

MULTILATERAL DEVELOPMENT BANKS' COLLABORATION:
INFRASTRUCTURE INVESTMENT PROJECT BRIEFS

Peru: Metro Lima Line 2



Overview

The Lima Metro Line 2 project is one of the largest infrastructure projects ever done in Peru. It aims to ease traffic congestion in Peru's capital, a city close to 10 million inhabitants, responsible for 32 percent of the country's population and 45 percent of its GDP. Strong economic growth over the last decade, rising incomes and a limited public transport network resulted in an almost 30 percent rise in car ownership in the city. The World Bank and the Inter-American Development Bank (IDB) have together provided over a billion dollars for the project through innovative project financing mechanisms.

This series showcases how the Multilateral Development Banks' collaboration supports the development and implementation of infrastructure investment. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

During the last decade, Peru's economy grew at an average rate of 6.4 percent per year, and the country is reducing its infrastructure gaps. Migration is causing rural areas to decrease in population by 0.4 percent per year, while cities grow 1.6 percent. This amplifies the need for improved access to jobs and public services in the growing urban areas. In the Lima-Callao Metropolitan Region (LMR), nearly 1.3 million of the city's inhabitants are poor and an additional 1.7 million are vulnerable. Because of this, the government of Peru (GoP) and the metropolitan municipality have made urban development a key priority. The \$5.8 billion Lima Metro Line 2 project is one of the largest and most critical infrastructure investments in execution.

Project Description

The Lima Metro Line 2 project includes the design, construction, operation, maintenance and supply of equipment, systems and trains for 35 kilometers of a greenfield underground metro line. This major east-west axis for the LMR will improve access to jobs and services through a modern rapid mass transit system, including linking the international airport to the network. The tariff will be \$0.70, with a permissible rise to \$1.00 over time.

The project is being executed by Metro de Lima Línea 2 S.A. (MDL2), a special-purpose company owned by Iridium/ACS Group of Spain (25 percent); FCC of Spain (18.25 percent); Salini Impregilo of Italy (18.25 percent); Ansaldo STS of Italy (16.9 percent); Ansaldo Breda of Italy (11.6 percent); and COSAPI of Peru (10 percent). MDL2 was awarded the 35-year concession by Peru's Ministry of Transport and Communications (MTC) and will be under the supervision of the country's transport infrastructure regulator, Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público (OSITRAN).

Peru employs a unique project financing mechanism to minimize construction risk, called RPI-CAOs. These are government-backed milestone-linked payment certificates that represent the payment obligations of MTC. In the case of MDL2, RPI-CAO makes available 60 quarterly payments for a period of 15 years to the project upon achievement of defined milestones. The RPI-CAO is transferrable and can be auctioned by the project company in foreign capital

markets as bonds. This financing mechanism has enabled the successful financing of six prior infrastructure projects in Peru.

Multilateral Development Banks' Role

The project costs of \$5.8 billion are being financed from a number of sources. MDL2 will invest \$1.6 billion while nearly half of the financing will come directly from the government of Peru. Multilateral support for the project is estimated at:

- A \$300 million loan from the IBRD
- A \$400 million non-sovereign guaranteed A loan from the IDB, managed by the Inter-American Investment Corporation
- A \$50 million loan from the China Co-Financing Fund for Latin America and the Caribbean, under the management of the IDB
- A \$300 million sovereign guaranteed loan from the IDB
- A \$200 million loan from Kreditanstalt für Wiederaufbau (KfW)
- A \$150 million loan from the Corporación Andina de Fomento (CAF)
- A €120.4 million loan from the Agence Française de Développement (AFD)

Outcomes

Lima Metro Line 2 will benefit the daily commutes of hundreds of thousands of citizens in downtown areas, job centers and populated suburbs of Lima and Callao, allowing users to save up to 90 minutes in travel time during peak hours over the entire 35km route. Apart from providing a modern, safe and efficient mass transit option, the project will also have significant environmental and climate change benefits, and support sustainable urban development in the Lima Metropolitan Region. Demand for Line 2 is expected to reach 660,000 passengers per day once all phases of the project are fully operational (expected by 2021) and with the integration of Line 2 with the rest of the city's public transport system.

For more information please contact:

*World Bank Group: Nadine Ghannam
Email: Nsghannam@worldbankgroup.org*

*Inter-American Development Bank: Paul Constance
Email: paulc@iadb.org*

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