



# Compile

INTEGRATING  
COMMUNITY  
POWER IN ENERGY  
ISLANDS

## Financing Guide



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## I SECTION I - INTRODUCTION

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Energy communities require funding to get their projects off the ground. There are different financing models available to them and each model comes with benefits and constraints. The most important thing to consider when financing your projects is that the financing model that you choose will automatically have an impact on the ownership of your community energy project.

The objective of this financing guide is to discuss the relationship between the two pillars of project development: financing and ownership. This report will be an overview of models that energy communities may consider to finance their activities and projects. The list in this report is non-exhaustive and features the most common but certainly not all financing models available to energy communities. Energy communities can take many forms, sizes, they can take on a wide set of activities and each of them operates in a different environment. Hence, each energy community is unique and so will be their financing needs. For tailored advice and financial expertise, we recommend you to get in touch with regional or national federations that represent energy communities in your country.

If you want to learn more about the different activities that your community can take on, you may enjoy reading our Compile best practices report. If you are looking for various ways to engage with your stakeholders, you may benefit from reading our Compile stakeholder engagement guide. If you want to get more information on the legal framework and the provisions for energy communities in the new Clean Energy for All European Legislative Package, you may enjoy reading our Compile report with a review of collective self-consumption and energy communities in the EU.

### I.1 HOW TO USE THIS GUIDE ?

This guide will walk you through the forms of financing available to your energy community and the impact on your project ownership. This guide was built to guide you through the construction of your financing plan. Therefore it starts with interrogations to consider with your citizen group, moves on to the tools for financing and finishes with a couple of field experiences.

The first part of the report will discuss the criteria to consider when choosing financing tools, especially in relationship with ownership. The second part of the report will describe 2 forms of financing sources:

**Equity Financing:** This chapter will focus on financing with equity capital. You're offering ownership of your project to another party who steps into the capital. This can be useful if you have limited capital to start with and/or if you want to be sharing the risk. Keep in mind however that you will be sharing ownership here.

**Debt Financing:** This chapter will focus on financing sources that are based on debt capital or loans. That means you have to reimburse the money that you will receive and that the funder will charge a fee (interest) on that. Debt financing can be considered if you need funds but do not want to share the ownership of your project. Keep in mind however that the owner will be carrying the risk.

Finally, we will finish with discussing the spectrum of the cooperative organisations as a proxy for the debates around the implementation of energy community definitions, and what "community ownership" implies.

### I.2 THE VALUE TOOL

Beside this guide, the COMPILER project has produced a calculation tool for financing of solar project. This calculation tool called the Value Tool is allowing you to calculate the Return on Investment of your individual and collective photovoltaic installation. To know more visit : [www.compile-project.eu](http://www.compile-project.eu)

## 2 SECTION 2: FINANCE & OWNERSHIP

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The relationship between financing and ownership is crucial. The negotiation process of any project financing should be around where your resources are coming from, and how much control you need to provide in order to access those resources. Of course, in the process of building the financing plan of your energy community, you should keep in mind two key principles : the principle of autonomy which guides any energy community to remain independent from external entities, and the principle of democratic control, which provides for a transparent governance of your organisation.

The key questions that you need to answer to build your financing plan are:

- **How much financing do I need ?** This question relates not only to the amount of money that you need to mobilise but also to the timing at which you need to mobilise this money. What are the bottlenecks in your financing plan ?
- **What kind of financing do I need ?** This is most of what this report will focus on. This question relates to the ways to create the right outcome for your community and ensure the sustainability of your energy community.
- **What ownership model do we want to develop for our project ?** This question is the most crucial. The goal of an energy community should be to remain autonomous and democratic in order to remain transformative. Therefore the construction of your ownership structure should be part of the financing discussion.

In this report we will differentiate between the organisational financing and the project financing. Energy communities are organisations, acting on the collective will of the community in the energy sector. Therefore an energy community can carry several projects. It is important to differentiate between the financing and ownership of the organisation of the energy community, and the financing of the projects it carries. Project financing is linked to the development of an energy project. A project can be developed with external partners. A project can be owned in part by the energy community. Organisational financing is linked to the activities and ownership of the energy community itself. An energy community can be owned (and therefore financed) only by a restricted number of actors – the members of the community. Members should finance directly (not with debt) the ownership of the energy community. This report will therefore focus on project financing.

### 2.1 HOW DOES FINANCE IMPACT OWNERSHIP?

The way you finance your energy community will have long term impacts on the amount of control you retain in your activities. The financing of the projects of your community is a constant balancing act between the type of financing you need to support your project, and the counterpart that you will have to provide to get this financing. The key principle that you should keep in mind while making those decisions is the mandate you have received from your community: to keep the energy community autonomous and sustainable through time.

### 2.2 WHAT IS THE DIFFERENCE BETWEEN EQUITY AND DEBT CAPITAL?

There are two types of financing that we will describe in this report: debt financing and equity financing. In general it is useful to also think about those two categories as long term financing (equity) and short term financing (debt).

Equity financing refers to the money you are getting in exchange of control right in your organisation or project. Equity refers to a share of your organisation and provides the right to your future profits, and a “seat at the table” in terms of the decision making. The type of financing is very flexible as you do not promise anything except for a share of your potential success. In energy communities, equity financing is reserved to specific types of actors: citizens, municipalities and SMEs. We recommend that you treat this type of financing with extra care.

Debt financing refers to money loaned to you for a price. Debt financing is not allowing for a share of the control of your organisation. This type of financing is often more expensive, but can be provided by a wide range of actors. Banks and funds are the most common but we will also provide here other options to source this type of financing.

There is a third type of financing available to you : grants. We will touch on this point at end of the report. Grants are often good ways to start an activity, but it is important to be careful of the amount of investment needed in return for the financing secured.

## 2.3 HOW IS THAT REFLECTED IN THE BALANCE SHEET ?

Your balance sheet is the reflection of your organisation’s financial status at a single point in time. The balance sheet is created once a year during the closing of your accounting period. The balance sheet is an interesting document because it allows you to better understand the status of your financing. We will try to provide you below with basic principles to keep in mind while assessing your financing choice. We recommend however that you get the support of a professional accountant to go deeper into the topic.

Your balance sheet is divided in 4 parts:

Assets		Liabilities	
Long term Assets (Mobile and Immobile Assets)	Equity (long term debt)		
Current Assets (Liquidity and short term assets)	Liabilities (short term debt)		

Table 1 Simplified balance sheet

This way to divide your balance sheet is helpful because it allows you to assess the financial status of your organisations. For this we propose to use solvency ratios:

### 2.3.1 Debt to equity ratio

This ratio is dedicated to estimating the financial leverage of your organisation. Meaning, the weight of your debt versus your stable financing resources (i.e. equity). The goal being to estimate if you are too vulnerable to your lenders, or able to mobilize more debt financing. An acceptable D/E ratio depends on your country, and your project. We recommend getting in contact with local development agencies and banking institutions to support your analysis.

$$\text{Formula : Total Liability / Total long term debt (equity)}$$

### 2.3.2 Debt-to-assets ratio

This ratio estimate the asset leverage of your organisation. This means the amount of debt of your organisation relative to your assets. This ratio determines how stable is your balance sheet and therefore how easy it will be to borrow money in the future. This ratio depends on the activity that you elected to perform with your energy community. In general, we recommend to young communities to elect for activities that will provide a good debt to asset ratio, meaning invest in asset producing activities rather than cash flow producing activities.

$$\text{Formula: Short debt + Long term debt / Total Long term Assets}$$

### 2.3.3 Equity ratio

The Equity ratio compare the assets (long term and short term) to equity (long term debt). The goal is to have a better idea of the way the organisation is financing its investments: through debt or through equity. Equity ratios that are 0.50 or below are considered leveraged organisations; those with ratios of 0.50 and above are considered conservative, as they own more funding from equity than debt. A leverage organisation is less financially stable then a conservative one.

$$\text{Formula: Total Equity / Total Assets}$$

### 2.3.4 Interest coverage ratio

This last ratio is not based on the balance sheet but on your cost statement. This ratio is linked to the amount of time that you are able to cover your debt with your revenues. The goal of this ratio is to see how long your activities can last before defaulting on your obligations. This ratio should preferably be calculated over the span of 1 fiscal year. In the best case scenario, the ratio should be above 1.

*Formula: EBIT (revenues before taxes) / Expenses*

## 2.4 HOW TO BUILD A FINANCING PLAN ?

A financing plan is a discussion tool with your community group. The goal of the financing plan is to match the needs related to your project, with the available sources for funding and the capabilities that you possess in your group. The financing plan is divided in three parts, the first one is simply a match-making between your need for financing and the expected sources. The second one is the cashflow analysis. The third is the fundraising plan, through which a discussion can be had around the sourcing of financing.

In a candid way a financing plan is simply the addition of the financing needs of the organisation, matched with the financing sources of the organisation. Each source should be quantified, and traced to the ownership that it represents.

The cash flow is a little bit more detailed, and should regularly be updated. The cash flow analysis brings together in a calendar the date of the currency payment from the organisation, and the date of the currency income to the organisation. The cash flow plan is simply through as your bank account balance, which cannot (should not) be negative.

Finally, the last part is the fund raising plan. Energy Communities mostly rely on the private investments of their members to finance projects. Therefore it is crucial to have a fundraising strategy to raise money from local community members. This allows your members to have visibility on the funding status and planning ahead of your on going projects. This is especially crucial if you plan a share offering (see section 4).

## 3 SECTION 3: OWNERSHIP MODELS

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The energy community provisions are requiring the creation of a legal form to facilitate the equal ownership of all the participants of the collective action scheme. A legal form is an investment that you are making to formalize your initiative, and it will be a continual cost to your initiative, therefore it is especially important to make sure that this investment will pay off.

Many citizen-led initiatives do not necessarily need a legal form. Collective purchasing, crowdfunding and collective self-consumption are activities that you can perform without necessarily a legal form. However, when looking to develop production / supply / infrastructure related projects, a legal form is mandatory.

The Energy Community definitions [111] are also making a clear distinction regarding the ownership of projects financed by the energy community organisations. Energy communities must retain control over the projects financed. Depending on your Member State, this control can be limited to a veto participation or a full ownership of projects. We will discuss this limitation and recommendations regarding ownership at the end of the report in the debate paper : FINcoops vs REScoop (Section 5).

### 3.1 WHY DO I NEED A LEGAL FORM?

A legal form will provide several advantages:

- **Protection:** a legal form is allowing for the group to be protected to the level of its investment. This allows for the investors to be responsible for costs to the organisation up to the level of

their investments. *Caution: this is not necessarily true for all legal forms. Try to choose a legal form that will afford you this protection.*

- **Investment** facilitation and access to financing : a legal form provides for a vehicle to have multiple investments join as the project grows. This streamlines the financing process and support your access to debt financing.
- **Market participation:** In many activities, the existence of a legal form is mandatory to participate in the market and provide services to your members. The creation of a legal form should be seen as an investment in this perspective.
- **Governance facilitation:** a legal form is at its heart a contract between a group of people. The creation of the legal form therefore allows you to discuss all the aspects of collective governance which will impact your development and maturation as an energy community.

In general we recommend that communities create a legal form in order to protect the members from the risk of the failing project. A legal form is a small investment that will allow also to proceed in the development of a collective governance scheme which will serve as the community grows. We recommend to transcribe the 7 cooperative principles in the statutes of the legal form.

### 3.2 WHICH LEGAL FORM DO I CHOOSE?

Each member state has the choice of the legal form corresponding to the European energy community definitions (REC / CEC). We recommend that you consult the work that has been done in other reports of the COMPILE project, reviewing the state of the transposition in your country [4]. We also have conducted an analysis [112] on legal forms that were created by our pilot citizen groups, discussing barriers and advantages of the various legal forms. When choosing a legal form for your energy community, you should consider the following questions:

- **Foundation requirements** : what is the minimum amount of members / founders you need for legal form ? Do you need to register your legal form ? What is the registration process ? What type of documentation you will need and what is the timeline you will have to follow ?
- **Administrative burden:** What declarations and audits are mandatory for this legal form ? Which administration is responsible for your legal form and how can it impact your activities ? How much time and skills will you need to maintain this legal form ?
- **Liability:** How protected are you (the members) by this legal form ? How liable is your legal form for project related risk ? Is your legal form compatible for the type of activities you are looking to develop ?
- **Minimum Capital** : What is the minimum amount of capital that founders will need to raise and mobilise to create the legal form ? How can this capital be used in the daily operations of the legal form ?
- **Governance** : Which flexibilities do you have in your governance ? What are the minimum requirements in your governance system ?

Most member states will have the following provision for legal forms in their corporate law [2]:

- **Free association, Clubs, Not for profit entities** : free associations and NGO statutes exist to provide an opportunity for citizens to join and realize collective actions. Those forms usually enjoy light administrative and management procedures. But they often do not allow you to make profit from your activities. Depending on the country you are in, this format can be great for energy communities if you are allowed to perform commercial activities. But most of the time those activities are limited in number, and share of staff time.



- **Limited Liability Companies:** company legal forms are usually simple collective contracts. Those formats are usually the most flexible ones adapted to the activities that you are pursuing. Their flexibility can become a risk to also consider regarding democratic governance practices.
- **Foundation and Trusts:** Foundations are usually a step between non-profit and for-profit organizations, usually serving a purpose alternative to economic gain they will allow you to manage cash flows in an easier manner. The governance structure is usually more restricted, and most foundations have to follow the non-profit statutes. Trust are a similar form serving a specific purpose of community service (“ aim to regenerate the community sustainably, or address a range of economic, social, environmental and cultural issues within a community” [113]).
- **Cooperatives:** the cooperative legal form is currently most often used by Energy Communities across Europe [2], for its strong governance and flexible capital structure. The cooperative legal form can be stringent however and often will be an additional administrative burden.
- **Individual and personal companies:** individuals or personal company forms are legal forms directly engaging the private liability of the owner. Those forms are not suitable to energy communities, since they are focused on single ownership and do not protect the shareholder.

There are many available legal forms for energy communities, but the most important factor to consider is the governance model. Indeed many legal forms can be made to fit the purpose of the initiative, but in order to be fitting the criteria of the CEC or REC, a number of basic principles must be applied. More on this can be found in the Stakeholder engagement Guide of this toolkit.

### 3.3 ONE LEGAL ENTITY COVERING SEVERAL PROJECTS

When developing projects, the cooperative has the option to hold direct ownership of the project. This means that the assets of the project are directly contributed to the balance sheet of the cooperative. In exchange the cooperative is also carrying alone the debt linked to the asset, as well as its financing. This model was chosen by Ecopower, the large cooperative from Belgium. The cooperative is holding direct ownership of several wind projects developed internally. Therefore, we have one legal form for several projects.

There is one major financial benefit of holding those assets all-in-one: the strength of the balance sheet. Holding diverse assets on your balance sheet will hanker the balance sheet and facilitate the financing of future projects. This also allows the cooperative to hold all the cards both in terms of the ownership and the exploitation of their assets. It is also a more efficient way to develop projects, allowing you to avoid creating a new legal form for each single project. Finally this is a direct benefit to members as it improves transparency of the investments made by the cooperative.

There are two major disadvantages of this method, the protection of the cooperative and the access to financing for the first project. By holding the assets directly, you bear the entire risk of this investment failing beyond your investment only. The second disadvantage is the fact that you cannot easily open the ownership of the project if you wish to carry all your projects under one legal entity. This could prevent you from developing larger projects, as bank financing is harder to access without a diversified portfolio.

### 3.4 ONE LEGAL ENTITY PER PROJECTS

In many cases, cooperative will create a single legal entity for a separate project. Those are usually called Special Purpose Vehicle or SPV. The goal of an SPV is double. First, it protects the investor from risk in case the project fails. Second it facilitates the co-development by offering shared ownership of several organisations.

### 3.4.1 Single ownership

The special purpose vehicle is often used by cooperative to protect themselves from the project risks. This model is creating a separate legal entity that is owning the project. The cooperative is owning directly the entity at 100%.

The other interesting part of this mechanism is that share offering can be directly done for each legal entity. Therefore, therefore members can invest directly into the project entity which gives them direct ownership of the project (rather than an ownership through the cooperative). Many cooperative can through this model involve people that are not necessarily members, but are interested in the project. This is useful for rooting the project in the local community.

### 3.4.2 3.4.2 Joint ownership

The Joint Ownership is a model where the energy community is going to collaborate with one or more other actors to financing and develop the energy service desired by the community of members. In general we see different 4 types of joint ownership:

- Joint ownership between two energy communities
- Joint ownership between an energy community and a public entity
- Joint ownership between an energy community and a private entity
- Joint ownership tri-party with a public entity and a private entity.

The complexity while co-developing a project in joint ownership is coming from the number of actors and the diversity of actors. Indeed most cooperatives have experienced the difficulty to work with actors that are not sharing the same values and objectives. The CIT ENR project [114] has develop criteria de evaluate your partnership during the co-development phase:

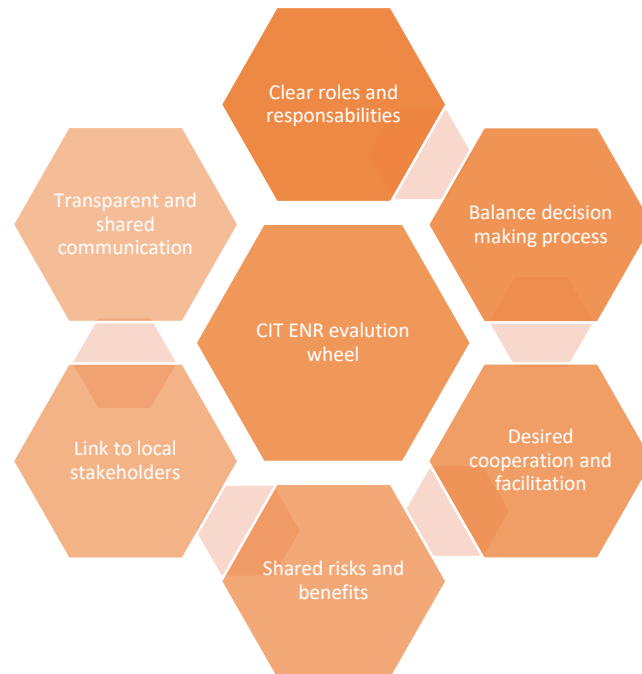


Figure 1 Indicators for evaluation of co-creation (source: CRIT'ENR project)

The research project is grading those indicators from 1 to 5 (1 being a non-collaboration / 5 being a perfect collaboration).

In all those projects, it is important to keep to main points in mind:

- All partners need to share into the profit in a balanced way
- The Energy Community must remain autonomous and independent

A good example of a joint ownership development is the wind project of Amel & Bülingen. Amel & Bülingen (Belgium) are two municipalities in the German speaking region of Belgium that decided to initiate and participate in a large wind farm on municipal property. 50% of the project will be public and owned by the municipalities (25% Amel and 25% Bülingen). The remaining 50% will be privately owned by two local energy cooperatives. 25% will be owned by Courant d’Air, 25% by Ecopower. A Special Purpose Vehicle (SPV) will be put in place to accommodate the Public Private Partnership. The specific parts of this project is the fact that Amel & Bülingen following by the Belgian public procurement rules, had to tender out the project development. The municipalities decided to include in their tender document an evaluation criteria on participation of local citizens and municipalities which had the results to support the development of a community energy initiative on their territory. This was the result of a political process ending with a recommendation of the municipal council encouraging the development of community-led initiative on the municipal territory. The second important factor is the partnership between Ecopower, a cooperative from Flanders with a lot of development experience, and Courant d’Air, a smaller local cooperative. This partnership allowed to have at the same time local ownership and citizen involvement while benefiting from professional development capabilities.

### 3.5 MUNICIPALISATION

The integration of municipalities in energy communities will be discussed further in detail in our “Allies Guide”, specifically targeting municipalities. However several resources can be noted to understanding the role that municipalities can play to support the financing of energy communities:

- The Energy Cities Guide de Energy Communities [99]
- The REScoop.eu Municipality Approach [115]
- The Practical Guide to Community Energy [113]
- The Rough Guide to Community Energy [116]

The essence of local financing support to energy communities revolves around two main pillars: encouraging public procurement procedure and direct public participation. The first one can be implemented by adding criteria to the municipal procurement procedure, facilitating the participation of local community based initiatives in the tendering process. The best example is the municipality of Eeklo in Belgium.

In 1999, the municipality of Eeklo was tendering out the development rights for two municipal grounds in order to allow for the implantation of 3 wind turbines. The city council explicitly requested in their tender procedure that local citizens should get the chance to participate and co-own the installations. Together they informed and evolved a wide range of local stakeholders (citizens, environmental organisations, advisory committees, the municipality council, etc.) which resulted in a sustainable energy and climate action plan “avant -la-lettre” that was highly supported within the community. Cooperative wind turbines were part of that plan and generated revenues that could then be used to finance the wage of a part-time energy expert.

This successful examples was then repeated across the Flemish region allowing for other community based initiatives to take part in wind development in Belgium. The second mechanism is the direct participation of the municipality through taking a piece of the ownership of the energy community. This type of participation should be done with care, in order to preserve two key principles of the

energy community: autonomy and democratic governance. This conflicts in certain member states with the restrictions on public ownership.

The financing goes of course both ways. The municipality can offer preferential financing to the energy community, but the energy community can also provide a platform for the municipality to raise local capital for municipal projects. This is the case for Pajopower [34], a cooperative from the Flemish Brabant region, which organised a campaign to finance the transformation of public lighting for the city of Halle. The cooperative invested in the change to LED lighting, and raised the money through a campaign calling local citizens to “adopt a street light”. This successful campaign allowed the municipality to lower its energy bill significantly, without upfront capital. The municipality then pays back the cooperative through savings realised on the city’s energy bill.

## 4 SECTION 4 - FINANCE MODELS

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### 4.1 EQUITY FINANCE

Equity financing is providing to the source of the financing an ownership right over your organisation. This is the most basic and stable form of financing, however it is also a risk for both the organisation and the financing party. In equity financing, the investment does not necessarily produce profits and can be lost in case of bankruptcy of the structure. We recommend that all involved parties come into this investment with a good knowledge of the risks.

#### 4.1.1 Equity capital (Share offers - Self-financing)

In cooperatives, members are invited to purchase shares. All the shares together represent the equity capital of the cooperative. This equity capital is a long term debt that the cooperative owns to its members, and can be reimbursed at fixed points. The cooperative can “buy-back” its shares from the members at the same price as they purchased them. In general, shares cannot be sold to another person than the cooperative. Shares provide a governance right to the members, meaning the right to vote on the decision relating to the management of the cooperative. In the cooperative model, the voting right is unrelated to the number of shares owned by a member. This is the “one member – one vote” principle.

For share offers, we recommend the handbook “Community Shares Handbook” created by Cooperatives UK and Localities [117]. The handbook is specific to the English system, but the basic principles are applicable widely.

##### 4.1.1.1 Share offer

Share offers are essential to the creation of a cooperative. It is quite literally the offering by the cooperative society of share of its capital to members. In order to become a member, one must own a share of the cooperative. The share provides the governance right attached to it. A share offer can also encourage potential members to make a contribution beyond the purchasing of the share, to set up the cooperative or continue growing the collective project.

There are many ways to perform share offers throughout the life of your cooperative. Those will depend on your need and national regulatory environment. We recommend that you get information regarding share offers at your national financial regulation agency before moving forward with the actual share offer process. We will touch on the prospectus law at the end of this chapter.

##### 4.1.1.2 Pioneer share offer (initial share offer)

The pioneer share offer is a specific share offer dedicated to young community projects. The pioneer share offer should highlight the higher risk linked to the starting nature of the cooperative project. This type of share offer might allow for your group to gather more community support by providing more enticing conditions for the share offer, representative of the higher risk. Consideration should be given to establishing a separate class of “pioneer shares” with different terms and conditions, such

as a higher rate of financial return, or a preferential right to withdrawal ahead of other classes of share.

We however recommend that a time limit be put on those additional benefits, or that a mandatory exchange rule be put in place. Just the same, governance rights should not be different for pioneer shares then for regular shares.

#### 4.1.1.3 Project specific share offer

The project specific share offer consists to allow members to buy shares when you start a new project. The positive point of this type of share offer is the fact that you match better your equity resources with the investment, and therefore avoid too much cash sitting in the bank which is costing money to the cooperative overall. The down side of this type of share offer is the effort necessary to gather the number of members to buy the shares available. This type of share offer does not provide for a steady stream of equity, but rather a one shot type fundraising.

**Energy4All** [30] is a cooperative network from the UK. This network organisation is providing services to starting cooperatives as well as established ones for project development. Energy4All is realising share offers for new cooperative projects. They are redacting share offer documentation and realising a project audit. The network then opens a country wide share offer backed by their members to financing specific projects. Projects are often developed under the supervision of one cooperative but the financing through an SPV (Special Purpose Vehicle), which owns the project. The Check List for Share Offering from Energy4All can be found in Annex 2.

#### 4.1.1.4 Open share offer

Any many cases however, cooperative have an open share offer, meaning that it is possible to buy shares of the cooperative and any moment. This allows for a steady stream of equity to come into the cooperative. This steady stream will require less effort and afford more flexibility to the cooperative. But in return, new projects need to be developed regularly to continue making use of this equity.

**Ecopower** [10] is a cooperative from Belgium that is using a permanent share offer. It is possible for buy shares of Ecopower at any point in time. Ecopower is both a supplier and a producer of renewable energy, and also has its own development team. This allows for new projects to be developed continuously by the cooperative. Ecopower is the biggest cooperative in Belgium in terms of capital and number of members.

### 4.1.2 Profit

Another option for self-financing is the use of the products of the activity of the cooperative to continue growing and financing new projects. If you are a starting group, this might seem far away, but it is important to discuss and hopefully agree on how those profits will be distributed in advance. Indeed, members will always have a lot of ideas once the income starts entering your balance sheet, but this re-investment is intimately linked to the societal role of the cooperative. Here are below a couple of ideas how some cooperatives used, invested or distributed those profits:

**Dividend:** The first way to distribute your profit is simply to distribute dividend. Beware of the amount and the form of this distribution. In some European countries, a cooperative is only allowed to distribute a limited amount of dividend. Also those dividends can be heavily taxed. It is important to inform your members properly and to weigh the benefits of distributing those dividends.

**Rebate:** The historical benefits of the cooperatives are the rebate offered to members on the price of the services delivered to members. If your activity allows it, this is the original redistribution method implemented by the Rochdale pioneers. This allows for a direct benefit to the members but also weakens the cooperative, as it does not allow to use the profit for further growth. The rebate can also

be conditional to certain categories of members, like low income households. This type of “social tariff” is often deployed in the European cooperative movement.

**Sausage:** The profits of the cooperative can also be used in many unconventional ways. The best historical example is to Oberdardorf cooperative (DE), created by the fans of the club of the same name. The fan created a cooperative in order to invest in a solar installation on the roof of the stands of their stadium. The goal was to allow for the grounds renovations to be finance through this long term investment. In return for their investments, members were offered an annual membership to the stadium and the option of a dividend or a free sausage at every game they attended. This is a great example of a creative way to use a cooperative investment to support a local societal benefit.

#### 4.1.2.1 Community benefit fund (UK) [118] and community social fund (FR)

A popular scheme that has been implemented in the UK is the community benefit fund. This fund constituted on the reserves of the cooperative, or group of cooperatives, running it is offering specific grant support to local causes and organisations. This has a direct benefit for the cooperative by strengthening the civil society make up of the territory, which in turn supports member recruitment. But it also allows for the cooperative to play its role to support the local energy transition. Those community funds also allow for the pooling of resources on community building, which is at the base of the cooperative movement : cooperation rather than competition. This helps densifying the network of community based organisations which, in turn will provide for a robust support system to the funding cooperatives.

Another form of social fund have been created in France, in the Energie Solidaire fund [70]. We describe this type of alternative funding in section 18.2.6.

#### 4.1.2.2 Community concert hall

Some cooperatives also take their societal role to another level. The Odenwald Energy Cooperative (EGO) [103] from Odenwald in Germany create an “Energy House” where the citizen of the region could find training on energy topics, cultural events and communal infrastructure. The cooperative financed the transformation of this old brewery in a passive building to create a renovation service building where citizen can find supporting to renovate their homes and buildings. The building also welcomes public administrations from the Odenwald municipality. This is an example of profit being directly used to support the local energy transition.

## 4.2 SUBSIDIES AND GRANTS

Beside the use of traditional financing options, community groups can use alternative sources of financing. Those mechanisms are especially relevant for starting a project, locally relevant and with a high social impact. In order to reach for those financing sources, you will need to flip the process of application upside-down. The financial stability criteria are usually less important than the impact the project is providing.

The key point to consider while leveraging those alternative financing mechanisms is the fact that monetary support is not the only way to effectively finance a project. From technical support to coaching and operating cost support, many of those mechanisms can be used to reduce the costs of the development of the project while avoiding giving up control. This use requires an understanding of all the steps of the project and the capacity to

### 4.2.1 Grants and prices

Grants are support financing that are offered by governmental and charity organizations with a specific impact goal in mind. There are a very wide range of grants and donations that can be mobilized while building a community-led project. It is important to not “leave money in the cards”, and explore those sources as well.

The main advantage of grants, is that your project will be judged on its impacts on the community which is inherent to the nature of energy communities. The main pitfall is reporting and requests that will be made by the granting institution(s), which can prevent you from actually delivering your project, rather than only a community support program. Therefore, a best practice to follow while reaching for grants is to map the project, map the available grants, and be sure to use grants in last resort if a piece of the project cannot be financed otherwise.

The list below is not meant to be exhaustive, there are too many programs across Europe then could be counted. Therefore, it is important to realize a mapping of the various opportunities for each project.

## **4.2.2 International Grants and Prices**

There are several organizations that will provide grants to organizations for development of local projects, however those grants and prices are mostly targeted at already long standing organizations and personalities.

### **4.2.2.1 UNDP [119]**

The United Nations Development Program is a program supporting climate mitigation actions. The support provided is less likely to be in funding, but many offices and teams of UNDP will provide support to organisations contributing to the [Sustainable Development Goals](#).

### **4.2.2.2 UNFCCC Funds [120]**

The United Nations Framework Convention on Climate Change is an international organisation aggregating efforts at the supranational level to restrain and alleviate climate change. This international organisation also benefits from significant funds directed toward climate mitigation actions and alleviation. Those funds are only accessible through national organisations. The list of those organisations is noted above.

### **4.2.2.3 4.2.2.3 Keeling Curve Prize [121]**

The Keeling Curve Prize is an example of a prize that could be reachable for mature community energy projects. This prize rewards outstanding project in the energy sector looking promote low-cost and reliable energy as a strategy to replace and discourage the development of continued fossil fuel use.

## **4.2.3 European Grants and Prizes**

The European Commission is running several funding and granting schemes across Europe. Those funding schemes have different targets, objectives and procedures for applications. The complete list can be found [here](#).

European funds are not always suited to small (under 2 million euros) and local project. But they can be very interesting funding partners in case of an aggregation of project or a particularly innovative approach is taken. The complete list of funding opportunities and call for proposal can be found [here](#).

In general European funding is organized around the following axis:

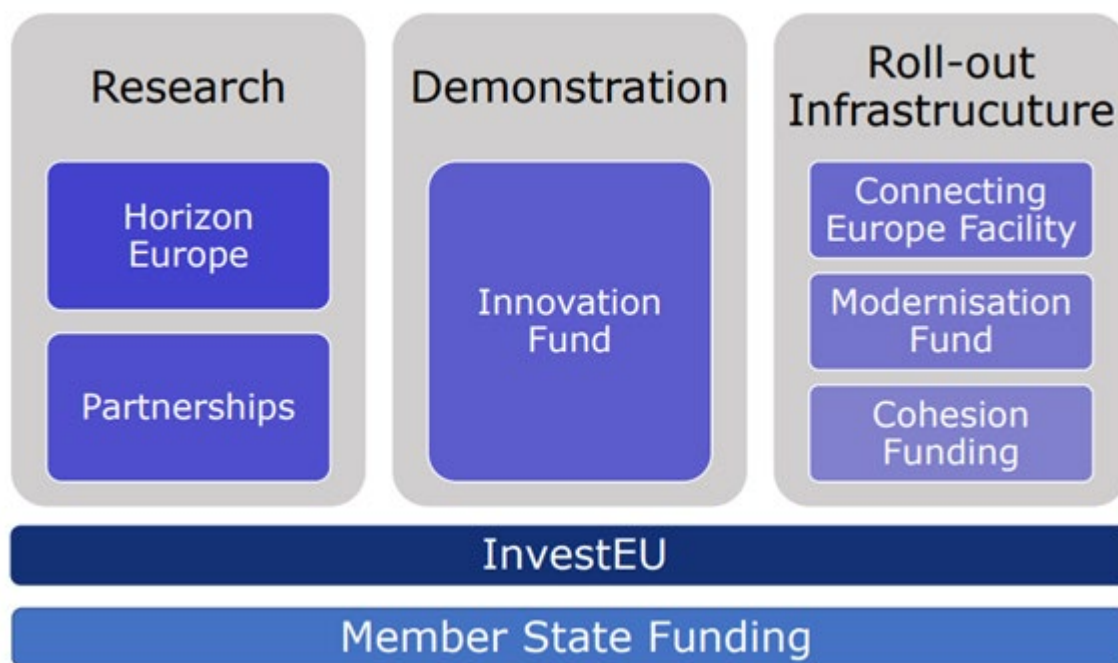


Figure 2 European funding programs (source: European Commission)

#### 4.2.3.1 Horizon Europe [122]

The Horizon Europe program is a program of the European Commission centered around research. Energy Communities are welcome to participate with innovative projects and technologies. In order to present a project for Horizon Europe, you will need at least three partner organization from three EU countries. In general the application process is rather long and arduous, therefore we recommend working in groups to reach for this type of funding. The co-funding rate is high.



Figure 3 Strategic objectives Horizon Europe (source: Consortium of European taxonomic facilities)

#### 4.2.3.2 LIFE Program [123]

The LIFE program is looking to build capacity and demonstration in various environment and climate topics. LIFE is also taking a strong place for the development of citizen based and territory projects. In general the application process is as heavy as Horizon Europe, but the outcome can be broader in terms of community projects. The co-funding rate is rather low.



#### 4.2.3.3 INTERREG Programs [124]

Interreg is a European program managed in regions of Europe. INTERREG was organised along two programs: a European program and regional programs (north-west Europe, south-east Europe – also called Interreg Danube, Baltic Sea region, central Europe and Mediterranean) INTERREG is general focus on local authorities and regions. It supports the development of local project that will have an strong impact on municipalities and territory cohesion. This makes this program very suitable for energy communities. The application process is a little lighter and better supporter by regional secretariats, but the co-funding rate is lower than LIFE.

#### 4.2.3.4 ERASMUS+ [125]

The Erasmus Plus program focuses on the training and development of individuals and organizations. This program is well known for funding the academic exchanges for students and universities. Erasmus plus is also funding a whole range of capacity building activities, including initiatives related to climate and environment training. Those smaller funding opportunities can be very useful to support the development of a community building strategy. This can be useful for energy communities. In general the application process is made simpler for smaller organization by national secretariat that support the development of the proposal.

#### 4.2.3.5 Climate KIC [126]

Climate KIC is a support organization and funding program centered around the support of business friendly climate initiatives. The Knowledge and Innovation Community (KIC) is spawning from the EIT (European Institute of Technology) to support innovation, create capacities and invest into impactful business initiatives. The grants of Climate KIC are smaller than the traditional innovation funding programs, but provide a great deal of support and coaching throughout the development of the project. The funding programs of the Climate KIC secretariat range from R&I grants to large demonstration grants. Climate KIC also has an capital investment program. Energy communities can benefits greatly from this program has it focus on impact rather than return, yet reward a stable business model. The national secretariats are supporting organization to make proposals, and the program has a good co-funding rate.

#### 4.2.3.6 Innovation Fund [127]

The Innovation Fund is a funding mechanism centered around providing grant funding for specific demonstration project, looking to implement innovative technology in a market setting. The program will be organizing two types of calls for projects: large scale projects and small scale project. For each of those calls, the goal will be to support the deployment and installation of renewable technologies. The small scale call might be suitable for energy communities. The co-funding is very interesting, although the application process might be challenging. The projects can be carried by one single partner.

#### 4.2.3.7 Invest EU [128]

Invest EU is the final tool of the European government to support projects looking for seed funds. This program is providing seed funding to large project providing a concrete impact on the European market. This mechanism might not be the best suited for energy community due to the size of the minimum investment. This program is mostly targeting infrastructure development.

#### 4.2.3.8 COSME [129]

COSME is the European program for Small and Medium-sized Enterprises. This program is supporting innovative starting SMEs with capital risk and guarantee loans. This last tool can be suitable for your cooperative if you are looking into an innovative technology or service. COSME also can provide business coaching through the Europe for Young Entrepreneur's network.

#### [4.2.3.9 InnovFin Energy Demo Projects \[130\]](#)

In case you are looking for a loan to kick start an innovative project : take a look at the InnovFin funding supported by the European Investment Bank (EIB). This program allows for loans from 7.5 million euros to 75 million euros, to finance energy projects around innovative technologies. The interesting part of this financing is mostly the support attached to it, including advisory services from the team of the EIB.

#### [4.2.3.10 European City Facility / European Island Facility](#)

The EUCF [131] (European City Facility) is facility supported under the Horizon 2020 framework, which supports cities to finance projects to reach their climate goals: from renewable integration, to efficiency and community building. This European funding project will support municipalities to fund local initiatives and renewable development. Community energy projects will be a part of the initiatives funded by this institutional project.

The NESOI [132] (European Island Facility) is a facility supported the directorate of the Energy of the European Commission. This European consortium is opening calls to support 60 European islands, over a series of open call for projects. Island communities will benefits from technical training and financing support.

#### [4.2.3.11 ELENA – European Local Energy Assistance \[133\]](#)

This technical assistance program financed by the EIB (European Investment Bank) is offering project development assistance grant for organizations looking to develop energy efficiency and transport projects. The threshold for this grant is 30 million euros, meaning the size of your project pipeline should be above this amount. The leverage factor is 10, therefore through those projects, you should aiming to trigger 10 euros of private investment for each euro provided by the EIB.

### **4.2.4 National / Regional / Municipal Grants**

Most Member States have grants dedicated to the development of renewable energy projects. You can often find out a lot of information by consulting your national development agency, your ministry of the energy or your national energy agency.

Municipal grants are the best and most simple way to get a community project started. The local municipality is the best and first partner of a citizen group looking to launch a new renewable energy project. In many Member States, many support schemes are relying on municipalities to be delivered. A more specific list of supports to municipalities is described in the next section.

Another form of local support can be found in local energy agencies that might have available resources for project development. This often includes specialty counselling and technical support.

### **4.2.5 Private Foundations and organizations**

#### [4.2.5.1 European Climate Foundation \[134\]](#)

The European Climate Foundation is a European institution gathering funding with the goal of supporting European efforts to realise the energy transition. By mobilizing worldwide philanthropy, ECF is support projects and organization. The projects that are supported by the foundation are very diverse, but the impact criteria will be a big hurdle for start energy community looking to build their first project.

#### [4.2.5.2 Heinrich Böll Stiftung \[135\]](#)

The Heinrich Böll Foundation is a German funding and research institution which supports project mostly in the Eastern part of Europe. This foundation is supporting projects in the domain of sustainable development. Several cooperatives in Greece and Turkey have been supported by the organisations related to development actions. Often, reaching out to the national contact is the best solution for starting energy communities.

## 4.2.6 Donation / Micro-donations

Another fundraising opportunity that can be used by Energy Communities to gain traction and start a first energy project might be to target donations from local citizens and local organizations. Many energy communities are looking to offer community value and carry a transformative political project. However, some organizations and people might not be able or have the capacity to participate in the collective project while having the wish to support its emergence.

A couple of points might be of concern while gathering donations:

- Make sure that donors understand the one-sided nature of their contribution: community projects typically do not raise money through donations, but investments. Therefore, it is important to ensure that boundaries are respected to preserve the donors and the energy community (principle of autonomy)
- Make sure that you are eligible to raise donations : some Member States have strict policies relating to the fundraising of donation, and a financial prospectus might be necessary to do so.

### 4.2.6.1 Energy poverty alleviation programs

Some Energy Community projects are using micro-donations to finance a part of their activities which is necessary to their community purpose, but not financially viable or stable. A micro-donation is a small donation, usually systematic or automatized, provided on top of the contribution or payment offered for a good or service. This micro-donation finds its purpose when it is applied to a large group and large number of transactions.

One of the best examples of a micro-donation system is Energie Solidaire from France. Energie Solidaire is a fund aggregating donations with the purpose of financing local energy poverty alleviating actions. One of the donation streams of the fund is set up to add micro-donation to the energy bill of the cooperative supplier Enercoop. Enercoop offers its clients (100 000 as of 2020) to donate 1 euro cent per consumed kWh to Energie Solidaire. The fund then gathers those donations to then finance local associations and projects fighting Energy Poverty. This donation is added directly on the bill once the client signs up for this program. Since its launch in 2019, the fund has already funded local actions for more than 50 000 euros.

## 4.3 DEBT FINANCE

Debt financing is a source of financing against payment, that does not have an impact on your ownership structure. This type of financing has two major disadvantages: young cooperative often have difficulties to access debt financing, the price of such financing is often high compared to the service provided. This type has one major advantage : as long as you keep up with the financing charge (price of the financing) the product of your work will stay in the hands of the community.

In this section we will provide you several examples of the financing services. We recommend that upon selecting a financing provider (bank, funds, other organisation, ect.) you think of it as a partnership first and foremost. It is crucial to find financing partners that will understand your activities and support your project. The COMPILE project have create the Maturity Scale to also facilitate your conversation with financing partners.

### 4.3.1 LEASING

Leasing is a financing scheme by which a firm or an individual can obtain the use of a certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments. At the end of the contract term , the user maybe come owner of the good by paying fixed quota settled before the signature of the contract. The leasing for large renewable plants is a sort of project financing realized through a financial leasing that implies the presence of a plurality of actors: sponsor, Special Purpose Vehicle, banks or leasing company, developers, operating managers and finally the purchasers of the energy. Due to the complexity of the operation, the leasing company starts playing at the beginning

of the project and it will finance only solid business plans up to 90% of the total investment. This means project with the following features:

- one capitalized actor should hold the major part of the shares;
- high levels expected of productivity of the plant;
- public incentives and expected prices of energy;
- operating and managing costs.

In the renewable energy sector leasing contracts are also used for small operations, in particular for private PV installations. In this case the user pays a large fee at the signature, a periodical fee, and the end of the agreed period can decide to buy the PV panels paying the balance to the leasing company. Financial solutions are designed to meet the needs of clients, who receive full access to selected suppliers, personalized financial planning and support with insurance coverage. Leasing companies primarily finance:

- photovoltaic installations
- wind power installations
- hydroelectric plants
- biomass and biogas plants with reliable supply concepts.

The companies generally offer:

- cash-flow-based leasing solutions tailored on each project (for financing amounts above € 2 million)
- client-based solutions for smaller projects
- lean due diligence processes by leveraging on the in-depth expertise of dedicated teams.

The financial operation is supported by full-range technical and financial consultancy:

- preliminary assessment of client needs
- context analysis for proposed business plans
- identification of potential challenges
- proposal of customized contract solutions
- provision of technical and financial consulting during the construction phase
- direct access to renowned suppliers
- provision of financing products according to new developments during the project.

### **4.3.2 Bank loans**

It is a financing in debt which requires guarantees and the payment of interests. In comparison with an ethical bank, a traditional bank will :

- rarely accept small and medium loan (less than 500 k€/ 1M €) which are less profitable
  - can require further due diligences to the project leaders (to check the guarantees and the ability to lead the project) - which can cost 20 to 30 000 euros
  - may be less willing to finance citizen projects whose governance is seen to be more complicated
- Nevertheless, the loan can be similar concerning the interest rates and the guarantees asked.

#### **What are the characteristics of a traditional bank loan?**

- Important amount : > 500 k€/ 1M €
- Interest rates : depending on the “market cost of money” – quite low in Europe at the moment – for example between 4 and 5 % on a length of 10/15 years

- Further due diligences can be required

### **Specific tools needed to set up a traditional bank loan / What do you need to set up a traditional bank loan?**

In order to have access to a traditional bank loan, it is needed to be at least in the construction phase of a project and to require an amount of at least 500 k€/ 1M €. Generally project owners also need to bring at least 20% of self-financing for 80% of loan and to pay for a due diligence process that checks the technical and economic viability of the project as well as the guarantees. It is also necessary for the cooperative to bring several type of guarantees :

- Guarantees on the building (or on the long term mortgage lease if you rent the building)
- Pledge on the production tools
- Sometimes a bank account with 6 months of loan reimbursements blocked.

#### **4.3.2.1 What type of return?**

Return is normally paid out as share interest at the end of the financial year, depending on how well the business has traded and after members have voted on how the profits are to be distributed at the General Assembly. Bond holders are paid out interest according to the value of their bond.

It is a bank whose mission is not to maximize the profit but to foster cultural, social and ecological projects: it does not invest in the financial markets and it makes loans exclusively to economically viable projects of the social economy: organic agriculture, social or cultural projects, energy saving, renewable energy production, etc.

It also organizes a transparent circulation of money; the list of the financed projects is published each year. Most of the time they are cooperative banks: savers and borrowers are also members of the cooperative and have a right to vote each year during the general assembly. More than the right to vote, ethical banks offer savers and borrowers the possibility to create links among them, which is a strong added-value for cooperative project managers.

### **4.3.3 Ethical or “non-traditional” bank loans**

The funding institutions can often represent a barrier to the development to your project. There is a number institutions that have been long term allies of the community energy development, and can support your project in a more effective manner. Those ethical banks will offer the same services then a traditional bank, but often also value to social and ecological impact of your project as part of their review process. You will find a list of those companies the website of FEBEA, the Ethical bank federation [136].

Another avenue to explore is the public lender such as development banks, municipal and regional funds and finally European investment funds. We highlight a couple of those specific lenders in the Section 2.2 on grant and subsidies. The European Commission (EC) specifically decided to support the start-up of social enterprises (the European definition [137]). As part of this support, several micro credit and preferential lending tools have be implemented by the EC to support entrepreneurs. The European Social Fund is part of those instruments, triggering several funding sources at national level [138].

### **4.3.4 Soft Loan**

A soft loan is a loan provided at a lower interest rate, or with more favourable conditions to the borrower. The Lender will provide capital to support the Borrower with favourable financing conditions usually with coaching and technical support attached.

**Viure del Aire** [18] is the first community-owned wind project in Spain. The turbine is located in Pujalt, close to Barcelona. Although the installation does not benefit from any subsidies or a feed-

in premium, Som Energia pushed through. The project is financed by Viure de l'Aire del Cel, a cooperative owned by Eolpop. Som Energia provided the co-op with a EUR 1 million soft loan so that it could get its first project operational. After raising the funds from local citizens, the loan was paid back in full after the construction of the project.

### 4.3.5 Alternative Investment funds

#### 4.3.5.1 Genervest [139]

Genervest is an investment fund created with the support of Greenpeace Greece, in 2020. The main goal of this fund is to support local renewable energy production projects in Europe. This fund is abounded by private investments and climate NGOs. The fund launched its first crowdfunding campaign in March 2021. The goal of this campaign is to finance additional projects and to support community projects in Greece in their fund raising.

#### 4.3.5.2 MECISE [140]

MECISE or Mutual for Energy Community Investment Society is a mutual fund bringing together cooperatives and energy communities to support citizen transition projects. This fund is a mutual and therefore will require the project to become a member of the mutual. The Mutual will take a participation in the project at the pre-construction phase to allow the project to realise, it will then exist as the funds raised from local sources can be mobilized.

### 4.3.6 Mezzanine Finance

Mezzanine financing refers to quasi equity financing. It is a type of financing situated between debt and equity financing. It often takes the form of subordinated loans. Those loans can be turned into equity in the project in case of the project receiving the money failing to reimburse the debt. Because of the quasi equity nature of those loans, they are often given against low interest but do not yield any ownership right.

This type of financing is often used by Fincoop (Financial Cooperative – see Section 5). Fincoops are often set up to collect private investments to then be lend as subordinated loans to companies looking to develop projects. Because of the debt nature of the financing, the cooperative gets no ownership of the project, while at the same time providing low interest financing to the developer. This is a type of financing that energy communities and energy cooperative should be especially careful to avoid.

## 4.4 OTHER FORMS OF FINANCING

There are also other forms of gathering financing that Energy Communities can use. We highlight in this section two forms of financing tools : Crowdfunding and Guarantees. Crowdfunding is a mechanism by which energy community can gather equity or debt from private persons. Guarantee is the explicit financial backing that you might need to develop your project. None of those tools are necessarily related to the debt or equity part of your balance sheet. But they might be useful to get your project through the finish line.

### 4.4.1 Crowdfunding and crowdlending

Another option to raise money is to use so-called crowdfunding. Crowdfunding is a *way of raising money to finance projects and businesses. It enables fundraisers to collect money from a large number of people via online platforms* [141]. Overall There are three types of crowdfunding schemes returns : interest, equity and other rewards. There are several possibilities linked to the crowdfunding model :

- **Peer-to-peer lending (crowdlending)** – Multiple private investors lends money with the understanding that the money will be repaid with interest. It is very similar to traditional borrowing from a bank, except that you borrow from lots of investors.

- **Rewards-based crowdfunding** - Individuals donate to the project with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution.
- **Donation-based crowdfunding** - Individuals donate small amounts to meet the larger funding aim while receiving no financial or material return.
- **Profit-sharing / revenue-sharing** – The community project can share future profits or revenues with the crowd in return for funding now.
- **Hybrid models** - Offer businesses the opportunity to combine elements of more than one crowdfunding type.

There are other forms of crowdfunding such as, debt security and equity crowdfunding. Crowdfunding is relatively similar to share offering expect for a couple of important points : first, it is often a lighter process. The administrative requirements (such as prospectus publishing) are usually none existent or mutualised by the platform. The second point is that crowdfunding allows you to also collect debt financing from private persons. This is referred to more exactly as crowdlending. It is important therefore to highlight the difference between share offering, which provides your member with membership rights and control, and crowdlending, which focuses on financial returns. Crowdfunding funnels through an online platform in order to reach the maximum number of participants. There are a multiple number of platform<sup>1</sup>. In order to find suitable platform the criteria to consider are:

- **Platform specificities** – some platforms are specialized in types of projects.
- **Popularity at the scale needed** – it is important to find platforms that have the maximum number of users based on the geographical scope desired by the project (regional, national, European).
- **Fees and remuneration schemes** – always be aware and understanding of the fees of the platform (fixed or commission are the most common), and of the capital limits.
- **National rules and regulations** – be aware of the rules, many members states have implemented strict rules to protects private investors.
- **Headquarter** – is the money travelling and where is it stored by the platform are criteria to consider while choosing a safe platform.
- **Features** – consider the various features you will need to run a successful fundraising campaign.

Do not hesitate to interview a representative from several platforms in order to make sure that you have found the right partner, and that you have clearly identified the necessary steps to start your crowdfunding campaign (financial and legal documents, contacts and support teams of the platform).

Several cooperatives also created their own crowdfunding platforms. This is the case of Genervest in Greece, but also Coopernico (Portugal) and ZEZ (Croatia) from the COMPILER project. We present below some examples of practices of from those cooperatives.

#### 4.4.1.1 Practices of Crowdfunding and crowdlending

**Coopernico** [75] is the first energy cooperative in Portugal. The cooperative was founded in 2013 by 16 members. In order to finance its renewable production projects, Coopernico created a crowdfunding platform. The platform is opened to members of the cooperative only. The members are lending funds to the cooperatives to develop and install solar production on large roofs. members are getting 3% interest rates on their investments through the platform. In order to become a member of the cooperative (and therefore have access to the platform), a private person must by minimum 3 cooperative share of 20 euros each (60 euros in total). In 2021, the cooperative has 2 091 members.

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<sup>1</sup> A list of the crowdfunding platforms can be found on the website of the ECN (European Crowdfunding Network) : <https://eurocrowd.org/crowdfunding-by-country/>

Together those members have lend 1.75 million euros to the cooperative to develop 29 production projects.

The solar production projects are financed through the investment of members. The cooperative is also remunerated by the project development. The usual payback time of those investment in 8 years. The electricity produced is sold to large consumers through a PPA (Power Purchase Agreement). In 2018, the cooperative could secure a supplier licence in order to realise those PPAs.

2020 is the first year were the cooperative has shown an operational profit, through project development. During the 2020 general assembly, the members of cooperative have decided not distribute this profit to members, but rather to invest it further in the cooperative and its employees. This will allow the cooperative to further improve the platform and continue expanding its activities.

ZEZ [46] (Green Energy Cooperative) is a workers and energy cooperative in Croatia. ZEZ has 18 members. Because of the restrictive legislation in Croatia, it was not possible for ZEZ to raise capital for production project through membership fees. Indeed, in Croatia a cooperative member loses automatically any employment related benefits. So the cooperative decided to create a crowdfunding platform to finance solar production projects. This platform “Nasuncanojstrani.hr”, is allowing for any private person to invest in one of the 2 PV plants (30 KWpeak) that ZEZ has been developing in the city of Krizevci. Those micro-loans are for 10 years with a return on investment from 3 to 4.5% depending on the investment size. The investors are not members of the cooperative however, de facto preventing them from controlling the project. However, this is the only platform of it kind in Croatia, thus demonstrating the commitment of the cooperative to renewable development.

#### 4.4.2 Guarantees

Another form of financing is the guarantee. The guarantee act as an insurance policy for the activity that you are looking to build for your cooperative. A guarantee is the commitment from the organisation support yours to cover your debt in case you are not able to. This is especially true if you are borrowing large amounts of currencies, or if you are performing negative cash balance activities (like the supply of electricity).

There are two types of guarantees : direct and indirect. A direct guarantee is when an organisation (usually it is a bank) provides your lender, or the requestor of the guarantee in general , with the direct insurance for your debt. This entails that the lender trusts the provider of your guarantee. In the opposite case, it can be an indirect guarantee. An indirect guarantee is when the guarantee is provided to a trusted institutions from the lenders point of view. This institution then in turn provides a guarantee to the lender.

A guarantee is usually done against a form of payment or deposit. In order to get a guarantee you will often have to provide a collateral (meaning something a value that you will lose if you do not face your obligations).

Most guarantees are provided by financial institutions or governments, but sometimes a cooperative will guarantee the loan of another one. This was the case for Ecopower and Enercoop where an idirect guarantee from Ecopower, allowed Enercoop to participate in a public tender for Hydropower plants in France.

**Enercoop** [42] needed to send a response for a call for tender organized by EDF to buy electricity produced by a hydropower plant in order to supply its consumers. The call for tender took place in 2008 and, partly because of the monopolistic condition of the French electricity market, took the form of a bidding process that would allow the highest bidder the ability to buy the electricity produced by the EDF hydropower plant during 5 years. The Crédit Coopératif, Enercoop’s banking partner, would not take the risk of guaranteeing this amount alone and asked for counter guarantees. They also asked Enercoop to recapitalize the cooperative before supporting Enercoop in the bidding process. Enercoop finding no other support among its partners in France decided to



ask Cooperatives Europe and Ecopower for help. This resulted in the decision of Ecopower to support Enercoop in its project by vouching for Enercoop through their banking partner Triodos. Ecopower also decided to support the project by buying shares of the cooperative Enercoop in order to participate to its recapitalization. This had a lever effect and Triodos, la Nef and the Macif decided to bring counter guarantees to the Crédit Coopératif. SOREGIES, a local supplier of electricity, also brought their support to Enercoop by guaranteeing they would buy back the energy from the call for tender to Enercoop if Enercoop went into bankruptcy. The Crédit Coopératif then agreed to sign the guarantee for Enercoop's response to the call for tender. Enercoop was then able to participate and win the call.

## 5 SECTION 5 – CONCLUSION

This report now comes to an end. We have looked at the various ways that cooperatives and energy communities can finance their projects and activities. We have also highlighted the important relationship between ownership and financing. The essence of energy communities is the empowerment of consumers to participate in the energy transition<sup>2</sup>. This empowerment is realised first and foremost by creating ownership of this energy transition to consumers. However, practically the energy community definitions raise still a number of practical questions relating to the limitation they impose and the spectrum of organisation that could fit in their scope. This discussion has been taking place in the cooperative movement for many years already. In Belgium, it is qualified as the so-called "REScoop versus FINcoop debate". Each community and leader will have to answer this question for itself. However, as a sources of inspiration, we are providing some answers coming from the Belgian cooperative movement. This next section is extracted from several interviews with cooperative leaders in Belgium, and especially Mr. Jan de Pauw, president of the Flemish cooperative federation REScoop Vlandereen.

### 5.1 THE FINCOOPS VS RESCOOPS DEBATE

Since 1844, and the birth of the cooperative model, this alternative organizational model has been offering a way to participate and organize our economic system centered around community value instead of financial profits. The ICA is defining cooperative as "*an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*". Since then, the cooperative model has been recognized by states and international institutions alike for its value-driven approach. With this recognition came specific incentives and treatments, supporting the development of those democratically governed organizations. And with those incentives came the efforts of traditional market actors to take advantage on the cooperative name and efforts without following the same principles. The discussions to decipher the "real" from the "fake" cooperatives is still ongoing today, and the line is often not easy to draw for policy makers. This paper will discuss the arguments in one such specific cases in Belgium's energy market.

As the energy community definitions spread across Europe, a similar debate is happening in many member states. Energy Communities, meant to be citizen "*an effective and cost-efficient way to meet citizens' needs and expectations regarding energy sources, services and local participation*". This vision cannot be realized without building autonomous and democratic organizations, that will serve citizens needs and create community value. The current implementation of those definitions is showing similar deviations, and rent-seeking behaviors from market actors across Europe. However, as member states context is varied, the implementation of those concept are bound to be different. The boundaries of which are similar to the boundaries of the REScoops versus FINcoops debate in Belgium.

The CNC [142] (Belgian National Council of Cooperatives) defines the FINcoop as: a financial cooperatives, the members of which invest indirectly in renewable energy projects, without being

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<sup>2</sup> This was especially highlighted in the recital 43 of the Directive 2018/2001.

owner of the projects. This definition is in opposition with the REScoop, defined by the CNC as citizen cooperatives, the members of which invests directly in renewable energy and are owners of those projects. In a debate held in the 28th of February 2021, the two sides got to discuss the appellation of “cooperative” for each mechanism. This is especially important in Belgium, as specific incentives and a positive reputation is afforded to citizen energy cooperatives.

The key differences that are highlighted by those definitions are:

**Finality:** The REScoop have an objective to realise the transition to energy democracy. This transition stands for leveraging the energy transition to support local development and community ownership. FINcoops have financial gain as a main objective. This entails a maximization of profits out of the development of renewable energy projects.

**Governance:** The REScoops are offering a full governance right to their members against the purchasing of a cooperative share. This membership is also providing full rights to each member to be part of the governing institutions of the cooperative (board of director). This governance right extends to the projects of the cooperatives, as they are fully controlled by the organization. The FINcoops are offering a participatory right to the members that are purchasing a share of the organization. The members have a consultative power over the projects of the cooperative.

**Financing and ownership:** REScoops and FINcoops both have similar sources of financing for their organisations. Members are providing equity capital to the structures that then re-invest into renewable energy projects (here those cover all types of activities in the energy market). However, the type of investment into project is a little different. REScoops tend to take equity participation, with the purpose of controlling the outcome of the investment. FINcoops tend to provide subordinated loans. These investments means very different types of outcome in the ownership part. FINcoops do not provide ownership to their members, but prefers optimizing financial returns. REScoops provide ownership to their members both of the organization, and onto the projects developed.

Out of those differences comes a picture of two different roles of those organizations in the energy transition. The FINcoop are claiming more flexibility and simplicity, allowing for citizens to take part while not controlling. REScoops, on the other hand, promote a model of ownership and responsibility, reaching for the concepts of empowerment and democratization, traced back to the origins of the cooperative concepts. The definitions of energy communities (i.e. Renewable Energy Community), directly refers to the values of the community energy movement and community ownership<sup>3</sup>, therefore inviting Member States to develop REScoops, not FINcoops.

This paper was informed by interviews with Mr. Jan de Paw, chairman of REScoop Flanders.

#### 5.1.1.1 Argument of finality

The key part of the discussion takes place around the finality of the cooperative organization. For REScoops, the finality refers to the deep organizational purpose of the creation of a cooperative organization. Beyond its activities, the cooperative is first and foremost an empowerment mechanisms looking to create an energy democracy [143]. The primary goal of the cooperative is always to serve a common need amongst members. For FINcoops, the purpose of the cooperative organization is bound to the market service provided by the organization. The finality of the mechanism being to finance profitable projects, which will produce return on investment. Of course, those two ideas are not mutually exclusive, but the discussion revolves around the prioritization of those goals. The REScoops are usually offering to their members a small return on investment, it is simply not usually the priority of the cooperative organization. The focus lies on service to the

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<sup>3</sup> Recital 43 of the 2018 Renewable Energy Directive.

members and added value for the community. The key differentiation can be found in the amount of participation, and therefore “empowerment” of citizens. In Flanders, there are currently 573 “cooperative” windturbine projects, 4% of which are owned by REScoop. On average, each project developed by REScoops involves 3000 private person (members) investments. Projects developed by FINcoops involve on average 30 private persons (members) investments. FINcoop tend to limit the amount of participation in order to allow for the corporate partner financing in majority the project to extract larger financial returns. Those figures point toward the inability of the FINcoop model to deliver community benefits expected out of cooperative organisations.

This argument around energy democracy however questions the role that cooperative play on the market, and the higher standard to which they hold themselves to realize this mission. Indeed, if the goal of the energy cooperative endeavor is to create a democratic space for participation of citizens in the energy market, this space must provide an equal opportunity for participation and thrive to correct the imbalance of such market. This higher standard is producing a series of benefits to the energy system. There is a demonstrable impact between one’s involvement in an REScoop and their energy consumption. This link is highlighted in the study of the REScoop PLUS project [144]. This study carried out using data from cooperative suppliers in five European member states, revealed that, the reduction of energy consumption of energy cooperative members could be up to 20% compared to a non-member with the same consumer profile. In order to serve the needs of the broader community, REScoop often cumulate several coherent activities (for example: production and supply, energy efficiency and supply). This universal approach to the energy topic is not present in FINcoop. Policy maker should encourage and reward multi-services approach in energy communities.

#### 5.1.1.2 Governance model and decision making

Democratic decision making is at the heart of a cooperative. FINcoop are often demonstrating a lack of transparency and access to the governance of members. Cooperatives, regardless of being considered REScoop or FINcoops, must be directed by their board of directors and controlled by the General Assemblies (GA). A first way to identify a “fake” cooperative is the lack of ultimate control of members in the board of directors of the corporation. The role of all members in the GA is signified by the “cooperative share”, which is the base investment realized by the member. The “one member - one vote” principle, which is the most common in cooperative in Belgium is allowing for each member (share-holder) to have the same voting right regardless of the number of share she/he/it owns. The purpose of this mechanism is to remove the imbalance linked to the economic conditions of cooperative members. The direct consequence of this implies that there can be only one type of share. In order to realize this separation between governance and financial involvement, at the heart of the cooperative model. This is a sign of cooperative trying to correct an inherent imbalance in the market model.

However, the practicalities of democracy makes it so the decision power is held in the elected representative of the cooperative: the board of directors. Formats of boards are quite different depending on the organization. Boards members must be volunteers, elected, and representative of the GA of members. This role implies that board seats should be accessible to all members that are willing to offer their candidacy. Some cooperatives will have seats reserve for certain types of actors, in order to ensure that whole value chain of the cooperative is represented in the board at all time (i.e. Clients / beneficiaries, suppliers, staff members). That is where the major difference appear with FINcoops. FINcoops will have board seats “reserved” for specific corporate partners or originator of the project. Those board seats will allow a specific organization or person to control the outcome of the cooperative. This pose a fundamental question of the representativity of the board. The principle 4 of the ICA is counter indicating this type of mechanism. The implementation of this principle makes it so the board of the cooperative cannot be controlled, or over-represent a specific member (or category of member) of the cooperative. This excludes mechanisms like “reserved seats” for founders or corporate partners.

The argument of representation can also be extended to another part of the mission of the energy cooperative movement: empowerment of the broader community. Principle 5 of the ICA<sup>4</sup> centers on “Concern for the Community”. This poses the question of diversity and community representation in the cooperative movement. This diversity aspect has been poorly tackled by energy communities overall as stated by the H2020 project ENGAGE [145]. However, REScoops are starting to take on this challenge and solidarity mechanisms are appearing across Europe [146].

#### 5.1.1.3 Financial reporting and ownership

The finality also brings into focus the key aspect of ownership as it relates to cooperatives. In many of the FINcoops model, the ownership of the structure includes the members often without providing them with full control rights, but the projects in which the cooperative invests are not. FINcoops often provide subordinated loans, or take minor participations in project SPVs (Special Purpose Vehicles). This prevents citizens from directly controlling the outcome of the project. Those investments do not prioritize the ownership of the projects. In REScoops, the ownership of the structure and the projects remain in the hands of members. The REScoop will prioritize the ownership of the project by the cooperative over the financial returns, in order to influence the outcome and development of the project. This traces a line in terms of the use of the funds of the cooperative. Ownership and governance of the legal structure must remain in the hands of the members, even if the activities of the cooperative can differ largely.

The necessity of REScoops to retain control over the final product of the investment made with the capital of the cooperative is a limiting factor to the type and scope of investments that cooperatives can make in the market. This limitation justifies specific supports and enabling frameworks to support cooperatives to realize local projects. A question remains around the amount of ownership in the project related to control. In many countries of the union, “control” is defined by a “veto minority”, which in the REScoop model would not be sufficient. But rather, in many REScoops in Belgium control is defined as owning the simple majority of voting rights. This will make it difficult for REScoops to take parts in joint ventures and partnerships in large projects. However, for examples in co-ownership models (where REScoops take shares in other REScoops), the minimal criteria was linked to the governance model of the receiving REScoop. This reinforces the idea that REScoop reproduce their model via participation in one another. De facto realize the cooperative principle 7 “cooperative amongst cooperatives”.

#### 5.1.1.4 A change in the system

In this paper, we certainly present a very clear cut situation, which is often far from the reality. The goal of energy cooperatives has been to offer an alternative to the traditional profit-based approaches of corporations. Cooperatives are offering a completely different model to govern the energy sector, based on the commons. FINcoops will often refer to the limitations of the local models to take on larger, system relevant projects. This narrative being targeted at the need to justify the sacrifice of strong governance principles, with the goal of mobilizing higher investment volumes. However, the cooperative principles through federations have created a powerful tool for REScoops to take on those large projects, making this argument of the FINcoop irrelevant. The MECISE fund, for instance, has placed several bids for various tendering procedures like the sale of Eneco<sup>5</sup> or the participation in the Krammer wind park [147]. This was made possible by the collaboration between a large number of European cooperatives, driven by a group of leading organizations. Participation is opened to all cooperatives across Europe to participate, reducing the risk but also the profits of those

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<sup>4</sup> International Cooperative Alliance

<sup>5</sup> Eneco is an energy company and supplier based in the Netherlands. In 2019, a tendering procedure was opened for municipal shareholders to sell their share in the supplier. This tender was finally awarded to a consortium of Mitsubishi Corporation and Chubu Electric Power Co., Inc. See more at <https://news.eneco.com/acquisition-of-eneco-by-consortium-of-mitsubishi-corporation-and-chubu-electric-power-completed/>

leading organizations. This collaboration-based approach is also repeated in the development of projects in Flanders, where cooperatives collaborate to support starting initiatives<sup>6</sup>. This approach is representing a valid alternative to the traditional competition based model implemented in a majority of European Member States.

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<sup>6</sup> Interview Jan de Pauw – REScoop VL - 14-04-2021

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## 7 ANNEX 2 – WHAT ARE THE STEPS TO A SUCCESSFUL SHARE OFFER?

A check list by Mark Luntley and Marna McMillan (Energy4All)



In the REScoop.eu AGM event that took place on the 23<sup>rd</sup> of April, Mark Luntley presented his checklist to make a successful share offer. Mark is a director of Energy4All, a cooperative network organisation supporting starting cooperative projects to perform successful share offering.

### The 12 ideas to a successful share offer

- 1- **Choose the right project:** Make sure that you choose a simple and straight forward project. It will be easier to deal with other parts of the work if your project is straight forward. Make sure that you have the right skills in your team, and that you have a robust financial plan.
- 2- **What is the story** - People generally buy in emotionally into a project. You should be able to explain your project will benefit the local community.
- 3- **Choose an appropriate structure:** Choose the structure that fits to your needs and your project. Each legal form has its own advantages and disadvantages. Take care that the governance of your project to ensure that the ownership remains in the hands of citizens beyond the share offer.
- 4- **Assess the Risks:** Every project has risks. It is important for your project team to analyse, understand and eliminate those risks if possible. Make sure that you can explain how the remaining risks will be managed.
- 5- **Why should they trust you with their money?** – Make sure that you have the trust of the community. Trust is a single most important asset that a cooperative project can have. This trust is built through transparency, the right project team with both technical and financial experience, a good track record, and a strong due diligence process.
- 6- **Find the right supporters** : Draw in potential supporters and do not bother with people against your project – you will not convert them and it will take up your time and energy. Try to enlist key people in the community who command respect to join the board.
- 7- **Have a fallback planned:** Try to work out a fallback position so that the project can still go ahead even if the share offer falls short. This gives the community more options if you don't raise all the money.
- 8- **Carry out proper due diligence** : It is important to have appropriate due diligence of your project on several fronts: a financial, legal and technical. The quality and the transparency of those analysis will help you both with investors and with contractors. Ensure the document is completely factually correct and include as little opinion as possible.
- 9- **“The Grandma test”:** Don't over-complicate your project. You should be able to explain the main details of your project in under a minute to someone who knows nothing about it. If that person cannot follow you, then potential investors probably won't either.
- 10- **Loan finance** : Make sure that you have the right balance between loan finance and equity finance. Lenders have their own due diligence processes, which can be a useful challenge in ensuring the project is properly structured.

- 11- **Contractors:** Choose contractors with care, they should be understand the technology you propose to use and have a credible track record in delivering those projects. It is usually better to use a more experienced contractor as they bring more credibility to your project.
- 12- **Consider using a development partners:** It's easy to make mistakes if it's your first project. Think about working with a partner who has experience in community energy and who shares your values, if none is available in your country - talk with other cooperatives in other countries to learn from their experiences.