

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 11 June 2025¹

ALBANIA

**RAIL CORRIDOR VIII: PHASE I - DURRES-
RROGOZHINE SECTION**

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS / CURRENCY CONVERSIONS

Acronym	Description
ALL	Albanian Lek
BCR	Benefit to Cost Ratio
CBA	Cost Benefit Analysis
CH	Critical Habitat
EHS	Environmental, Health and Safety
EHSS	Environmental, Health, Safety and Social
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
EOAP	Equal Opportunities Action Plan
ERTMS	European Rail Traffic Management System
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESD	Environment and Sustainability Department
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESP	Environmental and Social Policy
EU	European Union
EUR	Euro
GBVH	Gender Based Violence and Harassment
GDP	Gross Domestic Product
GET	Green Economy Transition
GtP	Guide to Procurement
HSH	Hekurudha Shqiptare (Albanian Railways)
H&S	Health and Safety
IFI	International Financial Institution
IMF	International Monetary Fund
IPF	Infrastructure Project Facility
LARF	Land Acquisition and Resettlement Framework
MIE	Ministry of Infrastructure and Energy
MoECI	Ministry of Economy, Culture and Innovation
MoF	Ministry of Finance
MR	Procedural framework between EBRD and EIB on Mutual Reliance for Procurement in joint co-financed public sector operations outside the European Union
NPV	Net Present Value
NTS	Non-Technical Summary
PA	Paris Agreement
PBF	Priority Biodiversity Features
PIA	Project Implementation Agreement

PIU	Project Implementation Unit
PP&R	Procurement Policies and Rules
PRs	Performance Requirements
PSC	Public Service Contract
RP	Resettlement Plan
SEP	Stakeholder Engagement Plan
SSF	Shareholder Special Fund
TA	Technical Assistance
TC	Technical Cooperation
TEN-T	Trans European Transport Network
TSI	Technical Specifications for Interoperability
WBIF	Western Balkans Investment Framework

[REDACTED]

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Albania (the “Borrower”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan of up to EUR 30 million for the benefit of Hekurudha Shqiptare (“Albanian Railways”, “HSH”, the “Company” or the “Client”), the state-owned railway company of Albania.

The operation will enable the rehabilitation and electrification of the existing railway line, as well as the reconstruction of existing station buildings along the approximately 34 km railway line between Durres, home to Albania’s largest seaport, and Rrogozhine, located in central Albania (the “Project”). The Durres - Rrogozhine railway line is part of rail Corridor VIII in Albania and a Trans-European Transport Network (“TEN-T”) indicative extension in the Western Balkans. The Project represents the first phase of the reconstruction of the entire section of rail Corridor VIII in the country which will connect the Port of Durres on the Adriatic Sea with North Macedonia and Bulgaria’s Black Sea ports. The Project is expected to be co-financed by the European Investment Bank (“EIB”) with a sovereign loan of up to EUR 30 million, and the European Union (“EU”) through the Western Balkans Investment Framework (“WBIF”), with an investment grant of up to EUR 55.4 million and technical assistance (“TA”) grants of up to EUR 5 million.

The expected transition impact of the Project is derived from the *Integrated* quality as the primary quality and *Green* quality as the secondary quality. The *Integrated* quality is supported by the provision of a key transportation infrastructure that was previously missing in Albania, which will promote economic and social integration within the country and with the region. The *Green* quality is supported by financing green eligible investments as the Project will support modal shift to a greener and more efficient mode of transport. GET ratio of the Project is 100 per cent.

TC support for this operation will be provided for the development of a resettlement plan (“RP”) and is proposed to be financed by an international donor or the EBRD Shareholder Special Fund (“SSF”).

I am satisfied that the operation is consistent with the Bank’s Strategy for Albania, the Infrastructure Sector Strategy, the Green Economy Transition (GET) Approach 2021-2025, Strategy for the Promotion of Gender Equality, Equality of Opportunity Strategy and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

ALBANIA – Rail Corridor VIII: Phase I – Durres-Rrogozhine Section - DTM 55612	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan in the amount of up to EUR 30 million in favour of the Republic of Albania (“RoA”), for the benefit of Hekurudha Shqiptare (“HSH”, “Albanian Railways”, the “Company” or the “Client”), the state-owned railway company of Albania.
Client	<u>Borrower</u> : RoA, represented by the Ministry of Finance (“MoF”); <u>Beneficiary</u> : Albanian Railways, which is fully owned by the state via the Ministry of Economy, Culture and Innovation (“MoECI”).
Main Elements of the Proposal	<ul style="list-style-type: none"> – <u>Transition impact</u>: <i>Primary Quality – Integrated</i> as the Project will provide adequate and well-connected rail transportation infrastructure, which was previously missing, contributing to Albania’s regional connectivity and integration. <i>Secondary Quality – Green</i> as the Bank’s financing will support rail infrastructure investments that will enable modal shift to a more efficient and climate friendly mode of transportation. GET share of the Project is 100 per cent. – <u>Additionality</u>: <i>Financing structure</i>: Proposed loan size and its tenor are not available in the market from commercial lenders. <i>Setting standards</i>: EBRD’s engagement will ensure that the Project will be implemented in line with international environmental best practice. <i>Gender Smart</i>: As part of the agreed Equal Opportunities Action Plan (“EOAP”), the Company is committed to implementing targeted leadership development programmes for women in technical and managerial positions to promote higher representation of females in leadership positions. – <u>Sound banking</u> – The transaction is structured as a sovereign loan.
Key Risks	<ul style="list-style-type: none"> – <u>Implementation risk</u>: [REDACTED] The presence of international consultants, in particular for Project implementation support and works supervision, will mitigate this risk. [REDACTED] – <u>Country and repayment risk</u>: Albania’s economy grew by 4% in 2024 and its public debt levels stood at a level of 54.7% of gross domestic product (“GDP”) in 2024, the lowest level since 2008. The risk is further mitigated by structural reforms as the country progresses with the EU accession.
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Albania as it supports reinforced networks for domestic and regional connectivity, the Infrastructure Sector Strategy and the GET Approach 2021-2025 as it supports connectivity through more efficient and greener mode of transport as well as Strategy for the Promotion of Gender Equality, Equality of Opportunity Strategy with its support to promote women’s participation in managerial positions.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	<p>Up to EUR 30 million sovereign loan to the RoA, for the benefit of Albanian Railways (the “Loan”).</p> <p>The EBRD financing will be complemented by a sovereign loan of up to EUR 30 million from the EIB, an investment grant of up to EUR 55.4 million from the WBIF as well as by technical assistance grants from the EU through the WBIF of up to EUR 5 million.</p>
Mutual Reliance	Yes.
Existing Exposure	As of February 2025, EBRD’s total sovereign exposure to Albania was EUR 683 million [REDACTED].
Maturity / Repayment	17 years tenor [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds - Description	The proceeds of the Loan will be used for works for the rehabilitation and electrification of the existing railway line, and reconstruction of existing station buildings along the approximately 34 km railway line between Durres and Rrogozhine. [REDACTED]
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • RoA as the Borrower; • HSH as the Beneficiary and the Project Entity; • EIB and EU WBIF as co-financiers of the Project; • Ministry of Infrastructure and Energy (“MIE”) as the line ministry responsible for the Project and sector policy.
Conditions to effectiveness / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan.
Other material agreements	[REDACTED]
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC) <u>Post signing:</u> Support to HSH for the development of the RP in line with the EBRD’s ESP. The cost is estimated at EUR 80,000 and is expected to be funded by an international donor or SSF. <u>Reimbursement and Cost Sharing:</u> The above TC assignment is a non-reimbursable transactional TC required to structure the Project and achieve the Project’s objectives. The Borrower/Company will be responsible for paying any VAT and other indirect taxes that are applied to the post-signing TC assignment as a parallel contribution to the Project.</p> <p>B. Blended Concessional Finance An investment grant in the amount of EUR 55.4 million has been secured from the WBIF, which will be managed and provided by the EIB as the Project’s lead financier.</p>

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

[REDACTED] While progress has been made, a key component of the country's infrastructure, railways, continue to suffer from prolonged period of underinvestment. Recently an increasing effort is made by the relevant stakeholders to reconstruct and modernize the railway network [REDACTED]. This includes Albania's efforts to prioritize rail industry and implement the sector reforms adopting the relevant EU Acquis and implement actions agreed under the Transport Community as well as undertake significant investment programmes for modernisation of the existing infrastructure. EU has been supporting the railway industry strongly as well aiming to integrate it deeper with the EU rail market and promote the development of a rail infrastructure and operations that is safe, inclusive, reliable, environmentally and socially sustainable and inter-connected within the Western Balkans and with the EU. EBRD has also been instrumental in these efforts as currently two large important rail projects are financed by the Bank including the rehabilitation of Tirana-Durres (Albanian Railways and Vore-Hani i Hotit railway lines (Rehabilitation of Vore-Hani i Hotit Railway Line.

However, a large infrastructure gap remain, as certain regions of the country lack access to functioning rail transportation services, and connections with neighbouring countries remain limited. To address this critical infrastructure gap, the Bank, in collaboration with other Team Europe members, will support the reconstruction of the first phase of rail Corridor VIII in Albania, which connects Durres with Rrogozhine, Elbasan and Pogradec on the border with North Macedonia. The first section of Corridor VIII, a 1,500 km long pan-European corridor linking southern Italy with Bulgaria's Black Sea ports, is an approximately 34 km railway line between the port city of Durres and Rrogozhine, located in central Albania. The section is part of the indicative extension of the TEN-T networks to the Western Balkans and once fully completed will ensure rail connection between Albania and North Macedonia for the first time, filling an important missing link between Albania and its neighbouring countries. The Project is also part of the priority projects of the EU's Economic and Investment Plan for the Western Balkans.

The Project will help provide adequate rail infrastructure between Durres and Rrogozhine. Once completed, the Project will comply with the European interoperability standards, ensure implementation of appropriate safety measures, increase the operating speed resulting in significant time savings, promote modal shift from road to rail, and better connect Albanian economy and people overall.

In terms of better connectivity, the Project has a critical role both for local and regional integration. From local point of view, the Project will establish an adequate direct railway connection between Rrogozhine and Tirana. This is expected to be further enhanced by the completion of Vore-Hani i Hotit railway section in the northern part of the country, which will also be connected to this new railway section. This is expected to significantly change the current transport patterns between the most populous city and the most important tourist destination of Albania. [REDACTED]

The Project also contributes significantly to the sustainability objectives of Albania. The line will be fully electrified and will ensure carbon neutral transportation of goods and passengers. The expected benefits of the modal shift from road to rail will be significant contributing to the decarbonisation of the transport industry. As such, the Project's GET share is 100%.

It should be further noted that the Project is part of a broader plan to revitalize the rail sector in Albania. Significant support in terms of capacity development and rail market opening has been provided to HSH and the Albanian authorities by EBRD and other relevant stakeholders. EBRD, joining forces with EIB and the EU, is assisting the Albanian Railways to start planning the operational phase as the infrastructure investments are maturing. As part of this, technical assistance supported by the EU is mobilized to assist the Company in conducting a gap analysis, preparing a demand model, developing a framework PSC [REDACTED].

The Project is fully consistent with the Country Strategy for Albania 2020-2025, as it supports reinforced networks for domestic and regional connectivity. It is also aligned with the Infrastructure Sector Strategy and the Green Economy Transition (GET) Approach 2021-2025 as it supports connectivity via a more efficient and greener mode of transport as well as Equality of Opportunity Strategy with its support to promote women's participation in managerial positions.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>Provision of new infrastructure between or within regions that are currently inadequately integrated.</i>	The Project will promote connectivity and economic integration within Albania and between Albania and its neighbouring countries. The Project is a continuation of other ongoing railway infrastructure investments in Albania financed by the Bank. The Project will help provide adequate rail infrastructure connecting rail Corridor VIII in Albania with the rest of the country's rail network in line with the EU Technical Specifications for Interoperability ("TSI"). [REDACTED]

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as</i>	The GET share of the Project is 100% as the Project will contribute to the modal shift to a greener transport mode. The new infrastructure will provide a cleaner alternative to the existing transportation link between Durres and Rogozhine and beyond (including connection with Tirana and northern part of the country) and across the entire corridor in the future, reducing CO ₂ emissions and contributing to the decarbonisation of the transport sector.

	<i>GET finance is 15% or higher.</i>	
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Delivery risks:

[REDACTED] This risk is mitigated by the Government's strong commitment to advancing the connectivity agenda and rail sector development by prioritising investments and strengthening the capacities in the rail sector. [REDACTED] Furthermore, as result of their close cooperation with various IFIs and experience gained during the preparation and implementation of ongoing projects, capacities of Albanian Railways and its management have been improving, providing additional mitigating factors. Finally, TC support will be provided for the implementation of the Project and its supervision, ensuring that expected technical and operational standards are implemented in line with the expected timelines.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).	The Project builds on the Bank's previous engagements to support the development of the Albanian railway sector. The Project is a confirmation of the Bank's commitment to help Albania address a critical infrastructure gap [REDACTED]. The funding requirements for the Albanian rail sector are large, therefore, the contribution of IFIs like EBRD is crucial. However, through each engagement, the Bank is pursuing further improvements in the railway sector and overall connectivity of the Albanian economy and people within the region, with an aim to reach to a functioning and competitive market that is well integrated. Furthermore, the Project is a high priority investment for Albania's economic development and regional integration.

Additionality sources	Description/Evidence
<p>Financing Structure:</p> <p>EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions [REDACTED]</p> <p>EBRD offers a tenor, which is above the market average and is necessary to structure the project.</p> <p>Public sector: EBRD investment is needed to close the funding gap. At</p>	<p>The Bank is providing a sovereign loan with a tenor of 17 years [REDACTED]. A loan with such [REDACTED] tenor is not available from commercial sources.</p> <p>Additionally, the Bank's financing is quite significant for the local market as there is no funding available from alternative sources at this size from other financiers. EBRD financing is also closing a funding gap and is complemented by</p>

<p>the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them</p>	<p>other institutions [REDACTED]. Hence, EBRD is not crowding out other sources.</p>
<p>Standard-setting: helping projects and clients achieve higher standards:</p> <p>Client seeks/makes use of EBRD expertise on higher environmental standards, above ‘business as usual’ (e.g. adoption of emissions standards, climate-related ISO standards etc.).</p> <p>Client seeks/makes use of EBRD expertise on best international procurement standards.</p> <p>Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans.</p>	<p>An ESAP is developed and agreed with the Company based on the conducted Environmental and Social Due Diligence (“ESDD”). Actions under the ESAP go beyond the local requirements.</p> <p>Procurement of consultants and works will be carried out through open international tendering [REDACTED]. This will ensure application of international best practice in relation to procurement of works.</p> <p>The gender additionality of the Project is derived from the Company’s commitment to implement targeted leadership development programmes for women. While in the middle management positions representation of women is higher and gender distribution is more balanced, in the senior management roles, women are not adequately represented. As part of the implementation of the recently approved EOAP, the Company has committed to increasing this share through leadership development programmes. This is expected to result in an improved gender balance in the Company.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal / Macro-economic risk	High / Medium	<p>Albania’s economy accelerated slightly to 4% in 2024, compared to 2023 (3.9%), driven by construction, trade and accommodation as well as growth in public administration, while industrial and agricultural production declined. Consumption and investments recorded strong growth, but net exports contracted due to a double-digit decline in goods exports, hampered by the appreciation of the Albanian lek and weak external demand. As a result, the current account deficit expanded to 2.4% of GDP from 1.2% recorded in 2023. [REDACTED]</p> <p>Against this backdrop, the fiscal deficit is on a declining trend, despite an increase in public wages, owing to better revenue collection. The public debt declined from a peak of around 74% in 2021 to 54.7% in 2024. According to the IMF’s latest Article IV (from January 2025), the public debt is expected to decline to around 50% in 2029 and is assessed to be sustainable over the medium term. The IMF recommends that authorities continue to lengthen debt maturities and reduce the reliance on floating-rate debt. S&P upgraded Albania’s credit rating from BB- to BB in March 2025, with a stable outlook.</p>
Implementation risk	Medium / High	<p>[REDACTED] The Project’s implementation will be supported by several international consultants, which will provide procurement, implementation, monitoring, and works supervision support. All</p>

		<p>contracts will be procured in accordance with the provisions of EIB's GtP. Works will be supervised by an experienced international supervision engineer and the PIU will be staffed with adequate resources assisted by international consultants. [REDACTED]</p> <p>Lastly, HSH's capacities have been developing significantly over the last few years, following the experience gained through their close engagement with EBRD as part of the rail infrastructure projects that are currently under implementation, providing further assurance against this risk.</p>
Cost over-run risk	Medium / Medium	<p>The Project costs are based on the detail design prepared by WBIF-funded IPF consultants in 2022. The Project's budget also includes [REDACTED] sufficient headroom for any price increasing during implementation. International consultants will support the procurement and implementation of the Project to avoid implementation delays, which could lead to further price increases.</p>
Environmental and Social ("E&S") risk	Medium / High	<p>The E&S risks are considered to be medium-high with the magnitude of the required construction activities and potential social impacts.</p> <p>A detailed environmental and social impact assessment ("ESIA") has been developed for the Project by IPF consultants with the relevant mitigation measures and has been reflected to the developed ESAP. Furthermore, EBRD engaged independent consultants to identify and address to the gaps <i>vis-à-vis</i> EBRD's ESP. As such, a detailed action plan has been developed addressing E&S risks. During the implementation period, to support the Company with the implementation of the ESAP and compliance with the performance requirements ("PRs"), TC support will be provided including for RP development. PIU support consultants and works supervision engineers will assist with the close monitoring, and mitigation as relevant, of E&S risks.</p>

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

TI indicator(s), primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Expanded access of infrastructure across regions	Completion of the first phase of rail Corridor VIII in line with European TSI connecting Albania with North Macedonia	No	Yes	[REDACTED]
1.2	Expanded access of infrastructure within regions	New railway line in line with European TSI connecting Tirana, Durres and Rrogozhine	No	Yes	[REDACTED]
1.3	Practices of the relevant stakeholder improved	[REDACTED]	No	Yes	[REDACTED]
1.4	Net increase in rail infrastructure usage and/or capacity	Increase in passengers travelling on the new railway line (in train.km per year)	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Net increase in rail infrastructure usage and/or capacity	Increase of freight on the new railway line (in train.km per year)	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator(s), secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	CO2e emissions reduced (tonnes/year)	Through construction and operation of the rail infrastructure, modal shift of passenger and cargo to rail [REDACTED]. To be assessed through activity data of passenger and freight rail.	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (equal opportunity policies and practices)	Share of women represented on decision-making bodies (e.g., management, executive, Board or comparable)	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Borrower is the RoA represented by the MoF. MIE is responsible for the overall management and development of transport sector policies.

3.2 CLIENT

The Client and the beneficiary of the Project is HSH, the Albanian railway company owned 100 per cent by the state via the MoECI. [REDACTED]

HSH currently only operates limited passenger and freight services between Durres and Elbasan, Durres and Lushnje as well as between the Montenegrin border and Lac. At end-2024, it employed 613 staff; 332 of these worked on track maintenance, 60 on rolling stock maintenance, 82 on freight operations, 91 on passenger operations and 48 in management.

HSH's organisational structure is presently divided into four key units: (i) the freight business unit; (ii) the passenger business unit; (iii) the rolling stock services unit; and (iv) the infrastructure management unit. HSH also operates a rolling stock park which comprises 9 diesel locomotives, all over 30 years old, and 18 wagons for passengers. In addition, the freight unit operates 168 cargo wagons, all over 40 years old, and 12 diesel locomotive cars.

The Company is going through a reorganisation and unbundling process in line with the provisions of the new Rail Code, which will separate the role of the main railway infrastructure manager from operations. The infrastructure manager will have the overall responsibility for the functioning, maintenance, and rehabilitation of the railway infrastructure network.

4. MARKET CONTEXT



[REDACTED] The Albanian railway network was built between 1946 and 1986 and is a standard gauge network consisting of approximately 416 km of main railway lines and approximately 92 km of secondary lines in stations and industrial branches. The network has 45 stations and is a radial system that extends from the city of Durrës, the largest port in Albania, and is divided into three main lines: (i) the Northern part connecting the Port of Durrës with the cities of Bajza and Shkodra and representing the main railway link to Montenegro; (b) the Southern branch connecting the Port of Durrës with the city of Vlore; and (c) the Eastern branch connecting the Port of Durrës with Pogradec, bordering North Macedonia. Almost all the network is

single-track and none is electrified.

[REDACTED] Therefore, the length of the railway network in use currently is 204 km, comprising the Gjorm – border with Montenegro railway line with a length of 93 km, Durrës – Elbasan 76 km and, Fier – Vlore 35 km. In November 2019, an earthquake destroyed the rail bridge over the Ishmi river between Mamurras and Ishem on the main north line, since when there have been no through services. This is planned to be replaced as part of the Rehabilitation of Vore – Hani i Hotit Railway Project. The Librazhd-Pogradec line, was closed for passenger traffic in 2012. [REDACTED] Less than 7,400 passengers travelled through the railway networks in 2023, a decline of 30% compared to 2022. Meanwhile, 540,000 tons of freight were transported through the railway network in 2023 vs 567,000 tonnes a year previously.

The Durrës-Rrogozhinë railway section was opened in 1950s [REDACTED]. Services on large part of Corridor VIII in Albania are virtually ceased due to deteriorated infrastructure, with no operations beyond Elbasan. [REDACTED] The operating speed on the Project section is about 30km/h due to the condition of the infrastructure and safety concerns. Existing crossings are numerous and not managed well with appropriate safety measures.

Albania's rail sector is governed by the Rail Code adopted in 2016, superseding the Railway Law adopted in 2004 and according to which HSH was envisaged as a vertically integrated joint-stock company in charge of the railway network and train services. The new Rail Code is based on EU directives and was drafted with the assistance of the European Commission. It has paved the way for restructuring HSH and separating train operations from infrastructure management in line with the *acquis communautaire*. The laws for setting up independent regulatory and safety authorities, including the establishment of Railway Regulatory Authority and Railway Safety Authority, and unbundling of HSH were adopted in 2021. The restructuring of HSH

will lead to the separation of the main railway Infrastructure Manager from operations [REDACTED].

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 MACROECONOMIC OUTLOOK FOR ALBANIA

[REDACTED]

5.2 PROJECT'S ECONOMIC ASSESSMENT

[REDACTED] The Project is expected to contribute to the socio-economic development of Albania increasing its accessibility and attractiveness in economic terms, facilitating trade and economic links with neighbouring countries.

By modernising the line and offering regular passenger services, the accessibility of regions along the Durres-Rrogozhine rail line with Tirana, rest of the country, as well as North Macedonia will be improved. Furthermore, accessibility of Albania for freight services will also be improved. Introducing quality infrastructure allowing for speeds up to 100 km/h will result in time savings, in particular for passengers. The enhanced connectivity between the towns and villages along the line with Durres and further Tirana will contribute to reducing inequalities through providing better transport conditions and enhanced accessibility to markets, in particular to women in the rural Albania.

The Project also offers environmental benefits and operating cost savings from modal shift to rail. Safety benefits are expected also as result of the removal of level crossings and installation of a modern signalling system. The modernised infrastructure will allow for longer and heavier trains to operate on the line and the European Rail Traffic Management System ("ERTMS") signalling will allow for interoperability with the network of other countries thus improving the operating conditions for freight.

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP, 2019). The E&S impacts associated with the Project are expected to be site-specific and will be addressed through appropriate mitigation measures.

The original ESIA study for the Project was completed as part of a WBIF-funded technical assignment in 2022 and the package was disclosed on the EIB's website. A supplementary independent ESDD was conducted by EBRD, including a review of the available ESIA and associated documents (ESMP, LARF, SEP, NTS and ESAP) against the Bank's ESP and applicable PRs. A gap analysis report was developed, and the relevant E&S documents are updated. The main gaps identified are in relation to the baseline data and assessment of site-specific impacts as identified below. The updated ESAP is developed to address the new gaps identified and to ensure full compliance with national and EU legislation, and EBRD PRs.

The potential environmental, health, safety, and social ("EHSS") risks linked to the planned works and current operational and management practices of Albanian Railways were also assessed through an E&S audit of the Company's EHSS management systems and performance. The ESDD confirmed the Company is generally in compliance with the national labour laws and there is a collective bargaining agreement in place with the railway union. However, there are areas where human resources ("HR") management will need to be improved to comply with PR2.

The environment in which the Project is located is a mixture of urban development within Durres and Rrogozhine, and agricultural land with occasional small settlements. The rehabilitation works are planned within the existing railway corridor with alignment adjustments mainly introduced where the line is going through agricultural land. Due to potential realignments, reconstruction of four train stations and future electrification, additional land expropriation is expected. The project land will be obtained by the Company based on the detailed design developed together with ESIA, containing Resettlement Framework. The Project's RP will be developed based on the detailed design and in parallel with national expropriation procedure to ensure that the Company acquires and hands over the current alignment land to contractor in line with PR5.

The principal social baseline sensitivities for the Project are local communities living along the railway line and using the existing crossings. The most significant anticipated impact will be the fencing of the railway corridor (for safety reasons) and closure of several informal crossings that are currently used by communities for access. Those affected by land acquisition derive most of their income from agriculture activities and detailed assessment of the impacts will be reflected in the RP. The railway line also passes close to "Shkambi i Kavajes" Monument of Nature, within the legally defined buffer zone. Limitations in the ESIA biodiversity baseline data and impact assessment were noted; however, the gap analysis did not reveal any major risks that cannot be addressed by standard mitigation measures and additional pre-construction activities. A preliminary Priority Biodiversity Features ("PBF") and Critical Habitat ("CH") assessment were undertaken with related mitigation measures included in ESMP. The ESMP requires additional targeted baseline biodiversity surveys to further define impacts and species-specific mitigation measures (including measures to achieve no net less or net gain as required).

The Project takes into consideration seismic and flood risks and latest projections will be incorporated into the next design phase. Additional assessment of noise and vibration impacts during construction and operation will also be undertaken at the design stage and included in the ESAP.

The ESDD has identified limited engagement with key stakeholder groups as part of the design process, with no consultation regarding closure of informal crossings, and how these are being used by local communities and vulnerable groups such as the elderly and children. The Project design is addressing accessibility issues for local users by means of safe and authorised level-crossings, underpasses, and overpasses. The review of the existing LARF indicated that there are three families living inside the existing station buildings who will need to be resettled. Issues regarding the land use and those specifically related to informal/unauthorised crossings, and how these are being used by local communities and vulnerable groups, will be thoroughly assessed, and addressed via RP, SEP and other management plans.

The Company has established a corporate stakeholder engagement function and project-level third-party grievance mechanism with appointed community liaison officer. The Project's SEP is updated to reflect additional stakeholders and project affected people identified during the gap analysis and site visit, including addressing needs of vulnerable groups and Roma community using land along the railway line. The updated SEP will be publicly disclosed by the Company along with the NTS and RP.

Based on the audit of current practices, it is considered that improvement to the Company E&S capacity is required to manage and deliver the EHSS requirements of the Project. The Company will establish a PIU to oversee the Project, with support from a works supervision engineer. Consultant assistance will be required to improve the Client and PIU capacity, support on implementing the ESAP (particularly for the development and implementation of a RP) and establish appropriate monitoring and review processes. The Bank aims to mobilise required support via TC.

The ESAP includes the requirement for a construction environmental and social management plan, contractor SEP and construction health and safety ("H&S") plan. In addition, the ESAP requires some targeted pre-construction surveys to be carried out such as access and land use issues, infrastructure/utility, river crossings, biodiversity survey and development of a biodiversity management plan to define any site-specific mitigation measures.

6.2 INTEGRITY

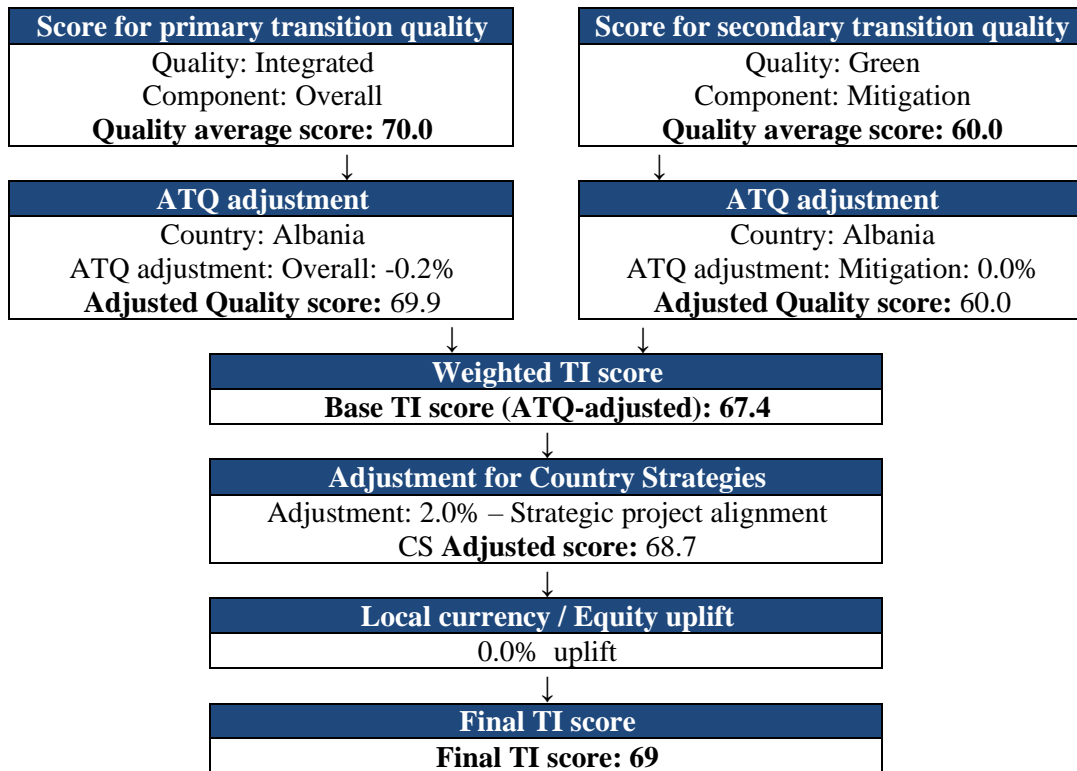
In conjunction with OCCO, integrity due diligence was undertaken on Albanian Railways, its executive management, shareholder and supervisory board members. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Green Assessments
ANNEX 3	Summary of TIMS Analysis
ANNEX 4	Project Implementation

ANNEX 1 – TRANSITION IMPACT SCORING CHART



ANNEX 2 – GREEN ASSESSMENTS

Introduction

Reconstruction and electrification of the existing railway line and reconstruction of existing station buildings along approximately 34km railway line between the port city of Durres and Rrogozhine in Central Albania. The Project is assessed for Paris Agreement (“PA”) alignment and GET. As a sovereign transaction, climate-related financial risk was not applicable. The Project is assessed as positively aligned for both mitigation and adaptation goals of the PA. The Project is attributed as 100% GET.

Paris alignment assessment

General screening of alignment with the mitigation goals of Paris Agreement

- The project/economic activity is **included** in the 'aligned list'.
- Regarding project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.

The Project is included in the ‘aligned list’ under the category ‘rail infrastructure’. As such the Project is considered aligned with mitigation goals of the PA.

Alignment with the adaptation goals of Paris Agreement

Steps 1 & 2: As part of the Project preparation (Feasibility Study, IPF 4, and Detailed Design, IPF 8) it was identified that the material physical climate hazard facing the Project is related to the risk of increase of precipitation intensity and floods. As part of the feasibility study, the hydraulic design parameters were reviewed, also taking into account climate change. The study confirms that the alignment is outside of any specific flooding zones, and the key infrastructure such as bridges have sufficient height to accommodate any major increase in flooding. Extreme heat was identified as a potential issue for the rail stations on the line, and specific measures such as improving passive energy design have been incorporated into the Project.

Step 3: As a reconstruction of an existing line, the Project is unlikely to have a broader impact on the climate resilience of the system in which it operates.

As the Project satisfies all three steps of the BB2 assessment, the Project is considered as aligned with the adaptation goals of the PA.

GET attribution

The Project is estimated to facilitate a modal shift of passenger and freight from car/bus/truck to rail. [REDACTED]

As such, the Project is attributed as 100 per cent GET.

[REDACTED]

ANNEX 3 – SUMMARY OF TIMS ANALYSIS
[REDACTED]

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

Project risk assessment:

[REDACTED]

Country risk assessment - *Moderate*

In accordance with the current EBRD Country Procurement Risk Index 2017, Albania is allocated a “Moderate” level of risk applied to all public sector projects. The index is based on the level of compliance with the EBRD Core Public Procurement Principles as assessed in the EBRD Public Procurement Assessment 2011 and adjusted to consider the scores from the Transparency International Corruption Perceptions Index 2017.

[REDACTED]

The Client is undergoing a hiring process that aims to incorporate experts in the Project Implementation Unit that will build the capacity and capabilities of the Company to implementation, monitor, and operate. The structure of the PIU has been revised by the EBRD and EIB. However, those experts would still require training and capacity building in order to fill any identified gap.

[REDACTED]

An experienced PIU and works supervision consultant will support the Company and the PIU through tender preparation, procurement process and contract administration to mitigate this risk. The PIU consultant will also be assisting the Company in identifying potential operational gaps and training relevant staff to address implementation, procurement and monitoring issues.

Contracts risk assessment - *Moderate/High*

[REDACTED]

In general, the complexity of the works contracts is moderate but requires high dedication from experienced staff. [REDACTED]

The support of an experienced PIU consultant will ensure that technical specifications, employer’s requirements and tender documents are suitable for open tendering and aligned with EIB’s GtP. Moreover, it will also ensure that the procurement and contracting process is conducted in a fair and transparent manner. Additionally, the support of a works supervision consultant will help the Client to cope with the high workload that a day-to-day site supervision requires while ensure support from best international consultants specialized in supervision of railway works contracts. This will reduce the implementation risks associated with delays and cost overruns.

Project implementation arrangements:

The Company will delegate the implementation responsibility to the PIU, who will have the overall responsibility for the implementation of the Project.

The PIU will be supported by an experienced international consultant who will be responsible for hands-on support in all planning, project management and procurement processes. The PIU consultant will assist the PIU in all aspects of implementation and in meeting the requirements of the Bank’s financing documents. In particular, the consultant will provide support in the areas of project preparation and preparation of tender documents (including technical specifications).

Moreover, an international consultant will be appointed as works supervision engineer. It will act on Client's behalf during the implementation of the envisaged contracts.

Procurement arrangements:

[REDACTED]

The Bank will co-finance two CAPEX contracts [REDACTED] . They will be procured using EIB Open International Procedure, on the latest version of EBRD's standard procurement documents.

The Project also envisages consultancy contracts to support the PIU along the entire Project cycle by covering procurement support, monitoring the implementation of the Project and ensuring the comprehensive supervision of civil and electromechanical works.

[REDACTED]