‘Crowdfunding: Democratising finance for the green economy’ (ABSTRACT)

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‘Crowdfunding: Democratising finance for the green economy’ explores to what extent crowdfunding can function as an innovative mechanism to finance sustainable projects – in my case study the focus lies on renewable energy projects- and as an alternative model to the traditional banking system. The paper also presents various pathways that crowdfunding for renewable energy can take and asks who constitutes the supporter base of these pathways, i.e. who is the ‘green crowd’? This paper argues that crowdfunding can be a catalyst of changes that are very much in line with the ideas behind degrowth. Considering the potential that crowdfunding has, with equity crowdfunding being expected to produce transactions in the value of $500 million to $1 billion in 2014 (masssolution, 2014), it is an area that is certainly worth exploring as a possible mean to use for degrowth aims. While the case study focuses on the UK and the British societal, political and financial system, the findings are relevant internationally.

First I will argue that crowdfunding allows small-scale renewable energy projects to escape the strangle hold of both a skewed energy market, dominated by only six private providers, and an equally skewed banking system, which is dominated by only five banks. Crowdfunding allows to bypass the banks and to raise capital for an initiative – a specific project, a venture or a cause – through the financial contributions of many private individuals. It allows small-scale renewable energy projects to find the financial backing needed by directly connecting people with money to the people who need it (Howe, 2008). Similar to local currencies, an often mentioned pathway for degrowth economies, crowdfunding attempts to cut out the middleman and to keep capital in local or at least more socially oriented networks.

Secondly I consider how the crowdfunding mechanism remains within the remit of a financial market of debentures and equity but turns an exclusive investment market to an inclusive one. Robert J. Shiller (2013) sees crowdfunding democratising finance by allowing the small investor to turn into a venture capitalist, which at the same time democratises access to capital markets (Rubinton, 2011). It represents a financial innovation that disrupts the financial market mechanisms that have been previously controlled by a tiny number of accredited investors, resulting in the concentration of wealth amongst a select few. Crowdfunding gains therefore the status of a new mechanism of financial capital democratisation, in line with the suggestions by Nadia Johanisova and Stephan Wolf (2012), to create an economic democracy as step towards degrowth.

The last part of the paper will concentrate on the more practical elements of crowdfunding, i.e. how it works – in particular in the context of renewable energy projects – and who is part of the supporting ‘green crowd’ and why.

The term crowdfunding for renewable energy is not very clear-cut. Different business models are attached to it and different approaches are taken. However, so far only three organisations stand out, even though more and further hybrid models are up and coming. The idea to support small-scale renewable energy projects through capital raised by crowds is particularly embraced by the UK-based business Abundance Generation and the US organisations SunFunder and Mosaic. None of these organisations have been actively raising money for longer than three years, and yet they enjoy growing success. Typical for crowdfunding initiatives is the low entry level for contributions, with Abundance Generation offering the lowest investment rate of only £5. The most advanced business model is that of Abundance Generation, which offers debentures with variable returns, fixed returns or inflation-linked ones. The direct link to ideas around degrowth lie here in the potential and vision for future activities, namely to use this mechanism to open up to public or social finance initiatives, for example allowing people to 'invest' or 'own' vested interest in a hospital or school. This vision is very much in line with concepts of degrowth such as Serge Latouches (2007) outlines them. He links degrowth to the idea of acting on a local scale through a bottom-up approach.

Lastly I will follow the question of who is part of this 'green crowd' (a nickname for the renewable energy crowdfunders) and to establish how crowdfunding for renewable energy can have wider social and societal implications. Showing support for renewable energy is a driving motivation for investments, but at the same time investors do evaluate and appreciate the expected level of return. Social concepts such as the provision of benefits for the communities where the renewable energy project is based and the system of democratic finance take a much higher value in the investment decision than structural considerations such as risk and portfolio diversification. At the same time there is a surprising lack of local support of the offered renewable energy projects; the vast majority of investors are living in considerable distance to the projects. This is relevant in so far as the idea of ownership, normally a prominent topic when looking at renewable energy acceptance, is of no importance.

This short overview over crowdfunding for renewable energy will show that the mechanism has potential to support the transition to a green and community steered infrastructure; that it provides an opening to an inclusive finance system and one that bypasses the traditional banks; and that it can be a way for people to drive the agenda they believe in.

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