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Report No: PAD4404

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT

IN THE AMOUNT OF SDR 49.5 MILLION
(US$ 70.0 MILLION EQUIVALENT)

TO
THE REPUBLIC OF DJIBOUTI

FOR A

HORN OF AFRICA INITIATIVE: DJIBOUTI REGIONAL ECONOMIC CORRIDOR

NOVEMBER 23, 2021

Transport Global Practice
Middle East And North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2021)

Currency Unit =	Djiboutian Franc
DJF 178.00 =	US$1
US$ 1.00 =	SDR 0.7065

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Ferid Belhaj
Country Director:	Boutheina Guermazi
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ABBREVIATIONS AND ACRONYMS

ADR	Djibouti Road Agency - *Agence Djiboutienne des Routes*
AfDB	African Development Bank
AIDS	Acquired Immunodeficiency Syndrome
ASYCUDA	Automated System for Customs Data
CERC	Contingent Emergency response component
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus disease 2019
CPF	Country Partnership Framework
CTS	Cargo Targeting System
DA	Designated Account
DBOM	Design Build, Operate and Maintain
DCMA	Djibouti Corridor Management Authority
DP	Development Partner
DPCR	Djibouti Ports Corridor Road SA
eCMS	electronic Customs Management System
EIRR	Economic Internal Rate of Return
ESF	Environmental and Social Framework
EU	European Union
FM	Financial Management
FY	Fiscal Year
GBV	Gender Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GoD	Government of Djibouti
GRID	Resilient and Inclusive Development
GRS	Grievance Redress Service
HDI	Human Development Index
HDM	Highway Development and Management Model
HIV	Human Immunodeficiency Viruses
HoA	Horn of Africa
HoAI	Horn of Africa Initiative
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IFR	Interim Financial Report
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IPF	Investment Project Finance
IT	Information Technology
ITIS	Integrated Transport Information System
JICA	Japan International Cooperation Agency

MENA	Middle East and North Africa
MFD	Maximizing Finance for Development
MoF	Ministry of Finance
MoIE	Ministry of Infrastructure and Equipment
MoU	Memorandum of Understanding
NPV	Net Present Value
O&M	Operation and Maintenance
OHS	Occupational Health and Safety
OPBRC	Output- and Performance-Based Road Contract
OSBP	One Stop Border Posts
PBA	Performance Based Allocation
PBC	Performance Based Contract
PCM	Private Capital Mobilization
PCU	Project Coordination Unit
PDO	Project Development Objective
PFS	Project Financial Statements
PIM	Project Implementation Manual
PJC	Permanent Joint Committee
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
PSI	Project Safety Impact
RN	National Road - *Route Nationale*
RSSAT	Road Safety Screening and Appraisal Tool
SAD	Single Administrative Document
SEA/SH	Sexual Exploitation and Abuse/Sexual Harassment
SOE	Statement of Expenditure
SOP	Series of Projects
SSA	Sub Saharan Africa
STEP	Systematic tracking of Exchanges in Procurement
TA	Technical Assistance
TC	Technical Committee
ToC	Theory of Change
ToRs	Terms of Reference
TTFP	Trade and Transport Facilitation Program
UNCTAD	United Nations Conference on Trade and Development
US	United States
USD / US$	United States Dollar
WB	World Bank
WBG	World Bank Group

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Djibouti, Ethiopia	Horn of Africa Initiative: Djibouti Regional Economic Corridor Project	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P174300	Investment Project Financing	Substantial

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Contingent Emergency Response Component (CERC)
[✓] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Performance-Based Conditions (PBCs)	[✓] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
16-Dec-2021	31-Dec-2026

Bank/IFC Collaboration

No

Proposed Development Objective(s)

The PDO is to improve regional connectivity and enhance logistics efficiency in Djibouti along the Djibouti- Addis southern corridor.

Components

Component Name	Cost (US$, millions)
Improvement of infrastructure and introduction of intelligent transportation systems along the Djibouti-Addis southern corridor	80.00
Improvement of transit services along the Djibouti-Addis southern corridor	5.00
Institutional strengthening and capacity-building on road performance-based contracts and project implementation support	5.00
Contingent emergency response component (CERC)	0.00

Organizations

Borrower:	The Republic of Djibouti
Implementing Agency:	ADR

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	90.00
Total Financing	90.00
of which IBRD/IDA	70.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	70.00
IDA Credit	70.00

Non-World Bank Group Financing

Counterpart Funding	17.00
Borrower/Recipient	17.00
Commercial Financing	3.00

Unguaranteed Commercial Financing	3.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Djibouti	70.00	0.00	0.00	70.00
National PBA	9.00	0.00	0.00	9.00
Regional	61.00	0.00	0.00	61.00
Total	**70.00**	**0.00**	**0.00**	**70.00**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025	2026	2027
Annual	1.00	5.00	15.00	25.00	20.00	4.00
Cumulative	1.00	6.00	21.00	46.00	66.00	70.00

INSTITUTIONAL DATA

Practice Area (Lead)

Transport

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial

6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Substantial
9. Other	Substantial
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Schedule 2, Section I.A.2: The Recipient shall establish, no later than thirty (30) days after the Effective Date, and thereafter maintain throughout the Project implementation period, with composition, mandate and resources satisfactory to the Association, a steering committee, to be chaired by MoIE, and responsible for providing technical supervision and guidance for the Project, as further described in the Project Implementation Manual (the "Steering Committee").

Sections and Description

Schedule 2, Section I.C.1: The Recipient shall, not later than November 15 in each calendar year during Project implementation, prepare and furnish to the Association, a plan of Project activities proposed for implementation in the following calendar year, including: (a) a detailed timetable for the sequencing and implementation of said activities; and (b) the types of expenditures required for such activities, a proposed financing plan and a budget ("Annual Work Plan and Budget")

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article IV: The Recipient has duly established the Project Coordination Unit (PCU) and staffed with key specialists, including one procurement specialist, one financial management specialist, and one social and environmental specialist, all with experience and terms of reference, acceptable to the Association.
Effectiveness	IBRD/IDA	Article IV: The Recipient has prepared and adopted the Project Implementation Manual, in form and substance satisfactory to the Association.
Effectiveness	IBRD/IDA	Article IV: The Project Implementation Support Agreement between ADR and DPCR shall have been executed, and in full force and effect.
Disbursement	IBRD/IDA	Schedule 2, Section III.B.1.b: no withdrawal shall be made under Category (2), unless the customs authorities of Recipient and Ethiopia have entered into a mutual understanding in form and manner satisfactory to the Association, sufficient for the Recipient to be able to carry out the activities under Parts 2.1 and 2.2 of the Project.
Disbursement	IBRD/IDA	Schedule 2, Section III.B.1.c: no withdrawal shall be made under Category (3), unless and until the Association is satisfied, and has notified the Recipient of its satisfaction, that all of the following conditions have been met in respect of said activities: (i) the Recipient has determined that an Eligible Crisis or Emergency has occurred, has furnished to the Bank a request to include said activities in the CERC Part in order to respond to said Eligible Crisis or Emergency, and the Bank has agreed with such determination, accepted said request and notified the Recipient thereof; (ii) the Recipient has prepared and disclosed all environmental and social standards instruments required for said activities, and the Recipient has implemented any actions which are required to be taken under said instruments, all in accordance with the

		provisions of Section I.E of Schedule 2 to this Agreement; (iii) the Recipient's Coordinating Authority has adequate staff and resources, in accordance with the provisions of Section I.E of Schedule 2 to this Agreement, for the purposes of said activities; and (iv) the Recipient has adopted an CERC Operations Manual in form, substance and manner acceptable to the Bank and the provisions of the CERC Operations Manual remain or have been updated in accordance with the provisions of Section I.F of Schedule 2 to this Agreement so as to be appropriate for the inclusion and implementation of said activities under the CERC Part.

I. STRATEGIC CONTEXT

A. Country Context

Regional context

1. **The Horn of Africa (HoA) region, comprising Djibouti, Eritrea, Ethiopia, Kenya, and Somalia is important from a population, economic and geographical lens.** It has a total area of around 2.5 million square kilometers, a population of about 184 million (with a substantial number of youth) – expected to reach 250 million by 2030, and a combined Gross Domestic Product (GDP) estimated at US$170 billion. The economies of the region are among the fastest growing economies not only in Africa, but in the world, with the exception of Somalia. Approximately 70 percent of the population live in rural areas and exhibit varying levels of poverty ranging from 68.6 percent in Somalia to 17.0 percent in Djibouti (Table 1).

Table 1: HOA Socio-Economic Indicators

Country	Population Growth (Annual %)	Youth population (14-21 years) %	GDP per Capita (US$ 2019 Current)	GDP Growth (2019 Annual %)	Poverty Headcount at US$1.9/day	Human Development Index (HDI) (2020 ranking out of 189)
Djibouti	1.5	20.6	3,414.9	7.8%	17.0%	166
Eritrea	1.9	19.0	642.5	8.7%	-	180
Ethiopia	2.5	21.5	855.8	8.4%	30.8%	173
Kenya	2.5	20.1	1,816.5	5.4%	37.1%	143
Somalia	2.9	19.9	320.0	-1.5%	68.6%	N/A

Source: World Bank Data Indicators available at data.worldbank.org; HDI data from UNDP (2020).

2. **The HoA has a favorable geo-strategic position that adjoins the Red Sea, the Arabian Sea, the Indian Ocean, and the Gulf, with important regional and international connection implications as a gateway to Africa, Europe, the Middle East, and Asia**. There is considerable potential for the HoA to grow and transform its economy and deliver development results for its people. Given its locational and demographic advantages, the region is well positioned to supply itself, neighboring countries in the continent, the economies of the Gulf and South Asia, and the developed world with agricultural, agro-processed, and light manufactured products. It can also suitably position itself as a transit hub for major trade connections, and benefit from the opportunities that those present.

3. **The HoA is known for a long history of fragility, catastrophic events (particularly droughts), and seemingly intractable conflicts.** A complex set of historical, ideological, political, economic, geographical, territorial, and environmental factors have created tensions within and between states, at times boiling over into inter- and intra-state violent conflicts. These conflicts have, in turn, further weakened states' capacity to provide public services, social cohesion, and further increased the vulnerability of its population (particularly in historically marginalized border areas), thereby increasing the risk of future conflicts. Climate change is now exacerbating an already difficult situation, leading to increased tension over natural resources. Successive shocks of different kinds have

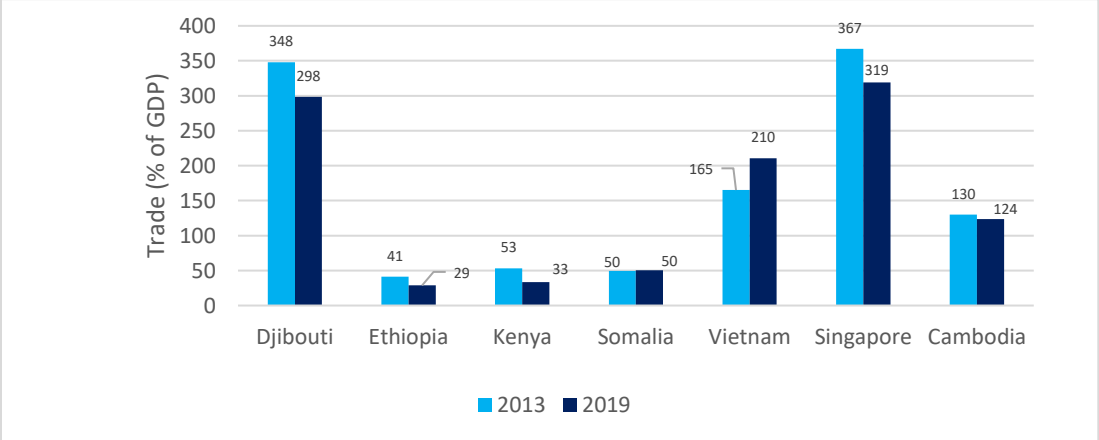
led to record numbers of displaced people and increased migration, mostly irregular, to Gulf countries (World Bank, 2021)[1].

4. **Yet, the true picture of the HoA is more nuanced, and HoA countries could unlock significant common economic opportunities.** Cities and towns across the HoA are growing, increasing the demand for food. The growth in urban incomes is increasing demand for higher-value foods, including processed foods and animal products, with the potential to benefit rural producers and create jobs across the agri-food value chains. The growth of secondary cities attracts service providers that can provide jobs for those migrating from rural areas and deliver services supporting the growth of off-farm employment in rural areas. There is strong demand from the Gulf for some products produced in the region, in particular, meat and other agricultural products. There is considerable potential for enhanced cross-border trade, which is intrinsically transnational but mainly small-scale (informal) in the HoA, with significant potential to leverage entrepreneurship and greater private sector activity to generate jobs (World Bank 2021).

5. **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 people being pushed into poverty as per latest World Bank (WB) estimates as a result of the Coronavirus disease 2019 (COVID-19) pandemic. Vulnerability remains a key challenge and a driver of fragility due to conflict, natural disasters and shocks (including climate-change linked ones), and other household and community level vulnerability factors. 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.

6. **Trade is underperforming as a driver of growth, job creation and poverty reduction in the region.** The ratio of (recorded) trade to GDP decreased between 2013 and 2019 in Ethiopia, Kenya, and Djibouti. However, compared to its neighboring countries in the region, Djibouti trade plays a critical role in the economy.

Figure 1: Trade as a percentage of GDP for different countries (2013 and 2019)



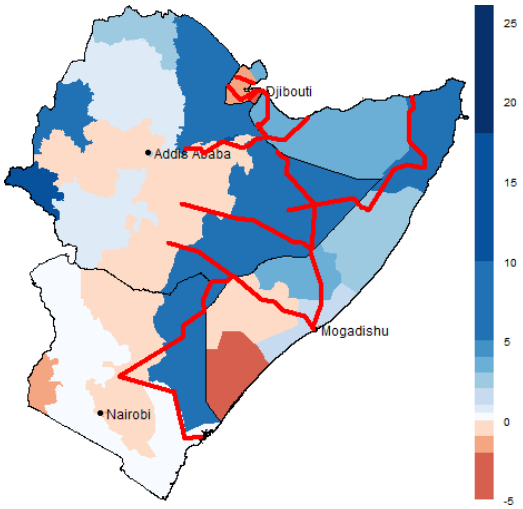
Source: World Bank 2021, "Horn of Africa Regional Economic Memorandum"

[1] World Bank 2021, "Horn of Africa Regional Economic Memorandum."

7. **Regional integration within the HoA presents a compelling case for expanding on the available opportunities, while simultaneously addressing some of the challenges.** Regional integration can be an engine to accelerate the growth and strengthen socio-economic inclusion (in terms of the poverty elasticity of growth) within a context of global uncertainties. A 2019 study on the impact of regional integration on inclusive growth found that regional corridor interventions tend to benefit economic welfare and equity[2]. Specifically, overall integration and the dimensions of trade and investment, capital markets and finance, and institutional and social inclusion 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.

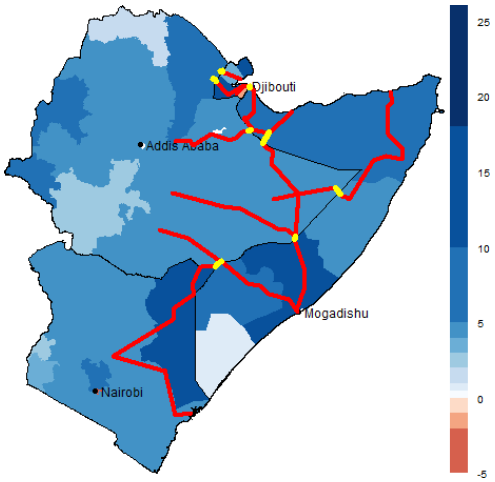
8. **Corridor investments in transport connectivity and trade facilitation have been estimated to result in significant improvements in income especially in border areas for transport connectivity, and overall, in the region when both transport connectivity and trade facilitation measures are implemented (See Figures 2 and 3 below)**

Figure 2: Corridor investments would boost incomes in the border areas



(Welfare impacts of corridor investments vs. baseline, %)
Source: Herrera Dappe and Lebrand, 2021.

Figure 3: Incomes in border areas would be higher and more widespread if combined with border facilitation



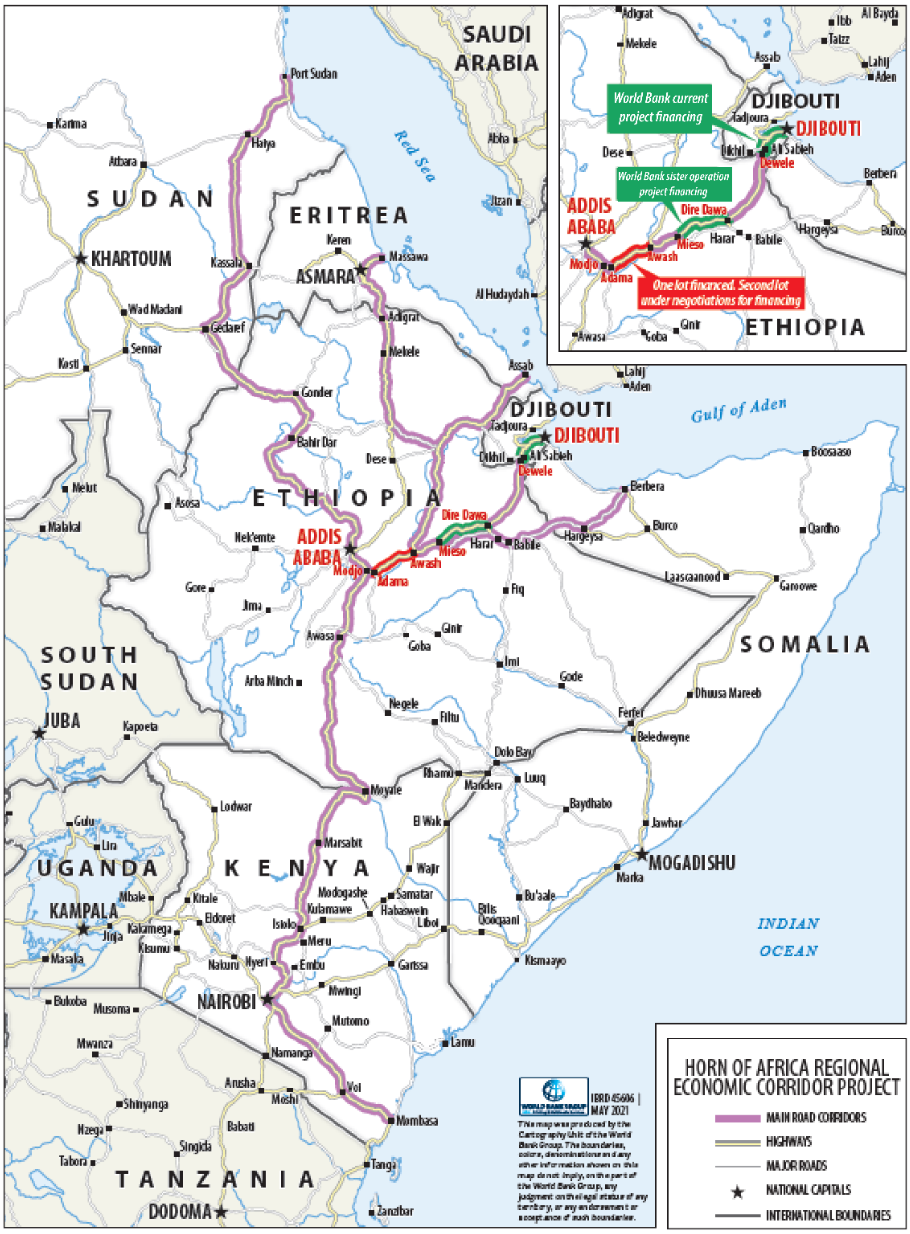
(Welfare impacts of corridor investments and border facilitation vs. baseline, %)
Source: Herrera Dappe and Lebrand, 2021.

9. **The recent dialogue among the government leaders has opened significant opportunities, including joint commitment by HoA countries to implement the Horn of Africa Initiative (HoAI).** 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 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 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

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

increasing resilience in the region. Trade facilitation and non-tariff barriers add significantly to trade costs in the region (EU, 2020)[3]. Details of the activities identified under each pillar of the HoAI are provided in Annex 2.

Figure 4: Priority corridors of the HoAI



Source: World Bank

10. **The Djibouti Regional Economic Corridor Project is the second in a Series of Projects (SOP).** This SOP consists of a series of interdependent projects to support the HoAI involving multiple borrowers, all of which will need to participate for the program's objectives to be achievable. The first operation under the SOP was the Kenya Horn

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

of Africa Gateway Development Project[4]. Preparations are underway for subsequent operations in the SOP with the Republic of Somalia[5] and the Federal Democratic Republic of Ethiopia[6]. Annex 3 provides further details on the business case for improving this corridor. Also, in terms of regional integration as supported by the African Union and the Intergovernmental Authority on Development (IGAD), the Djibouti-Addis road and transit corridor might be considered as a critical portion of a potential longer and deeper road and transit corridor reaching out South Sudan and then the Central African region and Sahel countries. This would position Djibouti as a major port of transit for the entire Eastern and Central Africa region.

Country context

11. **Djibouti is a small, highly urbanized, lower-middle-income economy that is highly dependent on its integration with the HoA.** The country covers an area of 23,200 square kilometers and is home to about one million people. The size of Djibouti's economy limits its ability to diversify and increases its reliance on foreign markets, making it more vulnerable to market downturns. The country does not have significant natural resources, and arid climatic condition means agriculture offers limited potential for growth. Djibouti is thus, completely dependent on imports to meet its food needs.

12. **Rapid and sustained economic growth has accelerated in recent years, thanks to large public investments in transport and port infrastructure - activities that leverage the country's geostrategic location.** Between 2016-2019, GDP growth averaged 7 percent while GDP per capita growth averaged 6.8 percent[7]. However, the country has little diversification in its economy and growth has been driven largely by high debt-financed investment, estimated at 57 percent of GDP. In addition to the debt financing, Foreign Direct Investments inflows play a key role in enhancing growth, contributing to 5.8 percent of GDP between 2015-2019. Like most parts of SSA, this growth has not been inclusive – with a prevailing high level of extreme poverty. According to the 2019 Djibouti Poverty Assessment survey, 17 percent of the population live on less than US$1.90 per day (in 2011 purchasing power parity terms). Majority of its working-age population is either unemployed, informally employed, or out of the labor force with unemployment standing as high as 39 percent. Human capital outcomes are generally very low.

13. **The socio-economic situation of women remains challenging, especially in terms of secondary educational attainment, income inequality with men in the labor market, and access to inputs when working as a small business owner[8].** In 2019, female labor force participation rate stood at around 50 percent, compared to 69 percent for men[9]. 61 percent of women are illiterate[10]. In the transport and trade sectors, women tend to suffer more from lack of information and knowledge about cross border trade regulations and procedures (in a context in which cross border areas may play a major role in improving livelihoods of women[11]). As such, women are mostly engaged in the informal sector (as petty traders, working as foods vendors or selling handicrafts). They face challenges in accessing jobs, economic opportunities productive resources, and contend with constraints on their mobility and on leading income-generating initiatives. Moreover, women may encounter Gender Based Violence (GBV) and safety concerns while engaging in cross-border trade. Specific constraints for women's

[4] Project ID P161305 (IDA-67680), approved September 8, 2020
[5] Somalia - Horn of Africa Infrastructure Integration Project (P173119)
[6] Horn of Africa Initiative: Regional Economic Corridor Project (P174485)
[7] https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=DJ
[8] United States Agency for International Development (USAID), Gender Equality and Women's Empowerment in Djibouti, 2020.
[9] World Development Indicators. International Labor Organization, ILOSTAT database. Data retrieved on January 29, 2021.
[10] Source: https://blogs.worldbank.org/arabvoices/women-and-youths-programs-help-djibouti-through-COVID-19
[11] Women Connect, 2021. Commerce à travers les frontières de Djibouti. Online page: *https://www.womenconnect.org/web/djibouti/cross-border-trade/-/asset_publisher/PDQgaBwoh0hJ/content/les-autres-institutions-intervenantes-sur-le-commerce-transfrontalier*

entrepreneurship include unequal opportunities and lack of managerial trainings[12],[13]. According to the Country Partnership Framework (CPF), "the number of women in non-traditional programs and courses continues to be small," and this may be particularly relevant as transport and road construction tend to be a male-dominated sector[14]. Increasing female labor-force participation would boost regional GDP in MENA[15] - this also applies in Djibouti. This is of critical importance as the ongoing COVID-19 pandemic disproportionally socio-economically hit women. The project aims to tackle the gender gap related to female labor force participation and working conditions by improving their access to information and knowledge on border trade regulations and procedures for their small businesses, promoting childcare center at the border area (to enable time constraint parents to engage in cross-border trade), and supporting the creation of small businesses in selected areas based on established criteria along the corridor.

14. **The country remains fragile and vulnerable to shocks, even after exiting the Fragility, Conflict and Violence (FCV) Harmonized List in Fiscal Year 2021 (FY21)[16].** Weak institutional capacity has so far limited the Government's ability to design and implement strong public policies which has affected the level of governance improvements needed to create an enabling environment for private sector development. Djibouti ranks below the average International Development Association (IDA) countries on rule-based governance, quality of public administration, transparency, and accountability. It is ranked 142 out of 179 countries in the 2020 Transparency International's Corruption Perceptions Index and 24 out of Africa's 37 IDA eligible countries in the 2020 Country Policy and Institutional Assessment (CPIA). The fragility in the HoA spills into Djibouti, by serving as a major destination for refugees and migrants fleeing political and environmental crises. These refugees typically settle in poor areas, where their presence tends to worsen the already challenging prevailing conditions there.

15. **The COVID-19 pandemic is having significant impact on the Djiboutian economy**. As of September 18, 2021, the country had tested more than 12,976 confirmed cases and administered 66,010 COVID-19 vaccine doses. The socioeconomic impact of the crisis is particularly devastating as the pandemic has contributed to worsening the already precarious living conditions of vulnerable households with job loss, price shocks and other adverse factors. COVID-19 is reversing fiscal consolidation efforts started in 2015 and is having severe spillover effects on the Government's fiscal situation. The overall fiscal deficit is expected to increase to 2.3 percent of GDP, up from 0.5 in 2019 due to the fall in total revenue and COVID-19 related public expenditure. Thanks to budget support from the International Monetary Fund (IMF) and AfDB, the Central Bank reserve holdings are expected to increase slightly to 3.5 months of imports (excluding imports of goods and services related to free zone reexports). In April 2020, the government of Djibouti (GoD) launched the "*Pacte de Solidarité Nationale*" a reference document framing its socioeconomic response to the pandemic. The "pact" highlights the impact and financing needs of three priority sectors: health, social and economic measures. The medium-term economic outlook remains positive despite the impact of COVID-19 as growth is expected to average 7.1 percent per year in 2021–2022[17], driven by a rebound in Ethiopia, which will underpin free zone reexports and exports of transportation, logistics, and telecommunication services. Infrastructure investments are also expected to boost growth.

[12] World Bank. 2017. Progress Towards Gender Equality in the Middle East and North Africa Region. Washington, DC. World Bank. *https://openknowledge.worldbank.org/handle/10986/28965*, and World Bank Group, 2018. Proposed credit for a support for women and youth entrepreneurship project. Project Appraisal Document 2831. Washington, D.C.
[13] Atamanov et al. Progress towards gender equality in the Middle East and North Africa, 2017.
[14] World Bank Group, Djibouti CPF 2022-2026, Report No. 147787-DJ, p9.
[15] Middle East and North Africa Regional Gender Action Plan FY18-23. World Bank Group. 2017.
[16] https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations
[17] https://www.worldbank.org/en/country/djibouti/overview

16. **Djibouti is exposed to natural hazards and is already experiencing the impacts of climate change.** Djibouti has a semi-desert tropical climate and experiences recurring flooding, extreme heat, wildfires, water scarcity with extended period of drought. Climate change is projected to continue increasing temperatures, rainfall variability and the frequency and intensity of flooding, droughts and wildfire, presenting a threat to food security, water resources and sustainable development[18,19]. Djibouti experiences low adaptive capacity to climate change and therefore the country presents a high level of climate vulnerability[20]. The agriculture sector is underdeveloped, and livestock farming is non-commercial; both sectors are heavily impacted by water scarcity and droughts. Natural capita, including forests that cover 0.2 percent of the country (2015), will be at risk too. In rural areas, 96.7 percent of the population lives below the poverty line and climate change will exacerbate fragility. Low-income populations, like the 17 percent of Djiboutian who live below the extreme poverty line (2019), are also vulnerable and lack the capacity to adapt to climate-induced shocks[21]. Finally, Djibouti, like the rest of Middle East and North Africa (MENA), suffers from water insecurity. As highlighted in the WB *Beyond Scarcity report*[22], water shortages will reduce MENA's GDP growth by 6 percent to 14 percent by 2050. Climate change, in short, will exacerbate these preexisting vulnerabilities, and amplify fragility. Thus, the impact of Climate change and natural disasters are to be taken into account in the selection of construction materials and in adjustments of design standards for the project.

B. Sectoral and Institutional Context

17. **Given its strategic location along a trade route connecting Africa, the Middle East, Europe, and Asia, the transportation sector plays a critical role in Djibouti's economy as a 'land-linked' economy.** The project's corridor is part of the strategic positioning of Djibouti as a logistic services provider to Ethiopia through the Port of Djibouti, and to the other landlocked East African countries. According to a 2019 White Paper[23] published by the WB in 2019, the Port of Djibouti accounted for between 20 and 25 percent of the State's revenues, while supporting 6,500 direct jobs (equivalent to approximately 25 percent of the 30,000 private sector jobs in the country), and 6,000 indirect jobs. The port of Djibouti is located on one of the world's busiest shipping routes and serves as the de facto port of entry for Ethiopia. In 2012, the contribution of the transport and telecommunications sector to Djibouti's GDP exceeded 27 percent [24]. Generally, the contribution of the transport and communication sector in other countries does not exceed 10 percent of GDP. The case of Djibouti is therefore quite unique in terms of the contribution of the sector. Djibouti's Vision 2035 predicts that the transport sector will still contribute 25 percent of GDP in 2035.

18. **In the landlocked country of Ethiopia, regional integration and international connectivity via economic and logistics corridors play an essential role in reducing isolation, supporting economic diversification, and increasing regional supply-chains efficiency.** The growing importance of the industrial and manufacturing sectors in the landlocked and densely populated country (112 million inhabitants in 2019) depends on its efficient and

[18] World Bank Climate Change Knowledge Portal consulted on 12 March 2021. URL: *https://climateknowledgeportal.worldbank.org/country/djibouti/climate-data-projections*

[19] According to Djibouti's Climate Risk and Adaptation Country Profile, temperatures across the country are projected to increase between 0.6°C and 2.4°C by 2050. Future precipitation changes remain unclear as multi-model analysis of the Sahel region suggest a drying trend while individual models suggest an increase in rainfall. Climate variability and extreme events are project to increase.

20 ND GAIN Index Consulted on 12 August 2021. URL: https://gain-new.crc.nd.edu/ranking/vulnerability/capacity

[21] Shock Waves: Managing the Impacts of Climate Change on Poverty; Climate Change and Development; World Bank, 2016

[22] World Bank. 2017. Overview Vol. 2 of Beyond scarcity : water security in the Middle East and north Africa. Washington, D.C. : World Bank Group. https://hubs.worldbank.org/docs/imagebank/pages/docprofile.aspx?nodeid=28013785

[23] https://documents1.worldbank.org/curated/en/963231561663013431/pdf/Country-and-Port-Fact-Sheets-and-Projections.pdf

[24] Source: Djibouti Vision 2035

reliable connectivity with international markets for its inputs and products. To this end, the country has invested in logistics and dry ports infrastructure along its corridor with Djibouti. Port of Djibouti currently handles about 95 percent of Ethiopian imports and exports while the port of Berbera and Port of Sudan handle respectively 3 percent and 2 percent only. The recent improvement in port and rail infrastructure in the Djibouti-Addis corridor makes it the most attractive corridor for Ethiopian traders. However, Djibouti's port and logistics sector will likely face additional competition from neighboring countries in the coming decade. Djibouti is a transit-based economy that highly depends on the flow of trade with Ethiopia. As Ethiopia seeks to diversify its partners and transit corridors and routes, the need for Djibouti to reinforce and maintain its captive demand advantage through a good quality transit services have become paramount.

19. **Djibouti is currently outperforming both Eritrea and Somalia in terms of logistics management, as measured by the WB's Logistics Performance Index.** However, to maintain its comparative advantage over other corridors, particularly those of Berbera and Port of Sudan, it needs to implement reforms that would significantly improve revenue mobilization. While the Djiboutian economy is highly dependent on revenue from port and transit services, Ethiopia needs access to reliable and sustainable sea and port services to maintain the momentum of its recuperating economy. A business case therefore exists for governments of both countries to rapidly, develop the corridor for long-term use (see Annex 3). This will also create a conducive environment for business communities to thrive.

20. **Djibouti depends almost completely on imports to meet its food needs and food aid represents almost 10 percent of total imports.**[25] Djibouti port services, transportation to and from Addis for transit and trade of goods with Ethiopia play a significant role in the country's economy and social resilience. However, transport infrastructure near the coast is vulnerable to flooding and erosion due to storm surges and sea level rise. Road infrastructure can also be impacted by flash floods and extreme heat conditions, requiring integration of climate considerations in construction and rehabilitation design standards and in road and drainage maintenance provisions.

21. **Another project reflecting the ever-increasing investment in the Djiboutian and Ethiopian transportation sector is the new regional railway line opened in 2018**. The 756 km, standard gauge, single track, electrified and signaled railway line links Addis Ababa and the port of Djibouti. At present, technical, operational and policy challenges leave the line's occupancy rate at just 20 percent; far below its potential and represents only 15 percent of trade. Djibouti port has launched several upgrades to improve the last mile rail connectivity at the port terminals, yet, freight train operations along the line are regularly suspended. This is due to shortage of rolling stock, safety issues and power shortages. Once these challenges are addressed and the line used at its full capacity, it is estimated that modal shift will be capped at 50 percent of total trade. This will leave an important role to the road transport and doesn't undermine the viability of the road corridor deported by the proposed project.

22. **High-quality roads remain essential for the region as the road corridors carries most of the transit to Ethiopia (95 percent).** However, infrastructure deficiencies, poor road safety and lack of appropriate maintenance impact negatively the efficiency of transport between Djibouti and Addis-Ababa and affects heavily accessibility in Djibouti. The road infrastructure along the corridors is in varying conditions with sections of it in deplorable state. Moreover, the absence of parking and rest areas along the corridors and the narrow cross section result in

[25] Climate Risk and Adaptation Country Profile – Djibouti; GFDRR. URL: *https://www.gfdrr.org/sites/default/files/publication/climate-change-country-profile-2011-djibouti.pdf*

congestion from parked trucks along the road, breeding road safety hazards. The project will help relieve congestion near the port, reduce emissions, reduce the chaotic condition of the truck waiting areas, improve the connection to the lagging regions of Djibouti and connectivity to economic opportunities.

23. **There are currently two road corridors in use, namely (i) the Northern Corridor through Galafi border and of a total length of 900 km of which 214 km in Djibouti, and (ii) the "Southern Corridor" through Guelileh border of a total length of 750 km of which 104 km in Djibouti.** The traffic on the Djibouti-Addis corridor is dominated by commercial vehicles, with Heavy Vehicles (HVs) and small trucks, bus and coaches making up 88 percent of the traffic. The annual total bidirectional traffic is of 3,600 vehicle per day in 2021.The current travel time from Djibouti to Addis on the Northern corridor is 3 days, whereas the travel time on the South Corridor is 2.5 days. Road safety is a challenge since the two corridors pass through several major cities, leading to risks for the more vulnerable users.

24. **Lack of appropriate maintenance of road infrastructure leads to quick deterioration of the road condition despite of the existence of a toll.** Despite the implementation of an institutional reform that created the Road Agency (ADR)[26] in 2013, the existence of a US$ 20 toll, and the development of the Djibouti Ports Corridor Road SA (DPCR)[27] in 2018, the road network suffers insufficient maintenance. Inadequate axle load control means that trucks are often overloaded, especially bulk trucks. This leads to a quick deterioration of the road conditions.

25. **In addition to the hard infrastructure deficiencies, the countries' transit and trade procedures require simplification.** In 2008, a Memorandum of Understanding (MoU) between Djibouti and Ethiopia for customs transit along the transit corridor was concluded and is currently being implemented. The MoU defines the transit modalities, roles and responsibilities, operational processes and procedures, guarantee mode, the legal route and legally valid crossing points. The protocol includes the bilateral transit management body including a Permanent Joint Commission which meets regularly. The definition of the official transit route is contained in the bilateral agreement between the two customs authorities signed in 2008 including the route through Galafi and Guelileh.

26. **Duplicated procedures and lack of interconnectivity between customs management systems affect the efficient movement of goods along the Corridor and there are no operational juxtaposed One Stop Border Posts (OSBP) for road transport.** Djibouti and Ethiopia each use a customs declaration format that is based on international standards but is not legally valid within the sovereign territory of the other country. To improve the efficiency of transit between Djibouti and Ethiopia, a technical committee has been set up to establish the Single Administrative Document (SAD), which allows for the harmonization of customs declaration models and the systematic mutual recognition of the document between the two countries. Thus, the transit customs declaration made from Djibouti would be valid until the customs office of destination in Ethiopia and vice versa. This will avoid a break in the logistical chain at the border crossing for the establishment of a new national transit declaration. The SAD

[26] A 2013 decree created the Djibouti Road Agency (ADR) by bringing together the former Directorate of Equipment and the Accounting Agency of the Road Maintenance Fund (RMF). The objective of the merger was to help ADR maintain - in addition to Djibouti's urban roads - all national roads in Djibouti's territory, i.e. approximately 1,200 kilometers by then under its management, with the sums collected by the toll (which were not valued since).

[27] The Decree No. 2018-319/PR/MET of October 28, 2018 grants the exclusive management of the road corridor network to Djibouti Ports Corridor Road SA (DPCR), whose purpose is "the rehabilitation, modernization and development of the road corridor network linking the ports of the Djibouti Republic to neighboring countries, as well as the extension, maintenance, rehabilitation and commissioning of corridor roads " (RN1, RN2, RN5, RN9, RN11, RN17 and RN19), with the exclusive right to collect road fees for traffic on corridor roads, and the responsibility to repay loans

template has been prepared according to Common Market for Eastern and Southern Africa (COMESA) standards and norms in French and English. The interconnection of customs systems for the systematic and automated exchange of declaration data has yet to be finalized.

27. **Addressing the above factors of the corridor inefficiencies would allow Djibouti to strengthen its position as a regional multimodal transport center and facilitate trade with its main partner.** In addition to having a high economic benefit, it is estimated that road maintenance could generate several hundreds of low-skilled jobs. This is quite a significant number of jobs given the small size of Djibouti's labor market. In this context, there is also an opportunity to (i) involve and incentivize the private sector to ensure a good quality of service for road operations and maintenance; (ii) undertake a multimodal strategy and develop logistics services to improve the corridor's performance. This means modern transport and logistics services and better interface between maritime and road transport and containerization; (iii) improve transport services performance[28]; and (iv) better integrate landlocked areas.

28. **Road transport has long been identified as a major vector for the propagation of Human Immunodeficiency Viruses / Acquired Immunodeficiency Syndrome (HIV/AIDS) along the major transit corridors in Africa and more recently COVID-19**. While Djibouti and Ethiopia have national HIV/AIDS programs and COVID-19 national prevention measures, they do not adequately target transport corridors and cross border issues. This means the prevalence of HIV/AIDS among truck drivers remain high and perception of increased risk in COVID-19 transmission greatly affects international road transport. A study conducted by IGAD in 2013, revealed that the predominant health problems reported by truckers along Djibouti -Addis road corridor are (i) sexually transmitted infections (95.2 percent), HIV/AIDS (74.8 percent), and malaria (22.1 percent). Djibouti has recognized the importance of transit traffic as a vector for the propagation of HIV/AIDS and COVID-19. Past experience with the implementation of a HIV/AIDS component in regional transport project financed by the WB[29] has proved that a regional approach to the issue can have a substantial impact on reducing the prevalence of the disease and raising awareness.

C. Relevance to Higher Level Objectives

Relationship to Country Partnership Framework (CPF)

29. **The project supports the World Bank Group (WBG)'s priorities for Djibouti and is aligned with the new CPF.** The project recognizes the 2018 Systematic Country Diagnostic (SCD) and aligns with the new CPF FY22-26[30] approved in September 2021. It will deepen the WBG's engagement to help Djibouti leverage gains from its infrastructure investments by creating jobs, improving productivity, enhancing human capital, and strengthening the capacity of the state to deliver quality public services. The CPF has two pillars: (i) promoting inclusive private sector-led growth job creation and human capital; and (ii) strengthening the role and capacity of the state. The project will support both pillars by: (i) creating jobs, supporting private-led growth in the infrastructure sector and all private producers by facilitating trade and market access with increased connectivity along the corridor. It will also

28 The World Bank developed a Performance Assessment Framework for Policymakers for trucking that could be used in the project: indicators such as the ones presented on page 53 could be adopted by DPCR and the public authorities to track performance and gather data. https://openknowledge.worldbank.org/bitstream/handle/10986/34204/Trucking-A-Performance-Assessment-Framework-for-Policymakers.pdf?sequence=4&isAllowed=y

29 Abidjan-Lagos Trade and Transport Facilitation Program

30 https://documents1.worldbank.org/curated/en/419571633105207198/pdf/Djibouti-Country-Partnership-Framework-for-the-Period-FY22-FY26.pdf

contribute to increasing human capital through road safety improvement and health-related interventions (HIV/AIDS and COVID-19 prevention); and most importantly (ii) increase the quality of transport services along the corridor.

30. **The project also supports the GoD second national development plan entitled Djibouti ICI (Inclusion, Connectivity, and Institutions) for 2020-2024.** The plan seeks to operationalize Djibouti's Vision 2035 which is the country's overarching long-term vision. The main goal under the first national plan was to upgrade the profile of the economy with modernized infrastructure and reform sectors for greater efficiency and effectiveness. Four key sectors – transport and logistics, telecommunications/ Information and Communications Technology (ICT), tourism, and fishing are targeted. The second plan is based on three strategic pillars: (i) reinforcing social and economic inclusion; (ii) implementing structural reforms to enhance connectivity and leverage regional integration in logistics, water, energy, telecom/ICT, and transport; and (iii) strengthening public institutions to improve service delivery and macroeconomic stability. This second phase is expected to give an enhanced role to the private sector.

Relationship to Regional strategies

31. **The project is aligned with the objectives the HoAI.** Consistent with the 2019 Ministerial Communique launching the HoAI[31], the goal is to transform the transport and logistics corridors into economic corridors by easing the transport of goods and people and providing incentives to stakeholders to trade and engage in various economic activities along the corridors 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 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. Furthermore, the project supports one of the four priority corridors of the HoAI. Djibouti-Addis Ababa is an economic corridor of the Regional infrastructure network of the HoA.

32. **The project is aligned with the enlarged MENA regional strategy and more specifically with the MENA strategy for green, inclusive and sustainable infrastructure.** Based on three guiding principles, Smart and Green, Inclusive and Sustainable, the MENA Infrastructure Strategy has three pillars: (i) enhance national and regional connectivity to integrate regional and global supply chains, (ii) accelerate inclusive transition towards Low Carbon Economy and Digital Economy and (iii) strengthen enabling environment and mobilize private sector resources to maximize development impacts. The project will support pillars (i) and (iii).

33. **The project is also aligned with the WBG Gender Strategy that emphasizes four objectives: (i) improving human endowments; (ii) more and better jobs; (iii) remove barriers to women's ownership and control of assets; (iv) enhance women's voice and agency and engage men and boys.** The MENA Gender Strategy builds on these objectives and aims to (i) renew the social contract by tackling constraints to women's economic opportunities; (ii) address gender specific vulnerabilities and create opportunities for economic inclusion; and (iii) identify and address specific needs of women and men during recovery and reconstruction phases.[32]The project will support pillars (i) and (ii).

34. **The project also fully supports the first priority of the WBG's Regional Integration and Cooperation Strategy Update[33] 2021-2023 for Africa: "Connectivity – improve functioning of regional corridors and enhance regional transport service markets."** This priority focuses on selected transnational economic corridors where integration

[31] Communique of October 2019, following Side Event During the World Bank Annual Meetings
[32] Middle East and North Africa Regional Gender Action Plan FY18-23. World Bank Group. 2017.
[33] Report No 154458.

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 an approach would include creating an enabling environment for the 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.

35. **The proposed project is aligned with the WBG 's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner**. The project will lay a foundation for a more integrated economy through regional integration and trade facilitation between Djibouti and its neighboring countries especially Ethiopia. It aims to reduce the cost of transport and trade which in turn boost the competitiveness of firms and contribute to reducing the cost and increasing the accessibility of basic commodities for populations (disproportionately poor) in rural areas.

36. **The project is aligned with the WBG's Climate Change Action Plan 2021-2025[34] and with the WB's Next Generation Africa Climate Business Plan[35] that highlights the importance and urgency of countries to ramp up climate-smart development that addresses climate impacts and manages climate risks.** The project aims to enhance the climate resilience of road infrastructure in critical sections of the road corridor. Through investments in climate resilient infrastructure and appropriate maintenance of assets, the project improves access to goods and services to communities, while facilitating the transport of goods from and to the Port of Djibouti for trade with Ethiopia. In this way, the project contributes to the climate resilience of communities and of the economy of Djibouti.

37. **Ensuring safe, sustainable and resilient transport, safeguarding food and goods supply, and creating jobs are part of Pillar III of the WBG COVID-19 response and the Post-COVID Green, Resilient and Inclusive Development (GRID) recovery.** The GRID approach pursues the twin goals with a long-term sustainability lens. It requires urgent investments at scale in all forms of capital (human, physical, natural and social) to address structural weaknesses and promote growth. Transformational actions are needed in several "keystone" sectors — including transport systems. In line with the WBG Regional Integration Program adjustments made in response to COVID-19, the project will contribute to building back better a resilient transport system, while also mitigating COVID-19 impacts by creating short- and longer-term employment opportunities, including infrastructure construction work, which is labor-intensive. The project will also reinforce the security of food and goods supply chains at the regional level by strengthening Ethiopia connectivity.

Relationship to other WBG projects

38. **The lending instrument chosen for this project is an Investment Project Financing (IPF) under an SOP approach.** The SOP consists of a series of interdependent projects to support the HoA Initiative. This interdependent/multiple borrower type of SOP aims to achieve benefits that go beyond each country's boundaries, creating regional public goods and generating positive externalities. The SOP's program objective is presented in Section II.A below. The funding requirements of the HoA Initiative are large (see Annex 2) and call for incremental investments and mobilization of financing from various sources. The SOP approach is underpinned by the strong dialogue at the Ministerial and technical levels under the HoA Initiative which allows for ongoing coordination of engagement across all operations. It allows the WB to respond to the specific circumstances in each participating country of

[34] World Bank Group. 2021. World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/35799 License: CC BY 3.0 IGO

[35] World Bank. 2020. The Next Generation Africa Climate Business Plan: Ramping Up Development-Centered Climate Action. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/34098 License: CC BY 3.0 IGO.

the HoA Initiative and the plans of other DPs. For instance, the project will complement interventions funded by other partners: The Northern Corridor benefited from rehabilitation of road sections financed by the EU, the Japan International Cooperation Agency (JICA), and Saudi funds. The AfDB and IGAD have provided technical assistance on the customs and trade is financing the studies architectural designs for a OSBP at the border of Guelileh. It is expected that another equivalent juxtaposed OSBP facility will be constructed on the Ethiopian side of the border to streamline border procedures between the two countries. The project interventions will also complement interventions under the Trade Facilitation Support Program (IFC) which is supporting Ethiopia to implement the second phase of the electronic single Window (eSW), implementation of risk-based, risk-based analysis and modernization of customs automated management system.

39. **The proposed project is also informed by a number of analytical exercises.** These include: (i) a pre-feasibility study of a Public-Private Partnership (PPP) Scheme for the Djibouti-Ethiopian Border Road Corridor (P172970) funded by Public-Private Infrastructure Advisory Facility (PPIAF) and completed in June 2021; (ii) the Infrastructure Sector Assessment Program ("InfraSAP") for Djibouti (P175364) and (iii) a study on operational railway corridor enhancement funded by the Mobility and Logistics Multidonor Trust Fund (MOLO, P172970).

II. PROJECT DESCRIPTION

A. Project Development Objective

Program Development Objective

40. **The overarching objective of the HoA Program Series of Projects, which the proposed project will contribute to,** is "enhancing connectivity among the HoA countries and access to seaports; facilitation of domestic and regional trade and economic integration, and road safety".

PDO Statement

41. The Project Development Objective is to improve regional connectivity and enhance logistics efficiency in Djibouti along the Djibouti- Addis southern corridor.

PDO Level Indicators

42. The proposed key PDO level indicators are as follows:

- Reduction in travel time along the Djibouti southern corridor.
- Reduction in truck border crossing time at Guelileh border post.

43. Key intermediate indicators in the results framework will measure results in terms of kilometers of roads rehabilitated, improved climate resilience and road safety along the corridor, employment created for the construction and maintenance of the roads, optimization of cross-border facilities, processes and procedures at the Djiboutian border, improvement of road maintenance management contracts and improved prevention to HIV/AIDS and Sexual Exploitation and Abuse/Sexual Harassment (SEA/SH) for women along the corridor.

B. Project Components

Component 1: Improvement of infrastructure and introduction of intelligent transportation systems along the Djibouti-Addis southern corridor (Cost US$80 million equivalent of which US$60 million from IDA, US$17 million from the GoD and US$3 million from the private sector)

44. This component will improve the road corridor through Output and Performance-based Road Contract (OPBRC) which will include rehabilitation works for some sections, introduction of intelligent transport system and the maintenance and operation of the corridor including axle load control and road safety.

45. 1(a): Rehabilitation and upgrade of road sections along the Djibouti-Addis southern corridor and logistics infrastructure: This sub-component will finance the rehabilitation of (i) the Djibouti city – Arta section on the RN1 (21 km) that is on the common path of both Northern and Southern corridors, (ii) RN1/RN5 junction - Ali Sabbieh section on the RN5 (12 km) and (iii) Ali Sabbieh - Guelileh section on the RN19 (9km), all with climate resilient standards. It will also support the development of climate and natural disaster vulnerability assessment on the above sections of the corridor. Works will include drainage facilities and walking infrastructure and crosswalks in urban/settlement areas along the corridor. The sub-component will also finance a logistic study and the implementation of its recommendations, road safety audits and road safety screening and appraisal tools (RSSAT) including: (i) construction of safe, climate resilient and energy-efficient platforms and rest stops for trucks along the corridor (location to be confirmed by the logistic study) and the rehabilitation and upgrading of customs check posts like PK 51 that could be a priority to enhance the efficiency of the corridor in order to decongestion the port of Djibouti[36]; and (ii) treatment of identified road safety "black spots". The road safety activities will be based on the "safe system approach" comprising of safe road infrastructure along the corridor and the adjacent roads, improvement of post-crash response to save lives and awareness raising measures. The road design will embed safety features meant to keep the Project Safety Impact (PSI) along the corridor below 1[37]. Consultant services will be financed for technical design, supervision of the rehabilitation works, and implementation of the Environmental and Social Framework (ESF) instruments including resettlement and the relevant COVID-19 health protocols. This sub-component will lead to a reduction of CO_2 emissions due to the decrease in fuel consumption due to improvements in transport efficiency of trucks that switch from the Northern corridor to the Southern corridor as a result of project implementation.

46. 1(b): Deployment of Integrated Transport Information System (ITIS): This sub-component will finance the design and implementation of a smart corridor through the deployment of ITIS systems aimed at ensuring fluidity of freight movement between Djibouti and Ethiopia through simplification of transport administrative processes and provision of real-time information to monitor cargo clearance and movement, and safety enhancement measures. The system will be included in the OPBRC and will include (i) electronic cargo tracking systems for transit which will enable to monitor, in real time, cargo and vehicle movements; (ii) integration of information systems between

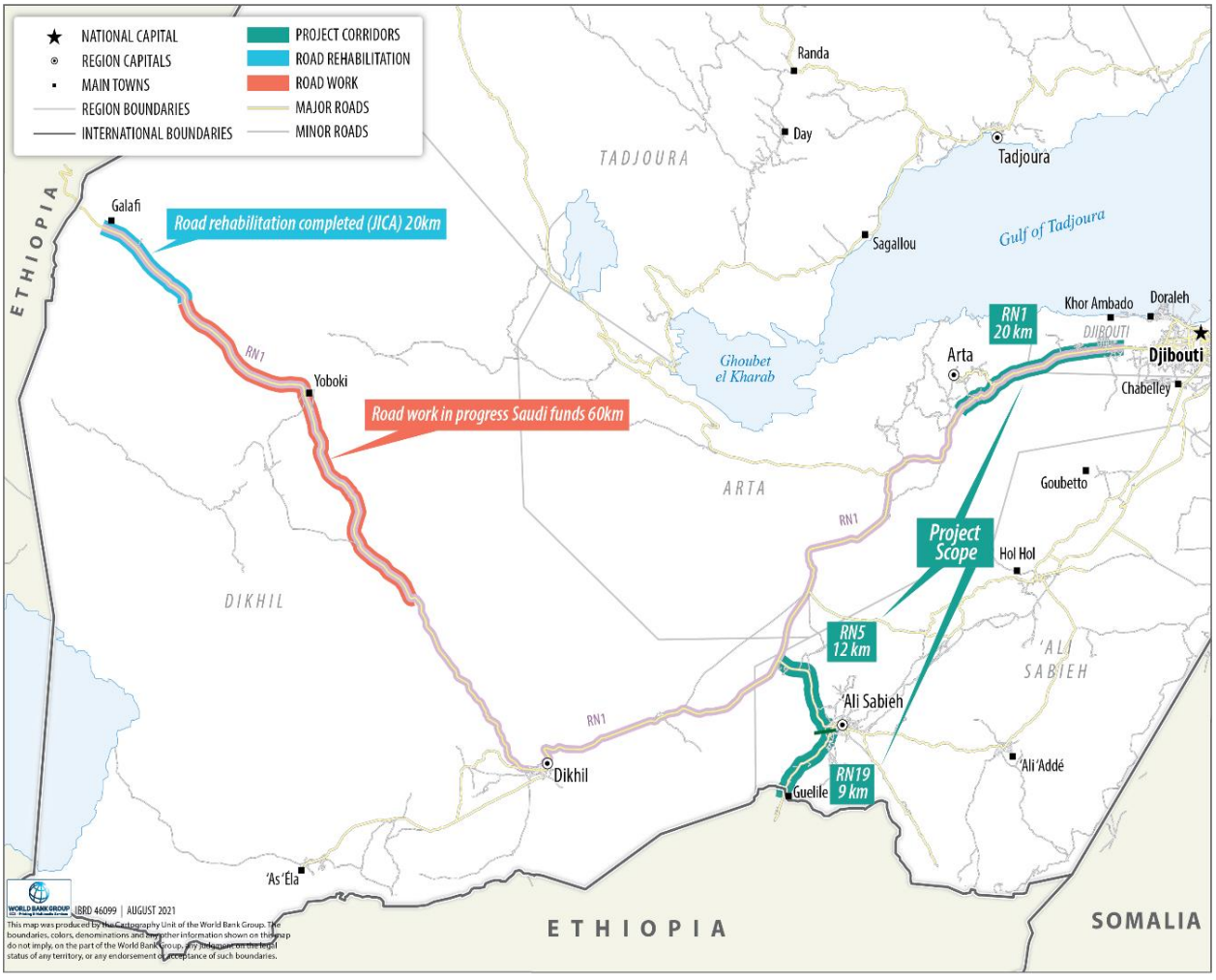
[36] Climate resilient, energy-efficient trucking platforms and rest areas may include elements of green building design, sustainable operations, and renewable energy technologies depending on site conditions. Trucking platforms are part of freight distribution system and rest areas offer travelers facilities such as restrooms, commercial services such as gas stations, restaurants, vending machines. These facilities require lighting, temperature control, and drainage facilities. Facilities will also serve as shelters against severe weather phenomena and constructed to withstand adverse climate impact. Green building design can consider daylighting techniques such as using natural light to illuminate interior spaces through the strategic placement of skylights and windows and solar- and battery powered lighting; the use of passive solar heating and cooling techniques such as the location of windows, choice of construction materials and buildings color, use of shading through vegetation or designed overhangs, etc. Sustainable operations include the use of energy efficient lighting and nighttime ventilation.

[37] PSI will be calculated using the RSSAT model Version June 22, 2020. (*https://worldbankgroup.sharepoint.com/sites/gsg/RoadSafety/Pages/RSSAT.aspx*)

road, rail and border control agencies; (iii) X-ray cargo-scanners remote image analysis equipment and systems; (iv) traffic safety status and alert report, including during climate-related emergencies; (v) electronic payments for the toll; and (vi) installation and interconnection of weighing stations along the corridor (possibly with weigh-in-motion filter prior to the weighbridge) at key locations (Guelileh-Dewele border) to ensure a real-time statistical data in accordance with COMESA regulations on truck load standards.

47. 1(c): Maintenance and operation of the Djibouti-Addis southern corridor: This sub-component will cover, via the existing toll revenue (government contribution), the performance-based maintenance of the corridor road, through the OPBRC. It will also include the operation and maintenance (O&M) of the axle load control stations. The selected bidder for the OPBRC contract will be requested to invest an amount of US$ 3 million (which is equivalent to about a year of maintenance) toward this sub-component as a pilot in the increase of private sector participation in the road sector of Djibouti. This investment will be recouped by the private sector from toll revenues.

Figure 5: Sections of roads to be rehabilitated by the project



Source: World Bank

Component 2: Improvement of transit services along the Djibouti-Addis southern corridor (Cost US$5 million equivalent of which US$5 million from IDA)

48. Interventions under this component will be designed and implemented in close coordination with the Ethiopian customs and will complement activities of other partners including the United Nations Conference on Trade and Development (UNCTAD), EU, COMESA and Trademark East Africa.

49. 2(a): Enhancement of Customs Transit Procedures. This sub-component will support improvement of procedures for customs and transit to reduce clearance time at the Djibouti Port and transit time along the corridor. The sub-component will include two activities: (i) technical assistance to the Djibouti customs to support operationalization of the cross-border harmonization of customs declaration documents between Djibouti and Ethiopia, by supporting the interconnection of the two customs systems for an automated and systematic exchange between Djibouti and Ethiopia; and (ii) technical assistance to the Djibouti customs to support the operationalization of export transit procedures of the Ethiopia-Djibouti Customs Transit Protocol Agreement to support the implementation of the export transit regime process and procedures, as agreed in the 2008 Transit Protocol. Such measures are necessary to rebalance the transit legal customs regime on the export side, allowing better management of goods in transit exported from Ethiopia through Djibouti territory and port. This will help to better manage risk related to export transit, such as (tax evasion-VAT refund on exports, currency evasion, etc.).

50. 2(b): Development of an OSBP at Guelileh border: This sub-component will finance (i) the construction of the Djiboutian portion of an OSBP at Guelileh border. Infrastructure will include office buildings and associated facilities based on architectural designs prepared with the support of the AfDB[38]; (ii) training and technical assistance to customs agents, transporters, clearing agents and members of the private sector to operationalize customs procedures and processes for OSBPs as already designed and planned for the Galafi OSBP; and (iii) support for coordinated management of the Ethiopia-Djibouti corridor including options for the creation of a transport and transit corridor management committee and its operationalization.

51. 2(c): Upgrade the Djibouti customs automated systems. This sub-component will support: (i) technical assistance to finalize the upgrade of Djibouti Customs Management System from Automated System for Customs Data (ASYCUDA) World to a web-based system on the basis of the third phase (3 years) of technical support and training on ASYCUDA World by UNCTAD; (ii) introduction of a Cargo Targeting System (CTS) for anticipated risk management based on cargo manifests' data. To improve efficiency of cargo clearance, the project will support the implementation of an electronic risk-based management system based on manifest data. A risk-based system such as the CTS developed and implemented by the World Customs Organization (WCO) enables customs administrations to receive cargo manifests, bills of lading or airway bill data and systematically apply risk profiles to identify potentially high-risk consignments on import, export and transshipment. The CTS which could also be implemented jointly with Ethiopia Customs will enhance the capacity of the two countries to make cargo release

38 Office buildings will be constructed to climate resilience and energy efficiency standards, including elements of green building design, sustainable operations, and renewable energy technologies depending on site conditions. Buildings require lighting, temperature control, and drainage facilities. Green building design can consider daylighting techniques such as using natural light to illuminate interior spaces through the strategic placement of skylights and windows and solar- and battery powered lighting; the use of passive solar heating and cooling techniques such as the location of windows, choice of construction materials and buildings color, use of shading through vegetation or designed overhangs, etc. Sustainable operations include the use of energy efficient lighting and nighttime ventilation.

decisions prior to the arrival of goods at the port. The project will financially support the purchase the CTS package, IT-hardware, software implementation and training to operationalize the system; and capacity building.

Component 3: Institutional strengthening and capacity-building on road PBCs and project implementation support (Cost US$5 million equivalent of which US$5 million from IDA)

52. This Component will finance the following activities:

53. 3(a): Technical assistance in respect of the OPBRC: This sub-component will finance technical assistance to the GoD in the structuring and tendering of an OPBRC for the major rehabilitation works / upgrade of road sections along the southern corridor, the maintenance and the operation of the road including axle load control station(s). The OPBRC samples bidding documents developed by the WB[39] will serve as a basis, allowing for an agile tendering process. It will also finance the monitoring of compliance by the contractors with the technical, performance and environmental/social criteria established in the OPBRC, as well as technical and social audits. Climate resilience considerations will be integrated in the operations and maintenance provisions for the corridor. The technical assistance will also include developing robust procedures and processes for the public authority to fund long-term rehabilitation and O&M contracts. The latter will require a broader road corridor analysis (beyond the sections to be intervened under Component 1) in order to secure sustainable funding mechanisms (including mobilizing toll collection revenues for the OPBRC). This sub-component will build on the findings from the pre-feasibility study of a PPP Scheme for the Djibouti-Ethiopian Border Road Corridor (P172970). The technical assistance will include in the structuring of the tender and the drafting of the contract (contractual obligations, incentive mechanisms and performance-based criteria, etc.) all the relevant points needed to address the links between the performance-based contractual approach and local communities, climate change and resilience, job creations (including 20 percent quotas for women[40]), road safety and occupational safety.

54. 3(b): Institutional strengthening and capacity-building on road PBCs and on PPPs. This sub-component will finance capacity building support to road asset management under OPBRC and, to a larger extent, to output based contracts under public-private partnership modalities. This work will be carried out across all related public sector entities and will not necessarily be limited to DPCR and ADR. It will include (i) assistance in designing the institutional monitoring framework for PPP contracts, and (ii) capacity building to DPCR, ADR and the PPP Unit on output-based approaches, fiscal management linked to PBCs and more broadly to PPP schemes. It will also include capacity building and awareness raising on issues related to axle load control, road safety, climate change (adaptation / resilience and mitigation[41]) and, in line with international standards, gender in PPPs[42].

55. 3(c): Maximizing the Djibouti-Addis southern corridor's development impacts for local communities. This sub-component will finance (i) the design and implementation of programs aimed at preventing and reducing the impact of HIV/AIDS infection among communities, (ii) COVID-19 prevention campaign targeting the southern corridors' users, (iii) literacy trainings for women addressing their specific needs (appropriate time and location, complementary services such as childcare, etc.) and, (iv) support to female labor force participation (in direct jobs

[39] *https://ppp.worldbank.org/public-private-partnership/library/sample-bidding-document-request-bids-rfb-works-roads-output-and-performance-based-road-contracts-opbrc*

[40] Based on available data (ILOSTAT 2017), women represent 5 percent of total workers (as employees or self-employed) in the industry profession (which includes construction and the type of jobs expected in project works).

[41] Capacity and awareness building at the institutional level will sensitize both DPCR and ADR to the impact of climate change on road infrastructure, effects on transportation and other usage patterns. Further, capacity-building will improve reporting to policymakers on climate-induced impacts, trends and potential mitigatory strategies, as well as knowhow to incorporate climate considerations as performance metrics into PBCs to ensure the viability and sustainability of assets and actuality of pricing.

[42] The World Bank, 2021. Applying a Gender Lens throughout the PPP Project Cycle. Available online: *https://ppp.worldbank.org/public-private-partnership/applying-gender-lens-throughout-ppp-project-cycle* [Retrieved on October 27, 2021].

resulting from the project's activities or indirect jobs through development of businesses along the corridors)[43]. The project will (a) support the implementation of GBV protocol/measures for border personnel and women, as well as GBV training and information sessions for both women and men, truck drivers, border personnel[44] and (b) sensitize border security on the importance of allowing women to trade hassle-free. Activities will be in line with established guidelines[45]; focus groups will be held regularly to ensure the activities effectively target women's needs. Communication and prevention campaigns will ensure maximum outreach and meeting information/knowledge needs of women and girls (through involvement of existing women's groups and networks, use of inclusive and appropriate language and channels for communication).

56. 3(d): Project management including performance monitoring and reporting. Project Coordination Unit (PCU) operating costs; and the competitive hiring of consultants, as needed, for support in project implementation, monitoring and evaluation and audits.

Component 4: Contingent emergency response component (CERC) (US$0 million equivalent)

57. Following an eligible crisis or emergency, the Borrowers may request the WB to re-allocate project funds to support emergency response and reconstruction. This component would draw from the uncommitted resources under the project from other project components to cover emergency response. A CERC Project Implementation Manual (PIM), acceptable to the WB, for the implementation of the Contingency Emergency Response Plan, will be prepared and constitutes a disbursement condition for this component.

C. Project Cost and Financing

58. The total project cost is US$90 million, with financing from US$56 million from Regional IDA, US$14 million from National IDA Performance Based Allocation (PBA), US$3 million from the private sector, and a contribution from the GoD for US$17 million covered by the toll revenues. The resettlement costs estimated in the Resettlement Policy Frameworks (RPF) are about US$140,000 equivalent and will be fully funded by the GoD. The project costs are summarized in the cost tab below.

[43] Based on catchment area of the corridor it is expected that around 50 women would benefit from new income-generating activities in cross-border / small trade due to project interventions

[44] By providing explicit GBV training coupled with improvements in infrastructure conditions for small border trade, adoption of strong regulations related to safety and support of childcare services in addition to incorporation of specific measures that combat and respond to SEA/SH, project activities contribute to GBV mitigation, prevention and response.

[45] For example: COMESA, 2018. Framework for the Comprehensive Support for Women and Youth Cross Border Traders in the COMESA Region. 27 p. Available online: *https://www.comesa.int/wp-content/uploads/2020/05/ENG_Comprehensive-Framework-for-the-Support-of-Women-and-Youth-Cross-border-Traders.pdf* [Retrieved on October 27, 2021].

Table 2: Indicative costs and financing

Project Components	Costs (US$, millions)	IDA	GoD	PCM
Component 1: Improvement of infrastructure and introduction of intelligent transportation systems along the Djibouti-Addis southern corridor in Djibouti	**80.00**	**60.00**	**17.00**	**3.00**
1(a): Rehabilitation and upgrade of road sections along the southern road corridor and logistics infrastructure (OPBRC)	58.00	58.00		
1(b): Smart corridor through the deployment of ITIS (included in the OPBRC)	2.00	2.00		
1(c): Maintenance and operation of the corridor (included in the OPBRC)	20.00		17.00 (secured through the toll)	3.00 (secured through the toll)
Component 2: Improvement of transit services along the corridor	**5.00**	**5.00**		
2(a): Enhancement of Customs Transit Procedures	0.50	0.50		
2(b): Development of an OSBP at Guelileh border	3.00	3.00		
2(c): Strengthening of Djibouti customs automated systems	1.50	1.50		
Component 3: Institutional strengthening and capacity-building on road PBCs and project implementation support	**5.00**	**5.00**		
3(a): Technical assistance for OPBRC	1.00	1.00		
3(b): Institutional strengthening and capacity-building on road PBCs and on PPPs	1.00	1.00		
3(c): Maximizing the corridor's development impacts for local communities	1.00	1.00		
3(d): Project and Corridor management including corridor performance monitoring and reporting	2.00	2.00		
Component 4 – CERC	**0.00**	**0.00**		
Base cost total (US$, millions)	**90.00**	**70.00**	**17.00**	**3.00**

D. Project Beneficiaries

59. **The project's primary beneficiaries will be the local consumers and producers of tradable goods in Djibouti and its hinterland, the road transport sector service providers, the local traders, the populations living in the corridor area of influence, the end consumers, and the inland and seaport authorities that would benefit from increased trade volumes.** The main expected benefits of the project include: (i) reductions in transport time, trade friction costs and vehicle operating costs along the corridor; (ii) increase in cross-border trade between the countries; (iii) the stimulation of job opportunities and economic growth; and (iv) improved regional cohesion and stability due to the enhanced movement of goods and people across the region.

60. **The project supports the perspectives of Djibouti being a major port of transit for the entire Eastern and Central Africa region.** In continuation of the Djibouti- Addis road and transit corridor, potential extension to South Sudan, Chad and then even the Sahel countries would make Djibouti a major port of transit to serve the entire region and deeply contribute to the African continental integration as envisaged by the African Union and the IGAD.

61. **The project will also benefit Djibouti public institutions in the transport sector.** This will include: (i) DPCR and

ADR; and (ii) the recently created PPP unit in the Ministry of Finance (MoF). They will benefit from Institutional strengthening and capacity-building on road PBCs as well as TA aimed at strengthening the private sector involvement in the infrastructure sector in Djibouti, as part of component 3.

62. **The project will finance activities specifically designed to benefit women and will seek to reduce some of the gender gaps identified in the country.** Under component 1 and 2, specific activities to be financed to address gender gaps will be structured with the support of the PCU. Low levels of literacy and lack of information and knowledge about cross border trade regulations and procedures tend to be more prevalent among female than male traders. There are also likely more informal female traders. Specific activities to be financed will be selected in close consultation with women to address any gender specific constraints linked to trade border crossing/ transit procedures and transport infrastructure. To ensure citizens are engaged and enable a feedback loop, the project will conduct a survey during the first six months of the project to collate baseline data. The surveys will either generate an annual, timebound action plan to address comments received through the surveys, or publish the findings of each survey to foster transparency and potential for debate and engagement around the surveys' results. Afterwards, surveys will be administered on a yearly basis to monitor the project's progress and impacts. Focus groups will be conducted with female and male beneficiaries once a year to ensure the project's activities fully benefit them. Building on the MENA Gender Strategy pillars, this project will support concrete actions enabling an economic empowerment for women by addressing literacy and knowledge gaps to give women the tools to enter the labor force or small business ownership. This project will also contribute to give men and women equitable access to jobs through road construction and maintenance contracts. The actions proposed within the project could provide both short- but also long-term socio-economic benefits for women and their households[46]. The project will improve conditions for small border trade by (a) improving the infrastructure leading to reduced congestion and delays in transportation of goods, thus fewer perishable goods will be destroyed during transportation to the border which would decrease female traders' cost of doing business, (b) improving border regulations such as removing ad-hoc fees, excessive delays and document requirements, (c) supporting child care services at the border area for female traders with children enabling more time constraint parents to engage in cross-border trade, (d) developing capacity through trade training of female traders on the cross border procedures, tariffs, rules and regulations, and (e) promoting the creation of female-owned small businesses through tailored entrepreneurship training programs on setting-up a business for cross-border trade along the corridor.

63. **The project contributes to climate mitigation and enhances the climate resilience of the transport network and communities by investing in rehabilitation of roads to meet climate resilience standards.** In accordance with climate resilience standards, the project will rehabilitate sections of the strategic road corridor and supplementary infrastructure will be deployed to enhance resilience to flooding, such as bridges and drainage systems observing climate resiliency standards. Fences and other stabilization techniques will be deployed to reduce dune encroachment on road infrastructure (Component 1). The project will: (i) support the establishment of information systems that provide alerts on climate and natural hazard emergency events and response measures, to ensure the fluidity of transit and address disruptions that may occur due to dune encroachment, dust storms, and other eventualities in a timely manner (Component 1); and (ii) build capacity in the O&M of the road network including in emergency planning and response (Component 3).

64. **The project addresses the GRID approach responding to the twin crises of the COVID-19 pandemic and climate change in the context of ongoing challenges of poverty and inequality**. The project contributes to the recovery

[46] While it is difficult to measure the impact of employment beyond the project life cycle, it is anticipated that the experience and skills developed will contribute to future opportunities.

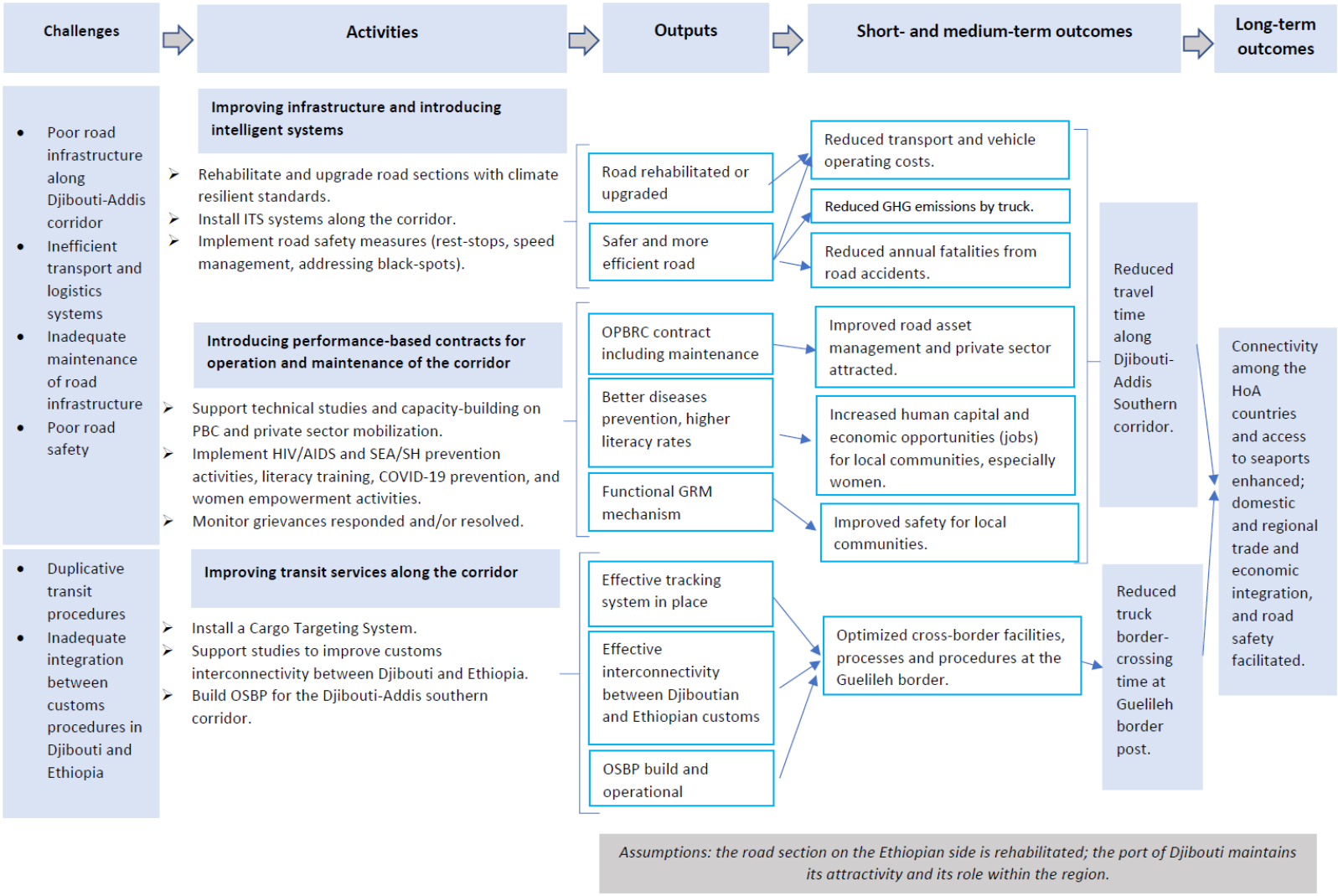
path of Djibouti maintaining a line of sight to long-term development goals, recognizing the interconnections between people, the planet, and the economy, and tackling risks in an integrated way. Aligned with the GRID approach, it promotes growth through creation of green technologies and investments in a balanced approach focusing on development and sustainability, tailored to both countries' recovery needs.

E. Results Chain

65. **The project aims to alleviate two major constraints to the regional integration of Djibouti within the HoA region and beyond**: (a) inefficient, non-resilient and unsafe road connectivity along the Djibouti-Addis corridor, resulting in high transport and logistical costs; and (ii) challenging tariff and non-tariff barriers to trade. Improving transport connectivity on the Djibouti-Addis corridor is expected to spur economic growth and reshape the economic geography of the country. The achievement of the expected outputs from the project will contribute to longer term development outcomes for the country and the HoA. The desired project impacts on development outcomes are on economic welfare (e.g., income, wages, and consumption, land value appreciation), social inclusion (jobs, underserved communities, gender), equity (poverty and inequality), environmental quality (pollution, preservation of flora and fauna), economic resilience and resilience to the damaging effects of climate change (e.g., droughts, floods, and landslides). A strong emphasis is put on gender aspects, especially ensuring women access to economic opportunities (jobs). Figure 6 below illustrates the Theory of Change (ToC).

66. **The project will achieve these long-term development outcomes by taking a holistic approach to regional integration and trade connectivity.** The assumption underlying the project's theory of change is that improving regional connectivity and enhancing logistics efficiency along the Djibouti Regional corridor will help stimulate the country's economy as well as the local economy by helping to generate Wider Economic Benefits—such as growth of income and consumption, poverty reduction, and creation of new jobs and economic opportunities, especially for women. The combination of components selected for the project reflects the integrated approach which is likely to yield large gains to the economy. To achieve the improvement of regional integration and enhance logistics efficiency both (i) the road connectivity along the corridor (which is improved under component 1) and (ii) the facilitation of trade and logistics (which is improved under Component 2) need to be addressed. Component 3 strengthens the sustainability of the road corridor investment and the ability of the country to deliver and maintain on the investments envisioned under Component 1, and to build its capacity to deliver on other transport initiatives beyond the project. These benefits can become more salient in the event of a natural disaster or pandemic when enabling the seamless movement of necessary supplies is paramount.

Figure 6: Theory of Change



F. Rationale for Bank Involvement and Role of Partners

67. **The proposed project is a key priority among the HoA Initiatives supported by the countries as critical for their economic development and regional integration.** The WBG has been working with the GoD and HoA countries and has played a critical convening role through the HoA initiative, bringing the countries together to define commonly agreed and mutually beneficial development agendas. This project is a platform for commitment at corridor level, dialogue, collaboration, and problem solving. Governments of the HoA including Djibouti and Ethiopia are aware of the benefits that accrue to them for the corridor interventions and the SOPs operations are funding contiguous road corridors with aligned objectives.

68. **Project implementation is expected to enhance the Government's capacity for Maximizing Finance for Development (MFD) and to result in pilot Private Capital Mobilization (PCM).** The OPBRC contract to be financed by the project, is expected to generate, once awarded, an estimated US$3 million of PCM as this investment will be required from the private sector towards component 1(c) and is likely to be mobilized in the form of commercial financing by the selected construction firm (including for tangible investment to be carried out for the purchase and/or leasing of equipment to be used for maintenance post-construction). This amount will be recouped by the construction firm from tolls managed by the GoD. More details on PCM calculation are given at the end of Annex 5. In terms of intangible MFD benefits, the project, as an innovative pilot for roads in Djibouti, aims to develop lessons learned and expertise which could be replicable and scalable in a more sustainable manner to road corridor projects in the country, including by testing non-conventional contracting modalities and assessing the benefits of the proposed approach compared to the conventional methods of road construction and maintenance in the Djiboutian context.

69. **The proposed project is also complemented by work of other DPs.** As mentioned earlier, the AfDB, the EU and COMESA are working on trade facilitation initiatives including at the border posts, and on institutional capacity building and reforms, among other interventions. On the road corridor infrastructure, the project will complement the sections rehabilitated with the support of the UE, JICA and Saudi funds.

G. Lessons Learned and Reflected in the Project Design

70. **Economic corridor vs. transport corridor:** In line with the Africa Transport Strategy (2019) and the WBG's Regional Integration and Cooperation Strategy update (2021-2023), the project's design is based on a holistic approach to corridors or "second generation" regional corridor operations. The project aims at unleashing the economic potential along transport and trade corridors, combining support for infrastructure as a network (including smart corridor technologies) with trade facilitation consideration. Trade facilitation measures are expected to make border crossing, faster, easier, and less costly. In many countries, the evidence shows border crossing and other logistic costs could undermine in some cases the benefits of travel time reduction.

71. **Trade facilitation and customs reforms cannot be tackled in a single operation and take time and concerted efforts.** While IPF operations have been successful in providing the needed infrastructure, equipment, training, and policy dialogue platforms, they are not ideal instruments for implementing reforms. Experience has shown that concerted efforts supported over a medium and long period through a combination of instruments and by various Global Practices within the WB (e.g. Trade and Regional Integration along with Transport) can bring sustainable results.

72. **Road and transport systems should follow people-centered designs - with important gender, poverty, and youth considerations - to maximize their effectiveness and to properly serve their intended users.** Infrastructures are built for users, and for the transport of goods and people. Assessing the characteristics of the intended users and disaggregating the collected data by gender, income group, and age group helps to better design these systems to serve these users. Women are typically excluded from road sector jobs and often suffer from discrimination and/or SEA/SH, and it is important to consider measures to further increase women participation in the road sector labor force and its supply chain. Road investments should also aim to improve the access to markets and services for the poor, while also creating important employment and training opportunities for the poor and low skilled.

73. **The use of OPBRC contracts can contribute to improve road asset management and enhance sector efficiency.** An OPBRC modality has been proposed as a pilot for the corridor, drawing upon best practice in crowding in private sector investment and expertise – both for mitigating funding issues and for supporting higher-quality infrastructure. The OPBRC modality expands the role of the private sector from the simple execution of works to the longer-term management and maintenance of road assets. The contractor is paid by the Government through performance-based lump-sum payments for bringing the road to a mutually agreed service level and then maintaining it at that level, increasing the lifecycle of the road. The contractor usually finances a share of the works, which will be recouped over the term of the contract through the lump sum payments. This provides an incentive for the contractor to deliver better quality road improvement works and perform timely and adequate routine and periodic maintenance works. The role of the implementing agency is typically to enforce the contract by verifying compliance with the specified performance indicators and service levels and with all applicable legislation and regulations. Based on lessons learned from international experiences, given the innovative nature of this modality for Djibouti, the capacity of the implementing agency will be strengthened, and operational and technical support will be provided as part of the project.

74. **Lessons have been learned from existing projects on how to better manage against SEA/SH risks and to mitigate against occupational health and safety, and road safety fatalities, and these best practice measures will be applied in this project as well.** Proper measures to safeguard against SEA/SH risks will be put in place such as the awareness campaigns for workers, the inclusion of SEA/SH clauses in works contracts, use of codes of conduct for all workers, the mobilization of GBV service providers, and the development of grievance committees and review of referral pathways. On safety, important lessons have been learned on the need for proper fencing and protection of borrow pits and quarry sites from public intrusion, dedicated review of provision of road safety signs, barriers and other road safety protection measures in road projects, use of speed limiting humps during construction in populated sections along the road, preparation of Occupational Health and Safety (OHS), road safety and traffic management plans by the contractors cleared by the monitoring consultants, review of adherence to OHS and road safety practices including audits by the road authority, and integration of a third-party consulting firm to review and report on performance on social and environmental management in road projects.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

75. **ADR will be the lead agency for the implementation of the project and will have project coordinating and implementation functions liaising with other key beneficiaries of the project (DPCR and Djibouti Customs).** The Ministry of Infrastructure and Equipment (MoIE) will be the line ministry of the project and will have overall

responsibility for all project related activities. The overall institutional structure of the project will be composed of: (i) an Inter-ministerial Project Steering Committee led by the MoIE that ensures the coherence of activities with the sectoral strategy and intersectoral coordination for sub-components under the responsibility of other ministerial departments and local authorities; and (ii) PCU within ADR under the MoIE to ensure the coordination of project implementation. Further details are provided in Annex 1.

76. **The PCU will be responsible for fiduciary management, gender-related and M&E of project activities.** Capacity building has already started for the institutions involved in the project preparation, in particular management and technical staff at ADR and DPCR. The PCU will be strengthened in terms of the fiduciary skills (financial management (FM) and procurement) and the technical skills needed to manage the project, including the ability to monitor the implementation of ESF, gender activities and GBV, and the project performance through the results framework. The PCU will be composed of the following specialists: a project coordinator, an FM and administration specialist, an internal auditor, a procurement specialist, a M&E specialist, an environmental specialist, a social specialist, a gender and GBV specialist, a communication specialist and an accountant, as well as the necessary technical specialists and support staff. The low capacity of ADR will be mitigated through competitive recruitment of personnel familiar with WB financed projects, and training. While the PCU in ADR will retain overall fiduciary responsibility for the project, Supporting Implementing Agencies (SIAs) will implement the various project activities which fall within their respective institutional mandate. For instance, DPCR will oversee subcomponents 1(b) and 1(c) while Customs will oversee the improvement of border crossing facilities, processes, and transit procedures of Component 2. (see Annex 1). The PCU will be established prior to credit effectiveness along with a Project Implementation Support Agreement between ADR and DPCR by which DPCR will commit to allocate and transfer to ADR sufficient resources to cover the costs of implementing component 1.3.

77. **A PIM will be prepared for the project and will be a condition for effectiveness.** The PIM will outline the internal procedures to be followed by the implementing agencies in relation to FM, procurement management, ESF, M&E and reporting mechanisms. The PIM will also include the requirement to include interventions to improve climate resilience. In addition, Contingency Emergency Response Manual will be developed and included in the PIM annex to prescribe detailed implementation arrangements for Component 4.

78. **Collaboration between Djibouti and Ethiopia authorities, as well as with other regional partner countries under the HoA Initiative will remain critical in the project implementation**. MoF will play a critical leadership and coordination role both during project preparation and implementation. The project will support coordination between Djibouti and Ethiopia, especially as pertains to the trade facilitation elements under Component 2 on Trade Facilitation.

B. Results Monitoring and Evaluation Arrangements

79. **Project results monitoring and evaluation will be carried out by the PCU with inputs from other beneficiary agencies and bodies like DPCR and the Customs.** The PIM will elaborate the details and specifics of the institutional and implementation arrangements, including monitoring and evaluation activities. Most of the monitoring data will come out of the reports of the project management and supervision consultants under Component 1. Agencies will report on the progress with their individual activities under the components 2 and 3.

80. **ADR is expected to file four quarterly implementation progress reports each year and one comprehensive annual monitoring and evaluation report.** Quarterly reports will summarize progress and issues related to

procurement, FM, implementation of activities, social and environmental risk and impact management, and results monitoring. The focus of the quarterly reports is to enable communication that supports problem identification and resolution. The format of the quarterly reports will be defined by the PCU, and the quarterly reports will include updates on project results indicators and further updates when such information is readily available. The PCU will also administer satisfaction surveys to inform the project implementation, and eventually improve it. The quarterly reports will present results of the satisfactions surveys. The PCU will file an annual progress review report (a) outlining yearly implementation progress of the project and whether project implementation progress is satisfactory; (b) identifying risks, lessons, and changes to improve implementation; (c) summarizing progress toward achievement of the Results Framework and PDOs; (d) outlining a prospective view of the likelihood of achieving the outcomes and PDOs by project closing; and (e) outlining steps to improve the project's impact and sustainability.

81. **In addition to the project level monitoring and evaluation in the short term, there is also need for medium- and long-term evaluation for the entire corridor once its upgrade is completed**. Given the importance of such a corridor with significant construction cost in relevance to country's GDP, and its expected transforming effects for the trade and mobility of goods and people, detailed monitoring and follow up is needed right from project design, through implementation and operation. Quantifying the benefits of a project of national and regional importance is a high priority. Funds will be sought, via trust fund application, during project implementation by the WB team to finance an Impact Evaluation study of such an important project intervention**,** with baselines to be collected before civil works are initiated, and follow-up surveys undertaken after the project is completed.

C. Sustainability

82. **The proposed project has embedded in its design factors which are critical to the sustainability of its development objectives, through effective road asset management**. In particular, providing solutions that ensure the sustainability of the road assets is a critical element of the project given the track record of lack of effective road maintenance in Djibouti. Component 3 of the project proposes to introduce integrated approaches in which the private company is in charge of both the design-build (or the rehabilitation and improvement works) and the operations and maintenance of the assets. One modality consists of the OPBRC, also referred to as performance-based contracts (PBC) or CREMA contracts from their Latin-American acronym. The PBC approach incorporates several mechanisms to sustainably rehabilitate and maintain the infrastructure, to help the Government transitioning from traditional Engineering, Procurement and Construction and O&M procurement methods to more integrated approaches. The private sector partner will be incentivized to design and build the road assets considering a longer horizon than just the one of construction milestones. It has an incentive to undertake preventive maintenance measures, and incorporate climate-resilient and adaptation measures in the design and maintenance programs. The public authority will learn how to manage performance-based contracts. Moreover, the handover requirements at the contract expiry will open the path for further private sector participation, through a new procurement process (either for another PBC, or for longer term public-private partnership approaches). The Project will reinforce the capacity of the public authority to monitor the performance on a continuous basis during the construction and operation phase, preferably through capacity building, to be eventually complemented by engaging an international consulting firm as an independent engineer to assist the public authority in that role.

83. **PBC contracts being based on availability payments, fiscal sustainability will constitute one key challenge of the OPBRC modality, through an increased pressure on the GoD's capacity to honor its payments to the private**

sector partner. PBC contracts having a mid-term duration (5-7 years, sometimes up to 10 years) compared to long-term PPP contracts (25-30 years), a successfully managed OPBRC contract will contribute to incrementally build credibility and trust towards private sector operators and investors. It will send positive signals such as effective axle load enforcement, availability of the road and quality of service for the users, and timely payments to the operator. This requires though to structure a model in which availability payments are secured, and the client has confirmed that it would be possible to mobilize funding from toll collection, for instance through an escrow account which cascade of payments gives priority to the contractor.

84. **Climate resilient mitigation measures are embedded in the project activities.** Road rehabilitation and upgrades, drainage facilities, parking and rest areas will observe climate resilient design standards namely: (i) climate change impacts on roads due to extreme temperatures include deformation of the surface, cracking, accelerated aging of binder, rutting of asphalt and bleeding/flushing of seals. The counter measures entail, for example, the use of appropriate layer coefficients, drainage coefficients, weather-resistant pavement surfacing materials and asphalt mix designs and revised pavement thicknesses which take into consideration the future temperatures. The construction of drains and culverts will accommodate for heavy precipitation and flash floods water flows. The refurbishment and development of border post facilities will use energy efficient materials and building specifications that enable reduction of energy consumption. Tree plantation will be conducted along the roadway to offer protection of road and drainage system from erosion and will be considered along walking infrastructure, near border posts, parking and rest areas, to offer shade and cooling effect. To support regional data sharing and IT integration into the systems of the relevant trade institutions and ministries, the following climate resilience and mitigation measures will be considered (i) use of energy efficiency improvement in lighting, appliances, and equipment (e.g: Computers), including energy-management systems, and (ii) deployment of provisions for data recovery and backup to prevent data loss in the event of climate disaster

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

Technical analysis

85. **The technical analysis of the road sections to be rehabilitated on the southern corridor was undertaken in the feasibility study on the Djibouti-Ethiopia road corridor PPP (P172970).** In the absence of country specific design standards, the design used the French guidelines of “Aménagement des Routes Principales” (Designing of main roads) dated August 1994. Rehabilitation works consist of the following:

- Section 1: RN1 from Djibouti-city to Arta (21 km): addressing punctual deteriorations and geometrical improvements of the existing two-lane from outside Djibouti city (PK12) to Arta (PK30) to ease congestion and road safety issues. This include widening of existing platform, earthworks, foundation and base courses, longitudinal ditches, prolongation of existing culverts or demolition/reconstruction of culverts, surface course on whole profile, road marking and signaling.
- Section 2:
    - RN5 from the RN1 junction to Ali Sabbieh (12 km): heavy rehabilitation, earthworks, construction of culverts and longitudinal ditches, foundation, base and surface courses, construction of two roundabouts, road marking, signaling and accessories, construction of sidewalks in Ali Sabbieh.

  - RN19 (9 km): geometrical improvements of the existing road to address road safety issues including widening of the existing 6m-wide platform, earthworks, foundation and base courses, longitudinal ditches, prolongation of existing culverts or demolition/reconstruction of culverts, surface course on whole profile, road marking and signaling and accessories.

- In all sections, works will include drainage facilities and walking infrastructure and crosswalks in urban/settlement areas along the corridor.

86. **The RSSAT model was applied to assess the road safety impact of the proposed rehabilitation of the two sections of the corridor, detailed above.** Given the lack of relevant granular data, efforts focused on collecting, verifying, processing and coding data from various sources and based on good practices. Up-to-date data provided by DPCR on road traffic injuries, the engineering pre-feasibility design studies, WHO estimates (2018) as well as speed and traffic data from Highway Development and Management Model (HDM-4) were used. For each section of the corridor, the estimated PSI score was calculated. The PSI scores for section 1 and section 2 are respectively 0.84 and 0.77. The average estimated PSI of the project is 0.80. This result is just a reference PSI for the base designs that were provided for information. For each section of the corridor, the road safety cost was calculated as well. To ensure a good final outcome, road safety is embedded in the performance criteria and service levels under the OPBRC. Contractors are required to deliver detailed designs improvements to meet a PSI of less than 1 unless approved by the Government for certain locations only and to also include performance indicators on the road safety management (such as speed reduction enforcement) to meet the 30% fatalities reduction target. The road safety will be an integral and critical part of the OPBRC. The base designs include innovative safety design features such as: central hatching in the median along both sections to reduce head-on crashes, safety barriers near Wadi crossings and in hilly segments, implementation of design features in populated areas such as Ali Sabbieh to ensure safe speed for vulnerable road users through installing of traffic calming devices, protected pedestrian crossings and adequate warning signs with fluorescent yellow sheeting in all populated locations. While the total number of accidents has decreased over the last years in Djibouti (351 in 2017, 225 in 2019)[47], accidents occur in the same locations. Concentration of accidents in the urban part of Djibouti-city is 20 percent (between PK12 and PK14 on RN1), and 6 percent on the RN5 and RN19 near Ali Sabbieh. The main causes of these accidents are the deteriorating road conditions (narrowness of the roads and unrepaired potholes), dangerous parking on the road and lack of parking areas. The project will address these causes by (i) improving road conditions by including safety design features; (ii) adopting enlarged cross-section, with 2m-wide hard shoulders, allowing secured parking for vehicles in distress, and securing overtaking of slow vehicles and (iii) providing rest areas and parking along the corridors.

Economic analysis

87. **To ensure that the Project generates sufficient economic benefits that justify the investments, a Cost Benefit Analysis was conducted for the project roads using the HDM-4 model** that computes annual road agency and users' costs for each project alternative over the evaluation period, comparing the proposed project investments with the conditions without such investments (see Annex 3 for assumptions and for more details). The economic analysis also considered the road safety related costs identified using the RSSAT model, as presented above.

88. **The overall Economic Internal Rate of Return (EIRR) of the project is 27.0 percent and the Net Present Value (NPV) is US$ 179 million, at 6 percent discount rate, corresponding to an NPV/Investment Cost ratio of 2.8.**

[47] Accident data from COMESA

89. **Vehicle operating costs benefits account for around 65 percent of the project benefits, road safety benefits for 25 percent, and travel time benefits for 7 percent.** The table below presents the distribution of the project net benefits.

Table 3: Distribution of Net Benefits (US$ Million)

Section No	Capital Costs	Maintenance Costs	Normal VOC	Normal Time	Road Safety	CO_2 Emissions	Total
1	-13.5	0.1	103.9	11.4	12	4.5	119
2	-15.9	0.1	31.3	3.3	40	1.3	60
Total	-29.4	0.3	135.2	14.6	52	5.8	179

GHG Accounting

90. **Total gross Carbon Dioxide (CO_2) emissions over the 20-year evaluation period under the without-project scenario are estimated at 822,492 tons and under the with-project scenario at 622,910 tons resulting in net CO_2 emissions of -199,582 tons, or -9,979 tons per year.** The decrease in CO_2 emissions is attributed to the decrease in fuel consumption due to improvements in transport efficiency of trucks that switch from the Northern corridor to the Southern corridor as a result of project implementation.

Table 4: CO_2 Emissions (tons)

Section No	Without Project	With Project	Net
1	636,762	481,189	-155,573
2	185,730	141,721	-44,008
Total	822,492	622,910	-199,582

Public Sector Financing and World Bank Value Added

91. **The WB's role is justified because of the project's economic and social benefits.** The WB's engagement in Djibouti's road sector adds value in several manners, including: (i) bringing global experience on road asset management; (ii) providing best practices in climate resilient transport and sustainable maintenance solutions; and (iii) helping address environmental and social aspects. Furthermore, private sector financing is not available to undertake roads project of this nature (see financial analysis for the role of the private sector).

Economic effects of the project

92. **In addition to the direct effects, corridor improvements will have indirect (spillover) effects on the rest of the economy.** These effects may include, among others, spatial and structural impacts through changes in economic activities, the movement of people and capital; positive supply shocks for the whole economy (all firms are more productive as they can access cheaper inputs); and firms in closer proximity to the corridor benefit more from better connectivity than those that are further away.

93. **Improvement of Trade**. The present project is expected to have a significant impact on Trade for Djibouti and Ethiopia and transit between the two countries. The enhancement of the physical infrastructure as well as the

upgrade of custom operations between the two countries will help reduce the travel time and boost connectivity, thus lowering the trade costs. As stated in the World Development report 2020 "Trading for development in the age of Global Value Chains (GVC)": Transport infrastructure that improves international connectivity can have a significant impact on international trade and regional integration. In fact, time delays are a barrier to international trade, especially for goods which production relies on the timely delivery of time-sensitive inputs. The World Trade Organization (WTO) finds that delays and border costs can be equivalent to a 219 percent ad valorem tariff on a product in developing countries. By one estimate for a sample of 126 countries, a one-day delay in shipping time reduces trade by at least 1 percent.

94. **Reduced delays and uncertainty in travel times and border crossing times along the corridor are expected to increase the frequency with which shipments reach consignees within scheduled or expected delivery times, thereby improving reliability and reducing the cost of uncertainty for firms.** Time reduction will also translate into cost savings for firms by reducing inventory costs. Uncertainty leads to hedging costs for traders who need to plan for overstocks to avoid empty shelves or interruptions in production (when products are an input into a productive process).

95. **The improvement of the physical and nonphysical components of the corridor will open more opportunities for better integration with foreign markets.** In fact, the reduced delays and uncertainty will attract more investors in the country, as the transport sector and trade in general are at the nexus of the economy. Thus, impacting positively the income, welfare, and poverty reduction in Djibouti.

Financial analysis

96. **A preliminary financial analysis was undertaken in the feasibility study on the Djibouti-Ethiopia road corridor PPP (P172970).** See Annex 5 for more details.

97. **Traffic and Revenue**: 3,600 vehicles use the corridor per day with a high proportion (over 63 percent) of these vehicles being heavy vehicles. Traffic will continue to grow strongly due to background factors such as GDP and car ownership growth with a relatively minor impact coming from competing infrastructure (i.e. rail) or from diversion of traffic from the Port of Djibouti to other East African ports. Currently, heavy vehicle tolls of $20 are levied on the corridor but the freight interviews undertaken as part of the study indicated that there would be willingness to pay tolls of up to $40 if safety and reliability improvements could be made. Applying a toll of $40 is estimated to create a funding stream that will allow the investment and O&M costs of the investment program to be fully recovered. With a US$20 toll, cost recovery is not fully achieved with investment a funding gap of c$10m (in 2020 values) estimated. Whilst the funding stream of an increased toll will allow the costs of the program to be recovered, the initial works will still need to be financed. In this respect, the project plays an important role.

98. **Market Sounding**: As part of the study, a market sounding exercise was undertaken to solicit feedback from infrastructure industry on the potential interest and viability of the private sector participating and/or investing in the project. Views from a diverse mix of corporates, development finance institutions, and infrastructure funds, which are active equity and debt providers, and operators in the Africa infrastructure market were collected. Responses from the stakeholders indicated that there would be private sector interest and appetite for the project and a belief that many of the project's risks could be managed effectively. However, concern was raised around political and payment risks associated with entering a long-term contract with the Government where private capital (e.g. debt or equity) was put at risk. Based on these market sounding findings and a thorough quantitative and qualitative analysis of a range of procurement options, a Design-Build-Operate-Maintain (DBOM) type

contract was recommended for the corridor. This was found to be the model that would best balance the need for effective longer-term risk transfer to the private sector with bankability and deliverability.

99. **Financial structure**: A spectrum of payment models ranging from milestone payments to availability payments were presented in the financial analysis. Milestone payments used in the case of OPBRC have the lowest payment risk, but a more thorough analysis should be considered by the government to weigh up their preferences for the payment model and financial structure. Risks should be sufficiently mitigated to avoid any excessive costs. Annex 5 lays out an indicative proposal for risk allocation as well as risk mitigation.

B. Fiduciary

(i) Financial Management

100. The proposed Credit will be implemented in line with standard WB internal policies and procedures. MoIE will be responsible for project management, including FM and accounting and will establish a PCU under its authority within ADR, which will manage FM aspects. The FM assessment conducted during appraisal found the FM risk, as a component of the fiduciary risk, rated as Substantial. The following are the risks identified: (i) currently ADR has limited human resources capacities and also lacks experience in implementing WB financed projects; (ii) ADR needs to adapt its financial and accounting processes and manuals that are specific to its operations to address the requirements of the WB.

101. Capacity building in FM has started during project preparation where ADR was the implementing agency of the PPA. ADR chief financial officer has been providing FM support for the PPA implementation. However, to mitigate the fiduciary risks, dedicated FM staff will be recruited to reinforce the ADR. The WB will continue providing the necessary regular and timely hand on training and workshops (in person and virtual) to the FM specialist on WB FM procedures with anticipation prior to signing of the legal document; (ii) Interim financial reports (IFRs) will be submitted to the WB no later than 45 days after the end of each quarter; (iii) for the purpose of the project, ADR will develop an operational manual which will contain an FM chapter describing in detail the FM procedures including internal controls, in addition to detailed roles and responsibilities between ADR and various stakeholders; and (iv) ADR will contract with an independent external auditor with Terms of Reference (ToRs) acceptable to the WB to audit the Project Financial Statements (PFS). With these proposed mitigating measures ADR will meet FM requirements as per OP/BP 10.00 and will have an acceptable FM system. Because some of these mitigating measures will take some time to be implemented, the residual FM risk rating is substantial.

102. A single segregated Designated Account (DA) in US Dollars will be opened at a commercial bank in Djibouti acceptable to the WB. Payments and withdrawal of eligible expenditures will be accompanied by supporting documents or statements of expenditure (SOE) for each expenditure category, following the applicable procedures and the WB's Disbursement Guidelines for IPF. ADR will be responsible for submitting replenishment requests on a monthly basis. All requests for withdrawals will be fully documented, maintained and made available for review by the WB and project auditors. Payments against Part 1 of the project will be made through Direct Payment irrespective of the amount. All disbursements will be subject to the terms of the Financing Agreement and to the procedures defined in the Disbursement and Financial Information Letter.

103. The general accounting principles for the project will be as follows: (a) project accounting will be based on cash accounting and cover all sources and uses of project funds, including payments made and expenses incurred; and (b) project transactions and activities will be separated from other sources of financing and activities undertaken by ADR.

104. The project financial reporting will include unaudited IFRs and yearly PFS; (a) IFRs will include data on the financial situation of the project. These reports will include: (i) a statement of funding sources and uses for the period covered and a cumulative figure, including a statement of the bank project account balances; (ii) a statement of use of funds by component and by expenditure category; (iii) a reconciliation statement for the DA; (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and (v) a comprehensive list of all fixed assets; (b) ADR will produce the IFRs every quarter and submit to the WB within 45 days at the end of each quarter. The annual PFS will include: (i) a cash flow statement; (ii) a closing statement of financial position; (iii) a statement of ongoing commitments; (iv) analysis of payments and withdrawals from the credit account; and (v) a complete inventory of all fixed assets acquired under the project. (c) IFRs and PFSs will be produced based on the accounting system and submitted for an external financial audit in a timely manner.

105. ADR will be responsible for preparing periodic reports and maintaining the project bookkeeping and will produce annual PFS and quarterly Unaudited IFRs.

106. The project financial statements will be audited annually and will cover all aspects of the project, such as the use of funds and committed expenditures. The audit will also cover the financial operations, internal control and FM systems and a comprehensive review of statement of expenditures. The annual audit report will include: (i) the auditor's opinion on the project's annual financial statements; (ii) a management letter on the project internal controls; and (iii) a limited yearly review opinion on the IFRs. The annual reports will be submitted to the WB within six months from the closure of each fiscal year and the limited review opinion will also be submitted to the WB with the IFRs.

(ii) Procurement

107. Applicable procurement rules and procedures. Procurement for goods, works, and non-consulting and consulting services for the project will be done in accordance with the procedures specified in the WB Procurement Regulations for IPF Borrowers', dated November 2020); the WB's Anti-Corruption Guidelines: 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and IDA Credits and Grants', dated October 15, 2006 and last revised in July 1, 2016, and the provisions stipulated in the Financing Agreements. The project will use the Systematic tracking of Exchanges in Procurement (STEP) to plan, record and track procurement transactions.

108. Procurement capacity and arrangements: Procurement activities for the project will be carried out by the MoIE, through its road agency ADR as the implementing agency. Even though ADR has experience in road infrastructure construction under financing from donors (JICA, OFID, Kuwait), it has not yet implemented a WB financed project. It however is managing a PPA of this project following WB Procurement regulations, which mainly consist of small value consultants' services. ADR, with support from consultant financed by the PPA, has prepared a Project Procurement Strategy for Development (PPSD). Major procurement under the project includes the OPBRC contract for rehabilitation and maintenance of road corridor RN1-RN5-RN19 (representing about US$ 80 million from which US$ 60 million will be paid through the WB financing and US$ 20 million by the Government fund); construction of one- border stop post, consultants' services for design studies; international firm to support ADR in the procurement of OPBRC contract; international engineering firm to support ADR throughout the construction and maintenance period for verification of outputs and specified service levels. All these major packages will be procured following open international competition using WB's Standard Procurement Documents including latest ES provisions. The market analysis and the experience from the other donor-financed projects executed by ADR suggests availability of adequate number of bids in works contracts, further market research for OPBRC and lessons learned for similar operations will be duly considered by the firm supporting the

client in technical study to determine the appropriate procurement packaging and market approach. The project will also include some small value procurement of goods such as consulting services.

109. Procurement Plan: A PPSD was prepared by the client and included the Procurement Plan for the first 18 months of project implementation, it has been reviewed as part of appraisal and agreed before negotiations.

110. Procurement risk: Based on ADR limited past experience with WB financing of road infrastructure and particularly OPBRC approach, the residual procurement risk is rated Substantial and would be further updated at implementation stage. The details of risk description and mitigation measures are detailed in Annex-1 "Implementation Arrangements".

C. Legal Operational Policies

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

D. Environmental and Social

111. The project will lead to environmental and social risks and impacts ranging from possible erosion and run-off to water bodies during earthworks, limited loss of vegetation, changes to modified habitats, pollution from construction (dust, noise and vibration, wastewater, solid wastes and used oil), occupational and community health and safety, road safety risks during both construction and operation, impacts on livelihood, and risks associated with working conditions and the protection of the labor force. The risk of exposure and propagation of COVID-19, particularly during the construction phase, has also been identified as a transversal risk cutting across all activities. The risks associated with sexual exploitation and abuse and sexual harassment (SEAH) have been rated as moderate. The project is not expected to require the use of security forces. No associated facilities have been identified under the project. Based on the above, the environmental and social risks have been rated as substantial.

112. To manage the risks highlighted above, the Borrower has prepared an Environmental and Social Impact Assessment (ESIA) that includes and Environmental and Social Management Plan (ESMP), Labor Management Procedures (LMP), a Resettlement Framework (RF), a Road Safety Management Plan (RSMP) and a Stakeholder Engagement Plan (SEP), were disclosed prior to appraisal, on November 8, 2021. It is important to note that these documents were prepared based on the design proposed in the pre-feasibility study and that the detailed designed will be ready early 2022. A Resettlement plan that identifies the impacts on all three corridors will be prepared once the detailed design are being finalized. An Environmental and Social Commitment Plan (ESCP) has been developed to define and recommend the type of assessment, mitigation plans, timeframe and resources to prepare and implement to avoid, mitigate and reduce possible negative risks and impacts induced by project activities in line with the ESF.

V. GRIEVANCE REDRESS SERVICES

113. Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's corporate Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

114. The overall risk is rated *substantial*, due to the estimated residual substantial risks related to (i) political and governance, (ii) macroeconomic, (iii) sector strategies and policies, (iv) institutional capacity for implementation and sustainability, (v) fiduciary, (vi) environmental and social, (vii) stakeholders, and (viii) others including security and COVID-19.

115. The political and governance risk is rated *substantial*. The ability of the project to positively influence the private sector finance mobilization agenda, prerequisite to the growth of Djibouti's transport, will ultimately depend on the confirmation of political will; without it the project's activities will not translate into concrete changes for the country's economy. However, Government actors may be slow to mobilize, and line Ministries may lack incentives for action or may be resistant to change. In mitigation of this risk, the project design seeks to obtain commitment and support at the highest level of the State and involvement of other donor agencies and stakeholders to emphasis importance of the project to improve private sector mobilization and investments.

116. The fragility risks in the sub-region of the HoA is considered substantial, largely due to the possibility of political instability and conflict in some countries of the sub-region including the recent development in Ethiopia. Through the African Union, IGAD and platforms such as the HoAI, countries are supporting one another in managing these challenges and ensuring that the overall economic and development impacts of these conflicts are mitigated. Djibouti is vulnerable to spill over of instability and influxes of refugees. The security situation will be reassessed regularly through periodic security risk threat assessments. Project activities that require close collaboration with Ethiopia will not be undertaken and respective disbursements will not be made unless the customs authorities of both countries have entered into a mutual understanding in a satisfactory manner to the World Bank, sufficient for Djibouti to be able to implement the activities.

117. The macroeconomic risk is considered *substantial*, mainly as a result of the likely impact on GDP growth and unemployment due to the COVID-19 pandemic and fragility in the sub-region. In addition, the possible incidence of job losses occurrence due to the decrease in goods volume transiting through Djibouti's ports, which will impact the country's tax base. It will impact the project because financial contribution from the Government is expected to pay for road maintenance in the OPBRC contracts.

118. The residual sector policies and strategies risks are rated *substantial* due to the inherent multi-sectoral dimension of the operation. While the transport infrastructure investment is usually not controversial, the implementation of proposed cultural changes in O&M contracts and international transit are difficult, time consuming, and may affect some private sector players such as small truck drivers, informal trade intermediaries,

etc. Moreover, changes in such strategies and policies need to be harmonized and implemented in Ethiopia so that they will be fully effective on the corridor.

119. The residual technical design risks of the project are considered *moderate.* The project design is informed by a completed ASA and additional technical studies were undertaken under the PPA. Furthermore, all of the proposed activities have been used in previous and similar WBG lending programs.

120. The residual Fiduciary Risks are rated as *substantial*. There is no WB transport project under implementation in the country, and ADR, as the implementing agency has no experience in implementing WB financed projects except some small value consultancies under the PPA. FM capacity will be reinforced through hiring an experienced FM specialist within PCU before the project effectiveness. ADR has also limited procurement capacity vis à vis the complexity of some critical contracts envisioned in the project, particularly the OPBRC to be procured and implemented for the first time. Procurement capacity will be reinforced through hiring an experienced procurement specialist within PCU before the project effectiveness. The WB will provide procurement training on WB Procurement Regulations during early stages of project implementation and as needed throughout as the project implementation. Further, ADR will be supported with consultants for technical studies; international consulting firm to support ADR in the procurement process for OPBRC; and an international engineering firm to support ADR throughout the construction and maintenance period for verification of outputs and specified service levels. The risk related to market response to the OPBRC approach will be mitigated through upfront market analysis in the updated PPSD that will determine the appropriate contract packaging and market approach. Major procurements under the project will follow open international competition and will be subject to WB's prior review. The residual procurement risk is assessed as Substantial. Further, details of risk description and mitigation measures are highlighted in Annex-1.

121. The overall unmitigated social and environmental risks are considered *substantial*. Given the overall scale of the project, the potential moderate to significant impacts if left unmitigated, the diversity of locations, the borrower's burgeoning experience with the ESF, the implementing agency's unfamiliarity with the ESF, the risk at this stage is deemed substantial. Similarly, social risks and impacts are substantial, as the scale of the population expected to be affected is expected to be medium to large. Most impacts are expected to be temporary and predictable, and the project is not expected to lead to social conflict. The project is expected to lead to physical and economic involuntary resettlement and impacts associated with protecting the labor force, such as child and forced labor. While the number of construction workers are not known at this stage, the project is likely to lead to high labor influx, which in turn can lead to illicit behavior, sexual exploitation and abuse (SEA), and an increase in the propagation of transmittable diseases, including COVID-19. The SEA screening tool has been applied and SEA risks have been rated as moderate. These risks are mostly limited to the construction phase of the project and can be managed through mitigatory and compensatory measures with a reliable level of predictability. Other risks, such as traffic and road safety risks, span across the construction and operation phases, and require mitigation measures integrated into the design, construction and operational phases.

122. The residual stakeholder risks are considered *substantial*. The project involves participation of several stakeholders and ensuring integrated effort. Coordination risk between the two countries on the corridor (Djibouti and Ethiopia) is an area of concern, and this is being mitigated by close collaboration between SOP project teams but also taking advantage of the HoAI dialogue to sustain collaboration and understanding at the higher level. Particularly on the regional integration and trade facilitation, close coordination is required to harmonize policy, procedures, and regulations and to enhance logistics system that reduce barriers in the movement of goods and people. The HoAI Platform is critical in managing this risk at the higher levels. The project will facilitate the dialogue

between Djibouti and Ethiopia to agree on the elements and coordination necessary for the smooth implementation of Component 2 of the project.

123. Other risks may be considered *substantial*. In addition to the risks enumerated above, there are a number of other risks that may be considered:

- Given Djibouti's locations, surrounded by much larger, fragile neighbors, it is vulnerable to spill over of instability and influxes of refugees.
- The ongoing COVID-19 pandemic might have an impact on the implementation and supervision of activities including availability to travel for the WB Task Team and international consulting firms. During project preparation consultations were adapted to the COVID-19 related measures.
- Regarding the project sustainability, there is a risk that the public authorities might not sufficiently prioritize road maintenance funding to the extent required (via implementation of funding mechanisms through ring-fenced cashflows from toll collection). Component 3 is essentially geared towards mitigating this risk, for the public authorities and their advisors to structure a PBCs that adequately balances the scope and duration of the contractual relationship with reliable sources of funding.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Djibouti
Horn of Africa Initiative: Djibouti Regional Economic Corridor Project

Project Development Objectives(s)

The PDO is to improve regional connectivity and enhance logistics efficiency in Djibouti along the Djibouti- Addis southern corridor.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Improve regional connectivity along the Djibouti- Addis southern corridor				
Reduction in travel time along the Djibouti Southern corridor (Percentage)		0.00	10.00	20.00
Enhance logistics efficiency in Djibouti along the Djibouti- Addis southern corridor				
Reduction in truck border-crossing time at Guelileh border post (Percentage)		0.00	10.00	20.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Improvement of infrastructure and introduction of intelligent transportation systems				
Kilometers of road rehabilitated with climate-resilient standard (Kilometers)		0.00	20.00	42.00
Reduction in GHG emissions by trucks switching from the Northern corridor to the Southern corridor (Percentage)		0.00	3.00	6.50
Share of road corridor equipped with a system to receive real-time traffic, incident and weather information (Percentage)		0.00	50.00	100.00
Decrease in annual fatalities from road accidents on the southern corridor (Percentage)		0.00	10.00	30.00
Parking lots built along the corridor (Number)		0.00	0.00	1.00
Jobs created in road construction and maintenance (Number)		0.00	100.00	300.00
of which women (Number)		0.00	20.00	60.00
Improvement of transit services along the corridor				
Optimization of cross-border facilities, processes and procedures at the Djiboutian border (Yes/No)		No	No	Yes
Cargo Targeting System (CTS) Operational (Yes/No)		No	No	Yes
OSBP at Guelileh constructed (Yes/No)		No	No	Yes
Institutional strengthening and capacity-building on road PBCs and project implementation support				
Performance-based contract for operation and maintenance of rehabilitated sections signed (Number)		0.00	1.00	1.00
Private Capital Mobilized (Amount(USD))		0.00	1,000,000.00	3,000,000.00

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Number of women benefiting from HIV/AIDS and SEA/SH prevention activities (Number)		0.00	100.00	300.00
GBV protocol design and in use (Yes/No)		No	Yes	Yes
Women reported engaging in new income-generating activities in cross-border / small trade due to project interventions (Number)		0.00	20.00	50.00
Registered feedback responded and/or resolved within the stipulated and publicly communicated service standards for response time (Percentage)		0.00	50.00	100.00
Satisfation surveys administered (Number)		0.00	5.00	10.00

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Reduction in travel time along the Djibouti Southern corridor	It is the time required for a truck loaded with goods from its exit from the Port of Djibouti until its arrival at the Guelileh border.	Annual	Surveys	Recording of dates/times/mn and truck registration numbers from the exit registers of trucks in transit from the Port of Djibouti.	DPCR
Reduction in truck border-crossing time at Guelileh border post	It is the difference between the hour/minute of	Annual	Surveys	Recruitment and training of active data	Customs and DPCR

	completion of formalities at the border post of Guelileh (Djibouti) and the hour/minute of start of formalities at the border post of Dewele (Ethiopia) of trucks loaded with goods in transit.			collection agents	

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Kilometers of road rehabilitated with climate-resilient standard	Number of kilometres of roads rehabilitated with climate-resilient standards	Annual	OPBCR contractor	Supervision	ADR
Reduction in GHG emissions by trucks switching from the Northern corridor to the Southern corridor	Estimated reduction in GHG emissions by trucks switching from the Northern corridor to the Southern corridor	Annual	Surveys	Estimations based on travel time and traffic counts (surveys)	DPCR
Share of road corridor equipped with a system to receive real-time traffic, incident and weather information	The percentage of the road corridor equipped with a system to receive real-time traffic, incident and weather information.	Annual	OPBRC contractor	Supervision	DPCR
Decrease in annual fatalities from road accidents on the southern corridor	Uses WHO definition of "road accident fatalities" as all fatalities within 30 days of the accident.	Annual	OPBRC contractor and DPCR	Supervision and DPCR reporting	DPCR

Parking lots built along the corridor	Number of parking lots rehabilitated or built, based on a corridor logistics study	Annual	OPBRC contractor	Supervision	ADR and DPCR
Jobs created in road construction and maintenance	Direct jobs for construction and maintenance in the OPBRC	Annual	OPBRC contractor	Supervision	ADR
of which women	Direct jobs in construction and maintenance from the OPBRC (20% quota for women)	Annual	OPBRC contractor: r eporting will include the type of jobs (part- or full-time) and actions undertaken to increase the number of jobs occupied by women.	Supervision	ADR
Optimization of cross-border facilities, processes and procedures at the Djiboutian border	Operationalisation of systems interconnectivity	Annual	Customs	Supervision	Customs and DPCR
Cargo Targeting System (CTS) Operational	CTS operational	Annual	Customs	Supervision	Customs
OSBP at Guelileh constructed	Construction of the OSBP at Guelileh	Annual	Customs	Supervision	Customs and ADR
Performance-based contract for operation and maintenance of rehabilitated sections signed	Procurement and signature of a performance-based contract for operation and maintenance of the project	Annual	ADR	Supervision	ADR

	road sections				
Private Capital Mobilized	Amount in million USD of commercial financing by the OPBRC contractor	Annual	OPBRC contractor	Reported investment fr om the OPBRC contractor mobilized in the form of commercial financing (including for tangible investment to be carried out for the purchase and/or leasing of equipment to be used for maintenance post-construction).	ADR and DPC
Number of women benefiting from HIV/AIDS and SEA/SH prevention activities	Number of women benefiting from HIV/AIDS and SEA/SH prevention campaigns	Annual	NGO	Monitoring of the number of women beneficiaries	ADR
GBV protocol design and in use	GBV protocol in OPBRC contract and code of conducts	Annual	OPBRC contractor	NGO will monitor the effective use of GBV protocols along the corridor being rehabilitated	ADR
Women reported engaging in new income-generating activities in cross-border / small trade due to project interventions	Number of women engaging in new income-generating activities along the corridor and at Guelileh border	Annual	Surveys		DPCR and ADR
Registered feedback responded and/or resolved within the stipulated and publicly communicated service standards for response time	Percentage of registered grievances responded to within the stipulated service standards for response time.	Annual	ADR ESF implementati on reports	Per the established methodology of the GRM	ADR

	Feedback includes complaints, queries, suggestions, and compliments.				
Satisfation surveys administered	Satisfaction surveys to road users and communities.	Annual	DPCR	Surveys	DPCR

ANNEX 1: Implementation Arrangements and Support Plan

1. **The following institutional arrangements are planned for the project.** An Inter-ministerial steering committee (PCS) will be established and a PCU - attached to the ADR under the Ministry of Transport will supervise the various implementing agencies to ensure the project implementation. A Project Implementation Support Agreement between ADR and DPCR will be signed before credit effectiveness.

Table 1.1: Supporting Implementing Agencies by Project Activity

Project Components	Agencies
Component 1: Improvement of infrastructure and introduction of intelligent transportation systems along the Djibouti-Addis southern corridor in Djibouti	
1(a): Rehabilitation and upgrade of road sections along the southern road corridor and logistics infrastructure (OPBRC)	ADR and DPCR
1(b): Smart corridor through the deployment of ITIS (included in the OPBRC)	DPCR
1(c): Maintenance and operation of the corridor (included in the OPBRC)	DPCR
Component 2: Improvement of transit services along the corridor	
2(a): Enhancement of Customs Transit Procedures	Djibouti Customs
2(b): Development of an OSBP at Guelileh border	Djibouti Customs
2(c): Systems and inter-connectivity	Djibouti Customs
Component 3: Institutional strengthening and capacity-building on road PBCs and project implementation support	
3(a): Technical assistance for OPBRC	ADR and DPCR
3(b): Institutional strengthening and capacity-building on road PBCs and on PPPs	ADR, DPCR, PPP Unit, Ministry of Finance
3(c): Maximizing the corridor's development impacts for local communities	ADR and DPCR
3(d): Project and Corridor management including corridor performance monitoring and reporting	PCU

Financial Management and Disbursement Arrangements

2. The proposed Credit will be implemented in line with standard WB internal policies and procedures. MoIE will be responsible for project management, including FM and accounting and will establish a PCU under its authority within ADR, which will manage FM aspects. The FM assessment conducted during appraisal found the FM risk, as a component of the fiduciary risk, rated as Substantial. The following are the risks identified: (i) currently ADR has limited human resources capacities and also lacks experience in implementing WB financed projects; (ii) ADR needs to adapt its financial and accounting processes and manuals that are specific to its operations to address the requirements of the WB.

3. Capacity building in FM has started during project preparation where ADR was the implementing agency of the PPA. ADR chief financial officer has been providing FM support for the PPA implementation. Dedicated FM staff will be recruited to reinforce the ADR. The WB will continue providing the necessary regular and timely hand on training and workshops (in person and virtual) to the FM specialist on WB FM procedures with anticipation prior to signing of the legal document; ii) IFRs will be submitted to the WB no later than 45 days after the end of each quarter; (iii) for the purpose of the project, ADR will develop an operational manual which will contain an FM chapter describing in detail the FM procedures including internal controls, in addition to detailed roles and responsibilities between ADR and various stakeholders; and (iv) ADR will contract with an independent external auditor with ToRs acceptable to the WB to audit the Project Financial Statements. With these proposed mitigating measures ADR will meet FM requirements as per OP/BP 10.00 and will have an acceptable FM system. Because some of these mitigating measures will take some time to be implemented, the residual FM risk rating would be substantial.

4. A single segregated Designated Account (DA) in US Dollars will be opened at a commercial bank in Djibouti acceptable to the WB. Payments and withdrawal of eligible expenditures will be accompanied by supporting documents or SOE for each expenditure category, following the applicable procedures and the WB's Disbursement Guidelines for IPF. ADR will be responsible for submitting replenishment requests on a monthly basis. All requests for withdrawals will be fully documented, maintained and made available for review by the WB and project auditors. Payments against Part 1 of the project will be made through Direct Payment irrespective of the amount. All disbursements will be subject to the terms of the Financing Agreement and to the procedures defined in the Disbursement and Financial Information Letter.

5. The general accounting principles for the project will be as follows: (a) project accounting will be based on cash accounting and cover all sources and uses of project funds, including payments made and expenses incurred; and (b) project transactions and activities will be separated from other sources of financing and activities undertaken by ADR.

6. The project financial reporting will include unaudited IFRs and yearly PFS; (a) IFRs will include data on the financial situation of the project. These reports will include: (i) a statement of funding sources and uses for the period covered and a cumulative figure, including a statement of the bank project account balances; (ii) a statement of use of funds by component and by expenditure category; (iii) a reconciliation statement for the DA; (iv) a budget analysis statement indicating forecasts and discrepancies relative to the actual budget; and (v) a comprehensive list of all fixed assets; (b) ADR will produce the IFRs every quarter and submit to the WB within 45 days at the end of each quarter. The annual PFS will include: (i) a cash flow statement; (ii) a closing statement of financial position; (iii) a statement of ongoing commitments; (iv) analysis of payments and withdrawals from the credit account; and (v) a complete inventory of all fixed assets acquired under the project. (c) IFRs and PFSs will be produced based on the accounting system and submitted for an external financial audit in a timely manner.

7. ADR will be responsible for preparing periodic reports and maintaining the project bookkeeping and will produce annual PFS and quarterly Unaudited IFRs.

8. The project financial statements will be audited annually and will cover all aspects of the project, such as the use of funds and committed expenditures. The audit will also cover the financial operations, internal control and FM systems and a comprehensive review of statement of expenditures. The annual audit report will include: (i) the auditor's opinion on the project's annual financial statements; (ii) a management letter on the project internal controls; and (iii) a limited yearly review opinion on the IFRs. The annual reports will be submitted to the WB within six months from the closure of each fiscal year and the limited review opinion will also be submitted to the WB with the IFRs.

Procurement Arrangements and Capacity Assessment

9. **Applicable procurement rules and procedures.** Procurement under the project will be carried out in accordance with the WB's Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting and Consulting Services, Fourth Edition dated November 2020 (Procurement Regulations). The project will be subject to the WB's "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006, revised in January 2011, and as of July 1, 2016. The project will use the STEP to plan, record and track procurement transactions.

10. **Procurement Documents.** For procurements, subject to open international competition market, WB's Standard Procurement Documents (SPD) will be used with latest provisions on Environmental and Social aspects, including SEA/SH. When approaching the national market, as identified in Procurement Plan, the Borrower will also use the WB's SPD as is being done in other projects given the national open competitive procurement arrangements don't fully comply to paragraph 5.4 of the Procurement Regulations, particularly the requirement for having an effective complaints mechanism. When other national procurement arrangements (other than national open competitive procurement) are applied by the Borrower (such as request for quotations/shopping or direct contracting), such arrangements will be consistent with the WB's Core Procurement Principles and ensure that the WB's Anti-Corruption Guidelines and Sanctions Framework, as well as contractual remedies set out in the project's Financing Agreement apply. Procurement procedures will give due attention to quality aspects.

11. Procurement activities for the project will be carried out by the MoIE, through its road agency ADR as the implementing agency. Even though ADR has past experience in road infrastructure construction under financing from donors (JICA, OFID, Kuwait), it has not yet implemented a WB financed project. It however is managing a PPA of this project following WB Procurement regulations, which mainly consist of small value consultants' services. ADR, with support from consultant financed by the PPA, has prepared a PPSD. Major procurement under the project includes works contract for rehabilitation/construction and maintenance of road corridor RN1-RN5-RN19 (representing US$ 80 million of which US$ 60 million will be paid through the WB financing and US$20 million by the Government fund), Information systems, consultants' services including technical assistance for study as well as for supervision of OPBRC contract. All these major packages will be procured following open international competition. Market analysis and the experience from the other donor financed projects executed by ADR suggests availability of adequate number of bidders for traditional civil works contracts. However, the technical assistance for OPBRC design will be required to conduct a market sounding research and lessons learned in order to determine appropriate procurement packaging. The project will also include some small value procurement of goods such as consulting services.

12. **Procurement risk assessment.** At this stage of project preparation, the following key procurement risks are identified: **(i)** limited capacity of ADR in implementation of WB financed project, (ii) delay in procurement processing of large contracts under WB procurement regulations, particularly the OPBRC contract, , (iii) lack of capability for supervision of outputs and performance indicators for the OPBRC contract , (iv) noncompliance with environmental and social aspects during contract execution, (v) impact of COVID-19 and regional security context on bid response, time and cost over runs. Proposed mitigation measures to these risks include: (i) the WB will provide Procurement Training to ADR staff on WB's Procurement Regulations including provisions relating to ES considerations during early stages of project implementation and as needed throughout the project duration, to strengthen the capacity of the project staff currently managing PPA as well as additional staff envisioned, (ii) ADR will be supported by international firm of consultants for technical studies including preparation of technical design and procurement of OPBRC contract; (iii) major contracts will be subject to WB's prior review; (iv) execution of OPBRC contract will be supervised by a firm hired through international competition and the WB will

closely monitor execution in conjunction with ADR, (v) bidding documents will include provisions relating to E&S consideration in accordance with the WB's Standard Procurement Documents. E&S considerations will be evaluated as part of bid evaluation and monitored throughout contract administration, (vi) impact of COVID-19 on the procurement strategy and contract execution was considered as part of market analysis.

13. **The residual procurement risk is considered as substantial,** and the risk rating will be updated throughout project implementation

14. **Procurement aspects of the Project Operations Manual (POM)**. A project procurement module will be prepared by ADR, as part of the POM. The manual will provide guidance on the implementation of the project and will summarize the project's main procurement aspects. It will be updated from time to time to incorporate the lessons learned during implementation.

15. **The Procurement Plan and STEP**. The PPSD prepared by ADR includes an initial Procurement Plan for the first 18 months of Project implementation that was revised and cleared as part of negotiations. The procurement plan will be registered in STEP by ADR after project approval.

16. **Contract management capability.** ADR has knowledge and good experience in road sector projects financed by other donors. However, with its lack of experience in management of OPBRC contract, it will be supported by independent international technical consultants, particularly for verification of outputs and specified service levels.

17. **Review by the World Bank of procurement decisions.** Mandatory prior review thresholds, as per WB's Procedures will be followed based on the Substantial risk rating. Given the limited capacity of the ADR in implementing WB financed projects, some critical contracts, such as Information systems (IS) and technical assistance for procurement and supervision of OPBRC contract will also be prior reviewed by the WB, regardless of estimated value.

ANNEX 2: Horn of Africa Initiative Overview and Support for Economic Corridors

Rationale for the HoA Initiative

1. **During 2019, five countries of the Horn of Africa (HoA) – Djibouti, Ethiopia, Kenya, Somalia and Eritrea[48] came together to prepare the HoA Initiative, with Sudan joining in 2021.** The basis of the Initiative was the positive developments in inter-state relations in the sub-region and the subsequent opportunities for deepening integration and regional collaboration to address the development challenges in the region and stimulate accelerated growth. The COVID-19 pandemic and the resulting economic crisis along with the food insecurity risks triggered by the locust invasion are expected to have significant bearing on the prospects for growth and poverty reduction in the sub-region. The HoA Initiative countries have resolved that regional cooperation and economic integration should remain key to the overall recovery efforts of the sub-region from the crisis. What has been truly unique about this Initiative is that it has been led by countries and involved a healthy spirit of political 'give and take' and political commitment at the highest level to convert the goodwill into development results. The countries had requested and received technical support from three DPs in preparing the Initiative starting from early-2019 – AfDB, EU and WBG. IGAD is an active partner in the HoA Initiative and is serving as a resource institution, especially for areas of resilience.

2. **Five countries constitute what is sometimes called the 'small' Horn - Djibouti, Eritrea, Ethiopia, Kenya and Somalia.** With a total area of around 2.5 million square kilometers, it includes some of the largest as well as the smallest countries in Africa. The sub-region has a population of around 180 million and a combined GDP of around US$170 billion. Over 70 percent of the population lives in rural areas, where poverty is concentrated. As per available estimates, the population of the five countries is expected to grow to around 250 million by 2030 – implying the sub-region will have a net addition of about 70 million people between 2017 and 2030. The sub-region has shared social and ethnic kinship, historical trade and cultural affiliations with the rest of the world and has some of the oldest and complex civilizations. The HoA is located in a geo strategically important part of the continent and abut significant global shipping lanes along the Red Sea, Arabian Sea and Indian ocean. All of this makes the HoA a complex and challenging context. Yet, progress in the HoA will likely have an outsize influence on overall pace of change in the continent, as it has some of the biggest, dynamic and influential economies. There is considerable potential for the HoA to grow and transform its economy and deliver development results for its people. Electricity, water, and agriculture all present unprecedented opportunities to transform the region.

3. **Over the past two years, there have been concerted efforts by the countries to strengthen regional cooperation around shared interests of peace, prosperity and development.** These are vital for overcoming the challenges which has been holding back the sub-region. The major regional challenges in the HoA include:[49] rapid demographic change and youth unemployment; peace and security; resource constraints and weather and other shocks; lack of competitiveness and economic diversification; low human development, chronic poverty and inequality; and conflict and forced displacement.

[48] Eritrea participated in some of the discussions and was represented by relevant Embassy officials. It was a signatory to the Ministerial communique of October 2019, available at: https://www.afdb.org/sites/default/files/documents/hoa_ministers_communique_oct_18.pdf
[49] IGAD Regional Strategy 2016

Process of Development of HoA Initiative

4. **Through much of 2019 and into 2020, the HoA Initiative countries undertook an intensive process of dialogue to agree on priorities under the identified four pillars, which together are expected to address key development challenges and promoting peace and security**: 1) Regional Infrastructure Networks; 2) Trade and Economic Integration; 3) Resilience; and 4) Human Capital Development. Early on during the process, each country was supported to undertake in-country consultations across different parts of government to identify the main objectives and priorities from closer integration. These served as inputs for cross-country consultations which eventually led to identification of shared priorities amongst the countries. In the true spirit of regional cooperation, countries saw some but not all of their own priorities reflected in the emerging consensus between countries. The final package thus reflected a healthy compromise and would ensure that the results of these intended efforts would deepen integration. The discussions under the HoA Initiative took place at the technical and Ministerial levels. The Ministers of Finance have met five times under the HoA Initiative during April 2019 to May 2020, apart from ongoing bilateral engagements. The technical groups have met several times outside of the Ministerial engagement and these discussions continue. The Ministers of Finance at their meeting in October 2019 agreed a priority package costing US$15 billion.

5. **This investment program is meant to be complemented by a set of policy actions that the countries will take to deepen integration, although the relevant discussions have been affected by the ongoing COVID-19 pandemic crisis, which may force greater selectivity between projects within the package**. At their meeting in May 2020, the Finance Ministers reinforced the urgency to move forward swiftly with all parts of the package to strengthen the sub-region's recovery efforts. The table below provides details on the priority projects and costs under each pillar.

Table 2.1: Horn of Africa Initiative: Package of Priority Proposals agreed in October 2019[50]

Priority Proposals	Estimated Costs
Pillar 1: Regional Infrastructure Networks	**US$12.5 billion**
Economic Corridors	**US$9 billion**
1. Four priority corridors covering 6,000km of upgradation. a. Kismayo, Lamu and Mogadishu Corridor b. Assab and Djibouti Corridor c. Berbera and Djibouti Corridor d. Mogadishu, Berbera and Bossasso Corridor	US$9 billion
Regional Energy Trade	**US$1.84 billion**
2. Power integration connectivity program a. Ethiopia-Djibouti 2nd line b. Somalia Transmission Backbone c. Feasibility Studies for: - Ethiopia – Somalia Interconnection - Ethiopia – Eritrea Interconnection - Kenya – Somalia Interconnection - Djibouti – Somalia Interconnection - 2nd line for Kenya – Ethiopia Interconnection	US$1.57 billion

[50]This package was agreed at the level of Ministers of Finance of the HoA countries in October 2019. An accompanying communique issued by the Ministers is available at *https://www.afdb.org/sites/default/files/documents/hoa_ministers_communique_oct_18.pdf*

3. Enabling Power Trade (East Africa Power Pool, Somalia, Eritrea, Ethiopia, Djibouti, Kenya)	US$0.15 billion
4. Other Energy Supports: Regional Oil Jetty - Damerjog New Oil Jetty (Potential Public-Private Partnership (PPP) Project)	US$0.12 billion
Single Digital Market	**US$1.7 billion (plus private financing)**
1. Priority Regional Infrastructure a. Submarine festoon cable along the coast b. Terrestrial links and backbone connections	US$0.9 billion
2. Single regional data market a. Data Infrastructure b. Cyber security c. Regulatory Harmonization	US$0.3 billion
3. Single Data Service Market a. E-government b. Cross-border digital payment facilitation	US$0.5 billion
Pillar 2: Trade and Economic Integration	**US$0.5 billion**
1. Regional Trade Facilitation a. TA (e.g. corridor approach, tackle NTBs, harmonization of products standards) b. 13 one-stop border posts c. Dry ports	US$0.45 billion
2. Regional Value Chain Development	US$0.03 billion + Private Sector Investments
3. Investment Climate	US$0.02 billion
Pillar 3: Building Resilience	**US$1.3 billion**
1. Pastoralist Livestock Insurance	US$0.4 billion (of concessional, to leverage US$1.6 billion from private sector)
2. Strengthening the resilience of pastoral production system to climate change	US$0.9 billion
Pillar 4: Strengthening Human Capital	**US$1.55 billion**
1. Strengthening Human Capital Delivery Systems and Networks	US$0.7 billion
2. Building Skills for Future Employment and empowering women and youth	US$0.6 billion
3. Strengthening Identification for Development	US$0.25 billion
Total	**US$15.89 billion**

Horn of Africa Initiative - Economic Corridors

6. **The HoA Initiative gives importance to 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**. The purpose is to increase trade and economic diversification and specialization, which in turn is expected to lead to wealth generation, and better socio-economic opportunities for populations living in the HoA area, thus contributing to poverty reduction and promotion of good governance, peace and security.

7. **Economic corridors connect economic agents along a defined geography and region**. For the purpose of this document, they are intended as integrated networks of road infrastructure located within multiple countries which are designed to stimulate economic development by providing connections between economic nodes or hubs that are usually centered in urban centers and with port and international gateways. Economic corridors often feature integrated infrastructure (such as highways, railroads and ports), and may link cities or countries, manufacturing hubs, areas with high supply and demand, and manufacturers of value-added goods. A package of different measures including infrastructure development, visa and transport agreements, and standardization of customs and cross-border procedures are also part of the initiatives under Pillar 2, included for ensuring the full functionality of economic corridors. Social needs, experience suggests that housing, in most cases, are also considered as a part of such package[51]. The economic corridors under Pillar 1 would need to be closely aligned with trade and economic integration priorities of Pillar 2 in order to optimize economic transformation and creation of jobs.

8. **The economic corridor program in the HoA Initiative is expected to provide the following economic development benefits**:

a. **Regional spillover**. The connectivity provided by the regional corridors in the HoA are deemed strategic in supporting the integration of the 5 HoA countries covered by this initiative on three different, but complementary levels: (i) in trade, transport and social activities; (ii) of the HoA economies in both the domestic and global markets, (iii); in security matters.

   The geographical area that consists of the core of the HoA initiative is characterized by insecurity, extreme climate changes (including drought and floods), and pests, with most of the population depending on pastoralism as a way of life and a source of livelihood. Other factors, such as conflicts, animal health and access to natural resources, also contribute to the erosion of the coping capacity of the population, especially in the most arid areas. Hence, all these factors need to be addressed by the program in the construction of the transport infrastructure. Security in particular, represents the essential element that will lead to the success of this initiative, as it has a far-reaching impact on economic integration. Roads can be integrative only when they are secured.

   From an economic point of view, all the HoA are commodity-dependent[52] and - except Eritrea, which is mainly dependent on exports of minerals, ores and metals - have an economy largely dominated by subsistence agriculture and small-scale farming, that utilizes less inputs (knowledge, technology, finance, etc.), and ultimately ends up with less productivity and output. In some HoA countries such as Somalia, Eritrea, and to a lesser extent, Ethiopia, the culture of indigenous technology development and utilization

[51] Hope, A., Cox, J. "Development Corridors", Coffey International Development, December 2015.
[52] A country is defined "commodity-dependent" when more than 60 per cent of its total exports consists in primary commodities (UNCTAD), these ones being represented either by: 1) agricultural products (livestock, crops, forestry, and fishing products), 2) minerals, ores and metals, or 3) crude oil, gas and other hydrocarbons in a natural state (not-refined).

is still low and most industries are traditional-trade based. Formal university-industry linkages and technology transfers are not sufficiently pursued, while the manufacturing industry is characterized by low productivity levels and competitiveness which are mainly due to the sector's use of obsolete machinery, lack of skilled man power and application of backward production technology. Accordingly, the benefits of increased intra-regional trade are likely to be realized in the medium-term, as changes in the countries' economic structure triggered by lower transport and trade costs will take time to realize and infrastructure takes time to be built.

The improved connectivity of land-locked countries and land-locked regions in coastal countries to the ports will have more immediate benefits in terms of higher export prices, net of transport costs, for exporters in the HoA and lower prices of imported inputs and consumption goods. Regional corridors traverse vast areas in each of the countries in the HoA. An important consideration is to optimally utilize the regional connectivity by improving domestic connectivity to regional corridors. This might mean that as regional projects are being formulated, national transport projects enhancing local connectivity need to be prioritized by national governments.

b. **Linkages with global trade**. The priority corridors reflect the import/export trade transiting through ports. Organic and foreseeable growth in seaborne trade would in any case require ports to adapt and increase capacity and efficiency, but this would be even more urgent if trade grows as a result of improvements in HoA integration. In this regard, there are two important issues to be considered: (i) under global best-practice models for port management, the public sector retains responsibility for provision of basic port infrastructure investment such as terminals, berths, breakwaters and dredging, as well as all regulatory functions, while port operations are carried out by private companies, which provide and maintain their own superstructure, including buildings and cargo-handling equipment at the terminals, mostly on a long-term concession basis (so called "landlord model"); (ii) the port-city interface and last-mile connectivity[53] to the road corridors are frequently a challenge that needs to be addressed to augment and ensure efficiency of the trade routes.

c. **Inclusion of complementary, transformative interventions along the corridor**. As a result of the reduction of transport costs and reduction of travel times, corridors usually generate a multiplicity of impacts such as agglomeration effects, increased trade and migration, and changes in the local economic structure, among others. These long-term impacts ultimately yield wider economic benefits—such as growth of income and consumption, new jobs, and greater equity, accumulation of wealth, etc. There is need to reduce the risk that these corridors will become mere 'pipelines' for the movement of persons and goods, with little benefits to the local communities along the corridors and to the socio-economic development of the areas crossed by them. Similarly, it is essential to ensure that a certain number of secure parking and rest areas will be established, including other facilities such as restaurants, shops, comfort facilities, mechanical repair and collateral services, so to allow travelers and long-distance drivers to have breaks at appropriate intervals, if possible, by grouping them within specific territorial areas so that they can be offered to the corridor users in a combined manner. An example is the "Road Side Stations" program launched by the Northern Corridor Transit Transport Coordination Authority along the Northern Corridor, aimed at promoting the socio-economic development and income generation for communities living along this route[54]. The possibility to develop such facilities in partnership with the

[53] The last mile connectivity, sometimes also referred to as "first mile connectivity", represents the final stretch of approach or delivery in transport and is usually defined as the distance to be traversed from the nearest transport nodal point to the ultimate destination and is expressed by the ease and speed of commuter transit from point of origin to point of destination.
[54] http://www.roadsidestations.org

private sector should also be explored, in order to achieve sustained efficiency gains and minimize public expenditure and fiscal financing requirements. Unleashing wider economic benefits requires complementary interventions to remove economic frictions to leverage the improved connectivity provided by corridors. For example, complementary interventions at borders and ports that reduce trade costs will be key to deliver the benefits of regional and global integration. Similarly, policy interventions that strengthen competition in the markets for transport services help to ensure that all categories of corridors' users, including trucking companies, motorists, pedestrians and other local road users - enjoy the benefits of improved connectivity.

d. **Role of Private financing and PPP structures**. Because of relatively low volumes, it would need to be carefully evaluated whether private financing through – for instance – actual or shadow[55] tolling is feasible. In some cases – and if palatable to the authorities – Design Build Transfer, Design Build Maintain Operate Transfer or similar PBC approaches might be considered. In other cases, PPP structures may be viable based on traffic, security, and other factors. Detailing of these possibilities would need to be undertaken between the HoA countries and financiers of parts of the infrastructure on case-by-case basis.

[55] In the "shadow toll" scheme, public authorityies finances the construction of a road infrastructure by granting a road concession to a private company whose investment will be remunerated according to the number of vehicles observed on the road within a defined period or some other indicator of the service provided (World Road Association – PIARC, Financing of Road Infrastructures: Guide for New Methods of Financing and Public/Private Partnership, 1999"). Under such a scheme, road users do not pay on the spot for the usage of the infrastructure, therefore eliminating motorist's resistance to paying tolls and the opportunity to divert to alternative routes. This reduces a considerable element of commercial or traffic risk (so-called "avoidance risk").

ANNEX 3: Further Trade Facilitation and Logistics Enhancement Information

A BUSINESS CASE FOR DJIBOUTI-ADDIS CORRIDOR IMPROVEMENTS

1. Djibouti and Ethiopia economies both heavily depend on import and export activities. Ethiopia, as a landlocked country, relies on regional transport corridors to access ocean gateways in the neighboring countries of Djibouti, Kenya, Sudan, and Somaliland. The Djibouti- Addis corridor (hereinafter referred to as the Djibouti corridor) is the primary gateway for Ethiopia, providing more than 90 percent of the import and export trade as well as logistics services. Djibouti economy is contingent upon the flow of trade with Ethiopia and revenues from port and transit services. The Government of Djibouti (GoD) has launched several upgrades to improve the last mile rail connectivity at the port terminals and has prioritized road and railway improvements. The Government of Ethiopia (GoE) has prioritized improvements for both roads and railway in this corridor. Therefore, the efficiency and effectiveness of transport corridors are critical for both countries' economic development and economic diversification.

2. Because of mutual benefits and economic dependency of trade and logistics to both countries, there is a clear business case for GoD and GoE to collaborate on the development of this corridor and to create a conducive environment for business communities and regional integration. Both Governments and major stakeholders seek to reduce logistics costs and improve the competitiveness of goods and services on the regional and international markets. The June 2021 HoA Ministerial Meetings emphasized a holistic approach to trade facilitation in both countries, calling for improvements in coordination between Djibouti and Ethiopia, legal framework and policies, physical infrastructure, ICT systems, and capacity.

3. Currently, the northern route corridor, which passes through Galafi border, continues to be the main artery. The two countries seek to improve the southern route through the Guelileh and Dewele border as an alternative and shorter route. The SOPs comprising the project in Djibouti (P174300) to be complemented by a project in Ethiopia (P174485) focus on improving the southern route.

KEY CHALLENGES AND OPPORTUNITIES

4. Besides infrastructure, the deficiency in "soft" aspects also attributes to the high logistics costs in the Djibouti corridor, including cumbersome customs clearances, difficulties in forex procurement and payments handling, inefficient checks and processes at border posts and inland destination ports, and unharmonized procedures and systems. All of these have profound impacts on the economy across sectors. Manufactures in the region bear high overhead costs and high inventory. Nathan Associates (2014) concluded that "overhead costs in Ethiopia can be twice that in Asia." Small firms are discouraged from participating in global trade, as the system is not geared toward consolidation and distribution of smaller loads from small firms. Moreover, agriculture sector is unable to timely import seeds, fertilizers, and pesticides, directly hindering agricultural productivity. Below highlights key challenges in the sector:

    - **Institutional challenges**. Coordination failures impede the efficiency of the trade logistics chain. Despite prior attempts to create a corridor management authority to improve the performance of the trade, transport and transit functions in the Djibouti Corridor, no mechanism has been in place to enable the management of the Djibouti Corridor and to improve the functionality of the corridor operations. Within each country, inadequate coordination between institutions on transport, trade and border management also impacts the performance of the Corridor.

- **Regulatory, policy and procedural challenges**. Policies, regulations, and administrative hurdles considerably erode the corridor efficiency. Importers and exporters experience challenges at various stages of the process, including (1) complicated documentation and approval processes, requiring numerous documents to multiple agencies as part of the import and export clearance processes; (2) reliance on paper documents, fax, and emails in the exchange of information between government agencies and the private sector, which is slow and prone to errors and omissions; and (3) inefficient in-house business processing of information, delaying decision making and release of information.
- **Infrastructure challenges**. This corridor is severely constrained by an under-performing railway that requires capital reinvestments and policy attention, an under-developed road infrastructure that exposes trucks to safety hazards and climate risks, a lack of one-stop border processing facilities, and low levels of ICT-based data sharing resulting in duplicative, manual processing for most part.
- **Opportunities.** The trade logistics sector needs to be seen not only in the narrow context of goods transport and warehousing, but also in the wider role it plays in delivering a competitive industrial base. The logistics sector in both countries has three key opportunities in the near term: (1) improving the efficiency with which trade traffic is processed and adapting to the new intermodal transport system; (2) increasing capacity to deal with the projected increase in trade as trade flows; and (3) evolving to provide a wider range of higher-quality services along the corridor.

BILATERAL AGREEMENTS AND INSTITUTIONS FOR CORRIDOR MANAGEMENT

5. Transit operations of the Corridor are governed by a Bilateral Transit Protocol Agreement signed by the governments of Djibouti and Ethiopia in 2008. This Protocol defines transit modalities, roles and responsibilities, operational processes, and procedures, guarantee mode, legal route and legally valid crossing points. Djibouti and Ethiopia later signed the amended Bilateral Trade Agreement and Border Trade Protocol, concluded in February 2015 in March 2017 respectively.

6. Under the 2008 Transit Protocol Agreement, an ad-hoc Technical Committee (TC) and Permanent Joint Committee (PJC) have been set up. The ad-hoc TC is responsible for harmonizing the transit procedure, preparing the appropriate forms, and creating an interface between the Djiboutian ASYCUDA-WORLD system and the Ethiopian Customs Management System. The PJC is responsible for monitoring and evaluating the implementation of this Protocol and resolving any dispute or difference that may arise during the transit operation. The PJC is also responsible for undertaking revisions of the transit procedures to make it efficient and effective, in line with the evolution of flows and practices of international trade.

7. A myriad of institutions from Djibouti and Ethiopia are involved in the trade and logistic sector. In Djibouti, key institutions include the Djibouti Ports, Free Zones Authority and the Djiboutian Road Agency. In Ethiopia, three ministries (Ministry of Transport, Ministry of Trade, and Ministry of Revenues) and relevant agencies and authorities play key roles, including the Ethiopian Maritime Affairs Authority in charge of the maritime industry and the Ethiopian Customs Commission for the customs operation. However, there is no single institution in place to lead the institutional coordination and corridor management, resulting in overlapping but disconnected systems and operations.

8. **Proposed Djibouti Corridor Management Authority (DCMA)**. Enhanced coordination in all aspects of policies, procedures, and operations is essential to the success of trade and logistics facilitation in the Djibouti Corridor for both countries. The GoD and GoE prioritize the DCMA as a key institutional intervention and plan to implement it as part of the projects, building on the work by the EU commissioned consultants. DCMA will comprise stakeholders from Public and Private sectors engaged in logistics from both Djibouti and Ethiopia and the first

consultation workshop was held virtually due to the COVID-19 pandemic. The SOPs will work with GoD and GoE to accelerate the establishment of DCMA in the early stage of this project implementation.

9. The COMESA Secretariat also supports the establishment of DCMA. A draft Djibouti Corridor Agreement and Strategic Plan has been prepared, awaiting for validation and signing by the COMESA Member States. The EU has availed funds for the years 2021-2022 and contracted DT GLOBAL IDEV Europe SL under the Ethiopia Transport and Logistics Support Program (ETLSP) to support the establishment of the corridor authority, and they have started work and submitted an inception report in May 2021.

ONE STOP BORDER POSTS

10. One of the modern trade facilitation approaches for improving cross-border operations is the establishment of One-Stop Border Posts (OSBPs). The OSBP concept refers to the legal and institutional framework, facilities, and associated procedures that enable goods, people, and vehicles to stop in a single facility in which they undergo controls following applicable regional and national laws to exit one State and enter the adjoining State. Several models of OSBP configuration and layout exist throughout the world depending on topographic conditions, integration and border coordination maturity between the border agencies, mitigation of potential risk of border closure or border activities disruption between the two countries. The GoD and GoE proposed the following improvements to OSBPs along the corridor.

- *Galafi OSBP (northern route): a single facility OSBP for border agencies of both countries:* The Galafi border post is located on the northern corridor in the Afar Regional State of Ethiopia, about 694 km from Addis Ababa and 219 km from of the City of Djibouti. The Galafi border is the most important border post and operates 24/7. Currently, Galafi faces infrastructure and facilities gaps for both Ethiopian and Djiboutian sides which make cross-border procedures cumbersome for traders and incur delays at the border. There is no common building between Djibouti and Ethiopian administrations for all formalities; telecommunication network is unreliable at the border and results in frequent disruptions to the internet connectivity; and the existing low capacity road infrastructure creates truck traffic bottlenecks. Given the sheer volume and regional significance, improvements to the Galafi OSBP are important to reducing transit time, cost, and traffic congestion, as well as harmonizing and standardizing operations. As equipment and installations already largely exist at Galafi, the two governments have opted for locating the border agencies of both countries in a wholly single facility OSBP model, with import/export formalities and controls from and into each country being carried out in the same facility.
- *Guelileh/Dewele OSBPs (southern route): a two-facility OSBP installation at Guelileh /Dewele border with an antenna of juxtaposed border crossing controls and formalities in each country*: At the current Guelileh/Dewelle border, equipment, installations and infrastructures are much limited. Under an ongoing AfDB project, AfDB has committed to funding the feasibility study and design of an OSBP at this border and both governments have chosen a two-facility OSBP model, with one facility in each country. Under this model, formalities and controls on export from Djibouti/import to Ethiopia will be carried out in the Guelileh facility in Djibouti, and formalities and controls on export from Ethiopia/import to Djibouti carried out in Dewele facility in Ethiopia. The AfDB funded feasibility study and design are for a road-based juxtaposed antenna at Dewele border side of the Guelileh/Dewelle border OSBP. The study is underway and will be completed by 2022. The GoE is exploring various financing options for the Dewele OSBP. As for the Guelileh OSBP on the Djiboutian side, AfDB only committed to financing the feasibility study and design for the juxtaposed antenna at the Guelileh border side of the OSBP. In anticipation of increase in volume and regional importance of road transport on the upgraded southern route, improvements to the

Guelileh/Dewelle border OSBP are important to reducing transit time, cost, and traffic congestion, as well as harmonizing and standardizing operations.

11. **A draft OSBP Bilateral Agreement** has been prepared by IGAD in line with the OSBP sourcebook and international best practices and is under the final review and signing by the GoD and GoE. The same model of OSBP bilateral agreement might be used for the OSBPs at Galafi and Guelileh/Dewele border, subject to necessary adjustment and adaptation to the local specificity.

DEVELOPMENT PARTNERS EFFORTS, GAPS, AND COORDINATION

12. There are four ongoing interventions by the DPs:

- *European Development Fund EDF 11 trade facilitation program.* Funded by the 11th window of the European Development Fund (EDF 11), it consists of three key interventions: (a). improvement of operations of OSBPs; (b). implementation of Regional Transit Agreements; and (c). improvement of border management systems for customs and trade including customs automation, electronic Single Window System (eSWS), trade and transport corridor monitoring system. Under the program support, Ethiopia launched the Phase One eSWS in 2020 to provide one-stop information system. The next phase, to be financed under the Ethiopia project, is to establish an electronic Certificate of Origin (eCO) system and build interface of the Ethiopian eCO with the COMESA eCO and other eCO systems worldwide.
- *IGAD's Trade and Transport Facilitation Program (TTFP).* The IGAD TTFP is funded by the AfDB and coordinated by IGAD. This program focuses on the modernization of roads in the Djibouti Corridor and the study and design of improvements at Galafi OSBP. Kagga & Partners Consulting Engineers, in association with Africon Universal Consulting, is carrying out the feasibility study and detailed designs for the Galafi OSBP.
- *The Ethiopia Trade Logistics Project*[56]*.* Financed by the WB in 2017, this project is to improve operational capacity, efficiency, and range of logistics services at the Mojo Dry Port, aiming to transform Mojo dry port into a multi-user facility Green Logistics Hub and to meet the growing demand for specialized value-added logistics services and for export.
- *Ethiopian Customs Management System Project.* Financed by EU, this project is to introduce an electronic Customs Management System (eCMS) that will comply with the international Customs standards, streamline Customs operations including transit monitoring, improve clearance time and security. Upon completion of this project, the key features of the eCMS will include automation of all transit operations of the main transit corridors, connection with the Customs Offices in Galafi, Addis Ababa and Mojo dry port, among others.

13. Going forward, the sector calls for enhanced cooperation and exchange of information among the stakeholders (Coordinating Ministry, Lead Agencies, COMESA and other DPs such as AfDB, EU, IGAD) to synergies and complement ongoing interventions in Ethiopia and across the corridor. The DCMA is proposed to lead this coordination.

PROPOSED SOLUTIONS AND RECOMMENDATIONS TO IMPROVE THE BORDER EFFICIENCY

14. **Gap areas in need of financing**. While the ongoing work by the GoD and GoE and DPs will substantially benefit Djibouti and Ethiopia toward transforming the trade and logistics sector, the needs are much larger in order to

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create systematic changes and lasting impacts. Several key gap areas have not been covered under DPs' interventions, such as:

- Institutional development. The establishment and operationalization of DCMA is of uttermost importance to achieving a coordinated corridor management between Djibouti and Ethiopia. Key technical assistances on legal, procedure, and protocol instruments are also sought by the GoD and GoE to improve coordination between the two countries.
- Border facility infrastructure. While GoD and GoE have prepared plans to improve border facilities including OSBPs and truck terminals, substantial financing is needed for the construction of the proposed OSBPs and truck terminals.
- System and connectivity. The supply and installation of ICT systems to ensure seamless interface of the systems between the two countries will unlock the "soft" bottleneck challenging the Djibouti corridor. Implementing eSWS Phase 2 and eCO in Ethiopia, upgrading the Customs Management System from ASYCUDA World to a web-based system in Djibouti, and enabling the interface between the two countries' systems are some of critical gaps in need of financing.
- Capacity and training. Modernizing trade and logistics require extensive training on using new systems and sustained capacity building to bring in knowledge and skills to both public and private sectors.

15. **Proposed activities under World Bank financing**. Building upon an assessment of relevant initiatives undertaken by the GoD and GoE and DPs and the identification of key gap areas, the proposed SOPs aim to finance interventions and recommendations that target gaps, unlock bottlenecks, and improve border operations efficiency and trade facilitation. The proposed SOPs are designed to support activities under the respective components on trade facilitation and logistics enhancement. This is in addition to the technical assistance support being offered by the WB in other projects like the Trade Logistics Project, as well as by other partners such as EU and AfDB.

ANNEX 4: Economic Analysis

A. Economic Evaluation Assumptions

1. To ensure that the Project generates sufficient economic benefits that warrant the investments, a Cost Benefit Analysis was conducted for the project roads using the HDM-4 model that computes annual road agency and users' costs for each project alternative over the evaluation period, comparing the proposed project investments with the conditions without such investments. The quantities of resources consumed, and vehicle speeds are calculated first and then multiplied by unit costs to obtain total vehicle operating costs, travel time costs and CO_2 emissions. The Road Safety costs are retrieved from the RSSAT model. The resources consumed, and vehicle speeds are related to traffic volume and composition, and road surface type, geometric characteristics, and roughness.

2. The quantified net benefits computed by HDM-4 for the project roads comprise vehicle operating costs, travel time costs, road maintenance costs due to the road improvements, road safety benefits, and CO_2 emissions costs. For the HDM-4 calculations, the following assumptions were applied:

    - A discount rate of 6 percent and an evaluation period of 20 years. All costs are stated in constant 2021 US Dollars. Economic costs are 90 percent of financial costs.
    - Benefits from normal traffic and diverted traffic from the Djibouti to Addis North to South Corridors were considered in the analysis. No generated traffic benefits were considered in the analysis.
    - The social cost of carbon is US$42 per ton equivalent in 2022 increasing to US$64 per ton equivalent in 2041, based on the low scenario for the social cost of carbon derived from the 2017 WB guidance note on shadow price of carbon in economic analysis.[57]

3. The table below presents the vehicle fleet economic unit, basic characteristics, and the average traffic composition on the project roads. The economic costs reflect the costs net of duties and tax. Category 2 represents mainly passenger cars, category 3 represents small trucks, buses and coaches, and category 4 represent heavy vehicles[58]. Category 3 vehicles represent around 67 percent of the traffic on the project roads.

Table 4.1: Vehicle Fleet Economic Unit Costs, and Characteristics.

	Category 2	Category 3	Category 4
New Vehicle Cost (US$)	11,079	45,132	58,136
New Tire Cost (US$)	55	121	167
Fuel Cost (US$/liter)	0.33	0.30	0.30
Lubricant Cost (US$/liter)	2.45	2.45	2.45
Maintenance Cost (US$/hour)	4.00	4.00	4.00
Crew Cost (US$/hour)	4.00	4.00	4.00
Overhead Cost (US$/year)	410	683	683
Interest Rate (%)	6	6	6
Passenger Work Time (US$/hour)	4.90	4.90	4.90

[57] The guidance note presents low and high scenarios of the social cost of carbon over time, from which the high scenario was used due to positive net CO2 emission of the project.
[58] Category 1 represents motorbikes, which are insignificant on the project roads.

Passenger Non-Work Time (US$/hour)	1.23	1.23	1.23
Cargo Time (US$/hour)	0.00	0.09	0.11
Annual Utilization (km)	20,000	50,000	60,000
Annual Utilization (hours)	1,200	2,000	2,300
Service Life (years)	12	12	15
Number Passengers (#)	3	1	0
Work Related Passenger Trips (%)	75	0	0
Operating Weight (tons)	1.60	5.50	13.00
ESA Loading Factor	0.00	0.15	2.00
Typical Traffic Distribution (%)	22%	11%	67%

4. The project will finance the improvement of the RN1 road between Djibouti and Arta and the road between the RN1/RN5 Junction and the Guelileh Border (RN5 and RN19 road sections). The project roads will improve the road infrastructure along the Djibouti to Addis South Corridor[59] on the Djiboutian section. The project will provide safe and efficient transport link between Djibouti and the Guelileh Border with Ethiopia. The project roads will be upgraded within the existing road alignments by rehabilitating the pavement and partial widening to 11 meters carriageway width.

5. The table below presents the current project roads characteristics. The total length of the two road sections to be supported by the project is 42.0 km. The current average car travel speeds on the project roads is around 56 km per hour, which is expected to increase to around 70 km per hour after the road improvements. Current heavy truck speeds are around 20 km per hour increasing to 35 km per hour after the road improvements.

Table 4.2: Current Road Section Characteristics

No	Road Section	Length (km)	Width (m)	Car Speed (km/hr)	2021 Roughness (IRI, m/km)	2021 Traffic (AADT)
1	RN1: Djibouti - Arta	21.0	6.0	58	6	3,524
2	RN1/RN5 Junction - Ali Sabieh – Guelileh (RN5 and RN19 road sections)	21.0	6.0	53	10	444
Total		42.0	6.0	56	8	1,984

6. The RN1 road between Djibouti and Arta, with 21 km, due to its proximity to Djibouti has high traffic, being six meters wide, on a hilly terrain and in poor condition. This RN1 road section is common to the Djibouti to Addis North Corridor[60] and the South Corridor; thus, its traffic is not affected by the road user's choice of corridor to use to travel from/to Djibouti to Addis. The road currently carries 3,524 vehicles per day that is expected to grow at 8.6 percent[61] per year up 2026 and 5.9 percent per year thereafter.

7. The road between the RN1/RN5 Junction and the Guelileh Border, with 21 km, is six meters wide, on a flat to hilly terrain, currently carrying relatively little traffic and being in very poor condition. This road section is part of the Djibouti to Addis South Corridor that currently carries very little traffic from/to Djibouti to Addis (5 percent of the total traffic) due to the overall bad condition of the corridor and insecurity in East Ethiopia. However, it is estimated that after the improvement works are completed on the Djibouti to Addis South Corridor on the

[59] The "South Corridor" is a road through Djibouti, the Guelileh border, Dewele and Dire Dawa in Ethiopia, using the RN1 then the RN5 in Djibouti, and the A10 in Ethiopia.
[60] The "North Corridor" is a road through Djibouti, the Galafi border and Semera using the RN1 in Djibouti and the A1 in Ethiopia.
[61] Based on the IMF prediction that the GDP in Djibouti will increase at 5.9 percent per year from 2022 to 2026 and an elasticity of 1.5.

Djiboutian and Ethiopian sides and the insecurity in East Ethiopia is resolved, the traffic on the road will increase to around 2,200 vehicles per day in 2026, as a product of the traffic diversion from the North to South Corridors between Djibouti to Addis (39 percent of the total traffic). After 2026, the traffic is estimated to grow at 5.9 percent per year.

8. The total financial capital cost for the road works were estimated for each project road. The table below present the road works to be done per project road and the corresponding estimated financial and economic costs. The total financial cost for the road works is US$ 63.90 million that corresponds to US$ 1.521 million per km.

Table 4.3: Road Works Costs

No	Road Work	Unit Cost per km (US$/km)		Total Cost (US$ Million)	
		Financial	Economic	Financial	Economic
1	Rehabilitation and partial widening	1,428,571	1,285,714	30.00	27.0
2	Rehabilitation and partial widening	1,614,286	1,452,857	33.90	30.5
Total		1,521,429	1,369,286	63.90	57.5

9. The table below presents the resulting economic indicators.

Table 4.4: Economic Analysis Results

No	NPV at 6% (Million US$)	EIRR (%)
1	119	36.0%
2	60	19.0%
Total	179	27.0%

B. Economic Analysis Results

10. The overall EIRR of the project is 27.0 percent and the NPV is US$ 179 million, at 6 percent discount rate, corresponding to an NPV/Investment Cost ratio of 2.8.

11. Vehicle operating costs benefits account for around 65 percent of the project benefits, road safety benefits for 25 percent, and time travel benefits for 7 percent. The table below presents the distribution of the project net benefits.

Table 4.5: Distribution of Net Benefits (Million US$)

No	Capital Costs	Maintenance Costs	Normal VOC	Normal Time	Road Safety	CO2 Emissions	Total
1	-13.5	0.1	103.9	11.4	12	4.5	119
2	-15.9	0.1	31.3	3.3	40	1.3	60
Total	-29.4	0.3	135.2	14.6	52	5.8	179

12. Sensitivity analysis shows that the project is economically justified even if construction cost is 20 percent higher or if the project benefits are 20 percent lower or both. If construction costs were 20 percent higher and the project benefits were 20 percent lower, the overall EIRR would drop to 17.8 percent Switching values analysis shows that construction costs would have to increase by 246 percent for the EIRR to reach 6 percent.

13. The table below presents the sensitivity analysis results

Table 4.6: EIRR Sensitivity Analysis

No	Base (%)	Costs +20%	Benefits -20%	Cost +20% Benefits -20%
1	34.5%	30.6%	31.1%	27.4%
2	12.4%	10.1%	10.4%	8.2%
Total	23.1%	20.2%	20.6%	17.8%

C. GHG Accounting

14. Total gross Carbon Dioxide (CO2) emissions over the 20-year evaluation period under the without-project scenario are estimated at 822,492 tons and under the with-project scenario at 622,910 tons resulting in net CO2 emissions of -199,582 tons, or -9,979 tons per year. The decrease in CO2 emissions is attributed to the decrease in fuel consumption thanks to the project intervention.

Table 4.7: CO2 Emissions (tons)

No	Without Project	With Project	Net
1	636,762	481,189	-155,573
2	185,730	141,721	-44,008
Total	822,492	622,910	-199,582

D. Public Sector Financing and WB Value Added

15. Private sector financing is not available to undertake roads project of this nature in Djibouti. Public sector financing is the appropriate vehicle for financing the proposed road works because the civil works costs cannot be recovered through tariffs due the low traffic of the project roads.

16. The WB's role is justified because of the project's economic and social benefits. The WB's engagement in Djibouti's road sector adds value in several manners, including: (i) bringing global experience on road asset management; (ii) providing best practices in climate resilient transport and sustainable maintenance solutions; and (iii) helping address environmental and social aspects.

ANNEX 5: Financial Analysis and PCM Calculation

1. **A preliminary financial analysis was undertaken in the feasibility study on the Djibouti-Ethiopia road corridor PPP (P172970).**

2. **Traffic and Revenue**: 3,500 vehicles use the corridor per day with a high proportion (over 63 percent) of these vehicles being heavy vehicles. Traffic will continue to grow strongly due to background factors such as GDP and car ownership growth with a relatively minor impact coming from competing infrastructure (i.e. rail) or from diversion of traffic from the Port of Djibouti to other East African ports. Currently, heavy vehicle tolls of US$20 are levied on the corridor but the freight interviews undertaken as part of the study indicated that there would be willingness to pay tolls of up to US$40 if safety and reliability improvements could be made. Applying a toll of US$40 is estimated to create a funding stream that will allow the investment and O&M costs of the investment program to be fully recovered. With a US$20 toll, cost recovery is not fully achieved with investment a funding gap of US$10m (in 2020 values) estimated. Whilst the funding stream of an increased toll will allow the costs of the program to be recovered, the initial works will still need to be financed. In this respect, the project plays an important role.

3. **Market Sounding**: As part of the study, a market sounding exercise was undertaken to solicit feedback from infrastructure industry on the potential interest and viability of the private sector participating and/or investing in the project. Views from a diverse mix of corporates, development finance institutions, and infrastructure funds, which are active equity and debt providers, and operators in the Africa infrastructure market were collected. Responses from the stakeholders indicated that there would be private sector interest and appetite for the project and a belief that many of the project's risks could be managed effectively. However, concern was raised around political and payment risks associated with entering a long-term contract with the Government where private capital (e.g., debt or equity) was put at risk. Based on these market sounding findings and a thorough quantitative and qualitative analysis of a range of procurement options, a DBOM type contract was recommended for the corridor. This was found to be the model that would best balance the need for effective longer-term risk transfer to the private sector with bankability and deliverability.

4. **In PBC and DBOM approaches, the contractor manages construction and O&M costs and builds these risks into a fixed payment schedule, creating a smooth and predictable budget profile for the Government.** These are risks that the private sector has the expertise, experience and innovation to manage and do not create a long-term finance requirement for the private sector. Despite not benefitting from the presence of private capital leaving 'skin-in-the-game', this option creates a step change in ensuring the long-term sustainability of the project assets and ensuring these are developed and continue to have a robust operating and asset management regime, preventing deliberate deferred maintenance due to budget shortages. During construction, payment risk is limited to the progress made between milestones, and during operations, service payments are expected to be substantially lower than the toll revenue collected, therefore the periodic service payment from Government would be a robust source of funding since it is backed by tolls. Finally, while such a lighter model aligns well with the Public sector management capacity, it is also attractive for the private sector as confirmed by the market sounding.

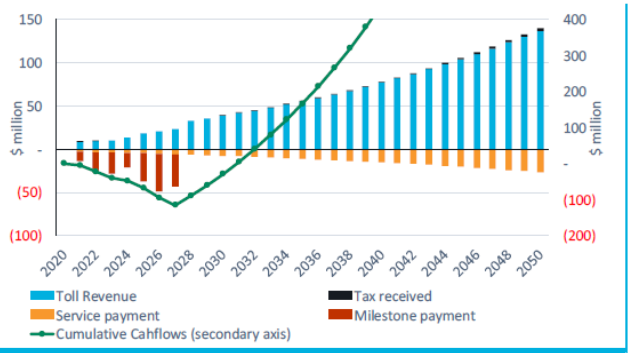
Table 5.1: DBOM Financial model assumptions

Variable	Assumption	Source
Currency	USD	-
Inflation	2.0%	World Economic Outlook Database (IMF)
VAT	10%	Imports-Exports Société Générale[22]
Tax rate	25%	Imports-Exports Société Générale [23]
Time horizon	30 years	-
Return	Operating margin = 20%	See chapter 3
Capex, Opex, Revenue forecasts	See chapter 3	
Downside case assumptions with respect to base case	Reduction of 10% in traffic Increase of 10% in Capex Increase of 10% in Opex	
Model target	Operating Margin = 20%	
Closing Variable	Milestone payment Service payment	

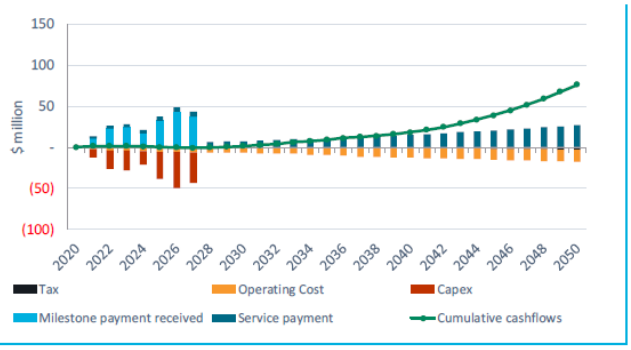
Source: Feasibility Study on the Djibouti-Ethiopia road corridor PPP (P172970)

Figure 5.1: DBOM results base case

Government cash-flows during Construction		1	2	3	4	5	6	7
Toll Revenue	$m	8.4	9.1	9.8	13.4	17.9	20.9	22.8
Tax received	$m	0.4	-	-			-	-
Total Revenues	**$m**	**8.9**	**9.1**	**9.8**	**13.4**	**17.9**	**20.9**	**22.8**
Subsidy	$m	3.4	3.7	3.9	4.3	4.8	5.6	6.1
Capex	$m	-	-	-	-	-	-	-
Milestone payment	$m	10.4	22.9	24.1	16.5	32.7	43.2	37.2
O&M during construction	$m	-	-	-	-	-	-	-
Total Costs	$m	13.8	26.6	28.0	20.8	37.5	48.8	43.3



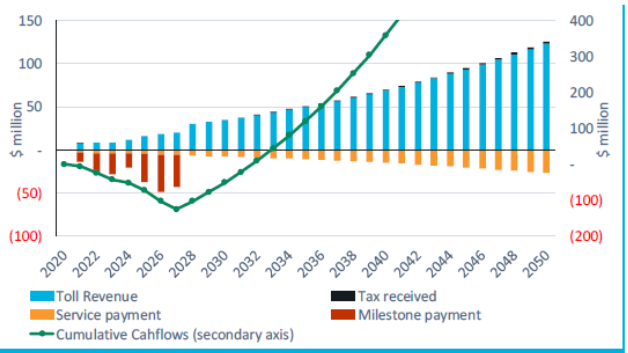
Sources and Uses - Private		1	2	3	4	5	6	7
Toll Revenue	$m	-	-	-	-	-	-	-
Senior Debt	$m	-	-	-	-	-	-	-
Equity	$m	-	-	-	-	-	0.4	0.1
Subsidy	$m	3.4	5.0	5.3	5.6	5.8	5.6	6.1
Milestone payment	$m	10.4	22.9	24.1	16.5	32.7	43.2	37.2
Total sources	**$m**	**13.8**	**27.9**	**29.4**	**22.1**	**38.5**	**49.2**	**43.4**
Capex	$m	10.4	22.9	24.1	16.5	32.7	43.2	37.2
O&M during construction	$m	3.0	5.0	5.3	5.6	5.8	6.0	6.1
Interest during construction	$m	-	-	-	-	-	-	-
Financing fees	$m	-	-	-	-	-	-	-
Taxes	$m	0.4	0.0	-	-	-	-	-
Total uses	**$m**	**13.8**	**27.9**	**29.4**	**22.1**	**38.5**	**49.2**	**43.4**



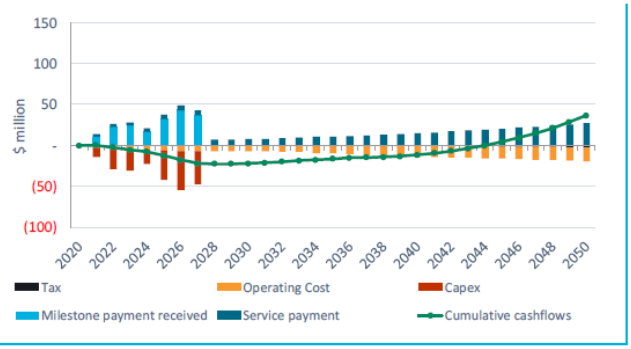
Source: Feasibility Study on the Djibouti-Ethiopia road corridor PPP (P172970)

Figure 5.2: DBOM results downside case

Government cash-flows during Construction		1	2	3	4	5	6	7
Toll Revenue	$m	7.6	8.2	8.8	12.1	16.1	18.8	20.5
Tax received	$m	0.4	-	-			-	-
Total Revenues	**$m**	**8.0**	**8.2**	**8.8**	**12.1**	**16.1**	**18.8**	**20.5**
Subsidy	$m	3.4	3.7	3.9	4.3	4.8	5.6	6.1
Capex	$m	-	-	-	-	-	-	-
Milestone payment	$m	10.4	22.9	24.1	16.5	32.7	43.2	37.2
O&M during construction	$m	-	-	-	-	-	-	-
Total Costs	$m	13.8	26.6	28.0	20.8	37.5	48.8	43.3



Sources and Uses - Private		1	2	3	4	5	6	7
Toll Revenue	$m	-	-	-	-	-	-	-
Senior Debt	$m	-	-	-	-	-	-	-
Equity	$m	-	2.5	2.9	2.4	4.8	5.4	4.4
Subsidy*	$m	3.4	3.8	3.9	4.3	4.8	5.6	6.1
Milestone payment	$m	10.4	22.9	24.1	16.5	32.7	43.2	37.2
Total sources	**$m**	**13.8**	**29.2**	**30.9**	**23.2**	**42.3**	**54.1**	**47.7**
Capex	$m	11.4	25.2	26.5	18.2	35.9	47.5	41.0
O&M during construction*	$m	2.0	4.0	4.4	5.0	6.3	6.6	6.7
Interest during construction	$m	-	-	-	-	-	-	-
Financing fees	$m	-	-	-	-	-	-	-
Taxes	$m	0.4	-	-	-	-	-	-
Total uses	**$m**	**13.8**	**29.2**	**30.9**	**23.2**	**42.3**	**54.1**	**47.7**



Source: Feasibility Study on the Djibouti-Ethiopia road corridor PPP (P172970)

5. **PCM Calculation:** The approach considered for the PCM calculation is based on a 7-year OPBRC contract, within which 5 years of O&M of the corridor are considered, after a 2-year period for rehabilitation / upgrade of the road sections. The selected bidder for the OPBRC will be requested to invest an amount of US$ 3 million toward the sub-component 1(b) as a pilot in the increase of private sector participation in the road sector of Djibouti. This investment will be recouped by the private sector from toll revenues.