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Community financing in the German organic food sector – an alternative to traditional credit financing?
Outline

1. Introduction
2. Theoretical Framework
3. Methods
   - Desk Research & Online Survey
   - Case Studies
4. Results
   - Online Survey
   - Case Studies
5. Discussion
1. Introduction

- Financing models involving citizens / customers seem to become more important (community financing)
- Wide range of models applicable to the organic food sector:
  - Pure financing instruments, e.g. crowdfunding, profit participation rights
  - Based on choosing a particular legal form, e.g. cooperatives
  - Community supported agriculture
  - Intermediary organizations
- Considerable research on alternative food networks, but potential role of citizens or customers as investors hardly investigated
- Project’s objective: identify the characteristics, potentials and challenges of the different community financing models

→ Can community financing be an alternative to traditional credit financing?

- First project results on:
  - Motives of firms to choose community financing
  - Relevance in financial terms
2. Theoretical Framework

• Conventional theories in finance (e.g. on optimal capital structure) do not provide an appropriate framework

• **Civic food networks** (Renting et al. 2012) being characterized by “new forms of consumer–producer relations”
  → Relevance of relationships
  → Concept of **social embeddedness** (Granovetter 1985)

• **Impact investing** (Höchstädter & Scheck 2015) implies
  (1) a financial return (minimum requirement = return of the invested principal),
  (2) a non-financial impact

• Difficulty to define one conceptual framework for the variety of models
2. Theoretical Framework

Firms along the value chain for organic food:

Production → Processing → Retail / trade

Investors:

Citizen

Consumer

Intermediary

Capital

Financial return †

Natural produce

Non-financial impact ą

† At least: return of the invested principal

ą Preserve or extend organic food production
3. Methods – Desk Research & Online Survey

- **Literature** review and complementing **expert interviews**

- **Online search** for firms that have used community financing models
  → approx. 600 firms

- **Online survey** among identified firms and initiatives on:
  - General information
  - Use of financing instruments in general
  - Detailed information on used community financing model(s):
    - Investment objects, financing volume, duration etc.
    - Aims and motives
    - Information on investors
  → 45 firms responded
3. Methods – Case Studies

- Multi-embedded case study design (Yin 2018)
- Selection of four models as cases
- Selection of 2 – 4 firms or initiatives for each model as embedded units of analysis from
  - A) production,
  - B) processing,
  - C) retail / trade of organic food
- At least one semi-structured interview with a representative of each firm on:
  - Motives
  - Relevance in financial terms
  - Success factors
  - Problems & challenges
- Semi-structured interviews with three investors of each firm
- Short online survey among investors
4. Results – Online Survey

**Economic motives**
- Publicity / marketing effect
- Access to finance
- Interest saved / affordable finance
- Desire for independence from banks

**Non-economic, ideological motives**
- Participation of citizens / consumers
- Disapproval of the conventional financial and economic system
- Sustainability
- Regionality
- Transparency and trust
4. Results – Online Survey

- 90% of respondents evaluate community financing (CF) as important or very important for their overall finance

**Rationale for evaluation as important**

- CF model coincides with / fits the business concept (25.90%)
- CF increases publicity / is a marketing instrument (by increasing customer retention) (18.50%)
- CF model is existential (for the firm) (14.80%)
- CF increases independence from banks / increases bargaining position (11.10%)
- CF allows for financial security and access to capital (11.10%)
- CF increases competitiveness (3.80%)

- 40% of respondents also use credit financing through banks
4. Results – Case Studies

Insights into ongoing case study research on crowdfunding & cooperatives:

- Community financing mostly used to complement traditional credit financing
- Marketing considerations play an important role
- Relevance of relationships:
  - Personal relations and proximity as a success factor of community financing
  - Building relationships to new customers / increase customer retention as one aim of community financing
- Emphasis on the effort related to community financing, e.g. managing a crowdfunding campaign, comply with regulatory requirements (cooperative law)
5. Discussion

Community financing - an alternative to traditional credit financing?

- Wide range of applications of community financing, online survey and ongoing case study research reveal a pattern:

<table>
<thead>
<tr>
<th>Major importance in financial terms</th>
<th>Minor importance in financial terms</th>
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<tbody>
<tr>
<td>Relying solely on community financing due to <strong>lacking access</strong> to (traditional) finance or <strong>ideological reasons</strong></td>
<td>Using community financing to improve <strong>bargaining position</strong> towards banks</td>
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</tbody>
</table>

- Can be a real alternative under certain conditions:
  - Large community (consider high capital intensity in agriculture)
  - Willingness to put a lot of effort into acquisition, communication etc.
  - ...

→ Community financing - a complement to traditional credit financing?
Thank you for your attention!

Any questions or remarks?

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References


