Registered Cooperatives as a form of social enterprise in Germany – status and perspectives

Nicole GÖLER VON RAVENSBURG
FH Frankfurt am Main

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ABSTRACT

The cooperative form of company recently gained new popularity in Germany. Both, the international year of cooperatives as well as increasing numbers of cooperative start-ups in various sectors of the German economy have contributed to this effect. There is even talk of a ‘renaissance’ of cooperatives. The paper analyzes the status and opportunities of cooperative activity in the social welfare sector. How many registered cooperatives (eG) deliver social services or provide community welfare? What services do they offer? What kind of economic conditions prevail in these sectors and how are they to change in the near future? What could this mean for the attractiveness of this legal form in social welfare delivery? Are there new potentials to be foreseen? What would be needed for these to be utilized cooperatively? These questions are tackled by the paper from a socio-economic perspective also drawing on practice examples.

Keywords: Social cooperatives; social services; community development; welfare; competition; subject oriented financing; outsourcing; self-employment in social work; child care.
1. WHAT COUNTS AS A SOCIAL COOPERATIVE? A LOOK INTO GERMAN COOPERATIVE STATISTICS AND BEYOND

The German Central Cooperative Bank (DZ Bank) is responsible for compiling general statistics on registered cooperatives in Germany. It gets its data from the various sector- and regional cooperative federations. For statistical purposes DZ Bank categorizes coops into various branches. Just as in many other European countries, its statistical categories do not adhere to an internationally comparable system, but have rather grown historically, as have the German cooperative institutions.

German language literature often uses the term social cooperatives when meaning coops, which either deliver social services or engage in economic activities aimed at the improvement of local community life. For a long time no independent category existed for such kinds of cooperatives in the federations statistical database. Instead they were included in the category entrepreneur cooperatives (Gewerbliche Genossenschaften), sub category “other cooperatives”. This applied regardless of whether the members are the users or producers of the services rendered.

In 2010 the DZ Bank first published a special account for “newly started social cooperatives”. This special account shows 109 such start-ups between 2000 and 2011 (DG Verlag 2010, p.22 and 2012, p.41). Yet, it does not entail inventory figures for the year 2000 and it does include only registered coops in which service producers and mixed groups of producers and users organize to achieve their social aims, but not those in which solely service user members organize. Furthermore, no distinct delineation from other entrepreneur cooperatives is drawn.

In order to name inventory figures, most authors use an estimate made in 2010 by the Bank für Sozialwirtschaft (B.f.S.) of about 100 social coops (B.f.S. (w.y.)). During 2011 a further 29 social coops have been started according to DZ-Bank (DG Verlag (Hrsg.) 2012: 41). This would mean

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1 In addition cooperative start-ups are registered regularly with the so called Freier Ausschuss der Deutschen Genossenschaftsverbände (Roof-organization of the Deutscher Genossenschafts- and Raiffeisenverband (DGRV) and the Gesamtverband der Wohnungsunternehmen (GdW)), including cooperatives which do not belong to either the DGRV or the GdW. (For detail of the statistical process see Stappel 2010, p. 68).

2 The term social cooperative is often used in German language literature regardless of legal status, when it is assumed that a user-oriented, economically active, non-profit organization is democratically organized and largely aimed at social objectives (Flieger 2003: p. 13-14). We will use it as a collective term for registered cooperatives, which professionals of social and community work would recognize as such. Most frequented typologies speak of social cooperatives of beneficiaries, coops of solidarity, and professional social cooperatives (Vogt 2011, S.54; Flieger 2003, S.14f.)). Others distinguish between social cooperatives, self-help-cooperatives, Multi-Stakeholder-Cooperatives (MSCs), employee cooperatives and cooperatives of self employed professionals (Brinkmann 2010, S. 237f.).

3 This was confirmed again by the head of the Dept. of Economics & Research in DZ-Bank on 31.01.2013.

4 It only counts cooperatives for this, which have been categorized as commercially active cooperatives within the respective databases of their federations.

5 It may be that the system of this special account is based on the recommendation for „Satellite accounts for social companies and cooperatives“ made by CIRIEC in 2006 (Ciriec 2006); it does not adhere to it one hundred percent though.

6 The fact that DZ-Bank does not show a historical inventory figure can be traced back to the fact that the Bank for a long time was limited to the figures delivered by those federations which were members of the Deutsche Raiffeisen- and Genossenschaftsverband (DGRV). It could not obtain figures from housing and consumer cooperatives as well as those of several smaller divisional federalizations. The Bank für Sozialwirtschaft (B.f.S.) by the way also does not elucidate which criteria it applies to delineate social coops from other consumer or entrepreneur cooperatives (Stappel 2010).

7 The economist responsible explained that he categorizes according to who the beneficiaries of the services rendered are in any given cooperative. In his definition social cooperatives are coops, where the users of the service are not or not the only members. Coops which he categorizes as social coops, usually have additional (institutional, third party) members. Also they do not primarily aim to serve only their members but have an orientation towards common wealth issues. Correspondingly he categorizes coops with primarily self-help motives, in other words where the achievement of benefits for the members is more important than third party benefits, into one of the “traditional” cooperative sectors, thus excluding them form the label “social coop” (own correspondence with Mr. Stappel, 31.01. 2013).
about 130 social coops might have existed in Germany by the end of 2011\(^8\). Other, more generous estimates also count village shops\(^9\), coops of self-employed persons and professionals rendering social services\(^10\) as well as relevant housing and consumer coops, because of their contributions to the common wealth (eg. Klemisch/ Flieger 2007, p.34). Extrapolating these, a number of 200-250 social coops by the end of 2011 seems just as plausible. Despite varying estimates on their numbers most experts agree on the fact that most social coops, at least when measured by sales, are (still) rather small, the only exceptions being secondary coops formed by sheltered workshops, a small number of administrative coops started by social institutions (Flieger 2003, p.24f.) and several older senior citizens’ and housing coops. The delineation problems experienced by DZ-Bank\(^11\) and outlined above are symptomatic for social enterprises in general. On the one hand registered cooperatives by all common standards can safely be called enterprises (Lautermann 2012, p.35-42). But what is social and where is the boundary (Lautermann, p.102-127)? Yet, for the sake of the German cooperative and social enterprise sectors, a closer look shall be taken at the factors specific for the German cooperative setting.

A large part of the described delineation problems occurs because the data which DZ Bank receives from the regional and sector federations is already highly aggregated. Also, many cooperative statutes contain only relatively vague formulations of the particular society’s basic charge from the regional and sector federations is already highly aggregated. This is more typical for “social coops” than for other types of coops such as agricultural or housing coops. In effect many times nobody but the members of a coop can really assess what importance is given to either a self-help motive (group-selfishness) or the motive of community interest. For its purposes DZ Bank distinguishes on the base of whether or not the relevant tax authorities consider a coop active in the general interest (gemeinnützig)\(^12\). Whenever a coop is considered in the general interest by Inland Revenue Authorities, DZ Bank automatically categorizes this coop as a social coop, even if the services rendered are closer to sports or culture than to social services as seen by German Social Codes. Also the Bank habitually counts as social coops all those which were started by registered social welfare societies, local municipalities, associations-not-for-gain or their federations or have either of these as members\(^14\). Again, whether the services they render are social services in

\(^8\) Routinely DZ-Bank produces its yearly statistics for the prior year only in autumn of the following year. That means that the stats for 2012 will only be ready in autumn 2013 and that the quantitative statements in this paper are largely based on data from 2011.

\(^9\) In the data base they are usually kept as entrepreneur cooperatives (Gewerbliche Genossenschaften), a sub-category within the overarching category of trading cooperatives (Handelsgenossenschaften) (Stappel 2010, p. 69) or as consumer cooperatives (Konsumentgenossenschaften) depending on whether the members are the producers or the consumers of the services rendered. A mixed membership is not foreseen in this statistical system.

\(^10\) These are usually assigned to the category of „professional cooperatives“, another sub-category of entrepreneur cooperatives.

\(^11\) The following information was obtained in November 2011 and in January 2013 directly from the Head of Dept. Economics & Research of DZ-Bank.

\(^12\) The basic charge of cooperatives in Germany is ruled by the so-called identity principle. The promotional task can be seen as the principal guideline for co-operative action. According to German cooperative law, the only legitimate object of a co-operative society is to promote the household economy, its earning capacity or the business activities of its members by service relations between the jointly owned and supported co-operative enterprise and the members’ households or businesses. That is to say coops must promote their members’ households economies (consumer cooperatives or housing cooperatives) or business endeavors (agricultural or trading cooperatives) and up to the legal reform in 2006 this was even understood to exclude any cooperative activity which (also) promoted non-members. It was only then that the ICA principle 7 of concern for community was enacted into German law.

\(^13\) In order to assure supply the State encourages traditional service providers such as churches, unions but also self-help groups to form organizations aimed at rendering services in the general interest or of general benefit (gemeinnützige Dienste). The definition of which services are seen to be of general benefit is laid down in the General Tax Code (Abgabenordnung (AO), §§ 52-58). Organizations supplying mainly such services can register as charities with local courts. They are granted certain tax reliefs, donations to such organizations lead to tax exemptions for the donors, too. Non-profit organizations granted this status usually have simplified accounting processes, but need to submit financial statements to their regional tax authorities once a year.

\(^14\) Consequently many provider cooperatives, even if they are coops by professional social workers, did not in the past qualify as social cooperatives. This shows another delineation problem: such start-ups have been registered as entrepreneur cooperatives of professionals. Yet, self-employed social workers are counted as self-employed for income tax purposes (§ 15 Abs.2 S.1 EStG) the German professional code does not grant most of them professional status.
the meaning of social welfare law, is of no consideration in this system\textsuperscript{15}. In other words: not every coop given in the “social coop” label renders social services, while others, which show decided community welfare engagement are not included.

The Bank’s statistical delineation today proves particularly blurred in regard to coops specifically aimed at employment creation, housing projects with specific social aims (e.g. senior citizens’ coops, mixed-generation-living), and micro finance funds, for art and cultural initiatives, as well as for environmentally active coops which at the same time also create employment for people who are particularly vulnerable. Neither of these kinds of coops are registered as entrepreneur coops, sub-category others. Meanwhile village shops, although registered as entrepreneur coops, sub-category others, are not included in the separate account for social coops. At least their inclusion would seem sensible, considering that activation of local populations and community development are both seen as distinct objectives in Germany’s contemporary social policy and that they assume a common wealth role by assuring local service provision as well as social meeting points for low income groups and the elderly particularly in rural areas\textsuperscript{16}. Also, the sub-category health coops within the category entrepreneur coops, doesn’t appear to be without alternative, when looked at in socio-economic and socio-political terms. Although this sub-category is largely made up of doctors’ coops (90%), some of them offer care as well as para-medical and social services, while there are also health coops exclusively rendering prevention services, home care or palliative care. Furthermore there is some real leeway regarding where to draw the line between health and social services in any case.

2. WHAT SOCIAL SERVICES DO NEW COOPERATIVES OFFER?

For the purposes of an early and admittedly preliminary assessment of what potential there is for cooperatives in social welfare provision in Germany, we suggest an understanding of the term social cooperative which differs from that of the DZ Bank. We suggest a labelling determined by the primary business sector, in other words the services rendered by either the coop or the members of (social) coops. In such an approach we can differentiate between members and coops which render services that are recognized as social services by welfare law, in other words in one of the German Social codes (SGB I to SGB XII), and thus frequently financed through taxes and social contributions. And those aiming at wider social objectives and supplying social services for which such recognition doesn’t (yet) exist but which are frequently rendered by welfare associations registered under one or the other special law and commonly seen as members of one of the welfare federations, which are recognized for example in § 17, Abs. 3 SGB I. Following such a categorization the following picture emerges:

\textsuperscript{15} In doing so, DZ Bank statistics only extend what is general practice in Germany in regard to formal recognition of organizations considered in the general interest: organizational membership and the rendering of one of the catalogue of services defined in the Financial Code are of primary importance and determine status. As a consequence certain services deemed social services by one of the Social Codes may be rendered by commercial organizations as well as organizations in the general interest. Tax advantages are given on account of non-distribution of profits (German understanding of Non-profit-organizations) as well as (statutory) adherence to a confined list of aims.

\textsuperscript{16} The Department Economics & Research of DZ-Bank reports the start-up of 25 village shops within the short period of 2008 to 2011 including (author’s own correspondence with Mr. Stappel, 11. Nov. 2012).
Assigning those registered coops which the DZ Bank counts as social cooperatives to this model, it shows that there are singular coops in labour market integration, child care and care for senior citizens and handicapped persons, but that the majority of coops with predominantly social aims is active in areas of service provision, which are not expressly mentioned in any of the Social Codes.

This can be attributed primarily to the market situation reigning legally defined social service sectors in Germany. Legally defined social services are currently rendered by about 10,000 provider organizations, most of which are closely affiliated to and often governed by one of the five market dominating charities (Caritas, Diakonie, Arbeiterwohlfahrt (AWO), Rotes Kreuz and Paritätischer Wohlfahrtsverband) (Bafg 2009, p. 14). Taken together they employ about 1.54 million employees (Bafg 2009, p.17) and as far back as 2004 their total turn-over reached 55 billion Euros already (IW 2004, p.8). In the meantime turn-over is likely to have increased, because the activities and employee numbers have grown since then (BafG 2008, Deutsche Bank Research 2010)\(^\text{17}\). Compared with this scenario, social coops are tiny in size and number.

\(^\text{17}\) So far welfare associations and federations do not have to publish accounts in Germany. The Bundesarbeitsgemeinschaft der Wohlfahrtsverbände (BAG) publishes the numbers of institutions, facilities and employees about once every four years, but does not publish figures on turn-over. An article by the Research department of Deutsche Bank shows how difficult it is to estimate total turn-over only halfway realistically (Deutsche Bank Research 2010).
This situation is a result of how the so called subsidiary principle\textsuperscript{18} was historically institutionalized in the federally organized German Welfare State, eventually resulting in (neo-) corporatist provision structures on local and regional level. These structures explain at least in part, why coops with social aims so far largely came about in those fields of provision, in which the state, on account of the subsidiary principle primarily the local municipalities, are not legally obliged to finance service provision. That is to say coop start-ups are largely undertaken in areas which represent discretionary services (in contrast to the obligatory services depicted on the left side of fig. 1).

Structural reforms in the German public sector - and most importantly major changes in the systems by which service provision is delegated to charities and in the instruments to finance delegated service provision (Sell 2011; Wohlfahrt 2007) - as well as influences from the European Community have led to significant changes in the state driven quasi-markets\textsuperscript{19} for social services (e.g. Wohlfahrt w.y., p. 2, Wendt 2002, p. 105f., IW (2004), p.25, Fedke 2010). In theory this could encourage new market entrants. In order to better understand, which opportunities and limitations could arise from these developments for cooperative activities, it is worthwhile taking account of some of the economic peculiarities in Germany’s social service provision and to glance at a successful example of a cooperative start-up.

3. CONSEQUENCES OF THE ECONOMIC PECULIARITIES IN GERMANY’S PUBLICLY FINANCED SOCIAL AFFAIRS

3.1. Prevailing market structures and conditions of performance

The German Welfare State has granted its citizens legal claims to certain social services based on a catalogue of life circumstances, emergencies and disadvantages, while service delivery is mostly delegated as explained above. In this way the legal and economic relationships between state, service suppliers and service recipients are frequently triangulated. Since service recipients are usually also limited in their sovereignty\textsuperscript{20}, they are still rather seen as social welfare recipients or clients in socio-political or socio-economic discussions than as service consumers. Their relationship with any service the providing organization represents a personalized service frequently represents a private law contract. The relationship between State and welfare recipient constitutes a public law contract. Traditionally the contract between State and service provider has been of a public law nature too. Meanwhile this angle is increasingly governed by private law contracts, and competition has been opened up for commercial suppliers too.

\textsuperscript{18} Principle applied in vertically integrated systems, according to which the higher level organization only takes over such tasks, which the lower level organization is unable to fulfill (at similar cost and with similar quality). This principle is enshrined in the German constitution and constitutes prior rights for welfare associations and municipalities in terms of social welfare delivery. In terms of social affairs this provision in conjunction with the constitutional principles of separation of church and state and of autonomy of unions gives welfare associations and federations a mighty position at the levels of municipalities and federal states. Municipalities in turn have wide-reaching responsibilities when it comes to implementation of social service arrangements.

\textsuperscript{19} Wendt sees quasi markets as “…politically and purposefully constructed markets by which price and quality competition is introduced on the supply side.” (Wendt 2002, p.166, as translated by the author).

\textsuperscript{20} Social services as a rule are being offered as meritorious goods in order to overcome lack of purchasing power or socially non-acceptable consumer preferences, lock in situations and asymmetry of information (Finis Siegler 2009, S. 132ff.) Thus states install access to conditions the applicability of which is frequently assessed either by public authorities (in Germany frequently by youth services or social services) or by service delivery agents (in Germany e.g. Diakonie, Caritas and organizations alike have traditionally been charged with this task).
Nevertheless new and especially small service providers still face certain limits and obstacles when wanting to enter markets for legally vested, object oriented\textsuperscript{21} social services:

- The subsidies flowing from the Länder (State-level subsidies) are almost exclusively granted to members of the relevant Liga der Wohlfahrtsverbände (State league composed of charities and welfare associations) (IW (2004), p. 33f., Wirtschaftswoche 2013, p. 4).
- Universally applicable regional outline contracts are usually negotiated with the big providers only.
- Municipalities sometimes favour providers which can render various services at once, something mostly possible only to larger organizations (Brinkmann 2010, p. 89).
- At municipal level, contract allocation doesn’t always follow competition rules. In order to obtain contracts it is often more important to be a part of local socio-political networks, to have a seat in the statutory youth services or social services committees or to have been party to the negotiating process for a regional zoning settlement subsequently ruling the basic conditions applicable to all providers (IW (2004), p. 29ff., Brinkmann 2010, p. 95, Wirtschaftswoche 2013, p. 3 und 5).
- To compete at the local level frequently means to be prepared for cutthroat competition (Brinkmann 2010, p. 90), since public finances are rare and regional outline contracts prescribe the size and quality of services quite strictly.
- 20 years ago new output-oriented financing modi were designed by the service centre for local lean management of municipalities (Kommunale Geschäftsstelle für Verwaltungsvereinfachung (KGST)) in order to improve on governance in social services. However, implementation has been slower than expected (Brinkmann 2010, p. 114).
- Personal proximities exist between decision makers on both sides of supply contracting with many local politicians also being a member in governing boards of welfare associations and charities (Wirtschaftswoche 2013, p. 2).
- Market entry is made more difficult by high professional quality standards in many service areas.
- Small and especially commercial suppliers often cannot exploit sources of finance such as public lotteries or tax deductible donations, find it more difficult to recruit volunteers and suffer from tax disadvantages (IW 2004, p.63f.).

\textsuperscript{21} Object-oriented financing of social economy organizations means direct financing by subsidies, allowances, reimbursement of expenses, supply contracting, service or performance agreements. Financial payment is directed at the provider organization or a project, not to the client.” (Brinkmann 2010, p.149 as translated by the author).
During the last major reform of our social code explicit opening clauses for small service providers were introduced. However, these have not become noticeable on any scale so far. The same applies to the changes in local governance towards output-orientation and the gradual replacement of cost-covering finance modalities by such which make providers carry a larger share of the entrepreneurial risk. While even the big providers now notice the pressure from rising costs much more than before, very few new arrangements (encompassing additional civil society participation) in the provision of legally defined social services have arisen. Situations when and where they do tend to be situations in which

− municipalities are under particularly high legal pressure\(^{22}\).
− the level of public indebtedness is so high, that the high quality, professional services which have been agreed to in regional outline contracts with large providers can no longer be financed (Lübking 2011, p.47),
− or where professional staff is very scarce and difficult to find as is the case with old age care, general care and in places also with child care.

Instead of the desired broadening effect on the provider landscape there are signs in many places that the social sector is losing its innovative power, that mutual esteem is dwindling while rivalry for scarce governmental support and other resources has grown to levels hitherto unknown (Mercator Forschungsverbund 2012, p.13).

### 3.2. New opportunities due to subject-oriented finance modalities?

Some social services such as assistance to handicapped people or extra school education are increasingly being financed by way of newly introduced so called subject-oriented modalities\(^ {23} \) (vouchers, personal budgets and help plan based financing). Will these present new opportunities for cooperative activities?

\(^{22}\) Child day care could serve as an example. It is currently being boosted because from 1st of august 2013 onwards German parents will have a legal right to day care for all children aged one year as distinct from the current right to day care for children from three years onwards (BMFSFJ 2013).

\(^{23}\) “Subject-oriented financing of beneficiaries is based on individual needs assessments and service fees for each case …. The beneficiaries get what is needed either as a budget, in material form or in the form of personal services rendered.” (Brinkmann 2010, p.149 as translated by the author).
Such financing modalities are based on the idea of increased consumer sovereignty. Clients shall choose the best suited service provider by themselves thus becoming more like self paying consumers. However, sovereign market behaviour presupposes certain conditions. Many social welfare clients face disadvantages, adverse living circumstances or emergencies which make it impossible for them to exercise this sovereignty. (Otherwise they would possibly not even be welfare recipients.) This is why, for the time being, vouchers and personal budgets are only applied to certain services aimed at integration, education, rehabilitation as well as in child care. In addition their application is ruled by concessions and stipulations for clients’ contributions.

Financing instruments, which are directed at the user, theoretically possess the potential to positively influence cooperative start-up activities. Up to now, however, users who have a choice rarely ever chose the personal budget (Brinkmann 2010, p.250)\(^\text{24}\). It can be safely said though, that cooperatives, regardless of whether their members are service users or service providers, would need very good capitalization\(^\text{25}\) and a broad range of services on offer in order to successfully compete with the established providers. This applies even if users pay by themselves or can make use of personal budgets or vouchers.

\(^{24}\)Whether this is due to the way in which it is implemented or to the fact, that needs assessment is undertaken by large provider organizations, which in the course can influence users’ preferences for the services rendered (the consumption of which depends, after all, on trust to a far greater degree than the consumption of any other good (Finis Siegler 2009, p.117ff.), cannot be discussed in the course of this paper.

\(^{25}\)Traditional provider organizations have acquired this financial strength among other reasons because of a constraint on surplus distribution imposed on all organizations recognized as being in the general interest (see footnote 18) (Meyer 2008, S. 41). This strength enables them to render services at below cost for some time.
3.3. Lack of professional manpower, self help potential and the guardian’s role

It is interesting that even where new commercial providers successfully entered the market, like for example in out-patient care for the elderly (SGB XI), virtually none of them chose the cooperative form. We believe that this is so mainly for three reasons:

1. Social affairs in Germany lack entrepreneurial initiative at the same time as professional manpower: it is easy for professionals to find employment especially in child- and youth-services, senior citizens care and in the work with handicapped people. They have good possibilities to advance professionally (iAS 2013). Why should they thus undertake the effort of being entrepreneurial?

2. Cooperatives of users struggle to behave entrepreneurial in these service sectors, because they frequently aren’t able to help themselves (Skerutsch 2004, p.46). Successful (informal) self-help groups, which is what most German senior citizens coops are, tend to be exclusively needs oriented, to run their services based on voluntarism and independently from any municipal finance. They tend to want to distinguish themselves strictly from both, the fulfilment of public tasks (Karner et al 2010) as well as from market based economic activities (Köstler 2006, p.266ff.).

3. Start-ups by social work professionals sometimes face major bureaucratic hurdles (Heinze et al 2013, P. 339f.). Yet they also meet an ethical dilemma caused by the so-called guardian’s role which many of these professionals have. The State gives money for services which can only succeed if clients co-operate actively, using whatever capabilities they have. The assessment, whether any client does so is difficult, and really only professional social workers are in a position to assess effort and prospects. As a rule they are to document “case development” and in case of non-compliance they are obliged to sanction or must at least determine the course for a withdrawal of services. This presents them daily with matters of conscience for their decisions and in cases of subject-oriented financing, self payment or personal budget claims business objectives can get in the way of professional judgement.

The guardians role plays an important role for the emergence of multi-stakeholder cooperatives (MSCs) (Münkner, 2010, p.371f.) as well. These are cooperatives with user- as well as provider-members. MSCs are often believed to have a special potential to shorten cost-bearing search processes of clients for adequate services and lessen the number of expensive service terminations, because by bi-polar membership providers and users are closer to each other, need to agree on service standards and can thus offer services which more accurately meet needs while at the same time being relatively economical (Göhler von Ravensburg 2004, p. 93ff.). Furthermore they might have the potential to increase their capital base by attracting promotional investor members, thus increasing their organizational competitiveness in relation to the traditional charities.

A comparison between probation service and child care clearly shows that the extent varies to which said guardian’s role might be in contradiction with such potential. While any violation against conditions made for probation can have judicial consequences, the guardian’s role in child care is

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26 User-oriented financing arrangements can create impulses for more self-employment and commercial start-ups. From the point of view of service quality this is acceptable wherever existing needs for individualized services can thus hope to find a specialized and more effective answer and the work satisfaction of social workers increases. We do not, however, support an „artificial“ increase in self-employment due to outsourcing by traditional providers. We see great potential in cooperative association of self-employed providers where this supports quality of service, specialization, improved work circumstances and the further development of professional standards. We would not like to think of them as „communities of distress“.

27 The author has explained her view on the potential the cooperative form of organizing possesses in regard to minimizing systematic mal-allocations in social service delivery within various publications (Göhler von Ravensburg 2004; 2006; 2006a; 2010).
limited to the physical and psychological well being and safety of the children. In addition parents have far reaching rights to express preferences and exercise choice among many different services. They also carry a significant part of service costs themselves. All this makes cooperative start-ups in child care more likely than in many other areas of social welfare provision. In deed there are some good examples such as the registered family cooperative Familiengenossenschaft Rhein-Neckar-Metropolregion eG.

3.4. An example: The Familiengenossenschaft Rhein-Neckar-Metropolregion eG

This cooperative was started in 2006 by qualified day care mothers in cooperation with several contracting companies (Familiengenossenschaft eG 2013). Today this MSC covers two business areas (Familiengenossenschaft eG 2013a):

Care for children aged eight weeks to 14 years:
- Both, within their parents’ household as well as in day care families
- Close to either the family’s home or parents’ workplace
- With flexible timing
- In contained, familiar children groups
- With pre-arranged relief or deputizing arrangements
- Complementary to and in cooperation with institutionalized day care

Senior citizens care (apart from medically indicated care):
- Domestic services
- Preparation of meals
- Company for visits to doctors and running of errands
- Support in organizing leisure time activities
- Standing in when regular care givers are on vacation or ill-leave

The coop assures a high level of quality in order to assert itself over its competitors. Quality assurance begins with the training of the care giving persons. The content and extend of training of the child minders is based on the professional standards and curriculum which the Deutsche Jugendinstitut (DJI) has developed and which is meanwhile taken to be the authoritative guideline in most of Germany. Beyond this the coop seeks to accommodate all parties involved by offering continuous further training and supervision to care givers, paying home visits, running a complaints management system and offering mediation.

3.5. Response with professionals

There are other obvious reasons why only few registered cooperatives have been started in the provision of social services in Germany: few professionals of social work know of the registered cooperative form of organization. In this sector of the economy associations are the predominant forms of organizing (Knorr/Scheibe-Jaeger 2002, p.213). When welfare associations or charities set up separate entities in which to outsource services they usually do so using the legal form of a gGmbH. This is a limited liability company which assures the founders full business control and can also obtain the tax-exempt status of Gemeinnützigkeit. Although in legal terms nothing stands against a cooperative which renders services in the public interest as prescribed in the General Tax Law to also acquire this status and be exempt from taxes, most revenue offices need some convincing to agree to this (Bösche 2003, p.262f.).

The following information was gained in two extended interviews with the lady manager in summer and autumn of 2012. It is also noteworthy that this cooperative was started some time before the current legal claim to child care for all children aged one year and above was institutionalized. This law comes into effect at the beginning of august and is currently causing something of a frenetic search for child care personnel.
Furthermore professionals employed in social welfare associations and charities have such good prospects of promotion, that it is unlikely that a substantial number of them would become cooperative founders. That’s not just because one’s professional future seems less certain being a co-entrepreneur and one’s prospects for promotion might be less rosy. Any cooperative start-up necessitates advance concessions by the initiators, the effects of which they will have to share with other members later on. Thus cooperative entrepreneurs in general never obtain the same reward for their endeavours as would individual entrepreneurs cooperating in a limited company. The start-up of cooperatives is always burdened with incentive failure (Röpke 1992, p. 46ff.).

Incentive failure is less of an obstacle to the start-up of cooperatives aimed at community services although initiators of such coops also have to make advance concessions. The initiators of such coops usually act in their spare time, their main occupation and income generating activities lying in a different field altogether. Their motives usually have less to do with material objectives rather than the creation of a sense of values or social altruism (for example Köstler 2006, p. 185-190, Lautermann 2012: p. 157ff.).

4. CATEGORIZATION AND EXAMPLES OF COOPERATIVES IN COMMUNITY DEVELOPMENT

Usually quite different people come together to start a cooperative aimed at community service(s), among them frequently also people without selfish motives. Cooperatively organized social enterprises\(^{30}\) and Neighbourhood cooperatives are usually initiated by professional social workers, social associations or volunteers as well as un- or underemployed persons. Village shops are frequently started when the last retail trader has closed down and by citizens who are concerned that less mobile fellow citizens cannot reach green-field supermarkets. Cooperatives aimed at trans- or multigenerational living often are a formalization of small groups, where members know each other or they are a kind of hive-off from existing housing coops. Senior citizens cooperatives have come about in many different ways. Only few of them have so far been registered in the legal form of a cooperative. Usually their formalization is preceded by neighbourhood activities undertaken either informally or in the form of a registered association not for gain (Köstler 2006, p.122).

Meanwhile one or the other (financially shaken) municipality as well as local user groups have also been a driving force behind cooperative activities. By and large this happens when existing infrastructure is threatened or because needs have arisen for which there is no local supply or the existing supplies do not fit the desired cost-benefit-expectations. Village shops and energy cooperatives have been set up by such groups. Cooperatives were started for the conservation of disused buildings such as railway stations or pubs, as well as for the maintenance and running of cultural centres, public swimming pools or recreational facilities.

The differentiation between such cooperatives and other types of cooperatives such as entrepreneurial or cultural cooperatives is difficult (see part 1 of the paper). Perhaps the most useful typology of cooperatives for the purposes of this paper stems from Engelhardt (Engelhardt 1983). According to this most citizen-driven cooperatives can be considered group-economic cooperatives (\textit{gruppenwirtschaftliche Genossenschaften} (Engelhardt 1983 p. 30f.)). Their constitutive characteristic is that apart from following the interests of their members they also aim at satisfying larger interest groups or even local communities. Where such group or community interests are recognized by public institutions to be in the general interest and where the public by and large or the relevant state institutions confirm that the target groups are in need of or deserve promotion such cooperatives become common wealth cooperatives (Engelhardt 1983 calls them \textit{gemeinwirtschaftlichen Genossenschaften} (Engelhardt 1987, p. 30f.). In Germans this has classically been the case with housing cooperatives after World War II.

\(^{30}\) An experiential record of a cooperatively formalized social enterprise aimed at work creation and labour market integration can be found in Göler von Ravensburg 2010.
Cooperative start-ups of these kinds are subject to the same economic rule that applies to self help organizations in general: they come about when people perceive a lack of alternative supply options and at the same time the service cannot be brought about in an economically satisfying way by the individual (Röpke 1992, p.41ff.). Concerning the German Welfare State this currently only applies a) where the State is not legally obliged to deliver and b) where large parts of the population are concerned by the problem as for example by rural depopulation and the concomitant decrease of economic and social infrastructure. Cooperative self help is a less likely solution where the service demanded requires high capital investments and where private and individually accountable services are concerned, even if these are cannot be delivered in any form of reciprocity, which pertains to most social services 31.

Even those who are eager to point out that cooperative self help cannot and should not replace other publically financed social and community development initiatives, increasingly seem ready to concede socio-political relevancy as a complementary provider. Coops become more and more acceptable as a vehicle to compensate for a lack of purchasing power. They can do so by making services available in nonmonetary ways as happens in self-organized lending or bartering systems like local exchange trading systems (LETS) or community currencies. Or they can render services not yet or not any longer delivered by the social system employing innovative and participative ways of provision. Senior citizens cooperatives are a good example of this potential.

In theory the membership of community development cooperatives can be confined to either service users or providers. In practice, however, initiators are not just of one or the other group and membership seems rather frequently composed of a heterogeneous mix of users and providers, personal as well as institutional members, volunteers and professionals, including even members who cannot benefit themselves but offer assistance (promotion members). Such coops are thus frequently classified as Multi-Stakeholder-Cooperatives (MSC) (Münkner 2010, 377ff., Münkner 2002, p. 23f.). The motives for starting village shops, senior citizens coops and even energy coops are primarily of a local economy and civil society engagement nature. They are usually characterized by long term considerations. Similar motives and trends in thinking can be detected in regard to neighbourhood services, modern traffic concepts, local economic cycles, fair trade and initiatives against gentrification.

We believe the following to be examples for recently founded, community oriented cooperatives:
- Bolando eG - aimed at maintaining a local pub,
- Sozialgenossenschaft St. Pauli Nord und rundrum eG – aimed at maintenance of empty real estate
- Feriendomizilgenossenschaft B-WAHREN eG - offering affordable vacations in and maintenance of a large hostel,
- Werkstatt Spielart eG, - a social enterprise in Heidelberg, employing hard-to-place youth and longterm unemployed,
- Fundus eG, a neighbourhood cooperative, aimed at labour market integration, selling second hand articles,
- Nachbarschaftshilfe-Vermittlung Waghäusel eG – a coop rendering neighbourhood services in Mannheim.

31 Markets can only function on the base of reciprocal exchange. Reciprocal exchange becomes unlikely, when the ability to give is too different for both parties. This can be caused by low purchasing power of the one party or be due to limited physical or psychological capability. It is also hampered if giving and taking cannot happen at about the same time, as is the case with many intergenerational exchanges that take place in rearing children or looking after the elderly.
5. OUTLOOK AND CONCLUSIONS

Not much imagination is needed in order to discover opportunities for cooperative start-ups. All it really needs is to extend the development ideas and paths of existing community cooperatives and social cooperatives outlined above. The opportunities for start-ups seem particularly positive, where meritorious services are needed

− which the public sector cannot or will no longer finance,
− from which both, local authorities as well as welfare associations/charities withdraw (keyword outsourcing),
− which are or will become financed in a subject oriented way,
− which are necessary in order to make personalized services useful\(^{32}\).

Furthermore, new possibilities come about where

− traditional providers seek to delegate documentation and invoicing to professionals,
− traditional providers seek to outsource “difficult” cases,
− services have become standardized to the point where they no longer cover many needs or
− where social change causes new needs.

These are the trends which bring about opportunities for new user coops and MSCs. At the same time it can be foreseen that even in Germany the number of self-employed professionals in Social Work will increase (e.g. in counselling, assisted living, supervised housing, case arrangement, assistance on account of supervision orders, ambulant child rearing support and other fields of social work (Brinkmann 2010, p.89)\(^{33}\). Many self-employed professionals could benefit from cooperative collaboration because this would allow them to reach economies of scale and scope, to specialize within service provision or outsource administrative functions from their business to the cooperative. The wish to improve on negotiating power could be another reason to start a coop. Promotion cooperatives\(^{34}\) (as distinct from productive coops\(^{35}\)) could include various business areas from estate management to common purchasing of advanced training or outsourcing of the accounts. It is possible to even conceive of mixed productive and promotional cooperative models too, for example in order to become a specialized provider in some therapy field (Brinkmann 2010, p.95).

Apart from several German cities with excellent child care facilities, cooperative initiatives in the area of child care seem to offer great prospect, especially if they are flexible enough to adapt their services to the broadly varying needs of families\(^{36}\), offer after hours school care at schools and contribute to the continued existence of school locations (Pflüger 2009). Parent self-help groups (possibly aided by volunteers), cooperatives of self-employed social work professionals, educators at various levels and nursery teachers are just as conceivable as MSCs. The key to success for the users would be heightened need-adequacy, while professionals as well as volunteers will find it important that their working conditions will improve due to cooperation and that will offer them possibilities for further training and professional or personal development. There are quite a number of obstacles for cooperative and other community initiatives in employment creation. These originate in haphazard labour market policies, do not apply for all such initiatives and do not stem from the cooperative legal form (Göler von Ravensburg 2010). To the contrary, the cooperative form can possibly

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\(^{32}\) This concerns services which precede or follow the actual personalized service up- and downstream in the production process such as e.g. counselling on different services offered, assistance offered to overcome access barriers, case management, continuous legal guardianship etc.

\(^{33}\) This development is supported by the fact that self-employed professionals working in child and youth services have been partly exempt from value added tax (sales tax) at the beginning of 2008. (Brinkmann 2010, p. 94).

\(^{34}\) Social workers remain self-employed in this type of cooperative, merely outsourcing certain business functions to the cooperative.

\(^{35}\) A productive cooperative would employ social workers, their status would change from self-employment to employee.

\(^{36}\) Seeing the extent to which day care is lacking in Germany there is a lot of room in many towns and villages for family cooperatives organizing care close to home or in small groups. Also there is a tremendous need for after care giving at odd times like evenings, over night or on weekends and during school vacations.
compensate somewhat and especially if it has institutional members it can exert astonishing flexibility. We thus see many opportunities for neighbourhood cooperatives and social businesses using this legal form, especially for those which aim to give employment to handicapped people or to young people while they orient themselves as to what they want to become, find apprenticeships or first time jobs. (Mercator 2012). To keep public finance in good relation to other sources of finance would be a key to sustainability though.

In summary this means that there are great potentials for the cooperative legal form in social affairs in Germany. The reform of 2006 hasn’t just made this legal form more attractive to small groups of founders, it now also allows the group to follow social and cultural aims. This reform has somewhat lightened one dogmatic obstacle to community-cooperatives, too. By allowing promotional members it significantly loosened the grip of the identity principle, apart from the promotional principle the second leading cooperative principle in German cooperative law, which up to then largely prohibited MSCs.

Experience has shown, however, that some important institutional preconditions would still need to be created, in order to have more social cooperatives start-up. There is a lack of initiators, who successfully identify service sectors which are locally mal-supplied and who would be prepared to make advance investments of time and money, so that an economically sound start-up idea can be generated and a group of founder members identified. Seeing that current and expected structural changes in the quasi-markets for social services will have significant effects on the competitive situation among providers, this seems even more important. At the same time it can be foreseen that the debt brakes imposed by virtually all federal states and many municipalities will speed up the structural change even further, while supply side niches will possibly quickly be filled by commercial providers even from abroad.

For the cooperative legal form to gain its due recognition in social affairs, it must be popularized among professionals, interest groups, local governments and municipal bureaucrats as well as with the various social insurance authorities. The promotional officers of the federations responsible for promoting start-ups need more knowledge in publically financed service areas and public finance instruments. For replication purposes pilot projects should be well monitored and externally evaluated as to their empirical effects. This must not, however, lead to mere copy cat advice by the federations. Rather their general advice should by and large remain open to all coop types, services and business sectors.

All in all the federations have a lot of work to do. Yet at the same time, arriving in the social sectors of community life would mean that the cooperative form becomes known once again as a modern and reliable legal form, which is in touch with the people and to be considered equal in status with the legal form of shareholding or limited company.

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37 The official statistics on the matter aren’t transparent. Still, it is obvious that has been a positive trend in regard to cooperative start-ups by professional providers over the last ten years: from 2000 to 2008 DZ-Bank counted 51 such start-ups (Stappel 2010, p.75). For the time between 2009 and 2011 there were already 58 (DG Verlag 2012, p.41 and own correspondence with Mr. Stappel on 11th of November 2012).

38 The identity principle describes the idea, that all members of a cooperative should at the same time be owners and beneficiaries of the actual services rendered by the cooperative. In other words members are supposed to benefit directly from the trade the coop maintains. Dividends on capital are of a secondary importance.
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