

AFRICAN DEVELOPMENT BANK GROUP



BAGAMOYO – HOROHORO/LUNGA - LUNGA - MALINDI ROAD PROJECT:

COUNTRY: MULTINATIONAL (KENYA AND TANZANIA)

APPRAISAL REPORT

November 2019

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AFRICAN DEVELOPMENT BANK GROUP



MULTINATIONAL (KENYA AND TANZANIA)

BAGAMOYO – HOROHORO/LUNGA - LUNGA - MALINDI ROAD PROJECT: PHASE I

APPRAISAL REPORT

Public Disclosure Authorized

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RDGE/PICU DEPARTMENT
November 2019

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Currency Equivalents

As of 01.07.2019

1 UA	=	1 SDR
1 UA	=	1.390 USD
1 UA	=	139.76 KES
1 UA	=	3,190 TZS
1 UA	=	1.2216 EURO

Fiscal Year

1 July – 30 June

Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogram (kg)	=	2.200 lbs
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (")
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

LIST OF ABBREVIATIONS			
ADB	African Development Bank	KfW	Kreditanstalt für Wiederaufbau
ADF	African Development Fund	LAPSSET	Lamu Port, South Sudan, Ethiopia Transport Corridor
AFD	Agence Française de Développement	MTP III	Third Medium Term Development Plan of Kenya's Vision 2030
CBO	Community Based Organization	NCTTCA	Northern Corridor Transit and Transport Coordination Authority
CPIA	Country Policy and Institutional Assessment	NEMA	National Environmental Management Authority - Kenya
CSP	Country Strategy Paper	NEMC	National Environment Management Council - Tanzania
DFID	Department for International Development.	OSBP	One Stop Border Post
EAC	East African Community	PAP	Project Affected Persons
EA- RISP	East Africa Regional Integration Strategy Paper	PBA	Performance Based Allocation
EIB	European Investment Bank	PCN	Project Concept Note
EIRR	Economic Internal Rate of Return	PCR	Project Completion Report
ESIA	Environmental and Social Impact Assessment	PIDA	Programme for Infrastructure Development in Africa
ESMP	Environmental and Social Management Plan	PIU	Project Implementation Unit
EU	European Union	PRSP	Poverty Reduction Strategy Paper
FYDP II	Second Five-Year Development Plan Tanzania	RAP	Resettlement Action Plan
GoK	Government of Kenya	RFB	Road Fund Board, Tanzania
GoT	Government of Tanzania	RO	Regional Operation
JAS	Joint Assistance Strategy	TANROADS	Tanzania National Roads Agency
JICA	Japan International Cooperation Agency	TSIP	Transport Sector Investment Plan
KeNHA	Kenya National Highways Authority	TZS	Tanzanian Shilling
KES	Kenyan Shilling	UA	Units of Account
KRB	Kenya Roads Board	USD	United States Dollar

Loan Information

Client's information

BORROWERS:

**REPUBLIC OF KENYA
UNITED REPUBLIC OF TANZANIA**

EXECUTING AGENCIES: AUTHORITY

**KENYA NATIONAL HIGHWAYS
TANZANIA NATIONAL ROADS AGENCY**

Financing plan

Borrowers	Source	Amount (UA)	Instrument
Kenya	ADF 14 (PBA and RO)	46,360,000	Loan
	ADB	88,400,000 (EUR 108 million)	Loan
	EU	24,560,000(EUR 30 million)	Grant
	GOV. OF KENYA	26,680,000	Counterpart
Total Kenya		186,000,000	
Tanzania	ADF 14 (PBA and RO)	122,290,000	Loan
	GOV. OF TANZANIA	18,330,000	Counterpart
Total Tanzania		140,620,000	
TOTAL COST		326,620,000	

ADB and ADF key financing information

ADB	
Loan currency	Euro (EUR)
Loan type	Fully Flexible Loan
Tenor	25 years inclusive of grace period
Grace period	8 years
Repayments	Consecutive semi-annual payments after grace period
Interest Rate	Base Rate +Funding Cost Margin+ Lending Margin + Maturity Premium
Base Rate	Floating Base Rate (6-month) EURIBOR reset each 1st February and 1st August). A free option to fix the Base Rate is available.
Funding Cost Margin	The Bank funding cost margin as determined each 1 st January and 1 st July and applied to the Base Rate each 1 st February and 1 st August.
Lending Margin	80 basis points (0.8%)
Maturity Premium	- 0% if Average Loan Maturity <= 12.75 years - 0.10% if 12.75< Average Loan Maturity <=15 - 0.20% if Average Loan Maturity >15 years
Front-end fees	0.25% of the total amount of the Loan shall be payable on the earlier of: (a) Sixty (60) days following the date of Entry into Force of the Loan Agreement, and (b) the date of first disbursement of the Loan.
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days after signature of the loan agreement and are payable on Payment dates.
Option to convert the Base Rate	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fix rate to floating or refix it on part or full-disbursed amount. Transaction fees are payable.

Option to cap or collar the Base Rate	The borrower may cap or set both cap and floor on the Base Rate to be applied on part or full-disbursed amount. Transaction fees are payable.
Option to convert loan currency	The borrower may convert the loan currency for both undisbursed and/or disbursed amounts in full or part to another approved lending currency of the Bank. Transaction fees are payable.
NPV (base case)	USD 108.22 million
EIRR (base case)	19.0%

ADF

Loan Currency	Unit of Account (UA)
Interest Type	1% for Kenya and Not Applicable for Tanzania
Interest Rate Spread	Not Applicable
Service Charge	0.75% per annum on amount disbursed and outstanding
Commitment Fee	0.50% per annum on the un-disbursed loan amount
Tenor	30 years for Kenya and 40 years for Tanzania (includes grace period)
Grace Period	5 years for both Kenya Tanzania

Timeframe - Main Milestones (expected)

Concept Note approval	May, 2019
Project approval by the Bank	December, 2019
Loan Agreement Signing	February, 2020
Effectiveness	March, 2020
Closing date	31 December, 2025
Last repayment	February, 2050 for Kenya February, 2060 for Tanzania

PROJECT SUMMARY

Project Overview

1. The East African Coastal Corridor: Malindi – Mombasa – Lunga Lunga/Horohoro and Tanga - Pangani - Bagamoyo Road (454km) is a strategic component of the East African transport corridors network, connecting Kenya and Tanzania. The road project will boost regional integration by reducing transit times, facilitating trade and cross-border movement of people, opening up access to touristic attractions, linking the ports of Dar es Salaam, Tanga and Mombasa, and stimulating the blue economy. It is a spur-link to the Northern Corridor, which is a priority project under PIDA.

This project is to be implemented in phases owing to the need for huge investment. The first phase, which is a subject of this report, involves the construction of 175 km road sections: 120.8 km Mkanga - Pangani road section in Tanzania and 54 km Mombasa – Kilifi road section in Kenya. The project also includes trade and transport facilitation studies, capacity building, environmental and social monitoring services, and social complementary activities. The total cost of the project is UA 326.62 million. The project is co-financed by the Bank Group (78.7%), European Union (7.5%), the Government of Kenya (8.2%) and Government of Tanzania (5.6%). Parallel financing is also planned with GoT and JICA for Tanga-Pangani Road and Likoni Bridge respectively. The overall project implementation time is five years (2020 – 2025). Project beneficiaries are corridor residents who will have greater economic opportunities and access to social services and goods. Regional beneficiaries are producers, manufacturers and traders who have a trade corridor to move goods at reduced time and cost.

Needs Assessment

2. Scaling up the quantity and quality of road infrastructure, which carry very significant proportion of freight transport, about 90%, has gained prominence in both countries' development plans. Hence, it is timely to implement this important project that will enhance regional integration, trade, tourism, blue economy and socio-economic development in the coastal corridor of the two Countries and by extension to the EAC Region and Horn of Africa.

Bank's Added Value

3. Being the lead financier in multinational projects in the region and also financing the study of this project, Bank financing for the proposed Project will ensure realisation of the regional road improvements, implementation of effective transit operations on the corridor and an efficient One Stop Border Post operation at Lunga Lunga/Horohoro. The Bank's added value stems from the long experience in the financing of road projects in both countries including multinational projects connecting the two countries. The Bank has become proficient in development of regional transport corridors. The project being prioritized in the Bank's Eastern Africa Regional Integration Strategy (EA-RISP), the Country Strategy Papers (CSPs) of both countries and its alignment with two of the Bank's "High 5s" of, Integrate Africa and Improve the quality of life for the people of Africa will categorize it as core competence area of the Bank. Hence, financing the proposed Project will ensure Bank's continued successful involvement in the region to support the transport as well as for regional integration.

Knowledge Management

4. The project component on monitoring and evaluation of environmental and social issues will provide a good opportunity to expand the knowledge of preparing inclusive and environmental friendly road projects and disseminate it among policy makers, development agencies and development partners. The findings of the Trade and Transport Facilitation study will also help to get useful inputs in designing transport corridors improvement interventions.

MULTINATIONAL: BAGAMOYO – HOROHORO/LUNGA LUNGA - MALINDI ROAD PROJECT: PHASE I

Results-Based Framework

Country and project name: United Republic of Tanzania/Republic of Kenya Bagamoyo – Horohoro/Lunga Lunga – Malindi Road Project Phase I						
Purpose of the project: To improve transport of domestic and cross-border trade, passengers traffic and stimulate economic activities including tourism in the coastal belt of Tanzania and Kenya						
RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Contribution to increased regional and international trade between Kenya and Tanzania using the Lunga Lunga/Horohoro border	Volume of Import Export trade handled at Lunga-Lunga/Horohoro border	205.3 tons (USD 141 million). average of the last five years	Total import export trade using the Lunga Lunga/Horohoro border to increase by at least 20% (USD 169) by 2025	Customs statistics, national statistics office data of the two countries	
	Contribution to improved economic and social welfare of people living along the corridor	Kenya: Average Household Income (Monthly) Tanzania: Headcount Poverty Level ¹	KES. 6,700 ² 21.0% in 2017/18	Average monthly household income increased by 20% to KES. 8,040 by 2025 18% by 2025	Household Baseline and Budget Survey Reports/ Bank supervision mission/PCR	
OUTCOMES	Travel time for trucks reduced	Travel time between Kilifi to Mombasa Mkange to Pangani	1.4 hours in 2018 3.3 hours in 2018	0.92 hours in 2025 2.0 hours in 2025	KeNHA, TANROADS, consultants' progress reports ESMP monitoring report Bank review reports	Risk: Shortage of Counterpart financing: Mitigation: The counterpart allocation will be reduced as practical as possible and will be mainly for compensation payment. Furthermore, there will be continuous dialogue with the governments to ensure allocation of sufficient annual budget. Risk: Environmental risk associated with the impacts of climate change, specifically flash floods Mitigation: The design has included adequate drainage structures including for storm drain structure. The independent consultant include in the project design for monitoring of environmental and social issues will also assist in the mitigation exercise.
	Cost of travel reduced	Composite Vehicle Operating cost per vehicle km	0.52 USD per vehicle km in 2018	0.34 USD per vehicle km in 2025		
	Congestion reduced	Volume/capacity ratio on Nyali to Mtwapa section	0.93 to 1.56 in 2018	0.65 to 0.85 in 2025		

¹ Headcount Poverty Level for Tanga Region (2017/18 Household Budget Survey, Tanzania National Bureau of Statistics, 2019)

² Average monthly household income for Kilifi County (Household Baseline Survey Report – Kilifi County, 2014).

OUTPUTS	Upgraded road	km of road upgraded	0 km	54Km (Mombasa - Kilifi in Kenya); 120.8 Km (Mkange -Mkwaja – Pangani in Tanzania), by 2023	Progress reports from the executing agency, PCR	<p>Risk: Project start –up an implementation delay</p> <p>Mitigation: Use of Advance Contracting, practical loan conditions, close supervision by KeNHA, TANROADS and the Bank.</p> <p>Risk: Project cost overrun</p> <p>Mitigation: Use of current cost estimates, including reasonable amount of contingency in the project and close supervision and monitoring.</p> <p>Risk : Delay in implementation of RAP</p> <p>Mitigation: The existence of well-prepared RAP, lesson learnt from ongoing projects, Governments commitment to start the process of compensating the PAP before commencement of work, June 2020.</p>																																																				
	Local jobs created	Number of direct jobs created: o/w women (%)	0	14,400 person months of jobs: o/w at least 30% women by 2023	Bank supervision mission reports, PCR																																																					
	Social sensitization and awareness program about HIV/AIDS/STI, Gender, Road safety, Drug Abuse	Number of people sensitized: o/w women (%)	0	400 persons, o/w 50% women	Progress reports from the executing agencies																																																					
	Roadside trading facilities/markets constructed	Number of facilities	0	At least 4 facilities set up for use by traders (50% female) by 2022	Progress reports from the executing agency, PCR																																																					
	ESMP & RAP implemented	Implementation of ESMP & RAP	0%	100% ESMP implemented	Progress reports from the executing agency, PCR																																																					
	Tree planted	Planting of tree	0	More than 25,000 trees planted by 2022																																																						
	Detailed design study	Studies completed	0	Design/Design review of two road project completed by 2022	Progress reports from the executing agency, PCR																																																					
	Trained unemployed youth	Unemployed youth trained: o/w female (%)	0	500 trained by 2022, o/w 50% female	Progress reports from the executing agency, PCR																																																					
	Trade and Transport Facilitation (TTF) study	Studies completed	NA	Two TTF studies completed by 2023	Progress reports from the executing agency, PCR																																																					
	KEY ACTIVITIES	COMPONENTS					INPUTS																																																			
<p>Component A: Road Civil Works: Mombasa – Kwa Kadzengo – Kilifi (54km) in Kenya and Mkange – Tungamaa - Pangani (120.8km) and social complementary activities including spur and access roads.</p> <p>Component B: Advisory and complementary services: Construction supervision services; Detailed engineering study for road projects; Environmental and Social monitoring and evaluation; training of unemployed youth; trade and transport facilitation study; Road safety audit, HIV/AIDS, gender, road safety sensitization and awareness and, Project audit</p> <p>Component C: Road accident emergency response: Procurement of two Ambulances and an X-ray machine for Pangani District Hospital in Tanzania</p> <p>Component D: Project Management: to cover project management cost of monitoring and evaluation by TANROADS</p> <p>Component E: Compensation and Resettlement: provision for the compensation and resettlement of Project Affected Persons identified in the Project ESIA report, and relocation of affected utilities.</p>				<table><tr><th rowspan="3">Component</th><th colspan="4">Cost Estimate (millions)</th></tr><tr><th colspan="2">Kenya</th><th colspan="2">Tanzania</th></tr><tr><th>KES</th><th>UA</th><th>TZS</th><th>UA</th></tr><tr><td><i>A: Civil Works</i></td><td>18,078</td><td>129.35</td><td>343,563</td><td>107.70</td></tr><tr><td><i>B: Advisory and complementary services</i></td><td>1,293</td><td>9.25</td><td>37,323</td><td>11.70</td></tr><tr><td><i>C: Road accident emergency response</i></td><td>-</td><td>-</td><td>574.00</td><td>0.18</td></tr><tr><td><i>D. Project Management</i></td><td>-</td><td>-</td><td>638</td><td>0.2</td></tr><tr><td><i>E: Compensation and Resettlement</i></td><td>3,243</td><td>23.20</td><td>10,341</td><td>3.24</td></tr><tr><td>Base Cost</td><td>22,614</td><td>161.80</td><td>392,439</td><td>123.02</td></tr><tr><td>Contingencies</td><td>3,392</td><td>24.20</td><td>56,182</td><td>17.60</td></tr><tr><td>Total</td><td>26,006</td><td>186.0</td><td>448,621</td><td>140.62</td></tr></table>		Component	Cost Estimate (millions)				Kenya		Tanzania		KES	UA	TZS	UA	<i>A: Civil Works</i>	18,078	129.35	343,563	107.70	<i>B: Advisory and complementary services</i>	1,293	9.25	37,323	11.70	<i>C: Road accident emergency response</i>	-	-	574.00	0.18	<i>D. Project Management</i>	-	-	638	0.2	<i>E: Compensation and Resettlement</i>	3,243	23.20	10,341	3.24	Base Cost	22,614	161.80	392,439	123.02	Contingencies	3,392	24.20	56,182	17.60	Total	26,006	186.0	448,621	140.62
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N.B.: Baseline data will be validated at the beginning of the project

BAGAMOYO – HOROHORO/LUNGA LUNGA - MALINDI ROAD PROJECT: PHASE I

Indicative Project Time Frame

[illegible]

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON PROPOSED LOANS TO REPUBLIC OF KENYA AND UNITED REPUBLIC OF TANZANIA FOR THE BAGAMOYO – HOROHORO/LUNGA LUNGA – MALINDI CORRIDOR PROJECT - PHASE I

Management submits the following Report and Recommendation on proposed ADF loan of UA 46.36 million and ADB loan of EUR 108.00 million to the Republic of Kenya and ADF loan of UA 122.29 million to the United Republic of Tanzania to finance the Bagamoyo – Horohoro/Lunga Lunga – Malindi corridor road project - Phase I.

I STRATEGIC THRUST & RATIONALE

1.1. Project linkages with countries strategies and objectives

1.1.1 Regional integration is a priority for the GoK and GoT. However, the poor infrastructure has been identified as one of the major constraints to integration and broader socio-economic development in the two countries. In this regard, scaling up the quantity and quality of infrastructure, especially the condition of the roads, which carry significant proportion of freight transport estimated at about 90% has recently gained prominence in the two countries' development plans. As a result, both Countries have prioritised improvement of roads to support national and regional development. Hence this project will be very important to enhancing regional integration and trade, and socio-economic development in the two countries and by extension to the EAC Region and Horn of Africa. Kenya's medium term development goal as outlined in the Third Medium Term Plan (MTP III 2018–2022) set to advance socio-economic development plan of Vision 2030 through the “Big Four” agenda, is to sustain and expand physical infrastructure to support a rapidly-growing economy. The programme aims at enhancing domestic and regional connectivity, boosting rural productivity and reducing urban congestion. Tanzania's Second Five Year Development Plan (FYDP II 2016/17-2020/21) targets raising the growth of the transport sector from 8% of GDP in 2015 to 12% by 2020 to facilitate linking the country to regional and global networks in order to reduce the cost of doing business and increase competitiveness, thereby contributing to growth and enhanced regional integration in line with the objectives of the National Transport Policy and the Tanzania Development Vision 2025.

1.1.2 The project is aligned with all of the above national strategies and plans, and with the operational priorities of the Bank's Ten-Year Strategy (2013-2022), namely infrastructure development and regional integration. The project is also in alignment with the Bank's High 5s of, Integrate Africa and Improve the Quality of Life for the People of Africa being a regional project and the positive economic impact it will bring to the communities along the corridor and beyond. The project is also in line with the Bank's transport policy which supports the continuous improvement of transport infrastructure and strengthening the efficiency of institutions responsible for managing the transport sector in member countries. The project has also been prioritized under Pillar I, '*regional infrastructure development for enhanced competitiveness and transformation*' of the Bank's Eastern Africa Regional Integration Strategy (EA-RISP, 2018-2022), and the respective CSPs of Kenya (2019 -2023) and Tanzania (2016 -2020).

1.2. Rationale for Bank's involvement

1.2.1 The rationale for Bank involvement is its comparative advantage as the lead financier in multinational transport projects in the region including recent road corridors linking Kenya and Tanzania. The detailed engineering design of this project was done under a grant extended to EAC Secretariat by the Bank. Therefore, the continued support of the Bank is logical and is supporting the two Countries to improve one of the key regional roads essential for improving regional integration and trade, which is however not funded due to resources limitations in both

Countries. The objective of the project, which is to improve transport communications between Kenya and Tanzania for the benefit of both countries and the region and improve economic and social welfare of people living in rural and urban areas along the corridor, is in line with the Bank's Ten-Year Strategy (2013-2022).

1.2.2 The Bank with its rich experience in road sector development in Kenya and Tanzania as well as the continent is well placed to support the proposed project that not only reduces the transport costs but also plays a significant role in facilitating regional integration and trade. The road project is a strategic component of the East Africa transport corridors network, connecting Kenya and Tanzania along the Indian Ocean coast and bridging the link between the Northern and Central corridors. These are the region's most important corridors serving the region's busiest ports of Mombasa and Dar es Salaam, respectively. By linking the Northern and Central Corridors, the road project will provide a major boost to the blue economy along the coast, facilitate linkages with key towns in the interiors of both countries and harness regional integration with hinterland neighbours. This adds significant value to other Bank investments in the region.

1.3. Donors coordination

1.3.1 Donor coordination in Kenya is carried out at both sector and national levels. The apex aid coordination body is the Development Partnership Forum (DPF) attended by heads of diplomatic missions and aid agencies, and heads of government departments. The DPF discusses key policy issues, and agrees on a set of deliverables. The Roads and Transport Sector Donor group, a thematic group within the DPF, meets regularly to harmonize donors' responses and positions with respect to institutional, policy and projects financing and implementation issues. The Bank is one of the leading financiers in the road sub sector in Kenya. The chairmanship of the group is held on a rotational basis and it is currently chaired by the World Bank with AfDB as co-chair. In Tanzania, a Development Partner Group (DPG) is the overall coordinating body for bilateral and multilateral development partners. The DPG for Transport in which the AfDB is the Lead/Chair, is a thematic group of the DPG that provides a platform on which financing and implementation issues regarding the Transport Sector Investment Plan (TSIP) and other policy documents are discussed.

1.3.2 There is continuous dialogue between Government and Development Partners (DPs) to ensure that results and outcomes are achieved in line with the agreed targets. Major players involved in the transport sector in the two countries include the World Bank, JICA, China, European Union (EU), KfW, EIB, AFD, Korea, British High Commission-Department for International Trade (BHC-DIT), TMEA and the USAID. The financing of this project is has been coordinated with DPs. EU, TMEA and JICA are involved in the implementation of this road corridor development project.

II PROJECT DESCRIPTION

2.1. Project components

2.1.1 Phasing of the road corridor development project

2.1.1.1 The development of the Bagamoyo – Horohoro/Lunga Lunga – Malindi Road Corridor is planned in phases owing to the size (454 km), the need for review of the studies for some of the sections and the required huge investment. This Phase I of the Project comprised: (i) 120.8 km Mkange – Tungumaa – Pangani road section in Tanzania and 54 km Mombasa – Mtwapa – Kilifi road section in Kenya. It also includes access road consultancy services and other social complementary activities as detailed in Para 2.1.2 below. Tanga – Pangani section in Tanzania and Phase I of the Likoni Bridge (Mombasa Gate Bridge) in Kenya will be co-financed in parallel by GoT and JICA respectively.

2.1.2 Development objectives and Project components

2.1.2.1 Development Objectives: The project's development objectives are to promote trade and regional integration and to contribute to the countries' social and economic development, poverty reduction efforts and enhancing tourism by providing improved transport infrastructure. The specific objective of the project is to improve road transport services between Kenya and Tanzania by reducing travel time, vehicle operating cost, decreasing traffic congestion, and improving safety in the urban sections along the project road.

2.1.2.2 The Project will boost regional integration through reduction in transit times, enhanced trade and cross-border movement of people, opening up of access to touristic attractions including beaches and the Saadani National Park, providing a direct link between the ports of Dar es Salaam, Tanga and Mombasa, thereby providing alternatives for traders and enhancing competition and efficiency, boosting rural productivity and stimulating the blue economy. The Project will also reduce congestion, which has been blamed for causing significant tailback into the port of Mombasa. In so doing, the project will have spillover benefits for hinterland countries such as DRC, Burundi, Rwanda, Uganda and South Sudan that depend on Mombasa as a gateway to global markets. Underscoring its strategic importance for regional integration the Project has been prioritized in the Bank's EA-RISP (2018-2022) and has been selected to benefit from regional operations envelop resources following a robust filtering process. Similarly, the Project has been selected to benefit from regional resources under the EU Africa Investment Planform (AIP) blending facility. The regional dimensions are further elaborated in Annex B7.

2.1.2.3 Project Components: A brief description of the components is as follows

A Road Improvement Civil Works (UA 237.05million)

Kenya: This component involves Construction of dual carriageway from Nyali Bridge to the start of Mtwapa Bridge (13.5Km), including service lanes, pedestrian foot paths, seven (7) grade separated intersections, five (5) pedestrian foot bridges, as Lot 1. Lot 2 of the civil works will include Mtwapa Bridge - Kwa Kadzengo - Kilifi (40.4 km), two bridges – Mtwapa Bridge (220 m) and Mbogolo Bridge (120 m), four (4) pedestrian foot bridges, one (1)grade separated intersection and axle weighing station. Both lots include social complementary initiatives such as access roads, construction of markets and planting of trees.

Tanzania: This component involves upgrading from gravel to bitumen standard of the road section from Tungamaa to Pangani Bridge (25.6 km) including the Pangani bridge (525 m span), approach to the bridge (14.3km), spur (5.9km) and access roads (5.4) as one contract and Mkange– Mkwaja – Tungamaa (95.2 km) inclusive of 3.7km of spur road to Kipumbwi as another contract. The works include complementary initiatives such as construction of bus terminal and planting of trees.

B Advisory and Complementary Services (UA 20.95 million)

Kenya: This component includes (i) construction supervision services for the road civil works described above; (ii) technical audit services; (iii), HIV/AIDS, STIs, Reproductive Health, Gender, Road Safety Awareness and Sensitization; (iv) Training of Unemployed Youth; (v) Provision for Detailed Engineering Studies of a Road Project; (vi) Baseline Survey, Assistance in Resettlement and Monitoring of Environmental and Social Issues; (vi)Trade and Transport Facilitation study including implementation of identified constraints and, (viii) Road Safety Audit.

Tanzania: This component includes (i) construction supervision services for the road civil works described above; (ii) Trade and Transport Facilitation study including implementation of identified constraints; (iii) Project Audit; (iv) Baseline Data Collection, HIV/AIDS, STIs,

Gender, Road Safety Awareness and Sensitization, and Monitoring of ESMP Implementation; (v) Training of Unemployed Youth; (vi) Provision for Detailed Engineering Studies of a Road project; and (vii) Road Safety Audit.

C Road Accident Emergency Response (UA 0.18 million)

Tanzania: This component is for the procurement of two Ambulances and an X-ray machine for Pangani District Hospital to complement efforts on dealing with emergency issues related to road traffic accident along the project corridor.

D Project Management (UA 0.20 million)

Tanzania: This component is to cover the project management cost of monitoring and evaluation of implementation by TANROADS.

E Compensation and Resettlement (UA 25.71 million)

Kenya and Tanzania: This component makes provision for compensation and resettlement of Project Affected Persons identified in the Resettlement Action Plan and relocation of utilities in both countries.

2.2. Technical solution retained and other alternatives explored

2.2.1 The project evaluated alternative technical designs and alignments for the road. The recommended options and the adopted design solutions have considered the current condition of the roads in the countries. The section in Kenya is currently paved two way single lane. The recommended design will dual the first 20 km starting from Mombasa - which is highly trafficked and rehabilitate the remaining section. Just rehabilitation of the whole section was found not to address the problem of traffic congestion and safety. The alternative considered for the section in Tanzania are more on the alignment options due to the impact on the national park along the route. The recommended section is the one which navigates around Saadani with benefit to the tourism, industrial and agricultural potential associated with the coast along the Indian Ocean. The selected options are economically feasible.

2.3. Project type

2.3.1 The Bank financing will support rehabilitation/upgrading of the identified road project and related studies. The investments against which funds are to be disbursed are well defined and specific. Therefore, the specific project loan has been chosen as the most appropriate instrument for the intervention of the Bank in this operation.

2.4. Project cost and financing arrangements

2.4.1 The overall project cost estimate (net of taxes) is UA 326.62 million of which the foreign exchange cost is UA 224.03 million or 69% of the total, and the local cost is UA 102.59 million or 31 % of the total. The cost of the project components in Kenya is UA 186 million; while the cost for the components in Tanzania is UA 140.62 million. The project cost estimates are based on feasibility and detail design studies of the project as well as consideration of unit prices of similar recent international tenders in the project areas. The project cost estimates by currency requirement and by country are indicated in Table 2.1, and 2.2 respectively.

Table 2.1 - Project Cost Estimates by Component (Net of Taxes) (UA million)

Component	Foreign Exchange	Local Cost	Total	% foreign
A. Road Construction Civil Works	177.79	59.26	237.05	75
B. Advisory and complementary services	16.92	4.03	20.95	80

C. Road accident emergency response	0.14	0.04	0.18	80
D. Project Management		0.2	0.2	
E. Resettlement & Compensation		26.44	26.44	00
Total Base Cost	194.85	89.97	284.82	69
Contingencies	29.18	12.62	41.80	69
Total	224.03	102.59	326.62	69

Table 2.2 - Project Cost Estimates by Category and by Country (Net of Taxes) (million)

Category	Kenya	Tanzania	Total
	UA	UA	UA
A. Works	129.35	107.7	237.05
B. Services	9.25	11.70	20.95
C. Goods	-	0.18	0.18
D. Operating Cost	-	0.20	0.20
E. Resettlement & Compensation	23.2	3.24	26.44
Total Base Cost	161.80	123.02	284.82
Contingencies	24.20	17.60	41.80
Total	186.00	140.62	326.62

2.4.2 The proposed project will be co-financed by the Bank Group, EU, GoK and GoT. The Bank financing will be in the form of ADB and ADF loans amounting to UA 257.05 million representing 78.7 % of the total project cost. The GoK and GoT counterpart contribution amounting to UA 26.68 million and UA 18.33 million respectively representing 13.8 % of the total project cost. The balance of UA 24.56 million (7.5% of the total) will be from EU grant to GoK. GoT is contributing about 13% of the total project cost in Tanzania. The GoK can't comply with the 50% financing requirement due to financing constraints, limited fiscal space, and the rise in public debt (see details in Appendix V). Justification for less than 50% contribution by GoK is attached as Appendix V.

2.4.3 The ADF resources for the project will come from the ADF-XIV PBA and from the regional operations (RO) envelope as indicated in Table 2.3 below. The financing sources of the project by country are summarized in Table 2.3. Expenditure schedule is indicated in Table 2.4. Detailed costs and expenditure schedules are provided in Annex B1.

Table 2.3 - Sources of Financing by country (UA million)

Country	ADF		ADB	EU	Counterpart	Total
	PBA	RO				
Kenya	29.42	16.94	88.40	24.56	26.68	186.00
Tanzania	89.99	32.30	-	-	18.33	140.62
Total	119.41	49.24	88.40	24.56	45.01	326.62

Table 2.4: Expenditure Schedule by Component (UA Million)

Component	2020	2021	2022	2023	Total
A. Civil Works	35.56	71.12	71.12	59.26	237.05
B. Advisory and complementary services	3.14	6.29	6.29	5.23	20.95
C. Road accident emergency response	-	0.18	-	-	0.18
D. Project Management	0.05	0.05	0.05	0.05	0.20

E. Resettlement and Compensation	13.22	13.22	-	-	26.44
Total Base Cost	51.97	90.86	77.46	64.53	284.82
Contingencies	7.52	13.23	11.46	9.59	41.80
Total	59.49	104.09	88.92	74.12	326.62

2.5. *Project's target area and beneficiaries*

2.5.1 In Kenya, the project is located in the counties of Mombasa and Kilifi whose residents will benefit from the extensive trade opportunities while other economic benefits will accrue through creation of employment opportunities for both skilled and semi-skilled labour engaged in construction. At local level, communities will benefit from short-term employment opportunities in the construction activity.

2.5.2 In Tanzania, the project is located in the Tanga and Coast Regions where community members who are mainly farmers and fishermen will benefit from improved access to local and regional markets. Community members will also benefit from improved access to social services including schools and health centres. It is estimated that more than three million population will benefit in the two countries from this project. The project will also significantly benefit the regional traders and those in the tourism industry.

2.6. *Participatory process for project design and implementation*

2.6.1 Extensive consultations were conducted with key stakeholders including PAPs and communities during the preparation and updating of ESIA reports and RAPs. The consultations were carried out at national level, county/regional level and at the main trading centres along the project corridor. Consultation methods included formal and informal meetings, interviews, and focused group discussions. Among the participants were national and county officials, local leadership (chiefs and community elders), community members, PAPs, NGOs and CBOs active in the project area. The Bank team also carried out consultations with inter alia, stakeholders forum, port authority, regional authorities, Lunga Lunga/Horohoro border post officials, EAC, development partners, key ministries and authorities.

2.6.2 The consultations were aimed at disclosing the project to the public and interested parties so that timely and accurate information is shared. The consultations have created awareness and identified positive and negative socio-economic impacts of the road project and proposed mitigation measures to address the potential impacts during project implementation and operation. Among the issues raised by the participants were concerns over employment opportunities to local residents in the project area; provision of safe pedestrian crossing; provision of facilities for parking to reduce road side congestion; ensuring compensation is done in a timely fair and transparent manner, and that women and youth livelihoods are supplemented with affirmative activities. Others were the need to reduce exposure for STIs through sensitization, provision of opportunities for training unemployed youth to acquiring marketable skill and creating awareness on the road infrastructure and its implications. Overall there is a very broad support for the project by the stakeholders. The Bank has also held fruitful consultations with delegation of the EC, EAC secretariat, Northern Corridor Trade and Transport Facilitation Authority (NCTTFA), the World Bank and JICA in Kenya and Tanzania during the missions that focused on lessons learned and coordination of monitoring and supervision of the implementation of projects. The stakeholders' involvement will also continue during project implementation including as members of grievance redress mechanism and in monitoring of environmental and social issues. The project will also prepare stakeholders engagement plan.

2.7. Bank Group experience and lessons reflected in project design

Status and Impact of Prior Bank Intervention in the Sector

2.7.1 As at the end of October 2019, the Bank's portfolio in Kenya comprised 27 public and 7 private operations with a total commitment of UA 2.14 billion. The Bank's portfolio distribution by sector shows that energy (26.5% projects), transport (14.7%), water supply & sanitation (11.8%), finance (17.6%), agriculture (14.7%), social (8.8%), communication (2.9%) and multi-sector (2.9%). There were no problematic or potentially problematic projects as at the end of October 2019. The active sovereign portfolio has an average age of 0.9 years with no aging projects. According to the Country Portfolio Performance Review (CPPR) conducted in November 2018, the performance of the portfolio was assessed as satisfactory, with a score of 3.0 (on a scale of 1 to 4). The review also showed annual disbursement rate of about 16%. In Tanzania, as at the end of October 2019, the Bank's portfolio comprised (21 public and two private) operations with a total commitment of UA 1.46 billion. The Bank's portfolio distribution by sector shows that transport (51% projects), energy (16%), water supply & sanitation (12%), finance (6%), agriculture (6%), social (4%) and multi-sector (5%). The active sovereign portfolio has an average age of 3.8 years with two aging projects. According to the CPPR conducted in September 2019, the performance of the portfolio was assessed as satisfactory, with a score of 3.0 with annual disbursement rate of about 15%.

2.7.2 The main portfolio issues in the two countries are related to timely payment of counterpart contribution and clearance of the Right-of-Way. Condition for disbursement of new loans are satisfied except one which was approved by the Board in April 2019 and signed on 19th August 2019 for the GoT. Projects financed by the Bank have left a significant footprint in integrating the region, improving mobility, and providing access to socio-economic opportunities for several millions of people in the two countries. Bank's Eastern Africa Regional Development and Business Delivery (RDGE) office is conducting weekly portfolio review meetings to improve performance.

Lessons Learned and Reflected in Project Design

2.7.3 The proposed project design has taken into account lessons learned from previous interventions in the two countries. The lessons relate to sustainability of results, project start-up delays, as well as delays in implementing the RAP, shortage of adequate local counterpart funds, need for improved monitoring and evaluation, and project cost overruns. Two transport projects are completed in each country recently and the PCRs are under preparation. The lessons have been taken into account in the design of this project, especially on measures to mitigate potential risks to the project as indicated in section 4.5. Based on the lessons learned, the project has also included social complimentary initiatives and components. Other lessons considered include: advance contracting to mitigate delays in commencement; recent data are used to determine the cost estimate of the project to minimize cost overrun; the recently launched client connection system will enable the executing agency to follow the payment status, and Governments' contributions are kept to the minimum possible.

2.8. Project performance indicators

2.8.1 Some baseline data have been collected as part of the project preparation by the design Consultant and the Bank mission to assess the achievement of the project objectives. The baseline data will be verified and additional baseline data will be collected by an independent consultant under this project at the beginning of project implementation. Data to be collected will include (i) transport costs and travel time for additional specific types of vehicles and trips, (ii) trade volumes through the Horohoro/Lunga Lungu border, (iii) direct and indirect jobs created, (iv) gender differential in roles and responsibilities, (v) HIV/AIDS prevalence, (vi) baseline and change in air quality parameter including vehicular Green House Gas emissions, (vii) income/poverty indicators and, (viii) other environmental and social parameters.

2.8.2 The indicators will be measured at project inception, mid – term, completion, and three years post completion. Where relevant, indicators will be disaggregated by gender and age group. Measuring of the indicators will help to evaluate the degree of achievement of the project objectives. Some indicators for monitoring and evaluating project outcomes are included in the Project Result-Based Framework.

III PROJECT FEASIBILITY

3.1. Economic and financial performance

3.1.1 The economic analysis was carried out using the HDM-4 software based on a cost-benefit analysis between the “project” and “no-project” scenarios over a 20-year period. A 12% discount rate and a 30% residual value were used. The costs taken into consideration were investment costs (costs, net of taxes and customs duty, of works and works monitoring, including physical contingencies), and vehicle maintenance and operating costs. For the economic analysis, these financial costs were converted into economic costs by applying a Standard Conversion Factor (SCF) of 0.82/0.85 for Tanzania/Kenya. The economic benefits are calculated as the difference between the “with the project” and “without the project” scenarios. The benefits include road user incremental benefits in terms of Vehicle Operating Cost savings, time savings for passengers and cargo, and road maintenance savings because of the new facility. The current Annual Average Daily Traffic (AADT) on the different project road sections range from 2,111 to 15,679 vehicles per day. Traffic forecasting took into account three categories of traffic, namely: normal, generated and diverted. Concerning normal traffic, the annual growth rates is estimated at 5% from 2019, 7% from 2024 and about 5% from 2035 onwards. Increased trade on the corridor and increased traffic on the road section account for these rates.

3.1.2 The measures of project’s worth used are the EIRR and NPV. Table 3.1 below gives a summary of the economic analysis results, and the details are presented in Annex B5. An assessment of the investment cost of constructing the road sections of the project (2019 prices) gives an Economic Internal Rate of Return (EIRR) of 19% and an NPV of USD 108.22 million for the entire project. A 20% rise in the investment cost and a 20% drop in benefits (the most unfavorable situation) results in an EIRR of 12.6%. Hence, it can be concluded that the development solution chosen for the project road sections is economically viable. Switching values (Annex B5) also support the conclusion.

Table 3.1: Key Economic Figures

EIRR (base case)	19%
NPV (12% Discount)	USD 108.22 million
EIRR (+20% costs & -20% benefits)	12.6%

3.2. Environmental and social impacts

Environment

1.2.3 **Categorization and disclosure:** Given the magnitude of the envisaged road works, aspects of environmental impacts and the potential number of households to be displaced, the project has been classified as Category I in accordance with the AfDB’s Integrated Safeguard System (ISS) and the laws and procedures of the respective countries. The project triggers all Operational Standards of the ISS and thus required full ESIA and RAP reports and ESMPs have been prepared. The Executive Summary of the ESIA and RAP were posted on the Bank’s website on 17th May 2019. The disclosure requirements have been integrated through the whole project phase in the form of a the Baseline Survey, Monitoring and Reporting Framework that

has been integrated in the project that provides for monthly, quarterly and annual reporting of key indicators during the whole project phase.

1.2.4 The expected socio-economic benefits of the project include improvement of transportation services; improved community life and services; job creation and improved employment opportunities; reduced production costs of goods and improved market penetration, and increased tourism along the coast. In Kenya, the positive impacts of the road will accrue from provision of an expanded functional road linkage linking Kenya's North Coast to Mombasa. Further, provision of grade separated interchanges will smoothen traffic flow, eliminate snarl ups and thus drastically cut down on time wasted in the transport of both goods and passengers. Essentially, the new road will decongest Kongowea, Bombolulu and Mtwapa Centers thus making it comfortable for local inhabitants including traders.

1.2.5 The key negative environmental impacts in Tanzania associated with the project include possible loss of natural habitat and landscape modification; attracting high population around the Saadani National Park that could lead to conflicts with wildlife and attract poaching and related activities. It is expected that, there may be increased accidents due to over speeding leading to death and injury of wildlife.

1.2.6 In Kenya, the most salient observation is that, expansion of the Mombasa-Mtwapa-Kilifi section corridor will entail land acquisition and in the process, will displace people from land, property, business premises and shelter. Once completed, the road will impose a physical barrier to movement and access within the traverse and will introduce threats of accidents to people and road users because of the increased vehicle speeds although introduction of footbridges and grade-separated interchanges will greatly reduce the impact. However, these negative impacts have been applied at two levels including i) at design level, by selecting an alignment that avoids substantial footprint in the Saadani National Park and (ii) At construction level, implementing traffic calming measures to minimize wildlife accidents and monitoring of construction effects on wildlife movements and while minimizing the risks of poaching in line with Tanzania's anti-poaching laws and policies. Also, planned project management and construction management solutions as detailed in the Environmental and Social Management Plan (ESMP) will be implemented throughout the project phase.

1.2.7 **Broader Environmental Protection:** Given that both road sections are located in close proximity to sensitive ecosystems, the need to address broader resource management have been given consideration in the design. In both countries, afforestation has been considered to support Tanzania and Kenya Forest Services in increasing forest cover as well as compliance with the AfDB Group's Policy Statement on conservation of biological diversity and promotion of sustainable use of natural resources. It will also go along away in ensuring that infrastructural development is undertaken with regard to environmental protection.

1.2.8 **Cumulative Impacts:** In Tanzania, cumulative impacts were analyzed during the selection of the alignment for construction because it would have the least negative impact on catchment degradation; impact on microclimate, impact on fish spawning grounds and impact on tourism in the Saadani National Park. In Kenya, the selected alignment avoided most of the Haller Park and Bamburi Trail, had the least number of project affected persons and avoided the Mtwapa area that would have displaced vast interests including the Kenya Agricultural and Livestock Research Institute.

1.2.9 **Community Complimentary Initiatives:** In order to address the anticipated changes in the population characteristics as a result the proposed development, the project will support location specific support to facilities under the education, health care and trade sectors. It is anticipated that with these interventions, communities will not face the user strain on social infrastructure facilities.

1.2.10 ESMP Implementation Capacity: An analysis of Kenya and Tanzania country systems shows that the countries have in place governance measures to ensure environmental and social safeguard compliance. Both KeNHA and TANROADS have considerable exposure to the Bank's safeguard policies through implementation of similar Bank financed projects. At project level, the total ESMP implementation cost is estimated as KES 69.83 million (USD 694,502) for KeNHA. The estimated total cost for mitigation of environmental and social impacts in Tanzania is TZS 753 million (USD 328,110). The costs have been included in the Bills of quantities for the project.

Climate Change

1.2.11 The project was screened for climate risks and vulnerabilities using the Bank's Climate Risk Screening Tool and classified as Category I. This means the project is considered vulnerable to climate change impacts. Flooding and high temperature are the most significant climate risks facing the project. Other potential climate risks include sea level rising due to the close proximity of the road project to the Indian Ocean. The potential risks are more substantial for the Kenyan component due to the region's geographical and socio-economic dynamics. For instance, heavy rains often lead to flooding in Mombasa City due to limited drainage infrastructures.

1.2.12 A number of adaptation measures have been integrated in the design of the road project; they include: (i) flood control plans and engineering designs that integrates future increase in temperature; (ii) design optimization of the drainage structures through proper sizing and provision of side drains, culverts, and outflow structures to prevent flooding including a storm drain structure; (iii) small-scale restoration of degraded lands to reduce soil erosion; and (iv) supporting the local livelihood of many of the vulnerable communities in the rural areas of the project areas.

1.2.13 The project also offers enormous opportunities for climate mitigation and green growth. Some of the adopted initiatives include the following. First, planting of trees (preferably indigenous trees) along the project roads and within the degraded areas inside Saadani National Park (Tanzania) and forest mangroves (Kenya) in order to support ecological resilience and carbon sequestration. In total, 200 ha of trees will be planted and will result in more than 60,000 t CO_{2e} of carbon being sequestered over about 40 year period. This will contribute to offsetting emissions from construction and operational phases of the road, and improving air quality. Second, provision of non-motorized transport facilities and smart energy efficient street lightings in urban sections will contribute to long-term GHG emissions reduction goals.

1.2.14 This road project contributes to both countries' nationally determined contributions (NDCs) under the Paris Agreement. In particular, the investment in 'green road infrastructures' contribute to national targets of low emission transport systems and long-term resilience building.

Gender

1.2.15 The Project is assigned a Gender Marker III under the Bank's GMS system based on the inclusion of gender equality targets on employment, training, trading facilities, and sensitization. The project has taken into account the findings of the gender assessment which highlighted the gendered differences in transport mobility and accessibility of women and men in both countries. The main issue that arose included the importance of catalysing expected economic opportunities brought on by the road that would resolve some women's mobility challenges and time limitations. Other issues raised included the need for gender responsive resettlement processes; equal employment opportunities during project construction, and

maintenance; and road design features that are responsive to the specific mobility, safety and security needs of all segments of the community.

1.2.16 In both countries, robust national policies are in place to ensure gender equality. The Kenyan National Gender and Development Policy provides a framework for advancement of women and an approach that would lead to greater efficiency in resource allocation and utilization to ensure empowerment of women. The Tanzanian National Gender policy provides guidelines that will ensure that gender sensitive plans and strategies are developed in all sectors and institutions putting emphasis on gender equality and equal opportunity of both men and women to participate in development undertakings and to value the role-played by each member of society.

1.2.17 In order to improve the economic opportunities for women, whom currently trade at roadside in disorganized and unsafe conditions, the project will ensure that appropriate roadside trading facilities and markets are constructed for use by at least 50% women traders. Efforts will be made to ensure that youth take part in project preparation and implementation through training, of which 50% will be female. Youth employment during construction shall be guided by the national policies, which safeguards principles of gender equality. In addition, the contractors and employers shall be obliged to develop a code of conduct to ensure no abuse takes place at the working areas.

1.2.18 Efforts will be made to ensure that both men and women take part in project implementation. Distribution of jobs during construction shall be guided by the national policies, which safeguards principles of gender equality namely Kenya's 2018 Youth Development Policy and Tanzania's 2007 National Youth Development Policy. In addition, Kenya has the Access to Government Procurement Opportunities (AGPO) program, founded on the Constitution of Kenya, 2010 Article 227 for the fair equitable, transparent and cost-effective public procurement of goods and services, the Constitution of Kenya, 2010 on affirmative action and the Public Procurement and Asset Disposal Act, 2015, safeguarding the ability of women, youth and persons with disabilities to access 30% of Government Procurement opportunities. The project will adhere to national policies and ensure implementation. Furthermore, the contractors and employers shall be obliged to develop a code of conduct to ensure zero tolerance of abuse at the working areas. Appropriate facilities including rest places and ablution facilities shall be provided for both women and men. NGECC will work with KeNHA in ensuring appropriate messages and procedures are followed by the service providers in this respect. Of importance is gender sensitization during implementation of the RAP to ensure rightful owners of properties are compensated; a concern that arose during gender assessments. For family assets, communities will be sensitized to ensure that both wife and husband are availed with full information and payment procedures. In order to mitigate against negative social effects that may arise from the road, the project will create awareness to the project workers and the local communities in the project area on issues such as HIV/AIDS, STI, gender mainstreaming, reproductive health, drug abuse and road safety. Finally, to counteract the youth unemployment challenge, the project has included a training program to be implemented by the local technical and vocational training institutes to train the youth in different trades and equip them with skills that would be sought by the labour market, where participants shall have to be at least 50% women youth. Other details on Gender are in Technical Annex B.9.

Social Aspects

1.2.19 In Tanzania, most of the community members in the area of influence are small-scale farmers whereas most families are characterized by age dependency ratio. They have more than one source of income and the main income source is agriculture and self-employment in the

business sector; rent; formal employment; remittances; livestock and seasonal labour. 14% of households sampled during the socio-economic survey are below poverty line and thus vulnerable to economic shocks of property expropriation and relocation activities due to project implementation. In terms of access to social service facilities such as health, primary and secondary schools, there are variations between the services. For example, some of the secondary schools and health facilities are not easily accessible due to poor road condition. Women do have substantial decision-making powers in matters relating to finances, education of child, health of child, purchase of assets, day to day activities and social functions. Women on average spend about 10 hours a day on domestic chores such as cooking, washing, cleaning, looking after children etc. a significantly heavy workload.

1.2.20 In Kenya, the socio-economic profile indicates that there is a big trade community and residents. Over 83% of the local population live and work within the traverse area and are therefore the primary stakeholders to the Road Project. Status of well-being assessments show that 15.4% of the population in the project area possibly subsists below the poverty line. Unemployment of the youth is high at 10.4% though slightly lower than the national average of 11.5% computed for year 2018. In Tanzania youth unemployment stands at 6.5 percent among those aged 15 to 24 and 9.9 percent among those aged 15 to 35. However, the majority of youth employment is in agriculture, and much of it is informal, highlighting youths' vulnerability within the Tanzanian labour market. Entry into labour markets is marked by a lack of effective vocational and technical training programs; few and expensive on-the-job training; and lack of information channels to connect employers and job-seekers. In light of this, the project will ensure that 500 youth (of which 50% are women) receive vocational training in relevant areas to the project implementation. This then would help ensure that local jobs created by the project are filled with qualified staff. For Tanzania, this would be in line with government's local content policies (LCPs) to increase job and business opportunities for nationals in the sector.

Involuntary resettlement

1.2.21 The nature of the project triggers the Bank's Operational Standard 5 of the ISS and the national land acquisition statutory requirements for the both countries for which resettlement action plans have been prepared. The project resettlement and compensation impacts include impacts on land, structures, crops, trees and other developments.

1.2.22 The total number of affected persons in Tanzania is 1,586 persons of whom and regarding the principles of fair compensation, the principles adopted from the United Republic of Tanzania Laws and African Development Bank Policies establishes the eligibility and provisions for all types of losses (land, structures, businesses, employment, wages, crops, trees). The estimated budget for RAP implementation is TZS 10,341 million. GoT is committed to provide resources for the implementation of RAP for this particular project.

1.2.23 In Kenya, the entire road project will displace a total of 388 structures and a total of 378 land parcels accounting for 19 hectares of land. A total of 1,531 PAPs of whom 40.4% are property owners followed by business tenants at 37.4%. A total of KES 3.06 billion (USD 30.44 million) has been identified under this vote, of which compensation for land is the largest share accounting for 46% followed by loss of business at 28.3%. GoK is committed to provide resources for the implementation of RAP for this particular project.

1.2.24 Given the road is within the urban setting, livelihood restoration strategies considered include transitional support or cash equivalent for owners of buildings whose tenants will move out. The transitional support covers the would be losses for two to three months after displacement to facilitate restoration of livelihoods and standards of living to pre-displacement levels as the building owners repair the remaining portions of the property or relocate and develop alternative sites elsewhere; the same is provided for business tenants. The Resettlement

Action Plan recommends that the counties of Kilifi and Mombasa in ensuring traders are either allocated spaces in the existing markets like Kongowea or new infrastructure is laid out where none exists to ensure trader's livelihoods are improved.

1.2.25 Since compensation is linked to property, this may be a critical issue as men are generally the owners of land, since they are head of households. To mitigate this, women as a vulnerable group, and especially women-headed households, will obtain not only equal benefit to men in the project, but also be placed at an added advantage over some mitigation measures, to enhance their economic and social wellbeing. This will be addressed through provisions under the entitlement framework. Gender-sensitive project monitoring and evaluation will be conducted using gender indicators. The Grievance Review Mechanism will consider and include the landless, especially women as well as other special groups like the physically challenged, youth, and the aged to ensure a complete mechanism that caters for all interests. This will ensure the project has an effective way of handling multi-sectoral and diverse complaints from the different stakeholders.

Regional Integration and Trade Facilitation

1.2.26 A key objective of the project is to improve the trading environment in the Region through the provision of improved transport infrastructure and addressing soft barriers to the free movement of goods, services and people along the corridor. Available data shows that passenger cargo through the Lunga Lunga/Horohoro border post is on the increase. Passenger traffic from Tanzania to Kenya grew from 88,000 to 109,000 between 2017 and 2018. Passenger traffic in the opposite direction grew from 93,000 to 115,000 during the same period. Trade values have remained fairly stable, at an average of 205.3 metric tons (USD 124 million by value) a year during the five year period 2013 and 2018 but are set to rise with economic activities coming on stream in the area and with the tackling of key constraints by the project.

1.2.27 Existing industries such as cement production at Bamburi (the largest cement producer in Kenya), fish processing, a special economic zone (SEZ) at Dongo Kundu and new economic activities in the area such as the forthcoming mining in Kwamsisi, the Hoima (Uganda) to Tanga crude oil pipeline, and enhanced accessibility to tourist attractions are set to further stimulate trade along the corridor. More regional aspects of the project are elaborated in Annex B7.

1.2.28 To fully exploit the benefits of regional integration, complementary 'soft' components aimed at tackling key constraints to trade, and improving transit time and overall corridor efficiency have been integrated in the Project. In particular, the Project has identified the need to operationalize coordinated border management (CBM) system at the Lunga Lunga/Horohoro border post as a priority. Accordingly, the Project will support the preparation of a trade and transport facilitation study whose objectives and scope include conducting an in-depth trade facilitation needs assessment on the Corridor, identifying key bottlenecks to trade and their impact and propose mitigation measures. This study and implementation of identified constraints will take a corridor approach and will be designed in collaboration with Trade Mark East Africa (TMEA) and with regional bodies, notably the EAC Secretariat, to ensure that the challenges are addressed in a coordinated manner on both sides of the border. TMEA has expressed interest to partner with the Bank to holistically address the trade facilitation along the Corridor, starting with implementation of soft components at the Lunga Lunga/Horohoro OSBP. Once fully operational, the OSBP will minimize time delays at the border that would arise from growing traffic volumes as a result of improved road conditions; and increase coordination. The involvement of regional institutions, notably EAC Secretariat, in coordinating the engineering studies, participation in the preparation and appraisal missions, and its membership of the Regional Steering and Technical committees ensures that the project follows a regional approach during implementation too.

Road safety

1.2.29 The reported road crash fatalities in Kenya in 2016 is 2,965. The majority of these victims are vulnerable road users, mainly pedestrians, motorcyclists, and cyclists. The annual economic cost of road crashes as estimated by NTSA is about 5.6% of the GDP, which is approximately 4.7 billion USD for 2018. On the other hand, the reported road crash fatalities in Tanzania for the same year is 2,840. The WHO estimate is higher than these figures for both countries. The economic cost caused is estimated to be about 3.1% of its GDP which is 1.8 billion USD for 2018. The Bank has been providing road safety supports to both countries alongside with the road infrastructure financing focusing on capacity building, road infrastructure safety, road crash data system, emergency medical services and exploratory road safety studies.

1.2.30 The Project Team has made assessments and designed road safety interventions to be part of this project, which include: (i) road safety audit and sensitization of the project roads in both countries; and, (ii) enhancing the capacity for post-crash response in Pangani District in Tanzania. The detailed engineering road design of the project road was subjected to road safety audit. As a follow up of this, the project has made a provision for two more road safety audits; at the pre-opening (construction stage) and post-opening stages. The project has also provided for road safety sensitization to create road safety awareness of communities and stakeholders on how to safely use the road during construction and operation. The project has also designed an intervention for enhancing the capacity of Pangani District Hospital. The intervention consists of purchasing of two ambulances and an X-Ray Machine, and the training of women and youth as first responders along the project roads.

IV IMPLEMENTATION

4.1. Implementation Arrangements

Executing Agencies

4.1.1 KeNHA and TANROADS, who are responsible to develop, maintain and manage roads, will be the Executing Agencies (EAs) for the project in Kenya and Tanzania respectively. The Heads of these authorities shall designate Project Coordinators (PCs), acceptable to the Bank, for the day-to-day management of the project. The PCs will be supported by multidisciplinary team within the authority such as Environmentalist, Sociologist, Procurement Specialist and an Accountant. Both KeNHA and TANROADS are well versed with Bank procedures with experience not less than ten projects. They are also currently implementing projects financed by other Development Partners. The road works will be undertaken by a competent civil engineering works contractors, while the supervision of the civil works will be undertaken by competent engineering consulting firms. To enhance the ESIA monitoring and RAP implementation capacities of the executing agencies, the supervision team of the consultant will include Sociologist and Environmentalist. Moreover the project has included an independent consultant for monitoring of environmental and social issue throughout the construction period. All contracts will be signed with the EAs and reporting will be done accordingly.

4.1.2 A Regional Steering and Technical Committees will be designated to provide overall cross-border coordination of the project. The membership of the regional committees will be comprised of representatives of the EAC Secretariat, Ministries responsible for transport/roads and finance, KeNHA, and TANROADS. More information about the members of both committees are indicated in the technical annex. Such arrangements between the two countries have successfully delivered two Bank financed projects in the recent past and the same arrangement will be used for this project.

Procurement

4.1.3 “Procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the “Procurement Policy and Methodology for Bank Group Funded Operations” (BPM), dated October 2015 and following the provisions stated in the Financing Agreement. Specifically, Procurement would be carried out following: (i) ***Borrower Procurement System (BPS)***: Specific Procurement Methods and Procedures (PMPs) under BPS comprising Laws and Regulations of the respective countries, using national Standard Solicitation Documents (SSDs) or other Solicitation Documents agreed during project negotiations” for various group of transactions to be entailed under the project. (ii) ***Bank Procurement Policy and Methodology (BPM)***: Bank standard PMPs, using the relevant Bank Standard Solicitation Documents SDDs, for contracts that are either: (i) above the thresholds indicated in Annex B5, or (ii) in case BPS is not relied upon for a specific transaction or group of transactions; and (iii) in case BPM have been found to be the best fit for purpose for a specific transaction or group of transactions. (iii) ***Third Party Procurement Methods and Procedures (PMPs)***: Third Party PMPs, will not be used in this project.

4.1.4 ***Procurement Risks and Capacity Assessment (PRCA)***: the assessment of procurement risks at the Countries, Sector, and Project levels and of procurement capacity at the Executing Agencies (EAs), were undertaken for the project and presented in Annex B5. The output have informed the decisions on the procurement regimes (BPS, Bank or Third party) being used for specific transactions or groups of similar transactions under the project. The appropriate risks mitigation measures have been included in the procurement PRCA action plan proposed in Annex B5.

4.1.5 The Borrowers undertake to execute the following remedial actions while using the BPS during the implementation of the Project: (i) developing a clear Procurement Plan that should be monitored by the Bank team and the Borrower on a regular basis; (ii) shall cause the competent authority with in the respective countries to carry out a procurement audit in accordance with BPS on annual basis. The annual procurement audit report shall be submitted to the Bank no later than six (6) months after the end of each financial year. In case of Kenya, also to finalize and disseminate the Regulations and create a central repository or database and publish the relevant procurement information in accordance with the Public Procurement and Asset Disposal Act, 2015.

4.1.6 ***Advance Contracting***: In order to expedite timely implementation the Borrowers have requested for Advance Contracting for procurement of some of the components. GoK has also indicated interest to include provisions for preference in the bidding documents to encourage the participation of domestic contractors. Where procurement is made through international competitive bidding, the Borrower may grant a margin of preference to domestic manufactured goods and to domestic contractors.

Financial Management and Disbursement Arrangements

4.1.7 The Financial Management (FM) of the project components will be carried out by the respective executing agencies, KeNHA and TANROADS; both of them have proper structures in place as well as adequate staff to carry out the FM responsibilities of the project. The project will make use of the respective countries Financial Management (FM) systems and the Authorities financial policies and procedures. Both executing agencies have experience in managing donor-financed projects including AfDB, the World Bank, the JICA, and EU.

4.1.8 KeNHA's Directorate of Corporate Services will second an Accountant to the project team who will be in charge of the day-to-day financial management operations of the project. In case of TANROADS, the Director of Business Support (DBS) assisted by the Head of Finance and Chief Accountant will be responsible for the FM function of the Project. The project staff will include a Project Accountant(s), from within TANROADS with relevant knowledge and experience reporting to the head of the units. Sage Pastel Evolution system and EPICOR 10.1 are currently in use by KeNHA and TANROADS respectively to record financial transactions and budget monitoring.

4.1.9 **Internal Audit Arrangement:** Both KeNHA and TANROADS have an Internal Audit unit with qualified staff members and reporting to the head of the agency administratively but to the Board technically. It has been agreed that the Internal Audit units will include the project in their annual work plans and will share the internal audit reports with the Bank as requested or during supervision missions. In addition, the Project will provide an update on financial performance of the project as part of the Borrowers Quarterly Progress Report (BQPR) as required by the Bank.

4.1.10 **External Audit:** The Projects will follow financial year of 1 July to 30 June of the following year. The Controller and Auditor General (CAG), in case of Tanzania, and Office of the Auditor General (OAG), in case of Kenya, will audit the Project financial statements as per statutory requirements, as is the practice with ongoing projects. The audit will be in accordance with the audit terms of reference approved by the Bank. The submission of the audit report, complete with a Management Letter to the Bank is within six months after the end of the financial year. The entire Bank financed projects portfolio in both countries had unqualified opinions and there were no major findings reported. There were concerns over timely availability of counterpart funds but the Governments have shown commitment to avail the resources timely and mitigation measures are incorporated in these assessments.

4.1.11 **Disbursement arrangement:** the project will use the direct payment and Special account disbursement methods for all project payments. These are the methods that have been used for past Bank financed projects and have proved to be satisfactory. The other methods also prescribed in the Disbursement Handbook are applicable when the need arises after consultation with the Bank and obtaining prior approval. The Bank's Disbursement Letters will be issued stipulating key disbursement procedures and practices relating to this method. Further details on financial management and disbursement are indicated in Annex B4.

4.2. Monitoring

1.2.31 The overall procurement, project supervision and monitoring falls under the Director General and Chief Executive of KeNHA and TANROADS respectively. The authorities are well organized with qualified and experienced professionals. KeNHA and TANROADS will assign Project Coordinators for the close follow up and timely response to correspondence forwarded from the Consultants and Contractors. The Authorities will attend tripartite monthly progress meetings and conduct site visits to discuss and address issues related to progress of works. KeNHA and TANROADS will also be the agencies in charge of monitoring the Result Based Logical Framework in consultation with relevant institutions. The monitoring of environmental and social mitigation measures will lie with Environmental and Social Units of the EAs and the respective environmental authorities: NEMA and NEMC. On the Financial Management and Auditing aspects, the existing accounting and reporting systems of the authorities are capable of producing accurate and reliable information regarding project resources and expenditures. In addition to the Bank's implementation support and review of the performance of the project through periodic visits and during the mid-term review, the authorities will produce Quarterly Borrowers Progress Reports and submit to the Bank. The Bank's implementation monitoring time frame is indicated in Table 4.1.

Table 4.1 – Implementation Monitoring Timeframe

<u>Timeframe</u>	<u>Milestone</u>	<u>Monitoring process / feedback loop</u>
Q1 – 2020	Project Launching	Supervision and Progress Report
Q1 – 2020	Procurement of Civil Works Completed	Procurement Plan/Progress Report
Q4 – 2021	50% of Civil Works completed mid-term review	Midterm Review & Progress Report
Q2 – 2023	Substantial completion of civil works	Supervision and Progress Report
Q3 – 2024	End of Defects Liability period	Supervision and Progress Report
Q4 – 2025	Project Completion	Project Completion Report

1.3 Governance

4.3.1 The project will be carried out within the PFM systems of GoK and GoT; hence it will adopt all the Governance and Anti -Corruption policies and guidelines of the respective countries. The Internal audit of the Authorities and that of the Ministries will complement the oversight of the Management. The proposed technical audit will further help in providing assurance that funds will be used for intended purposes only with due regard to economy, equity and efficiency.

4.3.2 The specific governance risk mitigation measures of the project include: (i) the appointment of independent Auditor to ensure that funds are used efficiently and for the intended purposes; and (ii) Bank prior review and clearance of major project procurement activities; (iii) appointment of independent technical audit consultant; and, (iv) effective road construction supervision arrangements through separation of Engineer and Employer roles.

1.4 Sustainability

1.4.1 Project sustainability depends on the quality of works executed. It will also largely depend on both Governments' capacity to plan, finance and carry out routine and periodic maintenances on a timely basis. Furthermore, it will also depend on the implementation of effective axle-load-control programs to prevent overloaded trucks from deteriorating the road assets. In both countries maintenance of roads is financed by the resources of the fund that mainly come from tax on petroleum products. These funds are stable and managed by Kenya Roads Board (KRB) and Road Fund Board (RFB) in Kenya and Tanzania respectively. Both authorities have placed highest priority to routine maintenance of all paved roads in maintainable condition, including newly upgraded/rehabilitated Roads. Furthermore, Performance-based Management and Maintenance of Roads (PMMR) is being practiced by both authorities. Once these contracts are completed they will also be subject to PMMR. Both authorities are also managing axle load weighing stations in the two countries. In case of Kenya, construction of an axle load weighing station on the corridor is included in the project. These measures and improved sector governance and maintenance funding mechanisms will contribute to the sustainability of the project.

4.5. Risk management

4.5.1 The design of the project assumes several risks which might affect the attainment of project objectives. The risks and mitigation measures are discussed as follows:

- i) **Start up and Implementation delays:** delayed fulfilment of loan conditions and slow procurement processes will result in project start up delays. To mitigate these problems the loan conditions are made to be reasonable and practicable. The use of Advance Contracting procedure and close supervision and more pro-active role by the Authorities and the Bank's Tanzania Country Office and Regional Development and Business Delivery Office in Kenya will mitigate delay in project implementation.

ii) **Shortage of counterpart financing:** delayed allocation of counterpart contribution including reimbursement of VAT to the contracting parties will affect smooth implementation of the project. To mitigate this, counterpart allocation is reduced as practical as possible and will be mainly for the compensation payments. Furthermore, there will be continuous dialogue with the two governments to ensure allocation of sufficient budget.

iii) **Delay in implementation of RAP:** The existence of well-prepared RAP, lessons learnt from ongoing projects, Governments' commitment to start the process of compensating the PAP before project commencement and existence of some sections with no obstruction within the road reserve will minimize the risk of project implementation delay.

iv) The main **environmental risk** affecting the implementation is associated with the impacts of climate change, specifically flash floods due to excessive rainfall. To mitigate that, the design has included adequate drainage structures including storm drain structure. The independent consultant include in the project design for monitoring of environmental and social issues will also assist in the mitigation exercise.

v) **Cost Overrun:** is another risk which the project might face due to price escalation and/or delayed implementation. This risk will be mitigated by use of recent data for cost estimation, provision of contingencies within the cost estimates and close follow up of project implementations.

4.6. Knowledge building

4.6.1 The project has included some social complementary initiative which will have positive impact in the community as well as on the environment. The project component on monitoring and evaluation of environmental and social issues will provide a good opportunity to expand the knowledge of preparing inclusive and environmental friendly road projects and disseminate it among policy makers, development agencies and development partners. The findings of the Trade and Transport Facilitation study which is a component in this project will also help to get lessons and useful inputs in the designing transport corridors in the region and beyond.

V LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

5.1.1 The financing instruments to govern this project will be ADB and ADF loans for Kenya and an ADF loan for Tanzania.

5.2. Conditions associated with Bank's intervention

Conditions Precedent to the Entry into Force of the Loan Agreements

(a) Entry into Force of the ADB and ADF Loan Agreements will be subject to the fulfilment by the Republic of Kenya and the United Republic of Tanzania (the "Borrowers") respectively of the section 12.01 of the General Conditions applicable to Loan, Guarantee and Grant Agreements of the African Development Bank and African Development Fund.

(b) Conditions Precedent to First Disbursement of the respective Loans. The obligation of the Bank to make the first disbursement of the respective Loans shall be subject to the entry into force of the respective loan agreements.

(c) Condition Precedent to Disbursements for Works Involving Resettlement: Subject the Entry into Force and fulfillment of the Conditions Precedent to First Disbursement, the obligation of the Bank and the Fund to disburse the respective Loans for works that involve resettlement shall be subject to the fulfillment by the Borrower of the following additional conditions:

- (i) Submission of a works and compensation schedule prepared in accordance with the Resettlement Action Plan (RAP) and the Bank's Safeguards Policies in form and substance satisfactory to the Bank/Fund detailing: (A) each section of civil works under the Project, and (B) the time frame for compensation and/or resettlement of all Project affected persons (PAPs) in respect of each lot; and
- (ii) Submission of satisfactory evidence that all PAPs in respect of civil works in a given section of each lot has been compensated and/or resettled in accordance with the Environmental and Social Management Plan (ESMP), the RAP and/ or the agreed works and compensation schedule and the Bank's Safeguards Policies, prior to the commencement of civil works in such section of each lot and in any case before the PAPs' actual move and/or taking of land and related assets; or
- (iii) In lieu of paragraphs (a) and (b) above, submission of satisfactory evidence indicating that the resources allocated for the compensation and/or resettlement of PAPs have been deposited in a dedicated account in a bank acceptable to the Bank or remitted to a trusted third party acceptable to the Bank, where the Recipient can prove, to the satisfaction of the Bank that, compensation and /or resettlement of PAPs in accordance with paragraphs (i) and (ii) above could not be undertaken fully or partially, because of the identification of the PAPs by Recipient is not feasible or possible; ongoing litigation involving the PAPs and / or affecting the compensation and/or resettlement exercise; or any other reason beyond the control of the Borrower as discussed and agreed with the Bank/Fund.

Undertakings: The Borrowers undertake to:

- i) to implement and report on the implementation of the Environmental and Social Impact Assessment, the Environment and Social Management Plan and the RAP on a quarterly basis in form acceptable to the Bank; and,
- ii) to make appropriations in the Borrower's annual budgets for the funds required as the Borrower's counterpart contribution to the cost of the Project so as to avoid Project implementation delays.

5.3. Compliance with Bank Policies

5.3.1 This program complies with applicable Bank policies except the cost sharing principle laid down in the Policy on Expenditure Eligible for Bank Group Financing. However, through the justification contained in Appendix V attached, management supports the view that GoK has exhibited strong ownership and commitment to the transport sector

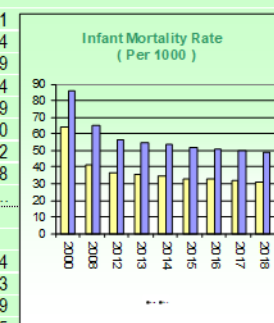
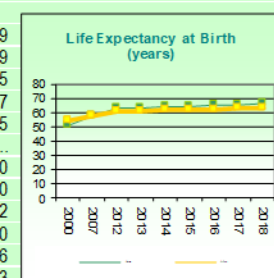
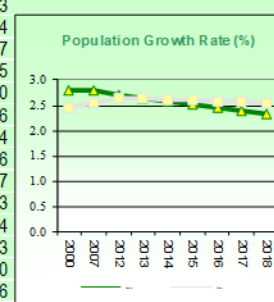
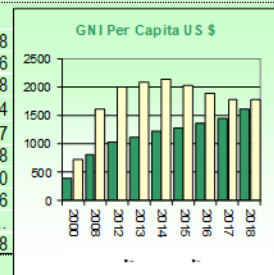
VI RECOMMENDATION

6.1 Management recommends that the Board of Directors approve the proposed ADB loan of EUR 108 million and ADF loan of UA 46.36 million and EU grant of EUR 30 million to the Republic of Kenya and ADF loan of UA 122.29 million to the United Republic of Tanzania for financing the project described in this report and subject to the conditions stipulated above.

Appendix I: Country's Comparative Socio-Economic Indicator – Kenya and Tanzania

Kenya COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Kenya	East Africa	Africa	Developing Countries
Basic Indicators					
Area ('000 Km ²)	2018	569	6,232	30,067	94,808
Total Population (millions)	2018	51.4	356.3	1,274.2	6,306.6
Urban Population (% of Total)	2018	26.8	27.2	42.9	49.8
Population Density (per Km ²)	2018	90.3	61.1	43.4	68.4
GNI per Capita (US \$)	2018	1,620	975	1,783	4,837
Labor Force Participation *- Total (%)	2018	66.3	72.1	63.5	61.8
Labor Force Participation **- Female (%)	2018	63.6	65.0	54.6	47.0
Sex Ratio (per 100 female)	2018	98.7	99.3	99.8	100.6
Human Develop. Index (Rank among 189 countries)	2017	142	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-17	36.8	34.5	31.2	11.8
Demographic Indicators					
Population Growth Rate - Total (%)	2018	2.3	2.7	2.5	1.3
Population Growth Rate - Urban (%)	2018	4.3	4.6	3.6	2.4
Population < 15 years (%)	2018	39.8	42.2	40.8	27.7
Population 15-24 years (%)	2018	20.6	20.6	19.3	16.5
Population ≥ 65 years (%)	2018	2.3	2.9	3.4	7.0
Dependency Ratio (%)	2018	72.8	82.4	79.2	54.6
Female Population 15-49 years (% of total population)	2018	25.8	24.2	24.1	25.4
Life Expectancy at Birth - Total (years)	2018	66.3	64.8	63.2	70.6
Life Expectancy at Birth - Female (years)	2018	68.7	66.8	65.0	72.7
Crude Birth Rate (per 1,000)	2018	28.7	33.8	33.5	20.3
Crude Death Rate (per 1,000)	2018	5.5	6.8	8.1	7.4
Infant Mortality Rate (per 1,000)	2018	30.6	39.7	48.7	31.3
Child Mortality Rate (per 1,000)	2018	41.1	56.4	70.2	42.0
Total Fertility Rate (per woman)	2018	3.5	4.4	4.4	2.6
Maternal Mortality Rate (per 100,000)	2017	342.0	433.9	432.3	230.0
Women Using Contraception (%)	2018	64.2	40.3	38.5	61.6
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-16	19.9	13.8	33.6	119.9
Nurses and midwives (per 100,000 people)	2010-16	154.2	80.5	123.3	233.9
Births attended by Trained Health Personnel (%)	2010-17	61.8	55.4	61.7	78.5
Peop. Using at least basic drinking water services (% of P)	2017	58.9	51.3	66.3	87.7
Peop. Using at least basic sanitation services (% of Popul)	2017	29.1	23.9	40.3	68.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2018	4.7	2.7	3.4	...
Incidence of Tuberculosis (per 100,000)	2016	348.0	121.5	221.7	157.0
Child Immunization Against Tuberculosis (%)	2018	95.0	86.7	81.4	85.0
Child Immunization Against Measles (%)	2018	89.0	78.9	76.1	85.2
Underweight Children (% of children under 5 years)	2010-16	11.0	20.1	17.5	15.0
Prevalence of stunting	2010-16	26.0	35.1	34.0	24.6
Prevalence of undernourishment (% of pop.)	2017	29.4	27.2	18.5	12.3
Current health expenditure (% of GDP)	2016	4.5	4.9	5.3	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-18	103.2	97.9	100.1	104.1
Primary School - Female	2010-18	103.4	96.1	98.0	104.4
Secondary School - Total	2010-18	...	35.8	52.8	71.9
Secondary School - Female	2010-18	...	35.8	50.6	71.4
Primary School Female Teaching Staff (% of Total)	2010-18	50.2	44.4	48.6	62.9
Adult literacy Rate - Total (%)	2010-18	81.5	65.7	66.9	84.0
Adult literacy Rate - Male (%)	2010-18	62.2	74.5	70.8	88.2
Adult literacy Rate - Female (%)	2010-18	78.2	60.2	60.0	79.8
Government expenditure on Education (% of GDP)	2010-17	5.2	3.3	4.3	...
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	10.2	20.2	8.7	11.4
Agricultural Land (as % of land area)	2016	48.5	86.0	41.8	38.3
Forest (As % of Land Area)	2016	7.8	37.2	23.1	31.9
Per Capita CO2 Emissions (metric tons)	2014	0.3	0.1	1.2	3.5



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

October 2019

UNAIDS; UNSD; WHO; UNICEF; UNDP; Country Reports.

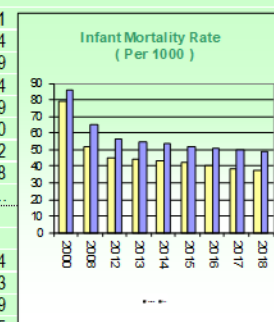
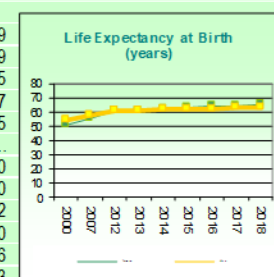
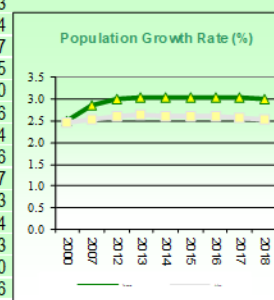
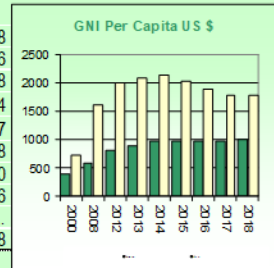
Note : n.a. : Not Applicable; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Tanzania

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Tanzania	East Africa	Africa	Developing Countries
Basic Indicators					
Area ('000 Km ²)	2018	886	6,232	30,067	94,808
Total Population (millions)	2018	56.3	356.3	1,274.2	6,306.6
Urban Population (% of Total)	2018	35.4	27.2	42.9	49.8
Population Density (per Km ²)	2018	63.6	61.1	43.4	68.4
GNI per Capita (US \$)	2018	1 020	975	1 783	4 837
Labor Force Participation - Total (%)	2018	83.2	72.1	63.5	61.8
Labor Force Participation ** - Female (%)	2018	79.4	65.0	54.6	47.0
Sex Ratio (per 100 female)	2018	99.8	99.3	99.8	100.6
Human Develop. Index (Rank among 189 countries)	2017	154	...	...	...
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-17	49.1	34.5	31.2	11.8
Demographic Indicators					
Population Growth Rate - Total (%)	2018	3.0	2.7	2.5	1.3
Population Growth Rate - Urban (%)	2018	5.4	4.6	3.6	2.4
Population < 15 years (%)	2018	44.1	42.2	40.8	27.7
Population 15-24 years (%)	2018	19.4	20.6	19.3	16.5
Population >= 65 years (%)	2018	2.6	2.9	3.4	7.0
Dependency Ratio (%)	2018	87.6	82.4	79.2	54.6
Female Population 15-49 years (% of total population)	2018	23.5	24.2	24.1	25.4
Life Expectancy at Birth - Total (years)	2018	65.0	64.8	63.2	70.6
Life Expectancy at Birth - Female (years)	2018	66.8	66.8	65.0	72.7
Crude Birth Rate (per 1,000)	2018	36.7	33.8	33.5	20.3
Crude Death Rate (per 1,000)	2018	6.4	6.8	8.1	7.4
Infant Mortality Rate (per 1,000)	2018	37.6	39.7	48.7	31.3
Child Mortality Rate (per 1,000)	2018	53.0	56.4	70.2	42.0
Total Fertility Rate (per woman)	2018	4.9	4.4	4.4	2.6
Maternal Mortality Rate (per 100,000)	2017	524.0	433.9	432.3	230.0
Women Using Contraception (%)	2018	41.9	40.3	38.5	61.6
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-16	4.0	13.8	33.6	119.9
Nurses and midwives (per 100,000 people)	2010-16	41.3	80.5	123.3	233.9
Births attended by Trained Health Personnel (%)	2010-17	63.7	55.4	61.7	78.5
Peop. Using at least basic drinking water services (% of F	2017	56.7	51.3	66.3	87.7
Peop. Using at least basic sanitation services (% of Popul	2017	29.9	23.9	40.3	68.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2018	4.6	2.7	3.4	...
Incidence of Tuberculosis (per 100,000)	2016	287.0	121.5	221.7	157.0
Child Immunization Against Tuberculosis (%)	2018	99.0	86.7	81.4	85.0
Child Immunization Against Measles (%)	2018	99.0	78.9	76.1	85.2
Underweight Children (% of children under 5 years)	2010-16	13.7	20.1	17.5	15.0
Prevalence of stunting	2010-16	34.4	35.1	34.0	24.6
Prevalence of undernourishment (% of pop.)	2017	30.7	27.2	18.5	12.3
Current health expenditure (% of GDP)	2016	4.1	4.9	5.3	5.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2010-18	94.2	97.9	100.1	104.1
Primary School - Female	2010-18	95.4	96.1	98.0	104.4
Secondary School - Total	2010-18	29.4	35.8	52.8	71.9
Secondary School - Female	2010-18	30.1	35.8	50.6	71.4
Primary School Female Teaching Staff (% of Total)	2010-18	50.4	44.4	48.6	62.9
Adult literacy Rate - Total (%)	2010-18	77.9	65.7	66.9	84.0
Adult literacy Rate - Male (%)	2010-18	83.2	74.5	70.8	88.2
Adult literacy Rate - Female (%)	2010-18	73.1	60.2	60.0	79.8
Gouvernement expenditure on Education (% of GDP)	2010-17	3.4	3.3	4.3	...
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2016	15.2	20.2	8.7	11.4
Agricultural Land (as % of land area)	2016	44.8	86.0	41.8	38.3
Forest (As % of Land Area)	2016	51.6	37.2	23.1	31.9
Per Capita CO2 Emissions (metric tons)	2014	0.2	0.1	1.2	3.5



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update : October 2019

UNAIDS; UNSD; WHO; UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

APPENDIX II: TABLE OF BANK'S PORTFOLIO IN THE COUNTRIES

25 November 2019

Kenya

Project name	Window	Approval Date	Final Disb. Date	Net loan	Disb. Ratio
Agriculture Sector					
GREEN ZONES DEVELOPMENT SUPPORT PROJECT-PHASE 2	ADB Loan	12/03/2018	6/30/2024	4.19	0.00
GREEN ZONES DEVELOPMENT SUPPORT PROJECT-PHASE 2	ADF Loan	12/03/2018	6/30/2024	29.69	3.53
SMALLSCALE IRRIGATION & AGRICULTURE VALUE CHAIN DEVELOPMENT	ADB Loan	11/18/2015	6/30/2022	28.74	23.12
SMALLSCALE IRRIGATION & AGRICULTURE VALUE CHAIN DEVELOPMENT	GAFSP TF Grant	11/18/2015	6/30/2022	16.56	7.14
ENABLE YOUTH KENYA	ADF Loan	01/11/2018	6/30/2023	21.27	0.68
Sub Total				100.44	9.0%
Finance Sector					
SUBORDINATED LOAN TO COMMERCIAL BANK OF AFRICA LIMITED	ADB Loan	01/25/2017	10/5/2020	36.32	50.00
KENYA COMMERCIAL BANK LIMITED	ADB Loan	10/25/2017	2/1/2025	72.63	100.00
IMPERIAL BANK KENY IN RESPECT OF COMMERZBANK RPA	ADB Loan	05/03/2016	(blank)	0.599	100.00
DIAMOND TRUST BANK LOC I	ADB Loan	11/18/2016	3/28/2020	36.32	20.00
DIAMOND TRUST BANK LOC I	ADB Loan	11/18/2016	3/28/2020	18.16	100.00
CREDIT BANK KENYA LIMITED SME LOAN	ADB Loan	07/17/2019	(blank)	5.84	0.00
KENYA MORTGAGE REFINANCE COMPANY (KMRC)	ADB Loan	05/15/2019	(blank)	72.76	0.00
Sub Total				164.03	71.2%
Multi-Sector					
MIC-TAF-TECHNICAL ASSISTANCE TO THE PRESIDENT DELIVERY UNIT	ADB Grant	07/18/2018	8/31/2020	1.20	40.29
Sub Total				1.20	40.29%
Power Sector					
ADF PRG MENENGAI	ADF Loan	10/22/2014	12/30/2021	9.22	0.00
KENYA - LAST MILE CONNECTIVITY PROJECT	ADF Loan	11/19/2014	12/31/2019	90.00	80.2
LAST MILE CONNECTIVITY PROJECT - 2	ADB Loan	06/27/2016	6/30/2021	97.42	58.84
THIKA THERMAL POWER PROJECT	ADB Loan	12/07/2011	1/15/2014	22.57	100.00
KOPERE 40 MW SOLAR PV IPP	ADB Loan	11/27/2018	(blank)	13.28	0.00
KOPERE 40 MW SOLAR PV IPP	SCF	02/27/2019	(blank)	8.48	0.00
MENENGAI GEOTHERMAL DEVELOPMENT PROJECT	ADF Loan	12/14/2011	2/29/2020	80.00	97.42
MENENGAI GEOTHERMAL DEVELOPMENT PROJECT	SCF	12/14/2011	2/29/2020	5.45	71.17
MENENGAI GEOTHERMAL DEVELOPMENT PROJECT	SCF	12/14/2011	2/29/2020	12.71	82.18
LAKE TURKANA WIND POWER PROJECT	ADB Loan	04/26/2013	9/15/2017	92.36	100.00
QUANTUM POWER MENENGAI 35 MW GEOTHERMAL IPP	ADB Loan	06/06/2018	(blank)	21.52	0.00
QUANTUM POWER MENENGAI 35 MW GEOTHERMAL IPP	CTF	06/06/2018	(blank)	14.59	0.00
Sub Total				295.18	75.2%
Social Sector					
SUPPORT TO HIGHER EDUCATION SCIENCE AND TECHNOLOGY TO ENHANC	ADF Loan	11/14/2012	3/31/2020	28.00	93.67
SUPPORT TO TVET AND TRAINING FOR RELEVANT SKILLS DEVELOPMENT	ADF Loan	07/01/2015	6/30/2021	41.00	48.46
Sub Total				69.00	66.8%
Transport Sector					
NAIROBI OUTER RING ROAD PROJECT IMPROVEMENT PROJECT	ADF Loan	11/13/2013	12/31/2019	77.04	94.29
NAIROBI OUTER RING ROAD PROJECT IMPROVEMENT PROJECT	ADF Grant	11/13/2013	12/31/2019	0.49	88.94
MOMBASA-MARIAKANI ROAD HIGHWAY PROJECT	ADF Loan	03/11/2015	6/30/2021	80.00	33.55
Dualling of Kenol – Sagana- Marua	ADB Loan	09/26/2019		143.41	
Dualling of Kenol – Sagana- Marua	AGTF	09/26/2019		25.09	
SIRARI CORRIDOR ACCESSIBILITY & ROAD SAFETY IMPROVEMENT PROJ	ADB Loan	03/30/2016	12/31/2020	165.61	37.98
SIRARI CORRIDOR ACCESSIBILITY & ROAD SAFETY IMPROVEMENT PROJ	EUITF Grant	03/30/2016	12/31/2020	8.06	17.61
Sub Total				331.26	49.6%
Water Sup/ Sanitation Sector					
THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM (PHASE 1)	ADF Loan	10/30/2013	12/30/2021	61.68	86.95

Project name	Window	Approval Date	Final Disb. Date	Net loan	Disb. Ratio
THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM (PHASE 1)	ADF Grant	10/30/2013	12/30/2021	1.21	74.50
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM	ADB Loan	11/09/2016	12/31/2021	276.88	11.74
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM	ADF Loan	11/09/2016	12/31/2021	5.13	15.34
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM	ADF Grant	11/09/2016	12/31/2021	0.51	31.59
KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM	ADB Grant	11/09/2016	12/31/2021	1.20	17.66
THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM I - ADDITIONAL	ADB Loan	11/14/2018	6/30/2023	155.13	0.00
THWAKE MULTIPURPOSE WATER DEVELOPMENT PROGRAM I - ADDITIONAL	AGTF Loan	11/14/2018	6/30/2023	34.79	0.00
NAIROBI RIVERS BASINS REHABILITATION RESTORATION: SEWERAGE I	ADB Loan	12/11/2018	5/31/2023	47.85	0.00
NAIROBI RIVERS BASINS REHABILITATION RESTORATION: SEWERAGE I	ADF Loan	12/11/2018	5/31/2023	2.91	0.00
Sub Total				587.3	15%
Total National Operations				1,548.4	41.8%
Multinational					
KENYA-DROUGHT RESILIENCE & SUSTAINABLE LIVELIHOOD PROGRAM IN	ADF Loan	12/19/2012	6/28/2020	37.41	42.05
MULTINATIONAL-GEF RURAL LIVELIHOODS ADAPTATION TO CLIMATE CH	GEF Grant	12/15/2016	5/31/2021	2.03	2.67
KENYA - LAKE VICTORIA MARITIME COMMUNICATIONS AND TRANSPORT	ADF Loan	10/24/2016	4/30/2021	3.77	0.38
ETHIOPIA-KENYA ELECTRICITY HIGHWAY(KENYA)	ADF Loan	09/19/2012	6/30/2020	75.00	70.94
KENYA - TANZANIA INTERCONNECTION (KENYA)	ADF Loan	02/18/2015	12/30/2021	27.50	43.98
SUPPLEMENTARY FINANCING : ETHIOPIA - KENYA ELECTRICITY HIGHW	ADB Loan	12/14/2018	12/31/2021	21.43	0.00
EAST AFRICA CENTERS OF EXCELLENCE KENYA	ADF Loan	10/03/2014	12/31/2021	25.00	12.59
KAPCHORWA - SUAM - KITALE AND ELDORET BYPASS ROADS PROJECT (	ADB Loan	03/29/2017	12/31/2022	59.56	23.35
KAPCHORWA - SUAM - KITALE AND ELDORET BYPASS ROADS PROJECT (	ADF Loan	03/29/2017	12/31/2022	35.11	21.46
Sub Total				286.7	37.4%
National and Multinationals				1,835.16	41.1%

Tanzania

Long name	Window	Approval Date	Final Disb. Date	Net loan	Disb. Ratio
Agriculture Sector					
TANZANIA INITIATIVE FOR PREVENTING AFLATOXIN CONTAMINATION	ADF Loan	06/20/2018	5/31/2024	9.20	0.00
TANZANIA INITIATIVE FOR PREVENTING AFLATOXIN CONTAMINATION	GAFSP TF Grant	06/20/2018	5/31/2024	14.62	1.75
TANZANIA AGRICULTURAL DEVELOPMENT BANK	ADF Loan	12/13/2016	1/31/2020	67.27	100
Sub Total				90.09	74.2%
Finance Sector					
TANZANIA SHILLING LINE OF CREDIT TO FRB SUBSIDIARY, FIRST NA	ADB Loan	12/12/2012	6/30/2018	14.53	100.00
CRDB BANK LIMITED LINE OF CREDIT 2015	ADB Loan	05/18/2016	11/30/2017	65.37	100.00
Sub Total				79.89	100%
Multi-Sector					
GOOD GOVERNANCE AND PRIVATE SECTOR DEVELOPMENT SUPPORT PROGR	ADF Loan	07/11/2018	12/31/2019	40.00	100.00
INSTITUTIONNAL SUPPORT PROJECT FOR GOOD GOVERNANCE III	ADF Loan	02/03/2016	6/29/2020	12.00	65.72
ISP FOR DOMESTIC RESOURCES MOBILIZATION AND NATURAL RESOURCE	ADF Loan	03/30/2017	12/30/2021	19.58	10.13
Sub Total				71.58	69.7%
Power Sector					
IRINGA - SHINYANGA TX PROJECT	ADF Loan	10/26/2010	9/30/2020	45.36	61.44
NORTH-WEST TRANSMISISON GRID	ADB Loan	07/20/2018	12/31/2023	89.62	0.00
Sub Total				134.98	20.6%
Social Sector					
SUPPORT TO TECHNICAL VOCATIONAL EDUCATION AND TRAINING	ADF	04/02/2014	12/31/2019	34.00	18.4

Long name	Window	Approval Date	Final Disb. Date	Net loan	Disb. Ratio
	Loan				
ALTERNATIVE LEARNING & SKILLS DEVELOPMENT PROJECT (ALSD II)	ADF Loan	06/29/2011	12/31/2019	15.00	58.36
Sub Total				49.00	30.6%
Transport Sector					
TRANSPORT SECTOR SUPPORT PROGRAM	ADB Loan	11/26/2015	10/31/2021	196.8	21.31
TRANSPORT SECTOR SUPPORT PROGRAM	ADF Loan	11/26/2015	10/31/2021	54.00	28.57
DAR ES SALAAM BUS RAPID TRANSIT INFRASTRUCTURE PROJECT	ADB Loan	09/30/2015	12/31/2020	70.76	17.82
DAR ES SALAAM BUS RAPID TRANSIT INFRASTRUCTURE PROJECT	AGTF Loan	09/30/2015	12/31/2020	32.17	3.15
DODOMA CITY OUTER RING ROAD (110.2KM) CONSTRUCTION PROJECT	ADB Loan	04/30/2019		100.27	0.00
DODOMA CITY OUTER RING ROAD (110.2KM) CONSTRUCTION PROJECT	AGTF Loan	04/30/2019		30.51	0.00
Sub Total				484.48	14.7%
Water Sup/ Sanitation Sector					
ZANZIBAR URBAN WATER SUPPLY & SANITATION	ADF Loan	12/19/2012	12/31/2019	14.00	82.48
ARUSHA SUSTAINABLE WATER AND SANITATION DELIVERY PROJECT	ADB Loan	09/16/2015	6/30/2022	104.34	27.24
ARUSHA SUSTAINABLE WATER AND SANITATION DELIVERY PROJECT	ADF Loan	09/16/2015	6/30/2022	18.00	23.58
ARUSHA SUSTAINABLE WATER AND SANITATION DELIVERY PROJECT	AGTF Loan	09/16/2015	6/30/2022	30.51	20.57
KIKONGE MULTIPURPOSE DAM HYDROPOWER AND IRRIGATION	AWF Grant	06/27/2016	6/29/2021	1.6	15.74
Sub Total				168.44	30.10%
Total National Operations				1,079.38	33.9%
Multinational					
KENYA - TANZANIA INTERCONNECTION (TANZANIA)	ADF Loan	02/18/2015	12/30/2021	75.29	38.61
REGIONAL RUSUMO HYDROPOWER - TANZANIA	ADF Loan	11/27/2013	8/30/2021	22.41	9.04
EAST AFRICA'S CENTRES OF EXCELLENCE FOR SKILLS AND TERTIARY	ADF Loan	10/03/2014	12/31/2020	6.25	40.45
MULTINATIONAL: EAST AFRICA: ARUSHA-VOI (TANZANIA)	ADF Loan	04/16/2013	8/31/2020	79.90	73.26
MULTINATIONAL (TANZANIA) TZ/BDI: RUMONGE-GITAZA/KABINGO - - KASULU-MANYOVU	ADB Loan	11/22/2018	12/31/2023	94.57	0.00
MULTINATIONAL (TANZANIA) TZ/BDI: RUMONGE-GITAZA/KABINGO - - KASULU-MANYOVU	ADF Loan	11/22/2018	12/31/2023	90.00	0.00
TANZANIA - LAKE VICTORIA MARITIME COMMUNICATIONS AND TRANSPOR	ADF Loan	10/24/2016	4/30/2021	3.77	1.49
Sub Total				372.19	25%
National + Multinationals				1,451.57	31.6%

APPENDIX III: RELATED PROJECTS FINANCED BY THE BANK AND OTHER DONORS

Project Title	Donor	USD million
<u>KENYA</u>		
Kenol – Sagana – Marua Highway	AfDB	235
Mombasa – Mariakani Road	AfDB	112
Sirari Corridor	AfDB	228
Kitale – Suam & Eldoret Bypass	AfDB	134
Outer Ring road	AfDB	109
Changamwe – Magongo Road	TMEA	9.4
Nuno - Modogashe	BADEA/OPEC	67
Mombasa Port Area Roads Development Project (MPARD)	JICA	255
Construction of Missing Link Roads and Non-Motorised Transport (NMT) Facilities	EC	35
Dualling of Ngong Road Phase II	JICA	24
SS-EARTTDPF	World Bank	446
KTSSP	World Bank	329
Kibwezi-Mutomo	China-Exim	195
Kwa Jomvu-Mariakani Section (Lot 2)	EIB/KfW	137
Rural Roads Rehabilitation	EC	21.3
Kenya South Sudan Link-Kitale - Morpus	KfW	129
<u>TANZANIA</u>		
Arusha-Holili/Taveta- Voi Road Project	AfDB	112
Transport Sector Support Programme (TSSP)	AfDB	347
Dar es Salaam Bus Rapid Transit System Phase 2	AfDB	142
Kabingo-Kasulu-Manyovu Road Project	AfDB	256
Dodoma City Outer Ring road Project	AfDB	180
Kidatu - Ifakara as part of the Kilombero corridor	EU	56
One Stop Inspection Stations in Manyoni and Shinyanga	EU	22
Rural Roads Budget Support	EU	51
Tunduma Post	DFID	45
Central Corridor	DFID	33
Construction of Gezerani Bridge in DAR	JICA	38
Transport Sector Program	World Bank	270
Bus Rapid Transit (BRT) System Phase 1	World Bank	425
Dar es Salaam Maritime Gateway Project	World Bank	345
Serengeti Southern Bypass (Design Study)	KFW	3

APPENDIX IV: MAP OF PROJECT AREA
BAGAMOYO - HOROHORO/LUNGALUNGA - MALINDI ROAD PROJECT
PHASE I



APPENDIX V: JUSTIFICATION FOR LESS THAN 50% CONTRIBUTION BY GOK

Based on the Bank's Policy on Expenditure Eligible for the Bank Group financing, this operation is proposing government financial contribution of less than 50% of the total project cost net of taxes, justified as follows:

V.1 Country Commitment to Implement Its Overall Development Program: Kenya's development strategy is the Vision 2030, implemented through 5-year medium term plans (MTPs). Currently the government is implementing the 3rd medium term plan (MTP III: 2018-2022), which is driven by the Big Four (B4) Agenda. The Government continues to mobilize resources to implement the development plan, and to strengthen the linkage between the plan and the national budget. The Government is also under obligation to provide 15% of its resources to 47 County Governments while also providing for all sectorial investment. In addition, the Government allocates about 32% of its revenues to development expenditure³. The government has shown commitment to the B4 Agenda (and the MPT III) by allocating about KES. 450 billion (15% of total budget) to its implementation in 2019/20, which is an increase of KES. 50 billion from the 2018/19 allocation.

The government has made notable progress in implementation of the MPT III and the B4 Agenda across its four strategic areas. In manufacturing sector, the GoK has scaled up reforms to encourage investment in the sector (fight against illicit trade and contrabands). To enhance food and nutrition security, the GoK has aligned all policies under the agriculture sector towards increasing food production, boosting smallholder productivity and reducing the cost of food. To make Universal Health Coverage a reality, the GoK has launched the pilot phase of the universal health programme in four Counties (Kisumu, Machakos, Nyeri and Isiolo). While on housing, the GoK has established the National Housing Development Fund which will be responsible for mobilizing capital to finance the affordable housing project. Additionally, the Government has established the Kenya Mortgage Refinance Company (KMRC) to leverage funds from Development partners (Including **African Development Bank**) and the private sector and provide secure long-term funding to financial institutions thereby increasing the availability and affordability of mortgage loans to Kenyans. Infrastructure development (including transport sector) is prioritised as a key enabler of the B4 Agenda.

Transport is one of the sectors targeted for development in the MTP III. The Government is planning to expand and modernize aviation facilities, improve shipping and maritime facilities, expand of railway transport and expansion of roads programmes. The road expansion program aims, among others, at enhancing domestic and regional connectivity, boosting rural productivity and reducing urban congestion. To realize this it is planned to construct/rehabilitate 10,000 kms of road. It is also targeted to maintain 161,465 km of road. Hence, considering that the government needs financing to implement this ambitious plans and GoK is one of the active partners of the Bank with high commitment to implement the projects, it is proposed to waive the 50% requirement and encourage the Government to continue improving the road network.

V.2 Development Expenditures by the Country to Sectors Targeted by Bank Assistance: Government continues to prioritize infrastructure and transport sectors, as reflected in its annual development budget allocations as indicated in Table 1 below. In the 2018/19 fiscal

³ Draft 2019 Budget Review and Outlook Paper, National Treasury

year, 5.0% and 4.4% of the government's total expenditure was channeled to development agenda in the transport and infrastructure sectors respectively. This was an increase from 4.8% and 3.5% in the previous fiscal year, reflecting GoK's continued commitment to development in these sectors.

Table 1: Actual Development Expenditure

Description	Budget year	
	2017/18	2018/19
Actual development expenditure, State Department for Infrastructure (million KES)	73,156	106,528
Actual development expenditure, State Department for Infrastructure as % of total Government Expenditure	3.5%	4.4%
Actual development Expenditure, State Department for Transport (million KES)	102,474	121,335
Actual development Expenditure, State Department for Transport as % of Total Government Expenditure	4.8%	5.0%

Source: 2018 & 2019 Budget Review and Outlook Paper

V.3 Country Fiscal Position and Debt Analysis: Overall, Kenya enjoys macroeconomic stability. But, new challenges to this stability are emerging. They include significant fiscal deficit estimated at 7.3% of GDP in 2018, limited fiscal space, financing constraints emanating from the increased infrastructure spending against the backdrop of the implementation of the Big Four agenda, and rise in the public debt stock that increased to 57% of GDP or about US\$ 50 billion as at end-December 2018, a big jump compared to the 42.1% in 2013. The good perspective regarding the fiscal balance is that the tighter fiscal policy stance adopted by the GoK has started yielding results. The fiscal deficit in percent of GDP is expected to drop from 7.3% in 2018 to 5.2% in 2019. The projections indicate that it will further narrow in 2020 (4.9%).

The rise in public debt could be attributed to an increase in both domestic and external borrowing to finance fiscal deficit and change in the composition of public debt portfolio towards expensive commercial and short maturity loans. However, the debt burden of the country remains under control and it expected moderate in the near future due to narrowing fiscal deficit, stable exchange rate and resilient GDP growth. According to IMF's 2018 debt sustainability analysis (DSA), Kenya's total debt stock and external debt are estimated at 48.5% and 22.5% of GDP respectively, on present value (PV) terms, which is lower than the WB/IMF benchmark of 74% and 50% respectively. Similarly, Kenya's other external debt indicators (i.e. PV of debt to export, debt to revenue, debt service to export and debt service to revenue) are all projected to remain below the sustainability thresholds under the baseline scenario, and to improve gradually over the projection period (2017-2037). The PV of debt to revenue ratio is projected to remain comfortably below the sustainability threshold even under the most extreme shock. Kenya's rating by credit rating agencies, except by Moody, which downgraded to B2 from B1 while retaining outlook at stable, has remained unchanged. However, owing to the possibility that some of the thresholds could be breached especially the liquidity indicators if the economy is exposed to extreme external shocks or abrupt changes in macroeconomic policies, the IMF increased Kenya's debt distress from low to moderate.

As debt management strategy, the government has put in place measures to reduce fiscal deficit progressively 9.1 percent of GDP in FY 2016/17 to 3.1 percent by FY 2022/23. These measures include: restricting growth in recurrent spending and expenditure rationalization; doubling its effort in domestic resource mobilization (aided by the ongoing reforms in the tax policy and revenue administration); enhancing transparency and accountability of public spending (by the

establishment of Public Investment Management - PIM). According to National Treasury's projections, these fiscal consolidation efforts will reduce the nominal public debt on a net basis (as a percentage of GDP) from the preliminary 51.5 percent in the FY 2017/18 to 44.0 percent in the FY 2022/23⁴.

V.4 Country Financing Parameters: The Bank is currently in the process of preparing Country Financing Parameters (CFP) Note for Kenya which is expected to be finalized by the end of November 2019. However, according to World Bank's CFP Note for Kenya, the limit on the proportion of individual project costs that World Bank may finance is up to 100 percent. The decision on up to what proportion of the project cost can be financed by World Bank is based on: *i*) the extent to which counterpart funds are available; and, *ii*) the implication of the financing for the overall portfolio. Due to the GoK's commitment to the implementation of the Big 4 Agenda and the ongoing fiscal consolidation efforts in the country, GoK's counterpart financing available for this project is only at UA 26.68 million (equivalent to 14.3% of the project cost). EU is co-financing the project through a grant amounting to UA 24.56 million (13.2%), leaving the Bank's financing at UA 134.76 million (72.5%). In addition, this project is already planned for in the indicative pipeline and the CSP of Kenya at UA 163.1 million (about 121% of the proposed Bank's financing) hence 72.5% financing of the project by the Bank will not alter the Bank's portfolio or indicative pipeline in the country.

⁴ 2019 Budget Policy Statement, National Treasury.