



Asian Development Bank

# Memorandum

Independent Evaluation Department  
Independent Evaluation Division 1

## Evaluation Approach

### Project Performance Evaluation Report of North Luzon Expressway Rehabilitation and Expansion Project in the Philippines

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Team Leader: Nathan Subramaniam, Senior Evaluation Specialist (Private Sector), IED1 (email: nathansubramaniam@adb.org)  
Contact: evaluation@adb.org

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## I. Background

1. On 26 October 2000, the Board of Directors of the Asian Development Bank (ADB) approved (i) a direct loan of up to \$45 million (without Government Guarantee) from ADB's ordinary capital resources, and (ii) a complementary loan of \$25 million to Manila North Tollways Corporation (MNTC) to enable it to rehabilitate, expand, and operate 83.7 kilometers (km) of the North Luzon Expressway (NLEX) (the Project). The Project involved the construction and rehabilitation of 83.7 km of NLEX from Manila to the Clark Special Economic Zone, and the operation of an 8.8 km expressway that was completed in 1996 in the Subic Special Economic Zone.<sup>1</sup>

2. The Project was undertaken on a rehabilitate-operate-transfer basis under a supplemental toll operation agreement (STOA) signed in April 1998 by MNTC, the Philippine National Construction Corporation (PNCC), and the Philippine Government through the Toll Regulatory Board (TRB), and approved by the President of the Philippines in June. The STOA granted MNTC a 30-year concession (but not to go beyond 2030) to operate and maintain the NLEX and to collect authorized tolls. At the end of the concession period in December 2030, MNTC will transfer the NLEX back to the Government without cost. The Project constituted phase 1<sup>2</sup> of the STOA.

3. In the early 1990s, the Government saw the need to upgrade and modernize the 30-year old NLEX, which had fallen into disrepair, with flooded sections, potholes, and traffic congestion. Growth in traffic volume on the expressway was significant between 1992 and 1997 until capacity constraints caused it to falter. The state-owned PNCC, which controlled the NLEX, lacked the financial resources to adequately operate, maintain, and expand it to accommodate current and projected traffic volumes. Strong backing from the private sector was needed. The Government's Medium-Term Philippine Development Plan (MTPDP) 1999–2004, which was designed to encourage private local firms with the financial and project development capabilities

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<sup>1</sup> ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Manila North Tollways Corporation for the North Luzon Expressway Rehabilitation and Expansion Project in the Republic of the Philippines*. Manila.

<sup>2</sup> Phase 2 involves the construction of a 22 kilometer (km) circumferential road connecting the Circumferential Road 5 expressway with the MacArthur Highway, intersecting phase 1 near Meycauayan, Bulacan. Phase 3 covers the construction of a new 57 km road linking Subic to phase 1 near San Fernando, Pampanga, and a 5.5 km segment connecting MacArthur Highway to Letre, Malabon City, Metro Manila. Phases 2 and 3 are not part of the Project.

to support road transport and other high-priority infrastructure projects, paved the way for private sector participation in the country's development projects. PNCC entered into a joint venture with Benpres Holdings Corporation, a leading development and operation group in the Philippines, for the financing, development, construction, and operation of the NLEX. The joint venture resulted in the creation on 4 February 1997 of MNTC to finance, rehabilitate, operate, and maintain the expressway until 2030.

4. The NLEX is the transportation backbone of several regions, which are expected to benefit from growth in the Philippines. It runs northward from the National Capital Region (NCR) up through Central Luzon in Region 3. Central Luzon has been the beneficiary of the urban sprawl out of Metro Manila, which has limited room for further industrial development. Farther north in Region 3, the NLEX extends through rich agricultural areas in Bulacan and Pampanga provinces and toward the large cities of San Fernando and Angeles. The northern end of the NLEX extends to Sta. Ines, near the former US Air Force Base in Clark Field.

## II. Project Scope and Objectives

5. The scope of the Project involved rehabilitating, expanding, and modernizing 83.7 km of the NLEX. In all, 14 interchanges, 24 bridges, and 31 overpasses from Manila (Balintawak exit) to Clark Special Economic Zone (Sta. Ines exit) were to be constructed or rehabilitated; toll plazas were to be reconstructed; and an 8 km expressway completed in 1996 in the Subic Special Economic Zone was to be operated.

6. The NLEX is the main corridor to Central and Northern Luzon, and the principal access to two major special economic zones—Clark and Subic. The importance of the project was underscored by the lack of major competing infrastructure to support projected traffic growth in the region in the short to medium term.

7. The project objectives were (i) catalyzing overall economic development in Central and Northern Luzon, (ii) adding road capacity to accommodate current and future traffic growth on the major routes from Metro Manila to Central and Northern Luzon, (iii) inducing private sector investment in the road transport sector, (iv) increasing employment opportunities at and around the tollways, and (v) generating interest from international lenders.

## III. OBJECTIVES AND SCOPE OF PROPOSED PPER

8. **Evaluation Objective.** The main objective of the PPER is to derive lessons from the project, which can then be used to assist in the design and implementation of future ADB private sector operations in the region, particularly investments in similar infrastructure projects. The evaluation findings are also expected to provide inputs to the planned Special Evaluation Study on Development Outcomes of Private Sector Operations.

9. The output of the evaluation mission will be a PPER for North Luzon Expressway Rehabilitation and Expansion Project.

10. **Evaluation Scope.** The Independent Evaluation Mission (IEM) will assess the project against the evaluation criteria of development impacts and outcomes, ADB profitability, ADB work quality, and ADB additionality in accordance with the *Guidelines for Preparing Project Performance Evaluation Reports on Nonsovereign Operations*.

11. Specifically, the evaluation will focus on the following major areas:

- (i) **Contributions to economic development in Central and Northern Luzon.** The PPERs will assess whether the project contributed to the economic development of Central and Northern Luzon. The PPER will try to determine the extent of the contribution of the project to the development of industrial and commercial activities in the region through a careful review of relevant documents, study reports, and operational data. To the extent possible, the PPER will attempt to study the project impact on employment generation and improvements in income levels due to the new commercial and business developments in the region;
- (ii) **Toll pricing and its impact on North Luzon Expressway Traffic volumes.** The PPER will attempt to study how toll levels are set using the toll rate formula and try to establish the reasons for the project's lower than expected traffic volumes. The PPER will try to determine if alternative options could have been considered for payments to the project company rather than be dependent on traffic volume for business performance;
- (iii) **Acceleration of private sector investment in the road transport sector.** The PPERs will examine the effect of this project on expanding private sector participation in the road transport sector in the Philippines;
- (iv) **ADB's Catalytic Role and Additionality.** The PPER will assess whether ADB played a catalytic role at the inception of the project and whether ADB demonstrated value addition to the project on an ongoing basis.

12. The IEM will include the following activities: (i) desk review of all relevant project documents; (ii) gathering and review of secondary data including relevant reports on the Philippine economy and infrastructure; (iii) discussions with ADB project staff; (iv) discussions with officials of relevant government offices; (v) meetings with the project sponsors; (vi) recalculate the financial and economic rates of return of the project; and (vii) draft and finalize the PPER.