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The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

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The Social Innovation Policy Agenda in Germany

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Creating Economic Space for Social Innovation

The Social Innovation Policy Agenda in Germany[1]

Social innovation and the corporatist state

The early stages of the German 'social economy' (*Gemeinwirtschaft*) movement were manifest in the establishment of the first craftsmen cooperative, credit union, rural and central cooperative banks and rural aid association in the mid 19th century (Vincze et al., 2015). These examples of social innovation were largely private but collective endeavours that received institutional attention and support soon after their formation. The German (and Austrian) understanding of 'social economy' refers to an alternative approach to business that generates social as well as economic value through the provision of subsidised goods and services (Hubrich et al., 2012). Trade unions and cooperative enterprises have played a fundamental role in shaping the social economy in Germany and this development proved instrumental to the growth and influence of the third sector, particularly in the delivery of public services.

In the 1880s, Otto von Bismarck introduced the first modern European welfare state with broad pension, social insurance and healthcare coverage. This consolidation and extension of certain welfare programmes transformed the relationship between the private, public and third sector. The formation of a welfare system was done, in part, to mollify critics and political competitors but it was also intended to stimulate economic growth by providing greater security for workers. As a mutually advantageous endeavour, there was a high degree of cross-sectoral coordination and cooperation. Beyond the social and welfare services mandated by the state, civil society organisations also delivered a range of other services through donations and market revenue. Since then, the third sector has played an influential role in the design and delivery of public and welfare services in Germany (Henriksen et al., 2012). The corporatist approach to policy governance has meant that actors and organisations engaged in the social economy have been closely linked to public institutions and services.

In Germany, the *modus operandi* is one of state corporatism whereby the state acts on behalf of and arbitrates between the interests of multiple stakeholders. As mediator, the state facilitates an integrated, institutionalised coordination between state, market and social actors. In such a setting, trade unions, private enterprises, civil society organisations are engaged in a process of negotiation and cooperation in order to meet distinct but (ideally) compatible ends. This corporatist ethos has fed into the structure and functioning of private, public and third sector organisations. In this respect, state corporatism has profoundly shaped the social innovation eco-system and policy environment in Germany. The institutional and cultural legacy of state corporatism makes the policy landscape in Germany particularly idiosyncratic in that it poses a number of constraints and opportunities for social innovation (Ruddat and Schönauer, 2014).

Unlike many other welfare regimes, Germany retained the overall structure of its pre-WWII welfare system after 1945. That is, the major bulk of services continued to be delivered by non-state actors operating in the social economy. Whilst other countries nationalised public services, welfare associations (*Wohlfahrtsverbände*) consolidated their position and role in German public services so that they were 'not only supplying the social services but also receiving a seat at the table where the rules were made' (Vincze et al., 2015: 3). Since the

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1970s, third sector organisations and the conglomerates that act on their behalf have become one of the largest employers in Germany (Ruddat and Schönauer, 2014). The trend towards New Public Management in the 1980s left many organisations compelled to reform and modernise with the aim of assuming a more entrepreneurial approach to generating revenues and delivering public services. Amidst problems of competitiveness, new organisations emerged to address issues of rural and urban development, structural un(der-)employment, social exclusion as well as the improved delivery of education, healthcare, housing, and social care services (cf. Hubrich et al., 2012: 90-91).

Due to the institutional landscape and culture of a corporatist welfare regime such as Germany, the capacity for new actors and organisations to intervene on need provision is limited compared to the opportunities available to actors and organisations already institutionally embedded. As a result, relative to many other EU member states, the concept of social innovation tends to focus much more closely on the notion and potential of public sector innovation or 'intrapreneurship' rather than institutionally autonomous activities contributing towards or characterised as social innovation.

Some have suggested that the dominant conception of social innovation tends to focus on private (social) entrepreneurs rather than institutionally embedded actions and activities (Schmitz and Scheuerle, 2012). This is perhaps symptomatic of the liberal institutional framework where the concept has garnered such interest. However, the institutional environment in Germany has given rise to a particular conception and interpretation of social innovation where innovation within established structures is more significant than social innovation undertaken by new institutionally autonomous actors and organisations (Ruddat and Schönauer, 2014: 446).

Policy and regulatory environment

Given that there has been a relatively high level of support for and interest in social innovation in Germany in recent years, the policy framework designed to support it is notably fragmented (Hubrich et al., 2012; Zimmer and Bräuer, 2014). Policy instruments and measures have tended to emerge and operate at a municipal level rather than at a federal level. The social innovation eco-system differs across Länder and cities. Depending on the institutional or historical context, different actors and networks have emerged (or not as the case may be) to structure the opportunities and support available. Some areas have better developed public initiatives than others but the activities they support also tend to markedly differ. For instance, Bavaria tends to put a greater emphasis on social cooperatives, whilst North Rhine-Westphalia tends to focus on enterprises working 'for the common good' through support schemes such as Project Arbeit (Vincze et al., 2015: 10-11). Whilst public initiatives at the regional level may well be strategically informed, regional differentiation is not necessarily planned. This variation is largely the product of institutional legacies and a strong dependence on networks shaping the platform and players involved in regional schemes. For emergent social innovation operating outside the confines of existing institutions and networks, it becomes difficult to garner public recognition or support in this instance. In addition to the diversity witnessed at the municipal level, welfare federations have played a significant but varied role in supporting activities and systems contributing towards social innovation.

This has resulted in a social innovation policy landscape that supports different organisations doing different things in different places. Having said that, there is some degree of centralised policy coordination. A recent review of official documentation suggested that political and policy discourse pertaining to social innovation has tended to focus on two areas in Germany: economic development and civic participation (Flening et al., 2015). The former entails organisational and technological innovation contributing towards economic growth, whilst the latter tends to centre on aspect of social solidarity and the innovative potential of civic engagement.

BMFSFJ has perhaps the clearest commitment to and responsibility for social innovation in Germany. In 2010, the central government department launched the 'Civic Engagement' strategy ('*Nationale Engagementstrategie der Bundesregierung'*). The strategy outlined a range of measures to encourage volunteering, cross-sectoral collaboration and civic participation. In particular, the strategy emphasized alternative methods (and the potential benefits therein) of engagement and dialogue between citizens and public institutions, as well as civil society and hybrid organisations operating in the social economy. In collaboration with welfare federations, this strategy sought to encourage public institutions and authorities to become:

> more aware of, and responsive to, social innovation by creating the necessary forums for exchange; setting BMFSFJ as the main contact point for social innovators; supporting initiatives aimed at establishing the common standards to measuring and reporting impact; promoting cooperation between social enterprises, other businesses, chambers, associations, social institutions and public actors at different regional levels (Vincze et al., 2015: 10).

In this sense, it was hoped social innovation(s) would emerge as and from a boost in volunteering and civic engagement (Flening et al., 2015: 19). To realise this ambition, a range of measures were put in place to raise awareness of social enterprise and social innovation, increase the availability of social finance in the social economy and encourage social innovators to be active stakeholders in the policymaking process. This involved funding research to explore how best to develop infrastructure for social innovation and civic engagement; launching online platforms such as engagiert-in-deutschland.de to facilitate networking, knowledge exchange and crowdfunding; and piloting equity funding programmes for social enterprises such as 'Finanzierung von Sozialunternehmen: Weiter wachsen mit Beteiligungskapital' through the national development bank, KfW (European Commission., 2015: 75). A series of multi-stakeholder workshops and conferences have subsequently been held between experts and practitioners working in social innovation and social entrepreneurship to explore how the federal government might better foster social innovation in Germany. However, in spite of increased awareness of social innovation, public measures designed to support it are still considered in their infancy with a great deal yet to be achieved (Hubrich et al., 2012).

At present, there is no clear definition that policymakers or practitioners use to consistently identify the character and impact of social innovation in Germany. In addition, there is a little agreement 'on the political level, what role social entrepreneurs should have in the overall social development of Germany. Therefore the support for social entrepreneurs is still unsystematic and very different initiatives and organisation are perceived as such (Gebauer and Ziegler, 2013: 22)' (Zimmer and Bräuer, 2014: 28-29). Arguably, the definition that comes closest to describing the methods and objectives of social innovation comes from the BMFSFJ which defines social entrepreneurs as those that 'as part of their individual civic engagement, found social organisations that address social challenges with innovative and entrepreneurial approaches' (BMFSFJ., 2010: 5). The federal government's conception of social innovation and social entrepreneurship appears to be highly contingent on civic engagement and volunteering. As a result, the government estimates that there are only around 100 social enterprises in Germany (Deutscher Bundestag., 2012). The continuing link between social innovation and civic engagement is partly explained by the fact that civic engagement denotes those activities and outcomes that have broader public benefit in Germany. Whilst a wide range of organisational forms can be awarded public benefit status, these organisations are subject to an asset lock, a restriction on the distribution of their surplus and must 'exclusively, directly and unselfishly' carry out public benefit activities (Moore et al., 2008: 3). In addition, the public benefit tax status is restricted to organisations fulfilling a much narrower set of public benefit activities.

Ashoka, an umbrella body organisation supporting social entrepreneurship, has proven highly influential in shaping the definition of social innovation and social entrepreneurship recognised at the federal level. Some have criticised the extent to which Ashoka's own conception of social innovation has influenced policy discourse and funding. This degree of influence is believed to have come at the expense of institutional support for a broader range of actors contributing towards social innovation through alternative organisational forms and methods of cross-sectoral collaboration (Zimmer and Bräuer, 2014).

In 2009, the Federal Ministry of Economics established an award for sustainable social entrepreneurs but this had to be discontinued in 2012 due to a lack of 'suitable candidates'. Ultimately, this demonstrates the policy discord between a symbolic commitment to social innovation and the financial and strategic investment required to realise this in Germany (Zimmer and Bräuer, 2014). However, there is perhaps some prospect of change in the German social innovation policy landscape. In 2013, the newly established coalition government articulated the most coherent commitment to social innovation and social enterprise in Germany to date. The coalition agreement outlined a federal commitment to reducing obstacles and enhancing the institutional and legal framework for social and civic entrepreneurship. The agreement states that:

> The social innovations of social enterprises are worth supporting. We want to facilitate the creation of entrepreneurial initiatives of civic engagement (e.g. village shops, day care centres, sheltered housing and energy projects). For such initiatives a suitable form of enterprise in financial cooperatives or association law should be available, which avoids undue expense and bureaucracy (Bundesregierung., 2013: 112).

As of yet, it remains to be seen what the administrative and legal effects of this will be.

Welfare federations and 'social intrapreneurship'

Thus far, one of the most significant developments in German social innovation policy has been the institutional support received within and through nationally recognised welfare federations. These welfare federations are effectively large conglomerates that represent and coordinate the activities of thousands of smaller third sector units. These smaller organisations are institutionally embedded within the German welfare landscape delivering a wide range of goods and services. There are a total of six welfare federations: the German Red Cross, the Arbeiterwohlfahrt, the Jewish central welfare organisation, the Paritätische welfare association, the Catholic Caritas and the Protestant Diakonie. Due to its cultural and institutional legacy, the principle of subsidiarity has proven influential in the development of these organisations and their relationship with the state. Where appropriate, non-state actors have historically been recognised and supported as the preferred provider of services and goods.

As previously stated, the 1980s saw the rise of New Public Management and the move towards modernizing the public sector by attempting to increase the efficiency and effectiveness of public services and outputs. Given the substantial role played by third sector organisations in the delivery of social and welfare services, this trend profoundly affected welfare federations and their constituent units. Amidst increasing structural unemployment and a perceived lack of competitiveness, these organisations were impelled to modernise their systems of management and diversify revenue sources by becoming 'more economical as well as entrepreneurial, finding new streams of income' (Vincze et al., 2015: 4). Some have viewed this period as the beginning of the end for the tripartite social settlement between trade unions, the state and employers. Alongside this, the third sector witnessed extensive cuts to their public sector funding. This was intended to induce a more commercial approach to the delivery of services and production of goods amongst organisations within the social economy.

This objective continues to be articulated through the public policy agendas in operation today. Since 2010, the BMFSFJ has coordinated a series of regular exchanges between the Federal Ministry, the central associations of the non-government welfare service and the Federal Association of Non-Statutory Welfare Services. The Federal Association of Non-Statutory Welfare Services (*Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege, BAGFW*) acts as the umbrella body organisation providing training, support and services to the six nationally recognised welfare federations. These exchanges have tended to centre on social entrepreneurship and social innovation more generally by exploring ways in which actors and organisations engaged in social innovation might be better support by BMFSFJ, BAGFW and the respective welfare federations (Zimmer and Bräuer, 2014: 19). This primarily entails encouraging and supporting civil society organisations to adopt more innovative, risk-taking approaches that represent a more market-oriented entrepreneurial approach to social mission activities. In addition however, welfare federations and their umbrella body organisation are also involved in supporting the establishment of a range of innovative start-ups. In certain instances, this has lead to the formation of independent social enterprises operating within welfare federations. This process of 'social intrapreneurship' (Schmitz and Scheuerle, 2012) poses a number of opportunities and challenges for social innovation in Germany. Zimmer and Bräuer (2014) suggest that the development of social innovation and enterprises within existing welfare federations enables organisations to benefit from incubation, training, advice, networking and support services afforded by their parent organisation. In addition, actors and organisations are able to benefit from easier access to funding and finance than would otherwise be possible and welfare federations can profit from the effective dissemination of lessons about what does and does not work in terms of supporting 'social intrapreneurship'.

For organisations emerging or operating outside of these welfare federations, the tendency to support 'social intrapreneurship', rather than social innovation more generally poses a number of problems. Given the quasi-public status of welfare federations and their many constituent members, it means that resources tend to be directed towards those projects, activities and initiatives that are valued by and valuable to organisations within the social economy that are already institutionally embedded. For those emergent or peripheral organisations seeking to disrupt power relations in a way that threatens the existing configuration, this may pose a legitimacy problem for other actors and organisations. In this respect, it may be difficult for actors and organisations on the periphery of existing institutions to secure funding, training and support for social innovation. Some of the key, and perhaps most effective conditions, for social innovation to flourish in Germany depend on the political and policy agenda of welfare federations. Invariably, this shapes and constrains the development and character of social innovation in Germany. In 2013, the BMFSFJ re-allocated administrative responsibility for social innovation and social entrepreneurship to non-governmental welfare services and social work. Contrary to political discourse on the broader potential of social innovation in Germany, public policy agendas have tended to instrumentalise its role and capacity. This consolidates the role and influence of organisations already institutionalized within the welfare and social economy. However, it draws attention and support away from those actors and organisations contributing towards emergent and peripheral social innovation (Ruddat and Schönauer, 2014).

Social innovation funding and finance

The largest source of funding and finance for social innovation in Germany is available through the provisions outlined in the German Social Code (*Sozialgesetzbuch, SGB*). This enables entitled claimants or service users to draw down on funds to choose the services or goods they feel best fulfills their statutory entitlement. This includes using social security funds to purchase personal social services, healthcare, childcare, pensions, and so on. Whilst this is a crucial source of revenue and finance for organisations within the social economy and possibly those engaged in social innovation, this is not necessarily the explicit aim behind such provisions. Offering welfare claimants the opportunity to 'choose' their service provider is intended to open up competition between those delivering social and welfare services. In turn, this may lead to innovation in social purpose activities, but it is not necessarily a direct objective of specified provisions.

Other federal and municipal sources of support are more directly intended to boost social finance and social investment market infrastructure in Germany. A number of public sector grants and public foundations offer support, inter alia, to develop innovative initiatives working towards a social objective or public benefit activities. Favourable tax regulations and concessions help to reduce the operational costs of social enterprises and other organisations operating across the social economy (Spiess-Knafl, 2012: 62). Between 2012 and 2014, the national development bank (*Kreditanstalt für Wiederaufbau, KfW*) ran an equity finance programme to boost investment in emerging social enterprises. Instigated by the BMFSFJ, this initiative was designed to meet a finance gap faced by small-to-medium social enterprises and increase the availability of and access to capital for social enterprises exhibiting significant potential in their respective markets. Beyond this initiative, KfW has provided a range of financial products to development the social investment infrastructure for welfare organisations (Vincze et al., 2015).

BAGFW also established a Social Economy Bank (*Bank für Sozialwirtschaft; Sozialbank*) which functions as a key financing instrument for welfare federations and their third sector units. Welfare federations also have their own banks, which provide growth capital and liquidity to welfare organisations as well as support and advice on becoming investment ready. Scholarships and fellowships such as the Ashoka Fellowship and Social Impact Start support the capacity of social entrepreneurs and their projects. Public crowdfunding platforms such as engagiert-in-deutschland.de and micro-credit initiatives through ethical finance banks such as GLS Bank also open up access to social finance. In 2013, the finance agency for social entrepreneurship (FASE) in collaboration with Ashoka to act as a social finance intermediary by supporting cross-sectoral collaboration and learning whilst connecting social enterprises to investors and enhancing the impact of high-potential social enterprise.

Conclusion

Invariably, the political environment of a country profoundly shapes the conditions under which social entrepreneurship and social innovation operate (Vollmann, 2008). In Germany, there has been growing political and policy interest in social innovation. In 2012, a representative from the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) stated that:

> the German government is convinced that social innovation has long been and continues to be central to the development and sustainability of society…the German government wants to make a contribution towards drawing more attention and bringing more recognition to social innovation in the political debate about the social challenges society is facing (Bortfeldt and Oldenburg, 2012: 1).

However, despite this high level of attention, substantive measures designed to foster and realise the potential of social innovation have been more measured (Hubrich et al., 2012). Contrary to its expressed political commitments, federal and municipal measures to support social innovation have remained relatively fragmented and largely contingent on the operation and initiatives of existing welfare federations. That so many organisations operating within and contributing towards the social economy are institutionally embedded restricts the resources and support available to organisations in contravention of or peripheral to the existing social settlement in Germany. In this sense, the corporatist ethos and approach that has underpinned the development of the third sector may be one of the primary factors constraining its potential in Germany.

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