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Community financing in the German organic food sector: a key for sustainable food systems?

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1. Background

**Community financing ► financial citizen participation**

- Wide range of models applied in the German (organic) food sector:
  - Pure financing instruments, e.g. crowdfunding, profit participation rights
  - Based on a particular legal form, e.g. cooperatives
  - Intermediary organizations, e.g. citizen shareholder corporations
  - Community supported agriculture, leasing and sponsorship

- Community financing potentially
  - provides access to finance,
  - increases financial independence from credit institutions (Oberholtzer 2004)
  - serves as marketing tool (Brown et al. 2017; Schäfer 2019)

- Considerable research on alternative food networks and community financing in the renewable energy sector

► Potential role for food system transformation?
2. Theoretical Framework

**Alternative food networks (AFNs):**
alternative modes of food production or provisioning; reduced distance between producers and consumers
(Tregear 2011; Forssell and Lankoski 2015)

**Social embeddedness:**
emphasis on the role of social relations for economic behavior ► necessary condition for trust (Granovetter 1985)

► relational and geographical proximity (Eriksen 2013) of major importance?

**Impact investing:**
investment style aiming at social / environmental impact and financial return (Höchstädt and Scheck 2015)
Local investment opportunities allow for identification and observation of impacts (National Advisory Board Germany 2014)
3. Case Study Design

- Embedded multiple-case design (Yin 2018)
- Selection of four models as cases
- Selection of 2 – 4 firms or initiatives as embedded units of analysis from
  A) production,
  B) processing,
  C) retail / trade of organic food
- Semi-structured interviews with a representative of each firm (n=16) on:
  - Motives, relevance in financial terms
  - Relations to investors
  - Success factors, challenges
- Short online survey among investors (n=107) and semi-structured interviews with investors (n=18)
### 4. Results: Capital seekers' perspective

<table>
<thead>
<tr>
<th></th>
<th>Crowdfunding</th>
<th>Profit participation rights</th>
<th>Cooperatives</th>
<th>Citizen shareholder corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main motives</strong></td>
<td>Marketing, access to finance</td>
<td>Independence from banks / improving bargaining position, marketing</td>
<td>Access to finance, improving bargaining position, marketing</td>
<td>Alternative funding, integration into a network, reduced efforts</td>
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<tr>
<td><strong>Relevance in financial terms</strong></td>
<td>Complementary</td>
<td>Complementary</td>
<td>Existential, complementary</td>
<td>Complementary</td>
</tr>
<tr>
<td><strong>Relations to investors / supporters</strong></td>
<td>Rather impersonal</td>
<td>Personal, often long-term customers or employees</td>
<td>Existing relations facilitate capital mobilization, the larger the coop, the less relevant</td>
<td>Rather impersonal</td>
</tr>
<tr>
<td><strong>Success factors</strong></td>
<td>Considerable communication efforts, appealing film and product</td>
<td>Strong relations to customers, communication</td>
<td>Existence of circle of supporters, communication</td>
<td>Considerable communication efforts</td>
</tr>
</tbody>
</table>
4. Results: Investors‘ perspective

Investors’ motives

- Supporting organic and/or local food systems clearly outweighs financial expectations
  - impact investing
- Non-financial rewards (discounts, coupons, natural produce) are appreciated
- Other motives: transparent and direct investment, supporting an alternative economic system

![Bar chart showing investors' motives](chart.png)

- Support of (local) food sector
- Financial return
- Non-financial reward
- Other

n=194, multiple answers possible

- Crowdfunding
- Profit participation rights
- Cooperative
- Citizen shareholder corporation
5. Discussion

Community financing and its potential role for food system transformation?

- Niche market, small investor / consumer segment
- Social relations facilitate communication (Schäfer 2019) and foster personal trust (Thorsøe and Kjeldsen 2016):
  - Community financing aims at building / intensifying relations to (new) customers
  - Large network and existing relations are a success factor of community financing
- However: Systemic trust necessary in order to increase the impact of community financing?
- Learning from the German energy transition: favorable regulatory framework
Thank you for your attention!

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References I


Oberholtzer, Lydia (2004): Community supported agriculture in the Mid-Atlantic Region. Results of a Shareholder Survey and Farmer Interviews. Research from the Small Farm Success Project.
References II


