

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB380

Project Name	Third Manila Sewerage Project
Region	EAST ASIA AND PACIFIC
Sector	Sewerage (90%);Water supply (10%)
Project ID	P079661
Borrower(s)	REPUBLIC OF THE PHILIPPINES
Implementing Agency	
	Manila Waterworks and Sewerage System MWSS Complex Katipunan Road, Balara 1105 Tel: (632) 920-5413 Fax: (632) 920-5413/(632) 921-2887
Environment Category	<input checked="" type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	October 6, 2003
Estimated Date of Appraisal Authorization	August 17, 2004
Estimated Date of Board Approval	February 22, 2005

1. Key development issues and rationale for Bank involvement

Water quality throughout the Philippines has been deteriorating due to high population growth, rapid urbanization and industrialization. A major source of water pollution is domestic wastewater, accounting for 48% of the total pollution sources. One-fifth of the pollution is generated by Metro Manila alone, making it the largest contributor among the Philippines' 16 regions. In terms of biochemical oxygen demand (BOD) loading in Metro Manila, 58% comes from domestic waste and 42% from industrial waste.

Currently, the water supply and sanitation requirements of Metro Manila are served mainly by the Metropolitan Waterworks and Sewerage System (MWSS), through its two concessionaires, Manila Water Company Inc. (MWCI) and Maynilad Water Services Inc. (MWSI). As of December 2002, the two concessionaires supplied water to 80% of Metro Manila's population of 11.6 million; however only 8% of this population has sewerage services. Most residents rely on private solutions such as open drains and poorly constructed septic tanks to dispose of human and liquid wastes. These poor alternatives have led to the pollution of the surrounding urban areas and water bodies.

Government Policy. The Medium-Term Development Plan (MTDP) for 2001-2004 by the Government of the Philippines (GOP) grants priority to developing appropriate technologies for sanitation and pollution control, and improving the efficiency and effectiveness of transferring liquid waste from the source to the processing centers.

However, actual investment in sanitation and sewerage has been extremely limited. The ongoing Bank-financed Manila Second Sewerage Project (MSSP, Ln. 4019) has been a major sewerage investment program in Metro Manila. Under MSSP, MWSS and MWCI have adopted a decentralized approach to expand sewerage and sanitation services. The approach involves the construction of packaged sewage systems in densely populated areas and the provision of septic tank emptying services to about 150,000 households (as of mid-2003). MWCI has successfully implemented all the components under MSSP for its concession area, and is implementing additional sanitation investments utilizing loan savings. In addition, MWSS has approved MWCI's business plan that includes the investments under the proposed MTSP in January 2003, supporting the cost recovery of the project.

MWSI, the other concessionaire for the West Zone, will not participate in MTSP. MWSI has suspended payment of its concession fee and is presently in arbitration with MWSS. As a result, MWSS' financial situation has deteriorated significantly and will remain uncertain until the arbitration is completely settled.

Lessons learned under MSSP include the following:

- (a) An information campaign on proper liquid waste disposal and environment preservation to foster greater support for sewerage and sanitation projects is needed;
- (b) In general, households are willing to avail themselves of sewerage and sanitation services as long as the cost of the services has a minimal impact on the family budget;
- (c) Local government support and community involvement are essential in implementing sewerage and sanitation projects;
- (d) There is an immediate need for a sustainable alternative solution to the problem of septage disposal since the temporary alternative of sea disposal has not been accepted by key government agencies and local government units; and
- (e) Land availability for sewage/septage treatment facilities within Metro Manila is a key issue that can delay project implementation.

The project is consistent with the Philippines **CAS**, a significant element of which is to strengthen infrastructure and improve urban environment. The proposed MTSP supports the CAS by providing investments for the efficient provision of sanitation services and protection of the environment through a private sector operator. The project also addresses other CAS tenets notably improving performance monitoring to measure progress with regard to both economic growth and empowerment of the poor.

2. Proposed objective(s)

The main project **development objective** is to improve and expand sewerage and sanitation services in the East Zone concession of the MWSS service area by providing cost-effective investments. The project is expected to reduce the further pollution of Pasig River, Manila Bay, Laguna Lake and other tributaries in and around Metro Manila. Also, the project is expected to

have a significant impact on improving the living conditions of mostly low-income urban poor who live in densely populated areas and along inland waterways.

Beneficiaries. The project will benefit directly an estimated 250,000 households with sewer and sanitation services. Beneficiary communities will be selected using the following criteria: (a) low to middle income level families; (b) availability of land for a sewage treatment plant; and (c) willingness and capacity to pay of households for sewerage/sanitation services.

3. Preliminary description

The project will follow the same lending structure under MSSP. IBRD loan will be lent to MWSS (with guarantee from GOP). MWCI will implement the project and undertake loan repayment responsibility in the form of concession fees. The project will be consistent with ADB's Pasig River Rehabilitation Project which is financing the construction of a US\$10 million sanitation facility and tankers. The project will have the following major components:

Sewerage systems and treatment. This component will involve the construction of sewage pipelines and treatment plants (STPs) in several locations in the MWCI concession area. Some of the STPs will treat combined sewage and drainage flows. Existing primary treatments would also be upgraded to secondary level of treatment.

Septage management. This component would include the construction of septage treatment plants to process septage from domestic septic tanks. This component would allow full coverage of the East Zone concession area in terms of sanitation services.

Right-of-way upgrade. This component will pilot a community-based approach to resettle informal settlers who are occupying critical right-of-way areas of main water distribution pipelines of MWSS. The purpose is to ensure security of area residents and accessibility of the MWSS facilities.

Technical assistance. This component would finance the information campaign on proper liquid waste disposal and environment preservation, consultant services during implementation of the project, and the preparation of follow-up programs on sewerage and sanitation, with emphasis on low-cost sanitation systems.

Public assessment of sewerage and sanitation services. This would involve upgrading the monitoring system developed for water supply services (PPA) to include sewerage and sanitation services. The methodology, the survey questionnaire and data base of the PPA system already operational will be adapted to include both services.

Implementation. MWSS has a Project Management Office with extensive experience in the preparation and implementation of similar projects. Through the implementation of the ongoing MSSP, MWSS and MWCI have developed an effective working relationship. As this project is a follow-up to the ongoing MSSP, it will basically follow the existing arrangements in terms of Bank lending and institutional arrangements.

4. Safeguard policies that might apply

[Guideline: Refer to section 5 of the PCN. Which safeguard policies might apply to the project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?]

5. Tentative financing

Source:	(\$m.)
BORROWER	20.76
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	64
Total	84.76

6. Contact point

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