



BOOSTING SOCIAL ENTREPRENEURSHIP AND SOCIAL ENTERPRISE DEVELOPMENT IN BRANDENBURG, GERMANY

In-depth policy review

Boosting Social Entrepreneurship and Social Enterprise Development in Brandenburg, Germany

In-depth Policy Review

This report provides an in-depth analysis of the policy ecosystem in place for social entrepreneurship and social enterprises in the state of Brandenburg, Germany. It identifies the state's key strengths and challenges and provides policy recommendations to support the development of a stronger policy ecosystem.

It includes a conceptual framework for social entrepreneurship and social innovation (Chapter 2); with recommendations and analyses to build institutional and legal frameworks for social enterprises (Chapter 3), improve access to finance for social entrepreneurship development (Chapter 4), promote access to private and public markets for social entrepreneurship development (Chapter 5), and strengthen social impact measurement and reporting for social enterprise development (Chapter 6).

Keywords: social entrepreneurship; social economy; social enterprises; social impact; social innovation; local development; policy ecosystem.

JEL codes: L31, L33



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Acronyms

ABS	<i>Arbeitsförderung Beschäftigung Strukturentwicklung</i> - Employment Creation and Structural Development Associations
BMWi	<i>Bundesministerium für Wirtschaft und Energie</i> - Federal Ministry of Economic Affairs and Energy
CSR	Corporate Social Responsibility
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FNG	<i>Forum Nachhaltige Geldanlagen</i> - Sustainable Investments Forum
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
IHK	<i>Industrie- und Handelskammer</i> - Chamber of Industry and Commerce
ILB	<i>Investitionsbank des Landes Brandenburg</i> - Business Promotion Bank of the Federal State of Brandenburg
KfW	<i>Kreditanstalt für Wiederaufbau</i> - German Development Bank
MBJS	<i>Ministerium für Bildung, Jugend und Sport</i> - Ministry for Education, Youth and Sports
MSGIV	<i>Ministerium für Soziales, Gesundheit, Integration und Verbraucherschutz des Landes Brandenburg</i> - Ministry of Social Affairs, Health, Integration and Consumer Protection
MWAE	<i>Ministerium für Wirtschaft, Arbeit und Energie</i> - Ministry for Economic Affairs, Labour and Energy
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
SGB	<i>Sozialgesetzbuch</i> - Social Law Code
SMEs	Small and Medium-sized Enterprises
SROI	Social Return on Investment
SRS	Social Reporting Standards
PPP	Purchasing Power Parity
WISE	Work Integration Social Enterprises
WFBB	<i>Wirtschaftsförderung Land Brandenburg</i> - Economic Development Agency Brandenburg

Executive Summary

Situated in the northeast of Germany, the state of Brandenburg suffers from a more challenging economic and social context than the rest of the country. Regional GDP per capita is about 30% below the federal average, and the state also lags behind in OECD well-being indicators, for example access to services. Compounding this, COVID-19 has led to a spike in unemployment in Brandenburg as around the world. Although recent signs of recovery have emerged, in December 2020, the unemployment rate in Brandenburg was at 6.1%, 0.6 percentage points higher than in December 2019.

Intra-regional cleavages are stark. Rural and peripheral areas often suffer from inadequate public services and weak physical and digital infrastructure, hampering business creation and growth. In addition, the COVID-19 crisis risks exacerbating inequalities, as some sectors (such as construction, wholesale and retail trade) and, in turn, segments of the population (the most vulnerable) have been hit harder than others. Still, compared to other states in eastern Germany, Brandenburg presents a potentially favourable environment for social innovation, given its high start-up rates and research and development (R&D) activity, which is mainly driven by the area surrounding Berlin.

Policy makers in Brandenburg actively promote social entrepreneurship and social innovation, mainly as a tool for labour market integration. Dedicated funding schemes, co-financed by the European Social Fund, have been endowed with over EUR 30 million for the period 2017-2022. The coalition government in Brandenburg reiterated its support for social entrepreneurship and social innovation in 2019. In the absence of a dedicated legal framework at the federal level, Brandenburg's Ministry for Economic Affairs, Labour and Energy (MWAE) has developed working definitions for social enterprises and social innovation, although these are not yet widely adopted within the administration. A recent study identified 141 market-oriented social enterprises, which are mostly located in Brandenburg's rural areas (Jahnke et al., 2020^[1]). In addition, the state fosters entrepreneurial and innovation capacity building, for example through a start-up support network composed of the Economic Development Agency (WFBB), the Chamber of Commerce, several universities and municipalities.

Nonetheless, a number of challenges curb the potential for social entrepreneurship and social innovation in Brandenburg. For example, there is a lack of a coherent strategy for social entrepreneurship and social innovation at the state level, and different institutions tend to have different interpretations of these concepts. In addition, social entrepreneurs report difficulties in choosing between the different legal forms available and hurdles in obtaining public benefit status. As in the rest of Germany, co-operation among social enterprises is hampered by historical and cultural differences that persist between new-style social start-ups and traditional social welfare organisations. Limited access to finance, as well as to private and public markets, limits their capacity to operate and thrive, while social impact measurement has not yet become common practice.

While policy makers in Brandenburg are addressing the immediate social and economic challenges generated by COVID-19, social entrepreneurship and social innovation can play a crucial role for the long-term recovery. The pandemic has exposed the vulnerabilities of individuals, societies and economies around the world, calling for a rethinking of how economic and social activities are organised. This requires strong responses based on solidarity, co-operation and responsibility. Going forward, policy makers could consider a number of policy measures to further promote social entrepreneurship and social innovation in Brandenburg.

Defining social innovation and social entrepreneurship and promoting collaboration among actors in the field

Despite the pledge made by Brandenburg's government in the 2019 coalition agreement, there is not yet a broad political consensus on the definition of social innovation and social enterprises, or a joint vision for their contribution to sustainable social and economic development.

A cross-ministerial task force or a similar collaborative space could be established to clarify expectations on social innovation and social entrepreneurship across different fields in Brandenburg (e.g. work integration, social protection and inclusion, sustainability) **and how to support these** (through education, knowledge exchange, counselling and funding, for example). Such a task force could take the form of a temporary group composed of public officials from relevant ministries (Labour and Economy, Social Affairs, Education) and partner institutions (namely, the local economic development agency and the promotional bank). Depending on the outcome of such a consultation or task force, the process could lead to the adoption of a social innovation and social entrepreneurship strategy for Brandenburg.

Social innovation has emerged as a subject of shared interest between traditional social welfare organisations and new-style social start-ups, where the two types of social enterprises perceive their complementarities as mutually beneficial. There is hence an opportunity for policy makers to promote greater collaboration among actors operating in the social innovation field, including social enterprises, traditional business and intermediaries. For example, public support initiatives targeting innovation could be open to entities independently of their profit orientation, in order to encourage co-operation among and beyond social enterprises.

Promoting a coherent institutional and legal framework for social entrepreneurship

Brandenburg's institutional framework concerning social enterprise and social innovation is still rather fragmented. The broad range of legal forms available for social enterprises in Brandenburg adds further complexity to the social entrepreneurship landscape.

Effective co-ordination mechanisms can help ensure institutional alignment within the Brandenburg government and with localities. Over the longer run, the previously mentioned cross-ministerial task force could become a more permanent collaborative space or ad hoc inter-ministerial body in charge of social enterprise and social innovation. Under the leadership of the Ministry for Economic Affairs, Labour and Energy, the task force could help identify additional competencies and engage with local actors.

While the decision to establish a special legal form for social enterprises is the remit of the Federal parliament, the state government could reinforce the capacity of the local start-up and business support network (e.g. Chambers of Commerce) **to assist social entrepreneurs in their incorporation and certification processes.** Finally, further efforts could go into raising the visibility of social enterprises in Brandenburg, for example through a registration process initiated by public authorities to establish officially recognised and credible standards.

Easing social enterprise access to finance

Access to finance remains challenging for social enterprises in Brandenburg, since public as well as private investments tend to favour commercial companies. In addition, while government support for founders, start-ups and SMEs exists in Brandenburg, public benefit organisations, and often co-operatives, are excluded from that support.

Going forward, policy makers in Brandenburg could consider establishing a financing instrument encompassing all legal forms and integrating funding for social innovation into the existing

policies on start-ups, SMEs and technological innovation. Credit guarantees could be particularly relevant, as they are viable for all types of legal entities and carry significant leverage potential for the mobilisation of additional private investment. Uptake of the state guarantee already established by the Brandenburg Ministry of Finance could be encouraged, while access to public financing vehicles for start-ups and SMEs could be extended to encompass public benefit companies. The state government could also encourage the inclusion of social or environmental criteria in the investment selection and allocation process of local financial intermediaries. Finally, Brandenburg could take further steps to attract private capital in support of social entrepreneurship, for example by hosting networking events similar to the Impact Investing Roundtable, which have taken place in Berlin since 2014.

Unlocking the potential of public and private markets for social enterprises

While public procurement can be an important vehicle to favour goods and services that have a socially responsible origin, social enterprises in Brandenburg suffer from the restrictive interpretation of public procurement regulations. In addition, social enterprises often struggle to access private markets in Brandenburg, and linkages with the commercial sector could be strengthened.

Awareness-raising and training efforts could help to clarify award measures and encourage public officials in Brandenburg to promote socially responsible practices among public officials. The state government could also consider incorporating social considerations into public procurement rules.

As traditional social welfare organisations and new-style social start-ups often behave as competitors when tendering for public contracts, co-operation, for example through the creation of joint tendering platforms, could be beneficial. Strengthening linkages with commercial businesses would also open avenues for social enterprises to access alternative sources of income. This could be achieved through the integration of social enterprises in existing business networks, as well as by promoting corporate social responsibility among local businesses.

Promoting social impact measurement

Brandenburg has shown interest in promoting social impact measurement in the past. However, there are currently no public initiatives to raise awareness and enable monitoring and evaluation efforts by social entrepreneurs.

Providing open access and guidance on existing methodologies and tools could facilitate the adoption of social impact measurement by social entrepreneurs. Relying on the expertise available in Brandenburg and the rest of Germany, the state government could support knowledge exchange and training for local capacity building intermediaries. As resource constraints remain the biggest challenge for the implementation of social impact measurement by social enterprises, public and private funders could reserve part of their financing to social entrepreneurs in support of such activities. In parallel, policy makers could consider integrating considerations on social and environmental impact enhancement in existing start-up and SME support measures, for instance by promoting adherence to the German Sustainability Code or labels like B-Corp, *GWÖ* and *Wirk!.* Finally, building on ongoing efforts to map social enterprises, policy makers could also take steps to evaluate programmes in support of the social economy in Brandenburg, to independently assess their relevance and effectiveness and adapt accordingly.

Action Plan

Recommendations	When	Who
Defining social innovation and social entrepreneurship and promoting collaboration among actors in the field		
Promote social innovation as a common ground between new style social enterprises and social welfare organisations. To promote social innovation and co-operation among and beyond social enterprises, public support initiatives targeting social innovation could be open to entities independently of their profit orientation (i.e. welfare associations, social start-ups and other local actors).	Short- term	Ministry for Economic Affairs, Labour and Energy
Initiate a whole-of-government and inclusive dialogue on social entrepreneurship and innovation. A cross-ministerial task force could be set up to clarify expectations on social innovation and social entrepreneurship in different fields (work integration, social protection and inclusion, sustainability) and how to support them (through education, knowledge exchange, counselling and funding). The task force could consult with local representatives of social enterprises and social welfare organisations, to gather inputs and feedback from relevant expert and practitioner networks.	Medium to long-term	Ministry for Economic Affairs, Labour and Energy; Ministry of Social Affairs, Health, Integration and Consumer Protection; Ministry of Education, Youth and Sport; WFBB; ILB
Steer the adoption of a formally endorsed strategy for social entrepreneurship and innovation. Based on the outcomes of the consultation process, the cross-ministerial task force could adopt a social innovation and social entrepreneurship strategy for Brandenburg based on the existing coalition agreement and on the next European programming cycle. A cross-ministerial fund for districts and municipalities could also be established to unleash local innovation potential based on local needs assessments.		
Promoting coherent institutional and legal frameworks for social entrepreneurship		
Ensure co-ordination across government. The task force established to steer a multi stakeholder dialogue could become a more permanent working group or an ad hoc inter-ministerial body in charge of social enterprise and social innovation. This centrally co-ordinated function, under the leadership of the Ministry for Economic Affairs, Labour and Energy, could help identify additional competencies and engage with other actors, both at the state and local level (e.g. municipalities and tax authorities).	Medium to long-term	Ministry for Economic Affairs, Labour and Energy; Ministry of Social Affairs, Health, Integration and Consumer Protection ; Ministry of Education, Youth and Sport; representatives from districts and municipalities

Provide assistance on legal forms and public benefit status. The government could strengthen the capacity of local intermediaries in the start-up support network (e.g. Chambers of Commerce, Chambers of Crafts, pilot services, workshops) to assist social entrepreneurs in their incorporation process and in the certification as public benefit organisation, should they wish to obtain it.	Short to medium-term	Ministry for Economic Affairs, Labour and Energy; Chambers of Commerce, Chambers of Crafts and other local intermediaries
Envisage the creation of a registry of social enterprises. The Ministry for Economic Affairs, Labour and Energy could set up an agency, or a dedicated team within the ministry, to ensure the set-up, management and promotion of an online registry of social enterprises. The registry could include an online application form that social enterprises would have to submit with the necessary information and evidence in a standard format. The registry should be publicly available to ensure transparency and credibility. Engaging local networks of social enterprises would be key to raise awareness of the registry.	Medium to long-term	Ministry for Economic Affairs, Labour and Energy; local networks of social enterprises
Easing social enterprise access to finance		
Facilitate the inclusion of social enterprises in the existing SME and start-up financing offer. Public financing vehicles for start-ups and SMEs could be extended to encompass public benefit companies (e.g. gGmbH, gAG, gUG). The government could also encourage the inclusion of social or environmental criteria in the investment selection and allocation process of local financial intermediaries.	Short-term	Ministry for Economic Affairs, Labour and Energy; Brandenburg Ministry of Finance; local financial intermediaries; ILB; Bürgschaftsbank Brandenburg GmbH
Continue to promote social innovation despite decrease in EU co-financing. Public funding for social innovation could be deployed in synergy with existing policies on start-up, SME promotion and technological innovation. The existing call for proposals has been used to test pilot projects and to enable the creation of capacity building intermediaries. In the future, it could take a similar form as the Brandenburg Innovation Voucher managed by ILB, broadening its eligibility to public benefit organisations. These instruments could be bundled into a social innovation fund, managed by a local financial intermediary, combining the use of refundable grants and/or soft debt, accessible to all social enterprises, independently of their legal form or status.	Medium-term	
Mobilise private investors from the German social finance market. Brandenburg could host an Impact Investing Roundtable, where the government could display the publicly supported social enterprises and innovations, as a way to encourage diversification in their financing strategy. In parallel, the government could also seek synergies with the initiative recently launched by Drosos Foundation and Phineo to marshal philanthropic investment for civic engagement in eastern Germany. The government could actively raise awareness among local financial intermediaries of the existence, needs and value added of social enterprises in Brandenburg.		Ministry for Economic Affairs, Labour and Energy; the German Council for Sustainable Development; Deutsche Börse Group; local financial intermediaries; Bundesinitiative Impact Investing; Drosos Foundation; Phineo; WFBB
Unlocking the potential of public and private markets for social enterprises		
Raise awareness of sustainable procurement practices among public officials. The Ministry for Economic Affairs, Labour and Energy, together with the Ministry of the Interior, which is responsible for e-procurement, could actively raise awareness of the recent regulation providing local authorities with the possibility to consider social, ecological and innovation-related aspects in public procurement. Updating Brandenburg's official website with the new procurement guidance as well as additional material as needed could be helpful. In addition, training of public officials on social public procurement could be included in the work plan of the forthcoming Competence Centre in Beelitz-Heilstätten. Finally, the government could encourage access to the two federal competence centres, through which local contracting authorities could seek advice on how to implement sustainable and innovative procurement.	Short-term	Ministry for Economic Affairs, Labour and Energy; Ministry of the Interior; Auftragsberatungsstelle Brandenburg e. V.; Kommunales Bildungswerk; Deutsches Vergabernetzwerk; Competence Centre in Beelitz-Heilstätten; The Competence Centre for Sustainable Procurement; The German Competence Centre for Innovation Procurement
Encourage collaboration between different types of social enterprise. Brandenburg's government could encourage co-operation between social start-ups and social welfare organisations as a way to foster mutual learning and create synergies in tackling pressing social issues. One possibility would be to work with specialised intermediaries to promote partnerships among social enterprises, for instance through the creation of a joint tendering platform.	Medium to long-term	

<p>Facilitate connections with commercial companies. The government could take steps to foster collaboration between social enterprises and commercial companies, for instance by better including social enterprises in existing networks within Brandenburg's Chamber of Commerce, Chambers of Crafts, the Economic Development Agency (WFBB), the business promotion bank ILB and other parties in the SME support network.</p>		<p>Ministry for Economic Affairs, Labour and Energy; Chamber of Commerce; Chambers of Crafts, WFBB; ILB; other parties in the SME support network</p>
<p>Promoting social impact measurement</p>		
<p>Undertake policy evaluation to increase public evidence. The government could undertake an evaluation of programmes to promote the social economy (encompassing both social innovation and work integration social enterprises). Alternatively, a specific focus could be included in the final evaluation of the national ESF operational programme 2014-2020. Evaluations could inform the design of further programmes for the social economy, feed into the concerted strategy, and reinforce synergies with existing policies for start-up promotion, SME growth and innovation.</p>	<p>Short-term</p>	<p>Ministry for Economic Affairs, Labour and Energy</p>
<p>Provide methodological guidance and expertise on social impact measurement. The government could provide an open access guidance on existing social impact measurement methodologies and tools, to make these readily and easily available to social entrepreneurs, by creating new resources (e.g. translating and adapting international guidance) or re-directing to materials already available online. The government could support knowledge exchange and training for local capacity building intermediaries (e.g. by hosting a "train the trainers" event to boost competencies among local service providers).</p>		<p>Ministry for Economic Affairs, Labour and Energy; Competence Centre in Beelitz-Heilstätten; academia (Leibnitz IRS, Heidelberg CSI, Social Entrepreneurship Akademie, etc.) and practitioners (Phineo, Ashoka, SEND)</p>
<p>Ensure sufficient resources from public funding for social entrepreneurs. State support programmes for social innovation and social enterprises could include ex ante impact analysis as a mandatory step in the application process, reserve part of the grant for monitoring and evaluation activities by the beneficiaries and encourage public disclosure of impact data and reporting. The same could apply to the investment instruments managed by ILB and other local intermediaries.</p>	<p>Medium-term</p>	<p>Ministry for Economic Affairs, Labour and Energy; ILB; local intermediaries</p>
<p>Integrate impact enhancement in the existing start-up and SME support. Policy makers could consider integrating considerations on social and environmental impact enhancement in the existing start-up and SME support, for instance by promoting adherence to the German Sustainability Code or labels like B-Corp, GWÖ and Wirkt! This would imply (1) raising awareness of the importance of environment and social impact analysis for all start-ups and SMEs, and (2) going beyond harm avoidance to stimulate the active pursuit of desirable societal outcomes. The government could reinforce the social and environmental orientation of the coaching and mentoring offered as part of the start-up and SME support system.</p>	<p>Medium to long-term</p>	<p>Ministry for Economic Affairs, Labour and Energy; financial intermediaries</p>

1 Setting the stage: the socio-economic and political context in Brandenburg

Prior to COVID-19, Germany had been enjoying strong economic and labour market performance, buttressed by long rich traditions of the welfare system. Between 2008 and 2019, annual GDP growth in Germany averaged 1.2%, compared to less than 1% in the European Union (EU). In addition, the unemployment rate stood at 3.1% in 2019, less than half the EU average of 6.7% in the same year. However, COVID-19 has had a dramatic impact on GDP growth and unemployment in Germany as around the world. Latest estimates from the interim report of the OECD Economic Outlook released in March 2021 show year-on-year real GDP growth in Germany stood at -5.3% in 2020, worse than the world average (-3.4%), but better than the Euro area performance (-6.8%) (OECD, 2021^[2]). The unemployment rate stood at 4.5% in February 2021 in Germany. COVID-19 also risks exacerbating regional disparities in Germany, which were already entrenched prior to the pandemic, as eastern states (*Länder*) lag behind in employment rate, start-up activity, and wellbeing indicators.

Situated in the northeast of the country, Brandenburg is one of the five federal states that were created in 1990 after the reunification of the former West and East Germany. It borders Poland and surrounds Germany's capital, Berlin (see Figure 1.1 for an administrative map of Germany). The state is led by the government of the Land Brandenburg, which includes a Minister-President and nine federal state ministers. The Minister-President is elected by the state parliament (*Landtag*) and appoints the ministers. The largest city in the state of Brandenburg is Potsdam, followed by Cottbus, Brandenburg an der Havel, and Frankfurt (Oder). With a population of 2.5 million people, the state accounts for about 3% of the total German population, and has the second lowest population density across German states. The GDP of the state was about EUR 74 billion in 2019, accounting for about 2% of the total German economic output. Table 1.1 provides basic yearly statistics on Brandenburg and Germany.

Compared to other eastern German states, Brandenburg presents a relatively favourable environment for social innovation to emerge and flourish given its high start-up and R&D activity. However, the state suffers from a number of challenges, including stark intraregional cleavages as the rural and peripheral areas often suffer from inadequate public services and weak physical and digital infrastructure, which are deterrents to business creation and growth. For instance, in 2019, Brandenburg had the highest percentage of people not using the Internet or not having a computer across German states (about 9% compared to 5%) (OECD, 2020^[3]). In this context, social entrepreneurship and social innovation are increasingly regarded as potential levers to tackle high unemployment and other socio-economic and environmental issues.

Figure 1.1. Administrative map of Germany



Source: EUROPEA. Available at: europea.org/germany-is-a-federation/

Table 1.1. Basic statistics: the State of Brandenburg and Germany

	Area (1000 sq. Km)	Population (million, 2019)	GDP (EUR billion, 2019)	Unemployment rate (% of the labour force, 2019)
State of Brandenburg	29.5	2.5	74	3.4
Germany	357	83	3 400	3.15

Note: This table uses the Eurostat definition of unemployment rate.

Source: Eurostat; OECD.

Despite socio-economic challenges, Brandenburg is an innovation hub in eastern Germany

In the German federal context, Brandenburg and other eastern states are lagging behind

Germany has enjoyed strong economic performance in recent years supported by sustained domestic demand, social outcomes and export performance. With an average GDP growth rate of about 2.5% between 2018 and 2019, the economy has been growing faster than most OECD countries

(OECD, 2019^[4]). Prior to the COVID-19 outbreak, Germany's GDP per capita had been increasing steadily between 2010 and 2019, at higher rates than the OECD average.

Although differences between German regions in terms of GDP per capita have decreased over the last sixteen years, regional economic disparities in Germany remain above the median of OECD countries (OECD, 2018^[5]). In Brandenburg, regional GDP per capita, expressed in purchasing power parity (PPP), reached EUR 25 600 in 2017, almost 30% below the German average of EUR 36 400 (Eurostat, 2019^[6]).

Germany performs well across the OECD's wellbeing indicators especially in areas like jobs and earnings, work-life balance, personal security and subjective wellbeing. Germany also has relatively high educational attainment with 58% of the adult working-age population having completed at least an upper secondary education, compared to the OECD average of 44%. The employment prospects for young adults with upper secondary education or post-secondary non-tertiary education have expanded with the employment rate increasing from 78% in 2008 to 84% in 2018 (OECD, 2019^[7]). Due to the strong educational attainment and strong economic conditions, Germany recorded the lowest youth unemployment rate (5.3%) in the EU (Statistisches Bundesamt, 2020^[8]).

Despite improving labour market conditions in Brandenburg over the past two decades, the unemployment rate has remained consistently above the national average (Statista, 2020^[9]). However, COVID-19 has led to a spike in unemployment in Brandenburg as around the world. In December 2020, looking at the number of people registered with job centres, Brandenburg recorded an unemployment rate of 6.1%, 0.6 percentage points higher than in December 2019, but showing signs of recovery after increases in the aftermath of the COVID-19 outbreak (AMT, 2020^[10]). Brandenburg also lags behind other federal states in well-being dimensions,¹ notably in community and access to services: 92.6% of populations in Brandenburg perceive social network support compared to 94% national average and 83.3% of households in Brandenburg have broadband access compared to 92% national average (OECD, 2019^[11]).

A declining and ageing population, compounded by skills shortages, represents a challenge in Brandenburg

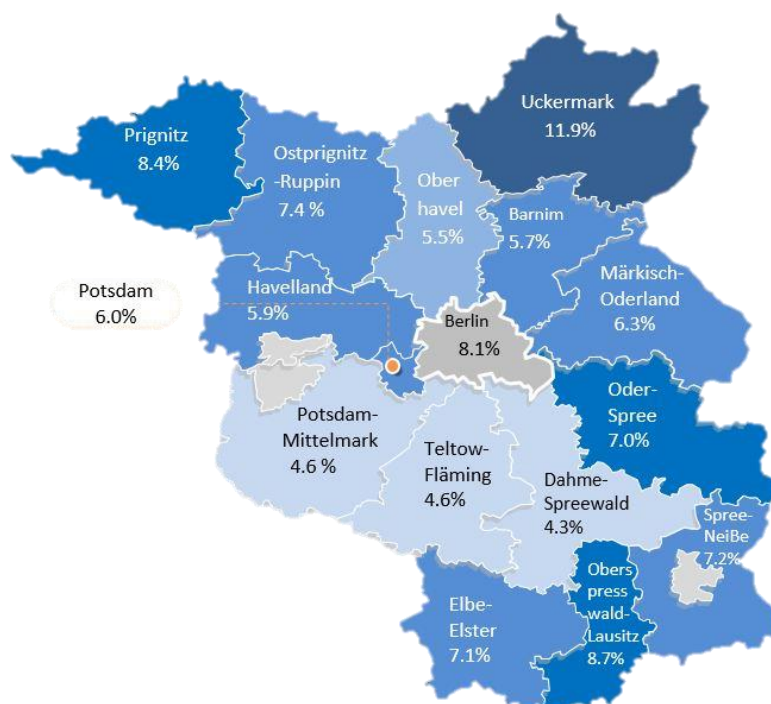
Brandenburg suffers from significant and persistent population decline. With close to 2.5 million inhabitants, Brandenburg ranks 10th in terms of population, and second to last in terms of density compared to other *Länder*. Brandenburg's population is projected to decline further by 12%, losing an estimated 300 000 inhabitants by 2040 (IHK, 2019^[12]), due to emigration and ageing population. Brandenburg has recorded the greatest increase in the share of people aged 65 and over since German reunification, and this is projected to further increase from 22.4% in 2010 to 34.15% by 2030 (Statistisches Bundesamt, 2016^[13]; Eurostat, 2010^[14]).

The demographic shift is also influenced by the migration of mostly young people to western Germany in search of better economic and employment opportunities, leading to shortage of highly skilled workers in Brandenburg. As a result, the number of vacant specialised positions has increased tenfold in Brandenburg since 2005, with a shortage of skilled workers in sectors such as care for the elderly, healthcare and nursing, energy engineering, plumbing and sanitation (EURES, 2019^[15]). The demand for skilled labour relative to its supply is projected to further increase from 7.2% to 13.5% in 2030 (Fachkräftemonitor Brandenburg, 2019^[16]). A recent survey conducted by the University of Potsdam identified a mismatch between the prospective employees' expectations and what companies offer as the main explanatory factor for skilled labour shortage, highlighting the need for employers to enhance their employer branding in order to attract young talented workers (Herbst, 2018^[17]).

Structural inequalities persist between the districts surrounding Berlin and the more peripheral, rural areas

Stark differences can be observed between districts around Berlin and more peripheral areas (e.g. at the frontier with Poland): the further away from Berlin, the lower the wages, the higher the unemployment rate and the sparser it becomes (BMEL, 2019^[18]). This difference is prominent in the peripheral districts of Brandenburg, accentuating the disparities between these regions and those close to Berlin. For example, in January 2019, the unemployment rate was only 2-3% in areas close to Berlin and 4.6% in Potsdam, while peripheral districts like Prignitz and Uckermark suffer from higher unemployment, at 8.4% and 11.9% respectively (Bundeswahlleiter, 2019^[19]).

Figure 1.2. Unemployment rates in Brandenburg at the district level



Note: as of January 2019

Source: (Bundeswahlleiter, 2019^[19])

Public services (i.e. health care provision, public transport, childcare) are under pressure, especially in rural and peripheral areas. About 30% of all municipalities in Brandenburg and around 15% of rural communities lack respectively local supply and access to basic services (EAFRD, 2018^[20]). Infrastructure, such as roads, public transportation and internet access, also lag behind, which means that the full potential of the proximity of big markets and of highly skilled professionals in many sectors cannot be fully exploited.

These structural challenges in peripheral areas are important deterrents to business creation and expansion. Start-ups are concentrated around urban areas and, despite public support measures, their presence in peripheral areas has decreased due to limited support for entrepreneurs, lack of mobility, lack of viable care options and weak broadband coverage. Nonetheless, the majority of social enterprises in Brandenburg can be found in more rural areas (Jahnke et al., 2020^[11]). While quite a few are concentrated around Berlin and in and around Potsdam and Berlin, the majority are located in the north of Brandenburg

A larger number can be found in Barnim, Märkisch-Oderland, Oder-Spree, Potsdam-Mittelmark and Ostprignitz-Ruppin. Surprisingly few are located in the cities of Cottbus, Frankfurt and Brandenburg.

Innovative initiatives are emerging in Brandenburg

The number of start-ups in Brandenburg has been declining, and so has the number of companies. Since 2012, Brandenburg had more businesses closing down than new ones being registered. Business registrations per 10 000 inhabitants in Brandenburg in 2017 amounted to 106.6 approximately, compared to 194.1 in Berlin and 123.9 in average in Germany (Statistik-BBB, 2020^[21]). Between 2018 and 2019, Brandenburg, together with Saarland, located in the west of the country, recorded the lowest growth in start-up activity at 1.0% out of all the federal states in Germany (Bundesverband Deutsche Startups e.V., 2019^[22]). As in other eastern states, start-up activity is hampered by lower average purchasing power and the greater share of older population, as the propensity to start a business usually declines with age.

Despite these challenges, Brandenburg offers potential for innovation to emerge and flourish. Brandenburg has the highest share of small and medium-sized enterprises (SMEs) in Germany (99.7% of total businesses) equivalent to 98 011 SMEs (Statistisches Bundesamt, 2019^[23]) and the highest share of SMEs investing in capacity expansion, replacement and renovation, as well as innovation, rationalisation, upgrades and repairs (48% of total SMEs) (KfW, 2018^[24]). Brandenburg's industry is concentrated around the border with Berlin, namely in the cities Potsdam, Cottbus and Frankfurt (Oder), which are also centres for innovation and R&D. The Berlin-Brandenburg metropolitan region boasts of the highest concentration of research activities in Germany.

In recent years, an increasing number of entrepreneurs and initiatives are moving from Berlin to Brandenburg for resettlement and start-up opportunities. Many entrepreneurs come or return from Berlin, and interest in social entrepreneurship in Brandenburg is expected to increase further as more of Berlin's start-up activity moves to its periphery (KfW, 2018^[25]). This trend is also fuelled by factors such as high rent and cost of living and lack of space in Berlin, which attracts people to cheap rents, and open, green spaces that rural and small towns offer. The effects of gentrification, as a result of development pressures from urban centres, along with the increasing demand for high quality organically grown agricultural products and sustainable materials for renewable energy, all contribute to the attractiveness of rural areas (IHK, 2019^[12]). A recent study found that the sustainable consumption and climate protection were on top of the agenda for a lot of social enterprises in Brandenburg (Jahnke et al., 2020^[1]).

The government expects to launch initiatives on revitalisation of rural areas, for example by supporting the establishment of village shops and the programme “Invest at Home” which shall provide start-up capital to companies investing in rural areas (Land Brandenburg, 2018^[26]). Similar efforts are being made to revitalise small towns. For example, plans are underway to transform historical industrial buildings, such as the old garment factory (*Tuchfabrik Pritzwalk*²) into a historical museum.

The institutional and political landscape is favourable to social entrepreneurship in Brandenburg and Germany more generally

Social and economic development are a shared competency between the federal and state level

As a federal state, Germany shares responsibilities for social and economic development between federal and state levels, generally referred to as subsidiarity. This principle, incorporated in Article 72 (2) Basic Law,³ stipulates that the federal level should only intervene when state, regional or local levels are less able to take relevant action. While the federal government retains power on economic and financial policy and related legislation like competition and tax law, matters of economic development are the

responsibility of states. Federal and state levels can co-operate and combine their initiatives, e.g. business start-up programmes EXIST and INVEST financed by the Federal Ministry for Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie, BMWI*)⁴ with state financed economic development programmes. European programmes like the European Regional Development Fund (ERDF) or the European Social Fund (ESF) add another layer of subsidiarity.

A similar division of responsibility can be seen in social policy and its implementation. The federal government decides legislation related to basic services, security and social insurance, stipulated in the Social Codes, which cover unemployment, employment promotion, all social insurances (pension, health, care and accident), child and youth protection, rehabilitation and inclusion of people with disabilities and social protection.⁵ States are autonomous in the design of social policy in the areas of education, youth and social protection, the latter being implemented at municipal level or by regional authorities. Numerous actors across the administration are involved in the implementation of social policy, in partnership with social insurance agencies, federally structured welfare associations, non-profit, for-profit and hybrid providers (Boeckh et al., 2017^[27]).

Economic and social development is financed through national and state level public development banks like the German Development Bank (*Kreditanstalt für Wiederaufbau, KfW*) and state investment banks. KfW is the biggest public development bank worldwide, owned by the German Federal Republic and the states. It supports individuals as well as enterprises, cities, municipalities and non-profit organisations. It provides long-term investment loans as well as working capital loans for small and medium-sized enterprises, with a special focus on energy efficient housing refurbishment and sustainable business.⁶ KfW channels its loans through regular banks, including state investment banks.

The first specific programme for social enterprises at the federal level was launched by KfW in 2012. It was aimed at growing social enterprises whose business models had already proven themselves in practice. In 2016, the programme became part of the large-scale “ERP Venture Capital Fund Investments” programme, which is implemented through the development banks at state level as for instance ILB (*Investitionsbank des Landes Brandenburg*). It has since lost its emphasis on social entrepreneurship to focus instead on innovative start-ups and young technology companies.

Equipped with funds from the state, the federal government and the European Union, state investment banks like Brandenburg’s ILB, support commercial companies and founders; finance infrastructure projects by municipalities, municipal special-purpose associations, municipal enterprises as well as social, scientific, educational and cultural institutions; promote employment, education, training and support municipal, co-operative and private housing initiatives.⁷

Social entrepreneurship is part of an integrated labour market and economic development policy in Brandenburg

Until recently in Brandenburg, social entrepreneurship and social innovation fell under the purview of the Ministry for Labour, Social Affairs, Health, Women and Family. In 2019, the competency for labour policy was merged with that for economic development, creating the Ministry for Economic Affairs, Labour and Energy (MWAE). The Economic Development Agency (WFBB) experienced a similar reconfiguration. These institutional changes prompted a more holistic and interdisciplinary approach, where employment and industrial policy are integral parts of a more sustainable paradigm for social and economic development.

At present, however, social entrepreneurship is still considered, first and foremost, as a tool of active labour market policy for the integration of long-term unemployed. It is mostly funded by ESF Operational Programme 2014-2020.⁸ Its implementation is closely linked to the broader SME and start-up support strategy⁹ that is financed under ERDF.¹⁰ Social entrepreneurship in other areas, like sustainable

food production or tourism, is indirectly supported by the same ESF programme, through social innovation and inclusive start-up promotion.

Such an integrated perspective on economic, ecological and social development has recently been encapsulated in the broad concept of innovation adopted in the joint Berlin and Brandenburg innovation strategy (innoBB 2025) that combines technological, process, business model and social innovation, advocating for a people-centred and cross-sectorial approach.

Promising developments in the political agenda

There is a growing interest in social entrepreneurship by policy makers at various levels of Germany's public administration. In 2013, Germany's federal government acknowledged the role social enterprises can play in facilitating social innovation and pledged to support them (CDU, CSU and SPD, 2013^[28]). That pledge was reiterated in the coalition agreement of 2018, together with a promise to improve the legal framework for social enterprises (CDU, CSU and SPD, 2018^[29]).

Lately, this has led to discussions in the German federal parliament on the creation of a special legal form for social enterprises. In May 2020, a majority of the parties in the German Bundestag voted in favour of a proposal by the fractions of CDU/CSU and SPD to ask the federal government to (inter alia) develop a definition of what constitutes a social enterprise and to develop a cross-departmental concept for the promotion of social innovation and social enterprise (Deutscher Bundestag, 2020^[30]).

This positive momentum is reinforced by the ambition to make Germany a leading centre for sustainable finance. Several federal ministries are working to adopt a national Sustainable Finance Strategy (Federal Ministry of Finance, 2019^[31]). Social enterprises could benefit from this, as the financial system would better incorporate considerations on humankind and the environment in the investment process.

At the local level, several *Länder* have already taken steps to create a better enabling environment for social enterprises. In Brandenburg, the new coalition government has confirmed its commitment to support social entrepreneurship and social innovation as part of its social labour market policy (SPD, CDU, Die Grünen, 2019^[32]).

The roots of social entrepreneurship in Germany

Historical emergence

The German welfare state, rooted in the principles of subsidiarity, self-administration and public-benefit, originated during the 19th century industrialisation, with the founding of many state-subsidised charities in addition to the faith-based ones (Esping-Andersen, 1990^[33]). A second wave of welfare associations, many of which still exist today, were founded with the welfare legislation introduced in 1920s and re-instated after World War II. In Eastern Germany, the model of employment creation and structural development associations (*Arbeitsförderung Beschäftigung Strukturentwicklung*, ABS) emerged after the reunification (Borzaga and Defourny, 2004^[34]).

Germany has adopted a social tripartite model, which informs the relationship between the final beneficiary, the state, and the service providers, in many areas of policy. This ensures, at once, the state's responsibility for providing social services, a pluralistic offer of providers and the right to choose for the users (Bäcker et al., 2008^[35]). The principle of subsidiarity, codified in German social law, means that a big share of services in the areas of health care and social sector, education, labour market integration for certain groups and social inclusion are contracted out to non-profit organisations.

Some welfare organisations have been associated with the social economy for a long time, particularly in the field of work integration of people with disabilities in sheltered workshops (*Werkstätten für behinderte Menschen*) or integration enterprises (*Inklusionsbetriebe*). While the latter fall under social policy, another, more recent, type of social enterprise, *Sozialbetriebe*, is recognised as an instrument of work activation policy. Hence, social enterprises in Germany are predominantly anchored in the spirit of the third sector, as well as in the co-operative (credit, housing, farming) and mutual (insurance) tradition, philanthropy investment (foundations and trusts) and socially-oriented business, ‘which so far tend to emphasise their differences rather than their commonalities’ (European Commission, 2018^[36]).

With the liberalisation of the welfare system, new actors have entered the health care and social services scene, including new style social start-ups and foundations, as well as private companies, which compete and sometimes collaborate with third sector organisations for service contracts. Neighbourhood and community enterprises are rooted in social movements of the 1970s and 1980s, which saw the rise of self-organised small-sized businesses with transformative ideas (Deutscher Bundestag, 2019^[37]) (European Commission, 2018^[36]). So-called new style social start-ups have emerged during the 1990s and in the new millennium, under the influence of global platforms such as Ashoka and the Schwab Foundation, with the concurrence of newly emerging impact investors and incubators.

Scattered attempts towards a working definition

The term ‘social enterprise’ (*Soziale Betriebe*) is commonly used in Germany and derives from active labour market programmes adopted in a few *Länder*: North-Rhine-Westphalia, Lower Saxony and Saxony-Anhalt (Borzaga and Defourny, 2004^[34]). All of these initiatives define social enterprises as a mixture of market-oriented activities and state-related temporary support, with the objective of integrating people into the labour market.

At the federal level, the social enterprise concept was first mentioned in the report on “Future of Civic Engagement” commissioned by the German Bundestag in 2002 (European Commission, 2018^[36]). In 2016, the Federal Ministry of Economic Affairs and Energy (BMWi) in its periodical publication for entrepreneurs “*GründerZeiten*” identified as defining elements of social entrepreneurship: (1) the pursuit of a social mission, (2) enterprising for sustainability, and (3) a contribution to social cohesion (European Commission, 2018^[36]). This was recently updated in a way that seems more aligned with the model of new style social start-ups, underlying the social and business dimension, while pointing to collaboration with welfare organisations (Federal Ministry for Economy and Energy, 2019^[38]).

2 Clarifying the conceptual framework: social entrepreneurship and social innovation

Germany benefits from a rich and diverse population of social enterprises, albeit such diversity hinders their identification. Cultural differences and competition between traditional social welfare organisations and new-style social start-ups hamper opportunities for mutual learning, collaboration and transfer of skills. Social innovation stands out as the common ground to foster partnerships among social enterprises and reinforce the ecosystem as a whole.

Despite the pledge made by Brandenburg's government in the 2019 coalition agreement, there is no broad political consensus yet on how social innovation and social enterprises can be defined and how they can both contribute to sustainable social and economic development. Operational definitions put forth at the federal and state level have not coalesced in a common vision across institutions. More clarity in this regard would reinforce the administration's capacity to engage with social enterprises and the consideration of social innovation at par with other forms of technological innovation.

Strengths

There is a diverse population of social enterprises in Germany

The spectrum of social enterprises in the German context comprises eight different types of organisations: traditional associations, welfare organisations, co-operatives, mutuals, work integration social enterprises, new style social start-ups, neighbourhood and community enterprises (European Commission, 2018^[39]). This diversity implies complementarities in the approach to social entrepreneurship and opportunities for cross-fertilisation.

Independently of their legal form, German social enterprises can be divided broadly into two categories. This includes social welfare organisations, operating under the tripartite welfare system established at the federal level, and social start-ups that strive to solve social problems through commercial activities. On the one hand, social welfare organisations mostly stem from faith-based movements, based on voluntary work, applying principles of self-help, self-representation and self-empowerment. As non-profits, they operate on public contracts with full re-investment in the social mission, like hospitals or sheltered workshops for people with disabilities. On the other hand, social start-ups stem from self-organised activities of individual citizens, pursue explicitly commercial activities to finance a social mission, or spin off from the public sector. They carry a special emphasis on the entrepreneurial dimension and on social innovation.

Social entrepreneurship in Germany is tightly linked to social innovation

The German conception of social entrepreneurship emphasises the role of innovation (European Commission, 2018^[39]), **both in social and economic policies**. The federal government underlines innovation as a strength of social entrepreneurs when it comes to tackling societal challenges, also because they seek to integrate the spheres of market, state and civil society (Deutscher Bundestag, 2019^[37]). The importance of social innovation through social entrepreneurship was first acknowledged in the Federal coalition agreement of 2013 in the context of citizen engagement (CDU, CSU and SPD, 2013^[28]). The following government agreement for the period 2017-2021 mentions social innovation as a lever for education, research and science in the high-tech industry and as a tool for inclusive growth in SMEs (Bundesregierung, 2018^[40]; Deutscher Bundestag, 2019^[37]).

The 2010 National Engagement Strategy undertakes “to improve (in collaboration with the welfare federations) the framework conditions for voluntary action, including a better involvement of social enterprises and other actors of the ecosystem (venture philanthropy funds, international donor funds) in the policy dialogue about social innovation and engagement” (European Commission, 2018^[36]). The German high-tech strategy 2025 underlines the role of multi-disciplinary collaboration in innovation to promote well-being in times of social change and technological progress, and mentions technological and social innovations as tools to reduce risks (Bundesregierung, 2018^[40]).

The guide for social entrepreneurship published by the Federal Ministry for Economic Affairs and Energy recognises social innovation as key element in the design of new products or services (BMW, 2019^[41]). The federal innovation programme for business models and pioneer solutions addresses, among others, innovation in the cultural and creative industry and innovation for social impact in education.¹¹

Brandenburg’s Ministry of Economic Affairs, Labour and Energy has adopted working definitions for social enterprises and social innovation

The MWAE (Brandenburg Ministry of the Economy, Labour and Energy, formerly Ministry of Labour, Social Affairs, Health, Women and Family) has already promulgated two instruments that enshrine operational definitions of both concepts:

- The **Directive to promote socio-pedagogical and professional support for social enterprises** (2017)¹² identifies social enterprises (*Sozialbetriebe*) as organisations that provide coaching and formal employment to the long-term unemployed with productivity restrictions or placement barriers, with the aim of integrating them into the regular job market. They cover their costs independently on the market, by producing and selling products and / or services. The directive encompasses all legal forms, as long as they generate income through market operations and establish a business plan.
- The **Directive for the promotion of social innovations for employment promotion and poverty alleviation** (2018)¹³ recognises three types of innovation: (1) programme innovation, i.e. forms of employment with new objectives and content; (2) process innovation, i.e. changes in methodological components; (3) structural innovation, i.e. changes in organisational structures. The key criterion is that they must present a new solution that has never been implemented in Brandenburg or where well-known components are applied according to new combinations or under new conditions. Social innovations must address four thematic challenges: demographic change; securing skilled workers in companies; transformation of work or production processes; combating long-term unemployment.

Both instruments rely on the conceptual groundwork provided by EU institutions and deploy European funds for their implementation. The definition of social enterprises is sufficiently broad to

embrace the diversity of legal forms, but only conceives them in the context of the support programmes as an instrument for work integration.

More recently, in a study commissioned by the MWAE, market-oriented social enterprises are defined as independent organisations which pursue social and/or ecological goals with entrepreneurial means to serve the common good.¹⁴ For this purpose, they develop social-innovative products, services, methods and business models. Market oriented social enterprises realise the profits necessary for their social/ecological mission at least in part on free or legally regulated markets. In contrast to conventional enterprises, they are primarily oriented on the common good and reinvest profits in social goals of the organisation. They are different from traditional charitable organisations because they generate their most of their income on free markets, through diversified sources and by offering innovative products, services, methods or business models (Jahnke et al., 2020^[1]).

Challenges

Cultural differences between new style social start-ups and traditional social welfare organisations hamper collaboration in Brandenburg

As mentioned before, social welfare organisations are integral part to the social fabric of Germany. Until recently, these organisations were not entrepreneurial and had their own legal form. They now face competition by social start-ups, which regard entrepreneurship not as a by-line but as their *raison d'être*. In fact, they frequently assume a capital-oriented legal form from inception. New style social start-ups in Germany also differ from traditional social welfare organisations in that they are (1) relatively new, as the name suggests, (2) mostly seated in urban, young and tech-savvy social milieus and (3) heavily influenced by discussions on social innovation (European Commission, 2018^[36]).

On the one hand, social welfare organisations are under pressure to behave in a more entrepreneurial way and to access new sources of funding. On the other, social start-ups have to deal with a strong public mistrust of any activity or change that would lead to the privatisation of social service provision. They are perceived as 'too commercial' for the welfare system, yet 'not commercial enough' for the market economy (Evers & Jung, et al., 2015^[42]).

Interviews conducted in Brandenburg as part of this study revealed that **few attempts at collaboration between local branches of social welfare organisations and social start-ups have so far been unsuccessful.** This is mostly due to the difficulties in project setup and incapacity to secure adequate funding. The cleavage in their ways of operating is thus reinforced by the lack of financing streams that may encourage partnerships among social enterprises.

A common vision for social entrepreneurship and social innovation is still lacking

Germany has not developed yet a cohesive policy on social entrepreneurship nor on social innovation, with initiatives scattered across federal ministries. In response to a parliamentary inquiry in 2019, the coalition parties underlined that they are purposely keeping social entrepreneurship in different ministerial portfolios in order to better support innovative solutions across their different aims (Deutscher Bundestag, 2019^[37]). While this approach allows for tailored sectoral initiatives, it does not foster the emergence of a common vision on social entrepreneurship, nor the consolidation of a common policy framework, which might facilitate awareness, recognition and visibility, thus laying the ground for policy action at state level.

Similarly, in Brandenburg, a comprehensive policy framework is still missing. Public bodies in Brandenburg may use the concepts of social enterprise and social innovation, but they do not have a shared understanding of these terms, neither theoretically nor empirically. Notably, other institutions have not yet embraced the working definitions proposed by the Ministry of Economic Affairs, Labour and Energy.

The Ministry of Social Affairs, Health, Integration and Consumer Protection (*Ministerium für Soziales, Gesundheit, Integration und Verbraucherschutz des Landes Brandenburg*, MSGIV) refers to social innovation as an important topic, but has no specific programmes supporting it. Similarly, the Ministry for Education, Youth and Sports (*Ministerium für Bildung, Jugend und Sport*, MBSJ) only indirectly promotes social innovation, through the “*Schülerfirmen*” programme, which upholds social and ecological goals in entrepreneurship.

Social enterprise and social innovation remain, for many, blurred concepts with fuzzy borderlines.

Such fragmented, and at times divergent, interpretations not only hamper policy-making processes, but also the work of those active in the social economy. A more consistent and synergetic vision across public and private actors may be promoted through the adoption of a common strategy. For instance, Canada has undergone through an extensive consultation process, engaged both at the federal and province level, in order to establish a common understanding of relevant concepts and shared objectives for social innovation and social finance (see Box 2.1).

Box 2.1. Canada's Social Innovation and Social Finance strategy

Over a decade of public commitment in discussions on social innovation and social finance, and the recognition of its inability to reach the UN sustainable development goals by 2030 along current trajectories, solidified the Canadian government's intention of advancing a cohesive social innovation and social finance agenda. The Prime Minister, in 2015, mandated the Minister of Families, Children and Social Development and Minister of Employment, Workforce Development and Labour to jointly oversee the development of a Social Innovation and Social Finance Strategy for Canada.

Under the government's definition, *social innovation* is about developing new solutions to socio-economic challenges. These solutions are geared towards improving quality of life by collaborating with new partners to generate, test and implement creative ideas and assess their impact. These new collaborations, bringing together multilevel stakeholders to work on common social issues can include both public and private sector actors but often rely on community organisations or other social economy actors to come up with, implement and disseminate new solutions. *Social finance* then, is seen as a tool to mobilise private capital for the public good, creating opportunities for investors that benefit society and allow community organisations to access new funds. The Strategy embraces a broad range of beneficiaries, including "charities, not-for-profits, social purpose businesses, co-operatives, foundations, social entrepreneurs and researchers working with vulnerable Canadians and who have difficulty getting access to capital to advance innovative approaches to tackle social and environmental problems."

Federal departments, led by Employment and Social Development Canada, were tasked to engage in a co-creation approach with external stakeholders. A public selection process was set up, taking into account criteria such as regional, gender and linguistic diversity. This allowed for the identification of the Steering Group's 16 members, consisting of leaders, practitioners and experts from research, philanthropic and finance sectors, out of 189 applications. Various governmental agencies took part in this yearlong consultation, gathering competencies on innovation, economic development, public procurement and revenue services. In addition, the Steering Group led more than 60 engagement sessions, two online public consultation processes and engaged over 35 indigenous organisations.

The objective was to define meaningful and inclusive recommendations to guide future policy development and it was deemed highly successful for a number of reasons. First, it created trust and understanding among participants, making future collaboration more likely. Second, its discussion allowed for the creation of a bold vision of the future, shared among various stakeholders while respecting their diversity. Third, it enabled further knowledge and experience sharing. For example, in the province of Québec, more than 7 000 collectively owned and managed organisations generate approximately CAD 40 billion in revenue and represent 215 000 jobs. This mature social economy provided an interesting case study for other provinces where ecosystems were still nascent.

In response to the Steering Group's recommendations, the government launched its strategy in 2018, including a CAD 55 million Investment Readiness Program aimed at building organisational capacity and a CAD 755 million repayable Social Finance Fund. Next to this, the Social Enterprise Ecosystem Project provided financial support to non-profits to pursue learning and training opportunities. Finally, organisations from community, co-operative, philanthropic, financial and research sectors could apply to become members of the Social Innovation Advisory Council which will help guide the strategy's implementation and measure progress towards achieving the UN Sustainable Development Goals.

Source: (OECD Observatory of Public Sector Innovation, 2017^[43]); (Mak, 2019^[44]); (Government of Canada, 2019^[45]); (Territoires innovants en économie sociale et solidaire (TIESS), 2018^[46]); (Charity Village, 2019^[47]).

Policy issues

Social enterprises are difficult to identify

Since there is no definition, no specific legal form and no register, it is difficult to identify social enterprises in Germany. Current estimates on their number vary significantly. The latest study indicates around 2 000 to as many as 70 000 social enterprises in Germany, depending on definitional criteria and the understanding of the term social enterprise (European Commission, 2018^[39]).

The same applies to Brandenburg. In 2011, a study tallied 189 social enterprises in only 3 of the 18 districts, i.e. Elbe-Elster, Oberspreewald-Lausitz and Uckermark (Birkhölzer and Lorenz, 2011^[48]). In 2019, Social Impact GmbH identified 38 new style social start-ups in Brandenburg. To this must be added the 25 Work Integration Social Enterprises (WISE), supported by the Public Employment Service, and 30 *Inklusionsbetriebe* for severely disabled people,¹⁵ contracted by the Ministry of Social Affairs, Health, Integration and Consumer Protection (MSGIV) under the Social Law Code (*Sozialgesetzbuch*, SGB). To fill this knowledge gap, the MWAE has recently mandated a study, which identified 141 market-oriented social enterprises in Brandenburg (Jahnke et al., 2020^[1]).

The political agenda could consider social innovation as a form of innovation in its own right

Policy makers in Germany have so far linked social innovation with technological innovation and research, rather than addressing it as an independent type of innovation in its own right (Evers & Jung, et al., 2015^[42]). The joint Berlin and Brandenburg innovation strategy (innoBB 2025), adopted in 2019, mentions social innovation as integral part of the overall innovation strategy. While sustainability is linked to clean technology and the green economy, there is no further definition of social innovation (Land Brandenburg & Land Berlin, 2019^[49]).¹⁶ The related annual competition has recently opened to proposals beyond technological innovation, which might include social innovation.¹⁷

Most support for innovation in Brandenburg is targeted at for-profit companies or market-oriented founders, with a strong focus on technology and few references to social innovation or co-operation with social organisations. For instance, WFBB offers a whole service package on innovation supported by ERDF,¹⁸ but none of the instruments explicitly mentions social innovation.

Despite long-standing, albeit scattered, efforts to promote social innovation, **Brandenburg lacks a more comprehensive vision that would ensure social objectives are mainstreamed through different public measures related to innovation more broadly**. Strides in this sense have been made in Lower Saxony, a state situated in north-western Germany (see Box 2.2).

Box 2.2. Social innovation in Lower Saxony

Lower Saxony was the first administrative authority in the EU to adopt social innovation as a priority as part of the European Social Fund. Initially introduced by the state chancellery, the social innovation directive is now managed by the state Ministry for National and European Affairs and Regional Development under the joint ESF-ERDF operational programme.

The directive was designed as a multi-purpose instrument to enhance the quality of work and life in rural parts of the state. Key focus areas in the field of social innovation and work are new, locally and regionally-based solutions for challenges faced by companies in recruitment, work life satisfaction and new business development. In the field of services, the Directive spells out the restructuring of access to social assistance, digitalisation, mobile services, new co-operative networks and improved volunteer/ social service provider relations, particularly serving the needs of youth, elderly, migrants and people with disabilities.

The definition of social innovation is intentionally wide to allow a breadth of ideas and proposals to come forward. Ideas should be experimental in character, open new collaborations and address regional development problems in a holistic manner. Social innovation as 'new work', 'new partnerships' and its potential value needed some explaining at administrative and organisational level, as it transcends organisational understandings of technological or service innovation.

Over five years (2015-2020), EUR 750 000 have been allocated to 50 projects, following a two-stage application process, thus also encouraging small initiatives and welfare organisations that do not usually pursue EU-funding. Applicants can get support in idea development and network-building by three social innovation units, situated within the state federation of free welfare associations, the Lower Saxony business associations and the German Federation of Unions Lower Saxony. With their knowledge of local and regional actors, the three units function as multipliers of information on the programme, which was especially important during the initial phase. They organise joint consultation and pitching events, support funded projects in various matters along the way, work closely with the state investment bank (N-Bank), and are represented in steering committee.

The programme has supported a variety of projects ranging from mental health apps and tele-medicine, reforms of health professional qualifications (replicated in Berlin and the Netherlands), solutions for local museums and adult education institutions, organic food-box schemes, artistic interventions to trigger change processes in companies, co-working for older professionals and a social innovation incubator. Tools developed during the refugee crisis are now adapted to address COVID-19 challenges. Stakeholders quote the wide definition of social innovation, networking and ongoing support, and the engagement of local actors as key success criteria.

Source: (NBank, 2019^[50]); (Ministerium für Bundes-und Europaangelegenheiten und Regional Entwicklung, 2019^[51])

Recommendations

Promote social innovation as a common ground between new style social start-ups and social welfare organisations

Social innovation provides an opportunity for collaboration across different types of social enterprises, but also with traditional business and intermediaries (e.g. chambers of commerce, *Lotsendienste*, social service providers). Collaboration can help promote synergies among key actors in the field, ensuring a more effective delivery of innovative services and concrete impact. Public support for

social innovation could promote partnerships between welfare associations, social start-ups and other local actors.

Despite their historic antagonism, several social welfare organisations in Germany have recently pledged to work together with social enterprise and start-up advocacy bodies to foster social innovation (Arbeiterwohlfahrt et al., 2019^[52]). Also in Brandenburg, social welfare organisations are aware of the need for innovation, but have limited access to state funding in this regard. So far, relevant programmes only exist at the federal level, e.g. the ESF programme *Rückenwind* and *Rückenwind+* or *Wohlfahrt Digital* that have supported innovation inside the social economy in the areas of digitalisation and human resource development.¹⁹

Representatives of social welfare organisations operating in Brandenburg identify social innovation as one potential field for collaboration with new-style social start-ups. At the same time, social start-ups in Brandenburg could benefit from a more stable source for income generation. The two types of social enterprises could thus engage in mutually beneficial co-operation around a common objective of social innovation. To fully exploit this opportunity, public support initiatives targeting innovation could be open to entities independently of their profit orientation, in order to foster co-operation among and beyond social enterprises.

Initiate a whole-of-government and inclusive dialogue on social entrepreneurship and innovation

A cross-ministerial task force or similar collaborative space could be set up to clarify expectations on social innovation and social entrepreneurship in different fields (work integration, social protection and inclusion, sustainability) and how to support them (through education, knowledge exchange, counselling and funding). This could take the form of a temporary group composed of public officials from all relevant Ministries (Labour and Economy, Social Affairs, Education) and partner institutions (namely, WFBB and ILB).

Such a group can start informally and discuss definitions, drawing on those used by the OECD and the EU, national and other public bodies, intermediaries and researchers, to build consensus within government. Building on the working definitions proposed by the Ministry of Labour, it could endeavour to build ownership across the administration and potentially broaden their application to other sectors and policy objectives.

The task force could consult with local representatives of social enterprises and social welfare organisations to ensure an inclusive process. It could also pool knowledge from relevant expert and practitioner networks at the federal level, with the twofold objective of better connecting them with the local ecosystem and enticing interest from local stakeholders.

Steer the adoption of a formally endorsed strategy for social entrepreneurship and innovation

Depending on the outcome of the consultation, the process could lead to the adoption of a social innovation and social entrepreneurship strategy for Brandenburg. A more holistic, integral vision of these concepts, as a way to promote both social and economic development, still has to be developed within government. The task force could thus engage in a perspective exercise, to define future orientations based on the existing coalition agreement and on the next European programming cycle.

With a strengthened focus on social innovation in the next EU funding period, and the urgency to position social enterprises as an integral part of the post COVID-19 recovery plan, a shared definition and approach could be beneficial, but requires political will to engage in concertation. This could help marshal commitment from institutional bodies at all levels of government, for instance by

establishing a cross-ministerial fund for districts and municipalities to unleash local innovation potential based on local needs assessment.

3 Building institutional and legal frameworks for social enterprises

The debate about the definitions of social enterprise and social innovation, and how Brandenburg's political and administrative institutions could be more supportive of their recognition strategically and operationally, has only recently begun. Recent developments indicate some positive orientation, but several obstacles must be tackled before, in both the institutional and the legal frameworks.

Germany does not have a specific legal framework that regulates social enterprises. Regulation of social enterprises originates from the adaptation and/or adjustment of existing laws and tax exemptions rather than a specific package. In Brandenburg, as in the rest of Germany, social entrepreneurs can choose from different legal forms such as registered associations (*eingetragener Verein, e.V.*), limited liability companies (*Gesellschaft mit beschränkter Haftung, GmbH*) or a combination of both when starting their businesses. These possibilities allow them to select the most adequate and/or tailored legal form for their activities and clientele. There is also the option to demonstrate the organisation's non-profit credentials by applying for the public benefit status, which triggers distinct fiscal privileges such as deductible donations from donors, non-payment of corporate income tax or local business tax on its economic activities to support its social activities.

Social enterprises emerge even in the absence of specific legal frameworks or regulations. However, tapping into the potential of social enterprises does require some form of public and institutional recognition through specific strategies, action plans or targeted measures that include communication and awareness campaigns. In Brandenburg, despite the political pledge made by Brandenburg's government in the 2019 coalition agreement, there is no broad political and societal discussion yet of what social innovation and social enterprise can or should be or entail. The lack of a shared vision hampers alignment, co-ordination and synergies among agencies and across government levels. The government has already started to dialogue with relevant stakeholders, including through the OECD policy review, and the contours of what may become a more comprehensive policy strategy have started to emerge.

Strengths

Building blocks for a strategy on social enterprise and social innovation

There is currently a positive political momentum for social enterprise and social innovation in Brandenburg and Germany as a whole (see Chapter 1). In 2019, the new coalition government pledged, in the section on the social labour market, to keep on supporting social enterprises and social innovation (SPD, CDU, Die Grünen, 2019^[32]). Renewed emphasis might come after the COVID-19 health and economic crisis to address the immediate socio-economic impact brought by the pandemic, for example by preventing unemployment and reintegrating the recent and long-term unemployed people into the labour market. Social enterprises and social innovations could also re-shape the post-crisis economic and social systems by inspiring socially and environmentally responsible practices among economic actors and by scaling social economy business models.

Brandenburg's Ministry for Economic Affairs, Labour and Energy (MWAE) is in the lead for bringing the coalition government's political commitment into reality, by adopting policies to support social enterprise development and by creating an enabling ecosystem for them to thrive. Its portfolio has recently expanded, as a government reshuffle led to a merger of the social and economic agendas. This creates an opportunity to approach the concepts of social enterprise and social innovation in a more holistic and integrative fashion.

The State public authorities have shown the political and administrative will to develop a more integral strategy for creating an enabling ecosystem for social enterprises. This positive momentum could be used to ignite a broader stakeholder consultation, leading to the adoption of a politically endorsed strategy on social enterprise and social innovation. This applies not only in Brandenburg but also on the national scale, since decisions on a separate legal form for social enterprises reside in Berlin rather than Potsdam.

Budding interest across levels of government

Local authorities at the regional, district and the municipal level in Brandenburg demonstrate burgeoning interest in social entrepreneurship and social innovation. Several examples of co-operation and collaboration are already in place between local governments and social enterprises, albeit mostly in the area of work integration. The main priority is hence to provide employment to specific groups of people, often the long-term unemployed or vulnerable.

An example is JOBE (Jobbetrieb) in Frankfurt/Oder, a city of 60 000 inhabitants at the border with Poland.²⁰ The ESF-funded project is run by *Deutsche Angestellten-Akademie (DAA) GmbH*, a training institute linked to Germany's second largest trade union. In 2017-2020, it gives a group of 12 long-term unemployed persons the opportunity to participate in infrastructure, maintenance and craft services. The main customer is the municipality of Frankfurt/Oder, but other companies and private citizens can also avail themselves of its services. *JOBE (Jobbetrieb)* helps the municipality to cut costs, as the long-term unemployed are provided with assistance to move from a situation of financial and social dependence on public welfare services into employment in the regular labour market. The municipality and *DAA* see their co-operation as a win-win relationship, built on trust and stability.

The city of Brandenburg an der Havel is running another project (*Hohen stücken*) as part of the federal program Education, Economy, Work in the neighbourhood²¹ and in co-operation with the local corporation for employment promotion and structural development (*BAS GmbH*), whereby residents are involved in the establishment of a district business (*Stadtteilbetriebs*) for local job creation.

Similar endeavours are found in other municipalities. These experiences can be used as inspiration and ingredients to consolidate the institutional framework for social enterprises and social innovation in the whole of Brandenburg.

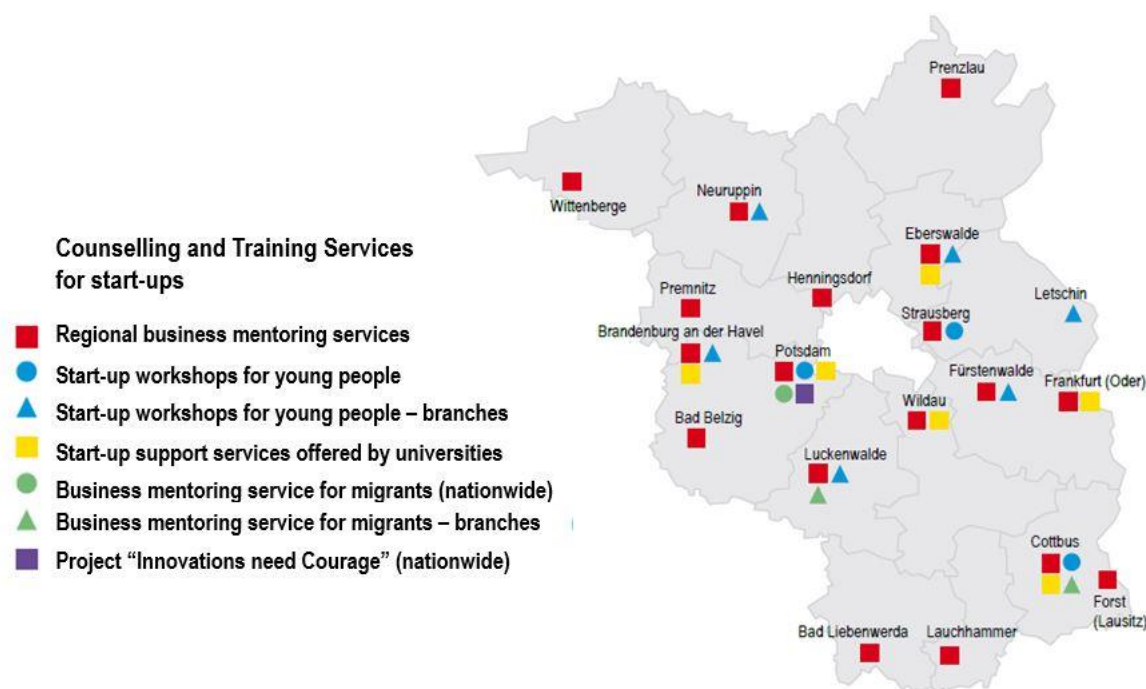
The government is actively fostering entrepreneurial and innovation capacity building

Brandenburg's start-up infrastructure is run by the Economic Development Agency (WFBB), the Chamber of Commerce and of Crafts, several Universities and Municipalities (especially the local economic development agencies). The start-up programme, endowed with over EUR 40 million in ESF and State funds from 2015 to 2021, comprises:

- 18 business mentoring services located in each of the 14 administrative districts and 4 independent cities,
- 2 state-wide projects: entrepreneurship laboratories (*Lotsendienst*) for migrants and coaching for innovation-driven entrepreneurs (*Innovationen brauchen Mut*) in Potsdam,
- 3 start-up workshops for young people in Potsdam, Strausberg and Cottbus,
- 8 start-up services at state universities.

The Economic Development Agency offers support in the areas of innovation, internationalisation, business plan support, connection with relevant professional networks and funding,²² all of which are potential sources of capacity and skill development for social enterprises.

Figure 3.1. Brandenburg's start-up support network 2015-2020



Source: <https://berlin-brandenburg.dgb.de/beratung/kbs-plus/veranstaltungen/++co++7a9720c8-7d33-11e9-9f59-52540088cada>

The regional and local business mentoring services (*Lotsendienste*)²³ mainly target adults without employment, but also those already active that look to reorient their activity towards another, maybe social, purpose. They provide initial counselling, networking opportunities and further coaching. For instance, the *Potsdam-Mittelmark Lotsendienst* holds regular network meetings between incubators, job centres, and founders; it organises an annual event day for entrepreneurs and investors, each time in a different location.²⁴ Chambers of trade, commerce, and crafts (IHK) propose start-up workshops (*Gründungswerkstätten*) for young people. In 2019, IHK Potsdam launched a competition with the aim to support local entrepreneurship, networking, work inclusion and integration, social infrastructure and mobility.²⁵

Brandenburg's universities and research institutes run a number of programmes designed to find innovative solutions to deal with social problems,²⁶ using innovative educational approaches, such as living labs and maker spaces.²⁷ Social entrepreneurship or social innovation are covered only as sub-themes in engineering, business management, or sustainable tourism in the academic curricula. Some initiatives can be relevant for social entrepreneurs, even though they predominantly focus on collaborative design, business creation and technological R&D. Other aspects of social entrepreneurship, such as active citizenship and democratic participation are not included in the training offer. Brandenburg's education system also promotes entrepreneurial skills in schools, e.g. through student enterprises.²⁸

Universities or rather universities of applied sciences in Wildau, Brandenburg an der Havel, Eberswalde, Potsdam and others benefit from the EXIST federal programme,²⁹ which supports innovative and research oriented start-ups. EXIST scholarships are a potential tool for social

entrepreneurs who want to develop new, technology-based solutions in collaboration with research institutions.³⁰ Other ERDF-funded programmes, like ProFIT Brandenburg, support SMEs and research institutions in the development of new products, processes and technology through grants and loans.³¹

Several legal forms are available to social enterprises in Germany

Germany does not have a separate legal form for social enterprises. In practice, entrepreneurs can choose from a variety of legal forms (European Commission, 2018^[36]), namely:

Table 3.1. Diversity of legal forms available for social enterprises in Germany

German legal form	English translation
<i>Eingetragener Verein (e.V.)</i>	Registered association
<i>Einzelunternehmen</i>	Sole proprietorship
<i>Gesellschaft bürgerlichen Rechts (GbR)</i>	Civil law partnership
<i>Kommanditgesellschaft (KG)</i>	Limited liability partnership
<i>Gesellschaft mit beschränkter Haftung (GmbH)</i>	Limited liability company
<i>Unternehmergesellschaft (UG)</i>	Entrepreneurial company – limited liability
<i>Aktiengesellschaft (AG)</i>	Stock corporation - private/public company limited by shares
<i>(eingetragene) Genossenschaft (eG)</i>	(Registered) co-operative
<i>Versicherungsverein auf Gegenseitigkeit</i>	Mutuals
<i>Stiftung</i>	Foundation

Source: (European Commission, 2018^[39])

This wealth of legal forms can appear as a strength of the German social enterprise ecosystem. It allows social entrepreneurs to choose the one that best fits their vision and their mission and gives freedom to customise their organisational setting based on their own and their clients' needs. At the same time, it may represent a challenge, as many social entrepreneurs lack the knowledge to make an informed decision on which legal form best fits their needs. For instance, registered associations are simple to set up and require limited efforts in terms of accounting and financial reporting. However, because they are bound to a certain low-income level, they may struggle to acquire substantial earned income when scaling up their economic activity. Additionally, both associations and co-operatives entail a participatory governance model and constraints on the distribution of profits, which may have implications on fundraising opportunities (cf. Chapter 4).

In addition to these legal forms, the public benefit status may help identify and recognise social entrepreneurs in Germany. A public benefit mission is one that focusses on selfless, charitable or religious (benevolent) support to the public at large or to certain groups within society, e.g. in the fields of science, religion, health, child and youth welfare, education, ecology, welfare, sports, culture, democratic development, civic engagement and work with persons with disabilities. The public benefit status opens a range of tax privileges (collecting tax-deductible donations, exemption from corporate income tax or local business tax on mission-related activities, reduced value added tax).

All legal forms can combine with the public-benefit status, which offers a distinguishing feature, in that organisations may add a “g” for *gemeinnützig* in front of their abbreviation (for example, “gGmbH” refers to a public-benefit limited company). Public benefit organisations, however, are not allowed to build up assets from income earned apart from donations) and with the exception of severely restricted purposes, they must spend all surplus generated by the organisation within a period of two years. Hence, in order to access and maintain this status, social entrepreneurs must prove to fulfil a mission of general interest and abide to strict limits on profit distribution. In Brandenburg, market-oriented social enterprises

most commonly take the forms of (g)GmbH and e.V. (Jahnke et al., 2020^[1]). This is consistent with the legal forms that seem to predominate on a national level (SEFORIS, 2020^[53]).

Challenges

Social enterprises are rarely engaged by local institutions

The absence of a shared vision across institutions hampers full institutional support and engagement with social enterprises in Brandenburg. While MWAE has taken an active role in promoting social enterprises and social innovation, the other ministries have a limited engagement up to now. The collaboration between MWAE and specialised intermediaries, like Social Impact gGmbH, does not involve other branches of government responsible for social work, health and education. Brandenburg's economic development bodies, the Promotional Bank of the State of Brandenburg (*Investitionsbank Brandenburg*, ILB) and the Economic Development Agency Brandenburg (*Wirtschaftsförderung Brandenburg*, WFBB), are primarily turned toward the for-profit sector.

Most local institutions, such as Chamber of commerce and municipalities, exhibit a diffused lack of awareness and involvement with social enterprises. At Brandenburg's Association for Cities and Municipalities (*Städte- und Gemeindebund Brandenburg*), social enterprise and social innovation are hardly ever mentioned and if so only feature in the margins of other discussions.³²

Similarly, the start-up support network does not have much knowledge in the field of social entrepreneurship or social innovation. The business mentoring services target profit-oriented companies, thereby excluding all other legal forms that social enterprises may take and all entities with public benefit status.³³ Environmental sustainability can be included in the coaching offer, but there is a lack of expertise in the pool of service providers. Their guidance is hence mostly aimed at securing the financial sustainability of profit-oriented start-ups.

The variety of legal forms is a source of complexity for social enterprises

Although they represent an opportunity to choose among a diverse range of options, **the many different legal forms available for social enterprises, each with its own strengths and weaknesses, pose a challenge for social entrepreneurs and for the institutional bodies that deal with them.** This sentiment was expressed by most of the stakeholders interviewed in Brandenburg as part of this review.

Many social entrepreneurs lack the expertise and skill needed to choose the right legal form for their company, based on the advantages and disadvantages of each legal form. Some basic guidance on how to link an organisation's legal form to its activities and purposes has been published by the Federal Ministry for the Economy (BMWi, 2019^[41]), but it could be disseminated more via different channels. So far, in Brandenburg, there is no formal support structure in place guiding entrepreneurs in this decision, though dedicated platforms such as SEND and Social Impact may offer some guidance.

The certification process for public benefit organisations can turn into a long and tedious exercise with many bureaucratic hurdles (Volgelbusch, 2018^[54]). Enterprises willing to retain this status have to be re-accredited every third year by the revenue office. Social enterprises with innovative business models can find it hard to persuade the tax authorities that they do indeed adhere to the requirements formulated in the tax code, especially with regard to the criterion of selflessness (Evers & Jung, et al., 2015^[42]). Another frequent criticism, not only with regard to social enterprise but also to other forms of social innovation, is that local tax authorities often act arbitrarily when granting public benefit status (Bundesnetzwerk Bürgerschaftliches Engagement, 2018^[55]). Consequently, German social enterprises frequently operate a combination of several legal forms and organisational entities. This allows them to fully exploit the entrepreneurial dimension of their economic activity while reaping the fiscal privileges linked to the public-benefit status (European Commission, 2018^[39]). This complexity is however demanding to set up and

burdensome to manage for social entrepreneurs. Brandenburg could draw inspiration from how the issue of legal recognition of social enterprises is being tackled in the Netherlands (see Box 3.1).

Box 3.1. Recognition of social enterprises in the Netherlands

At the moment, the Netherlands do not have a special legal form for social enterprises, nor is there a specific law concerning social enterprise and social innovation. As in Brandenburg, social entrepreneurs can choose from several legal forms. Because of this, social entrepreneurs often complain about the lack of societal and political recognition for their contribution to dealing with wicked problems (Karré and Van Meerkerk, 2019^[56]).

The social enterprise sector has taken measures to increase the public recognition of social enterprises. For example, since 2008 work integration social enterprises (WISE) can apply for the so-called PSO-quality mark, which is awarded by TNO, the Netherlands Organisation for Applied Scientific Research (see www.pso-nederland.nl). In order to be granted this quality mark, WISE have to provide detailed information about the results of their endeavours, which are scientifically assessed by TNO.

Since 2018, social enterprises can also apply to be added to the social enterprise registry, which Social Enterprise NL (the local SE advocacy group) initiated in co-operation with management consultants PWC. In order to join the registry, social enterprises have to adhere to a special code based on five principles: (1) have a specific and measurable mission, (2) engage in open dialogue with your stakeholders, (3) make sure that financial profit is a mean and not a goal in itself, (4) be open for constructive criticism and (5) be actively transparent and accessible. Whether an organization can join the registry based on these principles is assessed by a review board, mostly consisting of industry professionals.

In July 2020, the Dutch government decided to add a legal form and framework for social enterprises as ‘societal limited-liability companies’ (*maatschappelijke BV*, or *BVm*) to these initiatives undertaken by the social enterprise sector itself (Ministère de l'Économie et des Finances, 2020^[57]). The term ‘societal’ (*maatschappelijk*) instead of ‘social’ enterprise is chosen, as the Dutch term ‘sociaal’ has a much narrower definition (it applies mostly to welfare services) than ‘maatschappelijk’. These societal limited-liability companies will be defined (based on the EU definition) as enterprises that: (a) provide a product or service; (b) instead of with a profit target, do this primarily and explicitly to contribute to a corporate purpose set out in its articles of association; (c) reinvest part of the turnover in the achievement of the corporate purpose and / or be limited in the distribution of profit and capital, all to ensure that the corporate purpose prevails; (d) identify their relevant stakeholders and enter into a dialogue with them at least annually; (e) be transparent on their website (or in any other way that is publicly accessible such as in their annual report) about the most material social value created; and (f) can pursue their own strategy independently of the government and / or other entities (KPMG; Nyenrode Business University, 2020^[58]).

Instead of amending the definition of a limited liability company (BV) already existing in the Civil Code, the new BVm will be created through a *lex specialis* (special law). This law will include (1) a set of regulations with which the organisation of the companies and the articles of association must comply; (2) one or more provisions that pertain to being able to use the designation BVm and (3) one or more provisions pertaining to the registration of the BVm in the Trade Register. A draft version of the new law is expected for consultation by the end of 2020.

Source: (Karré and Van Meerkerk, 2019^[56]); (Ministère de l'Économie et des Finances, 2020^[57]); (KPMG; Nyenrode Business University, 2020^[58]).

Policy Issues

Institutional fragmentation prevents social enterprises from accessing development opportunities

Brandenburg's institutional framework concerning social enterprise and social innovation still is rather fragmented. A small number of institutional bodies support and engage with social enterprises, while others still do not know what to make of these concepts or remain unaware of their potential. Some public initiatives already exist with regard to social enterprises and social innovation, but a formally endorsed strategy is missing.

The scant recognition of social enterprises across institutions leads to situations in which administrative procedures are neither accessible nor clear in their regard. Public procurement is a case in point, since local authorities in Brandenburg do not take advantage of the opportunities offered by European and federal regulations (cf. Chapter 5). This fragmentation makes the need to improve co-ordination among government agencies and across government levels even more important.

Social enterprises suffer from limited recognition

The variety of legal forms threatens to overwhelm social entrepreneurs and curbs their visibility among institutional actors and with the public at large. Brandenburg could draw lessons from how the question of a common identity for social enterprises is being discussed in Denmark, a country with a comparable welfare state to that of Germany, with the introduction of a registry for social enterprises (see Box 3.2).

Box 3.2. The Danish SE Registry

In Denmark, the 2014 Act on Registered Socio-Economic Enterprises³⁴ allowed the establishment of the register of social economy enterprises (*registreret socialøkonomisk virksomhed* - RSV³⁵) in 2015, a scheme for associations, foundations, limited liability companies engaged in business activities promoting social purposes. Companies eligible to register must fulfil five criteria: they must have a social purpose; the trade of goods and services must make up a significant proportion of their revenue; they must be organisationally independent from the public sector (but can receive public grants); they must involve multiple stakeholders in their governance; and the surplus after tax must be invested in a social purpose or re-invested in the company itself, with only up to 35% of profits after tax going to investors (Erhvervsstyrelsen, 2018^[59]). The purpose of register is to help define and create a common identity for social enterprises. It does not offer financial advantages beyond being listed as company with socio-economic activity in the Central Business Register (CVR) (Hulgård and Chodorkoff, 2019^[60]).

Initially, registration was meant to be part of an ecosystem targeting the social enterprise field, but political support faded at national level. A 2018 evaluation of the Danish RSV registry by the Danish Business authority pointed out several challenges: the registration process and required documentation is too time-consuming for small organisations; as well as a lack of marketing and information around the registration scheme, also due to lack of government interest in fostering social entrepreneurship, which also led to rather scattered public procurement practices to promote registered SEs specifically, usually still putting price and product before other societal benefits that social enterprises might bring. Evaluation participants saw no or limited benefit in registration, as it did not seem to make a difference in most municipal tendering. Not only did they not see the marketing value of registering, they also pointed out legal limitations for conducting business, mainly through the dividend limits for owners and investors, or by not being allowed a higher number of employees on job center subsidies than other companies (Erhvervsstyrelsen, 2018^[59]) (Sørensen and Lund, 2018^[61]).

Nevertheless, the number of registrations has been growing, from 283 in 2018 (most of them voluntary organisations located in Copenhagen and Aarhus) to 620 in 2020. Many municipalities do advertise the register and, in a push for more public procurement, social enterprises themselves try to develop incentives (e.g. *Rummelig iMidt*, a large social enterprise in Central Jutland, which established a producer portal for registered social enterprises in the region).³⁶ Also the Danish Government initiated support, announcing a compensation scheme specifically for registered RSV (and non-profit organisations running second hand shops), to compensate them for income loss between March and October 2020 due to COVID-19. Hulgård and Chordakoff conclude in the EU Mapping study of Social Enterprises and their Ecosystems: “Irrespective of the failure to strategically move towards a national ecosystem, the registration mark provides a possibility for municipalities and other agencies to be sure that the social enterprises that they intend to collaborate with live up to certain standards as identified in the Law of June 2014”.

Source: (Erhvervsstyrelsen, 2018^[59]); (Hulgård and Chodorkoff, 2019^[60]); (Sørensen and Lund, 2018^[61]).

Recommendations

Ensure co-ordination across government

Effective co-ordination mechanisms do not only create synergies among public agencies, but might also ensure institutional alignment across government. Over the long run, the task force established to steer a multi-stakeholder dialogue (cf. Chapter 2) could become a more permanent collaborative space or ad hoc interministerial body in charge of social enterprise and social innovation. This centrally co-ordinated function, under the leadership of the MWAE, could help identify additional competencies and engage with other actors, both at the state but also at the local level (e.g. municipalities and tax authorities).

The State already supports the creation of a Competence Centre to promote innovative social enterprises and urban-rural partnerships in Beelitz-Heilstätten. In the future, this could become a space to convene all actors in the ecosystem, including representatives from districts and municipalities. The government could also establish an administrative unit to act as the first point of contact for social entrepreneurs with questions, like there is for service companies (cf. *Einheitlicher Ansprechpartner Brandenburg*).³⁷

Provide assistance on legal forms and public benefit status

The decision to establish a special legal form for social enterprise is the remit of the Federal parliament and hence beyond the scope of this review. The question remains whether the benefits from enhanced visibility for social enterprises would outweigh the downside of a more stringent definition that might curb their potential in terms of innovation and synergies. Either way, the law-making process will likely take time.

In more practical and immediate terms, the government could reinforce the capacity of local intermediaries in the start-up support network (e.g. Chamber of Commerce and of Crafts, pilot services, workshops) to assist social entrepreneurs in their incorporation process and in the certification as public benefit organisation, should they wish to obtain it.

Envisage the creation of a national registry for social enterprises

The State of Brandenburg has already taken steps to map social enterprises in its territory, but more efforts should go into raising their visibility. A registration process initiated by public authorities can more easily establish an officially recognised and credible standard. This would give visibility to the field, improved clarity on which organisations are social enterprises, and increased ability to track the field's growth and development. The support and engagement of the relevant private ecosystem stakeholders, such as social enterprises coalitions and academic institutions, is however needed to ensure adhesion.

To embrace the diversity of social enterprises in Germany, the registry should be open to all organisations, independently of their size, age, legal form or status. The application process should be accessible for all organisations that comply with a set of practices defined in the operational definition of social enterprise.

A public agency could ensure the promotion and management of the registration process upon receiving an online application from the social enterprise with the necessary information and evidence in a standard format. Relying on local social enterprise federations and networks would be instrumental to make the registration process successful. The goal should be to keep the process lean in the interest of both parties. The registry should be publicly available with the possibility to consult the information provided by the social enterprises, to ensure transparency and credibility.

4

Improving access to finance for social entrepreneurship development

The political commitment to support social entrepreneurship and social innovation in Brandenburg has translated into dedicated financing tools. Public support for social innovation has spun over two decades, whereas a specific call for work integration social enterprises has been introduced in 2017. Brandenburg also benefits from a rich offer of advice and financial support for founders, start-ups and SMEs, operated by a tight network of local intermediaries.

Access to financing remains however challenging for social enterprises, because public as well as private investment favours commercial companies as opposed to public benefit organisations. Social welfare organisations dispose of a more reliable financing stream, though dedicated financing channels and public procurement contracts. The lack of seed and quasi-equity finance is exacerbated by the dearth of philanthropic and impact-driven investors in the region and by the limited recourse to the crowdfunding platforms and competitions available in Germany.

Strengths

Brandenburg has long promoted social innovation

Over the last two decades, several projects on social innovation have been implemented in Brandenburg, including through transnational co-operation. From 2003 to 2008, the European Social Fund (ESF) programme Local Capital for Social Purpose (*Lokales Kapital für Soziale Zwecke*) provided micro-grants for community initiatives on social inclusion and professional qualification. From 2000 to 2014, the INNOPUNKT programme (Innovative Labour Market Policy Priority Funding) enabled new, creative approaches for competency development in SMEs. The intersocial village caregivers (*entersocial Dorfkümmerer*)³⁸ project, launched within the framework of the start-up support co-financed by ESF in 2012, stimulated the emergence of local solutions to social problems through social entrepreneurship in rural areas.

In the 2014-2020 period, Brandenburg stands out as one of the few German *Länder*, together with Lower Saxony, to have selected social innovation as a priority for its ESF Operational Programme. This is particularly relevant since there is limited financing at the federal level on innovation other than technological. Whereas public funding for social innovation has mostly been used to integrate long-term unemployed in the labour market, under the current EU cycle, it is also intended to promote adaptation to structural changes. Indeed, the State programme aims to tackle additional challenges, such as declining and aging population, especially in rural areas, low qualified labour force, transformation towards green and resource efficient industrial processes.

The State of Brandenburg has established dedicated funding for social entrepreneurship and social innovation

Two funding instruments have been adopted by the Ministry of Economic Affairs, Labour and Environment (MWAE), and co-financed by the European Social Fund:

- The programme to promote socio-pedagogical and professional support for **social enterprises** was launched in 2017, with EUR 6.5 million financing from ESF. The instrument targets work integration social enterprises, irrespective of their legal form, that prepare a business plan and sell products and services on the market. The grant supports wages, to compensate for productivity restrictions and placement obstacles. In February 2020, 6 out of 10 beneficiaries had already been selected, representing a mix of associations (*e.V.*) and companies with limited liability (*GmbH*).
- The programme to promote **social innovations** for employment and poverty reduction started in 2018, with EUR 7 million from ESF and almost EUR 2 million from the State. Implemented by Brandenburg's economic development agency and by the promotional bank (WFBB and ILB) under the auspices of the MWAE, it supports the conceptualisation and testing of innovative solutions tackling demographic change in rural areas, retention of the skilled labour force, integration of the long-term unemployed, transition to sustainable production patterns. The participation of a foreign partner is explicitly encouraged.

Both instruments support labour market integration of vulnerable groups other than people with disabilities, whose needs are already covered by the Federal Participation Act³⁹ and by the Federal compensatory levy fund (*Ausgleichsabgabe*). While the former is exclusively addressing Work Integration Social Enterprises, in an attempt to counter the significant decline of federal subsidies from the public employment service, the latter programme embraces a broader perimeter through social innovation.

On both schemes, the ministry has received more applications than expected and should meet its spending targets by the end of the period. Although the budget remains relatively small, these projects could trigger a proof-of-concept effect to inspire replication and attract additional investors.

The start-up and SME support network can facilitate access to finance, especially for young and migrant entrepreneurs

Brandenburg's start-up and SME support network is run by a tightly knit network composed of WFBB, the Chamber of Commerce and of Crafts, several Universities and Municipalities. Business mentoring services are available in each of the 18 districts, compounded by dedicated coaching for specific groups (young people, university students, migrants) and for innovation driven entrepreneurs.

By offering free advice, the programme facilitates access to finance for entrepreneurs, such as the federal EXIST grants. For instance, the Social Impact Lab in Potsdam can assist young and migrant entrepreneurs when applying for the German microcredit scheme (Federal State of Brandenburg, 2011^[62]). Some of these entrepreneurs may develop inclusive or social enterprises, although they are often focused on self-employment.

Targeted financial support is available for start-ups and SMEs in Brandenburg

Brandenburg's promotional bank (*Investitionsbank des Landes Brandenburg*, ILB) offers a full range of financing instruments for commercial start-ups and companies. These cover areas such as infrastructure, housing, business and employment promotion.

Supported by the European Regional Development Fund (ERDF) and the State of Brandenburg, **Microcredit Brandenburg⁴⁰ provides a simplified procedure for start-ups and young SMEs to access small loans for commercial or freelance activities.** This is currently the most interesting

instrument for social enterprises (provided they do not have the public benefit status), since no equity and collateral is required. In 2017, the ILB has extended a total of EUR 25.5 million in loans for SMEs, including EUR 2.1 million in micro-loans (ILB, 2017^[63]).

Table 4.1. Public financing available for founders, start-ups and SMEs in Brandenburg

Instrument	Entity	Eligibility	Financing	Stage
EXIST Start-up grant	Federal Ministry for Economic Affairs and Energy (with ESF)	Business founders from university and research	Grant up to 1 year	Pre-startup
Guarantee without a Bank	Bürgschaftsbank Brandenburg	Commercial business founders, SMEs and freelancers	Default guarantee for loans up to EUR 400 000	Pre-startup and startup
ERP Start-up Credit and Founding Capital	KfW, with additional interest subsidy from ILB	Founders, commercial start-ups and free-lancers	Loans and subordinated loans	Startup
Microcredit Brandenburg	ILB (with ERDF)	Founders, free-lancers, commercial start-ups and young SMEs (10 years since foundation)	Loans from EUR 2 000 and EUR 25 000	Startup and growth
Micro Mezzanine (*) Fund	Bürgschaftsbank Brandenburg through MBG Berlin-Brandenburg (with ESF)	Commercial start-ups and SMEs (**)	Dormant equity from EUR 10 000 to EUR 50 000	Startup and growth
Growth programme for small enterprises (GRW-G)	ILB	Commercial SMEs with supraregional activity	Grant, eligible expenditure min. EUR 60 000	Startup and growth
Brandenburg Seed and Growth Fund	Brandenburg Kapital, subsidiary of ILB (with ERDF)	Commercial start ups and SMEs in ICT, industry, life sciences, healthcare	Minority equity stake (15%) and subordinated loans	Startup and growth
State guarantee	Brandenburg Ministry of Finance	Start-ups, SMEs and free-lancers	Default guarantee	Startup and growth
Brandenburg Kredit Mezzanine	ILB (with ERDF)	Commercial SMEs and free-lancers (***)	Loans and subordinated loans min. EUR 200 000	Growth

Notes: Does not include financing for innovation.

(*) Mezzanine finance is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company in case of default.

(**) Special target groups: enterprises that offer vocational training, founded by formerly unemployed, are run by women or people from an immigrant background and environmentally oriented enterprises.

(***) Minimum annual turnover EUR 500 000 with the exception of companies involved in agriculture, forestry, fisheries and aquaculture.

Source: (Minister for Economy and Energy for the State of Brandenburg, 2019^[64]), (Ministry for Economic Affairs and Energy of the State of Brandenburg, 2018^[65]) and (Federal Ministry for Economy and Energy, 2019^[66])

The only funding mechanism identified for entrepreneurs at seed stage, before incorporation, is the federal EXIST Start up grant, which is however strongly oriented towards university research. The Brandenburg Seed and Growth Fund⁴¹ caters young SMEs with a clear shareholder structure and promising exit opportunities (Brandenburg Kapital, 2020^[67]). Profit-oriented founders, start-ups and companies (including co-operatives) that do not have sufficient collateral can apply for guarantees from *Bürgschaftsbank Brandenburg*. Table 4.1 shows that public benefit entities are excluded from all the public financing available for founders, start-ups and SMEs in Brandenburg.

Social welfare organisations have separate financing channels

Within the social economy, private banks mostly cater to social welfare organisations, although they remain marginal in the overall portfolio. Social welfare organisations are generally perceived as

reliable customers, because they have a permanent structure and can rely on private donations. Their credit worthiness is comforted by the fact that their main source of income stems from relatively stable public procurement contracts, based on the German Social Law Code (SGB).

Their national footing may also constitute an advantage in securing federal and European subsidies. For instance, the ESF *Rückenwind* programme, which promotes adaptability and employability in public benefit organisations of the social economy, has so far supported only two projects in Brandenburg, both led by local branches of German welfare associations (*Arbeiterwohlfahrt* and Red Cross).⁴²

Moreover, they dispose of a dedicated financing offer through faith-based institutions (e.g. *Bank für Kirche und Diakonie*, the Christian PAX-Bank, *Evangelische bank*) and the *Bank für Sozialwirtschaft AG*, owned by the six major welfare associations. According to the Sustainable Investments Forum (*Forum Nachhaltige Geldanlagen*, FNG), church organisations represent the main institutional investor in sustainable funds and mandates, with 40% of total assets in 2018 (FNG, 2019^[68]). Typically, such banks only grant loans to members of the affiliated church and religious communities.

Challenges

The commercial banking system is not geared towards social enterprises in Germany

In Germany, social enterprises have only limited access to financing from the traditional capital market (Evers & Jung, et al., 2015^[42]). Private banks oriented towards sustainable and social finance (e.g. Ethik Bank, *Umweltbank AG*) appear to have limited activities in Brandenburg. Co-operative banks (e.g. *Volksbank*, *Raiffeisenbank*) and public-law saving banks (*Sparkassen*) originate from a social finance background, but behave today like other commercial banks (Birkhölzer, 2016^[69]).

A number of difficulties in financing social enterprises are reported in Brandenburg. These include the poor quality of their business plan (typically only 1 year ahead, whereas banks would like to see 5 to 10 year forecasts), limited revenue streams and longer time lag before profitability, lack of collateral, low capacity to comply with administrative requirements. Additional risks may also stem from the specific geography or sector in which social enterprises operate. Public infrastructure, such as hospitals and childcare facilities, is typically highly regulated and hence exposed to normative changes that may affect business model and hence financial viability.

Because they have to respect the same administrative requirements, independently of the size of the operation, bankers may be wary of opening smaller credit lines, which are usually requested by social enterprises. Further structural constraints stem from the international prudential regulation on financial systems, which hinders the capacity of banks to extend long-term loans. Commercial banks have become more risk averse due to the 2008 financial crisis and growing regulative burdens in credit provision to target groups with low levels of collateral, higher default risks and unfavourable cost-revenue ratios (Unterberg et al., 2014^[70]). This has been worsened by the COVID-19 pandemic and looming economic recession worldwide (Jahnke et al., 2020^[11]).

Few exceptions stand out in Brandenburg. The first German micro-credit scheme was established in 2000 by GLS bank for young founders in the town of Brandenburg an der Havel (Unterberg et al., 2014^[70]). Their loan and gift solution⁴³ constitutes one of the few private banking options for public benefit social enterprises to raise equity capital. *Regionalwert AG*, a citizen shareholder corporation, has been particularly active in the organic agricultural and food sector of the Berlin-Brandenburg metropolitan region through its offices located in Potsdam.

The public benefit status is a deterrent to investment, particularly for private equity

Most federal and state financing is only accessible to commercial companies that do not have public benefit status. Public instruments offered by local financial institutions (ILB and *Bürgschaftsbank Brandenburg*) are mostly targeted to profit-oriented start-ups and SMEs.

This includes the German Micro-mezzanine Fund and the Microcredit fund for small and young companies, despite their inclusive approach. Microcredit Brandenburg can be more easily accessed by social entrepreneurs, since no collateral is required, but remains focused on commercial activities. Social enterprises are explicitly targeted by the German Micro-mezzanine Fund, but profitability is the main prerequisite for applicants. Consequently, and possibly due to the scarcity of commercially-oriented social enterprises, they only account for 2% of all final recipients at the federal level.⁴⁴

Some local banks in Brandenburg have adopted a special rating procedure for public benefit organisations, integrating qualitative questions in their analysis, as claimed by interviewees met during the OECD study visit. Still, they remain reticent to work with public benefit companies (e.g. *gGmbH* or *gAG*) because profit accrual and redistribution are capped by legislation. For the same reason, their offer is mostly limited to debt financing.

Indeed, **the public benefit status is perceived as incompatible with the expectations of private equity and venture capital investors.** From their perspective, it carries several obstacles: (1) the use of standardised articles of association, which constraints their ownership structure; (2) the limitation to listed activities of general interest, whereby many revenue generating opportunities are excluded;⁴⁵ (3) the non-distribution of profits, implying that only return of capital is allowed. Despite offering important fiscal privileges (reduced taxation on income, donations and VAT), the public benefit status thus precludes access to public investment and severely hampers the capacity to attract private equity investors.

Impact investors are not yet active in the region

Germany boasts a rapidly expanding impact investing market, centred on its economic and financial hubs (i.e. Berlin, Frankfurt, Munich). Several private investors identify as impact-oriented (e.g. BonVenture, Ananda Impact Ventures, Tengelmann Social Ventures, Finance in Motion, Invest in Visions) but they are not very active in Eastern Germany. Germany's large commercial banks (Deutsche Bank, HypoVereinsbank and Deka Bank) are also establishing their own impact financing programs and products. A growing number of High Net Worth Individuals and family offices are investing in impact assets (Global Steering Group on Impact Investing, 2019^[71]).

The Financing Agency for Social Entrepreneurship (FASE), a specialised intermediary at the federal level, has established the European Social Innovation and Impact Fund. The fund, thanks to a guarantee provided by the [European Programme for Employment and Social Innovation \(EaSI\)](#), has leveraged more than EUR 25 million from European impact investors over the last decade. It has supported more than 50 financing rounds of social enterprises in Germany, but only two are located in Brandenburg.⁴⁶

Yet, interviews conducted during the OECD study visit confirmed that **only a few philanthropies are present in Brandenburg** (Drosos, Bosch, Hertie, Trias), mostly through grant-based project financing. This is partially ascribable to the absence of foundations with corporate or family endowments seated in the State. Hence, there are ample opportunities for Brandenburg to draw more investment with adequate yield expectations from private actors, which may at the same time steward the definition and pursuit of social business models.

Policy Issues

Public support for start-ups and SMEs is not accessible to all social enterprises

Brandenburg's start-up and company succession strategy acknowledges that financial markets for social investment are currently underdeveloped (Ministerium für Wirtschaft und Energie des Landes Brandenburg, 2017^[72]). It also stresses that the state government can play an important role in designing specific financial instruments for social entrepreneurs. Yet, the Brandenburg start-up and SME promotion system is strongly oriented towards commercial enterprises and does not actively encourage the pursuit of social or environmental goals.

The main barrier faced by social entrepreneurs is that the advice and financing offer is restricted to profit-oriented companies with share capital. Public benefit organisations and, in some cases co-operatives, are excluded by design from the public financing available for founders, start-ups and SMEs in Brandenburg. The only instruments that do not discriminate based on legal form or status are the two programmes run by the State on social enterprises and social innovation, co-financed by the ESF. Brandenburg may consider establishing a financing instrument encompassing all legal forms, as it happened for instance in France recently (see Box 4.1).

Box 4.1. French loan guarantee, regardless of the legal form

As part of the COVID-19 response package, the French Ministry of Economy and Finance passed a decree on 23 March 2020, whereby all companies, associations or foundations (having an economic activity for the last two years) could ask their usual bank for a loan guaranteed by the State to support their treasury.

Companies of all sizes, regardless of their legal form (incl. traders, artisans, farmers, liberal professions, micro-entrepreneurs, associations and foundations with an economic activity), and in all sectors (with the exception of real estate companies, credit institutions and finance companies), could ask for a state guaranteed loan until 31 December 2020. This loan could represent up to 3 months of the 2019 turnover, or two years of salary for innovative companies or companies created since 1 January 2019. No reimbursement will be required in the first year; the company can choose to repay the loan over a maximum period of five years.

As part of the deal, French banks have pledged to assess the requests, through a simplified application procedure, very rapidly (within 5 days) for all companies with a turnover of less than EUR 10 million and which do not present any financial difficulty. They also agreed to review carefully, on a case-by-case basis, requests from all other professionals and businesses, including start-ups and companies whose rating is not yet representative of their medium-term growth potential.

Source: (Ministère de l'Économie et des Finances, 2020^[57]); (Ministère de l'Économie et des Finances, Fédération Bancaire Française, BPI France, 2020^[73])

Moreover, **local financial intermediaries, such as ILB, Brandenburg Kapital and Bürgschaftsbank Brandenburg, do not apply extra-financial considerations in their investment strategy.** The federal Micro-Mezzanine Fund specifically targets commercial social enterprises, environmentally oriented companies, those operated by women, migrants or that provide training for the unemployed (Federal Ministry for Economy and Energy, 2019^[66]). At the federal level, this ESF-supported programme has generated high demand and successfully reached its primary target groups, which represent more than half of the final recipients (Unterberg et al., 2014^[74]). Other state guarantee banks display this inclusive ambition in their external communication, for instance in North Rhein Westphalia.⁴⁷ However, this is not

reflected in the positioning of Bürgschaftsbank Brandenburg, which reserves no special attention for inclusive or social entrepreneurs.

Public financing is not tailored to the specific needs of social enterprises

Social entrepreneurs in Brandenburg are exposed to specific financing gaps, which may affect them more than other start-ups or SMEs:

- There is a lack of public financing at the seed phase, compounded by limited mezzanine and equity investment;
- Besides the specific programme recently established by the State of Brandenburg, innovation funding in Germany is directed at technological rather than social innovation;
- Public funding schemes do not take into account infrastructural challenges in rural, sparsely populated areas and they are not accessible to Berlin-based social entrepreneurs who might be willing to work in Brandenburg.

The development of social enterprises over time can be described by a sequence of stages, from inception to consolidation. **In Brandenburg, there is an acute lack of seed funding in the form of grants or patient capital.** Table 4.1 shows that very limited public instruments address founders at the seed or pre-seed stage. Moreover, few public schemes offer mezzanine or equity financing, which is generally considered more suitable to the needs of young and growth-oriented social enterprises, notably because of insufficiently established business models and uncertain yield perspectives in the start-up phase (Evers & Jung, et al., 2015^[42]). The Seed and Growth Fund by Brandenburg Kapital, ILB's venture capital subsidiary, encompasses a limited number of sectors (ICT, industry, life sciences and healthcare) and applies restrictive conditions.⁴⁸

Despite the political commitment to promote social innovation, most financing for innovative start-ups and SMEs is reserved to technological research, development and transfer. Funding by the Federal Ministry for Economic Affairs and Energy and the German Development Bank (*Kreditanstalt für Wiederaufbau, KfW*) is directed at fast-growing technology companies.⁴⁹ The State of Brandenburg has established a grant programme for founders and start-ups working on a new product, process or service not yet available on the market.⁵⁰ Other instruments managed by ILB (ProFIT, Innovation Voucher, go-innovative) support knowledge and technology transfer for digitalisation and technical innovation among SMEs and handicrafts. As for all initiatives co-financed by the ERDF operational programme, under the thematic objective on competitiveness of SME, eligibility is limited to commercial companies with share capital (i.e. AG or GmbH), while associations and public benefit entities remain excluded. Under the MWAE's programme for innovative start-ups "*Innovationen brauchen Mut*", only three of the 50 ideas submitted in 2019 were from aspiring social enterprises, also with a focus on technological innovation.⁵¹

Additional financing hurdles emerge from a territorial perspective. **Social entrepreneurs in rural, sparsely populated areas must cope with infrastructural gaps and experience more difficulties in raising funding from local communities.** The ILB Growth programme for small enterprises foresees a 10% mark-up for the districts bordering with Poland.⁵² Similar conditions compensating for infra-regional cleavages are however not foreseen in the other public funding schemes. Public funding instruments also fail to include Berlin-based social entrepreneurs who might be willing to expand, move or return to Brandenburg. This represents a missed opportunity for Brandenburg to build synergies with the Berlin entrepreneurial scene and to transfer social innovations from urban to rural areas. On an exceptional basis, ILB can support relocation investments from Berlin to Brandenburg as part of its Growth programme for small enterprises.⁵³ This could be extended to social entrepreneurs, for instance in the framework of urban-rural partnerships proposed by Social Impact gGmbH.

Vouchers have emerged as a flexible financing instrument that can be designed to target different objectives, beneficiaries and activities. The example of Ontario, Canada, is particularly interesting,

since it presents an embedded governance mechanism to ensure co-ordination between public support for social entrepreneurship and for innovation (see Box 4.2).

Box 4.2. Ontario Social Impact Voucher

In the framework of its Social Enterprise Strategy 2016-2021, the Government of Ontario has deployed social impact vouchers as an innovative instrument to support the financial sustainability and growth of social enterprises across the province. The Ontario Social Impact Voucher (OSIV) Pilot provided training and mentorship vouchers to 125 social entrepreneurs in 2015. The vouchers were fully subscribed within the first six months after the launch, with participants stemming from a range of sectors, including health, cleantech, digital media and information and communications technology and advanced manufacturing.

Building on this initial success, the Programme was extended in 2016, providing an additional 111 social entrepreneurs with vouchers up to CAD 3 000. Funded by the Ministry of Economic Development, Job Creation and Trade, the Programme was managed by the Ontario Centres of Excellence (OCE), a non-profit entity created to foster partnerships between industry, education and research.

The delivery organisations (a selection of 9 universities, research centres, incubators and accelerators) offered a range of educational and capacity building services to assist social entrepreneurs and enterprises. Eligible activities focused on identifying and implementing growth strategies, for instance by building a customer base, raising capital, expanding to new markets, using tools to measure economic and social impact and other value-added business services.

Before submission, applications had to be endorsed by a member of the Ontario Network of Entrepreneurs (ONE), thus connecting social entrepreneurs to the local start-up and SME support ecosystem, while also promoting articulation with the priorities of Ontario's Ministry of Research, Innovation and Science.

Source: (Ontario Centre of Innovation (OCI), 2016^[75]) ; (Ontario Centre for Innovation (OCI), 2016^[76]) ; (SEOntario, 2016^[77]) ; (Government of Ontario, 2017^[78])

Social entrepreneurs in Brandenburg are not connected to the federal private finance market

Social entrepreneurs in Brandenburg are not yet tapping into the mainstream banking and private equity markets existing at the federal level. The German Micro-credit Fund,⁵⁴ established by the Federal Ministry for Labour and Social Affairs, explicitly targets companies run by women or migrants and those that provide in-company training. However, none of the accredited microfinance institutions is seated in Brandenburg,⁵⁵ while the micro-credit instrument run by ILB in Brandenburg does not have an inclusive orientation.⁵⁶

The dearth of philanthropic and impact investors reinforces the gap in seed and semi-equity financing. Specialised intermediaries (e.g. FASE, Grameen Creative Lab) or platforms (Ashoka, SEND) are not very active in Brandenburg, although Phineo has recently launched an initiative to entice philanthropic interest in Eastern Germany (cf. page 48). Interviews confirmed that Brandenburg is far from the German financial hubs and is not perceived as an interesting expansion market for private investors.

Because conventional financing is poorly suited to cater the needs of social entrepreneurs, crowdfunding and crowd donation play vital roles for early stage development. Platforms such as

Betterplace and Startnext have become increasingly popular in Germany to raise seed funding on green, social and sustainable projects. There is also a variety of countrywide or international competitions (e.g. *Die Gründer-Garage*, *Kultur und Kreativpiloten*, startsocial, Seif Awards, Social Impact Start). These financing venues are not commonly used by social entrepreneurs in Brandenburg.

Evolving European and federal financing conditions

While the new cohesion strategy for 2021-2027 is being negotiated at the EU level, the financial contribution to transition regions on ESF and ERDF may be reduced in the future (European Parliament, 2018^[79]). At the same time, the topic of social innovation is expected to gain more traction with the European Action Plan for Social Economy announced for 2021 (European Commission, 2020^[80]). Additional resources for investment in growth and jobs may come from the post COVID-19 recovery plan, and in particular, from the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme that must be spent by end of 2023.

Moreover, **a number of positive initiatives have emerged in the Federal agenda, which social entrepreneurs in Brandenburg may benefit from, as the Federal government aims to make Germany a leading centre for sustainable finance.** The Federal Ministry of Finance and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, in collaboration with the Federal Ministry for Economic Affairs and Energy, are currently working toward the adoption of a national Sustainable Finance Strategy. Social enterprises stand to benefit from this, as the financial system is prompted to better incorporate the impacts on humankind and the environment (Federal Ministry of Finance, 2019^[31]).

The Federal Parliament has also discussed a strategy to better promote and support social entrepreneurship in Germany. The motion raised by the Green Party includes a matching fund for social impact investing, with interest-free and less bureaucratic loans of EUR 25 000 (Janecek et al., 2019^[81]). It further indicates that the start-up grant of the employment agencies should not solely base on economic profit, but also on social criteria. A position paper by *Bundesinitiative Impact Investing*, SEND, Ashoka and the Association of German Heir Investigators (*Verband Deutscher Erbenermittler*, VDEE e.V.) advocates for a social impact fund based on unclaimed assets (SEND, 2019^[82]).

Recommendations

Continue to promote social innovation even if the decrease in EU structural funds is confirmed

Social innovation has emerged as a common area of interest for new style social start-ups and welfare organisations alike. At the same time, the topic offers a way to expand financial support to social enterprises, beyond the field of work integration and irrespective of their legal form or status.

Social innovation already benefits from past and future political commitment in Brandenburg. For the government, it represents a means to support bottom-up, demand-driven initiatives that empower local communities and their specific needs, particularly in rural, sparsely populated areas. It may also encourage the transfer or replication of innovative solutions across the Berlin-Brandenburg metropolitan region. Continued support by the State of Brandenburg may in the future come to represent a differentiating factor with respect to other *Länder* and help attract impact investors from all over Germany.

Public funding for social innovation could be deployed in synergy with the existing policies on start-up and SME promotion, but also on technological innovation. The existing call for proposals has been used to test pilot projects and to enable the creation of capacity building intermediaries. In the future, it could take a similar form as the Brandenburg Innovation Voucher managed by ILB, broadening its eligibility to public benefit organisations. Such grant financing could entice new, creative activities by social

enterprises already established in Brandenburg. This and similar instruments could be bundled into a social innovation fund, managed by a local financial intermediary, combining the use of refundable grants and/or soft debt, open to both market-oriented social enterprises and social welfare organisations.

Facilitate the inclusion of social enterprises in the existing SME and start-up financing offer

The 2019 Brandenburg coalition agreement includes a commitment to increase early-stage funds for local start-ups. However, public financing for start-ups and SMEs is not always accessible to social entrepreneurs. A comparison between the German Startup Monitor and Social Entrepreneurship Monitor reveals that social enterprises must rely on relatively less public funding than regular start-ups (SEND e.V., 2019^[83]).⁵⁷ In Brandenburg, additional financing for social entrepreneurs would especially be relevant at seed stage, for small operations and through instruments other than debt.

Credit guarantees are particularly interesting, since they are viable for all types of legal entities and carry significant leverage potential for the mobilisation of additional private investment. The State guarantee established by the Brandenburg Ministry of Finance, which offers credit enhancement for commercial start-ups and SMEs, is currently underused.

Public financing vehicles for start-ups and SMEs could be extended to encompass public benefit companies (e.g. gGmbH, gAG, gUG). It would be particularly important to ensure their eligibility to the Microcredit and the Seed and Growth Fund managed by ILB, the Guarantee without a Bank and the Micro Mezzanine Fund managed by *Bürgschaftsbank Brandenburg*.

Finally, **the state government could encourage the inclusion of social or environmental criteria in the investment selection and allocation process of local financial intermediaries.** For instance, under the German Micromezzanine Fund, there is no standard scoring for applicants. Although financial sustainability remains the main condition, financial intermediaries (in this case, MBG Berlin-Brandenburg) have flexibility when assessing potential investees (EIB, 2016^[84]). However, *Bürgschaftsbank Brandenburg* does not apply extra financial considerations in its decision-making. Similarly, neither ILB nor *Brandenburg Kapital* prioritise their investments according to the expected social or environmental impact of the business plan.

Mobilise private investors from the German social finance market

According to the Sustainable Investments Forum (*Forum Nachhaltige Geldanlagen*, FNG), the volume of sustainable investments in Germany reached EUR 219 billion in 2018 (FNG, 2019^[68]). This potential remains largely untapped in Brandenburg and East Germany more broadly.

In 2017, the German Council for Sustainable Development and Deutsche Börse Group has founded the Hub for Sustainable Finance,⁵⁸ an open network comprising financial market players and other actors contributing to developing a sustainable financial system in Germany (Global Steering Group on Impact Investing, 2019^[71]). Its regional chapter run by Brandenburg 21⁵⁹ offers another platform to identify and engage with responsible investors.

The *Bundesinitiative Impact Investing*⁶⁰ **launched in 2018 represents another pivotal actor to identify new sources of private capital for social enterprises.** Brandenburg could host an Impact Investing Roundtable,⁶¹ as it is happening in Berlin since 2014. At this occasion, the State could display the publicly supported social enterprises and innovations, as a way to encourage diversification in their financing strategy. In parallel, the State could also seek synergies with the initiative recently launched by Drosos Foundation and Phineo⁶² to marshal philanthropic investment for civic engagement in East Germany.

The collaboration of local financial intermediaries (ILB, *Brandenburg Kapital*, *Bürgschaftsbank Brandenburg*) will be necessary to attract private capital from Germany and beyond. They could intensify and diversify their contacts with commercial banks and fund managers, by providing tailored advice and risk mitigation to bolster their interest in social enterprises. For instance, WFBB could help mobilise the network of Business Angels Club Berlin-Brandenburg e.V. The Agency could also assist social entrepreneurs that may want to participate in the Berlin-Brandenburg business plan competition (BPW) or similar awards. To this end, the State could actively raise awareness among said local financial intermediaries on the existence, needs and value added of social enterprises in Brandenburg. Local financial intermediaries for social enterprises could potentially be supported by the European programme for Employment and Social Innovation (EaSI). Eventually, such efforts could be part of a broader concertation to formulate a joint strategy for social entrepreneurship and innovation in Brandenburg, going beyond the R&D centred innoBB.

5 Promoting access to private and public markets for social entrepreneurship development

Public procurement at the local and regional level is an important vehicle to favour goods and services that have a socially responsible origin. In parallel, social entrepreneurs can yield important revenues from private markets, be this through exchanges with business or citizens.

Germany enjoys an active market in terms of public procurement of social services, where traditional welfare organisations are historically well positioned. In application of the subsidiarity principle and following the tripartite model, German districts and municipalities already spend about half of their annual budgets on external procurement of social and welfare services. The federal government has taken strides to strengthen sustainable procurement practices. Brandenburg further benefits from the proximity to the agglomeration of Berlin, which offers an urban market place populated by customers who in general are open to and positive about social enterprise.

Social enterprises in Brandenburg however suffer from the restrictive interpretation of public procurement rules and regulations. Local authorities show limited uptake of the possibility to integrate social, environmental and innovative criteria in their award decision. They also make limited use of the direct contracting below threshold. Additionally, traditional social welfare organisations and new-style social start-ups often behave as competitors when tendering for public contracts, rather than partners working together towards social innovation. Furthermore, there is a scarcity of commercial companies engaged in corporate social responsibility, which would represent an alternative source of income for social enterprises.

Strengths

There is already a strong market for social and welfare services

As mentioned before, Germany has a welfare state based on subsidiarity, in which public benefit and increasingly for-profit organisations are commissioned to provide public services. In 2014, the quasi-market services procured under the social security system generated an estimated turnover of 78 billion EUR (European Commission, 2018^[36]).

Districts and municipalities play an important role as purchasers of goods and services, since social welfare represents about half of their total budget. In 2014, the lion share of the turnover generated on the market for social and welfare services went to the established social welfare organisations (European Commission, 2018^[36]). However, the element of competition in Germany's social entrepreneurship landscape also generates opportunities for new-style social enterprises to grow their market shares. Indeed, 40% of German social start-ups count public authorities at the State and Municipal level among their customers (Scharpe and Wunsch, 2019^[85]).

Recent reforms have enabled socially responsible procurement

Pursuant to the EU Public Procurement Directive, the federal procurement regulation was modernised in 2016,⁶³ giving local authorities the possibility to consider social, ecological and innovation-related aspects into their profitability calculations. Calls for tender can now include ecological and social requirements. There is also the possibility to reserve contracts to enterprises employing a certain percentage of workers with disabilities or with a disadvantaged background.

Based on the focus to strengthen sustainable procurement practices, Brandenburg has enacted a law in 2016 on minimum requirements for the award of public contracts.⁶⁴ This law aims to create fair competition for the most economical offer when awarding public contracts, while also taking social aspects into account. This means that when awarding public contracts and concessions, aspects of quality and innovation as well as social and environmental aspects can be taken into account if they are factually related to the object of the contract. These criteria come on top of those for economy, proportionality, transparency and equality and are not further specified (Land Brandenburg, 2016^[86]).

Moreover, since 2017,⁶⁵ the *Länder* can decide to reform their procurement regulations to allow for simplified procedures below the EU-thresholds. In Brandenburg, starting from 1 January 2019, municipal authorities have the possibility of pursuing a direct award for construction works and a restricted competition for the supply of goods and services, whenever the expected contract value lies below EUR 20 000.⁶⁶

In order to foster the implementation of these sustainable procurement practices, the Procurement Agency of the Federal Ministry of the Interior (*Beschaffungsamt des Ministeriums des Inneren*) has created a competence centre for sustainable procurement practices (*Kompetenzstelle für nachhaltige Beschaffung*). Here local governments and all other public agencies can seek advice on how to implement sustainable and innovative procurement practices. This information is also open to the public via the competence centre's website, where information about the procurement rules and practices of individual *Länder* can be found and accessed.

The proximity to Berlin favours the demand for ethical production and responsible procurement

Another opportunity for social enterprise and social innovation in Brandenburg is offered by the proximity to the urban agglomeration of Berlin, the most populous city in Germany with nearly 4 million inhabitants. Throughout Germany, social enterprises generally thrive in urban areas (European Commission, 2018^[36]). They may also find ethically minded consumers in the neighbouring municipalities, such as Cottbus and Potsdam, which form part of the Berlin-Brandenburg metropolitan region.

In Berlin, Brandenburg's social enterprises find a wealthy urban clientele which is open to (social) innovation and has the means to base purchasing decisions on ethical and not only on financial grounds. Many social entrepreneurs from Brandenburg already have good links to and experience with Berlin, as they often either hail from there originally or have lived there before (Social Impact, 2019^[87]).

There also are opportunities to engage in public procurement processes, which are taking a sustainable approach. For instance, the City of Berlin has recently reformed its procurement policy for public canteens (Senatsverwaltung für Justiz, Verbraucherschutz und Antidiskriminierung, 2019^[88]): the initiative Canteen of the Future (*Kantine Zukunft*) will provide organic products from nearby Brandenburg. At the same time, *Ernährungsrat Brandenburg* (Kaufman, 2020^[89]), a newly established nutrition advisory council, is striving to reorient Brandenburg's agri-food strategy towards more organic production.

Challenges

Restrictive interpretation of regulations hampers social enterprises' access to public procurement

Public procurement regulations can help social enterprises to find customers for their products and services, especially when they have already reached a certain size and need large and long-term contracts to scale. Through the implementation of the latest European Union directive, Germany's federal government has created considerable room for local authorities to manoeuvre within the scope of procurement law (Evers & Jung, et al., 2015^[42]).

In practice, however, social enterprises still face significant hurdles when accessing public procurement markets in many EU Member States, including Germany (Pirvu and Clipici, 2016^[90]). Public contracting authorities often do not have the necessary knowledge about the room public procurement law grants them to make buying decisions on other grounds than price alone. Consequently, procurement rules and regulations are interpreted in a much more stringent and restrictive manner, than would *de jure* be necessary. This situation is less a problem for social welfare organisations, compared to new-style social start-ups, since they already play an established role in the German welfare system.

Social enterprises have limited opportunities to co-operate with commercial enterprises

Another way for social enterprises to grow their activity is to act as subcontractors for commercial enterprises that have to fulfil corporate social responsibility (CSR) obligations (Kraemer and Edinger-Schons, 2019^[91]). Options for commercial companies to co-operate with social enterprises as part of their corporate social responsibility include providing resources for social enterprises on a pro-bono basis and to buy goods and products from them (Beckmann and Zeyen, 2015^[92]). Another option is corporate volunteering (Dreesbach-Bundy and Scheck, 2018^[93]).

Social entrepreneurs are advised to establish possibilities for co-operation with commercial companies at an early stage in the development of their organisation (Bundesministerium für Wirtschaft und Energie, 2018, p. 7^[94]). Throughout Germany, over two thirds of social entrepreneurs generate sales from profit-oriented companies (Scharpe and Wunsch, 2019^[85]). However, only few commercial companies in Brandenburg could act as partners for social enterprises (Social Impact, 2019, p. 33^[87]). On the one hand, this might be due to the specific characteristics of Brandenburg's economy, which is mostly composed of SMEs, which could be less familiar with social enterprises, have fewer means and be less willing to engage. Partnerships between social enterprises and SMEs could be particularly effective to tackle local development challenges, for instance in the area of the circular economy. On the other hand, there are cultural and functional differences between social enterprises and commercial companies, which pose an obstacle to them working together. For instance, there is no company certified as B Corporation (B-Corp) in Brandenburg and other impact labels are equally rare (cf. Chapter 6).⁶⁷

Policy Issues

Limited uptake of new procurement opportunities

Even though European Union regulations and national laws give authorities considerable leeway to promote socially responsible procurement, there is limited uptake of these opportunities at the local level. In Brandenburg, public authorities have so far shown limited recourse to:

- The integration of social, environmental and innovative criteria as a basis for the award decision,
- The use of direct contracting for goods, works and services below threshold,

- Reserved contracts for enterprises employing a certain percentage of workers with disabilities or with a disadvantaged background.

This is partially ascribable to the fact that Brandenburg lacks regular, structured co-ordination on public procurement between state-level ministries, but also vertically between the *Land* government and municipalities (OECD, 2019^[95]). Moreover, no ministry has been identified as being in charge of sustainable procurement. The consequences are especially stark for social enterprises, since districts and municipalities often represent important potential customers for their consolidation and growth.

This issue requires awareness and capacity building within administrations on the use of social clauses in public procurement. On *Brandenburg Intern*,⁶⁸ the intranet of Brandenburg's state authority, best practice examples of public procurement practices taking social criteria into account can be found, but it appears that this information is not well known. Training on social procurement practices for local administrations is by demand only and not much sought.

Local authorities throughout the EU have made strides in socially responsible public procurement, one notable example being Oslo's strategy for the promotion of non-profit providers of health and social care services (see Box 5.1).

Box 5.1. Oslo's strategy for the promotion of non-profit providers of health and social care services

Acknowledging the societal value brought by non-profit actors, the Municipality of Oslo sought to reinforce access to public procurement markets by this type of provider. The Municipality hence adopted the goal that at least 25% of the total number of places in nursing homes in Oslo should be operated by not-for-profit providers by 2025. The local government has put in place a set of measures aimed at increasing the participation of non-profits in the local procurement market:

- Reserved contracts for certain types of non-profit entities, in relation to health, social and cultural services, with a maximum duration of three years;
- Introduce quality considerations such as user needs for quality, continuity, universal design, acceptable pricing, accessibility and a comprehensive service offering, expertise and experience, user participation and safeguarding user integrity;
- Include contract provisions that ensure the quality of services to citizens and good working conditions for employees;
- Dialogue with non-profit actors to strengthen their position in the sector.

Source: (Tepper et al., 2020^[96])

Reinforcing and diversifying sources of market income for social enterprises

In order to support their viability and growth, it would be beneficial to promote collaboration both among social enterprises and with the for-profit sector. The antagonistic relationship between social welfare organisations and social start-ups often leads to competition in public tendering procedures (European Commission, 2018^[36]). This is a missed opportunity, since joint tendering may increase their likelihood to succeed and allow them to take on bigger contracts.

There is also limited co-operation between commercial companies and social enterprises. The SME support network in Brandenburg (e.g. WFBB, Chamber of commerce) has not yet taken an active stance in this regard, mostly due to their poor understanding of social enterprises. Specialised intermediaries, like Social Impact gGmbH, have so far focused their activities on business creation rather than growth.

Box 5.2. Intermediaries can help social enterprises find new buyers

Intermediaries can help social enterprises expand their customer base, for example by educating the public about their existence and advantages, raising awareness on their products or services, and enhancing the visibility of individual social enterprises. The following examples show how intermediaries can support social enterprises grow and diversify their market income:

- **Communication:** the ‘Buy social’ campaign by Social Enterprise NL is aimed at promoting ethical and sustainable buying options by highlighting goods and services that social enterprises can provide. Social start-ups and their products are featured on an online Social Impact Market Place. Organisations that want to promote ethical buying can become partners of the ‘Buy social’ campaign. By doing so, they pledge to adhere to social buying themselves and to act as ambassadors. These partners include the Municipalities of Amsterdam and Utrecht, the Dutch national insurance agency SVB, as well as banks DNB and ABN AMRO.
- **Networking:** *Smart Kolektiv* in Serbia promotes the further development of both corporate social responsibility and social entrepreneurship in Serbia. *Smart Kolektiv* connects social enterprises to potential buyers by organising pitches and product exhibitions at meetings of the Responsible Business Forum and its annual CSR conference meetings. It also organises incubation and acceleration programmes and publishes an annual Partnership Catalogue that details social enterprises’ products/services and ways that corporations can support them.
- **Joint tendering:** the CGM Welfare platform gathers over 200 social enterprises throughout Italy providing welfare services. It helps co-operatives to sell to large companies services, such as vouchers for childcare or leisure activities. The CGM Welfare platform was created by national co-operative group and about 20 other groups of co-operatives in various Italian cities.

Source: (Euclid Network, 2018^[97]).

Recommendations

Raise awareness on possibilities for sustainable procurement practices among local authorities

Social enterprises are often hampered by a too stringent interpretation of procurement rules, as well as by a lack of recognition by the local authorities. Not all public procurement officials at Brandenburg’s districts and municipalities are yet familiar with the new regulatory opportunities that have been introduced in recent years. Therefore, awareness raising and training efforts would be beneficial to (1) clarify the simplification measures for the award of contracts below threshold; (2) promote the dissemination of socially responsible procurement practices and (3) introduce reserved contracts for enterprises employing a certain percentage of workers with disabilities or with a disadvantaged background.

Several means can be envisaged to overcome this situation. The State could also incorporate social considerations into public procurement rules. The Ministry of the Economy, together with the Ministry of the Interior, which is responsible for e-procurement, could actively disseminate information about the reformed regulation, e.g. through Brandenburg’s intranet, by updating the existing procurement guidance or producing additional material where needed. This may include revising the services offered by the state competence centre, *Auftragsberatungsstelle Brandenburg e. V.*⁶⁹ The government could mobilise entities

like the *Kommunales Bildungswerk* (Municipal training centre) or the *Deutsches Vergabernetzwerk* (German procurement network) that already organise formal, certified seminars on the topic. Training on social public procurement could be included in the work plan of the forthcoming Competence Centre in Beelitz-Heilstätten. Another option would be to set up a network of socially responsible public procurement champions, i.e. public officials from different public authorities who volunteer to provide advice on socially responsible public procurement. Finally, the State could encourage access to the two federal competence centres,⁷⁰ through which local contracting authorities can seek advice on how to implement sustainable and innovative procurement.

Encourage collaboration between different types of social enterprise

Recently, social start-ups and social welfare organisations have pledged to work together more closely in practices leading to social innovation. However, this co-operation could still be increased and formalised, e.g. through experience sharing and direct collaboration.

Brandenburg's government could encourage such co-operation as a way to foster mutual learning and to create synergies in tackling pressing social issues. One way is to work with specialised intermediaries to promote partnerships among social enterprises, for instance through the creation of a joint tendering platform.

The German co-operative sector has established strong procurement networks (*Verbünde*). Only few examples can be found in Brandenburg, e.g. in the field of housing co-operatives.⁷¹ This model could be encouraged in other sectors, broadened to other legal forms and possibly extended to cover the Berlin metropolitan region.

Facilitate connections with commercial companies

Government could take steps in fostering collaboration between social enterprises and commercial companies, for instance by better including social enterprises in existing networks by Brandenburg's Chamber of Commerce, its Economic Development Agency (WFBB), its business promotion bank ILB and by other parties in the SME support network.

The State could also encourage communication on the positive contribution social enterprises add to Brandenburg's economy and the ways in which they can also benefit commercial companies. This could be done through already existing networks and institutions, such as Brandenburg's Chamber of Commerce.

The government could raise awareness on corporate social responsibility and sustainable procurement among commercial companies, for instance by using the Ecovadis guide.⁷² Another possible way could be to identify commercial companies committed to sustainable business strategies (e.g. those that hold an impact label, such as B-Corp, *GWÖ* or *Wirk!t!*) and link them up with social enterprises. Public institutions and intermediaries could endeavour to raise the visibility of social enterprises with companies based in Berlin or even more broadly across Germany.

6

Strengthening social impact measurement and reporting for social enterprise development

Germany is endowed with several resources that can support the development of social impact measurement, although guidance at the national level is still lacking. The State of Brandenburg has shown some interest in the topic, but there are currently no public initiatives to raise awareness and enable monitoring and evaluation efforts by social entrepreneurs.

There has been no comprehensive evaluation on the economic, social or environmental impacts of social enterprises in Brandenburg. The few scattered attempts to implement analysis based on Social Return on Investment (SROI) have mostly been motivated by fund raising needs, rather than by public accountability or organisational learning. In Brandenburg, there is also very limited uptake of impact labelling (*Gemeinwohl Ökonomie* and *Wirkt!*) and of the Social Reporting Standards, which may increase the visibility of social enterprises.

The research undertaken at the federal and state level has not translated into actionable tools and advice. Capacity building intermediaries in the start-up and SME support networks have very limited skills to accompany social entrepreneurs in this regard. The lack of appropriate methodologies, compounded by scarce expertise, severely hinder the development of a social impact measurement culture among social entrepreneurs.

Strengths

Growing interest in social impact measurement and reporting

Policy makers in Brandenburg are increasingly aware of the need to disseminate the benefits of social economy. In 2012, Potsdam hosted the first international conference dedicated to Social Return on Investment (SROI) in Germany.⁷³ The event was part of the project “Entersocial Good Practice Transfer”, aiming to facilitate the transnational knowledge transfer on social innovation, financed by ESF and the State of Brandenburg.

Public initiatives are regularly evaluated in compliance with European requirements. For instance, the entrepreneurs supported by Social Impact Lab in Potsdam are systematically surveyed 6 months after their business has been established. The start-up support programme was evaluated in 2014. The state funding instrument for social enterprises will be evaluated as part of the ESF operational programme in 2023 and a specific focus is foreseen on the social innovation.

Several social enterprises⁷⁴ in Brandenburg have already undertaken Social Return on Investment (SROI), mainly as a means to attract additional funding, but the results are rarely disclosed. In 2007, Social Impact gGmbH carried out the first SROI analysis in Germany, on the “Entreprise” project, five years after its beginning. Authors concluded that every euro invested in the project would be repaid by a factor

of 2 (Reichelt, 2007^[98]). The income from the project was significantly greater than the cost, prompting for further investment. Social welfare organisations have also started to engage in SROI analysis, as presented in Box 6.1.

Box 6.1. Social return on investment from workshops for disabled people

A nationwide SROI study mandated by the Federal Working Group on Workshops for Disabled People in 2015 found that workshops for people with disabilities produce a social value added of 108%. The study involved 26 workshops for disabled people, including *Lebenshilfe Werkstätten* Hand in Hand, based in Cottbus, Brandenburg. Assuming that the public sector pays EUR 100 to workshops for the provision of jobs and support for disabled people who do not find employment in the job market. An average of EUR 52 flow back directly, in the form of taxes, social contributions and cost sharing from the companies and the employees. This leaves EUR 48 in net costs.

The workshop companies receive advance payments and generate induced demand and employment, which lead to induced taxes and social contributions as well as avoided costs by securing jobs, estimated at EUR 54. The net cost is shrinking again, and the returns already slightly exceed the funds initially invested.

Considering that workshops are slightly cheaper than existing alternatives (if the beneficiaries were unemployed and required other public support), the results improve slightly further. This does not take into account the non-monetary effects in terms of improved quality of life for the employees and for the community as a whole.

Source: (Wagner, 2015^[99])

Expertise and a range of tools are available at the federal level

Germany possesses a rich array of capacity building intermediaries that can support social entrepreneurs in shaping their theory of change and assessing their results. Besides offering cost-free training for non-profits and companies working in the public sector, Phineo⁷⁵ has produced publicly available pedagogical material and an open source platform on impact management.⁷⁶ The Ashoka fellow programme includes workshops on systemic change and methods of impact measurement. As partakers in the Social Reporting Initiative, they also actively promote the use of Social Reporting Standards. The Impact Hubs, with 4 established locations and 2 more being set up, offer coaching and networking for innovative ventures focused on creating measurable positive impact.

Philanthropies have played an important role in fostering the impact culture throughout Germany. For instance, the Bertelsmann Foundation actively supported the emergence of a profession dedicated to social impact analysis since 2012,⁷⁷ although the Social Value network in Germany is still being developed. The Skala Initiative, launched by BMW heiress Susanne Klatten in 2016,⁷⁸ reportedly contributed to the uptake of social impact measurement among public benefit organisations, whose proposals were selected based on demonstrated initial results or ex- ante impact analysis. In Brandenburg, a project run by Caritas to promote intergenerational solidarity in *Landkreis Märkisch Oderland* (Phineo, 2019^[100]) was approved but ultimately abandoned due to difficulties in reaching the target group.

German academia has greatly contributed to methodological advancement in the field. The Centre for Social Investment (CSI) at Heidelberg University⁷⁹ regularly conducts SROI for social enterprises and has investigated the possible methodologies to measure the effects of non-statutory welfare associations (*Freie Wohlfahrtsverbände*) (Kehl et al., 2016^[101]). Technical University of Berlin, in partnership with the MIT Sloan School of Management, have developed a Lean Impact Measurement tool for start-ups,⁸⁰ which

greatly simplifies the SROI process by relying on a database of financial proxies. The Social Entrepreneurship *Akademie*, a co-operation of Munich-based universities, includes modules on scaling and impact in its educational offer.

Germany also disposes of two labels that identify impact-oriented undertakings: *Gemeinwohl Ökonomie* (GWÖ, a.k.a. Economy for the Common Good) and *Wirkt!*. Phineo's *Wirkt!* aims to distinguish viable and effective social entrepreneurship initiatives deserving the attention of impact investors. Organisations that apply undergo a multi-stage screening process and receive useful feedback to improve their impact. Only about 20% of applicants fulfil the criteria. The Common Good Balance Sheet⁸¹ measures the extent to which a company abides by key constitutional values (e.g. human dignity, solidarity, justice, sustainability, democracy, etc.). Points are only awarded for activities that go beyond the fulfilment of the legal minimum standard. The report must be externally audited and published every two years. Over 500 companies have published a Common Good Balance Sheet in Germany alone.

In addition to these certifications, the German ecosystem has converged, since 2014, around the use of the Social Reporting Standards⁸² (SRS) for social enterprises and non-profit organisations. The standardised reporting framework is open source for all interested parties. It has already been adopted by welfare organisations (e.g. branches of *Diakonie*), financial intermediaries and investors.

Few specialised actors operate in Brandenburg

Capacity building organisations with expertise on social impact measurement already operate in Brandenburg. Social Impact gGmbH in particular has spearheaded the use of SROI in Germany, publishing the first case study in 2005. Their Competence Centre, seated in Beelitz-Heilstätten, could potentially offer training and advice on this topic in the future. A couple of specialised advisory firms based in Berlin have accompanied local entrepreneurs in defining their theory of change and understanding their social and environmental results.

The Leibniz Institute for Research on Society and Space has been researching how social entrepreneurs foster innovative solutions to social problems in structurally weak rural regions.⁸³

As part of a consortium with the University of Lisbon, they are now investigating the socio-economic impact of social innovation in regional development.⁸⁴ This expertise has not yet translated into actionable knowledge or skills transfer for social entrepreneurs.

Challenges

Appropriate methodologies for social impact measurement are still lacking in Brandenburg

Despite its growing popularity, the SROI method is perceived as useful for fund raising, but poorly adapted to the needs of social entrepreneurs, mostly because:

- It is too expensive, and the simplifications proposed often imply a trade-off against stakeholder participation,
- It is difficult to quantify (and monetise) intangible, psychosocial outcomes such as enhanced wellbeing, solidarity and social integration (other than public cost savings),
- A truly participatory approach would require more emphasis on the involvement of final beneficiaries, which is often overlooked as too costly or time consuming.

The exercise is interesting to assess potential changes in the business model or to enable comparison with other projects. However, SROI analyses are disclosed in a very infrequent and selective manner, thereby limiting the opportunities for mutual learning.

Ongoing research, undertaken as part of the EU Horizon 2020 RurAction project, reveals that **social enterprises are critical of evaluating their impact purely in quantitative terms**. Beyond traditional economic indicators such as job creation, they typically identify the following factors as pertinent when assessing their impacts:

- improved networking, communication and co-operation,
- readiness of the residents to engage,
- better standard of living,
- higher level of community pride,
- stronger sense of ownership by residents for their territory.

Too often, evaluations tend to focus on economic criteria (job creation, start-up survival rate), rather than indicators like empowerment, social inclusion or civic engagement. These require more qualitative, perception-based methods such as narrative, theory-based evaluation.

The existing start-up and SME support services have limited expertise in social impact measurement

While social impact measurement is not mentioned in the start-up support strategy promoted by the Brandenburg State, environmental sustainability is presented as a crosscutting concern. Indeed, as part of the ESF programme, climate protection and ecological sustainability can be included in the start-up advice, in as far as they are relevant to the business concept (Ministerium für Arbeit, Soziales, Gesundheit, Frauen und Familie des Landes Brandenburg, 2015^[102]).

Hence, **most start-up support services (*Gründungswerkstätten* and *Lotsendienste*) have integrated environmental sustainability in their coaching offer**, albeit with some difficulties ascribable to:

- a narrow understanding of sustainability, which is mainly intended as harm avoidance rather than the enhancement of positive impacts, and covers only environmental aspects,
- the lack of interest from most entrepreneurs, as it is compulsory, independent of their personal motivation or business plan, and hence perceived by many as a tick box exercise,
- a shortage of skills in the pool of service providers available in the region.

The start-up and business development services offered by WFBB and ILB do not include guidance on social impact or environmental sustainability, other than energy efficiency.⁸⁵

The uptake of social impact labelling and reporting in Brandenburg is negligible

The impact labels and reporting standards existing in Germany are not very diffused in Brandenburg. Most social enterprises perceive themselves as too small to undertake labelling such as *Wirk!* or *Gemeinwohl Ökonomie*. Indeed, there are only a few certified entities in the region. The Berlin-Brandenburg chapter of *Gemeinwohl Ökonomie* counts almost 50 members, but only a couple are located in Brandenburg.⁸⁶ Of the 269 *Wirk!* organisations certified throughout Germany, only 6 are seated in Brandenburg.⁸⁷ Although SRS aims to be straightforward and user-friendly, it is still perceived as too cumbersome for the social enterprises operating in Brandenburg.

Policy Issues

Fostering a social impact measurement culture

Interviews conducted during the OECD study revealed that actors participating in the start-up and growth support system in Brandenburg are neither sensitive to the importance of embracing a more sustainable

paradigm for economic development, nor sufficiently equipped to accompany entrepreneurs in mapping and assessing the effects of their business on the environment and society at large.

Consequently, **very few founders conceptualise their theory of change during the start-up phase.** Some degree of ex-ante impact analysis (e.g. human centred design, stakeholder mapping, results chain) would help entrepreneurs understand their expected impact and how it affects their financing model. Beyond confirming the rationale of their business plan, social impact measurement becomes a decision-making tool to orient activities where necessary. By understanding their impact pathways, the underlying risks and assumptions, entrepreneurs are also better prepared to verify the results afterwards.

Yet, impact measurement is mostly regarded as a means to attract private investors, rather than as a tool for continuous improvement for social entrepreneurs. The lack of awareness and resources affects both the quantity and quality of impact reporting available. This in turn hampers the capacity of policy makers to gather evidence, draw lessons, and communicate on the value added of such initiatives.

Social impact is the primary objective of social entrepreneurs, but there is not yet a shared understanding on how it should be defined, assessed and reported upon. Public authorities may help by setting a clear vision on how the social economy is expected to contribute to sustainable development in Brandenburg. For instance, this could be achieved by adopting a strategy that enshrines the political commitment in favour of social economy and social innovation, and explains its rationale. Another option is to reserve public support for monitoring and evaluation activities carried out by social enterprises, as for instance it is being done in Italy (see Box 6.2).

Box 6.2. Ring-fencing social impact measurement as part of public procurement for the third sector

The Italian guidelines promulgated in 2019 foresee that public administrations, when procuring services of general interest, can request the implementation of social impact measurement by the third sector organisations. This is compulsory for interventions of medium to long duration and above a certain threshold, taking place at an interregional, national or international level.

Social impact measurement is intended as “the qualitative and quantitative evaluation, in the short, medium and long term period, of the effects of the activities carried out on the target community identified.” The definition of social impact encompasses the quality and quantity of services delivered, their direct, verifiable effects in the short term, but also the medium-long term changes induced on the targeted community.

The award procedures shall establish the timeframe and modalities for the development and execution of the ongoing or ex-post evaluation. Where compulsory, the costs must be proportionate to the value of the intervention and included in the approved budget. The choice of methodology is left to the contracted party, but should comprise both quantitative and qualitative data. The degree of complexity may vary depending on the size and legal form of the entity concerned. Reporting may occur after the implementation period, in order to capture the medium and long-term impacts associated with the project. The ensuing documentation must be made publicly available.

Source: (Ministero del Lavoro e delle Politiche Sociali, 2019^[103])

Identifying the most adapted methodologies while ensuring stakeholder participation

Resources available at the international and federal level (SROI, SRS, labelling) are poorly suited to the social enterprises seated in Brandenburg. On the one hand, they are perceived as too

demanding and cumbersome with respect to the size and means of these organisations. On the other, the existing standards fail to fully capture the richness and multiplicity of their social outcomes.

Therefore, more guidance is needed on how to adapt the existing tools to the needs and benefits of social enterprises. Consensus leans towards a mixed method approach, combining both quantitative and qualitative aspects. This should also integrate alternative (complementary) techniques, which may better reflect their activities and involve their stakeholders. For instance, interactive data collection methods could be used to give voice to the most vulnerable groups, through storytelling or narrative elements. Brandenburg could look at examples of guidance on social impact measurement developed in the European Union and by its member countries (see Box 6.3).

Box 6.3. Guidance on social impact measurement for social enterprises

As part of the Erasmus + programme of the European Union, a consortium composed of the Estonian Social Enterprise Network, Koç University Social Impact Forum, Mikado Sustainable Development Consulting and Social Value UK has produced a guide on social impact measurement for social entrepreneurs, called “Maximise Your Impact”, which is freely available online.

Similar guidance has been produced by national governments in Europe. In the Netherlands, the Ministries of Social Affairs and Employment, Economic Affairs and Climate Policy and Foreign Affairs commissioned the development of a web-based tool “The Impact Path: The entrepreneur’s manual to impact measurement growth.” The main objective is to lower the thresholds for impact measurement and enable social entrepreneurs to adapt the measurement process based on their maturity stage.

Source: (Avance, Social Enterprise NL and Impact Centre Erasmus, 2020^[104]) ; (Estonian Social Enterprise Network, Koç University Social Impact Forum, Mikado Sustainable Development Consulting and Social Value UK, 2017^[105]).

Brandenburg counts a very limited number of actors with the competencies and willingness to engage on the subject. So far, the exchange of experiences has been sporadic and informal. Future initiatives (e.g. the Competence Centre for social entrepreneurship in rural areas) may provide an opportunity for them to converge towards a common position, which could then be disseminated to social enterprises or even more broadly to the whole start-up and SME support system.

Recommendations

Undertake policy evaluation to increase public evidence

Brandenburg’s government has committed to improving the quality of subsidies for young and innovative companies, by systematically measuring and evaluating them (SPD, CDU, Die Grünen, 2019^[32]). Similarly, state policies in support of social enterprises and social innovation would benefit from a systematic, independent assessment of their relevance and effectiveness.

Extra-financial reporting by social entrepreneurs can increase the evidence base, but will not be sufficient to ensure policy learning. Any measurement and reporting by social enterprises will most likely pertain to their immediate outputs, and possibly short-term outcomes. Only independent, ex-post evaluation can harvest verified, long-term impacts, and examine them in light of political priorities. This becomes necessary over the long run, if public support to social enterprises and social innovation is to continue or, even, increase.

Building on its ongoing efforts to map social enterprises, the government could hence engage an evaluation of the programmes to promote the social economy (encompassing both social innovation

and work integration social enterprises). Alternatively, they could constitute a specific focus in the final evaluation of the national ESF operational programme 2014-2020. Such study could inform the design of further programmes for the social economy, feed into the concerted strategy, and reinforce synergies with existing policies for start-up promotion, SME growth and innovation.

Provide methodological guidance and expertise on social impact measurement

The first step to encourage the implementation of social impact measurement is to provide open access guidance on existing methodologies and tools, in order to make them readily and easily available for social entrepreneurs. This could entail:

- the creation of new resources, for instance by translating and adapting international guidance, or
- the compilation of a toolbox pointing to material available online.

The research undertaken as part of the EU RurAction project has identified a set of impact indicators adequate for social entrepreneurs. These could be more widely operationalised and integrated as reporting requirements under the State funded programmes.

Relying on the expertise available in Brandenburg and the rest of Germany, the State could support knowledge exchange and training for local capacity building intermediaries. The future Competence Centre in Beelitz-Heilstätten could serve as a space to convene representatives from academia (Leibnitz IRS, Heidelberg CSI, Social Entrepreneurship *Akademie*, etc.) and practitioners (Phineo, Ashoka, SEND). This could take the form of a “train the trainers” event in order to boost competencies among local service providers, for instance those used in the start-up and SME support system.

Ensure sufficient resources from public funding for social entrepreneurs

Above all, resource constraints remain the biggest obstacle to the widespread adoption of social impact measurement. For the process to be viable and meaningful, social entrepreneurs need to allocate more time and budget to it. Public and/or private funders can encourage this shift by ring-fencing part of their investment for such activities.

The State programmes for social innovation and social enterprises could thus:

- include ex-ante impact analysis as a mandatory step in the application process,
- reserve part of the grant for monitoring and evaluation activities by the beneficiaries,
- encourage public disclosure of impact data and reporting.

The same could apply to the investment instruments managed by ILB and other local intermediaries.

Integrate impact enhancement in the existing start-up and SME support

To prompt a shift towards a more sustainable model of economic development, **the start-up and SME support could better integrate impact considerations**, for instance by promoting adherence to the German Sustainability Code.⁸⁸ This implies (1) raising awareness as to the importance of environment and social impact analysis for all start-ups and SMEs, not just social enterprises and (2) going beyond harm avoidance to stimulate the active pursuit of desirable societal outcomes.

The government could reinforce the social and environmental orientation of the coaching and mentoring offered as part of the start-up and SME support system, by expanding the competencies available in the pool of external service providers. The state government could finally further encourage financial intermediaries to adopt social and environmental criteria in their investment selection and allocation.

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- von der Leyen, U. (2019), *Mission letter for Nicolas Schmit, Commissioner for Jobs and Social Rights*, https://ec.europa.eu/commission/commissioners/sites/default/files/2019/05/mission_letters/mission-letter-nicolas-schmit_en.pdf (accessed on 22 April 2020). [110]
- Wagner, B. (2015), *Ermittlung der Wertschöpfung sozialer Dienstleistungen in Werkstätten für behinderte Menschen mit Hilfe des Social Return on Investments (SROI)*, [99]
<https://www.bagwfbm.de/file/950> (accessed on 4 May 2020).
- WFBB (2019), *Clusters*, <http://innovatives-brandenburg.de/en/clusters>. [111]
- Wirtschaftsförderung Land Brandenburg (2020), *Good Practice Pool*, [106]
<https://arbeit.wfbb.de/de/Beratung/Integration-in-Arbeit/Good-Practice-Pool> (accessed on 6 March 2020).

Notes

¹ The OECD regional well-being indicators measures well-being in a region and compare it with 402 other OECD regions based on eleven dimensions central to the quality of lives such as income, jobs, housing, health, access to services, environment and civic engagement. For more information, please see: <https://www.oecdregionalwellbeing.org/>

² For more information, please see: <http://www.museum-pritzwalk.de/seite/309677/alte-tuchfabrik-2018.html>

³ https://www.gesetze-im-internet.de/gg/art_72.html

⁴ <https://www.bmwi.de/Redaktion/DE/Dossier/schwerpunkte-wirtschaftspolitik.html>

⁵ <http://www.sozialpolitik-aktuell.de/sozialgesetzbuch.259.html>

⁶ <https://www.kfw.de/KfW-Group/About-KfW/Auftrag/Inl%C3%A4ndische-F%C3%B6rderung/>

⁷ <https://www.ilb.de/de/englisch/>

⁸ The ESF operational programme (OP) for Brandenburg is based on the strategy of 'good work for everybody and sound transition into the labour market'. The focus of the programme – which totals EUR 452 million – is on measures to improve the competitiveness of enterprises by enhancing the quality, innovation, security and flexibility of the labour market and workforce. For more information, see: https://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/germany/2014de05sfop006

⁹ *Gründungs- und Unternehmensnachfolgestrategie des Landes Brandenburg.*

¹⁰ The Operational Programme (OP) for the ERDF in Brandenburg 2014-2020 is aimed at creating incentives for economic growth by investing in research and development, developing sustainable, competitive economic structures and integrating low-carbon technologies into existing value chains. For more information, see: [https://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/germany/2014de16fop004#:~:text=The%20Operational%20Programme%20\(OP\)%20for,technologies%20into%20existing%20value%20chains.](https://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/germany/2014de16fop004#:~:text=The%20Operational%20Programme%20(OP)%20for,technologies%20into%20existing%20value%20chains.)

¹¹ *Innovationsprogramm für Geschäftsmodelle und Pionierlösungen,* see: <https://www.bmwi.de/Redaktion/DE/Artikel/Innovation/igp.html>

¹² *Richtlinie zur Förderung von sozialpädagogischer Begleitung und fachlicher Anleitung zur Beschäftigung Langzeitarbeitsloser in Sozialbetrieben in Brandenburg in der EU-Förderperiode 2014 – 2020*

¹³ *Richtlinie zur Förderung sozialer Innovationen im Land Brandenburg - Modellprogramm zur Beschäftigungsförderung und Armutsbekämpfung in Brandenburg*

¹⁴ The study established a set of five criteria to determine which organisations can be understood as market-oriented social enterprises (MSE): (1) Independence: MSE are not dependent on and not part of governmental or private organisations; (2) Orientation towards the common good: Profits generated are mainly reinvested into the social/environmental goal of the MSE; common good oriented goals are anchored in the statutes of the MSE; (3) Entrepreneurial means: MSE produce products or services which they continuously offer against payment; they work commercially, i.e. not on a voluntary basis; (4) Innovation activity: The MSE establishes novel products, services, methods or business models to better overcome societal challenges; the novelty of these social innovations is generally not absolute but relative, i.e. it is new in the specific field of activity or geographic area or a combination of new and existing elements; (4) Income from the market: MSE generate a significant portion of their income through the sale of products and services on free markets (as well as fees, letting/leasing) or quasi-markets (service charges e.g. for labour market integration, inclusion) (Jahnke et al., 2020^[1]).

¹⁵ <https://lasv.brandenburg.de/lasv/de/behinderung/integrationsamt/inklusionsbetriebe/inklusionsbetriebe-im-land-brandenburg/>

¹⁶ The strategy mentions co-operation with social partners in the five clusters health economy; energy technology; traffic, mobility, logistics; ICTs, media and creative economy; optics and photonics (p. 10)

¹⁷ Innovationspreis Berlin Brandenburg, Bedingungen
<https://www.innovationspreis.de/wettbewerb/bedingungen/>

¹⁸ WFBB: *Innovativ in Brandenburg* <https://www.wfbb.de/de/Unsere-Services/f%C3%BCr-Innovationen>

¹⁹ Brandenburg has only two initiatives financed under this programme. <https://www.bagfw-esf.de/themen-projekte/projektlandkarte/>

²⁰ <https://arbeit.wfbb.de/de/Beratung/Integration-in-Arbeit/Good-Practice-Pool/Jobbetrieb-Jobe>
<https://daa-ffo.de/angebote/projekte/jobbe-jobbetrieb-frankfurt-oder>

²¹ *Bildung, Wirtschaft, Arbeit im Quartier BIWAQ*

²² *Gemeinsame Richtlinie des Ministeriums für Arbeit, Soziales, Gesundheit, Frauen und Familie und des Ministeriums für Wirtschaft und Energie zur Förderung von Existenzgründungen und Unternehmensnachfolgen im Land Brandenburg durch Qualifizierungs- und Coachingmaßnahmen in der EU-Förderperiode 2014-2020 (Existenzgründungsrichtlinie)*, funded under ESF priority axis 1: Support of prospective founders and business succession through qualification and coaching. See: https://www.ilb.de/de/pdf/richtlinie_106463.pdf and business succession through qualification and coaching. See: https://www.ilb.de/de/pdf/richtlinie_106463.pdf

²³ Business mentoring services exists in all 14 district counties in Brandenburg and the 4 independent cities Brandenburg and der Havel, Cottbus, Frankfurt/Oder and Potsdam.
<https://www.lotsendienst.net/lotsendienst.htm>

²⁴ <http://www.wirtschaft.pm/standort-bad-belzig/existenzgruendung/mehr-zum-gruenderlotsendienst/>

²⁵ The “*Region Zukunft*” (region future) competition 2019 distinguished projects like free co-working for start-ups, to develop solutions for rural areas together with local stakeholders (Summer of Pioneers) at the co-working space in Wottenberge, co-funded by MWAE through Lotto Foundation funds, or a farm with a range of offers for people with disabilities, run as a social enterprise with non-profit legal form (Diestelhof). See: <https://www.ihk-potsdam.de/ihk-service-und-beratung/wettbewerbe/wettbewerb-laendlicher-raum-3315166>

²⁶ For instance, the *Hasso Plattner Institute School for Design Thinking*, the Leibniz Institute for Spatial Social Research and the *Hochschule für nachhaltige Entwicklung Eberswalde* Master in Sustainable Tourism, which includes a module on social innovation and social entrepreneurship. Technical universities in Wildau, Cottbus and Leibniz have also introduced entrepreneurship in regular engineering curricula.

²⁷ A living lab, or living laboratory, is a research concept, which may be defined as a user-centered, iterative, open-innovation ecosystem, often operating in a territorial context, integrating concurrent research and innovation processes within a public-private-people partnership. Similarly, the makerspace in Wildau University is a collaborative workspace for making, learning, exploring and sharing.

²⁸ The programme *Schule mit Unternehmergeist* (School with entrepreneurial spirit) co-funded by the Ministry of Economy and Energy, the Ministry of Education, Youth and Sport and ESF (2018-2021) promotes entrepreneurial knowledge and skills of secondary school students.

²⁹ <https://www.exist.de/DE/Programm/Exist-Forschungstransfer/inhalt.html>

³⁰ <https://www.exist.de/DE/Programm/Exist-Gruenderstipendium/inhalt.html>

³¹ <https://www.ilb.de/de/wirtschaft/zuschuesse/profit/>

³² Please see: <https://www.stgb-brandenburg.de/wir-ueber-uns/gremien/ausschuss-soziales-arbeit-gesund/sitzung-vom-27-maerz-2015/>

³³ The only exception is Brandenburg's Agency for Culture and Creative Industries (*Brandenburger Agentur für Kultur und Kreativwirtschaft*) that offers coaching for business development in the creative industries.

³⁴ Lov nr. 711 om registrerede socialøkonomiske virksomheder af 25. juni 2014.

³⁵ <https://www.retsinformation.dk/eli/lt/2014/711>

³⁶ <https://www.rummeligimidt.dk/socialokonomisk-leverandor-portal>

³⁷ <https://mwae.brandenburg.de/de/einheitlicher-ansprechpartner/bb1.c.478797.de>

³⁸ For more information, please see: <https://entersocial.de/dorfkuemmerer/>

³⁹ Adopted in December 2016, the Federal Act to Strengthen the Disabled's Participation in Society intends to remove or reduce the disadvantages resulting from a disability and to integrate disabled persons into society. It includes occupational rehabilitation and support for recognised workshops that employ people with disabilities.

⁴⁰ Microcredit Brandenburg aims to promote the ability of SMEs to participate in the growth of regional, national and international markets and in the innovation process. It is a revolving fund capitalised running until 31 October 2023, with EUR 10 million (EUR 8 million ERDF and EUR 2 million co-financing by the State of Brandenburg). Start-ups, takeovers and companies less than 10 years old are supported by loans between EUR 2 000 and EUR 25 000.

⁴¹ In addition, at least two of the following criteria must be met: an anticipated strong market position, stable profits and cash flows, potential for profit and cash flow increases during a 5-year period, professional management with industry-specific experience and sufficient commercial knowledge.

⁴² The two beneficiaries were: AWO Bezirksverband Potsdam e. V. and DRK Kreisverband Märkisch-Oder-Havel-Spree e. V. <https://www.bagfw-esf.de/themen/-projekte/projektlandkarte>

⁴³ Through a loan agreement with GLS Bank, each member of a community undertakes to donate a certain amount every month for a given period (e.g. five years). The total funding amount is made available to the social enterprise in advance, as a donation and without a profit margin. However, donation income from the bank cannot be used as collateral to obtain a loan, even in the case of long-term sponsorship.

⁴⁴ More precisely, 35 of the 1 781 supported enterprises from September 2013 to December 2015 (EIB, 2016^[84]).

⁴⁵ They must carry out general interest activities (falling under the list established by tax authorities) exclusively, directly and unselfishly (with disinterest). Non-statutory commercial activities are taxed at ordinary rates if the annual gross income exceeds EUR 35 000. Source: <https://www.cof.org/content/nonprofit-law-germany>

⁴⁶ Namely, *Ackerdemia* and *Ackerpause*. Source: <https://fa-se.de/en/category/projects/>

⁴⁷ <https://www.bb-nrw.de/de/leistungen/mikromezzaninfonds/>

⁴⁸ The investee is expected to have a clear shareholder structure and to offer promising exit opportunities. In addition, at least two of the following criteria must be met: an anticipated strong market position, stable profits and cash flows, potential for profit and cash flow increases during a 5-year period, professional management with industry-specific experience and sufficient commercial knowledge (ILB, 2020^[108]).

⁴⁹ To name a few: EXIST Research Transfer, High-tech Start-Up Fund, ERP Digitisation and Innovation Loan, ERP Mezzanine Financing for Innovation, ERP Venture Capital Fund, Tech Growth Fund (Federal

Ministry for Economy and Energy, 2019^[66]). Coparion, the KfW venture capital subsidiary, is also fully oriented towards young, innovative tech companies in the start-up and growth phase.

⁵⁰ Endowed with EUR 17 million over 2015-2020, of which EUR 11.8 million from ERDF, the programme *Gründung innovativ* provides grant financing for founders and innovative companies in the first three years after being founded or taken over. They must have above-average economic development and employment potential. The grant ranges from EUR 25 000 to EUR 100 000, where beneficiaries must contribute at least 50% of the total eligible expenditure.

⁵¹ For examples of innovations supported see: <https://gruendung.wfbb.de/de/Portraits>

⁵² <https://www.ilb.de/de/englisch/subsidy-programmes/programmes/grw-g-growth-programme-for-small-enterprises/>

⁵³ <https://www.ilb.de/de/englisch/subsidy-programmes/programmes/grw-g-growth-programme-for-small-enterprises/>

⁵⁴ <https://www.bmas.de/DE/Themen/Arbeitsmarkt/Arbeitsfoerderung/Mikrokredit/mikrokredit.html>

⁵⁵ <https://www.bmas.de/DE/Themen/Arbeitsmarkt/Arbeitsfoerderung/Mikrokredit/Mikrofinanzinstitute/mikrofinanzinstitute.html>

⁵⁶ <https://mikrokredit.brandenburg.de/vorteile.html>

⁵⁷ More precisely, in 2018, public funding represented 35% of the total financing declared by German start-ups, contrary to only 9% for social enterprises.

⁵⁸ <https://gsfc-germany.com/en/hub-for-sustainable-finance-h4sf/> and <https://www.nachhaltigkeitsrat.de/>

⁵⁹ <https://www.renn-netzwerk.de/mitte/ueber-uns/brandenburg>

⁶⁰ <https://bundesinitiative-impact-investing.de/>

⁶¹ Initiated by the BMW Foundation Herbert Quandt, Bertelsmann Foundation, Beyond Philanthropy, GIZ, Golden Deer and Impact Hub Berlin, with the overarching purpose to bring together people who are interested in the field of impact investing, it has already been replicated in other German towns (Munich, Frankfurt Stuttgart).

⁶² <https://www.phineo.org/magazin/initiative-ostdeutschland>

⁶³ Based on the federal Regulation for the modernisation of procurement law (*Vergaberechtsmodernisierungsverordnung*, or *VergRModVO*) of April 2016.

⁶⁴ *Brandenburgisches Gesetz über Mindestanforderungen für die Vergabe von öffentlichen Aufträgen / Brandenburgisches Vergabegesetz - BbgVergG*

⁶⁵ Based on the federal Regulation for sub-threshold award (*Unterschwellevergabeverordnung Bund*, or *UVgOB*) of September 2017.

⁶⁶ <https://www.bi-medien.de/artikel-30801-ad-uvgo-in-brandenburg.bi>

⁶⁷ <https://bcorporation.net/directory>

⁶⁸ <https://www.potsdam.de/content/brandenburg-intern>

⁶⁹ <https://www.abst-brandenburg.de/>

⁷⁰ The Competence Centre for Sustainable Procurement (*Kompetenzstelle für nachhaltige Beschaffung*, KNB) was established in 2012 within the Federal Procurement Office of the Ministry of the Interior. It helps

contracting authorities at state and municipal level to include sustainability criteria in their procurement practices, by providing information, materials and training. The German Competence Centre for Innovation Procurement (*Kompetenzzentrum innovative Beschaffung*, KOINNO) supports public procurement of innovative goods and services, on behalf of the Federal Ministry for Economic Affairs and Energy (BMWi). KOINNO can also assist contracting authorities in obtaining funding from the EU's Horizon 2020 fund for research and innovation (OECD, 2019^[95]).

⁷¹ <https://www.wohnungsbaugenossenschaften.de/regionen/brandenburg/ueber-uns>

⁷² Ecovadis, a ratings platform that assesses corporate social responsibility and sustainable procurement, has published a best practices guide, which can be found on the website of the One Planet Network (<https://www.oneplanetnetwork.org/>), part of the United Nations' 10 Year Framework of Programmes on Sustainable Consumption and Production.

⁷³ "A Time for Social Value" <https://iq-consult.com/detailseiten/sroi/conference/>

⁷⁴ Reportedly, DAA in Frankfurt/Order, ABS Hennigsdorf, *GemüserAkademie*.

⁷⁵ Phineo is a public benefit organisation established by Deutsche Börse, the Bertelsmann Foundation, KPMG, PwC and the Mercator Foundation.

⁷⁶ <https://www.phineo.org/kursbuch-wirkung> and <http://www.social-impact-navigator.org/>

⁷⁷ https://socialvalueint.org/wp-content/uploads/2018/06/SIAA-Conference-Report_2012.pdf

⁷⁸ <http://www.skala-initiative.de/initiative/>

⁷⁹ <https://www.soz.uni-heidelberg.de/centre-for-social-investment/>

⁸⁰ <https://www.startupimpactbenchmark.org/>

⁸¹ Economy for the Common Good is a social movement advocating for an alternative economic model. It calls for working towards the common good and co-operation as value above profit-orientation and competition. See: www.ecogood.org

⁸² The SRS was initially developed by the Technical University of Munich and the University Hamburg. It is a joint project of Ashoka Germany gGmbH, Auridis gGmbH, BonVenture Management GmbH, Phineo gAG, Vodafone Stiftung Deutschland, Schwab Foundation, University Hamburg and the Technical University of Munich with the support of the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth. It also received support from PricewaterhouseCoopers Germany and the Vodafone Foundation Germany.

⁸³ <https://cordis.europa.eu/project/id/691181>

⁸⁴ <https://ruraction.eu/esr-project-10/>

⁸⁵ See for instance: <https://www.wfbb.de/en/Our-Services/Successfully-establish-a-Start-up-in-Brandenburg> and <https://www.ilb.de/de/existenzgruendung/existenzgruendung-ueberblick/>

⁸⁶ ECG member organisations located in Brandenburg: A + P Steuerberatungsgesellschaft mbH in Potsdam and F&P Stock Solution GmbH in Falkensee. Source: <https://www.ecogood.org/de/berlin-brandenburg/unternehmen-und-organisationen/>

⁸⁷ CJD Prignitz, Produktionsschule Prignitz, Estaruppin, Ackerdemia e.V., Social Impact gGmbH, Alzheimer Gesellschaft Brandenburg e.V.

⁸⁸ <https://www.deutscher-nachhaltigkeitskodex.de/>

Annex A. Methodological note and programme of the study visit

This report is based on the available statistics, desk research and qualitative data gathered prior, during and after the study visit undertaken in Brandenburg, Germany in February 2020. The study visit was also prepared based on the updated mapping report of the European Commission on Germany, which was published in 2018 (European Commission, 2018_[36]).

Table A.1. Programme of the study visit

February 24, 2020 – Brandenburg	
Name	Organisation
Presentation of activities and funding for SE in Brandenburg	
Volker Offermann	MWAE, Unit 52
Jörg Jurkeit	MWAE, Unit 52
André Röser	MWAE, Unit 52
Peter Eulenhöfer	WFBB
Meeting with Social Impact gGmbH	
Norbert Kunz	Executive Director and Founder of Social Impact gGmbH
Karina Börner	Social Impact gGmbH
Anne Flath	Social Impact gGmbH
Julia Plotz	Social Impact gGmbH

February 25, 2020 – Brandenburg	
Name	Organisation
Finance round table	
Catrin am Mähr	Investitionsbank Land Brandenburg
Wolfram Morales	Ostdeutscher Sparkassenverband
Andreas Redmann	Ostdeutscher Sparkassenverband
Anna Patricia Schmiß	German Red Cross e.V.
Kerstin Golze	Berliner Volksbank
Heiko Franzke	Berliner Volksbank
Thomas Brandt	Berliner Volksbank
Academic table	
Uli Weinberg	Hasso-Plattner-Institut
Claudia Hönisch	Technische Hochschule Brandenburg
Claudia Brözel	Hochschule für nachhaltige Entwicklung Eberswalde
Dana Mietzner	Technische Hochschule Wildau

Impact measurement table	
Gabriela Christmann	Leibniz-Institut für Raumbezogene Sozialforschung (IRS)
Kathrin Dombrowski	PHINEO gemeinnützige AG
Claudia Brözel	Hochschule für nachhaltige Entwicklung Eberswalde
Thorsten Jahnke	Social Impact gGmbH

February 26, 2020 – Beelitz-Heilstätten	
Name	Organisation
Meeting with Social Entrepreneurs	
Norbert Kunz	Executive Director and Founder of Social Impact
Katrin Schultz	Arbeitsinitiative Letschin e.V.
Kerstin Thiele	ABS Hennigsdorf GmbH
Miganoush Magarian	TeachSurfing
Christiane Worrack	WEQUA GmbH
Burkhard Ratzlaff	MUG e.V.
Bernd Ketelhöhn	Deutsche Angestellten-Akademie
Juliane Döschner	Plattform e.V.
Martin Arnold-Schaarschmidt	Plattform e.V.
Lena Buck	Netzwerk Zukunftsorte
Gabriela Spangenberg	Social Impact gGmbH
Pierre Hanitsch	WFBB
Carolin Schuldt	WFBB
Matthias Kirbach	WFBB
Thomas Uloth	Economy for the Common Good
Holger Jahn	Fachhochschule Potsdam University of Applied Sciences
Stephan Schultz	V-ABI
Martin Kuder	Wertewandel e.V.

February 27, 2020 – Brandenburg	
Name	Organisation
SE in the Third Sector table	
Andreas Koch	Oberlinhaus e.V.
Frank-Michael Würdich	Landesarbeitsgemeinschaft Werkstätten für behinderte Menschen in Brandenburg
Ulrike Kostka	Caritasverband Erzbistum Berlin e.V.
Barbara Eschen	Diakonisches Werk Berlin-Brandenburg-Schlesische Oberlausitz e.V.
Municipalities table	
Andreas Eisen	Genossenschaftsverband e.V. – Verband der Regionen
Bernd Ketelhöhn	Deutsche Angestellten Akademie
Ralph Krüger	Landeshauptstadt Potsdam
Frank Frisch	Stadt Frankfurt (Oder)
Counselling table	
Franziska Kretzschmar	Gründungszentrum Zukunft Lausitz e.V.
Michael Alberg-Seberich	Wider Sense GmbH

Dennis Hoenig-Ohnsorg	Wirkungslotsen UG
Thorsten Jahnke	Social Impact gGmbH
Peter Wölffling	IHK-Projektgesellschaft mbH Ostbrandenburg
Klaus Wessels	Landkreis Potsdam- Mittelmark
Thomas Seibt	STIC Wirtschaftsfördergesellschaft Märkisch-Oderland mbH

February 28, 2020 – Brandenburg

Debriefing with the Ministry for Economic Affairs, Labour and Energy.

March – November, 2020 – Follow up interviews

Name	Organisation
Michael Maurer	Bürgschaftsbank Brandenburg GmbH
Julia Paaß	Hof Prädikow
Catrin am Mihr	ILB Brandenburg
Anna Patricia Schmiß	German Red Cross e.V.
Hannes Jaehnert	German Red Cross e.V.
Nina Zündorf	German Red Cross e.V.
Kira Sawicka	Wertewandel e.V.
Thomas Schleifnecker	Ministry for Federal and European Affairs and Regional Development of Lower Saxony
Wiebke Krohn	Unternehmerverband
Anna Low	Stelle SI freie Wohlfahrt
Katharina Kessler	Brandenburg Ministry of Finance and for Europe
Kathrin Balke	Ministry of Social Affairs, Health, Integration and Consumer Protection
Lena Buck	Netzwerk Zukunftsorte
Young-jin Choi	Phineo gemeinnützige AG
Bianka Abisch	MWAE, Unit 24
Anne Siebert	Servicestelle Schülerfirmen
Norbert Bothe	Servicestelle Schülerfirmen
Ulrike Wohler	WFBB
Pierre Hanitsch	WFBB
Markus Freiburg	Finanzierungsagentur für Social Entrepreneurship GmbH
Silke Mueffelman	Frankfurt School of Finance & Management gemeinnützige GmbH
Wolfgang Spiess-Knafl	European Center for Social Finance