OVERVIEW OF FINANCING INSTRUMENTS FOR COMMUNITY POWER PROJECTS

How does community energy get financed?

Sources of Finance	Instruments	Financing Vehicle
Institutional investors (Financial Institutions, private companies)	Debt/Equity financing	SPVs/Private finance initiatives
Governments	Contingent grants/ Government lending/Guarantees	
Individuals	Community shares/Direct loans	Co-operative or mutual fund
EU (see separate doc)	Depending on beneficiary	

Institutional investors can provide capital to community-led initiatives, provided their risk profile is compatible with the project to be financed. Financial institutions such as banks and pension funds are prepared to accept a lower rate of return on their investment but are unwilling to take on risks. Therefore, they usually resort to debt financing, which takes the form of loans that must be repaid over time with interest. Unlike equity financing, the lender does not receive an ownership share in the infrastructure.

Equity financing takes the form of money obtained from investors in exchange for an ownership share. The main advantage to equity financing is that there is no obligation to repay the money. Equity investors are only paid if the project makes a profit, once everybody else has first been paid. It is important to point out that the involvement of high-profile investors may also help increase the credibility of a new project. Equity investors are looking for a partner as well as an investment, or else they would be lenders.

Debt-to-equity ratios in stable energy markets can range up to 4:1 (80% debt: 20% equity). In general, the higher the risk (real or perceived), the higher the amount of equity required. In the nascent sustainable energy sector lenders tend to require the project sponsor to provide more equity (up to 50%) to demonstrate creditworthiness and cover risk to debt servicing.

Debt/Equity financing is carried out through a wide variety of private financing schemes or through Special Purpose Vehicles (legal entities created to fulfill narrow, specific or temporary objectives) such as an Energy Service Company (ESCO). An ESCO is a business that develops, installs, and arranges financing for projects designed to improve the energy efficiency and maintenance costs for facilities over a certain time period. ESCOs generally act as project developers for a wide range of tasks and typically offer the following services:

- develop, design, and arrange financing for energy efficiency projects;
- install and maintain the energy efficient equipment involved;
- measure, monitor, and verify the project's energy savings; and
- assume the risk that the project will save the amount of energy guaranteed.

Governments are an important source of finance for community energy projects. Contingent grants are useful mechanisms that can help the SME address specific aspects of business development, especially in the early stages before any revenue streams have been established. This option permits the public sector actor to provide incremental funds without directly subsidizing commercially viable activities, since the support is repaid once the business activity has started providing returns. In the event that the contingent grant is repaid, then the repayment history is useful for demonstration to future investors.

Despite the fact that many sustainable energy technologies are commercially proven, lenders still often perceive sustainable energy businesses as non-conventional and therefore risky. Government-sponsored guarantees can cover some commercial risks associated with borrowers who have inadequate balance sheets or credit histories. They can also cover other non-commercial risks associated with the economic and financial stability of the country of project implementation. Guarantee schemes, when successful, increase bank involvement in financing sustainable energy projects and can reduce the real and perceived technology risks, as well as credit risks linked to long amortization periods.

Individuals can also contribute to community power projects, either by lending money to a project or by taking out shares in a co-operative or mutual company. For example, certain community power investment models allow individuals to buy and sell shares of community projects in a manner that emulates (from the individual investor's perspective) buying and selling of shares in a mutual fund. The model is designed to allow a direct, flexible investment into community-based renewable energy projects and can envisage the participation of:

- a certified professional community-based project developer that develops the project;
- a utility that purchases the power at a guaranteed price for the life of the project and allows interconnection;
- a financing entity to provide the capital for the project;
- individual investors who invest in aggregated projects in a manner that allows them to opt in and out.

Copied and pasted from shared google docs:

<u>EU financing instruments for community RES projects</u>

Assumptions:
- Stable support schemes for renewables, preferably FIT
- Guaranteed access to local participation
- Grid access + capacity

For financial support coming from EU one should think of a matrix distinguishing the final beneficiary - private or public - and the eligibility of investments – for support for setting up the project or the installation as such.

Community RES projects financial support	**Equity/infrastructure**	**Assistance/support**
Private	- EU project bonds - New instruments: revolving funds. Loan-grants-guarantee mechanisms - EBRD	- Structural and Cohesion Funds (SCF): TA - EIB - EBRD
Public/municipalities	"Connecting Europe Facility" (new MFF): Smart grids deployment (large scale only foreseen in MFF)	Structural and Cohesion Funds (SCF) EIB Technical Assistance + SCF co-financing: - ELENA (**E**uropean **L**ocal **EN**ergy **A**ssistance) - JASPERS Joint Assistance to Support Projects in European Regions -> TA for project development in CEE - JESSICA (Joint European Support for Sustainable Investment in City Areas) -> expand to rural areas!?
Public-private (PPP)	European Energy Efficiency Fund (EEEF): dedicated financing via direct finance (energy service companies, developers) and partnering with financial institutions	

Other EIB instruments: guarantees (for project developers' bank loans), venture capital

Combination of national and EU funding, national financing schemes (Green Investment Schemes CZ, LAT, EkoFundusz PL) and grant+loan combinations more promising.

Campaign opportunities:
For the next programming in Cohesion Policy 2014 – 2020 and for the "EU 2020 Project Bonds" there is now the opportunity to campaign for the inclusion of community RES projects as eligible and/or priority measures. EBRD energy policy review in 2012.