



Structured Finance



Municipality of Guatemala City Project

HIGHLIGHTS

- Introduction of a new source of commercial funding for municipalities in Central America
- Investment of US\$46.2mn equivalent to finance the first phase of TransMetro Mass Transit System project
- First IFC local currency partial credit guarantee in Guatemala

THE COMPANY

The Municipality of Guatemala City (the Municipality) is one of the largest cities in Central America with a population of approximately 2.9 million. It provides its inhabitants essential urban services such as transportation, water and sanitation, and solid waste management.

The Municipality is implementing the first phase of the TransMetro Mass Transport System project (MTS project) as part of its municipal infrastructure strategy. The MTS project includes the upgrade of 11 km of existing dedicated roads (including signals and bus stops), construction of pedestrian bypasses and a terminal, and the renovation of older buses as well as acquisition of new ones.

The MTS Project is also a key component of the Municipality's long-term transportation plans and is critical to alleviate long-standing public transportation problems.

FINANCING OBJECTIVES

The principal components of the MTS project include: (i) the construction of segregated transport routes with bus lanes and stops; (ii) the purchase of new, articulated, high-capacity buses with modern, fuel-efficient diesel engines; (iii) the use of private sector single-operators for bus transport routes; (iv) the relocation of terminals for inter-city buses; and (v) the provision of transfer stations to integrate feeder bus services with the high-capacity truck routes.

The main development impact of the MTS project is expected to be (i) traffic flow improvement; (ii) time savings for users; and (iii) reduction in pollution, noise, and traffic accidents.

THE STRUCTURE

The total financing requirement for the MTS project and related civil works is GTQ 351mn (approximately US\$46.2mn). It is composed of a package of 10-year local currency loans provided by various local financial institutions. The loans are secured by a mechanism whereby property taxes will be collected in a segregated trust account to service specific Municipality debt.

IFC is credit enhancing the GTQ 72mn (approximately US\$9.5mn) loan made by Banco G&T Continental (the Bank) through a risk sharing facility covering up to 70% of its exposure (approximately US\$6.7mn).

The Municipality needs the participation of the Bank to obtain the full financing requirement for the first phase of the MTS project. The Bank's willingness to provide funding is contingent on IFC's partial credit enhancement. IFC's participation represents 14% of the total project cost.

OUTCOME

The MTS project will help improve the public transportation system in Guatemala City through the development of a more efficient route structure and the replacement of the existing bus fleet with high-capacity diesel buses in dedicated lanes. These improvements will benefit 180,000 projected daily users—many of whom are in the poorest segments of the population and depend on public transportation to reach their place of employment. Over time, the MTS project is expected to contribute to Guatemala City's economic growth by improving its investment climate and attracting more businesses.

More importantly, the financing package for the MTS project introduced a new source of commercial financing for local governments without relying on sovereign guarantees. With an innovative IFC enhancement, the Municipality was able to tap local banks to finance this critical infrastructure project. Finally, as acknowledged by the Municipality, IFC's participation not only helped it achieve its financing objectives, but also enhanced the Municipality's reputation with local investors.

TERMS AND CONDITIONS

Amount	GTQ 351mn (approximately US\$46.2mn)
Currency	Guatemalan Quetzals
Issue Date	January 18, 2006
Maturity	10 years
Interest Payment	Variable rate
Principal Payment	Soft amortization
Enhancement	IFC guarantee of up to 70% of Banco G&T Continental's principal outstanding which gradually reduces with principal

