

# Economics in Brief



No. 24, 17<sup>th</sup> September 2013

## Social enterprises as an investment?

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Social enterprises are currently attracting more and more attention. The notion of financially self-sustaining solutions to social and ecological problems makes their approach attractive. However, this approach is only rarely able to provide appropriate services in difficult areas of the economy, such as care, youth welfare or education, without support because, for example, the target groups do not have the necessary funding. Social enterprises can nonetheless have a powerful social and socio-economic impact through innovative solutions, with a considerable effect on social systems and public budgets. New approaches to funding could help further harness the potential of social innovations.

### The charitable Third Sector at the gateway to the market

Germany has a social enterprise tradition that dates back to at least the 19<sup>th</sup> century, with personalities like Friedrich Wilhelm Raiffeisen, Herman Schultze-Delitzsch and Adolf Kolping. Today, Germany's social enterprises mainly originate in civil society or the charitable Third Sector and are active in areas traditionally covered by the welfare state. However, there are a few organisations with roots in the market. They are active in areas such as sustainable fashion or alternative energy.

### Difficulties classifying and evaluating social innovations

Data on social enterprises need to be enhanced, as it is difficult to differentiate social enterprises from other companies on the basis of the existing data. For example, the criterion that "income is generated" (as opposed to e. g. donations received) holds for the roughly 9,000 charitable GmbHs in Germany that make

a significant proportion of their income on public-sector quasi-markets that have clearly defined rates under the social security system. But social enterprises also choose other legal forms (e. g. GmbH, e. V.). Recognising innovative solutions to social issues is even more problematic than the assessment of market participants.

### Hybrid financing structure

Social enterprises have a particular financing structure. The financing instruments used range from private donations, sponsorship and foundation funding to public-sector grants and income self-generated on the markets and quasi-markets (see figure). As the revenue and age of the company increases, so does the importance of income from services provided on the quasi-markets in particular. These quasi-markets are a key requirement for the long-term stability of social enterprises.

Figure: Financing structure of social enterprises in Germany



Note: N=207

Source: Mercator Forschungsnetzwerk SE: CSI Heidelberg, TU München, ZU Friedrichshafen.

### Positive impact through innovation

Innovative approaches often make it possible to provide essential social services (e. g. care for the elderly and disabled) more cost-effectively and therefore to improve the quality of the services. From an economic perspective, this also means that knock-on costs may often be avoided. For example, good youth projects can contribute to reducing future unemployment or even crime.

### Barriers to the use of investment-based support mechanisms

Further leveraging the potential of social innovations through investment-based support instruments is currently a hot topic of discussion. KfW is bolstering this trend with its social enterprise funding programme. It emerged in interviews that the main challenges for bringing together social and economic goals are: the compatibility of social and economic aims, the measurement of social impact, the autonomy requirements of social entrepreneurs motivated by their ideals and the lack of funding capacity.

### Development of expertise and transparency

The growth of the social enterprise field requires the establishment and development of expertise within social enterprises and among investors, as well as enhanced impact analyses. This will make it easier to identify and finance promising solutions. ■

Full report: [Scheuerle, T., Glänzel, G., Knust, R. und V. Then \(2013\). Social Entrepreneurship in Deutschland. Potentiale und Wachstumsproblematiken. Heidelberg / Frankfurt am Main.](#)