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EU-Africa Infrastructure Trust Fund



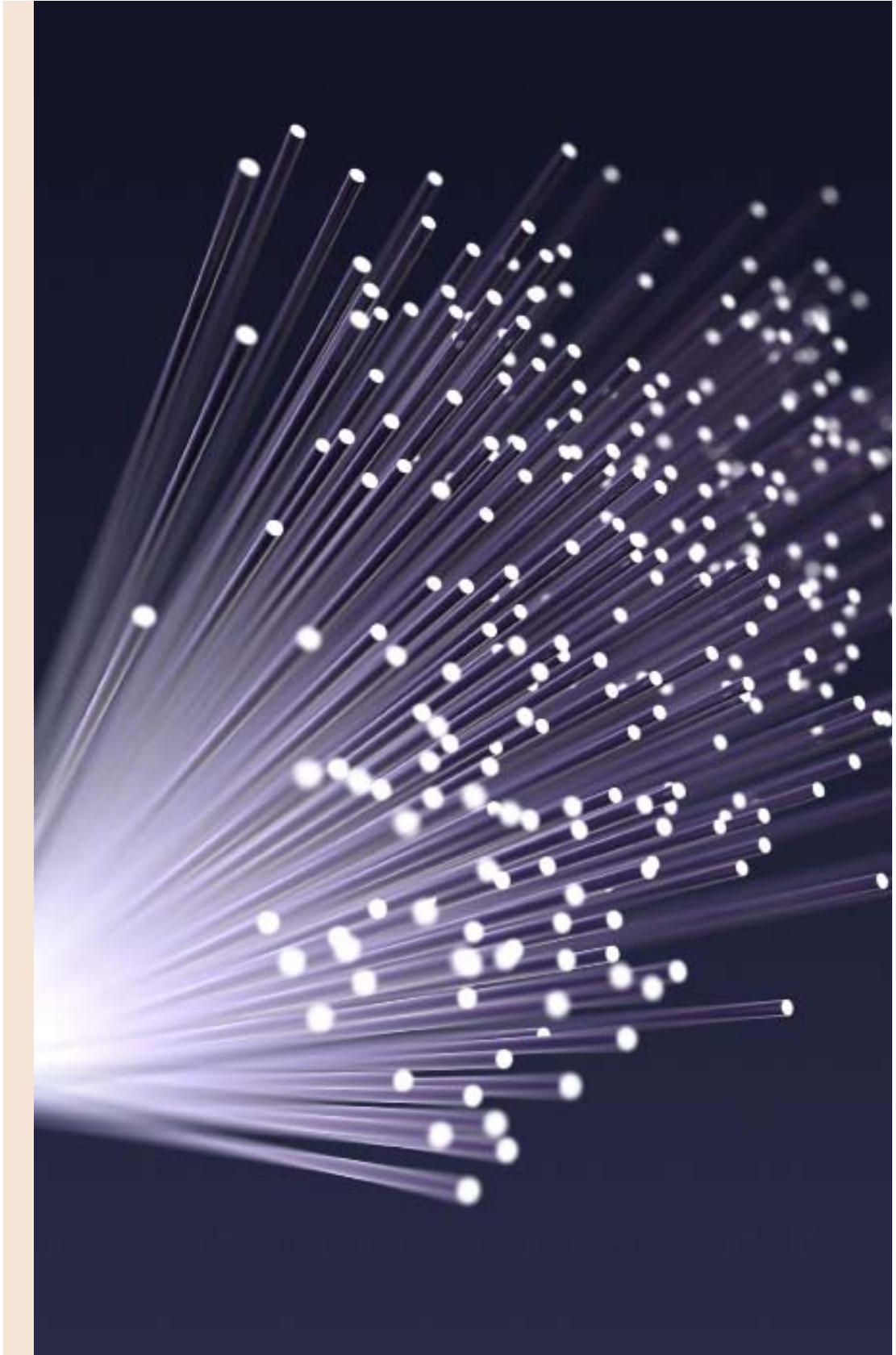


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EU-Africa Infrastructure Trust Fund







Contents

Foreword	4
Statement by the Chairman of the Executive Committee	6
Statement by the Co-Chairman of the Steering Committee	8
Description of the EU-Africa Infrastructure Trust Fund (ITF)	10
Description of Activities for the Year	12
⇒ Activities of the Executive Committee	12
⇒ Activities of the Project Financiers Group (PFG)	13
⇒ Description of Approved Grant Operations	14
⇒ Projects that received a Clearance in Principle	18
Outlook for 2008	20
Annexes	22
⇒ 1. Audited Financial Statements	23
⇒ 2. List of Donors and their Representatives	28
⇒ 3. List of Donors and Aggregate Contributions Received (situation as at 31.12.2007)	29
⇒ 4. Project Financiers Group	30
⇒ 5. Approved Grant Operations (situation as at 31.12.2007)	31
⇒ 6. List of eligible African countries	32
⇒ 7. List of Acronyms	33
⇒ 8. Acknowledgement of contributions to the Annual Report	34

Foreword

We are pleased to present the first Annual Report of the EU-Africa Infrastructure Trust Fund. This truly innovative European initiative is a reflection of efforts by the European Union to intensify its aid to Africa, and to contribute to the achievement of the Millennium Development Goals. Africa is in serious need of infrastructure in all its facets: transport, energy, water, and telecommunications. Infrastructure plays a key role not only in promoting trade and growth but also in improving the everyday lives of African women, men and children.

The response offered by the European Union was adopted at the December 2005 European Council in the form of a Strategy for Africa with a strong focus on infrastructure. It paved the way for the Lisbon Summit in December 2007 between Heads of States and Governments of Africa and the EU, which endorsed the EU-Africa Partnership for Infrastructure to support and initiate programmes that facilitate interconnectivity at continental level for the promotion of regional integration. The focus is thus clearly on projects of a regional or continental nature.

The innovative financial instrument of the EU-Africa partnership is this new Trust Fund. It blends grants from EU donors with long-term loan finance from the EIB and European financiers, in order to increase much needed investment in African infrastructure.

The Trust Fund is the first time that the EU Member States and the Commission, along with the EIB, have joined forces to create a European instrument to support a real partnership between bilateral and multi-lateral aid and financing in developing countries. It aims to achieve new synergies between European donors and development financiers for the benefit of Africa. It also aims to achieve much needed coordination of donors and beneficiaries by developing a consolidated list of infrastructure projects in a common pipeline.

Our African partners, who can attract these investments, are closely associated with the process in order to ensure their ownership as well.

The Agreement establishing the Trust Fund was signed in April 2007 by 10 donors (the Commission plus nine EU Member States¹) and by the EIB as Manager of the Fund. The donors' initial financial commitment totalled €87 million. In the following eight months before the end of 2007, grant funding requests for six cross-border infrastructure projects were analysed and approved or cleared in principle. Those funding requests are expected to result in future downstream investments four to five times the amount granted by the Trust Fund. Details of these grant operations, as well as the governance and activities of the Trust Fund, are described in the following pages of this report.

We truly believe that the Trust Fund's performance over the first eight months of its existence has fulfilled expectations. However, given the size of the challenges it must help to address, there is much still to do. The mobilisation of additional resources for Africa thus remains a priority, which we are committed to addressing. The Commission, for its part, approved in December 2007 an additional contribution of €49 million and the UK has announced that it would join the Trust Fund with €10 million in funding. Building upon the exist-

¹ Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, Netherlands, Spain.



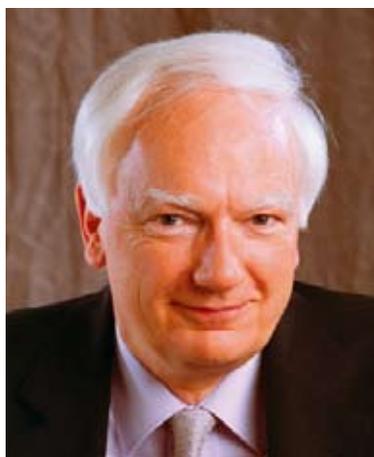
ing solid base of projects in the early stages of development, the Trust Fund will strive in 2008 to increase co-investments, which complement the additional contributions received from the donors.

We intend to pay a visit to one or more projects supported by the Trust Fund in Africa before the presentation of the next annual report of the Trust Fund.

We also wish to reaffirm our resolve to contribute actively and effectively to the reinforced EU-Africa Partnership, and our commitment to making a success of the Trust Fund, in close cooperation with the donors from the Member States, the bilateral European institutions, and our African partners.



Louis Michel,
Commissioner for Development
And Humanitarian Aid
European Commission as Founding
Donor



Philippe Maystadt,
President of the European Investment Bank
Manager of the Trust Fund

Statement by the Chairman of the Executive Committee

The EU-Africa Infrastructure Trust Fund was created as a key financing instrument of the EU-Africa Infrastructure Partnership. This instrument blends grants from EU donors with long-term loan finance from the EIB and European financiers, with a view to fostering investment in infrastructure in Africa and making up the regional and continental deficits in this sector. African partners and institutions are closely associated with the process through the EU-Africa Infrastructure Partnership, as ownership by its beneficiaries is a key principle of this initiative.

The Trust Fund Agreement was legally established in April 2007 with its signature by 10 donors (the Commission plus nine EU Member States²) and by the EIB as Manager of the Fund. The Trust Fund became operational in June 2007, when the minimum required Contribution Certificates had been received.

At the end of 2007, six funding requests had been examined by the Executive Committee, on a proposal from the financiers. Four grants totalling €15.5 million were approved and are detailed in the report, while two proposals for €25 million³ in total were given a “clearance in principle” as being eligible for funding. The total request for grant operations thus amounted to €40.5 million, corresponding to about half the initial amount of €87 million pledged by the donors in April 2007. The projects approved to date by the Fund show a balanced geographical coverage, with two approved operations in West Africa, and one each in East/Central Africa and Southern Africa.

Analysed by sector, two projects are for interconnecting electricity grids between two or more countries, one project is for a hydroelectric plant supplying power to three countries, and one project is for a telecommunications network.

In December 2007, the European Commission approved an additional contribution from the European Development Fund (EDF) to the Trust Fund of €48.7 million. In addition, the UK announced that it will join the Trust Fund, with a contribution of €10 million.

2008 has started on very promising grounds, as new donors⁴ will join or are considering joining the Trust Fund with substantial contributions, while an existing donor⁵ has doubled its original pledge.

The added value of the EU-Africa Infrastructure Trust Fund is in leveraging funds from different sources and realising synergies and complementarities between the various donors. Hence it is on the way to becoming a recognised player in the sphere of development finance assistance, and we are determined to make it an efficient and effective instrument for infrastructure in Africa.

² Austria, Belgium, France, Germany, Greece, Italy, Luxembourg, Netherlands, Spain.

³ Port de Pointe Noire (€10m); Caprivi Interconnector (€15m).

⁴ e.g. Portugal joined in early 2008; Sweden and Finland are considering joining.

⁵ Luxembourg.



Gary Quince,
Chairman of the Executive Committee



Statement by the Co-Chairman of the Steering Committee

Responding to encouraging signals coming from Africa in recent years, and based on a new determination to significantly step up its efforts, the European Council in December 2005 adopted a new EU Strategy for Africa. With this new Strategy, the EU reaffirmed its commitment to peace, stability and development and defined a single comprehensive, integrated and long-term framework for its relations with the whole of Africa.

The establishment of the EU-Africa Partnership on Infrastructure is one of the main actions that underpin the EU Strategy for Africa. The European Commission believes that regional cooperation and integration is the best tool to increase security, to boost trade and prosperity and to further sustainable, human development.

Improving infrastructure and infrastructure-related services will contribute to sustainable economic

growth, promote regional trade, foster regional integration and reduce poverty. The EU will support Africa's efforts to identify and address the missing links in existing networks, harmonize transport policies, develop integrated water management, develop cross-border and regional energy infrastructure and promote efforts to bridge the digital divide.

The EU-Africa Partnership on Infrastructure is a valuable addition to the long term support provided by





the European Union to infrastructure development in Africa. It aims to substantially increase EU investment in African infrastructure and delivery of transport, energy, water and ICT services. Achieving these objectives depends also on an improved economic and business environment which constitutes the basis to expand infrastructure and trade.

Among other resources, € 5.6 billion from the 10th European Development Fund (EDF, 2008-2013) and an innovative financial instrument, the EU-Africa Infrastructure Trust Fund, will be supporting this Partnership.

In October 2007, the African Union Commission (AUC) and the European Commission launched the EU - Africa Partnership on Infrastructure in Addis Ababa. At the same time, a Steering Committee –equally participated by European and African members- was established with the aim of providing policy and strategic orientation to the activities of the Infrastructure Partnership. Among others, main tasks of the Steering Committee, which is holding its second meeting in November 2008, comprise:

- ⇒ issuing policy guidance and providing strategic orientation to the Partnership and its implementing instruments,
- ⇒ serving as a forum for the exchange of information and coordination amongst its members as regards the needs of infrastructure, the related services and the regulatory frameworks as well as ensuring appropriate responses to the evolving priorities in Africa,
- ⇒ ensuring complementarity between AU-NEPAD Infrastructure Action Plan, the National and Regional infrastructure programmes or other infrastructure initiatives,
- ⇒ facilitating the mobilisation of resources necessary to reach the Partnership goals,
- ⇒ monitoring progress of operations implemented by the Partnership, reporting on past, ongoing and

planned activities and, eventually, approving and overseeing the implementation of the Partnership Annual Work Programme,

In order to achieve the ambitious goals related to the effective development of African infrastructure for a sustained growth, the Steering Committee of the EU-Africa Infrastructure Partnership will work together with other initiatives, actors and instruments, such as the Infrastructure Consortium for Africa, the emerging donors and the private sector.

Lluís Riera, Co-chairman
of the Steering Committee
of the EU-Africa Partnership
on Infrastructure



Description of the EU-Africa Infrastructure Trust Fund (ITF)

The EU-Africa Infrastructure Trust Fund provides financial support by way of grants to eligible infrastructure projects alongside long-term loan finance made available by eligible financiers. In addition to the contribution of the Founding Donor, i.e. the European Commission, the Trust Fund may receive funding from EU Member States or Member State development finance agencies, as it did in its first year of operations, 2007.

The governance and operating structure comprise the following levels:

⇒ The EU-Africa Infrastructure Partnership Steering Committee, established in October 2007 in Addis Ababa, will provide oversight to the wider EU-Africa Infrastructure Partnership and strategic advice to the Executive Committee of the Trust Fund. It will also receive regular summaries of the Trust Fund's activities, and will be able to comment on the Annual Report. It will not be involved in the day-to-day operations of the Trust Fund, nor in the selection of grant operations;

⇒ The Trust Fund Executive Committee is the governing body of the Trust Fund. It is responsible for examining and approving grant operations, ensuring that all terms and conditions of the Agreement and of the financing by the financiers are met, reviewing the effectiveness of the activities financed and ensuring their visibility, approving the Annual Reports, and making decisions on the potential expansion of the pool of donors and financiers outside the EU Member States. The Executive Committee is assisted by a permanent Secretariat, established within the EIB.





- ⇒ The Project Financiers Group (PFG) brings together the designated project financiers, i.e. a development finance institution, bank, Member State agency or public body with international development project expertise, nominated by each donor and agreed by the Executive Committee. Project financiers are the source of the grant operation requests, which they examine in accordance with their own methodology, prior to submitting them to the Executive Committee for approval.
- ⇒ The European Investment Bank, as Manager of the Trust Fund, is responsible for its financial management, accounting and treasury operations.

Eligible infrastructure projects must fall within the guiding principles of African ownership and long-term project sustainability. They must also be cross-border projects or national projects with a regional impact on two or more countries, and at least one of the countries concerned must be in the list of forty-seven eligible African countries (see Annex 4). Four sectors are eligible for support: (i) energy; (ii) transport (rail, road, air, sea and inland waterways); (iii) water; and (iv) information technology, including telecommunications infrastructure where projects financed provide access to a service of general economic interest.

Funding support for eligible projects can take four different forms, as follows:

- ⇒ **interest rate subsidies:** the provision of a lump-sum amount to a participating lender (i.e. the financiers appointed by the donors) to enable the lender to make long-term loan finance available at reduced interest rates. The subsidies are granted so as to avoid market distortions;
- ⇒ **technical assistance:** this includes funding preparatory work for eligible projects, such as environmental impact assessments, project supervision and targeted capacity building (e.g. reinforcing the technical and administrative capacity of local staff in Africa);

- ⇒ **direct grants** for project components which have substantial demonstrable social or environmental benefits or which can mitigate negative environmental or social impacts;
- ⇒ **insurance premiums**, i.e. initial-stage funding of insurance coverage necessary to launch infrastructure projects.

Projects may be implemented by public or private entities, or entities with mixed public-private capital.

Description of Activities for the Year

⇒ **Activities of the Executive Committee**

The Executive Committee is the governing body of the Trust Fund, and its members are the donors, which signed a Contribution Certificate of a minimum of €1 million. The Committee seeks to work on the basis of consensus. However, where a vote is required, each decision is subject to a double majority rule requirement, i.e. (i) two-thirds of the voting rights, and (ii) two-thirds of all voting donors.

The Committee met three times in 2007, first on an informal basis on 23 April immediately following the signature of the Trust Fund Agreement by the ten original donors and the EIB as the Manager of the Trust Fund. The second meeting took place in June 2007, and the third in October 2007. The meetings were well attended, with an average participation of about 20 donor representatives, or alternates, advisers and observers.

The priority responsibility of the Executive Committee is to ensure effective implementation of the Trust Fund's activities, based on the strategic orientations of the Partnership Steering Committee. The Committee examines and decides upon the funding requests prepared and submitted by the financiers, reviews the effectiveness of those activities, ensures that lead financiers comply in the implementation of the activities with the Trust Fund's rules and that appropriate visibility is given to the actions supported by the Trust Fund. The Committee approved four grant operations between June and December 2007, for a total of €15.5 million, while two applications⁶ for €25 million were given a "clearance in principle" (i.e. a procedure allowing for an initial favourable decision on the eligibility of the relevant project and the envisaged grant operation. Formal approval must be subsequently obtained before any funding can be released and applied).

The Committee drafted and circulated to its members for comments and approval two important texts clarifying and detailing the scope and application of the Implementation Rules of the Agreement. These texts, i.e. the "Rules of Procedure for the Executive Commit-

tee" and the "Criteria for the Assessment of Proposals for Grant Operations", will allow for greater efficiency and consistency in the Executive Committee's decision-making process. Both texts were finalised and adopted at the end of 2007.

In 2008, the Executive Committee will be assisted by a Secretariat composed of a full-time Head of Secretariat, a part-time assistant, and a part-time secretary recruited and housed by the EIB, the Manager of the Trust Fund.

⁶ One project that had been cleared in principle in 2007 was granted final approval in January 2008.



⇒ **Activities of the Project Financiers Group (PFG)**

The PFG consists of the EIB and financial institutions or agencies designated by their donor countries, which pledged a minimum of €1 million. At the end of the year, they included ADA (Austria), AFD (France), KfW (Germany), Lux-Development (Luxembourg), and COFIDES (Spain), as well as Greece's Ministry of Economy and Finance and Italy's Ministry of Foreign Affairs. The Group is expected to expand in 2008, as a result of more donors nominating their financiers, and more Member States becoming donors.

The financiers are the source of project-related funding requests, which they first analyse, and then submit to the Executive Committee for approval. Grant operation requests must involve one or more members of the Project Financiers Group. As a group, the financiers form an informal professional entity operating and cooperating on the basis of transparency, and under their own operating methodology. The PFG aims to (i) foster dialogue between the financiers for concrete and identified infrastructure projects, at an early stage and at the financing decision stage, and (ii) facilitate co-financing between them. Its remit include:

- ⇒ internally reviewing requests for project clearance in principle;
- ⇒ examining project grant operation requests prior to their transmission to the Executive Committee for decision;
- ⇒ drawing up an annual consolidated list of grant operation requests and submitting individual grant operation requests to the Executive Committee;
- ⇒ issuing an opinion on each grant operation request, for the information of the Executive Committee, explaining why the project is considered suitable for grant support.

The PFG aims to achieve new synergies between the European development agencies for the benefit of Africa; and in accordance with the Agreement moves

are also under way to associate the African Development Bank with the PFG.

The PFG met for the first time informally on 19 April 2007 at the EIB's premises in Luxembourg, and then on five other occasions, which produced substantial results, e.g. the identification of projects for a common pipeline; the submission of six grant requests; the development of an "Operating Methodology" together with "Guidelines for Grant Operation Disbursements"; and various templates on financial calculations, which foster the harmonisation of procedures between the financiers.

At the operational level, the Fund's Project Financiers Group has thus established itself quickly as an effective professional forum, enabling the bilateral development finance institutions and the EIB to work together on developing a pipeline of regional infrastructure projects in Africa. The PFG is already considered to be a noteworthy model of enhanced cooperation and increased aid effectiveness between European development financiers at an operational level.

⇒ Description of Approved Grant Operations



EASSy Cable

(€2.6m grant, approved on 5 July 2007)

The East African Submarine Cable System (EASSy)⁷ project consists of a 10 000 km fibre optic submarine cable along the East African coast, linking Sudan to South Africa with landing points in these countries as well as in Djibouti, Somalia, Kenya, Tanzania, Madagascar, Mozambique, Mayotte and Comoros. EASSy will be the first optical fibre connection for these countries to the global optical fibre network. EASSy's planned stretch of coastline from Sudan to South Africa is the longest expanse of any inhabited continent not being served by an international undersea cable system today. Should the lack of international connectivity persist, it would have a direct negative impact on the economic development of the region. EASSy is thus critical for the economic development of East and Southern Africa.

The EASSy cable will be owned and operated by a consortium of internationally licensed operators, either strictly private or of mixed public-private ownership. The total cost of the project is estimated at about €160 million⁸. Some large operators will participate in the consortium directly in their own right. Others have requested and will receive co-financing from the EIB and several development finance institutions (DFIs) – African Development Bank (AfDB), Agence française de développement (AFD), Kreditanstalt für Wiederaufbau (KfW) and International Finance Corporation (IFC), which

will channel their investments through the West Indian Ocean Cable Company Ltd (WIOCC), a Special Purpose Vehicle (SPV), especially created to exist alongside the direct consortium members.

The main purpose of the hybrid SPV model is to incorporate key development policy objectives in WIOCC's shareholder agreement and other project documents.

WIOCC is a new company, selling a new product in several markets, and its success is contingent upon being able to sell sufficient amounts of cable capacity. In addition, meeting the development policy objectives will also represent a major challenge for the company. The hiring of a competent core management team, consisting of a Chief Executive Officer, a Chief Financial Officer and Chief Technical Officer is therefore a costly key issue for the success of the EASSy project, which the Trust Fund will address.

The cost of recruiting such a well-qualified team is estimated at about €2.6 million for the 18-month construction period, when the risks of the project are the greatest, with high operational costs and no revenues. The ITF will provide the necessary funding for WIOCC to recruit and remunerate the required personnel until the cable system becomes operational.

In addition to this grant, the EIB, the DFIs and other co-financiers are supporting the project in other ways: (i) the EIB is currently providing up to €1.25 million in

⁷ The East African Submarine Cable System -EASSy

⁸ The contract with the supplier amounts to some USD 242m



funding for technical assistance under the Cotonou framework, to help pay for the legal adviser and interim management team of the SPV (these funds, however, have to be repaid upon the financial closure of the project); (ii) the German Government, through KfW, has provided a grant for the environmental impact assessment; (iii) IFC has financed the original feasibility study together with DBSA and AFD, and has engaged a technical expert to assist in reviewing the supply contract and the consortium shareholder agreement; and (iv) AfDB has provided a grant for the SPV to hire transaction advisers.

Férou Hydropower

(€9.3m interest rate subsidy, approved on 10 July 2007)

The Férou Hydropower project involves the engineering, construction, commissioning and operation of a run-of-river hydropower plant at the Férou falls, on the Senegal River, about 15 km upstream of the town of Kayes, Mali. The project will be implemented as part of the development of the hydropower potential of the States belonging to the "Organisation pour la mise en valeur du fleuve Sénégal (OMVS)⁹", comprising Mali, Mauritania and Senegal, and joined by Guinea in 1972.

The main components of the project are the rehabilitation of an existing weir, and the construction and installation of a powerhouse, three bulb turbine/generator units with a nominal capacity of 21 MWe each, a water intake structure, and a substation and overhead transmission line. The project also includes the upgrading of access roads and railway facilities as well as improvements to the existing dispatch centre at Manantali and to the telecommunications systems operated by Société de Gestion du Barrage de Manantali (SOGEM) and the national utilities of Mali, Mauritania and Senegal.



The project – expected to be completed at the end of 2010 – has an estimated cost of €102.5m, to be funded by three co-investors: (i) the EIB (€33m), (ii) OMVS (€8m), and (iii) the World Bank (€61.5m).

The grant from the ITF will be in the form of an interest rate subsidy of €9.3 million on the EIB loan. The subsidy will enable the project to meet HIPC¹⁰ requirements, thereby contributing to strong regional development through the generation of sustainable and clean power.

⁹ OMVS: The *Organisation pour la mise en valeur du fleuve Sénégal* is an organisation founded in 1972 by Mali, Mauritania and Senegal to manage the Senegal River and its river basin. Its aims are to promote self-sufficiency in food, to improve the income of the local populations, and to preserve the natural ecosystems.

¹⁰ HIPC: Heavily Indebted Poor Countries, a group of 37 least developed but highly indebted countries, which are eligible for special assistance under special programmes from the International Monetary Fund (IMF) and the World Bank (WB).

Ethiopia-Kenya Interconnector:

(€0.55m grant, approved on 10 July 2007)

The Ethiopia-Kenya Power Systems Interconnection aims to connect the grids of these two East African countries, thus enabling them to benefit from the respective advantages of their own power systems, which have strong complementarities: the bulk of Kenya's generation is expected to come from geothermal and fuel-fired thermal plants, while Ethiopia possesses a large potential of hydropower, estimated at about 45 000 MW.

Despite the availability of enormous energy resources, the two countries have overall electrification rates of less than 20%. This low level of access to electricity is a major barrier to social and economic development, especially in agriculture and industry. The construction of an interconnecting power line between the two countries will increase reliability of supply by taking advantage of the hydro vs. thermal complementarities of the two systems as well as the variability of peak demand. In addition, the two countries will be able to trade not only energy but also reserve capacity, which will provide an incentive to coordinate outages so that the total reserve margin on the interconnected system can be reduced, resulting in savings in capital and operating cost. In the short term, the line will also enable Kenya to cover its power needs by importing cost-effective power from Ethiopia

instead of relying on expensive and polluting thermal power stations in Kenya.

A Memorandum of Understanding for the implementation of the project has already been signed. However, before construction can begin, a due diligence process needs to be completed to assess and ensure the long-term and sustainable viability of the project in both countries. This process includes a fully fledged technical and financial feasibility study, as well as a detailed environmental and social impact assessment, a Resettlement Action Plan, and the choice of the proper organisational and institutional frameworks for the construction, ownership and operation of the interconnector.

The cost of this due diligence process has been estimated at €1.65m, and will be shared by several donors, including AFD (€0.15m), KfW on behalf of the German Government (€0.20m), AfDB (€0.38m), DBSA (€0.2m), and the Ethiopian Electric Power Corporation in conjunction with Kenya's Energy Ministry (€0.15m). The ITF will cover the funding shortfall of €0.55m.

The amount estimated to finance the whole project ranges from USD 250 to 400m depending on the voltage level and the type of electric current (AC/DC). If the results of the feasibility study are positive, an additional grant from the ITF will be considered, most likely for an interest rate subsidy, or the coverage of political risk.





West-Africa Power Interconnector

(€3m grant, approved on 16 October 2007)

This €3m grant funding from the Trust Fund will be used by the West African Power Pool (WAPP¹¹) to procure the services of an international consulting firm to conduct the preparatory studies¹² of the planned West Africa Power Interconnector project, which will link power grids in Ivory Coast, Liberia, Guinea, and Sierra Leone. The WAPP is a young regional institution, which requires support to finance the necessary preparatory studies for the projects it wants to promote.

The objective of the WAPP is to establish a regional electricity market in West Africa through the development and implementation of key priority infrastructure projects that would foster power exchanges between the countries in the West African sub-region, and provide access to affordable energy resources to all Member States of the Economic Community of West African States (ECOWAS¹³).

The interconnection project will consist of the construction of approximately 1 100 km of high voltage transmission lines, as well as the extension of existing, or the construction of new high voltage substations in Man (Ivory Coast), Sannequille, Buchanan and Monrovia (Liberia), Nzérékore and Linsan (Guinea) and Bumbuna (Sierra Leone). The project is critical to the reconstruction efforts currently under way in the post-conflict countries of Liberia, Sierra Leone and the forest region of Guinea. One of WAPP's priorities is to interconnect these countries with the Ivory Coast in order to allow mutually beneficial power exchanges and a reliable electricity supply fostering economic growth and consolidating the fragile peace that has been achieved so far in these countries.

The WAPP Secretariat will be task-managing the procurement process and the execution of the preparatory studies for a period of up to 21 months, under the supervision of the EIB and KfW. Once the studies are completed around mid-June 2009, the WAPP Secretariat

will work towards completing the financing plan of the project, for which the EIB and KfW are potential investors. The implementation of the investment project, the cost of which is estimated at €400m, could take up to four years.

A major development impact of the project will be the alleviation of energy shortages, which are a recurring problem in several West African States and an impediment to economic development. In turn, this lack of economic development is a major contributor to the conflicts and political instability that have characterised this region in recent years. The project will benefit three of the poorest states in the West Africa region and enhance cooperation in a region that has been marred by dramatic conflicts.

¹¹ WAPP: an organisation created to integrate the national power system operations of African countries that are members of ECOWAS.

¹² The preparatory studies for this project include: the feasibility study, the line survey, the production of maps, plan and profile drawings, the environmental and social impact assessment, the environmental impact statement, the Resettlement Action Plan and the Environmental and Social Management Plan.

¹³ ECOWAS: Economic Community of West African States: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

⇒ Projects that received a Clearance in Principle

Port of Pointe Noire

(This project was “cleared in principle” in June 2007 and needs to be submitted again to the Executive Committee. The potential funding request could be €10 million as an interest rate subsidy.)

The aim of the project is to help integrate Congo and countries in the sub-region (notably CAR and DRC) into international trade, and its objective is to increase maritime traffic at Pointe Noire on competitive and financially viable terms of price and quality of services (time limits, safety, simplification of procedures) with greater involvement of the private sector. The investment programme could include the strengthening and extension of the external seawall; the rehabilitation of wharfs, public and access roads; the installation of a terminal for containers, and a wood storage zone.

Caprivi Link Interconnector

(This project was “cleared in principle” in October 2007, and was approved in early 2008 – interest rate subsidy of €15 million. Brief summary provided for information only. Full details will be included in the Annual Report for 2008.)

The Caprivi Link Interconnector project is named after Caprivi, one of the thirteen regions of Namibia, a small strip in the north-eastern part of the country, lying between Angola, Zambia, Zimbabwe and Botswana. Its objective is to provide a 970 km high-voltage interconnector between the Namibian, Zambian and Zimbabwean power transmission networks, in order to increase Namibia’s access to electricity and relieve congestion in the eastern and southern regions of the Southern African Development Community (SADC¹⁴).

The total cost of the project – expected to be commissioned in 2010 – is about €300 million, to be co-financed by the sponsor Namibia Power (Nampower), as well as by the EIB, KfW, and AFD, which will each invest €35 million in the project, with the Trust Fund providing €15 million in interest rate subsidy (IRS).

¹⁴ Southern African Development Community (SADC): Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe.



Outlook for 2008

An important undertaking in 2008 will be the production of a monitoring report on the operations of the Trust Fund, with a view to evaluating its functioning, progress, and development impact, and suggesting and implementing possible improvements. As the project sponsors and local financiers have become more astute in planning and using increasingly sophisticated financial products, the Trust Fund will have to keep up with financial innovation and flexibility in order to remain an attractive and valued source of financing. This will be all the more important since the Trust Fund is expected to receive additional funding in 2008 from the EDF as well as from other Member States that have expressed an interest in joining the pool of European donors.

Another objective is the establishment of a strong pipeline for 2008 and beyond, with a well-structured prioritisation of projects and good coordination with the African partners, the local offices or delegations of the European Commission, the donors and their financiers. The Trust Fund will also strive to keep a sound balance of investments between infrastructure sectors and regional needs.

Under the supervision of the Executive Committee, the Secretariat is planning to develop a simple but effective web-based instrument, which should contribute to greater visibility of the Trust Fund, and provide a more efficient interface with and between its donors. It should also facilitate the management of data and the collection and dissemination of information.





Annexes

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⇒ 1. Audited Financial Statements

Independent Auditor's report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the EU-AFRICA Infrastructure Trust Fund, which show a loss of EUR (951,000) and a total balance sheet of EUR 41,549,000 and which comprise the balance sheet as at December 31, 2007, the income statement, the statement of changes in equity, the cash flow statement for the period from June 14, 2007 (date of inception) to December 31, 2007, and the notes to the financial statements.

Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain type of companies, banks and other financial institutions and insurance undertakings. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Responsibility of the "Réviseur d'Entreprises" - continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial state-

ments. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the EU-AFRICA Infrastructure Trust Fund as of December 31, 2007, of its financial performance, of its changes in equity and of its cash flows for the period from June 14, 2007 (date of inception) to December 31, 2007 in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

ERNST & YOUNG
Société anonyme
Réviseur d'entreprises

March 12, 2008

Bernard LHOEST

Financial Statements

Income Statement

at December 31, 2007 (in EUR'000)

	Note	Initial Period 31.12.2007
Interest and similar income		749
Total operating income		749
General administrative expenses		(1,700)
Total operating expenses		(1,700)
Net result		(951)

Balance sheet

At December 31, 2007 (in EUR'000)

	Note	2007
ASSETS		
Cash and cash equivalents		41,549
Total assets		41,549
LIABILITIES AND EQUITY		
LIABILITIES		
EQUITY		
Contributions received	3	42,500
Accumulated deficit		(951)
Total Equity		41,549
Total Liabilities and equity		41,549

The notes refer to the Notes to the Financial Statements.



Statement of changes in equity

(in EUR'000)

	Issued capital	Retained Earnings	Other reserves	Total equity
At 1 January 2007				
Contributions received	42,500			42,500
Loss for the year		(951)		(951)
Total income and expense for the year	42,500	(951)	-	41,549
At 31 December 2007	42,500	(951)	-	41,549

Cash flow statement

(in EUR'000)

	2007
Operating activities	
Profit for the financial year	
- Interest received	749
- Operating expenses	(1,700)
Net cash flows used in operating activities	(951)
Financing activities	
Paid in by EC / Member States	42,500
Net cash flows from / (used in) financing activities	42,500
Net increase in cash and cash equivalents	41,549
Cash and cash equivalents at beginning of financial year	0
Effect of exchange rate changes on cash equivalents	0
Cash and cash equivalents at end of financial year	41,549

Notes to the financial statements

1. General information

On 9 February 2006, the European Commission and the European Investment Bank signed a Memorandum of Understanding (the "MoU") to promote jointly the EU-Africa Infrastructure Partnership and, in particular, to establish a supporting EU-Africa Infrastructure Trust Fund (the "Trust Fund").

In accordance with the MoU, the key objective of the Trust Fund is to contribute to achieving the strategic objectives of the EU-Africa Partnership through targeted funding aimed at making up the regional and continental deficit in Sub-Saharan infrastructure. The Trust Fund will contribute to the goals of the EU-Africa Partnership on Infrastructure by providing financial support by way of grants to eligible infrastructure projects alongside long-term loan finance made available by eligible financiers.

In accordance with the Agreement constituting the implementation rules of the Trust Fund the activities of the Trust Fund started on 14 June 2007. Hence, the Financial Statements as at 31 December 2007 are the first Financial Statements of the Trust Fund.

2. Significant accounting policies

2.1. Basis of preparation

The Trust Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies applied are in conformity with the IFRS and with the overall principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the "Directives").

At the closing date, the financial instruments held by the Fund concerns only cash deposit which is subject to a very low risk of value.

2.2. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the

process of applying the Trust Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed.

2.3. Summary of significant accounting policies

The balance sheet represents assets and liabilities in decreasing order of liquidity. Assets and liabilities concern exclusively current items.

2.3.1. Foreign currency translation

The Trust Fund uses the Euro (EUR) for presenting its financial statements, which is also the functional and presentational currency.

Foreign currency transactions are translated, in accordance with IAS 21, at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than in Euro are translated into Euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

The elements of the income statement are translated into Euro on the basis of the exchange rates prevailing at the end of each month.

2.3.2. Cash and cash equivalents

The Trust Fund defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less. The current account is one account opened in the EIB books in the name of the Trust Fund, called "EU-Africa Infrastructure Trust Fund Account".



2.3.3. General administrative expenses

For managing the Trust Fund the EIB shall be granted with a standard payment equal to 4% (four percent) of the aggregate amount of Contributions effectively made available to the Trust Fund. This fee is intended to cover in full the cost of managing the Trust Fund.

For the year 2007, the management fee paid to the EIB amounts to EUR 1,700,000.

2.3.4. Interest income

Under the terms of the Trust Fund and according to the Agreement, the EIB remunerates the cash on the current account.

Interest income are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts

through the expected life of the financial instrument to the net carrying amount of the financial asset.

For the year 2007, the interest income received in remuneration of the current account opened in EIB books amounts to KEUR 749.

2.3.5. Contributions

In addition to the Founding Donor, any Member State of the European Union or any public or private entity sharing the same objectives as the Trust Fund may contribute funds in Euro to the Trust Fund's Account.

2.3.6. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3. Contributions received

Contributions received are detailed below:

EC / Member States	Contribution to The Fund (EURO)
Austria	1 000 000
France	5 000 000
Greece	1 000 000
Italy	2 500 000
Luxembourg	1 000 000
Netherlands	2 000 000
Spain	10 000 000
European Commission	20 000 000
Total	42 500 000

4. Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2007 financial statements.

⇒ 2. List of Donors and their Representatives

Donor	Donor's Representative
Austrian Republic	Mr Martin Lugmayr (martin.lugmayr@ada.gv.at)
European Commission	Mr Gary Quince (gary.quince@ec.europa.eu)
Federal Republic of Germany	Mr Franz Marre (franz.marre@bmz.bund.de)
French Republic	Mr Jean-Marc Bellot (bellotjm@afd.fr)
Grand Duchy of Luxembourg	Ms Nadine Feyder (nadine.feyder@mae.etat.lu)
Hellenic Republic	Mr Panayotis Papanastassiou (p.papanastassiou@rp-grece.be)
Italian Republic	Ms Gabriella Di Gioia (gabriella.digioia@esteri.it)
Kingdom of Belgium	Ms Ariane Meunier (ariane.meunier@minfin.fed.be)
Kingdom of Spain	Ms Maria Ortiz (maria.ortiz@reper.mae.es)
The Netherlands	Mr Jan Van Renselaar (jan-van.renselaar@mnbuza.nl)
Secretariat of the Trust Fund:	
Head of Secretariat	Mr Yves de Rosée (y.derosee@eib.org)
Assistant	Ms Anja Schorr (a.schorr@eib.org)
Secretary	Ms Sharon Wraight (s.wraight@eib.org)



⇒ 3. List of Donors and Aggregate Contributions Received (situation as at 31.12.2007)

The following table shows the aggregate contributions actually received from each donor.

Donor*	Date of signature of Agreement	Pledged contribution amount (EUR)	Contribution amount actually received (in EUR)
The Kingdom of Spain	23/04/2007	10 000 000	5 000 000 5 000 000
Luxembourg <i>additional contribution**</i>	23/04/2007	1 000 000 1 000 000	1 000 000
AFD	23/04/2007	5 000 000	5 000 000
European Commission	23/04/2007	60 000 000	20 000 000
The Hellenic Republic	23/04/2007	1 000 000	1 000 000
Austrian Development Agency	23/04/2007	1 000 000	1 000 000
The Italian Republic	23/04/2007	5 000 000	2 500 000
The Netherlands	23/04/2007	2 000 000	2 000 000
Germany	23/04/2007	1 000 000	
		87 000 000	42 500 000

* The UK signed the Instrument of Accession to the Trust Fund on 15.01.2008 with a commitment to contribute EUR 10m, whilst Portugal signed the Instrument of Accession to the Trust Fund on 01.02.2008 with a commitment to contribute EUR 1m.

** On 10 December 2007, Luxembourg signed an additional contribution certificate for EUR 1 million. This additional contribution was credited to the Trust Fund on 9 January 2008 and is therefore not included in the amount of contributions received as at 31 December 2007.



⇒ 4. Project Financiers Group

Country	Financier	Financier's Representative
Austrian Republic	Austrian Development Bank	Oliver Walter (oliver.walter@oe-eb.at)
The European Union	European Investment Bank	Robert Feige (r.feige@eib.org)
Federal Republic of Germany	Kreditanstalt für Wiederaufbau - KfW	Klaus Gühr (klaus.guhr@kfw.de)
French Republic	Agence française de développement - AFD	Jean-Marc Bellot (bellotjm@afd.fr)
Grand Duchy of Luxembourg	Lux-Development S.A.	Richard Schmid (schmid@lux-development.lu)
Hellenic Republic	Ministry of Economy and Finance	Katherina Alesta (k.alesta@mneec.gr)
Italian Republic	Italian Ministry of Foreign Affairs	Francesco Anania (francesco.anania.est@esteri.it)
Kingdom of Spain	COFIDES	Fernando Acena (fernando.acena@cofides.es)
The Netherlands	To be designated	Jan Van Renselaar (jan-van.renselaar@mnbuza.nl)



⇒ 5. List of approved Grant Operations (situation as at 31.12.2007)

Project name	Regional cover	Description	Lead financier	Other PFG financiers	Grant amount	Scope	Date of ExecComm approval
EASSy	Djibouti, Somalia, Kenya, Zanzibar, Burundi, Tanzania, Madagascar, Mozambique, Uganda, Rwanda, Lesotho, Botswana, Sudan and RSA	Construction and operation of 10 000 km fibre optic submarine cable along the East African coast.	EIB	KfW, AFD	2 600 000	TA	05/07/2007
FELOU hydropower plant	Mali / Mauritania / Senegal	Design, delivery, construction, commissioning and operation of a run-of-river hydropower plant in Félou close to Kayes (Mali).	EIB		9 335 000	IRS	10/07/2007
Ethiopia-Kenya Power Systems Inter-connection Project	Ethiopia, Kenya	Feasibility study for the construction of an inter-connection transmission line between Ethiopia and Kenya.	KfW	AFD	550 000	TA	10/07/2007
Pre-investment studies for West Africa power inter-connection	- Man (Ivory Coast) - Sannequille (Liberia) - Nzérékore (Guinea) - Buchanan (Liberia) - Monrovia (Liberia) - Bumbuna (Sierra Leone) - Linsan (Guinea)	Procurement of the services of an international consulting firm to undertake the pre-feasibility study, the line survey, the production of maps, plan and profile drawings, the environmental and social impact assessment, the environmental impact statement, the Resettlement Action Plan and Environmental and Social Management Plan.	EIB	KfW	3 000 000	TA	16/10/2007

15 485 000 TOTAL
grant approvals

⇒ 6. List of eligible African countries

- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Central African Republic
- Chad
- Congo Brazzaville
- Democratic Republic of Congo
- Eritrea
- Ethiopia
- Djibouti
- Gabon
- Equatorial Guinea
- São Tomé and Príncipe
- Ghana
- Togo
- Guinea-Bissau
- Guinea Republic
- Ivory Coast
- Liberia
- Kenya
- Somalia
- Lesotho
- Swaziland
- Madagascar
- Malawi
- Mali
- Mauritania
- Mauritius
- Comores
- Seychelles
- Mozambique
- Namibia
- Niger
- Nigeria
- Rwanda
- Senegal
- Cape Verde
- Gambia
- Sierra Leone
- Sudan
- Tanzania
- Uganda
- Zambia
- Zimbabwe





⇒ 7. List of Acronyms

AFD:	Agence française de développement
AfDB:	African Development Bank
COFIDES:	Compañía Española de Financiación del Desarrollo
DBSA:	Development Bank of Southern Africa
DFI:	Development Finance Institution
DfID:	Department for International Development
EASSy:	Eastern Africa Submarine Cable System
EC:	European Commission
ECOWAS:	Economic Community of West African States
EDF:	European Development Fund
EIB:	European Investment Bank
ExCom:	Executive Committee
HIPC:	Heavily Indebted Poor Countries
ICA:	The Infrastructure Consortium for Africa
IFC:	International Finance Corporation
IRS:	Interest Rate Subsidy
ITF:	Infrastructure Trust Fund
KfW:	Kreditanstalt für Wiederaufbau
NAMPOWER:	Namibian Power
OeEB:	Oesterreichische Entwicklungsbank AG
OMVS:	Organisation pour la mise en valeur du fleuve Sénégal
PFG:	Project Financiers Group (of the ITF)
SPV:	Special Purpose Vehicle
SOFID:	Sociedade Para O Financiamento Do Desenvolvimento
SOGEM:	Société de Gestion du Barrage de Manantali
TA:	Technical Assistance
TF:	Trust Fund
WAPP:	West African Power Pool
WIOCC:	West Indian Ocean Cable Company Ltd.

⇒ 8. Acknowledgement of contributions to the Annual Report

The Secretariat of the EU-Africa Trust Fund prepared this Annual Report with the kind contribution of:

European Investment Bank

100, boulevard Konrad Adenauer
L-2950 Luxembourg

European Commission

AIDCO C4
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B-1049 Brussels

Kreditanstalt für Wiederaufbau - KfW

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Germany

Agence Française de Développement – AFD

5, rue Roland Barthes
75598 Paris Cedex 12,
France

The European Investment Bank as Manager of the Trust Fund prepared the Financial Statements.



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**European Union Africa
Infrastructure Trust Fund**



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The Annual Report is also available on the Bank's website: www.eib.org/publications.



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