



## Memorandum of Understanding

BETWEEN

THE DIRECTORATE GENERAL FOR DEVELOPMENT CO-OPERATION  
OF THE ITALIAN MINISTRY OF FOREIGN AFFAIRS

AND

THE PALESTINIAN MINISTRY OF FINANCE

ON THE PROJECT:

**"START UP PALESTINE  
Financial vehicles and technical assistance to boost employment and income  
generation in Palestine"**

### Preamble

The Directorate General for Development Co-operation of the Ministry of Foreign Affairs of the Italian Republic (hereinafter "DGCS") and the Ministry of Finance of Palestine<sup>1</sup> (hereinafter "MoF"), hereinafter referred to as the "Parties", have decided to enter into this Memorandum of Understanding, hereinafter referred to as the "MoU", for the implementation of the initiative "START UP Palestine - Financial vehicles and technical assistance to boost employment and income generation in Palestine".

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

WHEREAS During the Joint Steering Committee held in Rome (November 23<sup>rd</sup> 2012) a pledge has been issued by the Italian Government specifically for the implementation of cooperation initiatives in the Economic Development sector;

WHEREAS On November 23<sup>rd</sup> 2012, the *Development Cooperation Framework Agreement between the Government of the Italian Republic and the Palestinian National Authority* has been signed by Parties.

WHEREAS Palestine within its "National Development Plan 2011-2013 –

<sup>1</sup> This designation shall not be construed as recognition of a State of Palestine by the Italian Government and is without prejudice to the position of the Italian Government on this issue.

Establishing the State, building our future” has highlighted the importance to “ support and empower the poor and other vulnerable citizens and their families and to prepare youth for a fulfilling life and productive work in Palestine”;

WHEREAS the DGCS and the Palestinian Ministry of Finance have agreed to allocate part of the above mentioned pledge to *tackle the need of credit of vulnerable categories and financing micro and small entrepreneurship’s initiatives through existing financial institutions (Palestinian Funds for Employment and Social Protection, Cooperatives Associations for Saving and Credit and other financial non banking institutions), as well as expanding the operational capacity of Small and Medium Enterprises (SME’s) in order to stimulate employment opportunities in Palestine.*

WHEREAS The DGCS Steering Committee (“Comitato Direzionale”) has approved the Project “START UP PALESTINE” Financial vehicles and technical assistance to boost employment and income generation in Palestine” and committed related funds, on September 19<sup>th</sup> 2013 (CD decree nr. 137).

WHEREAS the DGCS strives to comply with the Paris Declaration Principles of Aid Effectiveness, including strengthening Palestinian National Authority's ownership of the development process by providing technical cooperation that support social- economic sector capacity development requirements.

The Parties hereby agree to implement the Initiative according to the following:

#### **Article 1. Purpose of the MoU**

- 1.1 This MoU establishes the mutual obligations of the Parties concerning the financing and the implementation of the Initiative.
- 1.2 In this context, it defines modalities and procedures for management, crediting, disbursement, procurement, monitoring, evaluation and reporting related to the Initiative.

#### **Article 2. Parts of the MoU**

- 2.1 This MoU consists of 12 Articles and two annexes:
  - Annex 1 - Project Document.
  - Annex 2 - Procurement Guidelines
- 2.2 The above-mentioned annexes will be considered an essential and substantial part of the MoU. In case of inconsistency, the articles herein shall prevail over the annexes.

### Article 3. Project description

- 3.1 The Project aims to support a substantial growth in employment rate and thus income generation in Palestine.
- 3.2 **General Objective.** The Project contributes to tackle the need of credit of vulnerable categories and financing micro and small entrepreneurship's initiatives through existing financial institutions (Palestinian Funds for Employment and Social Protection, and Cooperatives Associations for Saving and Credit and other financial non banking institutions), as well as expanding the operational capacity of Micro, Small and Medium Enterprises (MSME's) in order to stimulate employment opportunities.
- 3.3 **Specific Objectives.** As described in the Project Document, within the time span of the intervention, the Project wants to achieve the following:
- Improve the capacity of the Palestinian Fund for Employment and Social Protection to provide financial instruments and technical assistance (advisory and coaching services) to marginalized and vulnerable categories and primarily to young graduates and women, as well as the unemployed workers in general, thus implementing guidelines and policies of the Palestinian Ministry of Labor.
  - Increase the capitalization of Cooperative Associations for Saving and Credit and their ability to provide their members as well as agriculture cooperatives and farmers in Palestine with structured financial products and advisory services.
- 3.4 The Project includes a Soft Loan component (amounting Euro 20 million) and a Grant component (amounting Euro 1.8 million).
- 3.5 The Soft Loan component, its purpose and conditions are regulated by a specific agreement – Financial Agreement – signed by MoF and by the financial institution appointed by Italian Government.
- 3.6 Part of the grant component, amounting to Euro 700.000, will be transferred to MoF as earmarked budget support for the benefit of the Palestinian Fund for Employment and Social Protection (PFESP). The remaining part of the grant component, amounting to Euro 1.100.000, will be managed by DGCS.
- 3.7 All the transactions on both the Grant component and the Soft Loan component shall be recorded in financial reports issued respectively by PFESP (for the Grant component, according to Art. 5 and Art. 9 of the present MoU) and by MoF (for the Soft Loan component, according to the provision of the Financial Agreement).
- 3.8 All the financial reports shall be audited by an independent Chartered Accountant in accordance with internationally accepted audit standards (IFAC and INTOSAI). The cost of auditing services will be borne by DGCS; MoF will be the contracting authority. Terms of reference for the Auditor selection will be drafted by PFESP with ITA technical assistance and then submitted to MoF and DGCS for approval.

#### **Article 4. Management structure and procedures**

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

4.1.1 **For Palestine side:**

- (a) The Ministry of Finance, acting as the Palestinian counterpart for this MoU, ensuring that all Palestinian bodies involved in the project will fulfill their obligations.
- (b) The Palestinian Fund for Employment and Social Protection, acting as the Executing Agency for activities reported in the project document.
- (c) The Ministry of Labor, according to its competence over labor policies mostly on strategic level, and relying on its database system (LMIS), as well as the cooperatives' management. The Minister of Labor will be in charge of chairing Programme's Advisory Committee.

4.1.2 **For the Italian side:**

- (a) The DGCS, acting as:
  - the Italian Counterpart for this MoU, ensuring that all Italian bodies involved will fulfill their obligations,
  - the financing body,
  - the provider of the Italian technical assistance (ITA), through a pool of locally based Italian experts,
  - part of the project control system
- (b) The Consulate General of Italy (CGI)/Development Cooperation Unit (UTL) that will contribute to the supervision of the overall project implementation.

4.2 The Parties, having properly informed all the above-mentioned Institutions, will provide them with a copy of the present MoU. The Parties will ensure that such Institutions will fulfill, for what concerns each of them, the obligations of the MoU.

4.3 The Project will be implemented on the basis of an annual Operational/Financial Plan, prepared by the PFESP and ITA in accordance with the activities planned and described in the Project Document (Annex 1).

4.4 The PFESP, with the active support of the UTL, will act as technical office of the project and will be in charge of managing the soft loan component, designing and setting up the financial instruments under the soft loan provision.

4.5 The overall supervision of the project will be granted by the Advisory Committee, the programme board aimed to: provide guidelines, approve annual Operational/Financial Plans prepared by the PFESP and ITA and measure the impact of the initiative against expected results.

4.6 The Advisory Committee (AC) will be composed by a high level representation that should act on policy & strategic level as follows:

- Minister of Labor – Chairperson of the Committee
- a representative of the MoF

- Two representatives of the Italian side, one from the Consulate General of Italy in Jerusalem and the other from UTL.

The PFESP through its Executive Director will act as Secretariat and coordinator for the AC.

- 4.7 The AC may take benefit of inputs and proposals coming from different stakeholders, such as: Ministry of Agriculture, Ministry of Social Affairs, Ministry of National Economy, Ministry of Women Affairs, Women Business Associations and Cooperatives' Associations, as well as other parties and any other institution and/or body working on the project priorities.
- 4.8 AC meetings will be held on a six-month basis and will approve Annual Operational Plans provided by PFESP. Additional meetings may be called by the AC Chairperson, upon agreement of the other members. Decisions will be taken by consensus based voting procedures.
- 4.9 Procurement procedures of the Project related to the execution of the Quarterly Work Plans.
- 4.9.1 The procedures adopted for procurement related to the execution of the project shall be carried out under the responsibility of PFESP with the support and assistance of the DGCS's appointed experts.
- 4.9.2 Purchases of goods and services not exceeding EUR 40.000 (forty thousand Euros) under the present MoU will abide to the rules and procedures of the PA.
- 4.9.3 Procurement activities, for amount exceeding Euro 40.000 (forty thousand Euros) shall abide to the rules and procedures in their most recent version adopted by the European Commission in the context of co-operation initiatives (Annex 2).

#### **Article 5. Disbursement procedures of the earmarked budget support funds**

- 5.1 The financial resources of Euro 700,000 will be transferred by DGCS to MoF as earmarked budget support for the benefit of the PFESP. The Italian side will provide formal communication to the MoF, after this MoU becomes effective, as per its Article 14.
- 5.2 Funds will be transferred by DGCS to a dedicated Single Treasury Account (STA) to be opened by MoF at the **Arab Bank of Almasyoum** Branch n. **9090-100084-592** and named *STA - Start Up Palestine initiative*.
- 5.3 The MoF will in turn transfer the funds to a Special Account at the **Arab Bank of Irsal** Branch n. **9340-230752-530**, opened by/for PFESP and named '*Special Account - START UP Palestine initiative* hereinafter referred to as "Special Account"
- 5.4 The Special Account will be managed by the PFESP; PFSEP, according to the Annual Operational Plans, will prepare a quarterly detailed work plan for the proposed quarterly expenditures. Expenditures will be performed upon request

from PFESP of prior approval by ITA of Development Cooperation Unit for the quarterly work plan.

- 5.5 Expenditures will be performed through bank drafts with mandatory signatures of authorized signatories of PFESP.
- 5.6 Upon signature of the present MoU, fulfillment of conditions set in the project document and completion of DGCS internal procedures, the DGCS will transfer the funds into two installments:
- a first installment of Euro 350,000
  - a second and last installment of Euro 350,000
- 5.7 **Release of the first installment.** This release will be performed after the signature of this MoU, and following a specific request from the MoF, containing the bank account details, as per above paragraph 5.2.
- 5.8 **Release of the second installment.** This release will be performed:
- not before at least 80% of the first installment has been committed and 50% of the first installment has been disbursed.
  - after the submission by the PFESP of the first Progress Report, as described at Art. 9 and the issuing of its approval by the DGCS, following analysis and endorsement by the AC.
- 5.9 The First Progress Report shall be complemented by a Report audited by an independent Chartered Accountant in accordance with internationally accepted audit standards (IFAC and INTOSAI).
- 5.10 The PFESP will have responsibility on: accounting system, financial management, expenditure tracking and records filing, and will provide to the MoF and DGCS full accessibility to all documents, for financial reconciliation purpose.
- 5.11 Interest accrued on DGCS funding shall be fully accounted for in the Project Special Account and tracked in the financial records. A statement of the accrued interests should be submitted to DGCS, through the Italian Consulate General in Jerusalem, on a biannual basis for tracking purposes. These funds can only be used for the benefit of the project, for implementing activities, after formal agreement between the Parties.
- 5.12 At project conclusion, a Final Report, as described at Art. 9 will be prepared by the PFESP and submitted to the MoF and DGCS, after analysis and endorsement by the AC.
- 5.13 Also the Final Report shall be complemented by a Report audited by the selected independent Chartered Accountant.
- 5.14 After completion of the Project any unused money shall be returned to the DGCS.

5.15 The MOF and DGCS may, either jointly or separately, and at any time during the duration of this MoU or any renewal or extension thereof, evaluate the implementation of the Project. The cost of such evaluation shall be borne by the Party initiating such evaluation.

#### **Article 6. Budget reallocations**

- 6.1 Increasing or decreasing a budget line allocation by less than 10% of its original figure, is allowed through a decision of the AC, that shall timely communicate in writing the approved reallocation to the DGCS.
- 6.2 Reallocations equal to or exceeding 10% of a budget line original figure will require a written approval by the DGCS and an amendment to the present MoU.
- 6.3 All Budget line reallocations shall be carefully reflected in the Project reporting documents.

#### **Article 7. Obligations of the DGCS**

- 7.1 To assure, through assigned staff, project monitoring, control and evaluation; a particular attention will be allocated to resources utilization, in relation to goals achievement within the planned timeframe.
- 7.2 To support, where needed, planning and training activities organizing technical assistance missions.
- 7.3 To provide a total grant fund of Euro 700.000 to MoF as earmarked budget support for the benefit of the PFESP. The grant fund provided as earmarked budget support will be allocated as reported in the project document (Annex 1).
- 7.4 The fund of Euro 700.000 will be transferred to the Project Special Account, into two installments, as described at Art. 5.6.
- 7.5 The remaining part of the Technical Assistance funds, amounting to Euro 1.100.000, will be directly managed by the DGCS.

#### **Article 8. Obligations of the MOF**

- 8.1 To open the project dedicated STA bank account, as described in Art. 5.2.
- 8.2 To overview the management of the financial resources provided to the project by the present MoU, ensuring that funds will be used according to criteria of transparency, competitiveness and good governance.
- 8.3 To assure that the PFESP will:
  - Open the Special Account, as described in Art. 5.3
  - Submit to the AC all Technical and Financial Reports forecasted by this MoU, to be forwarded to the DGCS.

- 8.4 To facilitate a fruitful collaboration between Palestinian institutions involved in the Project and DGCS, including the possibility of DGCS personnel to access to the Project areas and to the Project technical documentation for monitoring and evaluation purposes.

### Article 9. Reporting

- 9.1 **The First Annual Progress Report of the earmarked budget support component** is composed by the following set of documents:
- 9.1.1 Related to activities financed through the earmarked budget support mechanism and implemented in the first year:
- (a) **The First Annual Technical Report of the earmarked budget support component** on the activities performed; this report should include:
- the list of actions initially planned for the first year, as per endorsed in the First Annual Operational Plan, detailing activities, components and beneficiaries;
  - a detailed description of implemented activities and achieved results, in comparison to the First Annual Operational Planned according to agreed indicators;
  - The list of technical issues/problems faced in the period by the Project and the related implemented solutions.
- (b) **The First Annual Financial Report of the earmarked budget support component** on the expenditures performed and/or committed (i.e. contracts and/or service level agreements, consistent to the content and the procedures of this MoU). This report should include:
- a copy of the approved budget of the first year, as per endorsed First Annual Financial Plan, split according to budget items, detailing planned expenditures per activity, component and beneficiaries.
  - the list of performed expenditures, split according to budget items, detailing payments per activity, component, beneficiaries and the calculated balance on the first installment
  - an official financial statement of the Special Account, provided by the Arab Bank of Irsal Branch
  - the list of financial issues/problems faced by the Project, together with the related implemented solutions
- (c) **The First Annual Procurement Report of the earmarked budget support component**, related to the purchase of goods and/or services. Such a report should illustrate the number of procurement processes implemented, as well as the bidding procedures followed, their outcome and a list of issues/problems faced, with the related implemented solutions.
- 9.1.2 Related to **planned** activities financed through the earmarked budget support mechanism and **implemented** in the second year:



- (a) The **Second Annual Operational Plan** containing the list of actions planned for the second year, and endorsed by the AC, detailing activities, components, beneficiaries.
- (b) The **Second Annual Financial Plan** presenting the budget of the second year, as endorsed by the AC, split according to budget items, detailing planned expenditures per activity, component and beneficiaries. This budget will be composed by:
- the balance of the previous (first) installment, plus
  - the second installment
- 9.2 The **Final Report** will be composed by the following:
- (a) The **Final Technical Report** on activities performed; this report will include:
- the overall comparison between Project expected results and the achieved ones;
  - the list of actions initially planned in the endorsed Second Annual Operational Plan, detailing activities, components and beneficiaries
  - a detailed description of implemented activities and achieved results, in comparison to the Second Annual Operational Plan and according to agreed indicators;
  - The list of all technical issues faced by the Project in the period and related implemented solutions.
- (b) The **Final Financial Report** on expenditures performed. The Final Financial Report should include:
- a copy of the approved budget of the second year, as per endorsed second Financial Plan, split according to budget items, detailing planned expenditures per activity, component and beneficiaries.
  - the list of performed expenditures, split according to budget items, detailing payments per activity, component and beneficiaries and the calculated total balance
  - an official financial statement of the Special Account, provided by the Arab Bank of Irsal Branch
  - the list of financial issues/problems faced by the Project, together with the related implemented solutions
- (c) The **Second Final Procurement Report**, related to the purchase of goods and/or services in the second year. Such a report should illustrate the number of procurement processes implemented in the period, as well as the used bidding procedures, their outcome and a list of issues/problems faced, with related implemented solutions.

#### **Article 10. Impediments and Force Majeure**

- 10.1 In case of impediments to the implementation of the project due to causes of *force majeure* recognized by both Parties according to practice (such as war, flood, fire, typhoon, earthquake, labor conflicts and strikes, acts of any government, or other causes) or in case of peril or unsafe conditions for the expatriate personnel, the following provisions shall apply:

10.1.1 Within the first 6 (six) months of impediment the Project activities shall be suspended and the residual funds shall be frozen until the impediment finishes and the DGCS authorizes resumption of Project's activities;

10.1.2 In case the duration of the impediment is greater than 6 (six) months, the Parties shall agree on the destination of the residual funds, which can be made available after exchange of letters between the Parties, notifying each other the conclusion of the internal approval procedures.

#### **Article 11. Suspension of the disbursement by DGCS**

11.1 The DGCS reserves the right to terminate this MoU in the following events:

11.1.1 In case of serious non-fulfillment by the MOF and/or by the PFESP; this includes the following events:

- Untimely project startup, i.e. within the first semester after reception of the first installment;
- Extended unmotivated delays in the utilization of the DGCS granted funds, jeopardizing project implementation;
- Utilization of DGCS granted funds for implementing activities not pertinent to the Project, as described in this MoU and in its Annexes;
- Serious faults in the management of the DGCS granted funds, detected by the independent Chartered Accountant as per Art. 5, or by DGCS experts.

11.1.2 In case of impediments as per Art. 10

11.2 In any case, the Special Account shall remain operational until all expenditures incurred by PFESP have been satisfied.

#### **Article 12. Settlement of disputes, Amendments and Entry into force**

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

12.2 The Parties may modify this MoU, including its Annexes, at any time. Any modification must be set out in written form such as an exchange of verbal notes by Parties.

12.3 This MoU shall enter into force after the signature of both Parties notified by exchange of letters between the Parties, notifying each the conclusion of the internal approval procedure i.e. the reception of the second letter.

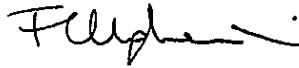
12.4 This MoU shall remain into force until project's completion and according to the soft loan repayment schedule agreed by Parties.

In witness thereof the undersigned, duly authorized, have signed the present MoU.

Done in RAHALLAM...on 17/07/2014, in two originals, each in English language, both texts being equally authentic.

For and on behalf of DGCS

FEDERICA MOGHERINI  
Minister of Foreign Affairs



For and on behalf of MoF

Dr. RIAD MALKI  
Minister of Foreign Affairs

