



**THE EUROPEAN PLATFORM FOR CITIZEN INVESTMENT IN
RENEWABLE ENERGY**

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POSITION PAPER

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DELIVERABLE 2.5

MAIN BARRIERS TO CROWDFUNDING INVESTMENT IN RENEWABLE ENERGY SECTOR AND POTENTIAL SOLUTIONS

Introduction

The CITIZENERGY – European Citizens for Renewables projects aims at boosting effective citizens engagement and investment in renewable energies sources (RES), and at setting up a European network of citizen RES policy, bringing together relevant citizen energy initiatives. This project will promote synergies between RES projects and the transfer of key RES business models. It will identify barriers to citizen investment, promote ideas so these barriers are overcome and match citizens willing to invest with new RES projects in Europe, both locally or cross-border.

Citizens' engagement with renewable energy is growing but there are still barriers that hinder this engagement into actions. CITIZENERGY 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.

The CITIZENERGY partners will therefore work towards a secure energy future and the EU 20-20-20 energy goals, anticipating a common EU framework for citizen investment as well as supporting a culture of long-term investment and the creation of green jobs in Europe.

In order to reach these objectives, the project will also lead to the creation of a European platform where citizens can identify investment opportunities in RES projects and where project promoters can engage citizens and fund their projects.

The CITIZENERGY platform will be tested with the help of six pilot RES projects in Germany, Spain, France, Netherlands, Portugal and the United Kingdom. It is expected to raise 14.6 million euros by 2017, representing 6,000 citizen investments from ten European Member States.



This position paper presents the main shortcomings identified in the *Legal Report on barriers to citizen investment in RES projects*¹ in what concerns investments in RES projects, the main business models for renewable energy sources projects as set out in the *Handbook of citizens RES business models*², a summary of the RES promoters identification of the requirements needed to set up a platform³ and the main findings of the report on the citizens requirements for a crowdfunding web platform⁴. It also puts forward some thoughts regarding how these barriers can be overcome, in particular the need for promoting this new alternative source of financing and the need for adoption of a EU common regulatory crowdfunding framework.

¹ Legal Report on barriers to citizen investment in RES projects, Citizenergy, June 2014

² Handbook of citizens RES business models, Citizenergy, June 2014

³ RES promoter requirements, Citizenergy, June 2014

⁴ Crowdfunding web platform from a civic point of view: Data and Recommendations, Citizenergy, June 2014



Main barriers to crowdfunding investment in Renewable Energy sector and potential solutions

Crowdfunding is considered as a recent alternative source of financing to the traditional sources and will contribute to finance the real economy, particularly in difficult periods such as those of economic and financial crisis when access to credit is sometimes very limited.

Crowdfunding is an open call to raise funds to finance a project. The European Commission Communication on Crowdfunding refers that it is expected that funds raised through crowdfunding in the EU in 2013 amounted to €1 billion and that it finances half a million projects in Europe every year. The European Commission also states that “crowdfunding offers numerous advantages to a variety of user groups and it is a promising source of funding for many types of actors that do not find solutions suited to their financing needs”⁵.

However, and considering the recent experience with crowdfunding, further studying and clarifications on its application, for example to RES projects, are needed.

As business models that could be suitable, at the time of writing, for RES crowdfunding projects, the following were identified⁶:

- Cooperative: equity
- Corporate firms or companies: equity
- Cooperative: equity / customer
- Mezzanine financing
- Debt: bonds
- Debt: loans
- Donation
- Rewards
- Crowdfunding through crowdsourcing

Currently, a wide variety of national legislation applies to crowdfunding across Member States, also depending on the crowdfunding model chosen by the platform owner. Therefore, as main barriers to citizens’ investment in renewable energy through crowdfunding, the following should be pointed out:

- The lack of a national framework applicable to crowdfunding what leads to excessive regulatory and administrative burdens that vary from country to country and are a disincentive to set up a crowdfunding platform and for cross-border investment;
- The lack of transparency and the legal uncertainty for external investment due to the variety of national regulatory systems;

⁵ Commission communication on [Unleashing the potential of Crowdfunding in the European Union](#), COM(2014) 172 final, 27 March 2014

⁶ Handbook of citizens RES business models, Citizenenergy, June 2014



- The lack of an EU crowdfunding framework;
- Uneven playing field regarding the publicity of RES projects and tax incentives.

The amount of legislation that will have to be complied with by the crowdfunding-financed project differs depending on the model used (if it is an equity, lending or reward crowdfunding model to state the most common). From financial regulations in the case of an equity crowdfunding platform, to banking regulations for lending models and consumer's law, intellectual property and electronic commerce legislation, all of these may apply to crowdfunding, also depending on the transposition undertaken by Member States of EU legislation since crowdfunding may fall under the scope of many Directives⁷. This is also an element of difficulties for crowdfunding platforms specially when aiming to operate EU wide, and for cross-border investors.

The European Commission, in the Communication on crowdfunding, identifies the "lack of transparency on the applicable rules" as a key challenge for crowdfunding in the EU. The legislation with which crowdfunding platforms currently have to comply with are considered as too burdensome and are referred to, therefore, as a strong barrier to the development of RES projects.

Recently, more serious steps have been undertaken in some Member States in order to set up a legal framework applicable to crowdfunding which would reduce the costs of setting up crowdfunding platforms and would make the all process more simple and transparent, e.g. in France the new legislation is foreseen to enter into force in October 2014, Portugal and Spain are discussing legislation on the subject (more advanced in Spain), the United Kingdom has recently adopted a new framework suitable for crowdfunding.

Barriers to cross-border investment are also one of the main concerns to crowdfunding.

Nowadays, to operate in the EU a crowdfunding platform (even if depending on the model) would have to be licenced in all 28 Member States, what is very difficult, not to say impossible due to the huge financial and administrative burden it would represent. A common EU framework that enable a quality label that boost confidence in crowdfunding platforms, enables cross-border investment, cuts the red tape on licencing platforms, and increases investors and citizens confidence would be key to promote crowdfunding in the European Union.

Taking into account the specific nature of renewable energy sources and the scope of the CITIZENERGY project, we could consider that a EU framework would help RES promoters to set up an EU platform, whilst promoting citizens participation, by simplifying the requirements that currently apply and making it easy to chose an option and implement it amongst those options pointed out in the RES promoters' requirements⁸ report:

⁷ *Legal Report on barriers to citizen investment in RES projects, Citizenergy, June 2014*

⁸ RES promoter requirements, Citizenergy, June 2014



- **Option 1 - Independent platform:** *this solution would allow new initiatives to be registered, engage citizens and finance their projects and could also be used by current existing initiatives using the internet booking engine model (such as hotel booking platforms i.e. booking.com);*
- **Option 2 - Integrated with existing national platforms:** *CITIZENERGY platform would be an extension of national platforms. Users would register via the CITIZENERGY platform and the rest of the backend process would be executed by the national platforms (such as crowdfunding, cooperative or association websites). It would prevent the risk of “overbooking” but would not allow the use by initiatives that don’t have their own platform;*
- **Option 3 - Informative “umbrella” platform:** *CITIZENERGY would be only an informative website, that wouldn’t allow citizens to invest in projects but would be very useful in what concerns the information to citizens about ongoing projects, investment opportunities, eligibility, etc;*
- **Options 1 and 2 could also be combined** *to ensure that, even if CITIZENERGY is an independent platform, it can be integrated with the current existing platforms thus reducing the required effort and change imposed to current national platforms.*

On the survey⁹ to representatives of civic associations and energy experts, the requirements on the information to be provided by a crowdfunding platform that were considered the most important are the following:

- **Information about the platform**
 - Information on the criteria used in the selection of the projects;
 - Clear information to project owners and investors on the applicable fees;
 - Checking the identity of project owners.
- **Information about the projects**
 - Information on how to return the funds in case of legitimate exercise of the rights of withdrawal or revocation, as well as in the event of non-completion of the offer;
 - Terms and conditions of the offer;
 - Indication of any costs or fees charged to the investor.
- **Investor protection requirements**
 - The risk of loss of the capital invested;
 - The risk of illiquidity;
 - Taxation of the investment.

Also, the lack of a single regulatory framework across Member States makes it difficult for RES promoters and platform owners to publicise their projects what hinders foreign investment

⁹ Crowdfunding web platform from a civic point of view: Data and Recommendations, Citizenergy, June 2014



in some countries (e.g. Portugal and Spain). This is so, since in some Member States, the publicity of RES projects that would allow for further investment would, if it leads to financial return, be considered as a kind of financial product falling under the scope of financial services regulation, generally stricter in what concerns publicity of financial products.

Another aspect is the uneven playing field regarding tax incentives. In fact, some countries have tax incentives for RES projects while others do not. In some countries the financial constraints had as consequence the reduction of a favourable legal framework for RES projects including tax incentives and feed-in tariffs.

Therefore, a very important step for the development of energy crowdfunding projects and platforms would be, in one hand the adoption of a single national regulatory framework that would make the process of licensing and conducting business easier, and in the other, the adoption of a common EU framework which would allow for the creation of a real internal market for crowdfunding and RES projects.



Recommendations

To boost citizens' investment in RES projects in Europe we believe that a more favourable legal environment especially for cross-border investment through crowdfunding is needed, thus we recommend that:

- ❖ A common EU crowdfunding regime should be created, bearing in mind that a “one size fits all” may not apply due to the national specificities and investment culture;
- ❖ This common EU crowdfunding should enable mutual recognition of crowdfunding platforms licences.
- ❖ Cross-border investment through crowdfunding should be allowed and encouraged
- ❖ Member States, specially Portugal, Spain, Germany and the Netherlands, should develop national legal frameworks for crowdfunding to create trust and legal certainty;
- ❖ Crowdfunding legal framework should ensure that platform owners, project promoters and investors have reduced bureaucracy and low red tape related costs.

Consortium members agree that advocacy is needed to ensure that crowdfunding is taken in consideration by the European institutions as an important tool to promote citizen investment in renewable energy projects.