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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 15-Dec-2020 | Report No: PIDC30728

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Eastern Africa	P174485		Horn of Africa Initiative: Regional Economic Corridor Project (P174485)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA EAST	Apr 08, 2021	Jun 28, 2021	Transport
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Transport, Ethiopian Roads Authority	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to provide safe, smart, resilient trade and logistics connectivity on selected infrastructure along the Addis-Djibouti corridor.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	600.00
Total Financing	600.00
of which IBRD/IDA	500.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	500.00
IDA Credit	500.00

Non-World Bank Group Financing

Counterpart Funding	100.00
Borrower/Recipient	100.00

Environmental and Social Risk Classification	Concept Review Decision
High	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Regional Context

1. **The Horn of Africa (HoA) has a geo-strategic position with regard to the Red Sea, the Arabian Sea, the Indian Ocean and the Gulf, and has important regional and international significance**. Five countries constitute the HoA: Djibouti, Eritrea, Ethiopia, Kenya and Somalia. With a population growth of 3 percent per year that is projected to double every 23 years, it is expected that the region would be among the fastest growing economies in Africa. There is considerable potential for the Horn to grow and transform its economy and deliver development results for its people. Given its locational advantages, the region is well positioned to supply both itself and the economies of the Gulf and South Asia with agricultural products and energy and is also considered as a strategic transit corridor to Central Africa (South Sudan and Chad).

2. **Poverty and inequality remain significant challenges in the HoA, though there has been improvement**. The ongoing pandemic crisis is projected to have a significant impact on reversing gains in poverty reduction – with Sub-Saharan Africa (SSA) likely to see between 25 to 40 million being pushed into poverty as per latest World Bank estimates as a result of the COVID-19 pandemic. Vulnerability remains a key challenge and a driver of fragility due to conflict, natural disasters and shocks, and other household and community level vulnerability factors. In addition, the HoA faces additional development challenges: (i) maintaining strong growth and stable macroeconomic fundamentals; (ii) addressing competitiveness, infrastructure connectivity and investment climate; (iii) dealing with historical deficits in human development; (iv) addressing inequality and exclusion; and (v) promoting peace, stability and cooperation in the region.

3. **Regional integration within the HoA presents a compelling case for expanding on the opportunities on offer, while simultaneously addressing some of the challenges.** Regional integration can be an engine to accelerate the growth and strengthen the poverty elasticity of growth within a context of global uncertainties. A recent study on the impact of regional integration on inclusive growth found that regional corridor interventions tend to benefit economic welfare and equity[1]. Specifically, overall integration and the dimensions of trade and investment, money and finance,

[1] Roberts et al. (2019). Transport corridors and their wider economic benefits available at https://doi.org/10.1111/jors.12467

and institutional and social integration were found to be significant and robust drivers of poverty reduction, with an even more pronounced positive impact on lower-income countries. Integration can promote economic diversification, the competitiveness of countries and greater regional trade. Attention to filling critical regional infrastructure gaps along with 'soft' policy and regulatory reforms can also propel growth. The recent dialogue among the leaders has opened significant opportunities, including joint commitment by HoA countries to implement the Horn of Africa Initiative.

4. **The Governments of the region have prioritized the development of regional corridors to enhance economic diversification and trade competitiveness, as one of the key pillars of intervention**. The Horn of Africa Initiative (HoAI) was launched in October 2019 by the Ministers of Finance of Djibouti, Ethiopia, Eritrea, Kenya and Somalia with the support of three Development Partners (DPs): the African Development Bank (AfDB), the European Union (EU) and the World Bank (WB). The initiative calls for investments of about US$15 billion over the next decade, by supporting the development of economic corridors (transport, energy and digital) and trade, promotion of value-added regional value chains, thus improving human capital and increasing resilience in the region. Trade facilitation and non-tariff barriers add significantly to trade costs in the region (EU, 2020)[2].

Country Context

5. **With more than 112 million people (2019), Ethiopia is the second most populous nation in Africa after Nigeria, and the fastest growing economy in the region.** Ethiopia is considered as the anchor state of the Horn, with some 40 percent of the region's population, 75 percent of its average income, and 35 percent of its gross regional product. Per capita income however remains low at US$ 850 (current). Nevertheless, Ethiopia aims to reach lower-middle-income status by 2025, and has embarked on a series of reforms, and accelerated investments to get there. Ethiopia's location gives it strategic position as a jumping off point in the Horn of Africa, close to the Middle East and its markets. Ethiopia is landlocked, bordering Eritrea, Somalia, Kenya, South Sudan, and Sudan, and has been using neighboring Djibouti's main port for the last two decades. However, with the recent peace with Eritrea, there is some opportunity to access the Eritrean ports of Assab and Massawa for its international trade. Port diversification options via Kenya (Lamu, Mombasa), Somalia (Berbera, Mogadishu), and Sudan (Port Sudan) while limited and also hampered by distance constraints are good secondary/backup options. Given Ethiopia's size and location, the recent political reform shifts have the potential to transform the economic and political landscape in the Horn of Africa.

6. **Over the past 15 years, Ethiopia achieved strong economic growth, driven by large-scale public infrastructure investment.** According to official data, GDP growth averaged 10.4 percent in 2004-2018, making Ethiopia one of the world's fastest-growing economies. This has resulted in a dramatic increase in GNI per capita, from US$140 in 2004 to US$850 in 2019. Robust growth was driven by large-scale public investment in infrastructure, supporting strong growth in agriculture and services. Public investment in infrastructure reached almost a quarter of the country's gross domestic product in 2014 and has accounted for around half of all growth in the economy since 2011.

7. **Higher economic growth contributed to positive trends in poverty reduction in both urban and rural areas**. The share of the population living below the national poverty line decreased from 30% in 2011 to 24% in 2016. The government is implementing the second phase of its Growth and Transformation Plan (GTP II) which will run to 2019/20. GTP II aims to continue expanding physical infrastructure through public investments and to transform the country into a manufacturing hub. GTP II targets an average of 11% GDP growth annually, and in line with the manufacturing strategy, the industrial sector is set to expand by 20% on average, creating more jobs.

[2] Desiderio & Alikhani (2020), "Trade integration and facilitation reforms in the Horn of Africa and way forward." EU Report 23/11/2020

8. **Despite achieving fast growth, the limitations of the state-led development model have become evident, as external competitiveness has eroded and imbalances have increased.** Notwithstanding substantial investments in infrastructure to support future growth, Ethiopia's recent economic success has occurred in a context of modest structural economic transformation and still-incipient domestic private sector development. The shortcomings of the growth model have become apparent in recent years. For example, merchandise exports, dominated by coffee and oil seeds, dropped from 8.6 percent of GDP in FY11 to 3.4 percent in FY18, due to falling commodity prices and an overvalued currency. Poor export performance coupled with an ambitious public infrastructure investment agenda have placed the economy at high risk of debt distress.

9. **Recognizing the shortcomings of the previous development model, the Government of Ethiopia initiated a comprehensive reform program in September 2019.** The Homegrown Economic Reform Agenda (HGERA) was set to build upon the foundation laid by the Growth and Transformation Plan (GTP) II. Amongst the key set of reforms under HGERA, the government proposed to introduce competition in key growth enabling sectors (telecoms, logistics and energy). High cost and low-quality logistics undermine the growth potential of export-led (and import-substitution) manufacturing.

10. **Government is placing a lot of emphasis on industrialization as it seeks to achieve middle income status by 2025.** To facilitate industrialization, the Government strengthened its institutional, legal and regulatory framework with a focus on promoting Foreign Direct Investment (FDI) in light manufacturing, especially in the form of industrial parks. However, inefficiencies in trade logistics represent a major challenge to enhancing competitiveness, especially in light manufacturing.[3] Therefore, to ensure that the manufacturing sector gains from the regional connectivity created through the Addis-Djibouti corridor, it is important to address connectivity gaps from industrial parks to corridor.

11. **Ethiopia's participation in global trade is focused on agricultural produce, and light manufacturing goods.** Exports of manufactured goods from Ethiopia remain at less than 10% of GDP, which is very low by comparison to countries at similar levels of GDP per capita (World Bank, 2018). Leading exports include coffee[4], sesame, cut flowers, fruits and vegetables, leather products, and textiles, garments cluster. Exports from the main light manufacturing priority sectors, have grown rapidly in recent years with the nominal value of exports of final garment and footwear products rising from under US$ 20 million in 2010 to almost US$ 110 million in 2015 (Shepard 2017).

12. **At the same time, agriculture remains a dominant source of employment.** 66 percent of the labor force in Ethiopia remains engaged in agriculture but labor productivity with the sector remains low. Adoption of new technologies remains critical for improving agricultural productivity. In this context, available evidence shows that four factors—extension agents, roads, education, and incentives—are associated with increasing adoption of improved farming technologies in Ethiopia.[5] In rural areas, poverty reduction was driven by improved infrastructure and connectivity, as well as good agricultural growth. Rural connectivity has improved considerably since 2010 but

[3] Source: World Bank (2016). Ethiopia's Great Run: The Growth Acceleration and how to pace it. Washington DC. © World Bank Available at: http://documents1.worldbank.org/curated/en/693561467988949839/pdf/99399-REVISED-PUBLIC-thiopia-Economic-Update-2-11-16-web.pdf

[4] Coffee is the leading export, and Ethiopia is the seventh largest producer of Arabica coffee accounting for about 5 percent of world's production

[5] Source: World Bank (2016). Ethiopia's Great Run: The Growth Acceleration and how to pace it. . Washington DC. © World Bank Available at: http://documents1.worldbank.org/curated/en/693561467988949839/pdf/99399-REVISED-PUBLIC-thiopia-Economic-Update-2-11-16-web.pdf

poor market access remains a binding constraint for farmers. The poor largely depend on agriculture and casual labor for their livelihood and are relatively isolated from key infrastructure such as roads and market. For example, 57 percent of the poor live more than three kilometers away from an all-weather road, compared to 45 percent of the non-poor. In rural areas, remoteness from roads and population centers is also associated with lower welfare levels[6].

13. **While the export basket remains less complex, Ethiopia imports account for significant share of the country's Gross Domestic Product (GDP)**. Ethiopia's top five imports include grain, fertilizer, fast-moving consumer goods, durable goods and petroleum products. Although cereal production accounts for 80 percent of cultivated land in Ethiopia, the country imports grain to supplement its own production. Fertilizer imports have increased rapidly over recent years, and approximately 90 percent is used for cereals while 5 percent is for pulses and 2 percent is for oil seeds. Lastly, Ethiopia's imports of petroleum products has seen a rapid rise in the last decade.

14. **A key factor that has been identified - in the Home-Grown Economic Reform Agenda and the GTP II - as undermining international competitiveness is poor trade logistics**. According to the 2016 Logistics Performance Index (LPI), Ethiopia ranked 126/160, and performed poorly compared to peer countries. According to the World Economic Forum Global Competitiveness Index Report (2018), Ethiopia is ranked 109 out of 137 countries. On a positive note, performance has been on an upward trajectory with Ethiopia being one of only 4 African countries that have improved for five consecutive years. Ethiopia scores extremely low on the goods market efficiency and the infrastructure pillars (124 out of 137 countries and 115 out of 137 respectively). For example, the labor costs of making a T-shirt in Ethiopia are one third those of China, but the logistics expenses of exporting the T-shirt mean that the Ethiopian-made shirt sells for the same price as a Chinese shirt on international markets. (UNCTAD 2018). While Ethiopia has invested heavily in transport infrastructure, the cost of shipping a 20-foot container to Germany from Ethiopia is 247 percent higher than from Vietnam, and 72 percent higher than from Bangladesh (World Bank, 2018).It is therefore an economic imperative for Ethiopia to both reduce its economic distance to markets through improved transport infrastructure, but also to significantly lower the logistics costs of its trade, whether these be through tariff or non-tariff barriers.

15. **The unreliability of trade logistics leads to high overhead costs for manufacturers as logistic costs constitutes a larger share of the total costs of final goods imported or exported by a country**. Manufacturing export-oriented sectors have to depend upon the ease of importing the required inputs and capital goods, and the time and costs of exporting the manufactured products to regional and global markets. Over 85% of garment producers and over 90% of leather product producers in Ethiopia rely on foreign-made inputs (Getahun et al., 2018). This greatly increases costs for companies and lowers their international competitiveness. Inefficiencies in logistics leads to long order-to-delivery time limits, and high inventory costs which undermines competitive participation in regional and global value chains.

16. **Like the rest of the world, Ethiopia has been experiencing the unprecedented social and economic impact of the COVID-19 pandemic**. The COVID-19 shock is expected to be transitory with potential recovery possible in 2021, but the overall adverse economic impact on Ethiopia will be substantial with increased price of basic foods, rising unemployment, slowdown in growth, and increase in poverty. An estimated 1.8 million jobs are at risk, and the incomes and livelihoods of several million informal workers, self-employed workers, and farmers are expected to be affected. To mitigate impacts on people and firms, authorities have announced several measures, including additional

[6] Source: World Bank (2020). Ethiopia Poverty Assessment: Harnessing Continued Growth for Accelerated Poverty Reduction. Washington DC. © World Bank. Available at: http://documents1.worldbank.org/curated/en/992661585805283077/pdf/Ethiopia-Poverty-Assessment-Harnessing-Continued-Growth-for-Accelerated-Poverty-Reduction.pdf

expenditure on healthcare, provision of emergency food to the vulnerable, tax and social security payment deferrals, and liquidity injections and extension of forbearance rules in the financial sector, among others.

17. **The COVID-19 crisis is likely to have a substantial negative effect on household income, possibly undermining welfare gains of the past decade.** In 2016, when poverty was last measured, 24 percent of Ethiopians lived below the poverty line of US$1.90/ day (2011 PPP), down from 30 percent in 2011. A lot of households remain vulnerable to poverty, with consumption levels only marginally exceeding the poverty line. A shock that would decrease average household consumption by 10 percent—not an unlikely scenario given the severity of the economic effects of COVID in Ethiopia— would push the poverty rate up by seven percentage points, effectively cancelling out the poverty reduction gains since 2005 and pushing over seven million Ethiopians into poverty. Preliminary data from an ongoing phone household survey to monitor and assess the impacts of COVID points towards large losses in household income, in urban and to a lesser extent in rural areas.

18. **Compounding matters, Ethiopia has been hit by a confluence of other negative factors in recent times including the locust invasion, political disruption, and war in the Tigray region**. Ethiopia experienced the worst locust invasion in decades. This may undermine development gains and threaten the food security and livelihoods of millions of Ethiopians. Political disruption, associated with social unrest, could negatively impact growth through lower foreign direct investment, tourism and exports. At the time of reporting, the war in the Tigray region appears to have come to an end, but its repercussions in terms of displaced people, and damage to infrastructure and services may take some time for full recovery.

Sectoral and Institutional Context

19. **In Ethiopia, transport sector policy setting, general sectoral oversight, leadership, monitoring and regulation is under the auspices 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 Federal Transport Authority, also under MoT 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 established the Ethiopian Toll Roads Enterprise (ETRE), which has the responsibility of managing all toll roads in the country. The railway sector in Ethiopia is also overseen by the Ministry of Transport (MoT) and has an important role to play in the country's logistics services mix. The Ministry of Finance (MoF) plays a key role in the development of the sector, with Government's Macro-Economic Committee taking policy decisions on investments and the funding of operating subsidies. The Ethiopian Railway Corporation (ERC) manages the planning, design and construction of the rail network. On the Djibouti side, the rail sector is under MoT and managed by the railway authority SDCF (*Societe Djiboutienne Chemin de Fer*). The Addis-Djibouti line is operated and maintained by a joint venture the Ethiopia-Djibouti Railway (EDR) with ownership split between Ethiopia (75% share) and Djibouti (25% share). The Bank is supporting rail reform efforts through the activity "Ethiopia Railway Reform, Regulation and Private Sector Participation Study" (P174624). The Ministry of Transport has highlighted the need for capacity building in the sector, including for the establishment of the Railway Safety and Regulatory Authority and for technical and business skills in the railway companies.

20. **GoE through MoT and ERA has developed a number of policy documents and instruments to guide the sector.** These include the National Transport and Logistics Policy and Strategy, Road Sector Policy, Roads Proclamation, draft National Transport Strategy, 10 year Road Master Plan (with development of the Next Generation Road Sector Plan underway), Road Asset Management Policy and Strategy, Environmental, Social and Occupational Health and Safety

Policy and Strategy, and a Communication Policy and Strategy. Under MoF, and with Bank support, a Public Private Partnership (PPP) policy, proclamation and accompanying regulations have also been developed.

21. **To address, the logistics challenges in a more strategic and coordinated way, MoT has worked with other key stakeholders to develop the Logistics Sector Reform Program.** This is supported by the World Bank funded Trade Logistics Project (P156590) including expansion of facilities and provision of crane equipment at the critical dry port of Modjo, the establishment of a Logistics Transformation Office (LTO), which is now almost fully staffed, support for deeper policy commitments including opening up the multimodal regime to private sector providers in line with the new Investment Proclamation, and agreements with the Ethiopian Shipping and Logistics Service Enterprise (ESLSE) to open up its dry port facilities to other private operators.

22. **Landlocked Ethiopia needs an efficient and reliable transport and logistics network if it is to meet the targets of the country's Second Growth and Transformation Plan, and its Homegrown Reform Agenda.** The targets include expansion of the manufacturing sector, value-addition in all productive sectors, and a three-fold increase in the values of exports. Currently, opportunities created by Ethiopia's low-cost inputs (labor and energy) are cancelled out by factors relating to trade logistics.

23. **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**. Partners include: The World Bank, African Development Bank (AfDB), China EXIM Bank, the European Union (EU) and the South Korea EXIM Bank. The RSDP identified the investments needed 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 144,000 km today and 70 percent is now in good or fair condition compared with 22 percent at the start of the program[7]. The current annual budget for the Ethiopian Roads Authority (ERA) is US$1.6 billion equivalent (61 billion birr), of which 85 percent is funded by GoE and 15 percent by foreign development partners. World Bank support is 32 percent of the foreign development partners share. 12 percent of ERA's budget is dedicated to road maintenance, meaning that there is a growing unfunded mandate for maintaining the now extense road network. Performance based approaches introduced by the Bank are being used to mitigate this issue.

24. **The Port of Djibouti has, since 1998, handled almost all of Ethiopia's maritime traffic.** To accommodate this, the port has invested in providing improved trade and transit facilities. Djibouti has invested just under $900 million in its portion of a standard gauge railway connecting the port with Addis Ababa. It also has invested heavily in new port infrastructure including container and multi-purpose cargo terminals. With the railway and these new port facilities in Djibouti, Ethiopia will be able to channel more cargo through Djibouti, and Djibouti will be able to handle this additional traffic.

25. **More than 95 percent of Ethiopia's trade by volume moves through the Addis-Djibouti Corridor making this corridor the most significant commercial access to the sea**. Ethiopia's trade traffic constitutes approximately 85 percent of the traffic handled at the Port of Djibouti. Port Berbera (Somalia) and Port Sudan handle 5 percent and 2 percent respectively. Imports and exports are largely trucked by road from Djibouti to Addis Ababa with a small volume by rail between major inland ports in Ethiopia. Road network is the primary mode of transport throughout Ethiopia and connects all regions. Key nodes within the logistics chain in Ethiopia are dry ports, and the main dry port is in Modjo which is located 55 km southeast of Addis Ababa. More than 85 percent of imports are aggregated in Addis Ababa before being distributed around the country. The Central Region, which comprises of the city of Addis Ababa,

[7] Revised baseline on how condition is measured is being refined by ERA and to take precedence moving forward.

consumes the bulk (50 percent) of imported cargo. In addition to dry ports, there are also container freight stations for receiving both inbound and outbound container shipments.

26. **Increasing the efficiency of the Addis-Djibouti corridor, which is the main trade artery between Ethiopia and Djibouti will bring significant benefits to both nations.** In general, efforts are being made to reduce delays with clearance of goods (including with the electronic single window), inefficient transit including unnecessary procedures, delays, and other tariff and non-tariff barriers that need to be addressed at the Djibouti port, on the Addis-Djibouti road corridor, at the border crossing points, and at other stops and checkpoints. The Governments of Ethiopia and Djibouti are trying to address these challenges.

27. **It is worth noting that there is need for greater modal shift from road to rail, though both will continue to co-exist.** With the existing rolling stock EDR can carry up to 2.5 million tons of freight and 365,000 passengers per year. However, currently about 19 million tons of traffic, including containers and bulk products moves between Addis and Djibouti, thus potential exists for EDR to increase its traffic volume. To expand beyond 2.5 million tons (US$ 75 million of revenue annually) require some additional investment: container flat wagons (US$ 9 million) to handle 1.2M tons of additional container traffic per year, terminal connections for oil in Awash (US$57 million) to handle 600,000 tons per year of oil traffic; investment on security measures, passing loops and additional locomotives and wagons (US$150 million) to enable 24 hour per day operations and enable EDR to increase operations to eight train pairs (trains in each direction) per day for a grand total of needs of US$ 216 million. Even if the rail link grows to 4 million tons there will still be a need for more than 15 million tons by road annually. Also, roads yield wider societal and economic benefits in terms of opening access to communities and industries along the regional corridor especially when local complementary infrastructure is built in, like is proposed under the Project.

Relationship to CPF

28. **The proposed project is strongly aligned with the World Bank Group Country Partnership Framework Fy18-22[8].** In particular, the proposed project contributes to the achievement of outcomes under two of the three focus areas: Focus area 1: Boost productivity and private sector development for structural transformation (objectives of improved connectivity and enhanced regional growth and secondary cities); and Focus area 3: Supporting institutional accountability and confronting corruption (objectives of increased capacity and improved governance in service delivery). Under focus area 1, the CPF notes in particular that improved spatial connectivity is necessary for equitable growth by connecting production centers to markets and connecting secondary cities. It commits WBG to support improvements in transport infrastructure and road connectivity to reduce travel times and enhance connectivity between markets and secondary cities. Of particular relevance to the corridor component which forms the bulk of the proposed Project, the CPF indicates WBG support to Government's efforts to construct and operate strategic road corridors; and support policy, regulatory, and administrative reforms to enhance the performance of the Ethiopia-Djibouti corridor.

Relationship to Regional strategies

29. **The project is aligned with the objectives the Horn of Africa's initiative.** Consistent with the Ministerial Communique launching the HoA Initiative[9], the overall objective of the HoA Initiative is to rapidly develop the sub-region by facilitating regional integration and cooperation among the five HoA countries. The project will directly contribute to Pillars 1 and 2 of the HoA initiative, namely (i) Pillar 1: "An Interconnected Horn", that focuses on

[8] World Bank Group (2017), Country Partnership Framework for the period FY18-FY22 dated May 22, 2017.
[9] Communique of October 2019, following Side Event During the World Bank Annual Meetings

implementing cross-border regional infrastructure projects including transport corridors; and (ii) Pillar 2: "More Trade, More Growth, More Jobs", that focuses on trade and economic integration. **The project is one of the priority corridors identified in various ministerial and technical discussion rounds under the HoA initiative.** It furthers the HoA Initiative aim of transforming transport and logistics corridors into economic corridors by easing transport of goods and people and providing incentives to stakeholders to trade and engage in various economic activities along the corridors.

30. **The project also fully supports the recent Bank's Regional Integration and Cooperation Strategy for the period 2018-2023 in Africa which Priority 1 is: "Generate economic dynamism along regional economic corridors".** This priority focuses on selected transnational economic corridors where integration could be realized, and where financing for regional physical infrastructure connectivity would be complemented by policy reforms to address barriers to value addition and facilitate greater trade. Such approach would include creating an enabling environment for private sector to invest along these corridors, thus responding to the regional integration priorities of countries and the expectations of the private sector in terms of connecting and growing markets.

31. **The project is aligned with the World Bank's Africa Climate Change Business Plan[10], the Ethiopian Program of Adaptation to Climate Change (EPACC), Ethiopia's Nationally Determined Contribution to the UNFCCC (NDC)[11], and Ethiopia's Climate Resilient Green Economy Strategy (CRGE)[12].** The World Bank's Africa Climate Change Business Plan highlights the importance and urgency of countries to ramp up climate-smart development that addresses climate impacts and manages climate risks. Investments in climate resilient infrastructure is mentioned as offering opportunities to provide access to goods and services like health and education. The EPACC indicates that transport is one of the most vulnerable sectors to climate shocks. The NDC identifies as a key measure for local resiliency the development and implementation of climate change compatible building/construction codes for buildings, roads, dry ports, railways and other infrastructure to be safe for the population and to minimize economic damage associated with increasing extremes in flooding. CRGE addresses both climate change adaptation and mitigation objectives and is integrated in the Second Growth and Transformation Plan. The CRGE identifies leapfrogging to modern and energy-efficient technologies in transport, buildings and industry as one of its pillars, addressing the fact that in transport approximately 75% of emissions come from road transport, particularly freight and construction vehicles and emissions in transport are projected to grow from around 5MtCO_2e in 2010 to 40Mt CO_2e in 2030. The project will build resilient elements into the road corridor design and include extreme weather monitoring and early warning systems as part of the ITS architecture.

Relationship to other World Bank Group projects

32. **The lending instrument chosen for this project is an Investment Project Financing (IPF) under a Series of Projects (SOP) approach.** The first in the SOP under the Horn of Africa Initiative Infrastructure Pillar is the Board approved Kenya: Horn of Africa Gateway Development Project (P161305). In parallel, Djibouti team is preparing the Djibouti-Addis Road Corridor Project (P174300). Close collaboration with the Djibouti team is ongoing, and complementarities with the already approved Kenya project are also being deliberately followed upon by the team. The estimated duration of the project is five years. Land acquisition and other costs related to the implementation of the Resettlement Action Plan (RAP) will be covered entirely by the Government of Ethiopia whereas the rest of project activities will be financed by IDA, from National PBA and Regional window. The amount for the project is in order of

[10] Africa Climate Business Plan, 2020. (URL: Reports (worldbank.org))
[11] Ethiopia's Nationally Determined Contribution to the UNFCCC, 2016. (URL: INDC-Ethiopia-100615 (unfccc.int))
[12] Ethiopia's Climate-Resilient Green Economy; Green Economy Strategy; Federal Democratic Republic of Ethiopia, 2011. (URL: https://www.undp.org/content/dam/ethiopia/docs/Ethiopia%20CRGE.pdf)

US$ 500 million The cost allocation for the respective four components will further be determined in due course of project preparation process. However, component 1, construction of road project will take the lion's share of the lending amount as compared to the other components. The Trade Logistics Project (P156590), which is supporting the main inland node (Modjo) and also broader logistics sector reform is taking the lead on the trade facilitation and logistics enhancement agenda; this project will complement its efforts.

33. **The proposed project will also be informed by a number of ongoing analytical exercises.** These include the Horn of Africa Regional Economic Memorandum (P172711), the Ethiopia Country Economic Memorandum (P175102), and the Advisory and Capacity Building Support for GoE on PPPs (P172269).

C. Proposed Development Objective(s)

34. The Project Development Objective (PDO) is to provide safe, smart, resilient trade and logistics connectivity on selected infrastructure along the Addis-Djibouti corridor.

Key Results (From PCN)

35. The expected results revolve around the areas of safety, smart intelligent transport systems (ITS), trade and logistics efficiency, resiliency, accessibility and inclusiveness.

36. *Safety:* on the corridor will be measured by (i) decreased number of crash fatalities and serious injuries per 100,000 vehicle-km and (ii) number of HVI/AIDs preventions campaigns with local communities and truckers and (iii) enhanced COVID-19 prevention measures, testing, and eventually vaccination *(to be refined)*.

37. *Smart Intelligent Transport Systems:* will be measured by the percentage of the Addis-Djibouti corridor equipped with ITS facilities including ducts for Optic Fiber Cable (OFC), road sensors, and other traffic data collection, traffic management, communications, and tolling equipment and facilities.

38. *Trade and Logistics Efficiency* will be measured by (i) the truck travel time along the corridor (including at Djibouti port[13], at the border (Dewele), on the road, border crossing time, and other stoppage or idle time on the whole Addis-Djibouti southern corridor via Dewele; (ii) generalized cost savings, to be derived from shorter transit time both on the road corridor , and at the border crossings (OSBPs financed by the project),

39. *Resiliency:* on the corridor will be measured by the percentage of the Addis-Djibouti southern corridor via Dewele that is graded as being climate resilient.

40. *Accessibility and Inclusiveness:* in the immediate project area of influence in Ethiopia (buffer of 5km of the road corridor centerline), will be measured by the percentage increase in the share of the target population with access to an all-weather road, (ii) number of jobs created by road and other infrastructure construction, new road maintenance contracts and economic opportunities along the corridor; and (iii) Percentage of women involved in the trade and logistics opportunities provided by the Project as a share of total available opportunities. Women will be targeted, *inter alia*, by improving conditions for their small border trade, and creating small businesses in selected areas along the corridors.

[13] Any dwell time reduction in Djibouti port would be attributed to the project if related activities are to be supported (TBD during preparation under the Djibouti operation)

D. Concept Description

41. **The proposed project is part of global initiative for regional integration in the HoA.** The World Bank Group's support towards regional integration in Africa is guided by the Bank's Africa Regional Integration (RI) Strategy[14]. The strategy notes that priority should be given to: (i) selected transnational economic corridors where integration could be realized; (ii) addressing policy and other barriers to value addition and facilitating greater trade on these corridors; and (iii) integration priorities of the Regional Economic Communities and the expectations of the private sector in terms of connecting and growing markets. The project is designed to address all three elements.

42. **Status of Project Preparation:** The Ethiopian Roads Authority (ERA) has retained a joint-venture[15] to produce the needed feasibility studies[16] for the Awash-Mieso and Mieso-Dire Dawa road sections to be financed under the project, including the detailed Environmental and Social documentation preparation, concept designs, engineering estimates, economic and financial analysis and PPP viability tasks. This contract agreement was signed in February 2020, with a 9 months contract implementation. Unfortunately, due to the Covid-19 pandemic, the foreign consultant's personnel have been unable to travel to Ethiopia leading to a delay in the contract implementation with the consultant only able to begin work in June 2020. The consultant has prepared an inception report, a draft route selection report with the draft feasibility study report expected December 2020. A lot of the project design will be informed by the deliverables from this consultancy work.

43. **The project will be designed around five components:** Component 1: Safe, Smart, Efficient and Resilient Road Corridor Construction; Component 2: Trade Facilitation and Logistics Enhancement; Component 3: Localized Complementary Infrastructure and Interventions; Component 4: Institutional Development and Project Monitoring; and Component 5: Contingent Emergency Response Component (CERC)[17].

44. **Component 1: Safe, Smart, Efficient and Resilient Road Corridor Construction:** Construction of the Mieso – Dire Dawa road section on the Ethiopia – Djibouti regional corridor (estimate of preferred route 134km) as a safe, smart, efficient and resilient corridor is the top priority. The road is being designed as a 4-lane fenced and tolled expressway with a 90m roadway reserve width. The road crosses Oromia, Afar, Amhara, Somali and Dire Dawa Regional States. Pending confirmation of availability of budget, Awash- Mieso road section (estimate of preferred route 72 km) could also be included once preliminary cost estimate of road sections is established as part of Adama- Awash- Mieso – Dire Dawa project feasibility study. Road safety is a critical element of project design and implementation, as is building a road that is smart (Intelligent Transport System/ITS equipped), with ducts for Optic Fiber Cable (OFC), traffic management, signaling, tolling, and communications systems integrated. Efficiency calls for a road corridor with good geometric and pavement features (closed Expressway preferred option) that enables for the drastic reduction in travel times, and vehicle operating costs for users. Resilience refers to building a road that is climate resilient with adaptation features on drainage, slope stabilization, use of resilient materials, and proper maintenance embedded in project design, implementation, operation and maintenance. This component would also finance the necessary supervision,

[14] *Supporting Africa's Transformation: Regional Integration and Cooperation Assistance Strategy for the Period FY18–FY23, May 7, 2018, Report No. 121912-AFR.*

[15] A foreign and local consultancy firms: M/s Aarvee Associates (India), and M/S Net Consult (Ethiopia)

[16] Feasibility Study Report, Concept Engineering Design, Procurement Documents for PPP including RFQ, RFP, PPP Agreement, PPP Implementation Agreement, Output Specifications, Performance Standards, Penalty Regime, and a Detailed Environmental and Social Study of the Project.

[17] The CERC component is included to provision for any disaster or emergency need for use of project funds

monitoring and project management consultancy services to accompany the construction, operation and maintenance of the road.

45. **The menu of potential activities to be financed under this component thus include:**

a) Construction of the Mieso – Dire Dawa road section on the Ethiopia – Djibouti regional corridor (estimate of preferred route 134km) as a safe, smart (ITS and OFC enabled), efficient and resilient corridor
b) Fixed and weigh in motion weighbridges
c) Axle load control implementation
d) Supervision, monitoring and project management consultancy services
e) Operation and Maintenance Services contract

46. **Component 2: Trade Facilitation and Logistics Enhancement:** Trade facilitation and logistics enhancement including the hard and soft measures and interventions to reduce both tariff and non-tariff barriers in the movement of goods and people not only on the road corridor but on other important trade corridors in the country. A lot of this work is already being undertaken under other World Bank Group projects or initiatives like the Trade Logistics Project, Trade Facilitation Program, and by other development partners like African Development Bank, European Commission, JICA, the Dutch Government, and TradeMark East Africa. The Project will complement rather than duplicate existing efforts.

47. **The menu of potential activities to be financed under this component thus include:**

a) Construction and refurbishment of one stop border posts including civil works and equipment (to be determined)[18],
b) Construction and refurbishment of dry ports including civil works and equipment (to be determined)
c) Trade policy, procedures, regulations harmonization and implementation between Ethiopia and immediate HoA neighbors (especially Djibouti and Kenya).
d) Axle load control harmonization
e) Implementation of measures to tackle non-tariff barriers along the corridor
f) IT systems integration and innovations that support improved customs and trade efficiencies (details to be determined)
g) Vehicle tracking/ truck monitoring systems as part of a regional transit regime
h) Vehicle standards and inspections harmonization
i) Corridor monitoring system (to be determined)
j) Support the establishment of an institutional mechanism for the Ethiopia – Djibouti Corridor (the mechanism could also include Somalia)
k) Standardization and accreditation initiatives (to be determined)
l) Support to women and youth traders affected by improved efficiency suffering income loss due to the project (to be determined)

48. **Component 3: Localized Complementary Infrastructure and Interventions:** As part of an inclusive design to ensure that the people in the areas where the road corridor passes also benefit from the investment, as well as in an

[18] African Development Bank (AfDB) is financing the engineering and architectural designs for a one stop border post at Dewele under its Awash-Mieso project. The plan is for the construction works to be financed by Trademark EA and JICA (need follow ups with these agencies). Ethiopian Customs Commission noted three priority OSBPs for financing: Galafi, Dewele and Togo-Wuchale. Team will also investigate if any OSBPs might need to be improved or constructed on the Kenya corridor.

effort to maximize the local and wider economic benefits of the project, complementary infrastructures and interventions are proposed. The work in this component will be driven by a deeper understanding of the critical value chain of livestock since this has been identified as a major livelihood activity in the project area of influence. The type and nature of interventions will be selected in close consultation with communities, elders and local authorities. The final interventions will be decided based on needs assessments and a clear prioritization scheme using sound analytical tools.

49. **The menu of potential activities to be financed under this component thus include:**

a) Provision of link and access roads to woredas, farms, markets, livestock, abattoir, dairy farms, and important industrial sites in the project corridor area of influence
b) Provision of simple road-side auxiliary markets with provision of girl/women friendly amenities
c) Provision of localized logistics infrastructure in the areas crossed by the road corridor including drying, sorting, , grading, packaging, collection, buying, selling, storage, consolidation centers

50. **Component 4: Institutional Development and Project Monitoring**: Institutional development and capacity building interventions to support the implementing agencies in the achievement of project objectives, and to further corporate agendas like gender, climate change, jobs, inclusion and citizen engagement as well as continue the support to strengthening ERA's environmental and social management, and other transport agendas under the Ministry of Transport e.g. railway sector and road safety reforms. This component will also fund any necessary technical assistance for enhanced project management and monitoring. Details will be refined as project preparation progresses.

51. **The menu of potential activities to be financed under this component thus include:**

a) Financing of project implementation unit consultants (safeguards, FM, procurement)
b) Training costs
c) Road safety support to the MoT and National Road Safety Council
d) Logistics support to the Logistics Transformation Office
e) Monitoring and Evaluation studies
f) Impact evaluation studies
g) Support for women in ERA managers program
h) Support for women in technical roles programs
i) Support for women in heavy machinery training program
j) Preparation of a strategic sectoral environmental and social assessment
k) Preparation of a revised Environmental &Social Design Manual
l) Capacity building for the establishment of the Railway Safety and Regulatory Authority and for technical and business skills in the railway companies.

1. **Component 5: Contingent Emergency Response Component (CERC):** Details on activities that are eligible under this component will be elaborated during detailed project preparation.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

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