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Parties to the Contract:

- **The Client : Municipality of Podgorica**
- **The Contractor**

Performance Objectives:

- **Operate & maintain water system**
- **Manage customer billing & collection**
- **Implement 5-year system optimization plan**

Type of Contract: Management contract (with design/build responsibilities)

Duration of Contract: 10-15 years



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Rights, Duties, and Responsibilities of the Parties to the Contract

The Client:

- **Assure contractor has complete access to all system elements**
- **Provide contractor will all information available, now and in future**
- **Be sure contractor has all authorizations and approvals needed for construction**
- **Maintain transparency; stakeholder involvement and communication**
- **Right to review and approve plans and approaches for major construction work**
- **Right to inspect system and all work over time and require corrections**
- **Pay fee to contractor**
- **Monitoring contractor performance**



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The Contractor:

- **Clear right and authority to provide the services contracted for**
- **Responsible for day-to-day system operation & maintenance - - including repair and replacement**
- **Responsible for customer billing & collection, forwarding all revenue collected to client**
- **Responsible for implementing 5-year optimization plan as set out in contract - - design, construction, start-up, operation**
- **Responsible for periodic reporting to appropriate levels of government**
- **Must provide corporate guarantee and performance bond to guarantee its work**



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Performance Standards and Targets

Minimum Performance Standards that must be achieved by the Contractor:

- **Performance all routine O&M duties on the entire network**
- **Operate and maintain well system to meet contract-set water quantity and quality standards**
- **Routinely bill 100% of all known customers**
- **Complete system zone definition and measurements in first, pilot zone within 6 months**
- **Complete system-wide meter replacement in 5 years**
- **Reduce non-revenue water to 15% within 5 years (through repairs to network and improved customer billing and monitoring to reduce illegal connections and “revolving” schedule to continue replacement on 5-year schedule)**
- **In year 6, minimum tariff collection standard becomes effective**
- **Minimum standard for replacement of asbestos pipe - - actual standard to be determined after zone definition and in consultation with contractor**
- **Complete network extension to unserved areas at the rate of 2,000 connections/year**
- **Design/build central reservoir (capacity to be determined, based on work above being completed)**



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Penalties for Failure to Meet Minimum Performance Standards:

Failures when performance is not excused:

- **Delay liquidated damages - - specified euro/day damages for each day of delay in meeting schedules**
- **Contractor to absorb financial losses if construction is over budget and is caused by contractor**
- **Deductions from annual service fee for failure to meet tariff collection standards (starting in year 6)**
- **Per event damages if finished water quality or quantity does not meet contract standards.**
- **For network extension, per connection damages for each connection below contract-set minimum**



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Performance Standards and Targets

Performance Targets Tied to Incentives:

Examples of areas for incentives:

- **Routine O&M cost savings after year 6 service fee reset - - sharing of savings between client and contractor**
- **Per unit (per meter) bonus for network-wide meter replacement on shorter schedule than specified**
- **Bonus based on percent of non-revenue water achieved below contract-set minimum standard**
- **Bonus if non-revenue water percent target is met faster than contract-set standard and also if it is met both faster and a percent better than the contract-set target**
- **Assuming adequate municipal funding is provided, a per connection bonus for all connections made under network extension above the contract minimum (2,000 connections/year).**



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Adjustments to the Contract (what are allowable adjustments; who makes them; and under what conditions?):

- **Annual adjustment of O&M fee for inflation**
- **Adjust scope of work - - policy/priority changes by municipality or other factors, with appropriate changes to contractor responsibilities and fees**
- **Adjust costs and schedules due to “uncontrollable circumstances”**
- **Changes-in-law**

- **One time reset of service fee in year 6, following completion of optimization plan - - will require cost substantiation**



Standards for Conditions of Assets upon Expiration of the Contract:

- **Contract would be based on “asset management” approach - - contractor responsible for all maintenance, repair and replacement (but not new capital investment)**
- **Assets would be returned in good working condition, with normal wear & tear allowed**
- **Condition assessment of all assets at start of contract**
- **Condition assessment at expiration**
- **Contractor required to replace equipment at own cost if condition does not meet standard**



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Management of the Contract

Responsible Party for Monitoring the Contract:

- **Public water company as representative/agency for municipality**

Responsible Party for Enforcing the Contract:

- **Municipality (as contract party)**

Responsible Party for Resolution of Disputes:

- **At project level - - public water company**
- **If dispute cannot be resolved at project level - - municipality (by arbitration) or court**



Termination of the Contract (under what conditions can contract be terminated before it expires; and how are parties compensated for early termination?)

Termination by the Client:

- **For contractor performance default, with liquidated damages and contractor payment of any direct costs incurred by client - - client would have draw on contractor guarantee and performance bond**
- **For contractor bankruptcy - - may be no effective recourse**
- **For client convenience, with substantial termination payment to contractor**
- **For uncontrollable circumstances that make the continuation of the contract or the service unworkable or impractical - - client would pay only contractor's direct costs for termination; no penalty**



Termination by the Contractor:

- **For client performance or payment default, with client payment of contractor's substantiated costs incurred by termination**
- **For client bankruptcy, unless another governmental party steps in to assume clients obligations**
- **For uncontrollable circumstances that make the continuation of the contract or the service unworkable or impractical - - client would pay only contractor's direct costs for termination; no penalty**



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Additional Terms (Optional for Country Teams):

- **Requirement to subcontract with local construction firms for a minimum percent of construction/replacement work on the network**