

NO 717

# MONTHLY REPORT

**February 2018**



Vaš partner u upravljanju vodama

## ***WATER SUPPLY AND SANITATION ADRIATIC COAST***

### **PHASE III**

Water Supply and Sanitation Adriatic Coast III commenced by signing loan agreement with KfW on 07 December 2007. In this stage the Project was predominantly focused on wastewater sector in order to upgrade and extent sewage systems in Herceg Novi, Tivat, Kotor and Bar. This stage envisaged construction of the WWTPs in Herceg Novi and Bar with outfalls, rehabilitation and replacement of the current sewerage systems, as well as construction of new parts of the system. A smaller part of the Project was related to the water supply upgrade through rehabilitation of current, and construction of new parts of the water supply systems.

Implementation of Phase III started in March 2008 and will end in 2017, and the estimated project value is Euro 89 million.

Implementation of Phase III commenced with project preparation, and drawing up design and tender documentation by consultancy JV DAHLEM/Pecher from FR Germany.

<b>Tivat</b>	
<b>Contract No TV-RB-02 -2010</b>	<b>Construction of:</b> <ul style="list-style-type: none"><li>- 17,6 km of sewage network</li><li>- 14,6 km of water supply network</li><li>- 6 large and 6 small pumping stations</li></ul>
<b>Expected result</b>	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions in the Bay of Tivat</b>
<b>Contract value</b>	<b>€9,491 million</b>

<b>Contract start date and end date</b>	<b>14 December 2011 – 31 December 2014</b>
<b>Employer</b>	<b>The Municipality of Tivat and PE "Water and Sewerage" Tivat</b>
<b>Funding sources</b>	<b>Municipal budget - €3,954 million KfW loan - € 5,381 million KfW grant - €155.750</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA)</b>
<b>Contractor</b>	<b>Ludwig Pfeiffer, FR Germany</b>
<b>Engineer</b>	<b>Dahlem FR Germany</b>

### **PROGRESS**

Upon request by Vodacom, there was a meeting with representatives of the Municipality of Tivat and ViK Tivat, held on 18/01/2018 in the premises of the Municipality of Tivat. One of the topics discussed at the meeting was related to the Agreement with Pfeiffer (Phase III). Vodacom informed the Employer once again with the procedure preceding the completion of the Contract, upon issuance of the Performance Certificate by the Engineer.

Representatives of the Employer and members of the committee for negotiations about claims with Pfeiffer informed Vodacom with the current status of these negotiations.

Vodacom emphasized the need to make a decision, as this is important for implementing the next steps leading to the completion of the contract (settlement of the final payment). As agreed at the meeting on 24/01/2018 Vodacom sent a letter to the Mayor of the Municipality of Tivat in which, among other things, Vodacom pointed out the need to make a final decision for negotiations with the Contractor as soon as possible. At the same meeting, the representative of Vodacom informed the participants about the situation regarding the technical acceptance (positive opinion of the committee for four building permits, while for the works on the transmission pipeline, the technical acceptance has not yet commenced due to incomplete technical documentation). The minutes of the meeting were delivered to the representatives of the Municipalities of Tivat, MoSDT, ViK Tivat, KfW and the Engineer.

In February, Vodacom was informed in writing (via e-mail) by the Municipality of Tivat about the details of negotiations. In the letter from 26/02/2018 Vodacom explained once again its position regarding negotiations and Vodacom's position in the negotiation procedure.

## Herceg Novi

<b>Contract No HN -YB-2010</b>	<b>Construction of the WWTP for 65.300 PE</b>
<b>Expected result</b>	<b>Systematic upgrade of the sanitation system and improvement of environmental conditions in the Bay of Kotor</b>
<b>Contract value</b>	<b>€8,888 million</b>
<b>Contract start date and end date</b>	<b>24 June 2012 – 12 June 2017 (84 days upon announcement of availability of effluent)</b>
<b>Employer</b>	<b>The Municipality of Herceg Novi and the company “Društvo za izgradnju vodovodne i kanalizacione infrastrukture u opštini Herceg Novi”</b>
<b>Funding sources</b>	<b>Municipal budget - €1,198 million GoM contribution - € 1,336 million KfW loan - € 6,304 million</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA)</b>
<b>Contractor</b>	<b>JV MASS/Gintas</b>
<b>Engineer</b>	<b>Dahlem FR Germany</b>

### ACTIVITIES:

Upon the request of the Employer, *Društvo za izgradnju vodovodne i kanalizacione infrastrukture u opštini Herceg Novi*, the Engineer sent the Notice to terminate the Contract (due to the Contractor's insolvency) to the Contractor on 17 November 2017, which entered into force on the same date as provided by the Sub-clause 15.2 of FIDIC.

By the end of reporting period the lawyer's office, legal representative of the Employer, prepared a draft Agreement on reinstatement of the project with JV MG, specifying the two main conditions that need to be fulfilled by JV MG in order to sign the contract and to continue preparation of the Contract on the reinstatement of the project with JV MG.

A technical meeting regarding the problems in operation of WWTP was held on 22/02/2018. Representatives of *Društvo*, the Engineer, Vodacom were informed by the WWTP manager about the problems in the operation of WWTP and it was agreed on how to solve a part of these problems. It was agreed that the remaining issues and the manner of their solving will be considered upon collecting sufficient information related to date of continuation of the contract with JV MG.

At the meeting held on 28/02/2018 at the WWTP that was attended by representatives of the Municipality, *Društvo*, ViK, The Engineer, Vodacom, and the lawyer's office that represents *Društvo*, it was stated that the technical problems in operation of the WWTP have increased dramatically, and that there was no significant progress over the past three months when it comes to activities of JV MG on the fulfillment of the conditions for reinstatement of the terminated Contract. It was agreed at the meeting to send a letter to JV MG, which should specify that JV MG shall inform the Employer on how JV MG plans to solve the problem with *DSD* insolvency and to provide its programme for the completion of activities on WWTP, prepared in accordance with the list of works submitted by the Engineer to the representative of JV MG this all within 7 days from the date of receipt of the Employer's letter. Furthermore, it was agreed that if these conditions are fulfilled by JV MG and deemed satisfactory by both the Employer and the Engineer, then JV MG would be given another 14

days to make a transfer of funds on Montenegro, as determined from the database of CBCG. If JV MG doea not fulfill any of the given conditions or time limits, the Employer will declare the contract termination as final, and the Employer commence the procedure to select a new Contractor which would be tasked with completion of all outstanding and improperly completed works on the WWTP.

#### **PROGRESS:**

There was no progress over this reporting period. Given that the Contract has been terminated, the Employer is still independently managing the plant. The overall progress in completion of WWTP is estimated at 98% at the end of this reporting period.

#### **PROBLEMS**

At a technical meeting held on 22 February 2018, the WWTP manager noted problems in the operation of the plant, including some that could dramatically affect the future work of the entire plant in case not being solved in the near future:

- There are only two pumps (out of a total of 5) in operation in the main pumping station. The others have been seriously damaged due to water getting into electric motors room;
- There are 3 operational compressors in the compressor station out of a total of 5 compressors. Minimum 2 compressors are required for proper operation and functioning of compressor station;
- The SCADA system in charge of controlling and managing the entire process is still incomplete, not calibrated and unreliable;
- Sludge line is incomplete and untested;
- SBR tank wastewater release system is incomplete;
- No Command-Control connection between WWTP and PS Meljine Roundabout.

The WWTP manager particularly points out the problem of incomplete training of process management personnel, and this problem is certainly related to the incomplete SCADA system.

#### **CLAIMS**

There were no claims over this reporting period (February 2018).

The Contractor has sent the Notice of Claim, pursuant to sub-clause 20.1 of the Contract (Contractor's claims), which is related to the irregular inflow of the effluent on the WWTP, and its unsatisfactory quality. Given that the Notice of Claim sent to the Employer by the Contractor has not been elaborated in accordance with FIDIC contract form, whereby it is incomplete, there are no grounds at the moment for the Contractor's claims.

On behalf of the Employer, the Engineer sent the Claim for delay damages of EUR 668,287.50 to the Contractor. In addition, the Contractor has received a Notice of claim due to termination of the contract in an amount of about EUR 1 million. Determination on this claim will be prepared by the Engineer in case of failure of consultations required between the Employer and the Contractor in order to reach a possible agreement on the amount of the claim.

The maximum amount that may be claimed by the Engineer based on the Performance and Retention Money Security is cca. Eur 1.7 million.

#### **GUARANTEES:**

- Payment Guarantee –the insurance policy was extended until 20/03/2018
- Advance payment Guarantee – repaid advance payment, no guarantee
- Performance Guarantee - valid until 10/12/2018
- Retention Money Security – valid until 01/08/2018

### PAYMENTS

There were no payments during this reporting period.

The total amount paid (including advance payment with VAT): 9,955,055.22€

GoM: 1,349,928.28 €

KfW's loan (Phase III) 2,863,000.00 €

KfW's loan (Phase IV) 3,441,000.00 €

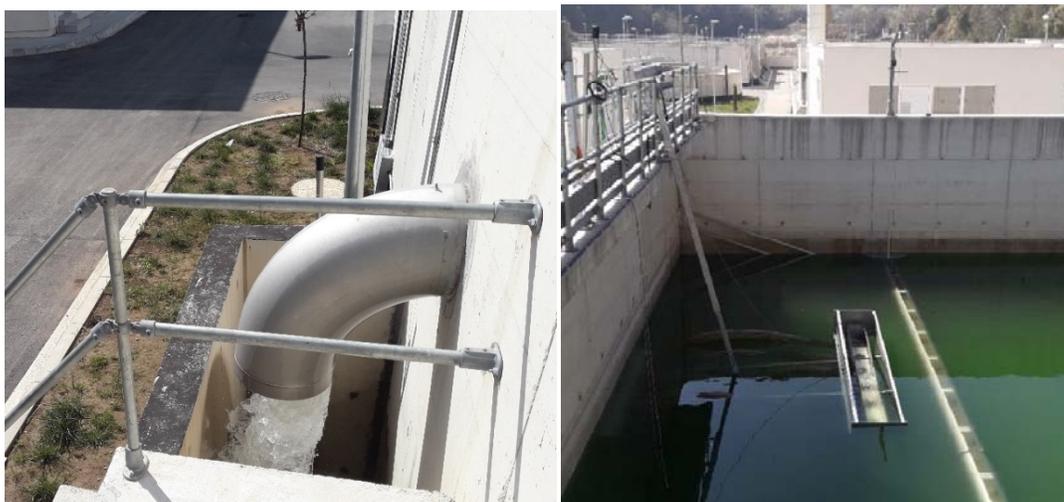
Municipal contribution 679,779.81€

Municipal contribution (VAT) 1,589,462.59€

GoM's grant: 1,349,928.28 €

### PLANS FOR FUTURE PERIOD

Although JV MG expressed its good will to reinstate the terminated contract by the actions taken, there was no significant progress in this regard over the past three months, and therefore management of the Employer and Municipality representatives decided to send a final warning to JV MG prior to the final termination of the Contract. It is planned to have a final determination of whether the contract with JV MG will be reinstated, or a new Contractor will be selected to continue works on the WWTP.



WWTP Herceg Novi

## Herceg Novi

Contract No HN-RB-01-2010	<b>Construction of:</b> <ul style="list-style-type: none"> <li>- 35,3 km of water and sewage network</li> <li>- 11 pumping stations and a sea outfall</li> </ul>
Expected result	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions in the Bay of Kotor</b>
Contract value	<b>€18,522 million</b>
Contract start date and	<b>25 August 2012 - 17 February 2015</b>

<b>end date</b>	
<b>Employer</b>	<b>The Municipality of Herceg Novi and the company "Društvo za izgradnju vodovodne i kanalizacione infrastrukture u opštini Herceg Novi"</b>
<b>Funding sources</b>	<b>Municipal budget - €2,309 million GoM contribution - € 2,923 million KfW loan - € 12,630 million KfW grant - €155.750</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA)</b>
<b>Contractor</b>	<b>Celtikcioglu, Turkey</b>
<b>Engineer</b>	<b>Dahlem FR Germany</b>

### ACTIVITIES

The meeting held on 26 January 2018 that was attended by representatives of the Contractor in addition to representatives of the Municipality, Društvo, Vodacom, and the Engineer, was aimed at providing a work progress analysis, delays, current problems on the project and the method of their solving with a time schedule that would result by the completion of the works by 1 May 2018. There was a discussion about the introduction of a FIDIC expert, so as to have an independent interpretation of both the Contractor's and the Engineer's claims.

In February, the Contractor carried out activities on the following sites:

- PS Kumbor north – preparatory works (electrical and civil) for the connection of the sub-station 10/0.4Kv-630kVA on the power supply network (MV). Preparation of documents for the issuance of approvals of competent institutions for the connection and trial operation of the sub-station;
- The Contractor was connecting 94 buildings to the water supply network in settlements Baosici, Djenovici and Kumbor;
- There was a testing with all necessary pipeline reparations of 495m in length, and marble flagging of cca 250m<sup>2</sup> of the promenade

At the meeting held on 13/02/2018 the Employer and the Municipality took position regarding engagement of a FIDIC Expert and they made the final decision to engage this expert solely for the needs of the Employer, and upon the preparation of the Expert's report that is predominantly supposed to give the expert's opinion on the status of the Employer in the project, which is then supposed to be delivered to the lawyer's office to do a risk assessment.

The Engineer in cooperation with Vodacom and assistance of the lawyer's office that is representing the Employer prepared the ToR for FIDIC expert. By the end of this month FIDIC expert provided his proposal and it is expected to receive opinion of the Employer and the Municipality on this proposal.

### PROGRES

Due to holidays (New Year and Christmas), there was a reduced pace of the work execution, while the number of teams on site has increased to 7 by the end of the month. Around 500m of sewerage pipes were tested, and the necessary repairs of detected faults in the sewerage have been done. Construction and electrical works at PS Kumbor North were performed on the preparation of the MV transformer station, all for the purpose of connection of PS to the electric power network.

### PROBLEMS

The Engineer, at the meetings held on 24 and 26 January 2018 informed the Contractor and the

Employer about their concerns regarding meeting the set time for completion, as confirmed by the fact that the Contractor has implemented only 30% of the works in the period of 54.8% of the planned completion period (i.e. four months if the approved program for the period 21/09/2017 – 01/05/2018 is taken into account). Obviously, the Contractor has to significantly increase the number of teams, otherwise the scheduled end date will not be achieved. In addition to this problem, there is also a potential problem of notice to claim by the Contractor, and it is certain that in addition to this notice, there will be also a claim for EoT of 114 days due to the construction of TS 10/0.4Kv for the needs of supplying PS Kumbor North with electricity.

In February, there were no improvements in the pace of testing pipelines by the Contractor. However, it is still questionable whether the envisaged time for completion (01.05.2018.g.) will be fulfilled. Given that the Contractor did not provide the final Claim by the end of February, the envisaged FIDIC expert mission will be postponed.

### **CLAIMS**

There were no claims lodged during the reporting period (February 2017).

### **GUARANTEES:**

- Payment Guarantee - the Contractor has submitted a new policy valid until 31/12/2017, which is not in accordance with the tender requirements. The Engineer asked for the correction of the issued policy.
- Advance payment Guarantee – expired on 01/06/2017 – the advance has been repaid
- Performance Guarantee - valid until 31/12/2018
- Retention Guarantee - valid until 1/09/2018

### **VO**

On 30 January 2018, the Contractor submitted a proposal of VO 7, amounting to EUR 137,662.37. This sum has no impact on the Contracted Amount, but requires the extension of the time for completion for an additional 114 days. KfW provided its no-objection for this VO on 20/02/2018. VOs No 1,2,3,4,5 and 6 have been implemented so far.

### **PAYMENTS**

There were no payments during this reporting period.

Payments to date:

Total paid amount (including advance payment): 19.339.335,34 €

GoM: 2.923.000,00 €

KfW's grant 155,750.00 €

KfW' s loan (Phase III) 5.876.981,26 €

KfW' s loan (Phase IV) 6.083.105,39 €

KfW' s loan (Phase V2) 724.296,45 €

Municipal contribution 399.590,34€ for asphalt works

Municipal contribution (VAT) 3.176.611,91 €

<b>Bar</b>	
<b>Description of the Project</b>	<b>Construction of the WWTP for 30.000 PE in Sutomore, construction of the sewage network in Sutomore, and water supply network in Susanj, rehabilitation of the existing sea outfall Volujica and construction of the water supply network in settlements in the south of Bar</b>
<b>Expected result</b>	<b>Systematic upgrade of the sanitation system and improvement of environmental conditions</b>
<b>Contract value</b>	<b>€15,8 million</b>
<b>Employer</b>	<b>The Municipality of Bar and PE “Water and Sewerage” Bar</b>
<b>Funding sources</b>	<b>Municipal budget - €2,650 million KfW loan - € 14, 605 million (MF channels the amount of € 3 mil. as a grant), KfW loan – consulting services € 1,2 million</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA) (Project Management)</b>
<b>Implementation Consultant Phase III</b>	<b>Dahlem FR Germany</b>

#### **ACTIVITIES**

The Municipality of Bar decided to postpone all activities related to the YB Tender (RB-YB-2009 related to the construction of the WWTP for 68,600 PE on Volujica hill ) until the Municipality resolves new land ownership issues as a prerequisite for the implementation of the project. The successful bidder WTE has not extended validity of their proposal, while the Employer, on the other hand, has not organized contract negotiations.

Vodacom has, in line with the request of the Municipality of Bar and the Ministry of Tourism and Sustainable Development, prepared information about the type, scope and dynamics of the possible implementation of priority measures in the Municipality of Bar for the so far not employed KfW loan funds allocated for financing the construction of WWTP Volujica. The Municipality of Bar has addressed MF with a request for reallocation of funds, and upon adoption of Information related to the new concept of projects in Bar at the session of the GoM, the MF addressed KfW with a request for reallocation of these funds.

In September a short-term expert from Dahlem paid his mission to Bar. The expert had a series of meetings with representatives of the Municipality and ViK Bar, and PEW (RWS) from 11 to 15 September in order to gather the necessary information for the purpose of facts findings and determining readiness of the proposed set of measures for implementation, as well as creation of a basis for the most efficient possible implementation of these measures.

After obtaining approval from the Municipality Bar to conclude the Addendum to the Contract with Dahlem regarding the expert mission, on 19/10/2017 the Consultant submitted draft Report with the review and prioritization of the proposed measures, i.e. a detailed implementation plan with defining necessary obligations of all project stakeholders for the most efficient possible implementation.

The proposed measures are divided into 3 sets of measures:

1. Group 1

- a) Implementation of optional measures under the current RB contract (sewage system of Sutomore, water supply network in Sušanj –requires solving of property-legal issues
- b) Rehabilitation/upgrade of the sea outfall Volujica, construction of PS Volujica with pressure pipeline) – shifting items from YB to RB Contract, it is required to produce detail design for PS Volujica with pressure pipeline

2. Group 2:

Construction of PPOV in Sutomore and its supporting infrastructure - it is necessary to prepare location study, feasibility study, prepare a tender design and documentation and resolve the property legal issues

3. Group 3:

Construction of the water supply system of settlements in the south of Bar and connection to the RWS - it is necessary to draft design documentation and solve property legal issues, if any.

The Consultant proposed several options for implementation in his Report, and the Municipality of Bar is to make decision on which of the above groups will be implemented in this stage.

In this regard, on 21/11/2017 the Consultant held a presentation to show the results of the Report "The New Project Concept in Bar" and to introduce all attendees with proposed solutions, concepts and adopted next steps. This presentation was attended by all the parties involved in the project (Consultant, Vodacom, Municipality Bar, ViK Bar, KfW) and the main objective was to define priority measures by the Municipality of Bar.

Based on the results shown the Municipality Bar adopted the recommended option 3.1 as the most favorable one that covers as follows:

1. Construction of a new PS Volujica with pressure pipeline - estimated investment value of EUR 1.5 million;

2. Construction of the backbone of the water supply system for settlements Zaljevo - Polje, St. Ivan and Mala Volujica. It was agreed that to construct at this stage of implementation the system for only one elevation zone, namely Zaljevo 1 (66 mnm), connection pipeline to RWS, and a distribution pipeline to the end users in Zaljevo and Polje settlements. The estimated value of the investment is EUR 1,175,000.00, and EUR 550,000.00 for the I elevation zone.

The works are expected to begin in late February 2018, as a part of the contract with the current FIDIC RB Contractor.

In addition, the Municipality of Bar indicated the next steps for the preparation of the mid-term investment measures that need to be implemented in parallel with implementation of immediate measures in Bar:

- Inspection of the sea outfall Volujica in order to obtain results on the actual conditions of the sea outfall in order to define next steps that are necessary for its rehabilitation and upgrade.
- Preparation of the location study for WWTP Sutomore in order to consider potential alternative locations.
- Consideration of both centralised and decentralised option of the solution for WWTP Veliki Pijesak.
- Decision of property-legal issues for optional measures of the water supply and sanitation in Sutomore.

Over this reporting period there were following activities performed to enable smooth implementation of the nominated priority measures:

- Preparation of design documentation by the designer "Eksploring doo" from Niksic, engaged

by the Municipality for this purpose

- In December 2017, proposals of Addenda 35 and 36 were submitted that cover consulting services for the “New concept in Bar” project implementation.
- Adoption of proposals of Addenda 35 and 36 by the Employer, as well as alignment with the provision of the Law
- Vodacom had a series of meetings with MORIT and the Municipality of Bar in order to solve open issues regarding the conclusion of Addenda 35 and 36
- In late February, the Municipality provided its approval for signing Addendum 36 – overview of technical documentation.

Activities regarding the signing of Addenda and the alignment of the business operations, according to the provisions of the new law, need to be completed in the shortest possible time, in order to comply with the time schedule of activities, and so that the beginning of project implementation can be harmonized with the completion of works under the FIDIC Red Book.

Bar	
<b>Contract NoBR-RB-01-2010</b>	<b>Construction of:</b> <ul style="list-style-type: none"> <li>– 5,8 km of water supply network, and</li> <li>– 19.2 km of faecal sewage network</li> <li>– 1km of stormwater sewage network</li> <li>– 1 pumping stations with the construction of new sea outfall “Sutomore”</li> <li>– 1 reservoir “Susanj 2”</li> </ul>
<b>Expected result</b>	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions</b>
<b>Contract value</b>	<b>€8,330 million</b>
<b>Contract start date and end date</b>	<b>26 February 2016 – 26 February 2018</b>
<b>Employer</b>	<b>The Municipality of Bar and PE “Water and Sewerage” Bar</b>
<b>Funding sources</b>	<b>Municipal budget - €0,522 million</b> <b>KfW loan - € 7,652 million</b> <b>KfW grant - €0,156 million</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA)</b>
<b>Contractor</b>	<b>MPP Jedinstvo, Sevojno</b>
<b>Engineer</b>	<b>Dahlem FR Germany</b>
<b>ACTIVITIES</b>	
<p>By the end of this reporting period, the Contractor was carrying out works at the following sites:</p> <ul style="list-style-type: none"> <li>• PS Botun – Construction of the PS is 100% completed. Landscaping around the PS is in progress. The Taking over Certificate for the PS was issued on 15 June 2017.</li> <li>• Sea outfall Sutomore (B1) – the works are 100% completed by the Contractor, defects removal is underway</li> </ul>	

- Sewer main Polje (B24) – The Contractor engaged three teams to work on the pipeline installation, and one team to work on the construction of house connections. In addition, the Contractor has successfully carried out required pipeline testings. Preparatory activities for drilling through the railway embankment are in progress
- Reservoir Susanj 2 (B9) - The works on the installation of insulation are completed; Testing is in progress
- Secondary sewer main in Bijelisi (B8) – construction works on the sewer main have been 100% completed, the second testing was completed positively. Surface reinstatement is in progress.
- Secondary sewer main Čanj -100% completed, all the tests are positive;
- Coastal sewer main in Sutomore (Ivo Novakovic B14) - Installation of pipelines, 1,980m of 1,980 is completed, i.e. 100% is positively completed, Taking-over certificate was issued on 15/06/2017.
- Coastal sewer main in Sutomore (Ivo Novakovic B37) - Installation of pipelines, 390m from 390m completed, ie. 100%, successfully performed testing; Taking-over certificate was issued on 15/06/2017.
- Secondary sewer mains in the northeast of Sutomore ( B5) - Installation of pipelines, leg 1 -800m completed 100%, all the tests are positive, leg 2 – 869m of 869m is completed, i.e. 100% testing is completed; Taking-over certificate was issued on 15/06/2017.
- Rehabilitation of secondary sewer main downtown Bar B7, 524m of 524m - completed, i.e. 100%, testing is successfully completed.
- Rehabilitation of secondary sewer main downtown Bar B7.1 (continuation), 127m completed, i.e. 100%, testing positively completed.
- Pipe connection between reservoirs Susanj 1 and Susanj 2 (B11), 822m - completed, i.e. 100%, testing is in progress.
- Pressure pipeline from PS Botun to tunnel (B13), 650m completed, ie 100%, testing is positively completed. Taking-over certificate was issued on 15/06/2017.
- Water supply system downtown Sutomore (B25), 685m completed, ie 100%. Taking-over certificate was issued on 15/06/2017.
- Water supply network on the promenade Ivo Novakovic (B26), 660m completed, i.e. 100%. Taking-over certificate was issued on 15/06/2017.
- Reconstruction of the secondary sewer main in Bar -Susanj (B16), 366m is completed, i.e. 100%, Reinstatement of surfaces is in progress.
- Reconstruction of the secondary sewer main in Bar – next to the railway station (B23), 940m completed, i.e. 100%. Pipeline and connections are completed. Reinstatement of surfaces is in progress.
- Secondary sewer main downtown Sutomore on the promenade Ivo Novakovic (B15), 618m completed, i.e. 100%. Defects removal is in progress.
- Secondary sewer main downtown Sutomore (B18), 466m completed i.e. 100%. The Contractor completed installation of the pipeline, while the construction of the house connections is in progress.
- Reconstruction of the secondary sewer main in Bar- Susanj Main road (Magistrala) (B20), 225m of 225m is completed, i.e. 100%, Reinstatement of surfaces is in progress.
- Reconstruction of the existing distribution water supply pipeline downtown Sutomore (B27), 1090m of 1090m is completed, 100% testing and construction of connections is in progress.
- Secondary sewer main downtown Sutomore (B4a), 901.50 m of 901.50 m completed i.e. 100%. Installation of house connections and defects removal is in progress.
- Construction of the secondary sewer main in Bar- Susanj Main road (Magistrala) (B21), 515m of 515m is completed, i.e. 100%, Reinstatement of surfaces is in progress.
- Rehabilitation of the secondary sewer main downtown Bar (Bulevar Revolucije – B22) 292m of 292 is completed i.e. 100%. Reinstatement of surfaces is in progress.

## **PROGRESS**

Over this reporting period, the Contractor completed drilling through the railway embankment in the settlement Polje (B24), on the crossing No 1, and the Contractor commenced works on the rehabilitation of the current distribution pipeline in Bar-Susanj next to the main road –Magistrala (B29) continued, as well as the works on the construction of new storm water pipeline downtown Bar (B17), and installation of house connections on secondary sewer mains downtown Sutomore (B14a). The Engineer is obliged to prepare a detailed report and to submit it to the Employer. The Contractor has commenced works on rehabilitation of the current water supply pipeline downtown Bar (B30).

## **PROBLEMS**

Extension of time for completion, i.e. 25/02/2018 from the time schedule.

Extension of time for 90 days based on the announced notice of claim by the Contractor, whereby the time for completion will be 22/05/2018.

Reinstatement of surfaces. Irresponsible performance of the sub-contractor for asphalt works, non fulfillment of the Contractor's time schedule.

## **VO**

There were no VOs in this period (February 2018).

## **CLAIMS**

The Contractor submitted a Notice of Claim to the Engineer on 27/12/2018, while the Claim was submitted on 05/02/2018 that will encompass description of development of events, cause and effect relationship, analysis of impact on the time schedule and the financial impact, if any.

The Engineer informed the Employer that on 26/02/2018 became entitled to a Notice of Claim towards the Contractor, due to the Contractor's non fulfillment of the time for completion.

## **GUARANTEES:**

- Payment Guarantee - valid until 11/04/2019
- Advance payment Guarantee – valid until 31/05/2018
- Performance Guarantee - valid until 31/05/2019

## **PAYMENTS**

The Contractor submitted Request for payment of the IPC 8 totaling Euro 261,674.29 excluding VAT and including deductions for advance and retention money repayment.

The Contractor submitted the Request for payment of the retained money in accordance with statement at completion of works in the amount of €60,795.01 excluding VAT

Total paid amount (including advance payment): 4.761.400,79 €:

KfW's loan (Phase III) 4.605.550,79 €

KfW's grant 155,750.00 € (in the advance payment amount)

Municipal contribution 0.00 €

Municipal contribution (VAT) 0.00 €

There are no unpaid IPCs.

<b>Kotor</b>	
<b>Description</b>	<b>Construction of :</b> <ul style="list-style-type: none"> <li>- 34,2 km of water and sewage network and</li> <li>- 5 pumping stations in Kotor</li> </ul>
<b>Expected result</b>	<b>Upgrade of water supply and sanitation system and environmental conditions in the Bay of Kotor</b>
<b>Contract value</b>	<b>Euro 6,771 million excluding VAT</b>
<b>Contract start date and end date</b>	<b>20 July 2011 - 15 June 2013</b>
<b>Employer</b>	<b>The Municipality of Kotor and PE "Water and Sewerage" Kotor</b>
<b>Funding sources</b>	<b>Municipal budget - €0, 545 million GoM contribution - € 1,341 million KfW loan - € 4,821 million KfW grant - €155.750</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA)</b>
<b>Contractor</b>	<b>MPP Jedinstvo, Užice</b>
<b>Engineer</b>	<b>Dahlem, FR Germany</b>
	<b>ALL WORKS ENVISAGED BY THIS CONTRACT ARE COMPLETED AND DEFECTS LIABILITY PERIOD HAS EXPIRED.</b>

## PHASE IV

Water Supply and Sanitation Adriatic Coast IV encompasses construction of a joint WWTP for Kotor and Tivat for 72 000 PE.

<b>Kotor &amp; Tivat</b>	
<b>Description</b>	<b>Construction of a Joint WWTP for Kotor &amp; Tivat for 72.000 PE</b>
<b>Expected result</b>	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions</b>
<b>Contract value</b>	<b>€10,247 million</b>
<b>Contract start date and end date</b>	<b>23 January 2015 – 20 June 2016</b>
<b>Employer</b>	<b>PE "Water and Sewerage" Tivat and Kotor</b>
<b>Funding sources</b>	<b>KfW loan</b>
<b>Role of Vodacom</b>	<b>Project Executing Agency (PEA) (Project Management)</b>
<b>Engineer</b>	<b>GKW, FR Germany</b>
<b>Employer</b>	<b>WTE, FR Germany</b>

### **PROGRESS:**

In February, the Employer sent a letter to the Engineer, and pointed to certain problems in the operation of WWTP Kotor/Tivat, and the Employer provided its comments to the QR of the Engineer. The meeting with the Engineer has been postponed for the first half of March.

At a meeting, initiated by Vodacom, on 18/01/2018 in Tivat Municipality, Vodacom once again pointed to the urgent need to establish a joint O&M company for WWTP management. As agreed at the meeting on 24/01/2018, Vodacom sent a letter to the Mayor of the Municipality of Tivat, in which, among other things, he pointed to the current issues at this Contract (establishment of a joint O&M company, sludge removal from the WWTP, technical acceptance has still not started, WWTP trial operation expires on 27 March 2018, staff training for WWTP management has not started). There is a need for urgent adoption of appropriate decisions that would contribute to the successful functioning of the WWTP. The MoM were delivered to the representatives of the Municipalities of Tivat, MoSDT, ViK Tivat, KfW and the Engineer. Construction Inspection has issued a Decision to extend the WWTP trial operation by 27.03.2018. The construction inspection has issued a Decision in mid-July, whereby the trial operation of the plant is extended until 27/03/2018.

The executive directors of ViK Tivat and ViK Kotor (with the consent of the Mayors of Tivat and Kotor) signed the Addendum 1 of the Agreement of 30/12/2016 on 10/04/2017. The Addendum No 1 defines mutual rights and obligations over the period until establishment of the joint O&M of the WWTP Tivat/Kotor company. Addendum 1 states that until the creation of conditions for the use of sludge for recultivation of dumpsites, the problem of sludge disposal will be solved by selecting the operator of the service of transport and disposal of the sludge through the public procurement

procedure, in accordance with the model applied for the WWTP *Vjestica* in Budva. The Parties to the Agreement agree that a licensed testing laboratory as well as a supplier of chemicals necessary for the operation of the joint plant should be selected through the public procurement procedure as well. The public procurement procedures will be implemented by ViK Tivat.



**WWTP for KO &TV**

## PHASE V (Component 1)

Water Supply and Sanitation Adriatic Coast V (Component 1) is aimed at improving water supply and sanitation system in Ulcinj, implementation of immediate investment measures in Kotor, Tivat, and Herceg Novi, and construction of the sludge solar drying plants for Kotor, Tivat, and Herceg Novi.

<b>Ulcinj- Investment project</b>	
<b>Description</b>	<p><b>Stage I of the upgrade of water supply and sanitation infrastructure in Ulcinj:</b></p> <ul style="list-style-type: none"> <li>– Selection of the Implementation Consultant</li> <li>– Supply of installation material</li> </ul>
<b>Expected result</b>	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions</b>
<b>Contract Value</b>	<b>cca. € 20 million</b>
<b>Duration</b>	<b>2012 – 2017</b>
<b>Funding Sources</b>	<b>KfW loan from Phase V, municipal budget of Ulcinj</b>
<b>Role of Vodacom</b>	<b>Project Management and Partner to the Consultant</b>

## **PROGRESS**

### **1. Inception stage - Implementation Consultant in Ulcinj**

Upon the completion of the tender procedure, a contract with the Consultant Hydrophil from Vienna was signed on 3<sup>rd</sup> of August 2016 in Ulcinj. The contract start date is 1<sup>st</sup> of September 2016.

The project is envisaged to be implemented in 3 stages. The first and second stage of about 18 months imply preparation of the detail design for reconstruction and extension of water supply and sewerage infrastructure and implementation of the tender procedure for the engagement of the Contractor. The 2 year long third stage refers to the supervision of the construction works.

As for the water supply system the detail design will include rehabilitation of karst springs and pumping stations, reservoirs and break pressure chambers, construction of reservoirs Djerane, Brajsa, installation of measuring points and SCADA system, construction of new pipelines with a focus on the main and distribution network of Donji Stoj. Smaller amount of funds will be committed to the wastewater system, for the rehabilitation of sea outfall Djerane, and fecal and storm water sewers downtown Ulcinj.

A risk for the successful implementation of the project may be slowness in fulfilling milestones 2 and 3 defined at the beginning of the investment phase in Ulcinj, and related to the reduction in the number of employees (to 120 prior to tendering the works contract - March 2017, and to 100 before signing thereof – in early 2018), 100% coverage of operating costs of the VIK, and the settlement of outstanding liabilities towards Vodacom. Current number of employees in the VIK is 126 .

KfW representatives pointed out that the achievement of these milestones is an imperative, given that the issue is about crucial items for the sustainability of Euro 20 million investment.

The Consultant has developed a hydraulic model that verified diameters and validated the functionality of the system foreseen in the Feasibility Study. At the request of Vodacom, the Consultant made additional hydraulic analyses for the supply scenarios of Donji Stoj and the urban area of Ulcinj with water from the regional water supply system. Topographic surveys of terrain and pipeline routes, well-logging at the Lisna Bori springs, geotechnical surveys and testing of the sea outfall Djerane have been completed.

In early May the Consultant has approved the Inception Report of the Consultant with a list of investment measures what created preconditions for the completion of detail designs. The company GKW Consult GmbH Mannheim and Beohidro d.o.o. from Belgrade was selected for the review of detail designs, and the preliminary review report was delivered in late July.

In August, KfW submitted its final comments to the design documentation. KfW insists on modification of a group of project measures in a way to construct new structures instead of reconstruction of the existing ones (well fields and BPC), as well as new designs for the reservoir Brajsa, and BPC Fraskanjel in order to reduce costs. In addition, the reconstruction of the well fields Lisna Bori is subject to additional analyses of water quality, as a necessary condition for possible approval of this project measure.

The required steps that need to be taken prior to finalizing design documentation and issuance of KfW's no-objection were defined at the meeting held in Frankfurt between representatives of Vodacom, Consultant and KfW. As agreed at this meeting, Vodacom and the Consultant, upon obtaining approval of the Municipality of Ulcinj, signed an Addendum to the contract that has encompassed the service of preparation of financial analysis of supply options from the regional water supply system, and well as from well fields Lisna Bori, using the net present value method; additional water quality analyses, and compensations for development of new projects.

Although draft tender document was delivered in July, this activity is put on hold until final approval of detail designs.

In order to test water quality at the source Lisna Bori, with the aim of approving its reconstruction by KfW, Vodacom has prepared a Draft Plan for sampling with an analysis of additional electricity costs (generated by including pump aggregates for preparation and washing wells on which the testing will

be carried out) which ViK complied with, and the Public Health Institute took water samples from 7 wells (from 20 to 22 December 2017).



In mid-January, the Consultant submitted a report on the water quality analysis performed on the wells in Lisina Bori, which showed an increased presence of manganese and chlorine in water on majority of wells surveyed. In accordance with KfW's expert opinion excessive manganese and chlorine presence in water has negative consequences for the duration of investments in the distribution system - high concentrations of manganese result in the formation of a residue on water pipes, while chloride contributes to increased corrosion. Taking these results into account, KfW agrees to make limited investments in several wells to ensure the continuous water supply of Ulcinj Municipality during the summer months in the short term (i.e. over the next 5 years).

In the second half of January, KfW experts submitted comments on the design documentation submitted by the Project Manager in mid-December 2017. The above comments together with the design documentation (upon preliminary review) were sent to the reviewer. Given the dilemmas of Vodacom, as well as the comments of KfW experts referring to the project documentation after the first review iteration, Vodacom announced a stakeholders meeting in mid-February in ViK Ulcinj. Upon the request of Vodacom, on 19 January 2018, there was a meeting in Ulcinj Municipality to discuss the steps taken by the Municipality and the ViK regarding the fulfillment of the project milestones which are a prerequisite for further implementation of investment project (number of employees in ViK, conversion of ViK into DOO)

As we have been informed by the representatives of the Municipality, upon the announced Invitation, the company for the preparation of the Study for conditional land subdivision.

On 29/01/2018 there was a public hearing regarding the EIA Study.

The meeting envisaged to be held in mid-February in order to discuss comments of KfW's experts on the design documentation and about all doubts of Vodacom, has been postponed until further notice, upon the request of one part of attendees at this meeting.

Preparation of the conditional land sub-division study is underway. It is expected that this Study is delivered to the Employer by mid-March 2018.

Responses to KfW's comments have been provided by the designer, and KfW experts are in principle satisfied with these. It is necessary that the designer and KfW harmonize several items from the design prior to issuing the certificate for the continuation of the procedure for delivery of design documentation to the reviewer for the second iteration.

In accordance with agreement reached at the meeting of 19/01/2018, the Municipality has sent a letter to the BoD of ViK in order to remind the ViK of its assumed obligation which is defined in the conditions for implementation of the project, and which is related to the reduction in the No of employees to 120 until publishing of the procurement procedure, and to 100 until selection of the Contractor. There was no response obtained by the end of reporting period.

Due to local elections, and the procedure for constitution of new municipal assembly the procedure

for conversion of the legal form of the ViK into a DOO company has been postponed.

### PROBLEMS

The number of employees in ViK is still higher than 120 (126 employees). Although the BoD of Ulcinj ViK has adopted the systematization of the workplaces to 100 (which means that the conditions for reduction of the number of employees have been acquired), it is certain that without the significant assistance of the Municipality, a milestone for reduction of the number of employees to 120 will not be fulfilled, which is a prerequisite for tendering, i.e. for continuing implementation of investment project. In view of the Project, the no of employees in ViK Ulcinj remains the only milestone that has not been achieved in terms of fulfilling of milestones for continuing the investment project in Ulcinj.

In addition, ViK Ulcinj is faced with an additional problem: the lack of qualified employees, especially in the technical sector, which brings into question the ability of ViK to monitor and implement future investments in a high quality manner.

### Supply of installation material

The Contract for the supply of water meters and installation material for ViK Ulcinj became effective on 18 December 2015, as of the signing date by the ViK Ulcinj, on the one hand, and the Contractor JV CMC Controlmatic Commerce doo Herceg Novi & CMC Ekocon doo Buzet, on the other hand. Following to the payment made to the Contractor, the material has been delivered to ViK Ulcinj.

The Contract amounted to Euro 269,991.15 involves the purchase and delivery of spare materials and equipment for daily operations in the ViK Ulcinj. The issue is about supply of new water meters and calibration of existing ones.

Materials and equipment have been supplied, and calibration of all water meters was completed. The Contractor has fulfilled all its contractual obligations towards the ViK. In January, Vodacom certified the Final Payment and forwarded it to KfW. The final report on the aim and effects is completed and forwarded to KfW, the Municipality of Ulcinj and the ViK.

## Kotor, Tivat, Herceg Novi

<b>Description</b>	<b>Water Supply and Sanitation Adriatic Coast</b>
<b>Expected result</b>	<b>Implementation of urgent investment measures in water supply and sanitation system and improvement of environmental conditions</b>
<b>Project Description</b>	<b>Implementation of urgent investment measures for Tivat, Kotor, and Herceg Novi</b>
<b>Value</b>	<b>€ 4,9 million</b>

<b>Funding Sources</b>	<b>KfW grant for project preparation KfW loan for investments</b>
<b>Role of Vodacom</b>	<b>Project Management</b>
<b>Consultant</b>	<b>Consultant for the preparation of technical documentation, Dahlem</b>
<b>Start date</b>	<b>July 2014</b>

#### **PROGRESS**

- Execution of works started on projects in Tivat and Kotor continued in February. Works on the project in Kotor commenced 05/02/2018. Regarding the project in Tivat the focus is on the works on the transmission pipeline. It was pointed to the Contractor that certain recorded delays need to be made up for by the Contractor as soon as possible.
- There are discussions about all problems and the methods of overcoming these at regular progress and technical meetings. MoM are prepared by the Engineer and delivered to all project stakeholders.

## Kotor, Tivat, Herceg Novi

<b>Description</b>	<b>Construction of Sludge Solar Drying Plants for Kotor, Tivat and Herceg Novi</b>
<b>Funding sources</b>	<b>KfW grant for project preparation KfW loan for investments</b>
<b>Value</b>	<b>€ 3 million estimated in accordance with the Sludge Management Study</b>
<b>Contractor</b>	<b>Tender procedure to select the Consultant for project preparation is in progress</b>

#### **PROGRESS**

##### **Development of Feasibility Study (Dahlem)**

On 8 August 2016, the Consultant submitted the final Preparatory Study for the SSDF for WWTP Herceg Novi and WWTP Tivat/Kotor in accordance with the adopted comments and requests of the MoSDT.

Vodacom has submitted its approval of the final Preparatory Study to KfW, and after that KfW has paid the Consultant for the rendered services.

##### **Project implementation**

One of the components of Accompanying measures for the sustainable operation of the WWTP is related to solving the sludge disposal problem.

Mr. Strasser, the Consultant in charge of the Project of Accompanying Measures has prepared a Report

with a Revised Technical-Economic Analysis, explaining the need and cost-effectiveness of the investment in SSDF, based on reduced amounts of sludge from WWTP. In the Report of financial analysis of options for disposal of the sludge using solar sludge drying technology for WWTP Tivat/Kotor show that the investment in SSDF combined with the re-cultivation of both locations using the solar dried sludge, solves the sludge disposal problem by 2040, while the project of re-cultivation of the landfill using dewatered sludge, without treating sludge in SSDF, with 25% DS would provide a solution to the sludge disposal problem by 2030. The implementation of the SSDF is now uncertain due to lack of cost-effectiveness due to the smaller quantities of sludge produced on the WWTP as compared to the anticipated ones. Over the following period the Municipality of Kotor and the Municipality of Tivat should harmonize and adopt a common attitude regarding solving the sludge disposal problem.

## PHASE V (Component 2)

Water Supply and Sanitation Adriatic Coast V (Component 2) is aimed at systematic upgrade of the water supply and sanitation system and improvement of environmental protection conditions in Kotor, Tivat, and Herceg Novi.

Kotor, Tivat, Herceg Novi	
<b>Description</b>	<b>Water Supply and Sanitation Adriatic Coast</b>
<b>Expected result</b>	<b>Systematic upgrade of the water supply and sanitation system and improvement of environmental conditions</b>
<b>Project Description</b>	<b>Implementation of long-term investment measures for TV, KO, HN Development of Feasibility Study</b>
<b>Role of Vodacom</b>	<b>PEA-Project Management</b>
<b>Consultant</b>	<b>Consultant for design preparation, Fichtner</b>
<b>Start date</b>	<b>July 2014</b>

### PROGRESS

#### Development of Feasibility Study

The contract with the Consultant for the preparation of Feasibility study, the company Fichtner, was signed on 31 July 2015, and activities in the field began on 3<sup>rd</sup> of August 2015. Appendix to the Contract No 1 includes additional services for a period of 3 months, beginning on 2<sup>nd</sup> of May 2016. The Consultant delivered the the Final Preparatory Study in on the 14<sup>th</sup> of December 2016. Vodacom has submitted the final Study to KfW for its no-objection.

During the visit of KfW representatives to Montenegro, in early April, it was discussed on the topic of obtaining the approval of the Study and it was agreed that Consultant Fichtner further elaborates one of the project measures with high specific costs, in order to optimize the proposed conceptual solution of the sewage system in the settlement Gradisnica in Tivat. The Consultant subsequently submitted an elaboration on the proposal of KfW, and KfW granted its no-objection to the final version of the Preparatory study on 3 May. Final payment of the consulting services has been

completed.

### **Implementation of long-term investment measures for TV, KO, HN**

All 3 Municipalities have adopted Municipal Assembly's decisions to take the loan. The Municipality of Tivat decided to take Euro 11 million loan, the Municipality of Kotor Euro 5.8 million, while the Municipality of Herceg Novi made decision to take Euro 10 million from Phase V2 loan. The on-lending agreement with the MF for the funds of Phase V2 have been signed by the municipalities.

In November, there was a beginning of PQ procedure for the selection of the Implementation Consultant for Phase V-2 – Tivat, Kotor and Herceg Novi. The Implementation Consultant will be in charge for development of detailed designs, the tender documents for the selection of contractors (under FIDIC Pink Book) and supervision over the construction, for the priority long-term investment measures. The total length of service of the Consultant will be about 4 years.

The PQ procedure was finalized in April 2017, and following the evaluation procedure, there were 5 pre-qualified companies that need to submit their technical and financial bids. In late May, the Tender Agent responsible for the preparation of the ToR has submitted draft document for comments and suggestions.

All Municipalities have submitted their comments/objections on the draft ToR. These were submitted also to Tender Agent and KfW in order to harmonize ToR, while the Municipalities have received responses. In accordance with KfW comments, the measure of rehabilitation/re-cultivation of the dumpsite Lovanja (in the territory of the Kotor and Tivat municipalities), and closed sanitary landfill Lovanja (Kotor territory) using sludge from WWTP Tivat/Kotor is included in the ToR for the Implementation Consultant that will be responsible for preparation of design documents and tender document, while the implementation of this measure, i.e. the supervision will be the optional item.

It is necessary that all three municipalities provide their approval of the ToR before the continuation of the tender procedure. The Municipality of Kotor and the Municipality of Herceg Novi have provided their approval.

Municipality of Tivat in its letter No 0101-355-158 / 28-15 of 24/11/2017 has not approved the ToR of the V2 Implementation Consultant, i.e. it has not approved the long term measure in the Municipality of Kotor, implementation of the detailed design for water and sewerage system in Risan and Perast (including the transmission sewage system towards the settlement Muo) and the connection of these settlements to the central sewerage system of Kotor and the joint WWTP, and the Municipalities demands that no subsequent connections be made which were not foreseen by the original plan, since the Municipality of Tivat covered a larger percentage of the investment costs for the construction of the WWTP.

The measure for the construction of the sewerage network for Risan and Perast settlements is covered by the Single List of Priority Infrastructure Projects (SPP), which was adopted by the Government of Montenegro in June 2017. The Municipality of Kotor, in cooperation with Vodacom, nominated this measure for a grant support under the 3<sup>rd</sup> Call for Proposals by the Western Balkans Investment Framework (WBIF). The final application was submitted to the MoSDT on 28/11/2017 for the further processing and filing of a grant application for the co-financing of this investment.

After sending a series meeting and urgency letters, approval of Tivat Municipality to the ToR for the Consultant for Phase V-2 (needed to enable continuation of the procurement procedure for the selection of the consultant) is still pending.

With its letter to Tivat Municipality (dated 15 February 2018), KfW expressed its concerns regarding the progress of the activities in the Municipality of Tivat, stating that this seriously

jeopardizes the overall success of the joint investment program, and that it is possible to change the concept of implementing long-term investment measures, if there is no progress by the end of February 2018. This change in the concept of implementing long-term investment measures under Phase V2 would imply an interruption in the preparation of all planned long-term investment measures in the Municipality of Tivat. Accordingly, the Tender Documents and the ToR for the Implementation Consultant would be adjusted in such a way as to exclude all the activities related to the investments in Tivat, if no agreement is reached.

The final version of the Tender Document will be submitted to the shortlisted companies (5 pre-qualified consultants), upon receipt of approval of the ToR by all Municipalities and KfW, together with a call for technical and financial tender submission.

## Kotor, Tivat, Herceg Novi

<b>Description of the project</b>	<b>Accompanying Measures: "Sustainable Operation of WWTPs"</b>
<b>Project aim</b>	<b>The long-run proper management of the WWTPs</b>
<b>Value</b>	<b>2 mil. €</b>
<b>Start date</b>	<b>August 2015</b>
<b>Funding sources</b>	<b>KW's grant</b>
<b>Role of Vodacom</b>	<b>PEA</b>

### PROGRESS

Upon the initiative of Vodacom, KfW has engaged an expert to make an appraisal of the specific needs and basic information for Accompanying measures for the sustainable operation of WWTPs in the coastal region of Montenegro, being financed under the German Financial Cooperation with Montenegro, through KfW.

Accompanying measures financed from KfW grant consist of three components:

1. Implementation of the training program for the staff for the O&M of the WWTP and sewerage systems.
2. Support by international experts provided to Municipalities, ViKs, Ministry and Vodacom in connection with urgent aspects related to the sustainable operation of the WWTP, of which the most recognized problem is disposal of the sludge, and defining the operation model for WWTP Tivat/Kotor.
3. Supporting the establishment of the Service for regulated communal activities as a new sector within the Regulatory Agency for electrical energy, and establishment of the proper tariff methodology.

By the Decision of the Municipal Assembly of Bar to allow solely Ulcinj and Bar to dispose sewage sludge to the landfill Mozura, the options of solving the problem of sludge from the WWTP Tivat-Kotor came down to its use for re-cultivation of unregulated landfills - dumpsites.

In this regard, sludge expert had a task as a continuation of consultancy support to propose the most

cost-effective technical solution for the use of sludge, taking into account the legal framework, and to present cost estimate and term of exploitation. The consultant proposed as the best and the most cost-effective option for WWTP Tivat / Kotor, the construction of SSDF with recultivation of old landfills, dumpsite Lovanja (at the territory of Kotor and Tivat) and closed sanitary landfill Lovanja (territory of Kotor) with the use of sludge and soil.

On several occasions, KfW clearly stated its position and recommendations that the measure of rehabilitation/re-cultivation of the landfill - dumpsite Lovanja (in the territory of Kotor and Tivat municipalities) and closed sanitary landfill Lovanja (Kotor territory) using sludge from PPOV Tivat / Kotor needs to be implemented as soon as possible, while the implementation of the SSDF is now uncertain due to the cost-efficiency of the investment, due to smaller amounts of sludge produced at the PPOV than anticipated. The landfill re-cultivation measure using the sludge is to be included as an optional item in the ToR for the Consultant for Implementation for Long Term Measures that will be responsible for preparation of design documents and tender document, while the implementation of this measure, i.e. the supervision will be the optional item.

The negotiations between the municipalities of Tivat and Kotor regarding establishment of a joint company for the WWTP operation have been restarted. As agreed at the meeting held in the Municipality of Tivat (on 27/09/2017), on 10/10/2017 Tivat Municipality submitted to the Municipality of Kotor a proposal of the Addendum to the Agreement regarding the issue of the ownership of the property at the location of the WWTP. The Municipality of Kotor provided its opinion on the proposal of Addendum of Tivat Municipality on 01/11/2017. On 07/12/2017 meetings were held with the Consultant for Accompanying Measures, Mr. Strasser and the Municipalities of Tivat and Kotor with the aim of harmonizing the Addendum to the Agreement and finding the common position of the Municipality about establishment of the company, so that the documentation for the establishment of a joint company can be put in the procedure to be adopted by Municipal Assemblies of both Municipalities. However, the joint agreement has not yet been reached and the company has not yet been established. Consequently, there are still no nominated personnel for WWTP management, despite the fact that, in accordance with the contract, the Contractor is obliged to train staff from the moment of WWTP commissioning. In accordance with the contract with the Contractor, the operation period by the Contractor is foreseen for two years, and to be completed on 31/08/2018. In accordance with the Consultant's and KfW's letters, in order for the Employer to be able to operate the facility upon August 2018, the Employer has to provide staff by 1 January 2018, because otherwise the training period will not be sufficient.

Within the second component, the Consultant prepared the concept of educational and training programs for existing and future employees in the sewerage sector and WWTPs. Upon insisting of KfW, the implementation of this training component has been postponed until establishment of the joint O&M company for WWTP Tivat/Kotor.

The Consultant is also supporting the establishment of a Regulatory Agency for communal activities, i.e. a new service within the Regulatory Agency for Energy. The Consultant's services will be mainly oriented towards the establishment of an appropriate tariff methodology. The first mission of the Consultant organized for the purpose of Regulatory Agency matters was conducted from 01 to 06 October 2017 when the Consultant was in Podgorica. The Consultant has paid another mission to Podgorica in December, in order to support the Regulatory Agency

## Vodacom's activities on capacity development of water utilities

Bar, Herceg Novi, Kotor, Tivat, Ulcinj	
Description	Capacity development of water and sewage utilities
<b>PROGRESS</b>  <b>1. Benchmarking</b> Vodacom is analyzing the data used to mark key performance indicators of ViKs that are presented through the monthly benchmarking reports. Monthly report for January 2017 has been produced and submitted to the MoSDT, Municipalities, ViKs, and benchmarking coordinators for the further use.	