



REGULATIVE FRAMEWORK FOR COMMUNITY FUNDING

A community finance campaign is a project in itself. To be able to realise it successfully, the legal and financial infrastructure under which the community finance is set up, must be considered. As these infrastructures vary between member states of the European Union, the possible steps and choices to be made to realise a successful community finance project, can be different in different member states.

The CROWD THERMAL Deliverable 2.2 [“Regulative Framework for community funding”](#) studies the effect of the legal and financial infrastructure on the possibilities for community finance for geothermal projects. It focusses on three case study countries that have been selected in the CROWD THERMAL project: Iceland, Spain and Hungary.

The report describes the three main areas of infrastructure that affect the choices and possibilities of community finance:

1. Governance and ownership structures

Who can own a geothermal site or well or a power plant? This can be a determining factor when developing a geothermal project. Especially for the ways the community can be involved. In some countries all sites or power plants are government owned. This may hamper the development of new and/or local small projects. It can also make it more difficult to find a way to involve the local community and give them a sense of commitment or ownership.

2. Legislation around the generation and supply of electricity and heating

Another factor which determines if and how the community can be involved is the general regulative framework for electricity and heating. This regulation specifies how the process of the generation and supply of electricity and heating is organized in a country. Who owns the distribution network and what prices are used for the buying and selling of the energy and/or heat? Are prices fixed? Or can the involved community receive the product at a flexible/better price? To determine how the community can be involved and which form of community funding can be used in a certain country these factors have to be considered.

3. Financial legislation

Financial regulation is of course essential to be able to choose the most suited form and method of community finance used. In some countries money can only be raised from natural persons by intermediaries who have a banking licence. This means only banks and their traditional forms of finance could be used to involve the community through community finance. In other countries there are several licenses available to raise money from natural persons which means more methods of community finance are applicable.

The new European Crowdfunding Service Provider (ECSP) regime will create more opportunities for raising funds from a local community.

The report analyses if these regulatory frameworks form possible restrictions for the use of community finance in geothermal projects and presents recommendations for developers and regulatory bodies to deal with this.

In the three case study countries, the infrastructure formed by ownership structures, energy production and distribution legislation and financial legislation are quite different. Different government instruments increase these differences. This means that the countries can learn from each other concerning the possibilities and obstacles created by the regulative framework.





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Looking at the three regulatory frames we identified the following best practices:

COUNTRY	BEST PRACTISE
OWNERSHIP STRUCTURES	
Spain	The worker owned cooperative (a special public limited company) and general partnership that offer flexible possibilities for community ownership. And the limited partnership which has the possibility to combine general partners and limited liability partners thus reducing the risks for the community of participating.
Hungary	The "egyesülés" is a local form of an European Economic Interest Grouping (EEIG). This is a type of legal entity of the European corporate law created on 1985-07-25 under European Community (EC) Council Regulation 2137/85.[1] It is designed to make it easier for companies in different countries to do business together. This would make it easier to develop geothermal projects with international parties that supply community funding.
Iceland	The broad possibilities for ownership of geothermal resources and development of geothermal projects.
ENERGY LEGISLATION	
Spain	The Royal Decree Law (RD law) . One of the most relevant points changed by this law is the fact that self-consumed energy from renewable sources, cogeneration or waste will be exempt from all types of charges and tolls. Others are that it is allowed to share this self-consumption with others to generate economies of scale and technical and administrative principles have been simplified to make it feasible.
Hungary	The energy market has a free part and a regulated part. In the free part prices are determined by the market which increases the possibility for the transfer of positive results to the community members.
Iceland	A new law to give multiusers the same energy price discount as large users.
GOVERNMENT INSTRUMENT TO PROMOTE SUSTAINABLE ENERGY	
Spain	The Third-Party Financing (FPT) instrument . In this FPT program IDAE is involved right from the definition phase of the project onwards and finances a large part, or the complete amount, of the money required as investment. IDAE invests this money itself, so no repayments are required by the party realizing the project. The investment and profit of IDAE are recuperated in the form of the regular energy saved by the energy generated by the project. As soon as the investment has been repaid, ownership of the production plant passes to the party developing the project.
Spain	The Lines of Aid for Investment in Renewables . A programme for Thermal and Electric Co-financed with European Union Funds.
Iceland	The Iceland Energy fund (Orkusjóður) . This fund provides a loan for the first phases of a geothermal project. If the project is unsuccessful the loan will not have to be repaid, which makes it a risk absorbing loan. The fund finances small amounts per project. In case of larger projects, the government can add extra financial means to the fund.
Iceland	A very involved government in developing geothermal projects, which has resulted in all geothermal projects with a depth less than 1 km being realised.
FINANCIAL LEGISLATION	
Spain	Crowdfunding is possible
Spain	Lending is not restricted to credit institutions
Iceland	Although limited (only for small projects) crowdfunding is possible without legislation

Illustration: Leonnidas - Text: CrowdfundingHub



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Based on these best practices and the analysed regulatory frameworks we can make the following recommendations for project developers and governments.

OBSTACLE	RECOMMENDATION FOR PROJECT DEVELOPER	RECOMMENDATION FOR GOVERNMENTS
Fixed price for electricity or heating make it difficult to generate positive returns for community investors for participating in sustainable energy projects.	Aim for other rewards for community investors like extra access to heating or electricity or a reward-based benefit participation in a unique (benefit) for example heated spa etc. for investors.	Allow price differentiation or profitable sale back of self-generated energy to the grid.
A monopoly or oligopoly for energy companies may make private initiative in developing sustainable energy difficult.	Involve a government or one of the large companies to support the community initiative.	Create more room for private initiatives that can keep rewards of the project to stimulate private initiatives. Support with grants or guarantees. Make sure the market remains accessible to small initiatives.
Strict rules about crowdfunding initiatives make community funding expensive or unusable.	Try to involve a bank or other party with a license to facilitate the community funding. After new crowdfunding directive this can be an international platform.	Allow the development of local crowdfunding or direct lending initiatives.
Financial legislation can form large obstacles to raising money.	Involve a legal financial specialist to help you navigate the different rulebooks. Try to access investment through equity, while avoiding banking license or investment fund activities as this means extensive costs for yourself.	Try to keep room in national legislation for private initiative, do not increase the regulatory burden already in existence form European legislation.
Difficult to combine community funding with governmental funding	Use international examples to show potential with local/national government and co-create public-private investment models.	Use funding from European Structural Funds or local funding to create guarantees or co-funding instruments for early phases of geothermal projects.
If the demands from different legislation are not compatible the effect can be that experimental drilling or research to find new geothermal locations is blocked (Iceland example).	Start conversation with the government as they may not be aware this is the effect of the combination of different legislation	Make sure different legal schemes are compatible and do not lead to rules that hinder the development of new geothermal sites.
Insufficient room in policy for initiatives from small users can hamper the development of new geothermal initiatives	If necessary, combine small projects to realize necessary size for sufficient possibilities or discounts.	Make sure there is enough room for small initiatives to grow and enter and compete in the market.

More information:

CROWD THERMAL Deliverable 2.2 [Regulative framework for community funding](#)

