



PROSPECT+

Capacity building for cities and regions - from learning to action!

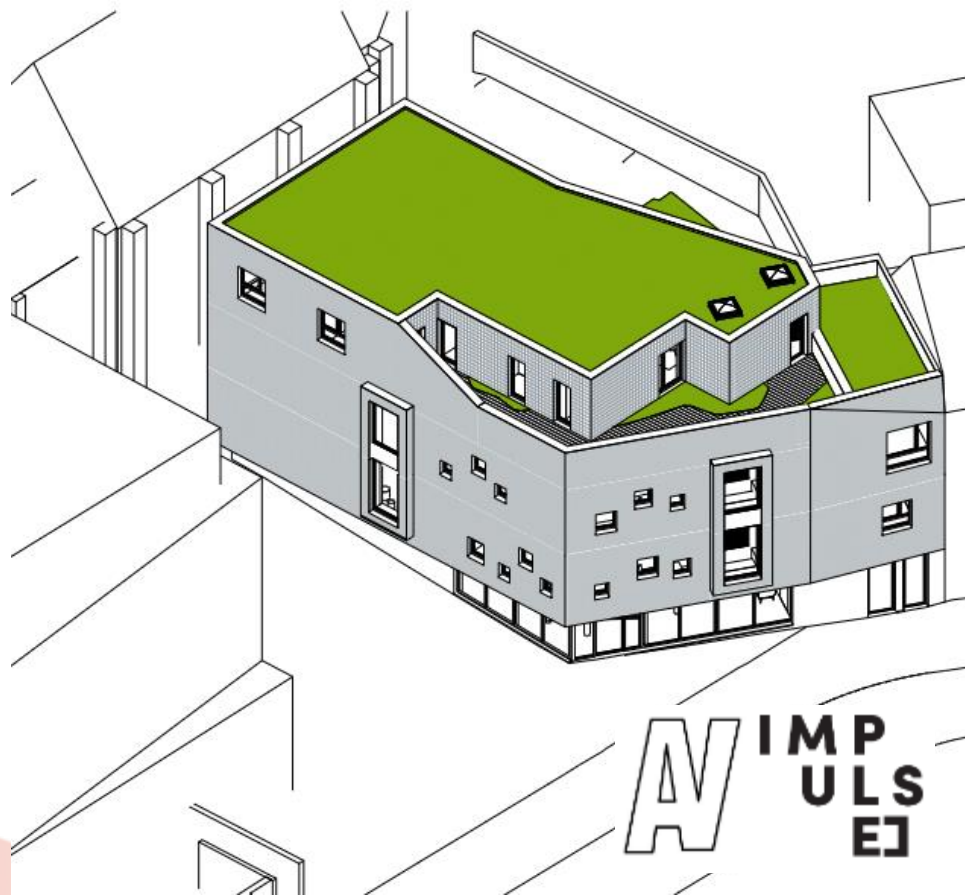
Community of Practice:

Meeting on **crowd-investing** with
Sanela Mikulčić Šantić from Krizevci (Croatia) and
Jean-François Maljean from Etterbeek (Belgium)

24 February 2025



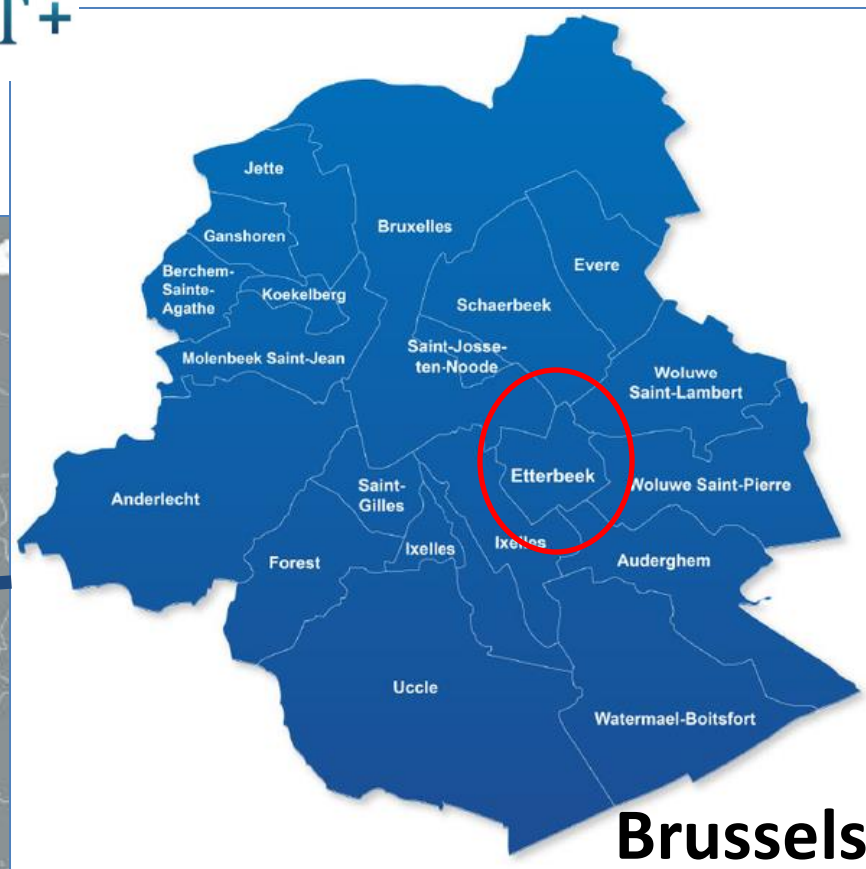
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**Innovative financing schemes
for the climate/energy
transition of local authorities**

**The experience of 'crowdfunding'
in Etterbeek (Brussels / Belgium)**

February 2025



Brussels



< 50,000 inhabitants (4% of the Brussels-Capital Region – RBC)

15,290 inhabitants/km²

In 10 years, the population has increased by 7%

- **Internal migration balance 2021: -23 ‰**
- **International migration balance 2021: 22 ‰**
- **Natural balance**

50% of the population does not hold Belgian nationality

- **3/4 of which are EU nationals**
- **Including 4,263 French nationals**

**59% of households consist of a single person
(47% in the Brussels-Capital Region)**

Etterbeek

8-1

Indicateurs clés des finances communales, moyenne des comptes 2015-2020

	Etterbeek	19 communes bruxelloises
Recettes ordinaires en euros par habitant	1 747	1 922
Dépenses ordinaires en euros par habitant	1 674	1 886
Dette en euros par habitant	1 080	1 463
Dépenses d'investissements en euros par habitant	377	292

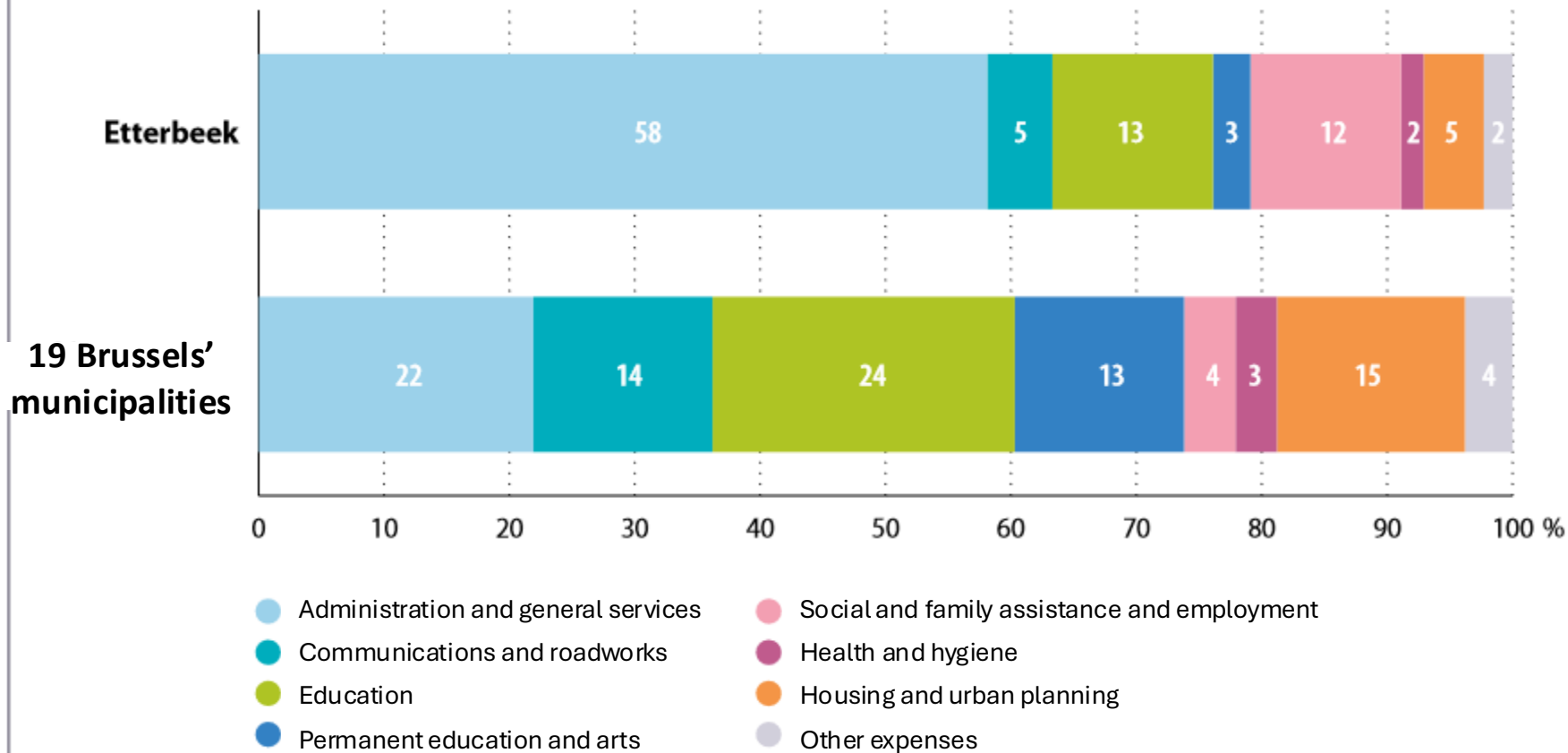
Sources : SPRB - BPL & Statbel (RN) ; calculs IBSA

Annual operating budget < 100 million euro

Annual investment budget < 20 million euro

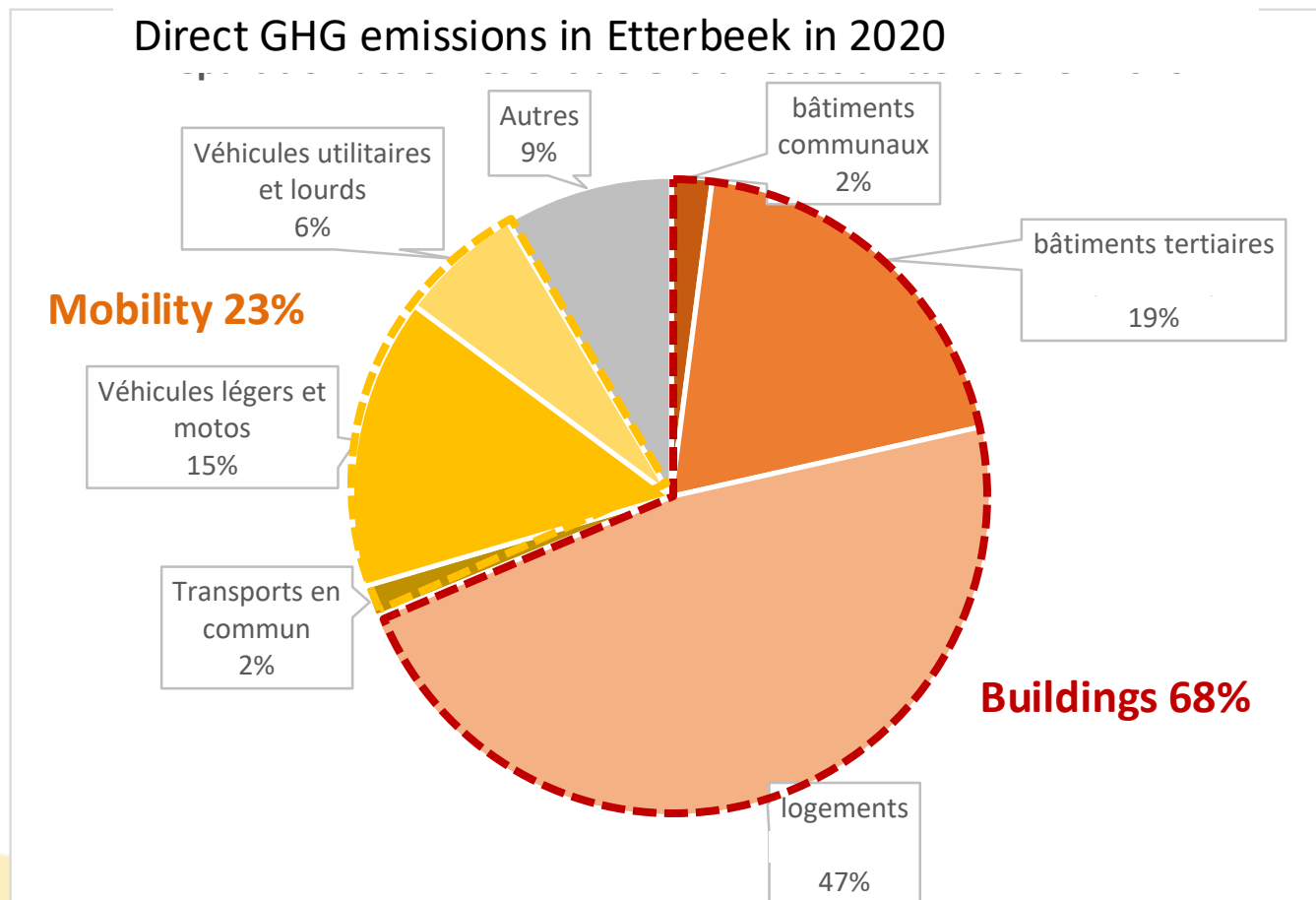
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Répartition des dépenses d'investissement par fonction, moyenne des comptes 2015-2020
Investment budget



Source : SPRB - BPL ; calculs IBSA

CARBON BUDGET of ETTERBEEK



CARBON BUDGET of ETTERBEEK

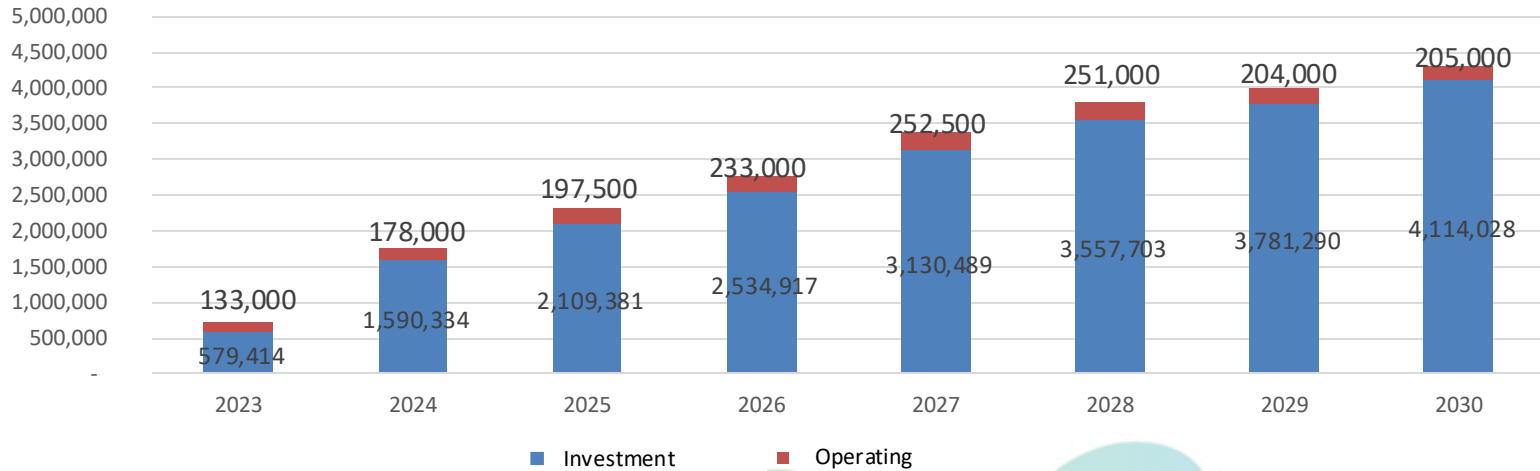
The goal is to reduce GHG emissions by 40% by 2030 (compared to 2008) and to achieve carbon neutrality by 2050. The action plan includes 18 measures, ranging from the energy performance of buildings (public and private) to the mobility of our staff and the general population (cycling, walking, public transport), as well as food consumption.

CARBON BUDGET of ETTERBEEK



CARBON BUDGET of ETTERBEEK

Implementation costs for the municipality



(Low) estimate : 23 M€

Sources of funding

- ✓ Funds, grants, subsidies
- ✓ Loans
- ✓ Taxes
- ✓ Services
- ✓ Innovative financing: crowdlending, Energy Performance Contract (EPC)...

PARTICIPATORY FINANCING ('crowdfunding') – Categories:

❑ Participatory Sponsorship:

- ✓ Collection of donations without compensation
- ✓ If registered, subject to a tax of 7% (on the gross amount received by the beneficiary)
- ✓ Does not fall under the scope of public procurement regulations
- ✓ Tax-deductible (45%) for donors under certain conditions, particularly if the beneficiary is approved, which is not the case for a municipality in Belgium
- ✓ Alternative: Collection of donations with symbolic compensation. For example, a free swimming pool subscription. Risk of requalification as a public contract, though this is generally impractical
- ✓ Another option: In-kind donations ("Crowdsourcing"). For example, a company performs insulation works at cost price. There is debate about whether such an operation is considered 'onerous' or not, which affects whether it qualifies as a public contract. This depends on whether the contract is involving legally binding obligations for both parties



PARTICIPATORY FINANCING ('crowdfunding') – Categories:

- ❑ Participatory investment ('crowdequity'):
 - ✓ Based on the issuance and sale of equity securities (such as shares or cooperative shares given to contributors)
 - ✓ Registered or bearer shares, according to the agreed terms
 - ✓ Depending on the terms, these shares can be repaid, sold, or exchanged
 - ✓ Ownership of shares may result in dividends paid to contributors
 - ✓ Owners have governance rights (such as voting at General Assemblies)
 - ✓ In practice: less suited model to local public projects that do not follow a 'capitalist logic'



PARTICIPATORY FINANCING ('crowdfunding') – Categories:

❑ Participatory lending ('crowdlending'):

- ✓ Borrowing money from (small) investors with a promise to repay the principal, according to the agreed terms
- ✓ With (or in some cases without) interest
- ✓ Fixed or variable interest
- ✓ This form of participatory financing is regulated: Regulation (EU) 2020/1503
- ✓ Use of an approved financing platform
- ✓ Crowdfunding service providers designated by public procurement



PARTICIPATORY FINANCING – Regulation (EU) 2020/1503:

- ❑ Maximum €5 million per project owner per year
- ❑ Two important developments:
 - ✓ A local public authority (municipality) is now recognized as a 'project owner'
 - 'Project owner': any individual or legal entity seeking funding through a crowdfunding platform → Municipality = OK
 - Before (Belgium, Law 18/12/2016): the notion of 'issuer-entrepreneur': the issuer of investment instruments whose main activity is to conduct a commercial, artisanal, liberal, real estate, or industrial activity → Municipality = not OK
 - The possibility for local public authorities to engage in crowdfunding operations has also been explicitly confirmed by the European Securities and Markets Authority (ESMA) in its dedicated Q&A



PARTICIPATORY FINANCING – Regulation (EU) 2020/1503 :

❑ Two important developments:

- ✓ Participatory financing services must be established within the Union and be authorized as crowdfunding service providers (CFSP)
 - Single European status, national authorization for crowdlending and crowdequity
 - Providers are subject to various organizational obligations, transparency requirements, conflict of interest management, due diligence, and complaint handling
 - For providers, a transition period took place until November 10, 2023
 - In April 2024, there were:
 - 7 CFSPs authorized by the FSMA in Belgium (Financial Services and Markets Authority)
 - More than 50 CFSPs authorized by the AMF in France (Financial Markets Authority)



Etterbeek – Our vision of crowdlending

To attract the interest of (small) investors, mainly the residents, businesses, and shops of Etterbeek, interested in local development. They entrust their savings to the municipality, which repays them the capital with a reasonable interest rate over a set period. The amounts loaned are invested by the municipality in climate projects contributing to the Carbon Budget, such as the energy renovation of public buildings.

To our knowledge, this is the first time a local public authority has engaged in crowdlending, at least in Belgium and probably beyond.

Etterbeek PUBLIC PROCUREMENT crowdfunding service provider:

- ❑ Preliminary phase of in-depth discussions with various institutional partners:
 - ✓ Due to the innovative and pioneering nature of the initiative
 - ✓ Particularly with our supervisory authorities in financial matters and public procurement
 - ✓ The discussions primarily focused on:
 - To what extent does public procurement regulation apply?
 - What is the estimated value of the contract?
 - Can a local public authority (municipality) really use crowdlending?
 - What about the fundamental principles of transparency and equal treatment?
 - To what extent can loans be repaid through exemption from certain taxes (municipal)?
 - How will the interest rate on loans be determined?
 - What happens to the funds lent in case of problems, such as the provider's bankruptcy?
 - What happens if the fundraising does not reach the required minimum? Or if the project ends up being more expensive than planned?



Etterbeek PUBLIC PROCUREMENT crowdfunding service provider:

- ❑ Designation of a service providers in alternative financing to connect the municipality of Etterbeek with investors for crowdlending (loan) operations
- ❑ Framework agreement with multiple awardees (4 years): during this period, the municipality can launch one or more contracts for crowdlending operations
- ❑ Competitive procedure with negotiation
- ❑ Two main phases: applications, then offers
- ❑ Estimated contract value excluding VAT < 214,000 € → No European publication
 - ✓ This allows for 1 or 2 crowdlending operations aiming to raise c.a. €3.5 million in total
 - ✓ The amounts raised are collected in a dedicated bank account, with management terms designed to protect the funds collected
- ❑ Crowdlending to finance the Carbon Budget: energy renovation of municipal buildings, schools, social housing, and mobility projects within the municipal area ...
- ❑ If the development of loan financial formulas does not result in a satisfactory outcome for the municipality (particularly with regard to its financial and budgetary capacities), the authority reserves the right not to proceed with the execution of the operation



Etterbeek PUBLIC PROCUREMENT crowdfunding service provider:

Selection criteria (applications):

- ✓ Demonstrate experience in crowdlending of at least €300,000 in the last three years, raised from at least 100 individuals

Award criteria (offers):

- ✓ 40 points: The overall cost, calculated on 3 scenarios proposed by the municipality
- ✓ 20 points: Support for the development of loan financial formulas
- ✓ 20 points: Support for fundraising
- ✓ 20 points: Support for managing loans and investors during the term of the loan

Timeline:

- ✓ 09/2022 – Legal advice provided for the crowdfunding project
- ✓ 06/2023 – Approval by the municipal College and Council of the crowdfunding specifications
- ✓ 09/2023 – Publication of a market notice for crowdlending
- ✓ 01/2024 – Selection of two crowdlending operator candidates
- ✓ 04/2024 – Report on the selection of crowdlending offers
- ✓ 09/2024 – Public meeting for the launch of the crowdlending campaign

Etterbeek – First selected crowdlending offer (SPREDS)

spreds

- ❑ Service provider fees, all charges and taxes included:
 - ✓ Set-up fee
 - ✓ Success fee
 - ✓ Management (running) fee
 - ✓ Total: A few % of the amounts raised

- ❑ In addition to the service provider's fees, the loan repayment with interest must be included:
 - ✓ Gross interest rate for Etterbeek residents: 4.5%
 - ✓ Gross interest rate for the others: 4%

- ❑ Main advantages:
 - ✓ There is an accounting strategy that allows for increasing the municipal investment budget
 - ✓ Allows for quick access to liquidity
 - ✓ A short-term loan costs less interests than a long-term loan
 - ✓ Interest rate can be relatively low (high support), under the following conditions :
 - Good marketing
 - Local projects
 - Virtuous projects
 - Visible and quick results
 - ✓ Energy investments expected to generate savings
 - ✓ Positive outcomes in terms of results and image



Etterbeek – First selected crowdlending offer (SPREDS):

- ❑ Support for the development of financial formulas, both attractive to investors and financially justified for the municipality:
 - ✓ Fixed or variable interest rate
 - ✓ Repayment frequency
 - ✓ Loan duration
 - ✓ Fundraising campaign duration
 - ✓ Possible early repayment
 - ✓ Possible suspensive conditions



Etterbeek – First selected crowdlending offer (SPREDS):

❑ Support for fundraising

- ✓ Development and execution of the marketing plan (strong local focus)
- ✓ Private phase where the campaign is only accessible to Etterbeek residents
- ✓ Management of information and transactions: web platform
 - Drafting and making available the (pre)-contractual documents, including the Key Information Sheet (mandatory)
 - Identification of investors and collection of their data (compliance with GDPR)
 - Investor knowledge test (mandatory)
 - Online subscription: bank transfer or credit card
 - Monitoring and identification of the amounts collected
 - The service provider signs individual contracts with investors, then grants a single loan to the project owner (the municipality)
 - Managing the potential failure of the fundraising (minimum target not reached) and subsequent repayments

Etterbeek – First selected crowdlending offer (SPREDS):

- ❑ Support for managing loans and investors during the loan term
 - ✓ First-line assistance. Redirect to the municipality for questions about the project itself
 - ✓ Relations with municipal services responsible for payments
 - ✓ Calculation of repayments: principal, gross / net interest, withholding tax (30% of the gross interest)
 - ✓ Payments to investors, directly by the municipality, with support of the service provider
 - ✓ Management of incidents:
 - Possible withdrawal by a lender (within the legal 4-day period)
 - Transfer of the loan to another lender: modification of the lender register
 - Death of a lender
 - Changes in bank account numbers
 - Modifications to the loan contract conditions
 - ...



Etterbeek – Our first crowdlending operation:

❑ Project

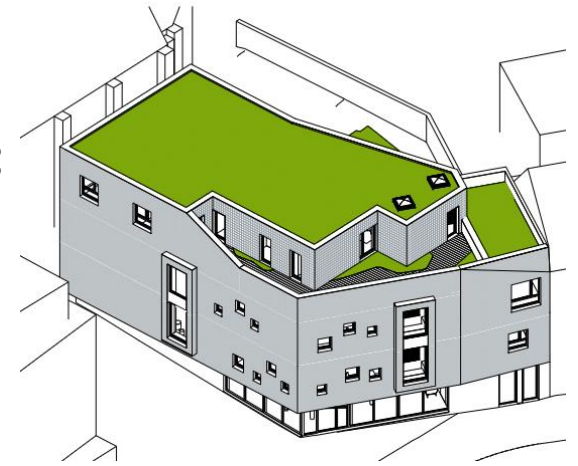
- ✓ Construction of a public daycare
- ✓ 56 children
- ✓ Social pricing (fees proportional to parents' income)
- ✓ Building with high energy performance
- ✓ Construction started in May 2024 and is scheduled to last until January 2026

❑ Subscription for crowdlending

- ✓ From September 4th to October 18th, 2024
- ✓ Took one single day to raise the maximum expected €1,200,000

❑ Financing

- ✓ Gross interest rate for Etterbeek residents: 4.5% and 4% for the others, Repayable in 3 installments over the loan period (18 months)
- ✓ The capital will be repaid in a lump sum at the end of the 18-month period
- ✓ Under 100 investors
- ✓ €14,000 per investor on average
- ✓ Majority of small investors (€1,000 to €2,000) and a handful of large investors (over €20,000)
- ✓ 64% of the investors are Etterbeek residents who subscribed to 84% of the total amount



Etterbeek – Our first crowdlending operation:

Information session on September 4th, 2024



Crowdlending: (good) practices

- ❑ Selection of the project to finance :
 - ✓ Local, virtuous, quickly visible
 - ✓ Project already planned/started: crowdlending just before the start of the work
 - ✓ Project already included in the municipal budget, where the realization/financial setup is sustainable without crowdlending, to be considered as a support
 - ✓ Energy investments expected to generate savings (offsetting the potentially limited financial interest of crowdlending)



Crowdlending: (good) practices

❑ Financial formulas:

✓ Interest rate :

- Can be relatively low (high support), under certain conditions: low-risk investment, good marketing, local, virtuous, visible and quick results, potential tax incentives
- At least 3% to remain attractive nowadays
- A low interest rate can be partially offset by gifts (e.g.: a free subscription to the municipal swimming pool)
- Explore the possibility to repay loans through exemption from (municipal) taxes

✓ Loan duration: 2 to 4 years, not much more

✓ Investment range :

- Set a minimum investment amount (e.g. €1,000), to limit small supportive investors ('love money'): heavy management
- Pareto rule: 20% of investors fund 80% of the project
- However: provide for a maximum investment amount to ensure a sufficiently wide citizen participation

✓ 'Tracing formula': Investment in a pot, where the amounts are gradually allocated to predefined projects (with a certain level of precision), unless the investor explicitly refuses

Crowdlending: (good) practices

❑ Marketing campaign / fundraising:

✓ Create a rush effect:

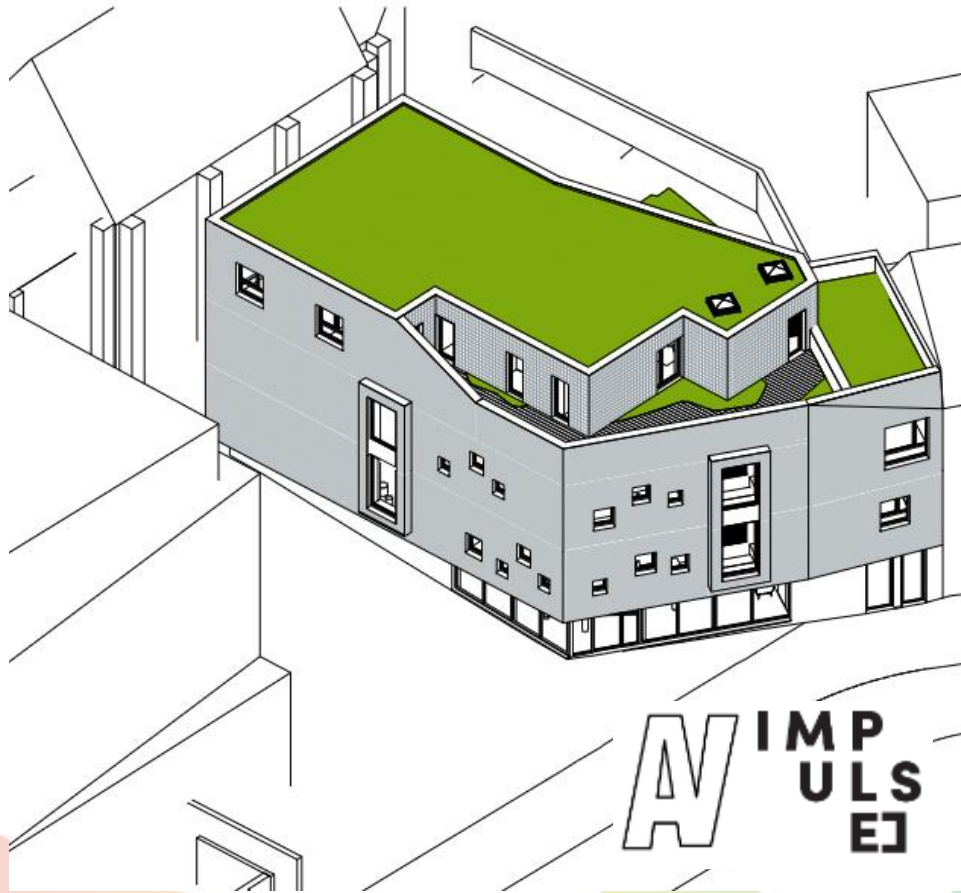
- Start the marketing campaign well before the subscription opens
- Begin with a private phase reserved for local residents
- Offer an advantage to early investors (better interest rate, gift, etc.)
- Obtain prior agreement from a few (large) investors who will kickstart the process: no one likes to be the first to invest

✓ Set a relatively low target amount:

- Easily achievable and surpassable to generate excitement
- Include a counter on the dedicated webpage

Crowdlending: (good) practices

- ❑ Marketing campaign / fundraising :
 - ✓ Local targeting primarily through non-digital means :
 - Local newspaper, regional TV
 - Flyers in mailboxes
 - Information sessions, site visits
 - The project holder invests in the marketing campaign
 - Importance of photos and videos
 - ✓ Fundraising duration :
 - Fairly short: 10 days to 1 month (create a sense of urgency)
 - Take holidays into account
 - Possible successive extensions
 - Interest is highest at the beginning and end of the campaign



Thank you !

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Town of Križevci
energy transition

Development Center and Technological Park

10 days campaign, 53 investors
Min 135 EUR- max 1.350 EUR
Average investment 566 EUR
cca 30.000 eur



4,5% interest



10 years Contract duration



38,8 t annual



30.000 EUR investment

405 EUR monthly rent



City Library Franjo Marković” Križevci

2 days campaign, 40 investors
Min 135 EUR- max 1.350 EUR
Average investment 575 EUR
23.000 eur



3% interest



10 years Contract duration



31,5 t annual



23.165 EUR investment

296 EUR monthly rent



How it works?



The role of the City?

- gives permission to set up power plant on the roof of the building in their ownership
- gives public support for the project and is actively involved in promoting
- takes over payment of the rent in case the user is not able

Why was this a success?

- A key success factor was the **community engagement** component
- Great promotion for the municipality as enabler that helped innovation to happen and engaged public institutions and citizens in a joint process of urban, green and sustainable transformation
- Opened the door to participation in several new projects and developing new partnerships
- Citizens established in 2020 a local energy cooperative
- Increased demand for solar equipment, resulting in new local business and new jobs creation



Thank you!

