AGREEMENT

BETWEEN

THE GOVERNMENT OF THE ITALIAN REPUBLIC

AND

THE GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

For the implementation of the Programme:

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME – DRSLP-

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"), both hereinafter referred to as the "Parties" have decided to enter into this Agreement (hereinafter referred to as "Agreement"):

WHEREAS in the framework of the Growth and Transformation Plan (hereinafter referred to as "GTP") of the GOE, currently under implementation with the support of the Donor Community and the GOI, the development of sustainable Agriculture and the achievement of food security represent one of the main pillars of the national strategy to end poverty;

WHEREAS Italy is firmly committed to supporting the Ethiopian Government in achieving the objectives set out in the IGAD Drought Disaster Resilience and Sustainability Initiative (hereinafter referred to as "IDDRSI") and endorsed by the GOE in the Country Programme Paper (hereinafter referred to as "CPP");

WHEREAS The strategic cooperation objectives of the GOI 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 GOE, 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 (hereinafter referred to as "IDC") will continue to base its interventions in Ethiopia on a programmatic approach and in coordination with other actors of the Rural Economic Development and Food Security Sector Working Group (hereinafter referred to as "RED&FS SWG");

WHEREAS under the Ethio-Italian Country Programme 2013-2015 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 and International Cooperation for the Italian side, it was agreed that Agriculture and Rural Development would have been a priority sector of intervention in order to improve livelihoods and promote human development and economic growth in the Country;

WHEREAS it was agreed in the Ethio-Italian Country Programme 2013-2015 to allocate 12 million Euro in the form of soft loan to the Drought Resilience and Sustainable Livelihoods Programme - DRSLP (hereinafter referred to as "the Programme") implemented in Ethiopia by the Ministry of Agriculture (hereinafter referred to as MoA) to promote resilience to droughts and other climatic shocks, and ensure food security in selected woredas (districts) of the arid and semi-arid land areas of the Country;

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 Programme;
- defining use of funds, procurement, monitoring, evaluation and reporting procedures.

1.2 This Agreement consists of the present text, to the Project Document (hereinafter referred to as "PD") hereto attached in Annex A, and to the IDC procurement guidelines ("Eligibility Criteria, Ethical Clauses, Contract General Principles") hereto attached in Annex B.

1.3 Acronyms and abbreviations used:

AOP	=	Annual Operational Plan
CPP	=	Country Programme Paper
CU	=	Coordination Unit
DRSLP	=	Drought Resilience and Sustainable Livelihoods Programme
FSC	=	Federal Steering Committee
GOE	=	Government of Ethiopia
GOI	=	Government of Italy
GTP	=	Growth and Transformation Plan
IDC	=	Italian Development Cooperation
IDDRSI	=	IGAD Drought and Disasters Resilience and Sustainability Initiative
MAECI/DGCS	=	Directorate-General for Development Cooperation of the Italian Ministry of Foreign Affairs and International Cooperation
MDG	=	Millennium Development Goal
MoA	=	Ministry of Agriculture of the Federal Democratic Republic of Ethiopia
MoFED	=	Ministry of Finance and Economic Development of the Federal Democratic Republic of Ethiopia
NBE	=	National Bank of Ethiopia
OECD	=	Organisation for Economic Cooperation and Development
OFAG	=	Office of the Federal Auditor General
PCU	=	Programme Coordination Unit
PD	=	Project Document
RED&FS SWG	=	Rural Economic Development and Food Security Sector Working Group
SC	=	Steering Committee
VAT	=	Value Added Tax

ARTICLE 2

PROGRAMME OBJECTIVES

2.1 The **General Objective** of the Programme is to contribute to the achievement of MDG 1 (T1C): halve, between 1990 and 2015, the proportion of people who suffer from hunger

2.2 The **Specific Objective** of the Programme is to enhance drought resilience and improve sustainable livelihoods of the pastoral and agro-pastoral communities in selected weredas of Afar Region.

ARTICLE 3

FINANCIAL CONTRIBUTIONS BY THE PARTIES

3.1 In order to carry out the activities agreed jointly between the Parties in the PD, 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 12.000.000,00 financed under the Channel 2 option directed to MoA for agreed Programme activities. The general conditions of the loan are described in the article 6 of this Agreement, while crediting and disbursement modalities are described in the "Financial Agreement" to be signed between Artigiancassa (the financial institution managing the soft loans on behalf of GOI) and MoA/MoFED.

Additional grant resources will be availed and directly managed by the GOI in order to provide the required Technical Assistance for the implementation of the activities, as described in the PD (Annex A)

By GOE:

The GOE shall ensure appropriate management of funds according to the provisions of this Agreement and relevant Annexes;

As detailed in the PD (Annex A), the GOE shall ensure that contributions (in cash, in kind and in labour) from communities and authorities are fully and timely delivered;

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, cannot be covered by GOI funds and therefore shall be entirely borne by GOE.

The Soft Loan concessionality level will be equal to 70%.

The financial conditions that correspond to such concessionality level in 2014 are the following:

- Annual interest rate: 0,00%;
- Repayment: 38 years of which 28 of grace period, in equal, consecutive, and deferred instalments

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:

For the GOE side:

4.1.1 The Ministry of Finance and Economic Development - MoFED, representing the GOE as counterpart of the GOI for this Agreement;

4.1.2 The Ministry of Agriculture - MoA as the Executing Agency of the Programme at federal level and supervising entity of the regional implementing institutions for the Programme. MoA will provide financial and activities implementation reports as agreed in this Agreement.

4.1.3 The sector Regional Bureaus of Afar Regional State involved in the Programme and acting as main implementing agencies;

4.1.4 Decentralized institutions (Zone, Weredas, Kebeles) of the Afar Regional State involved in the Programme and acting as implementing agencies;

4.1.5 The National Bank of Ethiopia (hereinafter referred as NBE) acting as administrator of the two "Special Accounts" for the Programme, in Euro and ETB as defined in article 6 of this Agreement and into which the GOI shall transfer agreed funds;

For the GOI side:

4.1.6 The MAECI/DGCS, representing the GOI for the Agreement and acting as Financing Agency of the Programme and providing required technical assistance.

4.1.7 The MAECI/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.

4.2 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 each of them, all the obligations of this Agreement.

ARTICLE 5

GOVERNANCE OF THE PROGRAMME

5.1 The Programme shall operate within the framework of the CPP, under the governance mechanisms agreed by MoA and Development Partners supporting the sector through harmonized and aligned arrangements. For what concerns the governance of the Programme, this shall follow the mechanisms described in the PD representing Annex A of this Agreement.

5.2 The implementation of the Programme will follow Government policies and strategies in such a way as to ensure transparency and local ownership. Programme Coordination Units (hereinafter referred to as "PCUs") as well as Steering Committees (hereinafter referred to as "SCs") will be established at the federal, regional (Afar) and woreda levels. PCUs will be supported by technical committees at federal, regional and woreda levels. Roles and responsibilities as well as the composition of CUs and SCs are summarized below and described in further detail in the PD representing Annex A of this Agreement.

5.3 The Italian Embassy will be represented in the Federal SC (hereinafter referred to as "FSC"), as well as other Development Partners supporting the initiative, along with representatives of GoE institutions as described in the PD, par 5.2.1.

5.4 PCUs shall be defined and operate as described in the PD, par 5.2.1

5.5 An Annual Operational Plan (hereinafter referred to as "AOP") shall be produced by the Federal PCU in consultation with the Italian Embassy and other relevant stakeholders. AOPs are an important requirement for the physical implementation of activities and shall be produced at the beginning of each year of activities. They will include a detailed plan of the activities to be implemented and relevant financial and human resources required. They must be endorsed by the FSC before their implementation. AOPs will take into account activities and interventions of other Development Partners in the area so as to create synergies and avoid overlapping. The format of the AOPs will be developed by the Federal PCU in consultation with IDC and other Development Partners in order to unify standards and models. AOPs can be refined and/or reviewed during their implementation, if need be, and any modification (including budget reallocations – see article 9 of this Agreement) must be notified to and approved by the FSC.

5.6 The Loan is untied, according to the 2008 OECD "DAC Recommendation on Untying ODA to the Least Developed Countries and Heavily Indebted Poor Countries", being Ethiopia classified as a heavily indebted poor country, and to the corresponding resolution n.93 of the 6th of November 2009 by the Interministerial Committee for Economic Programming (CIPE) of the Italian Council of Ministers.

5.7 Draft bidding documents related to the procurement of goods and services for which international competitive bidding procedures apply, and whose amounts exceed the thresholds defined by the World Bank's procurement rules, shall be submitted through the Italian Embassy in Addis Ababa to MAECI/DGCS, which shall give no objection to the publication of the tender notice. The contracting entity shall evaluate bids, prepare an evaluation report of both bids and bidding procedures, and provisionally award the contract. All documents concerning the bidding procedure, including contract drafts, shall be sent through the Italian Embassy in Addis Ababa to MAECI/DGCS, which shall give no objection to the final award and signature of the contract.

ARTICLE 6

CREDITING MODALITIES OF ITALIAN FUNDS

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

6.1 **Bank Accounts**: the financial resources provided by the GOI under the provisions of the present Agreement shall be transferred to the Special Euro Account "MoA – Drought Resilience and Sustainable Livelihoods Programme funded by the GOI" opened by MoFED at the NBE. MoFED/MoA will also open a Special Birr Account "MoA – Drought Resilience and Sustainable Livelihoods Programme funded by the GOI" at the NBE. The Programme fund flow is described in the annexed PD.

6.2 Disbursements of funds from the Special Euro Account to the Special Birr Account shall be requested by MoA to the NBE according to the cash flow forecast agreed in the Annual Operational Plans.

6.3 **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 6.000.000,00** each, according to the following crediting procedures.

6.4 This amount shall be transferred to the Special Euro Account of and shall be managed by MoA according to the procedures agreed in this Agreement.

6.5 **Crediting procedures:** Upon entering into force of this Agreement, the following pre-conditions will have to be fulfilled prior to the start up of the crediting procedure by MAECI/DGCS of the first installment:

a) MoA/MoFED shall have opened the Special Accounts in Euro and Birr at NBE and sent Bank account details to the IDC/Artigiancassa.

b) MoA/MoFED shall have submitted a specific funding request to the MAECI-DGCS through the IDC and Artigiancassa in order to start crediting procedures.

6.6 The second instalment of **EUR 6.000.000** shall be transferred upon official request from MoA to IDC/Artigiancassa. Such request shall be in the form of a financial report, as described in article 7, and shall show that at least 70% of the amount of the previous instalment has been committed through eligible contracts and at least 30% has been spent. The financial report for the request of the second instalment must be audited according to the provision of article 8 of this Agreement and shall consolidate previous semi annual reports and include relevant information of the additional period (from the conclusion of the last report) on activities and disbursement. Within 6 months from the conclusion of project activities, the GOE shall submit an audited technical and financial report regarding all funds disbursed by Artigiancassa and shall, according to the report, return all unspent amounts. The above mentioned report shall be approved by MAECI/DGCS and by Artigiancassa. The GOI shall be able to request the restitution of all amounts that the GOE did not spend in compliance to this Agreement, to the AOP or to the contracts that received no objection by MAECI/DGCS; the audit report and/or inspections carried out by MAECI/DGCS and/or Artigiancassa shall evaluate the compliance in using the funds.

6.7 Financial (and technical) reporting requirements are described in the article 7 of this Agreement.

6.8 Taxes: the GOI financial resources, as mentioned 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 required for the execution of the Programme, they shall be entirely borne by the GOE.

ARTICLE 7

ACTIVITIES AND FINANCIAL & TECHNICAL REPORTS

7.1 Programme activities shall be coordinated by the SCs at federal, regional and woreda levels. Day-to-day management shall be handled by the regional and federal PCUs as well as by dedicated coordination structures at the zonal and woreda levels as described in the annexed PD.

7.2 Every six months, Semi Annual Reports shall be prepared by the Federal PCU, which is expected to consolidate relevant financial and technical information gathered from decentralized Programme coordination structures. Reports for the Programme funded by IDC shall be harmonized with and following the same procedures of similar reports produced by MoA for other DPs' interventions operating in the sector under the same PCUs.

7.3 Semi Annual Reports shall include two different sections as follows:

- a technical section reporting a detailed description of the activities performed in the period, Programme achievements against relevant Annual Operational Plan and indicators as well as a brief description of the Italian Technical Assistance provided, in terms of performance, efficiency and effectiveness. This will allow the FSC to eventually adjust the support provided by the Italian Technical Assistance for the remaining period of the Programme. This section shall also include a schedule of the activities planned for the next semester.

- a financial section reporting a detailed description of the Italian funds utilization. This section shall include: i) statement of sources and uses of funds, opening and closing balances for the period and overall, supported by relevant bank statements for both Special Accounts; ii) a statement of the uses of funds showing actual expenditures, appropriately classified by main project activities (categories, components and sub-components). Actual versus budget comparisons, for the semester and overall, shall also be included; iii) A statement of the cash forecast and requirements for the following six months according to the plan of activities indicated in the technical section; iv) notes, explanations and relevant supporting documents.

Reporting shall abide to the following arrangements:

7.4 Reports shall be designed to provide high-quality, timely information on project performance to the IDC.

7.5 Consolidated Semi Annual Reports shall be delivered to the FSC members no later than 30 days after the end of each semester.

7.6 The request for the second instalment (see article 6.6 of this Agreement) shall be produced according to provisions detailed in article 7 and subject to audit as per provisions of article 8.

7.7 The Final report of the Programme shall consolidate all the technical and financial information over the entire life of the initiative. It shall be subject to a final financial audit of all the expenditures occurred, excluding those already audited for the request of the second instalment.

7.8 Consolidated reports will be fed in the overall sector reporting coordinated with the RED&FS SWG.

ARTICLE 8

EXTERNAL AUDITING AND EVALUATION ACTIVITIES

8.1 The financial report for the request of the second instalment must be audited as well as the final report of the Programme according to the International Standards of Auditing issued by the International Federation of Accountants;

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

8.3 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 GOI;

8.4 The audit shall certify the correctness of expenditures occurred as well as of the procurement procedures performed in relation to the contracts whose amounts fall below the threshold set by the World Bank's procurement rules.

ARTICLE 9

USE OF ITALIAN FUNDS

9.1 Management of Programme funds shall be done according to what stated in the PD, par. 5.1

9.2 **Budget lines reallocations** in respect to the Project Budget in Euro, detailed in the PD par.5.3, are allowed during the implementation of the Programme and within the limits and conditions established in the following articles. Request for reallocations shall be submitted by the federal PCU to the FSC. The IDC, as member of the FSC, 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 amount of each budget line within the Budget in the PD, are allowed and do not require any amendments of this Agreement. The federal PCU is required to notify the FSC of such variation

9.2.2 Budget line reallocations exceeding the +/- 20% of the original amount of each budget line within the Budget in the PD are allowed prior written approval of the IDC and MAECI/DGCS and do not require this Agreement to be amended.

9.3 **Procurement** activities shall comply with the World Bank procedures in use in the Country. Procurement activities will be performed by the Federal PCUs, the Regional PCUs and, wherever possible, by decentralized institutions, acting on behalf of interested communities. Procurement activities shall comply with the eligibility criteria for contractors, consultants, eligible and ineligible costs, ethical clauses, contract general principles reported in this Agreement and in Annex B.

9.4 **Interests and savings** generated in the Special Accounts shall be used for the Programme purposes and with the same procedures outlined in this Agreement.

9.5 **Residual funds not utilized** after the validity period of this Agreement, including possible extensions, shall be used for additional activities upon written approval of the Parties.

9.6 The amount of the Italian financing is not increasable within the provisions of this Agreement. Hence, if the Programme costs defined by the relevant AOPs exceed those foreseen in the PD Budget, and unless this variation is absorbed by favourable variations of the exchange rate EURO/Birr, the difference shall be covered by the GOE. Similarly, unfavourable variations of the exchange rate EURO/Birr shall be borne by the GOE or with a reduction of activities to be agreed in the subsequent Operational Plans. Any variation of the AOPs shall be valid upon written approval of the Parties.

ARTICLE 10

OBLIGATIONS FOR ETHIOPIA

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

10.2 MoFED shall communicate to the Italian Embassy, upon 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.

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 Programme. It shall dedicate particular attention to the efficiency for funds utilization and to the effectiveness of programme implementation, according to the PD.

11.3 GOI shall report to MoFED about the funds disbursed for the Programme 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 cases 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:

13.1.1 In case the impediment to the implementation of the Programme lasts less than six months, the use of the funds shall be suspended until MAECI/DGCS authorises resumption of activities.

13.1.2 In case the impediment to the implementation of the Programme lasts more than six months, the Project shall be suspended and the residual funds shall be maintained until the impediment finishes and MAECI/DGCS authorises resumption of the Programme activities.

ARTICLE 14

PREVENTION OF ABUSE AND ILLEGAL USE OF FUNDS

14.1 MoFED and MoA 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 MoA 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 MAECI/DGCS reserves the right to resolve this Agreement in the following cases, due to severe fault by MoFED or MoA i.e.:

a) Unmotivated and prolonged delays in the use of the funds such to threaten 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.

15.2 In case of the above mentioned severe fault, MAECI/DGCS shall notify the event in writing to MoFED and MoA, inviting them to take the measures necessary to solving the fault within a maximum of sixty days from the date of the notification. Once this time limit has passed, MAECI/DGCS reserves itself the right to terminate this Agreement immediately. In this case the provisions contained in article 12 of this Agreement shall apply.

15.3 In the cases mentioned above, MAECI/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.

15.4 In the cases mentioned above at point b) and c), MAECI/DGCS reserves itself the right to notify request for reimbursement of funds for the amount mismanaged or not properly used to the program. Upon expiry of 60 days from the reimbursement request, without prejudice to the results of the measures mentioned in the Article 12, the MoFED agrees to reimburse to MAECI/DGCS funds for the amount required by transferring them to the bank account that will be specifically notified.

ARTICLE 16

AMENDMENTS TO THE AGREEMENT

16.1 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.

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 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 reimbursement of the soft loan.

17.2 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.

This Agreement shall apply in full respect of the rules and regulations implemented in the two States, as well as the international obligations to which the two States have mutually adhered, and those deriving from Italy's membership to the European Union.

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

Done in ..Addis Ababa.... on this ..15.... Day of ..January.........2015

FOR THE GOVERNMENT OF THE ITALIAN REPUBLIC	FOR THE GOVERNMENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
H.E. Paolo Gentiloni Minister Ministry of Foreign Affairs and International Cooperation	H.E. Sufian Ahmed Minister Ministry of Finance and Economic Development

The Federal Democratic Republic of Ethiopia
Ministry of Finance and Economic Development