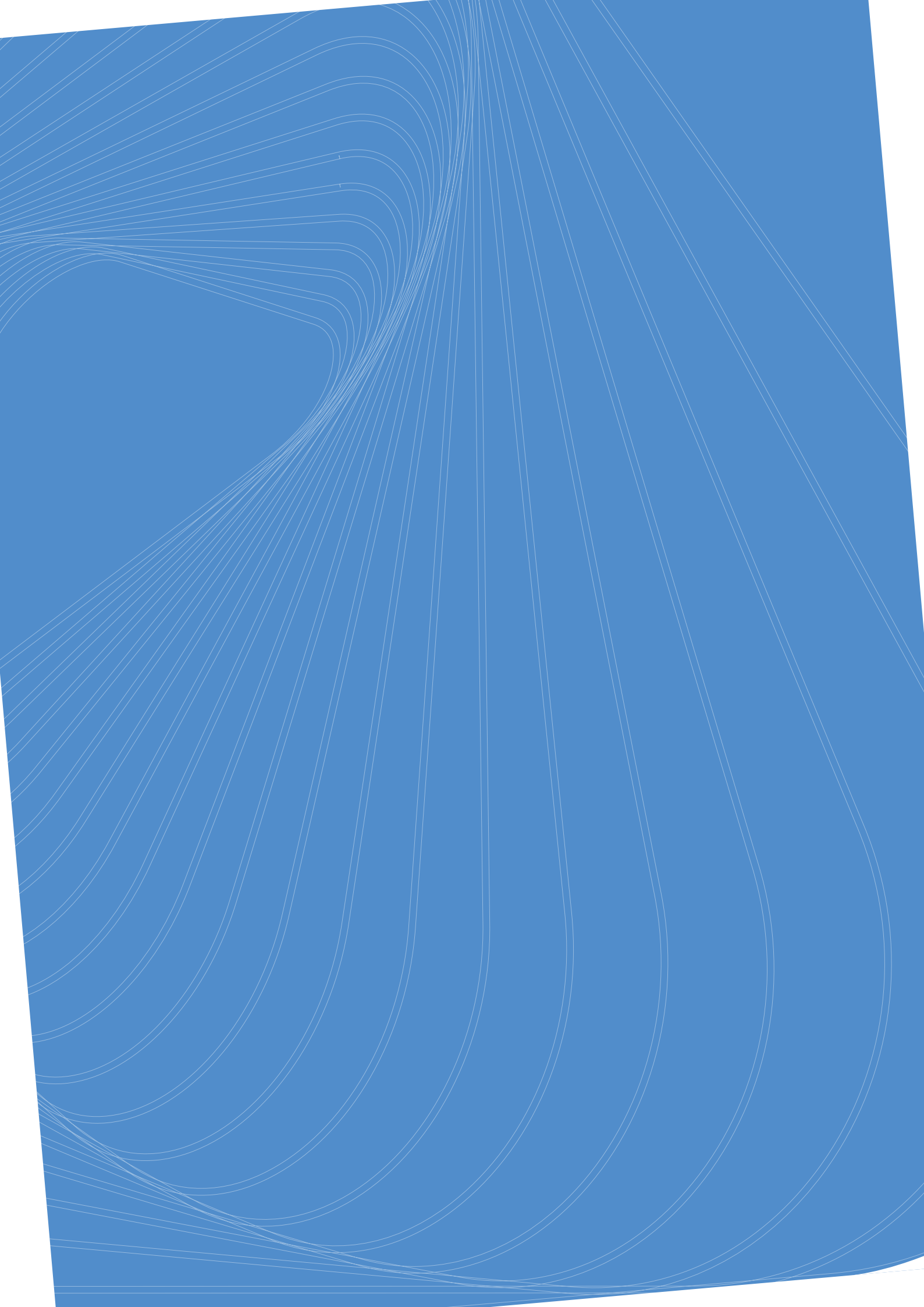


# **CO-CREATING CROWDFUNDING MODELS**

A HANDBOOK



# CO-CREATING CROWDFUNDING MODELS A HANDBOOK

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## **EXECUTIVE SUMMARY**

The purpose of this manual is to help the municipalities in the Republic of North Macedonia and other public institutions in the process of using alternative sources of financing through group financing or investment or so-called crowdfunding. The purpose of this manual is to offer alternatives of financing, especially for investments in systems for generating energy from renewable sources.

The manual presents the competences of municipalities, the traditional sources of financing, as well as typical forms of financing capital projects. Furthermore, four alternative crowdfunding models are presented: donations and rewards, investment through loans, investment through holdings/shares and municipal bonds. In addition to defining the models and the typical steps to be followed to implement a campaign for the duly selected model, the manual includes legal aspects for these financing models that are based on the Macedonian legislation. For each model, an example implemented with the corresponding model is presented. The way to determine which of these models is appropriate is also presented, depending on the purpose and the deadline set by the municipality for a particular project.

The manual also includes a reference to the process of preparing the manual in consultation with the Municipality of Ilinden in the Republic of North Macedonia.

Finally, this manual also includes an appendix detailing the legal analysis of the Macedonian legislation relevant for crowdfunding of municipalities, as well as forms for planning crowdfunding campaigns corresponding to the presented models in the manual.

We hope that this manual will primarily encourage the management and employees in the municipalities to think creatively in the process of finding financial resources. This is especially important when faced with a lack of funds to implement projects of interest to the community. At the same time, we hope that this manual will encourage the relevant institutions to adapt and expand the regulation in order to facilitate the crowdfunding and the investments by the citizens, and thus enhance and strengthen the connection of citizens and local businesses when finding solutions to the challenges in their community.

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# 01. INTRODUCTION



## 1. INTRODUCTION

Investing in renewable energy sources is a long-term and strategic commitment of the Republic of North Macedonia. It aims to provide clean energy to consumers, to reduce dependence on fossil fuels and to reduce environmental pollution.

However, securing funds for investment in renewable energy sources is not simple and requires wider social mobilization of all available resources. Cooperation between the public and private sectors is crucial for the realization of strategic decisions in which the local self-government units are significant stakeholders.

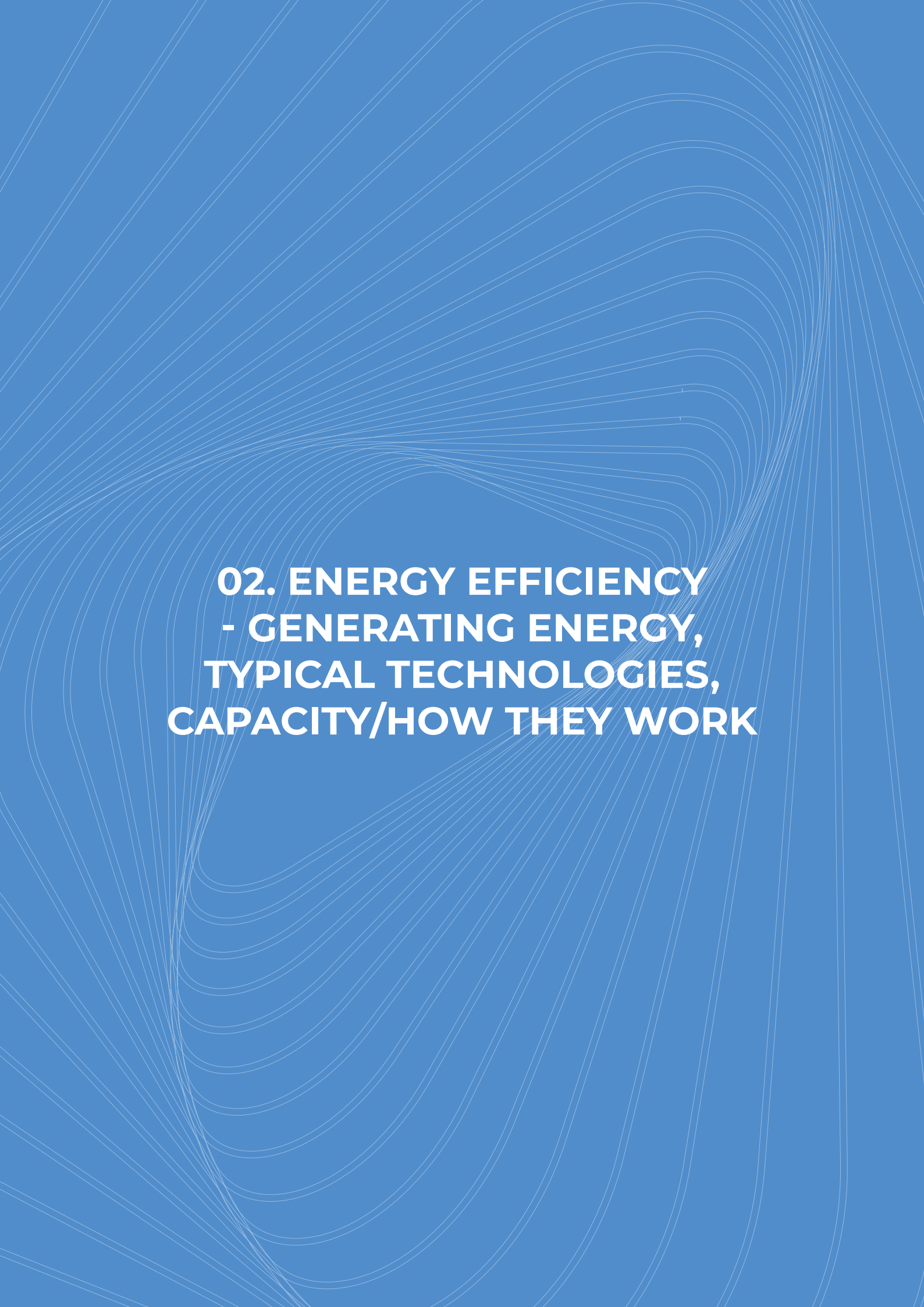
Local self-government units face a major challenge in reducing the electricity costs, which is becoming a greater expense of their budgets. Thus, high electricity costs are a serious obstacle to the development of local self-government and investment in infrastructure projects designed to improve the utility services for the citizens.

Finding an alternative way of financing renewable energy systems (RES systems) is a necessity in itself in which municipalities, private investors and the wider community will be able to contribute to the implementation of these projects.

More often the citizens are eager to take a more significant role in the planning, development and improvement of life in their municipalities through participation in bottom-up initiatives such as civic crowdfunding. Having this in mind, and increasingly seeing the benefits that crowdfunding can bring, an increasing number of local authorities are starting to think about how they can foster initiatives where they can utilize crowdfunding and engage in it.

In addition, the municipalities are more aware of the unique resources they have available. The local government has a large number of projects and expertise, but lacks the funds to implement them, which can be covered by crowdfunding. They also have extensive networks of contacts that can guide the development and delivery process.

Although there is no specific legislation for crowdfunding of projects of public interest, there are still several ways and opportunities within the existing legislation to provide and pool funds for the construction of RES systems such as photovoltaic power stations.

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**02. ENERGY EFFICIENCY  
- GENERATING ENERGY,  
TYPICAL TECHNOLOGIES,  
CAPACITY/HOW THEY WORK**

## **2. ENERGY EFFICIENCY - GENERATING ENERGY, TYPICAL TECHNOLOGIES, CAPACITY/HOW THEY WORK**

Renewable energy sources (RES) are an outstanding way of producing clean energy. With the technology development and advancement, RES are becoming more and more available to potential investors due to the continuous reduction of the costs for equipment procurement, installation and maintenance. Moreover, compared to the technology of 10-15 years ago, the systems for electricity production from renewable sources are more efficient in terms of utilization of renewable energy (the Sun).

In this way, the RES become an environmentally acceptable solution for electricity production that can completely replace fossil fuels that emit huge amounts of carbon dioxide into the air and generate waste, thereby polluting the environment and affecting climate change and global warming.

The most common source of renewable energy are the Sun, wind, water, biomass and biogas. In environments where there are no natural conditions for the production of electricity from wind or water, as well as technical-technological conditions for the production of electricity from biomass or biogas, the solar energy is an excellent opportunity for the production of electricity.

From a technical point of view, the installation of photovoltaic power stations on land or on roof structures of buildings depending on their capacity, is a simple and routine operation that does not take as much time as it takes to build other types of power plants.

Considering the costs for construction of photovoltaic power stations on the one hand and the current electricity prices caused by the energy crisis on the other, it seems that the time necessary to return the investment has been shortened to a large extent by the fact that investment in renewable energy sources is not only seen as an opportunity for own electricity production and meeting one's own needs, but also as an opportunity for profitable business through the sale of energy to traders or suppliers at market prices.

However, an exception to this simplicity are the long administrative procedures before the competent authorities for obtaining the necessary acts for the construction and putting into use of the electricity production facilities, as well as the restrictions that investors should take into account before starting the investments and the building of photovoltaic power stations.



## **03. EGAL OPPORTUNITIES**

### 3. LEGAL OPPORTUNITIES

According to the Law on energy, the production of electricity is not considered a public service. This is because electricity market stakeholders are free to procure electricity on the free market through the conclusion of bilateral agreements or through transparent and non-discriminatory conditions in accordance with the Law on public procurement and the rules for procurement of electricity.

The installation of photovoltaic power stations on roofs of buildings is regulated by the Law on construction, the Law on energy, the Rulebook on renewable energy sources and the Grid code for electricity distribution. Electricity consumers who install photovoltaic power stations on the roof of their building for their own use, and transfer the surplus to the distribution network are called consumers - producers (prosumers).

According to the latest amendments to the Law on construction (Official Gazette of the Republic of North Macedonia 227/2022), photovoltaic power stations can be placed on an individually owned facility by all entities (consumer-producers) for which it is necessary to notify the local self-government with the necessary documentation (excerpt from the Central Registry for Legal Entity/ID card for natural person, property list for the facility, agreement or written consent from the owner/owners of the facility, basic project for the installation of a photovoltaic power station and written consent for the installation of the photovoltaic power station by the majority of owners) while when it comes to condominium facilities, they can be installed only by a community of owners of special parts of a residential building who should obtain a decision for the installation of the photovoltaic power station in accordance with the Law and the Rulebook on installation of photovoltaic power stations.

According to the Rulebook on renewable sources, the maximum installed capacity for installing photovoltaic power stations on a roof structure, which does not require a license for electricity production, is 6 kW for households and 40 kW for legal entities that are small consumers, households or single users.

The definition of household and small consumer is established in the Law on energy. According to the Law on energy, a household is an electricity consumer connected to the distribution system, using or producing electricity for its own needs within the household, while a small consumer is an entity that has at least 50 employees and an annual income of less than 2 million euros.

A single user is a second line budget user financed by the respective budget user in accordance with the Law on budgets (ex. kindergarten, school, library, etc.).

Taking into account the above definitions, it seems that most municipalities are big consumers to whom the Rulebook on renewable sources cannot be applied,

while the respective single user of the municipal budget can acquire the status of a consumer-producer and it is not necessary to obtain a license for electricity production.

The connection of the photovoltaic power station to the distribution network is made in accordance with the Grid Rules for electricity distribution for which it is necessary to obtain a decision of consent for connection from the distribution system operator. The surplus electricity produced that is transferred to the distribution network is purchased by the supplier and in the last resort according to a formula referred to in the Rulebook on renewable sources

Although in accordance with Article 52, paragraph 7 of the Law on Energy, plants for the production of electricity, i.e. heat from renewable energy sources, are considered to be of public interest, this has not been utilized, nor priority and importance are given.



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## **04. FINANCIAL MODELS - INTRODUCTION**



#### 4. FINANCIAL MODELS - INTRODUCTION

Municipalities need financial resources to carry out their responsibilities. According to the Law on local self-government (art.22), the municipalities are responsible for carrying out: urban planning, environmental and nature protection, local economic development, utility activities culture, sports and recreation, social and child protection, education, health care, protection and rescue of citizens and assets, fire protection, supervision of the performance of works within its competence and other matters determined by law. Local service delivery is provided by local public companies, while the consumers pay them directly for their services.

The municipality, within its competences, independently disposes of its own sources of income. In the Republic of North Macedonia, the financing of local self-government - municipalities, is regulated by the Law on local self-government (2002) and the Law on financing of the local self-government (2004). Municipalities are financed from their own sources of income and donations from the state - the central government and other sources of income, in accordance with the law.

**Own sources** of revenue of the municipality are the local taxes, fees and charges established by law. The municipality, within the limits set by law, shall determine the amount of tax rates and the amount of fees and charges. Local taxes include property tax (each year), corporation tax, sales tax, inheritance tax, and gift tax; 100% of the personal income tax for individual craftsmen, administered by the units for finance management of the local self-government. **Local fees** include municipal utility fee, construction fee, urban and spatial planning fee, use of public space fee, fee for the use of municipal services, and administrative fee. Local authorities determine and charge the fees. Income from property and land includes income from sale of property, leases, interest rates.

**External sources** of funding for municipalities include **transfers from central government and grants, grants from international institutions/organizations, loans and donations.** Municipalities receive the following transfers from the Government: dedicated grants for a specific purpose – e.g. expenses for maintenance of facilities; unconditional grants – VAT, PIT share that can be used at discretion by the municipalities; block grants for financing of specific services – the largest of which is education, then culture, health, social protection; grants for capital investments that are part of the annual programs of the Ministries - for example improvement of local roads, investments in sewerage, etc.); grants for delegated competences. The central government may delegate tasks to the municipality, for example, duties to monitor and improve the environment.

The municipality has the right to debit **on the domestic and foreign capital market**, in the short and long term, in accordance with the law. Loans may be taken

from commercial banks and development banks for which municipalities need the prior consent of the Ministry of Finance, in accordance with the municipality's debiting limit. Municipalities can be part of various international projects in which they receive grants. Finally, municipalities **may receive donations** (foreign and domestic) regulated by an agreement between the donor and the mayor and may introduce a local voluntary contribution.

#### 4.1 Financing of renewable energy source systems

The above mentioned sources of finance are existing sources for financing energy generation systems from renewable sources. Municipalities can finance such systems as capital investment or investment in operating expenses through their own or external sources of finance. They may appear in the following funding models.

##### 4.1.1 Public Procurement

According to the Law on Public Procurement, in the public procurement process, municipalities appear as a contracting authority, as well as their public enterprises. The public procurement procedure is a procedure implemented by one or more contracting authorities, the purpose or action of which is to buy or acquire goods, services or works. Public procurement may be for works (Art.5): a) execution or design and execution of works related to one or more construction activities; (b) construction or design and construction and (c) realization of construction by any means, according to the requirements of the contracting authority, which has a decisive influence on the type or design of the building; or services, all except the works referred to in Art.5 of the Law on public procurement.

The public procurement is carried out by an "Economic Operator" - any natural or legal person or group of such persons, including any temporary associations, which offer goods, services or works on the market or in the public procurement procedures.

According to the Law on public procurement, Article 12, in the field of electricity, the public procurement rules for sector activities refer to the installation and management of fixed networks intended to provide public services in terms of production, transmission or distribution, i.e. the supply of electricity to such networks. The supply of electricity to the networks intended for the provision of public services by a contracting authority does not constitute a sectorial activity if: electricity is produced **for the purpose of satisfying one's own** consumption necessary for carrying out an activity that is not covered, and the supply of electricity to the public network depends exclusively on the contracting authority's own consumption and does not exceed 30% of the total own electricity production, taking into account the average in the previous three years, including the current one. Supply in this sense does not include generation or production and wholesale and retail trade.

### 4.1.2 Public Enterprise

In order to fulfil their own responsibilities, municipalities can set up public enterprises. The municipalities usually set up communal enterprises for hygiene maintenance, maintenance of parks and greenery, parking lots etc. Hence, the municipalities, by a council decision, can set up public enterprises to manage renewable energy generation systems. Such an approach also presupposes investments in personnel, management and training.

### 4.1.3 Public-Private Partnership

According to the current legislation, the municipality can establish a public-private partnership – PPP. Public private partnership is a form of contractually regulated, long-term cooperation between the public partner and the private partner. In this case, the private partner undertakes the obligation to provide public service to the end users in areas of competence of the public partner and/or the obligation to provide the public partner with the necessary preconditions for providing public service to the end users and/or activities of its competence;

In order to fulfil the obligations, the private partner may undertake to: finance, design, build and/or reconstruct/renovate a public infrastructure facility, operate and maintain a new facility and/or a reconstructed/renovated public infrastructure facility or use, manage and maintain an existing public infrastructure facility or - any combination of the above-mentioned obligations.

When undertaking the obligation, the private partner normally assumes a significant part of the risks related to financing, construction, demand and/or availability and other such actions, management, maintenance and technical risks, depending on what was agreed when establishing the public private partnership. This should be determined case by case.

Each partner in a public private partnership for the duration of the public private partnership will take responsibility for risk events that are in its sphere of influence, or the responsibility shall be shared in order to achieve optimal risk management for the duration of the partnership, inter alia, by using the management, technical, financial and innovation capabilities of the private partner and by promoting the exchange of skills and knowledge - experience between the public and private partner.

In exchange for the obligations assumed, the public partner may grant the private partner a concession for public work or a concession for public service, or reimburse it through payment. The public partner may also allow the private partner to perform certain **commercial economic activities**, in addition to the obligations set out in the contract, but only if there is no other possible way to ensure the necessary level of price

efficiency of the private participation and a reasonable return on the investment. The public partner may transfer certain actual rights to the private partner, necessary for the execution of the contractual obligations. Depending on the purpose of the compensation funds by the public partner for the provision of public work and/or public services, as well as the allocation of the key existing risks, the public private partnership can be established as: **1) concession for public work or 2) concession for public service or 3) contract for public procurement of work or 4) contract for public procurement of service.**

The same legislation procedures regarding public procurement are applicable to the public-private partnership, following the principles of transparency, applying electronic auction and tender procedure, public call, public opening of offers, evaluation of offers and conclusion of a contract, transfer. The Law on PPP and the Law on obligations are relevant for the implementation of the PPP

In RNM, 42 PPPs were registered in 2022, of which in 90% of cases the public partner is the municipality. The projects include partnerships for the construction and management of small hydropower plants as well as street-lighting systems. According to these models, the private partner is obliged in a certain period of time to build and manage a certain capacity and service, where after a certain period of time, the ownership is transferred to the municipality.

Another innovative model of financing municipalities is the crowdfunding for which there is still no adequate regulation in the Republic of North Macedonia, nor cases of crowdfunding for the needs of municipalities. In the next part of this manual we will present the donations and bonds as existing types of models for crowdfunding of municipalities, as well as loans and investments through shares as innovative models for the crowdfunding of municipalities.



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## **05. TYPES OF FINANCIAL MODELS FOR GROUP FINANCING - CROWDFUNDING**

## 5. TYPES OF FINANCIAL MODELS FOR GROUP FINANCING - CROWDFUNDING

The above-mentioned types of financing of projects by municipalities for the generation of energy from renewable sources are regulated by the existing legislation and are commonly used. These models are traditional forms of financing where projects are financed from one or several financial sources, most often the municipal budgets, government budgets or other financiers such as commercial and development banks.

An alternative to the traditional funding is **multi-source funding**. The following section of this manual presents alternative and innovative models for financing the municipalities, especially for generating energy from renewable sources that focus on crowdfunding.

Traditional financing	Crowdfunding
Financing from one or several sources of finance.	Financing from a larger group of individuals.

**Crowdfunding** (collective investment - CF) is the mobilization of finances for projects by a large number of investors (literally the “crowd” or group) who mostly use the Internet and online platforms. The size of the investment of an individual investor can range from very small (50 euros) to large (several thousand euros). Crowdfunding is in fact a traditional pattern of fundraising, especially at the local level. With the proliferation of online platforms, such crowdfunding is becoming more accessible and more democratic. In this way the citizens can raise funds to improve infrastructure, energy, kindergartens, schools, parks, or help a particular community or individuals.

### 5.1. Basic characteristics of projects financed through crowdfunding

Unlike traditional funding, crowdfunding has specific objectives and a way of raising funds that are available to various organizations, including municipalities.

#### Specific projects

Crowdfunding involves raising funds for a specific project rather than for wider organizational purposes. Fundraisers must clearly define how much funds are needed and how they will be spent. This is contrary to the traditional funding where organizations raise funds and then decide how they spend the money.

## **A wide range of financiers**

Crowdfunding campaigns usually involve very small financial contributions from a large number of financiers.

## **Specific financial goals**

Most platforms require fundraisers to set clear financial goals based on how much money is needed to deliver a particular project. In many cases, if the goals are not achieved within the set financing period, the project is considered to have failed and is not implemented further.

## **It is based on a promise instead of immediate financing**

Most crowdfunding platforms use a pledge model to raise funds. Investors commit to invest, however, this transaction does not actually take place until the project is ready for delivery. This can be when the campaign reaches its goal or when the fundraising period is over. This approach allows the project initiator to see the interest and minimize the risk of financial losses even before starting the project implementation.

## **It is used for projects with higher priority/ urgency**

Most crowdfunding campaigns set limits on the duration of campaigns. The usual duration is between 30 and 90 days. This creates a sense of urgency that allows for a quick fundraising. The crowdfunding method allows funds to be collected more cheaply than through lengthy loan application processes or other traditional methods of collection of funds

## **5.2 Types of crowdfunding**

Crowdfunding is generally divided into five different modalities:

- **Donations** – the oldest form of crowdfunding, using the Internet to collect funds for projects, causes and organizations.
- **Rewards** – in exchange for a contribution, the group of investors receives a non-financial return, such as a new product, whose production is financed by a group, or a dedicated voucher.
- **Loans** – the investor group makes a loan to a project or to another person (e.g., peer-to-peer loans) and expects in return interest payments and return of principal.
- **Bonds** – similar to a loan, where the principal of the loan is paid at once at the end or is divided into several parts
- **Investment in equities** – participation in investments – the group investor acquires a share in the company through shares and expects dividends and/or an increase in value in return, but also participates in the risk.



### 5.3 Benefits and challenges of crowdfunding

The most common motive for CF investments is an appetite for higher return/higher risk investments. In a macroeconomic climate of low interest rates and low returns from regular investments, investors can be more interested in higher return offered through CF platforms or specific local initiatives, even if this investment comes with a higher risk (unknown company, innovative model). The CF allows such investors to divide their risk over more small investments. On the other hand, there is a high demand for energy efficiency projects, which are cost-effective and technically feasible solutions.

Benefits of Crowdfunding	Crowdfunding challenges
<ul style="list-style-type: none"> <li>• Attractive financial return</li> <li>• Available and open to small investors: even investors with limited resources and investment experience can opt in due to low minimum contributions (should be at least 50 euros).</li> <li>• Direct involvement: interested investors can get directly involved in specific projects and can closely monitor the progress of implementation (as opposed to anonymous investment in a fund).</li> <li>• Low technical risks: energy efficiency measures use predominantly tested technologies for which performance data and expected savings are available.</li> <li>• Increased innovation: crowdfunding project initiators can experiment with certain ideas with lower financial risk</li> <li>• Positive environmental impact: In addition to the financial return, the investor invests in tangible environmental benefits in terms of reduced emissions.</li> </ul>	<ul style="list-style-type: none"> <li>• Underdeveloped legal framework: what creates legal uncertainty</li> <li>• Insufficient institutional capacity: small number of successful examples</li> <li>• regarding CF investments in RES systems</li> <li>• Insufficient evidence regarding the attractiveness of this type of investment for group investors</li> <li>• Lack of tools for the management of foreign exchange risk in cross-border CF investments in RES systems</li> <li>• “Competition” from highly subsidized government programs, which</li> <li>• can be introduced by governments in the course of implementing their national climate strategies, and which make the CF investments in RES systems</li> <li>• unattractive to the project developers and investors.</li> <li>• Limited knowledge of the group that may potentially be interested in investing in CF investments in RES systems</li> </ul>

## **5.4 Actors and roles in a crowdfunding campaign and project implementation**

Municipalities may have the role of manager, facilitator or mediator when implementing crowdfunding models.

### **5.4.1 Manager Role**

The municipality creates its own crowdfunding platform to encourage the development on its territory. Local governments usually create generic platforms that also promote other projects such as entrepreneurial profit projects and non-profit civic initiatives. Such a model exists in Bolzano - Italy, where the autonomous province of Bolzano financed the creation of the crowdfunding platform - Crowdfunding Südtirol. The crowdfunding platform, funded in 2016 through ERDF resources, is managed by the local Handicrafts Association (lvh – Wirtschaftsverband Handwerk und Dienstleister), which offers 360° consultations when launching and processing a Crowdfunding campaign. The platform only hosts projects from South Tyrolean companies that come from different sectors, mainly crafts, agriculture, film and culture.

### **5.4.2 Role of a facilitator**

The municipality can select a list of priority projects with the potential for crowdfunding, and then the platform to work on campaigns therefor. This model has been implemented by the Belgian Sociaal-Cultureel Werk – VGC, which provides funding for community development projects from the Flemish Community Commission in Brussels, Belgium. VGC commits to give an additional 3,000 euros for projects in the social and cultural field that have already managed to successfully implement their campaign and raise funds, on the Growfunding crowdfunding platform. In this specific funding scheme, public authority resources are granted as a reward for those projects that can demonstrate broad support from the local community (matching funds).

### **5.4.3 Role of mediator**

Some municipalities establish partnerships with crowdfunding platforms, mainly aimed at co-financing of projects. In this model, the public authority promises resources that will automatically be distributed among those projects that will successfully collect a certain percentage of their final budget. The most common combination is the 50-50 scheme, where the first 50% come from investors and the remaining 50% from the municipality's resources. An example of this partnership model is represented by two partnership schemes in Spain with the Goteo crowdfunding platform. The first partnership scheme (MetaCulture) has been implemented by the province of Gipuzcoa since 2015 and aims to finance projects in the cultural and creative sectors. The second partnership scheme has been implemented by the municipality of Barcelona to support 24 projects

related to local economic development, education, agro-ecology, consumption, exchange and cooperation in the neighbourhoods of Barcelona.

At the same time, each of the crowdfunding models should identify the following roles in the project: project initiator, project manager, project user and group investors.

Actors and roles in a crowdfunding campaign		
Project Initiator	Project Manager	Project user
Municipality - local self-government Public enterprise of a municipality Public institution of a municipality NGO/Citizens' Association Company	Municipality - local self-government Public enterprise of a municipality Public institution of a municipality Investment funds Banks NGO/Citizens' Association Company	Municipality - local self-government Public enterprise of a municipality Public institution of a municipality NGO/Citizens' Association
<p><b>Group Investors</b></p> <p><b>Natural persons</b></p> <p>Citizens from the respective municipality  Citizens from other municipalities</p> <p><b>Legal Entities</b></p> <p>Companies  NGOs  international organizations  Other</p>		

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## **06. DEVELOPMENT OF CROWDFUNDING MODELS**

## 6. DEVELOPMENT OF CROWDFUNDING MODELS

Based on comparative examples from other countries, the following types of crowdfunding were identified: donations (with or without rewards), loans, shares and bonds. Each of these models will be elaborated hereinafter.

At the same time, it is important to note that any model should observe the following general aspects:

- Defining a role of the municipality: manager, facilitator, mediator
- Creating a portfolio of projects requiring crowdfunding and regularly updating it.
- Public discussions and debates on the importance of projects and funding needs
- Active involvement of end-users when defining the campaign
- Technical and economic feasibility analysis
- Clearly defining the overall objective of a project
- Clearly defined financial objective
- Matching funds
- Targeted Investors
- Management team
- Platform Selection
- Marketing approach - education about the specific model and benefits
- Education - financial literacy
- Building trust with targeted investors
- Presentation of successful examples
- Report
- Impact measurement
- Transfer of knowledge

### 6.1 Donations

#### 6.1.1 Introduction

**Donations** are the standard instrument available to any organization for various projects. The donation allows for an investment without investing the municipality's own funds, and enabling the participation of various actors that identify with a certain cause.

The Cambridge Centre for Alternative Finance categorizes donations as a model without investments and legally binding financial obligations for the donors, as well as without financial returns for the donors. With the donations, funds are collected from multiple donors in smaller amounts.

A similar model is a reward-based crowdfunding, where donors usually expect a non-financial reward from the organisers of the crowdfunding initiative. These awards can range from certificates and acknowledgements to free event tickets and the like.

### **6.1.2 Legal aspects**

The Law on donations and sponsorships in public activities prescribes the manner of giving and receiving donations and sponsorships that the donor gives to the realization of the public interest, for which he / she may obtain tax incentives from the state.

A donation is a voluntary and unconditional aid in money, goods and services that does not create a direct benefit for the donor nor a repayment obligation from the recipient of the donation. It can be given for purposes of public interest or to support the activities of the recipient. Donations also include endorsed-giving, tele-giving and organized fundraising events.

The purpose of the law is to enable the donations and sponsorships to contribute to the realization of the public interest, improving the personal and common life of citizens, citizens' associations and foundations, natural and legal persons in the Republic of North Macedonia, as well as to their economic well-being and social justice. According to the law, a public activity is an activity in the field of protection of human and citizen's rights, education, science, development of the information society and transmission of electronic data, culture, sports, health, social protection, protection of persons with disabilities, blood donation, child protection, environmental protection and other activities established by law as a public activity;

A natural person who donates financial assets to a legal entity under the provisions of this law, and on the basis of the donation agreement, is entitled to a reduction of calculated and unpaid personal income tax or a refund of paid personal income tax determined on the basis of his annual tax return.

The relevant provisions of the law on donations and sponsorships in public activities and the manner and procedure for concluding the agreement on donations are given below.

A.1 - Table with more important provisions of the Law on donations and sponsorships in public activities

<b>Law on donations and sponsorships in public activities (more important provisions)</b>	
<b>Provision</b>	<b>Content</b>
Article 2	The donation and sponsorship with which the public interest is realized, contribute to the improvement of the personal and common life of citizens, citizens' associations and foundations, natural and legal persons in the Republic of North Macedonia, as well as to their economic well-being and social justice.
Article 4	The provider and the recipient of the donation and sponsorship conclude an agreement in writing, in accordance with the Law on Obligations.
Article 6	(1) The donation and sponsorship provider may be a domestic and foreign natural and legal person. (2) A donation and sponsorship provider cannot be a natural or legal person whose activity is not in accordance with the Constitution, the laws of the Republic of Macedonia and the international agreements which the Republic of Macedonia has concluded or acceded to.
Article 7	(1) A recipient of a donation may be a domestic legal entity (3) The recipient of the donation shall become the owner of the donation and shall use it exclusively for: - the purpose specified in the donation agreement referred to in Article 4, paragraph (1) of this Law, - the purpose for which a separate transaction account has been opened, i.e. for the purpose of remittance in the payment order with which the donation is made, in this case the endorsed payments
Article 10	(1) The subject of the donation and sponsorship are: - financial assets, - any kind of goods and services, including tangible goods, self-produced or procured, and - testaments and other transfer rights. (2) The subject of the donation and sponsorship must be in accordance with the activity of the recipient of the donation and sponsorship
<b>Conclusion</b>	
The main goal of the donation is to realize the public interest and improve the lives of citizens. A donor may be a domestic and foreign natural and legal person, while the recipient of the donation may be a domestic legal person. For the donation given, the provider and the recipient should conclude a donation agreement regulating the subject of the donation, the objectives to be achieved with the donation, the purpose and utilization of the given funds. The recipient of the donation must use the given funds exclusively for the purpose for which they were given.	

## A.2 - Procedure for the conclusion of a donation agreement



### 6.1.3 Crowdfunding development model

The following table presents the steps to be followed by the municipality when organizing a campaign for the collection of funds from natural and/or legal entities for a particular project. This table focuses on the collection of funds. If the municipality wants to organize a campaign for the collection of funds - the same steps can be followed with appropriate modifications.

Planning of a donation campaign	Description
<b>Defining a project</b>	
Project Mapping	At this stage, a list of projects suitable for donations is drafted from an existing portfolio of projects of the municipality, the new needs or demands of the citizens. Projects eligible for donations are projects covering a specific activity and need to be implemented in a short period of time. Even if the municipality has a specific idea, it is important to map other similar donation projects in order to justify the selection and prioritisation of certain projects. After drafting the list of projects, they are ranked according to priority for implementation. After the ranking, a specific project is chosen which will be targeted with the specific donation campaign.
Project name	After the previous stage of prioritization of donation projects, one project is defined which will be targeted with the specific donation campaign.
Project description	What should the project achieve? Detailed description of the existing and the desired condition, preferably with quantitative indicators.



<b>Preparation of a project team</b>	
Creation of a campaign team	At this stage, a team of employees in the municipality is being set up from: Mayor's Office An adequate sector External members: NGO, marketing agencies, experts or consultants Please provide the names and the positions of the team members
Initial Briefing	Educating the campaign team on a detailed understanding of the concept and the next steps of implementation Specifying a trainer and the briefing content
Initial consultations with the community and getting feedback	The team shall meet with various representatives from the municipality to understand the problem in more detail as well as the interest in its addressing and financing. At this stage, the community also receives information that the municipality is actively addressing a particular problem. After this stage, there may be a need to redefine the above mentioned aspects of the campaign.
<b>Project financing</b>	
Project value	This section presents the full amount of the investment/project. If it is, for example, an investment in solar panels at a particular kindergarten, the full value for the installation of solar panels at that particular kindergarten is entered.
Target amount for the specific campaign	This section presents the amount that this campaign aims to collect through loans.
Grant/matching funds	This section presents the amount that the municipality or another organization will donate if the campaign is successful.
Thresholds for loans/investment	In this section, the minimum and maximum thresholds for loans are defined (eg. minimum EUR 150 and maximum EUR 500).
Condition for the implementation of a project	Example: The project will be implemented if 80% of the target set are collected through loans.

Targeted lenders	Individuals Businesses Organizations Local government State institutions international organizations Other
Interest rate for investors	Defining an annual interest rate for the amount invested
Loan repayment method (return on investment)	Defining a method of interest payment (for example annually) and a basis (for example annually or at the end of the investment cycle)
Financial risks	This section describes what are the potential financial risks for investors if the project encounters a problem with collection, savings and the like on which the payment of interest and the base for the loans depends or if there is an interruption in the implementation of the project.
Drafting a loan agreement	Based on the above mentioned aspects for financing through loans, the team managing the campaign shall draft a loan agreement to be signed by each individual investor-borrower.
Duration of the campaign	Defining the start and the end day
<b>Launching a campaign</b>	
Decision of the Council	The full model and plan for an investment campaign through loans shall be presented to the council for final approval. This section describes the key points of the discussion at a council session while the remarks are inserted into the campaign model.
Establishing digital presence - <b>information stage</b>	Creating a website or social media page informing that a process has been initiated to address a particular project/issue.  Website FB page Media appearances Public gatherings Other

<p>Establishing digital presence - <b>call to action</b></p>	<p>In this section the tools or ways for online loans are chosen, or the manner for another lending model is described. Existing crowdfunding platforms are commonly used for this. <i>(Kickstarter, ECrowd)</i> <i>Citizeninvestor</i> <i>Neighborly</i> <i>Spacehive</i> <i>Crowdfunder</i> <i>Hubbub</i> <i>Neighbor.ly</i> <i>ECrowd.mk</i></p> <p>Existing platform <i>Compensation shall be paid (usually 1-5% of the sum collected)</i> <i>Platforms offer marketing, a donor's network, training courses, and do due diligence on the project before publishing.</i></p> <p>Custom Platform <i>Custom Website</i> <i>Bank Account Promotion</i></p>
<p>Marketing and public relations</p>	<p>It is important the communication to target both project initiators and potential donors. Press releases Webinars Social media Local Events-Promotions Posters and leaflets</p>
<p>Support from persons in leadership positions</p>	<p>Mayor Representative from central government Celebrity</p>
<b>Report and Impact</b>	
<p>Reporting to the public on: Campaign Flow Campaign result achieved</p>	<p>TV appearances Forums Social media posts during the campaign Notifications to donors/investors Regular letters/newsletters Events Other</p>

Impact evaluation and measurement	Achieved result Key performance indicators Return on investment Connection to standards such as SDG, ESG
Transferring good practices	This section defines whether and how the municipality will further transfer the good practices and lessons learned: Inside the municipality to other sectors To other municipalities Institutions of central government Organizations Businesses

Aspects to take into account:

- The investment of the citizens in the role of lenders to the municipality needs to be explained in detail to the citizens
- It is necessary to mention all financial risks when making an investment through loans.
- It is necessary to clearly explain whether the municipality guarantees the payment of interest and the basis of the loan in case the project is unsuccessful or there is a payment problem
- When launching this type of model, the municipality needs to consider the alternative investment opportunities available to the citizens as attractive interest rates for savings in commercial banks. Citizens would invest in this way if the interest rate comparatively was the same or higher than the one for savings deposits in banks
- When using the platform for investment through loans, investors should be informed in detail about all aspects of risks, manner of deposit and payment of interest and basis.

#### 6.1.4 Example

The Manchester City Council is particularly active in the field of civic crowdfunding in order to transform the local environment and improve community involvement. After an earlier pilot stage, the council launched the “Our Manchester” movement in 2016 in collaboration with charities, including the organization of then-Mayor Lord, an initiative that aims to improve parks, green areas and water areas around the city, as well as to encourage more people to practice a more active lifestyle.

The Manchester City Council secured a £60,000 investment, of which it has pledged up to £5,000 for crowdfunding purposes for the best projects. This Council funding is supplemented by donations from other bodies and foundations that give grants, out of which the project’s creators provide co-financing. The Council has matched these funds together with specific smaller projects where citizens have donated as a group.

In this model, the city council creates a portfolio of projects where donations from citizens can be expected, it evaluates and prioritizes them and adds funds for greater motivation for the success of donation campaigns. At the same time, the city council connects individual campaigns in the “Our Manchester” project in order to offer citizens a bigger picture of how their donations to specific small projects contribute to a greater improvement of community life.

A key aspect of this strategy is the use of new approaches in order to enable the council to work in collaboration with partners to deliver a shared city vision. Civic crowdfunding through donation is expected to play an integral role in enabling the council to work better with individuals and organizations.

The “Our Manchester” movement was further publicly supported by the council leadership in the form of press releases. This raised the profile of the crowdfunding movement, and increased the legitimacy of the initiative.

Looking into the future, Manchester sees civic crowdfunding as a positive and critical way to encourage people to come up with ideas to improve local lives and support them through the delivery process. The approach is part of a broader aspiration to make the access to council support more democratic and affordable, and to encourage residents and businesses to find creative approaches to fundraising.

## **6.2 Loans**

### **6.2.1 Introduction**

Peer-to-peer lending is a direct alternative to a bank loan, where the difference is that instead of borrowing from a single source, loan applicants may borrow directly from dozens, sometimes hundreds of individuals who are willing to lend funds. Group lenders in this model lend funds motivated by the interest rate at which they would lend, but also the impact and positive influence they would have on a particular municipal challenge. Borrowers then accept loan offers at the lowest interest rate. Online platforms are commonly used to match group lenders and loan applicants.

The crowdfunding loan offers a possible solution for financing energy efficiency projects, where established banks do not offer loans for this type of project at all or are not attractive whether in terms of maturity or costs. Despite being a profitable project, service providers or energy companies such as ESCO often face difficulties in obtaining the necessary funding from banks. Namely, banks are rarely familiar with the ESCO model, where energy savings represent an inflow of income for debt repayment. They may require collateral (e.g. in real estate) that a relatively young company ESCO cannot provide.

The CF loan is the most commonly used modality of crowdfunding, relatively simply designed. In general, it is offered as a subordinated loan, i.e. with a lower rank than ordinary bank loans in case of project insolvency, and thus allows extending the maturity of existing bank finances, transferring the risk of the project to the investors.

### **6.2.2 Legal aspects**

The Law on obligations contains provisions regulating the manner and conditions for concluding a loan agreement. The subject of the loan agreement may be money or other exchangeable assets. The loan agreement is a bilateral contract where the lender undertakes to give money or an object to the borrower, while the borrower undertakes to return them after the expiration of the time period for which they were given.

In the case of a typical loan agreement, interest that is established by law and cannot be greater than the interest rate applied in international financial markets (Libor and Euribor) can be calculated.

The loan agreement is a good opportunity to provide funding for the construction of photovoltaic power stations by borrowing money where the interest rate of Libor and Euribor is far more favourable than the interest rate of the commercial banks for credit agreements.

The relevant provisions referred to in the Law on obligations for concluding a loan agreement and the procedure for concluding the loan agreement are given below.

*B.1 -Table of more important provisions of the Law on obligations*

<b>Law on obligations, Loan Agreement (more important provisions)</b>	
<b>Provision</b>	<b>Content</b>
Article 545	<p>(1) The loan agreement obliges the lender to give the borrower a certain amount of money or a certain amount of other exchangeable items, while the borrower undertakes after some time to return the same amount of money, i.e. the same amount of items of the same type and quality.</p> <p>(2) On the basis of the items received, the borrower acquires an ownership right.</p>
Article 546	<p>(1) The borrower may undertake to owe interest in addition to the principal.</p> <p>(2) When the interest rate of the interest referred to in paragraph (1) of this Article is agreed for a monetary obligation in a domestic currency, and is expressed in a foreign currency or is determined in such currency, it shall be considered usurious, when it is greater by two times than the interest rate payable for a monetary obligation in that foreign currency and is prevalent on the international financial market on the day of the maturity of the monetary obligation in domestic currency.</p> <p>(3) The prevailing interest rate, according to this Law, is the interest rate applicable on the international financial market (Libor) or the interest rate on the interbank financial market in Europe (Euribor) on the day of the maturity of the monetary obligation in domestic currency.</p>
Article 550	<p>(1) The borrower shall be obliged to return the same quantity of items, of the same type and quality, within the agreed deadline.</p> <p>(2) If the contractors have not set the deadline for return of the loan, nor can it be determined by the circumstances of the loan, the borrower shall be obliged to return the loan after the expiration of the specified deadline, which may not be shorter than two months, counting from the request of the lender to have the loan returned.</p>
Article 554	<p>If the contract determines the purpose for which the borrower can use the borrowed money, but he uses it for some other purpose, the lender may declare a termination of the contract.</p>

## Conclusion

With the loan agreement, the lender and the borrower regulate the mutual relationship, whereby the lender undertakes to give the borrower a certain amount of money or other exchangeable items, while the borrower undertakes to return them after a certain period of time. If the deadline for loan repayment is not established in the contract, then the minimum legal term cannot be shorter than two months counted from the day the lender requested the loan repayment.

The loan agreement can also agree on the payment of interest, where the prevailing interest rate is the one on the international financial market (Libor) or the financial market in Europe (Euribor).

If the borrower uses the borrowed funds for a different purpose than the one set out in the loan agreement, the lender has the right to terminate the loan agreement and request return of the funds given.

### *B.2 - Procedure for the conclusion of a loan agreement*



Returning of the loan



### 6.2.3 Crowdfunding development model

Planning a loan campaign	Description
<b>Defining a project</b>	
Project Mapping	At this stage, projects eligible for financing through loans are being mapped. After drafting the list of projects, they are ranked according to priority for implementation. After the ranking, a specific project is chosen which will be targeted with the specific loan campaign.
Project name	After the previous prioritization stage of loan projects, one project is defined to be targeted with the specific loans' campaign.
Project description	What should the project achieve? Detailed description of the existing and the desired condition, preferably with quantitative indicators.
<b>Preparation of a project team</b>	
Creating a campaign team/ organization selection for the management of the investment process through loans	At this stage, a team of employees in the municipality - finance department, department for the respective project and potential partner organization is created for the management of the process. At the same time, the relations between the process managers and the user - the municipality - are regulated at this stage.
Initial Briefing	Educating the campaign team on a detailed understanding of the concept and the next steps of implementation Specifying a trainer and the briefing content

Initial consultations with the community and getting feedback	<p>The team shall meet with various representatives from the municipality to understand the problem in more detail as well as the interest in its addressing and financing.</p> <p>At this stage, the community also receives information that the municipality is actively addressing a particular problem.</p> <p>After this stage, there may be a need to redefine the above mentioned aspects of the campaign.</p>
<b>Project financing</b>	
Project value	This section presents the full amount of the investment/project. If it is, for example, an investment in solar panels at a particular kindergarten, the full value for the installation of solar panels at that particular kindergarten is entered.
Target amount for the specific campaign	This section presents the amount that this campaign aims to collect through loans.
Grant/matching funds	This section presents the amount that the municipality or another organization will donate if the campaign is successful.
Thresholds for loans/investment	In this section, the minimum and maximum thresholds for loans are defined (eg. minimum EUR 150 and maximum EUR 500).
Condition for the implementation of a project	Example: The project will be implemented if 80% of the target set are collected through loans.
Targeted lenders	<ul style="list-style-type: none"> <li>Individuals</li> <li>Businesses</li> <li>Organizations</li> <li>Local government</li> <li>State institutions</li> <li>international organizations</li> <li>Other</li> </ul>
Interest rate for investors	Defining an annual interest rate for the amount invested
Loan repayment method (return on investment)	Defining a method of interest payment (for example annually) and a basis (for example annually or at the end of the investment cycle)

Financial risks	This section describes what are the potential financial risks for investors if the project encounters a problem with collection, savings and the like on which the payment of interest and the base for the loans depends or if there is an interruption in the implementation of the project.
Drafting a loan agreement	Based on the above mentioned aspects for financing through loans, the team managing the campaign shall draft a loan agreement to be signed by each individual investor-borrower.
Duration of the campaign	Defining the start and the end day
<b>Launching a campaign</b>	
Decision of the Council	The full model and plan for an investment campaign through loans shall be presented to the council for final approval. This section describes the key points of the discussion at a council session while the remarks are inserted into the campaign model.
<b>Establishing digital presence - information stage</b>	<p>Creating a website or social media page informing that a process has been initiated to address a particular project/issue.</p> <p>Website            FB page            Media appearances            Public gatherings            Other</p>
<b>Establishing digital presence - call to action</b>	<p>In this section the tools or ways for online loans are chosen, or the manner for another lending model is described. Existing crowdfunding platforms are commonly used for this. (Kickstarter, ECrowd)</p> <p>Citizeninvestor            Neighborly            Spacehive            Crowdfunder            Hubbub            Neighbor.ly            ECrowd.mk</p>

	<p>Existing platform          Compensation shall be paid (usually 1-5% of the sum collected)          Platforms offer marketing, a donor's network, training courses, and do due diligence on the project before publishing.</p> <p>Custom Platform          Custom Website          Bank Account Promotion</p>
Marketing and public relations	<p>It is important the communication to target both project initiators and potential donors.          Press releases          Webinars          Social media          Local Events-Promotions          Posters and leaflets</p>
Support from persons in leadership positions	<p>Mayor          Representative from central government          Celebrity</p>
<b>Report and Impact</b>	
Reporting to the public on: Campaign Flow Campaign result achieved	<p>TV appearances          Forums          Social media posts during the campaign          Notifications to donors/investors          Regular letters/newsletters          Events          Other</p>
Impact evaluation and measurement	<p>Achieved result          Key performance indicators          Return on investment          Connection to standards such as SDG, ESG</p>
Transferring good practices	<p>This section defines whether and how the municipality will further transfer the good practices and lessons learned:          Inside the municipality to other sectors          To other municipalities          Institutions of central government          Organizations          Businesses</p>

Aspects to take into account:

- The investment of the citizens in the role of lenders to the municipality needs to be explained in detail to the citizens
- It is necessary to mention all financial risks when making an investment through loans.
- It is necessary to clearly explain whether the municipality guarantees the payment of interest and the basis of the loan in case the project is unsuccessful or there is a payment problem
- When launching this type of model, the municipality needs to consider the alternative investment opportunities available to the citizens as attractive interest rates for savings in commercial banks. Citizens would invest in this way if the interest rate comparatively was the same or higher than the one for savings deposits in banks
- When using the platform for investment through loans, investors should be informed in detail about all aspects of risks, manner of deposit and payment of interest and basis.

#### 6.2.4 Example

The investment model used for the “Solar roofs in Krizhevci” project, focuses on loans from a large number of citizen investors through the online platform ZEZinvest. The collection and processing of the data and the loan agreement take place through the web platform in such a way that the entire project is presented on a web site and the data required for the conclusion of the loan agreement is collected through an online form. Then, the interested investors receive an investment offer to their email address, which contains a document with key investment information (mini prospectus), a personalized loan agreement with a repayment plan according to the required investment amount, which also contains tax reliefs for the invested capital and an instruction for payment via payment slip, internet or mobile banking.

The basis of the relationship between the lender and the borrower is the conclusion of a loan agreement between a natural person and the green energy cooperative - ZEZ. The money collected by the citizens through loans is used by ZEZ to purchase and then install a photovoltaic power station on the roof of the building of the Technological Park and Entrepreneurship Center of Krizhevci - beneficiary of the project. When the borrower makes a payment to the lender’s account, a separate loan agreement is concluded.

In order to ensure return of the loan with interest to the citizen investors, ZEZ signs a lease agreement for solar equipment with the beneficiary of the project, a legal

entity that manages the Technology Park and the Entrepreneurship Center Krizhevci, and is owned by the town of Krizhevci.

The equipment lease agreement defines the monthly rent that the project user pays to ZEZ, which is 1/12 of the estimated annual electricity savings, increased for the costs of insurance and maintenance of the plants and 1% of the total annual investment for administrative costs. Under the lease agreement, solar equipment is transferred free of charge to the ownership of the power plant to the project user after the expiration of the contract period.

After the citizens register and follow the instructions to deposit the money in the account specified in the investment offer and such deposit is recorded in the system, the deposited money is stored in a special dedicated account until the required amount for a particular project is collected. Once sufficient funds have been received, they are used to finance the project. ZEZ Energy pays annuities to the investors every year.

Only nationals of the Republic of Croatia, over 18 years of age, with a residence registered in Croatia and a bank account in the Republic of Croatia may invest in the projects.

The minimum share in the project is HRK 1,000, while the maximum amount of investment is limited to 5% of the total investment in each project in order to avoid taking over the project by large investors and to ensure the possibility for investment to a larger number of citizens.

The first annuity is paid to the investors after one year and the defined “grace period” for each project, then annually until the end of the contractual period. Each annuity paid to the investors contains part of the principal and interest, which are paid annually according to the repayment plan specified in the financing conditions and the repayment table of each project.

It is important to note that the implementation of the project results in savings on the current accounts of the project users, from which the investors’ funds are returned. Prior to the start of the investment, an assessment of the opportunities for savings at the location and a techno-economic analysis of the project are made.

Once the anticipated amount of crowdfunding is reached, new payments to the project are stopped. Overfunding is not necessary because the financial analysis of the project is always done according to the exact needs for the implementation of the individual project and is not used for other purposes. If more payment than defined in the project is received, those money will be returned to the citizen investors. If the required amount is not reached within the foreseen deadline of the group investment

campaign, all money received shall be returned to the investors. So far, projects on the ZeZinvest platform have had 100% success with regards to funding.

In order to mitigate the risk and ensure a return on the investment, ZeZinvest is taking a number of measures such as:

- ZEZ, with its many years of experience in the field of renewable energy sources, and as the holder of the investment in each project, makes its own risk assessment through a techno-economic and financial analysis of each project;
- The beneficiaries of the project pay monthly annuities for rent to the Cooperative with regards to the annual payments, which always leaves room for timely reaction in case of inability to collect the claims;
- If the beneficiary of the project is a legal entity owned by the city or municipality, the same local self-government unit is the signatory and guarantor of the equipment lease agreement;
- The project beneficiary signs a blank promissory note in favour of the Green Energy cooperative in the amount of the entire investment in the project, including the value of the total annuities;
- Each project is adequately insured by the insurance companies in the event of accidents or work stoppages, and special extended guarantees for the duration of the contract are agreed for all installed equipment.
- In addition to the measures implemented by the Green Energy Cooperative to reduce the investment risk for themselves and their investors, investors can also contribute to reducing the investment risk by studying in detail all available documents and making an informed investment in a particular project, as well as by diversifying their investments.
- If the beneficiary of the project is unduly late with the payments of the agreed rent, ZEZ may activate a blank promissory note to collect its claims and provide a return to the citizen investors.
- ИНВЕСТИТОРИ.

## 6.3 Holdings (shares)

### 6.3.1 Introduction - what is the model?

Crowdfunding with holdings is a modality by which investors buy a share in a particular project. This model is more complicated than loans and donations because it provides for voting rights and participation in decision-making not only by the project initiators and implementers but also by the investors themselves. So far, this model has rarely been used for energy efficiency projects, potentially because ESCO companies are young and lack experience, or investors may not be familiar with energy efficiency investments and business models for shared savings and associated risks. CF through shares may occur at an early stage of the project whereby there may be less dilution of ownership e.g. a young ESCO company. In this type of investment, shareholders can all get one vote, if they have even one share in the company. It changes depending on the number of shares held by a particular investor. In comparison, venture capital or angel investments offer venture capital to supplement existing capital, and thereby increasing the project's ability to obtain an additional loan. On the other hand, investors with shares may not consider energy savings as an "inflow of income" or a return on investment.

In RNM, this model would be most easily implemented through a public-private partnership where the municipality cooperates with a private partner for a specific competence, while the private partner manages the process of group investment through holdings.

### 6.3.2 Legal aspects

The Law on securities regulates the manner and conditions of issuance and trading of securities, registration of securities, functioning of the securities market, etc. Also, the law prescribes that the municipalities and the city of Skopje can issue securities, thus opening the possibility of issuing and selling shares to interested persons and collecting funds for financing renewable sources projects.

In order to issue and sell the shares, an approval by the Securities and Exchange Commission is necessary. The approval for issuing of securities is not necessary if the issuing of securities is done by a public or private offer, the total amount of which is not more than 25,000 euros in denar counter-value.

The relevant provisions of the law and the procedure for issuing of securities are given below.



C.1 - Table with more important provisions for issuing of shares in accordance with the Law on Securities

<b>Law on Securities (more important provisions)</b>	
<b>Provision</b>	<b>Content</b>
Article 2	“Share” is an ownership security, which is an indivisible and ideal part of the basic principal of the joint-stock company or limited partnership with shares. Shares can be ordinary and priority;
Article 3	Securities can be issued by: The Ministry of Finance on behalf of the Republic of North Macedonia, the National Bank of the Republic of North Macedonia, the municipalities and the City of Skopje, joint-stock companies and limited partnership companies with shares and other domestic and foreign legal entities (hereinafter: issuer), in accordance with this or other law.
Article 6	(1) The security has a nominal value. (2) The nominal value of the securities may be expressed in denars or in foreign currency. (3) Trade transactions in securities on the territory of the Republic of North Macedonia shall be carried out in denars. (4) Issuance of securities without nominal value is prohibited. (5) A security issued without nominal value shall be void.
Article 7	(1) Upon each issue of securities, the issuer shall be obliged to adopt an act of issuance which, depending on the type of securities, shall contain the following data: - name of the issuer; - the type of securities; - the purpose for which the securities are issued; - types and classes of shares; - name of the guarantor; - series of securities; - total value of the issue; - nominal value; - voting rights; - method of payment of dividend; - amount of interest rate, method of calculation and payment thereof; - amount of the basic principal of the issuer and the percentage of participation in the issuance of bonds in the permanent own capital; - opportunities for replacement with other securities; - sources of funds from which the securities will be paid; and - method and time of registration of securities; - quantity and denomination structure of securities; - method and deadline of payment of the registered securities; - the right of priority purchase and the order of realization of the priority when the shares are issued in several series; - the manner in which the issuance of the securities is announced; - procedure for distribution of securities; - rights arising from priority shares;

Article 9	<p>(1) The issuance of securities on the primary market, including own shares, shall be made upon prior approval of the Commission, except in the cases referred to in Articles 26 and 29 of this Law.</p> <p>(2) The issuance of securities on the primary market may be made through a public or through a private offer.</p>
Article 12	<p>(1) The issuance, the offer and the sale of securities through a public offer shall be made after prior approval by the Commission to the request by the issuer for issuance of securities through a public offer.</p> <p>(2) The first public offer of securities announced by a joint-stock company or a public offer announced during the transformation of a limited liability company and a one-person limited liability company to a joint-stock company shall be an initial public offer.</p>

### **Conclusion**

According to the Law on securities, shares as securities can be issued by municipalities and the city of Skopje. Each share has a nominal value expressed in denars or foreign currency and it represents the ideal part in the basic principal of the company. The issuance of securities shall be made after prior approval by the Securities and exchange Commission and they may be offered for sale through a public offer.

## C.2 - Procedure for the issuance of shares



### 6.3.3 Crowdfunding development model

Planning a holdings/ shares campaign	Description
<b>Defining a project</b>	
Project Mapping	At this stage, projects eligible for financing through holdings are being mapped. After drafting the list of projects, they are ranked according to priority for implementation. After the ranking, a specific project is chosen which will be targeted with the specific campaign.
Project name	After the previous prioritization stage of projects, one project is defined to be targeted with the specific campaign.
Project description	What should the project achieve? Detailed description of the existing and the desired condition, preferably with quantitative indicators.

<b>Preparation of a project team</b>	
Creating a campaign team/organization selection for the management of the investment process through shares	<p>At this stage, a team of employees in the municipality - finance department, department for the respective project and potential partner organization is created for the management of the process.</p> <p>For the implementation of this model it is desirable to hire a brokerage house, investment fund or bank.</p> <p>At the same time, the relations between the process managers and the user - the municipality - are regulated at this stage.</p>
Initial Briefing	<p>Educating the campaign team on a detailed understanding of the concept and the next steps of implementation</p> <p>Specifying a trainer and the briefing content</p>
Initial consultations with the community and getting feedback	<p>The team shall meet with various representatives from the municipality to understand the problem in more detail as well as the interest in its addressing and financing.</p> <p>At this stage, the community also receives information that the municipality is actively addressing a particular problem.</p> <p>After this stage, there may be a need to redefine the above mentioned aspects of the campaign.</p>
<b>Project financing</b>	
Project value	<p>This section presents the full amount of the investment/project. If it is, for example, an investment in solar panels at a particular kindergarten, the full value for the installation of solar panels at that particular kindergarten is entered.</p>
Target amount for the specific campaign	<p>This section presents the amount that this campaign aims to collect through holdings. A model can be proposed where the municipality invests in <math>\frac{1}{3}</math> of the project, the implementing company invests in <math>\frac{1}{3}</math> of the project, while the rest is invested through shares.</p>

Grant/matching funds	This section presents the amount that the municipality or another organization will donate if the campaign is successful.
Holding / share price	In this section, a holding price is defined.
Condition for the implementation of a project	Example: The project will be implemented if 80% of the target set are collected through loans.
Targeted Investors	Individuals Businesses Organizations Local government State institutions international organizations Other
Conditions for selling a holding	Defining the manner and the opportunity to sell a holding
Voting / deciding rights	Defining the rights each investor acquires depending on the amount of the holding
Duration of the campaign Defining the start and the end day	
<b>Launching a campaign</b>	
<b>Establishing digital presence - information stage</b>	<i>Creating a website or social media page informing that a process has been initiated to address a particular project/issue.</i>  <i>Website</i> <i>FB page</i> <i>Media appearances</i> <i>Public gatherings</i> <i>Other</i>

<p><b>Establishing digital presence - call to action</b></p>	<p><i>In this section the tools or ways for online purchase of holdings are chosen, or the manner for another model for access to holdings is described. Existing crowd-funding platforms are commonly used for this. (Kickstarter, ECrowd)</i></p> <p><i>Citizeninvestor</i>  <i>Neighborly</i>  <i>Spacehive</i>  <i>Crowdfunder</i>  <i>Hubbub</i>  <i>Neighbor.ly</i>  <i>ECrowd.mk</i></p> <p><i>Existing platform</i>  <i>Compensation shall be paid (usually 1-5% of the sum collected)</i>  <i>Platforms offer marketing, a donor's network, training courses, and do due diligence on the project before publishing.</i></p> <p><i>Custom Platform</i>  <i>Custom Website</i>  <i>Bank Account Promotion</i></p>
<p>Marketing and public relations</p>	<p>It is important the communication to target both project initiators and potential donors.</p> <p>Press releases  Webinars  Social media  Local Events-Promotions  Posters and leaflets</p>
<p>Support from persons in leadership positions</p>	<p>Mayor  Representative from central government  Celebrity</p>

Report and Impact	
Reporting to the public on: Campaign Flow Campaign result achieved	TV appearances Forums Social media posts during the campaign Notifications to the investors Regular letters/newsletters Events Other
Impact evaluation and measurement	Achieved result Key performance indicators Return on investment Connection to standards such as SDG, ESG
Transferring good practices	This section defines whether and how the municipality will further transfer the good practices and lessons learned: Inside the municipality to other sectors To other municipalities Institutions of central government Organizations Businesses

#### Aspects to take into account:

- In the model of investments through shares, the most important is a clear definition of the value of the share, plans to increase the number of shares in the course of the project which may lead to a dilution in the share of the initial investment and the like.
- Clear definition of voting rights according to the holdings is important. If each investor, regardless of the number of shares or size of the holding, has the right to one vote, effective decision-making mechanisms through electronic tools, etc. are required.
- With the holding model at the municipal level, it is necessary to clearly define an exit strategy - at which point investors can sell their holdings and to whom (definition of preferential buyers and so on)
- In this model the risks for investments must be mentioned - whether there is a guarantor, insurance (underwriting) and return of funds if the project is unsuccessful
- It is preferable that the role of the municipality in this model is the one of an initiator and mediator but not the one of a campaign manager since it requires a more sophisticated financial knowledge and capacity of the process manager

### 6.3.4 Example

Low Carbon Hub derives from successful energy activities managed by volunteers in West Oxford since 2001. Today, the Low Carbon Hub model consists of four harmonized legal organizations: The Low Carbon Hub Industrial and Provident Society (Low Carbon Hub IPS), Sandford Hydro Ltd, a wholly owned subsidiary of Low Carbon Hub IPS, Ray Valley Solar Ltd, a wholly owned subsidiary of Low Carbon Hub IPS and Low Carbon Hub CIC.

The objective of Low Carbon Hub IPS is to develop a decentralized locally-owned renewable energy infrastructure for Oxfordshire by developing a portfolio of renewable energy projects with businesses, schools and public sector partners. Low Carbon Hub IPS Limited was established as an industrial benevolent company - a legal form that can be used for businesses that are run for the benefit of the wider community and that reinvest profits in the community.

Low Carbon Hub IPS collects investment for projects and owns and operates renewable energy production assets. Sandford Hydro Ltd and Ray Valley Solar Ltd were established as separate subsidiaries due to their different risk profiles.

Part of the profits of Low Carbon Hub IPS are handed over to Low Carbon Hub CIC to finance the work of the energy projects in the community, in line with the IPS's purpose of community benefit. Companies of community interest are a model of social enterprises that want to use their profits for the public good. Low Carbon Hub CIC provides community benefits and innovative projects as well as practical support to the communities in order to develop its own funds for renewable energy. Low Carbon Hub staff are employed in the CIC entity and work through a service contract with IPS. Low Carbon Hub CIC supports the development of community-owned renewable energy sources in Oxfordshire and elsewhere, sharing experience in social enterprise development and helping other initiatives to reach investment readiness and raise the necessary funds.

The boards of directors for Low Carbon Hub CIC and Low Carbon Hub IPS consist of the same people - with at least one independent director, to ensure the protection of the interests of each company. A number of low carbon emissions or community energy partner associations have a holding in CIC, to ensure transparency and that CIC is run by those it is established to serve. The shareholders in CIC do not receive any dividend, as the assets of CIC are intended for social purposes. Every three years a separate community director is elected to the CIC Board from these community shareholders. Investors in Low Carbon Hub IPS automatically become members and owners of the society based on their investment and they elect the Board of Directors.

Low Carbon Hub stands out in crowdfunding. After originally being established with grant support, CAPEX funding for projects on renewable energy sources was first collected through equity investment by several pioneering investors. This was followed



by a series of sharing offers of the community to collect funds for certain project portfolios. Community shares are a different type of “patient” share capital that behaves differently from the conventional transferable shares used by most companies. Community shares may not be transferred between people, so shareholders may instead apply for the withdrawal of their share capital, provided that the details in the document of their share offer and approval are of benefit to the community. Financial gains can be transferred to the community, while their value cannot be increased only decreased. In fact, investment with holdings in this case is like long-term loans designed primarily as a tool for social investment.

In 2018, Low Carbon Hub created an energy fund for the community as a way to provide more flexible investment financing for their portfolio of projects. To date, over £8 million has been raised for the energy fund for the community through a number of community investment offers - from more than 1,400 individual investors. The offer investment process of the community is currently hosted by the UK community investment platform - Ethex. Investors are attracted to the fund for the moderate financial returns and social and environmental returns - the fund is promoted as an investment opportunity that invests money and provides local projects to tackle climate change. The last share offer was with an investor return of 5%, limited to 4% for the first four years. The Low Carbon Hub team believes a successful offer to share with the community needs a clear business plan and a good social story. For the Ray Valley Solar investment, Triodos Bank UK also provided a loan, along with the crediting from the Oxford City Council and funding from the LEO project. Partnerships and collaboration are key to the success of Low Carbon Hub. Each program delivered by Low Carbon Hub is in collaboration with at least one other partner.

## 6.4. Bonds

### 6.4.1 Introduction - what is the model?

A classic model but one that can be considered as a crowdfunding model, is municipal bonds. In addition to their own and other sources of financing, local self-government units can provide these funds through the capital market, i.e. through the issuance of **municipal bonds. Bonds are long-term debt securities**, by which the issuer undertakes to pay to the owner of the bonds (the holder) once or in instalments, within the agreed term, the amount of the nominal value of the bonds and interest.

By issuing a municipal bond on the one hand, municipalities provide funds and open the possibility for realizing larger capital investments and accelerating local growth and development, and on the other hand, the investors have a new instrument at disposal for the placement of free funds. The bonds can be secured and unsecured, have **a fixed or variable interest**, be interest-free, and their principal can be paid in annuities or at the expiration of the due date.

The issuers of the bonds are **debtors**, because when issuing the bonds, they borrow funds from the investors. Investors in bonds are creditors, because they lend their own funds for a fixed term and for a fixed compensation-interest.

For the collection of funds through the issue of securities, it is necessary to involve more participants, which also implies that the municipality shall hire additional resources such as personnel, technical resources and financial resources.

The bonds can be sold to **pre-known buyers**, institutional investors, in which case we are talking about a **private offer**, or they can be issued through a **public offer** to an indefinite number of unknown buyers.

Given that the issuer of municipal bonds is a local self-government unit, where the repayment of debts is mainly based on the collection of taxes and other public levies, the municipal bonds are considered as **low-risk placements** which should give a slightly bigger return compared to the return from the government bonds.

The biggest advantage of financing the project by the issuance of municipal bonds is not only a purely financial issue, but also a social one, because whenever a public offer for the registration and payment of municipal bonds is announced, the local self-government announces a certain type of “referendum” regarding a project that will be financed through the bonds, thus allowing the local community and the citizens to further decide whether they will support the project of the local self-government, i.e. to decide for themselves what is necessary for better living in their municipality.

To facilitate the collection of funds by issuing municipal bonds, as well as to achieve greater transparency especially for foreign investors, before issuing the bonds, the local self-government can decide to obtain a credit rating by an international rating agency.

Municipal bonds can be guaranteed by the state, but also by a bank or other financial institution, and in addition, if necessary, the local self-government can pledge part of the property in its possession as a guarantee for timely servicing of liabilities. Bonds can have different maturities. Longer maturities imply a higher and more demanding return rate and vice versa.

#### 6.4.2 Legal aspects

Similarly, to the issuance and the sale of shares as securities, the Law on securities prescribes the same procedure for the bonds. The basic difference is that when selling the bonds, the buyer of the bonds does not acquire an ownership share in the basic principal and property of the issuer. By issuing the bond, the issuer undertakes that the owner of the bond will pay the amount of the nominal value of the bond with interest if agreed.

The relevant provisions of the law and the procedure for issuing of securities are given below.

*D.1 - Table with more important provisions for issuing of bonds in accordance with the Law on securities*

<b>Law on securities (Bonds) (more important provisions)</b>	
<b>Provision</b>	<b>Content</b>
Article 2	“Bond” is a long-term debt security, by which the issuer undertakes to pay the owner of the bond, at once or in instalments, on the specified day, the amount of the nominal value of the bond and the interest. The bond may be secured or unsecured, have a fixed or variable interest, be interest-free, may entitle the owner to interest and/or payment in pre-determined instalments, may be redeemed by any party under certain conditions and/or may entitle the owner to convert the bond into another type of security of the issuer;
Article 3	Securities can be issued by: The Ministry of Finance on behalf of the Republic of North Macedonia, the National Bank of the Republic of North Macedonia, the municipalities and the City of Skopje, joint-stock companies and limited partnership companies with shares and other domestic and foreign legal entities (hereinafter: issuer), in accordance with this or other law.
Article 6	(1) The security has a nominal value. (2) The nominal value of the securities may be expressed in denars or in foreign currency. (3) Trade transactions in securities on the territory of the Republic of North Macedonia shall be carried out in denars. (4) Issuance of securities without nominal value is prohibited. (5) A security issued without nominal value shall be void.

Article 7	(1) Upon each issue of securities, the issuer shall be obliged to adopt an act of issuance which, depending on the type of securities, shall contain the following data: - name of the issuer; - the type of securities; - the purpose for which the securities are issued; - types and classes of shares; - name of the guarantor; - series of securities; - total value of the issue; - nominal value; - voting rights; - method of payment of dividend; - amount of interest rate, method of calculation and payment thereof; - amount of the basic principal of the issuer and the percentage of participation in the issuance of bonds in the permanent own capital; - opportunities for replacement with other securities; - sources of funds from which the securities will be paid; and - method and time of registration of securities; - quantity and denomination structure of securities; - method and deadline of payment of the registered securities; - the right of priority purchase and the order of realization of the priority when the shares are issued in several series; - the manner in which the issuance of the securities is announced; - procedure for distribution of securities; - rights arising from priority shares;
Article 9	(1) The issuance of securities on the primary market, including own shares, shall be made upon prior approval of the Commission, except in the cases referred to in Articles 26 and 29 of this Law. (2) The issuance of securities on the primary market may be made through a public or through a private offer.
Article 12	(1) The issuance, the offer and the sale of securities through a public offer shall be made after prior approval by the Commission to the request by the issuer for issuance of securities through a public offer. (2) The first public offer of securities announced by a joint-stock company or a public offer announced during the transformation of a limited liability company and a one-person limited liability company to a joint-stock company shall be an initial public offer.
<b>Conclusion</b>	
<p>Pursuant to the Law on securities, bonds may be issued by: The Ministry of Finance on behalf of the Republic of North Macedonia, the National Bank of the Republic of North Macedonia, the municipalities and the City of Skopje, joint-stock companies and limited partnership companies with shares.</p> <p>The issuance of bonds shall be made after prior approval by the Securities and exchange Commission and they may be offered for sale through a public offer.</p>	



### 6.4.3 Crowdfunding development model

The procedure for issuing municipal bonds covers several stages, including preparation for the issuance of bonds, market analysis, preparation of documentation, obtaining the necessary approvals and consents from the competent authorities, the registration and payment of the offered bonds, i.e. the implementation of the issue, so that in the end the issued bonds are accepted for listing on the official stock exchange market.

Crowdfunding via bonds	Description
<b>1. Defining a project</b>	The municipality drafts a project and proposes conditions for its financing.
<b>2. Public debate</b>	The project and the proposed conditions for its financing are put up for public debate in the municipality. The subject of the public debate is the description of the project and the conditions for its financing.
<b>3. Approval by a municipality council</b>	The Municipality council approves the long-term borrowing.
<b>4. Adopting a decision on borrowing</b>	Decision on borrowing and Decision on issuance of municipal bonds, which also determine the method of issuance – public or private offer. The decision on the issuance of bonds regulates the rights from the bonds and the conditions of issuance.
<b>5. Bond prospectus</b>	The municipality issues a prospectus for the issuance of bonds through a public offer.
<b>6. Approval from MF</b>	The municipality submits a request to the Ministry of Finance to obtain an approval for borrowing.

<b>7. Bond Issuance</b>	After obtaining the borrowing approval from the Ministry of Finance (whose validity is for the calendar year in which it was issued), the Council of the municipality adopts a Decision for issuance of bonds.
<b>8. Sponsor of the issuance</b>	If a decision is made to hire a sponsor for the issuance – an authorized bank or brokerage house is hired to guarantee the redemption of the unsold part of the bond issuance at a predetermined price. This means higher costs in relation to the cost of hiring an authorized capital market participant without the obligation for a mandatory redemption of the unsold bonds.
<b>9. Private offer</b>	In the case of a private offer, the money shall be deposited within 15 days of the finalization of the Decision by the Securities and exchange Commission approving the issuance of bonds through a private offer, after which the bonds shall be registered with the Central Securities Depository, from which moment the holders may have them at their disposal, while the local self-government unit may have at disposal the funds collected from the issuance.
<b>10. Public Offer</b>	In the case of a public offer, the procedure for registration and deposit of the securities begins after the publication of the Invitation for registration and deposit of securities – municipal bonds and the Prospectus for registration and deposit of the securities – municipal bonds. The registration of the publicly offered bonds takes place through the Macedonian Stock Exchange in accordance with the trading rules of the Stock Exchange.

The total annual repayment of the debt (principal, interest and other expenses) made on the basis of long-term debt and long-term loan from the central budget of the Republic of North Macedonia may not exceed 30% of the total revenues of the current operating budget of the municipality in the previous fiscal year.

The total amount of the municipality's outstanding long-term debt, including all guarantees issued, cannot exceed the amount of the total revenues of the current operating budget of the municipality in the previous year.

The public offer of the bonds is considered successfully completed if at least 60% of the offered bonds are registered and deposited within the foreseen implementation deadline, unless the municipality has provided for a higher registration percentage in the decision for issuance of the bonds and payment for the issuance in order for it to be considered successful.

Municipal bonds are deposited in money into a dedicated bank account, which is opened by the municipality for the purposes of the public offer. During the registration, all payments from the buyers for the offered bonds are kept at the dedicated bank account, which cannot be used by the municipality, until the public offer is successfully completed. The deadline for realization of the public offer may not exceed 12 months from the date of commencement of registration and deposit of the bonds. According to the decision for issuance of the bonds, the municipality may set a shorter deadline for the realization of the public offer.

The advantage of issuing municipal bonds through a public offering is that it is the most transparent process involving all potential investors – from citizens to institutional investors (banks, insurance companies, pension and investment funds). It is a marketing process that is particularly important, as it allows the citizens with their own funds to finance the development of local infrastructure in the city and municipality they live in and thus have a direct positive impact on the quality of their lives. At the same time, the process of public offering also affects the development and promotion of the issuer's human resources. In addition, the broad investor base for the local self-government unit means greater responsibility, greater transparency, better financial management, leading to increased trust not only in the financial investors, but also in the investors of the actual sector.

After registering the bonds in the securities depository, the local self-government unit becomes an issuer with special reporting obligations and is entered in the Register of companies with special reporting obligations, in the section of issuers of debt securities.

This means that from the moment the bonds are issued until the maturity expires and until the bonds are paid in full, the municipality will have to inform the public about its operations.



More details on the procedure for issuing municipal bonds in the Republic of North Macedonia can be found in the *Manual on municipal bond issuance* issued by the Securities and exchange Commission in 2022.

Aspects to be taken into account:

Political risks

#### 6.4.4 Example

The municipality of Shtip plans to issue a bond that would implement several capital projects with regards to the infrastructure, but would also produce electricity. Namely, with the first municipal bond in Macedonia, the municipality plans to complete the construction of the “Partizanska” boulevard, the ring-road from the entrance of Shtip to the settlement of Novo Selo, solving the traffic chaos with the consoles of the Otinja River, but also the construction of photovoltaic power stations, a small hydropower plant with a turbine in PE “Isar”, a newly-established company that will produce electricity. The aim is to raise funds from the sale of electricity on the free market, to service the instalments and to pay the bond.

This is the first such debit of a municipality in the country, which will issue 8,000 bonds, while the municipality will receive four million euros. The term for the return of the bond is seven years with fixed interest. Buyers can be domestic and foreign companies, and the offer will be considered successful if at least 60% of the offered bonds are registered and deposited.

The choice of this financial model for crowdfunding is due to the fixed interest rate in times of inflation.

## 6.5 Selection of the appropriate model

Each of the crowdfunding models above has its advantages and disadvantages. Donation-based and reward-based models are quickly implemented, tend to raise funds over short periods of time, and are easy to repeat. However, they tend to be limited to financing smaller projects.

Holdings and municipal bond models usually raise larger sums of money; however, they are subject to stricter regulations; therefore, they take much longer to be established and are not easily repeated. The models are restrictive in that only certain types of organizations can manage holdings or municipal bonds. Finally, these models also tend to be less accessible to the public due to their more complicated investment structures.

In order to select a model, the following questions can be followed:

- What is the amount of funds required?
- What type of project is being funded?
- What is the structure of the organization proposing the project?

Model	The most suitable for:
Donations	Smaller projects such as landscaping parks, individual events or activities.  Projects where rapid implementation is required.
Rewards	
Loans	Projects involving long-term investment, such as financing energy efficiency, restoration of facilities, financing local economic development.
Civic holdings	
Municipal Bonds	Larger and long-term public sector projects such as infrastructure projects, upgrading of existing facilities.



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