AGREEMENT BETWEEN

THE DIRECTORATE GENERAL FOR DEVELOPMENT COOPERATION OF THE ITALIAN MINITRY OF FOREIGN AFFAIRS AND INTERNATIONAL COOPERATION

AND

THE PALESTINIAN MINISTRY OF FINANCE

ON THE PROGRAM

"PALESTINIAN SMALL & MEDIUM ENTERPRISES (SME) DEVELOPMENT PROGRAM"

The Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs and International Cooperation (hereinafter "MAECI-DGCS") and the Ministry of Finance of Palestine[1] (hereinafter "MoF"), both jointly referred to as "the Parties" and separately as a "Party":

WHEREAS a strong relationship is established between the Italian Government and Palestine, in particular through the implementation of significant bilateral cooperation;

WHEREAS the MAECI-DGCS Steering Committee ("Comitato Direzionale") has approved the initiative "Private Sector Development Program to Support Small and Medium Enterprises thought the Private Palestinian Banking System" – later renamed "Palestinian Small & Medium Enterprises (SME) Development Program" – and committed related funds, on March 29, 2004 (Decree n. 9);

CONSCIOUS that on July 22, 2004, the Italian Government and Palestine signed a Memorandum of Understanding for the initiative "Palestinian Small & Medium Enterprises (SME) Development Program" aimed at establishing a EUR 25,000,000.00 (twenty five million) credit line to support the Palestinian private sector;

CONSCIOUS that on May 5, 2005, a Financial Convention regulating the disbursement of the above-mentioned credit line was signed;

CONSCIOUS that the first instalment of the above-mentioned credit line, amounting to EUR 9,000,000.00 (nine million), was already transferred to the Palestinian Ministry of Finance;

CONSCIOUS that the Memorandum of Understanding signed on July 22, 2004 was amended by the Parties, by the exchange of two Verbal Notes, dated respectively March 11, 2005 and July 27, 2012;

CONSCIOUS that the Financial Convention signed on May 5, 2005 was amended on October 8, 2012;

WHEREAS on November 23, 2012, the "Development Cooperation Framework Agreement between the Government of the Italian Republic and the Palestinian National Authority" has been signed by the Parties.

DESIRING to strengthen their relationship and wishing to continue their partnership in the "Palestinian Small & Medium Enterprises (SME) Development Program", by improving the program and continue to better support the Palestinian private sector in accessing affordable credit opportunities:

HEREBY AGREE as follows:

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[1] This designation [illegible] Italian Government [illegible]

CLAUSE 1
PURPOSE OF THE AGREEMENT

1.1 This Agreement regulates:

- The disbursement of EUR 16,000,000.00 (sixteen million), which shall be understood as the residual amount of the EUR 25,000,000.00 (twenty-five million) soft loan, as foreseen within the framework of the initiative "Private Sector Development Program to Support Small and Medium Enterprises thought the Private Palestinian Banking System" – later renamed "Palestinian Small & Medium Enterprises (SME) Development Program", mentioned in the Preamble.
- The amount of EUR 9,000,000.00 (nine million) already disbursed to the MoF but utilized (on-lended to SME) only for an amount of [circa 2,200,000.00].

1.2 Upon its entry into force, this Agreement has the purpose to set forth the conditions and modalities regulating the whole EUR 25,000,000.00 soft loan and the Program, aimed to facilitate access to credit for the Palestinian private sector, through the financial and non-financial services provided by the Program.

1.3 This Agreement establishes the mutual obligations of the Parties concerning the financing and the implementation of the Program. In this context, it defines modalities and procedures for management, crediting, disbursement, procurement, monitoring, evaluation and reporting related to the Program.

CLAUSE 2
PARTS AND DEFINITIONS

2.1 This Agreement consists of fourteen clauses and of the following two Annexes:

- Annex 1: Guidelines for the Program Implementation.
- Annex 2: Eligibility Criteria, Ethical Clauses, Contract General Principles.

2.2 The above-mentioned annexes shall be considered an essential and substantial part of this Agreement.

CLAUSE 3
PROGRAM DESCRIPTION

3.1 The soft loan is aimed to support the MoF in promoting economic growth in Palestine, revitalizing the local private sector, creating new job opportunities and reducing unemployment, with the overall goal of ameliorating the socio-economic conditions of the Palestinian population. More specifically, as described in Annex 1, the soft loan shall be used by the MoF to establish a credit line, in order to facilitate access to credit for the Palestinian private sector. Moreover, part of the credit line may be used to finance investment for the benefit of the Palestinian public sector.

3.2 The credit line shall finance the purchase of goods and/or services, aiming to start or improve productive and/or employment-generating projects and/or activities in any economic sector. For instance, the credit line can be used to finance new investments, revamping or modernization of production lines, acquisition of new equipment (new or second-hand), technology and related technical assistance, maintenance, spare parts, industrial licence, etc.

3.3 The credit line shall finance the acquisition of goods and/or services, to be purchased in Italy, locally, OCSE countries and developing countries, in compliance with the guidelines set forth in Annexes 1 and 2. In this regard, a maximum of 95% of the soft loan may be utilised to purchase non-Italian origin goods and/or services.

CLAUSE 4
INSTITUTIONS AND BODIES INVOLVED IN THE IMPLEMENTATION OF THE PROGRAM

4.1 The MoF and MAECI-DGCS shall be the competent authorities in the matters pertaining to the implementation of this Agreement.

4.2 Beside the MoF and the MAECI-DGCS, the other Institutions and Bodies involved in the implementation of the Program are:

4.2.1 For the Palestinian side:

- The Ministry of the National Economy;
- The Palestinian Monetary Authority;
- The Palestinian private sector organizations – such as the Chambers of Commerce, Palestinian Federation of Industries, etc.

4.2.2 For the Italian side:

- Artigiancassa S.p.A., acting as the Lender and signatory for the Italian side of the Financial Convention, designated by the Government of the Italian Republic to provide and manage the soft loan, including disbursements and collection of repayments;
- Italian Development Cooperation Office of the Consulate General of Italy in Jerusalem.

CLAUSE 5
OBLIGATIONS OF THE ITALIAN GOVERNMENT

5.1 The MAECI-DGCS engages itself in disbursing up to the residual amount of the Program credit line, amounting to EUR 16,000,000.00 (sixteen million), on soft loan basis as per Clause 1 of this Agreement.

5.2 Over and above the soft loan sum, the MAECI-DGCS will provide technical assistance to the MoF in implementing the Program.

CLAUSE 6
OBLIGATIONS OF THE PALESTINIAN SIDE

6.1 The Palestinian Ministry of Finance engages itself in fulfilling all the obligations deriving from this Agreement, in particular:

6.1.1 Ensuring the implementation of the Programme according to the provisions of the present Agreement, including Annex 1, being responsible for the use of the soft loan, for the awarding and management of the credit line and for the supervision of the activities;

6.1.3 Ensuring that, in case of tendering procedures to be conducted on the public sector share of the soft loan, the public institutions will act in compliance with the procurement procedures in force in the PNA and with Annex 2 – Eligibility Criteria, Ethical Clauses, Contract General Principles.

6.1.5 Ensuring that MAECI-DGCS personnel will have access to the Program areas and to the Program technical documentation in order to allow for control, monitoring and evaluation activities. The MoF shall therefore retain records of all financial transactions for five years after the completion of the Program.

6.1.6 In case of tendering procedures to be conducted on the public sector share of the soft loan MAECI-DGCS will check the bidding process. If the total contract amount is above the latest version of the EU "Practical Guide to Contract Procedures for EU External Actions (PRAG)" ceilings (at the moment of the signature of the MoU: supplies and services EUR 300.000,00, civil work 5.000.000,00). MAECI-DGCS will conduct ex-ante checks. If the total contract amount is below the above-mentioned ceilings, the checks will be conducted ex-post and certified by an auditing company, appointed by the PNA.

CLAUSE 7
GOVERNANCE AND IMPLEMENTATION OF THE PROGRAM

7.1 Upon signature of this Agreement and completion of the internal procedures, the Ministry of Finance and Artigiancassa S.p.A. will enter into an amendment process of the Financial Convention signed on May 5, 2005, based on what is set forth in this Agreement. The Financial Convention will provide the legal framework between the Lender and the Borrower and will include the provisions of the present Agreement specifying the procedure for the disbursement and repayment.

7.2 The MoF will later enter into an amendment process of the Framework On-Lending Agreement (hereinafter "FOA") already signed with six Palestinian private banks. Moreover, the MoF will sign a FOA with the new financial institutions willing to access the credit line.

7.3 The overall supervision of the project will be granted to the Credit Line Steering Committee (hereinafter "CLSC"), whose mandate is to provide guidelines, suggest improvements and measure the impact of the Program against expected results. The CLSC will be composed by the representatives of MoF, Italian Development Cooperation Office of the Consulate General of Italy in Jerusalem, Ministry of National Economy, Palestine Monetary Authority and private sector organizations – such as the Chambers of Commerce and the Palestinian Federation of Industries. CLSC meetings will be held on a six-month basis.

CLAUSE 8
SOFT LOAN TERMS, CONDITIONS AND CREDITING PROCEDURES

8.1 The soft loan shall have the following financial conditions:

- Interest rate: 0.00% per year;
- Repayment: 38 years of which 18 of grace period, in equal, consecutive and deferred instalments

8.2 The soft loan disbursing procedures shall be detailed in the Amended Financial Convention, to be signed between the MoF and Artigiancassa S.p.A., upon the entry into force of this Agreement, and based on the Financial Convention signed on May 5, 2015. In particular, a request of disbursement for an amount of EUR 8,000,000.00 (eight million) shall be credited by Artigiancassa S.p.A. after at least 40.00% of the first instalment of EUR 9,000,000.00 (nine million) has been spent, and after MAECI-DGCS and Artigiancassa S.p.A. verification and approval of the Audited Financial/Procurement Report received by the MoF. The last request of disbursement for an amount of EUR 8,000,000.00 (eight million) shall be credited after at least 40.00% of the previous instalment has been spent and after MAECI-DGCS and Artigiancassa S.p.A. verification and approval of the Audited Financial/Procurement Report received by the MoF. Such Audited report shall cover also the expenses incurred on the first instalment not covered by the first report. After 24 months from the disbursement of the last instalment, the Auditing Company shall produce a final Audited Report, which shall cover the remaining expenses not covered by previous audited report. The MoF irrevocably undertakes to retransfer to the Italian Government the amount equal to the expenditures not approved by MAECI-DGCS and Artigiancassa S.p.A.

CLAUSE 9
MONITORING DURING IMPLEMENTATION

9.1 MAECI-DGCS reserves the right to control the implementation of the Program and the transparent effective and efficient use of the funds provided by the Government of the Italian Republic. MAECI DGCS control activities may be carried out both in Italy and locally through: (i) MAECI-DGCS experts during specific missions; (ii) personnel of the Italian General Consulate in Jerusalem.

9.2 Control activities on disbursement are assigned to Artigiancassa S.p.A.

CLAUSE 10
IMPEDIMENTS AND FORCE MAJEURE

10.1 In case of impediments to the implementation of the Program due to causes of force majeure recognised by both Parties according to practice (such as wars, floods, fires, typhoons, earthquakes, labour conflicts and strikes, acts of any government, unexpected transportation difficulties or other causes) or in case of peril or unsafe conditions for the expatriate personnel, the following provisions shall apply:

10.1.1 In case the duration of the impediment to the implementation of the Program is less than 12 months, the Program activities shall be suspended. The residual funds shall be maintained until the impediment finishes and MAECI-DGCS authorises resumption of the Program activities;

10.1.2 In case the duration of the impediment to the implementation of the Program is greater than 12 months, the Parties shall agree on the destination of the residual funds.

CLAUSE 11
AMENDMENTS TO THE AGREEMENT

11.1 The Parties may modify this Agreement at any time. Any modification must be set out in written and shall come into force according to the same procedures as set forth in clause 14.

CLAUSE 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.

CLAUSE 13
TERMINATION OF THE AGREEMENT

13.1 The MAECI-DGCS reserves the right to terminate this Agreement in case of evident, unmotivated and prolonged delays in implementation of the Program.

CLAUSE 14
ENTRY INTO FORCE AND DURATION

14.1 The present Agreement shall enter into force on the date of receipt of the last notification by which the Parties will inform each other on the completion of their domestic procedures necessary for the adoption of this Agreement.

14.2. This Agreement shall have the same duration of the soft loan.

[illegible] In the event the Parties terminate this Agreement it is understood and agreed that the [illegible] DGCS could ask, with immediate effect, for reimbursement of any unspent monies and accrued interest made under terms of this Agreement.

IN WITNESS WHEREOF, the undersigned, being duly authorised by their respective Governments, have signed the present Agreement.

Done ~~at~~ in Ramallah on the 29th of June, 2015 in two originals each in the English language, both texts being equally authentic

H.E. the Minister of Foreign Affairs and International Cooperation of Italy
Paolo Gentiloni

H.E. the Minister of Finance of Palestine
Shukri Bishara