

Challenges of founding and scaling social enterprises – what framework do social entrepreneurs need?

Summary of the study for the German Federal Ministry of Economic Affairs and Energy (BMWi)

February 2016 | evers & jung | IQ Consult | ism | Zeppelin University



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Social enterprises as a promising target of economic development and promotion of entrepreneurship

Adjusting to a new entrepreneurial self-image

The idea of solving societal problems with entrepreneurial methods is spreading and gaining attention worldwide. In the face of increasingly complex and escalating challenges for governments and civil societies, this trend is hardly surprising. Examples from refugee accommodation and support such as the Kleiderkammer in Hamburg (distribution of used clothing) or the Kiron University in Berlin illustrate the speed and effectiveness of social entrepreneurial approaches.

Companies that place the coexistence of economic and societal objectives at the heart of their business models represent a new and exciting target group from the perspective of economic development and promotion of entrepreneurship. The goal should be to provide social entrepreneurs a suitable framework for founding, establishing and scaling successful social enterprises.

Until now, it is not clear whether existing funding structures and instruments at the federal and state level can achieve this. The Federal Ministry of Economic Affairs has thus commissioned this study as a basis for further development of the subject matter by policy makers and other stakeholders.

Based on the state of the art in the literature, the study identifies the most significant challenges in founding and scaling social enterprises and derives approaches for improving the framing conditions. Given unanswered questions regarding the definition and data acquisition of social enterprises in Germany, the analysis was conducted predominantly qualitatively. In addition to individual interviews with experts and social enterprises, moderated focus groups with social entrepreneurs were held in several locations in Germany.

Definition

Social entrepreneurship in itself is not a fundamentally new approach. In Germany, Friedrich Wilhelm Raiffeisen, Adolf Kolping and others already established a tradition of social entrepreneurship in the 19th century. However, the orientation towards innovation with which young talents nowadays merge economically sustainable action with a claim to cause change in society is a novelty and is described using terms such as "social business" and "social entrepreneurship".

In Germany, new forms of social entrepreneurship have developed in particular in the state welfare sector, thereby complementing and modernizing existing organizational forms such as initiatives by civil society and socio-economic activity.

Furthermore, a considerable increase in social entrepreneurship with a clear market background can be observed, e.g. in sustainable consumption, education or energy efficiency. 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. The federal govern-

ment already supports this trend actively within the National Volunteer Strategy.

Nevertheless, social enterprises are difficult to define. The study relies on the current definition by the European Commission, according to which 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 administration of the organization. The fiscal treatment of the organization is irrelevant.

Social enterprises are thus in the middle of the spectrum ranging from pure charities to purely commercial companies. Social enterprises can be either non-profit or for-profit (see table).

	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

Source: Original diagram, based on Impact in Motion (2012) and CAF Venturesome (2007)

Market size and development

Due to the previously described problems regarding definitions, the number of social enterprises in Germany can only be estimated. Especially for commercially organized social enterprises, there are no reliable data available. This study follows the market classification according to Scheuerle et al. In addition to statistics regarding the Third Sector, the study uses data from the database of the MEFOSE study¹ and of deal flow lists (proposed and examined organizations) of support organizations in the social entrepreneurship sector,

¹ MEFOSE – Mercator Forscherverbund Social Entrepreneurship

databases of the umbrella organizations concerning labor market integration, as well as further research and recommendations of the contacted organizations. In any case, the registered 1,700 organizations can be considered the minimum amount of innovative, profit-oriented social enterprises in Germany. Regarding the number of social enterprises in the broader sense, the estimations by Scheuerle et al. based on an evaluation of the non-profit character of the organizations listed in the business register apply (see diagram).



Source: Original diagram based on Scheuerle et al. (2013) and MEFOSE (2013)

The development of the amount of social enterprises in the narrower sense is consistently described as very dynamic in the literature. Especially foundations and gGmbHs (German legal form, comparable to non-profit LLC) have seen a boom in the last ten years. Cooperatives, especially in the renewable energies sector, have also seen strong growth. 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.

Social enterprises offer great potential for developing innovative business solutions for solving societal problems and advancing a business and start-up culture that is deeply rooted in society. They also represent a key demand-side factor for the emergence of a private market for impact-oriented investments.

Framework for Social Enterprises in Germany – Ten Key findings

1) Social entrepreneurs are pioneers in a fundamental change in the relation between the social and economic spheres. However, in Germany they are often still caught in the middle.

For the development of social enterprises, the general political and societal framework is optimal when there are no substantial distinctions or institutions dividing social, economic and civil society spheres. In countries with established welfare state structures such as Germany, such a framework is absent by principle and not to be pursued in entirety. However, it will not be possible to improve the perspectives of social entrepreneurship without greater permeability between social, economic and civil society spheres.

It is the task of policy makers to initiate long-term changes regarding incentives for the relevant stakeholders. Because many of the framing conditions that are relevant for the development of social enterprises are crosscutting issues, an optimal political handling requires inter-departmental coordination at federal and state level. In some European countries it has been observed that the matter can 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 to the regional level.

Achieving 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. 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. In this context it is important to consider that social entrepreneurship has a high potential for mobilizing young, well-educated people. Opening the image of the entrepreneur towards social enterprises can serve as a catalyst for the entrepreneurial spirit and culture at large – an aspect that is especially relevant in Germany given the decreasing number of start-ups.

2) Social innovations extend the general understanding of innovation in Germany, which has previously been characterized by technology. Facilitating instruments are still to be aligned.

One challenge for the development of social enterprises in Germany is the prevailing understanding of innovation in society and institutions that is strongly characterized by technology. Innovations that are aligned with societal goals receive less attention and support. However, experts are increasingly knowledgeable that economically relevant innovations are not exclusively of technological nature. In part due to the rise of successful innovations whose innovative content lies in the combination of technology and new forms of social exchange processes (i.e. in the “shared economy” field), the traditional understanding of innovation has reached its limits. The federal government’s new High Tech Strategy picks up this development and explicitly implements an extended definition of innovation. However, the practical application and acceptance into the self-image of all stakeholders involved in the promotion of innovation will take time.

3) Social enterprises in Germany are still very heterogeneous in their appearance form. More transparency and oversight of the market is required in order to build effective support and financing structures.

The wide variety of social entrepreneurial approaches, competing definitions and self-descriptions hinder market transparency in Germany. Reliable indicators documenting 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 indicators to differentiate such companies from the non-commercial part of civil society organizations in the Third Sector are lacking.

Up to now, approaches for defining and establishing indicators regarding impact and innovation orientation have been researched and developed in projects and initiatives by research institutions and active stakeholders in the area of social entrepreneurship (e.g. foundations, think tanks, impact-oriented investors). The Social Reporting Standard (SRS) is one important instrument for standardized impact reporting for socially motivated organization. Additionally, voluntary seals of quality or certificates for commercially organized social enterprises, such as B-Corp or "Wirkt!" (German impact label) are increasingly widespread. However, a consistent consolidation and realization of these approaches in order to build a corresponding data set have so far not taken place.

At the same time, impact-oriented investors and stakeholders in economic development see this as one of the key challenges for market development. Targeted measures to support social enterprises and build sustainable financing structures in the impact-oriented investment market can only be developed once reliable data regarding the scale of social entrepreneurship are available and clear criteria and certificates for the social orientation of commercially organized companies are established.

4) Social entrepreneurs approach the choice of legal form very pragmatically. The non-profit nature is one of the key challenges for growth-oriented organizations.

In Germany, a wide variety of legal forms under private law (non-incorporated and incorporated firms) can be used for social entrepreneurial initiatives. In light of the very heterogeneous social entrepreneurial approaches to date, this situation can generally be regarded positively. The qualitative analysis showed that the interviewed social entrepreneurs approached their decision and the implementation of their organization's legal form in a highly structured manner without experiencing great challenges. The majority of experts as well as the interviewed social entrepreneurs did not see a necessity for a specific legal form for social enterprises in Germany. This does not mean that the current situation is considered ideal. Many interviewees regarded the legal and fiscal implications of the non-profit status in particular as a significant barrier for the development of social entrepreneurial business models.

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 "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. 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 share in an organizational hybrid structure for achieving growth.

5) Social enterprises are especially suited as contractors of public procurement. The amendment to the Public Procurement Law offers an opportunity for increased consideration at federal, state and communal level.

The design of public tendering under consideration of procurement law is one of the most important framing conditions for social enterprises that apply for such contracts with their impact-oriented and sustainable products and services. This situation pertains especially to social enterprises that have already reached a certain size and need large and long-term contracts to scale. Providers of social services in particular only have access to such contracts via public procurement. Public contracts are also an important potential growth factor for existing social entrepreneurs in the area of procurement of innovative and sustainable products and services.

With the implementation of the relevant EU Directive², the federal government has created the preconditions for extensive room for manoeuvre within the scope of procurement law. The contracting body must still award the contract to the most economic tender. However, life cycle costs as well as social, ecological and innovation aspects can now be better incorporated in the evaluation in addition to the price and costs and under consideration of the principle of cost efficiency. Public contracting bodies can propose specific requirements regarding environmental and social characteristics of the demanded service. For social enterprises, this development offers an opportunity if this scope of action is utilized by the contracting bodies.

6) Social enterprises have particular support needs during the founding and growth phases. General support structures are not sufficient for this group.

Consulting services have a special significance for social enterprises (e.g. regarding legal questions, financing options, clarification and implementation of business ideas and scaling of the company). Correspondingly, there is a demand for qualitative support structure. This demand cannot be satisfied by the typical support centers (such as chambers, economic development) as well consultants oriented more towards founding in general at the present time.

The market for specific consulting services regarding social entrepreneurship is still young and developing dynamically in Germany. Existing support offerings are mostly pilot projects, financed and supported by public funds from the fed-

² Directive on public procurement and repealing (RL 2014/24/EU, replaces the previous directive on public procurement 2004/18/EG)

eral government, the EU, and various foundations. Since 2011, the Federal Ministry of Family Affairs has supported the creation of Social Impact Labs in Germany and thus contributes significantly to offering support in several cities.

Achieving a comprehensive, nationwide service offering would significantly improve the framing conditions for social enterprises in Germany. The promotion of the cultural and creative industry in Germany has given an example of how a well-coordinated, centralized center of excellence can be constitutive for the development of specific regional support structures for specific target groups.

7) Social entrepreneurship has a high potential for mobilizing knowledge-based start-ups at universities. However, few specific support services are available in this setting.

The consulting offering and support services for social enterprises at German universities are, with a few exceptions, 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 students³. The general start-up consulting services at universities, often within the framework of EXIST start-up offices, are not capable of supporting prospective founders as needed in the field of social entrepreneurship, even if the field is not explicitly excluded. The wide range of consulting topics and the prevalent focus on technology-based innovation hinders the establishment of offers specifically tailored to the needs of social enterprises. A similar trend can be observed within the framework of the EXIST Business Start-up Grant. On one hand, the program is open to social entrepreneurs if their proposition meets the criteria of the funding guidelines (among others, innovation, unique features, economic viability and teambuilding). On the other hand, the discussions of the focus groups revealed that to date, university and authorities have placed greater emphasis on highly scalable technological prospective start-ups.

8) Social enterprises need less, but more “patient” external credit instruments than other innovative start-ups. Few investors can be found on traditional capital markets.

In the early start-up phase, the financing needs of the majority of social enterprises consist of covering living expenses and operation and investment costs of less than 50,000 Euros. This is especially true for social enterprises with an emphasis on services and is an expression of the reduced start-up costs due to advancing digitization.

Social enterprises that pursue ambitious growth targets from the outset have higher financing needs. Although details of previous financing rounds are not published, it can be assumed that financing needs reach a six-figure range. In focus groups with social enterprises that are scaling up, this order of magnitude was confirmed. The demand is therefore still lower than comparable, ambitious start-ups in other sectors.

In general, young and growth-oriented social enterprises prefer financing that strengthens equity capital to cover external financing needs. Traditional loan financing is considered unsuitable by social entrepreneurs and experts due to insufficiently established business models and uncertain yield perspectives in

³ One notable exception is the Social Entrepreneurship Akademie in Munich, a cooperation of four universities (www.seakademie.de).

the start-up phase. In this sense, the interviewed growth-oriented social entrepreneurs resemble innovative start-ups with profit orientation. However, the interviewed social enterprises considered utilizing typical venture capital only if investors and intermediaries had adequate yield expectations and contributed their professional know-how regarding further development of social entrepreneurial business models.

Overall, social enterprises have only limited access to financing options of the traditional capital market.

9) For social enterprises, usability of available financing instruments within the framework of start-up and economic promotion is restricted.

Financing programs by the federal government within the framework for promoting the "Mittelstand" (medium-sized companies) are targeted exclusively at commercially formed companies. Non-profit social enterprises are therefore barred from funding. However, even for-profit social enterprises have only limited access to the current spectrum of financing options, as an analysis of the existing national program revealed. The available loan programs offered by the KfW are at best a supplementary option for stable social entrepreneurial business models due to the fundamentally limited ability to service debt that is implicated by the social objective as previously described. The structure of funding in the area of mezzanine and equity financing is generally considered more suitable.

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, which is available via the regional Holding Companies for Medium-Sized Businesses (Mittelständische Beteiligungsgesellschaften, MBGs). Social enterprises are one of the target groups of this program, which is co-financed through ESF funds to award silent partnerships of up to 50,000 Euros. In the expert interviews, it was reported that the awarded MBGs focus strongly on foreseeable short-term profitability and thereby exclude many social enterprises in the start-up and consolidation phase.

Creating specific federal funding programs for social enterprises within the framework of "Mittelstand" financing is not a realistic option considering the currently estimated number of social enterprises in Germany. Specific program versions with adapted funding conditions are most likely. In other countries, this has already been implemented, especially in the framework of the ESF funding. The existing ESF program both at federal and state level partially target social enterprises to date. Extending these programs would be an important milestone towards creating a better framework regarding financing. It can be assumed that financing programs aimed at social enterprises can unfold their full potential if they are used as one element of a comprehensive, overall financing approach. Furthermore, they can help integrate intermediaries whose financing approach is adapted to social entrepreneurial business models, such as socio-ethical banks, guarantee banks, and impact-oriented investors.

10) To unfold their full potential, social enterprises need a functioning market for impact-oriented investments. In Germany, such a market is still in the early stages of development.

One key finding after taking stock of the situation and carrying out a qualitative analysis is that the availability of impact-oriented venture capital and equity capital plays a key role for social enterprises aiming to grow. The corresponding market is growing only slowly in Germany. Important stakeholders include

foundations, private investors (including big corporations with CSR departments) and institutional investors, social enterprises on the demand side and specialized funds as intermediaries. The situation has the characteristics of a chicken-or-the-egg problem.

In Great Britain and other countries with further developed markets for impact-oriented investments, it can be seen that the provision of public and philanthropic capital for investment vehicles in the early stages of the market promotes the creation of new products. In addition, it has turned out that it is necessary to support professional intermediaries and intermediary platforms at least initially. Guarantees, fiscal relief, or recommendations by politics can be implemented as incentives for private and institutional investors. Collecting and analyzing data and information centrally helps to define the market and dispel uncertainty. The demand side can be improved most directly by supporting social enterprises in developing their business models to investment maturity.

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 such as so-called Social Impact Bonds. 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 realization, social enterprises and stakeholders from civil society must act.

Recommendations to improve the framework for social enterprises in Germany

Within the scope of this study, approaches to improve the situation were derived for implementation by stakeholders in politics, business, and civil society in the short to medium term. The focus is on economic development and promotion of entrepreneurship.

A) Set up a cross-departmental task force on social entrepreneurship and social innovation

Improving coordination regarding political responsibility of the issues surrounding social entrepreneurship and social innovation at the federal level is a precondition for consistent and sustainable handling of many of the challenges identified in this study. Initiating a **cross-departmental task force at the federal level** that brings together representatives of the relevant departments that are involved in the issue of social enterprises would be a first step in the right direction. In particular, representatives of the Federal Ministry of Family Affairs (**BMFSFJ**) and the Federal Ministry of Economic Affairs (**BMWi**) should be brought together. Further concerned departments are to join as necessary, especially the Federal Ministry of Finance (**BMF**) regarding issues of non-profit law, the Federal Ministry of Labor and Social Affairs (**BMAS**) regarding issues of integration with the funding of Corporate Social Responsibility (CSR) activities and the federal strategy within the funding through the European Social Fund (ESF) as well as the Federal Ministry of Economic Cooperation and Development (**BMZ**) regarding experiences with social enterprises internationally.

B) Start an information campaign about social entrepreneurship as an area for start-ups

To realize the significant mobilization potential of social entrepreneurship towards achieving a more dynamic start-up culture in Germany, a **nation-wide information campaign** should be initiated. It is especially important to spread information and success stories through different channels and tools of communication in the start-up ecosystem. Regular publications of the BMWi as well as the Start-up Week Germany may be involved. The latter should host focus events on social entrepreneurship with different partners, e.g. Social Labs, Ashoka, FASE, but also traditional stakeholder of start-up promotion. To achieve a more long-term impact, the information campaign must be aimed at raising these stakeholders' awareness for the necessity of building up know-how in handling the target group of social enterprises. The campaign's goal should be to position **social entrepreneurship as an important new driver shaping start-up culture in Germany** and to establish social enterprises as a relevant alternative to purely profit or non-profit companies in the area of self-employment.

C) Improve data availability and indicators of impact orientation of companies

To continue the development of a **consistent data set regarding social enterprises in Germany**, it should be verified to what extent existing indicators regarding impact orientation of companies in periodic surveys in the start-up sector such as the **KfW Start-up Monitor** can be integrated. The **Mannheimer Enterprise Panel** is another possibility of extending the indicators regarding data on social orientation of companies beyond start-ups that should be examined. A further harmonization with studies on the Third Sector, especially those

that also examine non-profit LLCs, should be pursued. The main challenge for a meaningful data collection strategy is to cover social enterprises from both the market sector and the Third Sector in order to allow comparisons.

Apart from the creation of such a data set, *constantly redeveloping the indicators* and criteria of transparent reporting regarding companies' impact orientation is an important element for increasing transparency in this sector. The *Social Reporting Standard (SRS)*, a mature instrument for reporting impact orientation of non-profit and social organizations, will be widely distributed through increased utilization by commercially organized companies with a social motivation. Furthermore, voluntary certification of commercially organized social enterprises through the *B-Corp* and "*Wirkt!*" seals should be accelerated. Further development of indicators for impact orientation can be supported through a comparative assessment of available SRS annual reports by academic members of the association.

D) Facilitate entrepreneurial initiative in non-profit legal forms

Since entrepreneurial initiatives in non-profit legal form are highly significant for the development of the entire field of social entrepreneurship in Germany, the cross-departmental task force at the federal level should initiate a dialogue with stakeholders from the Third Sector. The goal should be to develop a common understanding regarding the requirements and possibilities of a *facilitation of entrepreneurial initiatives in non-profit legal forms via adjustments to the fiscal code*. The analysis indicated that the following areas of the fiscal code are especially relevant for entrepreneurial initiatives of social enterprises:

- Social entrepreneurial activity in the context of public benefit according to § 52 fiscal code (Abgabenordnung, AO)
- Rule on activities with no detrimental effect on tax privilege for the prompt allocation of funds according to §58 fiscal code
- Ban on profit distribution to partners according to §55 fiscal code
- Necessary entrepreneurial activities directed towards achieving the purposes as set out in the statutes according to §65 and §68 fiscal code (Dedicated activity)

To initiate such a process, close coordination between the BMWi, BMFSFJ and BMF will be necessary. To involve stakeholders from the Third Sector, *Partnerships between Politics and Civil Society* as established in the National Volunteer Strategy should be used.

E) Establish impact-oriented invitations to tender in public procurement

With the implementation of the EU directives on public procurement, the federal government creates the legal preconditions for public procurement that is more oriented towards sustainability innovation starting next year. This is a big opportunity for establishing an impact-oriented procurement culture from which social enterprises in particular can benefit from. It should be ensured that the usage of public authorities' newly gained freedom is monitored by a central office and that timely *communication and sensitization measures* are taken in case there is no change in contracting practice. The *Competence Center for Innovative Procurement* and the *Competence Office for Sustainable Procurement* are two platforms that may be used to publicize positive case studies of the implementation of impact-oriented procurement practices and to achieve a sensitization for the possibilities and potentials of such a

design of public procurement measures. At the same time, it is up to social entrepreneurs and their lobbyists to highlight new possibilities of impact-oriented procurement processes as well as the advantages of considering social enterprises more strongly. Charities and other stakeholders from civil society should also pledge their support for incorporating impact orientation in public procurement.

F) Consulting offering to improve the investment capacity of social enterprises

In order to support and improve the investment capacity of social enterprises sustainably, it is important to create the prerequisites that allow the existing consulting offering to be continued and extended in a timely manner e.g. through specialized intermediaries. The federal government has made good experiences *with subsidizing professional consulting services in the post-founding phase* of commercial companies. The pilot-like opening of the KfW start-up coaching for social enterprises in non-profit legal form is a first step towards intensifying the consulting support for social entrepreneurs. Based on the experiences made in the pilot phase, a continuation under the new guidelines for combined start-up and "Mittelstand" consulting should be assessed. At the same time, the degree of utilization by social enterprises and the quality of supported coaching must be regularly verified. Furthermore, it is important that federal funding for consulting in the post-founding phase is complemented by state-level offerings to support the pre-founding phase. To supplement subsidies within the general start-up and "Mittelstand" consulting, it should be examined in how far German organizations' *pilot projects that are supported by the European Commission* have led to capacity building of specific support approaches for social enterprises that may be pursued at the federal level.

G) Intensify focus on social entrepreneurship in existing financing instruments of economic development

For furthering the development of existing support programs in the field of mezzanine and equity financing, it should be assessed at the federal level, jointly with the KfW, whether the financing windows of the newly available *European counter-guarantee for investments in social enterprises* can be installed with more favorable conditions. The states should also evaluate together with their state funding institutions whether such financing windows are possible with their regional financing programs. In particular for programs that are co-financed by ESF, the EU explicitly provides for addressing social enterprises as a target group.

In the existing ESF program *Micro Mezzanine Fund of Germany*, several specific measures can strengthen the focus towards social enterprises. In terms of public communication regarding this instrument, the usage by social enterprises should be emphasized more strongly, supported by relevant examples of successful funding. The MBGs should be urged to regularly keep track of the share of social enterprises within rejected applications. Furthermore, it would be helpful to have a regular exchange between MBGs and specific supporters of social enterprises regarding success factors of support and funding of social enterprises with this instrument.

H) Offer support for developing the market for impact-oriented investments

To advance the market development for impact-oriented investments, politics must take an active role. Within the suggested cross-departmental task force on social entrepreneurship, present options for supporting market development should be discussed and precise suggestions and steps for market development in Germany laid out *in alignment with the NAB*. Furthermore, it should be jointly discussed how the success factors of innovative instruments of performance-based financing of social services, i.e. *Social Impact Bonds*, can be better researched in the German context.

Apart from strategic work, it seems important that options of direct support of existing market participants and nascent *investment funds for impact-oriented investments in social enterprises* are verified in this framework. The newly reissued program "ERP Venture Capital Fund Investments" by the KfW offers the possibility of equipping newly arising funds with additional capital. These investments can generate the greatest impact if pilot projects that are funded by the EU Commission through early stage financing are transferred to sustainable financing structures, allowing this capital to be leveraged by additional EU resources.

Involving foundations more closely through Impact Investing in Germany would further accelerate market development. Together with the NAB, politics should encourage foundations to join forces within an information and network platform, through which the interaction between foundations and the information exchange regarding opportunities of impact-oriented investments are intensified and stabilized.

I) Implement elements of a competence center for social entrepreneurship

In the medium to long term, the establishment of a *competence center for social entrepreneurship* should be pursued. This can be achieved gradually and under consideration of the order of magnitude and the wider economic significance of social enterprises along the following central functions. The experiences made by active stakeholders should be incorporated into the process.

- *Providing information* regarding founding, consolidating and scaling of social enterprises.
- *Strengthening and building a network* of existing, specific support structures and stakeholders while taking existing networks into account.
- *Taking stock of the relevant offerings and services* (i) to create transparent structures and (ii) to recognize potential gaps regarding quality or quantity of the services.
- *Creating of a service catalogue* for decentralized support offerings, based on already existing local and regional support providers that are specialized in social entrepreneurship.
- *Developing a virtual support and networking platform* for nationwide availability of know-how and tools.
- Considering the *assignment of regional coordinators* to link different stakeholders at the regional level and to build a support pool for social enterprises also at the regional level.

An influential stakeholder such as a Federal Ministry should initiate the momentum for creating, testing, implementing, and distributing specific support structures and instruments. The responsibility for developing individual instruments and standards as well as their distribution may be transferred to other stakeholders if their willingness to support such a process is guaranteed.

J) Improvement of the support of social entrepreneurship via the EXIST program

Social entrepreneurial start-ups should be considered more strongly within the support structures offered to start-ups by universities. Existing start-up offices at universities oriented towards entrepreneurship should be considered intermediaries, while the support program EXIST can be leveraged as an already implemented support instrument. The start-up offices can be used to further position the topic of social entrepreneurship as well as to offer support and funding of social enterprises. To achieve this, it will be necessary to **raise awareness** of the issue, which should be done by putting the topic on the agenda of the annual meeting of all EXIST universities. Within the planned EXIST alumni network, a **survey** to determine the share of social enterprises among the stipendiaries should be carried out. Furthermore, communication towards EXIST universities regarding existing possibilities of support for social entrepreneurial start-ups through the current funding guideline should be intensified.