



MULTILATERAL DEVELOPMENT BANKS' COLLABORATION:  
INFRASTRUCTURE INVESTMENT PROJECT BRIEFS

# Peru: Metro Lima Line 2



## Overview

The Metro Lima Line 2 project is one of the largest infrastructure projects ever to be undertaken in Peru and is undergirded by an innovative project financing mechanism. The project is intended to ease traffic congestion in the city of over 9 million, (32 percent of Peru's total population, representing 45 percent of the country's GDP), where economic growth and rising incomes and a limited public transport network has seen an almost 30 percent rise in car ownership. The World Bank's International Bank for Reconstruction and Development (IBRD) and the Inter-American Development Bank (IDB) have together provided over a billion dollars as financing for this project.

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. The country is also making progress in reducing infrastructure gaps as evidenced in its 7th place out of 23 Latin American and Caribbean countries and 61st place overall in a 2013 infrastructure study. The country's urban population has been growing at a rate of 1.6 percent while its rural population has been falling at a rate of 0.4 percent, creating the need to improve access to jobs and public amenities in the growing urban areas. In the Lima-Callao Metropolitan Region (LMR), nearly 1.3 million of the 9 million inhabitants are considered poor and an additional 1.7 million are considered vulnerable. As a consequence the Government of Peru (GoP) has made urban development one of its key priorities; the \$5 billion Metro Lima Line 2 project is one of the largest and most critical infrastructure investments being executed in the country right now.

## Project Description

The Metro Lima Line 2 project consists of the design, construction, operation, maintenance and supply of electromechanical equipment, systems and rolling stock for 35 kilometers of a greenfield underground metro line through the city and to the international airport. The objective of the project is to provide a major East-West axis to the Metro Lima-Callao region, improving access to jobs and services through a modern rapid mass transit system. The winning tariff has been agreed at \$0.7 cents with a permissible rise to \$1 over time.

The project will be executed by Metro de Lima Línea 2 S.A. (MDL2), a special purpose vehicle owned by the following entities: Iridium/ACS Group of Spain (25%); FCC of Spain (18.25%); Salini Impregilo of Italy (18.25%); Ansaldo STS of Italy (16.90%); Ansaldo Breda of Italy (11.60%); and COSAPI of Peru (10%). MDL2 was awarded the 35-year concession by the Ministerio de Transportes y Comunicaciones (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 now employs a unique project financing mechanism to minimize construction risk called based on RPI-CAOs. These are government-backed milestone-linked payment certificates that represent the payment obligations of the

Grantor, in this case MTC. The RPI-CAO in the case of MDL2 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 is unique to Peru and has enabled the successful financing of six prior infrastructure projects, including the MDL2.

## Multilateral Development Banks' Role

The project costs of \$5 billion are being financed from a number of sources. MDL2 will invest \$1.6 billion while nearly half of the financing will come from the government of Peru. Multilateral support for the project includes:

- A \$300 million loan from the IBRD.
- A \$400 million non-sovereign guaranteed A loan from the IDB, now administered 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.

## Outcomes

Metro Lima Line 2 will impact hundreds of thousands of citizens daily connecting downtown Lima to suburban Callao, allowing users to save up to 1 hour and 40 minutes in travel time during peak hours over the entire route. Apart from the benefits of providing cheap, efficient and durable mass transit, this project will also have significant environmental benefits for LMR. By 2020, once all phases of the Project are fully-operational, demand is expected to reach 660,000 passengers/day. By 2030 demand is expected to grow to 803,000 passengers/day assuming full integration of the lines with the rest of the city's public transport system.

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