# AGREEMENT

## BETWEEN

## THE GOVERNMENT OF THE ITALIAN REPUBLIC

## AND

## THE GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

For the implementation of the Programme:

**FINANCING OF THE INITIATIVE "ITALIAN CONTRIBUTION TO THE PROMOTION OF BASIC SERVICES PROGRAMME PHASE III (PBS 3)"**

The government of the Italian Republic and the Government of the Federal Democratic Republic of Ethiopia, both hereinafter referred to as the "Parties" have decided to enter into this Agreement (hereinafter referred to as "Agreement"):

WHEREAS Italy is firmly committed to support the Ethiopian Government in achieving the Millennium Development Goals and the objectives set out in the Growth and Transformation Plan 2011-2015 (hereinafter referred to as GTP);

WHEREAS The Italian strategic cooperation objectives for Ethiopia are based on and are part of the wider country strategy pursued by the EU Member States and Norway, the EU+ Joint Cooperation Strategy, and shared by the Ethiopian Government, in order to improve alignment and harmonization, promote results-based approaches, predictability and transparency, and avoid overlapping;

WHEREAS In line with the principles laid out in the 2005 Paris Declaration on Aid Effectiveness and strengthened in the 2011 Busan Partnership for Effective Development Cooperation, the Italian Development Cooperation will continue to base its interventions in Ethiopia on a programme approach;

WHEREAS under the Ethio-Italian Country Program 2013-2015 (hereinafter referred to as CP) signed by the Ministry of Finance and Economic Development (hereinafter referred to as MoFED) for the Ethiopian side and by the Italian Ministry of Foreign Affairs for the Italian side, it was agreed that basic services (health, WASH and education) and agriculture are the two priority sectors of intervention in order to improve livelihoods and promote human development and economic growth in the Country;

WHEREAS in the CP, it was agreed that the amount of 8 million Euro in soft loan would be allocated to the Promotion of Basic Service programme (hereinafter referred to as PBS or the Programme) implemented in Ethiopia by MoFED with the support of the International Donors Community to expand access and improve the quality of decentralized basic services delivery and enhance local transparency and accountability mechanisms;

The Parties hereby agree as follows:

## ARTICLE 1

## SCOPE AND CONTENTS OF THE AGREEMENT

1. The present Agreement is aimed at:

    - establishing the mutual obligations of the Parties concerning the implementation of the Programme;

    - defining crediting, disbursement, procurement, monitoring, evaluation and reporting procedures.

2. This Agreement consists of the present text, the Technical Project Documents hereto attached in Annex A, the Program Operational Manual (POM) prepared by MoFED hereto attached in Annex B.

## ARTICLE 2

## PROGRAMME OBJECTIVES

The **General Objective** of the Programme is to contribute to expanding access and improving the quality of basic services by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of governments at the regional and local authorities levels The program defines basic services as education, health, agriculture, water supply and sanitation and rural roads.

*The* ***Specific Objectives*** *of the Programme are: to improve availability of qualified staff* and operational resources for delivery of basic services; to improve transparency and fiduciary assurance regarding the use of public funds; to improve citizens' engagement on quality of basic services delivery; to strengthen M&E systems at central, federal, and sub-national levels.

The Programme contributes to MDG 1, Target 1 "Halve, between 1990 and 2015, the proportion of people whose income is less than 1$ a day", and MDG2, Target 1 "Ensure that, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling".

## ARTICLE 3

## FINANCIAL CONTRIBUTIONS BY THE PARTIES

In order to carry out the activities agreed jointly between the Parties in the POM, the financing resources assigned to the Programme will be as follows:

By GOI:

The total financial contribution of the GOI for the Programme consists in a soft loan (hereinafter referred to as the "Loan") of Euro 8,000,000, financed in two instalments under the Channel 1 option directed to MoFED for agreed PBS activities, i.e. Sub-programme A for *Basic Service Block Grants*.

By GOE:

The GOE shall ensure appropriate management of funds according to the POM Arrangements, in Annex B;

Moreover VAT and other taxes, duties, clearing and storage charges and any other levies to be paid in Ethiopia for the execution of the programme activities shall be borne by GOE.

"The soft loan concessionality level will be equal to 80%.

The financial conditions that correspond to such concessionality level in 2013 are the following:

- Annual interest rate:0,00%;

- Repayement: 50 years of which 42 of grace period, in equal, consecutive, and deferred instalments"

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## ARTICLE 4

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

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

1. For the GOE side:

   The MoFED, representing the GOE as counterpart of the GOI for this Agreement and main Executing Agency of the Programme and supervising entity for sub-national implementing institutions for the Sub-programme A. MoFED will provide financial and activities implementation reports as agreed in the POM.

   The National Bank of Ethiopia (hereinafter referred as NBE) acting as administrator of the "USD Sub-Programme A Designated Account" into which all the Development Partners contributing to PBS shall pool financial resources;

2. For the GOI side:

   The MAE/DGCS, representing the GOI for the Agreement and acting as Financing Agency of the Programme.

   The MAE/DGCS is represented in Ethiopia by the Italian Embassy – Italian Cooperation Office (hereinafter referred to as Italian Embassy) which is locally responsible for the bilateral cooperation activities between Italy and Ethiopia.

   The Parties, having properly informed all the above-mentioned Institutions and Bodies, will provide them with a copy of the present Agreement. The Parties will ensure that such Institutions and Bodies will fulfil, for what concerns to each of them, the obligations of the Agreement.

## ARTICLE 5

## GOVERNANCE OF THE PROGRAMME

The Programme shall operate within the regular framework of the PBS using existing Government structures and work closely with other development partners and local stakeholders, including civil society.

The relevant Programme management structure is described in detail, including tasks and responsibilities, in the POM.

## ARTICLE 6

## CREDITING MODALITIES

The GOI under this Agreement commits itself to provide financial resources following the modalities indicated under Article 3.

1. **Bank Accounts**. The financial resources provided by the GOI under the present Agreement will be transferred to the "USD Sub-Programme A Designated Account" into which all the Development Partners contributing to PBS shall pool financial resources. The funds allocated to this component will be then transferred by MoFED to an Ethiopian Birr account in the treasury at MoFED. The funds flow will then follow what described in detail in the POM for Sub-program A for *Basic Service Block Grant*.

2. **Installments**. Upon entering into force of the present Agreement and the signature of a financing agreement between MoFED and the Italian intermediary bank Artigiancassa, the same Artigiancassa will transfer the funds, in two equal instalments of **EURO 4.000.000,00** each, according to the following crediting procedures.

3. **Crediting procedures**. Upon entering into force of this Agreement and financing agreement, the following pre-conditions will have to be fulfilled prior to the start up of the crediting procedure by MAE-DGCS of the first instalment:

   a) MoFED shall have informed the Italian Embassy regarding the details of the "USD Sub-Programme A Designated Account".

   b) MoFED shall submit a specific funding request to Artigiancassa through the Italian Embassy for the start up of the crediting procedures.

   Pre-condition for the disbursement of second installment are:

   a) MoFed shall submit a specific funding request to Artigiancassa through the Italian Embassy for the second installment;

   b) Submission by MOFED to MAE-DGCS of the most recent Interim Financial Report (IFR) for the sub-programme A of the PBS in the agreed format presented in Annex B reporting a disaggregated statement of expenditures incurred in the reference period;

   c)Achievement of an overall "satisfactory" performance assessment of the agreed Tests and Reviews of the Programme evaluated through the latest semi-annual PBS Joint Review Implementation Support (JRIS)/Joint budget Aid review (JBAR) mission of the financial year 2014 as reported in the corresponding Aid Memoire;

   d) Presentation of the most recent annual audit report on the sub-programme A and its satisfactory evaluation by MAE-DGCS and Artigiancassa.

## ARTICLE 7

## ACTIVITIES AND FINANCIAL REPORTS

For Sub-program A, PBS donor funding would only finance recurrent expenditures in the basic service sectors, while Government own revenues would finance both recurrent and capital expenditures (in the basic service sectors), with both types of funding going down to sub-national governments via the block grants. The eligible expenditures would include salary and other recurrent/operating costs.

MoFED shall report on the use of funds, prepare regular Interim Financial Reports (hereinafter referred to as IFRs) for Development Partners including the Italian Cooperation.

Financial reporting shall abide to the following arrangements:

1. Financial reports shall be designed to provide high-quality, timely information on project performance to the Italian Embassy.

2. MoFED will submit quarterly consolidated unaudited interim financial report (IFR) prepared on the basis of actual expenditures for Sub-program A within 90 days of end of the quarter.

3. The formats of these IFRs were agreed at Negotiations and will be produced from the existing government accounting system. The IFRs will therefore include:

   a. A statement of sources and uses of funds, opening and closing balances for the quarter and cumulative;

   b. Statement of uses of funds that shows actual expenditures, appropriately classified by main project activities (categories, components and sub-components). Actual versus budget comparisons, for the quarter and cumulative, shall also be included;

   c. A statement of the cash forecast and requirements for the following six months;

   d. Notes and explanations;

   e. A statement on the flows of funds of the PBSIII Bank Accounts including opening and closing balances and the movements (inflows and outflows);

   f. Additional supporting schedules and documents.

4. Annual financial statements shall adopt the same format as the quarterly reports and may additionally include other issues.

## ARTICLE 8

## EXTERNAL AUDITING AND EVALUATION ACTIVITIES

1. The auditing of annual financial statements and the preparation of annual Audit Reports shall be generally carried out according to the International Standards of Auditing issued by the International Federation of Accountants;

2. The submission of audited financial statements and annual Audit Reports shall follow the procedures jointly agreed on by the Development Partners in the POM;

3. MoFED will be responsible for having the financial statements audited annually and submitting the audit report (audited annual project financial statements and Management letter);

4. Annual audited financial statements of this project will be submitted to development partners within six months of the end of the government fiscal year;

5. The audit shall be carried out by the Office of the Federal Auditor General (OFAG) or a qualified auditor nominated by OFAG and acceptable to the donors;

6. For Sub-program A, OFAG will audit, on a continuous basis, samples of regions and Woredas that have received funds under the program to ensure that funds are used or the purposes intended.

## ARTICLE 9

**Reallocation of funds**

The programme is not subject to reallocation of funds. In the event of the unsatisfactory progress of programme activities as resulting from the Joint Review implementation Mission (JRIS), and of a consequent decision of international donors belonging to the PBS donor group to withdraw funds from the programme, the Italian funds already disbursed to the MoFED and not spent will be made available to the GOI.

**Procurement procedures**

For Sub-programme A all resources are to be spent on recurrent and operational expenditure, and no procurement is considered to be undertaken with the resource allocated under this sub component of PBS.

**Interests and savings**

Any interest generated in the PBSIII Bank Accounts and/or savings shall be used for the same purposes and with the same procedures outlined in this Agreement.

## ARTICLE 10

## OBLIGATIONS FOR ETHIOPIA

1. MoFED shall ensure that the Italian funds are properly and timely accounted within the budget for the due fiscal year.

2. MoFED shall communicate to the Italian Embassy, upon the entry into force of the financing agreement, bank accounts details according to what described in article 6 of this Agreement.

3. MoFED shall make sure that all the Ethiopian bodies and institutions involved in the Project implementation will observe the provisions of this Agreement.

## ARTICLE 11

## OBLIGATIONS FOR ITALY

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

2. GOI shall accomplish all the required activities for the supervision, monitoring and evaluation of the Programme. It shall dedicate particular attention to the efficiency for funds utilization and to the effectiveness of programme implementation, according to the POM.

3. GOI shall report to MoFED about the funds disbursed for the Programme, including funds not included in the present Agreement for technical assistance, supervision, monitoring and evaluation, within the usual quarterly reporting of the Italian Development Cooperation initiatives in Ethiopia.

## ARTICLE 12

## SETTLEMENT OF DISPUTES

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

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:

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

    b. In case the duration of the impediment to the implementation of the Programme 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 Programme activities.

## ARTICLE 14

## PREVENTION OF ABUSE AND ILLEGAL USE OF FUNDS

MoFED shall ensure that the funds provided by GOI under this Agreement will be used strictly in accordance with the provisions of this Agreement. MoFED 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

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

    a) Unmotivated and prolonged delays in the use of the funds such to threat the achievement of Programme objectives.

    b) The use of the funds for reasons different than those included in this Agreement and its annexes or its amendments.

    c) Severe mismanagement of the funds.

    d) In the event of failure to implement, or to report on, the program in a manner consistent with the terms of this Agreement.

    e) In case of impediment or force majeure as per article 13 of this Agreement.

2. In case of the above mentioned severe fault, MAE/DGCS shall notify the event in writing to MoFED, inviting him 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.

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 Programme, unless otherwise agreed between the two Parties.

## ARTICLE 16

## AMENDMENT TO THE AGREEMENT

1. This document and its annexes constitute 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.

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

1. This Agreement shall come into force on the date of the latest of the Verbal Notes through which the Parties inform each other upon the completion of the relevant internal procedures and shall remain in force until the complete reimburse of the soft loan.

2. 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.

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 Addis Abeba...... on this 5th....... Day of September..........2014

FOR THE GOVERNMENT OF THE
ITALIAN REPUBLIC

H.E. Giuseppe Mistretta
Ambassador of Italy to Ethiopia

FOR THE GOVERNMENT OF THE
FEDERAL DEMOCRATIC REPUBLIC
OF ETHIOPIA

H.E. Ato Ahmed Shide
State Minister
Ministry of Finance and Economic Development