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Evaluating Social Impact Bonds in Germany: A Critical Perspective of Early Stage Financialisation in Social Policy

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**Evaluating Social Impact Bonds in Germany: A
Critical Perspective of Early Stage
Financialisation in Social Policy**

By

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List of Acronyms

BBE	Federal Network for Civic Engagement
GFC	Global Financial Crisis
OECD	Organisation for Economic Cooperation and Development
PbR	Payment by Results
SIB	Social Impact Bond
SII	Social Impact Investing

1. Introduction

The global financial crisis (GFC) of 2008 and its aftermath spread a feeling of an immediate need for change. One was the emergence of a discourse regarding the ethical deployment of finance for societal betterment. This discourse laid the foundation for the burgeoning concept of social impact investing, where financial investments were envisioned not solely for financial gain but as catalysts for positive social change (Verkerk, 2013). This has paved the way for the emergence of ‘Social Impact Bonds’ (SIB), which simply stated are a type of financial tool used to fund social programs. These bonds involve private investors funding initiatives with the understanding that if the program meets predefined social goals, the government reimburses the investors their initial outlay plus an additional return.

SIBs have gained substantial traction globally, with various studies examining their implementation and potential benefits. The continuous financialisation and quasi-marketisation of public social services and welfare provision sparked academic debates, discussing the blurring and building of boundaries between markets, states, and the third sector, as SIBs introduce market principles into social policy (Propper and Green, 2001).. Critical perspectives view SIBs as a neoliberal approach to public issues, emphasising their role in private investment and austerity. Concerns include 'cherry picking' in project selection, simplification of complex social outcomes, and challenges in accountability and transparency. The current body of academic literature, however, lacks an in-depth exploration of the varying geographical locations of SIBs. This deficiency results in a lack of comprehensive studies on countries beyond the recognised "market leaders", such as the United States or the United Kingdom, leading to limited scrutiny regarding the factors influencing the cross-border movement of SIBs (Broom, 2021).

This master's thesis aims to fill this research gap by exploring the concept and implementation of SIBs in Germany (Burmester & Wohlfahrt, 2015). The study will be conducted within the framework of critical political economy as “society should not only be concerned about what works best from a narrowly economic standpoint, but about for whom policy instruments such as SIBs are supposed to work, and in what way” (Roy et al., 2017. p.2). Furthermore, Germany is often characterised “as an exemplar of ‘nonliberal’ capitalism or as “a ‘model’ for countries

unwilling to subject themselves to the rule of the market (...)” (Streeck, 2009). It is wise to assume that other nations will follow Germany’s example of introducing SIBs as a safe addition to the social welfare system. In other words, more perspectives are needed, as “analysis of welfare and inequality centred solely or even mainly on economic growth is insufficient for understanding the features and determinants of welfare and inequality in any setting” (London, 2018). Consequently, the research question explored in this master’s thesis will be as follows:

"How do Social Impact Bonds (SIBs) operate within the German social market economy, and to what extent do they effectively achieve the promised social change?"

The thesis begins with an introduction to Germany's market economy, tracing its origins and current state. This is followed by an overview of the social impact investment (SII) landscape, succeeded with a detailed description of the structure and stakeholders involved in SIBs, both in a general context and then specifically within Germany. This outline will be accompanied by a literature review of SII and SIBs both, with findings derived from studies conducted mostly in the UK as well as focusing on Germany. Thereafter a theoretical framework examining the concept of financialisation, and the rise of the financial elite will be presented.

Subsequent to this is the implementation of an analytical framework, which serves as an organised guide for interpreting the research topic and for establishing a solid foundation for data analysis. This approach ensures that the conclusions drawn from the research are sound and valid, as emphasised in Creswell (2014). The empirical analysis will look at all three German SIBs. The first chapter focuses on identifying the risk of the methodology of its outcome measurements while the second chapter connects involved stakeholders of the ongoing SIBs to the concept of the financial elite and the risk of personal gain at the expense of marginalised people. The thesis concludes with a summary of the findings and recommendations for future research

2. History of the German Market Economy

To understand the emergence of Social Impact Bonds in Germany, it is essential to consider the context of the German market economy. As Manow (2020) notes “it's impossible to accurately evaluate current political reforms or adaptations to a changing economic landscape without a clear comprehension of the interplay between protection (welfare) and production in the German political and economic system” (Manow, p.2, 2020).

Germany has been famous for its social state reforms from the time it was still an empire under Otto von Bismarck (1871-1918). After the Second World War, the welfare state overtook, and working-class life was slowly but surely coming to an end. People were gaining a sense of upward social mobility thanks to the impression of greater economic democracy. With it came an increasingly individualistic approach – accompanied by the end of the use of the golden standard – weakening trust in the welfare state system (Nachtwey, 2018). The following period, spanning between 1948-1966 is often closely associated with *ordoliberalism*, a form of political economy which believes in government intervention in the market. The purpose of this intervention was to achieve market outcomes that approximate the theoretical outcome in a perfectly competitive market (Guérot, 2020).

However, the neoliberal transformation was progressing, German unification was achieved and the Social Democrats in coalition with the Green Party led by Gerhard Schröder started employing policies aimed at fighting social issues such as unemployment. Consequently, the following economic model, introduced by Ludwig Erhard, the first German Federal Minister for Economic Affairs (1949 to 1963), became known as the social market economy (Nachtwey, 2018). What exactly a social market economy is, and if it is deserving of its name, has been widely debated among academics – as will be demonstrated in the following chapter.

3. The Social Market Economy

In theory, the model of a social market economy is supposed to blend a fundamental commitment to free trade with "social" principles. These principles alter market outcomes through the use of redistributive and social security policies. Germany's healthcare system is a prime example of the social market economy in action. It combines a competitive environment for private insurance providers with stringent government regulation. This ensures that basic health services are universally accessible and affordable for all citizens, thus marrying the principles of market efficiency with the societal objective of widespread healthcare accessibility (Koslowski, 1998). The main emphasis lies in finding the balance between social security and economic freedom, while acknowledging the government's duty to ensure social welfare and protect individuals against the negative effects of intense competition in free markets (Witt, 2002).

It's crucial to note that since the inception of the social market economy, the economy has continued to evolve and has confronted a range of external challenges. Among the most formidable of these was the global financial crisis that occurred between mid-2007 and early 2009. (Lehndorff, 2009). During this time, for instance, Germany's policy makers decided to deviate from their economic policies characterised by order and rationality and undertook large bank bailouts, alongside other European countries as well as the North Atlantic, demonstrating their commitment to maintaining a social market economy (Beck & Kotz, 2017).

Despite academic disagreements over Germany's identification as a social market economy, politicians and policymakers refer to Germany as a social market economy. For instance, Olaf Scholz, current acting Federal Chancellor, when assuring people during the COVID-19 pandemic referring to the economy:

“Leaving questions like these unanswered erodes trust. Trust in our democratic systems and their promise of equal opportunities. And trust also in our **social market economy** and its promise of fairness.” (Scholz, 2021)

Furthermore, when talking about Germany's underlying principles for economic policies, the Federal Ministry for Economic Affairs and Climate Action states the following:

“The social market economy lays the basis for economic and social security and a good quality of life in Germany and in Europe. It has been and still is a guarantor of growth and prosperity for all.” (BMWK - Federal Ministry for Economics Affairs and Climate Action, 2023)

Additionally, it states the fitting underlying values as outlined above:

“The social market economy forms the basis for our society – a society characterised by **freedom, openness and solidarity.**” (BMWK - Federal Ministry for Economics Affairs and Climate Action, 2023)

Correspondingly, The Federal Society of the German Employer Associations uses seemingly the same values:

“Freedom and responsibility, subsidiarity and solidarity are values on which our economic order is based and which underpin the success of the social market economy.” (Bundesvereinigung der Deutschen Arbeitgeberverbände, 2020).

While Germany's so-called social market economy is often presented as an exemplary model, the challenges it has faced in recent years are often overlooked. Under these counts not only a significant increase in inequality in income and wealth but also in opportunities in education and the labour market (Fratzscher, 2016).

Witt (2002), for instance, believes these troubles stem from the unique corporatist aspect of Germany's social market economy. Trade unions and employers negotiate wages autonomously, leading to labour market cartelisation alongside a welfare state. However, this system creates a dilemma as wage policies can unintentionally increase unemployment despite aiming for social security.

Academics and politicians worry that the pressure of global competition, demographic change, and the highly dynamic digital transformation of the economy and labour market conclude in a future that poses enormous financing problems for the social market economy (Landeszentrale für politische Bildung Baden-Württemberg, 2018). The COVID-19 pandemic has only worsened the state of Germany's economy making its structural problems more visible (Kindsmüller, 2021). In light of these challenges, the government has been looking for innovative solutions. This included the embracing the idea of social impact investing.

4. Social Impact Investing (SII)

Following the onset of the financial and economic crisis, not only Germany, but numerous countries have been actively trying to trim government deficits and public debt. The strain on government expenditures has often resulted in the underfunding of social interventions. Consequently, there has been a need to discover innovative methods for both financing and delivering social services (Davies, 2014). One of these innovative methods will be examined – the Social Impact Bond (SIB) – which falls under the broader framework of SII.

Social Impact Investing (SII), also referred to as 'social enterprise financing', 'social finance', or simply 'social investment', is the employment of private investment capital to fund projects and activities that yield both a financial return and a social benefit. While it does differ from traditional investing, the anticipation, that the initial funds provided will be recovered by the investor remains, along with an extra return on their investment (Bertelsmann Stiftung, 2020; Davies, 2014).

Since the Global Impact Investing Network's survey in 2010, the global impact investing market has showcased substantial growth and is presently estimated to stand at \$1.2 trillion (Hand et al., 2022). The growth in the global impact investing market can be attributed to various influential developments and policy actions which have fostered a fruitful environment for SII. For instance, during the UK's G8 2013 presidency, Prime Minister David Cameron unveiled the initiation of an independent "Social Impact Investment Taskforce". Its ambitious mission was to report on "catalysing a global market in impact investment" (p.5) with the goal of enhancing societal well-being (Social Impact Investment Taskforce, 2014). Similarly, the

European Commission has taken proactive measures in advocating for impact investing, aligning with the EU's 2030 objectives aimed at reducing greenhouse gas emissions by 40% (Impact Database, 2019).

4.1. Social Impact Investing in Germany

Compared to the Anglo-Saxon market, impact investing is still relatively new in Germany. As the German market is a social market economy compared to the Anglo-Saxon liberal welfare state, the concept of SII needs to be tailored and adjusted to align with the particular conditions that regulate the delivery of social services in Germany. The German SII market comprises three key participant groups: investors, investees (socially driven organisations), and intermediaries, a framework we will see reflected in the SIB (Petrick & Weber, 2014).

It is not uncommon to see critiques regarding the restrictions of SII in Germany. According to Glänzel & Scheuerle (2015), Germany's SII space has been hard to penetrate, due to restrictions and structures imposed by the environment of the social market economy. Social enterprises – or in other words, organisations that aim to create social impact while operating like businesses – have to navigate through various regulations and eligibility criteria to access support by investment. This can be time-consuming, costly, and deter unfamiliar investors. The system's complexity introduces uncertainties and increases perceived risk, negatively impacting investors' willingness to deploy capital.

Petrick & Weber (2015) on behalf of the Bertelsmann Stiftung (a foundation that will be of importance later) see the fault in an inadequate supporting infrastructure of the market, with a lack of efficient connecting services, platforms, and think tanks for investors and investees. They argue that the intricate legal framework, especially regarding the charitable status of foundations and organisations, coupled with the lack of tax incentives for impact investors, introduces complexity to the landscape.

However, in the years 2012 - 2016, the investment volume for impact investing in Germany has almost tripled to around €70 million. In 2018 it stood at €13 Billion and is continuously growing (Bertelsmann Stiftung, 2020).

5. Social Impact Bond (SIB)

As previously outlined in the introduction, “Social Impact Bonds”, in short, “SIBs”, which are also known as “Social Benefit Bonds” or “Pay for Success Bonds” are “innovative financing mechanism[s] in which governments or commissioners enter into agreements with social service providers, such as social enterprises or non-profit organisations and investors to pay for the delivery of pre-defined social outcomes" (Galitopoulou & Noya, 2016, p.4). In simpler words, SIBs are a new form of privatisation which in this case involves social services. They count as one of the new additions to the social impact investing landscape. SIBs are a financial market expansion that allows for outsourcing planning, financing, and evaluation of social projects to a third party. At the same time, private investors can benefit if the outcome is considered to be successful (Ryan & Young, 2018).

5.1. What is a SIB?

Social impact bonds can be seen as both financial and social policy instruments. It is important to recognise that SIBs only borrow their terminology from traditional bonds while functioning with a different payment structure and purpose. SIBs should rather be understood as contracts on future social outcomes. All in all, the main goal is to shift associated risks from the public sector to the private one (Hurley, 2019; Galitopoulou & Noya, 2016; Napoletano, 2023).

Following the COVID-19 crisis and its economic impact, SIBs have started receiving increased attention (Hevenstone & Fraser, 2021). Initially conceptualised by a New Zealand economist in the late 20th century, the concept of SIBs found its introduction in the United Kingdom through the efforts of Sir Ronald Cohen, a British businessman (Le Corre, 2018). The inaugural SIB, targeting the reduction of prisoner re-offending, was introduced in 2010 during the tenure of Gordon Brown's New Labour government.

However, it was under former British Prime Minister David Cameron's conservative administration and the Big Society initiative that SIBs truly gained momentum. Next was France in March 2016, who's initial two bonds received official approval on November 24th, 2016, ignoring warnings from the *Haut Comité à la Vie Associative*, (High Council for

Associations), the *Collectif des Associations citoyennes* (Citizen Associations Group) and even from the Organisation for Economic Cooperation and Development (OECD) (Le Corre, 2018).

On paper, there are several strong arguments that make Social Impact Bonds appealing to policy implementers. Among them is the intention to shift focus from just measuring service inputs and processes to measuring actual social outcomes. Consequently, service providers are compensated for achieving particular social objectives rather than solely providing services. In theory, this method ensures elevating service standards and allocating resources to areas that require them the most.

Moreover, governments find SIBs highly appealing due to their capacity to shift risk onto the private sector. As the investors exclusively profit from accomplished outcomes, the design seeks to heighten service responsibility and guarantee improved value for (tax) money. Because of this, the method is perceived in policy dialogues as a means to elevate the efficiency, efficacy, and equity of social services (Edmiston & Nicholls, 2017).

Advocates of SIBs propose that involving investors who are well-versed in business brings enhanced accuracy and discipline to social service provision. In other words, it is argued that private organisations from the financial sector are better at recognising something considered a ‘good risk’, meaning recognising a good investment opportunity. Additionally, these private organisations are also viewed as displaying higher levels of innovation and adaptability than public-sector services. The emphasis on achieving measurable outcomes is also viewed as instrumental in aligning objectives among diverse stakeholders engaged in these social interventions, including the service providers (Davies, 2014).

As of 2023, 283 impact bonds in over 35 countries worth over 750€ million have been established, with plans to expand (Impact Bond Dataset, 2023).

5.2. Involved Actors & Stakeholders

The OECD (2016) identifies six primary stakeholders involved in the SIB model: “investors”, “service providers”, “governments or commissioners”, “intermediaries”, “evaluators” and finally the so-called “beneficiaries”:

The *investor* (such as (investment) banks, financial service providers, and private individuals) plays a pivotal role in the SIB by providing up-front funding for the ‘social project’. The provided funding is used as work capital for a designated *service provider* responsible for delivering social services, achieving agreed-upon outcomes, and possibly providing related data. The measurement of the outcome – in other words, whether the result of the project is considered successful or not – is vital in the SIB process.

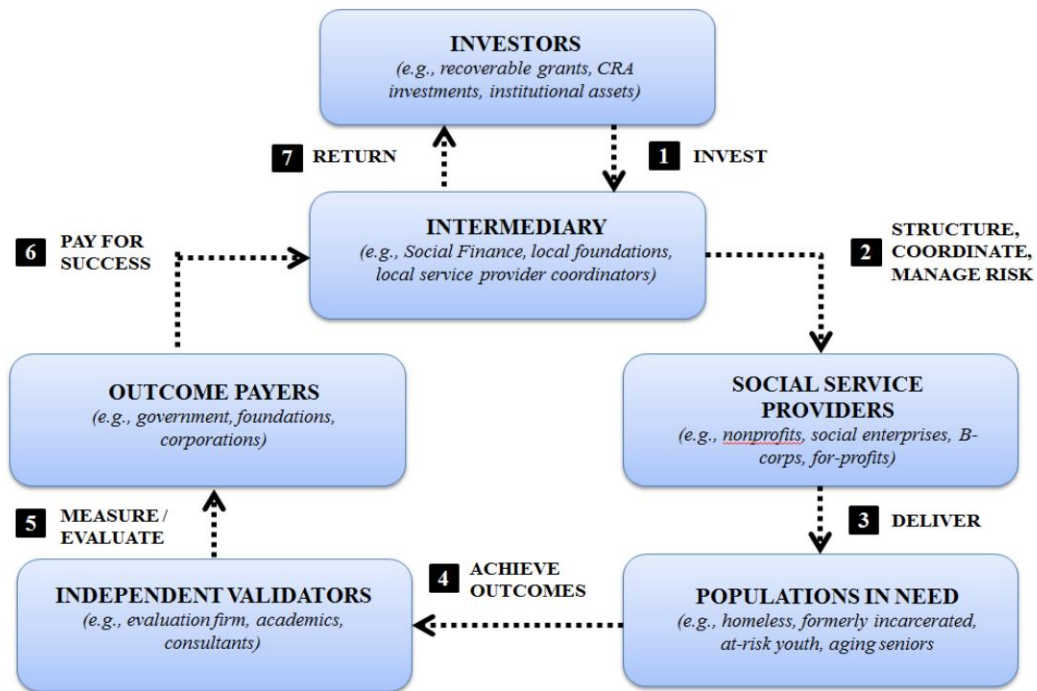
In line with this, the *government or commissioner* – commonly a public administration at the local or national level – will disburse the payment to the investor, along with the agreed-upon interest. Hence, the government or commissioner serves as the primary party responsible for outcome payments and has the authority to establish the metrics for outcomes and the terms of payment (Carè et al., 2020; Cooper et al., 2016; Galitopoulou & Noya, 2016). How these metrics are exactly determined will be analysed more thoroughly later on.

The *intermediary*, when present, assumes a dual role. An intermediary, among other actors, can for instance be a local foundation or a local service provider. On the one hand, they serve as a facilitator, bringing together all relevant stakeholders to facilitate consensus on transaction procedures. On the other hand, they can take on the crucial responsibilities of structuring deals and mobilising capital.

Additionally, in certain SIBs, an *evaluator* may be employed to assess the predetermined outcomes and their resulting impact. Finally, there are also the *beneficiaries*¹ – one could argue the most important actor. They are part of the population falling under the demographic requiring assistance in the public sector’s eyes, in the need of intervention by form of SIB. SIBs have the flexibility to cater to varying sizes of beneficiary groups (OECD, 2016).

¹ Figure 1 describes *beneficiaries* as ‘populations in need’.

Figure 1. Structuring of a SIB (OECD, 2016)



In addition to the principal stakeholders mentioned above, various other participants may engage in the SIB structure, depending on its specific design. The design is generally very flexible and adaptable depending on the case. These additional actors may encompass *technical support providers, researchers, legal advisors, grantmakers, guarantors, and subordinate investors*. It's worth emphasising that the responsibilities of both primary stakeholders and these supplementary participants may differ based on the unique SIB arrangement and the specific terms negotiated for each agreement. For example, researchers can also be appointed to be impartial evaluators, in order to verify if the agreed-upon outcomes have been reached. Moreover, service providers have the potential to double as investors, just like intermediaries who can take on various functions, including acting as investors, evaluators, and providers of technical support. Other SIB projects might see a government playing a dual role as both an outcomes payer and an evaluator, verifying administrative data (Gustafsson-Wright et al., 2015; OECD, 2016).

6. Literature Review: Academic debates surrounding SII and SIBs

After providing a basic understanding of the SII landscape and the functioning and involved stakeholders of SIBs, this part of the research aims to provide an examination of the existing body of literature which studies the efficacy, implications, and nuances of SII and SIBs within the political economy context. In essence, the following seeks to illustrate different academic perspectives, delving into SII and SIB's conceptual categorisation, the rationale behind their introduction, while shedding light on the potential risks and unintended consequences intertwined with their implementation. The identified themes in this literature review will ultimately be used as a framework in the analysis to support the argumentation of the efficacy and implications of SIBs in Germany.

An important part of the academic exploration of SII was the identification of the most important actors and their power structures (Caselli et al., 2020). The general consensus is that the main participants and investors in the SII market are private foundations, high-net-worth individuals, large financial institutions, banks, crowdfunding platforms, pension funds, and development finance institutions (Martín, 2016). Already in 2010, JP Morgan estimated the possible profit for the investors to reach \$183 billion - \$667 billion (Martin, 2016).

While SII aims to generate positive social or environmental changes while making financial gains, it has encountered challenges. One significant issue is the difficulty in measuring the true impact of these investments. Traditional ways of measuring investment success often don't capture the full, long-lasting effects on society or the environment (Social Impact Investment Taskforce, 2014). To address these challenges, SIBs were introduced, however, as will be discussed later on, many do not see their measurement of social outcome as flawless either.

As already outlined, SII sees itself as 'the invisible heart of the market', or, in other words, as a 'humanised' and 'moral' version of capitalism. Berndt & Wirth (2018), describe SII as 'boundary blurring and building'. What is meant is the process by which the conventional distinctions between the market, society, and the state undergo redefinition and reshaping. On one hand, the concept of boundary blurring implies that SII challenges traditional separations among sectors, including the market, state, and third sector (comprising non-profit

organisations, civil society, and philanthropy). In other words, the convergence and intertwining of economic and political logic, meaning their interaction and mutual influence, thereby erasing the once-clear boundaries between these sectors. On the other hand, the notion of boundary building recognises that while SII blurs existing boundaries, it also establishes new ones.

In this evolution, new actors, relationships, and dynamics take centre stage, ultimately resulting in the restructuring of social policy and welfare provision. The SIB stemming from the inception of SII, exemplifies this pattern. They blur the boundaries between the market and the state by involving private investors in financing social programs traditionally funded by the state. At the same time, they build new boundaries by introducing market principles and accountability mechanisms into social policy.

Broom (2020) detects that critical scholarship on SII and SIBs encompasses different strands of analysis. One viewpoint scrutinises them as a policy reaction to various crises, notably the GFC and the ensuing economic decline (Dowling & Harvie, 2014). During this period, a prevailing public discourse emerged, establishing that finance could be strategically harnessed to achieve a social mission (Dowling, 2017). Pykett et al. (2017) identify this as “new enthusiasm for an emotionally attuned approach to government which sees emotions as constitutive of the very workings of government and policy” (p.1).

Furthermore, other scholars see SIBs as a neoliberal governmental approach aimed at tackling issues related to capital accumulation, social reproduction, public debt, and the credibility of liberal democracy. The rise of SIBs is interpreted in academic literature as a mechanism for attracting private investment, fostering the creation of social service programs, securing cost-effective funding, and enabling governments to portray themselves as problem-solvers while maintaining austerity measures (Broom, 2020).

This is where we observe a second strand of critical literature, which delves into the interplay between SIBs and the generation of knowledge, markets, and market participants. Scholars within this realm perceive SIBs as exemplifications of "market making," where they mould the conduct of diverse actors in accordance with market principles. This encompasses steering

service providers toward businesslike efficiency, directing beneficiaries toward rational consumer behaviour, and prompting investors to recognise the financial value in social programs. Throughout this line of thought, SIBs are criticised for creating an environment where the provision of essential services becomes profit driven. This shift may prioritise cost-effectiveness over the well-being of individuals. The analysis of SIBs within this framework considers their association with knowledge regimes, discourses, and the interconnected network of actors closely affiliated with financialisation and the marketisation of social services (Broom, 2020; Berndt & Wirth, 2018; Neyland, 2018).

One of the primary concerns raised within SIB literature is the phenomenon of so-called ‘cherry picking’ seen in the selection of which social issues are chosen for intervention. As the organisational costs of social projects are very high, academics worry there is a disadvantage against smaller projects. Because projects have set targets to meet that induce profit for the investors, other social goals might be ignored. For instance, an SIB-funded health-focused program from the UK totalled nearly £ 750,000, even before engaging with the beneficiaries (Lowe, 2020).

Consequently, SIBs could tend to replicate a pattern seen in other Payment by Results (PbR) initiatives, where large private corporations dominate as principal contractors in welfare service provision due to their substantial capital reserves, unlike Third Sector organisations (Roy et al., 2017). Additionally, programs which are more likely to reach the target goals could have a higher probability of getting funded while programs which are more intensive long-term projects have a likelihood of getting abandoned. This could ultimately result in the most marginalised people in society facing even greater inequality and never being considered as a beneficiary (Ryan & Young, 2018).

Ryan & Young (2018) furthermore recognise faults in the measurement of the outcomes of SIBs. Incorporating performance targets into pricing mechanisms becomes imperative within financialised social projects, providing financial investors with a structured framework to assess potential returns on investments. According to critics, this is one of the SIB's most controversial aspects: Simplifying complex social outcomes into straightforward, quantifiable

metrics disregards the nuanced qualitative and quantitative aspects of social projects, particularly their long-term effects (Dowling, 2017; Ryan & Young, 2018).

Child et al. (2016), also put emphasis on the risk of a lack of accountability and transparency due to external investor involvement. The authors underscore the increased complexity of accountability within SIBs due to the involvement of external investors. Placing the intermediary at the core of the network, rather than the government, complicates lines of accountability. While explicitly accountable to the government, intermediaries must also consider the interests of external investors providing SIB funding. This dual accountability blurs responsibility lines, making it challenging for intermediaries to reconcile the interests of both parties. Moreover, the authors highlight the significant power held by external investors, whose refusal to participate can imperil the SIB's existence. They advocate for clear accountability structures that prioritise government interests while remaining attractive to investors.

While academic literature regarding the SII field exists, there are inconsistencies and fragmentation across various themes, theories, and objects of study, resulting in a scattered body of knowledge. Similarly, this holds true for SIBs as they are part of the SII framework, with the added complexity that SIBs are relatively new. Additionally, the existing literature has been criticised for its narrow concentration on business-centric viewpoints, failing to effectively address larger societal issues and challenges. Research on the role of the involved stakeholders, especially investors and intermediaries, such as foundations, has little to no research (Schlütter et al., 2023). Furthermore, the literature focuses in large parts on the UK and the US, leaving room for research on SIBs in continental Europe. This research aims to contribute to the lack of literature surrounding SIBs in critical political economy, especially in the German context.

7. Social Impact Bonds in Germany

The primary proponents for driving the experimentation of SIBs in Germany has consisted of philanthropic investors and an intermediary institution focused on enhancing the capabilities of a local SII network. They aimed to disrupt the entrenched dominance of traditional

institutional structures represented by both the state and the six independent, state-funded welfare associations in Germany, commonly known as the "Freie Wohlfahrtsverbände". Notably, Germany lacked a national SIB infrastructure at that time (Fraser et al., 2022). Currently, there are three known SIBs in Germany, in Mannheim, Augsburg and Osnabrück, with €311,000 capital raised, of which one is completed, and two are still in progress. The chosen programmes focus on education, employment and training, and child and family welfare (Impact Bond Dataset, 2023).

The first ever SIB was implemented in Augsburg in September 2013 with a raised capital of 250,000€. The project *JuMP - Jugendliche mit Perspektive* (youth with perspective) or *eleven Augsburg*, aimed to identify, diagnose and integrate at least 20 young people, subject to social insurance contributions, into vocational training or work for at least nine months.

The following have been listed as the key findings, according to the monitoring evaluation commissioned by the Bavarian State Ministry of Labour and Social Affairs, Family and Integration:

1. The SIB's goal differs from Anglo-Saxon actors' motives. Instead of focusing on cost savings, it aims to achieve greater societal impact with the same resources.
2. There's consensus on the innovation of the financing instrument due to collaboration between the public sector, private pre-financiers, and commitment to impact-oriented financing.
3. Collaboration among stakeholders is positively rated overall.
4. Perception of target criteria regarding their binding nature varies, requiring clearer formulation and communication.
5. Different attitudes towards profitability and information needs emerge based on pre-financiers' investment strategies.
6. An overarching success factor of the SIB is fostering dialogue, allowing stakeholders to better understand the operational logic of various sectors.

(Scheck, 2017)

A more detailed evaluation of the SIB's outcomes will be discussed in the empirical chapters.

The city of Mannheim initiated the project *Integrative Campus Pestalozzi School* in September 2017, collaborating with various educational partners and supported by the Bertelsmann Stiftung, with the goal of introducing equal education opportunities to all pupils. The project focuses mainly on children from migrant backgrounds and strives to address disparities in subjects such as mathematics and the German language (Hornung, 2023). The project implementation involves a consortium of educational partners that double as social service providers. These partners encompass the Fairchance Foundation, the Therapy Centre for Dyscalculia (Zentrum zur Therapie der Rechenschwäche), Teach First Deutschland gGmbH, and KinderHelden gGmbH (a mentoring program) (*Integrative SIB*, 2023). The project is still ongoing.

The last of the three SIBs, also introduced in September 2017, in Osnabrück is titled “*Stärkung von Prävention in den Hilfen zur Erziehung*” (translated: “Strengthening prevention in family assistance programmes”) and aims to enhance parental support services while streamlining their effectiveness. The foundation promises that any public funds saved due to the project’s success will be earmarked within Osnabrück’s child services budget, available for future preventative programs. They also note how the project sets ambitious goals, presenting a genuine test as Germany has limited prior experience with SIBs (*SIB For More Prevention*, 2023).

Figure 2. Overview SIBs in Germany based on publicly available information (Yehdegheo, 2021)

Government body	Intermediary	Social investor	Service provider	Program participants	Capital raised in million	Policy area	Year
Bavarian State Ministry of Labour, and Social Affairs, Family and Integration	Juvat gGmbH (Benckiser Foundation Future)	BHF-Bank Foundation and BonVenture gGmbH and BMW Herbert Quandt Foundation and Eberhard von Kuenheim Foundation (BMW Group)	Apeiros e.V. and Ausbildungsmanagement Augsburg and Kinder-, Jugend- und Familienhilfe Hochzoll and Joblinge gAG München	100 young people	0.3	Workforce development	2013
Landkreis Osnabrück	PHINEO gAG, (Bertelsmann Stiftung)	Kreissparkasse Bersenbrück	Lega S Jugendhilfe gGmbH	48 families	0.2	Education and child development	2017
Municipality Mannheim	PHINEO gAG, (Bertelsmann Stiftung)	BASF SE	Pestalozzischule Stiftung Fairchance, Zentrum zur Therapie der Rechenschwäche, Education Y Teach First Deutschland gGmbH and KinderHelden gGmbH	Non-German speaking children	-	Education and child development	2018

Two of the three SIBs (Mannheim and Osnabrück) are being led by Germany's pioneer in this field: the *Bertelsmann Stiftung* (translated: Bertelsmann Foundation). With a general lack of academic research into think tanks in Germany (Pautz, 2008), it is worth noting the absence of investigation into the role of one of the main *intermediaries* of Germany's SIBs, considering the pivotal role they play in the Bond's successful implementation.

Founded in 1977 by Reinhard Mohn to safeguard his company's legacy and ensure its enduring impact, the Bertelsmann Stiftung has emerged as one of Germany's largest and most influential operational foundations. Bolstered by substantial financial backing from Bertelsmann AG, the foundation maintains a primary objective of effecting tangible societal changes (Schuler, 2010). It lobbies in political Berlin for the legal anchoring of SII instruments and represented Germany in the previously mentioned G8 Taskforce for Social Impact Investment (von Schnurbein et al., 2015).

7.1. Literature Review: Social Impact Bonds in Germany

The academic exploration of SIBs within the context of different economies including social market economies, and especially Germany, remains scarce. There exists a noticeable gap in comprehensive literature discussing the utilisation, efficacy, and implications of SIBs within Germany's socio-economic framework, reflecting a broader gap in understanding their potential role and impact within such a context. Given the apparent plans for expanded implementation of SIBs, it is critical to delve deeper into their viability and effectiveness within Germany's social market economy:

“We (Juvat gGMBH) are currently holding talks at municipal, state and federal level in Germany and neighbouring countries – and are confident that we will soon be able to implement another social impact bond.” (Nagatkin, 2021)

A qualitative study by Fraser et al. (2016) which explores SIBs in four different European countries, is one of the rare critical academic analyses of an SIB in the German context. The authors conclude that the introduction of SIBs in Germany encounters hurdles stemming from diverse welfare norms and institutional frameworks. The entrepreneurial and financial elements of SIBs are critiqued against the backdrop of Germany's prevailing civic-communitarian

welfare state provision. Negotiations and conflicts between investors and local government entities underscore tensions between financial and civic welfare norms, resulting in a high-risk, low-return investment model. The article contends that SIB implementation in Germany must account for local context, hybrid institutional trajectories, and political economies.

Burmester & Wohlfahrt (2018) describe how SIBs align with the growing trend of SII in Germany, presenting the potential for transformative changes in bureaucratic-administrative approaches to social service provision. They contend that SIB projects contribute significantly to the ongoing discourse on the re-evaluation of social services, aligning with the evolving concept of the social welfare state. The authors note the enduring influence of the belief in evidence-based practices on SIB models, highlighting its potential mythic nature and the associated risk of being misleading. Emphasising the political significance of SIBs, the authors argue that they introduce market-oriented elements into social policy, potentially reshaping power dynamics between public and private actors in Germany.

Scheuerle & Nieveler (2017) on the other hand conclude that while SIBs have the potential to address social problems and create social innovation networks in Germany, they are unlikely to become a widespread financing instrument on a local level due to their complexity, transaction costs, and other challenges. However, SIBs can be a development tool for the German welfare system, allowing public partners to have influence from the beginning. The text suggests that to improve the functioning of SIBs, legal security needs to be created by adding a clause in the German Social Code (SGB) that regulates funding for innovative approaches like SIBs.

While the literature above discusses if and how the SIB could fit into the German social market economy, it lacks a deeper analysis of the currently involved stakeholders in the projects. Additionally, (long-term) societal effects are excluded as well as analysis of potential unintended consequences. This research aims to address this gap in the literature.

8. Theoretical Framework

As outlined above the landscape of social welfare has changed considerably in recent years through the emergence of new financial instruments. The SIB stands as a testament to the continuous intersection of financial innovation, social policy, and market-driven intervention. To truly understand the possible implications of the implementation of the SIB we must look through a theoretical lens that transcends traditional economic analyses and instead explore the intricate interplay of power dynamics, social relations, and financial motives shaping these instruments (Baylis et al., 2014; Dowling, 2017). By employing the critical lenses of political economy and financialisation, the underlying framework for the following argumentation on the functioning and implications of SIBs within the German social market economy hopes to be achieved.

8.1. Financialisation & The Financial Elite

While financialisation has been defined differently in contrasting schools of thought, a general definition by Costas Lapavistas (2013) describes it as the growing influence of finance, financial institutions, and financial motives, not only in the economy but also in our society. Financialisation entails a shift in the focus of economic activity away from the production of goods and services and toward financial activities like trading, asset management, and speculation. Furthermore, this shift in economic activity has a powerful impact on the distribution of income and wealth, as well as the operation of the economy.

Palley (2017) identifies three important channels of financialisation: (1) alterations in the structure and functioning of financial markets, (2) shifts in the conduct of nonfinancial corporations, and (3) modifications in economic policy. In this research, the primary focus will be on (2) and (3) – the shifts in the strategies and practices of corporations, such as the Bertelsmann Stiftung, particularly concerning their financial activities, as well as interests within the financial sector, supported by other business entities, championing a policy framework that specifically aligns with their objectives.

Karwowski (2019), sees the role of the state in financialisation as crucial, as a shift towards a finance-led accumulation regime would be quite impossible without corresponding changes in

various policies as well as public institutions changing their behaviour to mirror the process of financialisation. Consequently, she defines the financialisation of the state as: “the changed relationship between the state, understood as sovereign with duties and accountable towards its citizens, and financial markets and practices, in ways that can diminish those duties and reduce accountability.” (p.1001). Balasubramanian (2021) observes the involvement of financialisation in social policy through the heightened emphasis on financial inclusion, microfinance initiatives, and income transfers. These efforts are primarily aimed at stimulating consumption and fostering market integration by incorporating the poorest population segments into the economic system.

Dowling (2017) argues that in times of crisis – such as having minimal funds for social welfare available – financialisation is often uncritically adopted by the state as a universal remedy, rather than being thoroughly examined as a concept, as we can see with the hurried implementation of the SIBs. As financialisation extends its reach into more areas of social life, its influence becomes evident in sectors such as the housing market. Here, individuals are increasingly evaluated through financial metrics such as creditworthiness or investment potential. This trend leads to significant consequences: people are often viewed as mere collections of risks and assets, essentially as "bundles of exposure." Such a perspective emphasises financial attributes over societal, personal, or intrinsic human qualities, marking a shift from traditional personal values to financial criteria in assessing an individual's worth and identity.

Furthermore, as already introduced, the process of financialisation has been proven to contribute to rising inequality, exemplified by the income distribution among the top 1% (Moran & Flaherty, 2022). Starting from the 1970s, progressive capitalist nations, including Germany, have witnessed: “a period of extraordinary income inequality. The ability of the rich to extract enormous incomes has been associated with the financial system. Inequality is a characteristic feature of financialisation” (Lapavistas, 2013, p. 3). According to Lapavistas (2013), financialisation is not just a matter of increased financial activity; it fundamentally alters income distribution, favouring those with greater access to financial resources and mechanisms. This shift leads to a widening income gap, making inequality a defining feature of societies undergoing financialisation.

With this increase in monetary income and inequality, the creation of a new elite has also taken place. While the elite has been a widely discussed concept in political economy, the *financial* elite has emerged with the intensification of financialisation. As Moran & Flaherty (2022) put it: “Financialisation has reworked the power and affluence of traditional elites, but [also how it] has provided the conditions for the emergence of a newly powerful elite group, the so-called ‘financial elite’.” (p.1158). To qualify as a member of the 'traditional' elite as described here, one must be integrated into a specific network of wealth and influence, leveraging exclusive resources within these networks for social benefits or personal material (Seabrooke & Tsingou, 2009). This means that to understand who the elite really is, we have to look past the assumption that they are only leaders of institutions or prestigious networks but identify them by pinpointing the core causal mechanisms of a structure and recognising the actors capable of leveraging them for personal gain.

Still, it is necessary to distinguish the *financial* elite from the traditional understanding. Three characteristics serve as a roadmap for this purpose: (1) Financial elites possess not only fixed or relative amounts of income, but also substantial 'rentier' incomes derived from actively holding interest or rent-yielding assets. (2) These incomes stem from channels specific to the institutional and regulatory frameworks of financialisation, encompassing investment instruments, debt, shares, property, bonds, or stock options. (3) Financial elites demonstrate loosely coordinated preferences for regulations that support their ongoing accumulation, and they can leverage networks of influence – whether corporate, political, or lobbyist – to mould the structures of accumulation within which they operate. (Moran & Flaherty, 2022). So, in other words, the financial elite and everyday politics are closely interconnected (Seabrooke & Tsingou, 2009).

9. Analytical Framework & Methodology

In this section of the thesis, we transition from theoretical discussions to practical application, serving as a bridge that connects our literature review and theoretical concepts about SIBs with their empirical analysis. Here, the rationale behind the specific areas of focus will be clarified, explaining why particular aspects of SIBs and certain stakeholders warrant a more detailed

examination. Additionally, this part will delve into the methodology employed for the analysis, highlighting its relevance and suitability for this study. The limitations inherent in the approach will also be explained, ensuring a transparent and comprehensive understanding of the scope and boundaries of the research.

9.1. Analytical Framework for the Empirical Analysis

As outlined in the literature review, academics have come up with a list of risks associated with the implementation of SIBs. However, these are primarily drawn from US and UK studies in Anglo-Saxon environments. The empirical analysis will aim to investigate if these risks can also be observed in the German SIBs supported by the theory of financialisation and the consequent emergence of a new financial elite. While the Anglo-Saxon studies have many completed SIBs, two of the three German impact bonds are still in process, meaning the analysis will be adapted to these limitations.

Additionally, data on the completed SIBs is very limited, with only two commissioned evaluation reports, and one external evaluation available. All in all, this means that while the analysis of the completed SIB was able to critically examine the evaluation report, specifically with a thorough assessment of the methodology of the outcome measurements, the analysis of the ongoing SIBs was shifted to focus on critically analysing their surrounding actors instead of the content of the SIB itself.

The risks outlined in the literature review are, summarised, as follows: (1) cherry picking and bias in project selection (2) prioritising cost-effectiveness over the well-being of individuals (3) measurement and simplification of outcomes (4) lack of accountability and transparency (5) privatisation of social service. As data and evaluations of the first continental SIB have been scarce it is complicated to create a holistic picture of the specific social outcomes. Consequently, the first chapter of the critical analysis defaults to concentrating on the methodology of the outcome measurement (3) and selectively cherry picking and bias (1). It's important to emphasise that although other risks may be relevant, prematurely assuming their applicability without the necessary data would be both possibly inaccurate and problematic.

Due to the scarce numerical data available, it would be impossible to judge the cost-effectiveness of the project (2) fairly. Additionally, the first SIB was introduced as a pilot project to gain a better understanding of the financial instrument, without the goal of reducing costs, meaning evaluating cost-effectiveness would be additionally inaccurate in this case study (Scheck, 2017). Assessing accountability and transparency (4), on the other hand, would require a longitudinal study for a comprehensive evaluation. As the analysis is supported by the theoretical framework of financialisation, risk point (5) is consistently considered throughout the chapters.

The following chapter will focus strongly on two actors involved in the ongoing SIBs: The Bertelsmann Stiftung and Phineo gAG. The reasoning behind choosing to closely examine the influence of these intermediaries on SIBs in Germany is due to the fact that they are responsible not only for the projects themselves but also for generating support for their initiation. Additionally, previous research on these foundations helps provide empirical support for the argumentation. The analysis aims to showcase the intermediaries' closeness to the characterisation of the financial elite as well as their connection to them using the previously outlined framework for identification: (a) gaining substantial 'rentier' incomes (b) these incomes arising from specific channels within the institutional and regulatory frameworks of financialisation (c) seeking ongoing accumulation, exhibiting loosely coordinated preferences for regulations, using networks of influence (Moran & Flaherty, 2022). This will be used to outline how they use the SIBs initiation for their companies' personal gain at the possible expense of the beneficiaries. This will once more be connected to the risks outlined in Anglo-Saxon SIBs, such as cherry picking (1) and the consequences of privatising social services (5)

9.2. Methodology & Limitations

The research method which will be applied in this thesis is deductive content analysis. Deductive content analysis is a research method in which the analytical framework is systematically derived from existing theories or prior knowledge. In this approach, the structure of analysis is pre-established based on established concepts or hypotheses. This method will be used as it is particularly valuable when the objective is to test theories in a new context or make comparisons across different time periods by applying a predefined theoretical framework to the analysis of content (Elo & Kyngäs, 2008).

A blend of primary as well as secondary sources was used to support this research. The literature review as well as theoretical framework were formed through secondary literature focusing on critical analyses, theoretical frameworks, and interpretations of primary data on SIBs as well as contextual and background information to frame the discussion on SIBs within broader economic and political landscapes. Additionally, critical reviews and analyses critiquing the role of finance in social policy, such as the works of Fraser et al. (2022) and Dowling (2017), offered perspectives on the implications, ethics, and effectiveness of financial instruments in social services. For the empirical analysis primary sources, such as official reports and evaluations, government publications and institutional documentation were most important for providing unmediated data and firsthand accounts. They are critical for understanding the direct implications, outcomes, and official positions related to Social Impact Bonds and their implementation in Germany.

Due to practical constraints, conducting a comprehensive longitudinal and large-scale qualitative study on SIBs is not feasible within the scope of this research. Additionally, a noteworthy limitation stems from the absence of a universally agreed-upon and standardised definition for SIBs. The fragmented nature of the concept poses a challenge in establishing a broadly applicable framework. As underscored by Albertson et al. (2020), the under-theorised nature of SIBs represents a constraint in shaping both research and evaluation agendas. This lack of theoretical grounding complicates the assessment of the extent to which SIBs have achieved their goals and hinders a clear understanding of their potential future development.

10. Empirical Analysis

The following chapter will be an exploration of the only completed SIB in Germany: JuMP - Youth with Perspective, or simply Eleven Augsburg. Consequently, this project has two public evaluation reports available, which will be used as empirical data and will be related to the previously outlined theoretical framework. Additionally, it will be shown how risks mentioned in the literature review also appear in German SIBs.

The evaluation by the law firm Spiegel RA WP StB Partnerschaft mbB focused on the results associated with conditional payment, while the report, published by Dr Barbara Scheck from the University of Hamburg, aimed to identify factors in the SIB which were successes and could be used for further SIB projects. This was achieved through semi-structured interviews with the involved stakeholders of the project. Both reports categorise the SIB to have been an overall success (Klimavičiūtė et al., 2021).

The following will take a closer look at the issues the Augsburg SIB ran into while measuring their performance outcomes. The process will be connected to the theory of increasing financialisation. The analysis intends to prove that due to the financialisation-induced introduction of context-less quantifiable outcome metrics – which cannot prove long-term effects – it is incorrect to assume the Augsburg SIB to have been a full success as this disregards the qualitative aspects of the program (Dowling, 2017; Ryan & Young, 2018). The interviews with service providers will carry exceptional value in this regard, given their direct involvement with the project beneficiaries. Because of their firsthand experience positions, this analysis will see them as the most adept judges of the project's effects.

10.1. Measuring the first continental SIB: JuMP - Youth with Perspective

For the project's commissioners and investors to determine the viability of a return on investment, it was essential to set clear performance targets. A crucial aspect of this was defining eligibility criteria for project participation to ensure meaningful outcome measurements. In the case of the Augsburg SIB, the objective was to integrate 20 "hard-to-reach" youths, characterized as being under 25, not engaged in education, employment, or training, and lacking school qualifications, into apprenticeships or jobs for a minimum duration of nine months.

One of the initial complaints consisted of a missing clear indication of eligibility criteria. This was consequently changed by the commissioner, as:

“it was decisive for [them] to have a measurable target with a clearly defined and explicit success criterion, which is purely objective, and does not entail estimations” (Klimavičiūtė et al., p.18, 2021)

Following this, to be eligible one had to have not previously contacted job centres and welfare youth offices, which concluded in excluding some individuals from the target group who were previously considered beneficiaries. This, in turn, unsatisfied service providers:

“The conditions of the SIB had some effect on the work of the providers – particularly the eligibility criteria, which put pressure upon service providers to find very difficult-to-reach youngsters.” (Klimavičiūtė et al., p.19, 2021)

“Our pedagogical manager would rather chop off his hand than treat the beneficiaries differently [depending on the funding stream].” (Klimavičiūtė et al., p.19, 2021)

In other words, despite prior inclusion as beneficiaries, individuals were excluded due to financial considerations. This highlights a dilemma where potential beneficiaries can be excluded if they don't precisely meet eligibility criteria. The strict structure, necessary for quantifiable outcome measurements, can lead to the exclusion of individuals who are still in need of social service, emphasising the prioritisation of financial objectives over the genuine needs of the community.

This reflects multiple problematisations mentioned in the theory of financialisation. This need for specific goals to be able to incorporate these targets into pricing mechanisms is a typical aspect of a financialised social service. As described in the theoretical framework, this leads to these beneficiaries, who are just ordinary people, being seen as simply as a collection of risks and assets, or in other words, as bundles of exposure (Dowling, 2017). This sentiment was shared by an interviewed service provider:

“for me personally, [the SIB] provided a lot, but for the beneficiaries it didn't.” (Klimavičiūtė et al., p.23, 2021)

Both evaluations stated that service providers critiqued the focus of the outcome measurements instead of evaluating if the SIB helped to achieve a positive social change:

“The service providers would, however, have preferred the broader involvement of qualitative factors to achieve a more comprehensive assessment of the participants’ wellbeing, including their quality of life.” (Klimavičiūtė et al., p.18, 2021)

Similarly, the report by the University of Hamburg reports how the measurement of outcomes primarily centred around payment conditions, lacking a thorough evaluation of other success factors and a broader comprehension of the project's overall impact (Scheck, 2017). The service providers expressed a preference for direct negotiations with the commissioner, excluding the intermediary, as they believed it would allow them to more effectively advocate for their interests (Klimavičiūtė et al., 2021).

10.2. Conclusions

In conclusion, the analysis of the JuMP - Youth with Perspective SIB in Augsburg provides a perspective on the complexities and challenges inherent in the implementation of the SIB in Germany. While the evaluations by Spiegel RA WP StB Partnerschaft mbB and Dr Barbara Scheck from the University of Hamburg categorise the SIB as an overall success, a deeper examination reveals critical insights into the limitations and unintended consequences of these financial instruments.

The shift to more stringent eligibility criteria, driven by the need for measurable and objective targets, inadvertently led to the exclusion of some of the intended beneficiaries. This outcome underscores a fundamental tension within SIBs: the prioritisation of financial objectives and quantifiable results often overshadows the genuine needs of the community. The case of the Augsburg SIB illustrates how the principles of financialisation can transform social services, reducing beneficiaries to mere numbers or "bundles of exposure," thus compromising the overall well-being of the individuals these programs aim to support.

Furthermore, the feedback from service providers highlights a significant gap in the current evaluation framework of SIBs. Their preference for incorporating qualitative factors into assessments points to the need for a more comprehensive approach that goes beyond financial metrics. This approach should encompass broader aspects of participants' lives, including their overall quality of life and long-term well-being.

10.3. Simply the ‘intermediary’? – The Bertelsmann Stiftung & Phineo gaG

One risk the continuous implementation of SIBs brings to the German social market economy is the increased financialisation of the state. This chapter aims to show how the current German SIB infrastructure has and will lead to the increasing power of the elite in the landscape of Germany’s social market economy and their influence of the continuous financialisation of it. To achieve this, the first step will be to identify actors, with the use of empirical evidence, who showcase the previously outlined characterisations of the financial elite. After this, the chapter will show how these financial elites mobilise their resource to gain personal benefits at the expense of people in need, or the so-called beneficiaries. It will be demonstrated how the connection of the financial elite to the SIBs showcases that the unintended risks associated with SIBs are well on their way of taking place in the German social market economy.

As described earlier, two of the three SIBs (Mannheim and Osnabrück) have the Bertelsmann Stiftung as a listed intermediary. As a reminder, their official role is to bring stakeholders together and structure deals, facilitating consensus and mobilising capital. Both these projects also have Phineo gaG, a consulting and analysis company, listed as a second intermediary, who is also described as the central coordinator and assisted in developing the project (Hornung & Bertelsmann Stiftung, 2021). The following will closely examine these two organisations.

The aim of the first chapter is to outline how the (political) motivation of the Bertelsmann Stiftung can be connected to beneficial outcomes for their parent company Bertelsmann AG. Their previous role in policy intervention in regard to privatisation will be explored as well as how they exhibit many characteristics commonly associated with the financial elite. Following this, a connection will be made to the second intermediary, Phineo gAG, the daughter company of the foundation. Subsequently, the network around the intermediaries will be investigated to show a clear connection to the financial elite as well as the effects this has on the SIBs. A clear connection will be made to the risk of cherry-picking which has already been observed in other SIB cases around the world. The chapter will conclude with an explanation of what this means of the effectiveness and unintended consequences of the implementation of SIBs in Germany.

10.4. The Bertelsmann Stiftung

When taking a closer look at the actors involved in the German SIBs, it is foremost important to analyse the Bertelsmann Stiftung. Without them and their facilitation and network-building support, the current portfolio of SIBs might not exist in its present form in Germany (Yehdegho, 2021). Their motivation for introducing SIBs can be led back to their advocating for social impact investing. However, this is only one of the many political projects the Bertelsmann Stiftung is involved in, and while the foundation itself describes itself as politically non-partisan, critics have pointed out the foundation's exclusive engagement with 'radical advocates of market policies' (Schuler, 2010). The non-profit organisation Lobbycontrol views the Bertelsmann Stiftung as a business-driven enterprise akin to the 'Initiative Neue Soziale Marktwirtschaft' (Initiative for a New Social Market Economy) or the 'Stiftung Marktwirtschaft' (Free Market Foundation) (*Bertelsmann Stiftung*, 2023).

The Bertelsmann Stiftung aligns with one of the emerging discourses of a changed understanding of Germany's social market economy. The discourse underscores a new market-oriented strategy in social services, treating them as investments to enhance individual welfare via market mechanisms. It accentuates the inclusion of marginalised groups in the job market, diverging from conventional social welfare systems and specifically focusing on groups often ignored in employment integration efforts (Burmester & Wohlfahrt, 2015). In essence, the foundation supports a growing trend toward financialisation within the social market economy. This stance is driven by the recognition that one of the hallmarks of financialisation is fostering market integration by incorporating the most economically disadvantaged population into the economic system, as previously outlined (Balasubramanian, 2021). The foundation's promotion of SIBs and its general advocacy for SII shows their driver is towards increasing financialisation.

Despite the Bertelsmann Stiftung's assertion that its projects, studies, and events are designed to foster discussions and catalyse societal changes, grounded in charitable work and sustainable impact, legal experts hold a differing view (Hornung & Bertelsmann Stiftung, 2021). As the role of the foundation becomes more prominent and part of tax revenue is lost to the state, the more questions are raised about the legality of their actions (Robert Bosch Stiftung, 2014). The findings from the analysis indicate that it is, in fact, a political foundation, and it does not hold

charitable status. Supporting political objectives, such as influencing political opinion towards privatisation, endorsing political parties, conducting market research for entities within the Bertelsmann Group, and similar activities, does not align with the criteria for charitable purposes (Lindner et al., 2009).

The discussion centred around the matter of tax exemption concerning the Bertelsmann Stiftung has been raised before since the foundation structure utilised by the Mohn family enables them to avoid paying billions of euros in inheritance taxes. By transferring ownership of Bertelsmann AG to the foundation, a substantial amount of taxes that would have otherwise gone to the government are avoided. Additionally, there are tax-exempt dividends which are paid to the foundation. Despite the foundation having a budget of approximately 60 million euros, this figure is significantly overshadowed by the potential tax savings it facilitates. The estimated annual tax savings for the family through the foundation amount to around 10 million euros, roughly equivalent to the taxes an individual or company would be obligated to pay if they were to donate the same sum to a private social and political institute (Kühnel, 2022). This, rightfully, raises doubts about the legitimacy and independence of the foundation.

Furthermore, the foundation has had entanglements in policies concerning outsourcing public services before, such as recommending outsourcing in areas such as property cleaning, waste disposal, and utility services for potential cost savings and increased efficiency. This was accompanied by advocational seminars and organised congresses, attended by multiple municipal politicians. The foundation's participation in these reform discussions corresponds with its status as a significant stakeholder in Bertelsmann AG, a company that benefits from outsourcing. They stand to benefit financially from outsourcing practices, as it can lead to cost savings, increased focus on core competencies, and access to specialised expertise. By endorsing privatisation, the foundation is advancing policies that coincide with its business objectives (Schuler, 2010).

The Bertelsmann Stiftung itself has also expressed a clear intention to exert influence and actively shape various aspects of society. The organisation's leader has straightforwardly stated, "If you ask me whether we want to exert influence: Yes, that is our goal" (Munzinger, 2018). The aspiration for influence and active participation in shaping policies is further emphasised

with the statement, "One wants to exert influence, one wants to shape, one wants to make proposals for improvement. In a certain sense, one also wants to engage in politics" (Munzinger, 2018). This articulation suggests a comprehensive desire to not only contribute ideas but also actively engage in policy-making processes.

This stance has since received some backlash and criticism from the media and public. This criticism mainly included concerns over its perceived influence on policy-making, and lack of transparency in decision-making processes, activities and funding sources, making it unclear which interests they potentially represent. Moreover, corporate bias due to its ties to their parent company Bertelsmann AG as well as questions regarding democratic accountability, as the foundation is still under sole control of the Mohn family (the founders and heirs of Bertelsmann AG) without other democratic stakeholders instead of a composition of decision-making bodies with voting rights. This results in a small range of perspectives and potential biases. The lack of transparency also concerns the missing comprehensive overview of the foundation's activities and funding sources (Munzinger, 2018; Schuler, 2010; Wernicke & Bultmann, 2007).

In the broader context of financialisation, the Bertelsmann AG, which the foundation belongs to, aligns with the characteristics of the emerging financial elite. This elite, as described by Moran & Flaherty (2022), has gained prominence with the intensification of financialisation, reworking traditional power structures. To be considered part of this financial elite, individuals must not only possess fixed or relative incomes, but also significant 'rentier' incomes derived from actively holding interest or rent-yielding assets. The Bertelsmann Stiftung's involvement in financial instruments like Social Impact Bonds suggests a connection to the unique channels of financialisation.

Furthermore, the financial elite, as characterised by Moran & Flaherty (2022), exhibits coordinated preferences for regulations that favour continuous accumulation. Bertelsmann Stiftung's role in advocating for policies like SIBs and SII underscores an alignment with these coordinated preferences. The ability to mobilise networks of influence, whether in corporate, political, or lobbying realms, as seen in the foundation's exclusive engagement with certain advocacy groups (Schuler, 2010), further mirrors the attributes of the financial elite.

This is further exemplified in a qualitative study by Fraser et al. (2019). In an interview conducted with a German SIB service provider, it was made clear that “The key agents advocating for SIB experimentation were philanthropic investors and an intermediary organisation aiming to build the capacity of a domestic social impact investment network to challenge traditional institutional dominance of the state and the six German independent, state-funded welfare associations (‘Freie Wohlfahrtsverbände’)” (p.352). We can observe a clearly stated preference for a means of accumulation, a characterisation shared by the investors.

Despite the Bertelsmann Stiftung's assertion of being grounded in charitable work and sustainable impact, the criticism it faces echoes concerns associated with elite structures – as Schuler (2010) puts it: "The Bertelsmann Stiftung is undemocratic, but it influences democracy." (p. 285). Transparency, accountability, potential ideological bias, and influence on policy-making are issues commonly linked to elite entities. Therefore, the Bertelsmann Stiftung's multifaceted involvement, from SIBs to broader policy advocacy, positions it within the framework of the emerging financial elite, raising questions about the nature of its influence and the alignment of its activities with societal interests. We can deduce, that the foundation is a channel for the Bertelsmann Group to reach the status of financial elite and they use SII/SIBs as a means to achieve long-held policy reform objectives which would increase Bertelmanns AG's financial returns.

10.5. Phineo gAG

The second intermediary that will be looked at is Phineo gAG. First, it should be noted, that Phineo was founded by the Bertelsmann Stiftung and is currently under the leadership of the former director of the foundation (Neßhöver, 2018). It is similarly crucial to mention, that the further main shareholders of Phineo include the Gruppe Deutsche Börse, or in other words the German marketplace for all financial transactions, as well as the consultancies KPMG and PwC (Partätischer Wohlfahrtsverband Landesverband Berlin, 2013). These two consultancies belong to the infamous ‘Big Four’.

This group of companies, often operating discreetly, possesses significant global influence, despite their relatively low public profile. Although appearing faceless, collectively, these

companies, wield a formidable and somewhat ominous power that extends beyond the economic realm and delves deep into politics. Notably, their clientele includes entire countries, governments, and public agencies. As governments, including the German one, increasingly outsource knowledge production to the Big 4, they find themselves increasingly dependent on the consultancy services provided by these firms. Recent reports from German media outlets reveal that between 2007 and 2017, the German Finance Ministry alone awarded PwC contracts amounting to 30 million euros annually. Furthermore, in 2017, nine out of Germany's 14 ministries granted contracts to the Big Four (Munzinger et al., 2019).

The two consultancies are big advocates of increasing financialisation and a more liberal German social market economy, as this would be in their commercial interest. Because they are intricately woven into a web of professional connections that cultivate substantial alignment of policy interests between the Big Four and influential financial lobbying groups, they certainly can pass on this wish to the responsible people in the German government (Kalaitzake, 2019).

These qualities align with the earlier defined concept of the 'traditional' elite, as they undeniably belong to a distinct network of wealth and influence. Furthermore, we can discern certain traits that would also categorise them within the realm of the 'financial' elite. This is evident in their lobbying and preference for regulations that support their ongoing accumulation of wealth. Moreover, they demonstrate the ability to mobilise influential networks to shape the frameworks of accumulation within their operational spheres. In other words, while not yet having established the position of Phineo itself, one can already establish their connection and with it influence by the (financial) elite.

Additionally, Phineo has been criticised in the German federal parliament for not collaborating with important organisations such as the Federal Network for Civic Engagement (BBE) or the Alliance for Non-Profit Organisations. This non-collaboration aligns with the Bertelsmann Foundation's issue around the lack of transparency which lessens Phineo's legitimacy. Members of the parliament expressed concerns about Phineo's intention to bring about an attitudinal change in civil society. Britta Hasselmann, a member of the Green Party, stated that civil society always has an impact, even if it is not always impact-oriented (Sommerfeld, 2012).

Avoiding impact assessments of their own by the BBE or the Alliance for Non-Profit Organisations should be seen in the context of potential corporate interests linked to the ownership structure.

In the context of the German social market economy, the principles traditionally emphasise a balance between a competitive market and social welfare. However, the rise of financialisation introduces dynamics that could potentially impact this balance. The financial elite, with its connections to financialisation trends, can impact the orientation of SIBs within the German social market economy. These connections may result in the prioritisation of financial objectives over purely social or welfare-oriented goals in the implementation of SIBs.

This is further demonstrated through Phineo itself. As a consulting and analysis company, it defines its objective as aiming to provide major donors and sponsors in particular, with a form of “product testing” – guiding them through the landscape of German non-profit organisations and serving as a solution for social investors pursuing “effective and sustainable” use of their funds. Non-profit organisations meeting Phineo's criteria for effectiveness and sustainability are eligible to showcase the "Wirkt!" (translated: “Effective!”) emblem. Wiebke Gülcibuk, a spokesperson for Phineo, has affirmed the effectiveness of the "Wirkt!" label, stating, "We have witnessed numerous instances where the application of the “Wirkt!” seal has positively influenced donation outcomes." (Partätischer Wohlfahrtsverband Landesverband Berlin, 2013, p.18).

If this mentality is similarly applied to the SIBs, one quickly runs into the risk of previously described “cherry picking”, in other words, elective investment in programs or interventions that are more likely to show positive outcomes. We must assume, that Phineo applies its company values to its SIBs and focuses on supporting projects which have a high likelihood of social investors taking an interest. One of the main aims of SIBs, however, has been to reach a target population which usually has difficulty obtaining funding. With the main project leaders of not only current SIBs but planned future SIBs, having an objective opposite of that, impactful initiatives and are likely to be ignored. In other words, when cherry picking is happening, the generation of financial returns is prioritised before social benefits.

10.6. Conclusions

This chapter clearly outlines that risks associated with SIBs are already shaping up to take place in Germany. The very infrastructure supporting SIBs in Germany is under construction on shaky grounds, foreboding an eventual collapse. These foundations are laid by the previously identified stakeholders, including the Bertelsmann Stiftung, their subsidiary Phineo gaG, and their main shareholders KPMG and PwC. Notably, these stakeholders are either ascending towards the (financial) elite status or are already renowned for it.

The potential repercussion includes the suffering of the often-overlooked individuals that SIBs are designed to assist. This is further emphasised by the ingrained practice of "cherry picking" evident in Phineo's corporate ethos, extending into the selection process of SIB projects. Instead of serving their primary objective of generating a positive social impact, the driving force appears to be the pursuit of heightened power and influence in the political landscape. This pursuit for influence, fuelled by increased financialisation, seems likely to predominantly benefit the elite, thereby deepening inequality in Germany. In essence, the SIBs carry the ominous potential of achieving the opposite of their intended purpose: rather than aiding a struggling welfare system, they may inadvertently contribute to its further deterioration.

11. Discussion & Further Research

This thesis has critically examined the implementation and implications of Social Impact Bonds in Germany within the framework of financialisation and the emerging financial elite. Initially, the thesis sets the stage by delving into the history and current state of Germany's market economy, crucial for understanding the emergence of SIBs in this specific context. This is followed by an examination of the social impact investment landscape, detailing the structure and key stakeholders involved in SIBs, both globally and within Germany. A comprehensive literature review then provides insights into the prevailing academic discourse on social impact investment and SIBs, drawing from studies mainly in the UK and focusing on the German perspective.

The theoretical framework focuses on financialisation as the increasing influence of finance in the economy and society, highlighting its impact on income distribution and the emergence of

a financial elite. It discusses the ways in which financialisation reshapes economic activities and policies, leading to greater inequality and the consolidation of wealth among a financial elite. This framework underscores the role of financial elites in leveraging financialisation for their gain, significantly influencing social policies and economic structures.

This framework was consequently used for the empirical analysis which details certain risks of the three German SIBs. The first chapter delves into Germany's first completed Social Impact Bond, JuMP - Youth with Perspective, in Augsburg. The chapter examines the project's evaluation reports, highlighting how financialization influences outcome measurement and stakeholder perspectives. It reveals issues related to the exclusion of beneficiaries due to strict eligibility criteria, emphasizing the prioritization of financial objectives over community needs. The analysis also critiques the narrow focus on quantifiable outcomes, suggesting a need for broader, qualitative evaluation to fully assess the impact on participants' well-being and overall project success.

This is followed by a critical examination of the two presently ongoing SIBs in Germany. And their influence in the German social market economy, specifically focusing on how they contribute to the increasing financialisation of the state and the empowerment of the financial elite. It identifies key actors in the German SIB infrastructure and demonstrates their influence on financialising social services. The analysis reveals how these actors use their resources for personal benefit at the expense of beneficiaries, indicating the presence of risks such as cherry-picking, which prioritise financial returns over social benefits. The chapter also critiques the roles of intermediaries like the Bertelsmann Stiftung and Phineo gAG in shaping the SIB landscape and their potential conflicts of interest, highlighting the complexities and challenges in implementing SIBs within Germany's social market economy framework.

For further research on SIBs in Germany, it's recommended to undertake a longitudinal study examining their long-term social and economic impacts, which would provide insights into their sustainability and effectiveness. An accompanying quantitative study could significantly enhance this analysis. Additionally, exploring the implications of the ongoing financialization of social services on the characterization of Germany's market economy as "social" would offer valuable insights into the evolving nature of this economic system.

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