

TRANSPORT

UPPER MIDDLE INCOME \*

CLIMATE SMART

# ECUADOR

## Quito Metro Line 1

### GIF FUNDING & LEVERAGE

GIF Project Definition Grant:

**\$484,000**

Estimated Project Support:

**\$2 million**

Potential Private Investment  
Mobilized:

**\$330 million**

The completion of the Quito Metro Line 1 faces a \$330 million financing gap. With poor credit rating and no experience in raising commercial finance for infrastructure projects, the Municipality of Quito asked GIF to assess innovative financing solutions to close the financing of the country's most important infrastructure project. GIF is exploring potential commercial financing transaction structures involving a partial guarantee and "asset recycling" revenue sources to support the Quito commercial market municipal loan.

### EXPECTED PROJECT OUTCOMES

- ◆ Develop a preliminary transaction viability report that will inform the decision to proceed with the proposed pioneering commercial finance transaction
- ◆ Mobilize private capital in a country with limited access to long-term finance in international markets
- ◆ Improve urban mobility in the city of Quito, providing 369,000 daily passengers with reduced travel time and improved connectivity

### TECHNICAL PARTNERS



THE WORLD BANK  
IBRD • IDA | WORLD BANK GROUP

\* Based on World Bank Group classification by income

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## BACKGROUND

The Municipality of Quito, Ecuador, is developing a Metro Line to serve the growing demand for transport of its 2.4 million people, enhance connectivity of employment centers from suburban areas, reduce GHG and congestion, and improve security, comfort and commuter routes. The Metro has a \$2 billion investment cost and consists of 22.7km of underground line with 15 stations, and an estimated ridership of 369,000 daily passengers from 2020. A group of MDBs including the WB co-financed the majority of the project through sovereign backed lending. However, due to a series of issues including an underestimate of the cost for infrastructure and equipment investment, the project now faces a financing gap of \$330 million and the Municipality is interested in exploring options for commercial finance to cover the gap as well as contracting O&M of the system to a private operator. Yet Ecuador's poor rating is unlikely to attract international finance at competitive terms without significant support, and the Municipality never issued sizeable commercial debt and is heavily dependent on central government transfers. The WB has conducted a preliminary assessment of a potential commercial financing transaction structure involving a partial guarantee, and is performing informal market sounding with international Banks to test their appetite for such a transaction.

## PROJECT FEATURES

GIF is supporting the Municipality of Quito with preparatory work to access commercial finance and close the Metro's financing gap. This would be a pioneering international financing transaction backed by revenues from existing infrastructure assets and by new revenues arising from the additional land value generated by urban mobility projects. This activity will evaluate the feasibility

of tapping into different markets, with the scope of work including:

1. Analysis of "asset recycling" revenue sources to support the Quito commercial market municipal loan. This will include financial and fiscal feasibility of Quito and review the following sources:
  - a. Airport Concession Revenues
  - b. Land Value Capture (real estate taxes, parking, transit-oriented development)
  - c. Financing from Private Operator
2. Initial structuring of the transaction for the Quito municipal loan to meet the financing gap, including structuring the World Bank guarantee and preliminary market sounding with commercial lenders.

## WHY GIF

The total cost of the megaproject is almost twice the total annual budget of the Municipality and requires innovative types of support, combining an almost unique set of knowledge that GIF can provide: subnational governments in initial attempts to attract private capital and expertise, debt markets, municipal finance, revenue securitization and infrastructure development. GIF will provide the necessary structuring work and coordination among various MDBs involved in the project and the private sector. The support of GIF could lead to a pioneering transaction for the Ecuadorian market, that could rely on the provision of a partial guarantee by the WB and potentially other MDBs.

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*The Global Infrastructure Facility, or GIF, is a partnership of governments, multilateral development banks and private sector financiers that facilitates private-sector investment in complex infrastructure projects in emerging economies. We serve as a platform through which governments collaborate with international financial institutions and private sector investors to design, structure and implement these complex projects.*

*The comprehensive project-preparation support provided by the GIF draws on the expertise of its advisory partners which includes commercial banks and institutional investors. The broad partnership ensures that well-structured and bankable infrastructure projects are brought to market in a way that meets the needs of governments and service users in a sustainable way.*