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AFRICAN DEVELOPMENT BANK

PROJECT APPRAISAL REPORT

LAGHOUAT–GHARDAIA–EL MENIAA RAILWAY LINE CONSTRUCTION PROJECT (495 km)

PHASE II

ALGERIA

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PIVP/PICU/RDGN/CODZ

June 2026

Translated Document

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CURRENCY EQUIVALENTS

Exchange rate as of 30 April 2026

Currency Unit[1]	Equivalent
UA 1	DZD 181.85100
UA 1	USD 1.37202
USD 1	DZD 132.54253
UA 1	EUR 1.17246
EUR 1	DZD 155.10209

FISCAL YEAR

1 January to 31 December

WEIGHTS AND MEASURES

1 tonne (t)	= 2204 pounds (Ibs)	1 millimetre (mm)	= 0.03937- inch
1 Kilogramme (kg)	= 2.204 pounds (Ibs)	1 kilometre (km)	= 0.62 miles
1 metre (m)	= 3.28 feet (ft)	1 hectare (ha)	= 2.471 acres

[1] Add any additional foreign or local currencies relevant to the project and their monetary equivalents.

ACRONYMS AND ABBREVIATIONS

ANADE	=	National Agency for Entrepreneurship Development
ANESRIF	=	National Railway Investment Agency
AfDB	=	African Development Bank
EIB	=	European Investment Bank
BET	=	engineering firm
BERD	=	European Bank for Reconstruction and Development
IsDB	=	Islamic Development Bank
BD	=	Bidding Documents
DZD	=	Algerian dinar
RISP	=	Regional Integration Strategy Paper
EUR	=	euro
AFESD	=	Arab Fund for Economic and Social Development
KFAED	=	Kuwait Fund for Arab Economic Development
SFD	=	Saudi Fund for Development
GHG	=	greenhouse gas
JICA	=	Japan International Cooperation Agency
DPO	=	Delegated Project Owner
GDP	=	Gross Domestic Product
SME	=	small- and medium-size enterprise
PP	=	Procurement Plan
TFP	=	Technical and Financial Partners
SNTF	=	National Railway Transport Company
TOR	=	Terms of reference
ERR	=	economic rate of return
FRR	=	financial rate of return
UA	=	Unit of Account
PIU	=	Project Management Unit
NPV	=	Net Present Value NPV
YJSMS	=	Youth, Jobs and Skills Marker System
AfCFTA	=	African Continental Free Trade Area

PROJECT INFORMATION SHEET

CLIENT INFORMATION

Project Name:	Laghouat-Ghardaïa-El Meniaa Railway Line Construction Project (495 km) Phase 2
Sector:	Transport
Borrower:	The People's Democratic Republic of Algeria
Project Instrument:	AfDB Loan
Executing agency:	The Ministry of Public Works and Basic Infrastructure, through the National Agency for Studies and Monitoring of Railway Investment Projects (ANESRIF)

COUNTRY AND STRATEGIC CONTEXT

Country Strategy Paper Period:	The Country Strategy Paper (CSP) for the period 2025–2030.
Country Strategy Paper priority areas supported by the project:	Priority Area 1 of the CSP, which aims to promote infrastructure in support of economic development and regional integration.
Government Programme (PRSP, NDP or equivalent):	The Government's Action Plan for implementing the President of the Republic's Programme (September 2021) which covers the CSP period.
Project classification:	The project will contribute to the following High-5s: "Industrialize Africa" (Code 3), "Integrate Africa" (Code 4) and "Improve the quality of life for the people of Africa" (Code 5); **these priorities are aligned with the Four Cardinal Points of the Bank's new vision, notably Cardinal Point 1: Enhanced Access to Capital: Mobilizing Africa's Financial Resources; Cardinal Point 3 : "Harnessing Demographic Transformation for Economic Development"; and Cardinal Point 4: "Building Climate-Resilient Infrastructure and Robust Value Addition".**

The sub-themes included in the Bank's Project Classification Methodology and the related sustainable development goals (SDGs) are :

High 5	Themes	Sub-themes	SDGs
3.0: Industrialize Africa		3.5: Infrastructure for Industrialization	SDG 9
4.0: Regional Integration		4.1: Regional Infrastructure Connectivity	SDG 9
		4.3: Trade and Investment Facilitation	SDG 8
			SDG 9
5.0: Improve the quality of life for the people of Africa	Human and social development	5.6: Investments for Job Creation	SDG 8
	Others	5.11: Local Infrastructure	SDG 9
		5.12: Urban development	SDG 11
		5.16: Climate Change and Green Growth	SDG 8
			SDG 13

SDG 8: Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization for all, and foster innovation.

SDG 10: Reduce inequality within and among countries.

SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable

SDG 13: Take urgent action to combat climate change and its impacts

The project's selectivity priorities are: (i) promoting infrastructure development; (ii) strengthening regional infrastructure connectivity (iii) improving mobility and the living environment.

Country Performance and Institutional Assessment:	Country Policy and Institutional Assessment (CPIA) Score: currently being developed by the Bank
Projects at Risk in the country portfolio:	There are no at-risk projects in the Bank's portfolio of operations in Algeria.
Eligible Allocation Balance at the Time of PCN:	N/A

PROJECT CATEGORISATION

Environmental and Social Risk Categorisation	The project is classified in Category I in view of its environmental and social impact. The category was validated in ISTS and confirmed in SAP on 29 January 2026
Does the project involve involuntary resettlement?	Yes
Climate Safeguards Categorization:	The project is classified in Category 2 in accordance with the Bank's Climate Safeguards System (CSS)
Fragility and resilience Lens Assessment:	Yes
Gender Marker System Categorization:	The project is classified in Category 2 in accordance with the Bank's Gender Marker System
Youth, Employment and Skills Marker System Categorization:	Category 2.

AfDB KEY FINANCING INFORMATION

Loan type	Fully Flexible Loan
Eligibility	1. Regional member countries (RMCs) classified as "Blend" or "AfDB countries" and public sector entities with a sovereign guarantee from Blend or AfDB countries. 2. Under the 2014 amendment to the Bank's Credit Policy, ADF countries accessing AfDB resources on a case-by-case basis will also use the fully flexible loan[2].
Loan currency:	USD, EUR, ZAR, JPY or any other approved Bank lending currency
Tenor	Up to 20 years inclusive of grace period
Grace period	Up to 5 years
Average Loan Maturity*	Function of tenor, grace period and amortization profile Up to 17 years
Repayments	Consecutive half-yearly and equal payments after the grace period or customized, if necessary
Payment Dates	1st or 15th of any month, excluding 1st January
Interest Rate	Base rate + Funding margin + Lending spread + Maturity premium This Interest Rate will be floored to zero.
Base rate	Floating Base Rate: - For USD: SOFR compounded daily, - For JPY: TONA compounded daily, - For EUR: 6-month EURIBOR, to be reset every 1st February and 1st August, - For ZAR: 3-month JIBAR, to be reset on 1st February, 1st May, 1st August, and 1st November.

2 This provision applies only to FAD countries that access AfDB resources on a case-by-case basis and does not apply to Algeria, which is exclusively eligible for AfDB resources.)

	with a free option to fix the base rate
Funding Cost Margin	The Bank's funding margin as determined for each currency every 1 January and 1 July and applied to the base rate on 1 February and 1 August
Lending margin:	80 basis points (0.8%) since 1 September 2016
Spread Adjustment Rate	An adjustment to the Lending Margin expressed as a percentage per annum as determined from time to time, by the Board of Directors and applicable from the beginning of the first interest period following its approval by the Board.
Maturity premium:	To be determined as follows: - 0%, if the weighted average maturity of the loan ≤ 12.75 years; - 0.10%, if 12.75 years < the weighted average maturity of the loan ≤ 15 years; - 0.20%, if 15 years < the weighted average maturity of the loan ≤ 17 years;
Front-end fees:	0.25% of the loan amount payable no later than 60 days from the date of entry into force of the loan or before any disbursement, with an option to pay the front-end fee from loan resources. Once the loan comes into force, the front-end fee is due and payable, even if the loan is cancelled
Commitment fee	0.25% of the undisbursed amount, commencing 60 days after the date of signature of the Loan Agreement and is due on the agreed payment dates (including during the grace period and prior to disbursement). The fee shall cease to accrue upon full disbursement or cancellation of the loan.
Base rate conversion option**	In addition to the free option to fix the base rate, the Borrower may revert to the floating rate or reset it for all or part of the disbursed loan amount. Transaction fees are payable.
Cap or collar base rate option**	The Borrower may cap or collar (or a combination of both) the base rate for all or part of the disbursed loan amount. Transaction fees are payable.
Loan Currency Conversion Option ***(Not applicable for the AGTF)*** **	The Borrower may change the currency for all or part of the undisbursed and/or disbursed loan amount during the loan tenure. The new loan currency shall apply for the remaining/full maturity of the loan or for the chosen shorter tenor upon acceptance of such request by the Bank. Transaction fees are payable.
Hedge unwinding or adjustment costs	Any costs incurred by the Bank in early adjustment or termination/cancellation of conversions shall be borne by the borrower.

*The options for conversion and the fees charged in this regard must comply with the Bank's foreign exchange guidelines, which can be accessed via the following link: http://www.afdb.org/fr/documents/document/guidelines-for-conversion-of-loan-terms-july-2014-87643/

**A calculator is available to allow borrowers to simulate different amortization profiles and determine the average loan term by contacting FIST2@afdb.org

Overall Project Financing Plan

Source	Amount (million)			Financing Instrument
	UA	USD	EUR	
AfDB Loan Amount 2025	640.00	877.42	747.32	Project loan Approved on 11 December 2025
AfDB Loan Amount 2026	640.00	878.09	750.37	Project loan
Estimated AIIB Loan Amount	493.69	677.04	577.43	Project loan (December 2026)[3]
Government Counterpart Contribution	362.47	496.96	432.32	Investment Budget
Total Project Cost	**2,136.16**	**2,929.51**	**2,498.44**	

[3] Recorded in the Aide-Mémoire of the AIIB Mission from 29 March to 6 April 2026

Project Financing – Phase II

Source	Amount (million)			Financing Instrument
	UA	USD	EUR	
African Development Bank (AfDB)	640.00	877.42	747.32	Project loan
Expected Contribution from the Asian Infrastructure Investment Bank (AIIB)	292.89	401.54	342.00	Project loan
Government Counterpart Contribution	346.76	475.40	404.90	Investment Budget
Total Cost - Phase I	**1,279.65**	**1,754.36**	**1,494.22**	

Project Financing - Phase II

Source	Amount (million)			Financing Instrument
	UA	USD	EUR	
African Development Bank (AfDB)	640.00	878.09	750.37	Project loan
Expected Contribution from the Asian Infrastructure Investment Bank (AIIB)	200.80	275.50	235.43	Project loan
Government Counterpart Contribution	15.71	21.56	18.42	Investment Budget
Total Project Cost	**856.51**	**1,175.15**	**1,004.22**	

Is there a valid Country Financing Parameter (CFP)?	[Yes]
Government Counterpart Contribution	For the entire project, the contribution of the Government of the People's Democratic Republic of Algeria, which will cover costs including, right-of-way clearing, the Delegated Project Management Agreement with ANESRIF, the agreement with CNED for the project's socio-economic impact monitoring, the project launch workshop, the Steering Committee's operation, and rolling stock acquisition is estimated at USD 496.96 million.
Compliance with Counterpart Financing Threshold[4]	NO. The AfDB's contribution accounts for **59.93%** of the total project cost (Phase 1 + Phase 2), which is more than 50% of the total cost.

[4] *AfDB countries:* AfDB contribution should be no more than 50% of the project cost, unless special circumstances warrant a different percentage. *AfDB countries:* ADF contribution should be no more than 90% of the project and programme costs and no more than 95% for studies, unless special circumstances warrant a different percentage. Any deviation from these figures requires robust justification in the document.

PROJECT DEVELOPMENT OBJECTIVE AND COMPONENTS

Project development goal	**l** PROJECT DEVELOPMENT GOAL: Improve the competitiveness rail connectivity and regional planning and enhance.
Project Components:	Component A: Construction and Development of the Railway Line **USD 1,133.20 million**
	Component B: Integrated Facilities **USD 10.09 million**
	Component C: Project Management and Institutional Support: **USD 31.86 million**

PROJECT PROCESSING SCHEDULE TO BOARD APPROVAL

PCN Approval	16/04/2026
Appraisal Mission	29/03/2026 - 06/04/2026
Pre-Appraisal Mission	6 May 2026– 10 May 2026
Planned Board Presentation:	13/07/2026
Entry into force	06/10/2026
Project implementation Schedule:	15/10/2026- -31 - 12/ 2031
Planned Mid-term Review:	16/10/2028
Project Closing Date:	31/12/2031

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1 STRATEGIC CONTEXT

A. Country Context, Strategy and Objectives

1. Algeria's economic model is a predominantly state-controlled mixed economy and dependent on hydrocarbons (oil and gas). These resources account for most of the country's exports and fiscal revenues. Though the State strongly supports the economy through social transfers and subsidies (housing and food), financed primarily by hydrocarbon revenues, it is actively pursuing economic diversification by promoting agriculture, renewable energy (solar and hydrogen), and industrial development, while stimulating private investment.

2. As outlined in the Government Action Plan for the implementation of the President of the Republic's Programme, adopted in 2021, the current priorities focus on food sovereignty, energy transition (solar energy and hydrogen), and industrial diversification. To this end, new laws were enacted to streamline investment procedures and attract foreign capital. There are proactive efforts to support the development of agricultural value chains, especially in the country's southern regions, which constitute the project's primary target area. The State is also undertaking initiatives to reduce youth unemployment through the creation of sustainable jobs. The plan also aims at: (i) diversifying financing sources, especially for infrastructure development; and (ii) developing logistics, financial, administrative and regulatory facilities to support export-oriented sectors. The transition towards cleaner production methods and lower-carbon development pathways also ranks among the plan's priorities. This transition focuses on diversifying the country's hydrocarbon-dominated energy mix through substantial investments in the development of solar and wind energy and particularly green hydrogen, notably through the SouthH2 Project, a 3,300-km pipeline initiative linking North Africa (Algeria and Tunisia) to Central Europe (Italy, Austria and Germany) for the transportation of green hydrogen, with a projected capacity of 4 million tonnes per year by 2030. It is also worth highlighting the Trans-Saharan Gas Pipeline (TSGP), also known as NIGAL, which is designed to transport natural gas from Nigeria to Algeria through Niger. Stretching over 4,000 km, with a projected capacity of about 30 billion m^3 per year, this pipeline is designed to serve as a catalyst for energy diversification in the European market, in a context of evolving gas supply patterns.

3. Measures undertaken to build resilience and the country's transition towards an innovative and modern economic model will enable Algeria to attain upper-middle-income country status. However, sustaining this momentum will require further improvements in the business environment, especially for SMEs and SMIs operating in innovative and high-growth sectors such as information and communication technologies, tourism, and start-ups.

4. Algeria's infrastructure development and transport sector competitiveness strategy is primarily aimed at modernizing infrastructure (ports, roads, railways and tramway systems) and enhancing the competitiveness of the sector through stronger national and international integration (North–South corridors and African connectivity links). The Railway Network Development Strategy hinges on guidelines outlined in the National Regional Development Plan (SNAT) which serves as the strategic reference framework defining the sustainable development policies and goals for Algeria through 2030. SNAT's aim is to promote economic diversification anchored in more balanced regional development through the emergence of growth poles, the establishment of integrated development zones, and the development of new cities, thereby fostering, inter alia, youth employment.

5. The project is aligned with Algeria's Country Strategy Paper (CSP) 2025-2030, particularly Priority Area 1: "Promoting Infrastructure in Support of Economic Development and Regional Integration". The overarching objective of the CSP 2025-2030 is to accelerate economic diversification and regional integration in support of inclusive and sustainable growth. The operation also aligns with the Bank's new vision articulated around Four Cardinal Points, particularly Cardinal Point 1: " Enhanced Access to Capital: Mobilizing Africa's financial resources through co-financing estimated at USD 677 million from the AIIB; Pillar 3 – "Harnessing Demographic Transformation for Economic Development": generating 15,000 direct and indirect jobs through project interventions, with 41% for youths; and Cardinal Point 4 – "Building Climate-Resilient Infrastructure and Robust Value Addition": by building 495 km of railway lines resilient to climatic elements—specifically extreme rainfall, heat, and sandstorms.

B. Sector and Institutional Context

6. Overview: Algeria's railway network extends over 4,787 km, including 486.45 km of electrified lines. The country has 10 commercial ports, 45 fishing ports, and 36 airports, including 20 international airports (Algiers International Airport handled about 7.8 million passengers in 2019). The transport sector strategy aims at improving service quality, meeting the logistics needs of economic operators, and promoting intermodality and enhanced connectivity between the various modes of transport. According to the Bank's 2020 Infrastructure Development Report, Algeria ranked eighth in Africa on the composite transport index. Its international trade is predominantly maritime, with more than 97% of goods destined for the country transported by foreign shipping companies. Currently, the Algerian merchant fleet accounts for only 11% of the country's trade flows. The national airline, Air Algérie, transported nearly 8 million passengers in 2024, representing an increase of 10% compared with 2023. This performance was achieved through 79,100 flights, averaging between 200 and 250 flights per day.

7. Institutional Context: In the railway sector, the National Agency for Studies and Monitoring of Railway Investment Projects (ANESRIF), a public industrial and commercial establishment operating under the supervision of the Ministry of Transport and Public Works, was established in 2005 to ensure the preparation, implementation, and monitoring of railway projects. In this capacity, ANESRIF: (i) mobilizes and deploys the technical resources, as well as the scientific and organizational expertise, required for the design, preparation, and implementation of railway investments; and (ii) ensures the timely execution of such projects in accordance with established schedules. It receives the financing for the implementation of its activities from public authorities.

8. It should be noted that railway facilities and infrastructure constructed under ANESRIF's supervision are subsequently transferred to the National Railway Transport Company (**SNTF**), the public railway operator responsible for passenger and freight transportation services. SNTF is entrusted with the management, operation, and maintenance of the railway network, which is owned by the Algerian State, pursuant to an agreement between the two entities. This agreement includes a set of contractual provisions supported by quantitative and qualitative performance indicators, as well as a cost structure underpinning the tariff policy to be applied. The company remains subject to public service obligations, which require it to implement Government policies relating to the regulated pricing of transport services for strategic commodities (cereals and hydrocarbons). At the same time, it is pursuing a strategy to diversify its revenue streams beyond income derived directly from transport services and Government subsidies, through the provision of value-added services, including the development of multimodal logistics platforms, industrial activities related to the manufacture of railway equipment, and the leasing of optical fibre infrastructure to mobile telecommunications operators. Through its specialized subsidiaries, SNTF continues to invest in strategic infrastructure to improve connectivity to agricultural production and storage sites (silos), while developing logistics platforms designed to optimize freight flows. The programme developed for this purpose includes the establishment of such interfaces at key nodal points located along the Laghouat–Ghardaïa–El Meniaa railway corridor.

9. Strategic Planning of the Sector: Algeria has adopted a National Transport Plan (NTP) which focuses on multimodal transport modernization (rail, road, air and maritime transport), infrastructure upgrading (high-speed rail lines, railway stations and tramway systems), digital integration (integrated ticketing systems and digital applications), and the strengthening of local industry. The plan provides for actions to be implemented through successive five-year development programmes and substantial investments through 2035, with the goal of enhancing performance, safety and citizen's comfort, partly through partnerships and increased private sector participation. There are plans for these projects to be implemented through a strategic planning approach which takes into account the need to stimulate the Algerian economy, as well as the diversity of operators and other stakeholders involved.

10. Railway Network: Algeria's railway network, which serves 30 wilayas (provinces), is among the most modern on the continent. The Government's objective with respect to passenger and freight rail transportation is to ensure rail connectivity between all cities across the country. At present, electrification remains limited to about 10% of the network. The railway system spans about 4,500 km, more than 4,000 km of which are operational, while double-track lines account for slightly over 4.2% of the network. The development strategy focuses on integrating Algeria's railway network into an international transport configuration aimed at strengthening trade exchanges between Algeria and countries of the sub-region, thereby facilitating movement of goods and reducing associated logistics costs. More specifically, the country's railway development strategy seeks to: (i) triple the size of the railway network (to about 15,000 km by 2035) in a bid to enhance territorial connectivity and open up underserved areas; (ii) stimulate economic development (in the mining, agriculture and trade sectors) through the development of the North–South and East–West transport links; and (iii) reduce pressure on the road network and modernize railway infrastructure through network electrification and the deployment of new signalling systems. Flagship projects include mining railway lines (notably the Gara Djebilet–Béchar mining railway line, inaugurated on 1 February 2026), as well as the High Plateaus and Southern rail corridors (Algiers–Laghouat–Ghardaïa–El Meniaa–Tamanrasset), designed to connect ports and economic activity zones to foster inclusive and sustainable growth.

11. A major strength of the railway freight network is its high degree of intermodality, particularly with maritime transport. Most railway lines stretch directly to port terminals, enabling the seamless transfer of goods to and from major ports such as Djen Djen, Annaba and Skikda.

C. Rationale for the Bank's Intervention

12. Algeria is a key player in the continental integration process. The country plays a leading role in several regional initiatives to which the Bank contributes financially, notably: (i) the **Trans-Saharan Highway**, which crosses six countries (Algeria, Mali, Niger, Nigeria, Chad and Tunisia) and connects Algeria to the rest of the continent; (ii) the Nigeria-Algeria Gas Pipeline Project, a strategic pipeline project extending over more than 4,000 km and linking Nigeria to Algeria through Niger, with the objective of exporting up to 30 billion cubic metres of natural gas annually to Europe; and (iii) the Trans-Saharan Fibre-Optic Backbone Project (an ICT project currently under preparation), which, in its first phase, will interconnect Algeria, Niger, Nigeria and Chad. Algeria is positioning its transport infrastructure as a central pillar for leveraging the opportunities offered by the African Continental Free Trade Area (AfCFTA), with the objective of becoming a major logistics hub serving Sub-Saharan Africa. The transport sector strategy, which is founded on improving service quality and meeting the logistics requirements of economic operators, places special emphasis on intermodality and the interoperability of the various transport modes. **Algeria's ambitious port expansion strategy, including the development and upgrading of El Hamdania, Djen Djen and Annaba ports, aims to build the country's trade-handling capacity by 2035, with rail integration playing a crucial role in ensuring the efficient movement of goods.**

13. Specifically, this project involves the construction of the railway sections between Laghouat and Ghardaïa (265 km) on the one hand, and between Ghardaïa and El Meniaa (230 km) on the other, as part of the long-term objective of establishing a rail connection between Algiers and Tamanrasset in the south-eastern part of the country along the Trans-Saharan Railway **Corridor of Trans-African Corridor No. 2 (Algiers–Lagos). In Algeria, this corridor follows the route Algiers–Laghouat–Ghardaïa–El** Meniaa–**Tamanrasset–Algerian–Nigerien Border, extending over a total length of 2,439 km, of which 308 km between Algiers and Laghouat are already operational**.

14. This operation, which is Phase II of the project financing, comprises, in addition to the construction of the Ghardaïa–El Meniaa railway line (230 km), the development of associated infrastructure benefiting youth and women, targeted vocational training programmes for youth and women (railway trades, logistics, tourism and handicrafts), as well as economic and social development activities. Its implementation will therefore complete the construction and equipment of the new Laghouat–Ghardaïa–El Meniaa railway line.

15. The project aligns with the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2022–2026). It is also consistent with the Bank's Ten-Year Strategy (2024–2033) which is designed, inter alia, to accelerate Africa's growth through infrastructure development to build "**a prosperous, inclusive, resilient and integrated continent.**" The project is aligned with Sustainable Development Goals (SDGs) 8, 11 and 17, as it seeks to promote: (i) sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all; (ii) inclusive, safe, resilient and sustainable cities and communities; and (iii) effective partnerships between the Government, the private sector and the civil society. The project is also consistent with the Bank Group's Private Sector Development Strategy 2021–2025 and further aligns with the objectives pursued by the African Union (AU) towards the establishment of an African Continental Free Trade Area (AfCFTA), to stimulate

intra-African trade and promote the development of regional value chains. In addition, the project is consistent with the Bank's Climate Change and Green Growth Strategic Framework 2021–2030. The project is also aligned with the Bank's Gender Strategy 2021–2025, particularly under its pillar aimed at enhancing women's access to social services through infrastructure development.

16. The Bank's involvement is justified by the need to diversify financing sources for the railway sub-sector, as well as by its proven experience and accumulated expertise in the implementation of railway capacity enhancement projects across several African countries. Furthermore, the Bank's envisaged intervention in the railway sub-sector is closely linked to the strategic role of railway infrastructure in enhancing the logistics competitiveness of the national economy and its contribution to regional integration, particularly under Pillar 1: "Integrating North Africa through the Promotion of Regional Infrastructure Connectivity" of the **North Africa Regional Integration Strategy Paper (RISP-NA) 2020–2026**.

17. Lastly, to maximize the project's impact, it should be noted that the following initiatives are currently under preparation: (i) Technical assistance to SMEs operating in the energy and railway sectors, financed with the objective of building capacities and supporting the certification of Micro, Small and Medium-Sized Enterprises (MSMEs); and (ii) An Economic Corridor Study for the Algiers–Tamanrasset Corridor, with the overarching objective of promoting the country's productive and trade integration with the rest of the continent.

D. Coordination of Development Partners

18. Algeria is engaged in sustained dialogue with its bilateral and multilateral development partners to support the implementation of its transport sector development programme to build national capacities and benefit from international best practices.

19. Overall, aid coordination is ensured by the Ministry of Finance. The country maintains well-established dialogue mechanisms under its bilateral cooperation arrangements. Coordination meetings between TFPs are regularly organized to facilitate experience sharing and establish modalities for enhanced cooperation. The presence of the Bank's Country Office in Algeria has helped foster a relationship of trust and close engagement with the Algerian authorities. The mobilization of a co-financier, namely the Asian Infrastructure Investment Bank (AIIB), provides a concrete example of synergies for the development of the railway sub-sector in Algeria.

2 PROJECTDESCRIPTION

A. Project Development Objectives

20. The overall objective of the project is to improve the competitiveness of rail transport and spatial planning, and to strengthen regional integration. More specifically, the project seeks to: (i) improve access to agricultural and mining production in the Laghouat, Ghardaïa and El Meniaa Wilayas; and (ii) reduce transport time and costs along the Algiers–El Meniaa corridor. It also aims to create opportunities for private sector participation in: (i) agriculture and agro-industry; and (ii) transport, logistics and civil engineering services. In the long term, the project also aims to reduce GHG emissions by shifting transportation to rail and to modernize transport infrastructure and system.

B. Theory of Change

21. ***Problem Statement***: The challenge addressed by the project relates to limited railway connectivity in the Saharan regions located along the Laghouat–Ghardaïa–El Meniaa stretch These territories remain heavily dependent on road transport, resulting in high logistics costs, lengthy and unreliable transport schedules, and a significant carbon footprint. This situation constrains the development potential of the agricultural and mining production areas, hampers the growth of local economic activities, and limits the effective integration of these wilayas into national markets.

22. ***Bank Intervention and Expected Impact:*** The Bank's intervention under this project consists of financing the construction of a 495-kilometre railway line between Laghouat Ghardaïa and El Meniaa, the construction and upgrading of passenger stations and logistics facilities, the implementation of protection structures adapted to Saharan climatic conditions, the installation of equipment and signalling

systems compliant with applicable technical standards, as well as the delivery of targeted socio-economic infrastructure and institutional capacity-building activities. The project also includes the implementation of the environmental and social measures provided for under the Environmental and Social Management Plan (ESMP) and the Resettlement Action Plan (RAP), together with a monitoring and evaluation system designed to measure the results achieved. The commissioning of the railway line constitutes the project's main output and creates the conditions necessary to improve passenger and freight mobility along the stretch. The increase in passenger traffic and rail freight volumes reflects improved accessibility, service reliability and transport capacity. Similarly, improved mobility will support the creation of direct and indirect jobs associated with the construction works, operation of the railway line and the resulting economic activities. The socio-economic infrastructure and training activities targeting youths and women will help to expand local economic opportunities and enhance social inclusion.

23. ***In the medium term***, enhanced railway services will help to increase access to the targeted Saharan wilayas by facilitating their integration into national economic networks. The progressive shift of traffic from road to rail will also help reduce greenhouse gas (GHG) emissions and the negative externalities associated with road transport, thereby contributing to the transition towards a more sustainable transport system. As the utilization of the corridor increases, reductions in unit logistics costs and improvements in transport reliability are expected to enhance the competitiveness of the agricultural, mining and commercial value chains located along the corridor. This dynamic will also help to strengthen the economic empowerment of women by improving their access to markets, employment opportunities and local economic development opportunities. ***In the long term,*** the project will contribute to more inclusive and resilient growth in southern Algeria, underpinned by modernized railway connectivity and lower-carbon mobility. Its future integration into an expanded North–South corridor could also support regional integration prospects, notably through potential connectivity with the West African railway loop, thereby opening opportunities for substantial trade flows beyond hydrocarbons, including agricultural products, fertilizers, iron and steel products, glass products, paper products and household appliances, subject to the development of the envisaged cross-border railway sections.

24. ***Assumptions:*** The achievement of these results is contingent upon several critical assumptions, including the availability of sufficient and appropriate rolling stock, the adoption of an incentive-based tariff policy which encourages a modal shift to rail, the sustainable mobilization of the resources required for the operation and maintenance of the railway line, and effective coordination between ANESRIF, SNTF and the relevant authorities. Compliance with environmental and social commitments also constitutes a critical condition for ensuring the sustainability of the expected outcomes. A detailed analysis of the theory of change is presented in the diagram contained in Technical Annex 2.1.

C. Project Components

25. Given the scale of the operation, the Bank’s financing for the project was structured in two phases: (i) Phase 1, comprising the construction of a 265-km railway section between Laghouat and Ghardaïa; and (ii) Phase II, covering the development of the contiguous 230-km section between Ghardaïa and El Meniaa. Financing for Phase 1 was approved in 2025. Submission of Phase 2 to the Bank’s Board is scheduled for 2026. This phased financing approach is intended to ensure the effective implementation of the entire 495-km railway corridor for which the Algerian authorities requested financing from the Bank, while aligning implementation with both the project's level of technical readiness and the Bank’s capacity to progressively mobilize and disburse the required resources.

26. This project, which covers Phase 2, includes, in addition to the construction works for the railway line between the cities of Ghardaïa and El Meniaa, thereby extending the investments to be undertaken under Phase 1 between Laghouat and Ghardaïa, the procurement of rolling stock, the development of ancillary infrastructure, targeted vocational training programmes for youths and women (railway occupations, logistics, tourism and handicrafts), as well as economic and social development activities, as detailed below.

Table 1: Detailed Project Components

Components	Description
Component A: Construction, development, and equipment of the Laghouat-Ghardaïa-El Meniaa Railway Line.	**(A.1)** Construction works on the railway line; (A.2) Procurement of rolling stock (locomotives, carriages, and wagons); (A.3) Monitoring and supervision of the works; (A.4) Land acquisition and clearing of rights-of-way; (A.5) Elimination of constraints
Component B: Integrated Development	**(B.1)** Infrastructure and related facilities; **(B.2)** Agreement with ANADE for the training of young people and women as well as the identification of skills needs in the railway sector; **(B3)** Local economic development activities.
Component C: Project Management and Institutional Support	**(C.1)** Project Management Assistance (AMO); (C.2) the Agreement on the ANESRIF Delegated Project Management; **(C.3)** multi-sector studies (identification, feasibility, preliminary design) of related activities to be developed on the corridor; **(C.4)** Monitoring and Evaluation of the socio-economic impact of the project; **(C.5)** Monitoring the implementation of the ESMP and the RAP; **(C.6)** training of the staff of the implementing body; **(C.7)** annual environmental and social performance/compliance audits; **(C.8)** technical audits of the project; **(C.9)** accounting and financial audits; **(C.10)** monitoring the implementation of the P3P; **(C.11)** project communication and visibility activities; **(C.12)** support for the operation of the Steering Committee; **(C.13)** the organization of the project commencement workshops.

Status of Phase I: The loan agreement for Phase I was signed on 16 April 2026, and the project has now entered the active implementation phase. Key milestones include: (i) Activation of the Advance Procurement Actions, with no objection from the Bank for both Phases 1 and 2; (ii) Finalization of the procurement files for project management assistance and works supervision, with technical and financial bids expected on 22 and 23 June 2026, respectively; (iii) Publication of the calls for tenders for the two key works lots, with bid submissions due on 8 June 2026; (iv) Launch of a capacity-building programme for the implementing agency (ANESRIF), including a fiduciary clinic held in October 2025 and two training sessions on 3 March 2026 and 10 June 2026, aimed at ensuring the proper application of Bank procurement rules and procedures. These elements reflect an advanced level of preparation and satisfactory implementation momentum, likely to ensure the effective commencement of works within a controlled period.

In other words, the activities selected in the first and second phases will be implemented simultaneously thanks to the use of advance funds allocated for procurements. Therefore, the finalization of the firm selection process is expected in July, and the contracts are scheduled to be signed in August. Consequently, the resource commitment rate for Phases 1 and 2 should exceed 90% at end-2026. The first disbursements are expected in October 2026.

D. Project Cost Financing Arrangements

Project Cost

27. ***The total estimated project cost***, exclusive of all taxes and customs duties (net of taxes and duties), including physical contingencies, price contingencies and the procurement of rolling stock, is estimated at UA 2,136.16 million, equivalent to DZD 382,893.80 million, USD 2,929.51 million, or EUR 2,498.44 million. The cost estimates were prepared using the COSTAB 3.0 software tool, based on the technical studies conducted by ANESRIF, and incorporating average physical contingencies of 6.42% and price contingencies of 7.67% for both phases of the project. ***For Phase I of the project financing***, the estimated cost, exclusive of all taxes and customs duties (net of taxes and duties), was assessed at UA 1,279.65 million, equivalent to DZD 227,136.20 million, USD 1,754.65 million, or EUR 1,494.22 million, based on the prevailing exchange rates of 30 September 2025 of UA 1 = DZD 177.499 = USD 1.37097 = EUR 1.16768. ***For Phase II of the project financing***, which is the subject of the present operation, the estimated cost, exclusive of all taxes and customs duties (net of taxes and duties), is assessed at UA 856.51 million, equivalent to DZD 155,757.60 million, USD 1,175.15 million, or EUR 1,004.22 million, based on the exchange rates of 30 April 2026 of UA 1 = DZD 181.85100 = USD 1.37202 = EUR 1.17246.

Sources of Financing and Phased Financing Structure

28. **Recap of the Financing Plan for Phase 1:** Phase 1 was financed by: (i) the Bank to the tune of USD 877.42 million, equivalent to DZD 113.599 billion, UA 640.00 million, or EUR 747.32 million, representing 50.0% of the total cost of Phase I; (ii) the Asian Infrastructure Investment Bank (AIIB), to the tune of USD 401.54 million, equivalent to DZD 51.987 billion, representing 22.9% of the total cost of Phase I; and (iii) the Government of Algeria, to the tune of DZD 61.549 billion, equivalent to USD 475.40 million or UA 346.76 million, representing 27.10% of the total cost of Phase I.

29. **Phase 2 Financing Plan:** Phase 2, which is the subject of the present operation, is financed by: (i) the Bank, to the tune of USD 878.09 million, equivalent to DZD 116.385 billion, UA 640.00 million, or EUR 750.376 million, representing 74.72% of the total cost of Phase II; (ii) the Asian Infrastructure Investment Bank (AIIB), to the tune of USD 275.500 million, equivalent to DZD 36.515 billion, representing 23.44% of the total cost of Phase II; and (iii) the Government of Algeria, to the tune of DZD 2.857 billion, equivalent to USD 21.558 million or UA 15.712 million, representing 1.83% of the total cost of Phase II.

E. Project Area Beneficiaries and Other Stakeholders

30. The project's direct area of influence is in southern Algeria and, according to the new administrative divisions, crosses the wilayas of Ghardaïa, El Meniaa, Ain Salah, Timimoune, Adrar, Beni Abbes, and Bechar. Two loops are identified on the project's railway route: (i) the Southeast loop between Laghouat and Ghardaïa; and (ii) the Southwest loop between Ghardaïa and El Meniaa. **The South-West Loop**, corresponding to the project's Phase 2 which is the subject of this operation, is bound to the north by the Wilayas of Djelfa, Laghouat, El Bayadh and Naâma; to the south by Tamanrasset and Bordj Badji Mokhtar; to the east by the Wilayas of Ouargla and Illizi; and to the west by Tindouf. This zone located in the centre of the northern part of the Algerian Sahara, covers a total surface area of 84,660.12 km², representing 3.55% of the country's total surface area. The Wilaya of Ghardaïa population is estimated at 442,271 inhabitants, with men accounting for 51%and women 49%. Overall, the Wilaya has a relatively young population, with the under-30 age group accounting for 64.37% of the total population. The population could reach 893,000 inhabitants by 2040. The El Meniaa Wilaya population is estimated at 79,018 inhabitants. It is also characterized by a youthful demographic profile, with 64.5% of the population falling into under-30 age group, and a gender distribution of 51% men and 49% women.

31. Throughout the project preparation process, ANESRIF implemented a consultation strategy involving the local authorities of wilayas and communes affected by the railway route, as well as representatives of the civil society to ensure project acceptability and successful implementation. Stakeholders include government authorities, industrial and economic operators, civil society organizations (NGOs and associations), and local communities directly affected by the project. This approach seeks to promote a transparent and inclusive two-way dialogue, ensuring that stakeholder perspectives are effectively heard and taken into consideration.

32. The Ghardaïa Wilaya hosts 13 quarries (including phosphate-related activities) operated by the private sector. The El Meniaa Wilaya is preparing to host a major agricultural development project resulting from the Algeria and Saudi Arabia cooperation. This new growth pole, which will extend over more than 20,000 hectares in an area located 300 kilometres south of Ghardaïa, represents a significant milestone in the development of Saharan agriculture. The railway line offers considerable potential for transporting locally produced goods from the Ghardaïa and El Meniaa Wilayas to the rest of the country. The two wilayas account for a freight generation volume which exceeds that of all the other wilayas included within the loop.

F. Bank Group Experience and Lessons Reflected in Project Design

33. According to a cluster evaluation of AfDB Rail and Aviation Projects (2012–2023) - **IDEV (May 2025)**, the Bank financed a total of 11 railway transport projects 2012 and 2023. These operations, representing a cumulative net financing amount of UA 389.11 million, included, among others: (i) the Rift Valley Railway Project between Kenya and Uganda; (ii) the Regional Express Train (TER) Project in Senegal; (iii) the Tanzania Standard Gauge Railway (SGR) Project; and (iv) the Egypt National Railways Modernization Project (ENRMP).

34. The key lessons emerging from the transport sector evaluations conducted by the Independent Development Evaluation (IDEV) on Bank-financed interventions primarily : (i) underscore projects to ensure strong quality at entry, particularly through the alignment of detailed technical studies with

environmental and social safeguard requirements prepared in accordance with the Bank's Integrated Safeguards System (ISS 2023); (ii) the need to expedite the procurement process to reduce, inter alia, procurement lead times; (iii) the importance of ensuring robust strategic project governance through the establishment of Project Steering Committees, particularly in co-financing arrangements; (iv) the building of capacities in planning, analysis, implementation, monitoring and evaluation, and in the application of Bank rules and procedures within executing agencies; and (v) the definition of realistic implementation schedules which take account of the specific nature of the projects, in this case, the multiplicity of stakeholders involved and the uncertainties inherent in large-scale infrastructure operations. These lessons have been duly incorporated into the design of this operation. Moreover, emphasis was placed on building Algeria's capacity to master Bank rules and procedures, given that the country has not sought external financing for the implementation of its development programmes for several years. Mastery of these rules by ANESRIF will therefore be ensured through the training workshops held under the project. These clinics, whose roll-out commenced during the appraisal of Phase 1, focus on Bank policies and procedures relating to procurement and contract management, financial management, disbursement arrangements, as well as the requirements set out under the Bank's Integrated Safeguards System (ISS 2023).

3 PROJECT FEASIBILITY

A. Economic and Financial Analysis

Economic Performance

35. The baseline economic analysis was conducted **over a 50-year period**, in accordance with the recommendations of the Algerian guidelines for the preparation and maturation of major economic and social infrastructure projects prepared by the National Development Equipment Fund (CNED). The data considered for the analysis include: (i) investment costs, excluding taxes and duties, associated with civil works and physical contingencies; (ii) project operating costs; and (iii) quantifiable economic benefits comprising revenues generated from incremental passenger and freight traffic, time savings attributable to the project, as well as other external benefits, (including reductions in environmental nuisances, improvements in road safety, reductions in air pollution and greenhouse gas emissions), and savings resulting from the modal shift from road to rail transport. An economic discount rate of 8% was applied.

36. More specifically, regarding freight traffic composition in 2030, more than half of total freight volumes are expected to consist of the study area's demand for basic commodities (namely the four principal products: cereals, fuel, cement, and steel). Beyond these four commodities, containerized cargo is projected to account for a significant share, amounting to about 400,000 tonnes, equivalent to 39% of total freight traffic. Furthermore, the proportion of goods linked to local production starts at 3% and is expected to rise over the long term to account for 5.5% of total traffic. Furthermore, it is important to highlight the long-term growth prospects of traffic on the line, which is projected to reach 4.1 million tonnes by 2080. Under the optimistic scenario, the analysis indicates freight volumes exceeding 1.7 million tonnes during the first year of operation (2030), with volumes potentially reaching a peak of 8 million tonnes over the long term.

37. Economic viability sensitivity tests were conducted based on the following assumptions: (i) a variation of ±15% in Passenger-Kilometre (PK) and Tonne-Kilometre (TK) unit values; (ii) a variation of ±15% in the value of time; (iii) a variation of ±15% in investment costs; and a variation, in the same proportions, in passenger and freight traffic volumes. These variables were selected for sensitivity testing because of their significant influence on the economic viability and financial feasibility of a project of this nature. The tables below provide a summary of the economic analysis for Phase 2 of the project, the detailed results of which are presented in Technical Annex 3.1.

Table 6: Key Economic Indicators (Economic Discount Rate = 8%)

South-West Loop: Ghardaïa–El Meniaa – Including Rolling Stock Depreciation

	Baseline Scenario	Pessimistic Scenario (-)	Optimistic Scenario (+)
Economic Net Present Value (ENPV) – DZD million	528,789	155,884	1,118,500
Economic IRR	**30.52%**	**14.57%**	**48.59%**

South-West Loop: Ghardaïa–El Meniaa – Excluding Rolling Stock Depreciation

	Baseline Scenario	Pessimistic Scenario (-)	Optimistic Scenario (+)
Economic Net Present Value (ENPV) – DZD million	548,757	168,208	1,149,311
Economic IRR	**31.20%**	**15.31%**	**49.23%**

Conclusion of the Economic Analysis

38. For the South-West Loop: Ghardaïa–El Meniaa, the results of the economic appraisal, following sensitivity tests, indicate that all three scenarios yield positive Economic Net Present Values (ENPVs) in both situations and across all three scenarios. From both a social and economic perspective, the construction of this new railway line is therefore recommended, irrespective of the scenario considered.

Financial Viability of the Project (Excluding Financing Structure)

39. The Financial Internal Rate of Return (FIRR) has been adopted as the primary indicator for assessing the project's financial performance. The FIRR is calculated based on the initial investment cost at current prices and the revenues generated by the Project (passengers, freight). Sensitivity tests of the Project's financial viability were carried out under the same conditions as those of the economic viability analysis. The results of the financial analysis, (base-case, optimistic, and pessimistic scenarios), as presented in the tables below, demonstrate that the Project is financially viable. Assuming a financial discount rate of 4%, the following results are obtained for Phase II of the Project. The detailed calculations are presented in the annex to this report.

Table 7: Key Financial Indicators (Financial Discount Rate = 4%)

South-West Loop: Ghardaïa–El Meniaa – Including Rolling Stock Depreciation

	Baseline Scenario	**Pessimistic Scenario (-)**	**Optimistic Scenario (+)**
Financial IRR	-0.36%	-2.55%	2.97%
Financial Net Present Value (FNPV) – DZD million	-24,350	-37,240	-6,166

South-West Loop: Ghardaïa–El Meniaa– Excluding Rolling Stock Depreciation

	Baseline Scenario	**Pessimistic Scenario (-)**	**Optimistic Scenario (+)**
Financial IRR	3.44%	0.47%	6.84%
Financial Net Present Value (FNPV) – DZD million	-4,383	-24,917	24,615

Financial Viability of the Project (incorporating the financing structure)

40. The financial analysis conducted by incorporating the financing structure yields a positive financial net present value of DZD 37,514 million (including rolling stock depreciation) and DZD 36,712 million (excluding rolling stock depreciation).

Conclusion of the Financial Analysis

41. For the Ghardaïa–El Meniaa South-West Loop, the financial sensitivity tests indicate that, under the scenario *incorporating rolling stock depreciation* and excluding the actual financing structure, the project is not financially viable under any of the scenarios assessed. Under the scenario *excluding rolling stock depreciation*, the project is financially viable on the South-West Loop only under the optimistic scenario. The financial analysis, conducted by incorporating the actual financial structure, shows positive FNPVs irrespective of whether rolling stock depreciation is included or excluded. This substantial shift in the financial net present value - from negative to strongly positive - is entirely attributable to the public financing model adopted by the Government of Algeria for infrastructure investments of this nature.

42. The project constitutes a major strategic infrastructure investment with significant implications for the State budget, both in terms of capital expenditure and operational expenditure. This is due to the substantial costs associated with the project, which require sustained budget support over the long term to ensure the operation and maintenance of the railway network.

Additional Positive Effects

43. In the long term, this infrastructure will transform Southern Algeria into a major economic growth pole, make the Saharan territories accessible, and stimulate trans-Saharan trade. The project's long-term impacts revolve around: (i) enhanced accessibility and mobility by significantly reducing logistics costs and travel times compared with road transport, while simultaneously improving access for local populations to healthcare, education and public services; and (ii) economic, agricultural and mining development by facilitating the transportation of mineral resources, hydrocarbons and agricultural products from the South to the northern ports, while fostering industrial development and job creation in the regions served by the railway corridor. The project will also have a positive impact on the Saharan tourism sector by improving accessibility to tourism destinations in South (Tassili and Hoggar). With the planned extension of the railway line to neighbouring Niger as part of the Trans-Saharan Railway Corridor, the project also carries a strong economic integration dimension through the strengthening of trade with countries south of the Sahara.

B. Environmental and Social Safeguards

44. **E&S Categorisation.** Pursuant to Executive Decree No. 07-144 of 19 May 2007, establishing the classification of institutions for environmental protection, the construction of railway lines is subject to an Environmental Impact Assessment (EIA). Under the African Development Bank's Integrated Safeguards System (ISS), 2023, the project was classified as Category 1 (High Risk). The Category 1 classification was validated in ISTS and confirmed in SAP on 29 January 2026.

45. **Required Environmental and Social Safeguards Instruments:** In compliance with the applicable national regulatory framework and the requirements of the Bank's Integrated Safeguards System (ISS), the Borrower, through ANESRIF, prepared a total of four (4) safeguard instruments comprising: one Environmental and Social Impact Assessment (ESIA), one Stakeholder Engagement Plan (SEP), one Resettlement Action Plan (RAP), and one Environmental and Social Management Plan – Associated Facilities (ESMP-AF). These instruments were reviewed by the Bank, approved by the relevant national authorities, disclosed locally, and published by the Bank on its website. The ESIA was disclosed on 28 July 2025, the RAP on 20 August 2025, the SEP on 20 August 2025, and the ESMP-AF on 22 August 2025. The provisions of the ESMP-AF cover both Phase 1 and Phase 2 of the project. The ESMP-AF shall form an integral part of the Financing Agreement for Phase II of the Project.

46. **Key Environmental and Social Risks:** Given the nature of the planned activities and the characteristics of the project's intervention area, the main activities that may generate environmental risks are primarily associated with the various construction works of the new railway lines and the associated new stations. These risks cover a broad range and, during the construction phase, include: (i) occupational health and safety (OHS) incidents, arising from exposure to the movement of heavy construction equipment, dust emissions, and the handling of hazardous substances (including fuels, oils and solvents); (ii) community health and safety incidents, resulting from the movement of construction vehicles and equipment along routes shared with local populations, including rural tracks and pastoral corridors; (iii) increased erosion, ground subsidence and sand movements, resulting from earthworks activities and the construction of numerous engineering structures; (iv) collisions between construction equipment and livestock crossing the railway right-of-way; and (v) fragmentation of natural habitats. The principal social risks relate primarily to physical and economic involuntary resettlement.

47. **Environmental and Social Impacts:** The main adverse environmental impacts identified during both the construction and operational phases include: (i) alteration of local topography, particularly within the dune systems located along the Ghardaïa–El Meniaa section; (ii) pollution of soils, surface water, groundwater and ambient air resulting from construction-related waste, effluents and emissions, including hydrocarbon residues, contaminated wastewater, dust emissions and exhaust gases generated by construction equipment along the entire railway alignment and at future station sites; and (iii) restrictions on livestock mobility resulting from the right-of-way associated with the future railway corridor. The main adverse social impacts relate to the loss of agricultural land, including investments made on such land, as well as secondary residential structures. The main positive environmental and social (E&S) impacts are: (i) Strengthened territorial and social cohesion, through improved access to urban centres and enhanced opportunities for education, skills development and

employment; and (ii) Long-term reduction of greenhouse gas (GHG) emissions from the transport sector.

48. **Key Environmental and Social Measures:** The main E&S measures adopted include: (i) rehabilitation of construction sites upon completion of works, installation of watertight facilities for the storage, collection and treatment of wastewater, implementation of a solid, liquid and hazardous waste management plan, provision of appropriate personal protective equipment to workers, and enforcement of stringent occupational health and safety and hygiene measures; (ii) implementation of revegetation activities over about 83.45 hectares to stabilize dunes and other erosion-prone areas along the entire railway line, using local species adapted to arid environments, particularly those with soil-stabilising properties; (iii) development of wildlife and community crossing facilities to maintain the movement of livestock, wildlife and people through the construction of a significant number of hydraulic structures, (including culverts, wadi crossings, road viaducts and railway bridges); and (iv) installation of a continuous protective fence along the route (460 km) to reduce accident the of accidents during the construction phase All of these mitigation measures are incorporated into the ESMP prepared under the ESIA and have an overall budget of USD 101.349 million, of which USD 98.313 million is directly included in the infrastructure construction costs, USD 2.549 million is allocated to project management costs (including monitoring of ESMP and Resettlement Action Plan (RAP) implementation, E&S capacity building for staff, and annual E&S performance audits), and USD 0.511 million is earmarked for monitoring implementation of the Stakeholder Engagement Plan (SEP). All costs associated with E&S measures are an integral part of the project costs.

49. **Involuntary Resettlement:** One RAP covering all involuntary resettlement measures for the entire project (Phases 1 and 2) was disclosed on 20 August 2025. Accordingly, the budgetary figures associated with the RAP have already been incorporated into the Phase 1 project documentation and are presented herein for information purposes only. The RAP for phases 1 and 2 of the project concerns 91 project-affected persons (PAPs), comprising 4 women and 87 men across 81 households. Of the 91 PAPs: (i) One PAP with agricultural-use structures and three PAPs with secondary residences; these will be compensated in cash; and (ii) Forty-three PAPs with cultivated agricultural plots and forty-four PAPs with uncultivated agricultural plots; all these plots are part of the public domain allocated to farmers and will be compensated in both kind and cash. The total cost of implementing the RAP and conducting its monitoring activities is DZD 603,360,930, equivalent to USD 4,651,727, and will be covered by the national budget of the Algerian government. Given that the RAP budget is included in the national budget, the effective payment of PAPs within a project area will be a condition for the Bank's disbursement of loan funds for works. Consignment orders were issued and signed by the Walis of the three relevant wilayas, and the escrow accounts held by the treasuries of these wilayas were funded with DZD 800,000,000. Moreover, transfer orders were prepared and signed by the Walis of the three Wilayas involved, and notices to all PAPs through a bailiff are currently being executed according to a schedule from 19 April to 30 June 2026.

50. **E&S Measure Implementation Capacities:** The organizational structure of ANESRIF, the agency responsible for project implementation, includes a unit comprising a full-time team of four (4) officers responsible for: (i) preparing the various environmental studies; (ii) monitoring the acceptance and validation process of these studies at the regional level; and (iii) monitoring all ANESRIF project sites. For this project, ANESRIF will mobilize on a full-time basis at least: one (1) Environmental Safeguards Specialist and one (01) Social Safeguards Specialist. ANESRIF will reflect this requirement in the organization of its project implementation team. To monitor project worksites, the team will be supported by two (2) regional HSE Officers (one per section) as well as by a monitoring firm, one of whose tasks will be to monitor the Health, Safety, and Environmental issues on the worksites. Project implementation institutional arrangements, including E&S capacities and resources, job descriptions, organizational structure, CVs of the implementation team and regional HSE Officers, as well as monitoring and reporting arrangements, were agreed upon with ANESRIF and incorporated into the ESMP Financing Agreement (ESMP-FA).

51. ***E&S Compliance*:** In addition to the full and proper implementation of all disclosed E&S plans, including measures to address unforeseen risks and impacts arising during project implementation, the borrower will prepare quarterly reports on the implementation of E&S measures. Furthermore, an annual E&S performance audit conducted by an independent E&S Safeguards Expert will be submitted every year, before the end of the first quarter of the following year. All such reports will be shared with the

Bank and made available to stakeholders. In addition, the Borrower commits to introduce a project-level Grievance Redress Mechanism (GRM) at project commencement, to publicise it to all stakeholders and to keep it operational throughout the project life-cycle. Moreover, in the event of an Environmental, Health, and Safety (EHS) incident at a project site, the borrower commits to immediately informing the Bank, no later than 72 hours following the event, to share the investigation report of the competent national authority and, where deemed necessary by the Bank, to prepare a Root-Cause Analysis (RCA) by an independent EHS Expert. The RCA report must be approved by the Bank before the implementation of the corrective action plan (CAP) by the borrower. These obligations will be reflected in the E&S conditions of the financing agreement. The project is compliant and ready for Board review, as evidenced by the attached ESCON.

Climate Change and Green Growth

52. Like other Mediterranean countries, Algeria is particularly vulnerable to climate change impacts. In the twentieth century, average temperatures across the region increased by approximately 1.5°C to 2°C, while precipitation declined by nearly 20% over the past fifty years. The 2019–2020 hydrological year was exceptionally dry, with rainfall levels of about 30% below historical averages, exacerbating climate-related risks such as heatwaves, droughts and floods. These trends have increased energy demand for air conditioning while intensifying pressure on already scarce water resources.

53. The project is classified as Category 2 under the Bank's Climate Safeguards System (CSS), due to its potential exposure to climate hazards, including extreme heat, wind and sand erosion, as well as flood risks, typical of Saharan environments. To address these vulnerabilities, the project integrates robust adaptation measures, including the design and construction of resilient infrastructure using materials and techniques capable of withstanding high temperatures, floods, sand encroachment, and abrasion. Institutional capacity building and knowledge enhancement for climate risk management are also strongly recommended to ensure sustained resilience.

54. ***Contribution to GHG Emission Reduction:*** Like the first phase, the project's second phase will significantly reduce greenhouse gas (GHG) emissions by shifting freight and passenger transport from road to rail. This aligns with the mitigation priorities of Algeria's Nationally Determined Contribution (NDC) and its overarching environmental strategy, which aims to promote low-carbon mobility, with an estimated reduction in emissions of **56,319 tCO_2eq annually and 2.82 $MtCO_2eq$ over the period 2030–2080**. Its calculation details are provided in Technical Annex 3.4.[5]

55. **Climate Finance:** The project will contribute USD 132 million to climate adaptation financing. See Technical Annex 3.4 for details.[6]

56. Overall, the main components of the second phase of the railway project align with the mitigation and climate-resilient development goals of the Paris Agreement (see technical annexes for detailed analysis).

C. *Other Cross-cutting Priorities*

Youth, Skills, and Employment – Youth, Skills and Jobs Marker System (YSJMS)

57. The project is classified under Category 2 of the Youth, Skills and Jobs Marker System (YSJMS) and integrates, from its design stage, operational measures aimed at maximizing impacts on employment, skills, and economic inclusion, especially for youth and women in the project's immediate areas of influence.

58. **Direct Employment and Regional Impacts:** The project is being implemented in a regional context characterized by a high proportion of youth and persistent labour market integration challenges, which underscores the relevance of the YSJMS approach adopted. During the construction phase, the project will mobilize a substantial direct workforce - employed by the awarded contractors and their sub-contractors - for works relating to civil engineering, railway structures, site logistics, technical

[5] Annual average over the 2030–2080 period. Data for Phase 1 has been updated and is as follows: estimated emission reductions of about 164,537 tCO_2eq annually and 8.23 $MtCO_2eq$ over the period 2030–2080.

[6] Although this project will contribute to a modal shift that reduces GHG emissions, it is not eligible for climate mitigation finance since it involves the transportation of fossil fuels (joint MDB methodology for tracking climate finance).

supervision, and related services. Over its implementation period, the project is expected to generate about 6,000 temporary direct jobs, with 40% for young people (2,400) and 15% for women (900), with employment levels peaking during periods of intensive construction activity. These direct employment opportunities will primarily benefit the local population in the wilayas traversed by the railway corridor, contributing to regional economic inclusion and enhancing youth employability beyond- the railway line's mere transport function.

59. **Indirect Jobs, Youths, and Women:** Based on estimates prepared using the Bank's Joint Impact Model (JIM), the project is anticipated to generate about 8,500 indirect and induced jobs during the construction phase, primarily in the construction, logistics, services and local trade sectors. of these jobs, nearly 3,500 are expected to benefit youths aged 15 to 35 years, while approximately 1,300 are expected to benefit women, thereby making a tangible contribution to economic inclusion.

60. **Skills Development and Employability:** To ensure the sustainability of employment outcomes, the project will implement, under *Component B – Integrated Facilities,* targeted initiatives aimed at developing technical and operational skills related to railway occupations, public works, and related services, as well as provide support for the development of local economic activities benefiting youth and women. These actions will also help to enhance youth and women's inclusion in local economic value chains, complementing the employment opportunities generated by construction. In addition, the project provides for the inclusion, within the terms of reference and bidding documents, of mandatory skills transfer provisions, including, inter alia: structured on-site training, apprenticeship positions, internship positions, and positions for recent graduates, certified technical training, and the recruitment of a minimum proportion of qualified young technicians, including women. These provisions will be subject to regular monitoring and reporting under the project's monitoring- and evaluation framework.

61. **Monitoring and Data Disaggregation:** The monitoring of employment and skills development outcomes will be undertaken through a monitoring & evaluation system incorporating indicators systematically disaggregated by sex and age group (15–35 years), thereby ensuring reporting in accordance with the Bank's institutional requirements.

Resilience-Building Opportunities

62. The Country Resilience and Fragility Assessment (CRFA) 2025 for Algeria highlights a resilience capacity exceeding the pressure level, reflecting the existence of strong institutional, social, and economic capacities. Nevertheless, the country remains vulnerable to pressures related to regional imbalance, hydrocarbon dependence, infrastructure access constraints, and growing environmental impacts, especially in Saharan areas.

63. Phase 1 of the project is currently underway, with confirmed client commitment and progressive ownership of the connectivity and regional integration objectives. The second phase, primarily focused on the Ghardaïa–El Meniaa stretch, will consolidate this momentum and continue the development of the corridor. The project also includes integrated facilities and economic and social development activities, particularly targeting youth, women, local SMEs, vocational training, and local content. However, at this stage, the associated ancillary facilities should not be presented as definitively finalized. Consultations conducted with sector ministries have identified several potential avenues relating to vocational training, tourism, handicrafts, local product valorization, start-ups, agriculture, employment, and renewable energy. However, the borrower has not yet submitted the list of priority projects needed to refine the initially envisaged activities.

64. The project is aligned with the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2022–2026), particularly its priorities relating to building resilient societies and catalyzing private investment. By enhancing the connectivity across Saharan regions, the project helps to reduce spatial disparities, improve access to services and markets, and create conditions for greater economic inclusion. Once confirmed and fully developed, the associated ancillary facilities will be able to reinforce this contribution through local production, support to SMEs, training for youths and women, and local value chains development.

65. The recommendations formulated during project preparation and under Phase 1 remain relevant. However, their implementation nevertheless requires refocusing to align them with the current maturity status of the associated ancillary facilities, priorities awaited from the Borrower, and the planned operational arrangements. First, it is recommended that the identification, development, advanced preliminary design (APD), and detailed preliminary design (DPD) study for the associated ancillary facilities incorporate a prioritization matrix based on criteria related to resilience, inclusion, local products valorization, technical and financial feasibility, and environmental sensitivity. This would extend the initial recommendations relating to ancillary facilities, economic inclusion, local products, and pilot activities, while translating them into a concrete decision-making tool. This approach would prevent resource dispersion and enable the selection of a limited number of realistic, measurable, and highly demonstrative activities.

66. The recommendation concerning the integration of specific indicators relating to socio-economic effects and local resilience was adopted and is now a key focus for the project's implementation. It should be integrated into the monitoring and evaluation framework through operational indicators that track local SMEs' access to opportunities generated by the project, youths' and women's participation in training and related activities, the promotion of local products, and the perception of the project's benefits by the affected populations. These indicators should be established based on a baseline situation and monitored throughout project implementation, in accordance with the mandate assigned to the CNED.

Promotion of Gender Equality and Women's Empowerment

67. The programme is classified as Category 2, according to the Bank's Gender Marker System. The project will contribute to strengthening gender equality and the economic empowerment of women in the Ghardaïa and El Meniaa wilayas. By improving mobility, safety, and access to services, it will reduce the barriers limiting women's presence in public spaces and their participation in the labour market. To integrate the gender dimension, the line must be equipped with infrastructure that ensures women's accessibility and safety. For example, stations and platforms should be equipped with adequate public lighting systems, surveillance cameras, secure pedestrian walkways, separate sanitary facilities for women and men, and facilities responding to women's specific (breastfeeding rooms, separate prayer rooms for women and men). Stations should also have protected waiting areas, ramps for persons with reduced mobility, and non-slip surfaces. These measures will help to create a more inclusive and safer transport environment for women, children, the elderly, and persons living with disabilities.

68. To promote employment, entrepreneurship, and economic empowerment in the project area, especially for women, the project will include: (i) the development of commercial facilities and infrastructure, including multifunctional platforms for women; (ii) the organization of training and technical workshops related to railway occupations (mechanics, energy, maintenance, safety, logistics, train drivers, ticket inspectors, security agents); (iii) support for micro-enterprises in traditional catering, handicrafts (upholstery/tapestry), and the sale of local products; (iv) training in marketing, sales, packaging, and labelling of locally produced handicrafts; (v) the promotion of ecotourism. In addition, awareness-raising campaigns will be conducted to prevent and combat harassment in public transport. The total budget allocated to activities promoting gender equality and women's empowerment is estimated at USD 10,04 million. The detailed gender analysis and the gender action plan are presented in Technical Annex 3.3.

Urban Development

69. The completion of the project will help promote urban development in the towns directly covered by it. Indeed, the cities of Laghouat, Ghardaïa, El Meniaa, Hassi R'Mel, Berriane, Bellil, and other urban areas located along the railway corridor will benefit from this railway line. However, particular attention should be paid to the issue of connectivity between National Road N1 and the railway corridor, especially at the planned stations in Ghardaïa and the new town of Metlili. Consequently, it is necessary to provide complementary measures aimed at improving these connections and mitigating potential accessibility constraints, particularly regarding public transport services linking city centres to railway stations located outside urban areas. The Bank will assist in optimizing the development of connections with the road networks serving the cities along this railway corridor.

70. For the new cities, the Bank, through the Urban Development Fund, will assist these cities' authorities in developing urban development plans alongside urban mobility plans. The Municipal and Urban Development Fund (UMDF), hosted at the AfDB, will be consulted to provide funding for the required studies and technical assistance (as a grant) and to recruit consultants specialized in urban studies (urban development plans, urban development master plans, and integration of railway stations into their environment), traffic impact studies, and urban mobility plans for the various cities along the railway corridor. Similarly, the UMDF could also finance specific urban development studies for the towns of Laghouat, Ghardaïa and El Meniaa. These urban areas could also be included in the African Cities Programme initiated by the UMDF. Information on the UMDF will be disseminated to the communes and cities concerned during project implementation.

4 PROJECT IMPLEMENTATION

A. Institutional and Implementation Arrangements

71. Implementation Arrangements: The project's implementing agency is the Ministry of Public Works and Basic Infrastructure, through ANESRIF, which it also oversees. ANESRIF, by virtue of its mission to study and monitor the implementation of all its railway investment projects, is acting as the Delegated Project Owner (DPO) for the project's execution. The DPO's responsibilities will generally focus on assisting with the management and monitoring of the Laghouat-Ghardaïa-El Meniaa railway line modernization and construction project.

72. ANESRIF has already established a Project Management Unit (PMU) dedicated exclusively to the execution of the project's two phases. The technical team will comprise the following specialists: (i) a Project Director (engineer); (ii) a specialist in engineering structures; (iii) a geotechnical engineer; (iv) a hydraulic engineer; (v) an infrastructure engineer; (v) a surveying engineer; (vi) a railway electrification engineer; (vii) a procurement specialist; (viii) an administrative and financial manager; (ix) an environmental and climate change safeguards specialist; (x) a social safeguards and gender specialist; (xi) two occupational health and safety (OHS) specialists; (xii) an accounting manager; (xiii) a monitoring and evaluation specialist; and (xiv) any other specialist deemed relevant due to their expertise in the implementation of this type of project.

73. The Project Management Unit (PMU) will also engage a pool of high-level experts to be mobilized as needed, in consultation with the Bank, through a Project Management Assistance (PMA) mission. This pool of experts will be able to intervene both at the technical level (railway engineering) and on cross-cutting aspects related to the project. The Algerian side has already appointed a Project Director who served as the interface throughout the review process and who will act as Coordinator for the implementation of the operation.

74. Institutional Provisions: As with Phase 1 and given the scale and complexity of the project—which also involves multidisciplinary stakeholders—a Steering Committee will be established to oversee and supervise the implementation of the project's activities; its role will be to ensure that the project proceeds smoothly in line with its assigned objectives.

B. Procurement

75. Procurement arrangements: All procurement of goods, works, and services, including consultancy services, financed by the Bank or co-financed by the Asian Infrastructure Investment Bank (AIIB) under the project, will be carried out in accordance with the Procurement Policy Framework for Bank Group-Funded Operations ("AfDB Procurement Policy"), approved in October 2015, and as stipulated in Phase II of the Project Financing Agreement. In accordance with the AfDB Policy, all procurement will be conducted in accordance with the Bank's procurement methods and procedures (BPMP) using the relevant standard bidding documents (SBDs). These acquisitions cover all construction works for the railway line and integrated infrastructure, and consultancy services financed by the Bank, including the packages that will be jointly co-financed with the AIIB.

76 Review of the National Procurement System: In the absence of a country system assessment using the MAPS tool, the Bank opted to use its own procurement rules and procedures after an internal review which revealed that the implementing regulations for Law 23-12 of August 5, 2023, are being finalized. This internal review was conducted based on the Critical Indicator Assessment Report (CIAR).

77. ***Risk and Procurement Capacity Assessment:*** A risk assessment was conducted at the national and sector/project market levels. The results informed the decision on the choice of the applicable procurement systems. An assessment of the procurement capacity of the Executing Agency (EA), the Ministry of Public Works and Basic Infrastructure through ANESRIF, was conducted. It was noted that while ANESRIF has sufficiently qualified procurement personnel, it lacks experience on similar projects financed by the Bank or other multilateral donors. Appropriate mitigation measures are envisaged, including through the deployment of a Project Management Support (PMS) mission. To support the Executing Agency, the Bank organized two training sessions for ANESRIF's team, from 6 to 7 October 2025 and on 3 March 2026, to ensure proper application of Bank rules and procurement procedures. Furthermore, activities implemented under the Advance Procurement Actions enabled ANESRIF to acquire practical experience in the application of procedures and use of the Bank's standard bidding documents, specifically, the preparation of Bidding Documents (BD) for railway construction works of both phases, and Request for Proposals (RFP) for consultancy services contracts.

78. ***Advance Contracting Procedures:*** The Borrower had submitted an application for Advance Procurement Actions (APA)[7] regarding the following activities under Phases 1 and 2: (i) Railway line construction works; (ii) works monitoring and supervision; and (iii) project management assistance. A procurement plan was also submitted to this end. Following the Bank's issuance of its no-objection, the Procurement Plans (PPs), Requests for Expressions of Interest (REOIs) and Invitation for Bids (IFB) notices relating to the activities covered under the APA were published for both phases.

79. ***Co-financing with the AIIB:*** The pre-tax amount of the contract for the construction of the Ghardaïa-El Meniaa railway line will be covered by a loan from the Bank (75%) and a loan from the Asian Infrastructure Investment Bank (AIIB) (25%). For this project, the Bank's procurement policy applies to all procurements jointly co-financed by the two institutions. The Bank's resources earmarked for financing project activities come from the ADB window. Accordingly, the Bank's Board of Directors is requested to waive the rule on country of origin for this project with respect to all contracts co-financed by the AfDB and the AIIB. The specific terms, conditions, and arrangements governing the co-financing between the two institutions for this project will be defined in a co-financing agreement.

C. Financial Management, Disbursements and Audit

80. ***Project Financial Management:*** ANESRIF will be responsible for implementing the project, with support from a Project Management Unit (PMU). Regarding financial management, the PMU will comprise, in addition to the project director, a qualified Administrative and Financial Officer (AFO) and an Accounting Manager (AM). To comply with the Bank's reporting and accountability requirements, the PMU will receive technical support from: (i) the Planned Operations Management Department (DGOP); (ii) the Finance and Accounting Department (DFC), which includes three divisions (Investment, Accounting and Treasury); (iii) the Management Control Department (DCG); and (iv) the Internal Audit Department (DAI). The project's accounting manager will be responsible for collecting financial data and preparing periodic financial reports.

81. The project's budget process will be integrated into that of ANESRIF and centralized within the Management Control Department. The PMU will coordinate the collection and consolidation of budget estimates with the Planned Operations Management Department and the Management Control Department to prepare, prior to the start of each year, the Annual Work Plan and Budget (AWPB), which will be incorporated into ANESRIF's budget. This draft budget should make a clear distinction between external financing from the Bank's loan resources and national counterpart funding.

82. For its internal control purposes, the project will initially apply ANESRIF's existing procedures, as set out in its internal directives, and will subsequently implement the provisions of the Administrative, Financial and Accounting Procedures Manual to be prepared by ANESRIF for the PMU. These provisions will cover all PMU management cycles and all activities and entities involved in project

[7]APA application per letter No. 2854/MF/DGREFE/2025 of 2 November 2025 and the Bank's approval per letter No. 21/LTR/2025/CODZ of 30 November 2025.

implementation, ensuring the segregation of incompatible duties throughout the expenditure chain. ANESRIF has an Internal Audit Department, which reports to the General Management. This structure will be leveraged to ensure successful project implementation

83. In collaboration with the DFC and, using its information system, the Project Management Unit will keep separate accounts for project operations, distinct from those of ANESRIF. The PMU will prepare periodic financial monitoring reports on the implementation of the current AWPB and on the cumulative financial performance since the start of the project. These reports will be submitted to the Bank within 45 days of the end of the reporting period. The PMU will also prepare project annual financial statements for submission to the external auditor for the project. The detailed content and templates of the financial monitoring reports and annual financial statements are presented in the technical annexes.

84. ***Disbursement:*** Bank resources will be disbursed in accordance with the Bank's disbursement rules and procedures, using the following four methods: special account, reimbursement, direct payment and reimbursement guarantee. The reimbursement method will be used only when reimbursement to ANESRIF is required for eligible expenditure pre-financed with the Bank’s prior agreement. The reimbursement guarantee method will be used exclusively for financing high-value imported goods. Only one disbursement method will be used per contract.

85. ***External Audit****:* The project will be audited annually, in accordance with the terms of reference for audits of projects/programs financed by the Bank. As of the date of this appraisal, Phase I of the operation had not yet been audited. The General Inspectorate / IGF shall submit the project audit reports to the Bank no later than six months after the end of the financial year. The Inspectorate General of Finance shall conduct the external audit of the project’s financial statements.

D. Project Monitoring and Evaluation

86. The monitoring of the implementation of all activities (component by component of this project) will be ensured by the executing agency and the main service providers. Monitoring the project's socio-economic impact will require: (i) establishing a baseline situation before the start of works; and (ii) evaluating the impact at project completion. This evaluation may be conducted by the National Equipment Fund for Development (CNED). It should be noted that the CNED, a public institution, aims to increase the efficiency of government capital expenditures and improve the processes for evaluating, implementing, and monitoring major economic and social infrastructure projects. Its mission is to monitor the progress of major projects launched, among other things, under the Economic Recovery Plan (PRC)

87. The same monitoring and evaluation system adopted in Phase 1 will be implemented and it will be based on: (i) a dedicated M&E team within ANESRIF, strengthened by an institutional continuous training plan and the procurement of appropriate digital tools (management information system and databases); and (ii) regular internal and external supervision (involving at least one mission per semester for the Bank) to assess the physical and financial implementation status. Periodic control missions will be conducted to ensure the rigorous monitoring of performance and socio-economic impact indicators, including the establishment of a baseline prior to project start-up, as well as mid-term and end-of-project impact assessments carried out by the CNED. ANESRIF will also prepare detailed quarterly works execution and project implementation progress reports which will be submitted to the Bank to ensure close follow-up and informed decision-making. There will be training programmes for CNED and the implementing agency for the deployment of the Bank's RASME tool, used for digital supervision and monitoring of the project.

88. A special budget of USD 1,348,710 (with USD 733,230 already approved for Phase 1 and USD 615,480 for Phase 2) has been allocated to finance monitoring and evaluation activities, including data collection, baseline establishment, the mid-term review and the final evaluation. Details are presented in Annex 5: Detailed Estimated Project Costs.

E. Governance

89. Algeria has embarked on a process to combat corruption, enhance transparency and accountability in public action, and promote social cohesion. The country's efforts to improve public

finance management and increase domestic resource mobilization are aimed at enhancing budget discipline, optimizing the allocation of public resources, and improving the efficiency of public service delivery. These initiatives are consistent with the major reforms introduced by the national authorities and outlined in the Government's Action Plan for the Implementation of the President of the Republic's Agenda (PAG), adopted in September 2021. An Integrated Budget Management System (SIGB) was established to enable Algeria to manage its public resources in a more efficient and transparent manner. The system helps to digitize and streamline budgetary processes, accelerating the processing of expenditure operations. It also allows for "more rigorous" budget control by streamlining the work of authorizing officers, financial controllers, accountants and operations managers. Regarding accounting, the system enables financial statements to be produced promptly within short timeframes.
90. The Bank will ensure compliance with the applicable rules governing the procurement of works, goods and services, as well as disbursement and financial management. A mid-term review will be conducted and a project completion report prepared.

F. Sustainability

91. The railway works and infrastructure built under the supervision of ANESRIF are transferred to SNTF, the public railway company operating in the areas of passenger and freight transport, and responsible for the management, operation, and maintenance of the railway network, which is owned by the Algerian state. The company has implemented a major programme for the rehabilitation, maintenance, and renewal of existing railway infrastructure, with a total budget of over DZD 41 billion (USD 316 million), to improve service quality, increase train speeds, ensure passenger comfort, and expand network capacity. The company is also committed to a strategy of developing local capacity to ensure the maintenance and sustainability of railway investments, by promoting and engaging with local SMEs operating in the sub-sector.

92. In 2024, the SNTF (Algeria National Railways Corporation) recorded encouraging results, transporting 32 million passengers, an 8% increase compared to 2023. Furthermore, freight transport reached 6.8 million tons, confirming the essential role of rail in the national economy. However, 50% of the railway network is over 30 years old. To address this challenge, and as part of its modernization and investment plan, the SNTF allocated a budget of DZN 41 billion between 2023 and 2024 for network rehabilitation. The programme includes the renovation and modernization of more than 94passenger stations across the country, the procurement of new rolling stock (locomotives, carriages, and wagons), and the construction of new stations in emerging urban centers. In addition, works are underway to renew the signalling and communication systems on the railway network. Furthermore, technological oversight is ensured through the modernization of railway telecommunications systems and the transition to higher-performance digital signalling.

93. The Company is working to reduce operational shortfalls, against a backdrop of declining State subsidies, by, among other things: (i) using modern tools to digitize operational processes; (ii) monitoring operating expenses using calculation software; and (iii) specifically implementing analytical cost control, optimizing information flows and decision-making processes, and gradually aligning pricing with the actual costs of services provided. Through its subsidiaries, SNTF is well-equipped to deliver specialized services tailored to the specific needs of its clients. **Furthermore, the company has established limited but significant partnerships with the private sector, facilitating specialized operations relating to logistics, maintenance and infrastructure services.**

G. Risk Management

94. The main risks which could jeopardize the achievement of the expected project outcomes and its successful implementation are: (i) external and internal economic risks, including price escalation, increased delivery and transport times for construction materials and equipment, as well as works implementation delays; and the oil price volatility, which may put a strain on public resources; (ii) environmental and social risks, including complaints and non-compliance with RAP implementation;
(iii) climate-related risks (flooding and sand encroachment on the tracks); and (iv) risks relating to coordination and implementation challenges arising from the large number of stakeholders and the complexity of the activities to be implemented. **The mitigation measures include:** (i) consideration of

unforeseen physical events and financial risks, as well as potential economies of scale arising from tendering processes; (ii) government mobilization of the necessary funds for the implementation of the RAP; (iii) consideration of extreme weather conditions in the selection of materials and the design of structures; and the organization of training workshops and fiduciary clinics to build the capacity of the executing agency. The risks and mitigation measures are presented in the table in **Annex 4.2**.

H. Knowledge-Building

95. This project will be a valuable opportunity for the Bank to build its knowledge of the impact of rail transport projects. A monitoring and evaluation mechanism will be established to draw lessons from the project. Defining key impact indicators before launching the project and assessing its impact at the end of implementation will provide valuable insights into project outcomes and outputs. This knowledge will be disseminated via the Bank's website, meetings and other information-sharing platforms with various stakeholders in the transport sector. In addition, lesson notes and a summary report will be produced, and regional webinars will be organized. It is suggested that all this knowledge be leveraged for the development of a Bank flagship publication on the promotion of railway development corridors.

5 LEGAL INSTRUMENTS AND AUTHORITY

A. Legal instrument

96. An AfDB loan agreement will be signed between the People’s Democratic Republic of Algeria (the “Borrower”) on the one hand and the African Development Bank (the “Bank”) on the other hand.

B. Conditions for the Bank’s Intervention

97. ***Conditions Precedent to AfDB Loan Effectiveness:*** The entry into force of the AfDB Loan Agreement shall be subject to fulfilment by the Borrower, to the Bank’s satisfaction, of the conditions set forth in Section 12.01 of the General Conditions Applicable to Loan and Guarantee Agreements of the African Development Bank.

98. ***Conditions Precedent to the First Disbursement of the AfDB Loan:*** The obligation of the Bank to make the first disbursement of the Loan shall be subject to the entry into force of this Agreement in accordance with Section 4.01 (Entry into Force) above.

99. ***Conditions Precedent to Disbursements for Works Involving Resettlement:*** The Bank's obligation to disburse AfDB Loan resources for works involving resettlement shall be subject to the Borrower fulfilling to the Bank’s satisfaction, the following additional conditions: (a) submission of a works and compensation schedule prepared in accordance with the Resettlement Action Plan (RAP) and the Bank’s Requirements, acceptable to the Bank both in form and content, featuring the following details: (i) every works lot under the project; and (ii) the compensation and/or resettlement schedule of all project affected persons (PAPs) for each lot; (b) submission of satisfactory evidence that all PAPs within each works lot have been compensated and/or resettled in accordance with the Environmental and Social Management Plans (ESMPs), the Resettlement Action Plans (RAPs), and/or the agreed works and compensation schedule and the Bank’s requirements, prior to the commencement of such works and, in any event, prior to the displacement of, and/or appropriation of the PAPs’ land and related assets; or (c) in lieu of paragraph (b) above, submission of satisfactory evidence attesting that resources allocated for PAPs’ compensation and/or resettlement have been deposited into a dedicated account in a bank acceptable to the Bank, or entrusted to a third party acceptable to the Bank, where the borrower can prove, to the Bank’s satisfaction, that the compensation and/or resettlement of PAPs in accordance with paragraph (b) above could not be fully or partially carried out for the following reasons: (i) identification of PAPs by the borrower is not feasible or possible; (ii) ongoing disputes involving PAPs and/or affecting the compensation and/or resettlement process; or (iii) any other reason beyond the borrower’s control, as discussed and agreed with the Bank.

100. ***Other Conditions*:** The Borrower shall provide, within twelve (12) months of signing the Loan Agreement, evidence of the co-financier's participation in the financing of the Project.

C. Compliance with Bank Policies

☐ 101. This project complies with all applicable Bank policies.
☒ There are exceptions to Bank policies.

102. Bank resources allocated for the financing of project activities will be provided through the AfDB window. However, as a general principle, no eligibility restrictions shall apply to jointly co-financed contracts under this project, thereby allowing bidders from all countries to participate. In its capacity as lead co-financier, the AfDB shall require the borrower to: (a) allow firms from all countries to submit bids for goods, construction works and services; and (b) give full effect to respective sanctions by the AfDB and AIIB. In this regard and given that the specific terms and conditions governing the co-financing arrangement between the two institutions are still under discussion, a waiver of the Bank's rule of origin is sought from the Board of Directors for all contracts jointly co-financed under the project.

The African Development Bank Group's Independent Recourse Mechanism

103. Communities and individuals who believe that they have been adversely affected by an AfDB-financed project may submit complaints to existing project-level grievance redress mechanisms or the AfDB's Independent Recourse Mechanism (IRM). The IRM ensures that project-affected communities and individuals can submit their complaints to its Office which shall determine whether harm occurred, or could occur, because of the AfDB's failure to comply with its own policies and procedures. To file a complaint or request further information please contact: IRM@afdb.org or, visit the IRM website www.irm.afdb.org. Complaints can be filed at any time after the concerns have been brought directly to the AfDB's attention, and Bank Management has been given an opportunity to respond

6 RECOMMENDATION

104. Management recommends that the Board of Directors authorize the disbursement, from the resources of the African Development Bank, of a loan in the amount of eight hundred and seventy-eight million ninety thousand United States dollars (USD 878,090,000) to the People's Democratic Republic of Algeria, for the purposes set forth and subject to the terms, conditions, and modalities set forth in this report.

105. Management recommends that the Board of Directors approve a waiver of the rule of origin for all jointly co-financed contracts under the AfDB-financed Project, to ensure the absence of any eligibility restrictions.

7 RESULTS FRAMEWORK

RESULTS FRAMEWORK					
A	**PROJECT INFORMATION**				
PROJECT NAME: **Laghouat–Ghardaïa–El Meniaa Railway Construction Project – Phase II Financing** CODE SAP: ***P-DZ-DC0-004***			COUNTRY/REGION: ALGERIA / NORTH		
PROJECT DEVELOPMENT OBJECTIVE: **Improve the competitiveness of rail transport and regional planning, and to strengthen regional integration.**					
ALIGNMENT INDICATOR(S): (i) Regional Infrastructure Integration Index (RMF Level 1) (0.282 for Algeria in 2019; target: 0.30 by 2030); (ii) Intra-African trade as a proportion of total merchandise trade (RMF Level 1) (16% in 2024; target: 45% by 2030); and (iii) Employment-to-population ratio (%) (women/youth).					
B	**RESULTS MATRIX**				
RESULTS CHAIN AND DESCRIPTION OF INDICATORS	**CMR/ADOA INDICATOR**	**UNIT OF MEASUREMENT**	**BASELINE (2025)**	**TARGET AT COMPLETION (2031)**	**MEANS OF VERIFICATION**
OUTCOME STATEMENT 1: Mobility of people and goods improved					
OUTCOME INDICATOR 1.1.: Passengers transported on the **Ghardaïa–El** Meniaa **railway section**	**X**	Number of **passengers/years**	0	0.39 million	Railway traffic reports produced by the Ministry of Transport (through SNTF)
OUTCOME INDICATOR 1.2 Freight transported annually on the **Ghardaïa–El** Meniaa **railway section**		tonnes/***year***	0	1 million	Railway traffic reports produced by the Ministry of Transport (through SNTF)
OUTCOME STATEMENT 2: Local employment generated and economic opportunities created					
OUTCOME INDICATOR 2.1: Direct jobs supported (number), including for women and youth	**X**	Number	0	6,000 jobs, including 2,400 for youth and 900 for women	ONS Report ANESRIF and CNED Reports
OUTCOME INDICATOR 2.2: Indirect jobs supported (number), including for women and youth	**X**	Number	0 0	8,500 jobs, including 3,500 for youth (41%) and 1,300 for women (15%)	ONS Report ANESRIF and CNED Reports
OUTCOME STATEMENT 3: Accessibility to Saharan Wilayas has improved					
OUTCOME INDICATOR 3: Wilayas connected by railway transport services along the Ghardaïa–El **Meniaa** corridor		Number of wilayas	0	2	Report produced by the Ministry of Transport (through SNTF)
OUTCOME STATEMENT 4: Climate Change Mitigation has been strengthened					

OUTCOME INDICATOR 4.1: Net GHG emissions (tCO2e)	**X**	tonnes/year	0	56 319 tonnes of CO2eq	ANESRIF and CNED Report
OUTCOME STATEMENT 5: Regional Integration has been enhanced					
OUTCOME INDICATOR 5.1: Volume of trade in goods between Algeria and neighbouring countries (Tunisia, Niger and Mali)	**X**	% of Algeria's trade	3%[8] (exports) 1% (imports)	> 3% for exports > 1% for imports	Statistics from INA and Ministry of Trade
OUTPUT STATEMENT 1: Modern Railway Infrastructure has been constructed					
OUTPUT INDICATOR 1.1.: Railway line constructed and operational on the Ghardaïa–**Meniaa** corridor	**X**	km	0	230	Railway works completion and acceptance certificate
OUTPUT INDICATOR 1.2.: Passenger, freight and constructed and operational logistics facilities along the **Ghardaïa–El Meniaa Corridor**	**X**	Number	0	• Passenger stations: 03 • Freight station: 01 • Rolling Stock Depot: 01 • Passing loop stations: 03	Railway works completion and acceptance certificate
OUTPUT INDICATOR 1.3: Share of the Algiers–Laghouat–Ghardaïa–El **Meniaa**–Tamanrasset–Algeria–Niger Border railway corridor developed and operational (% of the total corridor length of 2,439 km)	**X**	% of corridor length developed	11%	• 20%	ANESRIF and CNED Report
OUTPUT STATEMENT 2: Integrated socio-economic facilities have been developed					
OUTPUT INDICATOR 2.1: Commercial infrastructure (including facilities serving women and youth) have been developed and made operational in Ghardaïa and El **Meniaa**		Number	0	3	Completion and Acceptance Certificates for commercial infrastructure
OUTPUT INDICATOR 2.2: Multifunctional Platforms[9] for Youth and Women developed and operational in Ghardaïa and El **Meniaa**		Number	0	3	Completion and Acceptance Certificates for multifunctional platforms
OUTPUT STATEMENT 3: Skills and capacities strengthened in railway professions and other economic sectors					
OUTPUT INDICATOR 3.1: Individuals trained in railway occupations, logistics, tourism and handicrafts, with a focus on youth and women		Number	0	1,000 persons, including 500 youth and 200 women	ANADE Training Report

[8] Transforming the railway sector to foster traffic migration from road to rail in Africa: Phase 2: Country-level analysis - Algeria Country Report, February 2025 (ALG)

[9] The multifunctional platform is a rural development facility designed to reduce women's domestic workload through the provision of integrated services and equipment, including product-processing facilities and energy supply services (electricity and water)

8 ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPMENT BANK GROUP
2023 ISS Update v01

A. Basic Information[10]			
Project Title: LAGHOUAT-GHARDAIA-EL MENIAA RAILWAY LINE CONSTRUCTION PROJECT (495 KM), PHASE 2		**Project SAP or TFMS Code:** P-DZ-DC0-004	
Region: RDGN	**Country:** Algeria		
Project Sector Unit: Transport		**Lending Instrument:** Sovereign Loan	
Appraisal dates: 29-Mar-26 **to** 6-Apr-26		**Estimated Approval Date:** 13-Jul-26	
Task Team Leader: Abdoulaye DIARRA		**Alternate Task Team Leader:** xxxxxx	
Environmental Safeguards Officer(s): Sadok HEDHLY | Mohamed Adnene BEZZAOUIA			
Social Safeguards Officer(s): Kossi D. LAKPO | xxxxx			
E&S Category: Category 1 (High Risk)	**Operation Type:** Sovereign Operation / Public Sector Operation		**Financial Intermediary:** No
Categorization Date: 29-Jan-26	**Categorization Date in ISTS:** 29-Jan-26	**Categorization Date in SAP:** 29-Jan-26	
Is this project processed under rapid responses to crises and emergencies?			No
Is this project processed under a waiver to ISS requirement(s) requested by the Borrower/Client and granted by the Board?			No
B. Disclosure and Compliance Monitoring **B.1 Mandatory disclosure**[11]			
Environmental and Social Assessment/Audit/System/Others: Environmental and Social Impact Assessment (1)			
Was/Were the document (s) disclosed ***prior to appraisal?***			**Yes**
Date of "in-country" disclosure by the borrower/client			26-Jun-25
Date of receipt, by the Bank, of the authorization to disclose			*26-Jun-25*
Date of disclosure by the Bank			28-Jun-25
Resettlement Action Plan (RAP)[12]**:** *1*			
Was/Were the document (s) disclosed ***prior to appraisal?***			**Yes**
Date of "in-country" disclosure by the borrower/client			20-Aug-25
Date of receipt, by the Bank, of the authorization to disclose			20-Aug-25
Date of disclosure by the Bank			20-Aug-25

[10] ***Note***: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

[11] *For multiple disclosure dates of the same type of document/instrument (ESIAs, RAPs, etc), please indicate the date of the last disclosure that meets the 50%+1 disclosure requirement.*

[12] *Including Livelihood Restoration Plan (LRP)*

Stakeholder Engagement Plan (SEP)[13]: *1*	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes
Date of "in-country" disclosure by the borrower/client	20-Aug-25
Date of receipt, by the Bank, of the authorization to disclose	20-Aug-25
Date of disclosure by the Bank	20-Aug-25
Pest or Vector Management Plan (PMP/VMP): *Not Applicable*	
Was/Were the document (s) disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Vulnerable Peoples Plan (VPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Biodiversity Management Plan (BMP)[14]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Livelihood Restoration Plan (LRP)[15]: *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Communities Participation Plan (RCPP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Emergency Preparedness & Response Plan (EPRP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date

[13] *Including Grievance Redress Mechanism (GRM)*

[14] *Refer to footnote 212 of the ISS: Depending on the nature and the scale of the risks and impacts of the project, the Biodiversity Management Plan (BMP) may be a stand-alone document, or it may be included as part of the ESMP prepared under OS1. Select this if a standalone BMP is required.*

[15] *Refer to footnote 190 of the ISS: The Livelihood Restoration Plan (LRP) is normally part of the Resettlement Action Plan (RAP). However, for complex livelihood restoration, a stand-alone LRP can be prepared as part of the ESMP. Select this if a standalone LRP is required.*

Hazardous/Medical Waste Management Plan (HWMP): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Riparian Notification (RN): *Not Applicable*	
Was the document disclosed ***prior to appraisal?***	Not Applicable
Date of "in-country" disclosure by the borrower/client	Click to select the date
Date of receipt, by the Bank, of the authorization to disclose	Click to select the date
Date of disclosure by the Bank	Click to select the date
Environmental and Social Management Plan of the Financing Agreement (FA-ESMP) [16]	
Was the document disclosed ***prior to appraisal?***	*Yes*
Date of "in-country" disclosure by the borrower/client	*21-Aug-25*
Date of receipt, by the Bank, of the authorization to disclose	***21-Aug-25***
Date of disclosure by the Bank	**21-Aug-25**
Is in-country disclosure of any of the above required documents not allowed as per the country's legislation or not expected because of crises/emergencies: Not Applicable **If applicable, please explain below:**	
Not applicable.	

B.2. Compliance monitoring indicators	
Has satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	**Yes**
Has costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	**Yes**
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized, and secured?[17]	**Yes**
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	**Yes**
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	**Yes**
C. Clearance	
Is the project compliant with the Bank's environmental and social safeguards requirements, and can be submitted to Approval?	**Yes**

[16] *As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP)*

[17] *In case a Resettlement Action Plan (RAP) is/are not required although the Environmental and Social Impact Assessment (ESIA) is/are disclosed, attached the image/picture/photo of the area/site/landscape to evidence that it is free of any encumbrance (simple statement or letter from the borrower does not suffice), in addition to the statement by the Borrower that it is a public-owned land.*

Prepared by	***Name***	***Signature***	***Date***
Environmental Safeguards Officer(s):	**Sadok HEDHLY Mohamed Adnene BEZZAOUIA**		22-Apr-26
Social Safeguards Officer(s):	**Kossi D. LAKPO xxxxx**		22-Apr-26
Task Team Leader:	Abdoulaye DIARRA		24-Apr-26
Submitted by			
Sector Director:	**Mike SALAWOU**		27-Apr-26
Cleared by			
Director SNSC:	**Maman-Sani ISSA**		23-Jun-26

9 Rationale for Algeria's Counterpart Fund

I. Introduction

This Note seeks a waiver from the Bank regarding the cost-sharing rule for the Laghouat-Ghardaïa-El Meniaa Railway Line Construction Project (495 km). The project is structured around two consecutive phases.

Phase 1 relating to the construction of the Laghouat-Ghardaïa stretch is funded by: (i) the Bank with USD 877.42 million, equivalent to DZD 113.599 billion or UA 640.00 million or EUR 747.32 million, i.e. 50.0% of the cost of Phase 1; (ii) the Asian Infrastructure Investment Bank (AIIB) with an estimated USD 401.54 million, equivalent to DZD 51.987 billion, i.e. 22.9% of the cost of Phase 1; and (iii) the Algerian Government with DZD 61.549 billion, equivalent to USD 475.40 million or UA 346.76 million, i.e. 27.10% of the cost of this phase. The Bank's financing for this phase was approved in December 2025.

The Ghardaïa-El Meniaa stretch is financed by: (i) the Bank with USD 878.09 million, equivalent to DZD 115.655 billion or UA 640 million or EUR 754.995 million, i.e. 74.72% of the cost of the stretch; (ii) the Asian Infrastructure Investment Bank (AIIB) with an estimated USD 272.253 million, equivalent to DZD 36.272 billion, i.e. 23.43% of the cost of said phase; and (iii) the Algerian Government with DZD 2.857 billion, equivalent to USD 21.446 million or UA 15.811 million, i.e. 1.85% of the cost of Phase II.

The data above shows that the Bank's contribution to the entire project accounts for 59% of the total project cost. The borrower's contribution – including the other donors it has mobilized (AIIB) – represents 41% of this cost. The Bank's contribution therefore exceeds 50% of the project cost, the threshold which not supposed to be exceeded under the Bank Group's Policy on Expenditure Eligibility for Financing through the AfDB Sovereign Window.

II. Rationale for the National Counterpart Level

In accordance with the provision of Section 4.2.2 of the Bank Group's Policy on Expenditure Eligibility (Revised version of 19 March 2008), the rationale for this level of government counterpart funding was based on the following three criteria:

(i) The country's commitment to implement its comprehensive development programme

Algeria has adopted a development programme for the period 2023-2027 which now serves as its development framework. It defines the key transformation thrusts to achieve sustained progress at the economic, human, social, and territorial levels during the period. The programme focuses on: (i) economic diversification; (ii) energy transition; and (iii) sustainable development. It lays emphasis on non-hydrocarbon growth and climate resilience, and targets social inclusion, democratic governance, and decarbonization. Specifically, it aims at: (i) reducing dependence on hydrocarbons by encouraging non-hydrocarbon sectors, with projected growth of 3.5% to 3.8% for the period 2025-2026; (ii) substantially increase investment in renewable energy; (iii) pursue the implementation of social inclusion and climate risk insurance projects; and (iv) strengthen local governance in pilot areas and support innovation and digitization within companies.

Current priorities, as outlined in the Government Action Plan for the implementation of the President of the Republic's Programme adopted in 2021, focus on food sovereignty, energy transition (solar, hydrogen), and industrial diversification. To this end, new laws were enacted to simplify investment procedures and attract foreign capital. The are proactive efforts underway to support the development of agricultural sectors, particularly in the south of the country. The government is also undertaking efforts to reduce youth unemployment by creating sustainable jobs. The Government Action Plan also aims at: (i) diversifying funding sources, particularly for infrastructure development; and (ii) develop logistical, financial, administrative, and regulatory support for export sectors. The transition to cleaner production methods which generate lower carbon emissions is also among the plan's priorities.

In this context, Algeria's Transport Development Strategy (2020-2035), based on the guidelines defined in the National Spatial Planning Scheme (SNAT) by 2030, aims at modernizing infrastructure, facilitating the energy transition, and promoting economic integration. Priorities include: (i) tripling the rail network (15,000 km by 2035); (ii) extending the metro/tramway system; (iii) digitizing services; and (iv) strengthening trans-Saharan logistics links. Specifically, the strategic focus for rail transport is on extending the network to connect the southern regions and mining complexes (Gara Djebilet). It also emphasizes the local production of rolling stock. Overall, the objectives are to: (i) correct territorial imbalances; (ii) develop resources; (iii) enhance national attractiveness; and (iii) ensure a balanced distribution of activities and infrastructure. However, the effectiveness of the strategy thus adopted requires separating regulatory activity from commercial services in road, urban, and rail transport, as well as port operations. The projects which form the backbone of this strategy must therefore be managed using strategic planning tools.

(ii) The financing allocated by the country to the sector targeted by the Bank's intervention

The Algerian railway sector relies on public funding for infrastructure development. The operation and maintenance of the network are handled by the SNTF (National Railways Corporation), which receives government subsidies to fulfil these public service obligations. In 2024, USD 890 million was allocated to railway infrastructure development, in addition to USD 230 million dedicated to targeted transport projects. The corporation's revenue in 2024, which reached USD 21 million, a 3.8% increase compared to the previous year, remained inadequate to cover its operating costs. The corporation operates a system of fixed fares set by the state, preventing any price adjustments based on demand.

However, Algeria is committed to significant structural investments in its railway sector. The Béchar to Gara Djebilet line, spanning 950 km across the Sahara, financed entirely by the state budget and intended for transporting iron ore to Gara Djebilet as well as passengers, was inaugurated in early February 2026. An investment programme of DZD 378 billion (about USD 2.8 billion) was unveiled in 2024, including the modernization of stations and train fleets, the installation of surveillance cameras on certain lines, and the deployment of ticket vending machines. The implementation of the ambitious Algiers-Tamanrasset railway project, spanning over 2,000 km, has begun with the development of the Algiers-Laghouat stretch (250 km), operational via the new Boughezoul-Djelfa-Laghouat link and inaugurated at end-2023. This continues with the Laghouat-Ghardaïa-El Meniaa Railway Line Construction Project (495 km), Phase I of which was approved by the Bank in 2025, benefits from co-financing from the AIIB and a counterpart contribution from the Algerian government. Phase II, intended to ensure the continuity of the line's development to El Meniaa over a 230 km stretch, is currently under review according to the same financing model.

The National Railway Transport Corporation (SNTF) has announced an ambitious investment programme of DZD 41 billion to modernize and develop the Algerian railway network by 2035. This strategic plan aims at enhancing the competitiveness of the railway sector, improve service quality, and effectively meet the growing mobility demand in the country. As part of this programme, an initial tranche of DZD138 billion (about EUR 900 million) was approved by the government. This sum will be used to acquire 400 new passenger cars and modern locomotives. The project includes the commissioning of several types of equipment: (i) high-power locomotives for long-distance transport; (ii) more comfortable passenger cars; (iii) self-propelled trains and high-speed trains; and (iv) freight wagons and shunting locomotives to enhance freight transport. This ambitious programme is part of a strategic objective to create a local railway industry to reduce import costs, develop national expertise, and ultimately consider exporting railway equipment to other markets, particularly in sub-Saharan Africa. The SNTF aims to attract investors and specialized manufacturers to produce rolling stock in Algeria. Similarly, it has launched a large-scale rehabilitation programme for 94 railway stations across the country. The company also plans to double-track and electrify certain lines, notably the Béchar- Oran line.

Thanks to this modernization programme, the SNTF is embarking on a key step in the transformation of the Algerian rail network, aiming, among other things, to strengthen citizen mobility and increase the competitiveness of the sub-sector in Algeria. The continued momentum towards a future connection between the capital, Algiers, and Tamanrasset in the southeast of the country on the trans-Saharan rail line of Corridor No. 2 (Algiers-Laghouat-Ghardaïa-El Meniaa-Tamanrasset), with 1,559 km remaining to be covered beyond El Meniaa, presents significant challenges, particularly in terms of increased and sustained mobilization of investment resources both domestically and from institutional donors.

(iii) ***The country's budget situation and debt level***

Recent macroeconomic analysis

The Algerian economy is experiencing growth momentum, despite a slight slowdown, reaching 3.3% in 2025 compared to 3.6% in 2024. This growth is supported by the dynamism of manufacturing and agricultural production, as well as by strong investment and household consumption. The short-term outlook is positive, with growth projected to remain relatively stable at 3.9% in 2026 and 4.0% in 2027, driven by the rebound in the hydrocarbon sector. Non-hydrocarbon exports remain modest, despite diversification efforts. The government is focusing on regulating imports through an automatic and non-automatic licensing system and targeted rationalization of non-essential consumer goods. Simultaneously, incentives are being applied to stimulate local production and exports.

Public debt and treasury financing

Public debt is considered sustainable at 50.30% of GDP in 2025, compared to 48.1% at end- 2024. The Treasury's strategy aims at extending the maturity of the debt by focusing on medium- and long-term issuances. The public debt ratio is expected to increase in the medium term due to higher public spending and the financing of priority government projects following the gradual and selective use of external financing for major public investment projects. Public debt is primarily composed of market debt (40.7%), domestic public debt, and off-market debt (59.3%) (bank debt buybacks, recapitalization, etc.). Repayment of debt contracted with the Bank of Algeria under unconventional financing began in 2023. The Treasury's strategy aims at extending the maturity of the debt by focusing on medium- and long-term issuances, as short-term securities are considered costly. The Treasury is also subsidizing interest rates for certain sectors (real estate, equipment). Moderate inflation has shown signs of slowing, thanks to increased agricultural production, falling from 9.3% in 2023 to 5.3% in 2024 and 1.4% in 2025, according to data from the National Statistics Office (ONS). The current account, which remains in surplus, is benefiting from global disruptions in hydrocarbon supplies and thus maintained a surplus of 1.0% of GDP in 2024.

The country is facing a budget deficit. Fiscal policy aims at maintaining social stability through targeted subsidies and increases in wages and pensions. The budget deficit is projected to reach 13.7% of GDP in 2025, compared to 10.3% in 2024, due to the combined effect of sustained increases in public spending and the financing of major infrastructure projects. Algeria finances its budget deficit primarily through hydrocarbon revenues (revenue regulation fund) and public debt. To enhance the stability of public finances, the government is exploring the possibility of reducing energy subsidies and broadening the tax base beyond hydrocarbons.

III. Macroeconomic Outlook and Risks

Growth prospects are expected to remain solid, but external and fiscal imbalances are likely to persist amid volatile hydrocarbon prices. The Algerian economy is projected to grow at a relatively stable rate of 3.9% in 2026 and 4.0% in 2027, driven primarily by sustained expansion in non-hydrocarbon sectors and a rebound in the hydrocarbon sector, boosted by the reinstatement of production quotas in the context of rising geopolitical tensions in the Middle East. Inflation is expected to continue to decelerate, in a context of monetary easing, due to the continued decline in food prices. Public finances are expected to remain under pressure. The current account deficit is projected to continue to widen gradually, rising from 2.6% of GDP in 2026 to 3.2% in 2027, due to volatile hydrocarbon prices and declining oil revenues. The return of twin deficits highlights the strong exposure of the Algerian economy to fluctuations in hydrocarbon prices.

The transition to a more sustainable economy, less dependent on gas, remains a long-term challenge. The main development challenge, therefore, remains the need to diversify the economy. To achieve this, it is essential, in the short term, to support local industries and invest in technologies which underpin the industrialization strategy (particularly the digital economy and digitization). In this regard, the government is moving towards an "Algeria Vision 2050," aiming for a productive economy which is less reliant on oil revenues, with a strong focus on developing renewable energies and on key sectors for development and economic growth, notably agribusiness and fisheries.

The volatility of hydrocarbon prices and rising geopolitical tensions pose major risks to Algeria's economic outlook. However, the recent rise in hydrocarbon prices in 2026 improved revenues and external balances.

Algeria's economic outlook for 2026–2027 will depend primarily on the performance of the hydrocarbon sector and its valorization on global markets, the ability to consolidate non-hydrocarbon growth, and fiscal sustainability through the maintenance of adequate foreign exchange reserves. Furthermore, it will depend on agricultural performance in the face of water stress and climate change, and on the depth and credibility of structural reforms, particularly those aimed at expanding tax revenue and improving the business climate and the functioning of the financial system. To mitigate these risks, it is essential to accelerate structural reforms, diversify the economy, improve the business climate, and promote non-hydrocarbon exports

IV. Conclusion

The analysis reveals that Algeria remains firmly committed to implementing its development programme, focusing on strategic sectors, especially transport infrastructure. Despite an economic environment marked by certain budget and financial constraints, the authorities are continuing their efforts to modernize infrastructure and support sustainable economic growth.

In this context, Algeria is committed to preserving the sustainability of its public finances while maintaining a level of investment consistent with its development objectives. This approach is part of a strategy aimed at optimizing the use of public resources and diversifying the sources of financing necessary for the implementation of transformative infrastructure projects.

Recent analyses show that, although the fiscal space has been subject to pressures related to revenue trends and increased public spending, the country's macroeconomic fundamentals remain generally sound, due to a controlled level of debt and positive, sustainable growth. Under these conditions, recourse to external financing appears to be a relevant lever to support the implementation of priority investments without jeopardizing fiscal balance.

Thus, the country's request reflects a strategy of diversification and mobilization of additional resources to support its investment programme and accelerate the implementation of projects with high economic and social added value. The requested exemption from the cost-sharing rule would enable the Bank to support this effort to diversify financing, while contributing to the achievement of the country's sustainable development and economic integration objectives