



Guidelines for crowdfunding platforms interested in hosting RES projects

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January 2018

CrowdFundRES
Unleashing the potential of Crowdfunding for Financing Renewable Energy Projects



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement N° 646435.

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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 Developers¹). 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.

¹ 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)

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 studies² discuss different marketing techniques to grow the crowd, see 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 in 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

² CrowdFundRES case studies http://www.crowdfundres.eu/wp-content/uploads/2016/09/CrowdFundRES_Case_Studies.pdf

Crowdfunding Network³ provides free online video tutorials for project developers on how to run a successful crowdfunding campaign. Surveys of investors often indicate ‘helping to realise the project’ is a high ranking priority, but in actual practice projects that offer higher rates-of-return receive investment faster than the ones offering a lower return, see Survey of Personal Investment Choices⁴. Hence the key financial conditions (annual percentage rate and period of financing) should be most prominent. Furthermore, the reader expects a short summary text on the project and on the project developer. To gain trust from the investors: if the project developer is an experienced player, emphasize this and give examples of previous projects.

Avoid terminology that makes the platform and project owner seem dependant on the investor. Communicate the call to action in terms of an interesting opportunity that an investor can participate in. Use words appropriate to private investing like ‘fund’, ‘finance’, ‘make possible’, ‘join’ and ‘participate’, do not use terms like ‘help’ or ‘support’ unless it is for charitable or coummity giving.

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 transaction. Only a portion should 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 project revenues 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 a 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. Investors have a negative experience when platforms and project owners do not provide regular updates and information on the projects they invested in. It is advisable to send investors an update at least a minimum of once every six months. In addition, some crowdfunding campaigns offer a site visit after completion.

What kind of strategic partnering can be used?

For platforms entering the market working with a third party corporate finance firm who structure and prepare the investment for listing can offer a route to scale and increase the deal flow. However, with the platforms reputation dependent on the quality of the investments it is imperative that the partners are high quality and preferably earn compensation based on the long-term success of the investment not just for the delivery of the investment onto the platform.

Working with partners within established communities of investors can also be a powerful approach to rapidly growing a platform’s investor base. So again, if partnerships are to be forged considering the value of the partner’s community alongside the transaction can be important, growing an investor base for “free” can be more valuable than a cash payment.

³ European Crowdfunding Network, tutorials see <http://eurocrowd.org/category/facts-and-figures/e-library/>

⁴ Survey of Personal Investment Choices http://www.crowdfundres.eu/wp-content/uploads/2016/08/CrowdFundRES_D3.2_Economic_Agent_Survey.pdf

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 level of financial returns, which in turn 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 experiment⁵ conducted as part of CrowdfundRES project 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.

The physical setting of the technology will also influence the crowd. A PV project set in a specific location, area or building with local or even national fame, may find above average attraction from the crowd. Think of solar panels on the roof of a landmark building, a regional hospital, a large school or a reputable company. In the case of OPC and Torreilles, it helped in the campaign communications that the 'serres solaires' were located close to the Route du Soleil, well known in The Netherlands.

⁵ Survey results analysis: http://www.crowdfundres.eu/wp-content/uploads/2016/08/CrowdFundRES_D3.2_Economic_Agent_Survey.pdf

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, and 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.

Examples of the type of documents that should be available for inspection are:

- Commitments of other financiers to the project and if they have performed a due diligence
- Project exploitation plan
- Financial plan, capex (at $t=0$), forecasted P&L, balance sheet and cash flow statement
- P&L of last 2 years (if available already).
- Relevant permits
- Contract for land use/ownership
- Engineering, Procurement, Construction contract
- Operations & Maintenance contract
- Relevant contract(s) guaranteeing revenues: feed-in tariff / power purchasing agreement
- Relevant tax/legal/subsidy documents, needed to realize/meet financial plan for realisation/exploitation

- Finance agreements of key financiers
- Ownership structure overview
- Insurance contracts

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. In-house solutions are preferred over white label IT solutions especially when the IT added modularly and to integrate with external components: white-label services or Software as a Service (SaaS). Of course, it is preferred to own and control your IT configuration and your database. Maintaining software over time needs continuous investments, especially extensive back end systems. Such systems can often be used in a SaaS structure where maintenance costs are actually shared by all users of the software. Make certain you own your data and that it can always be exported from a SaaS suppliers to prevent yourself from a vendor lock-in.

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. Work with a law firm that has current experience advising crowdfunding platforms on getting the correct papers drawn and creating quality contractual documents for the project owners and investors.

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.^{6,7}

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. International crowdfunding is currently very limited in the EU, however if allowed in the future make certain to choose financial products that are eligible and apply in the countries expanded into. In that sense, you can use the same contracts and an entrepreneur can raise funds for the same project in multiple countries, having the same financial conditions with all investors.

- **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.

⁶ 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>

⁷ A Review of Crowdfunding Regulation 2017 has been developed by CrowdFundRES partners ECN and OC and is available here: http://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf

- **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? ⁸
- **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.

⁸ 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

Project Acronym	CrowdFundRES
Project Title	Unleashing the potential of Crowdfunding for Financing Renewable Energy Projects
Project Coordinator	Silvia Caneva & Pablo Alonso Wirtschaft und Infrastruktur GmbH & Co Planungs-KG (WIP) silvia.caneva@wip-munich.de pablo.alonso@wip-munich.de
Project Duration	February 2015 – January 2018 (36 months)

Deliverable No.	D4.6
Dissemination level*	PU
Work Package	WP 4 - Guidelines Application and Revision
Task	Task 4.5 – Guidelines Revision
Lead beneficiary	UNIDUN
Contributing beneficiary/ies	GC and all partners
Due date of deliverable	31 January 2018
Actual submission date	30 January 2018

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)

CO = Confidential, only for members of the consortium (including the Commission Services)

v	Date	Beneficiary	Author
1.0	26.12.2016	GC	Sissy Windisch (GC)
2.0	06.06.2017	UNIDUN	Bruce Burton (UNIDUN)
3.0	17.07.2017	WIP	Pablo Alonso , Silvia Caneva
4.0	25.01.2018	UNIDUN	Bruce Burton, Ariel Bergman
5.0	30.01.2018	WIP	Pablo Alonso, Silvia Caneva



Disclaimer

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 646435. The sole responsibility for the content of this report lies with the authors. It does not necessarily reflect the opinion of the European Union. Neither INEA nor the European Commission are responsible for any use that may be made of the information contained therein.

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