I. Introduction and Context

Country Context

1. Ethiopia is a diverse landlocked country with an area of 1.1 million km² and a total population of 91.7 million (2012). Only 17 percent of the population lives in urban centers. Its population is estimated to reach 130 million by 2025, and is projected by the UN to be among the world’s top ten, by 2050. Ethiopia’s economic growth averaged 10.7 percent per year in 2003/04 to 2011/12 compared to the regional average of 5.4 percent. However, Ethiopia is one of the world's poorest countries, with a per capita income of US$370 (2011). Ethiopia is ranked 173 out of 187 countries in the Human Development Index (HDI) of the United Nations Development Program (UNDP). Ethiopia is vulnerable to terms of trade shocks from international food and fuel prices, and to domestic weather-related draughts.
2. The Government of Ethiopia (GoE) is currently implementing its Growth and Transformation Plan (GTP), which sets a long-term goal of becoming a middle-income country by 2023, with growth rates of at least 11.2 percent per annum during the planned period. Objectives of the GTP are to halve the proportion of the population living below the poverty line, ensure accelerated and sustainable economic growth, and attain economic and social development. GTP has prioritized key sectors such as industry and agriculture, as drivers of sustained economic growth through domestic trade and exports, and job creation.

**Sectoral and Institutional Context**

3. The GoE, recognizing that the size and quality of the road network is a major constraint to economic growth and poverty reduction, has formulated a rolling Road Sector Development Program (RSDP) that achieved significant support from development partners. The RSDP identified the investments to restore and expand the road network, and reforms to modernize the sector. Since the RSDP was launched in 1997, the road network has increased from 26,550 km to 85,966 km today, and 70 percent is in good condition now compared with 22 percent. Between 2003 and 2012, due to the fast growing economy and improvement of the road network, traffic on the arterial roads has grown on average at a rate of 9.5 percent per year, with heavy truck traffic increasing by 11.6 percent annually. The Addis-Adama road (the route to the port of Djibouti) currently carries over 20,000 vehicles per day (vpd), and by 2022 traffic on seven arterial roads is expected to exceed 10,000 vpd.

4. The GTP is promoting development initiatives that are distributed throughout the regional states, including investments in sugar plantations and establishing industrial zones in Addis Ababa, Dire Dawa, Hawassa and Kombolcha. The Hawassa zone will focus on agro-industries, processing outputs from the surrounding region which is well suited to agricultural production. The Modjo-Hawassa road will provide an essential transport link for this industrial zone, allowing finished products to be distributed throughout central and northern Ethiopia and to neighbouring countries, and will provide a link to the port of Djibouti for exports further afield. The trade movement increases traffic along the corridor.

5. The Ethiopian Roads Authority (ERA) has started building high capacity roads to address the chronic congestion on some of the principal routes. The first expressway (the Addis – Adama (80 km) toll road) will open in 2014. GoE has requested the African Development Bank (AfDB), Korea EXIM Bank, the World Bank and China EXIM Bank to support the construction of the Modjo-Hawassa high capacity highway (210 km) that will be upgraded to an expressway in due course, consisting of four sections: (i) Modjo-Meki (57 km), (ii) Meki- Zeway (37 km), (iii) Zeway- Arsi Negele (61 km) and (iv) Arsi Negele-Hawassa (55 km), to be financed respectively by the four development partners. Beyond the fast expansion and improvement of the road network, the sector has to overcome major challenges, including: (a) enhancing the GoE’s Road Safety strategy that resulted in the reduction of fatal accidents from 114 deaths per 10,000 vehicles to 74 deaths per 10,000 vehicles over the last 10 years, and targets a reduction in the accident rate to 27 fatalities per 10,000 vehicles by 2016; (b) constructing high capacity road to improve safety, and reducing congestion, high fuel consumption and emissions; and (c) improving institutional efficiency to ensure the delivery of projects within planned cost and with acceptable levels of site safety.

6. Transport sector policy definition and oversight in Ethiopia is the responsibility of the Ministry of Transport (MOT). The Ethiopian Road Authority (ERA) is responsible for overall network planning, and federal roads development, including high capacity roads. The Transport
Authority is responsible for regulating transport services. The Office of the Road Fund administers funds for road maintenance. Regional Roads Authorities (RRAs), Municipal Road Authorities (MRAs) and the Woreda Road Desks (WRDs) are responsible for the management of the lower levels of the road network. Responsibility for road safety lies with the National Road Safety Council (NRSC) which reports to the MOT. The establishment of a Toll Roads Administration Enterprise is in progress.

**Relationship to CAS**

7. The project supports the Bank’s twin goals of reducing extreme poverty and enhancing shared prosperity, as it enhances employment generation by facilitating tourism and agri-business, and helps to reduce transport costs for local fishery and agricultural products by the rural and urban poor living along the project influence area. The project is consistent with the Bank Group's Country Partnership Strategy (CPS) for FY 2013-16, which aims to foster competitiveness and employment by supporting a stable macroeconomic environment, increasing productivity, increasing and improving delivery of infrastructure, and enhancing regional integration. The project will continue building on the successes of the Bank’s support to the transport sector by introducing effective strategies for managing high capacity roads, promoting Road Safety actions reducing accidents along critical corridors, and supporting institutional development.

8. On the basis that transport infrastructure is a key requirement to promoting economic development, the proposed project is seen to support the core pillars of the “New Africa Strategy”, which are focused on: (a) improving competitiveness and employment; and (b) addressing vulnerability and promoting resilience. This project will contribute towards these pillars by improving key transport and trade corridors. Furthermore, the project will enhance the China EXIM Bank and World Bank cooperation intended to jointly support development projects helping to boost accelerated growth and poverty reduction in Africa.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

9. The proposed Project Development Objective (PDO) is to facilitate the efficient and safer movement of goods and people along selected heavily-trafficked corridors, whilst building systems to manage and finance high-capacity roads and promote the safety of the core road network.

10. The proposed project is characterized by: (a) facilitating trade between Ethiopia and Kenya, as well as southern Africa, as the proposed road is an important segment of the Trans-East African Highway; (b) establishing an efficient inter-city corridor between Hawassa and the economic capital of the nation (Addis Ababa), and potentially expanding to connect Arbaminch—a major development pole for manufacturing and agro-processing in the southern region; (c) facilitating the export of agricultural products, including sugar and related products, flowers and horticultural products, thereby helping to create employment and strengthen the export base; (d) facilitating the marketing of fresh water fish caught by poor fishermen on the rift valley lakes, and products from traditional farming by the rural poor in the project influence area; and (e) facilitating the tourism industry along the Modjo-Hawassa corridor, and in the Arbaminch and Omo National Parks, which are providing employment to the local population. The project will set the strategic framework for expressway-high capacity road development and instill efficiency in the management of such roads by introducing cost recovery mechanisms and Public Private Sector Partnerships (PPP). The project will also support GoE’s program to improve road safety.
Key Results (From PCN)

11. Expected outcomes of the proposed program as a result of the construction of the new highway and the institutional development initiatives include: (a) a reduction in travel time; (b) a reduction in vehicle operating cost along the project corridor; (c) an increase in the proportion of the growth corridors served by the expressways network; and (d) a reduction in accident rates nationally and along the target corridors, in addition to the two core IDA indicators, namely: (i) roads in good and fair condition as a share of the national road network; and (ii) direct project beneficiaries (percentage of which female).

III. Preliminary Description

Concept Description

The project includes the following components:

12. Component 1: Construction of High Capacity Highway (US$352 million) - Construction of the Zeway to Arsi Negele section (about 61 km) of the new highway from Modjo to Hawassa, with associated supervision and monitoring services. In addition, GoE will undertake prioritized road safety improvement works at potential accident sites.

13. Component 2: Setting out the Framework for Expressways Development and Institutional Strengthening (US$12 million) - focusing on: (a) preparation of a comprehensive and integrated expressway development master plan, and regulatory and legal framework for financing, operation and maintenance of expressways and high capacity roads; encapsulating road toll strategies, platform for PPP, safety and environment, and framework for monitoring impacts on poverty reduction, shared prosperity and gender aspects; (b) support to institution building for an expressways and high capacity highways management enterprise; (c) preparation of a design manual for expressways; (d) piloting corridor based Road Safety actions along the Addis-Adama and Modjo-Hawassa corridors; (e) provision of international experts to mentor junior staff of ERA and support critical activities related to contract administration, safeguards and construction site safety management, and design review to better control time, cost, scope, quality and safeguards of road construction projects; (f) Technical Assistance (TA) to monitor and strengthen governance and transparency in procurement and contract management; and (g) feasibility studies, ESIs and concept designs for the priority potential high traffic roads.

14. Component 3: Support to Enhancing Road Safety and Capacity Building of MOT (US$8 million), including: (a) strengthening the NRSC secretariat under MOT; (b) programmatic Road Safety capacity building, including: (i) training for safety professionals and provision of TA; (ii) sensitization of policy makers and the population; and (iii) building the capacity of the National Road Safety Council and Traffic Police; (c) identification of potential accident sites and prioritization of improvements along key road corridors; and (d) technical support to the policy and planning functions of the MOT. This support will complement the Road Safety database establishment supported by European Union and the financial support from the Road Fund.

15. The total cost for the project is estimated at US$372 million. IDA’s contribution is estimated at US$300 million while GoE’s counterpart funding is estimated at US$72 million.

IV. Safeguard Policies that might apply
Safeguard Policies Triggered by the Project

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V. Financing (in USD Million)

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VI. Contact point

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