Mid-term review

CEF Transport "Alternative Fuels Infrastructure Facility (AFIF)"

Brussels, March 2024

Executive summary

- The CEF Blending instrument has evolved to a very positive landmark Financial Instrument and plays an important role in delivering the European Green Deal and increasing EU's energy independence,
- The added value is first and foremost to enable projects with strong externalities yet uncertainties in terms of their economic model and financing plan, by removing the obstacles that currently stand in the way of their deployment: high technological costs, risks linked to demand and secured offtake but also linked to supply lead times in emerging sectors.
- With risk-return ratios perceived as unfavourable by markets AFIF is needed to trigger works and IP financing is needed to leverage EU grants by mobilising investment,
- The European Commission's 10 Implementing Partners public finance institutions (National Promotional Banks and Institutions, NPBIs) play a central role in the deployment of AFIF, complementing the EIB and the EBRD. NPBIs offer their proximity to public and private players at national, regional and sub-regional level, their understanding of specific regional needs, their financial and technical expertise and their financial intervention capacity.
- We recommend allowing some flexibility in the lead time for signing the Grant Agreement with project promotors and aligning it with actual market conditions and best practices.
- An adaptation of the eligibility criteria could give even more incentives to project promotors. AFIF could notably support the development of the emerging hydrogen sector along its entire value chain.
- This type of scheme could therefore be extended to sectors other than transport, where there are strong positive externalities. Energy (in addition to alternative fuels in particular Transmission and Distribution) and Digital are among the most prominent ones.

The Connecting Europe Facility (CEF) is a key EU funding instrument that promotes infrastructure investments across the European Union (EU) to support the development of interconnected trans-European networks in the fields of transport, energy and digital services. CEF plays an important role in delivering the European Green Deal and increasing EU's energy independence.

As a dedicated instrument under the CEF Transport Programme, the European Commission has introduced in 2019 the "CEF Blending Facility". Under blending schemes, the singularity is that grants must be combined with funding from financial institutions. The allocation of EU grants to project promoters is conditional on a firm financial engagement by a public or private financial institution. This blending mechanism was successfully tested until 2021, when the CEF Transport Alternative Fuels Infrastructure Facility (AFIF) was launched as a rolling call for proposals for the period 2021-2023. With a total budget of EUR 1.575 billion, AFIF supports the deployment of alternative fuel supply infrastructure and decarbonise transport along the Trans-European Transport Network (TEN-T).

Projects funded under this call include the roll-out of recharging infrastructure in the field of electromobility on roads, urban nodes, ports, and airports, in the field of hydrogen for public transport or heavy long-distance transport, railways and ports and in the field of liquefied natural gas in ports. AFIF is a rolling call for proposals with five cut-off dates for the submission of proposals between 2021 and 2023.

These types of projects often struggle to get off the ground with profitability being considered too low and risk analyses too unfavourable, even though positive externalities can be very significant in terms of the environment and regional development. Experience shows that while long-term investment is a key factor for financing the sustainable transition in transport, there is a need for additional public support as to reduce project costs, mobilise other co-investors and thus ensure the launch of initiatives. Blending is the strategic use of a limited grant contribution to mobilise financing from partner financial institutions to ensure a higher impact of investment by catalysing an increased volume of financial resource.

In the four cut-off dates conducted so far, 91 projects have been awarded EU co-funding of almost EUR 920 million. The selected operations will translate into approximately 4,000 electric charging stations in 25 Member States, featuring a total of 22,000 electric recharging points, 155 hydrogen refuelling stations in 12 Member States and the electrification of ground operations at 48 airports in 7 Member States. AFIF grants have been a decisive factor to make these projects (which have important extra-financial externalities) economically viable and financially sound.

Total funding to date under CEF-T-AFIF

Call	Cut-off date	Number of projects	Recommended AFIF co- funding
AFIF cut-off 1	19 January 2022	15	EUR 86.5 m
AFIF cut-off 2	7 June 2022	24	EUR 292.5 m
AFIF cut-off 3	10 November 2022	26	EUR 188.8 m
AFIF cut-off 4	13 April 2023	26	EUR 352.1 m
TOTAL to date (cut-off 1-4)		91	EUR 919.9 m
AFIF cut-off 5 results available in Q1 2024	*7 November 2023*	*50 project proposals*	*EUR 450 m requested*

Many selected projects have been accompanied by ELTI members in their role as Implementing Partners (IP), facilitating the implementation of 2/3 of the overall AFIF budget on behalf of the European Commission under this blending instrument and contributing to the operations with the long-term financing of the projects through loans, equity or any form of repayable support.

The fifth and final cut-off date of the AFIF call for proposals was closed on 7 November 2023. In a short period of time, AFIF has become a blending instrument of reference. Combining AFIF grants with traditional IP financing has proven effective in overcoming the lack of market finance in emerging sectors (due to high upfront costs) and contributing to the massification of recharging infrastructure in more mature market segments. The transport sector still vastly relies on fossil fuels and boosting the uptake of renewable and low-carbon fuels in all modes of transport remains an EU priority.

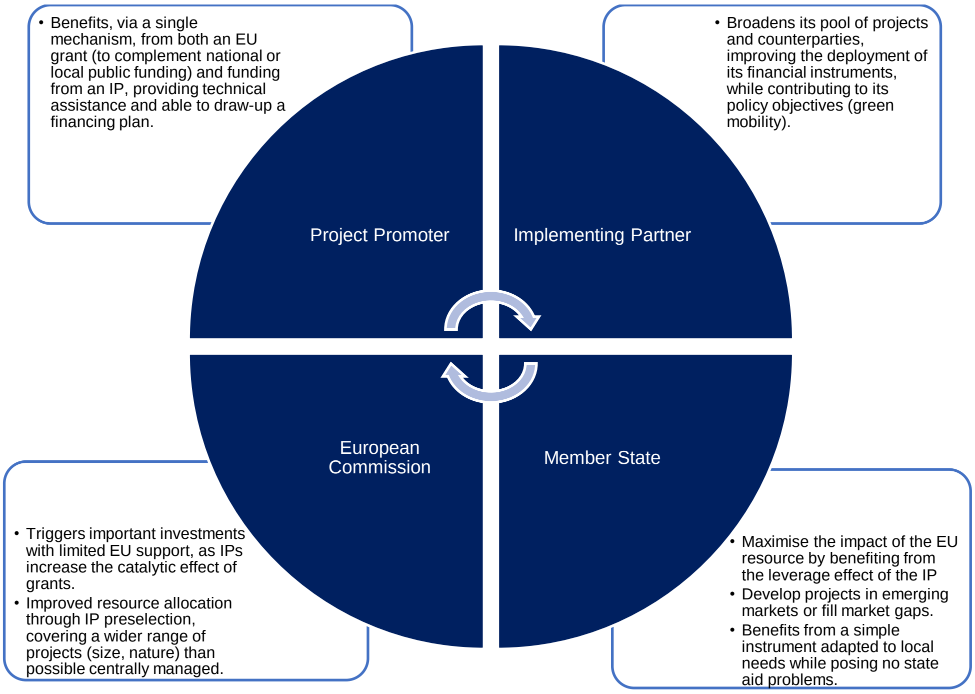
AFIF has been designed for smooth implementation:

- An Administrative Agreement between the European Commission and the Implementing Partner describes the responsibilities of each party and the process;
- Clear eligibility criteria (with a comprehensive FAQ) and a simple method for calculating the grant (percentage of the eligible costs or unit contribution, depending on the type/quantity of underlying asset) make it easy to draw up financing plans;
- AFIF is a best practice in terms of reducing administrative burdens since the instrument is lean, simple and it allows applicants to access funding relatively quickly;
- The process is straightforward, with each actor ensuring a vital role: the financial partner carries out the technical and financial analysis of the project, on which it bases its funding decision. This analysis is shared with the European Commission, which is then solely responsible for the decision to award the grant and its allocation (verification of conditions, decision, award and monitoring).

The mechanism's added value is first and foremost to enable projects with strong externalities yet uncertainties in terms of their economic model and financing plan, by removing the obstacles that currently stand in the way of their deployment: high technological costs, risks linked to demand and secured offtake but also linked to supply lead times in emerging sectors. With risk-return ratios perceived as unfavourable by markets, AFIF is needed to trigger works and IP financing is needed to leverage EU grants by mobilising investment.

In addition, the mechanism enables the emergence of both local or small-scale projects (for example, the electrification of airport ground handling operations) and large-scale projects with a multi-national dimension linked to the deployment of pan-European recharging infrastructure (installation of recharging stations in different Member States by one operator).

The strengths of blending



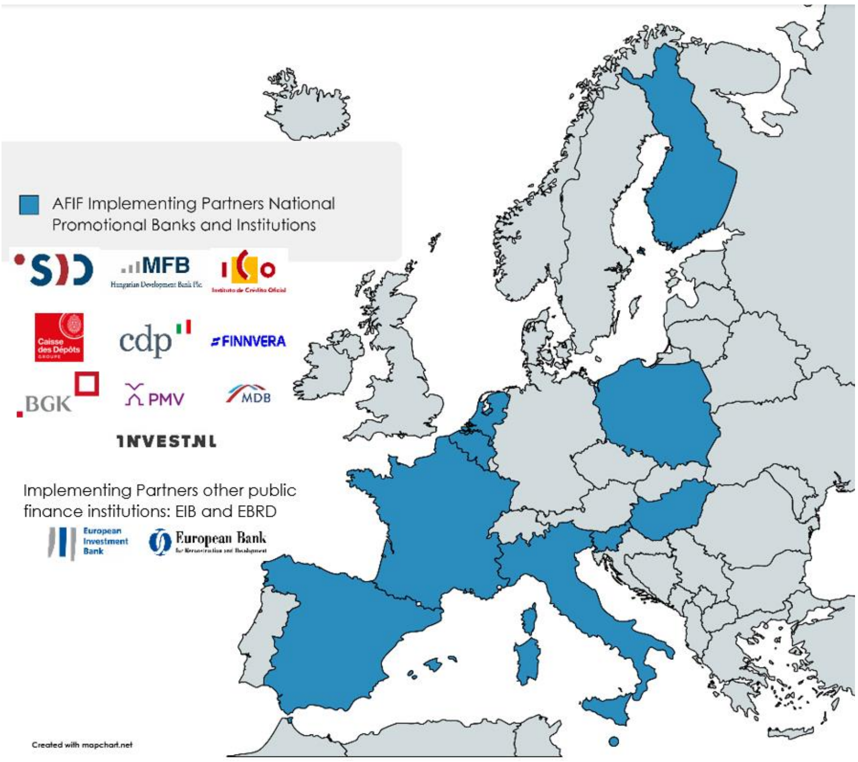
The pivotal role of NPBIs as Implementing Partners (IPs) of the European Commission

In the deployment of AFIF, the European Commission is supported by IPs, which role is to:

- Apply the eligibility and selection criteria defined by the European Commission (geography, minimum thresholds, maturity, etc.), identify projects and provide a pipeline of eligible projects to the European Commission regularly;
- Simplify the application process, since applicants interact with the IP by asking questions and clarifications before submitting the application and the IPs can liaise with the Commission to address questions and potential project-to-project specificities ahead of the submission deadline;
- Provide the European Commission with a technical and financial analysis of the projects concerned, once the project promoter has decided to apply to the European Commission for a grant under the AFIF;
- Provide firm financing engagement - in debt, equity or guarantees – to the projects.

The European Commission's 10 IP public finance institutions (NPBIs) play a central role in the deployment of AFIF, complementing the EIB and the EBRD. NPBIs offer their proximity to public and private players at national, regional and sub-regional level, their understanding of specific regional needs, their financial and technical expertise and their financial intervention capacity. While some of them did not make use of this mechanism in the early stages, the blending scheme became a growing success, in terms of the number of IPs mobilised, the number of project sponsors, the geographical scope and quality of the projects and the number of applications submitted. Institutions such as Invest-NL in the Netherlands or the Malta Development Bank (MDB) have just signed their administrative agreement.

The IPs support ambitious projects in terms of geographical coverage or associated project sponsors: the construction of ultra-fast charging points for electric vehicles promoted by Tesla and supported by the Italian CDP, the Atlante4All project supported by the French Caisse des Dépôts to install more than 1,800 fast and ultra-fast charging points for electric vehicles in 4 Member States, or the project to electrify ground handling operations at 37 Spanish airports supported by the Spanish ICO.



Implementing partners are typically involved in riskier projects (particularly those relating to hydrogen, which is still an emerging technology), providing dedicated support (via technical assistance) and taking on more risk (equity, quasi-equity investment). In this way, IPs are making it possible to finance risky projects that would not otherwise have been financed, by absorbing the risks and enabling the project promoters to mobilise different sources of investment to launch their operations. By participating in the financial structuring of projects at a very local level, IPs encourage round-table discussions with a greater presence of private financiers. Since AFIF was launched in 2021, it has helped to launch the construction of 155 hydrogen refuelling stations in the less mature hydrogen sector, which will be deployed in 12 Member States, including 25 electrolysers.

The success of "blending" lies in the fact that it is based on financing instruments already deployed by the IPs, granted according to their own internal rules. They provide AFIF with a wide range of instruments that can be implemented without delay. Indeed, the IPs' modes of intervention vary according to their respective project portfolios, providing innovative financing methods and tailor-made solutions, ranging from equity investments in the emerging hydrogen sector to finance the deployment of refuelling stations, to loan financing for electric ground handling operations at airports.

The IPs, by virtue of their general interest missions and their mandate to support public policies, are in a favourable position to identify the projects most likely to meet the Commission's objectives. IPs evaluate the correspondence of projects with European sectoral policy objectives, providing EU added value and, where applicable, assessing the possible synergies with other instruments. Shortlisted projects are subject to their internal due diligence procedures, guaranteeing the maturity, quality and soundness of the projects, from both a technical and financial point of view, as well as the compliance in terms of contractual procedures and the necessary authorisations. IPs are also capable of alleviating difficulties encountered by smaller, local project promoters in making use of the instrument due to a lack of expertise, by providing assistance in terms of project design and application preparation. The quality of the projects supported by IPs is corroborated by the high success rate of their projects in the context of the call for proposals.

Specific considerations for AFIF post-2023

On the crucial role of IPs

The reserved budget envelope and the facilitated access (no CBA required) for IPs has proven to be beneficial to ensure quality projects of all types and size, and predictability to the European Commission. IPs provide financing and assistance to launch initiatives and identify a wide range of projects due to their local expertise. By triggering important overall investments with limited EU support, IPs help to increase the catalytic effect of EU grants and raise awareness of the programme among potential applicants.

On timetable and deadlines for the signatures of the financing and grant agreement

The current call for proposal foresees a formal notification on evaluation results 4 months after the respective cut-off date and requires the Grant Agreement (GA) to be signed no later than 5 months after this formal notification (i.e., signature of GA 9 months after the respective cut-off date). The signature of the GA is conditional to the prior signature of the financing agreement with the IP. This planning differs from the previous CEF-Blending Facility, which allowed for a degree of flexibility and did not require IP signing before the GA signature.

In practice, this timetable is difficult to be achieved, as projects have a long preparatory phase. This is particularly the case, whenever the financing model of a project is based on equity investment in affiliated entities (special purpose vehicles, SPVs) oftentimes including a local authority. In such a project context several procedures need to be respected, potentially causing delays.

It is therefore important to allow for a degree of flexibility when it comes to the implementation in terms of calendar, as financial closing deadlines appear too short. The calendar needs to be aligned with actual market conditions and best practices. The deadline of 36 months for the implementation of projects from cut-off dates for some projects (especially those concerning hydrogen refuelling infrastructure with electrolysers or electric vehicle charging networks, for the implementation of which additional work and agreements with electricity grid operators are required) was a barrier holding back their implementation. Also, concerning the characteristics of the grant agreement, modalities of disbursement need to be inducive to kick-starting the projects.

On budget categories and cost eligibility rules

When it comes to actions related to hydrogen refuelling infrastructure, the eligibility of costs related to hydrogen-powered fleets could provide strong impetus for stakeholders to their decarbonization efforts. Since heavy-duty battery electric vehicles will, most likely, continue to have limitations, regarding range and recharging times, the attributes of fuel cell electric heavy-duty vehicles bring specific advantages for heavier and commercially used vehicles.

From a public policy point of view, concerns of crowding out private investments appear to be alleviated, as several barriers impede the roll-out of hydrogen mobility in Europe today: high costs, supply side risks, energy efficiency and regulatory risks. Integrating the hydrogen-powered rolling stock for public and private transport in the list of eligible costs under AFIF would support the development of the emerging hydrogen sector along its entire value chain. It could mitigate the problem that arises when infrastructure is facing a lack of secured off-take due to missing rolling stock, or vice versa.

Synergetic elements for projects applying for support (as an eligible expense) should be supported more broadly in the future (in the CEF AFIF 2021-2023 such elements were prohibited under the "unit contribution" area). Due to technical considerations (including power grid constraints), some applicants are considering electric vehicle charging station projects with ultra-fast charger points only in conjunction with appropriate energy storage and/or PV installations or connection to wind farms.

On the possibility to extend the blending mechanism to other sectors

AFIF may be cited as a best practice funding scheme. The facility responds to market failures and helps to massify investments. At the same time, the tool has been designed to be easy to use and application procedures are perceived as simple and administrative burdens are reduced. This type of scheme could therefore be extended to sectors other than transport, where there are strong positive externalities.

The timing for discussing such extension is perfect, considering that a new Work Programme has to be adopted for the CEF Digital and Energy branches covering years 2024-2027, and considering that both Digital and Energy 2021-2023 Work Programmes already envisaged the possibility to implement a blending facility (pursuant to Art. 17 of CEF Regulation).

In this regard, we strongly support the ongoing works in the Investors Dialogue on Energy – Working Group 2 on Transmission and Distribution, which identified blended finance scheme (with a technical assistance component) based on AFIF experience as the most impactful and relevant pilot scheme to finance Transmission and Distribution projects.

The feasibility of an extension of this type of sectoral blending mechanism to CEF Energy and CEF Digital should, therefore, be examined without any delay via dedicated pilot schemes.

The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

The 31 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of EUR 2,7 trillion. The Association promotes and attracts quality long- term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level[1]. The European Investment Bank (EIB) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[2].

[1] Oesterreichische Kontrollbank (OeKB) Austria, Federal Holding and Investment Company (SFPI) Belgium, Bulgarian Development Bank (BDB) Bulgaria, Croatian Bank for Reconstruction and Development (HBOR) Croatia, National Development Bank-CZ (NRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, Hellenic Development Bank (HDB) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, INVEGA Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Malta Development Bank (MDB), Malta, Invest-NL The Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Banco Português de Fomento (BPF) Portugal, Slovak Investment Holding (SIH) Slovakia, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

[2] Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), Participatiemaatschappij Vlaanderen NV (PMV) Belgium, NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, Investment and Development Fund of Montenegro (IRF) – Montenegro, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey