



**STUDY ON THE SITUATION AND THE LEGAL FRAMEWORK OF SOCIAL
ENTREPRENEURSHIP IN BRANDENBURG, GERMANY**



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Glossary & Acronyms

| | |
|--------|---|
| BMFSFJ | Bundesministerium für Familie, Senioren, Frauen und Jugend (Federal Ministry of Family Affairs, Senior Citizens, Women and Youth) |
| BMWi | Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs) |
| CSR | Corporate Social Responsibility |
| EC | European Commission |
| ERDF | European Regional Development Fund |
| ERP | European Recovery Programme |
| ESF | European Social Fund |
| EU | European Union |
| GDR | German Democratic Republic |
| KfW | Kreditanstalt für Wiederaufbau |
| LLC | Limited Liability Company |
| SE | Social Entrepreneurship |
| SEs | Social Enterprises |
| SIB | Social Impact Bond |
| SOCENT | Social Entrepreneurship |
| SPAs | Sparsely Populated Areas |
| SRS | Social Reporting Standard |
| UG | Unternehmergesellschaft (entrepreneurial company) |

Executive Summary

Brandenburg is one of the sixteen federated states (*Bundesländer*) of Germany. It lies in the northeast of the country covering an area of 29,478 square kilometers and has 2.48 million inhabitants. Averaging at a population density of 84 inhabitants per square kilometres, Brandenburg's population density is much lower than German average (230 inhabitants per square kilometres), rendering it the penultimate federal state on that list. Today the state ranks among the regions suffering most from structural weaknesses in the labour market and adverse demographic developments, particularly in the rural and sparsely populated areas that are further away from the metropolitan territory surrounding Berlin. As such Brandenburg will experience declines in population well above 10 % outside the large conurbations. In total, Brandenburg's projected annual population net loss will double from 11.300 (2014) to 21.200 (2040). This means, until 2040 Brandenburg would lose – other things held constant – a total of 517.000 inhabitants.

The five-year project *Social Entrepreneurship in Sparsely Populated Areas* (SOCENT SPAs) aims to contribute to increase the region's competitiveness through the promotion of social entrepreneurship in sparsely populated areas (SPAs). More specifically, the action will foster interregional cooperation among six public and private non-profit entities of Finland, Germany, Slovakia and Spain in a view to improve the effectiveness of their respective regional policies in actively supporting the visibility, incubation and acceleration of social entrepreneurs in SPAs as a driver to regional competitiveness and inclusive growth.

Within the framework of this project, this baseline study on Social Entrepreneurship (SOCENT) in Brandenburg shall help preparing a coherent SOCENT support strategy, i.e. an action plan to better support social entrepreneurship in sparsely populated areas in the respective region.

The main objectives of the study are to assess:

- the status and situation of social entrepreneurship in the region;
- the specific legal framework related to social entrepreneurship in Germany and in the region;
- the opportunities that social entrepreneurship can offer to generate inclusive growth, especially in sparsely populated areas.

SOCIAL ENTREPRENEURSHIP IN SPARSELY POPULATED AREAS

The reasons for (negative) demographic shifts are manifold in Brandenburg, but can be boiled down to an ever decreasing fertility rate, a drop in the mortality rate, the retirement of the baby boomer generation and dire economic and labour market perspectives, particularly in the rural peripheral areas. While many of these issues are common phenomena in industrialised countries, the (adverse) repercussions on demographics are more pronounced in rural, decentral areas, such as those areas of Brandenburg further away from the large conurbations Potsdam and Berlin.

As counter-measure, social innovation may be a useful tool as it can make a real difference as a source of innovative approaches for resolving societal challenges through mobilizing civil society to further inclusive socio-economic development and promote employment and competitiveness. The capacity of social enterprises (SEs) to directly benefit local development and correct major socio-economic imbalances while benefiting local communities has been proven in Brandenburg and beyond, and it remains a crucial asset to secure the population in sparsely populated areas.

While in Germany there is no consensus on what actually constitutes such a social enterprise – there is no universally applicable definition for social entrepreneurship – the growth of third sector organisations pursuing a social impetus is on-going. In particular, new, more market-

oriented social enterprises are mushrooming with the sector gaining size and visibility, however, still on a very limited scale.

To foster the development and longevity of such social enterprises, it is usually those instruments provided and tailored for start-up and growth processes of regular, profit-oriented businesses, which are open to SEs too. Like other companies, social enterprises have consulting, coaching and financing needs. However, they also have specific features which distinguish them from purely commercial companies and which must be taken into account when designing conducive policy measures. For instance, their access to conventional financing instruments is more difficult because of their specific characteristics (unfavorable risk-profit ratio, market niche activity, etc.) and because financial markets for social investment are still underdeveloped. In addition, the survival and growth of social enterprises is also influenced by internal factors. For example, during their start-up phase questions regarding business case development and market perspectives tend to fade to the background due to an overemphasis on the work related to the SE's social mission. Consequently, tailor-made and special advisory services should be expanded in order to further strengthen SEs in their quest to build up a (financially) sustainable social business.

However, bespoke support for social entrepreneurs is limited. Although we are starting to recognise the need for social innovations in rural areas, the context where they happen is still very fragile, frequently localized in smaller communities and diffuse. Indeed, social enterprises face barriers impeding them to implement satisfying solutions to social challenges. Governments and policymakers are uniquely positioned to play a significant role in influencing the potential for social enterprises' success by using their regulatory and legal powers to set up the right legal framework for SEs across sectors and geographical areas.

RECOMMENDATIONS TO SUPPORT SOCIAL ENTERPRISES

Against this background, the following areas where social entrepreneurship is in need for further support in order to size its momentum have been identified:

1. Availability of Financing Instruments

For many social enterprises traditional loan financing is considered unsuitable due to the fact that start-ups face business models which provide for relatively low profit margins, higher risks and uncertain yield perspectives. This said, the usability of available financing instruments within the framework of start-up and economic promotion should be adapted to the needs of SEs, in particular at their early development stages.

- **Corporate Social Responsibility (CSR):** The engagement of medium and large corporations, for example by encouraging and channeling CSR programs towards social entrepreneurs could improve the lack financial support in the start-up phase.
- Improvement related to **crowdfunding offers**, such as crowd-investment and crowd-lending models, could lead to greater access of SEs to financial resources.
- **Financing programs by the federal (and state) government** related to promoting the German "Mittelstand" (i.e. medium-sized companies) are not sufficiently tailored to non-profit social enterprises, which inhibits their access to proper funding. The available loan programs offered by the KfW, the German development bank, are a case in point as they may rather be seen as a supplementary option for social entrepreneurial business models due to the fundamentally limited ability to service debt. Creating specific government-run funding programs for social enterprises within the framework of "Mittelstand" financing is, however, not a likely option considering the niche status of social entrepreneurship in Germany. Hence, it is recommended to initiate specific program versions with adapted funding conditions for the German Social Business Sector.

- In addition, the structure of funding in the area of **mezzanine and equity financing** is generally considered a suitable and promising financial instrument. The program that may be identified as the most suitable for the specific financing needs of social enterprises regarding the design and sales channel is the German micro-mezzanine fund.
- **Grants from public support programmes or foundations** can be a good instrument to finance the early stage of the social enterprise, cover the initial investment costs and proof to other financiers the success of the model. Simplifying bureaucracy around donations and project grants is therefore of significant importance to enable SEs to participate in calls for financing. For an early stage social entrepreneur, however, it can be very resource intensive to learn and get access to the various revenue channels. The world of public support programmes is, thus, an area where extensive knowledge is needed to find the right programs, write the application forms, follow the applicable regulations etc. If the social entrepreneur decides to go this path it could mean full time commitment to win financing for a project just for a couple of years.

2. Impact-oriented Investment

Social enterprises need a functioning market for impact-oriented investments in order to unfold their full potential:

- The market for **impact-oriented venture capital and equity capital** in Germany is still in the early stage of development and only slowly growing in Germany. However, the availability of impact-oriented capital plays a key role for social enterprises aiming to grow. Important stakeholders within this realm include foundations, private investors (including big corporations with CSR departments) as well as institutional investors, social enterprises on the demand side and specialized funds as intermediaries.
- Creating a functioning market for impact-oriented investments requires joint action by stakeholders at federal and state level, ministries, foundations, private investors, charities and social enterprises. This is especially true for the development of innovative instruments (e.g. Social Impact Bonds)¹. First experiences from pilot projects at the regional level have shown that the relevant coalitions can be initiated and led by political stakeholders. To achieve this, social enterprises and stakeholders from civil society must intensify their cooperation.

3. Support Services and Consulting

In order to achieve systemic changes through social innovations, the support infrastructure has to be built according to the necessities of those who can innovate and organize these changes, i.e. by social entrepreneurs. Currently the support infrastructure for social entrepreneurs in Germany/ Brandenburg is lacking the right public support. The development of such support instruments, tailored to serve the specific needs of SEs, would enhance the dynamic of the whole sector significantly:

- **Consulting services** have a special significance for social enterprises. Correspondingly, there is a demand for qualitative support structure. This demand cannot be satisfied by the typical support centers (such as chambers of commerce and economic development) as well consultants oriented more towards founding in

¹ Social Impact Bonds (SIBs) are a type of bond, a contract between social organisations and the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. While they operate over a fixed period of time, SIBs do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved. Therefore, in terms of investment risk, Social impact bonds are more similar to that of a structured product or an equity investment.

general. Achieving a comprehensive, nation- (or at least state-) wide service offering would significantly improve the framing conditions for social enterprises in Germany.

- Although there are training and counselling programs for early-stage SEs in Germany (e.g. Social Impact Labs), this is not the case for social enterprises that intend to scale. Particularly with regards to underserved rural areas **specific training programs** for trainers and business advisors, coaches, etc. both on early stage business development topics and on scaling strategies, should thus be further developed.
- Furthermore, the **consulting offering and support services for social enterprises at German universities** are still weak. While there are research chairs dedicated to social entrepreneurship, this is not equivalent to a practical support offering for social enterprises founded by students. The general start-up consulting services at universities, often within the framework of EXIST - a business development programme - start-up offices, are not capable of supporting prospective founders as needed in the field of social entrepreneurship. Universities and authorities have placed greater emphasis on highly scalable technological prospective start-ups; unlike social innovations which are at the core of many social businesses. Thus, the development of support instruments, that emphasize the specific demands of SEs, would foster the dynamic of the sector.
- For example, the *School for Social Entrepreneurs* in the UK offers a comprehensive training and support program for the early stage.

4. Market Transparency on Social Impact Orientation

Standardisation of indicators for impact orientation would improve market transparency as well as allow for greater differentiation of SEs from commercial enterprises:

- The variety of social entrepreneurial approaches, competing definitions and self-descriptions hinder market transparency in Germany. **Reliable indicators** documenting the companies' orientation towards social impact, which would serve as unique attributes for statistical differentiation of social enterprises in commercial legal form, are especially lacking. Furthermore, clear and universally accepted indicators to differentiate such companies from the non-commercial part of civil society organizations in the Third Sector are non-existent at this time.
- **Impact reporting schemes** such as the Social Reporting Standard or voluntary certification labels, such as B-Corp or the "Wirkt" seal, are increasingly widespread among German Social Enterprises and help to differentiate the sector from commercial oriented enterprises. However, a consistent consolidation and realization of these approaches in order to build a corresponding data set would further foster this positive development.

5. Legal Framework for Social Enterprises

While the German private law allows for flexibility for social entrepreneurial initiatives by providing a wide variety of organizational legal forms, more flexibility in applying the tax code to SE-Initiatives is needed:

- In Germany, a wide variety of legal forms under private law (non-incorporated and incorporated firms) can be used for social entrepreneurial initiatives. In particular, the non-profit version of the "Unternehmergeellschaft" (UG, lit. entrepreneurial company), which was introduced in 2008, has proved popular in the last few years. However, the related limitations may be especially obstructive for social enterprises that transition to a growth phase, e.g. prohibited dividend payout to shareholders and limits to free creation of reserves. The frequent result thereof is that social enterprises are forced to be managed on the limits of the regulations and always with the fear of losing the

charitable status. Further difficulties surrounding the application and regular renewal of the non-profit status by the responsible tax office were reported.

- Legal regulations that allow **more flexibility in applying the tax code to non-profit entrepreneurial initiatives** would significantly increase the scope of action of such social enterprises and eliminate the necessity of forming a commercial and a non-profit branch in an organizational hybrid structure for achieving growth.

6. Social Recognition and Public Awareness

Despite recent efforts, also from the side of government, more advocacy for social entrepreneurship in Germany is needed in order to raise awareness among decision-makers:

- Because many of the framing conditions that are relevant for the development of social enterprises are cross-cutting issues, an optimal political handling requires inter-departmental coordination at federal and state level. The matter can only be handled in a coordinated manner, in particular if there is a decisive strategy by the government in place that settles the responsible department and stipulates clear goals. This does not only apply to the national but also the regional level.
- A **wider acceptance of social entrepreneurship** as a relevant form of economic activity through key stakeholders of the economy (e.g. chambers, associations, funding institutions) is a closely related issue. Social enterprises often face resentment in Germany: to start an enterprise is frequently associated with the risk of failure and culturally negative connotations. In addition, the concept of social entrepreneurship still has a niche character in Germany. This is sometimes accompanied by reservations of some sectors for the connections between a commercially-oriented entrepreneurial focus and social goals. This awareness creates the preconditions for a real integration of growth-oriented social enterprises in private sector structures, thereby enabling increasing professionalization and market orientation of such companies.

7. Transfer and Scaling

Support services and networks that foster the scaling and transfer of social innovation to new regional context could particularly help SEs to increase their impact in underserved regions.

- Social entrepreneurs adapt their concepts to the context where the social problems are located. Often, however, solutions are not site-specific, but occur in different regional contexts. The parallel development and implementation of a product or service with similar objectives in different regions, nationally and transnationally, is currently not very efficient.
- In order to **transfer innovative social innovations to rural areas there is a need to design specific counselling and support offers and training** for trainers and business advisors on scaling strategies that are knowledgeable of the specific regional contexts.
- The establishment of **knowledge exchange networks** (national and transnational) would further sustain such efforts.

I. Background, Purpose and Scope of the Study

The five-year project *Social Entrepreneurship in Sparsely Populated Areas* (SOCENT SPAs) will contribute to increase the regions' competitiveness through the promotion of social entrepreneurship in sparsely populated areas (SPAs). More specifically, the action will foster interregional cooperation among six public and private non-profit entities of Finland, Germany, Slovakia and Spain in a view to improve the effectiveness of their respective regional policies in actively supporting the visibility, incubation and acceleration of social entrepreneurs in SPAs as a driver to regional competitiveness and inclusive growth.

Sparsely populated areas are generally marked by depopulation and an ageing remaining population; demographic trends are thus an important challenge in these regions. As counter-measure, social innovation turns out to serve as a valuable tool as it can make a real difference as a source of innovative approaches for resolving societal challenges through mobilizing civil society to further inclusive socio-economic development and promote employment and competitiveness. The capacity of social enterprises (SEs) to directly benefit local development and correct major socio-economic imbalances while benefiting local communities has been proven and it remains a crucial asset to secure the population in sparsely populated areas.

However, bespoke support for social entrepreneurs is limited. Indeed, social enterprises face barriers impeding them to implement satisfying solutions to social challenges. This said, governments and policymakers are uniquely positioned to play a significant role in influencing the potential for social enterprises' success by using their regulatory and legal powers to set up the right legal framework for SEs across sectors and geographical areas.

Within the framework of the project, a baseline study on Social Entrepreneurship (SOCENT) in Brandenburg has been conducted to help preparing a coherent SOCENT support strategy, i.e. an action plan to better support social entrepreneurship in sparsely populated areas in the respective region.

The main objectives of the study are to assess:

- the status and situation of social entrepreneurship in the region;
- the specific legal framework related to social entrepreneurship in Germany and in the region;
- the opportunities that social entrepreneurship can offer to generate inclusive growth, especially in sparsely populated areas.

The study will enable the Consortium partners as well as key stakeholders to understand the situation in the region in order to elaborate a relevant action plan to define realistic targets.

II. Study Approach, Methodology and Limitations

The data and information used in this regional report, have been largely compiled from desk research, previous studies by Social Impact (and its sister organisation IQ Consult) as well as relevant literature and country reports on the topic. These sources usually, but not entirely, relied on expert interviews. What is more, information taken from several conferences² and interviews with social entrepreneurs on the topic has been very useful to further improve our understanding of social innovation and social entrepreneurship in rural areas. For the analysis of demographic trends and dynamics we have mostly relied on data gathered and projections conducted by the *Landesamt für Bau und Verkehr* in Brandenburg (State Agency for Construction and Transport) in collaboration with the *Amt für Statistik Brandenburg* (Statistical

² This includes:

- "Rural Businesses: the future is now - an enrd seminar about revitalising rural areas through business innovation" in Brussels (30.03.2017).
- „Fachforum - Innovative Ansätze zur Regionalentwicklung" in Potsdam (16.06.2017).
- „Neue Perspektiven der Regionalentwicklung in Sachsen und Europa" in Dresden (15.05.2017).

Office of the state of Brandenburg)³ (2015). All the graphs and figures shown in this section were taken from this report.

Limitations of this report apply particularly to the quantitative data available on sector size, which is due to the novel nature of the sector but also the fuzziness of the concept of social entrepreneurship (SE) in Germany (see below for further explanation).

III. Territorial Context

Brandenburg is one of the sixteen federated states (*Bundesländer*) of Germany. It lies in the northeast of the country covering an area of 29,478 square kilometers and has 2.48 million inhabitants. Its capital and largest city is Potsdam. Brandenburg surrounds but does not include Germany's capital and city-state Berlin. Averaging at a population density of 84 inhabitants per square kilometres, Brandenburg's population density is much lower than German average (230 inhabitants per square kilometres), rendering it the penultimate federal state on that list.

Brandenburg is one of the federal states that were re-created in 1990 upon the reunification of the former East Germany and West Germany. Today the state ranks among the regions suffering most from structural weaknesses in the labour market and adverse demographic developments, particularly in the rural and sparsely populated areas that are further away from the metropolitan territory surrounding Berlin.

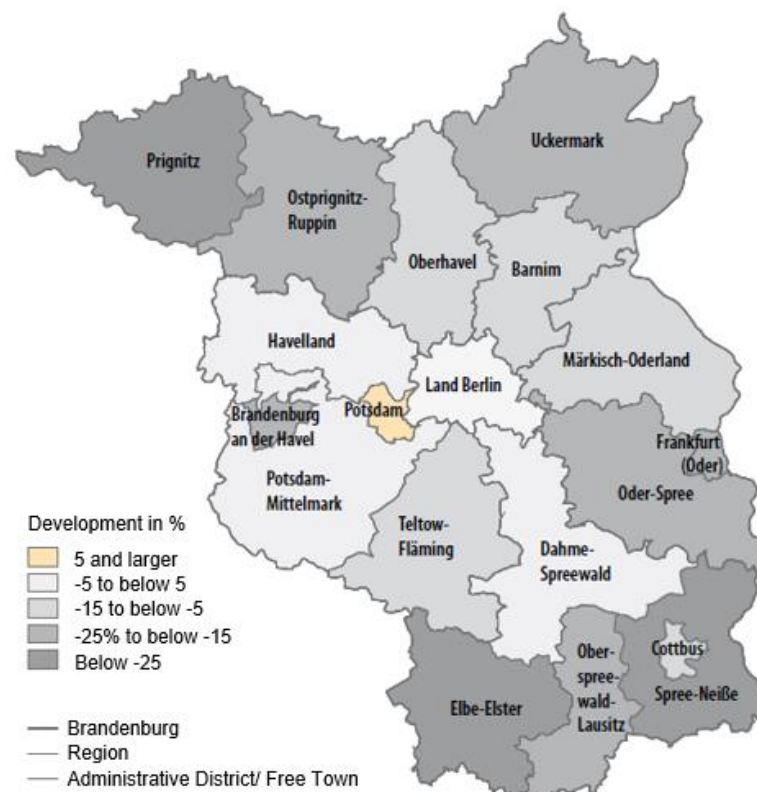
Demographic Dynamics and Trends in Brandenburg

The population of Germany will continue to decline marginally up to the year 2030. Whilst the demographics of the western German *Länder* will continue to be relatively stable, the eastern German regions will see a fall of almost 10 % in their population⁴. As such Brandenburg will experience declines in population well above 10 % outside the large conurbations as depicted in Figure 1. In total, Brandenburg's projected annual population net loss will double from 11.300 (2014) to 21.200 (2040). This means, until 2040 Brandenburg would lose – other things held constant – a total of 517.000 inhabitants.

³ Landesamt für Bau und Verkehr (2015): „Bevölkerungsprognose für das Land Brandenburg. 2014 - 2040“.

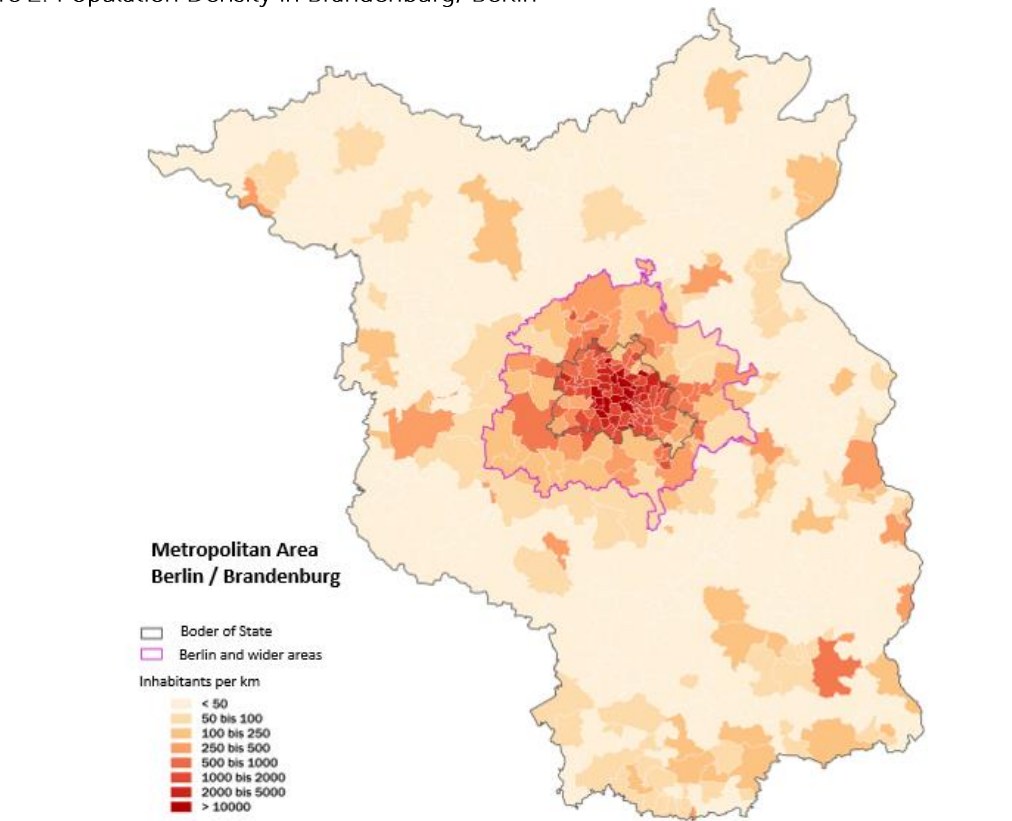
⁴ Bundesregierung (2017): „Second Engagement Report“.

Figure 1: Projected Development in Population Growth/ Decline (2013 – 2040) within the individual Administrative Districts and Free Towns



At the regional level, demographic change in the coming years will continue to take a variety of different forms. The most populous region of Brandenburg, Havelland-Fläming, for instance, will only be marginally challenged by negative demographic trends. Here, demographic decline is likely to hit in only after the year 2030. This is due to the dynamic development in and around Brandenburg's capital Potsdam as well as suburbanisation of both Berlin and Potsdam. Home to the regional government, universities and research centres as well as a sought-after place to live in, Potsdam will even experience a net increase of its population of up to 18 %. Figure 2 demonstrates these regional demographic trends. Over the years these structural differences between periphery and urban areas have resulted in a thinning out of rural areas.

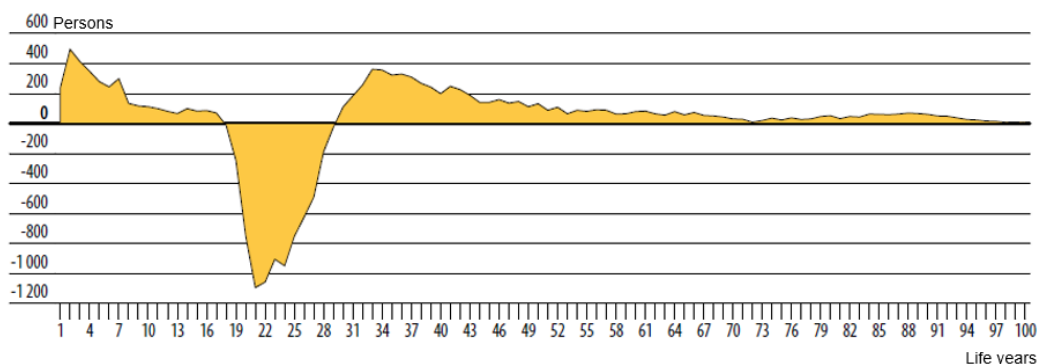
Figure 2: Population Density in Brandenburg/ Berlin



Whilst the city of Potsdam is experiencing continued long-term growth, the other three free towns of Brandenburg⁵ will see their population going down by up to 18.5% (Frankfurt (Oder)) until 2040. This development is resembled by all of the 14 *Landkreise* (administrative districts). They are projected to be exposed to an average **negative population growth of up to 14%** until 2040. This development will be more pronounced for those districts further away from the Berlin metropolitan area where migration gains from Germany's capital are less likely to benefit towns and villages.

Figure 3 showcases the scale and nature of migration movements according to age cohorts in all of Brandenburg from 2009 to 2013.

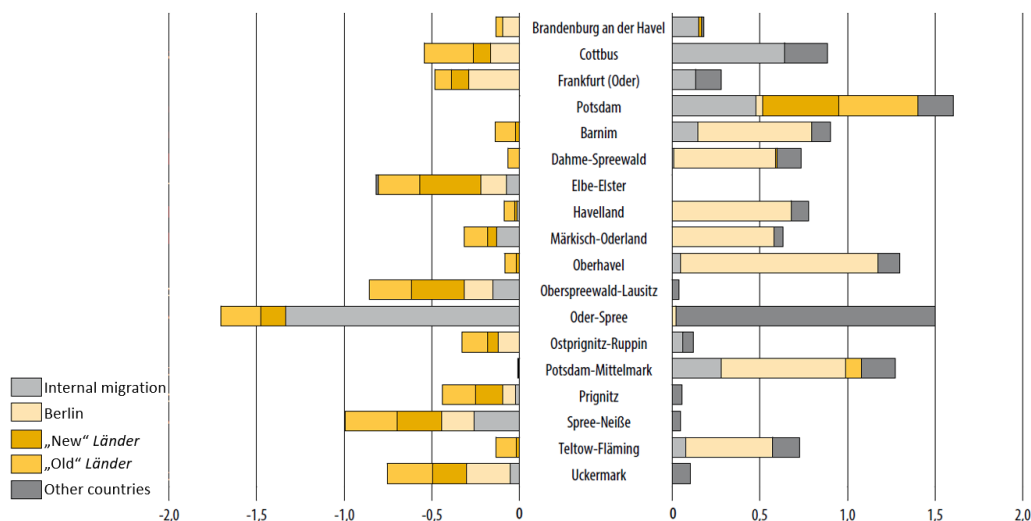
Figure 3: Average annual net Population Outflux in Brandenburg (2009 - 2013) according to Age Cohorts



⁵ Brandenburg an der Havel, Cottbus, Frankfurt (Oder).

What is particularly striking in this graph is the large number of young adults trading Brandenburg for other places to live and work in. While their destinations are manifold and potentially motivated by a host of different considerations, a majority of emigrants are flocking out of Brandenburg either to the Old *Länder* in Western Germany or to Berlin, places constituted by better economic perspectives and beneficial infrastructure for work and families. Figure 4 demonstrates this migration flow for all of Brandenburg's administrative districts and free towns in the period from 2009 to 2013. On the other hand, it is also visible that both internal migration and people coming from countries other than Germany represent the bulk of people moving to communities within Brandenburg. This is particularly true for constituencies bordering Poland such as Frankfurt (Oder), Oder-Spree, and Cottbus.

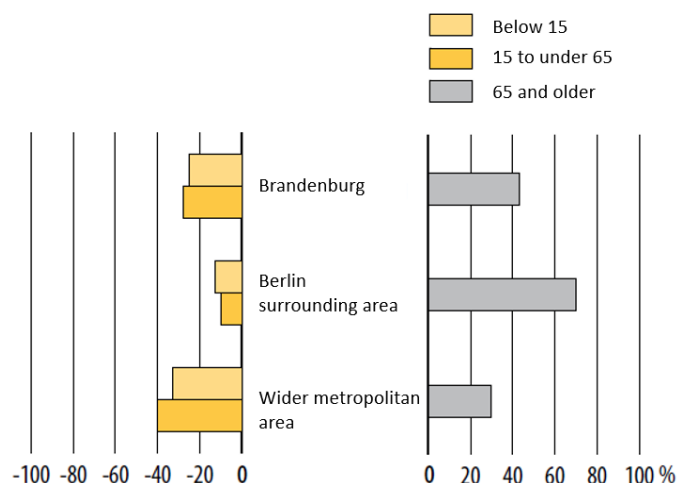
Figure 4: Average annual net migration (2009 – 2013), Free Towns and Regional Districts



These migration inflows are, however, unlikely to offset the net population loss created by the factors crucial for Brandenburg's net decline in terms of population.

On the contrary, the **ageing process**, due to the low fertility rate in all of Brandenburg (except for Potsdam), will accelerate in the years after 2025 and not reach its peak until the 2040s. The number of elderly people (65 and older) is set to increase by over 243.000 (+43%) until 2040. At the same time, the number of younger people (below 15 years) is projected to decline rapidly, down to ca. 24% of the total population until 2040. Statistically speaking, in 2040 the average male will be 45.1 whereas the average female living in Brandenburg will be 48.1 years old.

Figure 5: Demographic Change 2040 vs. 2013



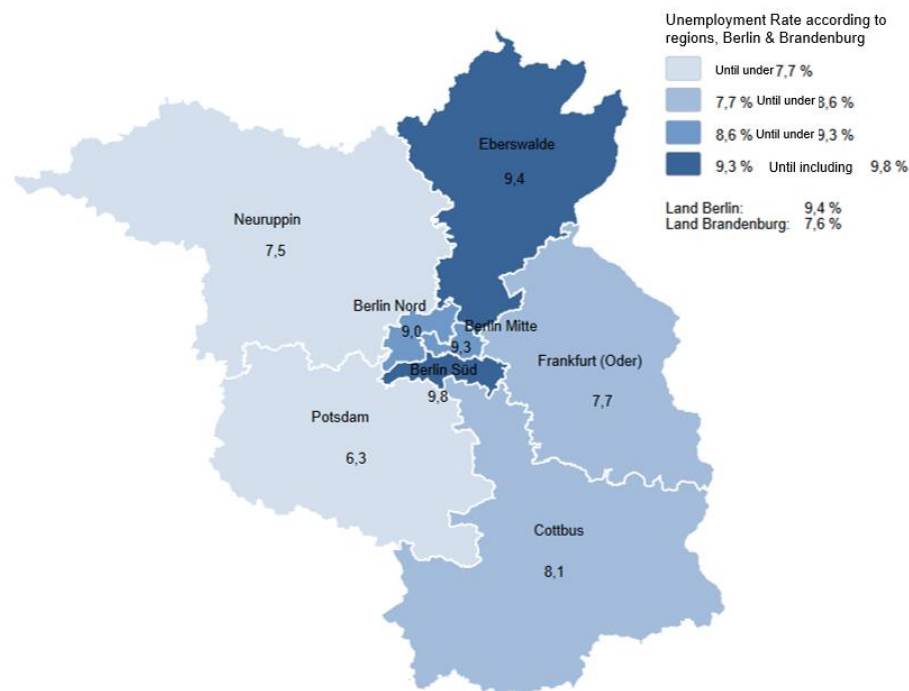
As it stands, the forecasted decline in labour force will be significant. The “baby boomer” generation will retire from the labour market in the next twenty years, and year groups with a lower birth rate will enter – a demographic downward spiral may follow. Across all of Germany, the labour market supply is therefore set to sink by around 10 % at a faster pace to 2020 and then rather less quickly thereafter. Once again, this decline will affect the eastern German *Länder* more profoundly than those in the west. By the end of 2035, roughly 83 % of all people in work will be living in the western German *Länder*.⁶ For Brandenburg, the calculated burden per working person (aged 20 – 65) due to this age shift will raise from a score of 63 (2015) to 106 (2040), i.e. in 2040 each working person will have to take care of him/herself and another under-aged or elderly person.

Labour Market

An estimate of the current economic development in Brandenburg shows that Brandenburg is marked by structurally strong areas around the agglomeration of Berlin and Potsdam. However, it should not be ignored that rural regions such as the Prignitz in the North-West or the Uckermark in the North-East of Brandenburg still suffer from significant structural economic weaknesses. Thus, it is the rural periphery in which the economic structure and the labour market remain more or less static, and in which the general purchasing power dwells on a relatively low level.

This said, outside of the agglomeration of Berlin and Potsdam the dynamism of Brandenburg's economy is too weak to offer an adequate number and quality of jobs and professional perspectives. This results in high commuting rates between periphery and the few regional or metropolitan centres and relatively high levels of unemployment. In 2017, Brandenburg's average unemployment reached an above-average score of 7.6% (German average: 5.5%). Consequently, especially young and highly qualified professionals have an incentive to leave their rural hometowns for better job perspectives. Conversely, older and poorly educated people stay in the rural, less affluent periphery.⁷

Figure 6: Unemployment Rate According to Regions, Berlin & Brandenburg (2017)

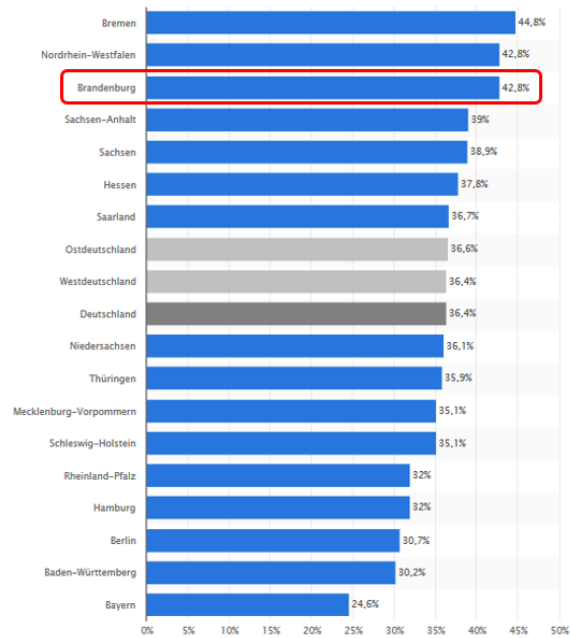


⁶ Bundesregierung (2017): “Engagement Report”.

⁷ Social Impact (2013): “Handlungsempfehlungen zur Unterstützung von sozialen Innovationen.”

What is more striking, the level of structural unemployment, i.e. long-term unemployment, is among the highest in all of Germany (see Figure 7). This indicates a structural weakness particularly in rural areas and constitutes a sound rationale for the vast population outflux occurring in these regions.

Figure 7: Average Long-term Unemployment Rate as % of Overall Unemployment Rate⁸



For a summary of the factors contributing to the demographic shift in Brandenburg see Box 1.

Box 1: At a Glance – Main Factors driving demographic change in Brandenburg

| Factors driving Demographic Change | Rationale |
|------------------------------------|--|
| Low Fertility Rate | <ul style="list-style-type: none"> – To sustain the population of a given territory the birth rate per women shall dwell around 2.1 children. – However, Brandenburg has last experienced such a sustainable birth rate in 1970. Since then, the <i>Land</i> is on a steady trajectory towards a declining population. – Whilst the lowest fertility level was reached in 1993 as a consequence of the collapse of the GDR and the consequent reunification of East and West Germany, in between 1991 and 1996 overall fertility dropped below 1, i.e. on average women (aged between 15 and 45)⁹ were receiving less than one child throughout their lifetime. – Since the late 1990s Brandenburg’s fertility rate has started to pick up again. While it still dwells well-below the demarcation line for a self-sustaining population with a value of ca. 1.46 per woman, it has outperformed some Old <i>Länder</i> in terms of its birth rate per year. – This means Brandenburg is set for a population growth of merely two-thirds of the required scale (i.e. one-third of the parent generation will not be re-produced through fertility-induced population growth); a (positive) deviation from this projection is not likely. – What is more, a steadily declining stock of females will even |

⁸<https://de.statista.com/statistik/daten/studie/436244/umfrage/anteil-der-langzeitarbeitslosen-in-den-bundeslaendern-in-deutschland/>

⁹ The childbearing age applied for this study (and in the statistics used herein) ranges from 15 to 45 years of age.

| | |
|--|--|
| | exacerbate these dynamics leading to a continuing drop in the total population. |
| <i>Mortality</i> | <ul style="list-style-type: none"> – Average life expectancy in 2010/2012: 76.9 years – Projected average life expectancy in 2040: 82 (for women 86) |
| <i>Retirement of "Baby Boomers"</i> | <ul style="list-style-type: none"> – The "baby boomer" generation will retire from the labour market in the next twenty years, and year groups with a lower birth rate will enter it; – Across all of Germany, the labour market supply is therefore set to sink by around 10 % at a faster pace to 2020 and then rather less quickly thereafter. – This decline will affect the eastern German <i>Länder</i> more profoundly than those in the west. |
| <i>Dire economic and labour market perspectives</i> | <ul style="list-style-type: none"> – Relatively high levels of (long-term/structural) unemployment. – High commuting rates between periphery and the few regional or metropolitan centres where jobs are more abundant. – The rural periphery's economic/labour market situation remains more or less static with a relatively low purchasing power per individual; – Few perspectives to either find a job on the countryside or develop a successful business. |
| <i>Proximity to economic hubs and metropolitan areas</i> | <ul style="list-style-type: none"> – Dynamic development in and around Brandenburg's capital Potsdam as well as suburbanisation of both Berlin and Potsdam. – Over the years these structural differences between periphery and urban areas have resulted in a thinning out of rural areas. – This development will be more pronounced for those districts further away from the Berlin metropolitan area where migration gains from Germany's capital are less likely to benefit towns and villages. |

IV. Findings

Social Enterprises in Germany

Germany has a long history of tackling social and ecological problems and attaining community goals through entrepreneurial activities. A large number of well-established non-profit companies, cooperatives, foundations, associations and self-help groups, as well as a growing number of innovative start-ups are active in this area.

Most social services provided in the German welfare system are delivered by social economy actors, i.e. the big (denominational) welfare organisations, comprising a spectrum of organisations supplying social services instead of public bodies and state enterprises or engaging in commercial activities with a social mission. This includes, for example, services such as care or youth welfare, which are financed through social insurance schemes and public funds.

At present, a large proportion of these social/welfare enterprises are developing in the third sector, but also private for-profits, where services are generally charged at fixed rates. In addition, social enterprises are also created from the public sector (e.g. integration services for urban services). However, this rich variety of social service providers within the German welfare system complicates the definition of the term *social enterprises*. In fact, it may be "more difficult than in most other Member States"¹⁰ to assign a clear-cut meaning to the term, given the strong presence and traditions of the *social economy*.

"Depending on the definitional approach taken, a smaller or larger part of these traditional organisations – 'social cooperatives', a large number of welfare organisations, commercially active foundations, associations and self-help groups that emphasise the business approach in

¹⁰ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany

their work and do not fully base their operations on service fees supplied by the state, grants and donations – may be indeed labelled as *social enterprises*.”¹¹

In Germany, new forms of *social entrepreneurship* have developed to cater to various social and environmental needs, thereby complementing and modernizing the above-mentioned existing organizational forms. The orientation towards innovation with which innovative individuals nowadays merge economically sustainable action with a claim to cause change in society is a novelty and is, too, described using terms such as “social business” and *social entrepreneurship* that follow the Anglo-Saxon tradition. This usually encompasses start-up enterprises with a social mission, mostly innovative, and applying sustainable business models based to a relatively large extent on market revenues. A considerable increase in such new-style or modern social entrepreneurship with a clear market background can be observed, e.g. in sustainable consumption, education or energy efficiency, ageing, rural depopulation, changing family structures, stronger demands for integration and autonomy (in employment in care for the elderly etc.), ethical trade, special pedagogic approaches or care solutions that are not in the social code, hence not financed through the traditional social security or the private insurance system. With their approach of creating societal value with economic value chains, these firms represent a new self-image of entrepreneurs. Success is defined not just by economic performance, but also by the impact of the company’s activities on society. Generating profit is important in order to secure the company’s sustainability and impact, but profit maximization for the sole benefit of the proprietors is dismissed.¹² Having started from a very low base, these SEs still lack visibility and critical mass, but stakeholders see them as a booming sector in Germany (see the next section for an estimation of the size thereof). They are most visible in municipalities where the traditional approach to supplying social services is not financeable or where professional staff is not available (e.g. care for children and the elderly in depopulated rural areas).

So far, we cannot identify much cooperation between ‘old’ and ‘new’ actors, who see each other as competitors rather than partners. However, there is also a clear trend visible concerning the establishment of an innovation system “linking them up as an important step towards the creation of a more effective and efficient third sector”.¹³

As for the point of view of relevant political bodies in Germany, the EC’s country report on Germany¹⁴ (2014) notes that the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ), the ministry responsible for that subject area, “is somewhat undecided how and what depth it should define social enterprises – given the conceptual difficulties and political sensitivities in this area.” Nonetheless, in its National (social) Engagement Strategy (*‘Nationale Engagementstrategie der Bundesregierung’*) (2010, see Box 2) the federal government defined social entrepreneurs as persons “*who, as part of their individual civic engagement, found social organisations that address social challenges with innovative and entrepreneurial approaches*”.¹⁵ As the EC’s country report puts it, this definition applies a very narrow, market-oriented concept of SE as it “emphasises the social motive/mission of the entrepreneur, the entrepreneurial approach, and very clearly the need to be innovative. The legal form of the organisation is here of no consequence. The application of democratic decision-making procedures, asset or profit locks do not seem to be necessary from this decision, either.

Box 2: National Engagement Strategy

The National Engagement Strategy was initiated in 2010 and, among other things, aimed at:

¹¹ Ibid.

¹² Evers & Jung et al. (2016): “Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?”

¹³ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany; p. 35.

¹⁴ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany.

¹⁵ Bundesregierung (2010): Nationale Engagementstrategie der Bundesregierung.

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

This said, this study, too, focuses on *social enterprises* more closely related/dependent on market forces. These are organizationally autonomous and independent of the state, of existing social organizations or of conventional profit-oriented organizations. They should be drawn up in a non-profit or commercial manner and (potentially) economically viable. This understanding is also in line with the definition as established by the European Union.¹⁶ However, we also acknowledge other (i.e. broader) interpretations of the term within the German context.

Sector Size and Growth

Due to the previously described fuzziness of the concept of SE in Germany, naturally the numbers regarding the size of the sector vary and/or can only be estimated. Especially for commercially-oriented social enterprises there are no reliable data available. A single and/or separate criterion for social enterprises to be derived from the available statistical data does not exist. It is noted in all the relevant investigations that, in particular, the statistical identification of commercially-registered social enterprises is not possible. What is more, the demarcation of non-profit social enterprises is also difficult, since, according to the definition, a sufficient degree of innovation and a (limited) income-orientation must be available in addition to organisations' the public benefit-orientation. In addition, these social enterprises often rely on hybrid organizational forms¹⁷, which can hardly be processed by the available data.¹⁸

For this purpose, this study relies on a number of different estimations, following the most notable research conducted on this topic. According to a 2013 study by Scheuerle et al. there were at least 1,700 registered organizations, which could be considered the minimum amount of innovative, profit-oriented social enterprises in Germany at that time. Regarding the number of social enterprises in a broader sense, the authors arrive at different lower and upper limits for the number of social enterprises in Germany (see Figure 8). More recent numbers are not yet available.

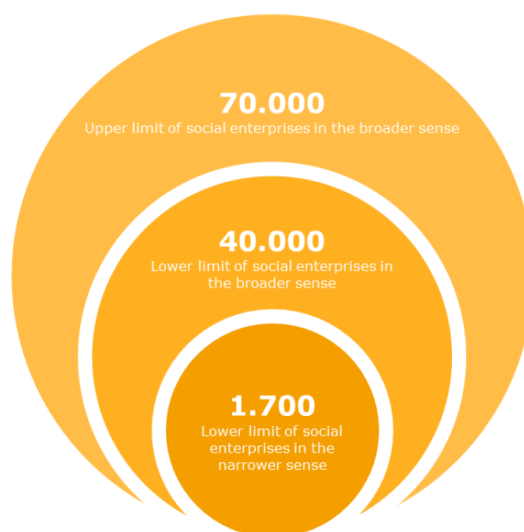
¹⁶ According to the EU's definition, social enterprises:

- are oriented towards the creation of verifiable societal value through an entrepreneurial solution to clearly named societal problems
- operate in free and regulated markets through the production of goods or the provision of services in an entrepreneurial and innovative manner
- ensure that profits are used primarily for the realization of the societal goals of the organization through specific rules and procedures
- are organized in legal forms that allow a responsible and transparent ad-ministration of the organization. The fiscal treatment of the organization is irrelevant.

¹⁷ These combine the logic of different sectors (i.e. private, public, and civil society elements) in their operational model. However, this is not a general characteristic of all social enterprises.

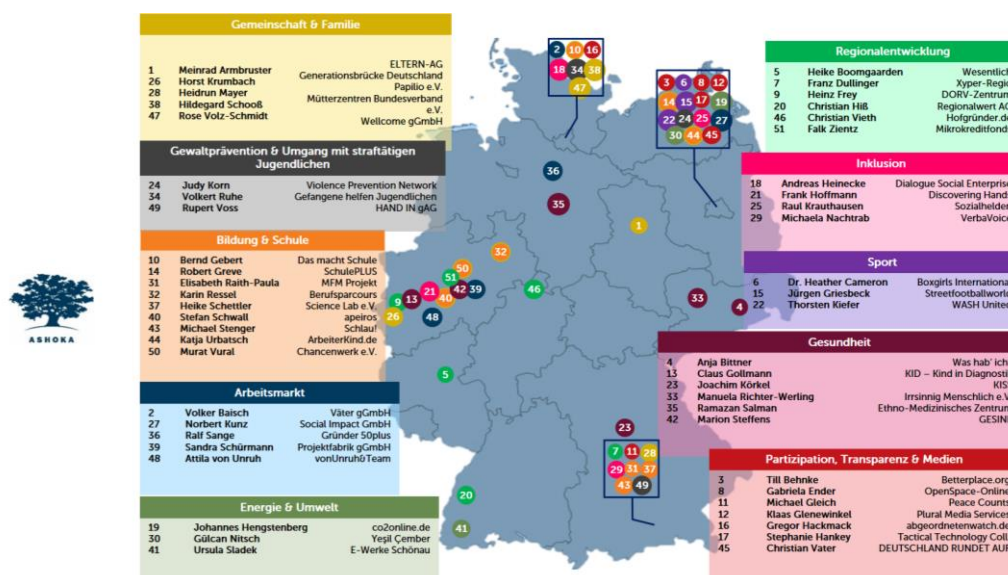
¹⁸ Evers & Jung et al. (2016): „Herausforderungen bei der Gründung und Skalierung von Sozialunternehmen. Welche Rahmenbedingungen benötigen Social Entrepreneurs?“

Figure 8: Estimating the Number of Social Enterprises in Germany¹⁹



The development of social enterprises in the narrower sense is consistently described as very dynamic. Especially foundations and gGmbHs (German legal form, comparable to non-profit LLC) have mushroomed in the course of the last decade. Cooperatives, especially in the renewable energies sector, have also experienced strong growth. Qualitative experience from competitions and support organizations have further indicated that the number of newly founded commercially oriented social enterprises has increased significantly in the last years. One indicator corroborating this claim is the growing number of Ashoka Fellows²⁰ in Germany (see Figure 9). Up from 1 Ashoka Fellow in 2005, there were a staggering 51 social entrepreneurs awarded the fellowship in 2014.

Figure 9: Ashoka Fellows in Germany (2014), according to Policy Areas and Region.²¹



¹⁹ Figure taken from Evers & Jung, et al. (2016): "Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?", p. 5.

²⁰ Ashoka is an international organization that promotes social entrepreneurship by affiliating individual social entrepreneurs into the Ashoka organization. Their stated mission is "to shape a global, entrepreneurial, competitive citizen sector: one that allows social entrepreneurs to thrive and enables the world's citizens to think and act as changemaker", (<https://www.ashoka.org/en/program/venture-and-fellowship>).

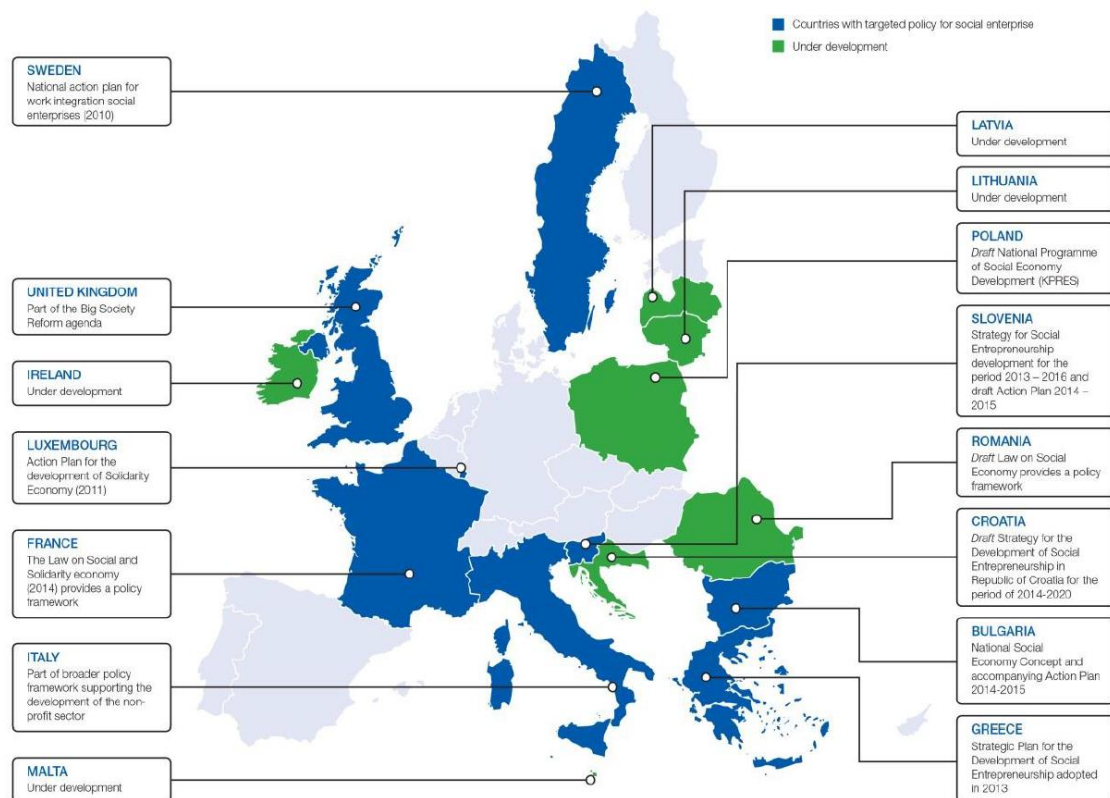
²¹ See: <https://germany.ashoka.org/51-ashoka-fellows-deutschland-auf-einen-blick>

Unfortunately, no quantitative data are available for social enterprises operating in Brandenburg. Various social entrepreneurship studies show, however, that social enterprises are to a large extent micro enterprises that mainly pursue local activities. This focus fits very well with the general economic structure of Brandenburg, which is very much constituted by small and medium-sized companies. While there are no quantitative numbers available, it can be concluded that SEs in Brandenburg are active in various areas such as education/science, labour market integration and social inclusion seem to be the main focus area of these organisations, with social services traditionally covered by third-party organizations in the welfare sector. In addition, social enterprises are also increasingly active in the areas of sports, culture, recreation, financing, mediation, counseling and environmental, natural protection.²²

The Policy and Legal Framework for Social Enterprises

Given the lack of a formal and universally applicable definition of SE in Germany, there is also no specific legislation on social entrepreneurship in place. What is more, concrete plans to introduce such legislation are not under consideration for the foreseeable future. From a European perspective, Germany is one of those countries without specific legislation targeting the sector (see Figure 10 for the state of targeted national government legislation in 2014 within the EU).

Figure 10: Countries with targeted Social Enterprise Policies (2014)²³



This void concerning a specifically dedicated legal form for SEs, has, however, allowed for a wide variety of legal forms under ordinary private law (non-incorporated and incorporated

²² Landesregierung Brandenburg (2017): „Gründungs- und Unternehmensnachfolgestrategie für das Land Brandenburg“, (http://www.mwe.brandenburg.de/media/bb2_a.5599.de/gruendungs_unternehmensnachfolgestrategie.pdf%20).

²³ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany.

firms), which can be used for social entrepreneurial initiatives in Germany. Box 3 provides for an overview of the main available legal Company forms for social enterprise initiatives.

Box 3: Main available Legal Company Forms²⁴

| Legal form | Original German name and abbreviation. |
|--|--|
| 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 |

When opting for any of these legal forms many (however not all) SEs choose to register under a public benefit status ('Gemeinnützigkeitsstatus'; abbreviated with a "g" before the acronym for the legal form). Linked to this public benefit status are the simplified access to volunteer employees and philanthropic commitment (e.g. donations) as well as a signal vis-à-vis stakeholders. The tax reductions that come with this status play a less important role for social enterprises. For entrepreneurial activities, the public benefit status imposes limits on a SE, which can be detrimental to their development, especially in growth phases, e.g. the law prohibits public benefit companies to re-distribute profits to shareholders and limits the amount of uncommitted reserves held by the enterprise.²⁵

"A large part of the sector (especially welfare organisations) is a registered limited liability company, however these either have to, or tend to, operate under a public benefit status ('Gemeinnützigkeit'). Cooperatives are also relatively frequent.

However, many of both traditional and new social enterprises work under civic organisational forms, mainly associations (*eingetragene Vereine, eV*) or 'operational' foundations ('operative Stiftungen')."²⁶

For a more detailed differentiation of the individual legal forms see Figure 11.

Figure 11: Social Enterprises and their various Legal Forms²⁷

| | Sozial motivierte Organisationen | | | | Kommerzielle Organisationen | |
|--------------------------|---|--|--|--|--|--|
| | Pure charity | Charity with commercial elements | Non-profit social enterprise | Commercially organized social enterprise | Socially responsible company | Purely commercial company |
| Primary business purpose | Social mission | Social mission | Social mission with profit as a byproduct | Social mission in accord with profit objective | Socially responsible profit maximization | Profit maximization |
| Typical legal form | e.V., gUG, gGmbH, gAG | e.V., gUG, gGmbH, gAG | eG, gUG, gGmbH, gAG (some hybrid structures) | eG, UG, GmbH, AG | UG, GmbH, AG | UG, GmbH, AG |
| Financial sustainability | Limited commercial revenue, largely dependent on donations and grants | 50-70% of break even through commercial revenue, partially dependent on donations and grants | Break even, (potentially) economically sustainable | (Potentially) economically sustainable | (Potentially) economically sustainable | (Potentially) economically sustainable |
| Profit distribution | None | None | Typically none (exceptions possible) | Typically yes (limited scope) | Yes | Yes |
| Statutory mission | Yes | Yes | Yes | Typically no (exceptions possible) | No | No |

²⁴ Ibid.

²⁵ Evers & Jung et al. (2016): "Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?"

²⁶ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany.

²⁷ ²⁷ Evers & Jung et al. (2016): "Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?", p. 4.

In light of the very heterogeneous social entrepreneurial approaches to date, this situation can generally be regarded positively. In their 2016 study, Evers & Jung et al. found that "social entrepreneurs approached their decision and the implementation of their organization's legal form in a highly structured manner without experiencing great challenges." In addition, many experts in the field do not see a necessity for a specific legal form for social enterprises in Germany. However, the above-mentioned legal and fiscal barriers, due to the current situation of the non-profit status, still continue to exist. This is particularly true for the development of social entrepreneurial business models.

The study continues: "For many social entrepreneurial start-ups whose approach has a clear target group or an unclear business revenue model, a non-profit legal form is a low-threshold and resource-saving path to starting up. In particular, the non-profit version of the "Unternehmergesellschaft" (UG, lit. entrepreneurial company), which was introduced in 2008, has proved popular in the last few years. However, the related limitations may be especially obstructive for social enterprises that transition to a growth phase, e.g. prohibited dividend payout to shareholders and limits to free creation of reserves. Further difficulties surrounding the application and regular renewal of the non-profit status by the responsible tax office were reported"²⁸ to hamper the business development of SEs.

Government Policies for promoting Social Entrepreneurship in Germany

Due to the growing economic significance of start-ups and entrepreneurial activities, the design of optimal framework conditions for entrepreneurs and self-employed persons is of great importance.

To foster the development and longevity of social enterprises, it is usually those instruments provided and tailored for start-up and growth processes of regular, profit-oriented businesses, which are open to SEs too. Like other companies, social enterprises have consulting, coaching and financing needs. However, they also have specific features which distinguish them from purely commercial companies and which must be taken into account when designing conducive policy measures. For instance, their access to conventional financing instruments is more difficult because of their specific characteristics (unfavorable risk-profit ratio, market niche activity, etc.) and because financial markets for social investment are still underdeveloped. In addition, the survival and growth of social enterprises is also influenced by internal factors. For example, during their start-up phase questions regarding business case development and market perspectives tend to fade to the background due to an overemphasis on the work on their social mission. Consequently, tailor-made and special advisory services should be expanded in order to further strengthen SEs in their quest to build up a (financially) sustainable social business. Government-initiated and supported actions may, if well designed and implemented, well constitute a crucial pillar of the SE support infrastructure.

For social enterprises the federal government has initiated several specifically tailored activities, policies and tools steered towards the promotion of social start-ups and SEs:

- The "Praxisleitfaden Soziales Unternehmertum" ("**Practical Guide to Social Entrepreneurship**"), published and financed by the Federal Ministry for Economic Affairs (BMWi), and produced by IQ Consult et al., provides for an up-to-date orientation for founders of social enterprises.
- Since 2012 the Federal Ministry for Family, Senior Citizens, Women and Youth (BMFSFJ) has supported the **development of start-up incubation centers, the Social Impact Labs** across Germany, for social entrepreneurs to enhance the building up of a more comprehensive ecosystem for social start-ups.
- In addition, in 2016 the federal government promoted the **public awareness** for the topic of social entrepreneurship in several events on the subject and encourages networking activities of and for social start-ups.

²⁸ Evers & Jung et al. (2016): "Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?"

- Through the “Mikromezzanin-Fonds Deutschland” (2013) as well as the “Mikrokreditfonds Deutschland” (2015) for small and young companies the federal government aimed at improving the **access to finance** for SEs.
- A specific program for the financing of social enterprises was launched in 2012 by the Kreditanstalt für Wiederaufbau (KfW), a government-owned development bank. This programme, the “ERP-Venture Capital-Fondsinvestments”, opens up the possibility of taking equity capital. The programme aims at social enterprises in their growth phase, whose business model had already been proved. However, according to the federal government so far no investments under this programme have been made (as of January 2017)²⁹.
- Within its activities steered at promoting businesses the BMWi initiated the programme “Förderung von unternehmerischem Know-how” (start-up and business consulting for entrepreneurs) as well as the program “EXIST-Gründerstipendium” (for start-ups from universities). These programmes have been financed by the BMWi and the European Social Fund (ESF) and the European Recovery Programme (ERP).
- **Public Procurement Procedures** with an exclusive focus on the selection of the most cost-effective offers can act as an obstacle to social enterprises in accessing public contracts if they cannot adequately contribute and evaluate their innovative and particularly sustainable solutions for the services and goods being advertised. In Germany, far-reaching effects and cost aspects of the services and goods offered (environmental concerns, life cycle costs) have yet to be taken sufficiently into account in public tenders. However, following an EU initiative (Directive 2014/24/EU)³⁰, Germany has reformed its public procurement system insofar as it now allows for considerations related to qualitative, environmental, innovative or social aspects.

It is important to note that the de-centralised governance structure in Germany also spills over to the state’s procurement procedures and processes. Here, it is first and foremost the local/regional authorities that have discretion over the extent to which they decide to include social aspects in their tenders. To this date, there are no reliable data available on the effect of this policy. However, “the Federal Ministry for Transport, Construction and Urban Development (Bundesministerium für Verkehr, Bau und Stadtentwicklung) has been issuing regular calls for application for socially innovative entrepreneurial initiatives targeting sustainable urban development³¹.

Box 4 presents detailed information on the Public Procurement Information Portal “Kompetenzstelle für Nachhaltige Beschaffung”, a good practice to promote social entrepreneurship through public tenders.

²⁹ Bundesregierung (2017): Kleine Anfrage zu „Gründungen von Sozialunternehmen aus Hochschulen“, BT-Drucksache: 18/10720; (https://www.bmwi.de/Redaktion/DE/Parlamentarische-Anfragen/2017/18-10720.pdf?__blob=publicationFile&v=6).

³⁰ This Directive introduces a general modernization of the law of good faith in the EU Member States.

³¹ European Commission (2014): A map of Social Enterprises and their ecosystems in Europe. Country Report for Germany, p. 14.

Box 4: Public Procurement Information Portal "Kompetenzstelle für Nachhaltige Beschaffung"

The successful implementation of integrating new procurement legislation into already established procurement systems always constitutes a challenge. Against this background, easy-to-use information portals are of great importance.

The "Kompetenzstelle für Nachhaltige Beschaffung" (Central Competence Center for Sustainable Procurement) (www.koinno-bmwi.de), initiated by the Federal Ministry for Economic Affairs (BMWi), advises municipalities, federal states, federal ministries and other public institutions about the possibilities of procuring innovative products and services. In order to support the process of increasing the award of public contracts to companies with an innovative range of services, the Competence Center has set up a corresponding database of innovative services, including the services of social enterprises. In addition, since 2012, a competent authority for sustainable procurement³² has been set up by the Federal Ministry of the Interior (BMI).

- The BMFSFJ has further supported the development and dissemination of the **Social Reporting Standard (SRS)**³³ (<http://www.social-reporting-standard.de/en/>), a guide to outcome-orientated reporting and a transparency tool for social enterprises to synthesise and streamline the reporting requirements of various donors. The tool enables potential (impact) investors to better assess the quality and suitability of a given organisation. Furthermore, it eases the administrative burden on multi-donor funded organisations, but also better communicates the impact of social enterprises (and other 'third sector' actors) among the wider public. Finally, the SRS facilitates benchmarking between the organisations themselves. Since its inception the instrument has gained great response both at home and abroad and has been successfully used as a measure to facilitate investment decisions and, hence, generate financing for SEs.

Box 5: "Wirkt"-Siegel

Next to the SRS, *PHINEO*, a non-profit intermediary organisation to promote social investment, awards the "Wirkt" stamp ("It Works"), a sort of quality label, to initiatives that are viable and effective enough to deserve the attention of social impact investors.³⁴ This voluntary private certification scheme involves a multi-stage screening process starting with an online self-assessment questionnaire and including on-site visits. Through giving recommendations, analysts can explain even unsuccessful organisations how they could improve their impact in the future. Only about 20% of the organisations screened receive the "Wirkt" label.

- The scholarship program "ANKOMMER. Perspektive Deutschland" (Arriver. Perspective Germany) is aimed at start-ups and (social) entrepreneurial initiatives that want to further develop their concept for the sustained participation of refugees with the support of an interdisciplinary team of experts and convert them into a viable entrepreneurial solution. Within the framework of an eight-month scholarship, the participants are able to participate in a comprehensive qualification program and receive co-working places in the social impact labs in Berlin, Hamburg, Leipzig,

³² http://www.nachhaltige-beschaffung.info/DE/Home/home_node.html

³³ For more information see: http://www.social-reporting-standard.de/fileadmin/redaktion/downloads/SRS_guidelines_2014_EN.pdf

³⁴ <https://www.phineo.org/>

Frankfurt and Duisburg. "ANKOMMER. Perspektive Deutschland" is a project of the Social Impact gGmbH and is funded by the government-owned KfW Foundation.

State Support for Social Entrepreneurship in Brandenburg

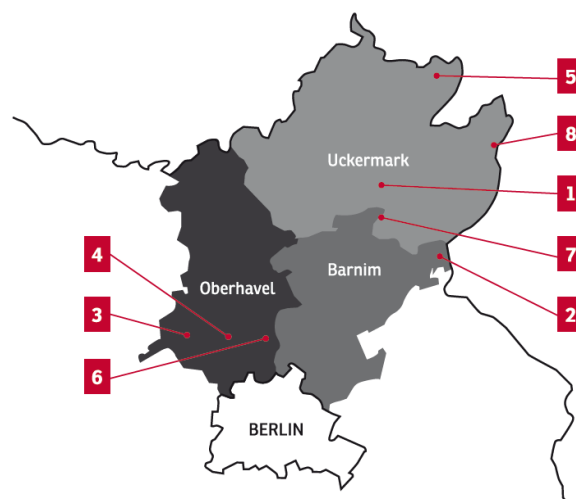
The engagement of public actors is not restricted to the federal level. *Länder* and municipalities are also engaged in promoting and supporting social entrepreneurship.

Brandenburg in particular has supported social entrepreneurship in several ways throughout the last years: For example, the project "**entersocial Dorfkümmerer**" (village caretakers) was launched in 2012 as an 'experimental activity' within the context of the ESF-co-funded start-up support programme for the funding period 2007-2013 (see Box 6).

Box 6: Entersocial Dorfkümmerer (Village Caretakers), 2012 – 2014

With the project *entersocial - Dorfkümmerer* (village caretakers) the Social Impact gGmbH contributed to the revitalization of towns and regions within Brandenburg. The project provided support to committed individuals, i.e. the Village Caretakers, and organizations in realizing their social and sustainable business ideas.

Dorfkümmerer were people aged over 55, who were specially committed to their local communities. They contributed with their work to help maintaining the village life despite various challenges. They identified local problems and raised awareness for civic engagement and social entrepreneurship within their communities. Within the realm of the project, Social impact has qualified and supported eight Dorfkümmerer (village caretakers) – two women and six men – over two years and advised selected projects in the villages by experts. As a part of the project social entrepreneurs were qualified by expert consultants particularly in the following areas: local supply, regional value and distribution chains as well as alternative forms of financing and sustainable tourism. As a result, eight Dorfkümmerer (village caretakers) worked for two years in the North East of Brandenburg in this pilot project (see figure below for the locations of the eight individual projects).



In the transnational project "*Social Impact Region - entersocial good practice transfer*", ideas and practical examples of social enterprises from other European countries were transferred to Brandenburg. *Social Impact Region* worked towards the exchange and transfer of concepts between European regions (with project partners from Portugal, Austria, Poland and Ireland) and the state of Brandenburg. In three working groups experts and active citizens from the state of Brandenburg and Europe came together and learned at study visits about best practice projects. SWOT analyses were elaborated to identify the central problems in the Federal State of Brandenburg.

A further focus of Brandenburg's state government is the promotion of inclusive entrepreneurship, targeting the employment and promotion of long-term unemployed people (e.g. *"enterprise"* programme implemented by Social Impact gGmbH) and start-up support for entrepreneurs with a migrant background (e.g. *"Lotsendienst"* programme implemented by Social Impact gGmbH). Within the realm of these programmes, social entrepreneurial structures in employment promotion were strengthened, for example by supporting the development of business plans and by exchanging experiences with transnational partners.

A particularly useful tool for SEs may be **Microcredit Brandenburg**, which does not require any collateral for firms.

Most recently, the federal government Brandenburg adopted its new strategy to promote start-ups and entrepreneurship. In doing so, the government dedicated a chapter to the issue of social entrepreneurship. Here, the government also states its intention to conduct a thorough mapping study in order to assess both the quantity and quality of social entrepreneurship in the state of Brandenburg. In the medium-term this is supposed to better inform the state government on the sector's needs and, thus, to enhance the efficiency of future sector-related policies.³⁵

V. Conclusions and Recommendations

Although we are starting to recognise the need for social innovations in rural areas, the context where they happen is still very fragile, frequently localized in smaller communities and diffuse.

As a result of social and economic change processes, state competences are being increasingly transferred to the third sector. In practice, this means that the state is no longer acting as the direct provider of the public services, but as an intermediary to co-ordinate and channel the public resources to organisations outside the public sector. The rationales behind this goal are efficiency gains and cost savings. The communities in the rural areas though have difficulties to organise and coordinate themselves to tap these resources. The situation is reinforced by the economic and social developments mentioned above: unemployment and demographic changes.

Within this context social innovation and social enterprises can be valuable concepts and approaches for strengthening local communities. While in Germany there is no consensus on what actually constitutes a social enterprise - there is no universally applicable definition for social entrepreneurship - the growth of third sector organisations pursuing a social impetus is on-going. In particular, new, more market-oriented social enterprises are mushrooming with the sector gaining size and visibility, however, still on a very limited scale.

To foster the development and longevity of social enterprises, it is usually those instruments provided and tailored for start-up and growth processes of regular, profit-oriented businesses, which are open to SEs too. Like other companies, social enterprises have consulting, coaching and financing needs. However, they also have specific features which distinguish them from purely commercial companies and which must be taken into account when designing conducive policy measures. For instance, their access to conventional financing instruments is more difficult because of their specific characteristics (unfavorable risk-profit ratio, market niche activity, etc.) and because financial markets for social investment are still underdeveloped. In addition, the survival and growth of social enterprises is also influenced by internal factors. For example, during their start-up phase questions regarding business case development and market perspectives tend to fade to the background due to an overemphasise the work on their social mission. Consequently, tailor-made and special advisory services should be expanded in order to further strengthen SEs in their quest to build up a (financially) sustainable social business.

³⁵ Landesregierung Brandenburg (2017): Gründungs- und Unternehmensnachfolgestrategie für das Land Brandenburg (2017).

Against this background, we have identified areas where social entrepreneurship is in need for further support in order to size its momentum. It may therefore fill a void left by state (or private) actors and/or service providers more efficiently and consistently through innovative and (potentially) scalable solutions to pressing social challenges. The following recommendations are applicable both to the German context more general and the situation in Brandenburg, in particular given the overarching nature of the sector-related challenges:

1. Availability of Financing Instruments

For many social enterprises traditional loan financing is considered unsuitable due to the fact that start-ups face business models which provide for relatively low profit margins, higher risks and uncertain yield perspectives. This said, the usability of available financing instruments within the framework of start-up and economic promotion should be adapted to the needs of SEs, in particular at their early development stages.

- **Corporate Social Responsibility (CSR):** The engagement of medium and large corporations, for example by encouraging and channeling CSR programs towards social entrepreneurs could improve the lack of financial support in the start-up phase.
- Improvement related to **crowdfunding offers**, such as crowd-investment and crowd-lending models, could lead to greater access of SEs to financial resources.
- **Financing programs by the federal (and state) government** related to promoting the German "Mittelstand" (i.e. medium-sized companies) are not sufficiently tailored to non-profit social enterprises, which inhibits their access to proper funding. The available loan programs offered by the KfW, the German development bank, are a case in point as they may rather be seen as a supplementary option for social entrepreneurial business models due to the fundamentally limited ability to service debt. Creating specific government-run funding programs for social enterprises within the framework of "Mittelstand" financing is, however, not a likely option considering the niche status of social entrepreneurship in Germany. Hence, it is recommended to initiate specific programme versions with adapted funding conditions for the German Social Business Sector.
- In addition, the structure of funding in the area of **mezzanine and equity financing** is generally considered a suitable and promising financial instrument. The program that may be identified as the most suitable for the specific financing needs of social enterprises regarding the design and sales channel is the German micro-mezzanine fund.
- **Grants from public support programmes or foundations** can be a good instrument to finance the early stage of the social enterprise, cover the initial investment costs and proof to other financiers the success of the model. Simplifying bureaucracy around donations and project grants is therefore of significant importance to enable SEs to participate in calls for financing. For an early stage social entrepreneur, however, it can be very resource intensive to learn and get access to the various revenue channels. The world of public support programmes is, thus, an area where extensive knowledge is needed to find the right programs, write the application forms, follow the applicable regulations etc. If the social entrepreneur decides to go this path it could mean full time commitment to win financing for a project just for a couple of years.

2. Impact-oriented Investment

Social enterprises need a functioning market for impact-oriented investments in order to unfold their full potential:

- The market for **impact-oriented venture capital and equity capital** in Germany is still in the early stage of development and only slowly growing in Germany. However, the availability of impact-oriented capital plays a key role for social enterprises aiming to grow. Important stakeholders within this realm include foundations, private investors (including big corporations with CSR departments) as well as institutional investors, social enterprises on the demand side and specialized funds as intermediaries.
- Creating a functioning market for impact-oriented investments requires joint action by stakeholders at federal and state level, ministries, foundations, private investors, charities and social enterprises. This is especially true for the development of innovative instruments (e.g. Social Impact Bonds)³⁶. First experiences from pilot projects at the regional level have shown that the relevant coalitions can be initiated and led by political stakeholders. To achieve this, social enterprises and stakeholders from civil society must intensify their cooperation.

3. Support Services and Consulting

in order to achieve systemic changes through social innovations, the support infrastructure has to be build according to the necessities of those who can innovate and organize these changes, i.e. by social entrepreneurs. Currently the support infrastructure for social entrepreneurs in Germany/ Brandenburg is lacking the right public support. The development of such support instruments, tailored to serve the specific needs of SEs, would enhance the dynamic of the whole sector significantly:

- **Consulting services** have a special significance for social enterprises. Correspondingly, there is a demand for qualitative support structure. This demand cannot be satisfied by the typical support centers (such as chambers of commerce and economic development) as well consultants oriented more towards founding in general. Achieving a comprehensive, nation- (or at least state-) wide service offering would significantly improve the framing conditions for social enterprises in Germany.
- Although there are training and counselling programs for early-stage SEs in Germany (e.g. Social Impact Labs), this is not the case for social enterprises that intend to scale. Particularly with regards to underserved rural areas **specific training programs** for trainers and business advisors, coaches, etc. both on early stage business development topics and on scaling strategies, should thus be further developed.
- Furthermore, the **consulting offering and support services for social enterprises at German universities** are still weak. While there are research chairs dedicated to social entrepreneurship, this is not equivalent to a practical support offering for social enterprises founded by students. The general start-up consulting services at universities, often within the framework of EXIST - a business development programme - start-up offices, are not capable of supporting prospective founders as needed in the field of social entrepreneurship. Universities and authorities have placed greater emphasis on highly scalable technological prospective start-ups; unlike social innovations which are at the core of many social businesses. Thus, the development of support instruments, that emphasize the specific demands of SEs, would foster the dynamic of the sector.
- For example, the *School for Social Entrepreneurs* in the UK offers a comprehensive training and support program for the early stage.

³⁶ Social Impact Bonds (SIBs) are a type of bond, a contract between social organisations and the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings. While they operate over a fixed period of time, SIBs do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved. Therefore, in terms of investment risk, Social impact bonds are more similar to that of a structured product or an equity investment.

4. Market Transparency on Social Impact Orientation

Standardisation of indicators for impact orientation would improve market transparency as well as allow for greater differentiation of SEs from commercial enterprises:

- The variety of social entrepreneurial approaches, competing definitions and self-descriptions hinder market transparency in Germany. **Reliable indicators** documenting the companies' orientation towards social impact, which would serve as unique attributes for statistical differentiation of social enterprises in commercial legal form, are especially lacking. Furthermore, clear and universally accepted indicators to differentiate such companies from the non-commercial part of civil society organizations in the Third Sector are non-existent at this time.
- **Impact reporting schemes** such as the Social Reporting Standard or voluntary certification labels, such as B-Corp or the "Wirk" seal, are increasingly widespread among German Social Enterprises and help to differentiate the sector from commercial oriented enterprises. However, a consistent consolidation and realization of these approaches in order to build a corresponding data set would further foster this positive development.

5. Legal Framework for Social Enterprises

While the German private law allows for flexibility for social entrepreneurial initiatives by providing a wide variety of organizational legal forms, more flexibility in applying the tax code to SE-Initiatives is needed:

- In Germany, a wide variety of legal forms under private law (non-incorporated and incorporated firms) can be used for social entrepreneurial initiatives. In particular, the non-profit version of the "Unternehmergesellschaft" (UG, lit. entrepreneurial company), which was introduced in 2008, has proved popular in the last few years. However, the related limitations may be especially obstructive for social enterprises that transition to a growth phase, e.g. prohibited dividend payout to shareholders and limits to free creation of reserves. The frequent result thereof is that social enterprises are forced to be managed on the limits of the regulations and always with the fear of losing the charitable status. Further difficulties surrounding the application and regular renewal of the non-profit status by the responsible tax office were reported.
- Legal regulations that allow **more flexibility in applying the tax code to non-profit entrepreneurial initiatives** would significantly increase the scope of action of such social enterprises and eliminate the necessity of forming a commercial and a non-profit branch in an organizational hybrid structure for achieving growth.

6. Social Recognition and Public Awareness

Despite recent efforts, also from the side of government, more advocacy for social entrepreneurship in Germany is needed in order to raise awareness among decision-makers:

- Because many of the framing conditions that are relevant for the development of social enterprises are cross-cutting issues, an optimal political handling requires inter-departmental coordination at federal and state level. The matter can only be handled in a coordinated manner, in particular if there is a decisive strategy by the government in place that settles the responsible department and stipulates clear goals. This does not only apply to the national but also the regional level.
- A **wider acceptance of social entrepreneurship** as a relevant form of economic activity through key stakeholders of the economy (e.g. chambers, associations, funding institutions) is a closely related issue. Social enterprises often face resentment

in Germany: to start an enterprise is frequently associated with the risk of failure and culturally negative connotations. In addition, the concept of social entrepreneurship still has a niche character in Germany. This is sometimes accompanied by reservations of some sectors for the connections between a commercially-oriented entrepreneurial focus and social goals. This awareness creates the preconditions for a real integration of growth-oriented social enterprises in private sector structures, thereby enabling increasing professionalization and market orientation of such companies.

7. Transfer and Scaling

Support services and networks that foster the scaling and transfer of social innovation to new regional context could particularly help SEs to increase their impact in underserved regions.

- Social entrepreneurs adapt their concepts to the context where the social problems are located. Often, however, solutions are not site-specific, but occur in different regional contexts. The parallel development and implementation of a product or service with similar objectives in different regions, nationally and transnationally, is currently not very efficient.
- In order to **transfer innovative social innovations to rural areas there is a need to design specific counselling and support offers and training** for trainers and business advisors on scaling strategies that are knowledgeable of the specific regional contexts.
- The establishment of **knowledge exchange networks** (national and transnational) would further sustain such efforts.

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