



AFRICAN DEVELOPMENT FUND

**PROJECT: MOMBASA - NAIROBI – ADDIS ABABA
ROAD CORRIDOR PROJECT - PHASE III**

COUNTRIES: KENYA AND ETHIOPIA

PROJECT APPRAISAL REPORT

Date: October 2011

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Currency Equivalents

As of 01.07.2011

1 UA =	1 SDR
1 UA =	1.60045 USD
1 UA =	137.193 KES
1 UA =	27.124 ETB

Fiscal Year

Ethiopia: 8 July – 7 July
Kenya: 1 July – 30 June

Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogram (kg)	=	2.200 lbs
1 meter (m)	=	3.28 feet (ft)
1 millimeter (mm)	=	0.03937 inch (“)
1 kilometer (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

ADB (AfDB)	African Development Bank	HIV	Human Immunodeficiency Virus
ADF	African Development Fund	JICA	Japan International Cooperation Agency
AFD	Agence Francaise de Developpement	KeNHA	Kenya National Highways Authority
AIDS	Acquired Immune Deficiency Syndrome	KES	Kenya Shilling
CBO	Community Based Organization	KRB	Kenya Roads Board
COMESA	Common Market for Eastern & Southern Africa	LC	Local Cost
CSP	Country Strategy Paper	MTP	Medium Term Plan
EIRR	Economic Internal Rate of Return	NACC	National AIDS Control Council - Kenya
EPA	Environmental Protection Authority, Ethiopia	NEMA	National Environment Management Authority, Kenya
ERA	Ethiopian Roads Authority	NGO	Non-governmental Organization
ESAP	Environmental and Social Assessment Procedures	NPV	Net Present Value
ESIA	Environmental and Social Impact Assessment	OSBP	One Stop Border Post
ESMP	Environmental and Social Management Plan	PAP	Project Affected Persons
EU	European Union	PCR	Project Completion Report
ETB	Ethiopian Birr	RAP	Resettlement Action Plan
FE	Foreign Exchange	RFP	Request for Proposals
GOE	Government of Ethiopia	RSIP	Road Sector Investment Program
GOK	Government of Kenya	SPN	Specific Procurement Notice
GPN	General Procurement Notice	STI	Sexually Transmitted Infection
GTP	Growth and Transformation Plan, Ethiopia	UA	Unit of Account
HAPCO	HIV and AIDS Prevention and Control Office, Ethiopia	USD	United States Dollar
HDM	Highway Development and Management System	VOC	Vehicle Operating Costs

Loan Information

Client's information

BORROWERS:

**REPUBLIC OF KENYA
REPUBLIC OF ETHIOPIA**

EXECUTING AGENCIES:

**KENYA NATIONAL HIGHWAYS AUTHORITY
ETHIOPIAN ROADS AUTHORITY**

Financing plan

Source	Amount (UA)	Instrument
ADF LOAN TO KENYA	120,000,000	Loan
ADF LOAN TO ETHIOPIA	105,000,000	Loan
GOV. OF KENYA	8,190,000	Counterpart
GOV. OF ETHIOPIA	8,400,000	Counterpart
TOTAL COST	241,590,000	

ADB's key financing information

Loan currency	Unit of Account (UA)
Interest type	Not Applicable
Interest rate spread	Not Applicable
Service Charge	0.75% on amount disbursed and outstanding
Commitment fee	0.50% on the un-disbursed loan amount
Tenor	50 years
Grace period	10 years
NPV (base case)	USD 232.7 million
EIRR (base case)	26.5%

Timeframe - Main Milestones (expected)

Concept Note approval	July, 2011
Project approval by ADF	November, 2011
Loan Agreement Signing, Ethiopia	December, 2011
Loan Agreement Signing, Kenya	February 2012
Effectiveness	April, 2012
Last Disbursement	December, 2017
Completion	December, 2016
Last repayment	April, 2062

PROJECT SUMMARY

Project Overview

1. The Mombasa-Nairobi-Addis Ababa Road Corridor Project, Phase III is part of the Trans-Africa Highway network designed to promote trade, regional integration and alleviate poverty through highway infrastructure development and the management of road-based trade corridors. This project, which is third and final phase, involves the construction to bitumen standard of 320 km road sections including the 122 km Turbi - Moyale road section in Kenya and the 198 km Hawassa - Ageremariam road section in Ethiopia. It also includes trade and transport facilitation and capacity building consultancy services. The total cost of the project is UA 241.59 million. The project is co-financed by the Bank Group (93.1%), the Government of Ethiopia (3.5%) and the Government of Kenya (3.4%). The overall project implementation time is five years (2012 – 2017). Project beneficiaries are corridor residents who have greater economic opportunities and access to social services and goods. Regional beneficiaries are producers, manufacturers and traders who have a trade corridor to move inputs, final products and imports at reduced time and cost.

Needs Assessment

2. Poor infrastructure, including road, was identified as one of the major constraints of the development endeavours of the Governments of Ethiopia and Kenya. Road carries more than 90% of motorized freight and passenger traffic in the countries. Trade between the two countries has been low compared with other neighbouring countries given the poor condition of road. The provision of an all weather road connecting Ethiopia and Kenya is one of the best ways to foster bilateral and regional trade, economic growth and regional integration.

Bank's Added Value

3. Being the lead financier of the first two phases, Bank financing for the proposed Project will ensure completion of the regional road improvements, harmonization of transport regulation, implementation of effective transit operations on the corridor and an efficient One Stop Border Post operation at Moyale, all added value that the Bank has become proficient in incorporating into its projects. The project will provide an economically viable alternative outlet to Ethiopia through the seaport of Mombasa and a streamlined route to foster trade between East Africa and the Horn of Africa. The project area is underserved by transport. Access to markets will transform a pastoral and subsistence agricultural environment into an area where small business thrives, spurred by local and regional trade opportunities, increased income and access to goods. The Project is in line with the Bank Medium Term Strategy (2008-2012). It will also greatly contribute to the enhancement of security along the corridor.

Knowledge Management

4. Review of ongoing projects indicates that the quality/timeliness of services that the executing agencies are getting from contractors and consultants is not always to expectations. The performance monitoring service included in this project will help to analyze the situation, identify the causes and propose measures. The knowledge obtained will be useful for future projects in the sector and other related sectors, as well as for any necessary revisions of the provisions of the standard contracts. Considerable experience is being gained from this project on the delivery of multi-phased, Trans African Highways/Trade Corridors and on the delivery of multi-country planning, execution, policy harmonization and implementation of facilitation programs. This knowledge and the institutional architecture used should be captured as lessons learnt for similar projects elsewhere.

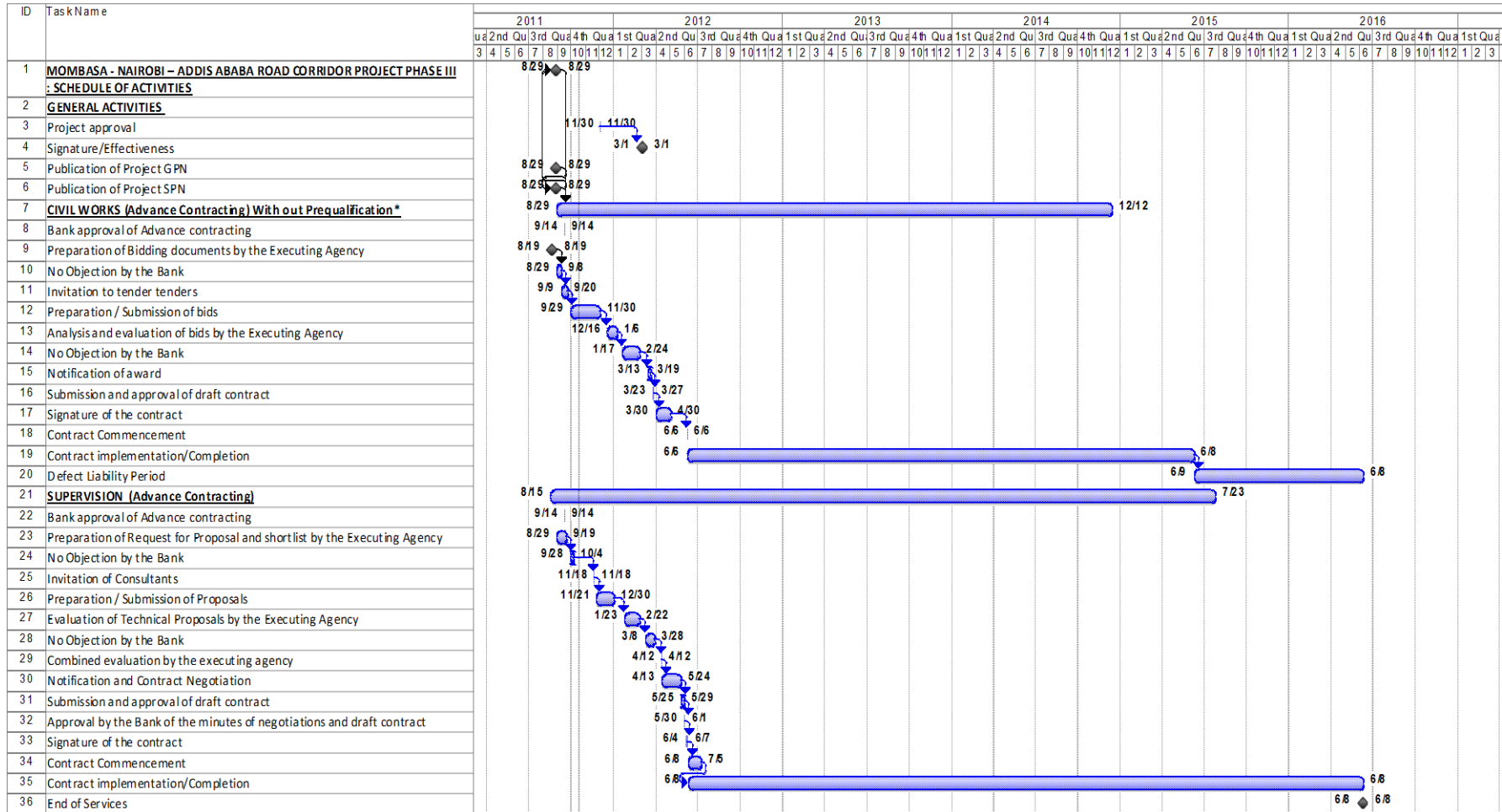
**MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE III
RESULTS-BASED LOGICAL FRAMEWORK**

Country and project name: Ethiopia/Kenya – Mombasa –Nairobi-Addis Ababa Corridor Development Project Phase III

Purpose of the project: Improve transport communication between Ethiopia and Kenya by constructing 320 km of paved road

	RESULTS CHAIN	PERFORMANCE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS/RISKS/MITIGATION MEASURES	
		Indicator (including CSI)	Baseline			Target
IMPACT	Increased Intra-regional trade between Ethiopia and Kenya and Eastern and Horn of Africa regions	volume of Intra-COMESA trade	Intra-COMESA trade: Ethiopia USD 522 million and Kenya 1,665 million in 2009	Intra-COMESA trade for Ethiopia, to grow at least to USD 900 million and to USD 2,100 for Kenya by 2017.	Customs statistics; Trade statistics from COMESA, IGAD, UNCTAD, UNcomtrade, WTO, National Statistical Offices data	Risk: Weak trade relationships <i>Mitigation:</i> The trade promotion programs of COMESA and IGAD as well as the Joint Trade Committee between Ethiopia and Kenya will provide a mitigating force.
	Improved economic and social welfare of people living along the corridor	Volume of trade between Ethiopia and Kenya	USD 62 million in 2009	Trade between Kenya and Ethiopia estimated to grow to USD 200 M by 2017		
OUTCOMES	Transport and logistic costs between Addis Ababa and Nairobi are reduced	Transport costs on the corridor	USD 0.4 per veh-km in 2011	USD 0.32 per veh-km in 2016	KeNHA, ERA, Port of Mombasa, NCTCA Transit transport surveys; customs statistics, consultants' progress reports, GOK/GOE and Bank review reports.	Risk: <i>Insecurity</i> in some sections of the corridor. <i>Mitigation:</i> District Security Teams and District Peace Committees are put in place. The project will also provide resources for strengthening security. Risk: neglect of maintenance works. <i>Mitigation:</i> Existence of Stable Road Funds. Selected design reduces maintenance costs. Project includes consultancy service to strengthen the Road Asset Management Capacity.
	Transit and travel time between Nairobi and Addis Ababa reduced	Travel time	30 hours between Addis Ababa and Nairobi in 2010	20 hours in 2015		
	Construction of paved road	Volume of transit goods to/from Ethiopia using the port of Mombasa	n/a	2 million ton in 2016 and 2.5 million tons in 2018		
OUTPUTS	Technical support	km of road constructed	n/a	by 2014, 210 km completed by 2015, 320 km completed by 2014 created 1640 local employment(30% women) by 2014 completed 100% resettlement of PAPs by 2015 conducted HIV/AIDS, road safety and gender sensitization in at least 12 communities	Progress, disbursement and financial reports from the executing agencies Bank supervision mission reports Project completion reports	Risk: Project implementation delay <i>Mitigation:</i> use of Advance Contracting, recruiting suitably experienced contractor and consultant and close supervision by the Road Authorities and the Bank supervision team. Risk : delay in implementing RAP <i>Mitigation:</i> commencing the process well ahead of project start.
	Trade and transport facilitation	Road asset mgt. capacity of ERA strengthened, performance monitoring system designed, pipeline projects studied.	n/a	Technical support and studies completed		Risk: <i>cost over run</i> <i>Mitigation:</i> use of current cost estimates and including contingency in the project.
	Trade and transport facilitation	OSBP mgt. system designed	n/a	Trade and transport facilitation program completed		Risk: <i>flash flood due to climate change</i> <i>Mitigation:</i> provision of adequate drainage structures.
KEY ACTIVITIES	COMPONENTS			INPUTS		
	Ethiopia Road Civil Works: Hawassa – Ageremariam (198 km) Consultancy Services (Construction supervision of the road civil works, Technical Assistance, Trade and Transport Facilitation and Project Audits) Compensation and Resettlement Kenya Road Civil Works: Turbi – Moyale (122 km) Consultancy Services (Construction supervision of the road civil works, Technical Assistance, Studies of Transport Projects, Trade and Transport Facilitation and Project Audits) Compensation and Resettlement			UA 101.27 (USD 162.08) million UA 6.12 (USD 9.80) million <u>UA 6.01 (USD 9.61) million</u> Ethiopia - Total Cost with contingencies: UA 113.40 (USD 181.49) million UA 116.04 (USD 185.72) million UA 10.98 (USD 17.58) million <u>UA 1.17 (USD 1.87) million</u> Kenya - Total Cost with contingencies: UA 128.19 (USD 205.17) million		

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE III Indicative Project Time Frame



* Prequalification will take about four additional months

REPORT AND RECOMMENDATION OF MANAGEMENT TO THE BOARD OF DIRECTORS ON PROPOSED LOANS TO KENYA AND ETHIOPIA FOR THE MOMBASA – NAIROBI – ADDIS ABABA CORRIDOR PROJECT - PHASE III

Management submits the following Report and Recommendation on proposed loans for UA 120 million to the Republic of Kenya and UA 105.00 million to the Federal Democratic Republic of Ethiopia to finance the Mombasa – Nairobi – Addis Ababa Road Corridor Project - Phase III.

I. STRATEGIC THRUST & RATIONALE

1.1. Project linkages with countries strategies and objectives

1.1.1 Road transport plays a significant role in the socio – economic development of Ethiopia and Kenya carrying more than 90% of motorized freight and passenger traffic. Poor infrastructure, including road, was identified as major constraints to the development endeavours of the Governments of Kenya and Ethiopia. Government of Kenya (GOK) launched its long-term development strategy, Vision 2030, and the first five-year Medium Term Plan (MTP) for the period 2008-2012. The MTP has three overarching pillars namely, economic, social and political, which are anchored on several foundations including macroeconomic stability, continued governance reforms and expansion of economic infrastructure. The development of physical infrastructure in the MTP is seen as the basis for socio-economic transformation. The Government of Ethiopia (GOE) started the implementation of the Growth and Transformation Plan (GTP) (2010/11-14/15) with objectives of sustaining the rapid and broad-based growth path witnessed during the past several years and eventually ending poverty. One of the pillars of the GTP strategy is expanding and enhancing the quality of infrastructure. Most of the other economic and social goals depend on improved transport access and services. In line with this, GOE has been implementing successive road sector development programs since 1997.

1.1.2 Current statistics show that Kenya's trade with Ethiopia in 2010 was USD 56 million where as with Tanzania and Uganda they were USD 527 million and USD 739 million respectively, suggesting considerable potential for trade growth through improved road connections.

1.1.3 All of the above national strategies and plans are in line with Bank's Medium Term Strategy (2008-2012), which prioritizes support to infrastructure development as a key area for the Bank's future assistance and also promotes regional integration. The project is also identified in the CSPs of both countries. In addition, the project fits well with regional infrastructure strategic pillar of the East African Regional Integration Strategy Paper (RISP) (2011-2015), which focuses on Regional Transportation/Trade Facilitation Infrastructure and aims to promote seamless connectivity within the regional system.

1.2. Rationale for Bank's involvement

1.2.1 The rationale for Bank involvement is that the Bank is already the lead financier in the first two phases of the project and the preparatory activities of this phase. Therefore, the continued support of the Bank is logical. The objective of the project, which is to improve transport communications between Kenya and Ethiopia for the benefit of both countries and the region and improve economic and social welfare of people living in rural and urban areas along the corridor, is in line with the Bank medium term strategy (2008-2012).

1.2.2 The Bank with its rich experience in road sector development in Kenya and Ethiopia as well as the continent is well placed to support the proposed project that not only reduces the high land transport costs but also plays a significant role in facilitating regional integration. This will support a north south corridor from Addis Ababa through Nairobi to Arusha, Iringa and Tunduma (in Tanzania), which is also part of the Namanga Corridor of the East African Regional Road Sector Development Program, and adds significant value to other Bank investments on the Corridor: Arusha-Athi River, Arusha-Singinda-Babti-Minjugu and Dodoma-Iringa Roads. This project also has some synergy with the Lamu Port – Southern Sudan – Ethiopia Corridor development project and further bolsters the GOK plan of upgrading the Isiolo airport to international standard.

1.3. Donors coordination

1.3.1 Donor coordination in Kenya is carried out at both sector and national levels. The overall Bank collaboration with other Development Partners (DP) in Kenya was formalized in January 2007 with its entry into the Harmonization Alignment and Coordination (HAC) group set up in 2003. The HAC group currently comprises 17 donor partners. The group meets regularly to harmonize donors' response and positions with respect to institutional, policy and projects financing and implementation issues. The transport sector donor group is currently chaired by Permanent Secretary of Ministry of Roads and JICA. The major donors involved in the sector include the Bank, World Bank, European Union, AFD, China and JICA. The Bank is the leading financiers in the road sub sector in Kenya.

1.3.2 In Ethiopia, aid coordination at Sectoral level is carried out through the Government-Donor Transport Working Group, which provide opportunities for donors both bilateral and multilateral to review Ethiopia's development programs and co-ordinate their development assistance. The co-financing under the Road Sector Development Program (RSDP) in Ethiopia has facilitated the complementarities of the development partners' efforts and the extensive internal donor co-ordination involved in monitoring program implementation. The Bank actively participates in the Government-Donor Transport Sector Working Group. The Working Group is chaired by the State Minister of Transport and co-chaired by one donor on a rotation basis; the European Commission is holding the current co-chairmanship. Looking into the disbursements in the past three years (2007 – 2010), the major development partners in the Ethiopia's RSDP are EU, World Bank, China and the Bank.

Sector or subsector		Size		
		GDP	Exports	Labor Force
Road Transport Cont. – Kenya*		10.2		
Road Transport Cont.– Ethiopia**		5.8		
Players - Public Annual Expenditure (average)				
GOE^a	Donors	GOK^b		Donors
UA 430 million (74.6 %)	UA 147 million (25.4 %)	UA 380 Million (64.3%)	UA 210.9 million (35.7 %)	
Level of Donor Coordination				
Existence of Thematic Working Groups:		Kenya /Ethiopia		Yes/Yes
Existence of SWAPs or Integrated Sector Approaches:		Kenya/Ethiopia		Yes/Yes
ADF's Involvement in donor coordination***:		Kenya / Ethiopia		M/M
* Average of the last five years(2006 – 2010) for transport and Communication; ** Average of the last five years(2005 – 2009) for transport and Communication; *** L: leader, M: member but not leader, none: no involvement; 'a' - last three years average; 'b' - the last five years average				

II. PROJECT DESCRIPTION

2.1. *Phasing of the Road Corridor Development Program*

2.1.1 The development of the Mombasa – Nairobi – Addis Ababa Road Corridor was planned in three phases owing to the size (1003 km), the need for detailed studies for some of the sections and the required huge investment. Phase I of the Program comprised: (i) Upgrading of Isiolo to Merille River (136 km) road section in Kenya to bitumen standard; (ii) the expansion of Mombasa port facilities; and (iii) studies for 670 km sections of the corridor in both Kenya and Ethiopia, and studies for an Inland Container Terminal in Ethiopia. Phase I was co-financed by AfDB, JICA, GOK and GOE. Phase II of the Program comprised: (i) construction of 548 km road sections (245 km Merille River-Turbi road section in Kenya and 303 km Ageremariam-Moyale road section in Ethiopia); and (ii) the construction of road stations and One-Stop-Border Post facilities. Phase II was co-financed by the AfDB, EU, GOE and GOK. The proposed Phase III includes: (i) Rehabilitation of Hawassa-Ageremariam (198 km) section in Ethiopia; (ii) Upgrading of Turbi – Moyale (122 km) in Kenya; (iii) Technical assistance on trade and transport facilitation, road asset management and monitoring of contractors' and consultants' performance; and (iv) design of transport projects.

2.2. *Development Objectives and Project components*

2.2.1 **Development Objectives:** The development objectives of the project are to promote trade and regional integration and to contribute to the countries' social and economic development and poverty reduction efforts by providing a more efficient and effective transport system. The objective of the project is to improve transport communications between Kenya and Ethiopia for the benefit of both countries and the region.

2.2.2 **Project Components:** A brief description of the components is as follows

A **Road construction civil works (UA 217.31 million)**

Ethiopia: This component involves rehabilitation of the 198 km bituminous standard road from Hawassa to Ageremariam including construction of bridges, execution of drainage structures, road side amenities and environmental and social mitigation measures. The road civil works will be subdivided into three (3) separate contracts.

Kenya: This component involves upgrading of Turbi - Moyale (122 km) to bituminous standard road including construction of bridges, execution of drainage structures, road side amenities and, environmental and social mitigation measures. It also includes a link road of 8 km to the town of Sololo. It will be tendered as one lot.

B **Consulting Services for Supervision, Design and Audit (UA 13.98 million)**

Ethiopia: This component includes (i) construction supervision services for the road civil works described above (the supervision services will also be divided into three (3) lots corresponding to the civil works contracts); and (ii) technical and financial audit services.

Kenya: This component includes (i) construction supervision services for the road civil works described above; (ii) studies of transport projects; and (iii) technical and financial audit services of the project.

C Technical assistances (UA 3.13 million)

Ethiopia: The technical assistance will include consultancy services for (i) strengthening road asset management capacity; and (ii) trade and transport facilitation, which will assist the operationalization of the Road Transit Services Agreement between the two countries, for facilitating effective OSBP operations and recommending trade facilitation measures and policies.

Kenya: The technical assistance will include (i) monitoring of Contractors' and Consultants' performance; and (ii) trade and transport facilitation, which will assist the operationalization of the Road Transit Services Agreement between the two countries, for facilitating effective OSBP operations and recommending trade facilitation measures and policies.

D Compensation and resettlement (UA 7.17 million)

Ethiopia and Kenya: This component makes provision for the adequate compensation and resettlement of Project Affected Persons identified in the Project Environmental and Social Impact Assessments, and relocation of utilities in both countries.

2.3. Technical solution retained and other alternatives explored

2.3.1 The design consulting firms evaluated alternative designs for the road. The recommended option is a 7m hot mix Asphalt-paved carriageway with 2.0m sealed shoulders. The adopted design solutions have considered the current condition of the roads in the countries. The section in Ethiopia is currently paved; hence the design recommends recycling of the existing pavement structure and takes into account the residual bearing capacity of the existing pavement. The alternative considered for the section in Kenya was asphalt surface treatment. It was rejected considering the heavy traffic in the corridor, the frequency of maintenance it would demand and the remoteness of the project location.

2.3.2 The retained solutions had reference to the acceptable international practices and also considered the existing practice and availability of materials in the respective countries. The designs were found to be the most technically, economically, and environmentally sound. The adjoining sections of the roads are also designed based on the same approach.

2.4. Project type

2.4.1 The ADF financing will support rehabilitation/upgrading of the identified road project and related studies. The investments against which funds are to be disbursed are well defined and specific. Therefore, the specific project loan has been chosen as the most appropriate instrument for the intervention of the Bank in this operation.

2.5. Project cost and financing arrangements

2.5.1 The overall project cost estimate (net of taxes) is UA 241.59 million (USD 386.67 million) of which the foreign exchange cost is UA 176.67 million (USD 282.75 million) or 73.1% of the total, and the local cost is UA 64.92 million (USD 103.90 million) or 26.9% of the total. The cost of the project components in Ethiopia is UA 113.4 million (USD 181.49 million) or 46.9% of the total; while the cost for the components in Kenya is UA 128.19 million (USD 205.17 million) or 53.1% of the total cost. The project cost estimates are based on feasibility and detail design studies of the project as well as in consideration of unit prices of similar recent international tenders in the project area. The project cost estimates by component, by country and by category of expenditure are indicated in Table 2.1, 2.2 and 2.3 respectively.

Table 2.1 - Project Cost Estimates by Component (Net of Taxes) (UA million)

Component	Foreign Exchange	Local Cost	Total	% foreign
A. Road Construction Civil Works	141.11	47.04	188.15	0.75
B. Consultancies & Audit	9.68	2.42	12.10	0.80
C. Technical Assistance	2.17	0.54	2.71	0.80
D. Resettlement & Compensation	0.00	6.21	6.21	0.00
Total Base Cost	152.96	56.21	209.17	0.73
Physical Contingency	7.65	2.81	10.46	
Price Contingencies	16.06	5.90	21.96	
Total	176.67	64.92	241.59	

Table 2.2 - Project Cost Estimates by Component and by Country (Net of Taxes) (million)

Component	Ethiopia		Kenya	
	USD	UA	USD	UA
A. Road Construction Civil Works	140.33	87.68	160.80	100.47
B. Consultancies & Audit	6.64	4.15	12.72	7.95
C. Technical Assistance	1.84	1.15	2.50	1.56
D. Resettlement & Compensation	8.32	5.20	1.62	1.01
Total Base Cost	157.13	98.18	177.63	110.99
Physical Contingency	7.86	4.91	8.88	5.55
Price Contingencies	16.50	10.31	18.65	11.65
	181.49	113.4	205.17	128.19

Table 2.3 – Project Cost by Category of Expenditures (UA Million)

Category	Foreign currency Cost	Local currency Cost	Total Cost	% of foreign
Works	141.11	47.04	188.15	0.75
Services	11.85	2.96	14.81	0.80
Miscellaneous	0.00	6.21	6.21	0.00
Total Base Cost	152.96	56.21	209.17	0.73
Physical Contingency	7.65	2.81	10.46	
Price Contingency	16.06	5.90	21.96	
Total Project Cost	176.67	64.92	241.59	

2.5.2 The proposed project will be co-financed by the Bank Group, the GOE and the GOK. The Bank financing will be in the form of ADF loan amounting to UA 225 million representing 93.1 % of the total project cost. The GOE and GOK counterpart contribution amounts to UA 8.40 million and UA 8.19 million respectively representing 6.9 % of the overall project cost.

2.5.3 The total financing of the corridor, which is implemented in three phases, indicates that the Bank has provided a total loan of UA 190 million and UA 278.6 million to GOE and GOK respectively. Accordingly the counterpart financing of the Governments is UA 24.97 million and UA 38.11 million by GOE and GOK respectively, which is 11.6% for GOE and 12.0% for GOK of the total project costs in their respective countries. Justification for Governments contribution of less than 10% for this phase is attached as Annex A2.

2.5.4 The ADF resources for the project will come from the ADF-XII PBA national allocations for Kenya and Ethiopia (33.3%) and the remaining (66.7%) from the regional operations (RO) envelope. The financing plan of the project and source of ADF financing are summarized in Table 2.4 and Table 2.5 respectively. The expenditure schedule by component is also presented in Table 2.6. The final payment at the end of Defect Liability Period will be made in 2016. Detailed costs and expenditure schedules are provided in Annex B1.

Table 2.4 - Sources of Financing (UA million)

Source of Financing	Foreign currency Cost	Local currency Cost	Total costs	% Total
ADF loan	176.67	48.33	225.00	93.1
GOE		8.40	8.40	3.5
GOK		8.19	8.19	3.4
Total Project cost	176.67	64.92	241.59	100

Table 2.5: Source of ADF Financing (UA million)

Country	National ADF XII Allocation	Multinational Operations Envelope	Sub Total
Ethiopia	35	70	105
Kenya	40	80	120
Total ADF		225	

Table 2.6: Expenditure Schedule by Component (UA Million)

component	2012	2013	2014	2015	Total
A. Civil Works	37.63	56.45	56.45	37.62	188.15
B. Consultancies & Audit	1.11	3.53	4.94	2.52	12.10
C. Technical Assistance	0.00	1.07	1.36	0.28	2.71
D. Compensation	6.21	0.00	0.00	0.00	6.21
Total Base Cost	44.95	61.05	62.75	40.42	209.17

2.6. Project's target area and beneficiaries

2.6.1 In Ethiopia, the section of road under this phase passes through eight woredas (Administrative units) of the Southern Nations Nationalities and People Region (SNNPR) and one woreda of Oromia Region. The total population in the immediate project influence area is estimated to be 1.35 million. SNNPR produces about 10 % of the total cereal output in the country and 40 % of the total coffee inspected in Ethiopia. It also accounts for about 21 % of the country's cattle. The section of the project road in Kenya lies in the Northeast Arid and Semi Arid Lands (ASAL), the population in the immediate project influence area is estimated to be 355,000. The ASAL region accounts for more than 60% of the red meat and about 12% of the milk produced in Kenya. It also has a high potential for tourism. Tourism offers opportunities for SMEs in hotels, restaurants, tour guides, suppliers of food products, handicrafts, etc. The road side stations, which include shops, fuel stations, public toilets and washing facilities, will also contribute to the development of SMEs. The trade and transport facilitation consultancy services will help to eliminate some of the inefficiencies of the current system and facilitate business by developing streamlined logistics system that reduces time and cost and increase reliability and predictability of shipments. In a broader sense, the road is a major regional link in the sense that beneficiaries and users will be from the entire sub-region and more so that the road constitutes a significant part of the Cairo to Cape Town link.

2.7. Participatory process for project design and implementation

2.7.1 During the ESIA studies, public consultations were facilitated to gain public views, concerns and potential benefits in regard to the proposed upgrading/rehabilitation of the project road. The consultations created awareness and identified positive and negative socio-economic impacts of the road project, proposed mitigation measures to address the potential impacts during the project cycle and created a sense of commitment by the community in implementing the environmental and social management plans. Methods used included consultative meetings, interviews, formal and informal focus group discussions with communities living within the vicinity of the roads. In addition, consultative meetings involved various other stakeholders at national, regional, district levels, including lead ministries, relevant government agencies and NGOs. During field visits organized by the Bank, feedback was received on the project from local authorities, local leaders, transport operators, manufacturers and other stakeholders.

2.7.2 The issues raised during consultation include: creation of employment opportunities for local people, spread of HIV/AIDS, increased road accidents, disposal of solid waste and pressure on natural resources, such as water. These issues have been incorporated in project design and also included in the ESMP. The Bank has also held fruitful consultations with delegation of the EC, the World Bank and JICA in Kenya and Ethiopia during the preparation and appraisal missions that focused on lessons learned and coordination of monitoring and supervision of the implementation of projects.

2.8. Bank Group experience and lessons reflected in project design

Status and Impact of Prior Bank Intervention in the Sector

2.8.1 The Bank Group has since 1967 participated in the financing of 20 operations in the transport sector in Kenya amounting to UA 528.41 million. Currently there are five ongoing projects in the transport sector, including the substantially completed phase I of the corridor development project and the ongoing phase II. These projects are performing reasonably well after mitigating time lost at the start-up of the project mainly due to delay in compensation of PAP and slow mobilization of contractors. As a result, the projects are Non Problematic and Non Potentially Problematic. In Ethiopia, to date the Bank has approved 14 operations in the road sector amounting to UA 650 million. There are three ongoing road projects showing reasonable progress, although one project is potentially problematic due to the necessity of design revision at the beginning of the project. Contributing factors for the delays observed at the early stages of the projects were: lengthy procurement period, contractors' poor performance and delayed compensation of PAP by the Government. Disbursement status of projects is attached as Appendix II. Recently, two projects were completed, one in each country, and the PCRs are under preparation. The projects financed by the Bank have made a significant contribution towards improving mobility and access to socio-economic opportunities for several millions of people, improving regional integration and linking food deficit areas with food surplus areas.

Lessons Learned and Reflected in Project Design

2.8.2 The project design has taken into account lessons learned from the ongoing projects as well as previous interventions of the Bank and other donors in the transport sector in Ethiopia and Kenya. In the past interventions of the Bank, implementation of projects has been characterized by long start-up delays, low disbursement levels, lack of local counterpart funds, increases in construction cost, some contractors struggling to mobilize necessary resources for more than one contract awarded at the same time, delayed compensation of PAP and poor reporting. The specific lessons from the first two phases of the corridor development project include: consideration of the localized insecurity, shortage of water in the project area and facilitating early commencement of the project.

2.8.3 The proposed project design will reflect these lessons. Project start up delays can be mitigated and considerably reduced by initiating procurements prior to Board Approval following Advance Contracting procedures. To strengthen the capacity of the domestic construction industry, ERA has drafted terms of reference for training need assessment, in which the Bank will have an input through the Transport Sector Working Group. The priority given by both Governments to the road sub sector, which is manifested by the regular increases in budgetary allocation, will provide adequate local counterpart funds. Furthermore, the part to be financed by GOE and GOK, including compensation costs, is less than 10% of the project cost in the respective countries. To minimize the gap between the engineers' estimate and tender prices, the civil works estimates were revised in June 2011 by the consultants. In order to cater for price escalations, reasonable amount of contingency is included in the project design. Based on the lessons learned from Phase I and Phase II of the road corridor development projects, this Phase III has also included provisions for construction of police posts, roadside amenities and drilling of boreholes in the project area. Documents for tenders in Ethiopia have necessary contractual provisions to avoid risk of one contractor winning more than one lot.

2.9. Key performance indicators

2.9.1 The achievement of the project objectives will be measured including the following indicators: (i) increased volume of intra- COMESA trade; (ii) increased volume of trade between Kenya and Ethiopia; (iii) reduction in transport cost on the corridor; (iv) reduction in travel time between Addis Ababa and Nairobi; and, (v) volume of transit goods to/from Ethiopia using Mombasa port. Indicators for monitoring and evaluating project outcomes are included in the Project Logical Framework.

2.9.2 The project design consultants have collected some of the baseline data. Additional baseline values will be collected at the beginning of project implementation by the supervising consultants. These additional data include: transport cost and travel time for specific types of vehicle and trip, accident data, carbon dioxide emission, jobs created in the construction and related activities, gender differential in roles and responsibilities, income/poverty indicator and HIV/AIDS prevalence. The indicators will be measured at project inception, completion, and three years later. Where relevant, indicators will be disaggregated by gender.

III. PROJECT FEASIBILITY

3.1. Economic and financial performance

3.1.1 The economic analysis was carried out using the HDM-4 software based on a cost-benefit analysis between the project and no-project situations over a 20-year period. A 12% discount rate and a 20% residual value were used. The costs taken into consideration were investment costs (costs, net of taxes and customs duty, of works and works monitoring, including physical contingencies), and vehicle maintenance and operating costs. For the economic analysis, these financial costs were converted into economic costs by applying a Standard Conversion Factor (SCF) of 0.80. The economic benefits are calculated as the difference between the "with the project" and "without the project" scenarios. The benefits include road user incremental benefits in terms of Vehicle Operating Cost savings, time savings for passengers and cargo, and road maintenance savings because of the new facility. The current Annual Average Daily Traffic (AADT) on the different project road sections range from 106 to 1,761 vehicles per day. Traffic forecasting took into account three categories of traffic, namely: normal, induced and diverted. Concerning normal traffic, the annual growth rates is estimated at 6% for cars and 5% for trucks from 2012 on and 5% for cars and 4.5% for trucks from 2021 on. Increased trade on the corridor and increased traffic on the road section account for these rates.

3.1.2 The measures of project worth used are the EIRR and NPV. Table 3.1 below gives a summary of the economic analysis, whose details are presented in Annex B5. An assessment of the investment cost of constructing the road sections of the project (2011 prices) gives an internal rate of return of 26.5% for the entire project. A 20% rise in the investment cost and a 20% drop in benefits (the most unfavorable situation) results in a 19.0% internal rate of return for the entire project. Hence it can be concluded that the development solution chosen for the project road sections is economically viable. Switching values (Annex B5) also support the conclusion.

Table 3.1: Key Economic Figures

EIRR (base case)	26.5%
NPV (12% Discount)	USD 232.7 million
EIRR (20% decrease in benefits)	22.0%
EIRR (20% increase in costs)	22.9%
EIRR (+20% costs & -20% benefits)	19.0%

3.2. Environmental and social impacts

Environment

3.2.1 Given the magnitude of the envisaged road works, aspects of environmental impacts and the potential number of households to be displaced, the project has been classified as Category I in accordance with the ADB's Environmental and Social Assessment Procedures (ESAP, June 2001) and the respective laws and procedures of the respective countries. Full ESIA and RAP reports and ESMPs have been prepared. The Executive Summary of the ESIA and RAP were posted on the Bank's website on 02 August 2011 and distributed to the Board under reference ADF/BD/IF/20011/147.

3.2.2 The project works will be substantially confined to the existing alignment. The main environmental issues will result from construction activities, particularly dust, noise and vibration, soil erosion due to excavation and earthworks, and pollution of soil and water sources from spillage/leakage of oil and oil products. These impacts will be mitigated through appropriate design considerations, incorporation of appropriate conservation and protection measures, and proper planning and supervision during construction. The main social impacts will be due to land take, destruction of buildings, loss of trees and crops, and loss of livelihoods. Along the Hawassa - Ageremariam section of the project road in Ethiopia, the project road will have impact on agricultural land, permanent crops and trees. An estimated 43 hectares of farmland will be affected due to realignment and widening of the Right of Way (ROW). While on the Turbi – Moyale road section in Kenya, it is anticipated that a total of 1,153 properties in all categories will be affected by improvement of the project road. Other concerns include the need to recruit members of the local communities in the workforce, and the propagation of STI/HIV/AIDS prevention and awareness, particularly during operation. All these issues have been addressed in the respective ESMPs and RAPs. The financial provisions to cover the related costs including HIV/AIDS prevention programs and road safety campaigns and monitoring have been included in the project.

Climate Change

3.2.3 This project is not likely to contribute negatively to climate change owing to its nature of being a road upgrading/rehabilitation project. Among the several alternatives considered for the road design, asphalt paved road was given priority for two important climate change related reasons over and above other technical reasons. One is that asphalt can be recycled and therefore has long life in terms of reusability and second reason is that the project would be able to use the reclaimed asphalt

pavement of the deteriorated section. Increased use of reclaimed asphalt pavement as percentage of the total asphalt mix can significantly reduce GHG (Green House Gas) emission by eliminating the significant fuel consumption required to acquire and process raw material for virgin mix.

3.2.4 The project area receives a mean annual rainfall of between 801 mm and 1,800 mm, along the Hawassa to Ageremariam section and about 300 mm in the arid areas between Moyale and Turbi. The design has taken into account higher anticipated hydrological flows in consideration of design of drainage structure keeping in mind excessive rainfall that may take place as a result of climate change phenomena. Existing pipe culvert of smaller size will be replaced by bigger size and extension/replacement will be made for some of the bridges. Outfall channels will be constructed and protection works will be done on the upstream and down stream of the structures all along the entire project road.

3.2.5 In order to offset the increase in GHG emissions resulting from the rehabilitation and upgrading, the project design has included provision for planting of trees. Apart from sequestering carbon emissions from road traffic, this contributes to reducing dust and noise levels and improving aesthetics. In line with this initiative, the project included provision for the tree planting programme to allow the contractors to plant more than fifty thousand trees along the project roads. During the construction period, the Contractor will be responsible for caring for the trees, but after the defects liability period, KeNHA and ERA in collaboration with the local administrations will ensure that the trees thrive.

Gender

3.2.6 The project is not expected to negatively impact on gender equity during implementation and thereafter. The project will be designed in such a way that both women and men will participate and benefit from the intervention. This will be in conformity with the overall gender promotion objectives in the two countries. The Kenya National Gender and Development Policy facilitates the mainstreaming of the needs and concerns of men and women in all areas of development including equal access to economic and employment opportunities. The Constitution of the Democratic Republic of Ethiopia promotes gender equality and the rights of women, as do local legislations by encouraging the principles of equality and participation of all. Although Ethiopia can demonstrate that women would seek jobs at construction sites, awareness and sensitization still needs to be carried out among communities and the contractor. The project will, therefore, allocate at least 30% of unskilled jobs to women alongside men. Furthermore, the project will ensure that the women who operate roadside markets have been catered for where-by tailored road side market sheds at pre-identified locations will be constructed. In addition, the HIV/AIDS/STI program of awareness, prevention and treatment will focus on the plight of girls and women. This will offer an opportunity for the local communities to receive full and accurate information on the epidemic and how they can be protected. A separate budget for these activities has been earmarked in the works Bill of Quantities.

Social

3.2.7 The road will ensure wider and better regional connections, linking the port of Mombasa with the land locked Ethiopia. The road will reduce transportation costs and travel time, promote trade and investment and stimulate economic growth. Local communities will be able to easily access social services. The project will create employment opportunities for approximately 1,640 members of the local communities (1,000 unskilled and 640 semi-skilled jobs). To avoid social conflicts over available jobs, the local communities will be notified of upcoming employment opportunities in a timely manner. Communities residing adjacent to the project road will be given priority for available jobs with due consideration to gender equity.

3.2.8 In addition to creating direct jobs, the workforce will create a demand for services, such as catering and hospitality, supply of provisions, and thereby encourage small scale and micro ventures. The project will create an enabling environment to support the development of SMEs, which is in line with one of the Bank Group's focus area of private sector development in the Urban Development Strategy. Both countries have substantial microfinance and SME programs that should be mobilized during construction and after to facilitate spin-off development in the local economy. Thus the upgraded project road is expected to enhance the standard of living and socio-economic welfare of the people living within its zone of influence, as well as other road users from further afar. The road will facilitate tapping the substantial resource potential of southern Ethiopia and northern Kenya. In general, the project will play a pivotal role in facilitating development of southern Ethiopia and northern Kenya as well as providing a crucial link between the two countries which will enhance regional trade, and contribute to increased security in the area.

3.2.9 Road projects, especially highways of this nature, are associated with increasing the incidence of HIV/AIDS/STI along their routes. HIV/AIDS/STI campaigns will be implemented, targeted at the local communities, the workforce, and road users, to educate and raise awareness on the prevention of these diseases. The contract documents will commit the contractors to outsource short-term consultancy services of an HIV/AIDS and STI expert who will work with the local communities and CBOs. The influx of road construction workers and job seekers into the project area may result in an increase in crime rates, and also exert pressure on local resources and facilities such as water, accommodation, and health facilities. The contractors shall seek alternative sources of water, provide gender sensitive camp facilities, and collaborate with local authorities to strengthen security. The project design, for Turbi – Moyale section, has also included provision for drilling of water wells and constructing of police posts. Increased traffic accidents affecting local communities, construction workers and road users will be addressed through incorporating road safety measures, and implementing a road safety awareness campaign for which provisions are made in the Bills of Materials. The project design has also included provision for constructing road side stations, truck parking and resting terminals that will also help the local community for income generation.

Compensation and Relocation

3.2.10 A Resettlement Action Plan has been prepared for the sections of the road in Ethiopia as well as in Kenya. For the road section in Ethiopia, Hawassa – Ageremariam, a total of 1,330 persons will be affected, either through losing building structures, crops and/or trees. Some farmland and trees on public land will also be affected. A Resettlement Plan has also been prepared for the Turbi - Moyale Road. Along the Turbi - Moyale Road, 1,153 properties and assets belonging to communities will be affected by the project road. The project has included provision for the estimated cost of the RAP in both countries. The ESIA and RAP reports are also cleared by the environmental authorities of the countries.

IV. IMPLEMENTATION

4.1. Implementation arrangements

Executing Agencies

4.1.1 The Ethiopian Roads Authority (ERA) and the Kenyan National Highways Authority (KeNHA) will be the executing agencies for the components in their respective countries. The two agencies are well structured with adequate number of qualified and experienced technical staff to fulfil their mandates. Both authorities have significant experience in implementing projects financed by bi-lateral and multilateral donors including the Bank. These executing agencies are also implementing the previous two phases of the project. They are assessed as competent enough to conduct procurements and reporting requirements envisaged under the project. ERA has been

recently (July 2011) reorganized to fully focus on the management and development of the road network. The operational arm (own force) of ERA will now function as independent public contractor. Institutional Support to KeNHA is being provided under the Bank financed project and by other donor partners. Both authorities are also assessing the need for additional capacity building in line with their development plans. KeNHA has also recruited a consultant to assist the Authority for ISO certification. The Bank will contribute to these efforts with other development partners.

4.1.2 To ensure close cooperation between the two countries, two agreements were negotiated, as part of the earlier phase of the project, between Kenya and Ethiopia and are ready for signing. These two agreements are (i) The Road Transport Services Agreement; and, (ii) The MoU for the Development, Management and Utilization of the Transport Corridor Infrastructure. The MoU establishes a Joint Ethiopia-Kenya Corridor Development Commission for making senior policy decisions and overseeing implementation. The Commission will be assisted by Transport Corridor Coordinating Committee (TCCC) that will serve as the technical and operational arm. This commission will provide the overall cross-border coordination of the project. The TCCC will also help to ensure statistical capacity building for strengthening baseline data for monitoring and evaluation of sustainable development of regional operations, which is in line with the capacity building pillar of RISP. The establishment and functioning of the Commission and TCCC will be a covenant of the Loan. Both countries are members of IGAD and COMESA, which support strategies of economic prosperity through regional integration. Hence it is expected that the corridor development efforts of the two countries will be supported by these intergovernmental bodies.

Procurement

4.1.3 Applicable documents: All procurement of works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's *Rules and Procedures for Procurement of Goods and Works*, May 2008 edition or as appropriate, *Rules and Procedures for the Use of Consultants*, May 2008 edition using the relevant Bank Standard Bidding Documents and Request for Proposal.

4.1.4 KeNHA for the Kenya components and ERA for the Ethiopia components will be responsible for the procurement of works and consultancy services. The resources, capacity, expertise and experience of KeNHA and ERA have been assessed and found to be adequate to carry out the procurement activities required for the project in the respective country. As KeNHA is established recently (2007) as an autonomous authority, there is a need to further strengthen the institution and its technical staff. To that effect, KeNHA will make use of the training resource allocated in Phase II of this corridor development project. Detailed procurement arrangements are provided in Annex B4.

Financial Management and Disbursement Arrangements

4.1.5 **Ethiopia:** ERA has proper structures as well as adequate (54 accountants) and qualified staff to carry out the Financial Management (FM) responsibilities of the Project. ERA's accounting policies will be used for components in Ethiopia. The Inherent Risks as well as the Control Risks were assessed by the team and found to range between low and moderate. **Kenya:** The FM of the project components in Kenya will be carried out by KeNHA. The capacity of KeNHA has been assessed as adequate for purposes of carrying out the FM of the project. It has 20 qualified accountants and robust Budgeting, Accounting, Internal Control and Reporting systems. The Inherent Risks as well as the Control Risks were assessed by the team and found to range between low and moderate.

4.1.6 The annual financial statements in both countries will be audited by the Governments' Auditor Generals or a firm appointed by them on the Bank's Audit Terms of Reference. The annual Audit Report, complete with a Management Letter will be submitted to the Bank no later than six months after the end of each fiscal year. The executing agencies will utilize the Bank's four disbursement methods explained in the Disbursement Handbook while direct payment method will be the preferred one for payments to contractors or service providers upon recommendations of their satisfactory performance by the project authorized consultant and officials. The internal audit of the executing agencies will complement the oversight of the management. The proposed value for money audit will further help in providing assurance that funds will be used for intended purposes only with due regard to economy and efficiency. Further disbursement details are provided in Annex B3.

4.2. Monitoring

4.2.1 The overall procurement, project supervision and monitoring falls under the Director Generals of KeNHA and ERA. The authorities are well organized with qualified and experienced professionals. KeNHA and ERA will assign project coordinators for the close follow up and timely response to correspondence forwarded from the Consultants and Contractors. The Authorities will attend tripartite monthly progress meetings and conduct site visits to discuss and address issues related to progress of works. KeNHA and ERA will also be the agencies in charge of monitoring the Result Based Logical Framework in consultation with appropriate institutions. The monitoring of environmental and social mitigation measures will lie with Environmental and Social Units of the executing agencies and the respective environmental authorities: NEMA and EPA. On the Financial Management and Auditing aspects, the existing accounting and reporting systems of the authorities are capable of producing accurate and reliable information regarding project resources and expenditures. In addition to the Bank's implementation support and review of the performance of the project through periodic visits and during the mid term review, the authorities will produce Quarterly Borrowers Progress Reports and submit to the Bank. The Bank's implementation monitoring time frame is indicated in Table 4.1

Table 4.1 – Implementation Monitoring Timeframe

<u>Timeframe</u>	<u>Milestone</u>	<u>Monitoring process / feedback loop</u>
Q2 – 2012	Project Launching	Supervision and Progress Report
Q2 – 2012	Procurement of Civil Works Completed	Procurement Plan/Progress Report
Q4 – 2013	50% of Civil Works completed mid term review	Midterm Review & Progress Report
Q2 – 2015	Substantial completion of civil works	Supervision and Progress Report
Q2 – 2016	End of Defects Liability period	Supervision and Progress Report
Q4 – 2016	Project Completion	Project Completion Report

4.3 Governance

4.3.1 The project will be carried out within the PFM systems of GOE and GOK; hence it will adopt all the Governance and Anti -Corruption policies and guidelines of the respective countries. The Internal audit of the Authorities and that of the Ministries will complement the oversight of the Management. The proposed value for money audit will further help in providing assurance that funds will be used for intended purposes only with due regard to economy and efficiency.

4.3.2 The specific governance risk mitigation measures of the project include: (i) the appointment of independent Auditor to ensure that funds are used efficiently and for the intended purposes; and (ii) Bank prior review and approval of all project procurement activities.

4.4 *Sustainability*

4.4.1 Project sustainability depends on the quality of works executed. It will also largely depend on both Governments' capacity to plan, finance and carry out routine and periodic maintenances on a timely basis. Furthermore, it will also depend on the implementation of effective axle-load-control programs to prevent overloaded trucks from deteriorating the road assets.

4.4.2 In Ethiopia, the planning, programming and implementation of road maintenance are done based on successive maintenance action plans under the Road Sector Development Program (RSDP), which is implemented by ERA. To strengthen the maintenance planning capacity, the project design has included Technical Assistance consultancy services to ERA. This consultancy includes diagnostic of the current maintenance programming of ERA and assistance in the preparation of annual and five year maintenance plan, review road network stock and determine its value, propose improvement to existing, and/or design new maintenance planning approach. In Kenya, KeNHA has been mandated, by the Kenya Roads Act to manage and maintain the national road network, including the maintenance with financing from the Kenya Roads Board (KRB). Ministry of Roads has finalized the Road Sector Investment Plan (RSIP 2010-2024) to guide the development and maintenance of the road sector. The recurrent costs after project completion include the routine maintenance expenditure of the road undertaken annually at a cost of USD 580,000 in Ethiopia and USD 210,000 in Kenya; and the periodic maintenance every eight years in the form of resealing or asphalt overlay to protect the investment estimated at USD 7.26 million in Ethiopia and USD 4.31 million in Kenya.

4.4.3 Both countries have road maintenance funds to secure stable flow of funds for road maintenance. In Ethiopia, the resources for road maintenance are administered through the Ethiopian Road Fund (ERF). Its revenues consist mainly of fuel levies, transit fees and interest income. Those resources at the starting year of the Road Fund, i.e. 1997-98, were estimated as ETB 0.33 billion and it was increased to ETB 1.43 billion in 2009-10, which is 95% of the maintenance need. Considering the current situation and expected increase in the road network, ERF has recruited an international consultant with the study objective of achieving a sustainable road maintenance strategy in Ethiopia. The Interim Report of this study (July 2011) identified annual vehicle license fees, mass distance charges, heavy vehicle charges, overloading fines and road tolls as potential sources. The Bank will have policy dialogue with GOE based on the outcome of the final study. In Kenya, the two primary sources of funds, fuel levies and transit fees contribute more than 99% of the funds deposited into the Kenya Roads Board (KRB) accounts. The Kenya Road Maintenance Fuel Levy is managed by KRB and the Fund revenue has increased annually on the average by 18% from KES 7.65 billion in 2002/03 to KES 22.46 billion in 2010/11. The amount is adequate to cover all routine maintenance needs of the network, but additional resources are required to take into account the backlog of maintenance. To that effect, KRB is considering long-term infrastructure bond and Public Private Partnership mechanisms.

4.4.4 Both Ethiopia and Kenya are implementing policy measures with respect to axle- load-control on their respective road networks with technical assistance funded by Development Partners. These measures include the introduction of improved axle configurations, the construction of additional weighbridge stations, and more efficient rules enforcement. In Ethiopia, ERA is enforcing axle load control using the nine stationary and three mobile weighbridges, additional three stationary weighbridges to be installed shortly, throughout the country. In Kenya, the setting-up of a network system for the installed thirteen weighbridges throughout the country has been finalized and training will be conducted to KeNHA staff. These measures and the improved sector governance and maintenance funding mechanisms will contribute to the sustainability of the project.

4.5. Risk management

4.5.1 The design of the project assumes several risks which might affect the attainment of project objectives. The risks and mitigation measures are discussed as follows:

Impact Risk: *weak trade* between the two countries is a risk that will reduce the positive impact of the project. The trade promotion programs of COMESA and IGAD as well as the Joint Trade Committee between Ethiopia and Kenya will provide a mitigating force.

Outcome Risks: (i) the *insecurity* in a few stretches along the corridor might be a potential risk affecting the positive impact of the project. Measures put in place through District Security Teams and District Peace Committees will reduce insecurity and maintain law and order in the project area. The project will also provide resources for strengthening security including construction of several police posts.

(ii) The other risk related with the outcome of the project is *neglect of maintenance works*. The presence of, in both countries, stable Road Fund and Road Sector Development/Investment Plans, which will ensure appropriate prioritization and preservation of the road asset, will mitigate the risk. The selected hot mix asphalt pavement also offers advantage of significantly reducing maintenance costs. The project design has also included consultancy service to strengthen the Road Asset Management Capacity of ERA

Output/implementation Risks: (i) *Project implementation delay* is one of the risks affecting the project output. It will be mitigated by: recruiting suitably experienced contracting parties; use of Advance Contracting; and close supervision by the Road Authorities and the Bank during project implementation. The Kenya field office being one of the Bank's resource centers is well positioned to provide proactive support to the Authorities.

(ii) *Delay by Governments in the implementation of RAP* may cause delays in the project. The existence of well prepared RAP and the Governments commitment to start the process of compensating the PAP well before project start will minimize the risk.

(iii) *Cost Overrun* : is another risk which the project might face. This risk will be mitigated by use of recent data for cost estimation and provision of contingencies within the cost estimates.

(iv) The main environmental risk affecting the implementation is associated with the *impacts of climate change*, specifically flash floods due to excessive rainfall. To mitigate that, the design has included adequate drainage structures (bridges, culverts and side drains), along the entire project road. The supervising consultants will also have an environmental expert in the team.

4.6. Knowledge building

4.6.1 The successful implementation of a project is dependent on the performance of the contracting parties. Review of ongoing projects indicates that the quality/timeliness of services that the executing agencies are getting from the contractors and consultants are not always up to the expectations. As a result, smooth implementations of projects are affected. The service included in this project will help to identify the causes, propose improvement measures and design monitoring mechanism. The knowledge to be obtained will be useful for future projects in the sector, other sectors as well as for any necessary revisions of the provisions of the standard contracts.

4.6.2 Considerable experience is being gained from this project from the long term commitment of the Bank on the delivery of multi-phased, Trans African Highways/Trade Corridors and on the delivery of multi-country planning, execution, policy harmonization and implementation of facilitation programs. This knowledge and the institutional architecture used should be captured for lessons learnt on similar projects elsewhere. COMESA and IGAD will provide the vehicle for sharing lessons learned from the experience.

V. LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

5.1.1 The Bank instruments to finance this operation are two ADF concessionary loans to Ethiopia and Kenya. The loan to Ethiopia amounts to UA 105 million broken down in UA 35 million (33%) from Ethiopia's ADF-XII PBA and UA 70 (67 %) million from the Regional Operations Envelope. The loan to Kenya amounts to UA 120 million broken down in UA 40 million (33%) from Kenya's ADF-XII PBA and UA 80 million (67 %) from the Regional Operations Envelope. The standard ADF loan terms and conditions are applicable to the two loans.

5.2. Conditions associated with Bank's intervention

Conditions Precedent to the Entry into Force of the Loan Agreements

5.2.1 The entry into force of the Loan Agreements shall be subject to the fulfillment by the Borrowers of the provisions of Section 12.01 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the Fund.

Conditions Precedent to First Disbursement of the Loans

5.2.2 The obligation of the Fund to make the first disbursement of the Loans shall be conditioned upon the entry into force of the Loan Agreement and the provision by the Borrowers of evidence, in a form and substance satisfactory to the Fund, of the following conditions:

- (i) a Resettlement Action Plan (RAP) together with a schedule (the "Works and Compensation Schedule") detailing (A) the sections into which each lot of the civil works will be divided and (B) a timeframe for the compensation of Project Affected Persons with respect to all such sections, in each case, in form and substance satisfactory to the Fund; and
- (ii) having compensated and/or resettled all Project Affected Persons with respect to the first section of the civil works in accordance with the RAP and the Works and Compensation Schedule.

Other Condition of the Loans

5.2.3 The other condition of the loans is:

The Borrowers will provide evidence, in form and substance acceptable to the Fund, that prior to commencement of construction on any section of any lot of the civil works, all Project Affected Persons have been compensated and/or resettled with respect to the relevant section of the relevant lot in accordance with the RAP and any updates to the RAP as well as the Works and Compensation Schedule.

Undertakings

5.2.4 The Borrowers undertake as follows:

- i) to implement and report on the implementation of the Environmental and Social Impact Assessment, the Environment and Social Management Plan and the RAP on a quarterly basis in form acceptable to the Fund; and
- ii) to provide evidence acceptable to the Fund, not later than 31, 2012, that the Ethiopia- Kenya Corridor Development Commission and Transport Corridor Coordinating Committee are functional.

5.3. Compliance with Bank Policies

This project complies with all applicable Bank policies.

The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

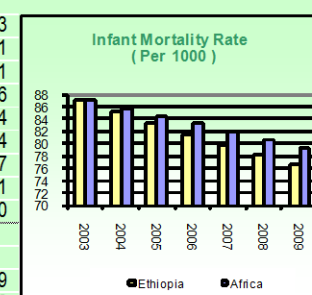
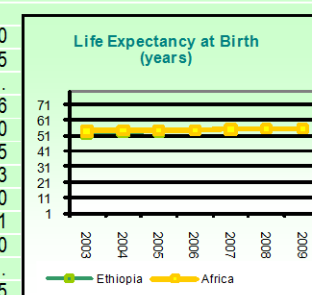
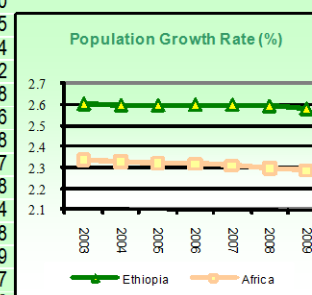
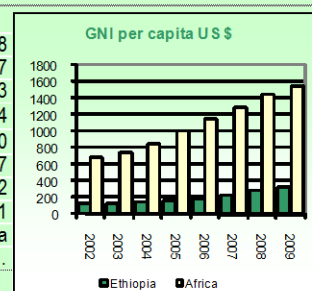
VI. RECOMMENDATION

6.1 The project road is an important section of the Mombasa–Nairobi-Addis Ababa corridor. The implementation of the project will greatly contribute to improving transport and communication infrastructure among Kenya and Ethiopia, and will facilitate bilateral and regional integration. The corridor will also provide an economically viable alternative outlet to Ethiopia through the sea port of Mombasa.

6.2 Management recommends that the Board of Directors approve the proposed loans of UA 120 million and UA 105 million respectively to the Republic of Kenya and the Federal Democratic Republic of Ethiopia for the purposes of financing the project described in this report and subject to the conditions stipulated above.

Appendix I: Country's Comparative Socio-Economic Indicator - Ethiopia

	Year	Ethiopia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		1 104	30 323	80 976	54 658
Total Population (millions)	2010	85.0	1,031.5	5,659	1,117
Urban Population (% of Total)	2010	17.6	39.9	45.1	77.3
Population Density (per Km ²)	2010	76.9	34.0	69.9	20.4
GNI per Capita (US \$)	2009	330	1 525	2 968	37 990
Labor Force Participation - Total (%)	2010	48.6	40.1	61.8	60.7
Labor Force Participation - Female (%)	2010	48.0	41.0	49.1	52.2
Gender -Related Development Index Value	2007	0.403	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	157	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2005-08	39.0	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.6	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	4.4	3.4	2.4	1.0
Population < 15 years (%)	2010	43.2	40.3	29.0	17.5
Population >= 65 years (%)	2010	3.6	3.8	6.0	15.4
Dependency Ratio (%)	2010	86.5	77.6	55.4	49.2
Sex Ratio (per 100 female)	2010	99.0	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	23.5	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2010	56.1	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2010	57.6	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2010	37.2	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2010	11.3	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2010	74.9	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2010	123.1	127.2	66.5	6.9
Total Fertility Rate (per woman)	2010	5.1	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	470.0	530.2	290.0	15.2
Women Using Contraception (%)	2005-08	14.7	...	61.0	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007	2.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2007	23.1	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2005-07	5.7	50.2	64.1	...
Access to Safe Water (% of Population)	2008	38.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2005	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	12.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	2.1	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2009	359.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2009	76.0	79.9	81.0	95.1
Child Immunization Against Measles (%)	2009	75.0	71.1	80.7	93.0
Underweight Children (% of children under 5 years)	2005-08	34.6	30.9	22.4	...
Daily Calorie Supply per Capita	2007	1 980	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	3.4	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	102.5	102.7	107.2	101.3
Primary School - Female	2009	97.8	99.0	109.2	101.1
Secondary School - Total	2009	34.4	37.8	62.9	100.1
Secondary School - Female	2009	30.0	33.8	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2009	38.0	47.0	60.5	81.4
Adult Literacy Rate - Total (%)	2008	35.9	64.8	80.3	98.4
Adult Literacy Rate - Male (%)	2008	50.0	74.0	86.0	98.7
Adult Literacy Rate - Female (%)	2008	22.8	55.9	74.8	98.1
Percentage of GDP Spent on Education	2007	5.5	4.6	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	13.6	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9
Per Capita CO ₂ Emissions (metric tons)	2009	0.1	1.1	2.9	12.5



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update :

May 2011

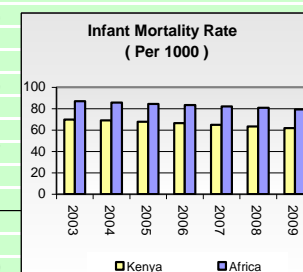
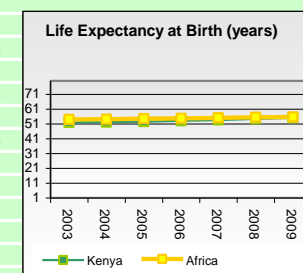
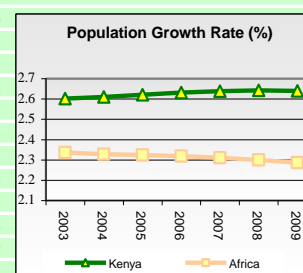
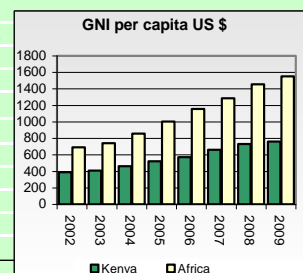
UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

Kenya

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Kenya	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		593	30 323	80 976	54 658
Total Population (millions)	2010	40.9	1,031.5	5,659	1,117
Urban Population (% of Total)	2010	22.2	39.9	45.1	77.3
Population Density (per Km ²)	2010	68.9	34.0	69.9	20.4
GNI per Capita (US \$)	2009	760	1 525	2 968	37 990
Labor Force Participation - Total (%)	2010	47.1	40.1	61.8	60.7
Labor Force Participation - Female (%)	2010	46.7	41.0	49.1	52.2
Gender -Related Development Index Value	2007	0.538	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	128	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2005-08	19.7	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.6	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	4.1	3.4	2.4	1.0
Population < 15 years (%)	2010	42.8	40.3	29.0	17.5
Population >= 65 years (%)	2010	3.0	3.8	6.0	15.4
Dependency Ratio (%)	2010	83.3	77.6	55.4	49.2
Sex Ratio (per 100 female)	2010	100.0	99.5	93.5	94.8
Female Population 15-49 years (% of total population)	2010	24.0	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2010	55.6	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2010	56.0	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2010	37.9	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2010	11.0	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2010	60.4	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2010	96.9	127.2	66.5	6.9
Total Fertility Rate (per woman)	2010	4.8	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	530.0	530.2	290.0	15.2
Women Using Contraception (%)	2005-08	61.0	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004-09	22.1	58.3	109.5	286.0
Nurses (per 100,000 people)*	2004-09	118.7	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2004-09	41.6	50.2	64.1	...
Access to Safe Water (% of Population)	2008	59.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2005-08	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	31.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005-09	6.1	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2009	305.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2009	75.0	79.9	81.0	95.1
Child Immunization Against Measles (%)	2009	74.0	71.1	80.7	93.0
Underweight Children (% of children under 5 years)	2005-08	...	30.9	22.4	...
Daily Calorie Supply per Capita	2007	2 089	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	4.5	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	112.7	102.7	107.2	101.3
Primary School - Female	2009	111.4	99.0	109.2	101.1
Secondary School - Total	2009	59.5	37.8	62.9	100.1
Secondary School - Female	2009	56.5	33.8	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2009	43.9	47.0	60.5	81.4
Adult literacy Rate - Total (%)	2008	86.5	64.8	80.3	98.4
Adult literacy Rate - Male (%)	2008	90.3	74.0	86.0	98.7
Adult literacy Rate - Female (%)	2008	82.8	55.9	74.8	98.1
Percentage of GDP Spent on Education	2010	6.7	4.6	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	9.3	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2005-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005-09	...	10.9
Per Capita CO2 Emissions (metric tons)	2009	0.3	1.1	2.9	12.5



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update :

May 2011

UNAIDS; UNSD; WHO; UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

APPENDIX II: TABLE OF ADB'S PORTFOLIO IN THE COUNTRIES

September 2011

PROJECT NAME	Main Sector	Financing Source	Approval Date	Closing Date	Approved UA million		Disbursement Ratio %
					Loan(L)	Grant(G)	
KENYA							
A. Public – National (Kenya)							
1. Timboroa - Eldoret	Transport/ Roads	ADF Loan	24.11.2010	31.12.2016	35.00		0
2. Nairobi - Thika Highway Improvement	"	ADF Loan	21.11.2007	31.12.2012	117.85	3.15	L:48.1; G:16.3
3. Rift Valley Water Supply & Sanitation Project	Water & San.	ADF Loan	07.07.2004	30.6.2011	13.04	5.02	G: 83.4; L: 94.0
4. Water Services Boards Support Project	"	ADF Loan	21.11.2007	31.12.2012	35.19	10.07	5.5
5. Green Zones Development Support Project	Agriculture	ADF Loan	12.10.2005	31.12.2013	25.04		65.7
6. Ewaso Ng'iro Resources Conservation Project	"	ADF Loan	22.04.2005	31.12.2012	13.59	2.89	L: 41.8;G:45.0
7. Rural Livelihoods Rehab & Recon	"	ADF Loan	29.4.2009	30.6.2013	15.00		45.3
8. ASAL Livestock/Rural Level. Support Project	"	ADF Loan	17.12.2003	31.12.2011	18.41	3.17	L:89.8; G:95.7
9. Kimira- Oluch Smallholder Farm Project	"	ADF Loan	31.05.2006	30.9.2013	22.98	1.15	L:48.5; G:41.4
10. Small-Scale Horticulture Development Project	"	ADF Loan	05.09.2007	31.12.2014	17.00		12.0
11. Education III Project	Social	ADF Loan	17.12.2003	30.12.2012	24.26	6.75	L:17.8; G:35.1
12. Rural Health III Project	"	ADF Loan	07.07.2004	29.02.2012	17.18	6.00	L:49.5; G:97.5
13. Community Empower. & Inst. Support Project	"	ADF Loan	17.12.2007	31.7.2014	17.00		15.0
14. Tech. Ind. Vocational and Entrep. Training	Social	ADF Loan	16.12.2008	31.12.2013	25.00		9.2
15. Integrated Land and Water Management	Water & San.	AWF	06.02.2009	31.12.12		1.94	16.9
16. Restoration of Farm Infrastructure	Agriculture	ADF Loan	29.04.2009	30.6.2012	15.00		41.4
17. Mombasa - Nairobi Power transmission line	Power	ADF Loan	06.05.2009	31.12.2013	50.00		14.8
18. Small Towns Water and Sanitation	Water & San.	ADF Loan	3.11.2009	31.12.2014	70.00		0.0
Sub Total National (Kenya)					531.54	40.14	
B. Public – Multinational (Kenya)							
19. Mombasa – Addis Ababa Road Corridor Ph I	Transport/ Roads	ADF Loan	13.12.2004	31.12.2011	33.60	1.20	83.4
20. Arusha - Athi River Road Dev. Project	"	ADF Loan	13.12.2006	31.12.2012	49.24		71
21. Nile Equatorial Lakes Electric Grid	Energy	ADF Loan	16.06.2010	31.12.2014	39.77		0.0
22. Mombasa--Addis Ababa Road Corridor Ph. II	Transport/Roads	ADF Loan	1.7.2009	31.12.2015	125.00	5.00	6.1
Sub Total Multinational (Kenya)					247.61	6.20	
Total (Kenya)					779.15	46.34	
ETHIOPIA							
A. Public – National (Ethiopia)							
1. Wacha – Maji Road upgrading	Transport/ Roads	ADF Loan	11/06/03	31/13/2012	22.71	0.99	L:93.1; G:79.2
2. Jimma – Mizan Road Upgrading	"	ADF Loan	13/12/06	31/12/2012	65.00		42.4
3. Koga irrigation and water shed management	Agriculture	ADF Loan	28/06/2001	30/06/2011	32.59	1.33	L:90.5; G:75.5
4. Agriculture Sector Support Project	"	ADF Loan	05/12/2003	31/12/2012	21.24	17.76	68.5
5. Sust. Tsetse and Trypanosomiasis free area	Agriculture	ADF Loan	08/12/2004	31/12/2011	9.55		19.01
6. Rural Electrification II Project	Energy	ADF Loan	20/12/2006	31/12/2013	87.20		64.5
7. Electric Transmission System Improvement	"	ADF Loan	06/12/2010	31/12/2015	93.75	58.00	L:0; G:0
8. Harar Water Supply and Sanitation	Water & San.	ADF Loan	04/09/2002	31/12/2011	19.89	1.12	L:83.3; G:17.7
9. Rural Water Supply and Sanitation	"	ADF Grant	21/12/2005	30/06/2012		43.61	65.9
Sub Total National (Ethiopia)					351.93	122.81	
B. Public – Multinational (Ethiopia)							
10. Mombasa - Addis Ababa Road Corridor Ph. I	Transport	ADF Grant	13/12/04	30/06/12		1.35	52.77%
11. Mombasa-Addis Ababa Road Corridor Ph. II	"	ADF Loan	31/07/09	31/12/2015	85.00		10.02%
12. Creation of Sustainable Tsetse Eradication Pr	Agriculture	ADF Loan	08/12/2004	31/12/2011		0.24	63.05%
Sub Total Multinational(Ethiopia)					85	1.59	
Total (Ethiopia)					436.93	124.40	

APPENDIX III: RELATED PROJECTS FINANCED BY THE BANK AND OTHER DONORS

Project Title	Donor	Region	USD million
KENYA			
Timboroa – Eldoret Project	AfDB	Rift Valley Province	56
Mombasa - Nairobi - Addis Road Corridor Phase I	AfDB	Eastern Province	52
Arusha – Namanga - Athi River Road Development:	AfDB	Rift Valley	74
Nairobi - Thika Highway Improvement (A2)	AfDB	Nairobi/ Central Provinces	181
Mombasa-Nairobi-Addis Road Corridor Project II	AfDB	Eastern Province	183
Roads 2000 Maintenance Programme	AFD	Muranga/Mar/Nyandarua	29
Maai Mahiu – Narok Road	AFD/ KfW	Rift Valley	26/29
Wote - Makindu Road (E707)	BADEA / OPEC	Eastern Province	25
Emali - Oloitokitok Road (C102)	BADEA / OPEC	Rift Valley	30
Dundori - Ol Kalou - Njabini Road (C69)	BADEA / OPEC	Central	0.2
Construction of the Garissa - Modogashe Road	BADEA/OPEC	North Eastern Province	45
Kipsigak- Serem- Shamakhoko Road	China	Rift Valley	16
Gambogi - Serem Road (D329)	China	Rift Valley	5
JKIA - Museum Hill - Gigiri Road	China	Nairobi	25
Construction of the Eastern By-pass	China	Nairobi	100
Lot III of Nairobi – Thika Road	China	Nairobi	120
Agricultural Roads	DANIDA	Coast, Eastern	4
Northern Corridor Rehabilitation Programme – Phase II	EC	Kenya	87
Northern Corridor Rehab. Programme – Phase III	EC	Kenya	82
Merille River - - Marsabit Road	EC	Northern Kenya	122
Roads 2000 Maintenance Programme Phase. II	EC	Eastern Province	15
Rural Road Rehabilitation	KfW/ EC	Eastern/Central Prov.	17/31
Capacity on S&O for Roads Maint. Works	JICA	Nairobi	3
Construction of Nairobi Missing Links No. 3, 6 & 7	JICA	Nairobi	13
Mombasa Port Development Project	JICA	Mombasa	223
Dualling of Nairobi-Dagoretti Corner Road (C60/C61)	JICA	Nairobi	11
Roads 2000 Maintenance Programme	KfW	Rift/Nyanza/West. Prov.	23
Roads 2000 Maintenance Programme	SIDA	Nyanza	25
Northern Corridor Transport Improvement Project	WB/NDF	Kenya	160/15
Northern Corridor Transport Imp. Project - Additional	World Bank	Kenya	253
Transport Sector Support Project	World Bank	Kenya	300
TOTAL			2,380.2
ETHIOPIA			
Jimma – Bonga – Mizan Road	AfDB	Western Ethiopia	100
Mombasa - Nairobi - Addis Road Corridor Phase II	AfDB	Southern Ethiopia	136
Wach – Maji Road	AfDB	Western Ethiopia	38
Mombasa - Nairobi - Addis Road Corridor Phase I	AfDB	Central/Western	2.2
APL II Eight Road Projects	World Bank	Ethiopia	372.8
APL III Six Road Projects	World Bank	Ethiopia	235.8
APL IV Three Road Projects	World Bank	Ethiopia	263.3
Dembi – Bedele Road	BADEA	Western Ethiopia	9.2
Metu – Gore Road	OFID	Rift Valley	4.8
Gore – Gambella Road	BADEA / OFID	Central	13/15
Azezo – Metema Road	BADEA/OFID/SAUDI FUND	Northern Ethiopia	13/15/18
Assosa – Kumruk	BADEA/SAUDI FUND	Western Ethiopia	6.5/6.5
RSDP Phase II Project study	NDF	Ethiopia	16
Nekempt Bedele	Kuwait/BADEA/OFID	Western Ethiopia	10/10/15
Wukro – Zalaanbessa	Kuwait Fund	Northern Ethiopia	10
Addis – Adama motorway	China	central Ethiopia	350
TOTAL			1660.1

COUNTRY AND SECTOR BRIEF

A.1 Economic Outlook: Ethiopia's recent growth of 11.1% is well above the population growth (2.6%) and the growth rate (7%) required to achieve the MDG goal of halving poverty by 2015. Although initially led by agriculture, growth is now more broad-based. Agricultural growth rates are expected to be 8.1%, industry 20% and services 11%.¹ The Government projects GDP growth at 11.2% for 2011-2015 in the base case and 14.9% in the best case. The Government has sought to raise Government tax revenues, but expenditures were also higher in 2010. Ethiopia experienced a marginal decline of 1.2% in value of merchandise exports in 2008/09 after a high annual growth rate of 25.5% from 2003/04. Imports grew at 27.2% of GDP in 2010 and are projected to reach 30.5% in 2011 and 35% in the years to follow based on the investment plan in the GTP. The plan also projects exports to grow by 36.6% in 2010/2011 and to average annual growth of 28.4% for the remainder of the GTP.

A.2 Kenya's real GDP growth, after recovering to 5 % in 2010 based on good rainfall and global recovery, is also expected to grow by 5% in 2011 and 5.5% in 2012. The resurgence of activities in the tourism sector and resilience in the agriculture, manufacturing, financial services and energy were the main supporters of the growth as per the 2011 Economic Survey of the Republic of Kenya². Kenya's manufacturing sector contributed significantly to total output and export earnings in 2010, growing by 7.8% in the third quarter. Equally important was the government's economic stimulus program to address the problem of youth unemployment and food security in the country. The value of merchandise exports increased by 8.4% in mid 2009 to mid 2010, with almost half going to African countries especially COMESA countries. Imports increased by 10.1% in the same period.³

A.3 Challenges and Constraints: For Ethiopia, inadequate infrastructure is a key constraint to growth and poverty reduction goals, especially the need for enhanced access and accountability of basic services. Major challenges include macro-economic fragility in the context of high growth, low agricultural productivity and limited integration in regional and global markets. Insufficient mobilizations of private sector investments are also impediments to economic growth. For Kenya, major challenges are: high cost of doing business, high unemployment and inequality, increased competition for regional and international market, inadequate economic and social infrastructure and environmental degradation.

A.4 Development Agendas for Ethiopia and Kenya: Ethiopia's key development objective is captured in the new five year development plan, the Growth and Transformation Plan (GTP)(2011-2015): to become a middle income country by 2025. The GTP specific objectives include seven strategic pillars: (i) sustaining rapid and equitable economic growth; (ii) maintaining agriculture as a major source of economic growth; (iii) creating favourable conditions for industry to play a key role in the economy; (iv) expansion and ensuring quality of infrastructure; (v) social development; (vi) strengthening good governance and capacity building, and (vii) empowering women and youth. The government of Kenya has underscored that to fulfil the goals of Vision 2030, which is to make Kenya a middle income country by 2030; efficient infrastructure is an essential driver. This will be facilitated with the other pillars of the vision, which include macroeconomic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; human resources development; security; and public sector reforms.

¹ African Economic Outlook 2011, Ethiopia Country Report

² Kenya National Bureau of Statistics, Economic Survey 2011, Nairobi, 2011

³ African Economic Outlook 2011, Kenya Country Report

A.5 Expanding the Road Sector: Road transport is the dominant mode of transport in Ethiopia and accounts for more than 90% of freight and passenger movements. While Ethiopia has almost doubled the length of the road network since it initiated its Road Sector Development Program (RSDP) in 1997, its 44.4 km of road per 1000 square km is lower than the Sub-Saharan Africa's average of 50 and Kenya's 188 km per 1000 sq km. The plans under the current RSDP IV (2011 – 15) includes: rehabilitation of 728 km of trunk roads, upgrading of 5,023 km of trunk and link roads and construction of 4,331 km of new link roads.

A.6 Kenya's transport system currently includes 160,890 km of roads. Road infrastructure has been identified in Kenya among the priority areas necessary for the development of the economy. It accounts for 93% of the country's passenger-km and freight ton-km. Transit traffic is estimated at about 30% of total traffic on the paved main east west arterials. The GOK has finalized a Road Sector Development Plan (RSIP) (2010 – 2024) which outlines road development and maintenance priorities with the expected source of funding. The RSIP has also detailed a five year program covering the period 2010 to 2014. The five year plan includes rehabilitation of 3936 km, upgrading of 5,058 km and 206 km of new roads.

A.7 Increasing Trade: Increased regional and international trade is a key goal in both development plans. Both countries are members of COMESA, but Ethiopia has not joined the Free Trade Area. A new trade agreement has just been negotiated between Kenya and Ethiopia. A Joint Trade Committee has been formed to promote trade and reduce non-tariff barriers. The Committee consists of the Ministries of Trade, Customs, Chambers of Commerce and other representatives of the private sector. Trade between the two countries is quite imbalanced, but growing fairly consistently. Kenya's 5 top exports to Ethiopia, in order of value, are soap and cleaning material, vegetable fats, iron and steel products, tobacco products and insecticides. Ethiopia's top exports to Kenya are vegetables, pharmaceutical products, cotton, vegetables materials and cotton products.

Trade between Kenya and Ethiopia ('000 USD)

year	Exports to Ethiopia	Imports from Ethiopia
2006	49,607	1,612
2007	52,835	2,179
2008	57,404	2,649
2009	58,361	3,215

Source: Kenya National Bureau of Statistics, Economic Survey, 2011

A.8 Statistics from UNcomtrade indicate that from Sudan, Ethiopia imported USD 123.2 million in 2010 and exported USD 167.6 million. Ethiopia imported USD 2.03 million from Uganda and exported USD 2.14 million. From Rwanda and Burundi, Ethiopia imported USD 13,811 and exported to them USD 165,930 in 2010. Having a paved route between the Horn and East Africa offers many opportunities for trade growth between the regions. The Joint Trade Commission and other regional initiatives provide an opportunity to strengthen the business environment and enable business development in the project area. As a land-locked country, good access to another major regional port, Mombasa, provided by this road is essential, especially for southern Ethiopia.

A.9 Facilitating Trade and Transport: To realize the full benefits of the road investment, attention must be given to developing streamlined logistics systems, a "smart corridor" that reduce time and cost and increases reliability and predictability of shipments. Currently, trucks carrying goods between Kenya and Ethiopia off load at the border and transfer cargo to vehicles of the adjoining state. There are no cranes or forklifts at Moyale

and cargo is sometimes damaged in the process. Containers are generally not taken inland, because there is no handling equipment at Moyale to lift the container from one truck and load it on another. Transporters, freight forwarders and shippers work with counterpart companies across the border treating logistics of cross-border operations as two separate national processes. Kenyan manufacturers deliver to the border or port of Mombasa, where Ethiopian freight forwarders assume responsibility for the cargo and its delivery to the customer. This makes it more difficult for sellers to give assurance of time of delivery and condition of goods.

A.10 The negotiated Road Transport Services Agreement will update the 1979 agreement to streamline and liberalize road transport operations between Ethiopia and Kenya. It will allow trucks to cross the border in transit eliminating some of the inefficiencies in the current system. Nevertheless, there will be a number of key liberalization issues to be resolved in implementation of the Agreement. The MoU will create a framework for monitoring performance, improving infrastructure and eliminating non-tariff barriers. It will ensure effective coordination between Ethiopia and Kenya on the development of the corridor infrastructure and harmonization of policies and procedures, including COMESA instruments. A major facilitation feature of the regional road is a One Stop Border Post (OSBP) at Moyale. In an OSBP, vehicles stop once and exit and entry clearances are all done in a single facility in the country of entry. This will be implemented in concert with other regional initiatives to improve customs cooperation and improved transit regimes on the corridor. The Project consultancy will provide technical expertise to insure results are achieved. The two revenue authorities have a MoU to provide capacity building between the two countries. Kenya Revenue Authority, with JICA support, has developed and piloted a real time border monitoring system, cargo control system and data entry and sharing software. The project will encourage that these systems are introduced at Moyale One Stop Border Post to expedite cargo clearances. Both countries are implementing GPS tracking systems to reduce manual controls on corridors. These systems should be coordinated as aspects of the “Smart Corridor” implementation.

A.11 It is also envisaged that the Transport Corridor Coordinating Committee (TCCC) of the Joint Ethiopia-Kenya Corridor Development Commission (Para. 4.1.2) could review job skills among residents of the project impact area to determine what training is needed and what training resources are available in Ethiopia and Kenya and whether additional training is needed from the consultancy to insure jobs are sourced in the project area and that trainees are prepared to seek work on other construction projects. Infrastructure projects generate opportunities for new businesses supplying the construction contractors and providing accommodations, restaurants and other requirements of the project staff and work crews. Both countries have strong microfinance and SME programs that should be mobilized by the TCCC during and after construction to insure the spinoff economic activities occur in the project impact area.

A.12 The project is designed to address the commitment to increased access through road construction thereby generating additional economic opportunity and better provision of social services to less developed areas. It connects two major regions for increased trade and communications and provides land-locked Ethiopia with an alternative port of Mombasa. It provides trade facilitation measures and policies to insure that the anticipated benefits in time and cost savings, improved logistics and trade result from the investment. Infrastructure projects create employment opportunities both during construction and thereafter. The TCCC will seek to capture these opportunities through skills training, SME development assistance and micro-finance and make them sustainable in the project area.

JUSTIFICATION FOR LESS THAN 10% OF COUNTERPART CONTRIBUTIONS

A2-1 Proposed Phase III project financing: The proposed project is the third phase of the corridor development project. This Phase III will be co-financed by the Bank Group, the GOE and the GOK. The Bank financing will be in the form of ADF loan amounting to UA 105 million and UA 120 million to GOE and GOK respectively. The corresponding counterpart contribution of the GOE and GOK respectively is UA 8.40 million and UA 8.19 million. This represents 7.4% and 6.4% of the total project cost in the respective countries of GOE and GOK. These contributions of the Governments exclude the taxes and duties related to the execution of the project that will also be covered by the Governments.

A2-2 Financing of the corridor development: The financing arrangement between the Bank, the GOK and the GOE for the three phases, including this phase III, of the corridor development project is as indicated in Table 1 below:

Table A2-1: Financing arrangement of the three Phases (UA million)

PHASES	ETHIOPIA		KENYA	
	Bank loan to GOE	Contribution of GOE	Bank loan to GOK	Contribution of GOK
PHASE I			33.60	3.74
PHASE II	85.00	16.57	125.00	26.18
PHASE III	105.00	8.40	120.00	8.19
Total	190.00	24.97	278.60	38.11
% Contribution for the three phases	88.4%	11.6%	88.0%	12.0%

A2-3 As is indicated in Table A2-1 above the contribution of the two Governments in the three phases is 11.6 % and 12.0% for GOE and GOK respectively of the total project costs in their respective countries.

A2-4 Investment by Governments of Kenya and Ethiopia in the Road sub sector: Both Governments have invested heavily in the construction sector in the past years. The GOK has invested about Ksh 351 billion (USD 3.9 billion) in the road subsector in the past five years (2006/07 – 2010/11). Out of this total investment, 64.3% is covered by the GOK. GOE has invested a total amount of ETB 34.96 billion (USD 2.19 billion) in the last three years (2006/07 to 2009/10), of which, 74.6 is covered by internal sources. The Road Sector Investment Programme, March 2011, of Kenya and the Road Sector Development Plan, January 2011, of Ethiopia also indicate that both governments have planned to continue with the huge investments in road sub sector in the coming years too with average annual investment of more than USD 1.4 billion. This shows the high level of commitment by GOE as well as GOK.

A2-5 Hence, considering that, (i) the two Governments contribution is more than 10% when the three phases of the corridor development is considered, (ii) they are substantially invested in the road sector and still need additional financing to implement their ambitious plans and they are active partners of the Bank with high commitment to implement the projects, it is proposed to waive the 10% requirement and encourage the Governments to continue improving their road network.

PROJECT DETAIL COSTS*Table B2.1 Project Detail Cost*

Project Categories	Cost	AfDB Financing		GOK		GOE		Country
	Amount UA (M)	Amount UA (M)	Percent	Amount UA (M)	Percent	Amount UA (M)	Percent	
1. Civil Works								
1.1 Hawassa – Chiko	31.46	31.46						Ethiopia
1.2 Chiko – Yirgachefe	31.52	31.52						Ethiopia
1.3 Yirgachefe – Ageremariam.	38.29	35.90				2.39		Ethiopia
1.4 Turbi - Moyale	116.04	109.02		7.02				Kenya
Sub-Total Civil Works	217.31	207.90	95.7%	7.02	3.2%	2.39	1.1%	
2. Consulting Services								
2.1 Supervision Hawasa - Chiko	1.57	1.57						Ethiopia
2.2 Supervision Chiko– Yirgachefe	1.57	1.57						Ethiopia
2.3 Supervision Yirgachefe – Ageremariam	1.58	1.58						Ethiopia
2.4 Supervision Turbi - Moyale	2.61	2.61						Kenya
2.5 Trade and Transport Facilitation	0.69	0.69						Ethiopia
2.6 Trade and Transport Facilitation	1.13	1.13						Kenya
2.7 Road Asset Management - Ethiopia	0.64	0.64						Ethiopia
2.8. Performance Monitoring - Kenya	0.67	0.67						Kenya
2.9. Studies of Transport Projects	6.48	6.48						Kenya
2.10 Project Audit	0.07	0.07						Ethiopia
2.11 Project Audit	0.09	0.09						Kenya
Sub-Total Consultancies	17.1	17.10						
3. Compensation and Resettlement								
3.1 Comp. & Resettlement	6.01					6.01		Ethiopia
3.2 Comp. & Resettlement	1.17			1.17				Kenya
Sub-Total Compensation	7.18							
Total	241.59	225.00		8.19		8.40		

Table B2.2 Expenditure Schedules by Component

Component	Year				Total
	2012	2013	2014	2015	
1. Civil Works					
1.1 Hawassa – Chiko	6.29	9.44	9.44	6.29	31.46
1.2 Chiko – Yirgachefe	6.30	9.46	9.46	6.30	31.52
1.3 Yirgachefe – Ageremariam	7.66	11.49	11.48	7.66	38.29
1.4 Turbi - Moyale	23.21	34.81	34.81	23.21	116.04
Sub-Total Civil Works	43.46	65.20	65.19	43.46	217.31
2. Consulting Services					
2.1 Supervision Hawasa - Chiko	0.27	0.52	0.52	0.26	1.57
2.2 Supervision Chiko– Yirgachefe	0.27	0.52	0.52	0.26	1.57
2.3 Supervision Yirgachefe – Ageremariam	0.27	0.52	0.52	0.27	1.58
2.4 Supervision Turbi - Moyale	0.44	0.86	0.86	0.45	2.61
2.5 Trade and Transport Facilitation - Ethiopia	0.00	0.35	0.34	0.00	0.69
2.6 Trade and Transport Facilitation - Kenya	0.00	0.57	0.56	0.00	1.13
2.7 Road Asset Management - Ethiopia	0.00	0.16	0.32	0.16	0.64
2.8. Performance Monitoring - Kenya	0.00	0.17	0.33	0.17	0.67
2.9. Studies of Transport Projects - Kenya	0.00	1.62	3.24	1.62	6.48
2.10 Project Audit - Ethiopia	0.01	0.02	0.02	0.01	0.07
2.11 Project Audit - Kenya	0.02	0.02	0.02	0.03	0.09
Sub-Total Consultancies	1.28	5.32	7.27	3.23	17.10
3. Compensation and Resettlement					
3.1 Comp. & Resettlement - Ethiopia	6.01	0.00	0.00	0.00	6.01
3.2 Comp. & Resettlement - Kenya	1.17	0.00	0.00	0.00	1.17
Sub-Total Compensation	7.18				7.18
Total	51.92	70.52	72.46	46.69	241.59

Table B2.3 Expenditure Schedules by Source of Finance

Source of Finance	year				Total
	2012	2013	2014	2015	
ADB	42.86	67.71	69.63	44.80	225.00
GOE	6.49	0.71	0.72	0.48	8.40
GOK	2.57	2.10	2.11	1.41	8.19
Total	51.92	70.52	72.46	46.69	241.59

IMPLEMENTATION ARRANGEMENTS

Regional Coordination

B2-1 The project components in each country will be implemented in parallel and independently. However, to ensure close cooperation between the two countries, two agreements are negotiated between Kenya and Ethiopia: (i) The Road Transport Services Agreement; and, (ii) The MoU for the Development, Management and Utilization of the Transport Corridor Infrastructure. The MoU establishes a Joint Ethiopia-Kenya Corridor Development Commission, which will provide the overall cross-border coordination of the project. The Ministry in charge of Transport in Kenya and Ethiopia shall co-chair the Commission and Transport Corridor Coordinating Committee will be co-chaired by the Permanent Secretary of Ministry of Roads in Kenya and the State Minister of Ministry of Transport in Ethiopia. COMESA and IGAD, which the two countries are member, will provide assistance in harmonizing construction and facilitation in keeping with their instruments.

Executing Agencies

B2-2 The Ethiopian Roads Authority (ERA) and the Kenyan National Highways Authority (KeNHA) will be the executing agencies for the components in the respective country. Both ERA and KeNHA have extensive experience in managing projects financed by bi-lateral as well as multilateral donors. The Director Generals of the two executing agencies will each nominate a senior civil engineer whose qualification and experience should be acceptable to the Bank to be Project Coordinators. The Letter of appointment of the Project Coordinator shall be forwarded to the Bank prior to loan negotiations.

Capacity Building Efforts in the Authorities

B2-3 ERA and KeNHA are continuously arranging for relevant trainings of their staff in line with their development plan. The capacity need assessment, which took into consideration the assistance by other donors including the Bank, is done for road authorities in Kenya, including KeNHA by the European Union and it is in the stage of selecting a capacity building technical assistance team to the authority. In Ethiopia, similar efforts have started to assess the capacity needs of the domestic construction industry and the draft TOR, prepared by ERA, for the service is under discussion.

Responsibilities of Executing Agencies

B2-4 *Pre-award activities* – (i) Preparation of implementation plan, RFP and qualification/bidding documents; (ii) conducting bidding process following Bank's procedures; (iii) follow up on all actions agreed with the Bank.

B2-5 *Project Management Activities* – (i) Supervise project implementation; (ii) Supervise and monitor consultants, and contractors; (iii) Facilitate taking-over of right-of-way for the road, quarries, and camp sites; (iv) Ensure timely payments; (v) Submit progress reports; (vi) Ensure timely execution and submission of audit reports; (vii) attend tri-party progress review meetings; (viii) Monitor implementation of ESMP; (ix) Maintain all project records.

Implementation Supervision by the Bank

B2-6 The Executing Agencies shall provide the Bank with quarterly progress reports for the project including the implementation of environmental and social protection measures in the established format covering all aspects of the concerned components. In addition, monitoring of the project implementation will be done through the Bank's missions.

FINANCIAL MANAGEMENT AND DISBURSEMENT ARRANGEMENTS

Financial Management

B3-1 The Financial Management (FM) of the project will be carried out by KeNHA and ERA in the respective countries. The capacities of both agencies have been assessed as adequate for purposes of carrying out the FM of the project. They have good number of qualified accountants with robust Budgeting, Accounting, Internal Control and Reporting systems. They have also a competent Internal Audit Departments.

B3-2 The Project will use the respective countries Public Financial Management systems. KeNHA is now migrating to the SAGE PASTEL accounting software from a manual system. ERA is using ACCPAC accounting system. The financial management assessment of the executing agencies and the proposed arrangement for the project indicates that the overall financial management risk for the project is moderate to low. In conclusion, the proposed financial management arrangements put in place meet the Bank's minimum requirements as per its project financial management policies and guidelines and therefore adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by the Bank.

Disbursement Arrangements

B3-3 *Disbursement Conditions* - The first disbursement on each loan will not be made until the loan enters into force and the Borrowers have fulfilled all the conditions precedent to first disbursement as stipulated in the loan agreements. Prior to submitting the first request for disbursement, the Borrowers shall communicate to the Bank the person (persons) authorized to sign the withdrawal applications together with the authenticated specimen signature(s).

B3-4 *Disbursement Method* - The four disbursement methods, which are explained in detail in the Bank Disbursement Handbook, were discussed with the Borrowers. Considering the project components, which are Road Civil Works and Consultancy Services, the Direct Payment disbursement method is agreed to be used for the components of the project.

B3-5 A change to a method other than that agreed upon will require the prior approval of the Bank.

AUDIT ARRANGEMENTS

B3.6 The Auditor General in both countries is primarily responsible for the auditing of all Government programmes. The Annual Audit Statements shall be audited by the Office of Federal Auditor General (OFAG) in Ethiopia and Kenya National Audit Office (KENAO) in Kenya or their appointee. However, should the audit be subcontracted to a firm of private auditors, it should be acceptable to the Bank and has to be based on the Bank's Audit Terms of Reference. The audits will be done in accordance with International Standards on Auditing. The audit report, complete with a management letter will be submitted to the Bank by KeNHA and ERA not later than six months after the end of the fiscal year.

B3.7 At the programme midterm, a Value for Money (VfM) Audit will be carried out by the Governments Auditor General or his appointee on Terms of Reference agreed with the Bank. The VfM audit report will be discussed at the midterm review of the programme. Where the audits (both financial and VfM) are not undertaken by the Auditor General, they will be paid for using the project resources.

PROCUREMENT ARRANGEMENTS

B4-1 All procurement of goods, works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's *Rules and Procedure for Procurement of Goods and Works*, May 2008 edition or as appropriate *Rules and Procedure for the Use of Consultants*, May 2008 edition using the relevant Bank Standard Bidding Documents. The procurement arrangements under the project are summarized in Table B4-1.

Table B4-1 - Summary of Procurement Arrangements

Project Categories	Cost (UA Million)		Selection Procedure	Pre-Qualification (Y/N)	Bank Prior-Review
	Total	Bank Funded			
1. Civil Works					
1.1 Hawassa – Chiko	31.46	31.46	ICB	Y	Y
1.2 Chiko – Yirgachefe	31.52	31.52	ICB	Y	Y
1.3 Yirgachefe – Ageremariam	38.29	35.90	ICB	Y	Y
1.4 Turbi - Moyale	116.04	109.02	ICB	N	Y
2. Consulting Services					
2.1 Supervision Hawasa - Chiko	1.57	1.57	QCBS	N	Y
2.2 Supervision Chiko– Yirgachefe	1.57	1.57	QCBS	N	Y
2.3 Supervision Yirgachefe – Ageremariam	1.58	1.58	QCBS	N	Y
2.4 Supervision Turbi - Moyale	2.61	2.61	QCBS	N	Y
2.5 Trade and Transport Facilitation - Ethiopia	0.69	0.69	QCBS	N	Y
2.6 Trade and Transport Facilitation - Kenya	1.13	1.13	QCBS	N	Y
2.7 Road Asset Management - Ethiopia	0.64	0.64	QCBS	N	Y
2.8. Performance Monitoring - Kenya	0.67	0.67	QCBS	N	Y
2.9. Studies of Transport Projects - Kenya	6.48	6.48	QCBS	N	Y
2.10 Project Audit - Ethiopia	0.07	0.07	LCS	N	Y
2.11 Project Audit - Kenya	0.09	0.09	LCS	N	Y

B4-2 **Civil Works:** The procurement of civil works will be carried out under International Competitive Bidding (ICB) procedures, with pre-qualification of contractors for the component in Ethiopia and with-out prequalification in Kenya.

B4-3 **Consulting Services:** procurement of consulting services will be done through International Shortlist using Quality and Cost Based Selection (QCBS) method. Audit service will be procured through national shortlist using Least Cost Selection (LCS) method.

B4-4 **Executing Agency** – Procurement units responsible for the procurement activities of the Executing Agencies, Engineering Procurement Directorate in Ethiopia and Procurement Section in Kenya are well structured with adequate number of qualified and experienced technical staff to fulfil their mandates. Generally, they are assessed as competent enough to conduct procurements envisaged under the project.

B4-5 **Review Procedure:** The following documents are subject to prior review and approval by the Fund.

- General Procurement Notices
- Invitation for pre-qualification/ Specific Procurement Notice/ Invitation for EOI
- Tender Documents and Requests for Proposals
- Pre-qualification assessments, Tender Evaluation Reports, Evaluation of Consultants' Proposals
- Draft Contracts, if the Form of Contract document in the Standard Bidding Document and RFP have been amended.

National Laws and Regulations

B4-6 ***Kenya***- Kenya enacted its Public Procurement and Disposal Act (PPDA) in 2005 and made it effective in 2007 aiming to establish the procedures for procurement and the disposal of unserviceable, obsolete or surplus stores and equipment by public entities using public funds in order to achieve the objectives of maximizing economy and efficiency; promoting competition and ensuring fair treatment; increasing transparency and accountability; increasing public confidence; and facilitating the promotion of local industry and economic development. The Public Procurement and Oversight Authority and other structures are established as institutional framework in order to ensure better management of public procurement and safe guard of the Act. The Bank has conducted detail review and assessment of the Act (PPDA). The assessment report attested that the PPDA is essentially acceptable. However, there are clearly identified deviations of the Act from the fiduciary obligations and best practices perspectives, which should be addressed when using the Country Procurement System.

B4-7 ***Ethiopia***- All federal public procurements are governed in accordance to Procurement Proclamation No. 649/2009: “*Procurement and Property Administration Proclamation*”, which is implemented through procurement directives, standard bidding documents and manuals. However, the standard bidding documents are still under revision to update the contents and harmonize important revisions of the bidding documents in respect to best international practices. The Bank has made earlier review and assessment to the Proclamation and directives, which are seen acceptable. Deviations observed in the country’s public procurement documents are identified and will be considered when following Country Procurement System.

B4-8 ***Advance Contracting***: The GOK and GOE have submitted a request for the Bank to consider Advance Contracting (AC) for civil work and construction supervision service. The requests were reviewed and “no objections” were issued by the Bank. It should be noted that in as much as AC was approved, the Borrowers shall submit to the Fund for its “no objection” all the documents and stages of the selection process, in accordance with Bank’s *Rules and Procedures of Procurement of Goods and Works* and *Rules and Procedure for the Use of Consultants*. The Borrower shall be fully aware that (i) advance contracting is undertaken at its own risk and does not commit the Bank in any way to approve the financing of the project; (ii) procurement under AC must be carried out according to Bank’s procedures, if it is to be eligible for Bank Financing; and (iii) announcements, in case of AC, must indicate that the Borrower has applied for financing from the Fund, and that disbursement, in respect of any contracts signed, will be subject to approval of the Financing by the Fund.

B4-9 ***Procurement Plan*** - As part of the preparation of the project the Borrowers have drafted a procurement plan, which was discussed and approved by the Bank. At the beginning of each fiscal year, the Borrower shall furnish to the Bank for its approval, an updated Procurement Plan acceptable to the Bank setting forth: (a) the particular contracts for the works, and services required to carry out the project during the initial period of at least 18 months; (b) the proposed methods for procurement of such contracts that are permitted under the Financing Agreement, and (c) the related Bank review procedures. The Borrowers shall update the Procurement Plan annually or as needed throughout the duration of the project.

SUMMARY OF FINANCIAL AND ECONOMIC ANALYSIS

Methodology

B5-1 Economic analysis has been assessed on Cost Benefit Analysis using the Highway Development and Management (HDM-4) model. The HDM-4 allows modeling over the analysis period of 20 years for the whole project road, the interaction between traffic volume and composition, road condition, proposed engineering interventions and their costs, road geometric characteristics and vehicle operating costs for the “with” and “without” project scenarios. All appraisal components have been inputted into the model in USD and output values are also in USD. Investment costs have been distributed over three years of the construction period in line with the projected implementation schedules at 30, 40 and 30 percent of costs assumed to be incurred in the first, second and third year respectively. The project implementation / construction are to commence in March 2012. With a construction period of 36 months, the first year of opening the road sections to traffic is assumed to be March 2015 and the analysis period goes up to 2035.

B5-2 All analysis components have been entered into the model in USD at the rate of exchange prevailing in July 2011 (1 USD=ETB 16.95, 1 USD=KES 85.72). For economic analysis, financial construction and maintenance costs have been converted into economic costs by applying a conversion factor of 0.80, in order to exclude transfer payments within the economy and correct for distortions between international and domestic prices caused by applications of duties and taxes on traded items. The measures of project worth used are the Economic Internal Rate of Return (EIRR) and Net Present Value (NPV) at 12% discount rate, given the opportunity cost of capital of 12% and 10.23% in Kenya and Ethiopia respectively.

Assumptions

B5-3 Selection of the maintenance strategy, in the “without project” case follows this historic maintenance pattern. The strategies incorporated into the appraisal and fitted in the model are scheduled work items rather than responsive and are incorporated into the economic evaluation are as follows:

“Without project” do minimum: this is essentially the historic routine maintenance practice comprising edge repairs, cleaning of culverts, crack resealing/patching (for the paved section) or grading (gravel section), maintenance of road signs and road markings, drainage clearance, etc; and periodic maintenance of re-gravelling the gravel section in Kenya every 4 years and resealing with single bituminous surface treatment every 6 years for the paved sections in Ethiopia.

“With project” paved standard: involves routing maintenance, patching 5 percent of the surface area each year, and periodic maintenance of overlay/resealing every 7 to 8 years.

B5-4 Residual values are likely to have analytical significance and have been assumed as 20% of the initial capital investment; thus credited to the project in the final evaluation year of 2035.

B5-5 The economic costs taken into account are the Road Agency costs in the “with” and “without” project scenarios, which include both the cost of maintenance, and the investment cost of rehabilitation for 198 km and upgrading of 122 km of the project roads in Ethiopia and Kenya respectively. These costs take into account the base cost for civil works plus the physical contingencies, consulting services for supervision of works and for project audit.

The financial contingencies and compensation costs paid to people whose properties are affected are not included. Construction costs were revised in July 2011 to take into consideration the detailed engineering design cost estimate and the recent tender offers in both countries.

B5-6 The benefits include road user benefits in terms of Vehicle Operating Cost Savings, time savings for passengers and cargo, road maintenance savings as a result of the new facility. Accident cost savings are not quantified and valued due to incomplete documentation and therefore not taken into account in the estimation of project benefits. Time savings would result from the free flow of traffic under the new facility and has been estimated for both passengers and cargo as difference in travel time under the ‘with and without’ project situations. The time values for passengers in different categories of vehicles are estimated based on income and employment, income distribution of Ethiopia and Kenya as applicable to the Project Influence Area and purpose of trip. Work related travels are put at 80 % while the remaining is non work related and is valued at 20% of work time value. Value of cargo time is estimated by inventory method. Based on origin destination surveys and classified traffic counts, vehicle wise weighted average value cargo is used and the time value is calculated using ongoing market rate of interest. The forecast vehicle operating costs savings are derived from the road-planning model HDM-4.

Result of Cost – Benefit Analysis

B5.7 The economic evaluation using the measures of investment worth based on most likely traffic forecast scenario resulted in an Economic Internal Rate of Return of 26.5% which is higher than the current opportunity cost of capital of 10.23% and 12.0% in Ethiopia and Kenya respectively. Another measure of project investment worth in the base case scenario indicates a NPV of USD 232.7 million at 12.0% discount rate. The result of the analysis confirms the viability of the intervention in the project.

Sensitivity Analysis and Switching Values

B5.8 Sensitivity testing has been made on the result of the base case scenario with respect to all measures of investment worth for the project road and the results indicated in the Table B5-1 below confirm the project viability. Switching value for capital works costs indicated that the costs would have to go up by more than 130% before project viability is threatened and while the result with respect to benefits indicated that benefits would drop by over 59% before the project economic rate of return fall below the opportunity cost of capital in both countries.

Table B5-1 - Cost Benefit Analysis Results and Sensitivity Tests

Scenario	Change (%)	EIRR (%)	NPV (USD Million)
Base Case	-	26.5	232.7
Capital Costs	+20%	22.9	203.3
Benefits	-20%	22.0	154.6
Cost and Benefits	+20% cost and -20% benefits	19.0	125.1

PROJECT PREPARATION AND APPRAISAL*Project Processing Milestones*

Activity	Date
Preparation	May/June 2011
PCN Review and clearance by OpsCom	21 July 2011
Appraisal	August 2011
Readiness Review and Country Team Clearance of PAR	20 Sept 2011
Sector VP clearance	22 Sept 2011
PAR review and clearance by OpsCom	05 October 2011
Negotiations	10 -14 Oct 2011
Board Approval	30 Nov 2011
Loan Agreement Signing (GOE/GOK)	Dec. 2011/Feb. 2012
Planned Date of Effectiveness	April 2012
Planned Date of Mid-term Review	Oct 2014
Planned Closing date	December 2017

Bank Staff or Consultants who worked on the Project

Name	Title	Unit
Z. Tessema	Transport Engineer	OITC.2
N. Kulemeka	Socio-Economist	ONEC.3
M. Benard	Transport Economist	OITC.1
E. Garbado	Infrastructure Specialist	ETFO
G. Makajuma	Infrastructure Specialist	KEFO
F. Asaye	Procurement Officer	ETFO/ORPF.1
F. Mkandawire	Reg. Financial Mgt. Co	KEFO/ORPF.2
S. Fanuel	Financial Management Specialist	ETFO/ORPF.2
D. Mutuku	Financial and Management Officer	KEFO/ORPF.2
U. Duru	Environmental Specialist	ONEC.3
D. Mciver	Legal Counsel	GECL.1
B. A. Aluoch	Legal Counsel	GECL.1
W. C. Vwala-Zikhole	Disbursement Officer	FFCO.1
A. Beyou	Disbursement Officer	FFCO.1
L. Harmon	Trade and Transport Facilitation Expert	Consultant

Key Institutions Consulted during Project Preparation and Appraisal

Ethiopia	Kenya
Ministry of Finance and Economic Development	Ministry of Finance
Ministry of Transport	Ministry of Roads
Ministry of Trade	Ministry of Transport
Ministry of Foreign Affairs	Ministry for Provincial Adm. and Internal Security
Ministry of Construction & Urban Development	Dept. Parli. Comm. on Roads, Transport and Housing
Ministry of Women's, Children & youth Affairs	Ministry of Public Works
Environmental Protection Authority	Ministry of Trade
Ethiopian Revenue and Customs Authority	Kenya National Highway Authority
Federal Transport Authority	Kenya Roads Board
Maritime Affairs Authority	Kenya Revenue Authority
Dry Port Services Enterprise	National Environment Management Agency
Association of Ethiopian Micro Finance Inst.	Mabati Rolling Mills
National Roads Safety	Federation of East African Freight Forwarders Asso.
Private Sector Transporters	Ministry for Devt. of Northern Kenya & Arid Lands
Ethiopian Roads Authority	Ministry of Gender, Children and Social Devt.
Office of the Road Fund	National Aids Control Council
Ethiopian Chamber of Commerce & Sectoral Asso.	Chamber of Commerce and Industry
Grade I Contractors Association	Road & Civil Eng. Contractors Association
Civil Engineers & Architects Assoc.	Moyale Town District
Ageremariam Town	Marsabit Town District
Sidama Zone office	