Deliverable 4.1
Feasibility Study

RESCOOP MECISE

Mobilizing European Citizens to Invest in Sustainable Energy

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More information	www.REScoop.eu

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RESCOOP

MECISE

Final report

Feasibility study for a
European Investment vehicle

April 2017

Nota Bene: the device being subject to an investigation is referred to in different ways in this document: mention is made of a pooling device, mechanism, fund or investment vehicle, etc. No specific name or structure has been agreed at the time of writing this document and these different references shall not be considered as definitive.

Executive summary

Accessing upfront capital and reaching critical size to pool investment risks on a diversified project portfolio are two key challenges for the development and growth of European energy cooperatives (coops).

Setting up a transnational mechanism that would pool financial resources of local coops could help in addressing these challenges.

Based on the needs expressed by various REScoop members, this work confirmed the interest for such mechanism and led to the proposal of an intervention scheme that would facilitate access to upfront capital for renewable energy projects.

Reaching a critical size; such mechanism would provide an opportunity to leverage funds from complementary financiers – such as European Financial Institutions or ethical banks. To convince these potential financiers, a detailed business plan is being prepared by REScoop.eu. This work shall comprise a detailed presentation of the types of financial services that would be provided by the vehicle (equity, mezzanine debt, etc.), a cash flow analysis and a P&L based upon solid and transparent hypothesis – including a pipeline of projects already identified that could benefit from the vehicle.

Various legal forms and organizational schemes could be considered for this vehicle. Among the possibilities considered, the European Cooperative Society (SCE) has the advantage of abiding by the specificities of coops in terms of governance. Given the limited feedback about this legal form, it would be an interesting opportunity (especially in terms of delays) to take over an existing SCE to constitute such vehicle.

Such opportunity was identified with TAMA, a SCE that was set up by a number of European ethical banks. Seizing this opportunity requires further discussions with TAMA's current shareholders – especially to determine fair conditions for repurchase and the extent to which current TAMA members could remain involved within the vehicle.

Introduction

Objectives and context of this study

To achieve the transition to renewable energy and energy democracy in Europe, the REScoop.eu members are convinced that increased investments in sustainable energy and a stronger involvement of European citizens are needed[1].

Although the actions and contributions of renewable energy cooperatives are increasingly recognised in national and European policies and regulations, this model is still struggling to develop and realise its full potential across Europe.

One notable barrier identified in most countries remains the access to finance at different stages of development, construction or acquisition of renewable energy projects. Several studies have showed that projects carried out by REScoops face a certain number of obstacles, which include:

- sometimes, inadequate regulation, particularly in the case of public offerings for highly capital-intensive projects such as renewable energy installations,
- difficult access to funds during the more risky phases of project development (for instance the start-up phase),
- difficult access to bank loans for projects of small size and led by groups of citizens who often mobilize around a single project on their territory – and thus cannot mitigate development risks through the pooling of resources on a larger number of projects,
- difficulty to maintain local control of the projects and a governance involving the local communities, which are often the initiating actors of these projects.

Several REScoops in Europe are currently mobilizing to respond to these obstacles. One of the responses being considered is launching a European Investment vehicle that would facilitate the access to the financing required to develop, build or acquire RE projects for local coops – and thus to expand their activities.

Within the frame of the MECISE project, EY was mandated by REScoop.eu to conduct a feasibility study of such Investment vehicle. The main objectives of this work were to:

- Assess the nature of needs of local coops and determine to what extent a European Investment vehicle could respond to those needs;
- Identify potential types of intervention for such vehicle;
- Identify potential co-investors that might be interested by this project and understand their expectations for such mechanism;
- Suggest an overall business model for the Investment vehicle that would be in line with both the needs expressed and the constraints and expectations formulated by potential co-investors;
- Investigate options for the legal structure of the entity that would bear manage this Investment Fund;
- Identify next steps for an effective launch of the Vehicle

Content of this report, methodology and limitations

This document is the final report of the feasibility study conducted by EY. The information enclosed in this document stems from analyses based upon a number of interviews carried out with local coops and other stakeholders, and a bibliography review focusing on the objectives targeted by the MECISE project.

[1] Business Plan REScoop MECISE investment vehicle | Draft v3 – updated 22/12/2016

These analyses were shared and commented during two workshops organized in Paris, respectively on June, the 29th and September the 22nd of 2016.
This final report boils down to the following sections:

- A review of the main needs, principles and objectives of the Investment vehicle
- A presentation of the overall operating scheme considered for the Investment vehicle
- A review of potential legal forms that could be used for this vehicle
- A summary of questions being further investigated by REScoop.eu beyond this study and next steps before launching such instrument.

This report must be read taking into consideration a number of limitations inherent to the initial scope of work agreed between REScoop.eu and EY.
Even though it constitutes the final report of the feasibility study conducted by EY, it is not meant to be the final document presenting the Investment vehicle. A number of aspects mentioned in this feasibility study require further investigation before being publicly communicated to potential counterparts. These aspects – including the issuance of a detailed business plan based upon an up-to-date pipeline of projects, the analysis of the opportunity to take over another structure (TAMA) to build the Investment vehicle, or the concrete rules of the Instrument in terms of governance – are being subject to further work directly conducted by REScoop members as of January 2017.
The conclusions presented in this report are mostly based on information provided by the various professionals interviewed (including local coops). Specific elements about projects, difficulties and barriers encountered by local coops, their needs and estimations of profitability that could be achieved by an instrument were carefully analyzed. This analysis took into consideration EY perception of the RE sector across Europe, but was not subject to specific audits.

Needs, principles and objectives of the Investment vehicle

Identified needs and challenges

The interviews conducted with a number of local cops and with other stakeholders involved in the development of citizen RE projects across Europe led to identification of a number of needs of these actors to overcome the barriers resulting from unsupportive local regulations, limited access to financing, or difficulties to reach the critical size to be able to pool development risks on a large panel of projects – as private developers do.
The table below summarizes the main needs expressed by these actors, and an analysis of whether or not setting up an Investment vehicle could be an appropriate response to these needs.

	Should this need be addressed by a European Investment vehicle?	
Long term visibility	Investors need long term visibility on local regulatory frameworks. Lack of trust in national policies and RE supporting schemes (such as FiT) entail reluctance of investors and significantly undermines the capacity to raise funds.	No
Pooling of technical, financial, procurement or legal expertise	All coops cannot individually gather neither technical expertise that can be required to develop projects on various technologies (wind, solar, biomass, etc.), nor financial, legal or procurement expertise that can be decisive to ensure projects are set in optimal conditions.	Not directly
Emergence of small cooperatives	Small cooperatives might need assistance and feedback on lessons learnt by other cooperatives to develop first projects, get first credentials and initiate a virtuous cycle.	Yes
Capacity to finance riskier first stages of project development	Early steps of project development (site identification, feasibility studies, impact assessments, permitting, etc.) have significant level of risk – even though the amounts required are far less significant than during the investment stage. This high risk step can undermine the capacity of local cooperatives to raise funds.	Yes
Availability of financial resources	Project investment requires significant upfront investment. Local cooperatives cannot always raise sufficient funding for all their projects – especially if they have numerous opportunities at the same time.	Yes
Aiming bigger projects and pooling financial resources	Be capable of investing in larger projects without jeopardizing the capability of local cooperatives to invest in other projects => requires the pooling of financial resources.	Yes

Even though the lack of long term visibility caused by unclear regulatory framework was cited to be one of the most prominent barriers to large scale development of local coops in several countries – in particular in Spain after retroactive cuts on RE remuneration mechanisms – it was considered by REScoop members that solving this issue was the responsibility of local

authorities, and that it would be too risky for a European Investment vehicle financed by REScoop members to aim at compensating for related risks.
The pooling of expertise and key human resources at European level was acknowledged to be an interesting prospect to support the emergence of new coops across Europe (and thus in new countries) or spread the development of RE projects based on all technologies (including less mature technologies). For the sake of simplicity and clarity of the Investment vehicle, it was considered that it should focus on providing financial services and that it would make more sense for such technical assistance to be provided by a complementary tool – or directly through REScoop.eu.

General principles and ambition of the Investment vehicle

The scheme below summarizes the proposed vision, overall objectives, types of intervention and general principles targeted by the Investment vehicle.

Vision	**Enhance the development of citizen SE project across Europe**
Objectives	Support the development of existing cooperatives with more and bigger projects
	Support the emergence and development of cooperatives in new European countries
Two types of intervention	Finance pre-permit planning and development
	Finance project acquisition or construction

General principles to be taken into account to ensure Structure success	
Flexibility to cope with various configurations (countries, project size, need, regulatory framework, etc.)	
Sustainability - capability to refinance	Fair distribution of responsibilities and benefits
Leverage and capacity to attract co-investors	Governance in line with cooperatives DNA
Look for simplicity	Coordination with REScoop.eu

Nature of intervention investigated

This section summarizes three potential interventions that were selected for investigation during this study to respond to various needs expressed by local coops and other stakeholders that were consulted:

- Guarantee mechanism compensating for lack of long term visibility to unleash project development
- Technical assistance destined to projects at early development stage
- Provision of equity (or debt) compensating for limited financial resources from the local cooperative

These three options reflect the suggestions that emerged from our discussions with professionals interviewed. They were discussed with REScoop.eu members during the workshop that was organized in Paris on 29 June 2016.
These discussions resulted in the decision that the Investment vehicle shall only focus on providing financial services (which would be most probably equity or concessional debt) aiming to increase financing capacities of local coops - as illustrated in the third option - for the reasons already mentioned in this report.

Guarantee mechanism compensating for lack of long term visibility to unleash project development

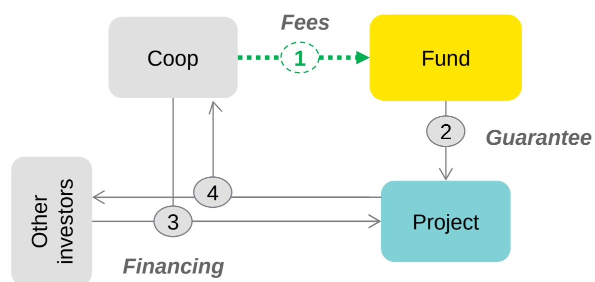
Needs addressed / objectives targeted

- The objective of this intervention would be to provide long term visibility to favor investors trust and enhance project development
- The fund would guarantee the revenues generated by a project to cover potential default from FiT
- Such guarantee would aim to convince other actors (investors and project developers) that the project is safe enough
- That scheme would be appropriate in countries with significant regulatory uncertainty and defiance from local actors for RE projects (for instance Spain).

Financial impact for the Fund

- Increases exposure to the risk of adverse changes in the local regulatory framework
- Provides cash flow available to be invested in other projects (fees from local cooperatives)

Illustration of the intervention



1. Local cooperative pays a fixed fee (annual) to the fund to benefit from a guarantee mechanism
2. Fund provides guarantee on revenue generated by a project targeted by the local cooperative – closing the gap with potentially failing FiT to provide more visibility to investors and developers
3. Local cooperative and other investors provide equity and debt to secure financial closing
4. Investors (including local cooperative) get dividends or revenues from sales when the project is commissioned and sells electricity

Technical assistance destined to projects at early development stage

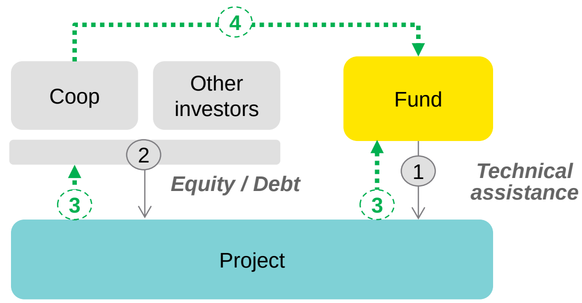
Needs addressed / objectives targeted

- The objective of this intervention would be to provide technical assistance from project developers or consultancies to facilitate the risky first stages of project development (impact studies, feasibility studies, etc.)
- An advantage would be to ensure project developers or consultancies solicited are REScoop members or privileged partners
- That scheme would be appropriate to assist smaller cooperatives - with limited financial and human resources – to get their first projects done

Financial impact for the Fund

- Cash-outflow to contract project developers or consultancies
- Risk of loss if the project does not overtake early development stage
- Cash-inflow to be determined (fixed fees from small cooperatives or dividends from projects)

Illustration of the intervention



1. The Fund provides technical assistance to a given RE project at early development stage (feasibility study, impact assessment, etc.). This contribution can be considered the acquisition of an equity share in the project.
2. Thanks to these contributions, financing can be obtained from local cooperatives and other investors
3. Project generates revenues (interests or dividends) to all financers – including the Fund
4. The local cooperative can possibly buy out the Fund equity share in the project – generating cash-inflow for the fund to be reinvested in other projects

Provision of equity (or debt) compensating for limited financial resources from the local cooperative

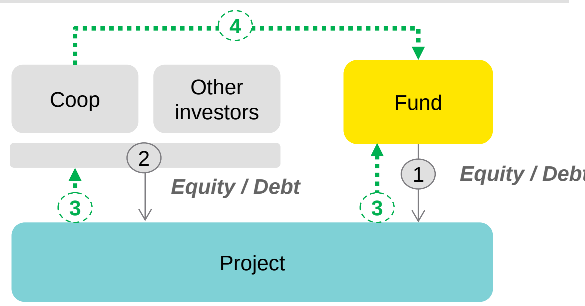
Needs addressed / objectives targeted

- The objective of this intervention would be to provide equity or debt when local cooperative does not have the financial capabilities to finance the project alone
- That scheme would be appropriate in countries with very dynamic development of RE projects – where local cooperatives do not have enough funds to seize all opportunities. It could also be appropriate to support local coops targeting bigger projects.

Financial impact for the Fund

- Significant cash-outflow during project development and construction
- Regular cash-inflow in during exploitation
- Possibility to get significant cash-inflow by selling project equity share after project commissioning
- Possibility to ask local cooperative to gradually buy out the Fund equity share in the project – so that the Fund can sooner refinance other operations

Illustration of the intervention



1. The Fund provides equity (or debt) to a given RE project depending on the needs expressed
2. Financial closure is reached with contributions (equity / debt) from other investors, including local cooperative
3. Project generates revenues (interests or dividends) to all financers – including the Fund
4. The local cooperative can possibly buy out the Fund equity share in the project – generating cash-inflow for the fund to be reinvested in other projects

General functioning of the Investment vehicle

Suggested overall functioning of the Investment vehicle

The Investment vehicle considered would be a tool made available for local coops to leverage on their contribution in projects to access and raise complementary funds (most probably equity, possibly other sources of financing such as debt or mezzanine debt).

The Investment vehicle would co-finance projects with local co-investors - mostly local coops who would be solicited to source projects and contribute to some parts of the examination and qualification process. The contribution of local coops in the qualification process is acknowledged to be of paramount importance to ensure the success of the operation – as local coops are in the best position to provide an accurate evaluation of the risks and opportunities represented by the targeted project.

Qualification process must therefore be designed in a way that allows the Investment Committee of the REScoop Investment vehicle to rely on analyses conducted by the local coop.

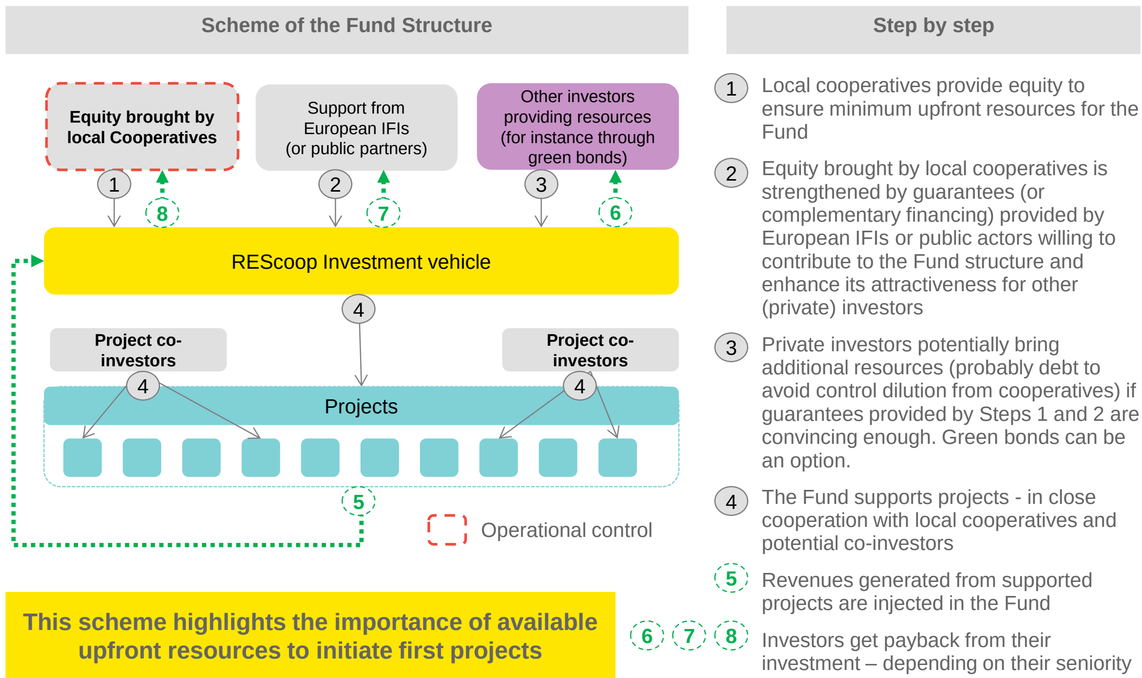
A possibility would be to ensure that each intervention of the Investment vehicle is subject to the condition that the local coop invests in a similar way and in significant proportions (for example matching contributions with 1€ provided by the Fund for 1€ provided by the local coop).

Offering significant leverage is another key interest targeted by the Investment vehicle. It implies that – in addition to REScoop members – other types of investors accept to provide financing to the REScoop Investment vehicle. First investigations suggest that:

- European Financial Institutions - such as the EIB or the EFSI – might have an interest in financing such scheme under the condition that it reaches the critical size these actors usually impose to their own investments.
- Private financiers such as ethical banks might also be interested in financing the Investment vehicle.

The exact terms and conditions of these possible contributions could not be directly discussed with these actors yet as such discussions require – among other things – completing a detailed and validated business plan.

The diagram below illustrates the two levels of involvement possible (project level and Investment vehicle level), as long as the role that could well be played by the different potential investors identified.



Scope of intervention

Moment of intervention during the different stages of projects – and consequences for the Pooling Mechanism

Two levels of intervention were considered relevant regarding the needs expressed by actors interviewed:

- **Emergence and development:** provision of financial services and assistance to facilitate the emergence and development of projects by local coops. Possible actions (provision of equity, repayable advance, mezzanine debt or guarantee) would focus on early and risky stages of the project – with an average ticket of about 200k€/action for period of time corresponding to the duration of the development process). Benefits would be received once permits are obtained. They would correspond to the added value brought by removing development risk. The specific added value of the device regarding this type of action would be to pool these development risks across various coops – and make sure that a possible default on any given projects can be compensated by the benefits generated on other projects successfully developed. This pooling mechanism could be compared to the mechanism used by private developers – who have enough successful projects to sustain a few potential failures during the development stage – and include a development premium corresponding to failed projects in the cost structure of successful projects.
- **Construction and acquisition**: provision of financial services (equity, loan or debt) during the construction stage or the acquisition of operating assets. The risk related to these operations would be much lower, and the main interest of the device would be to increase the investment capacity of local coops – making them capable of targeting larger operations without compromising their capability to invest in other projects. Investment duration would at least correspond to the period of construction – and might be longer to allow the device to remain within the SPV after commissioning and during operations. In this case, it would make sense to ensure that the local coop gradually pays back – with the

payment of an interest - the share of the REScoop Investment vehicle which can then reinvest funds in other projects. The average ticket of an operation would be much higher (about a few million euros).

These two different types of intervention respond to different types of needs (pooling development risks vs increasing investment capacity) and focus on projects stages with different level of risks (relatively high during development vs relatively low during construction or for acquisition of operating assets). The split of resources allocated between these two potential axes of investment will be decisive for the business model of the Pooling Mechanism.
Even though these two types of intervention are acknowledged to be relevant and in line with the needs of local coops, it was proposed by REScoop.eu members during the 2nd workshop that the priority shall be given – at least during a pilot phase of the Pooling mechanism – to the construction and acquisition. This decision is mostly motivated by the following reasons:

- It would be more attractive to potential co-financiers (such as EIB or national pension funds) – who have more experience investing in such assets (RE infrastructure at construction stage or after a few years of operations) while they might be reluctant to contribute to a fund which business model mostly relies on investments conducted on the riskier stage of development (even if expected benefits can be higher).
- It would contribute to clarifying and simplifying the strategy and operating mode of the Mechanism, which would be important to facilitate the adhesion local coops to the project
- National public authorities are reported to be working on the possibility to set out public devices that would be in charge of facilitating the emergence and development of citizen RE projects in various countries. It is the case in France, where the Ministry of Energy, along with the Environment Agency (ADEME) and the National Pension Fund (*Caisse des Dépôts*) are working on the design of a national mechanism. Such tool is already operational in Scotland (CARES). It can be considered relevant that national public authorities take the responsibility of carrying the higher risks of emergence and development – contributing to increase the number of developed projects in which local coops and the Pooling Mechanism could then invest.

Nonetheless, this decision shall be made keeping in mind it would bring the following limitations to the mechanism:

- A significant part of the needs expressed by local coops (pooling risks during the pre-permit development stage) would thus have to be addressed by a complementary tool.
- Amounts to be raised for each construction of acquisition operation will be much higher than on the development stage (probably over 1M€ for each operation). Giving the priority to construction and acquisition will limit the number of operations that can be conducted simultaneously – considering the limited financial resources the Pooling Mechanism will rely on.

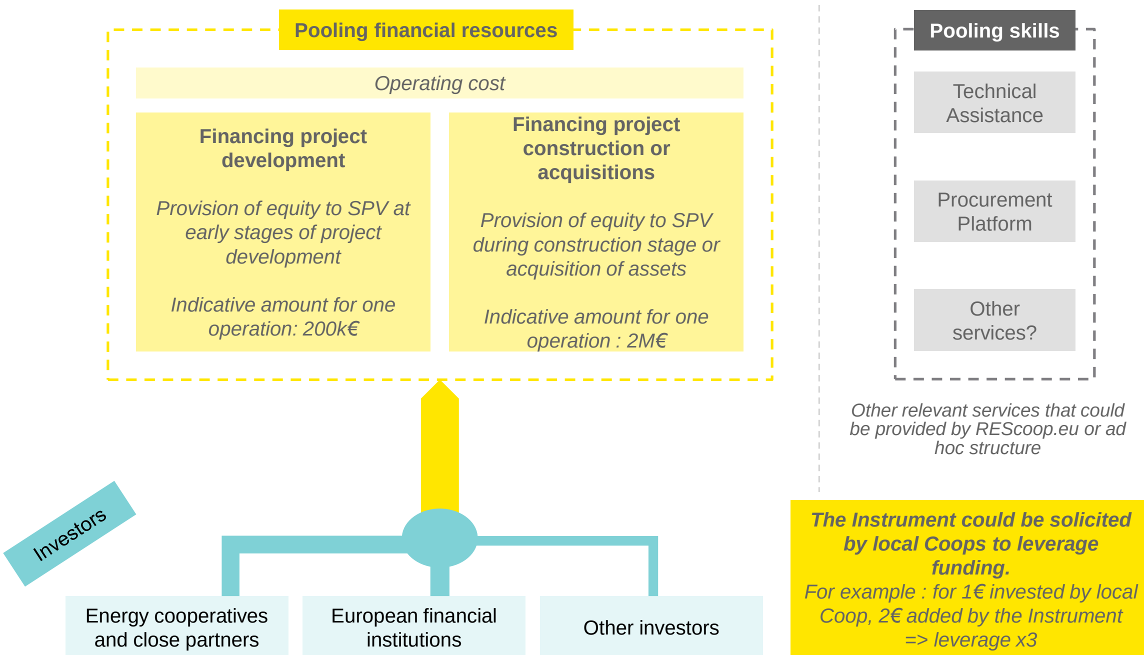
This choice shall not be regarded as exclusive: the possibility to invest on projects before permitting shall be left open as it might turn out to become an increasingly important need for local coops in years to come. This point shall be kept in mind when writing the statutes of the legal entity that will bear the Investment vehicle.

Pooling of expertise

Pooling of expertise at the level of a European structure was identified as relevant to respond to some needs expressed by local coops. Such expertise could benefit local coops in most critical stages of project life: technical and legal expertise during project conception and development, financial expertise when structuring project finance, etc.

Even though it is agreed that this type of support would bring added value to local coops – which often do not have the critical size required to internalize all this expertise – it is considered that the priority of the pooling mechanism shall be given – at least in a first pilot phase – to providing financial support.

It is suggested that the pooling of all relevant expertise could be directly organized at the level of RESCoop, so that the mechanism can focus on the provision of financing solutions.



Types of projects supported and pipeline identified

Given the diversity of RE potentials across Europe, it is recommended that the Pooling mechanism is not limited to certain technology. A minimum level of profitability shall systematically be encouraged for projects supported to ensure the Mechanism can be sustainable – and that benefits can effectively be generated to be reinvested in new projects.

For that reason, it seems reasonable to assume that the priority shall be given to the most mature technologies: solar PV and wind (onshore and offshore when possible with regards to investment needs).

A first estimation of the pipeline of projects that could benefit from the Pooling Mechanism was done - based on 2015 data collected within the frame of MECISE project (see below). This estimation suggests that 25M€ could be injected by the pooling mechanism in equity on a selection of projects across Belgium, France, Spain and the UK[2] - assuming the mechanism would provide on average 66% of the equity required for a given project, and that total equity would amount to 30% of CAPEX.

These assumptions – and especially the pipeline of projects - will have to be updated and further investigated when drafting the business model of the Pooling Mechanism.

2 This estimation is based on data collected before the results of the referendum that resulted in the Brexit

As of 2015

Location	Technology	Description	RE production (MWh/y)	CAPEX (k€)
Belgium (Flanders)	Wind	26-32 Turbines (9 sites)	90 000	56 000
	Heat generation	1 Biomass boilers	*NC*	35
	Waste heat recovery	4 km of district heating network	*NC*	20 000
Belgium (Wallonia)	Wind	2-4 Turbines (1 site)	13 500	7 200
	Biogas (methane injection)	250 kw of electric power	*NC*	*NC*
	Heat generation	1 Biomass boilers	*NC*	150
France	Wind	6 Turbines (2 sites)	*NC*	NC
	PV	Roof mounted	*NC*	*NC*
	PV	Large scale	*NC*	*NC*
	Biogas	250 kW of electric power	*NC*	*NC*
Spain	Wind	1 Turbine (1 site)	14 000	6 000
	PV	Large scale	4 650	3 000
	Hydro Power	2 SHP	1 700	730
United Kingdom	Wind	5 Turbines (4 sites)	>12 600	10 100
	PV	Ground mounted	15 450	21 000
	PV	Roof mounted	2 550	4 550
United Kingdom (Scotland)	Hydro Power	1 SHP	2 000	1 800
		TOTAL	**> 150 000**	**> 130 000**
		Estimated Average % Equity / CAPEX		*30%*
		Estimated Average % of equity brought by the Instrument on a given project		*66%*
		Capital needed for the instrument with the given pipeline and hypothesis		**> 25 000**

Source: RESCoop.eu – MECISE Inception report

The question of larger projects

Helping local cooperatives to aim for larger projects such as offshore wind farms – which represent a capital investment above 100M€ – could be one of the expected outcomes of creating a financial vehicle pooling resources from various local cooperatives across Europe.

This question remains to be settled. The conclusion will highly depend on the amount of funding that could be raised by such vehicle – and in the first place equity that could be brought by local cooperatives. It was reminded that one given operation carried out by the vehicle shall neither jeopardize the financial balance of local cooperatives, nor undermine their capacities to invest in other projects. For this reason, it seems likely and reasonable that larger projects do not constitute the top priority of the financial vehicle in the short term.

Progressive roll-out of the Pooling Mechanism

Beyond its complexity, the project is facing various stakes in the short and long term:

Over the long term, the Pooling Mechanism is expected to attract co-investors (such as the EIB, COSME or the European Fund for Strategic Investment) and reach a critical size considered necessary to fulfil the ambitions of REScoop members, the amount of time required to convince these potential co-investors,

In the short term, it is expected that the Mechanism can be operational quickly, take first actions and show some positive results to create a momentum that will enhance participation of local coops as well as other partners in the project.

To meet these objectives, it is suggested that the implementation of the Mechanism follows the 3-stage approach mentioned in p11[3]:

3 Estimated dates were updated after the workshop

Estimated Period	Stage	Objectives
2016 => 1st half of 2017	Design and business plan	- Update the pipeline of identified projects that could be targeted - Complete a business plan – including financial model and cash flow analysis - and prepare a pitch to present the instrument and its key features to potential investors - Have first contacts with potential investors and present them the initiative
2nd half of 2017 => 2018	Pilot phase / Roadshow	- Transnational collaboration between energy cooperatives – through simplified terms to confirm the proof of concept - Further exchanges with interested investors (road show) - Elaboration and validation of the Instrument structure (financial and legal)
2019	Full scale implementation	- Roll-out of the Pooling mechanism - Investment in projects - Possible extension of geographic scope (if new coops interested and willing to participate)

Possible legal structure for the vehicle

Comparative analysis of legal entities that could be used

Comparative analyses of different legal forms and presentation of the SCE

The conclusions of the comparative analysis of various legal forms that might be used to structure the Pooling Mechanism were presented during the workshop. Among the different legal forms considered for this purpose, the European Cooperative Society (*Société Coopérative Européenne* - SCE) was subject to a detailed analysis – following a request initially formulated by REScoop members during the previous workshop held in June 2016.

The characteristics and requirements of SCE were investigated, and some lessons learnt from past experience were presented.

The Statute for a European Cooperative Society (SCE)

- The Statute for a European Co-operative Society was adopted on 22 July 2003
- Its objective is to provide co-operatives with adequate legal instruments to facilitate their cross-border and transnational activities. It also provides a legal instrument for other companies wishing to group together to access markets, achieve economies of scale, or undertake research and development activities.
- Its principal object is to satisfy its members' needs and not the return of capital investment. Members benefit proportionally to their profit and not to their capital contribution.

Main characteristics of SCE

A SCE might be created:

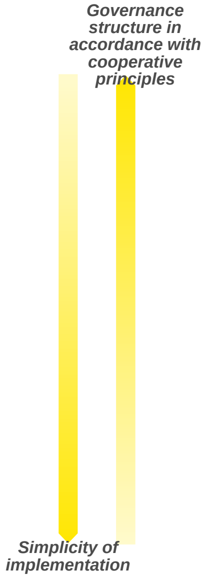
- **from the beginning by 5 or more natural persons, by 2 or more legal entities, or by a combination of 5 or more natural persons and legal entities**
- by a merger of 2 or more existing cooperatives
- by the conversion of an existing cooperative which has, for at least 2 years, been established or a subsidiary in another EU country.

The minimum capital requirement is €30,000. An SCE may have a limited proportion of 'investor members'. They do not use the services of the cooperative and their voting rights are limited.

- An SCE must be **registered in the EU country where it has its head office**.
- For tax purposes, an SCE is treated as any other multi-national company and pays taxes in those countries where it has a permanent establishment.
- Voting in an SCE **is generally conducted in accordance with the cooperative principle of 'one member, one vote**'. However, weighted voting may be allowed in certain circumstances to reflect the amount of business done with the SCE.
- An SCE must call a general meeting at least once per year. Decisions are taken by simple majority of members present or represented, except for changes to the internal statutes where a two-thirds majority is required.
- The internal statutes of the SCE must set out its management structure according to one of two possibilities: two-tier structure (management body and supervisory body) or one-tier structure (administrative body).

On this basis, SCE was considered the most adapted legal form for the scheme considered given the objectives targeted – even though it can be complicated to set up due to limited experience of local administrations and feedback for this type of legal form across Europe.

The main advantages and limitations of this legal form were summarized in the following table presented during the workshop:



Legal form	Advantages	Limitations
European Cooperative Society (SCE)	**Flexibility** : Possibility to transfer the SCE in another Member State if willing to extend or redirect activities **Pooling of procurement:** Possibility to pool procurement services to get equipment at a better price. **Quality:** enhance development of quality standards and best practices across Europe **Fundraising:** Enhance local footprint and facilitate fundraising in various European Countries **Credibility:** Strengthen credibility to work on multinational projects **Publicity**: Using a relatively rare legal form could provide a good publicity for this initiative	**Administrative burden**: setting up a SCE requires to go through a process that is relatively new / unknown for local administrations – and can thus entails additional costs and delays **Limited experience of potential investors**
Natural alternatives: SA or similar	**Inclusion of cooperative principles**: Possibility to define voting rights to be more in line with cooperative principles	**Country-specific:** not very adapted to multinational roll out - unless we opt for a European Company (SE)
Natural alternatives: FCP *(Fonds Commun de placement)*	**Convenience**: Very simple and quick to launch and implement **Suitable for multinational implementation**: a large number of funds active at European level are based on this structure	**Governance**: governance delegated to the management company => difficult to ensure a governance in line with the cooperative principles

SCE seems to be the most adapted legal form for the scheme considered given the objectives targeted - but can be complicated to set up due to limited experience of local administrations and feedback for this type of legal form across Europe

Feedback from TAMA

The presentation of TAMA conducted by La Nef during the workshop of 22 September 2016 completed the analysis proposed - providing a more concrete feedback about the advantages and limitations of SCE for this type of project.

Even though TAMA was effectively set up and is operational (three investments ongoing), it cannot be considered as a full success as the number of operations it supported was lower than expected, due to a lack of applications of attractive projects.

This result was mostly explained by the following key difficulties encountered:

- Difficulty to reach agreement among partners about eligibility criteria used to select applications
- Difficulty to organize a robust deal flow – which requires dedicating significant amount of time on the ground to source projects and support their structuring. This time dedicated to upstream activities is of paramount importance but hard to remunerate as it does not immediately generate revenues for the SCE.
- Difficulty to deal with cultural a multicultural environment and diverse local regulations: participants from different countries do not have the same level of experience and their expectations can diverge – for instance regarding the type of financial support they wish. For that reason it is recommended that the instrument is quite flexible and adapted to specific regulations applicable in countries where it has operations.

The points of attention below were also mentioned during these first discussions held with TAMA partners:

- Aligning the overall strategy or investment policy of the pooling mechanism with the potentially divergent expectations and needs from the various local coops can be a challenge. The success of such initiative requires finding a minimum consensus on the investment criteria, and proving it brings added value to all its participants and serve their own interests.
- The split of responsibilities between the SCE and local partners (local coops in our case)

must be crystal clear to avoid any kind of misunderstanding. In particular, this split of responsibilities is of paramount importance regarding the following aspects:

- Who is in charge of sourcing projects?
- Who takes the final decision to support a project?
- Who monitors and follows-up on projects supported by the scheme?

The importance of local coops to ensure optimal functioning of the Pooling Mechanism was reminded several times during the workshop. For instance, it was reminded that project sourcing and qualification would mostly be based on local competences. The intervention scheme on a given project shall therefore be designed to ensure optimal involvement of local coops. A possibility would be to ensure that each intervention of the Pooling Mechanism is subject to the condition that the local coop invests in a similar way and in significant proportions (for example matching contributions with 1€ provided by the Pooling Mechanism for 1€ provided by the local coop).

More generally and as a conclusion, the feedback provided by TAMA partners emphasized on the following aspects:

- There is no such thing as very profitable projects without any kind of risk. One key condition to the success of the Pooling Mechanism will be its ability to accurately assess the level of risks of the projects supported – and to act wisely considering this level of risk;
- Supporting projects with a certain level of risk requires having a clear and transparent communication with all partners – especially co-investors.

Questions under investigation

Opportunity to use TAMA structure

During the workshop, La Nef mentioned TAMA partners would be open to the perspective of giving up some of their shares within the TAMA structure to REScoop members so that TAMA can be reconfigured into the Pooling Mechanism discussed. The exact conditions of this operation are yet to be discussed and settled with La Nef and the other cooperatives involved in TAMA governance.

In this prospect, it was reported that La Nef and TAMA historic partners could be interested in remaining somehow involved in the new version of this SCE.

The main advantage of that prospect from a REScoop perspective would be to avoid the administrative difficulties that are reported to be associated to the process of launching a new SCE. It could also be an opportunity to ensure some partners of TAMA get financially involved in the project and therefore to leverage funding. Determining whether or not this option is a true opportunity will nonetheless depend on the terms and conditions under which TAMA partners would be ready to give up their structure to REScoop members.

Such negotiation is yet to be conducted if this project is validated by REScoop members, and can be based on the following financial information about TAMA that was obtained during a first interview with representatives from La Nef:

- TAMA was set up in 2012, with a capital of 300k€
- They benefited from a European grant of 230k€ covering the costs required to launch the structure. 200k€ out of this amount were effectively used:
  - Structuring the SCE (legal costs)
  - Finance the amount of time dedicated by various persons from founders on this project

  - Set up a dedicated crowdfunding platform – translated in 3 languages
  - Prepare the prospectus and handle the registration at the Financial Markets Authority in Belgium – where the SCE is domiciled.
- The remaining 30k€ from the grant that were not used are now accounted in the retained earnings – which overall are negative (-95k€).
- Three investments operated by TAMA are now effective and ongoing. These operations are not about renewable energy and shall be taken over in the case TAMA is reconfigured into the Pooling Mechanism.
- French and Belgian partners of the current TAMA structure seem to be the keenest on pursuing this project in a new configuration, along with new partners such as REScoop members. Other partners (Germans, Spanish) are reported to be willing to give up their participation in the project.

Dealing with compliance with the Directive 2011/61/UE on Alternative Investment Funds Managers (AIFM)

The possibility to use the SCE as the legal form of the pooling mechanism – and the feedback from TAMA on running this type of structure – raised the question of compliance with the Directive 2011/61/UE on Alternative Investment Funds Managers (AIFM).

This section summarizes first elements of analysis regarding this issue, and especially the question of whether or not a SCE is directly concerned by such regulations. Nonetheless it does not constitute a comprehensive legal analysis, which would require further investigation and especially clarifications about the exact structure expected for the pooling mechanisms.

Investment funds' EU regulatory framework:

EU regulation addresses different types of collective investment funds:

- **Undertakings for collective investment in transferable securities (UCITS) funds**, regulated at EU level by the Directive 2009/65/EC – the UCITS Directive ;
- **Alternative Investment Funds (AIF)**, which are not regulated at EU level by the UCITS Directive and include hedge funds, private equity funds, real estate funds and a wide range of other types of institutional funds.

  Following the financial crisis of 2008, the Directive 2011/61/UE on Alternative Investment Funds Managers (AIFMs) aimed to regulate this alternative investment industry, enhancing increased transparency by AIFMs and better monitoring from the national market supervisors. The Directive - which is struggling to be transposed into law in several EU countries - requires all covered AIFMs to obtain authorisation, and make various disclosures as a condition of operation.

Alternative Investment Funds:

A SCE could be concerned by the Directive 2011/61/UE on AIFM provided that it is recognised as an Alternative Investment Fund, defined such as (article 4 of the Directive):

"collective investments undertakings, including investment compartments thereof, which :

- *Raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and*
- *Do not require authorisation pursuant to the UCITS Directive."*

In the "Guidelines on key concepts of the AIFMD" of May 2013, the European Securities and Market Authority (ESMA) specified the four key definition criteria of an AIF:

- *"Collective investment undertaking"*: this first criterion implies that the entity is aimed at pooling capital to generate collective financial performance. The absence of a day-today discretion or control over the undertaking from shareholders/investors is also a determining element in identifying an AIF.

- *“Raise capital”*: this second criterion indicates that the main or only business activity of the entity is to raise funds in order to invest them according to a specific investment policy.
- *“A defined investment policy”*: this third criterion implies that both investment policy and management arrangements of the entity are defined prior to fundraising.
- *“A number of investors”:* more than one investor involved.

The legal form of SCE does not prejudge of whether the future Investment Vehicle should be considered as an AIF or not. This classification will need to be further analysed with regards to the functioning of the fund:

- **Investment policy and expectations of return on investment ;**
- **Governance rules.**

More specifically, the following potential components could lead to exclude the SCE from the AIF scope:

- **Investment policy and expectations of return on investment ;**
    - The principal object of the SCE would be to satisfy its member needs and not the return on capital investment;
    - Members would benefit proportionally to their profit and not to their capital contribution;
- **Governance rules:** specific democratic rules could be applied in relation with the cooperative purpose of the structure :
    - Discretionary authority from shareholders
    - Democratic governance through the application of the principle ‘one member, one vote’.

Complying with Directive 2011/61/UE on AIFM

In case of classification of the SCE as an AIF, the main impacts of the Directive 2011/61/UE will be:

- the need to select a company specialized in asset management in order to manage the investment vehicle in compliance with the investment policy;
- the need to request approval or to declare the vehicle to the competent national financial markets regulatory authority (depending in which European country the vehicle is located).

Besides these two impacts, the Directive 2011/61/UE impacts AIF Managers (more than AIF themselves).

	Requirements	Impact on AIF Managers

Depositary	- Appointment of a Depositary. - Prime Broker is prohibited from acting as a depositary unless certain hierarchical conditions are met. - Strict liability to be assumed by the Depositary for potential loss of assets under custody. - Required to monitor cash flows (an oversight role).	- Prime broker's role in the new model is going to need to change and current arrangements will not be in line with regulation. - Fund manager must be able to demonstrate that it has exercised "due skill, care and diligence" in appointment of prime brokers. - Additional costs may result. - Procedures required to ensure the Depositary receives the appropriate information and escalation procedures for the Depositary, if required.
Risk management	- Functional and hierarchical separation of the risk management and portfolio management functions. - Adequate risk management systems to identify, measure, manage and monitor appropriately all risks to each hedge fund investment strategy and to which each fund may be exposed. - To include appropriate, documented and regularly updated due diligence process when investing on behalf of the hedge fund.	- Smaller hedge fund managers may not have the resources to achieve this functional separation. A key member of senior management who is not involved in the acquiring or managing investments will need risk management duties assigned. • - Due diligence procedures are currently determined according to professional judgement exercised by the hedge fund manager, this will become more formalised under AIFMD.
Remuneration	- At least 50% of any variable remuneration consists of units or shares of the AIF (or equivalent). 2) - At least 40% (in some cases 60%) of the variable remuneration is deferred over a period of at least three to five years (unless the fund life cycle is shorter). - Disclosure of fixed and variable remuneration in an annual report for a fund, number of beneficiaries and to include any carried interest paid by the fund.	- Carried interest - whether existing remuneration arrangements meet the requirements of AIFMD. - Requirement applies to senior management, those in control functions or individuals whose professional activities have a material impact on the risk profile of the hedge fund they manage. - There are some options for disclosure of fixed and variable remuneration, but the underlying requirement is that this needs to be disclosed in the Annual Report of the fund.
Transparency	- Annual Report to investors. - Reporting to the regulator (quarterly for AIFs with AUM over €1.5bn).	- A number of detailed disclosure requirements, including: investment types & concentrations, valuation, risk management and stress tests. - Need to be prepared to disclose material details of arrangements (eg. with PBs) to investors.

Source: PwC, 2012

Need for co-investors and capability to raise upfront capital

Importance to reach critical size to involve co-investors[4]

The European financial vehicle must be seen as a way to reach a critical size to attract investors that are very reluctant to invest in projects or programmes below certain thresholds. The examples of European financial institutions (EIB / EISF / COSME) provided in the presentation are considered interesting and need to be further investigated once the business plan is completed.

Experience of project developers	Key investors such as European and national investors will be more likely to invest if it is proved that the Instrument will rely on experienced project developers with convincing track record.
Clear pipeline of projects	Visibility will be key to convince potential investors. A credible and updated pipeline of projects must therefore be built to prove the Instrument will be ready for roll-out
Critical size	Main investors such as EIB or EBRD will not be eager to invest if a critical size is not reached in the medium term.
Different expectations of investors	The different investors to gather will have different expectations: if close partners such as ethical banks could well accept a 5% return rate, European institutions are more likely to demand a double digit return rate.

«We need to know that projects will be developed by professionals with a convincing track record»
Toivo Miller - EBRD

«We need to have a clear visibility over the pipeline of projects to validate any investment decision»
Toivo Miller - EBRD

«COSME and European Fund for Strategic Investment (EFSI) could be other potential sources of funding at EU level»
Markus Trilling - Bankwatch

«I'm convinced you could raise a few M€ from our members if you propose 5% loans over 10 years»
Daniel Sorrosal - FEBEA

The usual investment thresholds for these actors are quite high (about 10M€ for EBRD and 20 to 30M€ for EIB), which highlights the need for providing significant equity from local cooperatives in the first place. Indeed, it seems quite unlikely that these actors accept to inject more than 50% of the Fund overall financial resources.

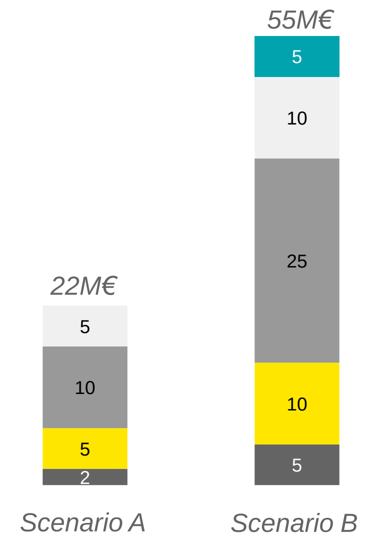
In a first estimated scenario (that would need to be confirmed through interviews with EIB), we can imagine that if the cooperatives can collectively bring about 20M€ into the Fund, the EIB could accept to contribute with an equivalent amount. This would provide an overall budget of about 40M€ for the Fund, which seems a good start to set up a Fund operational and responding to the key objectives targeted. This amount could possibly be completed by additional funding (for example through the issuance of a green bond) to reach an overall envelope around 50M€.

Beyond the leverage they could bring to the Fund, soliciting European financial institutions is interesting and relevant for the following points:

- They have a mandate to contribute to Energy transition across Europe for the benefit of European citizens, which is in line with the objectives and general principles of cooperatives.
- They are likely to be less demanding to interfere in the Fund governance than private investors who are mostly driven by profitability

[4] These elements were briefly covered during the workshop and are mostly in line with the Minutes of the former workshop of 29 June 2016

What investors?	What type of investment?
Other investors yet to be determined	*Debt (for instance through a green bond)*
Public National institutions (Pension funds, etc.)	*Mezzanine Debt / Debt*
Public European institutions (EIB, EBRD, etc.)	*Mezzanine Debt / Debt*
Close partners sharing cooperative principles (ethical banks, mutualist insurance companies, etc.)	*Mezzanine Debt / Debt*
Local Cooperatives – members from REScoop.eu network	*Equity*



Source: EY estimate – based on interviews conducted

Next steps

Issuance and validation of a business plan

Issuing a detailed, credible and well-documented business plan is a prerequisite to initiating further discussions with potential co investors. It is agreed that the preparation of this business plan will be under the responsibility of Enercoop – within the frame of the MECISE project. A first draft of this business plan is shared with REScoop members during the next workshop that will be organized in January 2017.
Most professionals interviewed reported that the credibility of this business plan and the robustness of its assumptions – especially regarding the pipeline of projects that would be targeted by the Investment vehicle – are essential to structure it and attract potential investors.
The version provided to EY (Draft v3, dating 22 December 2016) invites the comments presented in the paragraphs below.

Importance of a cash flow analysis

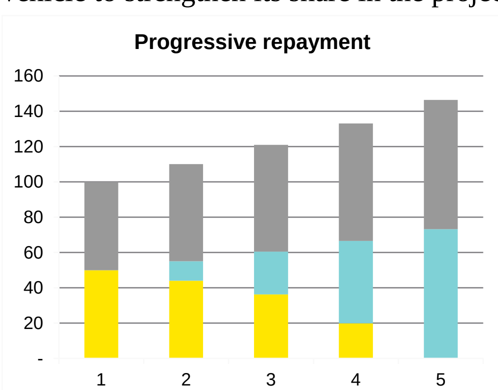
The financial analysis provided in the business plan is mostly based on a profitability analysis. This work shall be completed with a cash flow analysis to assess the level of upfront capital required to perform the investments considered.

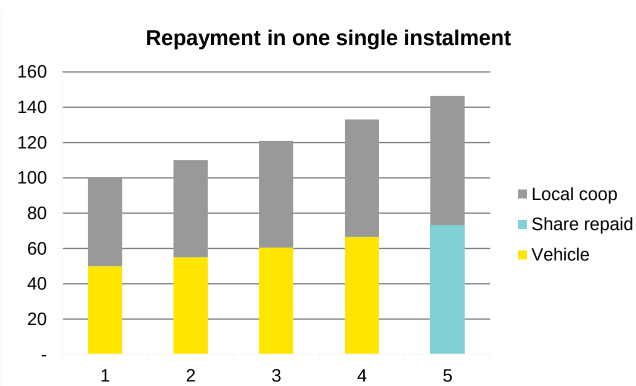
Clarification of the repayment mechanism

No mention is made of the pace for repayment of the contributions made by the vehicle in a given project. Two options can be considered.

- **Payment in one single instalment**: repayment can be done in one single instalment, which would correspond to the usual scheme for an equity share, being entirely sold to another actor (possibly the Local Coop also involved in the project) after being detained by the Vehicle over a few years period. Such mechanism is often implemented because of its simplicity, even though it entails significant cash variations for the vehicle – which can be challenging to deal with.
- **Progressive repayment**: another option would be to ensure that the local coop progressively takes over the shares detained by the Vehicle within the project. Such scheme has already been implemented bilaterally for a project between two local coops in Spain and Portugal. The key advantage of such scheme is that it accelerates repayment and therefore enhances the vehicle capability to invest in other projects.

These two options are illustrated in the graphs below (taking the example of a 5-yr investment). In this example, the share repaid is possibly taken over by the local coops so that it uses the vehicle to strengthen its share in the project.





Estimation of a profitability targeted by the vehicle

One of the key expected outcomes of the business plan is the profitability targeted by the vehicle for its shareholders. This information (which can be expressed through an indicative value of the IRR), along with the key assumptions used for its calculation – will be of paramount importance to convince potential investors.

Provision of stress tests to emphasize on the resilience of the vehicle

Potential investors would also be interested by the provision of a selection of stress tests that would estimate the impact of the variation of certain key input data (for instance the success rate of projects supported by the vehicle, or the average profitability targeted by the vehicle on supported projects) on the overall profitability that could be targeted by the vehicle.

Inclusion of management fees to operate the vehicle

The investment strategy suggests that 100% of the funds raised will be disbursed in projects (through equity of mezzanine debt). This assumption implies there are no management fees for running the vehicle, considering applications and selecting projects. The organization set out for operating the vehicle shall be clarified and its impacts included within the business plan. Management fees for such vehicle usually comprise (at least) accountancy services, and the wages of the staff in charge of selecting and validating the projects to be supported by the vehicle. In a first estimate (see below – OPEX required for running the vehicle), these management fees were assessed to amount to 250k€ per year.

Inclusion of figures after 2020

The investment strategy displayed so far in the business plan is limited to an investment period covering 2017-2019. Extending this 3-yr investment period after 2019 could be beneficial to provide long term visibility to potential investors.

Importance of completing a financial model – including a cash flow analysis - to ensure overall feasibility of the pooling mechanism, and provide credibility with a view to organizing a road show with potential co-investors

The first suggestions regarding the types of interventions of the Pooling mechanism were made on the basis of needs expressed by local coops. Suggestions were driven by the overarching objective to ensure that the Mechanism can be profitable and revolving over the time.

This first analysis was based on the level of profitability that could be expected by all types of interventions. This analysis needs to be further detailed and shall be made more accurate to ensure the business plan of the Mechanism can be credible and presented to potential co-investors.

To do so, the business model shall include a thorough financial model – based on transparent and clear assumptions, and most importantly an up-to-date and credible pipeline of projects that could be targeted. Such model would provide an estimation of the evolution of the Profit & Loss accounts of the Pooling Mechanism over its lifetime, and would result in an estimated profitability (IRR) that would be targeted.

Such financial model shall also include a cash flow analysis to determine the conditions required to ensure the Mechanism do not run out of cash during its investment period.

Using this financial model will be of paramount importance to size the Mechanism – determine the level of resources its functioning requires, confirm that the various types of intervention considered so far (equity, loans, guarantee, repayable advance, mezzanine debt, etc.) can effectively be propose and determine what allocation of resources can be sustained by the mechanism between these different financial products.

Validation of the approach regarding the legal form of the Pooling Mechanism

The comparative analysis of potential legal forms that could be used for the Pooling Mechanism resulted in the fact that the SCE seemed to be the option that best suited the overall objectives and principles targeted. This conclusion – presented during the workshop – was not subject to any kind of objection from the participants.

Nonetheless, this first analysis needed to be completed and t**he opportunity to capitalise on TAMA** shall be further investigated: even though first elements of analysis were provided during this feasibility study, the exact terms and conditions that could be applied to take over TAMA and reconfigure it into the intended mechanism shall be subject to negotiations with TAMA partners. This possibility shall be analysed taking into consideration the cost of this operation for REScoop members who would want to be involved, the benefits they could get out of it, and the impacts it would have in terms of governance or overall budget.

Conducting this work requires to enter into a more formal negotiation phase with TAMA partners to have access to information requested.

Governance

The type of governance that would be implemented would highly depend upon the legal form of the entity that would be used for the project and on the number and nature of partners that would be financially involved.

Among the key points to be addressed when considering governance matters, mention could be made of the following aspects:

- the role of the various bodies in the governance process – and especially in the examination and selection processes
- the way to maintain majority representing the interests of REScoop members on the Board of the SCE,
- the level of involvement made possible for citizens within the governance process
- etc.

- Governance - all actors contributing to financing the instrument would not have the same level of involvement in the decision process
    - **Application examination desk**
        - Dedicated staff (1 – 2 people) => 200k€ OPEX
        - Focal point for local cooperatives willing to propose new projects
        - Can be solicited upfront to provide assistance regarding expected content of applications
        - Ensure applications / project descriptions are complete and in line with expectations
        - Provide an opinion for each project
        - Estimated time to examine one file : 5 men days (including potential upfront assistance) => about 30 projects could be examined by 1 FTE => 15 projects selected / year / Staff
    - **Investment validation committee (at least 4 meetings per year)** => 50k€ OPEX
        - Objective: validate the investments proposed and pre-validated by the Application examination desk
        - Gathers representatives from the various coops and close partners
        - Gathers every 3 months or more often if justified by the pipeline of projects
        - Minimum attendance required to validate an investment
        - Decisions taken at majority or unanimity ?
        - Other financers can attend as observers
    - **General Assembly (on the same day than REScoop.eu General Assembly)**
        - Presentation of year results and perspectives
        - All shareholders invited
        - Composition of the Investment Validation Committee confirmed

Estimated annual OPEX for running the instrument : 250k€

Search for investors

The search for investors will be possible once the business plan is completed and validated. The success of this search will highly depend on the credibility of this business plan and on the robustness of the assumptions it will be based upon – especially concerning the pipeline of projects

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