I. Introduction and Context

Country Context
Ethiopia lies in the Horn of Africa, and is landlocked, bounded by Djibouti and Somalia to the East, Eritrea to the North, Kenya to the South, and Sudan and South Sudan to the West. It covers an area of over 1.1 million square kilometers and has a population of about 85 million. Over 80 percent of the population lives in rural areas, and agriculture is their main source of livelihood. It is one of the world's poorest countries. In 2009/10 per capita GDP at current market price was estimated to be US$ 377.

Instability remains a permanent feature in the volatile Horn of Africa. Tensions with Eritrea and instability in Somalia continue. Ethiopia is subject to terms of trade shocks from international food and fuel prices and to large domestic weather-related shocks, as the current East Africa drought demonstrates. Out of estimated 10m people in need of humanitarian assistance in the Horn of Africa, 4.5 million are in Ethiopia mostly in southern regions close to Somali boarder. Ethiopian exports are dominated by agricultural commodities, which account for about 85 percent of total export earnings. Coffee is the most important permanent crop. Ethiopia has one of the largest livestock herd in Africa, estimated at over 80 million.

Poverty is widespread in the country. Ethiopia was ranked 157 out of 177 nations in the Human Development Index (HDI) of the United Nations Development Program (UNDP), based on 2010 data. However, during 2004-10 Ethiopia registered strong economic progress with annual average GDP growth of 11% according to official estimates (7-8% according to IMF estimates), although current inflation is close to 36% (December 2011). Despite a strong trade performance in recent months (partially due to credit restrictions on imports) the external position continues to be vulnerable as progress in export diversification has been limited.

Sectoral and Institutional Context
Ethiopia has achieved impressive development results in recent years. A recent ODI study noted that Ethiopia is making the third fastest improvements of any country towards reaching the Millennium Development Goals. MDG improvements spring from a long-term, concerted Government commitment to pro-poor development. Building on the Sustainable Development and Poverty Reduction Program 2002-2004 and A Plan For Accelerated and Sustained Development to End Poverty 2005-2010 (PASDEP), the Government’s current development plan, the Growth and Transformation Plan (GTP), aims to achieve the Millennium Development Goals by 2015 and middle-income status for Ethiopia by 2020-2023. The plan reaffirms the Government’s commitment towards human development and infrastructure expansion. The GTP’s objectives are to (a) attain high growth within a stable macroeconomic framework; (b) achieve the MDGs in the social sectors; and (c) establish a stable democratic and developmental state.

To accomplish these objectives, the GTP identifies the following strategic pillars: (i) sustained rapid growth; (ii) agriculture; (iii) industrialization; (iv) infrastructure investments; (v) enhanced social development; (vi) strengthened governance; and (vii) empowerment of youth and women. Under the PASDEP and the GTP, road network expansion, along with expansion of other infrastructure, is seen as central to the growth agenda.

Even prior to PASDEP, GoE recognized that the size of the road network and its quality could not keep pace with rising demand, and that it was a major constraint to economic growth and poverty reduction. To support the country’s strategy for promoting sustainable and broad-based growth, and for the reduction of poverty, major improvements in the sector were required to develop an efficient and cost-effective road transport system that integrate major economic centers, provided efficient access to domestic and international markets, and enhanced access to basic services. In accordance with GOE’s strategy, the Road Sector Development Program (RSDP) was formulated in 1997, identifying the investments and crucial reforms that would be undertaken. In 2011, RSDP is now in its fourteenth year.

Since 1993, the Bank has supported the financing of seven Road Projects including (i) the Road Rehabilitation Project; (ii) the Road Sector Development Program Support Project (RSDPS-P-Cr.2438-ET) approved January 1998, (iii) the road component of the Emergency Reconstruction Program approved 2001, as well as four stages of Adaptable Program Lending consisting of (iv) APL1 (Cr. H049-ET) approved June 2003, (v) APL2 (Cr. 3989) approved September 2004, with two subsequent additional financings (Cr. 39891) and (Cr. 4718); (vi) APL3 (Cr. 4315) approved May 2007; and (vii) APL4 (Cr. 4561) approved June 2009. In addition, and whilst not the primary focus, the Bank is supporting interventions in rural and community roads through the Agricultural Growth Program (AGP), the Public Sector Capacity Building Program (PSCP) and the Promoting Better Services (PBS) project.

Transport development in Ethiopia is the responsibility of the Ministry of Transport and the Ministry of Urban Development and Construction. Road sector development and maintenance is mainly executed by the Ethiopian Road Authority (ERA), Regional Road Authorities (RRAs), Municipal Road Authorities (MRAs) and the Wereda Road Desks. Federal Roads, which share about 44.8% (21,849 km) of the total road network, are maintained by ERA, the remaining 26,944 km of “low level” roads (all unpaved), generally categorized as “rural roads”, are under the Regional Roads Authorities (RRAs). The urban roads in the country (4,556 km) are maintained by the respective MRAs, while Addis Ababa and Dire Dawa have independent road authorities responsible for road administration. It is important to note that there is an additional network of 100,384 km of unclassified roads developed and maintained by the Local Communities (Weredas), and that under URRAP (Universal Rural Roads Access Program) GoE is planning to construct a further 72,000 km of all-weather, sealed local community roads, over the five-year period covered by the GTP.

In spite of regular interventions by the GoE, improvement in the condition of roads is still a big challenge in the country. Road Maintenance activities of the classified roads of the country are financed by the Office of the Road Fund (ORF), which was established to administer and allocate resources to the Road Agencies, ie. ERA, RRAs and MRAs. In 2010-2011, the revenue collected by ORF was in the order of ETB 1.14 billion and disbursement from the road fund for maintenance activities was ETB 1.02 billion, but the present revenue is not sufficient to finance the maintenance needs of the classified roads to an acceptable level to preserve the road asset. Sustainability of the new road assets therefore have some risks, and more efficient methods that provide value for money road maintenance outcomes need to be found. ERA undertakes the maintenance activities through private contractors and the newly formed Ethiopian Road Construction Corporation (formed from ERA’s District Maintenance Offices). ERA is also responsible for the overall network planning, road sector policy, and implementation and coordination in the country. The Road Transport Authority (RTA) is responsible for regulating transport services, including vehicle registration and licensing.

Donors have mainly focused on federal roads whereas the GoE has continued to focus on all roads, ie. federal, regional, rural and urban roads development. However, there is great need for improvements to not only the regional arterial and link roads, but also demand for increased infrastructure and efficiencies within the rural and community road networks, urban transport and the rail network. This new project, upon the request and prioritization of the GoE, focuses only on the federal arterials and link roads, as this is where GoE wishes to improve the network to support trade and service efficiencies. Whether or not the project should have broader coverage has been discussed at length with Government. As part of Identification Mission discussions, the Bank proposed additional support for inclusion of (i) a component to assist with traffic management interventions in the urban transport context in Addis Ababa and (ii) Technical Assistance to support URRAP. Whilst there is high level interest by MoFED and MoT for these additional components, the Government declined support in both areas under this project, on the basis that there will be further opportunity to re-initiate support discussions under the second new IDA16 financed transport project which is proposed for financing in 2013/2014. In the context of (i) it should also be noted that other donors are active in urban and regional transport, including assistance for urban transport through Agence Francaise Developpement (for Bus Rapid Transport), and China (for Light Rail Transport). Additionally, within the regional rail transport sector, European Union has been providing assistance to upgrade the existing (but not operating) rail link between Addis Ababa and Djibouti, and China will be supporting the construction of a new rail link, also connecting the capital with Djibouti.
Relationship to CAS

The GoE’s RSDP continues to be consistent with the Bank Group’s Country Assistance Strategy (CAS), the major development objective being to reduce poverty both directly and by promoting sustained economic growth. Specifically, the current CAS (2008 - 2011) aims to support Ethiopia in achieving four main strategic objectives, consistent with PASDEP: (i) fostering economic growth, in order to sustain the emerging economic ‘take-off’; (ii) improving access to and quality of basic service delivery, in order to sustain the emerging basic service “take-off”; (iii) reducing Ethiopia's vulnerability to help improve prospects for sustainability; and (iv) fostering improved governance to support progress on the previous three objectives and empowering citizens, building on the framework set forth in the 2006 Interim Country Assistance Strategy (ICAS).

Under earlier stages of RSDP these objectives have been met by constructing and rehabilitating priority road links, strengthening road management and financing, developing the capacity and increasing the participation of domestic contractors and consultants, and addressing social, environmental and development issues in a comprehensive manner. Under the proposed project, the CAS objectives will continue to be met through an expansion of the priority road network, strengthening the road transport trade routes, and improving access to basic service deliveries.

II. Proposed Development Objective(s)

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The proposed Project Development Objectives are to enhance transport operating efficiency on priority regional trade corridors and link roads, through the provision of high quality, paved roads.

Key Results

The anticipated outcomes of the Project, as a result of the road rehabilitation and institutional capacity building include:

i. A reduction in the cost of passenger travel and freight rates;

ii. An increase in the length and proportion of good quality, paved roads; and

iii. An improvement in the capacity of ERA to deliver projects on time, to the specified levels of quality, within budget and compliance with safeguards requirements

III. Preliminary Description

Concept Description

Based on the outcomes of the Identification Mission, the proposed project will include the following components:

Component 1 - CIVIL WORKS & WORKS SUPERVISION

This component will finance the reconstruction of five selected roads. Each of the selected roads are either import/export regional trade corridors, or important link roads that connect trunk roads. Across the five roads, the total length of road to be reconstructed is 436 km. This component will also include financing for the construction supervision component. The component roads are described below. See also the attached Location Map.

Konso - Yabelo, 107 km to asphalt concrete (AC) standard
Kombolcha - Bati - Mille, 133 km to AC standard
Debre Birhan - Ankober, 41 km to AC standard
Ambo - Weliso, 63 km to AC standard
Mizan - Dima, 92 km to AC standard

Supervision Services for above roads

The project roads are mostly unpaved roads with a current traffic range from 68 to 570 vehicles per day with a high percentage of heavy vehicles (63 percent). A feasibility study was done for each project road by different consultants adopting different assumptions. The Bank will reevaluate the feasibility of the proposed road works, adopting the same assumptions, by performing a traditional cost benefit analysis using the Highway Development and Management Model (HDM-4), which computes annual road agency and user’s costs (vehicle operating plus travel time costs) for each project alternative over the evaluation period. The evaluation will evaluate the options of upgrading the roads with an asphalt concrete or surface treatment standard, and will adopt a 20 year evaluation period and a 10.23% discount rate that is the discount rate being used in Ethiopia to evaluate infrastructure projects. The client’s current design is to adopt a 50mm asphalt overlay. This may need to be reduced to 30 or 40mm in order to reduce capital cost and improve the feasibility outcomes, and this will be further assessed during the bank’s re-evaluation described above.

Component 2 - MODERNISATION AND TRANSFORMATION of ERA

To complement the physical works, support is to be provided for the ongoing transformation and modernisation of ERA, aimed at further enhancing ERA’s Implementation Capacity. This support will consist of:

(i) Short Term Training. Short term training and visits to selected international road agencies. Twinning arrangements with suitable international road agencies may also be considered
(ii) Mentoring, Contract Management and Safeguards Capacity. Technical assistance to provide mentoring and guidance, and produce guidelines for use in contract administration.
(iii) Sustainability. Continue support to sustain preceding interventions in Quality Assurance, Performance Monitoring, Cost Estimation, and to develop & supervise an Output Based & Performance based Road Contract (OPRC) for Maintenance.
(iv) Follow-On Projects. Support to prepare design and feasibility reports of follow-on projects, including Environmental and Social Impact Assessments.

IV. Safeguard Policies that might apply

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