

ANNEX

1. BUDGET

1.1. Budgetary resources

The total maximum amount of funds made available in this Annual Work Programme as a contribution (annual instalment) to financial instruments of the Connecting Europe Facility in 2016 is EUR 230 262 000.

1.2. Budget lines

For the transport sector:

Article 06 02 01 05 – Creating an environment more conducive to private investment for transport infrastructure projects: EUR 66 354 000.

For the telecommunications sector:

Article 09 03 02 – Creating an environment more conducive to private investment for telecommunications infrastructure projects - CEF Broadband: EUR 90 000 000.

For the energy sector:

Article 32 02 01 04 – Creating an environment more conducive to private investment for energy projects: EUR 73 908 000.

2. OBJECTIVE

Following an ex-ante assessment on the use of financial instruments under the Connecting Europe Facility conducted in 2014, a CEF Debt instrument was established with funding contributions from the transport, energy and telecoms sectors to the European Investment Bank (EIB) under the 2014 Annual Work Programme adopted on 18 December 2014.

The CEF Debt instrument is a joint instrument of the European Commission and of the EIB. The Debt Instrument can provide added-value to the Union intervention, e.g. to grants, by enabling in another manner the financial support that addresses sub-optimal investment situations when valuable projects of common interest do not receive adequate financing from the markets. The Debt Instrument is designed to cumulate investment by attracting additional financing of these projects by Member States and / or by the private sector.

Furthermore, an ex-ante assessment on the potential use of an Equity instrument under the CEF was conducted in November 2015 and constitutes an addendum to the more general 2014 ex-ante assessment mentioned above. The 2015 assessment concluded that, given the current market failures in the financing of infrastructure projects and in view of recent developments, in particular the establishment of the European Fund for Strategic Investments (EFSI), an Equity instrument should be established under CEF. In particular, since the establishment of EFSI has greatly enhanced the available financing opportunities in the form of Debt, it is now possible to optimise the use of scarce CEF resources by re-directing a part of the available budget to finance smaller and more risky projects, especially in the area of broadband. The Debt instrument shall nonetheless remain the main delivery mechanism for the financial instruments under CEF.

In this context, the 2015 CEF Annual Work Programme provided for a contribution to the CEF financial instruments (Debt and Equity instruments) with a view to promoting substantial participation of private-sector investors and financial institutions in infrastructure investment. In 2015 the transport and energy

sector contributions reinforced the Debt instrument, while the telecommunications sector contribution was made available for the Equity instrument.

The present 2016 CEF Annual Work Programme reinforces the 2014 and 2015 contributions of the transport and energy sectors to the Debt instrument and the 2015 contribution of the telecommunications sector to the Equity instrument.

As mentioned in the 2015 Annual Work Programme, the use of the Equity instrument in subsequent years of CEF implementation may be considered, for the transport sector, for riskier projects or for projects in immature markets. In the energy sector, the Equity instrument may be used to intervene to prevent major delays in the implementation of projects of common interest.

3. EXPECTED RESULTS

The financial contribution to the CEF Debt and Equity instruments is expected to accelerate progress towards the completion of the Trans-European Networks by leveraging the Union funds and attracting additional interest from private investors for participating in the financing of infrastructure projects in Europe.

As for transport, it is expected that the Debt instrument will maximise the impact of EU funding for the support to the TEN-T network, in particular on the core network and its corridors. It will also contribute to the development of TEN-T horizontal priorities, in particular for the deployment of the European Traffic Management systems such as SESAR¹ and ERTMS², the implementation of innovative technologies in transport and the take-up of alternative fuels for transport, both in infrastructure and on-board vehicles, in line with the Europe 2020 objectives. In case of eligible TEN-T infrastructure projects of common interest, financial instruments support may be blended with grants from the CEF.

As for energy, it is expected that the Debt instrument will contribute to the development and implementation of projects of common interest in electricity and gas, helping to achieve the broader energy policy objectives of:

- increasing competitiveness by promoting the further integration of the internal energy market and the interoperability of electricity and gas networks across borders
- enhancing Union security of energy supply and
- contributing to sustainable development and protection of the environment, inter alia by the integration of energy from renewable sources and by the development of smart energy networks.

Furthermore, the contribution to the Debt instrument is in particular expected to improve the access of projects of common interest to long-term financing.

As for telecommunications, the Debt and Equity instruments will contribute to the efficient flow of private and public investments to stimulate the deployment and modernisation of broadband networks with a view to contributing to achieve the broadband targets of the Digital Agenda for Europe. The intervention will in particular provide efficient investment vehicles for broadband networks, attract new categories of investors and project promoters, and encourage replicability of innovative projects and business models.

The CEF Debt and Equity instruments will be implemented in complementarity with the European Fund for Strategic Investments (EFSI), which has a wider eligibility than the CEF and can therefore develop additional financial products for projects which cannot be financed under the CEF. In addition, the EFSI, whose financial allocation is higher than the budget available for financial instruments under the CEF, may also be used for upscaling financial products already developed and piloted under the CEF, in particular when the CEF budget is too limited compared to the actual needs.

¹ Single European Sky Air Traffic Management Research.

² European Rail Traffic Management System.

4. ELIGIBILITY CONDITIONS

Only projects related to one or several of the projects of common interest identified in Regulation (EU) No 1315/2013, Delegated Regulation (EU) No 2016/89 and Regulation (EU) No 283/2014 may receive Union financial aid under the CEF Debt and / or Equity instruments. Pursuant to Article 14(1) of Regulation No. 347/2013 only projects of common interest falling under the categories set out in Annex II.1, 2 and 4 of Regulation 347/2013 may receive Union financial assistance in the form of financial instruments.

5. IMPLEMENTATION OF THE CEF FINANCIAL INSTRUMENTS

5.1. Debt instrument

The CEF Regulation (Annex I, Part III) provides for the possibility to select in accordance with the Financial Regulation an entrusted entity for the design and implementation of the CEF Debt instrument.

The ex-ante assessment on the potential use of the financial instruments within the Connecting Europe Facility of 2014 concluded that, given the current market failures in the financing of infrastructure projects in the CEF sectors, a Debt Instrument should be set up and launched initially in cooperation with the EIB, without excluding the possibility for cooperation with other entrusted entities.

Hence, the Commission's contribution to the CEF Debt instrument is managed through indirect management by the EIB, as a risk-sharing partner, on behalf of the Union. The selection of the EIB as an entrusted entity has been made taking account of the CEF Regulation and of the requirements of Art. 84(3) of the Financial Regulation (EU, Euratom No 966/2012) and of Article 94 of its Rules of Application. The more detailed terms and conditions on the management and implementation of the Debt instrument, including its monitoring and control, are laid down in the Delegation Agreement between the European Union and the EIB signed on 22 July 2015 which takes into account the provisions laid down in Part III of Annex I of the CEF Regulation.

The EIB has been playing a very important role in financing infrastructure projects in the 3 CEF sectors. Only the EIB, as the EU bank, covers all Member States. Moreover, the CEF Debt instrument builds on the existing Project Bond Initiative and the Loan Guarantee for TEN-Transport, which were set up and run in coordination with the EIB. The EIB therefore continues to be best placed to leverage public and private investment in Trans-European Networks under the CEF Debt instrument.

The EIB is entrusted with the following tasks:

- Management of the EU contribution to the CEF Debt instrument
- Design the products
- Finding intermediaries
- Implementation of Support Actions
- Establishment of a project pipeline
- Operational and financial reporting
- Management of the merger of the existing (LGTT and PBI) with the new financial instruments under the CEF

5.2. Equity instrument

The Broadband fund will be implemented under the CEF Equity instrument by the setting-up of a dedicated investment vehicle to allow the pooling of contributions from multiple investors (direct management). As further explained in the ex-ante assessment on the potential use of the Equity instrument under the Connecting Europe Facility, the implementation of the Broadband fund by direct, rather than indirect,

management is justified i.a. by more transparency and control, optimising cost structure, faster implementation and the Commission's experience with using direct management for equity interventions.

The fund will be managed by a Fund Manager selected in a competitive selection process. The Investment Manager will be a professional asset manager with extensive experience in infrastructure and, in particular, broadband investments in Europe. For alignment of interest, the Investment Manager will also subscribe to the fund. It is expected that the fund will become operational in the second half of 2016.

If due to unexpected circumstances, such as implementation difficulties following the adoption of this Work Programme, the use of direct management becomes not feasible or sub-optimal, the Broadband fund may alternatively be implemented by indirect management. The EIB will then be selected as the entrusted entity, without excluding the possibility to cooperate with other entrusted entities, and a delegation agreement will be signed between the Union and the EIB which will set out the modalities of management and implementation of the CEF Equity instrument. The structure of the fund will remain as described above, with three classes of shares, but the EIB will manage the Union's contribution and will be responsible for the selection of the Fund Manager. The provisions of section 5.1 above shall apply *mutatis mutandis*.

The CEF Equity instrument may also be used in the future to implement projects of common interest in the transport and energy sectors. This was not envisaged in 2015 and is also not envisaged for 2016 and is therefore is not covered under this Work Programme. The choice of the implementation mode for the Broadband fund does not prejudice the selection of the implementation mode(s) for possible contributions of the transport and energy sectors to the CEF Equity fund in subsequent years of the implementation of the CEF.

6. COMPLIANCE WITH EU LAW

The granting of Union financing in the form of financial instruments to projects of common interest is subject to compliance with the relevant Union law, particularly concerning environmental protection, competition and public procurement.

7. INDICATIVE IMPLEMENTATION TIMETABLE

The first projects under the Debt instrument should be concluded by the EIB in the first half of 2016. The EU contribution to the Broadband fund should be provided in the second half of 2016.