members and the public are to benefit in a non-material way. Separate cooperative legislation ruled materially inspired associations (see part 2.2). "Public benefit status" can be granted to all legal forms but in post World War II practice few cooperatives, limited companies or other company form applied for this status while almost all associations did. Even housing cooperatives which held public benefit status into the 1990s have largely opted out of this status since then.

34 | Concept, legal evolution and fiscal framework

The idea that public benefit more or less automatically entails organising as a civic association has slowly changed over the last decade or so. But in terms of a current picture of the landscape, it is still very powerful. Lately, parts of the welfare delivery services were gleaned from associations into separate enterprise entities using legal forms other than that of registered association. This trend has to do with the limitations presented by associative law in regard to control and tax issues (see section 2.2).

Any attempt to characterise the German social enterprise landscape therefore must take note of the great number of associations. About 100,000 of these participate in the welfare delivery system, where the pressure on them to behave “entrepreneurially” increases continuously, despite legal and fiscal limits to this evolution. This report thus discusses the characteristics of both the bulk of associations and those specific to the subset of welfare organisations. The groups of welfare organisations WISEs also tend to overlap. In the latter group, the report differentiates workshops/enterprises for the inclusion of persons with disabilities from integrative enterprises for the long-term unemployed. Parts of both types of WISEs, particularly of the latter, are wholly or partly owned by welfare organisations/associations. Neighbourhood or community enterprises usually started informally, and became associations later on—a status that many still occupy because their relatively insignificant entrepreneurial activity does not warrant more bureaucratic effort.

Traditional associations

Originally, the legal status of registered associations (*eingetragener Verein*, or e.V.) intended to form an association not for gain, but for ideal activities, such as: the common practicing of traditions, leisure activities, sports and social objectives (hence the name “ideal association” (*ideelle Vereinigung*)). This is why, originally, they were not required to keep a full set of accounts, but only had to provide an income statement for their annual report to members and registering authorities.

As time passed, however, the limits of their entrepreneurial activities extended. Many associations seem to own and run enterprises and argue that they need these to fulfil the changing needs of their members. Sports clubs provide one such example, which, with increasing frequency, also maintain fitness centres. In order to avoid legal problems, a number of associations introduce a virtual split into their books, with an “ideal” part corresponding to their mission (for which they can accept tax-free donations and run a *Zweckbetrieb*)¹¹ and an “entrepreneurial” part (called *Wirtschaftsbetrieb*, i.e. an abstract special-purpose enterprise within an association), so that they contain only

(11) This is quite a complex distinction existing in German tax law. An association can have two different types of economic activities: one kind that is directly connected to its mission and is considered ideal and another one which is considered to be the revenue-generating ones. Imagine an organisation for political education runs a seminar house that is used for its own seminars (this is the “Zweckbetrieb”) but also sells its facilities for family reunions or other groups (this is the “Wirtschaftsbetrieb”).

one legal person but two taxation entities. The special-purpose enterprise runs either to serve the material needs of the members (such as having a meal and a drink together after sport) or to gain additional income for their overall objectives.

Associations can solely address the needs of their members, work for the common benefit, pursue philanthropic or ideological objectives and even address third parties in need (Müller-Jentsch 2008). Leisure-type associations primarily meet their members' needs, and they hardly ever run an enterprise to do so; if they do, such enterprise is considered as an "ideal-purpose enterprise," and does not offer services to non-members. Consequently, most cannot be considered as social enterprises in the sense of this mapping exercise. Ideological associations, too, hardly ever maintain an enterprise. Common-benefit and philanthropic associations may well run enterprises and, due to their legal form, can also accommodate inclusive governance regimes. Thus, some of them can be counted as social enterprises though it is difficult to establish numbers. Associations addressing the needs of third parties qualify as social enterprises, provided they maintain an enterprise. The traditional association BUND, created in 1975 in Bavaria, represents this kind of social enterprise in Germany as illustration 5 below shows.

Illustration 5. BUND (traditional association)

BUND (*Bund für Umwelt und Naturschutz Deutschland*) is a prototypical registered association (e.V.), i.e. a member-based organisation with public-benefit status. Members joining the organisation feel motivated by non-financial interests, and the association employs only a few professional employees. It mainly bases its revenues on fees and donations, with occasional project grants—a fairly typical resource mix of an e.V. outside of classical social-service delivery.

In line with the social enterprise definition of this project, the organisation acts in the interest of its members as well as that of the broader public. Its local subdivision is typical of e.V.'s operation at the national level. Although environmental issues receive a lot of attention in Germany, they do not technically constitute part of social welfare, hence why this association—exemplarily for many others—qualifies as a social enterprise but not a welfare organisation.

A group of environmental activists, including first chief executive Bodo Manstein, established BUND in 1975 in Bavaria. Now located in Berlin, a separate BUND Foundation (Stiftung) began in 2005 to support large-scale projects with a focus on environmental preservation, partly through land acquisition.

36 | Concept, legal evolution and fiscal framework

BUND contains around 584,000 members (61,000 in youth organisations). Its main stakeholders consist of: (1) other environmental organisations and NGOs, including Friends of the Earth, Attac, etc.; (2) the environment; (3) the state (which must consult BUND when its interventions may affect the natural environment); and (4) environmentally conscious citizens. BUND employs 93 employees, 54 of which work part-time, and 30,000 volunteers. It performs national activities with a separate association in each of the 16 German federal states, through 2,000 municipal or youth organisations.

Its fields of activity span across lobbying, demonstrations, campaigning, and providing information services for citizens (for instance through its ToxFox app, which informs about chemicals in cosmetics).

In 2016, BUND had revenues of around 25 million EUR, almost exclusively from member fees, donations or project allowances. Its turnover was 181,000 EUR, and other earnings amounted to 2.8 million EUR (see annual report 2016). BUND's policy areas of interest and influence comprise of renewable energy (anti-nuclear power), environmental protection, agricultural production, and health.

<https://www.bund.net/>

History "Die Geschichte des BUND e.V.": https://www.bund.net/fileadmin/user_upload_bund/migrated/publications/150721_bund_ueber_uns_40_jahre_bund_geschichte_des_bund.pdf

Employment: <https://www.bund.net/ueber-uns/transparenz/initiative-transparente-zivilgesellschaft/>

Annual report: https://www.bund.net/fileadmin/user_upload_bund/publikationen/bund/bund_jahresbericht_2016.pdf

Most associations register as public-benefit organisations (*Gemeinnützigkeit*) (see section 2.3 for explanation). They may then name themselves *gemeinnütziger Verein* (g.e.V.). They receive this status on the basis of their statutes and of their activity, which must fall under those listed as public benefit activities. Whether they actually pursue this public-benefit intention is rather hard to control, and authorities usually do not even try. The declared social mission or public-benefit aim nevertheless constitutes a major criterion in this mapping exercise. For this purpose, we can consider all philanthropic, charitable and third-party-oriented associations with an enterprise as social enterprises.

All associations must allocate their profits to the pursuit of their objectives, while public benefit associations (g.e.V.) are obliged to spend them explicitly on the "public benefit" objective they declare (which, in return, offers certain tax exemptions—see section

2.3). Automatically, these associations operate through democratic decision-making: members control the associations and, by law, they remain open to all who want to support their overall objectives.

Given their large numbers and the relatively lax controls placed on compliance to public-benefit requirements, this report finds it difficult to estimate how many e.V. also define as social enterprises. Both the enterprising and the public-benefit parts of the definition remain key in assessing whether an organisation qualifies as a social enterprise.

Welfare organisations

Today welfare organisations (*Wohlfahrtsorganisationen*) constitute the backbone of the German social economy. In 2012, the German national federation of welfare associations (*Bundesarbeitsgemeinschaft freier Wohlfahrtspflege*, or BAGfW), which brings together the largest part of the social economy, counted 105,295 member organisations and service agencies (mostly public benefit associations, companies or foundations), employing 1.67 million full and part-time employees (BAGfW 2012a). The share of public funding in these organisations' resources increased, reaching between 70 and 100% of costs (Institut der Deutschen Wirtschaft 2004). Welfare organisations can also undertake social activities that are not necessarily mandated by the state; for these, however, they must secure finance from other sources like market revenues or donations.

As long as they financed themselves exclusively through re-imburements for costs incurred, subsidies or institutional funding (like universities or other public bodies), welfare organisations acted as quasi-public service providers. This was the case right into the 1990s, and public funding today still constitutes the lion's share of welfare organisations' revenues. However, the majority of services and at least 70% of total social welfare expenditure, receive funding by way of regulated fees and on a quasi-market system (e.g. Institut der Deutschen Wirtschaft 2004, Brinkmann 2010). In the last few decades, most welfare organisations have introduced new commercial activities to generate additional income from private sources (out-of-pocket payment by clients, donations and other). This strategy to reach a more balanced mix of financing sources has become characteristic of nearly all types of social enterprises. Acting under public benefit legislation, welfare organisations must spend all of their earnings on fulfilling their social mission.

To keep their charitable and economic activities apart, and for taxation purposes, many welfare organisations also sponsor innovative spin-off projects. Some of them even become independent social enterprises, simply owned by the respective welfare federation; academics call this development "social intrapreneurship" (Schmitz-Scheuerle 2013). These enterprises benefit by starting up in a somewhat "sheltered" environment, integrating into a vivid network of establishments, receiving advice and

38 | Concept, legal evolution and fiscal framework

other services from the federations' central organisations and even enjoying solid access to funding through the member banks of the federations (e.g. the cooperative banks of the catholic or protestant federations, Caritas and Diakonie). Although it is true that most local welfare organisations do not act like social enterprises, stakeholders of the traditional third sector feel sure that a significant and growing number will transform into social enterprises. As such, they receive support from federations and centralised organisations that have clearly prioritised social entrepreneurship on their agenda.

These quasi-entrepreneurial welfare organisations enjoy a relatively solid competitive position as providers in the social services sector, although they face compromises in the rigidity of their public-benefit status (an unflinching general feature). This has led to some loss in market share to commercial service providers catering to more affluent clientele. Still, in 2007-2009, welfare federation establishments supplied 38.5 % of in-patient care, 55.1 % of nursing home places, 26% of rehabilitation and prevention services, 37.5% of hospitals, and 51.1% of kindergarten centers (Deutsche Bank Research 2010).

Overall, welfare organisations do not face drastic challenges. Germany weathered the financial crisis well and the expenditure of local governments on social welfare kept growing continuously, from 28 billion EUR in 2000 to about 65 billion EUR in 2016 (Deutscher Städtetag 2017b). Experts assessed this growth at 5.6% per year (Deutscher Städtebund 2017a), while the share of gross national product remained fairly stable at around 26-28% from 1995 to 2015, with the exception of 2009, where it briefly shot above 30% (Statis 2017). Cuts in welfare service spending were made over the last decade in some areas of non-obligatory welfare spending, and some welfare organisations had to reduce their expenses in such fields. Some cost pressure also comes from for-profit competitors that do not pay the relatively high wages negotiated in master contracts between employers and unions (*Flächentarifverträge*) and have so far also acted as the guiding standard for welfare organisations.

Welfare organisations act independently from the state; three of them have close ties to churches (Caritas, Diakonie and the *Zentralwohlfahrtsstelle der deutschen Juden*), with some consequences in regard to their entrepreneurial activities. The German Red Cross also affiliates with hierarchical international structures. The Arbeiterwohlfahrt ideologically links to the trade union movement. The Paritätische Wohlfahrtsverband—and its lower-level federations—on the other hand, functions as a member-based and member-controlled association. Many of these federations' member organisations lack a multi-stakeholder approach to governance, and the decision-making power lies in the hands of the sole proprietors.

Operational foundations

Germany enjoys a lively foundation sector; most foundations register as public-benefit foundations. In terms of numbers, most foundations merely fund other associations' activities or participate in their activities, and thus do not have autonomous enterprises. However, some of the older foundations and a smaller share of the new ones act as operational foundations. They do not use their income to hand out grants to others, but to run institutions of their own. Hospitals, foster care homes and schools fall among the typical examples.

These operational foundations share traits with social enterprises as we have defined them, particularly when active in the fields of social services and education. The governance structure in this case, however, provides the most problematic dimension. Existing boards govern the foundations in such a way that members become (at best) co-opted into the existing governance framework. Normally, beneficiaries do not get involved in the governing bodies.

Cooperatives

Cooperatives (*Genossenschaften*) have historically been established to fight poverty and social exclusion of certain vulnerable groups by engaging them in economic self-help. Many of them still proclaim their social aims as part of their identity, especially among the housing, trade and craft as well as consumer cooperatives. One distinguishes different types of cooperatives on the basis of their main activities: agricultural, credit and savings, housing, consumer and a few workers' cooperatives. An observer could regard affordable housing provision, affordable consumer goods, and even access to finance as social objectives by which members are being promoted. However, the character of many cooperatives has changed, and many primarily follow purely commercial aims; this is especially true of cooperative banks, retail and agricultural cooperatives, and even some of the larger housing cooperatives. On the other hand, the original social aims of the cooperatives movement have re-emerged recently. Some 150 new cooperatives were created yearly since 2006. Some 20-30% of them adhere to the original values of the cooperative movement. A subset of cooperatives fulfils all criteria in the operational definition, but only a small number of those refer to themselves as "social cooperatives" (following the Italian example). Illustration 6 describes the case of the cooperative *Spastikerhilfe eG Berlin*.

Illustration 6. *Cooperative Mensch* (formerly *Spastikerhilfe eG Berlin*)

Cooperative Mensch (formerly *Spastikerhilfe eG Berlin*) functions as a registered cooperative, established in 1990 as a daughter company of the *Spastikerhilfe* Association (*gemeinnütziger eingetragener Verein*, or e.V.). Parents who could not find child-care facilities for their handicapped children founded the association in 1958. As the children grew, their needs changed, and more and more activities and services became important; basic schooling services, school assistance, physio-, ergo- and other specialised therapies, home and out-patient care, housing and in-patient care, assisted living and a variety of leisure activities developed.

The members of the e.V. include the parents of the impaired persons, therapists and medical doctors; some of them also later became cooperative members. The cooperative began with a view to professionalize the enterprise structures and to facilitate decision-making while maintaining the organisation's control in the hands of the patients' relatives and the care personnel. Its statutes stipulate that 50 % of members should be clients' relatives, 25 % should be employees and 25 % should be representatives of other organisations and federations.

In 2017, *Spastikerhilfe eG* employed 636 able staff members and 39 disabled persons. Eleven persons performed their Voluntary Year of Social Service within the organisation, and another nine permanent volunteers came through the Federal Volunteer Service. Another 21 volunteers donated less, but regular, time.

The main fields of activity currently include integrative child care, a social paediatric centre, an outpatient department, numerous residential groups for children and youth and (separate) residential groups for adults, intensive (therapeutic, pedagogic) support to children with high assistance needs, a hostel for short-term accommodation (e.g. family relief), assisted living for adults (individuals, couples and self-catering groups) as well as occupational day care for adults.

Fees coming in through public procurement (85%) and on the basis of various Social Codes and other sources, all dominate the financial structure. The rest of income is derived from public subsidies (11%), health insurance procurement (3.5%), rental income (0.7%), private procurement (0.2%), donations and other subsidies (0.3%). In view of these figures, the cooperative unsurprisingly sees social policy as its main area of policy interest. The cooperative actively engages in various networks and counselling bodies developing concepts, discussing social policy and lobbying for their ideas with the Berlin Senate, social insurances and local government bodies.

This social cooperative is one of the few in Germany that has existed for a long time. Its entrepreneurial success indicates that services for handicapped people hold a great deal of potential as a social welfare service for development. This cooperative also practises a high level of transparency about its business data: it makes all its reports available on-line.

<https://www.cooperative-mensch.de>

More information: Göler von Ravensburg 2004, Göler von Ravensburg and Zillinger 2017.

Currently, about 600-700 social cooperatives fulfil the EU definition (Göler von Ravensburg 2018). Most of these establishments are fairly small, with the exception of certain secondary cooperatives formed by sheltered workshops, cooperatives started by social institutions and several older social housing cooperatives. In addition, about 200 equally small village or neighbourhood cooperatives fit the definition, as do many of the 850 new energy cooperatives (DGRV 2018), which organise equitable and affordable local energy systems based upon renewable energy sources.

Cooperatives usually allocate patronage return to their members in accordance with the members' turnover with the cooperative, but many of the social and neighbourhood cooperatives choose not to and also supply services to non-member beneficiary groups. Defining characteristics of all cooperatives involve self-governance and democratic decision-making procedures.

Cooperatives in Germany organise into a multi-layered system of federations. The top-level coordination committee (*Freier Ausschuss der deutschen Genossenschaftsverbände*) groups the national federation of housing cooperatives (part of the *GdW Bundesverband Deutscher Wohnungs- und Immobilienunternehmen*) along with the federation of German Cooperative and Raiffeisen Confederation (*Deutscher Genossenschafts- und Raiffeisenverband*, or DGRV), which itself is composed of (Aktive Bürgerschaft 2018):

- > four national federations: Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), Deutscher Raiffeisenverband (DRV), Der Mittelstandsverbund (ZGV), and Zentralverband Deutscher Konsumgenossenschaften (ZdK);
- > four regional associations and six special auditing federations, commissioned by the federal state with the auditing of cooperative and perform political representation at regional levels;
- > 22 national procurement centres and specialised institutions, e.g. the central DZ Bank, the retailers' buying groups EDEKA and REWE, the central organisation of the consumer cooperatives Zentralkonsum eG, etc.;
- > 34 specialised regional institutions.

In the sector statistics, only cooperatives that signal their social mission with a public-benefit status (or whose founders are public benefit organisations), qualify for classification as social cooperatives (Stappel 2017). When compared to the entire cooperative sector, they currently comprise about 15-20% of all institutions, even though their share of the total cooperative turnover and assets still remains quite small. In reality, the group of cooperatives qualifying as social enterprises under the operational definition reaches far wider than the group of cooperatives registered with public-benefit status, because financial authorities frequently see cooperatives as closed shops producing club goods for members only and thus do not even check their

42 | Concept, legal evolution and fiscal framework

statutes before denying them registration as public-benefit organisations. Moreover, the cooperative sector traditionally emphasised its entrepreneurial and autonomous role in the economy and has only recently accepted that, within the German economic system, they could hold a compatible role in the social economy.

Mutuals

In Germany, a mutual insurance association (*Versicherungsverein auf Gegenseitigkeit*, or VVaG) is a private insurance company based on the legal form of a registered association of members. Its legal base is identified in the fourth chapter of the second part of the German Insurance Control Law (*Versicherungsaufsichtsgesetz*, or VAG) as well as in §§ 15 - 53b VAG. Certain parts of the legislation on associations and of the cooperative law, the law on shareholding companies as well as commercial legislation, also apply. The members of mutuals are the insured persons. Most mutuals limit their business to their members.

Mutuals' internal governance structures are the same as those of any association: a general assembly of members, a board of directors and a supervisory board. Members thus bear the economic risk, and their membership fees, contributions and potential hang shots are due to cover any potential losses (§ 19, § 24 (3), § 501 VAG). In case the mutual achieves surplus, members can have a right to this surplus, depending on the liquidity situation.

In order to become a legal entity, any mutual needs to be approved by the insurance control authority (*Versicherungsaufsicht*). This gives the association the legal status of business in the meaning of the business law (*Handelsgesetzbuch*). This also means that its Board of Directors must adhere to the law on shareholding companies and ensure that requirements are met in terms of public accounting. The members of the board have to prove certain qualifications specified in business law. Simplified regulations do exist, however, for small mutuals who experience limited membership or which only insure specific risks (§ 53 VAG). Such associations are not obliged to meet the requirements of business law.

The Federation of the German Insurance Industry (Gesamtverband der deutschen Versicherungsindustrie e.V. 2017, Table 3) recorded 250 mutuals at the end of 2015. About half of them affiliate with a national federation called *Verband der Versicherungsvereine auf Gegenseitigkeit* (VV 2018). Another 60 act as members of a national working group of mutuals, the *Arbeitsgemeinschaft der Versicherungsvereine auf Gegenseitigkeit* (ARGE 2017a). Meanwhile, the official German register of companies only listed 87 mutuals at the end of 2016 (Bundesjustizamt 2017). One can account for the difference at least in part by the fact that small mutuals can also be non-registered associations (see above).

The number of mutuals shrank significantly from 1960 (846) to 2000 (287) (GdV 2017, Table 3). Since then, though, three strategies seem to have largely staunched the flow of “demutualisation”: (1) the high levels of owned assets accumulated from earned income; (2) the possibility of trading participation rights (*Genussrechte*); and (3) the creation of intermediate firms and subsidiaries in the form of shareholding companies. (ARGE 2017b). However, these three strategies cast doubts on the degree to which personal members can still influence decision making (even though corporate members might retain some power).

Can mutuals consider themselves as social enterprises under the EU definition? Their economic activities remain permanent and entrepreneurial and, by law, they contain a democratic governance structure. In practice, however, their governance has largely ceased to be democratic. Moreover, social aims no longer seem to motivate their entrepreneurial activities. They have become increasingly market-oriented, and commercial risks dominate what they insure their members against, even in the field of health insurance.

Work integration social enterprises

As outlined in 1.1.5, we can distinguish two different types of WISE in Germany: enterprises for the inclusion of persons with disabilities, and enterprises for the integration of low-qualified youth, long-term unemployed and persons with labour market disadvantages other than a legally recognised handicap. These two types of WISE still associate quite separately.

The Mercatorstudy team conducted the most up-to-date estimate of the total number of WISE in Germany in 2010. They identified 907 WISE in the data banks of the Federal Working Group for WISE (*Bundesarbeitsgemeinschaft Integrationsfirmen, today Bundesarbeitsgemeinschaft Inklusionsfirmen e.V.*, a non-confessional federation oriented towards persons with disabilities—see above), the Protestant Sector Federation for Work and Social Integration (*Evangelischer Fachverband für Arbeit und soziale Integration*) and the Catholic Federal Working Group “Integration through work” (*Katholische Bundesarbeitsgemeinschaft “Integration durch Arbeit”*) within the German Caritas Federation. Although the majority of WISEs reach to people with recognised disabilities, the records of these federations clearly show that persons with and without disabilities work together in some WISEs. On the basis of available data, one can make a fair guess as to the number of work integration social enterprises for persons who are not recognised as disabled but who are so heavily disadvantaged in regard to the labour market that they become long-term unemployed: there may well exist several hundred of such enterprises, many of them owned by not-for-profit entities (Bode *et al.* 2002).

Enterprises for the inclusion of persons with disabilities

In Germany, two kinds of enterprises aim for the inclusion of persons whose disabilities are so severe that they cannot be included into employment within the existing subsidised employment system: workshops for persons with disabilities (*Werkstatt für behinderte Menschen*, or WfbM) and inclusive enterprises (*Inklusionsunternehmen*). The workers with disabilities hired by these enterprises must fulfil the criteria given in § 215 SGB IX.¹² Workshops have existed for longer than inclusive enterprises; they employ only persons with severe disabilities, while inclusive enterprises employ a mix of between 30 and 50% persons with severe and the rest with light or no disabilities (bagif 2018b).

In terms of employment of persons with disabilities, workshops still provide more significant opportunities than inclusive enterprises. Although the number of workshops has remained fairly stable over the last 15 years (698 in 2016, 681 at the end of 2017; see BAGWfb 2017a), the number of jobs created registered a remarkable six-fold increase since 1974 (50,000 jobs in 1974), reaching 310,000 in 2017 (BAGWfbM 2017b), with an increase in total jobs (for persons with and without severe disabilities) from 15,140 in 2008 to 25,935 in 2016 (bagif 20018a).

Persons working in workshops act as employees in regard to social insurances but may not be fired. They earn (small) salaries, augmented by social welfare payments up to a certain “existential minimum”, if this cannot be covered by private resources. Minimum wages do not apply (BAGWfbM 2013). Large welfare associations, such as Paritätischer Wohlfahrtsverband (PWV), Arbeiterwohlfahrt (AWO), Lebenshilfe, Caritas, Diakonie, or the Anthroposophic Association Anthropoi, usually manage or affiliate with the workshops and represent their interests towards public agencies. Only the national BAGWfbM represents independent and municipally owned workshops. 93% of all registered workshops act as members of the *Bundesarbeitsgemeinschaft Werkstätten für behinderte Menschen e.V.* (BAGWfbM 2007a).

Employment conditions in inclusive enterprises fully comply with general labour law (bagif 2018b). Employees in inclusive enterprises have the same labour conditions as they would if employed in the first labour market. Almost all inclusive enterprises are members of the Federal Working Group of Inclusive Enterprises (*Bundesarbeitsgemeinschaft Inklusionsfirmen e.V.*, or bagif). Ownership usually lies with businesses or welfare associations; sometimes local authorities still partake as part-owners. Many inclusive enterprises also define as “new-type social enterprises,” as discussed below.

(12) SGB is the acronym for Social Codex (*Sozialgesetzbuch*) and it includes 12 books (from SGB I to SGB XII).

Both types of social enterprise “sell” their integration services to several public agencies and thus need to complete registration with the relevant financing bodies. Long-term work inclusion subsidies account for most of this kind of social enterprise’s revenues. Local authorities need to finance these subsidies on account of SGB III § 90 and related paragraphs. In workshops, sales of produce or services usually do not account for more than 10-30% of revenues (Göler von Ravensburg and Zillinger 2017; BAGWfbM 2017c).

The subsidised income of inclusive enterprises faces limits with the so-called *Ausgleichsabgabe*, a fee that market enterprises have to pay if they do not comply with the requirement to create employment for persons with disabilities (bagif 2017). The share of revenues gained through product sales thus scores higher in many inclusive enterprises than in sheltered workshops, although no reliable data are yet available.

Both types of social enterprise put forth a clear social dimension and govern themselves independently from the state, although they remain dependent on it for revenue generation. The latter applies to a much larger extent to workshops than to inclusive enterprises.

Inclusive enterprises tend to act more entrepreneurially than workshops, sharing many features with traditional enterprises (comparable to WISE elsewhere). Yet workshops also increasingly stress their entrepreneurial dimension. For the last twenty years they have maintained four regional marketing cooperatives (*Gesellschaften der Werkstätten für behinderte Menschen*, or GdW) to support their own integration into markets.

Overall, neither category achieves great employee participation in governance. Workshops must implement councils (*Werkstatträte*) with employee representation, but have not had the full rights of a work council to date (*Betriebsrat*). And inclusive enterprises may implement far less inclusive governance than the name suggests. Their management usually and exclusively represents the owner shareholders. Other inclusive efforts, though, have started to blossom. Workshops now form alliances with other companies to place more of their clientele into the general labour market. Inclusive enterprises cooperate with market-led enterprises in the development of inclusive governance, i.e. increasing employees’ autonomy and giving them a voice in the organisation.¹³

In any case, some competition seems to spark between workshops and inclusive enterprises as to their social impact. The BAGWfbM recently funded a study to establish the SROI of 26 member workshops (BAGWfbM 2014). And a vivid discussion persists as to their future for the implementation of the international convention on the rights of people with disabilities (e.g. Dahme and Wohlfahrt 2009, Link 2016;).

(13) See for example https://www.unternehmens-netzwerk-inklusion.de/fileadmin/user_upload/UN_I_Newsletter_01.pdf

Enterprises for persons with other permanent labour market disadvantages

The number of WISEs for persons with other permanent labour market disadvantages has decreased in the course of the last 20 years, since the legal and financial framework changed rapidly in the mid-2000s. While the state originally covered up to 40% of salary costs, this share has now reduced dramatically. Revenues can no longer be invested into permanent job creation. WISE must now use them to improve the employability of individuals in temporary employment (Bode 2011).

All earnings must be spent on reaching the social objectives, but public compensation (which also faces permanent reduction and entails bureaucratic hurdles) generally does not cover the costs. For some time, it was not permitted to mix in revenues from other sources. Many companies had to close, and this prevented new ones from emerging.

WISE in Germany does not really function independently from the state. Although public money nowadays comes from contract fees (awarded by means of tenders), the “productivity gap” is deep in the sense that sales only cover material production costs except in highly specialised entrepreneurial models. Furthermore, only some WISEs function based on membership; charities, local authorities, or hybrids of public and private institutions own and control many of them. With their numbers declining after their peak time in Eastern Germany, a public debate recently started to convert WISEs into independent social enterprises.

In the tertiary education sector, one observes newly founded enterprises which embrace and drive work-integration practises. Cross-sector alliances to promote the work integration of disadvantaged target groups have started a new trend (Sandford *et al.* 2016).

New-style social enterprises

In the 1990s and in the new millennium, a group of “new-style” social enterprises emerged. By promoting and raising awareness of a new concept of *social enterprise*, the Ashoka organisation and Schwab Foundation exercised heavy influence in this new movement thanks to their globally active platforms and support networks. They strive to solve social problems through commercial activities. In the German context, they usually imply a special emphasis on “social innovation.”. These enterprises respond 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, and special pedagogic approaches or care solutions not included the social code (which cannot as yet, receive funding through traditional social security or private insurance systems).

Illustration 7. *Dialogmuseum Frankfurt gGmbH* (new-style social enterprise)

Dialogmuseum Frankfurt gGmbH is a limited liability company with public-benefit status. Andreas Heinecke and Klara Kletzka founded it in 2005. In order to counteract stereotypes, which generate fears, separation, isolation and prejudices between people with and without disabilities, Heinecke had started several precursor projects in the late 1990s. Observing that people with disabilities rarely ever communicate about their disabilities and the impact they have on their lives with unimpaired people, he became convinced that someone's disability was more of a problem for the people around him/her than for the disabled person him/herself. He founded Dialogmuseum Frankfurt to change this by offering everybody the opportunity to experience at least parts of the sensual world of blind people. The Dialogmuseum sets up everyday situations in complete darkness. Blind and severely visually impaired people guide groups of seeing people through different environments to get a glimpse of the difficulties encountered by blind people; at the same time, non-impaired persons learn to appreciate the special competencies that visually impaired people have developed. This strategy allows the Dialogmuseum not only to offer an unusual experience to non-impaired visitors and to enhance their understanding and appreciation of blind people; at the same time, it also offers singularly qualified jobs for its blind employees. The Dialogmuseum now also rents out its premises for special events, and offers training courses for companies.

Dialogmuseum Frankfurt has a workforce of 26 FTEs, nine temporary staff, and three volunteers (figures for 2016). It works in the Frankfurt area, but similar places exist in other towns all over the world, with many of them connected by a franchise system. The resource mix of the Dialogmuseum includes income from ticket sales and earnings from events and workshops (70%), donations and grants (14%), as well as integration service fees paid by the Employment authority for the employment of people with disabilities (16%).

Dialogmuseum illustrates a paradigmatic case of a new-type social enterprise, and exhibits a case of pronounced social entrepreneurship. It also constitutes an unconventional case of WISE. It serves as a model for many other social enterprises based on the idea that people should not be perceived as handicapped or disabled but as gifted with special competencies which others find useful and can appreciate.

<https://dialogmuseum.de>

Figures for 2016: [https://dialogmuseum.de/wp-content/uploads/2017/07/Anforderungen -DialogMuseum 2017.pdf](https://dialogmuseum.de/wp-content/uploads/2017/07/Anforderungen-DialogMuseum-2017.pdf)

These new-style social enterprises can operate under many legal forms: as associations, cooperatives, or public benefit companies (usually gGmbH). They frequently have public-benefit status; consequently, they may not distribute profits or accumulate assets beyond certain limits. Current policy and stakeholder understanding regards them as agile organisations, usually establishing themselves in niche markets and developing innovative solutions, and thus blowing winds of change into the social sector (Schmitz and Scheuerle 2013). As for most other forms of social enterprise, market revenues rarely comprise the sole source of income (and rarely even the major source of income): they need to secure other sources, such as grant funding and donations including volunteer work, in order to carry out their mission (Glänzel *et al.* 2013). Inclusivity may form part of the governance structure, but evidence indicates that one dominant stakeholder group directs several of these projects, undermining participation (Mair *et al.* 2015).

Neighbourhood and community enterprises

Most community action groups from the 1980s have either ceased to exist or have turned into commercial entities. Examples of such evolution include bookshops, car sharing and organic groceries, which in part turned into commercial chains. They have largely lost their social mission. The few remaining neighbourhood and community enterprises (*Nachbarschafts- und Gemeinwesenbetriebe*, or “neighbourhood enterprises”, *Stadtteilbetriebe*) strive toward work integration and support a local circular economy. Hence, they have a *de facto* social mission. Some socio-cultural centres continue to offer concerts, theatre, etc. and include young people into their endeavours. Depending on the public funding (grants) available, most act in a relatively entrepreneurial way, many remaining small or informal. However, the scope of this report finds it impossible to estimate their numbers, since they exist under various legal forms, have no federations and are not part of any particular movement that would count them.

Application of operational definition: determining the boundaries

One can apply the various dimensions of social enterprise in the EU-level operational definition to the German landscape: economic activity; primary social aim; and inclusive governance. A more thorough analysis of the social enterprise models presented above reveals that some of them generally comply with the criteria characterising each dimension, though others do not meet all of them.

Table 1 summarises the compliance of each type of social enterprise with the operational criteria, giving additional information where necessary on why conformity is considered limited for some criteria. The table provides selected elements of the operational definition of this project and checks the organisational types presented earlier against these elements. Instead of discussing each type in turn, the table highlights where the various types deviate from the definition.

When considering income generation, traditional associations tend to struggle to acquire substantial *earned income*, given their intended purpose. Indeed, in order to pursue economic activities, they typically need an auxiliary entity, called “special purpose company” (*Zweckbetrieb*), or even an outright “commercial activities’ section” (*Wirtschaftsbetrieb*).

Compliance with the “organisational autonomy” criteria varies. While all types of social enterprise can in principle function *autonomously*, this report reveals various cases of strong external influence; for instance, founders can dominate operational foundations, and welfare organisations may intertwine with the interests of the affiliated churches. WISEs also function under substantial state influence.

As far as the use of *paid workers* is concerned, two strongly contrasting groups exist: with primarily volunteer-based organisations on one side (traditional associations and neighbourhood enterprises) and professional-based organisations on the other (virtually all integration enterprises and most cooperatives). Welfare organisations and foundations somehow take a “middle ground” in this regard, with a substantial amount of professional staff combined with a significant volunteer contribution. New-style social enterprises “stray” between these different categories: they can be fully professionalised but also heavily volunteer-based.

Cooperatives, operational foundations and traditional associations do not all have an explicit *social aim*. Cooperatives may pursue primarily economic interests, and operational foundations can pursue activities in fields not typically regarded as “social”, while traditional associations restrict their purposes to fulfilling their members’ preferences without any relevance to a wider target group.

The question of the *non-distribution* of profits ties primarily to the public-benefit status. Only if the organisation has received such status does this ensure the non-distribution of profits. New-style enterprises operating under “commercial” legal forms, in particular, might not face this constraint.

As mentioned, traditional associations and cooperatives enact a *participatory and member-based* governance by default, while the other organisational types do not typically embody participatory governance structures and processes. Although not entirely ruled out, these governance methods need to be implemented intentionally and do not form part of the fabric of these other organisations.

The authors have noted that the EU’s social enterprise definition hardly highlights innovation. Since it composes a key element in the German discussion of social enterprise, it merits at least a short remark in relation to the types of social enterprise discussed. The distribution as regards *innovation* falls similar to that of participation: All organisational types can in principle be innovative, but only new-style social enterprises exhibit this trait with great certainty. Observers perceive gradual decrease

in innovativeness from WISEs (which quite often entail some innovation), slowly transforming to more traditional enterprises for integrating persons with disabilities. The other types of social enterprise lie somewhere in between, and the degree of innovativeness can also vary, within a type, from organisation to organisation.

Table 1. Comparing characteristics of the German “family” of social enterprises with the EU operational definition¹⁴

Definitional categories	Entrepreneurial/economic dimension		
	Income generation	Organisational autonomy	Use of paid workers
Traditional associations	Only some; may run special-purpose companies within turnover limits (<i>Zweckbetrieb</i>) (see page 20)	Yes	Mostly volunteer work
Welfare organisations	Yes in most cases, service provision on a quasi-market	Yes. Close ties to churches or other networks, with varying intensity on different levels	Yes, with significant volunteering
“Operational” foundations	Applies to asset management and many projects	Foundations become legally autonomous from founders; In practice, founders can significantly influence in personal trusts while still active ¹⁵	Both paid workers and volunteers
Cooperatives	Yes, trading income	Yes	Mostly professional work, except in very small ones
Mutuals	Yes, trading income	Yes	Yes
Workshops for persons with disabilities and enterprises for the inclusion of persons with disabilities	Yes	Yes for some; others depend on welfare organisations	Yes (subsidised)
Other work-integration social enterprises	Yes	Generally not independent; many owned by municipalities or welfare organisations	Yes (subsidised)
New-style social enterprises	Yes	Yes	Mixed, volunteer work usually significant and even dominant
Neighbourhood and community enterprises	Yes	Not necessarily: may include municipalities among members	Mostly volunteer work

(14) Updated from the 2014 mapping report with the dimensions of the operational definition used in 2018 (see Appendix 1), based on the indicators that are most relevant for Germany.

(15) Eg. Kögel 2014.

Definitional categories	Social dimension (social aim)	Inclusive governance/ownership dimension (social means)		Innovation ¹⁶
		Social aim and products	Non-distribution constraint	
Traditional associations	Various. Not a statutory requirement. Can have public-benefit status	Yes. If given public-benefit status, there exists an asset lock. Associations must specify successor in statutes	Yes	Partly
Welfare organisations	Yes	Yes (public-benefit status)	Usually not participatory	Partly, becoming more important.
“Operational” foundations	Yes for most but not all. Not a statutory requirement	Yes	Usually not participatory	Partly
Cooperatives	All “social cooperatives”, <i>Dorfläden</i> along with many energy, cultural, and housing cooperatives. (Historically all cooperatives had a social aim)	Generally yes, especially for those with a primary social aim	Yes	Partly, particularly in fields with new participatory character (e.g. in energy generation) or if essential for success (e.g. social care coops)
Mutuals ¹⁷	Rarely. Usually supplementary health insurance, increasingly commercial	No constraint on the distribution of profits, or only to a small extent	Yes	
Workshops for persons with disabilities and enterprises for the inclusion of persons with disabilities	Yes	Yes	Not in workshops sometimes in inclusive enterprises, particularly when membership-based	Not very much in workshops, somewhat more so in inclusive enterprises
Other work-integration social enterprises	Yes	Yes	May be participatory	Many formed on account of innovative business ideas
New-style social enterprises	Yes	Not necessarily; depends on legal form	Not necessarily participatory	Yes
Neighbourhood and community enterprises	Yes	Yes	Yes: membership-based organisations, may include municipalities among members	Partly

(16) Innovation is not part of the operational definition of the project. Since it plays a big role in the academic discourse on social enterprise and against the German country background in particular, the authors tested it as an additional dimension.

(17) Because mutuals are not numerous and they no longer fulfill the social and governance criteria applicable to SE (see the subsection “Mutuals”), these will not be considered further.

2.2. Legal evolution

No specific legislation on social entrepreneurship exists in Germany, not even a formal definition, and no plans seem ready to introduce such acts in the near future.

Social enterprises have a relatively wide choice of legal forms under which to operate. Many registered as associations (*eingetragener Verein, or e.V.*) before launching their entrepreneurial activities. Simple to organise, this structure requires high participation in governance and low bureaucratic effort required in terms of accounting and financial results: it only needs an income and expenditure statement. However, as a consequence, this legal form does not offer good transparency when the organisation becomes economically active. Also, economic activity must not exceed a certain low-income level (*Geringfügigkeitsschwelle*). Even though transgressions hardly ever lead registering courts to challenge the legal status of associations, the financial authorities ask for balance sheets and proper profit and loss accounting beyond this threshold. At that point, the association may decide to change the legal form or to start separate entities using a different legal form.

Depending on their suitability, social enterprises can make use of one of the company forms listed in table 2.

Table 2. Available legal company forms

Legal form	Original German name and abbrev.
Registered association	Eingetragener Verein, e.V.
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
Mutuals	Versicherungsverein auf Gegenseitigkeit
Foundation	Stiftung

A significant share of social enterprises, especially welfare organisations, adopted the form of registered limited liability company. These either have to, or tend to, operate under a public-benefit status (*Gemeinnützigkeitsstatus*, see section 2.3). All legal organisational forms can combine with the public-benefit status. Public-benefit

companies may use and can be then identified by a “g” in front of the abbreviation of their legal form (for example, “gGmbH” refers to a public-benefit limited company).

Major reform of the public-benefit legislation in 2013 transpired, often referred to as the “law to strengthen civic engagement”. The amendments have been so extensive and detailed that this report highlights only a few (for a more complete overview, see IWW Institut 2013). The major changes relate to the following points: Organisations have more flexibility as to when to spend their revenues (the deadline for doing so has been extended by a year; AO § 55 Abs. 1 Nr. 5). A legal procedure now applies when organisations aspire to acquire public-benefit status (AO § 60a). Limited liability companies that have acquired public-benefit status can officially use the acronym “gGmbH” (GmbH Gesetz § 4); this was previously prohibited to avoid giving the impression that this was a separate legal form.

Some of these aspects manifested as a reaction to difficulties lamented by stakeholders, but they have not fully resolved the dilemma faced by social enterprises that are simultaneously enterprising and pursuing a social purpose.

It is very important to keep in mind that the abovementioned regulations do not connect to a special legal form but to the public-benefit status. Enterprises willing to retain this status have to be re-accredited every third year by the revenue office. Accreditation depends not on their legal form but on the nature of the activity, that they ideally work for the public benefit and follow certain rules.

A major revision of the German Cooperatives Act (*Genossenschaftsgesetz*, or GenG) in 2006 widened the catalogue of possible legal objectives of cooperatives, from a set of objectives limited to the promotion of economic interests of enterprises and households to a list of potential goals including social and cultural interests (GenG, § 1). This allowed the creation of new-style cooperatives with an explicit social or cultural mission and delivered a strong signal, going beyond the positive (secondary) effects that the cooperative movement had claimed for itself for some time, such as the maintenance of small- and medium-type-enterprise structures in trade, crafts and agriculture. With the revision, the act explicitly acknowledges cooperatives with an explicit social or cultural mission (*Sozialgenossenschaften*, *Kulturgenossenschaften*), and these can be incorporated. Statistics show that socially-oriented cooperatives now either focus on non-market-oriented self-help or solidarity activities by relying heavily on volunteer work, or behave more entrepreneurially by establishing themselves in market niches not sufficiently serviced by traditional actors (see e.g. village shops in depopulated rural areas). The term “social cooperative”, although frequently used in literature, cannot be found in the German cooperative act and has not become a category in regular and official cooperative statistics as yet. Neither has any German cooperative federation

provided a definition of the term so far. Cooperatives can also apply for and receive public-benefit status.

German social enterprises frequently share a typical trait: they often operate with a combination of several legal forms and organisational entities at the same time. As such, they benefit more fully from the enterprising activities that company legal forms allow and from the fiscal benefits linked to the public-benefit status. These two types of advantages sometimes “clash” when combined within a single legal organisational entity.

2.3. Fiscal framework

Benefits for social enterprises not granted to conventional enterprises: the public-benefit status

A significant share of all social enterprises operates under public-benefit status. This status recognises organisations that have a public-benefit mission and strict limits on profit distribution (regardless of governance criteria) (Krlev 2013). The public-benefit status is regulated in German tax law (*Abgabenordnung*, or AO, in its version of 2007, §§ 51-68). Public-benefit objectives define as follows: selfless, charitable or religious (benevolent) support to the public at large or to certain target groups (AO 2007, § 51 and §§53 to 55). A wide catalogue of public-benefit objectives follows, which includes: *inter alia* supporting science, religion, health, child and youth welfare, education, ecology, welfare, sports, culture and work with persons with disabilities, but also any activity supporting democracy or civic engagement (AO 2007, § 52). Public-benefit organisations are not allowed to build up assets from income earned, only from donations. And apart from severely restricted purposes (AO 2007, § 62), they must spend all surplus generated by their activities within a period of two years (AO 2007, § 55 Absatz 1 Nummer 5 Satz 3).

Tax exemptions for companies with public-benefit status

The status of public-benefit organisation allows organisations to collect tax-deductible donations from donors, which serves as a great tax privilege. In addition, public-benefit organisations do not pay any corporate income tax or local business tax on their “ideal” activities,¹⁸ nor on the economic activities necessary to support their social mission. They can charge reduced rates of value added tax and pay at such reduced rates as well. As mentioned, this status can be awarded to organisations with various legal forms.

(18) See footnote 14 included in section 2.1.

Table 3. Tax exemptions for companies with public-benefit status

Types of economic activities	Ideal activities		Economic activities	
	Ideal activities	Administration of assets	Ideal enterprise	Commercial enterprise
Regulation	§§ 51ff AO	§ 14 AO	§§ 65 to 68 AO	§ 14 AO
Examples	Donations Subsidies Membership fees	Rentals Interest on commercial papers or bank deposits	Senior citizens home Training courses Information papers	Merchandising Bistro Bazar
Corporate income tax	Tax-free	Tax-free	Tax-free	25%
Local business tax	Tax-free	Tax-free	Tax-free	Locally determined rates
VAT	Tax-free	If applicable, 7% (reduced value added tax)	If applicable, 7% (reduced VAT)	19% (regular VAT)

Source: Authors, updated from Villain 2006.

When relating tax exemption information to types of social enterprise, one sees that almost all workshops and inclusive enterprises pay little to no sales tax. For instance, when organised as limited liability companies (*Gesellschaft mit beschränkter Haftung*, or GmbH) and having acquired public-benefit status, they only pay and receive 7% sales tax; when supplying public agencies, there is no sales tax. Companies ordering from them can deduct the sums paid for the services or goods purchased from their dues for not employing (enough) persons with disabilities (*Ausgleichsabgabe*).

Reduced rates for VAT

Organisations/SEs with the public-benefit status can use a reduced VAT rate of 7%, instead of the normal rate of 19%.

Only one special regulation exists for WISEs, which can use the reduced VAT for selling goods. Whether the same regulation stays valid for services is contested.

Other benefits for social enterprises by exemptions to other indirect taxes

No other exemptions exist when it comes to indirect taxes.

Benefits for social enterprises by exemption from paying indirect labour costs

Social enterprises do not benefit from any exemption from paying indirect labour costs. If they have employees, they must follow all regulations.

Fiscal benefits granted to private donors for donations made to the social enterprise

All organisations with a public-benefit status can accept donations from natural persons or legal entities. Natural persons may deduct the total of the donations per year when declaring their income. The maximum deductible amounts to 20% of the income per year.

Legal entities may deduct the total of the donations per year from their declared income. The maximum deductible amounts to 20% of the total income or 0.4% of the total turnover plus the amount of salaries per year.


3

MAPPING

As outlined in the previous sections the landscape of German social enterprises spans wide, and a clear identification is hard to come by. Such an effort needs the combination of various relevant data sources from third sector and entrepreneurial sources as well as a relevant and reliable interpretative approach.

All fields of activity containing a social service component are populated by social enterprises, though the report cannot delve further into teasing apart this category. But social enterprises also occur in other fields, such as energy production and banking. In terms of revenues, market-based income ranks significantly, in particular for cooperatives and foundations. However, associations in particular along with many welfare organisations rely heavily on service fees on public quasi-markets as well as—to a lesser degree—on public and private grants. As regards labour, part-time and flexible labour comprise the largest share across all legal forms.

The most difficult task at hand comes with the approximating the number of social enterprises in Germany. Depending on definitional criteria (e.g. whether one applies a narrower or a broader understanding of the term social enterprise), the number of social enterprises ranges from around 2,000 to over 70,000. It is therefore imperative to understand the basis for such estimates.



3.1. Measuring social enterprises

No database in Germany could reflect the EU definition of social enterprise, and only a few authoritative databases compile information on the activities, labour statistics, and regional differences of the different typologies of social enterprise. While federations keep track of cooperatives, workshops for persons with disabilities, inclusive enterprises and many associations, other entities like operational foundations, certain types of associations, work integration social enterprises and neighbourhood and community initiatives are not federated and thus data are not available. Furthermore, some organisations are federated in both sector-based and regional federations. So even federations' statistics (e.g. Bundesverband Deutscher Stiftungen 2014, Stappel 2017, BAGWfbM 2017a, bagif 2018a,) can only paint part of the picture. What is more, it seems impossible at this stage to “filter” data about social enterprises from the general statistics on associations, welfare organisations or even foundations or cooperatives.

That said, the authors' estimates draw on the following statistical resources and are complemented by estimates in academic research papers:

- > Bundesjustizamt (2017) Zusammenstellung der Geschäftsübersichten der Amtsgerichte für die Jahre 1995 bis 2016;
- > Deutscher Genossenschafts- und Raiffeisenverband (DGRV) figures;
- > DZ Bank (*Deutsche Zentral-Genossenschaftsbank*);
- > Statistics of the association of enterprises for persons with disabilities (BAGWfbM);
- > Statistics about foundations based on a regular survey by the Federal Association of German Foundations (*Bundesverband Deutscher Stiftungen*);
- > Statistics of the Federal Association of Non-statutory Welfare (*Bundesarbeitsgemeinschaft der freien Wohlfahrtspflege*, BAGWF);
- > Mercator Forschungsnetzwerk Social Entrepreneurship;
- > Global Entrepreneurship Monitor (GEM) Report on Social Entrepreneurship;
- > WZB investigation “*Organisationen heute - zwischen eigenen Ansprüchen und ökonomischen Herausforderungen*”;
- > The Theoretical, Empirical and Policy Foundations for Building Social Innovation in Europe (TEPSIE);
- > Zivilgesellschaft in Zahlen (Civil Society in Numbers), Survey of the Stifterverband, the follow-up survey of the Johns Hopkins Comparative Nonprofit Sector Project from 1995.

While the CSI survey compared all relevant surveys conducted until then, ZIVIZ generated new data in 2017 and interpreted it as relating to the number of social enterprises in Germany to date. In the CSI survey, the authors define social enterprise by three criteria: i) priority of social and ecological aims and orientation toward the common good; ii) innovation; and iii) earned income. Although innovation does not play central in the EU operational definition of social enterprise, two of the three characteristics of social enterprise as defined at EU-level find ground in the CSI study. CSI estimates concerned all the social enterprises identified, differentiating between the more innovative and the less innovative initiatives, so the CSI data captured most of what the EU operational definition considers as a social enterprise (see table 4).

Table 4. First provisional estimates of the number of social enterprises in Germany (as of March 2013) based on the CSI study

Category	Highly innovative	Non/less innovative
Strongly market-income-based initiatives (including those operating in quasi-markets)	Approximately 1,000-1,500	Approximately 40,000 to 70,000 ¹⁹ (social economy and social enterprises in the broader sense)
Initiatives with none or low reliance on market income	1,500-2,500	No social enterprise

Source: Scheuerle *et al.* 2013.

(19) CSI estimate, upper limit:

- 106,000 organisations (data from the study by Fritsch *et al.* [2011]: organisation with charitable statute and at least 1 person subject to social insurance contribution or with at least 17,500 EUR of taxable income;
- minus 25,000 parishes (own research on congregations in Germany);
- minus 10,000 grant-making foundations (directory of German Foundations).

CSI estimate, lower limit:

- about 9,000 gGmbHs / gUGs;
- + 8,000 cooperatives (due to their participatory governance structure, also usually associated with the social economy);
- + 3,000 operative or support foundations (data from WZB study “Organisation Today” and directory of German foundations);
- + unknown number of additional social enterprises operating under various legal forms but without public-benefit status (GmbH, GbR, etc.). It is not unusual that a GmbH with a social aim is owned by a registered association or a foundation with public benefit status. They can be seen as social enterprises in disguise;
- 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.

These figures show a tremendously wide range of values in estimating the number of social enterprises in Germany.

The methodological choices made to “filter out” the relevant organisations had to be reported in Appendix 2 (“Methodological notes”). Due to country specificities linked to the legal form, public-benefit status, etc. outlined before, authors also made some other assumptions that—although objective—can always be challenged. Appendix 2 details these assumptions and choices so readers are encouraged to consult it in order to accurately interpret the estimates.

The authors departed from the general structure of the ZiviZ data—in relation to the supposed overall number of civil society organisations (displayed in table 5).

Table 5. ZiviZ data on social enterprise

Legal form	Entire population (estimate)		(Cleared) Approached sample		Eventual survey sample	
	Count	%	Count	%	Count	%
e.V.	603,886	95%	52,563	80%	5,081	10%
Foundations	17,274	2.7%	8,283	12%	824	10%
gGmbH	11,440	2.3%	4,340	6%	311	7%
Cooperatives	7,931	1%	1,277	2%	111	9%
Others					7	
All organisations	640,531	100%	66,463	100%	6,334	10%

Source: Description of the ZiviZ data as found in ZiviZ (2017: 53), augmented by cooperative data from DZ Bank (2017).

Taking weighted figures from the ZiviZ sample above, the authors applied certain exclusion and inclusion criteria to define that populations of organisations which meet—to a greater or smaller extent—the criteria of the operational definition used for this report. On the basis of the share of each type of social enterprise in the original ZiviZ sample, the authors estimated the number of social enterprises in the general population. Eventually, they arrived at a sample of 888 social enterprises, to be selected from within the ZiviZ data (which originally referred to 6,334 organisations). The distribution of this reduced sample across legal types is shown in table 6.

Table 6. Estimate of the number of German social enterprises based on ZiviZ data

Legal form	Estimated number in the general population	Share of legal type in the general population%	Frequency in reduced sample	Share in overall representative sample per legal form (Overall N=6,334) ²⁰
e.V.	67,746	95%	570	11.22%
Foundations	2,620	3%	125	15.17%
gGmbH	6,584	2%	179	57.56%
Cooperatives	501	0%	7	6.31%
Others	7		7	100.00%
All organisations	77,459	100%	888	14.02%

Source: Authors' analysis, based on ZiviZ 2017 data. Please consult the inclusion/exclusion criteria in Appendix 2.

The overall result comes to a total number of 77,459 social enterprises—67,746 e.V.s, 2,620 foundations, 6,584 gGmbHs, 501 cooperatives and seven other organisations, as displayed in Table 6, which derive from a “reduced” ZiviZ sample reached by applying the inclusion/exclusion criteria reported in Appendix 2.²¹ The authors therefore deem this number (77,459) as the maximum possible number of social enterprises operating in Germany.

Based on this sample of 888 social enterprises, the ZiviZ data allows for some extrapolations as to earnings and employment in social enterprises, which constitutes data that would otherwise not be available.

Table 7. Earnings of social enterprises, based on ZiviZ data

	Less than €50,000	€50,000-€100k	€100k -€250k	€250k -€500k	€500k - €1 M	€1M-€5 M	Over €5 M	n/a	Total
N	57	83	126	97	75	122	52	276	888
%	6.4	9.3	14.2	10.9	8.4	13.7	5.9	31.1	100.0

Source: Authors' analysis, based on ZiviZ 2017 data (reduced sample, see table 6).

(20) Calculated frequency of legal form in reduced sample divided by number of legal form in ZiviZ sample. For instance for e.V. $570/5,081=0.1122$.

(21) This estimate comes remarkably close to the upper threshold of the upper limit in the CSI study cited above (Scheuerle *et al.* 2013; see table 4).

Table 8. Number of employees in social enterprises, based on ZiviZ data

	>5	6-30	30-100	101-250	251-500	>500	n/a	Total
N	281	233	96	49	22	13	194	888
%	31.6	26.2	10.8	5.5	2.5	1.5	21.8	100.0

Source: Authors' analysis, based on ZiviZ 2017 data (reduced sample, see table 6).

Table 9. Share of part-time employment in social enterprises, based on ZiviZ data

Legal form	%	N
e.V.	66.97	448
Foundations	62.64	104
gGmbH	52.48	160
Cooperatives	64.00	7
Others	51.00	6
All organisations	62.99	725

Source: Authors' analysis, based on ZiviZ 2017 data (reduced sample, see table 6).

Tables 7, 8 and 9 above suggest that German social enterprises tend to be rather small, both in terms of earnings and in numbers of employees, and that part-time employment significantly contributes to their structures. Furthermore, it appears that the share of part-time employment in social enterprises is likely to be in line with the shares of part-time employment in these legal forms in general (Priller *et al.* 2012: 32 and table 10 below). The three above mentioned tables do not refer to social enterprises' assessment of how earnings have developed since 2012: about 53% of the organisations indicated an increase, earnings remained constant for about 16%, and about 10% of organisations decreased (with a non-response rate of 21%).

In addition to the tables, it is worth noting that the share of earned income in the narrow sense, (e.g. revenues from commercial activity), seems rather high across virtually all legal forms (above 40% of organisations' earnings). Social enterprises receive a substantial share of state support, which scores lowest for foundations (21%) but it is likely to be higher than 40% across all other legal types.

Table 10. Mapping the universe of social enterprise in Germany

Characteristics of organisational types qualifying (at least in part) as social enterprise under the EU definition				
	Traditional associations	Welfare organisations (charities)	“Operational” foundations	Cooperatives
Fields of activity	Care services, education, culture, housing, integration, etc.	Health care, care for children, youth, the elderly, the disabled, etc.	Care services, education, culture, housing, integration, etc.	Saving and financing (indirect social dimension), affordable housing, ethical consumption, healthy food, village and neighbourhood initiatives, renewable energy, care services, etc.
Estimated total number	Around 605,000 (ZiviZ 2017, NPO manager 2018)	105,295 (BAGfW 2012)	3,800-4,100 (Bundesverband Deutscher Stiftungen 2014)	7,931 (DZ Bank 2017, ZiviZ 2017)
Estimated number meeting core social enterprise criteria	67,000-68,000 (own estimation, based on ZiviZ 2017)		Between 1,900 (own calculation, based on Bundesverband Deutscher Stiftungen 2014) and 2,620 (own estimation, based on ZiviZ 2017)	Between 501 (ZiviZ 2017) and 600 (Göler von Ravensburg 2018)

Characteristics of organisational types qualifying (at least in part) as social enterprise under the EU definition				
	Inclusive enterprises ²²	Work integration social enterprises	New-style social enterprises	Neighbourhood and community enterprises
Fields of activity	Work inclusion of the disabled	Retraining and skills development of redundant workers or new labour market entrants	Care services, education, culture, ecology, social integration, local economic development, neighbourhood initiatives, etc.	Neighbourhood initiatives, local economic development, social integration

(22) To what extent the set of integration enterprises and that of WISEs overlap is not entirely clear. They might even correspond totally since, while they differ remarkably in terms of how the “enterprising” element is embodied (see the section of social enterprise types), they are likely to appear in the same statistical category and are hardly distinguishable from this point of view.

Characteristics of organisational types qualifying (at least in part) as social enterprise under the EU definition				
	Inclusive enterprises ²²	Work integration social enterprises	New-style social enterprises	Neighbourhood and community enterprises
Estimated total number	307 in 2003, 879 in 2016 (bagif 20018a)	907 WISE (Jansen <i>et al.</i> 2013, based on Bundesarbeitsgemeinschaft Inklusionsfirmen e.V)	Several hundred	n/a
Estimated number meeting core social enterprise criteria	879	907	Several hundred	n/a

3.2. Social enterprise characteristics

The landscape of German social enterprises boasts wide and colourful. The typology created above can serve—with certain limits—as a structure in which to outline the numbers of social enterprises. The authors stress that the survey must not be limited to public-benefit organisations. Many social enterprises do not apply for this status, and not all organisations that have this status qualify as social enterprises. Consequently, all available data on the activities, labour characteristics or regional differences within the public-benefit sector can only serve as a more or less likely approximation of the social enterprise sector.²³

3.2.1. Fields of activity

In principle, one might find social enterprises in all fields of activity. Some offer social housing (most housing cooperatives), work (inclusive and integrative enterprises), financial services and insurances (cooperative banks and mutuals). Others make infrastructure available where it otherwise would not exist (village shops), or they produce and deliver energy (*Bürgerenergiegenossenschaften*). Even an inclusive brewery operates, though it presents an exceptional case.

(23) Another factor impedes the description of activities, labour characteristics and regional differences even more, namely the fact that the registration of the public-benefit status is incumbent upon regional receivers of tax. Public-source statistics are not centralised and thus, apart from total numbers, there is little reliable information available on public-benefit organisations across the Federal Republic.

Two large influences shape these fields of activity. As mentioned, German social enterprises qualify in most cases as public-benefit organisations. This status restricts the fields of activity to a closed list. The other major influence links to Germany's welfare regime. Through a long tradition, the social codex provides for (1) the rule of subsidiarity and (2) welfare organisations' active participation in planning and delivering social services. Thus, they co-created their working conditions through cost reimbursement and influencing the definition of their needs. Even though quasi market conditions have since entered the stage, traditional welfare associations can continue building on assets amassed from state commissions over decades. This explains why the bulk of social enterprises continue activities in the social sector. Important fields include old-age homes, foster-care homes and hospitals, and outpatient care steadily gains ground as a similarly important field.

3.2.2. Sources of income

No database provides reliable information on the sources of income of German social enterprises. Any guesses or estimates as to the sources of income would come from third sector data in general, such as the most recent survey by Priller *et al.* (2012). Researchers based this survey on a sample of associations, gGmbHs, cooperatives and foundations, and report large differences in the sources of income. Public grants, subsidies and donations still function as very important sources for the organisations with available data, although their share has generally fallen in the last years.

Table 11. Third sector's income sources, considered as indicative for "social enterprises"

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 *et al.* 2012).

The Mercator survey, mentioned before, contains income-related information referring directly to social enterprises. However, this survey did not disclose the numbers of social enterprises that replied to income questions. It also never generated absolute numbers but rather grouped those responding into certain income brackets and only gave information about the breakdown of social enterprises among the different categories on this basis.

Table 12. Size breakdown of social enterprises by estimated revenue

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

Source: Mercator Research Network (Spiess-Knafl *et al.* 2013), overall sample size=244.

Interpreting the Mercator results, one must also note that the sample was extremely small and “non-representative” in terms of types of social enterprises, as it largely consisted of integrative and inclusive social enterprises (WISEs). It did not fully represent the various fields of activities, sizes or legal forms. The survey also demonstrates almost all respondents (87%) as registered public-benefit organisations, with many of the organisations regarding themselves as actors of the competitive (business) sector and not as part of the “third sector.” Lastly, the social enterprises surveyed were very small: half of the respondents had annual revenues of less than 250,000 EUR. The SEFORIS project generated insights that confirm, overall, those of the Mercator survey, but its sample size is even smaller than that of Mercator (107 German organisations; see SEFORIS 2016) and its results need not be discussed for the purposes of this project.

3.2.3. Labour characteristics

Researchers find it difficult to encounter detailed characterisations of the personnel structure of the relevant legal forms. Some data exist on the the third sector, however, which is relevant for social enterprises. Often, one must consider if organisations have paid personnel at all; in this regard, great disparities abound between the different legal forms: 94% of all gGmbHs and 83% of all cooperatives have paid personnel, while this is only 53% of the registered associations and 36% of the foundations employ paid workers (see Priller *et al.* 2012). The study by Priller *et al.* does not relay any insights on full-time equivalents or the share of female labour, though, so estimates on the overall amount of paid or female labour for each legal form remain unavailable.

As indicated in table 13, at least a little light shines on the composition of the paid labour force in the third sector. It shows that the largest share of labour across all legal forms is part-time, mini-job²⁴ or flexible (non-permanent) labour. Surprisingly, little variation occurs when comparing the distribution of shares across categories and legal forms. While partly expressing the need for flexibility, these figures also point to precarious employment in the sector. This may resonate less for the social sector than for other sectors, such as culture or leisure, since the state prescribes certain quality standards for the organisations it commissions for services. Consequently, the level of professionalisation reaches relatively high in socially active third sector organisations, including most social enterprises. Interestingly, when compared to the total German workforce, the percentage of female employees as well as part-time and limited contracts boasts relatively high in the social sector as a whole.

Please note that none of the information available gives an indication about the absolute level of full-time equivalent employment in the considered organisations.

Table 13. Prevalence of employment types in social enterprise types

Types of Employment	Types of organisation			
	Associations	Public-benefit ltd. companies (gGmbH)	Cooperatives	Foundations
Full-time employment	34%	45%	37%	39%
Part-time employment	33%	34%	25%	36%
Mini-jobs and non-permanent labour	33%	21%	38%	25%
Total	100%	100%	100%	100%

Source: WZB (Priller *et al.* 2012)

(24) In Germany a mini-job is a marginal employment with a wage threshold of 450 EUR per month. On top the employer pays for social security and tax at a rate significantly lower than what is due for social security payments in "normal" labour contracts.

3.2.4. Governance models and regional differences

The available statistics do not permit general statements about governance models aside from the governance specifics of the different legal forms already detailed above. Aside from associations and cooperatives, which employ participatory management by default, the other legal forms exhibit varying degrees of stakeholder engagement in the organisations' governance based on their missions.

On the basis of available statistics, the research finds it impossible to discern regional differences. However, a few general observations include: new-style social enterprises seem to gather more frequently in metropolitan areas, while village shop cooperatives obviously focus on rural areas. Housing cooperatives remain active in both urban and rural contexts.

4

ECOSYSTEM

The ecosystem for social enterprises expands as widely as the universe of social enterprise itself. Given the close connections with the welfare system in Germany it is not surprising that state and semi-public actors (e.g. obligatory insurance schemes) actors play an important role. Many private agents support social enterprises especially in their early phase, with consulting, advocacy, financial support, teaching and research.

Public policy so far only recognizes social enterprise in the context of civic engagement and civil society. Other support organisations are beginning to recognise them as part of the economy.

Besides the special role that welfare organisations play in the context of the social codices, no particular policies actively support social enterprises. They receive the same treatment that most other SMEs experience in most financial and procurement aspects.

A lively community of networks extends support, either for organisations of a similar form (especially cooperatives) or those in the same field of activity. Most of them have branches at state (Bundesland) or federal levels. Those networks give support, advise, organise advocacy and lobbying activities for their members.

Research, education and skills development is provided by public or private universities (of applied sciences). The latter frequently maintain practice and research related contacts with certain big welfare organisations; some pertain to the church, while others relate to the secular welfare sector. Traditional universities engage in more theoretical research. Certain non-university training centres provide knowledge, education and support to social enterprises and their number continues to grow.

The more traditional welfare organisations and cooperatives have access to an established system of finance organisations. Newly founded new-style social enterprises find it harder to get access to suitable finance.

4.1. Key actors

Table 14 provides a snapshot of the main actors involved in the social enterprise ecosystem, but by no means should the reader consider this an exhaustive list. More information on actors and their importance in the development of a social enterprise, from its foundation to its scaling-up stage, can be found in the Ministry of the Economy's (BMWi) guide for practitioners. Preceding sections have already analysed several actors, and others will receive attention further in the report as they dedicate themselves to specific subjects such as policy dialogue, networking, research and financing.

Table 14. Overview of key actors

Areas of activity	Actors
Governmental departments or institutions Authorities designing or implementing legal, fiscal and regulatory frameworks Authorities designing and enforcing public procurement legislation	<ul style="list-style-type: none"> > Federal Ministry for Family (BMFSFJ), Ministries for family or social affairs in the <i>Länder</i> > Federal Ministry of Economic Affairs and Energy (BMWi) > To some extent, Federal Ministry of Transport and Federal Ministry for the Environment > State ministries > Local authorities (in their capacity to contract for procurement) > Social security funds > <i>Länder</i>, regions and municipalities
Organisations that promote, certify and award labels or business prizes, employ social reporting systems and other mechanisms to generate awareness and acknowledge the social value of the products, services or production methods of social enterprises	<ul style="list-style-type: none"> > German Central Institute for Social Issues (<i>Deutsches Zentralinstitut für soziale Fragen</i>, or DZI) > Deutscher Spendenrat e.V. > Social Reporting Standard, SRS > PHINEO > a few smaller organisations
Institutions and initiatives promoting social enterprise education and training	<ul style="list-style-type: none"> > Universität Münster (Zentrum für Nonprofit Management, or NPM) > Universität Heidelberg (Centre for Social Investment, or CSI; Diakoniewissenschaftliches Institut, or DWI) > Social Entrepreneurship Akademie (cooperation of diverse higher education institutions in Munich) > 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 > European Business School, Chair for Social Business > etc.

Areas of activity	Actors
Observatories and entities that monitor the development and assess the needs and opportunities of social enterprises	<ul style="list-style-type: none"> > DGRV for the cooperative sector > BAGFW for welfare organisations > ZiviZ survey of non-profit organisations > Surveys on SMEs, for instance Mannheimer Unternehmenspanel, KfW-Gründungsmonitor
Incubators (non-exhaustive listing)	<ul style="list-style-type: none"> > Social Impact gGmbH, a spin-out of IQ Consult (with offices in Berlin, Hamburg, Frankfurt, Leipzig and other major cities/regions) > Social Lab Köln > HUB München, Berlin and Dresden > Social Entrepreneurship Baden-Württemberg (SocEnt BW) > COLABOR > FabMove (Münster)
Organisers of social enterprise networks, associations and pacts that engage in advocacy, mutual learning and joint-action facilitation Organisers/managers of business links between social enterprises and mainstream enterprises (non-exhaustive listing)	<ul style="list-style-type: none"> > SEND e.V. > IQ Consult > Talents4Good > Welfare federations and BAGWF > Ashoka
Facilitators of learning and exchange platforms (non-exhaustive listing)	<ul style="list-style-type: none"> > engagiert-in-deutschland.de > Welfare federations and BAGWF > Ashoka > Gemeinwohloökonomie-Initiative Solidarische Ökonomie > Vision summit > Enorm magazine

Areas of activity	Actors
<p>Financial intermediaries (social impact investors or funds, philanthropic investors or funds, crowdfunding platforms, etc.) for social enterprises and support infrastructures</p> <p>Organisations providing assistance to enhance the investment and “contract-readiness” of social enterprises</p>	<p>Crowdfunding (non-exhaustive listing)</p> <ul style="list-style-type: none"> > engagiert-in-deutschland.de > betterplace.org/de > startnext.com > steadyhq.com/de <p>Micro-donations</p> <ul style="list-style-type: none"> > “Deutschland rundet auf” <p>Social banks</p> <ul style="list-style-type: none"> > Bank für Sozialwirtschaft > Triodos Bank > Ethikbank > Umweltbank > Liga Bank > KD Bank > Steyler Bank > Bank für Orden und Mission > Pax-Bank > Bank für Kirche und Caritas <p>Social impact investors & intermediaries</p> <ul style="list-style-type: none"> > BonVenture > ANANDA impact fund (formerly “Social Venture Fund”) > Tengelmann Ventures > Financing Agency Social Entrepreneurship (FASE) <p>Foundations (mainly grants; non-exhaustive listing)</p> <ul style="list-style-type: none"> > Bertelsmann Stiftung > BMW Eberhardt von Kuehnheim Stiftung > BMW Stiftung Herbert Quandt > Robert Bosch Stiftung > Mercator Stiftung > Siemens Stiftung > Unicredit Stiftung > Vodafone Stiftung

4.2. Policy schemes and support measures for social enterprises

4.2.1. Support measures addressed to all enterprises that fulfil specific criteria (and which may benefit social enterprises)

Discussions about the general framework and policy for enterprises at large continue without cease in Germany, and further detail goes beyond the scope of this report due to their diversity and spread across many policy fields. One exceptional policy area, however, provides a common topic: the demographic change in Germany concerns everyone as it will—and indeed already does—result in a severe shortage of skilled employees. Great efforts have arisen to offer better care services for non-working populations so as to further improve women's integration into the labour market. Both the public and policy makers welcome immigration much more than previously. Enterprises place major emphasis on attracting young people. And new political debates have just begun on how to integrate long-term unemployed persons.

4.2.2. Support measures addressed to social economy/non-profit organisations (and which may benefit social enterprises)

So far, the strongly developed third sector—and especially the social economy, with its manifold federative and representative structures—does not rally for major changes to policy schemes or support structures (refer to descriptions in sections 1, 2.2 and 2.3). The third sector at large seems content with its institutionalised participation in many governance processes (both legislative and non-legislative) and standard setting, as well as with the time-tested public-benefit tax regime.

Within this context, the federal government has promoted different forms of volunteering for a while. From 1999 onwards, the BMFSFJ has commissioned a large-scale survey of volunteering every five years to collect detailed statistics about the civic engagement of the population (BMFSJ 2010).

To support the development of a National Engagement Strategy (Bundesregierung 2010), the Federal Network for Civic Engagement (Bundesnetzwerk Bürgerschaftliches Engagement) organised the National Forum for Engagement and Participation (*Nationales Forum für Engagement und Partizipation*)²⁵ with support from the BMFSFJ in 2009. The forum gathered relevant stakeholders in the field of civil participation—the BMFSFJ, political parties, Länder, municipalities, businesses, civil organisations, academics and

(25) <https://www.b-b-e.de/themen/engagementpolitik-foerderung1/engagement-strategisch/>

other experts—who collected and discussed scientific evidence and views on priority themes: (1) education and learning; (2) care; (3) rural areas; and (4) hybrid organisations. The forum has ceased its operations since, but its contributions helped shape policy and its implementation.

The BMFSFJ, mandated by the National Engagement Strategy, has funded studies and surveys about local civic engagement (which may include entrepreneurial approaches). The work undertaken has helped develop a guide for the strengthening of this infrastructure of civic engagement.²⁶

- > The Federal Network for Civic Engagement (*Bundesnetzwerk Bürgerschaftliches Engagement or BBE*) is a nationwide network linking organisations and associations from the third sector (NPOs) and civil society, from business and work life and federal and community institutions.²⁷
- > The forum “Civic Engagement and Integration” (*Bürgerschaftliches Engagement und Integration*), operated jointly by the BMFSFJ and *Länder* and municipalities’ head officials for integration, involves inter alia discussions around social entrepreneurship as a tool for the better integration of migrants.

The terminology used, and the fact that the term “social enterprise” has rarely found use in the above policy-related activities, indicates that previous governments wanted to foster entrepreneurial and innovative voluntary action, rather than provide a robustly supportive environment for social enterprises per se.

Nevertheless, the further development of new-style social entrepreneurs also falls in line with all of these other efforts by the federal government. For example, the 2010 National Engagement Strategy covers a broad spectrum of civic engagement initiatives: associations, foundations, volunteering, charities, welfare federations, hospice activities, neighbourhood initiatives, cultural projects, self-help groups and “new” social enterprises promoting social innovation. In regard to social entrepreneurship, this strategy further promises (Bundesregierung 2010):

- > To improve (in collaboration with the welfare federations) the framework conditions for voluntary action, 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; to review the conditions for risk-capital investments into public-benefit companies; to explore the possibilities for specific competitions and awards for innovative approaches to social services to raise awareness about these; and to include social enterprises as separate target group categories in public support schemes.

(26) <http://www.uni-muenster.de/imperia/md/content/ifpol/mitarbeiter/zimmer/engagementfoerderungvorort.pdf>

(27) <https://www.b-b-e.de/bbe-english/>

- > To make public bodies/organisations more aware of, and responsive to, social innovation by creating the necessary forums for exchange; to make BMFSFJ the main contact point for social innovators; to support initiatives aimed at establishing common standards for measuring and reporting impact; to promote cooperation between social entrepreneurs, other businesses, chambers, associations, social institutions and public actors at different regional levels.

4.2.3. Support measures specifically addressed to social enterprises

Financial support for the starting up and operation of traditional and new-style social enterprises initially surfaced when channelled through Germany's Development Bank (*Kreditanstalt für Wiederaufbau*, or KfW). In 2012, at the initiative of the BMFSFJ, this bank initiated a funding programme to invest in social enterprises (defined as “small- and medium-sized enterprises that want to solve social problems in Germany through an entrepreneurial approach and an innovative business model”) having already established themselves in their respective market and engaged in the growth phase. This stage of the enterprise lifecycle was indeed identified at that time as facing a particular financing gap.

The KfW acted as a co-investor; its financial contribution was granted *pari passu* to the involvement of a private lead investor. As the funding—between 50,000 and 200,000€, and amounting at most to 50% of the total equity—should have come in the form of a capital investment, social enterprises as investees needed to have a legal form allowing such equity funding, i.e. they could not act as public-benefit organisations. The business model of the investees also had to heed the requirement of self-sufficiency in the medium or long term. This Programme terminated at the end of 2014. No documented track-record of the KfW fund exists, and information about its operations has vanished. It seems that the restrictions specified above proved ill-adapted to the needs of investees and the conditions of the German social enterprise landscape such as described previously.

An “European Recovery Programme Venture Capital Fund” established in 2015 seems to have replaced this fund. In its communication, the German Federal Government explicitly stressed that this fund includes the possibility to invest in other “social-venture” funds that support social enterprises. However, the document also stresses that no such investments have been made as of January 2017 (Deutscher Bundestag 2017). Therefore no model of dedicated financial support for social enterprises presents an attractive “success story.”

Apart from equity funding, the KfW has long provided—through various intermediaries—low-interest-rate loans to welfare organisations and other “third sector” actors, e.g. for infrastructure investments. However, most welfare organisations do conduct their banking in the ordinary finance sector.

At the same time, as of 2015, KfW has included social entrepreneurs in its start-up coaching (Unterberg *et al.* 2015); several pilot projects have been financed using funds from the EU Programme for Employment and Social innovation (Unterberg *et al.* 2015); and BMFSFJ has supported the development of Social Impact Labs since 2011 (Unterberg *et al.* 2015).

The most clearly recognisable action addressing social enterprise in Germany, however, was promoted by BMWi in 2017: The BMWi then published a practitioners' guide to social enterprise in its newsletter, called "GründerZeiten" (BMWi 2017). The definition of social enterprise it uses is quite similar to the operational definition used here, except for the participatory element. The document gives an overview of some of the most important players in the field, but more importantly, it also gives practical advice about social enterprise at its different phases of organisational development, beginning with the start-up phase and going all the way to the scaling-up stage. The guide also includes short portraits of well-known social enterprises.

- > Despite the recent lead role taken by BMWi in shaping the debates about social enterprise, the way in which this body intends to foster the phenomenon at an operational level does not appear entirely clear. As will become apparent later on, overlaps or divergences in the competencies and interests of the different ministries involved might stymie social enterprise's blossoming to some extent.
- > In parallel to ministry initiatives that bear some formal responsibility for the topic, the national level has made some significant pushes for innovation in subject-specific policy areas. The Federal Ministry for Transport, Construction and Urban Development (*Bundesministerium für Verkehr, Bau und Stadtentwicklung*, or BMVBS; today BMVI), for instance, has issued regular calls for application for socially innovative entrepreneurial initiatives targeting sustainable urban development. For example, one of the topics offered in 2013 by the BMVBS was the revival of declining urban areas through local retail and service centres (such as those following the DORV-concept developed by Michael Frey).²⁸

Various individual social enterprises and support organisations (e.g. welcome gGmbH, social impact, arbeiterkind.de), operate in the ecosystem for new-type social enterprises and have received federal grants on a project basis. However, researchers still consider the level of engagement of the state in new-style social entrepreneurship as moderate with concepts not clearly defining their target groups amongst social entrepreneurship initiatives (Gebauer and Ziegler 2013).

Public actor engagement thankfully reaches beyond the federal level. Lower levels of government also kindle support to social entrepreneurs, namely those of *Länder* and municipalities.

(28) <http://www.dorv.de/>

Although policy emphasis gears towards “classical” social-entrepreneurship topics—work integration, social integration, supply of social services not provided by traditional actors²⁹—policy makers can take the pulse of their citizens concerns and also promote initiatives in culture and ecology. For instance, the Ministry for Environment in Nordrhein-Westfalen supports civic engagement in environmental protection, which may include social entrepreneurial approaches.³⁰

The State of Bavaria, for example, supports *inter alia* the start-up of “social cooperatives”: the Bavarian Ministry for Social Affairs can allocate a maximum of 30,000 EUR kick-start funding, co-financed by the European Social Fund, toward establishing innovative, exemplary cooperatives with a social mission.³¹ An expert group established by Bavaria in 2012 under the “Initiative Social Cooperatives” (*Zukunftsinitiative Sozialgenossenschaften*) provides ideas and advice on how to further develop the sector, including through the publication of a practical guide for cooperatives.³² The model project “Engaged in cooperation—Civic engagement in the area of integration” (*Gemeinsam engagiert-Bürgerschaftliches Engagement im Bereich Integration*) considered good practice in the area of associations of migrants, volunteer agencies, and mother and family centres.³³

Large cities such as Berlin, Munich or Cologne adopt specific policies geared toward promoting social entrepreneurship; they organise networking events and supply initiatives with financial and non-financial support (civic engagement initiatives, social enterprises, etc.). Some smaller municipalities also actively promote social enterprises: 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. Many local municipalities, such as that of Ravensburg, have forums around civic engagement concerning social inclusion, integration of migrants, ecology and sustainability.

The links between public authorities and social enterprises, in particular in relation to public procurement, are dominated by the German subsidiarity principle: where non-profit, and increasingly for-profit organisations, are commissioned to provide public services. The system will be explained in more detail in section 4.3.

(29) Cf. Survey of 107 German social enterprises carried out by the SEFORIS project, and Mair *et al.* (2016).

(30) <http://www.munlv.nrw.de>

(31) “Sozialgenossenschaften in Bayern – Der Ratgeber zur erfolgreichen Gründung”. See: <http://www.sozialgenossenschaften.bayern.de/>

(32) http://www.stmas.bayern.de/imperia/md/content/stmas/stmas_internet/sozialpolitik/sozialgenossenschaften.pdf

(33) <http://www.gemeinsam-engagiert.net/>

The role of EU funds

Social enterprises in Germany participate in different activities funded by EU Funds, such as the ESF or the FEAD (Fund for European Aid to the most Deprived). But no funding streams exclusively operate for social enterprises alone.

At the federal level, in the German operational programme of the ESF, there exists a funding instrument called “*Rückenwind*”; as an operative programme of the BAGFW, only organisations with a public-benefit status can access it. Within this programme, projects can receive funding that aims for organisational development and development of human resources in public-benefit organisations.

The FEAD’s implementation in Germany operates in such a way that, as a rule, only consortia of municipalities and public-benefit organisations can receive funding. The concept of social enterprise is not considered in the guidelines. Instead, following the German tradition, the guidelines mention traditional welfare organisations as eligible and explicitly state that, in addition to these, other civil society organisations may participate as long they have public-benefit status.

At the state level (*Länder*), a few elements of the ESF operational programmes mention social enterprises, but do not address them exclusively in most cases.

4.3. Public procurement framework

General procurement relationships between the public sector and social enterprises

The German public procurement law ought to follow the regulations from the European Union. The EU-amendments on the regulation from 2014 should have been implemented in the social security system (for services under the SGB) and public budgets—primarily those of the municipalities—provide the key sources of revenue for the services provided by welfare organisations and many other social enterprises. Quasi market related (SGB-related) services alone accounted for an estimated turnover of 78 billion EUR in 2014 (Bertelsmann 2015). The major share of this amount goes to welfare providers, many of which qualify as social enterprises in the sense of the operational definition used here. Municipalities and districts spend most of the social budget. Their social welfare budgets regularly make up 40 to 50% of their total budget. Social insurance agencies spend another significant share; nowadays, most of these funds get allocated contractually.

Essentially, two main avenues deliver social services to beneficiaries.

Generally, actors use a rights-based approach. Social-security systems (different insurance systems and social-security budgets) pay for the services that the beneficiaries are entitled to receive. In many cases, the beneficiaries choose between concurring service providers. The public administration “licenses” the service providers and negotiates prospective fees or the re-financing they receive for the services delivered. Typical examples include in-patient and out-patient care (prospectively calculated and negotiated fees) as well as child care (cost-covering compensation combined with fixed fees depending on the number of clients).

In other situations, public administrations buy services through tenders (e.g. for school catering).

Most political powers intend to preserve the recently established competition in the “social economy” (possibly still opening up additional, smaller segments of the market) and theoretically welcome the entrance of new, innovative actors (Grohs 2014; see also illustration 8 for the latest developments). This is softened by the fact that the lion’s share of spending occurs in the form of contractually agreed service fees (*Leistungsvereinbarungen und -entgelte*). But quasi-market allocation does not always happen with open tenders. In particular, municipalities may contract without tender or with “covert” tenders. A worthy fact to note is that providers have to prove certain standards before they can be registered to qualify for tendering. This might pose a disadvantage for small or young social enterprises.

Illustration 8. Latest developments with regard to concessionary contract allocation *versus* public tenders

Some *Länder*'s regulations allow municipalities and districts to enforce tender systems if they so desire. If social services in Germany have volumes below 750,000 EUR (see Federal implementation of the EU Concession Directive 2014/23, the EU Procurement Directive 2014/24 and the EU Sector Directive 2014/25) and already incorporate existing services approved by the EU, they can opt out from the need for public tenders. Furthermore, on the basis of a federal regulation (*Unterschwellenvergabeverordnung Bund*, or UVgOB) of September 2017, the *Länder* can now decide to reform their existing regulations (*Vergabe- und Vertragsordnung für Leistungen Land*, or VOLA) in order to allow preferences for smaller size contracts. But apparently, not all *Länder* want to implement such reform (Deutsches Vergabenetzwerk 2017), and their willpower for implementation varies widely.

Traditional welfare organisations also frequently serve as statutory partners of governments at all levels—from the municipal to the federal level—when it comes to planning demands and negotiating standards, tariffs and service fees. This stands true even when developing new legislation. Published tenders offer the best opportunity for new entrants to enter these quasi markets: whether for-profit, non-profit, member-oriented or for public benefit.

Although EU directives embraced social and/or environmental criteria even before 2014, the EU Public Procurement Directive of 2014 made valuable additions. In 2016, the German Federal Parliament enacted the European Public Procurement Directive by passing a Regulation for the Modernisation of Procurement law (*Vergaberechtsmodernisierungsverordnung*, or VergRModVO), creating new leeway. Awarding authorities still have to decide on the lowest price basis, but they can include life-cycle costs as well as social, ecological and innovation aspects into their profitability calculations (Unterberg *et al.* 2015).³⁴ The precise criterion reframes as cost effectiveness, rather than the lowest price. Call for tenders can include requirements linked to ecological and social characteristics. The federal government has created two “competence centres,” through which local governments and all other public agencies can seek advice on how to implement sustainable and innovative procurement.³⁵ These centres publish examples, news, guidelines and events linked to sustainable

(34) [https://www.bundesrat.de/SharedDocs/drucksachen/2016/0001-0100/87-16.pdf;jsessionid=67D36634D3C4A9AA9537D9BDB504FA05.1_cid349?_blob=publicationFile&v=6 \(13-09-2018\)](https://www.bundesrat.de/SharedDocs/drucksachen/2016/0001-0100/87-16.pdf;jsessionid=67D36634D3C4A9AA9537D9BDB504FA05.1_cid349?_blob=publicationFile&v=6 (13-09-2018))

(35) http://www.nachhaltige-beschaffung.info/DE/Home/home_node.html (30-03-2018) and <https://www.koinno-bmwi.de/> (30-03-2018)

and innovative services, including the services provided by social enterprises. Time will tell whether the relevant authorities will indeed implement innovative and sustainable procurement widely.

Overall, the interactions between “new-style” social enterprises and the established welfare-provision system seem to be improving, with the public-procurement system now acting more receptive to the added value that social enterprises provide. Both established welfare providers and new social enterprises also seem more willing to cooperate. Those involved still manoeuvre around many caveats, particularly because traditional welfare organisations and other social enterprises frequently have to compete in tenders. In such cases, the established organisations find themselves quite limited as they are tied by collective wage agreements. Additional competition circulates in the financial arena, as seen in relation to the KfW fund. The report discusses current challenges more in detail in the concluding sections (sections 5.2 and 5.3).

Regulation of contractual conditions between public administrations and social enterprises

The field of action heavily influences the methods and extent to which public administrations and social enterprises will regulate their contractual conditions. The principles are defined in the different books of the social code. In most cases, the involved parties base their contracts on a “triangular” rather than bilateral relation in order to refund costs by the formally obligated “*Kostenträger*.” Negotiations occur individually between the recipient of the services, the different service providers, and the authorities involved (ranging from public administrations that support families, children and youth or support to people with disabilities, to insurances that preside over care services or work integration).

Administrative levels involved in the public-procurement process

Depending on the type of services delivered, as defined in the social code, different administrative levels and types of organisations step in. However, most procurement processes happen at the regional or local levels. Whether the regional or the local level is considered more important also depends on the *Land* within which the procurement process takes place.

Criteria for the selection of suppliers of public contracts

Most services are not the subject of procurement in a strict sense. Service providers can enter the market if they meet certain standards (in terms of infrastructure and quality of service), and demand still exists for additional services or a special quality of services not yet available. Once licensed, in general, providers get paid only if they deliver services. Private suppliers generally have priority over public suppliers. But in the case that an already active public supplier has to face new private suppliers entering the market, the

public provider doesn't have to step down. The public authorities' licensing procedures and direct awarding of contracts have recently experienced more scrutiny. Individuals needing a service can still choose fairly freely, although well-known providers often also act as the first advisers that potential users turn to, thus empowering these providers to steer clients into their services. The relative inclusivity or exclusivity of this pattern finds itself in hot debate these days.

Public procurement regulations for sectors where social enterprises operate

In all sectors where social enterprises operate, public procurement regulations require a principle of full competition between social enterprises and other economic operators (e.g. third-sector organisations and conventional enterprises) to be implemented in the awarding procedures. No specific criteria for tenders necessarily favour social enterprises.

Value threshold for contracts

No special threshold exists above or below which rules for contracts would change.

Regulations for routine procedures foreseen for WISEs

Regarding WISEs, one must differentiate between contract procedures with public authorities and the (quasi-)markets in which the WISEs trade their goods or services.

Inclusive and integrative enterprises can both conclude contracts with so-called "job centres", the relevant local agencies responsible for labour-market policy at the local level. These job centres administer integration and inclusion fees according to SGB II. Together with local-level "integration offices," they can also enact the right of certain disadvantaged persons to work assistance according to SGB IX. Both types of agencies usually contract out these services on the basis of client-specific assistance plans. The service providers receive payment according to individually negotiated case plans.

Public-sector agencies can also purchase goods and services from WISEs. The procedures for such procurement usually rely on call for tenders open to all enterprises, without specific advantages for WISEs: WISEs receive equal treatment with more commercial offers. At least officially, no special contract mechanisms and no recognition of specific modes of production exist.

Structured control systems of the outcomes of outsourcing and, more generally, of the entrusting to social enterprises

The type of service dictates the evaluations carried out on the quality of services provided and the outcomes of interventions. Care for the elderly has shaped a national framework of quality standards, for example. Detailed in the biannual negotiations of so-called "framework contracts", local government representatives and suppliers federations at the same level then conclude the *Länder* framework every second year.

The same applies to in-patient services for people with disabilities and youth. Ministries at the level of *Länder* regulate quality criteria for pre-school childcare. Services provided on the basis of individual case plans usually write in evaluation criteria as well. Social workers and the clients very regularly perform joint evaluations, and additionally hold them with professional circles in the authorities at six- to twelve-month intervals. Public youth authorities, job centres or integration offices regulate the evaluation intervals case by case. Other fields foresee individual case evaluations without any clear implementation methods.

Influence of procurement modalities on social enterprises

a) Autonomy

Procurement regulates the services to be delivered in principle and sets quality standards. The social enterprises' autonomy, although safeguarded by law, thus faces limits when creating agreements with professionals from the public cost-covering agency about the delivery of standard or individual services.

b) Quality of services

The different methods of procurement secure a certain standard of services. Periodically, bilateral commissions of service delivery agencies and local or regional authorities review the negotiated service fees and assign new values for different types of eligible costs. Only the more traditional social enterprises are represented in these negotiation processes, and such negotiations do not happen in all fields of service provision.

c) Innovation capacity

The procurement standards do not allow for investments into new processes or products. The social enterprises' innovation capacity therefore scores rather low. They must seek funding from grants, donations or income from endowments owned by social enterprises in order to innovate.

d) Capacity to attract additional resources

The meagre margins for surplus, combined with the severe public-benefit status regulations, make social enterprises less appealing to additional resource flow. Some of them do manage to attract volunteers and donations, though in widely varying degrees.

Duration of contracts

Most social enterprises consider the duration of contracts offered by the *Kostenträger* adequate, though some enterprises (WISEs) desire longer contracts. A trade-off exists between useful long-time perspectives (benefitting the quality of service), and the difficulty to calculate the costs over a longer span of time.

Renewability of contracts

If the organisations fulfil the previous contract expectations, they may renew their contracts.

Grants for social enterprises outside contracts

In addition to income from service provision as defined in their contracts, social enterprises may receive grants (i.e. in infrastructure development, facilities maintenance etc.). This mix of public finance acts as the rule rather than the exception at the local level, and for regular services such as care, integration, inclusion, shelter, counselling, etc.

Federations at the *Länder* and national levels cannot offer regular services, but they may run pilot or model programmes and projects. For these, social enterprises can obtain project grants, infrastructure grants (at the Länder level) or institutional grants.

Mode of selection for grants

The mentioned grants for model projects and programmes are usually awarded on the basis of tender procedures. Local level grants get distributed annually, usually supporting services as provided in previous years. Local authorities and agencies usually decide with discretion, on the basis of past experience.

4.4. Networks and mutual support mechanisms

A great number of relatively formal networks like federations and second-tier associations, complement service providers and federations supporting social enterprises. The report explores examples below. While some of these focus on specific activities, others tailor themselves to specific certain organisational forms. Others still are more “transversal” in terms of activities and/or forms.

Networks focussing on a specific organisational form

Cooperative federations at the regional and federal levels provide a prominent example of networks focused on a specific organisational form (see section 2.1.4). Housing cooperatives also align under a sector federation (*Gesamtverband der Wohnungsunternehmen*, GDW), together with non-cooperative type (social) housing companies. Energy cooperatives find representation with a federal spokes-body within the DGRV (*Bundesgeschäftsstelle Energiegenossenschaften*).

SEND e.V. functions as a less formal or exclusive network: a national network organised as an association that promotes social entrepreneurship, it supports its members in various aspects (education, financing, legal questions...). Bagif, a federal network of inclusive enterprises, also operates similarly.

Networks focussing on specific fields of activity

As described in section 2.1.2, welfare organisations are also grouped into six big federations: Caritas, Diakonie, Zentrale Wohlfahrtsstelle der Deutschen Juden, Paritätischer Wohlfahrtsverband, Arbeiterwohlfahrt and the Red Cross. These federations have long occupied important political positions in the country. Together, they form the *Freie Wohlfahrtspflege*. Used throughout social law, this term describes the entirety of public benefit subsidiary partners with whom the state could conclude contracts. The public-benefit status of these agents (assigned by this term) determined the delivery of subsidiary welfare, so the public began interpreting this status as proof of worthiness. Subsequently, they extended their rights for traditional welfare associations to co-govern public social planning and allocation decisions.

At the federal level, these six federations also formed a joint umbrella agency, the *Bundesarbeitsgemeinschaft Freie Wohlfahrtspflege*. At the level of *Länder*, they frequently associated in a *LIGA der freien Wohlfahrtsverbände*. Some of the welfare providers have internal systems promoting social entrepreneurial and innovative action, and they award prizes recognising the best practises in this area. The *Innovatio Sozialpreis* initiative, organised by church-based associations, provides one such example.³⁶

Social enterprises active in other fields are also frequently federated. Some such entities include an Association of Fair Trade, an Association of private schools pursuing concepts of reform pedagogy, etc.

Transversal networks, cutting across fields of activity and divisions in terms of organisational forms

Since 2010, the Austro-German “Initiative for Public-Good Economy” (*Gemeinwohlökonomie-Initiative*) has developed new approaches to the “solidarity economy” through publications and networking.³⁷ Active in several cities across the country, it advises businesses and maps their contribution to the “public good.” The civic forum “Solidary Economy” (*Solidarische Ökonomie*) organises conferences and smaller meetings at the local level for social enterprises along with other projects and stakeholders from the “third sector”.³⁸

The network *machbarschaft.de* originally took form for an Ashoka conference, but since continues to provide information about Ashoka fellows and organisations that can help future social entrepreneurs.³⁹ 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.⁴⁰

(36) <http://www.innovatio-sozialpreis.de/>

(37) <https://www.ecogood.org/>

(38) <http://solidarische-oekonomie.de/index.php/forum-soe>

(39) <http://www.machbarschaft.net/>

(40) <http://www.wackstum.de>

4.5. Research, education and skills development

In Germany, the most important providers of research, education and skills development services tend to be public and church-related universities. Welfare organisations, cooperatives, integrative and inclusive enterprises can also access training and education offers made by specialised institutes within or organised by their federative structures. The large welfare federations operate with their own financing, research, education and training, advisory and support structures. The Catholic Caritas, for instance, includes:

- > a range of sector-specific federations at the national level that supply member establishments *inter alia* with market analysis, advice and networking opportunities (e.g. in the fields of 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 of the country;
- > associations serving as exchange forums for professionals;
- > social service providers at the federation level (care, ambulance services, etc.);
- > outsourced professional service providers;
- > about a dozen church-related, frequently cooperatively organised banks; and
- > a mutual pension fund (*Verka*).

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

Smaller social enterprises operating outside of these structures, and in particular new-type social enterprises depend on (informal) networks. Cooperative-type social enterprises can also use federation services. The regional federations manage their own training centres, and a national academy (*Akademie der Deutschen Genossenschaften*, in Montabaur) recently conducted a few events demonstrating interest in social enterprise and social cooperatives.

Training and education

A great number of public universities and training institutes affiliated with the welfare federations offer courses in "third sector" studies or "management in the social sector," covering specialized business administration, strategy or marketing management, etc. These courses and accompanying research activities form important elements

of the social enterprise ecosystem. Some institutions go beyond teaching and offer consultancy services, and some even fund social innovation projects.

In 2010, a cooperation network between four universities in Munich formed to create the “Social Entrepreneurship Academy” (*Social Entrepreneurship Akademie*). It contains its own study curriculum, with courses ranging from two days to full, certified two-year long programmes. It also supports social start-ups through incubation centres and consultations, and builds a broad network of stakeholders around social entrepreneurship.⁴¹

In the cooperative sector, *innova eG* trains and advises new cooperative founders and connects them to experienced professionals from the sector.⁴²

Some professional consultancy agencies, such as IQ-Consult through its spin-off Social Impact gGmbH, specialise in advising social entrepreneurs and their partners in business and civil society.⁴³

Research institutions and observatories

Quite a number of university chairs relate to social enterprise in Germany. They include, *inter alia*, Universität Heidelberg; Leuphana Universität Lüneburg; Zeppelin Universität Friedrichshafen; Universität Augsburg; TU München; Evangelische Hochschule Darmstadt; Universität Hannover; Universität Erlangen-Nürnberg; SRH Hochschule Berlin; Evangelische Hochschule Freiburg; Institut für Diakoniewissenschaft und Diakonienmanagement at the Kirchliche Hochschule Wuppertal; and the University of Münster. However, they do not usually provide practical start-up coaching. They task themselves with measuring, conceptualising and generally researching the field. Universities or some of their institutes cooperate and connect with networks like the Social Entrepreneurship Academy in Munich.

Advice, consultancy, skills development, incubators and knowledge exchange

Although universities provide generalist-type start-up coaching facilities, they frequently do not meet the specific needs of social enterprises (e.g. Unterberg *et al.* 2015). Unterberg *et al.* found that the same rings true for the EXIST start-up stipends, which social entrepreneurs as well as other entrepreneurs can theoretically access. However, the jurors usually seem to lean toward promoting technologically innovative business ideas rather than socially innovative ones.

A large number of support organisations of various sizes function in the ecosystem around social enterprises. Some offer infrastructure and accompanying consultancy

(41) <http://www.seakademie.de>

(42) <http://www.innova-eg.de>

(43) <http://iq-consult.com/>

services for social start-ups, others focus on training or networking. These support organisations usually support themselves with their own capital, by private foundations and donations; occasionally public budgets (project-based financing) choose to support them, and they usually offer their services free of charge or at a reduced price.

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.⁴⁴ Their fee structure takes into account the size and financing power of the client, effectively subsidising smaller third-sector organisations.

A number of incubators in the country include:

- > The Social Impact Labs in Berlin, Hamburg, Frankfurt and Leipzig as well as in other German cities (operated by Social Impact gGmbH)⁴⁵ and the Social Lab Köln (in the field of education)⁴⁶ offer various services especially for start-up social enterprises: co-working infrastructure, consultancy, financial matchmaking, networking, research and pilot projects. The project “AndersGründer” of Social Impact gGmbH supplies all-around support to social innovators.⁴⁷
- > The Impact HUBs in Munich, Berlin and Dresden offer co-working space, meeting rooms and other business infrastructure for persons establishing themselves as social entrepreneurs.⁴⁸
- > COLABOR, in Cologne, supplies young social enterprises, NGOs (especially those with an ecological mission) and supporting professionals with work facilities and a networking platform.⁴⁹
- > IdeaCamp, in Berlin, targets young (student) social entrepreneurs, offering them a co-working facility, a mentoring programme, guidance material, workshops and seminars, as well as networking opportunities.⁵⁰

The support landscape further includes counselling offices for senior citizens, self-help support offices, local engagement offices, financial consultancies, rating agencies, and organisations undertaking social-impact analysis, developing social reporting standards and publishing results. A bi-monthly national magazine and social enterprise *Enorm*,

(44) <http://www.talents4good.org/>

(45) <http://socialimpact.eu/>

(46) <http://sociallab-koeln.de/>

(47) <http://andersgruender.eu/>

(48) <http://munich.impacthub.net/>

(49) <http://www.colabor-koeln.de/>

(50) <https://www.ideacamp.de/>

circulates 35,000 copies with the investment of “Bonventure” and specifically focuses on social entrepreneurship, ethical consumerism and related topics.⁵¹

Prizes, awards and conferences

Social entrepreneurship begins to receive more and more attention in large exhibitions such as start-up conferences. Smaller local initiatives include e.g. the SensAbility conferences for students in social entrepreneurship, organised by students from the Otto Beisheim School of Management (WHU). These two-day conferences also give a platform for project initiation and development.⁵²

Several competitions spark initiatives for social entrepreneurs and social innovation projects:

- > The “*start social*” competition for innovative social projects, including entrepreneurial approaches, came to life in 2001 through a partnership between the federal government and private sponsors.⁵³ The competition awards a three-month operational grant, screening, advisory services and networking possibilities to organisers of 100 social projects, as well as additional prizes for a few exemplary projects. The initiative grew into an association that engages, apart from carrying out the annual competition, in transferring know-how to third-sector actors.
- > The German Sustainability Award (*Deutscher Nachhaltigkeitspreis*), established in 2008, had a special award category between 2009 and 2011 for the “Social entrepreneur in sustainability of the year” (*Social Entrepreneur der Nachhaltigkeit*).⁵⁴ Although this special award has terminated, social entrepreneurs with a sustainability focus can still compete in several categories opened up for companies.
- > The “Lighthouse” competition of WACKSTUM GmbH grants awards to the best ideas in social entrepreneurship, with a prize of 10,000 EUR and in-kind support (help for the establishment of the enterprise) from sponsoring partners.⁵⁵
- > The “Get it on together” (*Gemeinsam anpacken*) competition of the Generation-D initiative targets, with support from corporate sponsors, start-up ideas of students that try to solve social problems.⁵⁶

(51) <http://enorm-magazin.de/>

(52) <http://www.whu-sensability.de/>

(53) <http://www.startsocial.de>

(54) <http://www.nachhaltigkeitspreis.de>

(55) <http://www.wackstum.de/wettbewerbsorganisationveranstaltungsmanagement/social-entrepreneurship-ideenwettbewerb-leuchtturm.html>

(56) <http://www.gemeinsam-anpacken.de/wettbewerb/>

Since 2007, the annual “Vision Summit,”⁵⁷ organised by the Genisis Institute, now WeQ INSTITUTE, brings together hundreds of thought leaders on key issues and solutions in social innovation and social entrepreneurship, business, education and civil society.

Connectors to the business world and citizens

Ashoka and the Schwab Foundation help social enterprises with research, general information, advice, matchmaking, networking, funding and other support.

The newly founded Social Entrepreneurship Netzwerk Deutschland (SEND e.V.) starts to gain growing importance in lobbying for the interests of social entrepreneurs. But it also builds bridges to the business world: it closely connects to the start-up community and tries to utilise that ecosystem for social start-ups.

Websites (such as *betterplace.org*) complement the state-founded portal *engagiert-in-deutschland-de*, and allow civic engagement projects as well as social enterprise start-ups to collect donations and recruit volunteers.⁵⁸ Volunteering agencies help social enterprises, foundations and associations to find collaborators.

Certification and quality standards

Although welfare organisations developed quality standards and certificates in the context of quality management in different fields of action, in the social enterprise sector as whole no official marks, labels or certification systems for social enterprises in Germany have taken hold, nor do corresponding initiatives seem to be in the works. And according to interviews with stakeholders, no strong interest from public actors, practitioners and academics to introduce such a certification system seems to have sparked.

Nevertheless, donors and investors in social enterprises seek some sort of guidance and assurance of compliance to good standards. Therefore different initiatives emerged to develop instruments:

(57) <http://www.visionsummit.org>

(58) <https://www.betterplace.org/de>

- > It seemed important to offer some quality assurance of the social initiative (e.g. the business model's sustainability and social impact) to potential financiers, especially philanthropic venture funds and foundations planning to invest. PHINEO takes the stage as the largest actor: a public-benefit venture established by Deutsche Börse, the Bertelsmann Foundation, KPMG, PwC and the Mercator Foundation, which awards the "It Works" (*Wirkt*) stamp, a sort of quality label, to viable and effective initiatives deserving the attention of social-impact investors.⁵⁹ This voluntary private certification scheme involves a multi-stage screening process, starting with an online self-assessment questionnaire and including on-site visits. Through recommendations, analysts can also help unsuccessful organisations improve their impact in the future. Only about 20% of the organisations screened receive the *Wirkt* label.⁶⁰
- > A newer wave of organisations calls themselves "benefit corporations" or B-Corps, which aim to create societal benefits rather than (or along with) financial profits. They fall under the umbrella of social enterprises for the purposes of this report. As of early 2018, 21 organisations were listed on the B-Corp website for Germany.⁶¹ The B-Corp movement started in the USA and has reached international scope.
- > Transparency international launched an initiative called "transparent civil society" (*Transparente Zivilgesellschaft (transparent civil society)*), supported by some big civil society actors. It tries to establish a publication standard for basic information in the public-benefit realm. This standard demands that organisations regularly publish basic information in 10 areas. If they do so, they may use the logo and list themselves as *Transparente Zivilgesellschaft*.⁶²
- > Additionally, several organisations prioritised defining social impact reporting standards in order to synthesise and streamline the reporting requirements of various donors. This would relieve the administrative burden on multi-donor-funded organisations while better publicising the impact of social enterprises (and other third-sector actors) among the wider public, and would also facilitate benchmarking between the organisations themselves. The Social Reporting Standard (SRS) stands as the most prominent reporting standard developed in Germany.⁶³

(59) <https://www.phineo.org/>

(60) 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

(61) http://bcorporation.eu/community/find-a-b-corp?field_country=Germany

(62) <https://www.transparency.de/mitmachen/initiative-transparente-zivilgesellschaft/>

(63) <http://www.social-reporting-standard.de/>

Illustration 9. Social Reporting Standard (SRS)

The Social Reporting Standard (SRS), complete with report templates and best practice examples, came into use in 2011 by the hands of 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 bases itself on the review of a theory of change built upon a chain of effects, from inputs over outputs, outcomes to impacts.

The reports intend to 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.

More specifically, Part A of the reports explains the vision and the approach to services for the target groups; Part B describes the service in detail (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 operational framework conditions. 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.

Sixty-nine German organisations have adopted the SRS as of July 2014, including (among the organisations mentioned in this country report) Ashoka, betterplace.org or wellcome gGmbH, as well as some organisations working under the welfare federations, and seven organisations from abroad (Czech Republic, Switzerland and the Netherlands). Many of the organisations having adopted the SRS used it already for their 2011 and 2012 reports, while others started using it more recently.

Source: <http://www.social-reporting-standard.de/en/>

In the traditional welfare sector, the model project “Common-Good Work” (*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 the unemployed, in connection with the then new, heavily subsidised

public *One EUR-jobs* scheme.⁶⁴ The project set out minimum standards for work integration, mentoring the participating organisations. Following changes in national policy, the initiative discontinued in 2013.⁶⁵

A further relevant instrument, the ISO 26000 international standard for social responsibility, received its impetus from an international multi-stakeholder working group under the International Organisation for Standardisation. Companies, public and civil organisations that want to contribute to sustainable development can all use it. ISO 26000 does not qualify as a traditional certification standard like the well-known ISO 9001 or ISO 14001, but provides a voluntary guidance.

4.6. Financing

4.6.1. Demand for finance

The size, management structures and financing needs of social enterprises cover a wide range in Germany: large organisations in this regard typically include welfare organisations, as well as a growing number of cooperatives, whereas new-style social enterprises and community organisations are normally smaller than comparable commercial small and medium enterprises (SME).

Medium and large-sized welfare organisations generally possess well-established sustainable business models, and they easily access excellent financing opportunities within the federations and banks specialised in financing the third sector. These have long established relationships and financing partnerships, can work with special-purpose properties (e.g. hospitals) as securities, and can often supply KfW-subsidised loans. However, most of these banks have difficulties financing new-style social enterprises with more profit-oriented enterprise models (Unterberg *et al.* 2015). Unterberg *et al.* estimate the average financing needs of new-style social enterprises at around 50,000 EUR for the start-up phase, but concede great differences among enterprises in the later phases of consolidation and growth (Unterberg *et al.* 2015). They also emphasise that the needs of new public-benefit social enterprises remain poorly met at this stage because they can only turn to philanthropic sources, and obtaining such funding usually requires an intricate and time-consuming process (Unterberg *et al.* 2015).

(64) Unemployed people are offered an opportunity to work for the public good getting 1 Euro (or slightly more) per hour in addition to their unemployment benefit.

(65) <http://www.gemeinwohlarbeit.org/content/e388/>

Energy cooperatives and social cooperatives (depending on their business model) also typically enjoy sufficient market-based revenues, can access traditional finance and do not rely on donations or public subsidies.

Smaller new-style social enterprises, small cooperatives and civic engagement organisations do, on the other hand, more often face difficulties concerning financial access (Unterberg *et al.* 2015). These organisations usually have to rely on hybrid financing, mixing public grants, subsidies and private donations (including in-kind donations and voluntary work) with their own revenue. Better-established organisations might seek loans in traditional financing markets and perhaps, in some cases, even seek private equity funding. Venture philanthropy funds, impact investments and social-impact bonds have not sufficiently gained common publicity or trust (Unterberg *et al.* 2015). Public funding is usually well accepted but nowadays tends to arrive on the wings of project financing, and it is not always easy to access for organisations active in the borderlands between the mainstream market, state-funded activities and civic engagement. This is particularly true if they do not register as public-benefit organisations. Project funding is frequently sought from private donors (foundations, family trusts, companies, etc.; see Unterberg *et al.* 2015), even though the share of such investments in social enterprises scores far lower than in other ventures—a reservation that may be related with private investors' fear to lose capital (Unterberg *et al.* 2015).

Social entrepreneurs—especially the smallest initiatives—operate in difficult markets and greatly value their own autonomy and flexibility, which might be jeopardised when allowing an investor to participate in the enterprise (Glänzel *et al.* 2013). Consequently, many of the smaller social enterprises may not seek external finance other than donations, grants and in-kind support. They also anchor themselves closely to their location of operations; they rely on a highly motivated local staff and on discretionary management techniques.

4.6.2. Supply of finance

Germany can provide examples of all possible sources of finance for social enterprises: public foundations, public grants and subsidies; private donors, such as large foundations and family trusts; social venture funds and other equity financing; business angels; and loan capital. Some of these have developed and prevail far more robustly than others, though.

Public resources—mostly investment grants from public budgets and foundations, some equity funding (see section 4.2) and subsidised loans (e.g. through the German public development bank, the *Kreditanstalt für Wiederaufbau*, or KfW)—find extraordinary relevance in financing investments made by the third sector (and social enterprises, by extension). While at least one respondent doubted the actual accessibility of

KfW financing to social enterprises, public investment support at different levels of government flows relatively freely in certain policy-related areas (e.g. the creation of more kindergarten facilities).

KfW also implemented a new financing programme in support of social enterprises. For the purpose of this programme, KfW has taken over the Mercator Foundation's operational definition (Jansen *et al.* 2013), but as they only funded organisations operating under a company legal form, they added a criterion requiring that the initiative be a small or medium-sized enterprise.⁶⁶ KfW also co-financed Lead-programme investors in an effort to promote impact investment, but it has since incorporated this programme into a 400 million EUR fund of funds called the “ERP-Venture Capital-Fonds Investments”, and in so doing, the emphasis shifted to existing or new “social ventures,” in which commercial companies can become equity holders (Unterberg *e.* 2015: 108).

The EaSI Programme of the European Union supported four German organisations in 2014: Social Impact gGmbH, KIZ Sinnova Gesellschaft für soziale Innovationen, Impact in Motion and the Finanzierungsagentur für Social Entrepreneurship (Unterberg *et al.* 2015).

An additional offer to individuals includes microcredits made available by Mikrokreditfonds Deutschland. Promoted by the Federal Ministry of Labour and Social Affairs (BMAS) and BMWi, it works through a network of partners providing loans of up to 25,000 EUR (BMAS 2018).

The German Federal Foundation for the Environment (*Deutsche Bundestiftung Umwelt*),⁶⁷ with an endowment of 1.3 billion EUR, constitutes one of the largest public foundations in Europe; it provides financial support of maximum 70,000 EUR *inter alia* to innovative pilot projects addressing environmental protection, sustainability education, sustainable land use and similar goals, which may involve initiatives with a social entrepreneurial approach.

The large welfare federations have their own banks (the *Bank für Sozialwirtschaft*, or BFS; five cooperative banks of Caritas and three of Diakonie; the bank of AWO), which know the sector and how to navigate it exceedingly well, and seem to dominate the loan-providing position (traditional commercial banks have less weight here). The loans offered often couple with extensive financing advisory work on a basis of mutual trust.

Private donors—corporate social responsibility funds (Volkswagen, BASF, the Otto retail group etc.), private foundations, family trusts, and other philanthropic donors—provide

(66) In its brochure, KfW defines the social enterprises that are 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”. See: <http://paritaet-alsopfleg.de/index.php/downloadsnew/themenebergreifend/3743-merkblatt-kfw-foerderprogramm/file>

(67) <https://www.dbu.de/>

a central financing pillar for social enterprises in Germany. In a national survey of social enterprises (Mercator Research Network study), 8% of respondents identified private foundations as their primary source of revenue (Spiess-Knafl 2013). 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 between 2.1 billion EUR and 4.6 billion EUR (Sommerfeld 2009). Such donations normally go to organisations with a public-benefit status: the fact that they are entitled to receiving donations is—besides their tax exemption—the primary rationale for the public-benefit status (which makes the donation tax-deductible for the donor).

Relative to the country's GDP, the financial weight of private donors supporting the third sector, including social enterprises, apparently already approaches the corresponding figure for United States donors (Scheuerle *et al.* 2013). However, German private donors' preferences for certain funding options measure more conservatively when compared with their US counterparts. They usually provide traditional non-repayable funding for established initiatives (which usually focus elsewhere than entrepreneurial activities), reliable long-term contributions to on-going operations or one-off investment funding for scaling-up good-practice examples. Trusts and foundations may sometimes finance the start-up investment needs of new initiatives or may also provide refundable financing, but to date, this remains rare. By contrast US donors more often act like venture capitalists and invest in equity.

A major framework for bundling private donations remains the 50-year-old “Human Being Action” (*Aktion Mensch*) programme of the state lottery.⁶⁸ In the frame of this programme, the gaming revenue from a specific type of lottery is donated to social initiatives (which may or may not be social enterprises). In 2013, the programme donated a total of 153 million EUR to some 7,500 organisations and projects active in care and integration services for people with disabilities and youth. The two other lottery funds, the “Stiftung Deutsches Hilfswerk” and the “GlücksSpirale”, also significantly fund civic engagement projects and initiatives in the social enterprise landscape, including the welfare federations.

Impact-oriented venture capital or investments seem nascent in Germany, according to the National Advisory Board for Impact-oriented Investment in Germany (Unterberg *et al.* 2015). The first social-impact-bond initiative of continental Europe, Juvat,⁶⁹ launched by the Benckiser Foundation “Zukunft,” started in summer 2014 and so far has successfully yielded the investors the predetermined revenue on their investments (Scheck 2016). Yet, to date, bond financing seems like no more than a potential niche

(68) <http://www.aktion-mensch.de/>

(69) <http://www.juvat.org>; see also <http://www.benckiser-stiftung.org/de/blog/ziele-erreicht-der-erste-deutsche-social-impact-bond-ist-abgeschlossen>

source of financing for social enterprises in Germany. Crowd funding (crowd donating) has found more and more success, with private-run web platforms (e.g. *betterplace* or *startnext*—see table 14 at the beginning of section 4.1) enabling visitors to donate small amounts to showcased social initiatives, and micro-donation projects such as “Germany rounds up” (*Deutschland rundet auf*), in which national retail chains offer their customers to round up the amount they pay for their purchase to the next 10 EUR cent, bundling these very small amounts from a huge number of clients (the project, started in March 2012, gathered 44 million within two years) to reach respectable sums, which then get distributed to selected social projects or enterprises (around 200-300,000 EUR per supported initiative).⁷⁰

Equity financing is generally less widespread in Germany than in Europe as a whole (Glänzel *et al.* 2013). Impact investors, blended-value investors and socially responsible investors do pursue activity in the country though they face difficulties in finding investment candidates in sufficient volumes. Organisations in the welfare sector, which generally all occupy a public-benefit status, find themselves fully excluded from this form of financing due to legal restrictions on paying yields to investors and paying back the invested amounts. And new-style social enterprises without public-benefit status may be too small or unready for such an engagement to make financial sense.

Actors such as BonVenture,⁷¹ the Social Venture Fund (now ANADA impact fund)⁷² or Tengelmann Ventures⁷³ only hold a handful of social enterprises in their current portfolio (BonVenture reports of 2-5 deals per year with social enterprises, each between 200,000-1 million EUR; the Social Venture fund reports having 10 social enterprises in its current portfolio, with 1.5 million EUR committed). The 2016 publication by the Bertelsmann Foundation on the German impact-investment market underlines its limited capacity (Bertelsmann Stiftung 2016).⁷⁴ While the traded volume in this market almost tripled, from 24 million EUR in 2012 to 70 million EUR at the end of 2015, the report still identifies the market in an experimental phase. This differs considerably from more developed ecosystems such as in the UK.⁷⁵ However, the report also states hopefully that impact investing continues to gain considerable attention and momentum in Germany.

The “hybrid” Mezzanine Fonds of the Bank für Sozialwirtschaft displays an intriguing concept: it intends to establish a bridge between loan and equity capital with a clear

(70) <http://www.deutschland-rundet-auf.de/>

(71) <http://www.bonventure.de/home.html>

(72) www.socialventurefund.com

(73) <http://www.tev.de/>

(74) For information in English, see also previous input to the report: Petrick and Weber (2012).

(75) For a portray of the use of financing instruments in the UK and their potential for the German market, see Choi and Mummert (2015).

social investment approach (targeting social economy organisations with favourable conditions of credit) (Bank für Sozialwirtschaft 2010). The Mikromezzaninfonds Deutschland, promoted by BMWi and funded by ERP and ESF (European Social Fund) funds, similarly provides mezzanine finance of small amounts. While the former addresses organisations, the latter targets individuals.

It is hard to say how many social entrepreneurs have benefitted from finance provided through one of these instruments. Moreover, common understanding of mezzanine instruments and equity funding from private venture funds labels them as less “social” and more “venture capitalist” by social innovators (Glänzel *et al.* 2013), which might produce a mismatch between investors and investees.

All in all, social enterprises in Germany can choose from a wide mix of financing instruments. The sheer volume of sources and instruments is such that intermediaries may become increasingly necessary. The “Financing Agency for Social Entrepreneurship” (FASE)⁷⁶ provides services to social enterprises, helping them to plan, combine and achieve suitable financing, including donations, public funds, loans, venture-philanthropy investments, etc. FASE’s founder reports that the organisation has completed 30 transactions and brought together a network of 550 investors (Kleemann von Gersum 2015). “Roots of impact,” a similar actor, focuses on more international investments.⁷⁷ Strong and partially overlapping relations unfold between the individuals driving these organisations and related ones. The latter two organisations cited here, for instance, have the same founder.⁷⁸

4.6.3. Funding gaps and deficiencies

Although no major gaps damage the financing of welfare organisations, a cocktail of other factors endanger the quality of services provided and require welfare organisations to raise their own revenues. Such factors include small cuts in welfare spending in the past decades, a parallel increase in labour costs, and insufficient funding for accompanying services not specifically mandated by the SGB.

Notable gaps do seem to exist when financing newer and smaller social enterprises, who experience small revenues by definition. Here, the demand for external funding leans towards public grants, subsidies and donations (including in-kind donations, such as volunteer work). Interestingly enough, experts observed in 2014 that the larger the social problem tackled, the less likely that social entrepreneurial approaches could rely primarily on market revenues (given the lack of purchasing power of the target group,

(76) <http://www.fa-se.eu>

(77) <http://www.roots-of-impact.org>

(78) <https://www.gruenderszene.de/allgemein/social-impact-investing-bjoern-struwer>

for instance): in other words, large-scale problems call for public funding or donations, at least in the early stages.

The resource mix of social enterprises can generally include debt financing as well, if the interest rate is sufficiently low, and which may be achieved through offering publicly subsidised loans or involving social banks. The practitioners interviewed in the framework of this mapping update highlighted the risk, however, that the smallest social enterprises might not be able to access these low-interest loans, due to a lack of “critical mass”, history and suitable securities.

Social entrepreneurs do not prefer equity financing, although some venture-philanthropy funds have arisen, as mentioned above. According to data collected through interviews with various stakeholders, foundations feel ready to fund tried-and-tested solutions, but they hesitate to engage with new, small, innovative initiatives or choose to help with small-scale, one-time project grants. Finding follow-up financing once a project runs out often produces a problem. This is the case for both equity and debt financing.

Apart from a few crowd-funding and micro-donation initiatives that can cope with the comparatively large transaction costs for such operations, financiers generally look for low *transaction costs*—which means they require 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 the high business risks they face before reaching maturity. The commercial case for investing in enterprises and company forms that impose limits on profit distribution and/ or asset locks is difficult to justify for any investor who desires eventual repayment.

Furthermore, most social investors require some proof of the social impact generated and would have to be convinced of the business model’s sustainability and manageable risk. Few have the capacity to verify this in-house, and even if possible it would hugely increase transaction costs due to the analytic work needed for a relatively low financing volume. Salient examples like PHINEO provide such “validation” services, but they only cover social enterprises that already have a history. These services also normally require a fee.

According to stakeholders, many social enterprises (especially younger ones) have not yet developed the skill set to attract and manage external financing: they have *vulnerable business models* and inadequate management/governance structures and knowledge. Actors such as FASE also lend a hand in combining funding sources, thus increasing efficiency and lowering risks and transactions costs, though stakeholders still think that financiers and other parties need more interaction to build trust and a more solid foundation.

In another lens, however, an expert in 2014 observed that social entrepreneurs would be less likely to default than “traditional” entrepreneurs, due to their strong commitment to their mission. Still, many potential financiers perceive the risk-return ratio of investing in social enterprises as too high, something that social enterprises admit themselves.

On a more positive note, the current low-yield environment encourages impact investing as the financial return on available funds, which could include the endowment of foundations as well, would prove favourable in any such case.

5

PERSPECTIVES

The German welfare regime dominates the debate on social enterprises. First and foremost, social enterprises are seen as providers of social services in this context. The cooperative movement demonstrates a second but much less pronounced tradition. The topic of social entrepreneurship remains relatively tacit in German debates and is often seen as a trend to commercialise social service provision. Others discern between traditional and innovative organisations. Recently, growing cooperation weaves connections between established and new social enterprises with mutual learning and support.

Constraining conditions include a general lack of understanding and disinterest towards social enterprises. This applies to both more traditional social enterprises as well as new style ones. But the latter get more interest from politicians and other actors. Blurred concepts and fuzzy borderlines will likely persist for some years to come.

The growing demand for social services and other goods like renewable energy, affordable housing and fair and ecological goods offer potential opportunities for new social enterprises. However, the subsidiary logic in service delivery and funding of the German welfare system acts aversely to innovation not only when it comes to new processes and services but also in regard to new types of providers. In any case, data on social enterprise need to be more specific.

In conclusion the main opportunities and challenges for social enterprise in Germany lie in a concerted policy development, including public-benefit legislation and procurement issues; in improved access to financing instruments that encourage innovation; and in data availability.

5.1. Overview of the social enterprise at the national level

A key issue in the German debate revolves around the role of social enterprise in the welfare state. One can only understand discussions about the nature of social entrepreneurship and the role of social enterprises in Germany in the context of an old corporatist, subsidiary welfare regime and a strongly incorporated, highly associative social economy. Lately, a new kind of fascination for creative business-type approaches to fulfil unmet needs has boomed. At the same time, one can feel strong reservations against a commercialisation of welfare production and allocation. Therefore, at the beginning of the new millennium, private corporate foundations and initiatives (Ashoka) arose as the main actors who took action and started to promote the concept through research projects, public events and lobbying.

So far, discussions have not led to a clear definition, neither in the political sphere, nor in the social economy, nor among academics. However, originally quite divergent conceptualisations have somewhat converged, while at the same time tending towards a broad, inclusive approach, not dissimilar from the one used for this mapping exercise. Using such a broad approach, entrepreneurial welfare organisations find their place on the one side of the spectrum and the more commercial, new-type social enterprises on the other. Traditional third-sector actors, in particular, advocate such a broad approach, since it includes them too (BAGFW 2012b). Cooperative federations have not, so far, committed to any particular concept. Many of the new-style social enterprises emphasise their innovativeness, if not their transformative potential. Most academic conceptualisations also put major emphasis on innovation.

The landscape of German corporate welfare has and will continue to change significantly because of transformations in the way in which social services receive and procure finances. The energy sector has undergone major transformation with the Renewable Energy Law. There are new shortages of (urban) housing, and rural areas are depopulating, losing infrastructure as a result. Other dynamics are caused by demographic changes linked to a low birth rate and increasingly ageing population, shortages in skilled labour and growing demands for more individualised social services. These developments may well influence the perspectives for future social enterprise. For the sake of ensuring sufficient resources (revenues, capital as well as volunteers), non-profit-type social enterprises face pressure to behave in a more entrepreneurial way, while for-profit-type social enterprises have to make sure that they do indeed serve the social purpose to which they aspire. The non-profit sector will, however, only accept entrepreneurial behaviour when coupled with socially innovative solutions for clients or the public at large. Commercially active social enterprises will have to prove they do not take advantage of social- or “green-washing” while misleadingly maintaining profit-oriented motives. German society at large

clearly differentiates between initiatives for the public benefit (i.e. social initiatives) and economically active initiatives (i.e. for-profit initiatives). Hence, a proper definition of the public-benefit status becomes crucial, not just in regard to taxation but also in regard to possible equity and market revenues. Investors as well as customers of social enterprises need the transparency that social impacts exist, particularly if the social enterprise does not register as a public-benefit company.

The reader can expect two trends: First, traditional cooperatives in rural areas wish to support efforts to maintain living standards and population groups intent on creating alternative welfare arrangements to those delivered so far by traditional welfare providers (e.g. in the fields of old age and child care). Secondly, corresponding legislation has highly bolstered cooperative forms of organising the production and trade of renewable energy. However, not all energy cooperatives count as social enterprises on the basis of the criteria developed for this mapping. In particular, the criterion regarding the primacy of the social (in this case ecological) aim over the economic one might not always apply. In any case, due to their legally prescribed governance regime, social cooperatives place more emphasis on the democratic decision-making dimension than many other social enterprises. In comparison to new-type social enterprises, social cooperatives will more likely participate in rural areas.

Indeed, new-style organisations and their supporting ecosystem tend to find root largely in urban areas (Unterberg *et al.* 2015). These enterprises are usually jump-start with young people, frequently using digital means and the latest (communication) technologies; they see themselves as the nucleus of social entrepreneurship in Germany. They apparently hesitate to agree that established providers can also work as social enterprises, as they do not consider them fully exposed to market forces or basing their business model on transformative innovations. At the same time, they have had an impact on how the traditional third sector works and understands itself.

At first, “old” and “new” actors of the social economy saw each other as competitors rather than partners. In recent years, though, they have warmed sufficiently to establish a certain degree of cooperation. Experts consider an innovation system linking them would provide an important step towards creating a more effective and efficient third sector. Transformative innovation often comes from small actors, unburdened with the inertia and “blind spots” of large organisations. But in order to scale up the developed solutions, the established organisations’ knowledge (a deep understanding of the legal and institutional framework of social care, for instance), their market access, their capacities and financing power are also needed. Moreover, as large organisations may cope better with the risk of failure, teaming up with a larger organisation seems to provide benefits for an innovator already in the development phase of the solution. Stakeholders of the 2014 Mapping report observed a process of mutual learning among a good number of for-profit companies and third-sector organisations.

While several ministries have engaged in shaping the policy framework surrounding social enterprise in the past, an unspoken agreement at the moment seems to dictate that no one precise definition is needed and no special legal form will be imposed. Little state support exclusively targets social enterprise, either. No perceivable interest appears in adapting a specific legal framework to label social enterprise unequivocally, which means the landscape has a great deal of space and freedom to continue developing, but this situation ironically also creates a data availability constraint when interpreting the social enterprise phenomenon in Germany.

5.2. Constraining factors and opportunities

5.2.1. Constraints

In summary, stakeholders in the mapping exercise in 2014 and 2018 identified the following key barriers to the development of social enterprises in Germany:

- > a lack of articulated demand in certain areas;
- > an unwillingness of public-sector actors to innovate and/or partner with social enterprises;
- > weak management skills and lack of access to affordable support services for certain start-ups;
- > problems with sustainable business models and with scaling-up;
- > the relatively small scale of social-impact financing and scarcity of private funding for innovative approaches.

In the wider German public, no unified conception of social enterprise easily comes to mind. Because of the social-market-economy system and the legally defined public-benefit status, society draws clear distinctions between the social and the economic spheres. This showed clearly, for many years, in the privileges granted to corporate welfare organisations, which all had a public-benefit status (in particular, their privileges in regard to co-defining needs for and standards of service provision—see Kolhoff [2017] present difficulties for new market entrants). While the population grew wealthier and could swallow the claims that welfare organisations needed to charge clients (depending on the clients' potential) for certain services, still the fact that many traditional welfare organisations concurrently run commercial activities receives little public awareness. These perceptions, strongly enshrined in German society, may lead to a scenario in which new-type businesses like social enterprises are seen as “too

commercial” for the civil society/third sector and yet “not commercial enough” to attract investments and public economic promotion (Unterberg *et al.* 2015: 94).

In the German context, the lack of a definition of social enterprise leads to a diffuse idea about which organisations act as social enterprises and which ones do not; this makes measuring the field quite difficult (see section 3). Another consequence leads to the lack of indicators regarding both economic and social success. The emphasis on social innovation in public statements and academic discourse grounds itself largely on international discussions not yet backed by evaluative results. The authors speculate this is due to a lack of understanding or direction about which innovations constitute as socially positive, and a lack of methodology to assess this.

As explored in section 4.6, many social enterprises, especially the newer and more innovative ones, find it difficult to raise sufficient funds from traditional financial intermediaries. Having simultaneous social and economic objectives usually reduces their revenue margin, as compared to more commercial entities. Rating systems by cooperative, public sector as well as ethical banks frequently do not allow for the given level of risk (Unterberg *et al.* 2015). Meanwhile, classical venture capitalists and business angels do not show interest. Often, social enterprises feel ill-equipped to address investors in a successful manner, an observation shared at EU level. This spurred the introduction of the EaSI programme (EU programme for employment and social innovation) to test the waters with several supply-and-demand-side partners (Unterberg *et al.* 2015).

This results in a need for growing social enterprises to draw on various financial resources while juggling different instruments. In turn, it raises administrative costs and frequently forces the organisations to take unlikely actions in a circus-like attempt to balance the expectations of both benevolent donors and for-profit funders (Unterberg *et al.* 2015). In public-benefit social enterprises, such hybrid financing arrangements require a great deal of entrepreneurial creativity, diligence and skill, since they must strictly separate economic and the public-benefit activities in the accounts. Meanwhile, access to donations and subsidies remains almost impossible for social enterprises without a public-benefit status; but on the other hand, public-benefit social enterprises cannot use equity from the for-profit sector without risking their status, even though such equities will very unlikely generate returns of any kind.

Public measures for the promotion of SME exclusively tailor themselves to for-profit enterprises. At the same time, financial intermediaries and general economic development promotion agencies predominantly share the view that innovation equals technological innovation. Consequently, most promotion measures do not cater to social innovation (Unterberg *et al.* 2015). Many social enterprises would like to apply for innovation support in low-threshold innovation promotion programmes, and especially for EXIST start-up stipends. However, because programmes enact a bias towards

technological innovation they often fall short of eligibility (Unterberg *et al.* 2015). The academic and agency levels (e.g. B-Corp, *Wirkt!*) work to conceptualise social reporting standards (SRS) and create certifications but they remain diverse, little known or used, and so far unhelpful.

Many private initiatives to support social enterprise concentrate in metropolitan areas such as Berlin, Munich, Frankfurt, Hamburg (Unterberg *et al.* 2015). Hardly any support programmes for social enterprise have the resources for working in the countryside.

Remarkably, these barriers do not seem insurmountable, given the size of the German market, the long-standing social entrepreneurship traditions, and the existing ecosystems, knowledge and practical experience ripe for sharing.

5.2.2. Opportunities

Significant available private funds for health and social care stand ready in Germany, even though they are often somewhat conservatively managed and not necessarily accessible for innovative social entrepreneurship start-ups. Yet a propensity grows in the population for civic engagement and volunteering. Such engagement has grown by 10% overall in the last 15 years (BMFSFJ 2014), and the growth was even higher in schools and kindergartens (BMFSFJ 2014), the social sector in general, as well as in education and work with youth. It appears that engagement foremost aims to maintain and develop local social conditions.

New opportunities for social enterprises to engage local populations also exist in local development and community initiatives, energy, environmental protection, care services for youth and the elderly, work inclusion and in several additional niche markets (or niche approaches in large markets). The federal government as well as several Länder acknowledge this. A series of regional engagement promotion programmes have taken root, many of which place special emphasis on social enterprise (see section 4.2). These programmes frequently use ESF funds and could well be developed into more comprehensive schemes for channelling assistance through financial intermediaries geared towards social enterprise, such as ecological, social and ethical banks, guarantee banks and impact investors (Unterberg *et al.* 2015).

Fortunately, social enterprises can choose from a range of legal forms which can all be combined with the public-benefit status and, for some of them, with each other. This does ensure a tremendous public support, both in regard to volunteerism (as volunteers do not like to work for organisations which either lack sustainability or distribute profit) as well as in regard to donations.

The BMWi has established a central competence centre for the economy of arts and culture.⁷⁹ This could in some regards serve as an example of how to promote the growth of social enterprise among professionals of social work.

And finally, EXIST, co-financed by the EU, serves as a good model of how entrepreneurship education can be introduced into schools and universities, using a combination of institutional support to the universities and person-related support with stipends (Unterberg *et al.* 2015).

It remains unclear whether the German implementation of the EU Public Procurement Directive of 2014 (see section 4.3) will indeed open markets for new small to medium social enterprises. The two federal competence centres for sustainable and innovative procurement might support this modernisation. However, taking new market entrants into consideration means additional effort for local government administrations. So, these future levels of engagement and effort will determine whether the relevant authorities will indeed implement innovative and sustainable procurement widely.

In line with some of the barriers and opportunities listed above, stakeholders questioned for this report have thought about how to further enhance social enterprise in Germany. The report sums up their replies, together with the proposals for politics, entrepreneurs, education institutes and funders, in the study by the Mercator research association in 2012. They include, *inter alia*:

- > further strengthening the civic-engagement culture in society in combination with entrepreneurial thinking, including new approaches in education;
- > facilitating innovation in public policies, especially procurement policies;
- > setting up a fund for social innovation;
- > introducing social-impact bonds;
- > adjusting tax, public-procurement and public-benefit regulations to better cater 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;
- > setting up more transparent and impact-oriented financial support;
- > improving the measurement of social impact in social enterprises.

(79) <https://www.kultur-kreativ-wirtschaft.de/KUK/Navigation/DE/Praxistipps/Finanzierung/finanzierung.html> (31-03-2018)

A BMWi-commissioned report on the state of social enterprise in Germany in 2016 concurs with many of the aspects outlined above, both in its situational analysis and recommendations. In addition, it reiterates some earlier recommendations, though in an adapted and updated way (Unterberg *et al.* 2015).

This is how the BMWi sees the situation of social enterprise in Germany:

1. social enterprises act as vanguards, but rest trapped between the social and economic system;
2. a lack of support exists for social innovation;
3. Germany demonstrates very diverse forms of social enterprise, and thus needs a greater systemisation of the field;
4. social enterprises often use a mix of legal forms, and the public-benefit status can inhibit the enterprising elements;
5. social enterprises are able and apt to play a bigger role in public commissioning and tendering;
6. the founding and scaling-up social enterprises prove delicate processes, and no adequate (financial) support for them can yet come to fruition;
7. social enterprises and entrepreneurial incubation centres at universities conduct highly complementary services, but not enough support exists in this area;
8. social enterprises need less monetary capital—but more “patient” capital—than traditional enterprises, and the regular capital markets cater insufficiently to this need;
9. state support for entrepreneurship and economic development does not match the requirements of social enterprises;
10. social enterprises need a functioning market for impact investment, which only begins to develop in Germany.

The most important recommendations made in the BMWi report entail:

- > a joint understanding of social enterprise and cooperation in the area between BMWi, BMFSJ and BMAS. The report also mentions the Ministry of Finance (BMF) and the Ministry of Economic Development (BMZ), which, to date, do not engage in exchange on the subject;
- > improvements in terms of data and indicators, and an integration of social-enterprise and social-innovation indicators into existing monitoring systems for entrepreneurship (e.g. the Mannheimer Unternehmenspanel or the KfW-Gründungsmonitor);
- > legal reconciliation of the public-benefit status and enterprising, as well as an impact orientation in public tendering;

- > fostering investment readiness on the side of social enterprises and a concomitant increase in the social-enterprise orientation in state funding and social-investment markets;
- > creation of a one-stop shop for social enterprises in Germany with the ability to inform and connect actors.

The Federal Association of German Start-Ups (*Bundesverband Deutsche Start-Ups e.V.*), involving several of the most well-known actors in the German social enterprise scene, concurs with several of these recommendations and further highlights the importance of attracting talents for careers in the field of social enterprise and social innovation.⁸⁰

Experts agree on the deep need for monitoring procedures to assess the impact of the Procurement Modernisation Regulation on the various types of social enterprise (Unterberg *et al.* 2015). If municipalities and social insurances make too little use of this regulation, the two competency centres as well as other agencies should initiate awareness-raising and sensitising campaigns. Social enterprise support structures should also sensitise their members and clients about the possibilities of inclusion into procurement procedures, so as to urge them to stand up for their rights.

This most recent mapping report (2018) has shown that, although some of the recommendations made by the Mercator group in 2012 have led to policy measures (e.g. the extension of EXIST stipends to include social entrepreneurs, the implementation of engagement strategies, etc.), others prove more long-term in nature (e.g. the inclusion of social enterprise issues into school and university curricula). The issues of local authorities' procurement procedures and the further development of public-benefit legislation remain as important as they were then.

5.3. Trends and future challenges

Overall, an interest in social enterprise has taken flight within the German ecosystem. The initial indifference has morphed into a more targeted image of and support for social enterprise around 2010, which has then broadened to a comprehensive understanding of social enterprise, supposedly driven by the attraction of social innovation. The authors forecast this trend to continue, also in view of the increasing interest in CSR or the sharing economy. While beneficial for the subject overall, this evolution also produces several challenges.

(80) *Bundesverband deutscher Startups e.V.* (2016)

First, it means that borderlines will remain blurred or become even fuzzier, both in terms of policy and in terms of practice on the ground. If policy makers want to enhance positive social outcomes, they will need to be able to provide targeted support to clearly delineated types of organisations and/or activities. Intrapreneurship or entrepreneurial spin-offs might need fewer or different resources than social enterprise start-ups, which suffer comparatively more from a lack of financial means and contacts to established players in the field. CSR activities can and should be financed by firms themselves, but they might benefit from more exposure, or connections to third-sector actors. As long as discourses around these topics remain rather unrelated or under-systemised, it might prove more difficult for actors to identify effective support and realise their potential. The dispersed policy competences as well as missing continuity in the policy programme surrounding social enterprise (with changing governing parties and ministers) will not likely make a concerted strategy in the near future.

Secondly, the major economic strengths in subsidiary delivery and funding logic of the German welfare system will likely remain a great obstacle to social innovation, unless its operational detail is carefully re-assessed. Indeed, the current funding logic does not promote innovation in service-providing organisations. Apart from a limited number of federal or *Länder* model programmes/projects, typically no budget in commissioned services gives room for innovation. Since only effectively performed services receive funding, resources run scarce to support improvements, experimentation, research and development. In part this is justified, since tax payers' money should not be highly risked, and new approaches could fail. Yet, if the welfare system's effectiveness requires leveraging through innovation, then mechanisms must be built within this system to encourage the necessary processes. This claim is not new. The expert group who wrote the BMWi report has also voiced it, and the same message has been reiterated since (see for example Krlev 2013, Nock 2013, Öztürk 2013, Scheuerle *et al.* 2013).

Foundations' funds or new financing models such as social-impact bonds might provide a vehicle towards more innovation. But financial volumes provided through them at present remain too low to produce the desired outcomes. Where liberalisation and opening quasi markets in the social sector have so far happened (e.g. in work integration, parts of work inclusion, and [school] assistance services), this has mostly led to more entrepreneurial behaviour. Yet, it also shows how the social enterprise landscape remains vulnerable and dependent on changes in social policy and procurement. For instance, while the number of employees in most inclusive enterprises has increased drastically, the number of inclusive enterprises has increased only moderately in the last ten years, while the number of work integration initiatives has dwindled.

The sector also experiences great sensitivity to changes in public-benefit and tax law. Welfare organisations have and continue to create spin offs particularly in the field of inpatient care, while for-profit providers have entered the market in the care

sector. Several medium-sized welfare providers have even morphed away from the associative form altogether, assuming a public-benefit limited-liability status (as in the case of Internationaler Bund).

The number of social cooperatives, entrepreneurial associations, operating foundations and new-style social enterprises so far remains small when compared to the number of welfare organisations. Yet, a prognosis of their future development in social service delivery appears impossible. New opportunities might arise from cooperation between traditional associations and start-ups, from new public financing methods (such as vouchers and personal budgets in day care, pre-school, integration of the handicapped) or from entrepreneurial engagement in depopulating rural areas (e.g. community cooperatives). Innovative social enterprises might flourish in service areas, where municipalities can no longer finance the traditional approach to supplying social services or where professional staff is not available (e.g. care for children and the elderly in depopulated rural areas) (Göler von Ravensburg 2013). As of yet, some of the populace resists promoting new actors without track record.

Thirdly, social enterprises will remain invisible, if no targeted data on the phenomenon are produced. To date, no major German survey systematically assesses the enterprising or innovating character of social-purpose organisations or activities. However, as already mentioned, several “points of entry” could prove useful in third-sector and in entrepreneurship statistics. German authorities seem to have developed an increased interest in the subject, deriving from the broader social innovation approach. A new project underway investigates the measurement of regional and organisational social-innovation capacity and thereby complements established innovation metrics.⁸¹ The project will link regional framework conditions, organisational capacity and societal climate and will thus mirror the ecosystem approach to social enterprise.

Both the main opportunities and challenges for social enterprise in Germany lie in the areas of a concerted policy development effort, including public-benefit legislation and procurement issues; more access to financing means that encourage innovation; and data availability.

(81) <http://www.iatge.de/forschung-und-beratung/projekte/2018/indisi-indikatorik-soziale-innovation.html>

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Entrepreneurial/ economic dimension	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises ⁽⁸²⁾ .	<ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. 	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).

(82) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Social dimension (social aim)	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. "Social" shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE's members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs' action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. 	<p>Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.</p>	<ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what "public benefit" means in her/his country.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Inclusive governance-ownership dimension (social means)	<p>To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalized in different ways.</p>	<ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). 	<p>SEs must ensure that the interests of relevant stake-holders are duly represented in the decision-making processes implemented.</p>	<ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders is enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs).

Appendix 2. Methodological note

As mentioned in the text, the authors here outline the strategy applied to “filter out” the relevant organisations that can be considered social enterprises. The authors explicitly report this strategy to allow interested readers to appreciate the analytic steps in order to make an informed judgement about the figures presented.⁸³

Using the criteria from the operational definition used for this mapping, the authors first reduced the ZiviZ survey sample of 6,334 organisations (see table 8) in the following way:

- > Step 1: Excluding all umbrella associations (*Verband*), which do not own entrepreneurial activities and merely gather lower-level organisations. Result: 474 organisations excluded.
- > Step 2: Excluding all organisations without any paid employees, so as to meet the indicator about the use of paid workers. Although this might mean that we also excluded a small number of social enterprise start-ups that could depend solely on volunteer engagement in their first 1-2 years of existence, we decided to stick with this criterion. It should be noted that stricter thresholds of five or more employees might have been sensible. There simply is no definitive criterion, and the one applied clearly marks the most inclusive approach. Result: 4,170 organisations excluded.
- > Step 3: Excluding organisations below the 25th percentile of our sample in terms of earnings.⁸⁴ The threshold so defined was set at 35,000 EUR, which also supposedly equates to about the minimum amount of earnings an organisation needs to employ at least one full-time equivalent employee. Curiously, it is exactly twice the amount at which organisations become liable to pay value-added tax, set at 17,500 EUR. This amount, however, would not have been sufficient to cover the costs of one FTE employee, which is why we decided to use a slightly stricter cut-off point. However, still stricter cut-offs could have been easily conceivable, since earnings at the lower end of the spectrum will denote really small organisations that could lack economic sustainability. Result: 377 organisations excluded (25% of the 1,511 valid answers remaining after step 2).

(83) The authors deem it important to include a methodology appendix with a view to maintaining this “integrity” in the update conducted in this report.

(84) In the absence of any other suitable data, we used data about the total income. Indeed, the subsample size (“N”) is very low when it comes to the composition of earnings (< 371 responses within the final sample of 6,334 organisations). Thus, we could not base our analysis on the types of income (here: earned income), due to the massive gap in data. We will see further below that, if we base our analysis on this small number of respondents, it appears that most income is earned; supposing N is representative of the whole sample, this would further justify the selection we have made.

- > Step 4: Using the survey question on whether “democratic structures” were in place in the organisation as an additional filter criterion and excluded those organisations that responded “strongly disagree” and “disagree” on a 5-point Likert scale (thus including organisations that chose “neither-nor”, “agree”, and “strongly agree”). There is no other way of assessing governance structures in the various organisational types and legal forms in Germany. Obviously, those organisations in the middle category (“neither-nor”), and even those “only agreeing” could have been excluded, had we wished to apply a stricter approach. Result: 117 organisations excluded.
- > Step 5: Excluding all organisations providing services exclusively to their members, so as to remain in line with the social/societal mission criterion. Organisations had to provide services also for non-members, thus ensuring authors did not deal with “exclusive clubs” uninterested in outside target groups. Result: 196 organisations excluded.
- > Step 6: Excluding all organisations without public-benefit status. While organisations without this status might also qualify as social enterprises, according to this project’s definition, we had no way of knowing whether they would adhere to the asset lock and dividend cap criteria. In order to make quite sure they did, we excluded all organisations without public-benefit status. Result: 61 organisations excluded.
- > Step 7: Excluding all organisations that “disagreed strongly” with giving themselves the label of “social enterprise” (5-point Likert scale). We decided to include all but the latter category, for the simple reason that in the social enterprise debate, one often comes across the argument that some organisations dislike the label, although they adhere to its criteria. Obviously, this could have been interpreted much more strictly—up to the point of only accepting those that “agreed strongly” to being considered as a social enterprise. Result: 367 organisations excluded.

Two further considerations needed to be taken into account:

- > 96% of Germany’s 20,150 foundations register as public-benefit foundations (Bundesverband Deutscher Stiftungen 2014). 61.3 % of public benefit foundations restrict their activities to offering grants and other forms of funding to initiatives, while 18.2% (or about 3,820 public benefit foundations) exclusively run their own activities (operational foundations) and 20.4% (or about 4,110 foundations) do both (Bundesverband Deutscher Stiftungen 2014). In addition to this we note a trend towards an increase in dual-purpose foundations. More than a quarter of all foundations are geared towards social objectives, 15% towards education and another 12.85% towards science and research (Bundesverband Deutscher Stiftungen 2014). We thus estimate the number of operational foundations at around 1,900 entities.

- > The number of cooperatives we arrive at through this procedure (see below: 501 cooperatives), notably, ranks lower than the current official number of social cooperatives, which lies at 600-700 (Göler von Ravensburg 2018)—all of which should, in principle, fall under our definition of social enterprise. However, we decided to proceed with the sample we had arrived at through the reduction strategy described above.

Since (contrary to the German discussion) innovation is explicitly not used as a criterion defining social enterprise in this mapping exercise, we do not use the ZiviZ self-image items referring to whether the organisation agreed that it “promoted social change”; applying such criterion would have strongly reduced the number of organisations, with only about 12% of organisations agreeing fully, 16% agreeing and 18% being indifferent (non-response: 35%; all in relation to the final number of social enterprises quoted right below).

Eventually, and as discussed in the text we arrived at a sample of 888 social enterprises, to be selected from within the ZiviZ data (which originally referred, as already mentioned, to 6,334 organisations). The distribution of this reduced sample across legal types is shown in table 6, on the basis of which we estimated the number of social enterprises in the general population.

Appendix 3. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	N° of organisations	N° of workers	Turnover	Degree of reliability (1 to 4) and explanation
Traditional associations	ZiviZ Survey	Stifterverband Representative body	2017 Every 3-5 years	✓	✓	✓	4 - Comprehensive and representative
Welfare organisations	Statistics of the Federal Association of Non-statutory Welfare (BAGFW) Own statistical accounts	BAGFW Representative body	2012 Irregular	✓	✓	✓	4 - Represents the largest share of welfare providers in Germany (own statistics)
Operational foundations	Statistics of the Federal Association of Foundations Own statistical accounts	Bundesverband deutscher Stiftungen Representative body	2014 Irregular	✓	✓	✓	4 - Represents all foundations in Germany (own statistics)
Cooperatives	Die deutschen Genossenschaften 2017 Research report	Michael Stappel, Chief Statistician German Cooperative Bank (DZ Bank) Compilation from data provided by all regional and sectoral cooperative associations as well as company registers	2017 Yearly	✓	✓	✓	4 - Participation of all major cooperative associations
WISEs	Statistics of the Federal Association of inclusion enterprises Own statistical accounts	Bundesarbeitsgemeinschaft Inklusionsfirmen e.V. Representative body	2013 Irregular	✓	✓	✓	4 - Represents all inclusion enterprises in Germany (own statistics)
New-style social enterprises	Mercator study & Update in CSI/KfW report Survey	Research consortium Universities	2010/2013 No updates	✓	✓	✓	3 - Sound methodology, but the data are only estimates

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Appendix 5. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
Prof. Dr. Ann-Kristin Achleitner	Technische Universität München	Professor of Business Administration	ACA
Dr. Christopher Bangert	Deutscher Caritas Verband	Head of Division	PRAC
Prof. Dr. Markus Beckmann	Friedrich-Alexander Universität Erlangen-Nürnberg	Professor of Business Administration	ACA
Bernhard Brauner	Genossenschaftsverband - Verband der regionen e.V.	Consultant	PRAC
Prof. Dr. Johannes Eurich	Ruprecht-Karls-Universität Heidelberg	Professor of Diaconic studies	ACA
Dr. Burghard Flieger	Innova eG	Consultant	PRAC
Prof. Dr. Rolf G. Heinze	Ruhr-Universität Bochum	Professor of Sociology of work and economy	ACA
Prof. Dr. Jürgen Howaldt	Dortmund University of Technology - Sozialforschungsstelle Dortmund	Professor of Sociology - Director	ACA
Prof. Dr. Karin Kreutzer	European Business School	Professor of Social Business	ACA
Dr. Anael Labigne	Stifterverband e.V. Zivilgesellschaft in Zahlen	Senior researcher on Civil Society	PRAC
Dietmar Motzer	Diaokonie Neuendettelsau	Chief Financial Officer	PRAC
Dr. Susan Mueller	St. Gallen, before EBS	Professor for Entrepreneurship	ACA
Georg A. Pflüger	Friedrich-Wilhelm-Raiffeisen-Schule Wetzlar	Chief Executive Officer	PRAC
Dr. Stina Preuß	Intra Lab/Mission Leben	Programme Director	PRAC

Full name	Organisation	Role	Stakeholder category
Dr. Andreas Rickert	Phineo gAG	Chief Executive Officer	PRAC
Dr. Natascha Sasserath-Alberti	Diakonie Deutschland - Evangelischer Bundesverband Evangelisches Werk für Diakonie und Entwicklung e.V.	Chief of Legal Services	PRAC
Markus Sauerhammer	Social Entrepreneurship Network Deutschland (SEND e.V.)	Chairman	PRAC
Dr. Thomas Scheuerle	Baden Campus	Consultant	PRAC
Prof. Dr. Katrin Schneiders	Hochschule Koblenz	Professor of Social Work and Social Economy	ACA
Dr. Antonius Schroeder	Dortmund University of Technology		ACA
Prof. Dr. Frank Schulz-Nieswandt	Universität Köln	Professor of Social Policy and Qualitative Methodology	ACA
Dr. Wolfgang Spieß-Knafl	Next Generatio Impact	Chief Executive Officer	PRAC
Dr. Judith Terstriep	Westphalian University, Institute for Work and Technology, Department Innovation	Head of Division	ACA
Dr. Ekkehard Thiesler	KD Bank	Chairman of the Board	PRAC
Dr. Gerhard Timm	BAGFW	Chief Executive Officer	PRAC
Dr. Stefan Touchard	Genossenschaftsverband - Verband der Regionen e.V.	Consultant	PRAC
N.N.	High-level public administration		POL
Timo Witt	Embrace Verbund	Chairman of the Board	PRAC
Michael Wunsch	Social Entrepreneurship Network Deutschland (SEND e.V.)	Consultant	PRAC
Dr. Raphael Ziegler	University of Greifswald	Senior Researcher Philosophy, Economics and Sustainability	ACA

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