



Guidelines for crowdfunding platforms interested in hosting RES projects

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1. Purpose of these guidelines

This guide presents a non-exhaustive series of questions that founders of crowdfunding platforms should ask themselves to facilitate better understanding and decision-making before launching a crowdfunding website for sustainable energy projects. It provides them with relevant information to proceed further.

The target audience of this guideline are founders and managers of crowdfunding websites for renewable and energy efficiency project finance. It applies to completely new crowdfunding websites as well as existing crowdfunding websites that have already financed other projects and want to enter the energy market. It mainly concerns project finance of proven technologies such as photovoltaic (PV), wind, biomass, combined heat and power (CHP), LED lighting, thermal heating and others. Recipients of the funds can be the developers of the projects, project owners and/or a Special Purpose Vehicles (SPV). The regional focus is pan-European, i.e. the crowdfunding website can be located in any EU Member State. Since the majority of existing crowdfunding platforms for energy projects apply debt instruments such as debentures or subordinated loans, this guide focuses on loan-based crowdfunding.

The questions presented in the following pages as a guideline, are structured in four parts.

- **section 2.1** discusses services provided to crowd investors, such as managing campaigns and building a reputation;
- **section 2.2** discusses project-related questions, ranging from due diligence to finding good projects;
- **section 2.3** addresses IT questions; and
- **section 2.4** provides an overview of relevant legal questions to research.

2. Questions proposed

2.1 The Crowd

Building a large crowd of investors defines the success of any energy crowdfunding platform. Growing a crowd takes marketing skills, technical skills, careful planning, networking, and time. Launching a platform and waiting for people to come to you will probably fail.

What are the set-up costs of getting enough crowd investors to finance first projects on a new platform?

To estimate the set-up costs of growing the crowd, get a quote from a crowdfunding consultant for a well-defined communication plan via multiple media channels. It is also necessary to invest in online user experience, social media, SEO optimization amongst others. Estimate all communication and marketing efforts of existing platforms. The number of staff working full-time on marketing and their level of seniority may give an indication.

The more mature a market, the higher will be the set up costs for new platforms. A new platform is less attractive for investors vis-à-vis existing ones because they cannot show previously funded projects and returned investments. Moreover, their brand is less recognisable. Before launching their first campaign, most energy crowdfunding companies spent months promoting their platform and building a crowd. Estimate at least 6 months depending on the size of your team, expertise and network for these activities. In the beginning, a large part of the funds, time and efforts must be dedicated to building the crowd. In this context, it is useful to note the very favourable disposition of EU citizens towards crowdfunding for renewables reported elsewhere in the CrowdfundRES project, particularly amongst those who have had recourse to use the market previously (see “Crowdfunding for Renewable Energy: Survey Results on Public Perceptions and the Views of Crowdfunding Platforms and Project Developers – available at http://www.crowdfundres.eu/wp-content/uploads/2016/06/CFRES-Survey-joined_May2016.pdf). Thus, with appropriate consideration of the issues set out in this document, it should be possible for crowdfunding platforms to take advantage of this background positivity and develop significant critical mass in the sector.

How can I gain a reputation as a platform?

Having a well-known patron or board member is a good strategy for new platforms to gain a good reputation. The person can be a famous artist, politicians or experts. A trust-worthy person with a technical and financial background is preferable. A founding team with good relevant CVs also helps in gaining trust from your investors. Make sure to transparently show the information online. Whatever you can offer, show it to your crowd via your media channels, e.g. your website, your videos, Facebook. Once first campaigns were successfully funded, make sure to communicate it well on social media, online and in print media.

Success of your campaigns is an important driver of your reputation. It is advisable to launch smaller projects at the beginning, avoid critical projects and keep funding limits low. Carefully plan how to

reach your funding limits. A record of timely payments to the investors is also important. Remember the project owner several times in advance about his next repayments. From the beginning, a strict process shall be implemented as regards late payments and default. Being fully compliant to regulatory requirements also builds trust. In addition, many platforms apply high standards to the benefit of the crowd investors that are not required by the underlying regulatory framework. It may include criteria when choosing projects, the management of the payments, the communication of the underlying investment risk, the update of the technological progress and others. Such voluntary high standards benefit the reputation of a platform.

How can I grow the crowd?

Renewable and efficiency crowdfunding campaigns are often perceived as more conventional investment offers than average crowdfunding campaigns. Trust and a long-term relationship with its crowd are thus very important for energy platforms. Therefore, you should always keep the crowd involved and updated by posting what you do. For example on Facebook, you can ask their opinion; build a story around your platform in order to let the crowd participate.

The CrowdFundRES case studies discuss different marketing techniques to grow the crowd, see http://www.crowdfundres.eu/wp-content/uploads/2016/09/CrowdFundRES_Case_Studies.pdf Below are some of the case studies' findings. No further assessment of marketing spend against euros raised could be made to compare the effectiveness of these different strategies.

- **Traditional marketing.** Offline marketing techniques including print media and events may lead to higher brand recognition and trust in the mid to longer term.
- **Local communities.** Building upon trust and engagement in local communities can be a good strategy. Some platforms partner with local organizations and municipalities to run campaigns.
- **SMEs.** One platform mainly finances SMEs like hotels that can bring a proportion of the funding to the platform themselves.
- **Conversion from a reward-based platform.** One platform runs a reward-based crowdfunding platform as well as an investment-based platform. On the reward-based platform the projects bring their own networks to the platform thereby building the crowd. A percentage of these people are then converted into investors.

How do I promote a crowdfunding campaign?

For a successful campaign you should show as much details as possible about the project and the project owner, such as the real costs of the installation, service contracts, the balance sheets of the company etc. Professional text, photos and video content of the project and the project owner also belong to a crowdfunding campaign. You can ask the project owner to prepare the material, but to keep a high level of quality you should be involved in the process. A professional video is the best possibility to introduce the project and its owner to the crowd. It creates emotionality, especially if people like to fund projects with social impact. The project must be tangible. Organizing an event to visit the construction site or talk to the project owner is a good way to build trust. The European Crowdfunding Network provides free online video tutorials for project developers on how to run a successful crowdfunding campaign, see <http://eurocrowd.org/category/facts-and-figures/e-library/>

What kind of follow-up work is required after a project has been funded?

Depending on the phase of construction, it is advisable not to pay out 100% of the funded sum in one. A part should only be paid out, if the project is fully built and operational or connected to the grid. The installation and running of the project must be closely monitored as well as payments of the project to the crowd.

Moreover, the crowd should be regularly updated on information like the first energy bills or pictures of the installation. The crowd appreciates information that illustrates the tangible impact of the investment. Investors also expect regular follow-up information as regards their investment. This is of financial and operational nature. The standard for most platforms is to have an online investor dashboard where crowd investors can log in and follow their investments. In addition, regular emails are sent. Some crowdfunding campaigns offer a site visit after completion.

2.2 Projects

The crowd expects that majority of renewable and energy efficiency projects will return the investments in a timely manner. Building an efficient process of choosing and assessing the right projects is thus critical. Projects must be well planned with realistic targets that are clearly communicated. Otherwise, you may lose time and cannot run your platform cost-efficiently. Having at least one senior person on your team with a technical and financial background is recommendable.

What types of energy technologies are best suited for crowdfunding?

The most important criterion when choosing the type of technology to be crowdfunded on your platform is the expertise of your team. In the beginning, it makes most sense to concentrate on few technologies. Simple and well-known technologies are best. Bear in mind that the crowd consists of many people with little technical background. They must be able to understand why the underlying technology is worthwhile investing in. Known technologies like photovoltaic and LED lights are for example easier to understand, validate and therefore fund than new technologies like high airborne wind.

For each technology, you must understand the underlying regulation, financial model and technical specifications. Also bear in mind that crowd investors prefer certain types financial returns, which in return depend on the technology. A good advice is to make a brief financial plan in excel that includes all relevant elements. Let's say solar on a school roof. What are all elements for assessing the costs, i.e. man hours, lease, equipment, maintenance, insurance. Which documents and legal contracts must you review to assess the costs? Which factors influence financial return, i.e. MWh, feed-in tariff? What are the underlying financial, operational, regulatory and technical risks? How can you mitigate the risks, i.e. securities, own equity requirement, service contracts, technical experts that review the project upfront? Who are the contract partners? Compare financial plans of different technologies.

Of relevance in this context, the results of the decision choice experiment conducted as part of CrowdfundRES project¹ suggest that while rate of return is the main criteria, potential investors attach importance to a range of issues/benefits when assessing investment possibilities. Of particular relevance here is the evidence in the analysis that wind farm projects are viewed very differently to other types of RES, with investors content to accept lower returns than elsewhere when this type of scheme is involved.

How do I find energy projects for my platform?

Most platforms in Europe struggle at the beginning to find projects. It is recommendable to firstly make an analysis about your business, identifying which clients benefit most from your offer. Maybe the relevant clients are renewable energy project developers, small and medium size entrepreneur or energy contractors. You then can directly reach out to your target clients via mailings in combination with phone calls. Other options are to attend events where your clients participate or push articles in magazines read by your clients. Another recommendable route is to cooperate with companies with links to energy projects, such as energy consultants, energy product installation companies and others. Become a member of relevant associations like renewable energy and energy efficiency associations but also associations for small and medium sized companies. Finally, it is key to know your market and gain a reputation. Speaking at reputable energy events and organizing events helps.

What is the due diligence process?

The technical due diligence is a must for each energy project. Together with external experts, you should define a list of documents needed. The required documents depend on an array of factors, such as the underlying technology or country-specific renewable and energy efficiency regulation. If you only fund simple technologies and can build upon great expertise in your team, you can undertake the due diligence yourself. Nevertheless, a due diligence report done by an independent third party provides your crowd with an independent view and is thus recommendable. This party must be chosen well, as there are also non-professional consultants in the market. It makes sense to choose fixed partners and to enter framework contracts in which fixed prices and short execution dates are agreed. It is common practise that the project owner pays the cost of the consultant.

Another important part of the due diligence process is to thoroughly check the financials. It includes the financial plan of the project as well as information on ownership structures, securities, feed-in tariffs, the credit worthiness of the loan recipient amongst others. The financial plan shall clearly show how the project will recoup its costs over time. Depending on the type of project certain guarantees and documentation may be requested from the project developer, such as contracting arrangements, grid operator certificates and others. Third party service providers can strengthen the process. For example, to assess the credit worthiness, you may buy services from third parties such as Creditreform in Germany.

¹ Survey results analysis: http://www.crowdfundres.eu/wp-content/uploads/2016/08/CrowdFundRES_D3.2_Economic_Agent_Survey.pdf

2.3 IT

As a crowdfunding platform, you must build a reliable secure webpage with certain features. Over the last years, technology improved and costs decreased due to white-labelling solutions, APIs and other services.

How shall I build the webpage?

A modern front-end, SEO optimized with high usability is recommended. For the backend, you must build at least an account management, payment processing and dashboards for investors and projects. Best security practices in IT systems and data protection must be implemented. Before hiring a developer to build a website from scratch, we recommend to research the following solutions.

- **WordPress plug-ins and themes.** Examples include IgnitionDeck Crowdfunding WordPress Plugin, Backer and 500 Framework. Costs for the templates are between EUR 100 and EUR 500. Hosting and domain registration fees of a few hundreds EUR per year are on top. Yet, the WordPress plug-ins and themes are mainly for donation-based crowdfunding. You need to make sure it really fits your needs.
- **APIs.** There are programmes available to connect your front ends to working back-ends. A commission is typically required for the service.

Buying a white-label solution can lower the set-up costs, making a minimum viable product less costly and time-intensive. But in the long term, you are always depended on your white label partner and little specific changings are costly. In-house solutions guarantee greater control, quick amendments on needs of the crowd and the projects owner. When transaction fees apply, in-house solutions are cheaper once your platform grows.

What kinds of escrow services are necessary?

Make sure you fully understand the money flow between crowd investors, the crowdfunding platform and the project developer. Also make sure, that you are fully compliant with legal requirements with regards to the cash flows. In many countries a platform needs a banking licence to organize cash flows itself, therefore most crowdfunding platforms make use of an escrow service by specialized banks. The crowd investor thus makes a direct payment to an escrow bank account. If the crowdfunding limit has been reached, the full amount is transferred to the project developer. For repayment and interest payments, the project developer makes one payment to the escrow bank account. The money is then dispersed to the bank accounts of all individual crowd investors.

Some third party providers offer services for escrow and online payments. To verify compliance with regulation of the third party, check the underlying Payment Service Regulation for your country in the CrowdFundRES document “Review of Crowdfunding Regulation & Market Developments for RES project financing in the EU”. The pricing differs among escrow service provider. Most Crowdfunding escrow services take a transactional commission fee. Set-up fees are less common unless additional services are provided.

2.4 Legal

So to start an energy crowdfunding platform you must be fully aware of the underlying regulatory framework. When you start your crowdfunding business, support of a specialised lawyer is a must.

This section only provides an overview of questions you should research in advance.

The document “Review of Crowdfunding Regulation & Market Developments for RES project financing in the EU” provides an overview of the bespoke regulation per EU Member State.²

Look in the document for the country in which your crowd investors are located. Research the financial instrument most energy crowdfunding platforms intermediate, i.e. subordinated profit-participating loans in Germany. Research the underlying law governing crowdfunding, i.e. Kleinanlegerschutzgesetz and Vermögensanlagengesetz in Germany. Complement your understanding by reading terms and conditions of energy crowdfunding platforms in your country. Fully understand the underlying logic why a certain law governs certain activities. Below is a non-exhaustive list of information to research.

- **Regulatory approval.** Depending on the activities and set up of your platform, carefully assess which particular regulatory licence must be obtained and which regulatory approval is required.
- **Amounts crowdfunded by individual crowd investors.** I.e. you should research the maximum allowable amount that can be invested by each crowd investor.
- **Information requirements.** You need to research which information must be provided to the crowd investor how and when in the investment process. Is there a need to provide the crowd investor with a fact sheet to inform them about the investment product? How must a platform inform the investors about the financial risks in the form of typographically emphasized warning notices on a particular page of the website during the investment process.³
- **Advertising.** National laws possibly limit the advertisement of investment products. Whenever you write about a crowdfunding campaign in social media, online or offline, you must be sure to comply with underlying regulations. Facebook posts, tweet may require for example a warning notice on the underlying risks of the investment. You should also set up a process in your communication team to make sure your platform is fully compliant.
- **Prospectus requirement.** The threshold is particularly relevant to assess if crowdfunding makes sense for smaller renewable and efficiency projects.

² Review of Crowdfunding Regulation & Market Developments for RES project financing in the EU <http://www.crowdfundres.eu/wp-content/uploads/2016/06/CrowdFundRES-Crowdfunding-RES-Regulation-in-EU.pdf>.

³ For Germany, see for example <http://www.osborneclarke.com/insights/crowdinvesting-2016-regulatory-requirements-for-project-initiators-and-crowdfunding-platforms-pursuant-to-kasg/>

Technical references

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PU = Public

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