

# Policy recommendations on regulatory and market framework improvements for crowdfunding RES projects

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CrowdFundRES  
*Unleashing the potential of Crowdfunding for Financing Renewable Energy Projects*



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# 1. Purpose of this report

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There is space for action at a policy level for improving the regulatory and market framework conditions within which renewable energy crowdfunding operates and further develops.

The aim of this report is to provide policy makers with recommendations on how to improve the regulatory and market framework for crowdfunding RES projects.

This report has been developed within the CrowdFundRES project, which is funded by the European Commission and aims at contributing to the acceleration of the renewable energy growth in Europe by unleashing the potential of crowdfunding for financing renewable energy projects. In order to achieve this, the work has been structured for achieving the following objectives:

1. Deepen the understanding of the adoption of crowdfunding for financing renewable energy projects.
2. Analyse the challenges faced by the application of crowdfunding for renewable energy projects in Europe.
3. Develop and apply guidelines that support more effective practices.
4. Help improve the market and regulatory framework in Europe.
5. Promote the crowdfunding concept and its advantages among those who could contribute or raise funds.

Over the first two years the project has developed the following activities:

- a review and update of crowdfunding regulation and RES market developments has been conducted providing a detailed overview of the fast changing regulatory conditions in all 28 EU Member States;
- three online surveys were conducted at the European level, one regarding public perceptions about crowdfunding in the renewables sector, with the others examining the views of crowdfunding platforms and RES project developers;
- a follow up survey seeking to determine how investors value the specific characteristics of potential investments was conducted;
- case studies from Europe's leading RES crowdfunding platforms have been reported providing a detailed view of how platforms operate as well as an overview of individual RES projects that have raised funds on the respective platforms;
- more than 9 workshops were organised at European and national level, involving: crowdfunding platforms, renewable energy project developers and national and European decision makers where the participants provided input to the project's guidelines and policy recommendations; and
- draft guidelines for crowdfunding platforms interested in hosting renewable energy projects, guidelines for renewable energy project developers interested in financing their projects through crowdfunding and for investor interested in investing in RES project through crowdfunding have been developed to support more effective practices.

This work has improved the understanding on how crowdfunding is used for financing renewable energy projects and has helped analyse the challenges faced by the application of this innovative mechanism for financing such projects as well as the drivers of its growth in Europe.

Based on this work and other sources, this report aims to identify the key elements of the regulatory and market framework that potentially create unfavourable conditions for the development of crowdfunding as a means of funding renewable energy projects and propose actions to overcome them. As part of the methodology, European<sup>1</sup> and national<sup>2</sup> policy stakeholders have been involved in the development of the policy recommendations from an early stage in order to make sure that as many different views as possible are incorporated.

## 1.1 Structure of the document

The document is structured as follows:

- section 2 provides an overview on the state of the art of investments through crowdfunding in Europe and the relevance of this innovative financing schemes;
- section 3 provides a comprehensive overview of the crowdfunding and renewable energy regulation in the European Union;
- section 4 outlines the outcomes identified from the stakeholders surveys developed within the project;
- section 5 provides a summary of the practical experience gained from case studies;
- in Section 6, we look in the renewable energy and crowdfunding framework to elaborate policy recommendations that will support a level playing field in the European Union for crowdfunding for renewable energy investments; and
- section 7 concludes the current discussion of this report with the experience and insights from the European Policy Workshop organised in the framework of the CrowdFundRES project on 16<sup>th</sup> February 2017 in Brussel, Belgium.

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<sup>1</sup> Link to European CrowdFundRES Workshops: <http://www.crowdfundres.eu/news/crowdfundres-workshops-crowdfunding-renewable-energies/>

<sup>2</sup> Link to CrowdFundRES National Workshops and other events: <http://www.crowdfundres.eu/category/events/>

## 2. Introduction to crowdfunding

The growing challenges of RES project developers to finance their project using the conventional avenues could lead to the deceleration of renewable energy growth. Reduced access to conventional financing options over the past few years has triggered innovative financing schemes to emerge, with crowdfunding attracting a lot of attention.

Crowdfunding is defined as “... a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations. This is usually done via or with the help of the Internet. Individual projects and businesses are financed with small contributions from a large number of individuals”<sup>3</sup>.

This alternative financing method shows a vast potential for financing renewable energy projects and can help bridge the existing funding gap. According to the 2<sup>nd</sup> European Alternative Finance Industry Report<sup>4</sup>, the European alternative finance market as a whole, covering a range from equity-based crowdfunding to peer-to-peer business lending and from reward based crowdfunding to debt-based securities, grew from €2,833ml in 2014 to €5,431ml in 2015, with the UK market counting for the lion's share (around 81%).

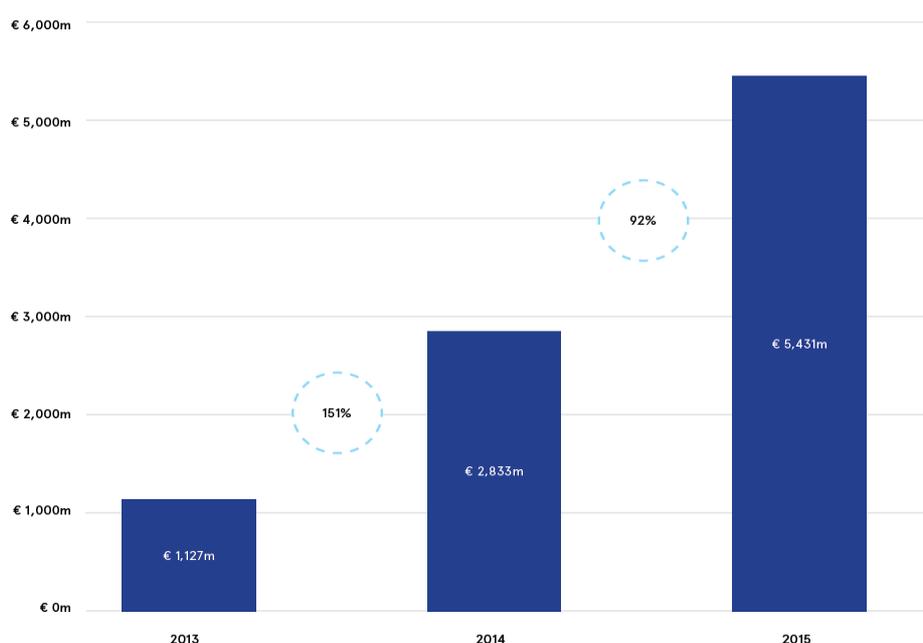


Figure 1: European Online Alternative Finance Market Volumes  
(Source: A Framework for European Crowdfunding)

Another study identified 510 platforms in the EU and collected platform and project related data from 193 of them for 2013 and 2014, encompassing a variety of funding models, including (but not

<sup>3</sup> K. De Buysere, O. Gajda, R. Kleverlaan, D. Marom, “A Framework for European Crowdfunding”, October 2012

<sup>4</sup> B. Zhang, R. Wardrop, T. Ziegler, A. Lui, J. Burton, A. James, K. Garvey, "Sustaining Momentum: The 2nd European Alternative Finance Industry Report", September 2016

limited to) loans, equity and rewards<sup>5</sup>. The study concludes that there are significant differences in the number of projects and the corresponding amounts rose between Member States. The different markets are grouped below based on the annual amounts:

- the UK market, as this is significantly larger than any other by volume (Fig. 2);
- European markets with annual raised amounts between €10 million and €100 million (Fig. 2);
- European markets with annual raised amounts between €1 million and €10 million (Fig. 3);

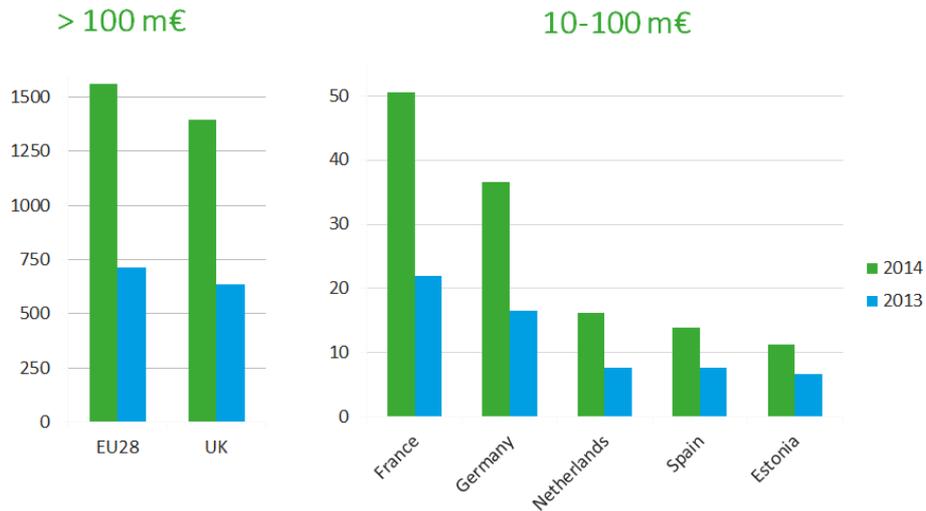


Figure 2: European markets with annual raised amounts exceeding €10 million  
(Source: Crowdfunding: Mapping EU markets and events study)

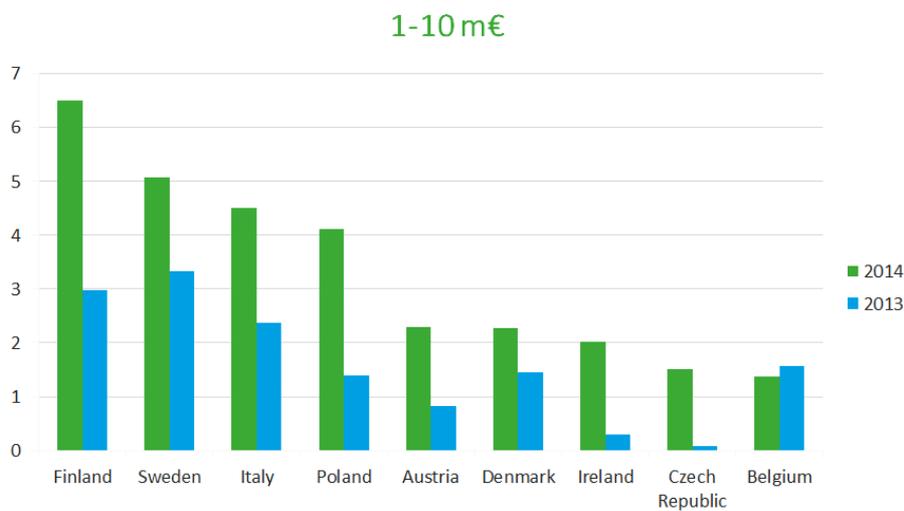


Figure 3: European markets with annual raised amounts between €1 million and €10 million  
(Source: Crowdfunding: Mapping EU markets and events study)

CrowdfundingHub developed the Alternative Finance Maturity Index<sup>6</sup> that intends to capture the causes behind the current state of crowdfunding in a certain country based on input collected

<sup>5</sup> European Commission: "Crowdfunding: Mapping EU markets and events study", September 2015

<sup>6</sup> CrowdfundingHub, "Current State of Crowdfunding in Europe", 1<sup>st</sup> Quarter 2016

from more than 25 countries. A list of 15 research areas to assess the maturity of the alternative finance industry was created with eight of them being directly related to regulatory issues (Fig. 4).

The Index focuses on the divergences (positive or negative) found when analysing the information provided. If a country distinguishes itself in a positive manner in a certain research area it is highlighted in dark green. In those countries where the conditions are less favourable causing administrative burdens a lighter green colour has been used.

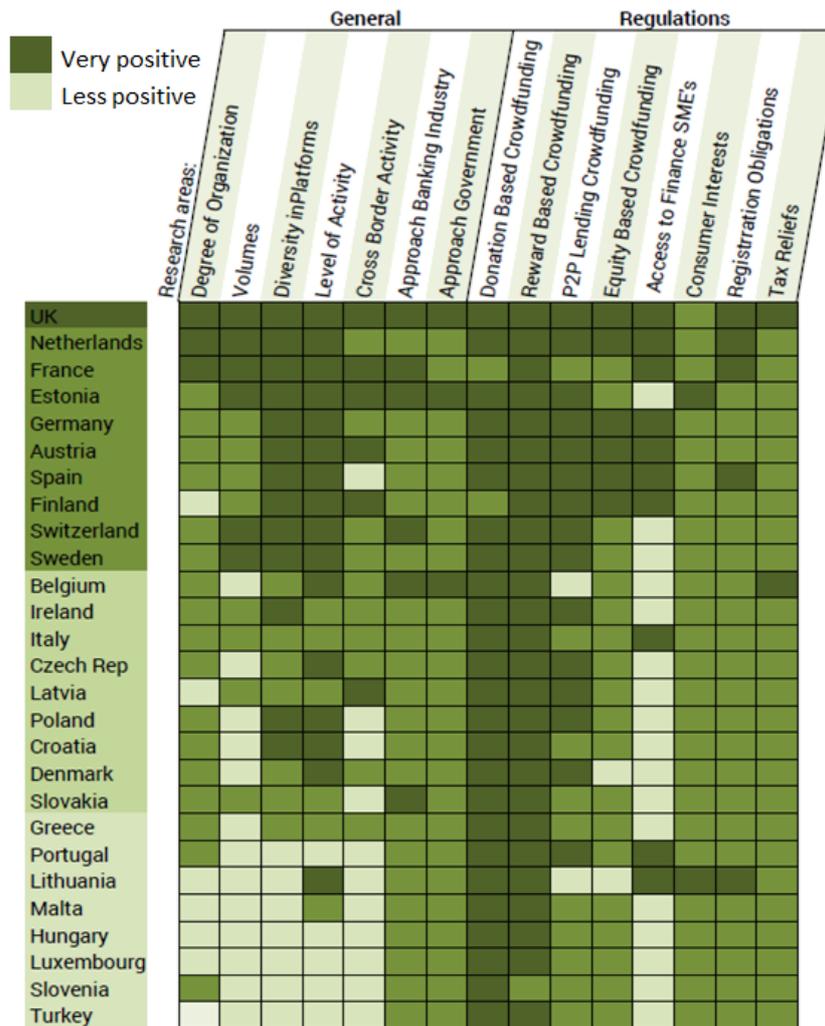


Figure 4: Alternative Finance Maturity Index (Source: Current State of Crowdfunding in Europe)

The report concludes that **a positive stance from the government, enabling progressive regulation and tax reliefs, correlates with high volumes in the industry.** In only few cases where low volumes are not related to regulatory issues are due to other reasons.

## 3. Review of Crowdfunding & RES Regulation

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This chapter focuses on the comprehensive overview of the crowdfunding and renewable energy regulation in the EU-28<sup>7</sup> carried out by the CrowdFundRES partner Osborne Clarke Germany with the support of input collected from legal experts in each EU Member State.

### 3.1 Review and key findings on the crowdfunding side

At European level, the following relevant legislation has been identified and looked at:

#### Directives

- AIFMD (Directive 2011/61/EC)
- UCITSD (Directive 2009/65/EC)
- The Markets in Financial Instruments Directive MiFID (Directive 2004/39/EC) and MiFID II (Directive 2014/65/EU)
- Prospectus Directive (Directive 2010/73/EC)
- Payment Services Directive (Directive 2007/64/EC) and Payment Services Directive II (Directive 2015/2366)

#### Regulations

- MiFIR (Regulation no. 600/2014)
- Prospectus Regulation (Regulation No 809/2004)

Further information on the respective national crowdfunding legislation has been obtained by legal expert in the field of crowdfunding from each Member States and is provided in the full report "Review of Crowdfunding Regulation & Market Developments for RES project financing in the EU"<sup>11</sup>

At European as well as at local level, there are regulations that mainly affect platforms (e. g. licence / information regulations) and other regulations that mainly affect projects (e. g. prospectus / information regulations).

These regulations are related to:

- information obligations and the right to operate a platform and offering of related services; and
- prospectus and information obligations and the right as company / project initiator to look for funding on such platforms.

The assessment of the European and National legislation developed within the CrowdFundRES project reflects that the general trend is that crowdfunding for RES is more developed in Western Europe than in Eastern Europe where the market for RES crowdfunding is at an early stage.

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<sup>7</sup> T. Aschenbeck-Florange, A. Dlouhy, "Review of Crowdfunding Regulation & Market Developments for RES project financing in the EU", December 2015. <http://www.crowdfundres.eu/wp-content/uploads/2016/06/CrowdFundRES-Crowdfunding-RES-Regulation-in-EU.pdf>

The review has found that 17 of 28 Member States have crowdfunding platforms which (also) present RES Projects:

- 9 of these Member States have Crowdfunding platforms specialized exclusively on RES Projects: Germany, UK, France, Italy, Austria, Portugal, Spain, Netherlands and Finland;
- all Member States, also since recently Slovenia and Lithuania, have crowdfunding platforms;
- 3 Eastern EU Member States have small RES projects where crowdfunding platforms were utilised as financing mechanism (Croatia, Estonia and Romania).

In addition, 10 of 28 Member States have implemented a specific Crowdfunding regulation (Austria, Belgium, France, Germany, Italy, Spain, the Netherlands, UK, Finland and Lithuania) with 6 of them having structured this crowdfunding regulation by means of an exception of crowdfunding from (some or most) of the regular regulation. Also, the Eastern EU Member States have taken or plan steps to implement specific crowdfunding regulation, especially in the case of Lithuania. The thresholds and scope of exception from prospectus requirement are very diverse throughout the EU. Most Member States without specific crowdfunding regulation apply regular financial services regulation albeit crowdfunding often does not fit properly into persisting regulatory regimes.

The other 4 Member States opted for other solutions, as follows:

- in the Netherlands and UK the specific crowdfunding regulation that applies in addition to the regular regulation is left to administrative provisions published by the respective financial supervisory authorities (The Netherlands: Authority for the Financial Markets – AFM/ UK: Financial Conduct Authority – FCA);
- Austria addresses Crowdfunding with a specific Crowdfunding Act providing a legal framework for SMEs seeking for funding as well as crowdfunding platforms (Alternative Financing Act); and
- likewise, Finland’s Crowdfunding Act intends to enhance the growth of SMEs and the regulation of platforms; it does not comprise P2P lending.

The investigation highlights an extremely fragmented regulatory environment, in which cross-border crowdfunding appears to be very complicated or in some cases not possible. Moreover, in many persisting regulatory regimes, crowdfunding does not fit.

The interest of maintaining a level playing field within EU has been affected by the following aspect:

- Current prospectus requirements establish different thresholds throughout EU<sup>8</sup> regarding Crowdfunding finance products. For example:
  - 100.000 € in Greece
  - 300.000 € in Belgium
  - 1.000.000 € in France
  - 2.500.000 € in Germany/the Netherlands
  - 5.000.000 € in Italy/UK

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<sup>8</sup> And will highly likely continue under the draft of the Prospectus Regulation recently published by the EU institutions (see [here](#) for further information).

- In addition, scope of exception from prospectus requirement also very diverse in EU, for example:
  - Italy: only applicable to particular equity investments
  - France/Belgium: only applies to specific equity and lending instruments
  - Germany: limited to specific lending instruments (subordinated loans)

### 3.2 Review and key findings on the renewable energy side

The following relevant European legislation has been identified and looked at:

- Directive 2009/72/EC for the internal market in electricity<sup>9</sup>
- Directive 2009/28/EC on the promotion of the use of energy RES<sup>10</sup>
- Guidelines on State aid for environmental protection and energy 2014-2020 (2014/C 200/01) (de facto but not legally binding character)
- Winter Energy Package

In general, the review found that all Member States implemented a renewable energies regulation. Some aspects to be remarked from the report are described below.

#### Grid Access

- in most Member States, operators of RES power plants are not given priority in grid connection vis-à-vis conventional power plant operators; and
- in the remaining Member States the (general) non-discrimination principle applies.

#### Feed-in of power into the grid

- in approximately half of the Member States, grid operators are obliged to take-off and prioritise the power produced in RES power plants (priority in dispatch) over the power produced in conventional power plants; and
- in the other Member States the principle of non-discrimination applies.

#### Subsidy system

Nearly all Member States provide for a subsidy regime in favour of RES power. However, the regimes vary to a large extent.

#### Tender regimes

The implementation of tender systems for RES power capacities eligible for promotion has so far not been executed in many Member States.

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<sup>9</sup> After submission of the report dated December 2015, Directive 2009/72/EC and Directive 2009/28/EC were both revised by the European Commission and respective proposals for recasts were published on 30 November 2016 as part of the so called “Winter Package” (cf. COM(2016) 767 final regarding Directive 2009/28/EC and COM(2016) 864 final regarding Directive 2009/72/EC). Since both recast drafts have not yet passed EU legislative procedures, the key findings in this section remain based on the Directives applicable at the time of the report submission in December 2015. However, a brief outlook section on potential changes is implemented below.

<sup>10</sup> Cf. above.

## Winter Package

With the “Winter Package: Clean Energy for All Europeans” the European Commission aims to achieve in particular the following impacts:

Establish a common **power market design** across the EU:

- adjust system to the increasing effects of decentralised generation and demand-side response, interdependence between national markets and digitalisation; and
- increase of consumer rights, liberalisation and transparency, e.g. supplier choice, access to demand response providers and smart metering functionalities.

Promote a better **integration of renewable electricity generation** into the markets:

- set EU wide target of minimum of 27% in renewable energy compared to gross consumption by 2030 and increase cross-border initiatives, e.g. support schemes to be opened for other Member States for a minimum participation of 10% by 2025 and 15% by 2030;
- national renewable energy support mechanisms to be designed to integrate renewables in the electricity market and to be granted in open, transparent, competitive, non-discriminatory and cost-effective manners (e.g. technology and renewable energy source independent tendering mechanisms);
- removal of EU rules on priority grid access for renewable energy sources;
- enhance predictability for (cross-border) investors regarding support allocation; and
- streamline permitting procedures to SPOC (single point of contact) and shorten procedures to max. 3 years.

Moreover, the “Winter Package” highlights the need to take action on advance **energy efficiency**, cleanliness and performance in buildings, industry, innovation and in transport to achieve EU climate goals and implement **governance** rules of the Energy Union.

The “Winter Package” has yet to pass the legislative procedure, i.e. adoption of an agreed version of the recast proposals of the directives by the European Parliament and the Council, which is expected in 2018 rather than 2017. After publication, the recast directives still need to be transposed into national law. Since system and market interdependence, cross-border initiatives and market flexibility and complexity will increase, crowdfunding regulation needs to be made fit for cross-border projects.

## 4. Stakeholders Surveys

The point of view of citizens, platform and developers is a fundamental key element to be considered in the process of providing recommendations to policy makers in the field of crowdfunding for renewable energy projects.

During the CrowdFundRES project, three online surveys were conducted in the second half of 2015 at the European level (and in several languages), one regarding public perceptions about crowdfunding in the renewables sector<sup>11</sup>, while the others examining the views of crowdfunding platforms<sup>12</sup> and RES project developers<sup>13</sup>. Results and analysis of the three surveys were combined into an additional abridged document ('joint surveys report')<sup>14</sup> that was widely shared among project networks and social media (Fig.5).



Figure 5: Links to surveys (Source: [www.crowdfundres.eu](http://www.crowdfundres.eu))

In terms of the factors affecting retail investors' decision to undertake RES investments, transparency was found, by some margin, to be the most frequently cited, followed by expected rate of return and sustainability impact (Table 1). The study<sup>15</sup> concludes that there is a robust cause for optimism regarding the future of crowdfunding for renewables.

<sup>11</sup> A. Bergmann, B. Burton, M. Klaes, "Crowdfunding of Renewable Energy Projects: Survey of EU Citizens", Available at [http://www.crowdfundres.eu/wp-content/uploads/2016/05/CrowdFundRES\\_D2.1\\_Public\\_survey.pdf](http://www.crowdfundres.eu/wp-content/uploads/2016/05/CrowdFundRES_D2.1_Public_survey.pdf)

<sup>12</sup> K. Kohl, "Crowdfunding of Renewable Energy Projects - Survey of Crowdfunding Platforms", April 2016, Available at [http://www.crowdfundres.eu/wp-content/uploads/2016/05/CrowdFundRES\\_D2-2\\_Report-Platforms-Survey.pdf](http://www.crowdfundres.eu/wp-content/uploads/2016/05/CrowdFundRES_D2-2_Report-Platforms-Survey.pdf); last accessed 16/01/2017

<sup>13</sup> S. Betz, T. Maidonis, "Renewable Energy Developers' Perception of Crowdfunding as a Means of project Financing", April 2016, Available at [http://www.crowdfundres.eu/wpcontent/uploads/2016/05/CrowdFundRES\\_D2.3\\_Developers\\_survey.pdf](http://www.crowdfundres.eu/wpcontent/uploads/2016/05/CrowdFundRES_D2.3_Developers_survey.pdf); last accessed 16/01/2017

<sup>14</sup> A. Bergmann, S. Betz, B. Burton, K. Kohl, T. Maidonis, M. Klaes, "Survey Results on Public Perceptions and the Views of Crowdfunding Platforms and Project Developers", May 2016, Available at [http://www.crowdfundres.eu/wp-content/uploads/2016/06/CFRES-Survey-joined\\_May2016.pdf](http://www.crowdfundres.eu/wp-content/uploads/2016/06/CFRES-Survey-joined_May2016.pdf); last accessed 16/01/2017

<sup>15</sup> Cf. above

Table 1: Factors taken into account in RES investment decisions amongst crowd-investors planning to invest in RES crowdfunding in next 3 years

Factors	%
<b>Transparency</b>	<b>79%</b>
<b>Expected rate of return</b>	<b>66%</b>
<b>Sustainability impact</b>	<b>62%</b>
Investment model	61%
Technology type	56%
Developer reputation	47%
Geographic location	41%
Time frame (duration)	36%

*Source: Crowdfunding of Renewable Energy Projects: Survey of EU Citizens*

The analysis of the crowdfunding platforms surveys<sup>16</sup> concludes that there is information asymmetry regarding alternative investment products between non-professional investors and the crowdfunding platforms, which implies the need for raising awareness of crowdfunding amongst non-professional investors and sharing information about crowdfunding itself. Also, a lack of transparency and completeness of information is perceived on the part of project developers which suggest that crowdfunding platforms should give them clear instructions on adapting their practices and presenting more comprehensive and complete description of their projects. It is also highlighted that the vast majority of the surveyed platforms have plans to expand to other European countries which points to **the need for a single legal framework amongst EU Member States that would simplify cross-border investment processes.**

The findings of the survey with renewable energy project developers indicate that crowdfunding has the potential to broaden the ownership models of RES projects. In terms of overall satisfaction, most of the project developers had a positive experience with crowdfunding and are positively in favour of this financing mechanism and recommend it. The main benefits of using crowdfunding reported by developers are the simpler and faster access to financing as well as the positive effects on public acceptance.

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<sup>16</sup> Survey Results on Public Perceptions and the Views of Crowdfunding Platforms and Project Developers [http://www.crowdfundres.eu/wp-content/uploads/2016/06/CFRES-Survey-joined\\_May2016.pdf](http://www.crowdfundres.eu/wp-content/uploads/2016/06/CFRES-Survey-joined_May2016.pdf)

## 5. Case Studies

The CrowdFundRES project generated case studies from four of Europe's leading renewable energy systems (RES) crowdfunding platforms (Table 2): one case study from Oneplanetcrowd (the Netherlands), one from BetterVest / GreenCrowding (Germany), one from Lumo (France) and three case studies from Abundance (United Kingdom). A case study of CONDA from Austria has also been included in order to also cover Austria which is a target country in the project<sup>17</sup>.

Table 2: Renewable Energy Crowdfunding Case Studies

Platform	Abundance	Abundance	Abundance	Lumo	Oneplanetcrowd	Bettervest / Green crowding
<b>Developer</b>	WindGen	BNRG	REG	SERGIES	n/a	Hotel Magnetberg
<b>Technology</b>	Wind	PV Ground	Wind	PV	Biomass	Energy efficiency
<b>Location</b>	England	England	England	France	Netherlands	Germany
<b>Installed Capacity</b>	500kW	500kW	500kW	1,4 MW		20kWe, 40.1kWth
<b>Financial Instrument</b>	Debt Security	Debt Security	Debt Security	Corporate Junior Bond	Loan	Loan
<b>Tenn Period</b>	1 year	20 years	20 years	9 years	5 years	7 years
<b>Total Amount Raised (€)</b>	3.045.000	1.022.000	2.100.000	150.000	290.000	172.250
<b>Total Capital Required (€)</b>	3.045.000	1.022.000	2.100.000	1.900.000	2.000.000	172.250
<b>%of Total Raised through CF</b>	100%	100%	100%	7.89%	15%	100%
<b>Number of investors</b>	408	569	672	193	116	133
<b>Interest Rate / IRR</b>	12%	7%	8.4 - 9.3%	3.19%	7.5%	7%
<b>Smallest Investment (€)</b>	7	7	7	25	500	50
<b>largest Investment (€)</b>	315.000	70.000	140.000	20.025	30.000	10.000
<b>Investors from abroad</b>	4.17%	2.11%	2.53%	0%	2.58%	0%

<sup>17</sup> Abundance Investment Ltd, "Report on the practical experience of RES project financing using crowdfunding", 1<sup>st</sup> Sept. 2016, Available at [http://www.crowdfundres.eu/wp-content/uploads/2016/09/CrowdFundRES\\_Case\\_Studies.pdf](http://www.crowdfundres.eu/wp-content/uploads/2016/09/CrowdFundRES_Case_Studies.pdf)

The case studies considered a wide range of issues such as the regulatory drivers and barriers, platform technology, as well as the characteristics of each individual fund raise, including investor data and marketing strategy. The aim was to unpick the major drivers of growth as well as highlight the challenges faced by platforms. At the same time, the project attempted to shine a light on the performance of RES crowdfunding projects as well as the different business models used by platforms and the commercial proposition for RES developers.

The case studies highlighted barriers faced by platforms at the local level, however all platforms considered a lack of EU wide crowdfunding rules and lack of public awareness as key barriers to growth. The case studies also highlighted that no platform had lost money for investors to date and that the finance provided was commercial attractive, boding well for the future success of the sector.

The outcomes from the case studies assessment have also been taken into account in the development of the policy recommendations provided in the next chapter.

## 6. Policy Recommendations

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The fast development of crowdfunding in Europe has attracted the interest of the European Commission and the European Parliament in this relatively new form of financing. The Parliament provided an overview of the current status of crowdfunding in Europe in the briefing ‘Crowdfunding in Europe: Introduction and state of play’<sup>18</sup> published in January 2017. Moreover, the Commission published a working document ‘Crowdfunding in the EU Capital Markets Union’<sup>19</sup>, which discloses the potential of crowdfunding as a key source of financing for SMEs over the long term. However, the report states that crowdfunding remains relevant in a national domain with limited cross-border activity despite the fast growth of the crowdfunding sector at EU level. Even so, given the upward trend, the European Commission recognises the need of monitoring the market and regulatory developments in the crowdfunding sector. For that purpose, the Commission will maintain regular dialogue with European Supervisory Authorities, Member States, and the crowdfunding sector to promote convergence, sharing of best practice and keep developments under review<sup>20</sup>.

The revision of the energy EU regulatory framework is being currently discussed after the publication of the Clean Energy for all Europeans package<sup>21</sup>. The revision of the renewable energy directive, and the electricity regulation and directive will notably impact the further development of renewables and the way citizens and communities will engage in the energy transition. Such revision will have an impact on the business cases, regulatory stability, capital costs, and administrative burdens for renewables projects in the next decade.

Crowdfunding can play an important role in supporting the effective renewable energy growth in Europe.

In this context of market and policy transformation, both the Energy Union and the Capital Markets Union (CMU) envision a future with a more decentralised character and diversified sources for energy consumers/producers and investors making use of innovative technologies (e.g. smarter grids, the internet, etc.). Based on the analysis of the results from previous work described in the previous chapters of this report, on the extensive discussions with stakeholders through European and national workshops as well as literature review and other sources, the CrowdFundRES project has identified and discussed the main challenges and issues for the development of crowdfunding of renewable energy projects in Europe.

Along this chapter, the CrowdFundRES project will present a number of recommendations and measures on how these two policy streams (i.e. the Energy Union and the CMU) can be approached in an integrated way to foster crowdfunding for renewable energies.

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<sup>18</sup> Crowdfunding in Europe: Introduction and state of play.

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS\\_BRI\(2017\)595882\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS_BRI(2017)595882_EN.pdf)

<sup>19</sup> Crowdfunding in the EU Capital Markets Union [https://ec.europa.eu/info/system/files/crowdfunding-report-03052016\\_en.pdf](https://ec.europa.eu/info/system/files/crowdfunding-report-03052016_en.pdf)

<sup>20</sup> Crowdfunding in Europe: Introduction and state of play. p7.

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS\\_BRI\(2017\)595882\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/595882/EPRS_BRI(2017)595882_EN.pdf)

<sup>21</sup> Clean Energy package <https://ec.europa.eu/energy/en/news/commission-proposes-new-rules-consumer-centred-clean-energy-transition>

## 6.1 Recommendations on the renewables energies side

### 1) Ensure a stable and predictable regulatory framework for investors in RES projects

Retroactive changes in renewable energy regulation and in support schemes have caused major issues for renewables projects, but also changes in the taxation regime or grid-related costs jeopardize the viability of projects, notably those financed by crowd-investors. Retroactive changes can affect the sources of income expected by the investors, as is the case of retrospective changes made in Spain and Greece. As a consequence, the trustworthiness of the investors and the renewable energy sector have been harmed.

The overview of the internal energy market design legislation<sup>22</sup> identifies a lack of enforcement of rules such as priority access and priority dispatch. Such uncertainty on the regime under which renewables projects operate adversely affects the development of renewables projects. However, a positive outlook is found in the RED proposal of the “Clean Energy for all Europeans” Package which proposes a new article on stability of financial support that can provide a basis for protecting investments in renewables.

The following recommendations are formulated to ensure a stable regulatory framework that brings confidence and assurance to investors, notably retail investors, enabling the regulatory framework to make renewables a viable domain for citizens to invest in.

Legal certainty is key for a secured environment for investments. Compensation when business plans are impacted by external changes (e.g. change in network tariffs or in curtailment rules) could provide a safeguard for investors.

The Clean Energy package should ensure a wider protection of the regulatory framework impacting the economics of renewables projects, enlarging the scope of the protection to changes such as taxation regime, and grid-related costs that can change drastically the profitability of a project and jeopardize renewables projects development.

### 2) Stimulate citizens’ engagement in RES projects

A certain number of crowdfunded projects are small scale RES projects. The local proximity and human dimension of these renewables projects is often attractive for citizens willing to crowdfund a project. However, technical and administrative barriers to prosumers & small projects have negatively affected the trust of citizen’s (potential investors). Investors become reluctant to invest in the sector, seeing renewable energy projects as a risky investment, especially where retroactive changes were put into place.

Small installations developers cannot participate themselves directly on the electricity market, and would need an intermediary for that. Some examples of barriers that small installations are facing include: barriers related to priority dispatch and priority access described before and barriers in the participation of small renewable projects in tenders, as is currently the case in Germany.

In general, administrative and juridical capacities are required to participate in tenders. Small installation developers lack these capacities and therefore it is difficult for them to participate.

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<sup>22</sup>Overview of the internal energy market design legislation 2016.

[http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/593782/EPRS\\_BRI\(2017\)593782\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/593782/EPRS_BRI(2017)593782_EN.pdf)

Further, the economic risks for small installations developers are relatively higher as they often have only one project that they want to develop. If they do not succeed in a tender, they have to bear the costs, which is a high risk. Large energy corporations usually have a variety of projects and can therefore diversify these risks. If one project is not successful another project may cover for the losses. Tenders therefore are beneficial for big energy corporations but are not suitable for small installation developers. As this process would involve technical and administrative burden, and could lead to prohibitive costs, the specificity of small scale installations should be acknowledged and protected from a fully market-based approach for the development of renewables. In Austria for instance feed in tariffs are in place that provide stability and long-term planning security.

Further improvement will be driven by regulatory frameworks designed in a way that citizens' and communities' engagement in RES projects is encouraged. Adoption of citizen participation models for small RES projects by explicit and simple rules are therefore needed. On the other hand, prohibitive barriers for prosumers should be avoided (e.g. taxation of self-consumption, high network charges, etc.), as well as for energy communities.

The provision on renewable energy communities proposed in Art.22 RED proposal from Clean Energy Package refers to cost-reflectiveness of procedures and charges for renewable energy communities' projects. The concept of cost-reflectiveness can be subject to a broad interpretation and does not provide enough protection. Such protection should refer to disproportionate and prohibitive barriers in order to have practical effect.

Additionally, specific regime for small scale installations should be maintained notably regarding priority access and priority dispatch, as they involve important technical and administrative barriers that are not proportionate to the impact such installations would have in the grid.

Further, citizen participation is absolutely essential in creating acceptance towards development of renewable energy projects. For instance, in Austria 78 percent of the population stated in a poll in 2014 that they want to increase the share of renewable energy and phase out fossil fuels faster than it is actually happening. However, while the population in general supports renewable energy, the local resistance can be tough when projects are actually planned.

Especially concerning wind energy projects nowadays more local referendums are negative than some years ago. Interestingly once the projects are built the acceptance of wind energy projects in Austria is very high. In a poll in 2015 88 % of the population living near wind mills in Austria saw actually no impacts on their quality of life. These findings suggest that the fears against renewable energy projects are existent, but not well founded. Therefore, it is crucial to create acceptance towards renewable energy projects in the phase of project realisation. One strategy to overcome that fear is to create participation schemes, e.g. via crowdfunding. The aim is to show that there are positive local benefits that outweigh the possibly as negative perceived impacts of a project.

Policy makers in charge of reforming support schemes should therefore create frameworks that incentivise citizen participation in renewable energy projects.

### 3) Incentivize RES projects' financing through crowdfunding

Given the current situation whereby there is an existing lack of promoting crowdfunding as a viable tool of financing for RES projects, the current legislation should emphasize crowdfunding as a mechanism to fill the financing gap between the bank and SMEs.

RES project developers should be incentivized to offer citizens financial participation (e.g. obligation of means). In countries that use tender processes, such incentive could consist in an advantage in the tendering process for RES projects offering financing through crowdfunding. In addition, funds that help community power projects in the planning phase, can enable them to overcome administrative and financial burdens. Countries with other support schemes like Austria that use a feed in tariff-system could create other forms of incentives. One example is the Community and Renewable Energy Scheme (CARES) in Scotland that supports local developers with know-how and loans in the critical phase of planning and installation.

In this context, municipalities and local energy agencies could have a greater role of bringing together the community and renewable energy project developers, promoting crowdfunding as a tool of financing of renewable energy projects.

#### 4) Guidance on the design of RES support schemes at EU level

EU Member States follow different approaches on public support for renewables. This directly affects project developers who have raised the importance of guidance at European level of support schemes for the development of renewables' projects.

- Renewables support needs to meet the criteria of being efficient and non-discriminatory to avoid higher costs for end consumers.

To address oversupply issues caused by inflexible capacity it is important to acknowledge the role of storage capacities in the energy system. Accordingly, incentives to introduce storage facilities into the market are important.

The Clean Energy package provides the future framework for increasing the share of renewable energy in the European Union. It will be important to create enabling conditions for renewable energy at national level. Upon guidance from the EC, EU Member States will reform their support schemes for RES projects. Thereby it is important that the EU Member States ensure that smaller scale projects, in which typically citizens participate, will find enabling frameworks and conditions.

Policy should embrace the following measures to design support schemes in a European level:

- investors' predictability and citizens' participation should be at the core of future support schemes;
- avoid prohibitive barriers for prosumers (e.g. taxation of self-consumption, high network charges; and
- provide priority dispatch and priority access for renewable energy.

#### 5) Ensure a continuous development of the energy regulatory framework for renewables development

Currently, the electricity markets and electricity system are shaped in a way that penetration of renewables is limited. Some shortfalls are:

- inflexible capacity that cause oversupply issues;
- flexibility leverages such as demand response and storage are not developed enough;
- the European Emission Trading scheme is not providing strong enough signals to phase out inflexible and high-emission technologies like coal fast enough; and

- lack of internalisation of external costs of fossil and nuclear energy as well as direct and indirect subsidies for fossil and nuclear energy create an unfavourable market environment for renewable energy that must be counterbalanced by national support schemes.

It is therefore crucial to develop more flexibility in the electricity system, allow renewables projects to further act in the market in the future, reiterating further at this point the importance of well-designed support schemes for the development of renewables' projects.

In parallel, the development of private investment in renewables should be accompanied by a continuous development of a more favourable energy market for further penetration of renewables in the system, in order to accompany the willingness of citizens to participate in the energy transition and create acceptance towards installation of renewable energy projects.

The following recommendations should be taken into account to ensure a continuous development of the energy regulatory framework for renewables development:

- well-designed national support schemes at national level are key;
- support schemes shall contain incentives for citizens to participate, e.g. via crowdfunding, in renewable energy projects;
- priority dispatch for renewable energy shall be maintained; and
- obligation for Member States to issue a roadmap on their support schemes 3 years ahead should be maintained, as it provides visibility for project developers.

## 6.2 Recommendations on the crowdfunding side

### 6.2.1 Recommendations related to the regulatory framework and market growth

#### 1) Legal definition for crowdfunding models and market actors

It is necessary to provide a clear definition of different crowdfunding models (e. g. in case of equity-based crowdfunding and lending-based crowdfunding) and to avoid the use of “crowdinvesting” instead of crowdfunding.

For instance, in Germany, due to the local regulation, a relevant equity crowdfunding market does not exist albeit many market actors believe it to be equity (in reality almost only mezzanine / debt instruments, i. e. subordinated profit-participating loans are used).

Regulators should seek inspiration and benchmarks and draw on the experience of other EU countries where the crowdfunding sector is forging ahead at full speed, e.g.: UK. European Commission may adopt clear but flexible definitions of crowdfunding models (especially crowdinvesting and crowdlending). By means of an opt-in solution crowdfunding stakeholders may opt for a crowdfunding model defined by the European Commission and may then underlie a specific European crowdfunding regulation (including a passporting regime). On the other hand, crowdfunding stakeholders may not opt for the European crowdfunding definition and remain in their national regulation environment in case this better suits their needs and business models.

It is recommended to provide clear definitions for the crowdfunding models and the relevant market parties. These definitions should be – on the other side – flexible enough to include future business models and let room for national peculiarities of fast-changing crowdfunding business.

#### 2) Cross-border investments

Member States face extremely fragmented regulatory environment in which cross-border crowdfunding appears to be very complicated or in some case not possible at all, due to non-harmonized European or national cross-border rules.

For all platforms the size of their investor base and cost of acquiring new investors is the core restraint to growth. The majority of them have plans to expand their operations and services to non-national investors but face obstacles relating to legal aspects.

The subordinated profit-participating loans (prevailing German Crowdfunding instrument), which are exempted under specific requirements from prospectus and further requirements in Germany, can rarely be offered in other Member States since they are either simply not known in other Member States or underlie different requirements in other Member States.

On the other side, the typically used equity crowdfunding in other EU Member States cannot be offered in Germany due to very low thresholds for prospectus requirements in Germany (not covered by the draft of the EU Prospectus Regulation) of EUR 100,000.

Policy should encourage project developers and citizen’s participation models in projects by establishing the legal basis for the financing of RES projects through crowdfunding and citizen participations models for cross border investments and purchase schemes for local residents. The European Commission should adopt an EU wide crowdfunding regulation which comprises binding obligations and mandatory thresholds.

Improvements in this context shall be achieved by opening crowdfunding platforms' operations and services to other EU citizens. Prior establishment of a legal framework harmonized amongst EU that enables cross-border investments.

### 3) Harmonisation

The current regulatory framework is characterised by an extremely fragmented environment regarding to the prospectus, licence and transparency / information requirements. Existing laws and regulations that effect crowdfunding differ significantly across Member States. This creates variations in the environments in which crowdfunding takes places. This means for example that mainly equity-based crowdfunding in some Member States (UK) and almost only debt-based crowdfunding (mezzanine) in some other Member States (Germany) have contributed to a range of different activity growth rates.

The following paragraphs provide an overview of the current legal framework for Prospectus, Licence and Transparency regulation in order to define the State-of-the Art in this field. Afterwards proposed measures are defined to improve the harmonisation of the regulatory framework.

#### **Prospectus regulations**

There are different prospectus thresholds throughout EU-28 (Germany: EUR 100,000; UK: EUR 5 Mio.), resulting from either EU prospectus regulation regarding securities<sup>23</sup> or local regulation for other financial instruments. This means for example that:

- Securities (only here the EU prospectus regulations apply) generally require much efforts for start-ups as well as for – (RES) projects developers and are expensive – therefore, in many Member States, especially small start-ups or RES projects developers do not use securities as financial instruments.
- In many Member States, start-ups and/or RES projects developers are almost always structured as limited company or limited partnership (e.g. GmbH and KG in Germany respectively), whose shares do not constitute “securities” within the aforementioned meaning. Hence, the European prospectus regulation<sup>24</sup> do not apply to these financial instruments, but other national regulations, as an example in Germany the Investment Products Act – Vermögensanlagengesetz (VermAnlG).

Different local information requirements also exist below prospectus threshold. As is the case of Germany, offerors of subordinated profit-participating loans (currently almost every crowdfunding project is financed through this financial product) must provide investors with a three-page fact sheet with pre-defined content and categories (*Vermögensanlagen-Informationsblatt – VIB*).

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<sup>23</sup> Securities prospectus is defined as “EU rules on the information that must be provided by companies that want to attract investors, raise capital and finance their growth”. Source : EC ([https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/securities-prospectus\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/securities-prospectus_en))

<sup>24</sup> Currently Prospectus Directive and in future Prospectus Regulation

## Licence regulations

There are different national licence requirements for crowdfunding platforms besides MiFID<sup>25</sup> licence. In Germany, this means for example that:

- in Germany most crowdfunding platforms operate with a “small” licence pursuant to German Trade, Commerce and Industry Regulation Act (Gewerbeordnung – GewO) which applies only for Germany and is not passportable, unlike the MiFID licence;
- requirements for licence applicants of the mentioned “small” licence require: proof of competence (Sachkunde), reliability (Zuverlässigkeit), and professional indemnity insurance (Berufshaftpflichtversicherung) and proper financial circumstances; and
- on-going obligations of “small” German licence holder include: information requirements vis-à-vis investors about licence holder and intended investment of investor, “appropriateness test” of investors and documentation, storage and (external) auditing obligations.

Consequently, there are different or unclear views of national legislators and regulators regarding question of passporting of MiFID licence and offering of services not (explicitly) covered by MiFID (II) licence in home country, for example subordinated loans.

## Transparency regulations

There are also different transparency and information obligations for crowdfunding platforms as well as start-ups and project initiators.

Other shortfalls are related to the current policy, namely extreme fragmentation of regulatory environment in Member States leads to any level playing field for crowdfunding stakeholders. This means for example that:

- in some Member States Crowdfunding is promoted by the legislator (e. g. in UK specific tax exemptions) and thrives in the legal ecosystem;
- in some Member States the development of a proper Crowdfunding market stagnates since Crowdfunding and financial regulation are very strict and sets out high requirements for crowdfunding stakeholders; and
- European crowdfunding industry suffers from uneven level playing field in EU and may only thrive beyond borders, have scalable future prospects in case cross-border services where investments could be facilitated by a European wide crowdfunding regulation.

In the light of the described current situation, decision makers should support a level playing field in the EU-28 in terms of regulatory framework. To this end, arrangements should comply with the following proposed measures related to prospectus, licence and transparency information.

## Prospectus regulations

Decision makers and regulators should support consistent prospectus thresholds throughout EU-28 (further detailed in the next recommendation) that mandatorily must include all types of financial products, namely:

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<sup>25</sup> MiFID: Markets in financial instruments Directive: [https://ec.europa.eu/info/law/markets-financial-instruments-mifid-directive-2004-39-ec\\_en](https://ec.europa.eu/info/law/markets-financial-instruments-mifid-directive-2004-39-ec_en)

- securities, which are currently only covered by the current European prospectus regime and also by the draft of the Prospectus Regulation recently published by the European institutions; and
- other investment products, such participations in companies, participation rights or subordinated profit-participating loans

Equally, decision makers and regulators should support graded information and prospectus requirements above thresholds. As is the case of the “Austrian model”, improvements should comprise the following measures:

- for projects with amounts under prospectus threshold (e. g. EUR 2.5 mio.): no prospectus, only three, pager (e. g. VIB);
- for projects with amounts included in Specific range (e. g. between EUR 2.5 and EUR 5 mio.): only “small” or “flattened” prospectus with reduced content required; and
- above absolute amount (e. g. above EUR 5 mio.): full prospectus required.

### **Licence regulations**

In this regard, measures should ensure a consistent and uniform European licence for crowdfunding platforms which comprises the following details:

- passportable throughout EU;
- requirements to obtain European crowdfunding licence must be lower than requirements for MiFID (II) licence but higher than current national licences; and
- introduction of risk management system of crowdfunding platforms, but no minimum capital.

German requirements regarding a “small” licence might serve as a starting point since they comprise an appropriate regulation and a mix of personal (competence, reliability) and organizational requirements (insurance).

### **Transparency regulations**

Arrangements should comply with consistent and uniform transparency and information obligations throughout EU-28 for both crowdfunding platforms (start-ups include) and project initiators with regard to crowdfunding.

Binding transparency and information obligations before investment of investors shall be clearly shown during the following phases:

- *registration phase* should include information obligation of crowdfunding platform regarding status, such address, contact details, costs and risks in connection with use of platform, insurance of the platform, etc;
- *investment phase should include:* a) Information obligation of start-up and/or project initiator regarding specific RES project, including for instance: contract(s), fact sheet or details for consumers b) Information obligation of crowdfunding platform regarding investment amount of investor; and
- *post-investment* phase should include periodic (at least yearly) information obligations about RES project to be fulfilled by RES project initiator.

Finally, there should be the possibility to compare financial products cross-border. For example: by means of standard fact sheet with predefined categories throughout EU-28 and fixed page amount (similar to PRIIP<sup>26</sup> but significantly easier content and categories).

The improvement expected by supporting these measures will lead to the reduction of different regulatory environment for crowdfunding stakeholders and in this way each crowdfunding stakeholder could start at the same point and underlies the same regulation.

#### 4) Ceilings and thresholds

As described in previous recommendations, the current legal framework is exposed to an extremely fragmented regulatory framework mainly driven by:

- different implementation of European legislation, such Prospectus Directive which will continue following the current draft of the Prospectus Regulation; and
- non-harmonized approaches of national legislators regarding introduced local crowdfunding regulation.

As described in the previous paragraphs, there are different prospectus thresholds throughout EU-28 (Germany: EUR 100,000; UK: EUR 5 Mio.) and also the thresholds up to which each investor may invest in crowdfunding projects are not harmonized. To give some examples:

- Austria: EUR 5,000 per year and further requirements;
- Belgium: EUR 3,000 and further requirements, and
- Germany: up to EUR 10,000 and further requirements.

This also leads to different requirements and uncertainty especially in case of cross-border activities of crowdfunding stakeholders.

In the light of this evidence, regulators and decision makers should consider the following measures to strongly support a framework that would facilitate the establishment of a level-playing field in the EU-28:

- fixed minimum and maximum thresholds by European legislator<sup>27</sup>; irrespective of offering of equity-, mezzanine- or debt-based financial products;
- possibility of co-investment of retail investors and professional investors; and
- consistent thresholds for investments of each investors and harmonization of further requirements in this regard (e. g. self-exploration regarding minimum wealth or income requirements or appropriateness tests).

The improvement expected by addressing the measures described above will support the same achievements described in previous recommendations: reduction of different regulatory environment for crowdfunding stakeholders, since, in this way, each crowdfunding stakeholder would start at the same point and underlies the same regulation.

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<sup>26</sup> Packaged Retail and Insurance-based Investment Products:

[https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Fachartikel/2015/fa\\_bj\\_1508\\_basisinformationsblatt\\_priips\\_verordnung.html](https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Fachartikel/2015/fa_bj_1508_basisinformationsblatt_priips_verordnung.html)

<sup>27</sup> Draft for a Prospectus Regulation of the European institutions leaves to the single Member States the definition a maximum level of the threshold (between EUR 1 Mio. and EUR 8 Mio.). Only the minimum level of the threshold (EUR 1 Mio.) is fixed.

## 5) Regulatory barriers for RES developers seeking capital and wider coverage

Sharing best practices among Member States would be beneficial for the development of crowdfunding for renewables and would enable convergence towards harmonization. Self-consumption tax is very negative for the development of RES projects. The entire process of crowdfunding for RES should be made as easy as possible.

The following measures should be taken into account to overcome the regulatory barriers for RES developers seeking capital:

- Tax incentives
- Co-investment obligation
- Incentives for alternative financing, such incentives and/or obligations for banks to offer alternative finance options to “non bankable” but still financially sound projects
- Stable regulatory framework and support schemes for RES without retrospective changes:
  - No solar tax
  - No self-consumption tax
- Hands-off investors<sup>28</sup>
- Insurance required to avoid project bankrupt
- Labelling of projects
- Enlarge the scope of companies able to raise funds via crowdfunding in order to also include, for example, cooperatives (linked to national regulation)
- Facilitate crowdfunding investments also through individual savings accounts (ISAs)

## 6) Capital-at-risk

Member States are experiencing difficulties addressing the underlying regulatory risk due to the current non-harmonised regulatory and market framework for crowdfunding.

This leads to differences across the EU that create market entry barriers and limit cross-border activities of crowdfunding stakeholders. Therefore, a holistic approach to support reduce the underlying risk is needed.

In the light of this evidence, the following questions shall be answered in a similar manner by national decision-makers in order to remedy the situation detailed above:

- Are crowdfunding platforms allowed to invest in campaigns featured on their platform via equity with or without voting rights?
- Are crowdfunding platforms allowed to invest in campaigns featured on their platform via other financial instruments such as debt?

As a result, this will support lower the underlying regulatory risk and will help decision makers and regulators to provide a harmonized pan-European approach as regards capital-at-risk requirements of crowdfunding platforms.

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<sup>28</sup> Definition <http://www.investopedia.com/terms/h/handsoffininvestor.asp>

## 7) Guiding principles on incentive schemes for citizen financial participation

Many EU Member States have implemented incentive schemes to engage more citizens to financially participate in the roll-out of renewables. Yet, the approach taken by national regulators and decision makers is highly fragmented. For example, while French citizens are incentivised to invest alongside professional investors via crowdfunding or cooperatives in RES projects, auction market design and regulation of wind parks only benefits cooperatives in Germany.

To unleash the full potential of financial participation of citizens in RES projects, a regulatory incentive scheme and market design should consider guiding principles changes in order to avoid favouring certain structures and products, mainly from:

- *a particular corporate structure*. This means for example that the underlying company structure, for-profit, non-profit or a cooperative shall not be an eligibility criterion. On the other hand, relevant criterion should be whether citizens can financially benefit from a new investment in renewables or energy efficiency;
- *the type of investment product*. Incentive schemes shall not be limited to one particularly financial instrument, i.e. debt or equity; and
- *exclusively citizen-led finance*. Citizens should be allowed to invest alongside professional investors.

To this end, arrangements should comply with a more neutral approach that benefits RES projects and citizens alike. Currently it is seen that investment preferences of citizens differ. In practice, this means for instance that some prefer long-term investments via equity, others rather invest in shorter maturities via loans. By limiting the scope of possible investment products and corporate structures, less people are willing to invest in RES projects. Moreover, investing alongside professional investors enables citizens to invest in larger projects and learn from the due diligence undertaken by the professional investor.

As a result, benefits to RES projects are manifold. They can source finance from different parties, diversifying their underlying risks of accessing capital. Moreover, there are more ways to include citizens in their finance, which in return has a positive impact on marketing and social acceptance.

### 6.2.2 Recommendations related to Transparency, confidence and reputation of crowdfunding platforms

#### 1) Access to information

The CrowdFundRES EU citizens survey shows that among the factors affecting citizens' decision to invest through crowdfunding, transparency ranks the highest regardless of whether the investment is in a RES context or not.

Crowdfunding platforms should give clear instructions to the partnering RES developers and ensure transparency of information on the processes followed both on their side and on the developers' side. In practice, this means that platforms should consider the following recommendations:

- provide downloadable offer documents / fact sheets with clear information on contractual rules between the platforms and the investors and the processes followed on the platforms and the developers' side;

- provide data, ideally in the form of standardized KPIs. Regulators may demand it at certain point if it is not provided, and
- provide after sales services to investors and borrowers. This procedure will help the investment sales process.

## 2) Trustworthiness

The level of due diligence undertaken on companies using crowdfunding to secure investment is often worryingly low. As a result, investors do not really know what they are buying. In practice, this requires a series of measures to overcome the lack of credibility. It is recommended that:

- Credibility checks and due diligence on RES project developers are undertaken; and
- Labelling of the platforms to increase the public's and RES developers' confidence.

## 3) Fraud avoidance

Crowdfunding platforms must have resolution plans, capital adequacy requirements and client money segregation in order to ensure that loan repayments will continue in the event of a platform collapsing.

As is happening in the UK, firms running platforms must also have resolution plans in place that means, in the event of the platform collapsing the loan repayments will continue to be collected so lenders do not lose out.

## 4) Project or platform exit

There are needs to be more clarity about how investors are to exit a project or platform and how cash is returned to investors.

Establish a secondary market where loans initially issued in a crowdfunding platform (primary market) are able to be packaged into a loan portfolio or tradable securities and are then sold to other investors. A secondary market can be operated within a crowdfunding platform or beyond it.

Secondary markets lower overall transaction costs, promote liquidity by providing financiers with an exit strategy and a transparent and reliable market price, thus increase the number of lenders willing to participate in this market. Secondary markets are increasingly important for reaching the necessary scale as the market grows.

### 6.3 Recommendations for raising awareness

Crowdfunding emerges as a form of financing that unleashes competition, and fosters transparency, confidence, reputation, while giving access to different ways of investments for renewable energy projects. At the same time, it is relevant to bear in mind the adverse impacts of this kind of investments related to emerging risks, such as herding behaviour, insufficient financial education and knowledge, capable of deter renewable energy initiatives and narrow funding options. This fact highlights the importance of raising awareness, competences and capabilities on these financing forms among the target groups and key actors involved.

The following recommendations are proposed to increase awareness.

#### 1) Emphasize crowdfunding as a mechanism that helps filling the financing gap between banks and RES developers

There's a need for promoting the concept of crowdfunding and raising awareness amongst retail investors and RES project developers concerning the benefits that it brings and the ways it can be used for financing RES projects.

Banks and RES developers should seek ways to increase stakeholders' dialogue. Broad stakeholders' engagement and peer learning processes will contribute to the overall increase in awareness and further contribute to strengthening and growth of the potential of the crowdfunding model of financing of renewable energy projects.

#### 2) Financial literacy through schools, municipalities, universities and local energy agencies

Policies should be shaped considering also the enforcement of educational streams that have the power to inform and capacitate retail investors. Policies should encourage the inclusion of financial literacy in schools, municipalities, universities, and community daily life with capacitation programs. Investors need to be able to make their own decisions and understand the concepts of an investment and the available possibilities, including renewable energy as promoting engagement in the energy issues of the community (local or EU).

#### 3) Engagement in community energy issues (participation vs. compensation methods)

Crowdfunding is considered as a viable tool for financing renewable energy projects and emphasized the importance of energy communities at a local level. At European level, the EC remarks the crucial role for the local acceptance of energy communities which demonstrate local engagement.

In this context, municipalities involvement helps to encourage citizen participation and promoting crowdfunding as a tool of financing of RES projects. From the point of view of developers, the involvement of municipalities provides reliability to the project. Information campaign towards local authorities would be a good incentive for the development of crowdfunding for renewables projects. However, participation from municipalities should be better supported. A good practice can be found in Italy where the 70% RES projects have been proposed by people with the support of the municipalities.

Policies should take into account the following measures to further engage community projects:

- To Energy communities should be given a specific regime (currently they are not able to participate to the tenders), notably an exemption from certain market-based mechanisms that are not fit for actors/projects of small sizes. The participation through tenders has been considered too complicated for small project such as those one financed by community. The projects financed by community should not go for the tendering. They could benefit from a support regime with the price set in the winning bid of the tender process.
- Feed in tariff could be higher for community projects.
- Self-consumption should be better incentivized.
- Taxes incentives on investments for citizens (such as tax exemption of capital income from RES projects could be put in place).

France represents an example of good practices to be implemented at national and European level. French Ministry of Energy offers a new incentive to sell electricity at a higher price for 20 years if RES developers use a crowdfunding platform to co-finance 40% of its equity to 'local' investors for at least 3 years.

This scheme should be in place for next 3 years and impact 10 billion€ of investment in RES.

## 7. Conclusions

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The policy recommendations formulated in this document are based on an extensive work developed during the first two years of the CrowdFundRES project. Work on this task started in February 2016 with reviewing the results from the stakeholder surveys, cases studies and the regulatory and market framework review carried out in the project. Moreover, a literature review has also been carried out with the aim of identifying key elements of the regulatory and market framework that potentially create unfavourable conditions for the development of crowdfunding as a means of funding renewable energy projects at EU and national level. The approach followed is based on the fact that both the Energy Union and the Capital Markets Union (CMU) envision a future with a more decentralised character and diversified sources for energy consumers/producers and investors making use of innovative technologies (e.g. smarter grids, the internet). This approach was endorsed by MEP Claude Turmes during his speech at ECN's second edition of CrowdCamp that took place in parallel and at the same location with the CrowdFundRES workshops in May 24, 2016 in Brussels.

The workshops held on 24<sup>th</sup> May 2016 also offered the opportunity to discuss the identified regulatory and market framework elements that are most relevant to renewable energy crowdfunding with platforms and developers. The feedback collected in the proceedings<sup>29</sup> of both events has been a useful source for feeding in the policy recommendations presented in this report. The European Policy Workshop organized within the project framework on the 16<sup>th</sup> of February 2017 in Brussels represented a great opportunity to identify opportunities and challenges associated with the implementation of the developed policy recommendations. The event aimed at validating the draft policy recommendations for boosting the potential for crowdfunding to finance renewable energy projects. The workshop included a panel discussion on policy recommendations and provided the audience with the opportunity to ask specific questions to the panelist, covering the regulatory aspects for renewables and for crowdfunding as well as legal aspects.

The renewable energy sector is willing to see the development of crowdfunding as a financing option, especially for certain types of projects. This serves as an important step towards more citizen's participation and consequently a better local acceptance. During the workshop discussions, it became clear that private capital is essential for the growth of the renewable energies sector. Hence, crowdfunding can serve as a viable alternative for financing RES projects, if energy communities at a local level as well as municipalities are sufficiently involved.

The validation of the draft policy recommendations showed that in particular the issue with cross-border crowdfunding appears to be a major obstacle for crowdfunding in general and for RES project financing. With regards to the aspect of incentivizing RES project developers to boost the use of crowdfunding consensus was found that municipalities are key for promoting crowdfunding and providing reliability to a RES project on a local level. This in turn could contribute to an increase of citizen's participation, as long as the community is brought together with RES project developers through a local authority.

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<sup>29</sup> CrowdFundRES workshops: Crowdfunding for renewable energies (Proceedings)  
<http://www.crowdfundres.eu/news/crowdfundres-workshops-crowdfunding-renewable-energies/>

## Technical references

Project Acronym	<b>CrowdFundRES</b>
Project Title	Unleashing the potential of Crowdfunding for Financing Renewable Energy Projects
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PU = Public

PP = Restricted to other programme participants (including the Commission Services)

RE = Restricted to a group specified by the consortium (including the Commission Services)

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v	Date	Beneficiary	Author
1.0	12.12.2016	T. Maidonis	WIP
2.0	07.02.2017	P. Alonso	WIP
3.0	23.02.2017	T. Aschenbeck, A. Dlouhy, T. Drefke, F. Martens (OC); C. Arnaud (SPE); O. Gajda, K. Kohl (ECN); A. Raguét (Lumo); K. Harder (Abundance)	OC, SPE, ECN, LUMO, Abundance
4.0	21.04.2017	P. Alonso, S. Caneva	WIP
5.0	17.05.2017	J. Wahlmüller, A. Raguét, P. Alonso	Global200, LUMO, WIP
6.0	19.06.2017	P. Alonso	WIP
7.0	30.06.2017	S. Caneva	WIP
8.0	10.07.2017	J. Wahlmüller, Sissy Windisch, C. Arnaud, A. Raguét	Global 2000, GC, SPE, LUMO
9.0	11.07.2017	P. Alonso, S. Caneva	WIP



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