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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Jun-2023 | Report No: PIDA31503

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Eastern and Southern Africa	P174485	Horn of Africa Initiative: Regional Economic Corridor Project (Addis-Djibouti Corridor)	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EASTERN AND SOUTHERN AFRICA	18-May-2023	13-Jul-2023	Transport
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	Ministry of Transport and Logistics, Ethiopia Roads Administration	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve regional connectivity and enhance logistics efficiency along the Addis-Djibouti road corridor

Components

Component 1: Safe, Smart, Efficient, and Climate-Resilient Road Corridor Construction
Component 2: Trade Facilitation and Logistics Enhancement
Component 3: Localized Complementary Infrastructure and Interventions
Component 4: Institutional Development and Project Monitoring
Component 5: Contingency Emergency Response Component

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	760.00
Total Financing	760.00
of which IBRD/IDA	730.00
Financing Gap	0.00

DETAILS

World Bank Group Financing	
International Development Association (IDA)	730.00
IDA Grant	730.00
Non-World Bank Group Financing	
Counterpart Funding	30.00
Borrower/Recipient	30.00

Environmental and Social Risk Classification

High

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Regional and Country Context

1. **Ethiopia is a landlocked country in the Horn of Africa (HoA) that shares borders with six countries: Eritrea, Djibouti, Somalia, Kenya, South Sudan, and Sudan.** In October 2019, geographic, economic, and historical ties led these countries to form the Horn of Africa Initiative (HoAI) to take regional action to address common development challenges.[1] The HoAI is a US$15 billion package of priorities in four thematic areas: (i) development of regional infrastructure networks, covering transport upgrades, energy, and digital connectivity; (ii) trade and economic integration, covering trade facilitation, regional value chains, and improvements in the investment climate; (iii) resilience building, involving strengthening of pastoral production systems; and (iv) human capital development, focusing on building skills for future employment and empowering women and youth.

2. **The HoA countries have a long history of fragility, catastrophic droughts, and protracted conflicts.** A complex set of factors has created tensions within and between states, at times erupting into violent conflicts that have undermined the capacity of states to achieve sustained economic growth, provide basic public services, and maintain social cohesion. Climate change is now exacerbating an already difficult situation, leading to increased tension over natural

[1] The initiative was launched with the support of the African Development Bank (AfDB), the European Union (EU), and the World Bank. It includes Uganda, as well as Ethiopia and its neighboring countries. The sources for this and other sections of the PAD are listed in Annex 8.

resources. Successive shocks of various types have displaced people and increased migration to the Gulf countries. In 2018, more than 315,000 people migrated from the HoA along the so-called Eastern Route (toward Yemen and the Arabian Peninsula). This figure rose to 469,000 in 2019 (DTM 2019). Lack of equitable economic growth lies at the core of the seemingly endless conflicts and instability. Poverty and inequality remain significant. The COVID-19 pandemic had a significant impact on the economies of the HoA, pushing vulnerable people into poverty and reversing gains in poverty reduction.

3. **The proposed Ethiopia HOA–Regional Economic Corridor Project (HoA–RECORD) is the fourth in a series of projects under the HoAI transport pillar.** Involving multiple development partners, the projects are the Kenya Horn of Africa Gateway Development Project, approved in 2020 (P161305; IDA Credit 6768-KE); the Djibouti Regional Economic Corridor Project (P174300; IDA Credit 7016-DJ), approved in 2021; and the Somalia–Horn of Africa Infrastructure Integration Project, approved in 2022 (P173119). Annex 5 provides details on the business case for improving the Addis–Djibouti corridor, which accounts for 95 percent of the Ethiopia's import-export trade volumes and is critical to regional integration and national trade. These projects are also aligned with the ambitions of the African Continental Free Trade Area (AfCFTA), which aims to increase socioeconomic development, reduce poverty, and make Africa more competitive in the global economy. Connectivity to regional and global markets is critical for all these goals, and corridors such as Addis-Djibouti are the backbone of that connectivity.

4. **Ethiopia is the second-most populous nation in Africa, with more than 112 million people.** It is considered the anchor state of the HoA, with some 40 percent of the region's population, 75 percent of its average income, and 35 percent of its gross regional product. Per capita income remains low, at US$850, and income distribution unequal. Ethiopia aims to reach lower-middle-income status by 2025. To do so, it has embarked on a series of reforms and accelerated investments. But the recent conflict in the Tigray region, with spillover effects in the Afar and Amhara regions, has had wide-ranging impacts in terms of loss of lives, increasing the numbers of displaced people, worsening food insecurity, complicating aid delivery logistics, and putting new burdens on the Treasury. Although the full extent of the conflict is still unfolding, Ethiopia's ambition to attain middle-income status by 2025 has have suffered a setback. The current cessation of hostilities and implementation of the peace agreement provide an opportunity to refocus on the development agenda while addressing the setbacks to social cohesion and economic transformation caused by the conflict.

5. **Ethiopia's development model has achieved rapid growth, but it depends on large public investments, which have eroded external competitiveness and increased macroeconomic imbalances.** Public infrastructure provided fast economic growth in the first half of the 2010s; this slowed through the decade. Recent shocks (including the war in Ukraine) have exacerbated these macroeconomic imbalances, raising prices for basic foods and aggravating poverty. An estimated 1.8 million jobs in Ethiopia were lost during the pandemic; incomes and livelihoods of several million informal workers, self-employed workers, and farmers declined, despite the government's efforts to mitigate the impacts. The situation was compounded by other negative

shocks, including a locust invasion, political disruption, civil conflict, communal tensions, internal displacement, and destruction of property and infrastructure.

6. **Recognizing the shortcomings of the state-led development model, the government initiated a reform program in September 2019 that identified industrialization as a key to reaching middle-income status.** The Homegrown Economic Reform Agenda targeted competition in growth-enabling sectors, prioritizing telecommunications, logistics, and energy. To facilitate industrialization, the government set out a program to strengthen institutional, legal, and regulatory frameworks, with a focus on promoting foreign direct investment in manufacturing and agro-based industries.

7. **Inefficiencies in trade logistics represent a major challenge to competitiveness.** High logistics costs undermine the productivity of the economy; the account for nearly a third of GDP in Ethiopia, two to three times the cost in countries with efficient systems. Ethiopia ranked 129 among 160 countries on the World Bank's 2016 Logistics Performance Index. In the World Bank's *Ease of Doing Business 2020*, Ethiopia ranked 156 in a pool of 190 countries. The Africa Regional Integration Index reveals worse performance than Kenya and Uganda, especially on trade integration. High logistics costs are a major constraint in value chains, whether for inputs like fertilizers or for final products. Ethiopia's labor costs for making a T-shirt, for example, are significantly lower than those of some Asian countries, but the high cost of shipping a 20-foot container from Ethiopia to Germany is 247 percent higher than from Vietnam and 72 percent higher than from Bangladesh, negating the lower labor costs.

8. **Manufacturing is critical for the future of Ethiopia, but agriculture is still the engine of the economy and the livelihood of the majority of Ethiopians.** Two-thirds of the labor force is engaged in agriculture, and improved infrastructure, connectivity, and productivity in rural areas have reduced poverty. Rural connectivity has improved considerably since 2010, but poor market access and high logistics costs, associated with isolation from key markets, lowers farm-gate prices and keeps incomes low.

9. **Ethiopia, highly vulnerable to climate change, is experiencing climate-related floods, landslides, extreme heat, and droughts.** The country ranks 161 out of 182 in climate vulnerability and low readiness to improve resilience. The average number of hot days per year increased by 20 percent between 1960 and 2003. This trend is projected to continue, raising hot days to 19–40 percent of days by the 2060s and 26–69 percent by the 2090s. Ethiopia has shown strong variability and volatility in precipitation levels over decades and from year to year, with some regions seeing increases in precipitation and others a reduction in rainfall and sustained periods of drought. Ethiopia's hydro-meteorological hazards bring flash floods, riverine floods, landslides, extreme heat, and drought, damaging crops and infrastructure alike. Climate change is expected to increase the frequency and intensity of these hazards.

10. **In sum, Ethiopia is at an inflection point. Despite recent shocks, an agenda of equitable economic growth anchored in trade in agriculture products and manufacturing has the potential to reignite the development agenda.** The proposed Project takes the context and the

stated challenges into consideration in the formulation of a project design that addresses the core elements through the framing of project components and activities.

Sectoral and Institutional Context

11. **In response to the strategic national ambition to unlock the potential of value added agro-products and manufacturing, the Ministry of Transport & Logistics (MoT&L) which is responsible for transport sector policy, regulation, monitoring, guidance, and oversight in Ethiopia has led a program of sector reform.** The MoT&L oversees three autonomous authorities along with a number of enterprises and agencies[2]. MoT&L has developed policy documents and instruments to guide the sector, including the first ever National Transport and Logistics Policy (2021); Transport Sector Ten Years Perspective Plan (2020–30); National Logistics Strategy (2018–28); National Road Safety Strategy; Non-Motorized Transport Strategy (2020-2029); Road Sector Policy; Roads Proclamation; draft National Transport Strategy; 10-year Road Master Plan (with development of the Next Generation Road Sector Plan underway); Road Asset Management Policy and Strategy; Environmental, Social and Occupational Health and Safety Policy and Strategy; and a Communication Policy and Strategy. Under the MoF, and with the Bank's support, a public-private partnership (PPP) policy, proclamation, and accompanying regulations have been developed. All these major policy documents are meant to address gaps in policy making and guide the sector towards achievement of development goal of middle-income status.

12. **GoE recognizes that underdeveloped transport infrastructure and logistics are impediments to unlocking Ethiopia's competitiveness and economic growth, as gains made through production efficiency are canceled out by the high cost of road transport and logistics services**. Roads carry 90 percent of freight and passengers in Ethiopia and are therefore a critical lifeline for a landlocked country like Ethiopia, that relies heavily on agriculture, and has embarked on an ambitious industrialization agenda. In the past 23 years, Br 414.8 billion (US$10.4 billion) has been spent on the road network3. Of these funds, the majority has been directed to rehabilitating and upgrading national roads (34 percent) and constructing link roads (32 percent). Despite significant progress in the past years, gaps in road network coverage and quality still remain major constraints.[4] At 130.9 km, the road density per 1,000 square kilometers in Ethiopia is much lower than Africa's average of 204 km, and slightly lower than the average of 140 km for Sub-Saharan countries. Being a landlocked country, Ethiopia's main access to the international market is through the seaports of neighboring countries, with road and rail connections being the main surface transport modes to link Ethiopia to the region and globally links. The 10 years perspective plan (2020–30) that the MoT&L officially launched in early 2021 outlines the direction the government intends to follow in the transport sector with the aim of improving the logistics performance index from the current value of 126 to 40 by 2030. Targets are set for transport infrastructure, transport services, traffic safety, logistics, increased resilience to climate change, and capacity-building initiatives.

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[2] The federal authorities under MoT&L&L are: Federal Transport Authority (FTA), Ethiopian Civil Aviation Authority, and Ethiopian Maritime Affairs Authority (EMAA). The enterprises and agencies consist of Ethiopian Airlines Group, Ethiopian Airports Enterprise, Ethiopian Shipping and Logistics Services Enterprise (ESLSE), Ethiopian Railroad Corporation, Ethio-Djibouti Rail Enterprise, Ethiopian Road Construction Corporation, Office of the Road Fund, National Road Safety Council, the Ethiopian Toll Roads Enterprise (ETRE), and the Third-Party Insurance Fund (http://MoT&Lr.gov.et/accountable-institutions).

[3] Twenty-three years RSDP Assessment Report.

[4] Željko Bogetić and Johannes W. Fedderke, "International Benchmarking of South Africa's Infrastructure Performance" (Policy Research Working Paper 3830, World Bank, Washington, DC, 2006); Cesar Calderon, Catalina Cantu, and Punam Chuhan-Pole, "Infrastructure Development in Sub-Saharan Africa: A Scorecard" (Policy Research Working Paper 8425, World Bank, Washington, DC, 2018); (International Road Federation), "World Road Statistics 2019," latest year of available data for countries; Vivien Foster and Cecilia Briceno-Garmendia, *Africa's Infrastructure: A Time for Transformation* (Washington, DC: World Bank, 2010); WEF (World Economic Forum), *The Global Competitiveness Report 2017–2018* (Geneva: WEF, 2017

For instance, Ethiopia's road coverage is targeted to reach 246,000 km, cargo vehicle terminals are expected to increase from 1 to 23, and one-stop border posts (OSBPs) to increase from the existing two to six.[5]

13. **More than 95 percent of Ethiopia's trade by volume moves through the Addis-Djibouti corridor, making this corridor the most important artery to access regional and international markets.** Ethiopia annual imports amount to US$15 billion worth of goods, and exports about US$5 billion. The Addis-Djibouti corridor is the transport artery for imports and exports, reaching 16.5 million tons per year. Freight is largely transported by truck from Djibouti to Addis Ababa and then distributed across the country. The Addis-Djibouti Railway carries a smaller volume of freight, at an average 1.2-1.6 million tons per year. Key nodes within the logistics chain in Ethiopia are dry ports (the main dry port is in Modjo, which is located 55 km southeast of Addis Ababa). More than 85 percent of imports are aggregated in Addis Ababa before being distributed around the country by road, as the road network is the primary mode of transport connecting all regions within Ethiopia. The city of Addis Ababa is in the Central Region, and it consumes 50 percent of imported cargo. In addition to dry ports, there are also container freight stations for receiving both inbound and outbound container shipments. With the other sections on the Addis-Djibouti southern corridor route completed, under construction, or drivable by trucks and cars, the Mieso–Dire Dawa section remains the major constraint on the corridor and this project aims to address this shortcoming.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to improve regional connectivity and enhance logistics efficiency along the Addis-Djibouti road corridor

Key Results

PDO-Level Indicators

14. **The proposed key PDO-level indicators are:**

- Percentage reduction in travel time along the Addis-Djibouti southern corridor
- Reductions in truck processing and clearance times at the Dewele and Galafi border posts

D. Project Description

15. The proposed project has five components:

1) **Component 1: Safe, Smart, Efficient, and Climate-Resilient Construction of the Mieso–Dire Dawa Road Corridor (US$656 million).** Design and construction of the Mieso–Dire Dawa section of the Addis–Djibouti corridor is proposed, following the preferred route of 142 km as a safe, smart (ITS–enabled and efficient), climate-resilient corridor.
2) **Component 2: Trade and Logistics Enhancement (US$38 million).** This component complements on-going activities and investments by GoE and development partners by supporting regulatory and

[5] Ten years perspective plan 2020–30.

institutional reform initiatives and investments in trade and logistics facilities aimed at enhancing overall logistics and service efficiency. Climate resilience considerations will be considered in the construction of facilities.

3) **Component 3: Localized Complementary Infrastructure and Interventions (US$ 36 million)**: As part of an inclusive design to ensure that the people in the areas where the road corridor passes also benefit from the investment, as well as in an effort to maximize the local and wider economic benefits of the project, complementary infrastructures and interventions are proposed. The work in this component will be driven by a deeper understanding of the critical value chain of livestock since this has been identified as a major livelihood activity in the project area of influence. The type and nature of interventions will be selected in close, inclusive consultation with communities, elders, women groups, local authorities, etc. The final interventions will be decided based on needs assessments and a clear prioritization scheme using sound analytical tools, ensuring sustainability and inclusiveness in targeting, subproject selection, subproject implementation, and operations planning.
4) **Component 4: Institutional Development and Project Monitoring (US$ 31 million)**: Institutional development and capacity building interventions to support the implementing agencies in the achievement of project objectives, and to further corporate agendas like gender, climate change, jobs, inclusion and citizen engagement as well as continue the support to strengthening ERA's environmental and social management, and other transport agendas under the Ministry of Transport e.g. railway sector and road safety reforms. This component will also fund any necessary technical assistance for enhanced project management and monitoring. Details will be refined as project preparation progresses.
5) **Component 5: Contingent Emergency Response Component (CERC):** Following an eligible crisis or emergency, the Borrowers may request the Association 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 Contingent Emergency Response Component (CERC) PIM, acceptable to the Association, for the implementation of the Contingency Emergency Response Plan, will be prepared and constitutes a disbursement condition for this component.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

Environmental and social risks are considered High. The preferred alignment of the Mieso–Dire Dawa road is largely a greenfield project that will bypass major towns and settlements and avoid highly mountainous terrain. However, it will require large-scale land acquisition for construction and require major resettlement. The project has conducted a GBV risk assessment as part of the ESIA. The assessment points to High risks of sexual exploitation and abuse and harassment associated with the project, especially in view of the influx of a huge labor force into historically underserved rural locations characterized by tribal tensions and conflict and lacking in safeguards. An action plan has been developed that includes proportional measures to prevent and respond to risks in the project areas. Those measures include sensitization of project workers (with codes of conduct) and communities about sexual exploitation and abuse; providing accessible and confidential survivors-centered services; assuring safe and gender-responsive facilities; and establishing appropriate mechanisms for redress of grievances. Funding will be provided to hire an expert to bring psychosocial, legal, and case-management support. A third-party monitoring agent will also be recruited to oversee compliance with commitments on sexual exploitation, abuse, and harassment.

E. Implementation

Institutional and Implementation Arrangements

Ethiopian Roads Authority (ERA) and Ministry of Transport (MOT&L) will be the lead agencies for the preparation and implementation of the project. They will have project coordinating and implementation functions liaising with other government agencies such as Ethiopian Maritime Authority (EMA), Federal Transport Authority (FTA), Logistics Transformation Office (LTO), and Ethiopian Customs Commission (ECC).

- ERA will implement Components 1 and 3, and sub-components 4(a), 4(b), and 4(c) of Component
- MOT&L will be in charge of the overall coordination, oversight, and implementation of Component 2 and the Component 4 sub-components which relate to beneficiary institutions of EMAA, FTA, LTO and ECC**.** The MOT&L will lead the dialogue across multiple stakeholders for trade facilitation and logistics enhancement. A Project Steering Committee (PSC), led by the Minister of Transport & Logisitics, and an MOT&L Project Management Unit (PMU) will be established.

Collaboration between Ethiopia and Djibouti authorities, as well as with other regional partner countries under the HoA Initiative will remain critical in the project. The Ministry of Finance (MoF) has played a critical leadership and coordination role during project preparation and is foreseen to continue in implementation. The project proposes the development of a memorandum of understanding (MOU) between Ethiopia and Djibouti in the management of this project, especially as it pertains to the trade facilitation elements under Component 2 on Trade Facilitation and Logistics Enhancement. This is in addition to the need to review whether a corridor management authority needs to be established and provide technical assistance in its creation if deemed necessary by both countries.

ERA and MOT&L have previous experiences with World Bank-financed projects and requirements. ERA has managed several road infrastructure projects financed by the World Bank. During the project preparation missions, ERA established a focal team comprising representatives from different departments responsible for project preparation. Likewise, MoT&L handles World Bank-financed activities under the Expressway Development Support Project and TRANSIP (through FTA). A full assessment of the proposed implementing agencies' fiduciary and safeguards capabilities has been carried out as part of project preparation, and recommendation made for a fully staffed and dedicated project implementation unit (PIU) at MoT&L as discussed with full details to be delineated in the project implementation manual (PIM). ERA will continue to use existing functions in the organization to follow up on implementation including the Design Directorate, Expressway Unit under the Construction Directorate, Safeguards Directorate, and Units for financial management (FM) and procurement under the Project Development Directorate.

ERA's Environment and Social Management Team under the Environment, Social, and Occupational Safety Management will be responsible for leading and coordinating the overall environmental and social risks management (ESRM) of components 1 and 3 under the project. The MoT&L will be responsible for overseeing the overall implementation of component 2 under the project, including the ESRM. The ERA Environment, Social, and Occupational Safety directorate will coordinate with the Women and Youth Directorate and the Right-of-Way team. The team under the two directorates have qualified and experienced staff for environmental and social risks management of previous projects financed by the World Bank. However, this will be the first project in the sector that applies the Environmental and Social Framework (ESF). With the currently initiated capacity development program under the Road Sector Support Project (RSSP), the capacity of ERA's staff will be further strengthened through capacity training. Consultants will be hired under MOT&L to prepare, implement, and monitor the ESF instruments throughout the project cycle.

A Project Implementation Manual (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, and safeguards policy. The PIM will clearly define selection criteria for subprojects under Component 3. The PIM will also include the requirement to include interventions to improve climate resilience.

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APPROVAL

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