Funding your project through a share issue

Whatever range of financing sources you end up with, you will almost certainly need to raise some money from people who are prepared to invest in your project in return for a share in its ownership and/or an opportunity to earn dividends in the future. In a community setting this can help to widen the number of people who have a direct interest in the project's success.

This sort of investment is known as 'equity' investment. It is a very standard form of financing for companies and of investing for shareholders. It is a way of funding both limited companies and co-operatives. You will need professional advice from a suitably qualified lawyer and/or accountant to think through the different options and work out what suits your situation best. This can also cover what level of control you want shareholders to have and how influence is distributed amongst them (one vote per share or one vote per shareholder, for example).

Equity investment is generally considered quite risky because the investor will only earn dividends if the project can afford it – i.e. makes enough profit after operating costs and any loans/debts and taxes have been paid. And if the company or project doesn't perform well enough, the investor may never get their investment back, let alone earn any return on it through dividends.

Even a well-secured, financially strong project which can attract bank finance will need equity investment because a bank will never lend 100% of the cost of a renewable energy project (just like they want a deposit on a house purchase alongside their mortgage). On the financially strongest projects, this might be just 20-25% of the total financing cost but more typically 30-40%. And the equity – or some other source of funding – will have had to pay for all of the up-front project development costs to get it to the point where it has all the permissions and contracts in place, before construction starts.

So how do you raise equity? You will almost certainly need to have a share issue. Or you will need to work with an existing equity fund (like Triodos Renewables, **www.triodos.co.uk**) to see if they would invest in your project and let local investors buy into their fund.

Raising money from a share issue is a heavily regulated business, whether it is for an Industrial and Provident Society (co-operative) or a company limited by shares. So you'll need professional advice. The regulations are generally designed to make sure that anyone investing has been told about all of the risks involved in the project and not given a misleading picture about its chances of success or the likelihood of rewards.

One of the main regulatory requirements will be to point out that shares in these sorts of small companies can be difficult to sell (since selling shares is a similarly heavily regulated business). So an investor might find it difficult to get their money back quickly if they need it for some unforeseen purpose. In this sense (and many others!) buying shares in a renewable energy project is very different from a savings account.

For this reason, investors in share issues generally look for much higher returns from these investments than the interest they get on a savings account – typically they look for the equivalent of an interest rate of 8-12%.

Because most community renewable energy projects will find it difficult to generate these sorts of financial returns, there is usually a focus on the social and environmental value of the project and an appeal to the 'social' or 'ethical' or 'community' oriented aspect of the investment. The hope is that people will accept lower financial returns because of all the other benefits being generated – lower carbon emissions and community involvement and, potentially, income for the community.

This hope has been realised in a number of community project share issues.

But rather than assume you can do this and that local people are willing to contribute as 'social' investors, it's worth thinking through the numbers so you don't get too carried away with the possibilities. It's a big challenge.

If you need to raise £500,000, you'll need to find 5,000 people willing to invest £100 each. Or 500 people with a £1000 each. Or 50 very generous investors with £10,000 each. It's worth asking yourselves some searching questions:

- How many people are in your community group planning this project?
- How many people do you each know who would be able and willing to make this sort of investment? And that means really willing to write the cheque and hand over the money.
- How can you go about persuading the wider community, not just the ones you know, to get involved?
- Does raising money like this from some people in the community mean that the project isn't really for the benefit of everyone locally but just a few of the better off?
- What control and influence and share of the value of the project are you going to give the investors? Will that be enough to make them willing to invest?

Also remember, as shareholders, each of these people will have certain legal rights and will need to be communicated with – and paid dividends if you make profits and decide to distribute them. So there are some administrative tasks to bear in mind.

All these questions are not intended to put you off but to introduce that sense of realism mentioned earlier. You will almost certainly need to raise money like this to help finance your project. Indeed, it might be the only way you can finance your project. So it's important to understand what it involves and to be clear about what you will be asking of your investors and what you can realistically offer in return.

You will need professional legal and financial advice to help you design the structure of your project company and the terms of any share offer you then make – and to manoeuvre through all of the rules and regulations to be sure you're not presenting a misleadingly positive picture of the investment opportunity. But it can work, and some of the case studies featured in this DVD are good examples.

And, aside from providing funds, having a group of shareholders can be a really valuable way of increasing involvement in your project and of growing local support. After all, they quite literally have an investment in its success.

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