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

Outline

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2. Theoretical Framework
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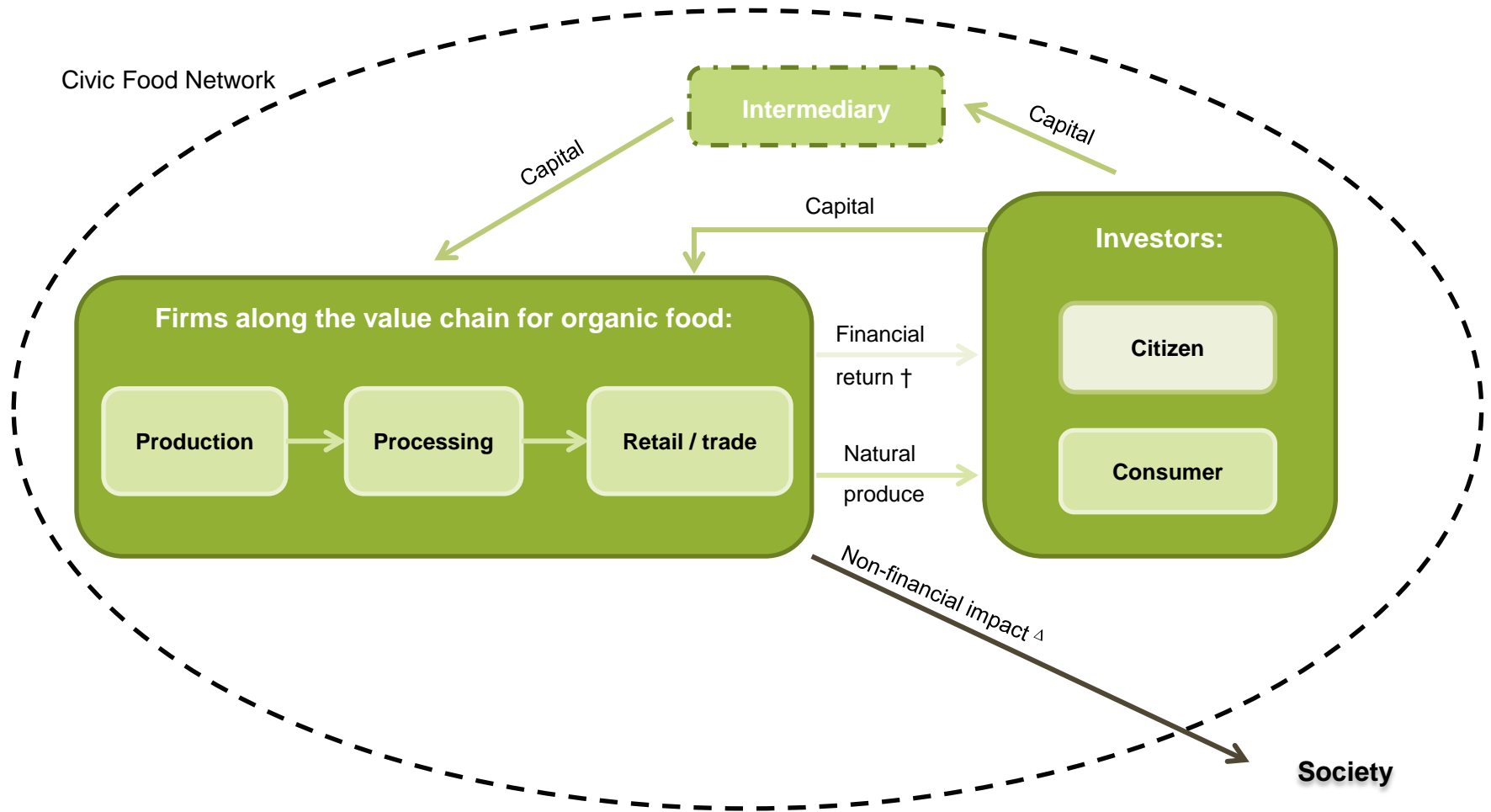
1. Introduction

- 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



† At least: return of the invested principal

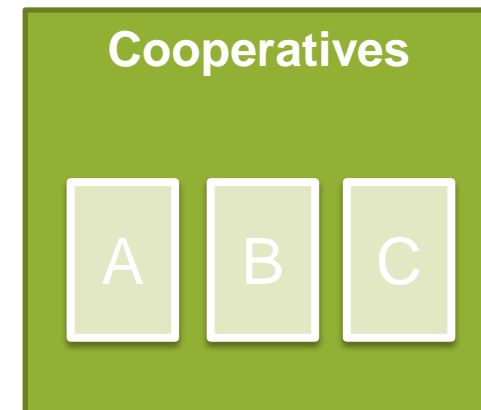
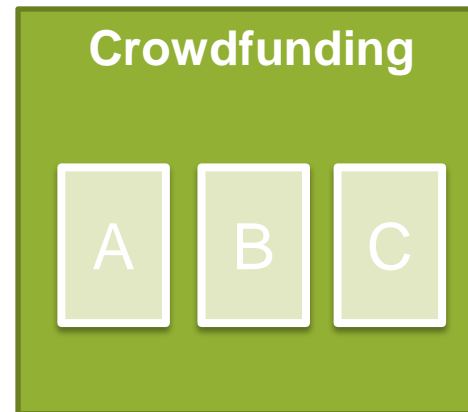
^Δ Preserve or extend organic food production

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

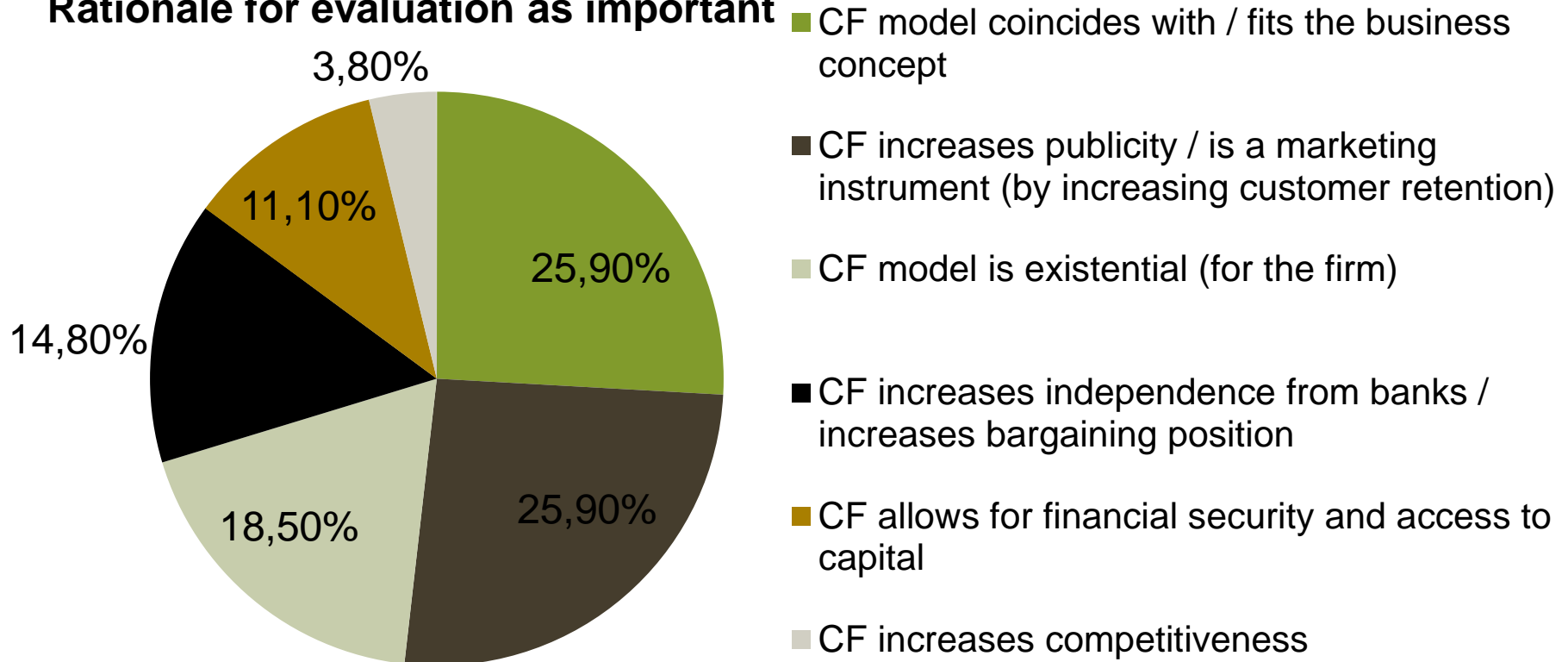
Non-economic, ideological motives

- 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



- 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:

Major importance in financial terms		Minor importance in financial terms
Relying solely on community financing due to lacking access to (traditional) finance or ideological reasons	Using community financing to improve bargaining position towards banks	Using community financing mainly as a marketing instrument to increase customer retention

- 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?



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Thank you for your attention!

Any questions or remarks?



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