FARMINFIN

Farming concepts and innovative funding/financing

MODULE E: Creating innovation in finance

Financial needs in the agricultural sector, methodology to design innovative financing models, factors enabling and hindering a successful implementation of innovative finance

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INTRODUCTION

Module E aims to provide knowledge and competencies to design an innovative finance scheme in the agricultural sector.

Building on the FARMINFIN Catalogue and the FARMINFIN case studies, this module presents a methodology to design innovative finance schemes and an overview of factors enabling and hindering the implementation of innovative finance.

LEARNING OBJECTIVES

The learning objectives of this module are:

- Understand the meaning of “innovative financing”.
- Learn about the needs in terms of finance in agriculture, the limits in traditional financing and how innovative finance can address those limits.
- Identify the actors generally involved in innovative financing schemes in agriculture.
- Gather knowledge on how to design models of innovative financing schemes and basic competencies applicable to a real case.
- Identify some common factors that enable and hinder a successful implementation of innovative financing in agriculture.
- Gather basic knowledge to be able to eventually further deepen the topic in the future.

INDEX

Duration of the module: 160-200min | Duration of each unit: 10-60min

1. WHAT IS INNOVATIVE FINANCE?

Today, the agricultural sector faces many global challenges, from market uncertainty, high price volatility, low farmers income, aging farming population, slow generational renewal to the consequences of a changing climate and of the current Covid-19 pandemic. All these challenges impact the financial situation of farmers, who are often confronted with abrupt financial needs, for example to increase their liquidity or to make a new investment.

Traditional forms of finance, such as bank loans, are becoming increasingly inaccessible to farmers. Banks often require strict conditions for loans. Many farmers – especially young - experience refusals to their financial applications, due to their lack of financial literacy, insufficient credit history or inadequate business plan. Due to a fear of rejection, many young farmers even abandon the idea of applying for financial help.

As a consequence, many farmers are turning to innovative forms of finance, to bypass traditional financing ways such as bank loans. Adopting innovative financial products requires a minimum level of financial literacy and an open-minded attitude to explore out-of-the-box possibilities.

2. WHAT ARE THE FINANCING NEEDS IN THE AGRICULTURAL SECTOR, WHAT ARE THE DIFFICULTIES FACED BY FARMERS WITH TRADITIONAL FINANCING AND HOW CAN INNOVATIVE FINANCE HELP ADDRESS THOSE LIMITS?

The financing needs

The financing needs of farmers vary depending on two -timeframes. In the short term: to cover the liquidity gap between expenses and future income. In the long term, to cover investments needed to set up new farms or improving existing ones (purchase of machinery, purchase of land or improvement of facilities).

Funding needs also depend on the type of agricultural activity carried out. In the case of arable farms, farmers often encounter challenges regarding operating loans due to uneven cash flow (the cash flow varies from year to year). In livestock farms, farmers often need to purchase land or innovative machines.

In the case of family farms, there are often investment needs, for example to shorten supply chain (sales or production processing, meat cutting plants, cheese factories, etc.).

Difficulties faced by farmers with traditional financing

One of the crucial problems is access to finance for investments or for working capital. This has been highlighted in the **report** "Survey on financial needs and access to finance of EU agricultural enterprises" done by the European Commission in collaboration with the European Investment Bank (EIB). Access to finance, especially to bank loans, was critical for 12.2% of all farmers using them for investment finance and 10.4% for working capital in 2017.

Farmers face the challenge of a high rejection rate of financial applications. According to the same report, around 15.6% of applications for short and long-term loans were rejected in 2017, as well as 14% of medium-term loans.

This problem creates a strong fear of rejection that often leads farmers to abandon the idea of applying for financing. In 2017, around 9% of farms did not apply for financing for fear of their application being rejected. This problem becomes even more severe for young farmers:

young farmers were two to three times more likely to have their application rejected by banks compared to older farmers. Often, banks reject the applications from young farmers due to the high risk associated with the new business. Moreover, young farmers seem to suffer more from a lack of appropriate collateral (both immovable and movable) as well as from inadequate business plans.

Innovative finance

Traditional finance has many limits that prevent farmers from keeping up with the challenges of our times. Therefore, it is important that farmers evaluate other less restrictive financing options, such as those offered by alternative and innovative forms.

Today, new and more innovative forms of financing have not clearly reached the majority of farmers, as came out from FARMINFIN survey, conducted in Belgium, Germany, Spain, Czech Republic, Italy. One of the reasons for this is that farmers need to have basic financial knowledge, in order to access innovative financial structures. However, financial training offered to farmers across Europe seems to be insufficient. With this project - and this module in particular - we aim to improve the financial literacy of farmers in order to facilitate their access to alternative forms of finance.

3. WHO ARE THE ACTORS INVOLVED IN INNOVATIVE FINANCE?

The actors involved in innovative financing models vary depending on the conformation of the innovative financing model, as presented in the FARMINFIN Catalogue.

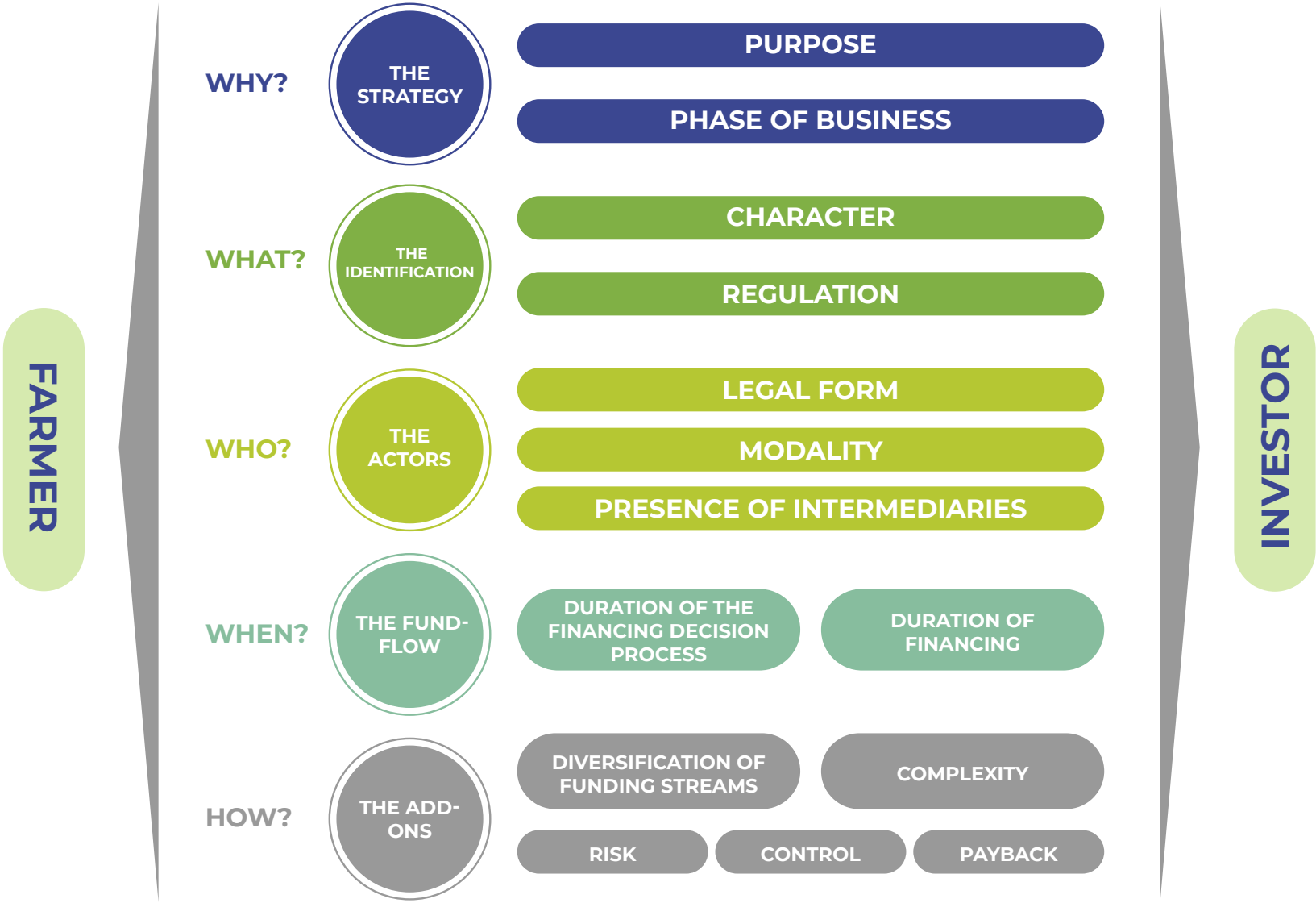
In models based on loans, the main actors are the borrower (the farmer) and the lender (the investor who provides the funding in the form of a loan to the farmer). The investors can come from the immediate environment of the farmer, such as in the model of direct loans (n° 10 of the catalogue) or business angels (n°11 of the catalogue), or they can be externals recruited through internet-based campaigns, such as crowdfunding (n°7 of the catalogue).

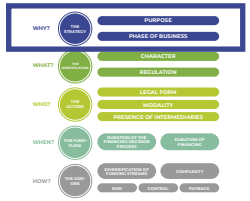
Other models envisage the presence of financial intermediaries, which are financial entities created by investors, through which they provide funding to farmers. Examples of these financial entities are venture capital companies - public limited companies that take temporary share capital of non-financial companies (n° 9 of the catalogue), or investment funds – legal entities created by investors that usually participate through other intermediary companies in projects and operational decisions (n°13 of the catalogue).

In models of associative financing, the funding comes from the farmers themselves, who form partnerships and collectively make investments. These partnerships can take the legal status of cooperatives (n°2 of the catalogue), where members provide capital for a specific purpose in the form of shares.

Finally, there are financial models with direct participation of customers in financing the investment, such as consumer purchase groups (n° 16 of the catalogue) or animal leasing (n° 17 of the catalogue). Here, customers are the investors.

4. METHODOLOGY TO DESIGN MODELS OF INNOVATIVE FINANCING IN AGRICULTURE





WHY? – THE STRATEGY

PURPOSE

Why do I want an innovative financing model: to increase cash flow, improve my working capital or finance investments?

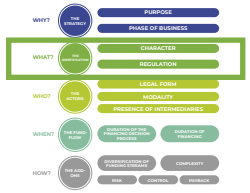
Many innovative financial models are aimed at increasing **cash flow**, others at financing new **investments**. For example, in case study BE01, KopjeZwan urban farm has been set up through crowdlending– a financial model where friends and family members lend money with very low interest rates (model n°8 of the catalogue) - with the purpose of generating cash flow. On the contrary, in case study ES04, Patricia decided to join an associative form of financing (model n°1 of the catalogue) - specifically a SAT (Andalusian Transformation Society) - for the transformation and commercialization of pistachio. Thus, making an investment.

PHASE OF BUSINESS

In which phase is my business? Do I need to start up or finance business operations, refinancing, acquisition, restructuring of my farm?

Your business can be in several stages and this affects the configuration of your innovative financing model. You might want to **start up** a farm, or to finance the **business development**, **refinancing**, **acquisition**, **restructuring** of your business.

Most of the case studies encountered present financial models targeting the start-up or the business development phases. For example, in case study SE01, Cissi adopts an innovative model of business angel to finance setting up her pig farm (model n°11 of the catalogue). On the contrary, in case study SE02, Ebba Maria is setting up a foundation to further develop her farm business: she wants to diversify her production activities and create new educational projects around farming (model n° 21 of the catalogue).



WHAT? – THE IDENTIFICATION

CHARACTER — Do I want a private or public financing model?

The majority of the case studies presented show innovative financing models with a private character.

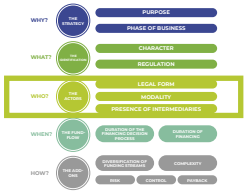
For instance, in case study DE02, Mr Dupont offers animal leasing to his customers using private contracts.

On the contrary, few case studies presented financing models with a public character: in the case study CZ03, Radmila received financial aid from the Ministry of Education to set up summer camps for children and from the Ministry of Culture to renovate the buildings of her horse farm.

REGULATION — What are the legal requirements needed in the innovative financial scheme?

Depending on the type of innovative financial scheme, the legal requirements can vary, spanning from the acquisition of legal status to the stipulation of contracts and insurances. For example, if you decide to create a cooperative (model n°2 of the catalogue), you should be aware of all the legal pre-requisites needed: you should register the cooperative in a public register for obtaining the status of a legal entity, you should decide upon membership qualifications (eventual restrictions related to the age, minimum and maximum number of members), admission principles, obligations and rights of members,..

Often, a necessary legal step is the stipulation of contracts - legally enforceable agreements between two or more parties. Examples of such are agricultural land leasing contracts (model n°18 of the catalogue) and animal leasing (model n°17 of the catalogue, case study DE02). Finally, the process of building the regulatory framework of your innovative financial scheme can involve the acquisition of insurances – essential mechanisms to guarantee income and liquidity in case of potential contingency situations. Examples of these emergency situations are crop failures in a model of consumer purchase groups.



WHO? – THE ACTORS

LEGAL FORM

Do I want to involve a separate legal entity for my innovative financing model? Do I want to set up a legal entity to justify the innovative financing model?

Some of the innovative financing models require the involvement of separate legal entities. This is the case of investment funds - legal entities created by investors, that usually participate through other intermediary companies in projects and operational decisions (model n° 13 of the catalogue). As presented in case study SE01, the involvement of a Swedish investment fund and the financial help received was essential for Cissi to be able to buy the pig farm where she was working as an employee. Other models of innovative financing imply the setting up and registration of legal entities, such as cooperatives or foundations. The latter is presented in case study DE03, where some citizens created the Hofgut Oberfeld Foundation and managed to jointly buy the historic farmstead from the Hessian state domain and lease the land.

MODALITY

Do I want a model based on participation or on autonomy?

The majority of the innovative examples of finance that we have presented are based on associative models, involving the participation of many actors. These financial collaborations can happen among farmers, who join forces and create their associative forms of finance like SAT (model n°1 of the catalogue) or cooperatives (model n° 2 of the catalogue). Or, associative models of financing can be between farmers and consumers, such as consumer purchase groups (model n° 16 of the catalogue). Conversely, direct loans (model n°10 of the catalogue) or loans with public institutions (such as the 30-year loan from ISMEA, case study IT02) are based on a more “autonomous” financial relationship between the farmer and the financial entity.

PRESENCE OF INTERMEDIARIES

Do I want to make use of intermediaries like investment funds or platforms?

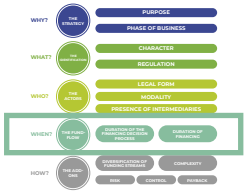
Financial intermediaries are entities that act as middlemen between two parties in a financial transaction, such as commercial banks, investment banks, mutual funds, or pension funds.

Among the models of innovative finance presented, investment funds or business angels can be considered as financial entities acting as intermediaries (model n° 13 of the catalogue). They can be key enablers for the setting up of farm businesses, as shown in case study

SE01, where a Swedish investment fund gave Cissi the necessary financial support to buy a pig farm. However, you should be aware that in innovative forms of finance, which envisages the presence of intermediaries, there is a risk of loss of autonomy for the farmer. Investors often want to keep some control over decisions linked to their investments and this can lead to the delivery of shares or the management of specific areas of the business.

Platforms can also act as intermediaries. In models involving crowdfunding, crowdfunding platforms substitute the traditional financial intermediaries and serve as new intermediaries. They are websites where fundraisers and the crowd interact and make financial transactions. Examples of crowdfunding platforms are the French **MiiMOSA** or the Italian **Biorfarm** platform. References to the latter have been presented in case study IT03, where the winemaker Gianfranco got in contact with a group of e-commerce and fundraising experts on the platform Biorfarm collecting farmers from all over Italy, telling their stories and selling their products by means of the crowdfunding action “Adopt or donate a tree”.

WHEN? – THE FUND-FLOW



DURATION OF THE FINANCING DECISION PROCESS

How long does it take to make the preparatory steps before the implementation of the innovative financing model?

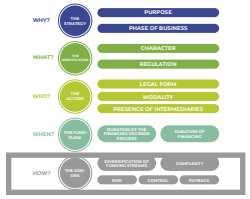
“Duration of the financing decision process” refers to the preparatory period needed to set up the innovative financing model, before its actual implementation. The duration of the financing decision process can be long if it requires a longer time of preparation, or short if the preparatory steps are shorter.

For example, if you are thinking about setting up a model of crowdlending, you should consider a sufficient time of preparation, for example to find the investors and to agree on the loan and its specifications such as interest rates, payback time, eventual collaterals (model n° 8 of the catalogue). Along the same lines, creating a foundation or a cooperative requires several preparatory steps. On the contrary, in a model of animal leasing (model n°17 of the catalogue, case study DE02), the duration of the preparatory phase is usually shorter, since it requires mainly the stipulation of a private animal keeping contract between the farmer and the customer.

DURATION OF FINANCING

How long does it take to pay back the money I received for implementing the innovative model of finance?

“Duration of financing” refers to the time needed to pay back the loans after the implementation of the model of innovative finance. The duration of financing can be medium-long term: this is the case of the ISMEA 30-year loan model, where the farmer is asked to pay back the loan to the Italian public body, usually within 5-10 years. Conversely, when a farmer is issued a direct loan, the duration of financing can vary depending on the agreements reached by the investor and the farmer.



HOW? – THE ADD-ONS

DIVERSIFICATION OF FUNDING STREAMS

Do I want to use a mix of several innovative financing models or a combination of traditional and innovative schemes of finance?

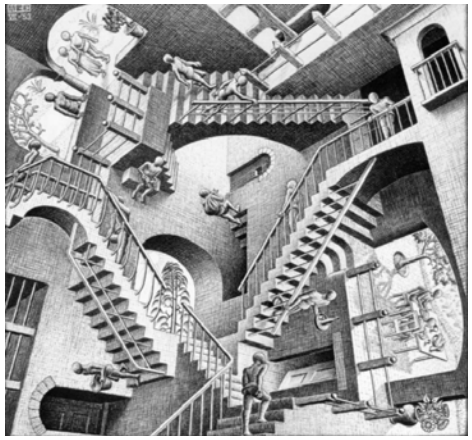
The majority of the case studies present stories of farmers who did not adopt a single model of financing but a mix of different ones, allowing for a more stable financial structure. This financial mix can be the result of a combination of two or more innovative financing models, or of one innovative scheme of financing with a traditional one.

For example, the business model of Kopjezwam, a Belgian urban farm producing microgreens and mushrooms sees the combination of two innovative financing models: crowdlending and crowdfunding (case study BE01). Conversely, in case study SE01, Cissi took over a pig farm through a traditional bank loan and with the financial help of an investment fund and a business angel. In case study IT05, Domenico combined the innovative model of crowdfunding with traditional rural development funds to finance his new projects: he used rural development funds to build a shed for processing his crops and honey and crowdfunding for his project of transforming a terrace of the farmhouse into a place for customers to taste their farm products.

Diversifying funding streams for creating an agricultural activity can also mean looking at non-agricultural national funding streams. This is what happened to Radmila (case study CZ03), who managed to finance summer camps for children at her farm through funding from the Ministry of Education and the renovation of the buildings of her horse farm through funding from the Ministry of Culture.

COMPLEXITY

Do I want a model with a higher or lower level of complexity (referring to administrative procedures, time consumption, relationship of trust and risks)?



There are several factors at stake when defining the complexity of a financing model: administrative burden (i.e. the paper work needed for the acquisition of legal status, establishment of a governance structure, procedural rules, etc.), time (i.e. for the preliminary steps needed to create the financial structure), trust (i.e. needed to establish the financial relationship, for example when stipulating a contract), risks (i.e. of crop failure, debts or even bankruptcy).

In general, based on the factors previously mentioned, some models of innovative finance can be defined as more complex, such as investment funds (model n°13 of the catalogue). The administrative procedures

can be long, as well as the consolidation of a relationship of trust. There can be several risks for the farmer, even of bankruptcy due to the high interest rates and short payback time required by the investment fund. On the contrary, a model of consumer purchase group is usually less complex (model n°16 of the catalogue). Generally, it can be faster to create, the relationship is set up through a contract and there are fewer risks for the farmer, for example in terms of bankruptcy.

RISKS **What is the level of risks for the farmer? Is the money provider participating in the farm risks?**

As in the case of complexity, the level of risk is the result of many factors, many of which are context dependent. In general, participatory forms of innovative financing are less risky for the individual farmer, because the risk is shared among multiple farmers. This is the case of cooperatives (model n°2 of the catalogue) or of associative purchases of goods and supplies (model n°4 of the catalogue).

When the money provider participates in the farm risks, the level of risks for the farmer is lower, as in the case of solidarity-based agricultural models (model n°19 of the catalogue). In case of crop failure, the risk is shared between the members and the farmer.

CONTROL **Is the money provider going to participate in the farm decision making process?**

Some models of innovative finance see the involvement of the money provider in the farm decision making process. This is the case of cooperatives, where, by nature, members who provide capital also sit at the decision-making table (model n°2 of the catalogue).

The participation of money providers in farm decisions can be problematic, because they can limit the autonomy of the farmer in decision-making. In case study SE01, Cissi, a farmer who bought her pig farm thanks to the help of a business angel, reveals that the “hardest aspect of it is the relationship: you have to learn to know (better: get to know) each other. He is not a laid-back business angel, he wants to put his fingers (better: get involved) sometimes here and there and give advice.” Investment funds are another example: the investors providing the investment fund can be very invasive over the decisions of the farmer (model n°13 of the catalogue).

PAYBACK What are the costs to repay the investment? How are the interest rates? What are the guarantees I need to provide?

The term “payback” refers to the actions that farmers need to do to recover the costs of an investment or to repay a loan. It depends on multiple factors, including the costs to repay the investment, the interest rates applied by the money provider and the possible presence of guarantees.

An **interest rate** is defined as the proportion of an amount loaned which a lender charges as interest to the borrower, normally expressed as an annual percentage. In some models of innovative finance, interest rates tend to be high, as in the case of investment funds.

On the contrary, some loans issued by public bodies can have lower interest rates. As presented in case study IT02, an ISMEA 30-year loan has low interest rates (slightly lower than 1%), allowing young farmer to access them.

A **financial guarantee** is a type of promise given by a guarantor to take responsibility for the borrower in the case of default in payments to the lender or investor, often offered in the form of bonds. When asking for a loan, the farmer often needs to provide guarantees to prove that he will take responsibility in case of financial difficulties. Guaranties can be given in the form of shares of the enterprise, share of the capital or collaterals.

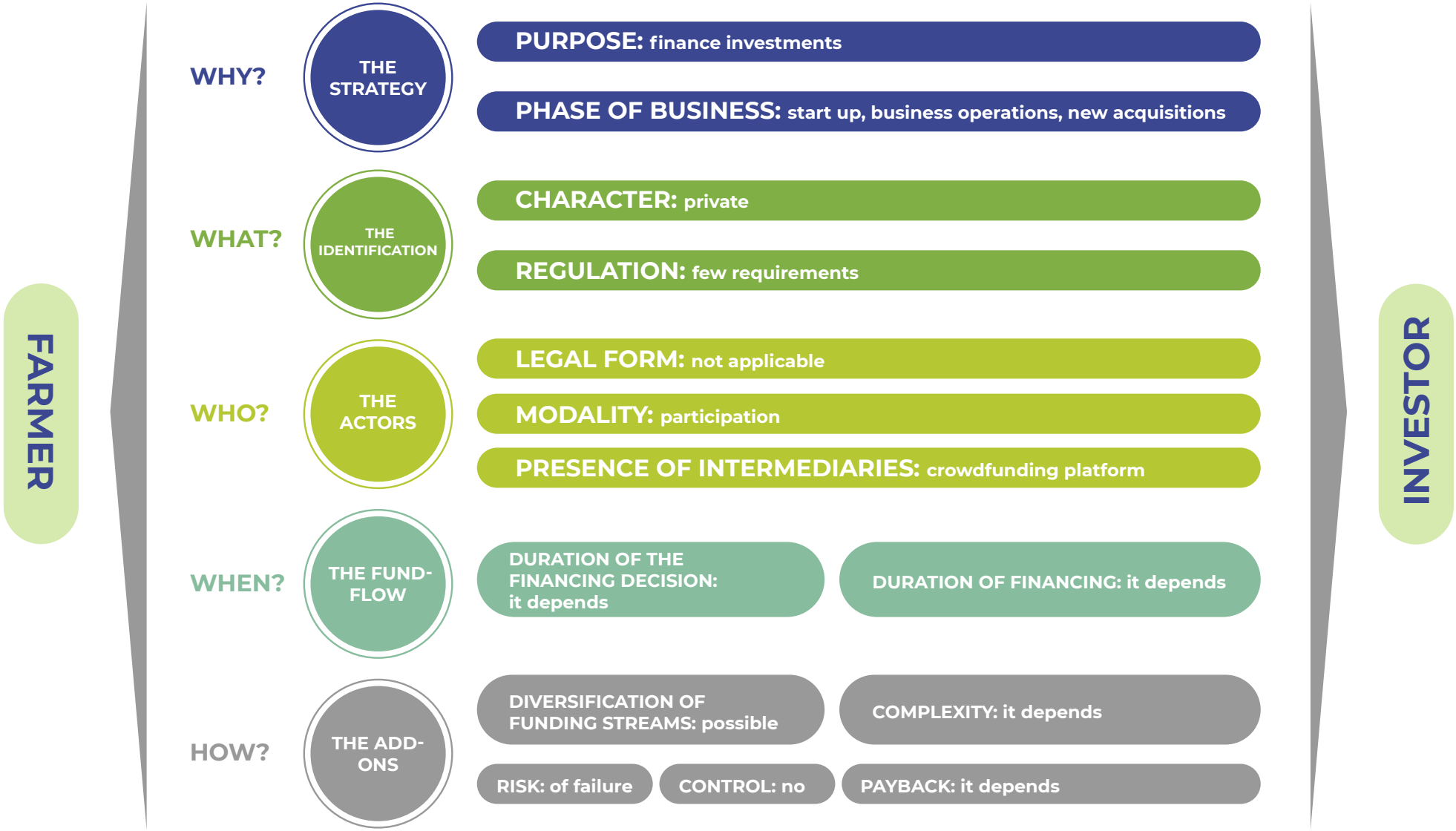
The term **collateral** refers to an asset that a lender accepts as security for a loan. In the event that the borrower does default, the lender can seize the collateral and sell it, applying the money from the sales to the unpaid portion of the loan. Land is an example of collateral.

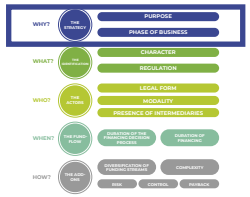
5. APPLICATION OF THE METHODOLOGY TO CROWDFUNDING

In this lesson, you will learn how to apply the methodology to create an innovative financing model for your farm business. We will take the example of crowdfunding and see what each category of the model looks like.

You will also discover the story of Lisa, a young urban farmer who did crowdfunding to purchase an electric cargo bike to deliver vegetables in the city! Curious? Go to the next slide!

Crowdfunding – application of the methodology to design models of innovative finance





WHY? – THE STRATEGY

PURPOSE

Why do I want an innovative financing model: to increase cash flow, improve my working capital or finance investments?

Crowdfunding is an open call to collect resources for a specific business idea. Investors are able to directly select the projects in which they want to invest, according to their expectations and their preferences in terms of risk level and financial or non-financial incentives. In general, crowdfunding is used with the purpose of financing investments, for example for setting up new operations or financing part of the process.

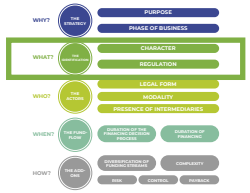
For example, to diversify the farming business and create new marketing and educational activities, such as on-farm tastings, as exemplified by case studies IT05 and IT03.

PHASE OF BUSINESS

In which phase is my business? Do I need to start up or finance business operations, refinancing, acquisition, restructuring of my farm?

Usually, crowdfunding is an innovative financing tool used to finance business operations or new acquisitions. For example, in case study DE04, Amelie and Franziska used it to finance the acquisition of a new barn in their sheep farm.

However, the type of "**equity crowdfunding**", where individual investors participate in investments and in return, they obtain shares of the company, is often used in the start-up phase of a company.



WHAT? – THE IDENTIFICATION

CHARACTER

Do I want a private or public financing model?

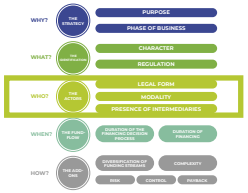
Usually, crowdfunding is a private financial model, and it is set up through private fund-raising platforms. Examples are the French MiiMOSA or the Italian Biorfarm platform.

However, crowdfunding initiatives can be launched by public authorities and they can be used to raise funds for public or not-for-profit projects.

REGULATION

What are the legal requirements needed in the innovative financial scheme?

Generally, in crowdfunding, there are few legal requirements. When you want to set up a crowdfunding campaign, you need to reach an agreement with the crowdfunding platform. For example, in the case of the French Miimosa, the farmer is asked to fill in a module, explaining his expectations of fund-raising (amount and duration). Then he is contacted by the experts provided by the platform to design the best version of the financial project.



WHO? – THE ACTORS

LEGAL FORM

Do I want to involve a separate legal entity for my innovative financing model? Do I want to set up a legal entity to justify the innovative financing model?

This category does not apply to crowdfunding because it does not require the involvement or the setting up and registration of a legal entity.

MODALITY

Do I want a model based on participation or on autonomy?

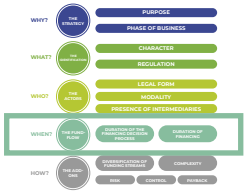
Usually, crowdfunding models require the presence of the farmer and the “crowd”, constituted by many private investors. Depending on their specific configuration, some models can be very innovative in terms of participation. For example, in case study IT05, Domenico used the crowdfunding “Alleva la Speranza” to finance his project of converting the terrace into a place for hosting consumers for tastings. In terms of governance, it is very innovative, since it has been developed by the Italian environmental organization Legambiente and the energy corporate ENEL to foster economic revival after the earthquakes of 2016 in Central Italy.

PRESENCE OF INTERMEDIARIES

Do I want to make use of intermediaries like investment funds or platforms?

In crowdfunding, the platforms act as the main financial intermediaries. Usually, they are web-based tools, where fund-seekers show their projects, and the investors can interact with them and make financial transactions. Examples of crowdfunding platforms are the French MiiMOSA or the Italian Biorfarm platform. It is crucial to choose the most suitable platform according to the needs and resources required. Some platforms offer well-developed coaching or communication services (social media).

WHEN? – THE FUND-FLOW



DURATION OF THE FINANCING DECISION PROCESS

How long does it take to make the preparatory steps before the implementation of the innovative financing model?

In a model of crowdfunding, the preparatory phase needed to set up a crowdfunding campaign varies from case to case. Generally speaking, during this preparatory step, the project is proposed by a promoter and appraised by the crowdfunding platform, which assesses its potential and suitability for crowdfunding. Then, the crowdfunding campaign is designed, often together with a communication strategy.

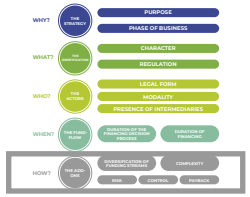
DURATION OF FINANCING

How long does it take to pay back the money I received for implementing the innovative model of finance?

The duration of financing depends on the type of crowdfunding.

In the model of "**lending crowdfunding**", where individuals lend money to a company or to an individual with the expectation that the money will be repaid with interest, the relation between investors and project owner continues beyond the duration of the campaign. Once the funding is successfully received, the investor will remain tied to the project for a longer period, at the end of which the initial investment will be repaid, together with the interest. Therefore, depending on the agreement reached, the duration of financing can be long.

On the contrary, in "**donation crowdfunding**", in which individuals donate small amounts while receiving no financial or other advantages in return, the relationship between the project owner and the backers is closely linked to the period of the campaign: their connection to the project formally ends together with the successful (or unsuccessful) closing of the campaign.



HOW? – THE ADD-ONS

DIVERSIFICATION OF FUNDING STREAMS

Do I want to use a mix of several innovative financing models or a combination of traditional and innovative schemes of finance?

You can decide to combine the model of crowdfunding with other innovative schemes of finance. For example, the business model of Kopjezwam, an urban farm producing microgreens presented in case study BE01, is built around crowdlending (from friends and family members) and crowdfunding. In this case, crowdfunding is used to find further ambassadors of the project.

COMPLEXITY

Do I want a model with a higher or lower level of complexity (referring to administrative procedures, time consumption, relationship of trust and risks)?

The level of complexity of a crowdfunding scheme varies depending on its configuration, but generally speaking, it can be defined as medium. Looking at each variable of the concept of "complexity", the administrative procedures required are searching for the crowdfunding platform and defining the agreements with the platform. The time needed for the preliminary steps is medium, requiring mainly the assessment and choice of the most suitable crowdfunding platform and the design of the campaign. The level of "trust" can vary, depending on the nature of the relationship established with the "crowd"- the crowdfunding promoters. Finally, the level of risks can be medium-high, considering the eventuality of failure of the crowdfunding campaign. Usually, crowdfunding platforms have a percentage of risk attributed, depending on their history.

RISKS

What is the level of risks for the farmer? Is the money provider participating in the farm risks?

The main risk for a farmer who adopts crowdfunding is to fail the crowdfunding campaign. Overall, the money provider participates in this risk. Generally, if the project raises 100% of the initial budget request, the crowdfunding campaign is successful, and the promoter is awarded the full amount. If the amount raised is below its initial target – i.e. not reaching 100% of the funding – money is normally returned to the investors and the project does not receive any funding. However, some platforms (mainly donation and reward based), adopt a 'take it all' approach, allowing the project owner to receive the funding collected even if the amounts raised are below the initial target.

CONTROL **Is the money provider going to participate in the farm decision making process?**

Usually, once the crowdfunding campaign is over, the money provider does not participate in the decision-making process of the farm business. However, in the type of “equity crowdfunding”, where individuals participate in investments and in return they obtain shares of the company, investors become co-owners. This normally entails participation in potential losses, as well as profits. Therefore, the level of control of the money provider is higher.

PAYBACK **What are the costs to repay the investment? How are the interest rates? What are the guarantees I need to provide?**

The presence and nature of payback depends on the type of crowdfunding. In the model of “lending crowdfunding”, once the campaign is successfully completed, the farmer needs to repay the initial investment to the investor (=the loan), together with interest rates. In a “reward crowdfunding”, at the end of the campaign, the farmer needs to donate a non-financial reward to the backers (gadgets, products or services) according to the amount of their economic contribution to the project. Finally, in the model of “equity-based crowdfunding”, the farmer gives shares of the profits to the investors.

Lisa and her crowdfunding campaign

Lisa is a young urban farmer from Switzerland. In 2019, together with 4 friends, Lisa decided to create an organic CSA-farm – the **Stadsgroenteboer** - in the outskirts of Amsterdam. After spending most of their money in setting up the farm business, Lisa and her friends decided to use crowdfunding to purchase an electric cargo bike to deliver vegetables in the city centre.

They organized a **crowdfunding campaign** through the Ulule platform with the goal of reaching € 8 000 within 40 days and after 4-5 days they managed to reach their goals of 8 000 euro. To learn more about her story, check out **this video**!

Now: let's see how our methodology to design a model of innovative finance applies to Lisa's story!

WHY? – THE STRATEGY

PURPOSE

Lisa and her friends set up a crowdfunding campaign to finance an investment: the purchase of an electric cargo bike to deliver organic vegetables in the centre of Amsterdam.

PHASE OF BUSINESS

Lisa and her friends set up a crowdfunding campaign during the start-up phase of their CSA vegetable farm - the Stadsgroenteboer.

WHAT? – THE IDENTIFICATION

CHARACTER

They chose an innovative financing model of private character: crowdfunding. The crowdfunding campaign was managed through the private platform Ulule.

REGULATION

The crowdfunding platform Ulule has some requirements for their participants. For example, Ulule campaigns are based on the “All or Nothing” principle, meaning that the projects owners only receive the funds if the campaign goal is reached. Moreover, it requires the project owners to design rewards for the crowdfunding investors.

WHO? – THE ACTORS

LEGAL FORM

Not applicable because there is no need to set up a legal entity.

MODALITY

Crowdfunding campaigns are models of finance based on participation.

PRESENCE OF INTERMEDIARIES

The “intermediary” was the crowdfunding platform Ulule.

WHEN? – THE FUND-FLOW

DURATION OF THE FINANCING DECISION PROCESS

Lisa and her friends took around 40 days to prepare the crowdfunding campaign. They prepared a crowdfunding strategy, targeted to the different audiences they wanted to reach. Moreover, they created a video for their crowdfunding campaign.

DURATION OF FINANCING

The story of Lisa shows an example of “donations crowdfunding’, where project owners provide rewards to their supporters. As rewards, Lisa and her friends prepared hand-made postcards and calendars. The relationship between Lisa’s team and their supporters was closely linked to the period of the campaign. The connection of the supporters to the project formally ended together with the successful closing of the campaign.

HOW? – THE ADD-ONS

DIVERSIFICATION OF FUNDING STREAMS

In order to purchase the electric cargo bike, Lisa and her team entirely relied on the crowdfunding campaign.

COMPLEXITY

According to Lisa, crowdfunding is an innovative financing tool of medium complexity. It requires significant time of preparation and involves some social interaction efforts, well planned in advance (you need to build networks, advertise your project idea and ask for support).

RISKS

The main risk was to fail the crowdfunding campaign if 100% of the crowdfunding goal (reach 8 000 euro) would not have been reached. According to the rules of Ulule platform, the project owners only receive the funds if the 100% goal of the crowdfunding campaign is reached. Another risk for Lisa was that the crowdfunding platform Ulule could go bust.

CONTROL

In the case of Lisa's crowdfunding model, the money providers do not participate in the decision-making process of the farm business. The relationship with them ended with the completion of the campaign.

PAYBACK

The form of payback that Lisa and her team envisaged for the crowdfunding supporters was a reward in the form of handmade postcards and calendars.

6. FACTORS ENABLING THE SUCCESSFUL IMPLEMENTATION OF INNOVATIVE FINANCING IN AGRICULTURE

1. Cooperative attitude
2. Financial literacy
3. Strong business plan
4. Marketing skills
5. Support from advisors
6. Reflective attitude
7. Open
8. Trust with investors
9. Diversify farming

1. Cooperative attitude

In many successful examples of innovative finance in agriculture, the farmer creates fruitful relationships from collaborations. Collaboration often arises with actors beyond the usual network of a farmer, such as municipal actors, business operators, researchers or civil society representatives.

Case study ES03 exemplifies a relationship of cooperation between a group of farmers and the municipality: a SAT (Andalusian Transformation Society) for the transformation and commercialization of pistachio – an example of the associative form of finance (model n°1 of the catalogue) - reached an agreement with municipal actors, interested in this crop as a potential alternative to olive trees.

In other financing schemes, especially those that envisage the participation of citizens in the business model, it is crucial to establish a relationship of cooperation with the local community. It is the case of solidarity-based agricultural businesses (model n°19 of the catalogue), where the support of the citizen-consumers is vital for the farm business.

2. Financial literacy

Having basic knowledge of finance proves to be an added value for the farmer. Daniel, a part-time farmer who previously worked in a bank, benefitted from his professional financial knowledge in his current job at the urban microgreen farm Kopjezwam and strongly advises farmers to gain knowledge about finance (case study BE01). Along the same lines, Valerio, an Italian farmer who received financial advice from the CIA farmers' association to apply to the 30-year ISMEA loan, stresses the importance of having good financial competences (case study IT02).

3. Build a strong business plan

Building a strong business plan is a necessary step towards a successful financing structure. It allows the farmer to have a coherent vision of the business and to properly plan the resources needed to implement it.

Many farmers from the case studies presented stressed the importance of having a strong business plan, such as Alicia (case study ES03), a young sheep farmer from Spain, or Daniel (case study BE01), an urban farmer from Belgium. In particular Daniel highlights that a farmer should also be able to properly defend the business plan in front of investors.

This resonated in the words of Patricia (case study ES04), a pistachio producer who joined a SAT, an associative innovative form of finance: “The more we know, the better we will evaluate needs, the better we will design our project and the better we will be able to defend it to others”.

4. Have good marketing and communication skills

Effectively communicating the value of your business idea is a powerful competence. It is a crucial factor in a model of crowdfunding or crowdlending, in order to convince people to finance your idea, as stressed by Daniel (case study BE01).

Communicating in the right way is particularly important in high-quality niche business models. Anton, a livestock farmer from Germany (case study DE02), pioneered animal leasing contracts to his customers, offering them exclusive special breeds (cattle, pigs, sheep, geese). His work is highly valued by his customers, who usually become long-term supporters. In his opinion, this is the result of his efforts not only of producing with high-quality standards but also of effectively communicating this choice to the customers. Through an open culture of communication, he managed to build a lasting relationship of trust with his customers.

5. Receive support from advisors

Farmers often don’t have the financial competences to properly plan and design an effective financing model, or the knowledge and time needed to follow the related administrative procedures. In many cases, having a good network of technical advisors has proven to be an enabling factor when implementing an innovative financing scheme.

This is the case of Valerio, an Italian cereal farmer, who managed to get a 30-year ISMEA loan thanks to the technical advice of the CIA farmers’ association, who followed his application process (case study IT02). Similarly, Domenico received help from an agronomist to apply for the rural development plans to finance the building of a shed for conditioning, processing and packaging of crops and honey (case study IT05).

6. Have a reflective and learning attitude

Innovation and experimentation are the results of a continuous reflective and learning attitude.

“Keep an eye on the farm and the social environment and their interactions at the same time. Many developments and cultural initiatives, but also know-how, came from the environment.” These are the words of Kathrin and Thomas (case study DE03), which prove their reflective

and innovative attitude. They joined a citizens initiative and created the Hofgut Oberfeld Foundation, through which they jointly bought the farmstead of historic state domain and leased land to citizens to practice biodynamic farming.

Along the same lines, the story of Radmila (case study CZ03), a Czech horse farmer, originally trained as a jewellery manufacturer, shows her strong reflective, creative and spirit for reinvention. She wanted to renovate the historical buildings of her farm and to create summer camps for children. For this, Radmila had the idea of applying for funds from the Ministry of Culture and from the Ministry of Education and she managed to obtain them.

7. Be open, creative and solution-oriented

Openness, creativity and a solution-oriented attitude are elements that contribute to the success of an innovative financing scheme. It is an attitude that can lead to the creation of unusual collaborations or to the new opportunities arising in times of difficulty. This is well exemplified in case study CZ03: Radmila, a Czech horse farmer, came up with the idea to look for funds to finance her new projects among non-agricultural financing streams. In this way she managed to obtain support from the Ministry of Education and of Culture.

Innovation and creativity are also elements that characterize the story of Werner and Martina (case study DE01), two German farmers who introduced profit participation certificates in their goat farm: people can invest in the farm and thus secure an entitlement to a return. The return is not paid in the form of interest or dividends, but in the form of a voucher for farm products of the corresponding value.

8. Create a relationship of trust with the investors

Creating a relationship of trust with the investors is a factor influencing the financial stability of the business model. This holds particularly true in those financing schemes that see the direct participation of customers in the business model, such as consumer baskets or solidarity-based agriculture. Similarly, building a relationship of trust with financial supporters is a factor of great importance in a model of crowdfunding, where investors can become the first ambassadors of the project. This is highlighted by Amelie and Franziska (case study DE04), two German farmers who crowd-funded to buy a barn. In their views, through crowdfunding they did not only got the money they needed to build the stable, but they also gained real supporters for their project. The words of Daniel, Belgian farmer from Kopjezwam – an urban farm built around crowdlending – mirrors the same concept: “When someone invests in Kopjezwam, he has a sympathy about it and he talks about it: he is not only an investor but an ambassador”.

9. Diversification of farming activity beyond production

Many case studies of innovative finance share the feature that the farm business models have elements of multifunctionality and diversification. This means that these farms don't only focus on production, but offer other activities: educational, social or touristic.

Crowdfunding is often used to finance these multifunctional activities. This is the case with Martin (case study CZ02), a Czech vegetable farmer who, besides production, welcomes trainees and offers them educational activities. He used crowdfunding to buy a caravan to accommodate his trainees.

The story of Radmila (case study CZ03) shows that a farm business model centered around multifunctionality can benefit from an innovative finance scheme. Radmila, a Czech horse breeder, along with horse breeding, had the idea to organize educational summer camps for children. To fund this activity, she searched for non-agricultural funding streams and got financial support from the Ministry of Education, in this way building an innovative financing scheme.

7. FACTORS HINDERING A SUCCESSFUL IMPLEMENTATION OF INNOVATIVE FINANCING IN AGRICULTURE

1. Lack of liquidity
2. Lack of clear project
3. No community engagement
4. Administrative burden
5. Interpersonal relations
6. Losses and failures
7. Strict payback conditions

1. Lack of liquidity

A lack of cash flow for investments can be a serious issue for a farmer who wants to start an innovative finance scheme.

This is stressed by Anna Page (case study CZ01), a Czech buffalo farmer who experienced problems with cash flow, mainly caused by the high initial costs of building her cheese factory and by the need to finance the expenses in advance.

Similarly, having enough cash flow is crucial in associative financing models: if a group of farmers want to make an associative purchase of goods and supplies (model n°4 of the catalogue) it is essential to have sufficient liquidity.

2. Lack of clear project and business model

It is crucial to build a strong business plan and communicate it in the right way. The presence of an unclear – or even the absence of – a business plan is badly perceived by investors and the project has less chances to be funded. As Daniel highlights (case study BE01): "A good entrepreneur cannot do everything on his own, but he knows what he can do very well and where he needs cooperation. A farmer needs a good business model. Only producing is not enough."

3. Lack of community involvement

Involving the local community is a factor of success in many models of innovative finance, especially those based on citizen participation in the financing structure. Therefore, not involving the community can be a serious element of concern that can lead to the failure of your business model.

This is exemplified by the experience of Kathrin and Thomas (case study DE03), members of a public-limited company founded by citizens who bought and converted a historic domain into a biodynamic farm. They comment: 'People were "taken along" by the development of the farm. They have learned a lot about agriculture, have become involved in it, have taken over shares in the farm or have become customers who form the economic basis of the current farm. Ultimately, success lies in this interaction between the environment and the farm."

4. Administrative burden

From the story of many farmers, we see that building an innovative scheme of financing can imply long administrative procedures. This takes time and often requires the help of technical advisors.

Amelie and Franziska, two German farmers who did crowdfunding to buy a new barn (DE04), advise: “If you are aiming for crowdfunding, we advise good preparation and guidance. A crowdfunding campaign takes work”.

Similarly, Ebba Maria, a Swedish farmer who is setting up a foundation to finance her new educational activities, complains that the administrative procedures are long (case study SE02). Along the same lines, for Alicia, a young Spanish livestock farmer (case study ES03), who made pastureland transfer contract, the technical support received was crucial to follow a complicated bureaucratic process of justifying the CAP subsidies and to design an innovative type of contract.

5. Challenging interpersonal relationships

Establishing a relationship of mutual trust and commitment between the farmer and the investor is vital for the health of your business. However, in many cases, tensions can arise, due for example to the fact that the investor tends to be invasive in the decisions of the farmer. This has been experienced by Cissi, a Swedish farmer who received support from a business angel (case study SE01): the relationship with him has not always been easy due to his habit of being intrusive in her decisional sphere.

In models that envisage the presence of contracts – such as agricultural land leasing contracts - relationships can become tensed. For example, disputes can arise because the lessee does not return the land in good conditions.

6. Risks of losses and failures

Farmers face many risks that can impact the financial situation of their farm, including losses and failures of harvest.

In some business models that see the direct participation of customers in the financial model, the risk of losses can directly impact the relationship with consumers. For example, in a model which envisages the presence of consumer baskets (model n°16 of the catalogue), in the eventuality of harvest failure or losses, the customer is directly impacted. The same can happen in a model of animal leasing, if the animal gets sick or dies.

Therefore, it is essential that the farmer properly considers those risks when designing his innovative financing scheme and reflects on the possibility of getting mechanisms of insurances.

7. Strict payback conditions

When getting involved in an innovative financing structure, it is crucial that the farmer assesses the payback conditions, such as the costs to repay the investments, the interest rates, and the guarantees they to provide. These are elements that influence the financial stability of the farm business.

For example, investment funds are known to require strict payback conditions. It is important that the farmer is aware of this when involving an investment fund in his financial scheme.

CONCLUSIONS

1. Innovative finance offers many opportunities worth to be explored.

2. Models of innovative finance are flexible: you can design your own financial structure, using one model of innovative finance or combining many according to your needs!

3. Designing your own innovative financial structure requires a minimum financial literacy. Keep on learning!

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