

The opportunity of alternative financing and need for citizen engagement

Make crowdfunding accessible and transparent for citizen

POSITION

Brussels, 19 September 2016. Crowdfunding is considered as a relevant alternative source of financing to the traditional sources of financing for SMEs and innovative projects, particularly in difficult periods such as those of economic and financial crisis and very limited access to credit.

This position paper aims to support the European Commission in identifying new schemes that combine alternative financing tools with citizen engagement, with a focus on crowdfunding for renewable energy projects.

It presents the main barriers to crowdfunding investment in the Renewable Energy sector. It also puts forward some potential solutions regarding how these barriers can be overcome, in particular the need for promoting this new alternative source of financing and the need for a stronger involvement of regional and local authorities.

Crowdfunding investment framework

There are important obstacles in the intersection between civic society and the crowdfunding sector that hinder the development of crowdfunding on the European level.

The Citizenenergy project, co-funded by the Intelligent Energy Europe program, has focused on the identification of main barriers to citizens' investment in renewable energy through crowdfunding. Drawing from the work of the consortium previous work, a number of information needs for investors can be identified that could be used to create comparisons and benchmarks, which would help inform investors:

- Information on platform level on applicable fees, selection-criteria and selection-process, a preliminary screening of projects (compliance with platform's conditions), identity check of project owners
- At the level of the offers, comparable information on how to reclaim funds, the terms and conditions of the offer, including the identification of the recipients, and the costs or fees charged to both the investor and investee as well as timing and terms of information provision regarding the offer

- Investor protection and information provision on the risk of loss of the capital invested, liquidity risk, taxation of the investments as well as measures to manage the risk of fraud, conflicts of interest and complaints, and the proper handling of personal data

Building on these information aspects and the inputs put forward on the occasion of the last Citizenenergy's Stakeholder Meeting¹, the following more general information barriers for citizens should be pointed out:

- A general lack of citizens' awareness of crowdfunding and of the different available options that it can offer;
- The need for further professionalization and transparency in the crowdfunding sector;
- Limited financial literacy amongst citizen investors on how to correctly manage risk and portfolio diversification as well as low engagement from crowdfunding platforms to fill this gap.

The scarce public diffusion of the current knowledge about crowdfunding itself and, as a consequence, of the different opportunities that such alternative financing tool can offer to citizens – regarding existing crowdfunding models and sectors in which it can be used – is one of the main obstacles to the establishment of a favourable environment for crowdfunding.

The lack of knowledge is not only an issue for the broader citizenship, but it is perceived as a problem that affects those who are operating inside this sector, also. On the industry's side, many of the traditional business models are not as efficient as they used to be, and players are exploring alternative options, such as crowdfunding. Crowdfunding is driving professional developments around innovation, compliance and transparency in close partnership with stakeholders and the financial industry, and it is of paramount importance to highlight the good results achieved by previous projects.

Finally, the feeling of uncertainty about how to correctly structure an investment and how to diversify the investor's portfolio is very likely to be caused by the interaction of the abovementioned challenges. In this context, citizens are less prone to explore crowdfunding as an alternative financing tool due to the fact that they perceive it as riskier than traditional financing methods.

¹Held during ECN's annual CrowdCamp on May 24th, 2016, the Stakeholder Forum gathered private stakeholders, as well as representatives of local authorities and regional development agencies.

CONCLUSIONS

Need for a widespread dissemination of crowdfunding

As Renewable become more mature, auctioning principals are introduced instead of feed in tariffs, and as big companies are stepping into the market we see a shift from smaller players and cooperatives towards bigger players with less citizen participation. European policy makers should introduce a strong financial incentive for citizen participation into the project development of renewable energies, either through crowdfunding or through cooperatives. Such incentives could draw from the French and Schleswig Holstein experiences, where they have already been introduced.

The switch to renewable energies is one of the most important goals for our society and the European Union. Since the very nature of renewable energy projects implies long maturities of investments, long term investments in this area should be incentivised in the same way they already are in other comparable fields². The Network believes that further participation of citizens could be achieved through the deployment of coherent tax benefits for long term RE investments schemes at the European Level.

Finally, lacking financial literacy is a hurdle when operating in disintermediated markets. It is therefore vital that the sector and public authorities work in unison to address issues of transparency and professional conduct so as to ensure that citizens are well equipped to engage in renewable energy investments, in line with the Communication issued by the European Commission “Delivering a New Deal for Energy Consumers”³. In addition to European and national institutions, regional and local authorities should be actively involved in the structuring of this process, due to the nature of their relationship with their citizens and to the territorial network at their disposal for education and dissemination.

The Network encourages European policy makers to foster a positive and predictable business environment that allow increasing investment towards renewable energies, sustainable and efficient production and use of energy. To boost citizens’ investment in RES projects in Europe we believe that a widespread dissemination of crowdfunding, its opportunities and risks, designed to target both professionals operating in the sector and citizens, is needed.

² ISA in the UK, no tax on real estate gains in Germany after 10 years, often investments in start-ups have tax advantages or investments in pension funds usually have tax advantages

³ https://ec.europa.eu/energy/sites/ener/files/documents/1_EN_ACT_part1_v8.pdf

BACKGROUND

The Citizenenergy Project

Citizenenergy - European Citizens for Renewables is a European project funded by the Intelligent Energy Europe Program (IEE/13/403SI2.675223) that aims at creating an EU-wide platform for citizen participation in renewable energy projects. This project brings together the worlds of renewable energy crowdfunding and renewable energy cooperatives for the first time in a single online platform that displays investment opportunities, and other forms of engagement, for citizens all over Europe to participate in the energy transition.

The project aims at boosting effective citizens' engagement and investment in renewable energies sources (RES), promoting synergies between RES projects and the transfer of key RES business models and at setting up a European network of citizen RES policy, bringing together relevant citizen energy initiatives. Citizens' engagement with renewable energy is growing but there are still barriers that hinder this engagement into actions. CITIZENERGY's main objective is to reduce these barriers and to offer citizens a tool that will enable them to invest in local renewable energy projects across Europe.

CITIZENERGY

Crowdfunding platforms and cooperatives both enable individuals to directly invest in sustainable energy, but it is difficult to get an overview of the possibilities. Citizenenergy changes all this. Made possible by European Union funding, Citizenenergy is the first platform to encourage cross-border investment in sustainable energy and the first to provide information on sustainable energy opportunities from both crowdfunding platforms and cooperatives. It reinforces the work of such organisations in financing renewable and energy efficiency projects, increasing their reach while promoting transparency. The Tripadvisor of our sustainable energy landscape, Citizenenergy is a valuable resource for individuals looking to get involved in the energy revolution. citizenenergy.eu

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SUPPORTING ORGANISATIONS:



The Citizenenergy consortium consists of the following organisations:



OTHER SUPPORTING ORGANISATIONS:

