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EU-Africa Infrastructure Trust Fund





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Joint Foreword by EC Commissioner Louis Michel and EIB President Philippe Maystadt

2008 marked a very good year for the Trust Fund, which consolidated the favourable results achieved in 2007, when it started operating.

The Trust Fund is an innovative European response to the African need for infrastructure, which is a key element for sustainable development, economic growth and poverty reduction. Limited access to transport, communication, water, sanitation and energy remain major constraints to economic growth. On an operational level, the partnership of the European Commission and EU Member States as grant donors on the one hand, and the EIB and financial development institutions on the other, facilitate the leveraging of funds through the blending of grants and loans. The Trust Fund was given a specific but difficult vocation, that of fostering cross-border investment in infrastructure. Such projects are complex and require a high level of preparation and coordination between the financiers and governments involved.

In 2008, the relationship between the Trust Fund and our African partners was strengthened. The African Development Bank became closely associated with the functioning of the Fund. On the EU side, the United Kingdom and Portugal became donors to the Trust Fund, which now holds EUR 148m in

pledged contributions. A total of over EUR 63m in grants has now been committed for eight projects in all African regions and in three key sectors: energy, transport and ICT. Although several projects are still in an early phase, it is estimated that each euro granted could generate about 14 euros in total investment. The details of these Grant Operations and a description of the underlying investment projects are provided in the following pages of this Report.

As for the future, the current pipeline of projects is strong and diversified. We will continue to develop projects selectively, based on clear priority criteria shared with our African partners. We remain strongly committed to the success of the Trust Fund, and will provide it with the necessary financial and human resources to make it an efficient and effective instrument dedicated to infrastructure investment in Africa.

To this end and in the light of the unfolding economic crisis expected to severely impact African countries, on 8 April 2009 the European Commission called on the Member States to target the provision



of EUR 500m in contributions to the Trust Fund by 2010 and to accept the opening up of the Fund to third countries. For its part, the Commission will contribute an additional EUR 200m in 2009-2010, tripling its current support, and has also proposed to adapt the Trust Fund (i) to include national infrastructure that forms part of regional networks and (ii) to introduce risk guarantee mechanisms.



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

Joint Statement by the Co-Chairmen of the Steering Committee

The EU-Africa Infrastructure Trust Fund is a key instrument of the EU-Africa Infrastructure Partnership.

The Partnership was launched in October 2007 in Addis Ababa by the African Union Commission (AUC) and the European Commission (EC), with the purpose of promoting and investing in infrastructure in Africa as a means to advance regional cooperation and integration, which lead to increased trade and economic growth, human development, peace and security. Significant financial resources are allocated to infrastructure in Africa by the EU, amounting to EUR 5.6bn for the period 2008-2013, of which EUR 109m has already been committed to the Trust Fund.

In order to give policy and strategic direction to the activities of the Partnership and the Trust Fund, a **Steering Committee** was established in October 2007, comprising an equal number of members from Africa and the EU. It met for the second time in Addis Ababa on 20-21 November 2008, and concluded with a joint AU-EU Statement, which noted the progress made in the setting up and implementation of the Trust Fund in its first year of operations and recommended several areas for attention to further expand and strengthen the pipeline of projects to be supported by the Trust Fund:

⇒ Promote the improvement of sustainable infrastructure networks and services in the fields of transport, Information and Communications

Technologies (ICT) and energy and foster sustainable economic development in Africa;

⇒ Reinforced dialogue and exchanges between the Secretariat, financiers of the Trust Fund, the African Union Commission and RECs to identify regional and continental priorities and sustainable projects that are sufficiently mature to be incorporated into the Trust Fund pipeline;

⇒ Closer cooperation and targeted dialogue with African regional development banks to explore possibilities for investments of common interest;

⇒ Intensify contacts and cooperation with relevant private sector organisations with a view to their involvement in the funding of regional infrastructure in the context of Public-Private Partnerships (PPPs);

⇒ Continue the process with the African Development Bank to enhance its role in the group of financiers in order to participate more actively in project financing and definition;

⇒ Explore and identify suitable projects in the field of transport, including multimodal projects, ports, airports, etc.



We are pleased to note that this Annual Report includes operational results and activities that are in line with those recommendations. We are also very confident that the Trust Fund will keep strengthening its coordination and collaboration with its African partners, with a view to identifying and implementing priority projects, which will improve the lives of countless ordinary Africans.



Lluís Riera,
Director, Development Policy
Directorate-General
Development and Relations with ACP
European Commission



Aboubakari Baba-Moussa
Director
Infrastructure and Energy
African Union Commission

Statement by the Chairman of the Executive Committee

The EU-Africa Infrastructure Trust Fund aims to foster investment in regional infrastructure in Africa, with the objective of promoting regional integration and trade. Increased investment is to be achieved by blending grants from EU donors with long-term loan finance from the European Investment Bank and other European development finance institutions. The Trust Fund operates in close partnership with the African Development Bank (AfDB) and other financiers and in collaboration with other key African partners, such as the African Union Commission and the Infrastructure Consortium for Africa.

The Trust Fund had a productive year in 2008 and measurable progress was achieved in several areas.

The United Kingdom and Portugal became the newest EU Member States to sign the Agreement, bringing the total number of donors to twelve¹. The amount of contributions pledged by the Donors increased from EUR 87m at the end of December 2007 to EUR 148m by the end of 2008.

The strategic guidance given to the Trust Fund was enhanced by the EU-Africa Infrastructure Partnership Steering Committee, which met in Addis Ababa in November 2008. The Committee took a number of decisions on the Partnership's broad objectives and internal procedures, and also noted the progress made in the setting up and implementation of the Trust Fund. It also emphasised the necessary dialogue and cooperation with the African partners, especially with the African Development Bank (AfDB), which joined the Project Financiers Group (PFG) of the Trust Fund as an observer. The Steering Committee also recommended exploring and identifying projects in the field of transport, and one such project (the "Beira corridor") was approved in December 2008.

The Executive Committee, which is the governing body of the Trust Fund, met five times during the

year. It reviewed and approved four grant operation requests, for a total amount of EUR 47.8m, which represents a threefold increase over the EUR 15.5m approved in the first year. In addition, the Executive Committee gave a "Clearance in Principle" for one grant operation, i.e. it made an initial positive decision on its eligibility, prior to its formal submission to the Committee. A description of all the projects is provided in the following pages, including tables with the breakdown of approvals by region, type and sector.

In addition to reviewing the grant operation requests, the Executive Committee examined two reports required by the Trust Fund Agreement, i.e. (i) the "Initial 12 Month Monitoring Report", prepared by the Secretariat, and (ii) the Initial Review of the Trust Fund Agreement, prepared by the Executive Committee, with input from the financiers of the Trust Fund. The two reviews were implemented in parallel, as they were complementary to one another.

The Initial Review concentrated on reviewing the Implementing Rules of the Trust Fund Agreement, with the aim of improving its efficiency and effectiveness in light of the experience gained over the first year. A consensus was reached on several proposed amendments, which should be formally approved and incorporated into a revised version of the Agreement, to be signed by all parties during 2009.

¹ The list of donors is appended as an Annex.



The Monitoring Report focused more on operational matters and commented on the good functioning of the Trust Fund over the first year. It noted in particular the consensual approach taken by the Executive Committee to arrive at decisions, as no voting was ever called or exercised.

In parallel to the expanding community of donors to the Trust Fund, additional financial institutions became members of the PFG - the informal professional group of financial institutions assessing grant operation proposals and submitting them for decision to the Executive Committee. Those new members are SOFID², the financier nominated by Portugal, and the AfDB, nominated by the United Kingdom.

The PFG maintained a high level of activity, identifying new bankable projects to include in the pipeline, assessing the grant requests to be submitted for decision to the Executive Committee and proceeding with the implementation of those approved previously. The PFG is faced with challenging issues as regional infrastructure projects are recognised as being more complex and cumbersome than national projects, involving more government authorities, legislation and regulations in more countries. During their four meetings in 2008, and in addition to discussing projects, the PFG thus spent considerable time analysing ways to improve their effectiveness as a group, e.g. for the efficient application of interest rate subsidies, the possible harmonisation of some procedures and the identification or implementation of sectoral strategies.

As the Manager of the Trust Fund, the EIB continued to fulfil its accounting and treasury functions for the funds entrusted to it by the donors. The financial statements of the Trust Fund for 2008 have been completed and audited by Ernst & Young, and are appended as an Annex.

Visibility for the Trust Fund was enhanced in 2008 through a combination of events and publications: creation of an exclusive logo for the Trust Fund; launch of a dedicated website (<http://www.eu-africa-infrastructure-tf.net>) whose access is calibrated to different types of users; creation of a library of documents relevant to infrastructure in Africa; production and dissemination of a brochure and of the 2007 Annual Report; inclusion of textbox references to the Trust Fund in other specialised publications (e.g. The ICA Annual Report, the UNCTAD's 2008 World Infrastructure Report); participation of the Commission and the Secretariat in various high-level conferences and forums.

The Executive Committee is proud of the work accomplished in 2008 and will endeavour to keep expanding the benefits of the Trust Fund to Africa through additional donors, financiers, projects and the personal commitment of all individuals involved in this initiative.



Gary Quince
Chairman of the Executive Committee

² SOFID: Sociedade para o Financiamento do Desenvolvimento, Instituição Financeira de Crédito, SA – the Development Finance Institution of Portugal, established on October 11, 2007 as a limited liability company, but is majority-owned by the Portuguese State (59.99%). The remaining shareholders are four major Portuguese banks, and ELO - Associação Portuguesa para o Desenvolvimento Económico e a Cooperação (“ELO - Portuguese Association for Economic Development and Cooperation”).

The Infrastructure Trust Fund: Operational Results in 2008

⇒ Approved Grant Operations

In 2008, four grant operations were approved for a total of EUR 47.8m, compared to EUR 15.5m in 2007:

ITF Grant Operations approved in 2008

(in euros)

Name	Grant amount	Region	Sector	Type of Grant	Estimated Total Project Cost
Caprivi Interconnector	15 000 000	Southern Africa	Energy	IRS	302 000 000
Ruzizi	2 800 000	Central & East Africa	Energy	TA	300 000 000
Beira-Blantyre Corridor	29 000 000	Southern Africa	Transport	IRS	189 000 000
OMVS Gouina Hydropower	1 000 000	West Africa & Sahel	Energy	TA	180 000 000
	47 800 000				

Caprivi

(EUR 15m IRS grant, approved on 22 January 2008, "cleared in principle" on 16 October 2007)

The Caprivi Link Interconnector (the "project", or "Caprivi") 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 HVDC 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 countries where the Southern African Power Pool (SAPP) operates³.

Namibia is a net importer of energy, for up to 80% of its electricity demand during low water flow periods at its national hydropower plant in Ruacana. Most of the electricity consumed in Namibia is wheeled (i.e. transported) from South Africa. The Caprivi link will partly address the firm generation capacity shortfall in Namibia by providing access to hydro-based generation power in Zambia, Zimbabwe, DRC and Mozambique, and will allow electricity to be wheeled through Namibia to South Africa, especially to the capacity-constrained Western Cape region. The Caprivi project will thus not only enhance Namibia's access to electricity, but will also help to alleviate congestion in the eastern and southern regions of the SAPP and act as an enabler for the connection of central and east Africa with southern Africa, for the benefit of the whole SADC region.

³ SAPP includes about 15 electricity enterprises in the countries that belong to the 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.



The total cost of the project - expected to be completed in early 2010 - is about EUR 300m, to be co-financed by the sponsor Namibia Power ("NamPower"), as well as by the EIB, KfW and AFD. NamPower is a member of SAPP and a company wholly owned by the Government of Namibia. It is currently the sole owner of electricity generation and transmission in the country but has been managed as a self-sustaining entity without subsidies from the Government. It is regarded as one of the most successfully managed utilities in the Southern African region.

The EIB, KfW and AFD will each invest EUR 35m in the form of loans, with the ITF providing EUR 15m in interest rate subsidy (IRS). The project and funding from the ITF will result in substantial development impacts: (i) they encourage NamPower and other SAPP power utilities to invest in the most environmentally sustainable solution, i.e. the use of hydropower as opposed to the alternative of a coal-powered plant; (ii) the project will strengthen and stabilise the highly congested Southern African Power Pool, with significant positive externalities to the region.

The three loan agreements with NamPower were subsequently signed in December 2008, for EUR 35m equivalent to be disbursed in ZAR; the grant amount (EUR 5m each) will be transferred from the ITF account to the financier upon the first disbursement under each agreement.

Ruzizi

(EUR 2.8m TA grant, approved on 29 May 2008)

The Ruzizi river provides the outlet for the waters from Lake Kivu into Lake Tanganyika over a distance of 117 km. It marks the border between DRC and Rwanda in the north and between DRC and Burundi in the south.

There are currently two hydroelectric plants on the Ruzizi River: Ruzizi I, operated by the DRC utility (SNEL), and Ruzizi II, operated by the International Society of Electricity of the Great Lakes (SINELAC). The plants supply electricity to Rwanda, the eastern part of DR Congo and Burundi.

EGL⁴, the sub-regional body in charge of planning energy developments in the Great Lakes Region, is currently planning to expand the energy potential of the site. The most advanced studies concern Ruzizi III, a new sub-regional hydroelectric plant that is expected to generate 143 megawatts of power by 2013. This additional generation would help to make up for the power deficit in the Great Lakes region. The technical feasibility studies for Ruzizi III are financed by the European Commission (EC) and should be completed in 2009.

However, additional and complementary studies need to be carried out, mainly with respect to the

⁴ L'Energie des Pays des **Grands Lacs (EGL)** is the energy affiliate of La Communauté Economique des Pays des **Grands Lacs (CEPGL)**, an organisation founded in 1976 to promote the economic development of the «Great Lakes Region», comprising Burundi, Rwanda and eastern Zaire. EGL's initial role was to plan regional electricity generation and transmission projects for the benefit of its three member countries. Its role was subsequently broadened to that of a regional institution covering the entire energy sector.





economic and financial viability of the project and its institutional arrangements, including the management of the water flow and interactions with the existing plants. Those complementary studies will be covered by the ITF funding, which also includes additional technical studies for the interconnection of South Kivu and North Kivu and their interface with the CEPGL interconnected network. *A tender for the feasibility study was published.* Furthermore, the ITF would provide EUR 0.3m for institutional support to EGL. Hence, and in addition to helping to alleviate the great energy deficit of the region, the ITF grant is also aimed at supporting initiatives of the CEPGL.

The tender was launched in December 2008 and the consultants will be selected in March 2009 by the EIB staff responsible and three representatives from EGL (one for each of the three countries – Burundi, Democratic Republic of Congo and Rwanda).

BEIRA Corridor

(EUR 29m IRS grant, approved on 18 December 2008)

The project aims to re-establish the original transport capacity of the port of Beira and of the Sena railway line, both forming part of the Beira Corridor Transport System (Mozambique). The project has two components: (a) rehabilitation of the Sena railway line; (b) restoration of the Beira port access channel to its original design characteristics. Total project cost is estimated at EUR 189m.

The rehabilitation and development of the Beira corridor is part of SADC's development strategy ratified by Mozambique. It is also part of the European Commission (EC)'s programme for the country, as the Beira corridor is included in the transport sector, which is a focal (priority) sector in the EC's National Indicative Programme 2008-2013. The EC plans to partly finance the rehabilitation and upgrading

of the road from Beira to Machipanda (Zimbabwe border) next year. This rehabilitation includes the access road to the Beira port which is directly linked with the EIB's proposed project. The EC is currently financing the building of a major bridge over the Zambezi near Caia, which will form part of the Trans-Mozambican Highway. The equivalent rail link is part of the Sena railway line, targeted by the proposed project.

Having two components, the project will be implemented by two different promoters: (i) CFM, the 100% State-owned National Ports and Railways Company, for the port component; and (ii) the Mozambican/Indian consortium, CCFB, Beira Railway Company, for the rail component. CCFB has a 25-year concession to operate and explore the Beira railway system, which includes the Sena line.

The financing for the project is composed of a EUR 65m financing from the EIB, plus a EUR 10m grant from the Netherlands through ORET, a EUR 3m subsidised loan from Danida, a EUR 85m loan from IDA/World Bank, an own funds contribution of EUR 10m from CFM and EUR 15m from CCFB. The EIB is the lead financier in this project, financing 35% of the total cost, and even though the other financiers are not members of the Project Financiers Group it should be noted that the Netherlands is a donor to the ITF and Danida is part of Denmark's Ministry of Foreign Affairs.

The EIB financing of EUR 65m will be channelled through the Government in two sovereign loans to be on-lent to the promoters. Mozambique is an HIPC country, so the EIB's proposed loans are required to include a minimum concessionality element of 35% which will be received by the ITF with an interest rate subsidy of EUR 29m.

The EIB finance contract will be signed on 30 April 2009 in Mozambique and a first disbursement is forecast before the end of 2009.

Gouina Hydro Power Project (GHPP)

(EUR 1m TA grant, approved on 18 December 2008)

GHPP is a transboundary initiative presented by the Senegal River Basin Organisation (OMVS), grouping Mali, Mauritania, Senegal and since March 2006, Guinea. Its purpose is to supply renewable electricity to the three original member states, which lack production capacities, and mainly rely on thermal production, which makes them very vulnerable to oil price volatility. The project, located on a natural fall on the Senegal River, near Kayes, western Mali, will use the water already processed and regularised by the Manantali dam, and is expected to become operational by 2013 at a cost of EUR 210m. Feasibility, environmental and social studies were carried out in 2004 and 2006. However, further studies are required, which the ITF will finance:

⇒ A Cumulative Impact Assessment (CIA), taking into account the cumulative impacts of the existing Manantali dam, the Félou project (being developed) and the GHPP;

⇒ Complementary sociological studies for the finalisation of the Resettlement Action Plan and of the Cultural Properties Management Plan;

⇒ Environmental studies leading to the completion of a Management and Protection plan of the classified Bagouko Forest;

⇒ Finalisation of the Environmental and Social Management Plan (ESMP), the Resettlement Plan (RP) and the Cultural Properties Preservation Plan (CPPP).

Moreover, the grant will allow for the setting up of independent expert panels which will review the environmental and social action plan's implementation and the management of dam safety issues.

OMVS will also benefit from the assistance of the nascent ECOWAS Regional Electricity Regulatory Authority (ERERA), which is also financed by the ITF, but under a separate funding proposal, to improve cross-border exchanges.





⇒ Grant Operation that received a “Clearance in Principle”

(i.e. the Executive Committee made an initial decision on eligibility):

ECOWAS Regional Electricity Regulatory Authority

(EUR 1.7m TA grant operation “cleared in principle” on 29 May 2008)

The grant from the Trust Fund is to be made available to, and used by, the ECOWAS Regional Electricity Regulatory Authority (ERERA) to implement its initial regulation activities, i.e. regional benchmarking of the electricity sector; assistance to OMVS (Senegal river basin commission) and OMVG (Gambia river basin commission) to improve cross-border exchanges; assistance to national regulators for setting international exchange tariffs, and settlement of disputes, among other activities.

The ECOWAS Energy Protocol adopted in 2003 aimed to increase both investments in the energy sector and energy trade in the West Africa region.

In pursuit of this objective, the West African Power Pool (WAPP), an ECOWAS specialised institution created in 2006, brings together electricity operators of the sub-region. Successfully, the WAPP is now the focal point for ECOWAS’s master plan implementation and regional investment planning – in coordination with international donors.

The Energy Protocol also requested the meeting of Energy Ministers to establish a regulatory body for the energy sector. Subsequently, the regional Bamako forum in 2007 endorsed the missions, powers, legal instruments, and early demonstrative actions of the Regional Electricity Regulatory Authority (ERERA) to be created.

ERERA’s mandate is to foster regional integration in the energy sector, through four main objectives: (i) enabling a secured development of cross-border exchanges; (ii) promoting competitiveness in the emerging regional electricity market; (iii) improving the exchange of information; (iv) ensuring the confidence of investors in the energy sector.

In January 2008, ECOWAS Heads of State adopted the Supplementary Act relating to the ERERA. This adoption embedded the validation of the institutional, legal, technical and governance arrangements being worked and negotiated through since 2005 by a project unit under the ECOWAS Infrastructure Commission, with the support of AFD.

ERERA’s activities thus embrace policy and planning, technical regulation, the regional market and competition, information systems and dispute resolution.

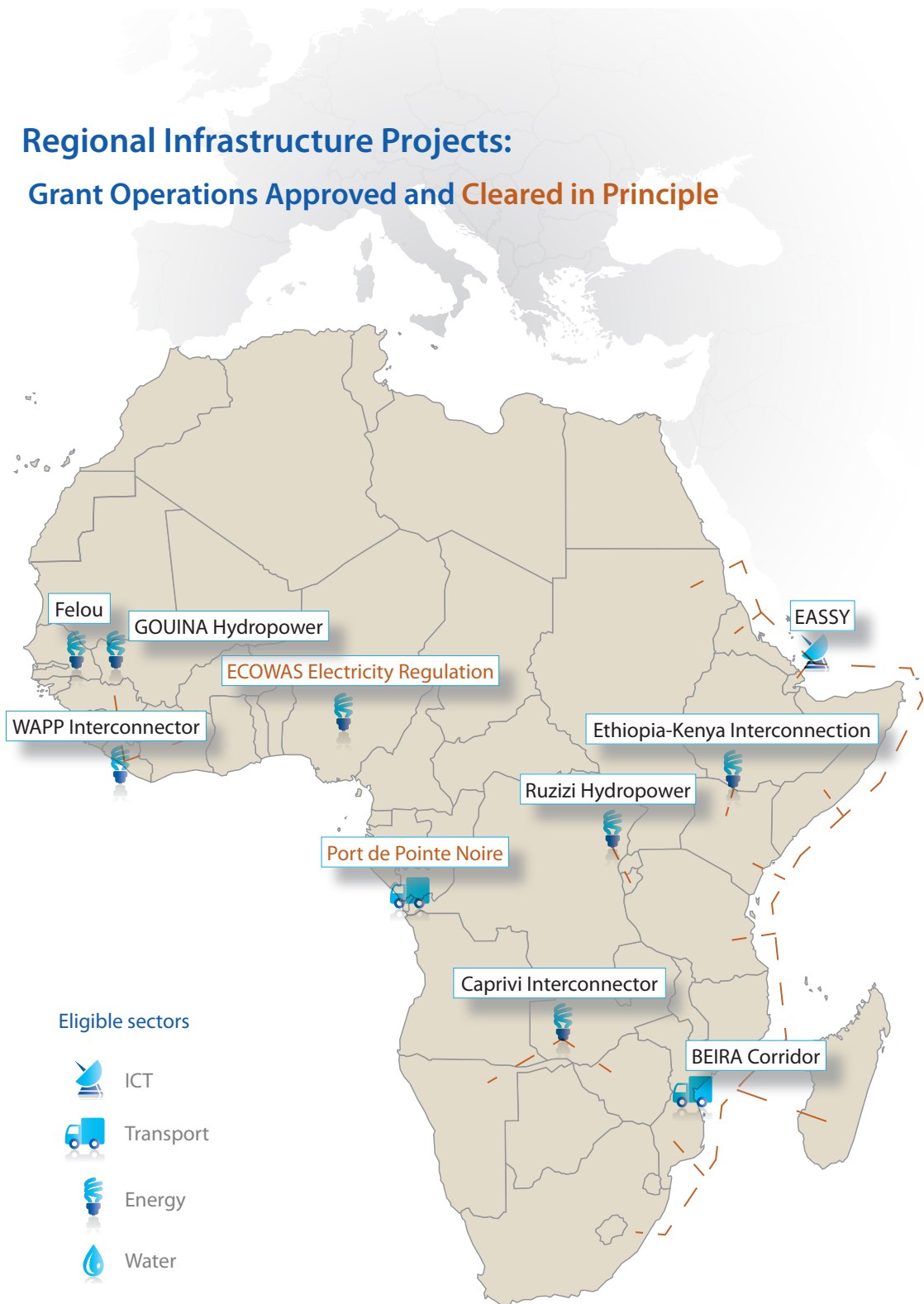
As ERERA is a brand new regional institution, its operating costs are still largely covered by the donor community. Donors’ contributions will progressively phase out until 2011 while the contributions of power utilities (through a marginal levy on power international exchange and installed capacity) and ECOWAS will progressively increase.

ERERA will benefit from the analytical work being undertaken through the African Infrastructure Country Diagnostic study (AICD): for instance, the AICD study on the energy sector’s performance will usefully inform ERERA’s benchmarking activities.

Since the adoption of the Supplementary Act, ERERA is in a phase of transition until its formal constitution, during which its governing members and technical staff are being recruited and its offices settled. At the same time, the project unit, acting under ECOWAS Infrastructure Commission authority, is implementing the “demonstrative” regulation activities, at the request of ECOWAS, the WAPP, sub-regional entities and/or national regulators.

⇒ Operational results as at 31.12.2008

Regional Infrastructure Projects: Grant Operations Approved and **Cleared in Principle**





On a cumulative basis, i.e. since the start of the Trust Fund's activities in June 2007, a total of EUR 63.3m has been approved in support of eight regional infrastructure projects in Africa; three operations for a total of EUR 26.7m were cleared in principle, of which one (Caprivi) was formally approved in 2008:

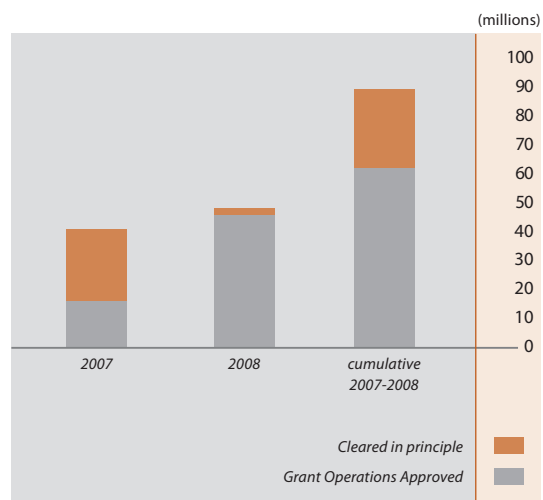
Operational results as at 31.12.2008

(in euros)

Approved Grant Operations	Sector	Type	Region	Grant Amount
EASSy	ICT	Direct Project funding	Central & East Africa	2 600 000
Felou	Energy	Interest rate subsidy	West Africa & Sahel	9 335 000
Ethiopia-Kenya Interconnection	Energy	Technical Assistance	Central & East Africa	550 000
WAPP - CLSG power interconnection project	Energy	Technical Assistance	West Africa & Sahel	3 000 000
Caprivi Interconnector	Energy	Interest rate subsidy	Southern Africa	15 000 000
Ruzizi	Energy	Technical Assistance	Central & East Africa	2 800 000
Beira-Blantyre Corridor	Transport	Interest rate subsidy	Southern Africa	29 000 000
OMVS Gouina Hydropower	Energy	Technical Assistance	West Africa & Sahel	1 000 000
				63 285 000

EU-Africa ITF:

Grant Operations approved and cleared in principle

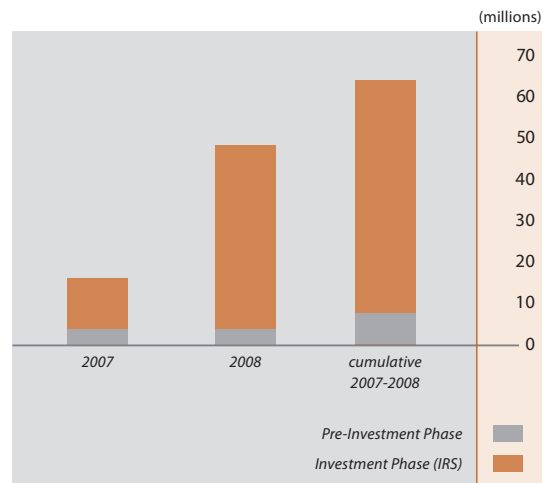


Grant Operations: investment phase and pre-investment phase

Out of the eight grant operations approved for a total of EUR 63.3m,

- ⇒ four involved pre-investment work (Ethiopia-Kenya Interconnector; WAPP Interconnector; Ruzizi hydropower; OMVS Gouina Hydropower) for EUR 7.4m, i.e. 11.7%
- ⇒ three involved an interest rate subsidy (Félou, Caprivi, Beira Corridor), for EUR 53.3m, i.e. 84.2%
- ⇒ one involved direct funding to the investment project (EASSy), for EUR 2.6m, i.e. 4.1%

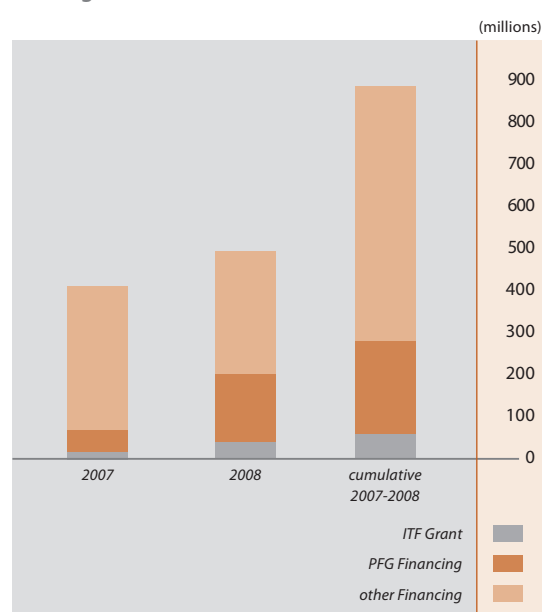
EU-Africa ITF:
Approved Grant Operations



Leverage or Multiplier Effect:

The estimated Total Project Cost (TPC) of the Grant Operations approved to date for IRS and direct project funding is approximately EUR 900m. For those operations, each euro in approved grants is thus expected to generate over sixteen euros in total investments (multiplier effect of 16:1).

EU-Africa ITF:
Leverage Effect of Grants on Total Investments





Grant Approvals by SECTOR:

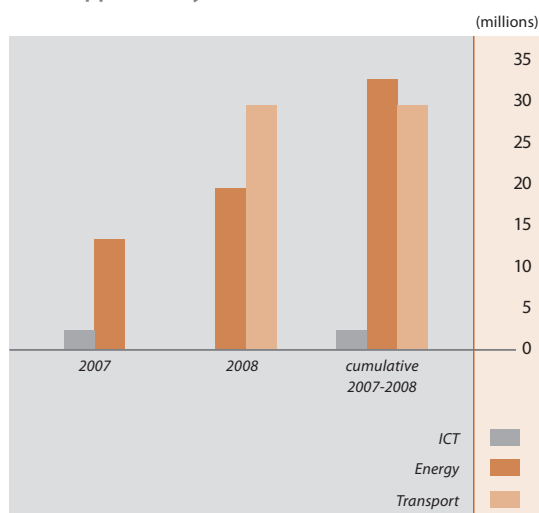
Four sectors are eligible for support: (i) energy; (ii) transport (rail, road, air, maritime and inland waterways); (iii) water; and (iv) information technology (ICT), including telecommunications infrastructure where projects financed provide access to a service of general economic interest.

In 2008, transport is the sector which received the largest share (61%) of the approved grants, with a EUR 29m interest rate subsidy for the Beira corridor project. It is followed by the energy sector, with three grants approved for a total of EUR 18.8m, or 39% of the grants amount for the year.

On a cumulative basis, energy received the most grants from the Trust Fund, with about EUR 32m, or 51% of the total. This concentration should be viewed positively and as responding to actual needs since the lack of power represents the largest deficit in Africa's infrastructure, according to the latest study of the Africa Infrastructure Country Diagnostic (AICD⁵)

EU-Africa ITF:

Grant approvals by Sector



⁵ The AICD is a multi-donor project implemented by the World Bank designed to expand the world's knowledge of physical infrastructure in Africa.

Grant Approvals by TYPE:

Funding support for eligible projects can take four different forms:

- ⇒ **Interest Rate Subsidies (IRS):**
the provision of a lump sum amount to a participating lender (i.e. the financiers appointed by the donors) to enable such a lender to make long-term loan finance available at reduced interest rates. The subsidies are granted so as to avoid market distortions, and in a manner coherent with EU commitments helping to preserve debt sustainability⁶. They are used primarily to implement the Debt Sustainability Framework of the World Bank and the International Monetary Fund (i.e. the borrowing by Heavily Indebted Poor Countries (HIPC) must include concessional funding from the lenders) or to compensate for the low financial rates of return of projects with a high economic rate of return.
- ⇒ **Technical Assistance (TA):**
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 (DG):**
for project components, which have substantial demonstrable social or environmental benefits or which can mitigate negative environmental or social impacts;
- ⇒ **Insurance Premiums (IP):**
initial-stage funding of insurance coverage necessary to launch infrastructure projects.

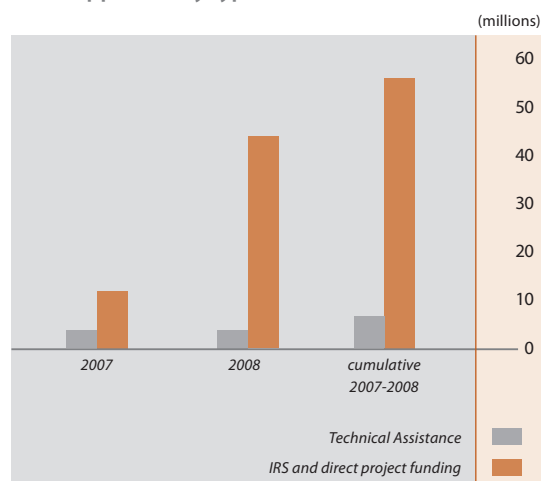
The interest rate subsidy is the mechanism whereby grants from donors are blended with long-term loan finance from financiers to implement an infrastructure project. As such, they constitute the core type of grants, absorbing most of the funding available under the Trust Fund.

In 2008, two IRS Grant Operations (Caprivi and Beira) absorbed 92% of the total amount approved.

The above four categories of grants could just as easily be described in terms of their spending along the project cycle, either (i) for any preparatory work in the "pre-investment phase" or (ii) as an integral part of the financing of the project in the "investment phase". Only grants in the latter phase are used to calculate the leverage or multiplier effect of the grants for the financing of infrastructure projects.

EU-Africa ITF:

Grant approvals by type of Grants



⁶ See Council of the European Union: Speeding up progress towards the Millennium Development Goals (MDGs), 2870th EXTERNAL RELATIONS Council meeting, Brussels, 26 and 27 May 2008, paras 39-41.



Grant Approvals by REGION:

Eligible infrastructure projects must be trans-border projects or national projects with a regional impact on two or more countries.

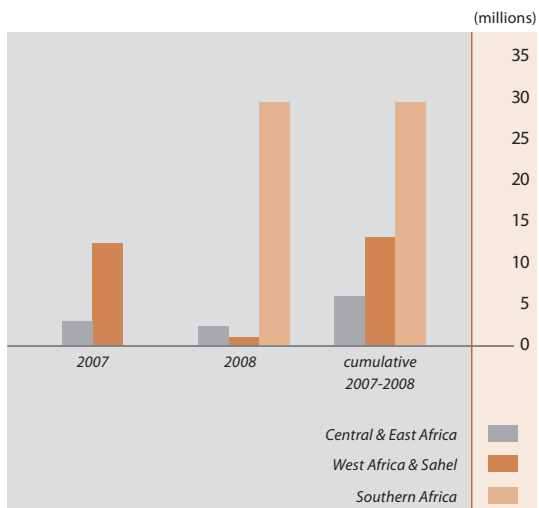
On a cumulative basis, the grant operations approved are fairly equally distributed across the Regions, i.e.:

- ⇒ three in Central and East Africa (EASSY, Ethiopia-Kenya interconnector, Ruzizi);
- ⇒ two in Southern Africa (Caprivi, Beira Corridor); and
- ⇒ three in West Africa and Sahel (Félou, WAPP interconnection, OMVS Gouina).

The Southern Africa region accounts for 75% of the total amount approved for interest subsidies (i.e. Caprivi and Beira).

EU-Africa ITF:

Grant approvals by Region



Outlook for 2009





As recommended by the Steering Committee, the Trust Fund will strive to develop and reinforce the dialogue with key select African partners and other stakeholders, such as:

- ⇒ the AUC, the RECs, and the NEPAD IPPF, for enhanced coordination in the prioritisation of regional infrastructure;
- ⇒ the African Development Bank, with a view to further enhancing the existing cooperation, both at the level of project participation and in subsequent co-financing;
- ⇒ private sector organisations, for the participation of the private sector in the identification and potential co-financing of projects backed by the Trust Fund.

The financiers of the Trust Fund have identified a dozen projects which, potentially, are mature enough for submission to the Executive Committee for approval within the next 12-15 months, either to fund the pre-investment phase (e.g. feasibility study, environmental and social impact assessment) or to provide a subsidy for a long-term loan extended by a member of the Project Financiers Group, with the aim of reducing the debt service of the African borrower. The projects in this mature pipeline are mostly in the power sector (generation or distri-

bution of electricity), which represents the largest infrastructure deficit in Africa⁷. The global financial crisis, which restricts credit and creates uncertainties, will continue to affect all economic operators, including the potential sponsors of infrastructure projects. Hopefully, the Trust Fund will be able to play a useful counter-cyclical role in providing much needed funding.

In line with its overall mandate to foster regional integration, the Trust Fund will cooperate with initiatives promoting the concept of infrastructure “corridors”. Corridors involve multiple investments in related sectors (roads, railways, ports, etc.), requiring a sequential and holistic approach to regional investments, and encourage donors, financiers and African partners to work together. The Trust Fund has started to be involved with the North-South Corridor (NSC), through the BEIRA project, which received an IRS grant of EUR 29m from the Trust Fund in late 2008. There is clear potential for the Trust Fund to support other suitable projects associated with the NSC, notably in energy. The NSC will also provide good potential for collaboration and co-financing of projects with the European Commission, the AfDB and the World Bank, as well as EU Member State development agencies.

⁷ According to the findings of the 2008 Africa Infrastructure Country Diagnostic – AICD.

Annexes

1. Audited Financial Statements
2. Update: 2007 Grant Operations in portfolio
3. List of Donors, Representatives and Aggregate Contributions received as at 31.12.2008
4. List of Steering Committee Members
5. Members of the Project Financiers Group
6. List of eligible African countries
7. List of acronyms
8. Acknowledgement of contributions to the Annual Report





⇒ 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 profit of EUR 1,265,000 and a total balance sheet of EUR 94,779,000 and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the cash flow statement for the period from 1 January 2008 to 31 December 2008, 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judg-

ment 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 31 December 2008, of its financial performance, of its changes in equity and of its cash flows for the year then ended 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

Luxembourg, 12 March 2009

Alain KINSCH

Bernard LHOEST

Financial Statements

Income Statement

for the year ended 31 December 2008 (in EUR'000)

	Notes	Year to 31.12.2008	Year to 31.12.2007
Interest and similar income		2 941	749
Total operating expenses		2 941	749
Grant operations - Technical assistance		-1 082	
General administrative expenses	2.4.3	- 580	- 242
Other cost (audit cost)		- 14	
Total operating expenses		-1 676	- 242
Operating profit		1 265	507

Balance sheet

as at 31 December 2008 (in EUR'000)

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and cash equivalents	2.4.2	91 881	41 549
Other assets	3	2 898	1 458
Total assets		94 779	43 007
LIABILITIES			
Other liabilities	4	7	
EQUITY			
Donor's Contribution	5	93 000	42 500
Retained earnings		1 772	507
Total Equity		94 772	43 007
Total Liabilities and equity		94 779	43 007

The notes refer to the sections "Notes to the Financial Statements".



Statement of changes in equity

for the year ended 31 December 2008 (in EUR'000)

	EC / Member States Contributions"	Retained earnings	Other reserves	Total equity
At 1 January 2008	42 500	507		43 007
Donor's contribution during the year	50 500			50 500
Profit for the year		1 265		1 265
At 31 December 2008	93 000	1 772		94 772
At 14 June 2007				
Donor's contribution during the year	42 500			42 500
Profit for the year		507		507
At 31 December 2007	42 500	507		43 007

Cash flow statement

for the year ended 31 December 2008 (in EUR'000)

	Year to 31.12.2008	Year to 31.12.2007
Operating activities		
Interest received	2 941	749
General administrative expenses	- 580	- 242
Technical assistance	-1 082	
Audit fees	- 7	
<i>Increase in operating assets</i>		
Other assets	-1 440	-1 458
Net cash flows from operating activities	- 168	- 951
Financing activities		
Paid in by Donors	50 500	42 500
Net cash flows from / (used in) financing activities	50 500	42 500
Net increase in cash and cash equivalents	50 332	41 549
Cash and cash equivalents at beginning of reporting period	41 549	
Effect of exchange rate changes on cash and cash equivalents		
Cash and cash equivalents at end of reporting period	91 881	41 549

Notes to the financial statements

1 General information

Following detailed consultations between EU Member States, the European Commission and the European Investment Bank (the "EIB"), the EU-Africa Infrastructure Trust Fund Agreement ("Agreement Constituting the Implementation Rules of the Trust Fund") was signed in Brussels on 23 April 2007 by Donors and by EIB as Manager of the Trust Fund.

In accordance with this Agreement the key objective of the Trust Fund is to contribute to achieving the strategic objectives of the EU-Africa Partnership through targeted funding of regional and cross-border infrastructure in Sub-Saharan Africa. The Trust Fund provides financial support by way of grants to eligible infrastructure projects alongside long-term loan finance made available by eligible financiers.

Typically, Trust Funds have a limited lifespan and can be wound-up once certain events occur. Article 11.2.1 of the Agreement includes the possibility to wind-up the EU-Africa Infrastructure Trust Fund on 31 December 2013.

The reporting period of the present financial statements covers the period from 1 January 2008 to 31 December 2008. The prior period figures cover the Trust Fund's initial period from 14 June 2007 (date of inception) to 31 December 2007.

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").

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 Change in accounting policies

In accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Trust Fund has changed its accounting treatment of the recognition of management fees paid to the EIB on contributions received. In 2007, the full amount of management fees paid was recognised as general administrative expenses in the income statement. Given the general administrative nature of management fees paid, such fees shall be amortized throughout the lifespan of the Trust Fund. Therefore the Trust Fund has retroactively restated its 2007 financial statements to enable a comparable presentation on the 2008 financial statements.

This restatement has a positive impact on the 2007 income statement and equity of KEUR 1.458.

2.4 Summary of significant accounting policies

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

2.4.1 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.

2.4.2 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".

2.4.3 General administrative expenses

For managing the Trust Fund the EIB shall be granted with a standard one-off payment equal to 4% (four percent) of the aggregate amount of Contributions effectively made available to the Trust Fund. The administrative fee is intended to cover in full the costs associated with managing the Trust Fund.

The management fee paid to the EIB amounts to EUR 2 020 000 and EUR 1 700 000 for the financial year 2008 and the financial period 2007 respectively. General administrative expenses are recognised in the income statement on a pro-rata basis over the remaining lifespan period of the Trust Fund. As at 31 December 2008 KEUR 580 (2007: KEUR 242) are recognised in the income statement and KEUR 2 898

(2007: KEUR 1 458) are capitalized in the balance sheet as administrative fees paid in advance.

2.4.4 Interest income

According to the Agreement Constituting the Implementation Rules of the Trust Fund, the EIB remunerates the cash on the current account.

In the financial year 2008, the interest income received in remuneration of the current account opened in EIB books amounts to EUR 2 941 156.

2.4.5 Contributions

In addition to the Founding Donor (the European Commission), any Member State of the European Union or any Member State Development Finance Agency may contribute funds in Euro to the Trust Fund, Contributions are non-refundable.

2.4.6 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 Other assets

Other assets represent administrative fees paid in advance to the EIB as laid down in Note 2.4.3.

4 Other liabilities

Other liabilities represent external audit cost for the audit of the Trust Fund's financial statements as at 31 December 2008.

5 Contribution to the Trust Fund

Contributions received from Donors as at 31 December 2008 are detailed below:

EC / Member States	Contribution to the Fund (EUR' 000)
Austria	1 000
European Commission	60 000
France	5 000
Germany	1 000
Greece	1 000
Italy	5 000
Luxembourg	2 000
Netherlands	2 000
Portugal	1 000
Spain	10 000
United Kingdom	5 000
Total	93 000

6 Contingent Liabilities

Contingent liabilities of the Trust Fund are entirely composed of approved but not yet disbursed grant operations. As at the balance sheet date they are totalling to EUR 62.2m, of which EUR 53.3m are within the scope of interest rate subsidies and EUR 8.9m within the scope of technical assistance. The Trust Fund Agreement (Article 6) foresees that disbursement of grant operations to the Project Financiers should normally commence within 15-months of formal approval of each grant operation.

7 Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2008 financial statements.



⇒ 2. Update: 2007 Grant Operations in portfolio

(in euros)

Approved Grant Operation	Region	Sector	Type	Grant Amount	Estimated total project cost
EASSy	Central & East Africa	ICT	Direct Project funding	2 600 000	201 000 000
Felou	West Africa & Sahel	Energy	Interest rate subsidy	9 335 000	211 500 000
Ethiopia-Kenya Interconnection	Central & East Africa	Energy	Technical Assistance	550 000	660 000 000
WAPP - CLSG power interconnection project	West Africa & Sahel	Energy	Technical Assistance	3 000 000	200 000 000
				15 485 000	

(in euros)

Grant Operation cleared in principle	Region	Sector	Type	Grant Amount	Estimated total project cost
Port de Pointe Noire	West Africa & Sahel	Transport	Interest rate subsidy	10 000 000	130 000 000
				10 000 000	

EASSy Cable

(EUR 2.6m grant, approved on 5 July 2007, agreement signed on 26 June 2008)

The East African Submarine Cable System (EASSy) 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 nature. The total cost of the project is estimated at about EUR 160m⁸. 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 enough cable capacity. In addition, meeting the development policy objectives will also represent a major challenge for the company. The hiring of a competent core

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

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 EUR 2.6m 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 this 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 EUR 1.25m in funding for technical assistance under the Cotonou framework, to help pay for the legal advisor 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 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 advisors.

The technical assistance provided under the EU-Africa Infrastructure Trust Fund is designed to allow WIOCC to recruit a permanent management team for the company, and to pay for its costs during the construction phase of the project.

In order to generate a transparent and competitive recruitment process, WIOCC decided to engage a human resources management firm to assist it with the recruitment of the management team. RP International, a Dubai-based HR company specialised in the ICT business, was selected amongst a group of 11 or so HR companies, most of them internationally renowned. RPI and a panel consisting of WIOCC shareholder representatives (including the chairman of the board) started with the recruitment of the Chief Executive Officer. The main selection criteria were agreed, based on job descriptions that WIOCC developed, and RPI compiled

a long-list on the basis of which a number of potential candidates were selected. RPI conducted a first screening of these candidates (which included a face to face interview and psychometric testing), on the basis of which WIOCC compiled a short-list. Three candidates were interviewed in August 2008 for the position of CEO, and the preferred candidate (a British national) was selected and appointed in October 2008. The CEO was closely involved in the selection of the remainder of the management team, together with the HR company. The Chief Technical Officer, Chief Operations Officer and Chief Financial Officer, all from Africa, were selected and are expected to join WIOCC in mid-February/early March 2009. All have commercial experience in the ICT sector, and in fibre optical cable networks. The Trust Fund has so far played a key role in allowing WIOCC to select top-notch professionals.

A first tranche of EUR 60 435 was disbursed under the Trust Fund for this project in 2008 and the second disbursement is anticipated in early 2009.

The signature of the EIB finance contract (EUR 13m) is planned for April 2009.

The priority of WIOCC's CEO is to develop the sales and marketing strategy for WIOCC, to seek the best deals for onward connectivity while also supervising the construction of the project. Alcatel started the marine survey in December. The cable is expected to be ready for commercial service by mid-2010.

Férou Hydropower

(EUR 9.3m IRS grant, 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 that belong to the "Organisation pour la mise en valeur du fleuve Sénégal (OMVS⁹)", comprising Mali, Mauritania and Senegal, and joined by Guinea in 2006.



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 as well as improvements to the existing dispatch centre at Manantali, the telecommunications systems operated by Société de Gestion du Barrage de Manantali (SOGEM) and the national utilities of Mali, Mauritania and Senegal.

Initially, the project - expected to be completed at the end of 2010 – had been estimated to cost EUR 102.5m, to be funded by three co-investors: (i) the EIB (EUR 33m), (ii) SOGEM (EUR 8m), and (iii) the World Bank (EUR 61.5m). However, in December 2008, following a long bidding procedure, the project cost was revised to EUR 211.5m primarily due to a sharp increase in the cost of the turnkey contract. The World Bank and the EIB have indicated their interest in financing the cost overrun, provided the project promoters make progress in fulfilling conditions precedent to the EIB finance contract signed in November 2006. One such condition includes the payment by the national electricity companies of Senegal, Mauritania and Mali of their arrears vis-à-vis SOGEM.

The grant from the ITF is in the form of an interest rate subsidy of EUR 9.3m on the EIB loan. Should the EIB decide to present a proposal to its decision-making authorities to part-finance the cost overrun of the project, a request would simultaneously be presented to the Trust Fund for a corresponding increase in the subsidy amount. 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, improve the income of the local populations and 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 International Monetary Fund (IMF) and World Bank (WB) programmes.

Ethiopia-Kenya Interconnector

(EUR 0.55m TA 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 would provide an incentive to coordinate outages so that the total reserve margin on the interconnected system could 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. A full-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 are soon to be completed (two progress reports have already been presented). The cost of this due diligence process is about EUR 1.65m and will be shared by several donors, including AFD (EUR 0.15m), KfW on behalf of the German Government (EUR 0.2m), AfDB (EUR 0.38m), DBSA (EUR 0.2m), and the Ethiopian Electric Power Corporation in conjunction with Kenya's Energy Ministry (EUR 0.15m). The ITF is covering the funding shortfall of EUR 0.55m.

The amount estimated to finance the project itself is about EUR 660m for Phase I (200 MW) and EUR 400m for Phase II (600 MW).

As a next step the parties have to develop a detailed financial model and finalise the institutional set-up for the project in order to approach FIs for financing of the project. Furthermore, financial closure needs to be reached on Gilgel Gibe III, the hydropower plant that will feed the interconnector with the necessary power. It is currently unclear if and when that will happen.

Once these preconditions are fulfilled, an additional grant from the ITF could be requested, most likely for an interest rate subsidy or the coverage of political risk.

West Africa Power Interconnector

(EUR 3m TA grant, approved on 16 October 2007)

This EUR 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 for the planned West Africa Power Interconnector project, which will link power grids in Côte d'Ivoire, 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.

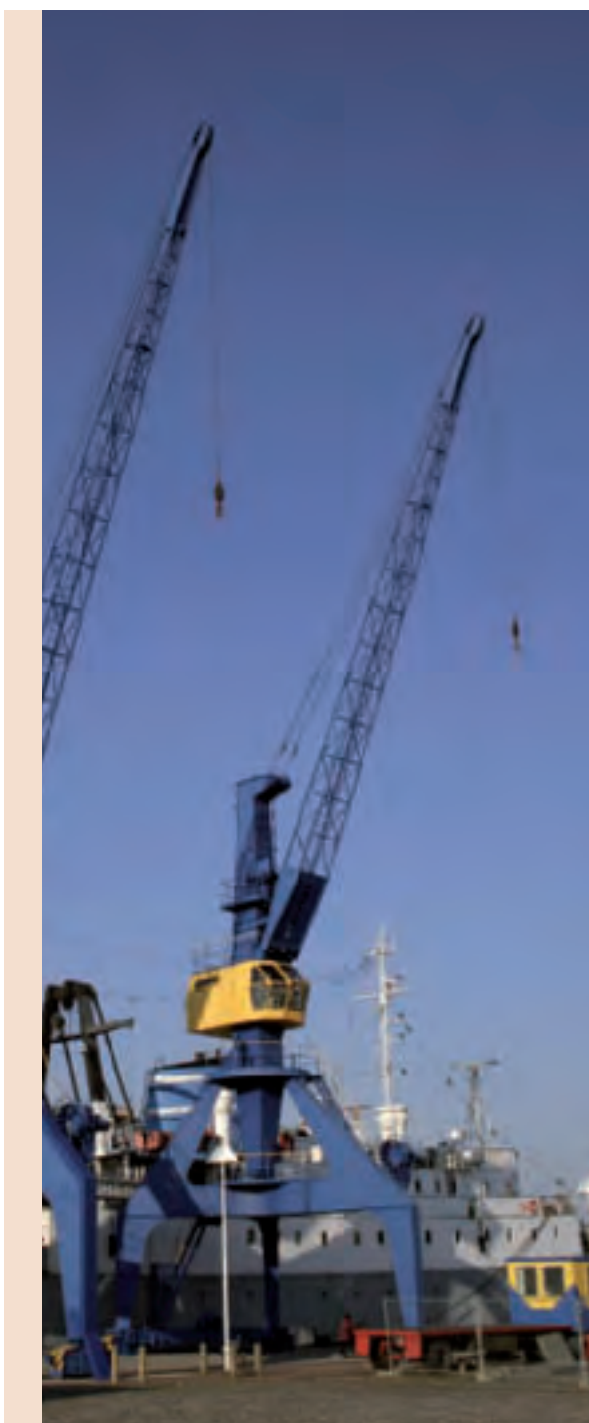
The objective of the WAPP is to establish a regional electricity market in West Africa through the development and implementation of key priority infrastructure projects that would foster power exchanges between the countries in the West African sub-region, and provide access to affordable energy resources 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 (Côte d'Ivoire), Sanniquille, 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 Côte d'Ivoire 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.

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.



The WAPP Secretariat task-manages 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 December 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 EUR 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.

The consultant contracts for the feasibility study were signed with a joint venture of Application Européenne de Technologies et de Services and SOGREAH in September 2008. The ESIA¹⁴ study with Korea Electric Power Corporation was also signed in September 2008. The works have started with four teams on line route. Two tranches of grant funds were paid out in 2008, for a total of about EUR 800 000.

Port of Pointe Noire

(EUR 10m IRS grant, “cleared in principle” in June 2007 and needs to be submitted again to the Executive Committee)

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 under competitive and financially viable conditions 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.

¹⁴ ESIA: Environmental and Social Impact Assessment.



⇒ 3. List of Donors, Representatives and Aggregate Contributions received as at 31.12.2008

(in euros)

Donor	Representative Institution	Date of signature of Agreement	Pledged contribution amount	Contribution amount actually received
Austrian Republic	Austrian Development Agency <i>Mr Martin Lugmayr</i>	23/04/2007	1 000 000	1 000 000
European Commission	European Commission <i>Mr Gary Quince</i>	23/04/2007	108 700 000	60 000 000
Federal Republic of Germany	Federal Ministry for Economic Cooperation and Development <i>Mr Hein Winnubst</i>	23/04/2007	1 000 000	1 000 000
French Republic	Agence Française de Développement <i>Mr Jean-Marc Bellot</i>	23/04/2007	5 000 000	5 000 000
Grand Duchy of Luxembourg	Ministry of Foreign Affairs <i>Mr Oliver Maes</i>	23/04/2007	2 000 000	2 000 000
Hellenic Republic	Ministry of Foreign Affairs <i>Mr Panayotis Papanastassiou</i>	23/04/2007	1 000 000	1 000 000
Italian Republic	Ministry of Foreign Affairs <i>Ms Gabriella Di Gioia</i>	23/04/2007	5 000 000	5 000 000
Kingdom of Belgium	Federal Public Service for Foreign Affairs and Cooperation <i>Mr Philippe Gérard</i>	23/04/2007	1 000 000	
Kingdom of Spain	Ministry of Economy and Finance <i>Mr Vicente J. Fernandez</i>	23/04/2007	10 000 000	10 000 000
Kingdom of the Netherlands	Ministry of Foreign Affairs <i>Mr Jan Van Renselaar</i>	23/04/2007	2 000 000	2 000 000
Portuguese Republic	Ministry of Finance and Public Administration <i>Ms Beatriz Teixeira</i>	01/02/2008	1 000 000	1 000 000
The United Kingdom	Department for International Development <i>Mr John Burton</i>	15/01/2008	10 000 000	5 000 000
			147 700 000	93 000 000



An Executive Committee meeting

⇒ 4. List of Steering Committee Members

African Members

1. Members of conference bureau – Transport, energy & ICT

TRANSPORT	ENERGY	ICT	OTHER
Algeria	South Africa	Nigeria	Burkina Faso
Ethiopia	Senegal	Kenya	Morocco
Mali	Egypt	Egypt	Nigeria
Gabon	Congo	Zambia	Kenya
Zimbabwe	Uganda	Niger	

2. Regional Economic Communities (RECs)

Community of Sahel-Saharan States - CEN-SAD
 Common Market for Eastern and Southern Africa - COMESA
 Economic Community of West African States - ECOWAS
 Southern African Development Community - SADC
 Intergovernmental Authority on Development - IGAD
 East African Community - EAC
 Economic Community of Central African States - ECCAS
 Arab Maghreb Union - AMU

3. Others

Economic Commission for Africa - ECA
 African Development Bank - AfDB
 New Partnership for Africa's Development – NEPAD

4. African Union Commission - AUC





European Members

- Austrian Republic
- Kingdom of Belgium
- Republic of Bulgaria
- Republic of Cyprus
- Czech Republic
- Kingdom of Denmark
- Republic of Estonia
- Republic of Finland
- French Republic
- Federal Republic of Germany
- Hellenic Republic
- Republic of Hungary
- Ireland
- Italian Republic
- Republic of Latvia
- Republic of Lithuania
- Grand Duchy of Luxembourg
- Republic of Malta
- Kingdom of the Netherlands
- Republic of Poland
- Portuguese Republic
- Romania
- Slovak Republic
- Republic of Slovenia
- Kingdom of Spain
- Kingdom of Sweden
- The United Kingdom
- European Investment Bank
- European Commission



⇒ 5. Members of the Project Financiers Group

Country	Financier	Financier's Representative
Austrian Republic	Austrian Development Bank	<i>Mr Oliver Walter</i>
European Union	European Investment Bank	<i>Mr Robert Feige</i>
Federal Republic of Germany	Kreditanstalt für Wiederaufbau - KfW	<i>Mr Klaus Gühr</i>
French Republic	Agence française de développement - AFD	<i>Mr Jean-Marc Bellot</i>
Grand Duchy of Luxembourg	Lux-Development S.A.	<i>Mr Richard Schmid</i>
Hellenic Republic	Ministry of Economy and Finance	<i>Ms Katerina Alesta</i>
Italian Republic	Ministry of Foreign Affairs	<i>Mr Francesco Anania</i>
Kingdom of Belgium	Ministry of Finance	<i>Ms Marlène Beco</i>
Kingdom of Spain	COFIDES	<i>Mr Fernando Aceña</i>
The Netherlands	To be named	<i>Mr Jan Van Renselaar</i>
Portugal	SOFID	<i>Mr Francisco Mantero</i>
The United Kingdom	African Development Bank - AfDB	<i>Mr Gilbert Mbesherusu</i>





⇒ 6. List of eligible African countries

- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cameroon
- Central African Republic
- Chad
- Congo Brazzaville
- Côte d'Ivoire
- Democratic Republic of Congo
- Eritrea
- Ethiopia
- Djibouti
- Gabon
- Equatorial Guinea
- São Tomé and Príncipe
- Ghana
- Togo
- Guinea-Bissau
- Guinea Republic
- 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	HIPC:	Heavily Indebted Poor Countries
AfDB:	African Development Bank	ICA:	The Infrastructure Consortium for Africa
AICD:	African Infrastructure Country Diagnostic	ICT:	Information and communication technologies
AMU:	Arab Maghreb Union	IDA:	International Development Association
AUC:	African Union Commission	IFC:	International Finance Corporation
CAR:	Central African Republic	IGAD:	Intergovernmental Authority on Development
CCFB:	Beira Railway Company	IP:	Insurance Premiums
CEPGL:	Communauté Economique des Pays des Grands Lacs	IRS:	Interest Rate Subsidy
CEN-SAD:	Community of Sahel-Saharan States	ITF:	Infrastructure Trust Fund
CFM:	Portos e Caminhos de Ferro de Moçambique	KfW:	Kreditanstalt für Wiederaufbau
CIA:	Cumulative Impact Assessment	NAMPOWER:	Namibian Power
COFIDES:	Compañía Española de Financiación del Desarrollo	NEPAD:	New Partnership for Africa's Development
COMESA:	Common Market for Eastern and Southern Africa	OeEB:	Oesterreichische Entwicklungsbank AG
CPPP:	Cultural Properties Preservation Plan	OMVG:	Organisation pour la mise en valeur du fleuve Gambie
DBSA:	Development Bank of Southern Africa	OMVS:	Organisation pour la mise en valeur du fleuve Sénégal
DFI:	Development Finance Institution	PFG:	Project Financiers Group [of the ITF]
DfID:	Department for International Development	PPP:	Public-Private Partnership
DG:	Direct Grant	REC:	Regional Economic Community
DRC:	Democratic Republic of the Congo	RP:	Resettlement Plan
EAC:	East African Community	SADC:	Southern African Development Community
EASSy:	Eastern Africa Submarine Cable System	SAPP:	Southern African Power Pool
EC:	European Commission	SINELAC:	International Society of Electricity of the Great Lakes
ECA:	Economic Commission for Africa	SNEL:	Société Nationale d'Electricité
ECCAS:	Economic Community of Central African States	SPV:	Special Purpose Vehicle
ECOWAS:	Economic Community of West African States	SOFID:	Sociedade Para O Financiamento Do Desenvolvimento
EDF:	European Development Fund	SOGEM:	Société de Gestion du Barrage de Manantali
EGL:	Energie des Pays des Grands Lacs	TA:	Technical Assistance
EIB:	European Investment Bank	TF:	Trust Fund
ELO:	Portuguese Association for Economic Development and Cooperation	TPC:	Total Project Cost
ERERA:	ECOWAS Regional Electricity Regulatory Authority	UNCTAD:	United Nations Conference on Trade and Development
ESMP:	Environmental and Social Management Plan	WAPP:	West African Power Pool
ExCom:	Executive Committee	WIOCC:	West Indian Ocean Cable Company Ltd.
GHPP:	Gouina Hydro Power Project		



⇒ 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:

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European Union Africa
Infrastructure Trust Fund



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