# AGREEMENT

# BETWEEN

# THE GOVERNMENT OF THE REPUBLIC OF ITALY

# AND

# THE GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

For the implementation of the project: “**WASH IN SMALL AND MEDIUM TOWNS**”

The Government of the Italian Republic (hereinafter referred to as “GOI”) and the Government of the Federal Democratic Republic of Ethiopia (hereinafter referred to as “GOE”) hereinafter referred to as the “Parties”, have decided to enter into this Agreement (hereinafter referred to as the “Agreement”):

WHEREAS in the framework of the Plan for Accelerated and Sustained Development to End Poverty Programme (hereinafter referred to as “PASDEP”) of the Ethiopian Government, currently under implementation with the support of the Donor Community and the Italian Government, the Water Supply, Sanitation and Hygiene Services (hereinafter referred to as “WASH”) sector is considered a pillar of the national strategy against poverty;

WHEREAS the policy of the GOE for the WASH sector is detailed in the Universal Access Program for Water Supply and Sanitation Services, 2006-2012 (hereinafter referred to as “UAP”), approved by the Ethiopian Parliament in August 2005. GOE and sector Development Partners are jointly committed to accomplish UAP mandate through a National WASH Programme, which aims at harmonizing different approaches and modalities into a common operational framework.

WHEREAS in March 2006, the Ministries of Water Resources (hereinafter referred to as “MoWR”), Health (hereinafter referred to as “MoH”) and Education (hereinafter referred to as “MoE”) of the Government of Ethiopia signed the Memorandum of Understanding on Water, Sanitation and Hygiene (hereinafter referred to as “WASH MoU”) to coordinate the efforts and start joint operations for planning, implementation and monitoring of water supply, sanitation and hygiene in communities, schools and health institutions;

WHEREAS the Ethiopian and the Italian Governments have signed, on the 21st of April 2009, the Ethio-Italian Cooperation Framework 2009-2011. In this context, the Ministry of Finance and Economic Development of Ethiopia (hereinafter referred to as “MoFED”) and the Italian Ministry of Foreign Affairs (hereinafter referred to as “MAE”) have agreed on the provision of funds in support of the WASH sector, for years 2009-2011, with the modalities of the National WASH Programme.

WHEREAS in April 2009 the Ministry of Water Resources submitted for the consideration of the Italian Development Cooperation/Local Technical Unit in Addis Ababa (hereinafter referred to as “IDC/UTL”) a concept note on “Small and Medium Towns Water Supply and Sanitation Programme”, where priorities and relevant criteria for selection were set up and a list of localities proposed for the fund.

WHEREAS throughout appraisal activities jointly carried out in June 2009 by experts of the Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs (hereinafter referred to as “MAE/DGCS”) and of the WRDF (hereinafter referred to as “WRDF”), the Programme Appraisal Document (hereinafter referred to as PAD) for the initiative named “WASH in Small and Medium Towns” (hereinafter referred to as the “Project”) has been prepared, endorsed by MoFED and on 13.10.2009 sent to the Embassy of Italy in Addis Ababa with a request of financing;

WHEREAS the Board of the Italian Development Cooperation has approved the financing of the Project “WASH in Small and Medium Towns” on 15.03.2010

**The Parties hereby agree as follows:**

## ARTICLE 1

## SCOPE AND CONTENTS OF THE AGREEMENT

1.1 The present Agreement is aimed at:
- Establishing the mutual obligations of the Parties concerning the implementation of the Project;
- Defining crediting, disbursement, procurement, monitoring, evaluation, control and reporting procedures.

1.2 This Agreement consists of the present Text, the Programme Implementation Document (PID) hereto attached in Annex A and the eligibility criteria, ethic clauses and contract general principles document hereto attached in Annex B

## ARTICLE 2

## PROJECT OBJECTIVES

2.1 The **Overall Objective** of the Project is to improve health and hygienic conditions of the population by enforcing the National WaSH Programme and by acting through the strategic national plan for the access to water, sanitation and hygiene (Millennium Development Goal - MDG n.7 target n.2), adopted by the Universal Access Plan of the Government of Ethiopia.

2.2 The **Specific Objective** of the Project is to improve access to clean water and sanitation services in at least 5 towns, through increasing water resources, rehabilitating, constructing, expanding water networks, upgrading public sanitation infrastructures, setting up capacity of Town Water Utilities (hereinafter referred to as "TWUs") in planning, managing, operation and maintenance and of WRDF in managing loans.

## ARTICLE 3

## FINANCIAL CONTRIBUTION OF THE PARTIES

3.1 **Contribution of GOI** - The total financial contribution of the GOI consists in a grant (hereinafter referred to as "Grant") up to a ceiling of **EURO 6,150,000** (six millions one hundred fifty thousand EURO/00), divided as follows:

**Component A - EURO 5,500,000** for the physical implementation of the WASH projects for the selected 5 towns. This amount shall be directly transferred to the MoFED, as representative of the GOE, and then transferred and managed by the WRDF, which is the recipient executing agency. This financing modality is named "channel 1b" according to the modalities agreed by GOE with Development Partners.

**Component B - EURO 650,000** for technical assistance activities related to the execution of the Project in accordance with the provisions of this Agreement. This amount is to be directly managed by MAE/DGCS according to its internal procedures. This financing modality is named "channel 3" according to the according to the modalities agreed by GOE with Development Partners.

3.2 **Contribution of GOE** – The GOE shall ensure that Regional Governments, Town Administrations and, where appropriate, Town Water Utilities share the costs of the Programme as reported in the budget, chapter 3.3 of the PID, estimated at the time of the appraisal in about **59,300,000 Birr** (equivalent to approximately **3,707,000 Euro** considering the official exchange rate of July 2009). The exact amount will be confirmed within the yearly Operational Plans according to the provisions of article 5.7 of this Agreement. Moreover an estimated amount of **18,528,921.59 Birr** is also expected to be borne by the GOE for VAT and any other taxes, which cannot be covered by the Italian funds.

## ARTICLE 4

## INSTITUTIONS AND BODIES INVOLVED IN THE IMPLEMENTATION OF THE AGREEMENT

4.1 The main Institutions and Bodies involved in the implementation of the Agreement are:

4.1.1 For the GOE side:

- The **Ministry of Finance and Economic Development of Ethiopia (MoFED),** representing the GOE as counterpart of the GOI for the Agreement.
- The **Ministries of Water Resources (MoWR),** representing the Institution responsible for the supervision of the activities. It is represented by one delegated person in the Project Steering Committee (see article 5.1 of this Agreement).
- The **Water Resources Development Fund (WRDF),** acting as the main executing recipient agency of the Project and implementing agency for capacity building activities. It is the body in charge to deliver loans to the Town Water Utilities for the implementation of water supply and sanitation projects.
- The **National Bank of Ethiopia** (hereinafter referred to as "**NBE**"), acting as administrator of the "Special Account in Euro – Italian Contribution to the WASH in Small and Medium Towns" (hereinafter referred to as "SA") and the "Special Account in Birrs – Italian Contribution to the WASH in Small and Medium Towns" (hereinafter referred to as "WSA")
- The **Regional Water Bureaus (RWB),** acting as co-financing agencies and as implementing bodies in support of the Town Water Utilities.
- The **Town Administrations** and their **Water Boards,** bodies in charge of Project supervision at local level
- The **Town Water Utilities (TWUs),** representing the final recipient of the loans delivered by the WRDF and acting as main implementing agencies.

4.1.2 For the GOI side:

- The **Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs (MAE/DGCS)**, representing the GOI for the Agreement and acting as Financing Agency for the Component A of the Grant. Regarding the Component B of the Grant (technical assistance), it acts both as Financing Agency and Executing Agency.
- The **Italian Development Cooperation/Local Technical Unit (IDC/UTL)** representing MAE/DGCS in Ethiopia for the implementation of this Agreement. It is responsible for the supervision of the bilateral cooperation activities between Italy and Ethiopia.

## ARTICLE 5

## GOVERNANCE OF THE PROJECT

5.1 A **Project Steering Committee** (hereafter referred to as "PSC") will be the guarantor of the governance of the Project and the relevant decision making body. It will be composed by one representative of the MoWR and one representative of IDC/UTL. All the decisions of the PSC must be unanimously taken. It meets, under request of one of its members, at least once a year or at any time decisions are required. Costs associated with the participation to the meetings, if any, will be borne by the respective institutions.

5.2 The Project will operate within the framework of the National WASH Programme, and, in particular for the Component A of the Grant and the GOE contribution, following the WRDF Financial Management manual in use for the execution of funds on water & sanitation by main donors, including the World Bank (hereinafter referred to as “WB”). WRDF will operate in consultation and full cooperation with the Regional Water Bureaus of the selected localities.

5.3 The execution of the Project shall be under the responsibility of WRDF. The WRDF will provide at its own costs the salaries of the personnel involved in the Project, including the Person in Charge, whose roles and responsibilities are defined in article 5.4 of this Agreement. The WRDF will also provide an adequate office for the Italian Expert whose roles and responsibilities are defined in article 5.5 of this Agreement.

5.4 The Board of WRDF will designate the **Person in Charge** (hereafter referred to as “PIC”), responsible for the management of the Component A of the Grant and the GOE funds provided under the present Agreement. The PIC will be supported by staff of the WRDF. He/she will sign all reports and requests for transfer of funds according to the relevant provisions of the Agreement and will have towards the Parties the responsibility to ensure the full implementation of the Agreement. The PIC, under the overall guidance of the PSC, shall also steer and coordinate the technical assistance provided to the Project through both the Component A and the Component B (Italian Technical Assistance) of the Grant. He/she shall also report on the performance of the technical assistance in line with the provisions of article 7.2 of this Agreement.

5.5 MAE/DGCS will hire an **Italian Expert** (hereafter referred to as “IE”), provided in the framework of the Technical Assistance, whose tasks and responsibilities are detailed in chapter 3.6 of the PID. The detailed ToRs of the IE will be commonly agreed by IDC/UTL and the PIC. Expenses for the Italian technical assistance (including Italian staff and their functioning costs) and the provision of a 4x4 vehicle shall be covered by MAE/DGCS through the Component B of the Grant provided by the GOI. All equipment purchased and the 4x4 vehicle will be handed over to WRDF at the end of the Project.

5.6 **Project Review Meetings** shall take place at least by the end of each semester of activity and attended by the PIC and the IE. These meetings shall review the progress of the Project implementation and suggest corrective measures to the Operational Plan (hereafter referred to as the “OP”), if any, to be approved by the PSC for subsequent implementation. In case of proposed modifications to the PID or to the relevant project implementation schedule or budget lines, the provisions of article 16 of this Agreement shall be applied. The Project Review Meetings should also have the function of Project Mid-Term Review Meetings and a Final Review Meeting of the Project, ideally taking place respectively at the end of the planning/review phase and at the end of its implementation. It is recommended that Project Review Meetings are carried out within the Joint Technical Reviews of the National WASH Programme, if it is found to be necessary.

5.7 **Operational Plan** – As soon as the PIC is appointed and the IE recruited, the PIC in collaboration with the IE will start preparation of the OP for the activities, in line with the PID, to be submitted to the PSC for written approval. The OP and relevant PSC approval shall be transmitted to the IDC/UTL. Subsequent OPs (following the methodologies reported in chapter 3.7 of the PID) and approved by the PSC, will be included in the Instalment Request Report (see article 6.2.1.2 of this Agreement) as additional requirement of MAE/DGCS for the disbursement of the subsequent instalments.

5.8 **Project Implementation Schedule -** The Project Implementation Schedule is tentatively defined in chapter 3.2.2 of the PID. It shall be revised and endorsed within the relevant OPs (see article 5.7 of this Agreement).

## ARTICLE 6

## CREDITING MODALITIES OF ITALIAN FUNDS

6.1 **Bank Account -** The financial resources provided by the Italian side through the Component A and under the present Agreement will be transferred to the "Special Account in Euro – Italian Contribution to the WASH in Small and Medium Towns" (SA) opened by MoFED with NBE. MoFED will open "Special Account in Birrs – Italian Contribution to the WASH in Small and Medium Towns" (WSA) with NBE in favour of WRDF. Following its internal rules, the signatories of the WSA will jointly be the Director General and the Financer of WRDF.

6.2 **Instalments -** Pursuant to the following clauses of this Agreement, upon signature of the present Agreement and completion of its internal procedures, MAE/DGCS will transfer the above mentioned amount of **EURO 5,500,000** in three consecutive instalments. The crediting procedure will be the following:

6.2.1 Crediting to NBE

6.2.1.1 Upon signature of this Agreement, the following pre-conditions have to be fulfilled prior to the start up of the crediting procedure by the MAE/DGCS of the first instalment, according to the PID budget, of **EURO 2,154,000**:

a. MoFED shall have opened the SA and the WSA.
b. WRDF shall have assigned, at no cost for the Project, the PIC.
c. PIC shall submit a specific request for the crediting of the instalment to MAE/DGCS through the IDC/UTL.
d. MAE/DGCS shall have recruited the IE and IDC/UTL shall have communicated his/her appointment to PIC

6.2.1.2 The crediting by DGCS to NBE of the second and the third instalments, according to the PID budget, respectively of **EURO 1,781,000** and **EURO 1,565,000** shall take place:

a. Not within the same Italian Fiscal Year (from January to December) of the crediting of the previous instalment.
b. After an **Instalment Request Report** (hereafter referred as "IRR") has been approved by the PSC and submitted to MAE/DGCS by the PIC through IDC/UTL. The IRR follows the same structure of the **Semi-Annual Reports** (hereafter referred to as "SAR") as detailed in article 7.1 of this Agreement. The financial information contained in the IRR must be audited (see provisions of article 8 of this Agreement).
c. The IRR must show that at least **70% of the amount of the previous instalment has been committed** through eligible contracts and at least **20% disbursed.**
d. The IRR must include subsequent OPs, already approved by the PSC (as per article 5.7 of the Agreement).
e. After MAE/DGCS has verified the correctness and comprehensiveness of the IRR, in line with the provisions of article 7 of this Agreement.

6.3 **Taxes -** The Italian contribution, as detailed in article 3.1 of this Agreement, cannot cover taxes, VAT, duties, clearing and storage charges and any other levies to be paid in Ethiopia. In case any of the above expenses are needed for the execution of the Projects activities, they will be covered by the GOE contribution (see article 3.2 of this Agreement).

## ARTICLE 7

## ACTIVITIES AND FINANCIAL REPORTS (SARs AND IRRs)

7.1 Every six months, Semi Annual Reports shall be drafted by the WRDF and consolidated during the next Project Review Meeting (see article 5.6 of this Agreement). Once consolidated, the SARs shall be transmitted by the PIC to the PSC members no later than 45 days after the expiring of each semester. The IE can add to the SARs his/her own comments.

7.2 The SARs shall include two sections reporting the description of the activities carried out (first section) and the relevant financial, administrative, procurement information (second section). The first section shall also include a specific report produced by the PIC on the performance, the efficiency and the effectiveness of the technical assistance provided to the Project, in line with the provisions of article 5.4 of this Agreement. This report will be also used by the PSC in order to evaluate the possibility of adjusting the technical assistance for the remaining period of the Project, if deemed necessary.
The SARs shall include the disbursements plan for all the Italian funds referred to in this Agreement, as in the relevant OPs. The first of such reports shall cover the first six months of activity starting from the date in which the first instalment has been credited to the SA. The last of the SARs produced shall also have the function of Final Project Report. Detailed modalities for the preparation of the SARs are reported in the chapter 3.7 of the PID.

7.3 The IRR, as detailed in article 6.2.1.2 of this Agreement, shall be used to request planned instalments and following the same structure of the SARs. In case that the IRR does not correspond to the time of the submission of the SAR, the IRR shall consolidate the previous semi annual report and include information over the additional reporting period on activities and disbursement, according to the OP and the PID.

7.4 Day to day monitoring activities of the Project will be responsibility of the WRDF and to be performed using the information gathered from relevant TWUs/Regions and with reference to the previous SARs.

7.5 The PIC is responsible for maintaining an updated accounting system that contains records to ensure the accuracy and reliability of Project financial information and reporting. The accounting system shall also ensure that supporting documents (statements of expenditure, bidding documents, contract documents etc.) are properly identified and that approved/amended budgetary lines are not exceeded. The original documents must be kept in WRDF offices. The accounting system and/or record keeping must track the advances received and the expenditure records by the Project. Financial reports, statement of the executed expenses and contracts shall be presented to PSC whenever required.

7.6 The SARs will be fed in by the PIC in the overall reporting of the WASH sector.

## ARTICLE 8

## EXTERNAL AUDITING AND MONITORING & EVALUATION ACTIVITIES

8.1 The IRRs must be supported by an external audit that certifies the regularity of the expenses and of procurement disbursements, relative to the Component A funds of the Project. The audit will also certify the regularity of procurement procedures. The audit will be performed by the General Auditing office of the GOE according to standard regulations for the public administration in Ethiopia and to article 9.3.

8.2 Parties will have the right to perform, at their own expenses, all the monitoring & evaluation, control and auditing activities that shall be deemed necessary in addition to those already foreseen in the PID. Joint (ongoing, final and ex-post) evaluation activities will be organized by MAE/DGCS through its IDC/UTL office and MoWR whenever deemed appropriate.

## ARTICLE 9

## USE OF ITALIAN FUNDS

9.1 **Funds flows -** The funds will be managed according to the budget allocations agreed in chapter 3.4 of the PID or subsequently modified according to the procedures foreseen in this Agreement. The flow of the Component A funds, provided under the present Agreement, shall be in accordance with the mechanism detailed hereinafter:

9.1.1 MAE/DGCS shall deposit funds into the SA denominated in Euro and opened at the NBE in the name of MoFED.

9.1.1 MoFED will also open the WSA to be utilized by WRDF for Project expenses according to the relevant PID budget.

9.1.2 The WRDF shall revise and appraise applicant towns' projects and sign on-lending agreements with relevant TWUs according to its internal operational and lending procedures, as detailed in chapter 3.2.2 of the PID.

9.1.3 From the WSA, the PIC, in consultation with the IE, will authorize the release of funds for (a) the implementation, by WRDF, of the on-lending agreements with the Town Water Utilities (loans), as detailed in the chapter 3.2.2 of the PID, and (b) to cover the expenses for capacity building and technical support necessary to revise project design and work management (grant).

9.1.4 Once Project activities will be terminated, it is responsibility of the WRDF to ensure that the TWUs repay the loans back in accordance with the provisions of the on-lending agreements. These funds will return to the revolving fund managed by WRDF to finance future water supply and sanitation projects for other towns in the country, according to the priorities of the MoWR. These provisions are in full agreement with WRDF standards regulations.

9.2 **Budget reallocations of the Component A of the Grant -** Budget lines reallocations in respect to the Project Budget in EURO, detailed in chapter 3.4 of the PID, are allowed during the preparation of each OP and within the limits and subject to the conditions established in the following articles. Requests for reallocations will be submitted by the PIC to the PSC for approval. The IDC/UTL, as member of the PSC, is entitled to approve reallocations according to the following conditions:

9.2.1 Budget lines reallocations, up to a maximum of +/- 20% of the original agreed amount of each budget line within the PID Budget, are allowed and do not require this Agreement to be amended.

9.2.2 Budget lines reallocations exceeding the +/- 20% of the original Budget line amounts of the PID and within the total PID Budget shall be submitted, through IDC/UTL, to MAE/DGCS in Rome for prior written approval. Budget reallocations approved by MAE/DGCS do not require this Agreement to be amended.

9.2.3 The amount of the Component A of the Grant (see article 3.1 of this Agreement) is not increasable within the provisions of this Agreement. Hence, if the projects' costs defined by the OPs (see article 5.7 of this Agreement) exceed those foreseen in the PID Budget, and unless this variation is absorbed by favourable variations of the exchange rate EURO/Birr, the difference shall be covered by an increasing of the Contribution of GOE as defined in article 3.2 of this Agreement. Similarly, unfavourable variations of the exchange rate EURO/Birr shall be borne by the Contribution of GOE or with a reduction of activities to be agreed in the subsequent OP.

9.3 **Procurement activities -** Procurement activities will be performed at local level by Town Water Utilities (TWUs), with the assistance of WRDF and Regional Water Bureaus, according to the budget allocations and following existing World Bank procedures, commonly used within the National WASH Programme. They must also meet the eligibility criteria for contractors, eligible and ineligible costs, ethical clauses, contract general principles reported in Annex B of this Agreement.

9.3.1 The IDC/UTL holds the right to review procurement decisions in order to ensure that activities have been conducted transparently and efficiently in conformity with established guidelines. Procurement procedures for the Component A of the Grant are:

a. Draft bidding documents (including the general and special conditions for contractors, invitation to bid, instructions to bidders and the bidding evaluation criteria) and proposals for contract award shall be submitted to the IDC/UTL office in Ethiopia by PIC for **prior "No Objection"**, for contract amounts above the applicable WB procurement thresholds for International Competitive Bidding (ICB):

| | **ICB Thresholds requiring prior "No Objection"** |
|---|---|
| **Service** | more than 200,000 USD per contracts for firms<br>more than 150,000 USD for individual consultants |
| **Goods** | more than 500,000 USD |
| **Works** | more than 5 MUSD |

After "no objection" by IDC/UTL is obtained, the PIC will prepare a technical support document for adopted tender procedures, signed by IDC/UTL, necessary to authorize Town Water Utilities for floating tenders and contracts awarding.

b. A National Competitive Bidding (NCB) is foreseen for contract amounts below the applicable WB procurement thresholds for International Competitive Bidding (ICB)

| | **NCB Thresholds requiring Post Review** |
|---|---|
| **Service** | less than 200,000 USD per contracts for firms<br>less than 150,000 USD for individual consultants |
| **Goods** | less than 500,000 USD |
| **Works** | less than 5 MUSD |

In this case procurement documents and documents regarding selection and awarding of the contractor will be subject to a **Post Review** by the IDC/UTL at any time it is required. A positive result of the Post Review will be a condition to consider the contract eligible for financing out of the funds provided with the Agreement.

c. All the procurement procedures, both for ICB and for NCB, shall be reviewed by the PIC.

d. Construction and rehabilitation activities will follow in general the specific provisions of the WASH Programme Implementation Manual (PIM)

9.3.2 Procurement procedures for the Component B of the Grant: all the activities carried out following channel 3 funding will be directly executed by MAE/DGCS following its own procedures.

9.4 **Interests accrued and savings** - Any interest generated in the SA and in the WSA shall be used for the same purposes and with the same procedures outlined in this Agreement, prior approval of the PSC.

9.5 **Residual funds not utilized** after the validity period of the Agreement, including possible extensions, (see article 17 of this Agreement) should be returned to the MAE/DGCS if not otherwise agreed between the Parties, through exchange of Verbal Notes. In addition, funds remaining within the validity period of the Agreement but exceeding the completion of the PID activities can be agreed to be used for financing additional activities in line with the objectives and the expected results of the Project, upon specific request of the PIC addressed to the PSC for approval.

## ARTICLE 10

## OBLIGATIONS FOR ETHIOPIA

10.1 MoFED shall ensure that the Component A of the Italian funds is properly and timely accounted within the budget for the due fiscal year.

10.2 The MoFED shall communicate to the IDC/UTL, upon the entry into force of the present Agreement, bank accounts details according to what described in article 6 of this Agreement.

10.3 MoFED shall make sure that all the Ethiopian bodies and institutions involved in the Project implementation will observe the provisions of this Agreement, in particular that financial and technical reports, necessary for funds disbursements, shall be timely submitted to MAE/DGCS according to articles 6 and 7 of this Agreement.

10.4 In case there is a need for hard currency as per contract agreement for importation of goods for the projects, MoFED, shall facilitate the provision of hard currency for the contractors in line with the provisions of article 9 of this Agreement.

## ARTICLE 11

## OBLIGATIONS FOR ITALY

11.1 GOI shall disburse the total amount agreed according to the procedures described in article 6 of this Agreement.

11.2 GOI shall accomplish all the required activities for the supervision, monitoring and evaluation of the Project. It shall dedicate particular attention to the efficiency for funds utilization and to the effectiveness of Project implementation, according to the PID.

11.3 GOI shall report to MoFED about the funds disbursed for the Project (Component A and Component B of the Grant) within the usual quarterly reporting of the Italian Development Cooperation initiatives in Ethiopia.

## ARTICLE 12

## SETTLEMENT OF DISPUTES

12.1 Any dispute between the Parties arising out of the implementation of this Agreement shall be settled amicably by consultations or negotiations between the Parties through diplomatic channels.

## ARTICLE 13

## IMPEDIMENTS AND FORCE MAJEURE

13.1 In case of impediments to implement this Agreement due to case of force majeure such as war, flood, fire, typhoon, earthquake, labour conflicts and strikes, civil unrest acts of any government, unexpected transportation difficulties and other cases which will be recognised by both Parties upon agreement as force majeure according to practice or in case of peril or unsafe conditions for the expatriate personnel, the following provisions shall apply:

13.2 In case that the duration of the impediment to the implementation of the Project is less than six months, the use of the funds shall be suspended until MAE/DGCS authorises resumption of activities.

13.3 In case the duration of the impediment to the implementation of the Project is greater than six months, the Project shall be suspended and the residual funds shall be maintained until the impediment finishes and MAE/DGCS authorises resumption of the Project activities.

## ARTICLE 14

## PREVENTION OF ABUSE AND ILLEGAL USE OF FUNDS

14.1 MoFED, MoWR and WRDF shall ensure that the funds provided by GOI under this Agreement will be used strictly in accordance with the provisions of this Agreement. MoFED and WRDF commit themselves to take all reasonable measures to ensure an efficient administration of the aforementioned funds and prevent any abuse and illegal use thereof.

## ARTICLE 15

## RESOLUTION OF THE AGREEMENT

15.1 MAE/DGCS reserves the right to resolve this Agreement in the following cases, due to severe fault by WRDF and MoFED, i.e.:

- 15.1.1 Unmotivated and prolonged delays in the use of the funds such to threat the achievement of Project objectives.
- 15.1.2 The use of the funds for reasons different than those included in this Agreement and its annexes or its amendments.
- 15.1.3 Severe mismanagement of the funds.
- 15.1.4 In the event of failure to implement, or to report on, the program in a manner consistent with the terms of this Agreement.
- 15.1.5 In case of impediment or force majeure as per article 13 of this Agreement.

15.2 In case of the above mentioned severe fault, MAE/DGCS shall notify the event in writing to MoFED, inviting it to take the measures necessary to solve the fault within maximum sixty days from the date of the notification. Passed this time limit, MAE/DGCS reserves itself the right to terminate immediately this Agreement. In this case the provisions contained in article 12 of this Agreement shall apply.

15.3 In the cases mentioned above, MAE/DGCS may decide unilaterally the termination of this Agreement notifying, through Verbal Note, MoFED with at least three months in advance. In all cases, after such notification, MoFED shall stop all activities of the Project, unless otherwise agreed between the two Parties.

## ARTICLE 16

## AMENDMENT TO THE AGREEMENT

16.1 This document and its annexes constitutes the entire Agreement between the Parties and may be altered or varied only by prior written agreement of the Parties and in full respect of its articles no Party shall be bound by any express or implied term, representation, warranty, promise or the like not recorded herein or otherwise created by operation of law.

16.2 The Parties may amend this Agreement, including its Annexes, at any time by means of exchange of Verbal Notes between the Parties. The amendment shall come into force on the date of the second Verbal Note through which the Parties inform each other upon the completion of the relevant internal procedures.

## ARTICLE 17

## ENTRY INTO FORCE, DURATION AND TERMINATION

17.1 This Agreement shall come into force on the date of the last of the Verbal Notes through which the Parties inform each other upon the completion of the relevant internal procedures, as for articles 10 and 11 of this Agreement, and shall remain in force for a period of 36 months. The validity of the Agreement may be extended through exchange of letters between MoFED and the MAE/DGCS through its IDC/UTL office in Addis Ababa.

17.2 At the end of the Project activities, the Final Project Report (see article 7.1 of this Agreement) shall include an additional dedicated to the status of the loans disbursed to the TWUs and the plan of foreseen repayments. On the basis of this information an exchange of Verbal Notes between the Parties shall define the modalities for possible controls by MAE/DGCS of the funds therefore returning to the WRDF in due time and to be used by WRDF according to article 9.1.3 of this Agreement.

17.3 The Agreement may be terminated by either Parties giving 3 (three) months written notice in advance, through the diplomatic channels, of its intention to terminate the Agreement. Funds not credited at the date of termination of the present Agreement shall be returned to the GOI.

17.4 If, for any reason, the execution of this Agreement cannot be completed in conformity with the provision of this Agreement, the Parties shall consult each other on the matter. The funds not yet credited and/or committed shall be utilized only upon a specific agreement between the Parties, otherwise they shall be returned to GOI.

In witness whereof the undersigned, being duly authorized by their respective Governments, have signed and sealed this Agreement in the English language in duplicate, both texts being equally authentic.

Done at …………….………… on this ……..…. Day of …………………………..2010

| FOR THE GOVERNMENT OF THE ITALIAN REPUBLIC | FOR THE GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA |
|---|---|
| H. E Raffaele de Lutio<br>Ambassador of Italy to Ethiopia | H. E. Ato Ahmed Shide<br>State Minister<br>Ministry of Finance and Economic Development |