

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA15062

Project Name	Ethiopia- Expressway Development Support Project (P148850)
Region	AFRICA
Country	Ethiopia
Sector(s)	Rural and Inter-Urban Roads and Highways (75%), General transportation sector (25%)
Theme(s)	Rural services and infrastructure (75%), Trade facilitation and market access (15%), Infrastructure services for private sector development (10%)
Lending Instrument	Investment Project Financing
Project ID	P148850
Borrower(s)	Federal Ministry of Finance and Economic Development, Federal Democratic Republic of Ethiopia
Implementing Agency	Ethiopian Roads Authority
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	23-Jan-2015
Date PID Approved/Disclosed	23-Jan-2015
Estimated Date of Appraisal Completion	27-Jan-2015
Estimated Date of Board Approval	21-May-2015
Decision	

I. Project Context

Country Context

Ethiopia is a large and diverse country. It is located in the Horn of Africa and is a land-locked country with an area of 1.1 million km². Its bio-physical environment includes a variety of contrasting ecosystems, with significant differences in climate, soil properties, vegetation types, agricultural potential, biodiversity and water resources. Ethiopia is a country of many nations, nationalities, and peoples, with a total population of about 90 million, and population growth rate of 2.6 percent (2013). Only 17 percent of the population lives in urban centers, the great majority of them in Addis Ababa. At a current annual growth rate of 2.6 percent, Ethiopia's population is estimated to reach 130 million by 2025, and Ethiopia is projected by the United Nations (UN) to be among the ten largest countries by population in 2050. Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to large domestic weather-related shocks as demonstrated by the 2011/12 East Africa droughts.

Ethiopia has a federal, democratic government system, established in the early 1990's, with nine

autonomous states ('regions') and two chartered cities. Decentralization of governance to the regional and district (woreda) levels has been actively pursued since 2003. The Ethiopian People's Revolutionary Democratic Front (EPRDF) has been in power in Ethiopia since 1991. EPRDF comprises four regionally based parties from the four major regions (Amhara, Oromia, Southern Nations, Nationalities and Peoples (SNNPR), and Tigray). The next national elections are scheduled for mid-2015.

Ethiopia has experienced strong economic growth, averaging 10.7 percent per year between 2003 and 2011 compared to the regional average of 5.0 percent. GDP increased by 9.7 percent in 2012/13, and is projected by the Government of Ethiopia (GoE) to reach 11.2 percent in 2013/14. Growth reflected a mix of factors, including agricultural modernization, the development of new export sectors, strong global commodity demand, and government-led development investments. Private consumption and public investment have driven demand side growth, with the latter assuming an increasingly important role in recent years. On the supply side, growth was driven by an expansion of the services and agricultural sectors, while the role of the industrial sector was relatively modest. Recently, annual growth rates have declined slightly, but still remain at high single-digit levels. Growth in the export of goods has also moderated in recent years and a decline was observed in 2012/13 for the first time since 2008/09. There have been bouts of high inflation in recent years and, while inflation is currently much lower, keeping it down remains a major objective for monetary policy.

Ethiopia is one of the world's poorest countries, but has made substantial progress on social and human development over the past decade. The country's per capita income of US\$470 (2013) is substantially lower than the regional average of US\$1,257 and is the ninth lowest worldwide. Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program (UNDP). High economic growth, however, has helped reduce poverty in both urban and rural areas. Since 2005, 2.5 million people have been lifted out of poverty, and the share of the population below the poverty line has fallen from 38.7 percent in 2004/05 to 29.6 percent in 2010/11 (using a poverty line of close to US\$1.25/day). However, because of high population growth the absolute number of poor (about 25 million) has remained unchanged over the past fifteen years. Ethiopia is among the countries that have made the fastest progress on the Millennium Development Goals (MDGs) and HDI ranking over the past decade. It is on track to achieve the MDGs for gender parity in education, child mortality, HIV/AIDS, and malaria. Reduction of maternal mortality remains a key challenge.

GoE is currently implementing its ambitious Growth and Transformation Plan (GTP; 2010/11-2014/15), which sets a long-term goal of becoming a middle-income country by 2025, with growth rates of at least 11.2 percent per annum during the plan period. To achieve the GTP goals and objectives, GoE has followed a "developmental state" model with a strong role for the government in many aspects of the economy. It has prioritized key sectors such as industry and agriculture as drivers of sustained economic growth and job creation. The GTP also reaffirms GoE's commitment to human development. Development partners have programs that are broadly aligned with GTP priorities.

The fast growing population of Ethiopia is a challenge to the reduction of poverty and shared prosperity, having increased by nearly fourfold over the last four decades. The capacity of the rural arable areas to support this population has reached its limit, as the average land holding of a rural household has become less than the hectare which is needed to sustain the current average family

size and no more farm land is available for the youth. The population pressure has obliged the youth to migrate to urban centers to search for scarce job opportunities. The population size of major cities benefiting from the proposed project, such as Hawassa, Zeway and Addis Ababa has grown by six, nine and two fold respectively between the 1984 and 2013 censuses. The official unemployment rate in urban centers is over 17 percent. With a population of 3.1 million, Addis Ababa is 10 times larger than the other major cities in Ethiopia. This imbalance in urban populations is reflected in the smaller scale of economic activities and industrial growth in these other cities and the regions that surround them. GoE has recognized the importance of cities in the country's industrialization strategy, and the second GTP, which is being prepared, will support the cities in their role of increasing growth and reducing poverty.

The World Bank Group's Country Partnership Strategy (CPS, FY13-16) builds on the progress achieved by Ethiopia in recent years and aims to help GoE address structural transformation and assist in the implementation of the GTP. The CPS framework includes two pillars. Pillar One, "Fostering competitiveness and employment", aims to support Ethiopia in achieving: (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, "Enhancing resilience and reducing vulnerabilities", aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. Good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to strengthen their mainstreaming across the portfolio. The programs of International Finance Corporation and Multi-lateral Investment Guarantee Agency are well aligned with the CPS framework, contributing mainly to the strategic objectives under Pillar One.

Sectoral and institutional Context

Transport sector policy definition and oversight in Ethiopia is the responsibility of the Ministry of Transport (MOT). The Ethiopian Roads Authority (ERA) is responsible for overall network planning and federal roads development, including high capacity roads. The Transport Authority is responsible for regulating transport services. The Office of the Road Fund (ORF) administers funds for road maintenance which are collected through a fuel levy. The management of the lower levels of the road network is decentralized. Responsibility for road safety lies with the National Road Safety Council (NRSC) which reports to the MOT. In July 2014, GoE has established the Ethiopian Toll Roads Enterprise (ETRE), which has the responsibility of managing all toll roads in the country.

The GoE, recognizing that the size and quality of the road network is a major constraint to economic growth and poverty reduction, has formulated a rolling Road Sector Development Program (RSDP) in partnership with development partners including the World Bank, African Development Bank and European Union. The RSDP identified the investments to restore and expand the road network, and reforms to modernize the sector. Since the RSDP was launched in 1997, the road network has increased from 26,550 km to 85,966 km today, and 70 percent is now in good or fair condition compared with 22 percent at the start of the program. The current annual budget for the road sector is now US\$1.7 billion, of which 74 percent was funded by GoE and 5 percent by the Bank in 2013. The ORF contributes about US\$65 million annually to road maintenance.

In addition to the rapid expansion and improvement of the road network, the sector has to overcome major challenges, including: (a) enhancing the GoE's Road Safety strategy that targets reducing the accident rate from 74 to 27 fatalities per 10,000 vehicles by 2016; (b) constructing high capacity roads to improve safety and reduce congestion; and (c) improving institutional efficiency to ensure the delivery of projects within planned cost and time, and with acceptable levels of site safety. In 2013 ERA adopted a wide ranging modernization agenda aimed at strengthening their capacity to deliver GoE's road sector program. The proposed project will help to mainstream modernization of the roads network in the upcoming fifth phase of RSDP, and in addition, addresses the critical challenges of enhancing cost sharing principles by recovering operation and maintenance costs and a part of investment costs. It will play an important role in supporting economic growth and will also provide a high standard road for road users, which will reduce road accidents and reduce fuel consumption, in turn reducing emissions.

Due to the fast growing economy and expanding road network, traffic on roads radiating from Addis Ababa has grown at an average annual rate of 9.5 percent between 2003 and 2012, with heavy truck traffic increasing by 11.6 percent annually, leading to chronic congestion. The route to the port of Djibouti, Ethiopia's main trade outlet, currently carries over 20,000 vehicles per day (vpd), and by 2022 traffic on seven principal routes is expected to exceed 10,000 vpd. In response, the Ethiopian Roads Authority (ERA) has constructed the Addis – Adama Expressway, a 78 km toll road on the Djibouti Corridor, which was opened to traffic in September 2014. The four the Modjo-Hawassa road is part of the Trans-East African Highway and it is sub divided in four sections, constituting 56 km in lot 1, 37 km in lot 2, 57 km in lot 3 and 52 km in lot 4, totaling 202 km. GoE has secured financing for lot 1 and 2 from the African Development Bank (AfDB) and Korea EXIM Bank, respectively. The World Bank will finance lot 3 while China EXIM Bank will be financing lot 4. sa expressway (202 km), part of the.

Government is also starting to prepare plans to upgrade to expressway standard other congested roads that radiate from Addis Ababa and connect to the regional states, recognizing that high capacity highways and expressways will help to deliver goods to higher markets and for export, just in time; help services delivered and people moved at a reduced time and cost, reduce accidents helping save lives of pedestrian and passengers, whom are mostly poor people; reduce incidence of vehicle crushing saving loss of property and increase the reliability of delivery of goods to onward distributors domestically and afield; and attract investment, when summed up facilitate growth that create employment for the poor. Such transportation system is critical for the transformation of the Ethiopian economy striving to lift the world's most impoverished people out of poverty by interconnecting the fast growing urban centers predominantly habited by poor people; facilitating agriculture based industrialization, accessing large domestic and export markets, as well as promoting services and tourism. This project will facilitate the light manufacturing expansion in Hawassa and along the corridor supported by the World Bank. Studies from China and India show that highway corridors attract firms to locate along the corridor, thereby bringing spatial and economic transformation of the corridors, as well as enhancing competitiveness. Example of the impacts of highway development (the Golden Quadrilateral highway project) on the Indian organized manufacturing sector is presented as follows:

Impacts of the Golden Quadrilateral highway project on the Indian organized manufacturing sector. An evaluation of the impact of a large-scale highway project on economic activity in the Indian manufacturing sector using establishment-level survey data from 1994-2007 showed that, the Golden Quadrilateral highway project of India upgraded the quality and width of 5,846 km of

highways linking four major hubs in India. In the process, this upgrade improved the connectivity and market accessibility of districts lying close to the highway compared to those more removed. Non-nodal districts located within 0-10 km 21 from the GQ network experienced substantial increases in entry levels and higher productivity. Dynamic specifications and comparisons to the NS-EW highway system mostly confirm these findings, with the most substantial caveat being that the productivity gains may be upwardly biased by a pre-period dip.

The GQ upgrades also appear to have facilitated a more natural sorting of industries that are land and building intensive from the nodal districts into the periphery locations; the upgrades also appear to be encouraging decentralization by making intermediate cities more attractive for manufacturing entrants. (Source: Highway to Success in India- The Impacts of the Golden Quadrilateral highway project for the location and Performance of Manufacturing; Ejaz Ghani, Arti Grover Goswami, and William R. Kerr; January 2013. The World Bank Poverty Reduction and Economic Management Network, Economic Policy and Debt Department. Policy Research Working Paper 6320).

II. Proposed Development Objectives

The objective of the Project is to enhance efficiency and safety in the movement of goods and people along the Zeway – Arsi Negele part of the Modjo-Hawassa development corridor, whilst strengthening the Recipients expressway development and management institutional capacity.

III. Project Description

Component Name

Component 1: Construction of High Capacity Highway

Comments (optional)

(a) construction of the Zeway to Arsi Negele section of the new highway from Modjo to Hawassa, including support for livelihood restoration; (b) monitoring and supervising the civil works to be carried out under part 1 (a); (c) supporting prioritized road safety improvement works at potential accident sites on the trunk road network and piloting the implementation of corridor based Road Safety actions along Modjo-Hawassa and Addis-Adama expressways; and (d) deployment of field Intelligent Transport Systems (ITS) on the new Modjo-Hawassa expressway and enhancing ITS along the Addis Adama expressway.

Component Name

Component 2: Institutional Development and Regulatory Framework

Comments (optional)

(a) Strengthening the Recipient's capacity for the development of expressways and high capacity highways through: (i) the preparation of a strategic master plan, and regulatory and legal framework for financing, operation and maintenance of expressways and high capacity roads, and (ii) developing a national and sub-national ITS conceptual framework; (b) Establishing functional units within ETRE for expressway and high capacity highway management, including, the capacity for digital road management; (c) Study to monitor and strengthen governance and transparency in procurement and contract management; and (d) Preparing follow-on operations, including feasibility studies, ESIA's and concept designs for potential expressways and high capacity highways.

Component Name

Component 3: Road Safety and Institutional Development Support to the Transport Sector

Comments (optional)

(a) Supporting the implementation of the Road Safety- “the Safe System” - approach through: (i) strengthening the capacity of the Recipient’s relevant Road Safety Agency , including conducting Road Safety assessment on selected heavily trafficked trunk road network to improve Road Safety aspects of the road infrastructure and ensuring compliance with vehicle safety requirements; and (ii) piloting enhanced enforcement of road safety and post impact care focusing on selected accident prone corridors; and (b) strengthening the policy, planning and monitoring functions of MOT.

IV. Financing (in USD Million)

Total Project Cost:	355.00	Total Bank Financing:	355.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			355.00
Total			355.00

V. Implementation

ERA will be responsible for the implementation of the expressway construction, the framework for expressway development and institutional strengthening components, and will implement activities in behalf of the newly established Ethiopian Toll Roads Enterprise (ETRE). ERA has been implementing a series of Bank financed projects and is familiar with Bank fiduciary and safeguards policies. ERA also has working experience with AfDB and China EXIM Bank on the financing of road projects and has a good understanding of the loan processing and contract administration procedures. AfDB will administer and supervise the section to be financed by Korean EXIM by Korean EXIM Bank. The project will be implemented over a five year period.

The road safety component of the project will be implemented by the Ministry of Transport. As the MOT does not have previous experience of the direct implementation of World Bank financed projects, a project implementation unit will be established to carry out the procurement and financial management activities.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36	x	
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11	x	
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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