

PALESTINIAN TERRITORY

START UP PALESTINE

Financial vehicles and technical assistance to boost employment and income generation in Palestine



PROGRAMMING 2013-2015

Acronyms and definitions:

CASC	Cooperative Associations for Saving and Credit
DCS	Development Cooperation Strategy
ESIMP	Electric Sector Investment Programme
ILO	International Labor Organization
MAE – DGCS	Italian Ministry of Foreign Affairs – Directorate General for Development Cooperation
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoL	Ministry of Labor
MSME	Micro, Small and Medium Enterprises
PARC	Palestinian Agriculture Relief Committee
PFESP	Palestinian Fund for Employment and Social Protection
PMA	Palestinian Monetary Authority
SME	Small and Medium Enterprises
TA	Technical Assistance
TA – CASC	Technical Assistance to Cooperative Associations for Saving and Credit
TA – PFESP	Technical Assistance to the Palestinian Fund for Employment and Social Protection

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Project Document

1) Fostering socio-economic development in Palestine

The Italian Development Cooperation recognizes the primary relevance that a sustainable economic growth has for the completion of the Palestinian institution-building process and for the promotion of social welfare and stability.

Along the years the economic development programmes financed by the Italian Government in support of the private sector have contributed to the growth of a sound business environment in Palestine. Through the provision of two soft loans (for an overall commitment exceeding € 55 million) the Italian Development Cooperation sustains both the improvement and rehabilitation of the electricity network system in Palestine (Electric Sector Investment Programme - ESIMP) whilst providing support to Small and Medium Enterprises in accessing affordable source of finance in the local credit market (Palestinian SME-s Development Programme).

In recent years both programmes have been profoundly revised to better respond to the changed needs of Palestinian private sector.

As far as the Palestinian SME-s Development Programme is concerned, in year 2011 and 2012 new financial and non-financial facilities have been studied and designed to provide local SME-s with a well-tailored assistance and an easier access to finance. Within this framework the existing Credit Line, aimed to finance technology transfer from Italian companies to Palestinian counterparts, will be coupled with the provision of Business Advisory Services for local beneficiaries and with a new Small Loan Facility (commercial loan ranging between Euro 15.000 and Euro 50.000).

Although the revisions applied, the Palestinian SME Development Programme is far from satisfying the needs of a vast majority of local companies in terms of access to credit; as the backbone of the Palestinian economy is mainly composed by micro and small enterprises working in traditional sectors (90% of Palestinian companies employ less than 4 people), their demand of credit is hardly matched by commercial banks operating in the local market. Such companies are often over-exposed to severe fluctuations in their cash flow streams; therefore working capital and consumption credit financing schemes play a prominent role in supporting poor people and vulnerable categories against unexpected negative economic shocks.

Accessing affordable finance for micro and small enterprises is a key issue towards which Palestine has addressed policies and plans with the objective of enhancing the flourish of new businesses and support wider employment opportunities specifically for marginalized categories (women, young graduates, ex-detainees, people with disabilities and special needs and unemployed people in general). The attention paid to these priorities is dramatically risen up nowadays as the fiscal unbalance affecting Palestine is turning into a wider economic and social crisis, with the official unemployment rate reaching 23% in the West Bank and 31% in Gaza (the rate is almost 50% amongst women in Gaza); as

reported by the International Labor Organization (ILO), almost 18.5% of young Palestinians are neither in the labor force nor in education, including 31.4% of young women².

Stimulating access to affordable finance for such marginalized categories is therefore meant as a way to reduce unemployment and to generate new income capabilities for the most vulnerable part of the Palestinian community, thus complying with their essential needs.

2) Development Cooperation Strategy Palestine (2013 – 2015)

The Development Cooperation Framework Agreement signed in Rome by the representatives of the Italian Government and Palestine on November 23rd, 2012, sets the basic rules and principles for all the activities to be performed by the Italian Development Cooperation in Palestine.

Within that framework, the Parties agreed to refer to a subsidiary agreement – *The Italian Development Cooperation Strategy for the Palestinian Territory 2013 – 2015* (DCS) – to specify and indicate the main objectives, the fields of intervention, financial resources and related tools as well as the timeframe for designing and set up programmes and initiatives financed by the Italian Government for the benefit of development in West Bank, East Jerusalem and Gaza.

According to the DCS 2013 – 2015, all the Development Cooperation Programmes financed by the Italian Cooperation in Palestine will be addressing three main sectors:

- a) Gender and Social Protection
- b) Health
- c) Economic Development

The availability of funds provided by the Italian Government for development cooperation activities in Palestine for 2013- 2015 is amounting to € 60 Million, divided into two components:

- € 30 Million component for soft loans
- € 30 Million as a grant component

As far as Economic Development sector is concerned, funds available will be amounting to € 21.8 Million, divided as follows:

- € 20 Million soft loan component. The Italian Government will provide the mentioned loan to Palestine at the following confessional conditions:

a. Loan Amount	b. Repayment Period	c. Grace Period	d. Interest Rate
Euro 20.000.000	32 years	21 Years	0,00%

The soft loan will be disbursed in consecutive installments, according to the working schemes of each of the provided components (as detailed in par. 3.3).

²The Situation of workers in the occupied Arab territory – ILO, 2013

- € 1.8 Million as a grant to finance a Technical Assistance component, including: institutional and human resource development, capacity building and budget support measures.

3) START UP Palestine – Programme Rationale

3.1) Programme Objectives:

Considering access to finance for small businesses as a key instrument to foster a substantial growth in employment rate and thus income generation in Palestine, the new Programme – **START UP Palestine** – will be aimed 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.

Specific objectives of the Programme are:

- Improving 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 Palestine and strategies stemmed from the Ministry of Labor's mandate.
- 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.

3.2) Beneficiaries:

Key beneficiaries are primarily Palestinian micro and small enterprises (MSMEs) as single units or cooperatives of workers/farmers etc., as well as partnerships businesses based on gender equality. A specific attention will be paid to start up companies especially those set up by young entrepreneurs and women entrepreneurs and also existing MSMEs will be targeted by the programme activities.

Farmers' cooperatives operating in Palestine, especially those residing and working in Area C and beside the separation wall, will be addressed as well as they share the same difficulties in accessing affordable finance as other beneficiaries. Specific attention will be paid to the Cooperative Associations for Saving and Credit (CASC) system that along the years have assisted Palestinian farmers' cooperatives in intended locations. As CASC are often undercapitalized, with the consequence that often they are not able to provide members with the needed financial services, a specific instrument to support the capitalization of such entities will be designed as well.

3.3) Financial Instruments:

As far as access to finance is concerned, it will be envisaged to set up several financial instruments (within the provision of the soft loan), in order to respond to different demands coming from identified beneficiaries.

Provided facilities will include:

- **Credit Line for Grants and MSME's Loans (Credit Line - Euro 14 Million)**, for the provision of:
 - **Micro/Small grant scheme including the set up of an Internship Programme for unemployed women and young people.** Part of the facility will be addressed to marginalized people living in deprived areas in Palestine, providing them with small amounts (up to Euro 5.000) to start self-employment small business activities. Within the same framework, the Programme will provide incentives to SME-s that offers job opportunities. Internship and professional experience building opportunities to young graduates and women will be considered within the same frame.
 - **Small/medium term maturity loans at low interest rate:** aimed to finance small businesses, as well as expanding the operational capacity of local SMEs in order to stimulate employment opportunities, through well tailored soft loans, ranging between Euro 5.000 and Euro 35.000.
 - **Small/medium term maturity loans at low interest rate for the agriculture sector:** At least Euro 1 million of the Credit Line shall be used to finance purchasing of machineries, equipment and technology of Italian origin by Palestinian SME-s and farmers and agriculture cooperatives.
Once a proper lending mechanism is agreed by parties, loans, that may exceed the general ceiling of Euro 35.000, shall be provided by the PFESP and its intended clients after a prior *no objection statement* issued by the AC.
 - **Mixed low interest loan and grant funds:** small loans specifically addressed to the agriculture sector, providing a grant component to incentives small purchases (crops, seeds, harvesting tools...). Special attention should pay to cooperatives and particularly to women' cooperatives providing them with funds for renovation activities and with the necessary training.
- **CASC Capitalization Facility Scheme (Euro 3 Million):** A specific portion of the overall soft loan shall be dedicated to increase the capital of CASCs by providing them with long term loans. Provided amounts shall be additional to equal amounts invested on each CASC by its members and shall not be used to replenish debts and/or finance unbalance.
- **Credit Guarantee Scheme (Euro 3 Million):** the scheme shall be designed with a specific attention to the agriculture sector and will be aimed at leveraging medium term loans towards beneficiaries that are currently considered too risky to get financed by local banks.

All the mentioned schemes shall be accompanied by technical assistance and business advisory services for beneficiaries (as detailed in par. 4), in order to guarantee their ability to access the most appropriate facility according to their specific needs.

3.4) Financial Institutions:

As commercial banks are not the most suitable player to reach such segments of the Palestinian community, it is necessary to identify the proper institutions through which the identified beneficiaries will be provided with the financial products described.

According to an assessment conducted by the Italian Development Cooperation Unit in Jerusalem, the following institutions appears to be the most adequate to be involved in the new Programme.

Palestinian Fund for Employment and Social Protection – PFESP

Since it has been established in 2003, the Palestinian Fund for Employment and Social Protection (PFESP) has been operating as an autonomous national entity with the objective of promoting sustainable employment opportunities and supporting development of social and human capital, thus generating income, alleviating poverty and reducing the rate of unemployment amongst Palestinian youth and other marginalized categories as mentioned before.

Among its tasks, the PFESP aims to develop and support the creation of new, small and micro enterprises that create sustainable job opportunities, in terms of absorbing the socio-economic shocks affecting the Palestinian economy. Since 2011 the PFESP has benefited of the ILO assistance to skill up its personnel in order to properly manage microfinance initiatives. Nowadays, the PFESP provides loans, grants or mixed financial products to SME-s and cooperatives directly and, through local microfinance institutions, to young graduates, unemployed women, small farmers and other marginalized categories, with the objective of creating new employment opportunities in West Bank, East Jerusalem and Gaza.

With reference to the START UP Palestine Programme, the PFESP will act as supplier of liquidity to identified beneficiaries, by managing the soft loan funds deposited into Programme' soft loan special accounts. In order for the PFESP to play such roles, the following conditions must be met:

- A proper governance scheme shall be set up to manage the soft loan. The management scheme shall include an Advisory Committee participated by Programme's partners and aimed to guarantee effectiveness, efficiency and transparency for the soft loan management.
- A preliminary assessment on PFESP actual capacity to manage the mentioned financial instruments shall be performed by a qualified consultant or expert. The assessment shall include the identification of specific training modules for the personnel of the PFESP in view of managing and supervising the implementation of the financial instruments, as well as the necessary recruitment of new staff members.
- A sustainability plan for the PFESP shall be in place and it shall include a mechanism of direct support provided by the Technical Assistance component of the Programme that should be transferred to the PFESP budget for a period of two years (II and III year).
- **Cooperative Associations for Saving and Credit (CASC):**

In the recent years, Cooperative Associations for Saving and Credit (CASC) have been important players in the Palestinian credit market, able to mobilize resources (including loans borrowed from the PFESP) to fulfil credit needs of small farmers and agriculture cooperatives.

Within the framework of the START UP Palestine Programme, Palestinian CASC will be addressed as beneficiaries of capitalization facilities and technical assistance, but also as suppliers of loans under the Micro-Small Credit Line provision, according to re-lending agreements they will sign with the PFESP.

In the last years, Palestinian CASC have benefited of the technical assistance provided to them by jointly the Palestinian Agriculture Relief Committee (PARC), the REEF Finance (micro credit fund for rural areas in Palestine) and by the Italian *FondazioneSolidarete*, an association grouping several Italian Cooperative Banks, BancaEtica and Fair Trade associations. The assistance is aimed to improve cooperative credit schemes, strengthening the existing CASC, in view of establishing a proper cooperative bank in Palestine. A credit cooperative bank is a member-owned financialcooperative, democratically controlled by its members, and operated for the purpose of providing credit at competitive rates, and providing other financial services to its members. The cooperative credit system has a long tradition in Italy with more than 400 Credit Cooperative Banks (BCCs) registered and licensed by the Central Bank of Italy. When the financial crisis erupted in 2007, the BCCs network was completely insulated from the financial storm that hit the banking industry, as BCCs had not strayed from a prudent and balanced banking activity aimed at serving firms and households in their local area.

The experience of Italian Credit Cooperative Banks shall play an important role in Palestine, where as CASC may be seen as a first step in the implementation of more structured services for Palestinian MSME-s. The Palestinian Monetary Authority (PMA) has recently started to look at the experience of cooperative credit in view of adopting some of the international good practices and models into the Palestinian credit market.

The START UP Palestine Programme aims to assist CASC in designing and providing credit facilities to their members, shall play a role in introducing principles, practices, methodologies and services of the credit cooperative system in Palestine. Taking advantage from the experience of Italian credit cooperative banks, the CASC may become a more structured “non banking financial institution” able to provide its members with products and services tailored to their needs. Supporting such efforts, by covering costs for technical assistance to the CASC and let them accessing the financial facilities of the new Programme, shall be one of the priorities of START UP Palestine.

- **Microfinance Institutions:**

Due to the productive structure of the Palestinian economy, microfinance institutions play a prominent role in providing services to a wide number of beneficiaries. In year 2002 the key microfinance institutions operating in West Bank and Gaza established the “Sharakeh” consortium with the aim of improving services and products provided to their clients. Today Sharakeh groups 9 among the most prominent microfinance institutions registered in Palestine and have the ability to cover almost the whole request micro credit (loan amount not exceeding USD 15,000) in the Territory. The continuous growth of microfinance sector in Palestine brought Palestine to approve the “Microfinance Law” in 2011 according to which all the microfinance institutions operating in Palestine must be registered and work under the supervision of the Palestinian Monetary Authority.

In view of all the mentioned reasons, microfinance institutions grouped into Sharakeh and the consortium as a whole represent important channels through which funds provided by the Programme (specifically under the Credit Line provision either to start-up business or to expand existing ones) may be supplied to local beneficiaries.

3.5) Programme Parties:

The START UP Palestine Programme will be legally based on a Programme Agreement and a Financial Agreement signed by the Italian Government - represented by the Ministry of Foreign Affairs/Directorate General for Development Cooperation - and by the Ministry of Finance on behalf of Palestine.

The main institutional partners in the Programme implementation will be:

Ministry of Labour (MoL): 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, in his position and as Chief of the PFESP Board of Directors, will be in charge of chairing Advisory Committee meetings.

Ministry of Finance (MoF): in view of its mandate to supervise over soft loans agreed by Palestine;

The Italian Ministry of Foreign Affairs – Directorate General for Development Cooperation (MAE – DGCS) that will be represented by the **Italian Consulate General in Jerusalem** and by the **Development Cooperation Unit**.

Programme Parties will participate in the **Advisory Committee**, the programme supervisory board aimed to provide guidelines and to measure the impact of the initiative against expected targets.

The Advisory Committee may take benefit of inputs and proposals coming from different stakeholders, such as: Ministry of Agriculture, Ministry of Social Affairs, Ministry of National Economy, Women Business Associations and Cooperatives' Associations, etc.

The PFESP, with the active support of the Italian Development Cooperation Unit, will act as technical office of the programme and will be in charge of managing the soft loan component of the Programme, designing and setting up the mentioned financial instruments.

Funds of the Technical Assistance component will be managed by MAE-DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem or through direct transfers to the PFESP, as earmarked support through Palestine.

4. Programme Structure

START UP Palestine is conceived as a three year initiative, based on: a Soft Loan Component (Euro 20 Million), as above reported, two Technical Assistance Components (totaling Euro 1.550.000,00), and the provision of services of Italian experts (for an amount of EUR 250.000,00) selected and appointed directly by MAE – DGCS.

The Soft Loan component will be managed by the PFESP and will be used to set up the following facilities:

1. **Credit Line for Grants and MSME's Loans (Euro 14 Million)**
2. **CASC capitalization facility (Euro 3 Million)**
3. **Credit Guarantee Scheme (Euro 3 Million)**

The Technical Assistance components will be divided into:

1. **Technical Assistance to the PFESP (TA – PFESP) component, for an overall amount of Euro 1 Million, divided into Italian Technical Assistance (Euro 300.000,00) and Earmarked Budget Support (Euro 700.000,00).**

The TA - PFESP is aimed to strengthen the PFESP role as provider of financial and technical services to boost income generation and employment opportunities for marginalized and vulnerable categories of people in Palestine. It will also include the provision of business advisory services for beneficiaries, in order to support their access to facilities offered by the Programme.

More specifically the TA – PFESP component includes:

- **Training modules for the Fund's staff (Euro 50.000,00)** aimed to improve managerial and technical expertise related to the management of the financial instruments to be provided through the soft loan. Specific modules will be aimed to introducing human resources management principles in view of enhancing capacity and skills of the employed staff. This activity and related funds will be managed by MAE- DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem
- **Economic & Financial experts and other members of the staff in order to increase and improve skills and expertise of the PFESP, on permanent or temporary basis (Euro 270.000,00).** This activity and related funds will be managed by MAE- DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem during the first year. For the second and third year the related funds will be transferred directly to the PFESP as part of the earmarked budget support provided.
- **The setting up media and communication campaign to promote the Programme facilities in the whole Palestinian Territory (Euro 60.000,00).** Promotional activities will cover governorates and municipalities all over the Palestinian Territory. Their implementation phase will start for the second year of the Programme. This activity and related funds will be transferred directly to the PFESP as part of the earmarked budget support provided.
- **The coverage running costs of the PFESP for a period of two years (second and third year of the Programme) in order to guarantee the economic sustainability of the institution in the short/medium term (Euro 280.000,00).** Funds will be covering salaries and administrative expenses of the PFESP. Adequate measures and initiatives to leverage possible contributions from other donors will be implemented in order to set up a feasibility plane to guarantee the economic sustainability for the PFESP in the medium/long term. The related funds will be transferred directly to the PFESP as part of the earmarked budget support provided.
- **The selection and hiring, through a tender based procedure, an independent international Audit Company (Euro 100.000,00)** tasked to verify the compliance of all the transactions performed over the soft loan funds and budget support funds with rules and principles set in the Programme Memorandum of Understanding and Financial Agreement. This activity and related funds will be managed by MAE- DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem. The ToR for the selection of the Auditing Company will be drafted jointly by PFESP and Italian Development Cooperation Unit and submitted to MoF and MAE – DGCS for approval. With reference to the audit contract, MoF will be the contracting authority.

- **The provision of business advisory services for beneficiaries (Euro 240.000,00).** The Programme will select local and international consultants, as well as consulting firms, providing coaching and consultancy services for single or group of beneficiaries. This activity and related funds will be managed by MAE- DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem during the first year. For the second and third year the related funds will be transferred directly to the PFESP as part of the earmarked budget support provided.
- 2. Technical Assistance to Credit and Saving Unions (TA – CASC) component for an overall amount of Euro 550.000,00**

The assistance shall enhance the work done through the collaboration between PARC and the Italian credit cooperative system.

To this aim, the TA-CASC shall include the following activities:

- **Assessment on Palestinian CASC (Euro 30.000,00),** including an in-depth analysis over their needs in terms of capital requirements.
 - **Training sessions for CASC's staff (Euro 240.000,00),** to be held both in Palestine and in Italy, to introduce principles, practices and services provided by the credit cooperatives in Italy and support the CASC to design new financial products and services for their members
 - **Consultancy services on marketing principles and practices (Euro 170.000,00)** to support CASC members in better placing their products in Palestine and abroad
 - **Consultancy services, technical expertise and training modules to be held in Italy and Palestine (Euro 110.000,00),** in order to draft the regulatory framework, including technical and financial requirements as well as governance mechanisms, in view of setting up the first Credit Cooperative Bank in Palestine. Selected experts and consultants will work in close cooperation with the Supervisory Department of the PMA.
- Activities included in the TA- CASC component and the related provision of funds will be managed by the MAE-DGCS through the Development Cooperation Unit of the Italian Consulate General in Jerusalem.

Activities included in both the TA components shall start as soon as the MoU and the Financial Agreement are signed by Parties. This will allow Parties to implement the needed preliminary activities to request funds related to the soft loan, such as:

- The appointing and establishment of the Advisory Committee for the soft loan component
- The selection for the auditor on a tender based procedure is completed
- The assessment of the PFESP capacity to manage the soft loan component as well as training process to the Fund's staff is and the recruitment process.
- Proper structures and mechanisms for financial vehicles are designed and approved by the Advisory Board and MAE – DGCS.

5. Programme financing scheme

Table 1. – Overall Programme financing scheme

	Anno I	Anno II	Anno III	Total
Soft Loan				€ 20.000.000,00
1. Credit line				€ 14.000.000,00

2. CASC capitalization facility scheme				€ 3.000.000,00
3. Credit Guarantee scheme				€ 3.000.000,00
TA funds managed by MAE-DGCS	€ 400.000,00	€ 230.000,00	€ 220.000,00	€ 850.000,00
TA – PFESP Earmarked Budget Support to PFESP		€ 350.000,00	€ 350.000,00	€ 700.000,00
ProgrammeSupport managed by MAE-DGCS		€ 120.000,00	€ 130.000,00	€ 250.000,00
TOTAL	€ 400.000,00	€ 700.000,00	€ 700.000,00	€ 21.800.000,00

Table 2. Technical Assistance funds managed by PFESP

Cod.	DESCRIPTION	Year I	Year II	Year III	Total
A.	PFESP Human Resources Development				€ 180.000
A.1	Financial Experts and consultants		90.000	90.000	
B.	Business Advisory Services		90.000	90.000	€180.000
C.	Promotional Activities		30.000	30.000	€ 60.000
D.	PFESP Running costs		140.000	140.000	€ 280.000
	TOTAL				€ 700.000

Table 3. Technical Assistance funds managed by MAE-DGCS

Technical Assistance to the PFESP – TA PFESP					
Cod.	DESCRIPTION	Year I	Year II	Year III	Total
A.	PFESP Human Resources Development				€ 140.000
A.1	Assessment and Training	€ 30.000	€ 10.000	€ 10.000	€ 50.000
A.2	Economic and Financial experts	€ 90.000			€ 90.000
B.	Business Advisory Services	€ 60.000			€ 60.000
C.	Audit services for TA PFESP and the soft loan components	€ 30.000	€ 40.000	€ 30.000	€ 100.000
	TOTAL - TA PFESP	€ 210.000	€ 50.000	€ 40.000	€ 300.000
Technical Assistance to CASC – TA CASC					
Cod.	DESCRIPTION	Year I	Year II	Year III	Total
D.	CASC Human Resources				€ 270.000
D.1	Assessment	€ 30.000			€ 30.000
D.2	Training	€ 80.000	€ 80.000	€ 80.000	€ 240.000
E.	Consultancy services on marketing	€ 50.000	€ 60.000	€ 60.000	€ 170.000
F.	Consultancy services on credit cooperative schemes	€ 30.000	€ 40.000	€ 40.000	€ 110.000
	TOTAL – TA CASC	€ 190.000	€ 180.000	€ 180.000	€ 550.000
G.	Italian experts		€ 120.000	€ 130.000	€ 250.000
	TOTAL	€ 400.000	€ 350.000	€ 350.000	€ 1.100.000

Annex 2 – Procurement Guidelines

This Annex harmonizes the latest edition of the *“Rules and Procedures for service, supply and works contracts financed from the general budget of the European Commission in the context of cooperation with third countries”* with the fundamental principles of Italian law on procurement and development aid.

ELIGIBILITY CRITERIA, ETHICAL CLAUSES

1. Contractor Eligibility

(a) 1.1 The rule on objectivity and impartiality

To avoid any conflict of interest, any natural or legal person, including entities within the same legal group, members of consortia, temporary associations, and sub-contractors, involved in the preparation of the Project shall be excluded from participating in tenders or from submitting offers aimed at the implementation of the Project.

(b) 1.2 The rule on economic, financial, professional, and technical capacity

The candidates/bidders must prove that their economic, financial, professional and technical capacity is suitable for the implementation of the contract. Unless otherwise established in the Agreement, the candidates/bidders must prove:

1.2.1 *Economic and financial standing*: the total turnover of the candidates/bidders in the last three years in the same field of the bid must be at least equivalent to the maximum budget of the contract; enterprises that have been established for less than three years may prove their economic and financial standing with any document which the contracting authority may deem appropriate.

1.2.2 *Professional and technical capacity*: candidates/bidders shall provide a full record of the activities performed during the last three years; enterprises that have been established for less than three years may prove their professional and technical capacity with any document which the contracting authority may deem appropriate.

1.2.3 Italian enterprises shall qualify for works contracts pursuant to decree of the President of the Republic n. 34/2000 (and further modifications/amendments thereof). Non-Italian enterprises shall qualify according to their respective national law.

(c) 1.3 Ground for exclusion for participation in contracts

Natural or legal persons are not entitled to participate in competitive tendering or be awarded contracts if:

1.3.1 They are in the conditions as referred to in the Italian Legislative Decree 8.8.1994, n. 490 (“Antimafia”). Italian tenderers / offerers must provide the evidence thereof by the “certificato antimafia”, issued by the competent Italian authorities. Non-Italian tenderers / offerers must provide equivalent certificates, if issuable under their respective national law.

1.3.2 They are bankrupt, or being wound up, or are having their affairs administered by the courts, or have entered into an arrangement with creditors, or have suspended their business activities, or are in any analogous situation arising from a similar procedure provided for in national legislation or regulations.

1.3.3 They are the subject of proceedings for a declaration of bankruptcy, for winding-up, for administration by the courts, for an arrangement with creditors or for any similar procedure provided for in national legislation or regulations.

1.3.4 They or their directors or partners have been convicted of an offence concerning professional conduct by a judgement which has the force of *res judicata*.

1.3.5 They are guilty of grave professional misconduct proven by any means which the contracting authority can justify.

1.3.6 They have not fulfilled obligations related to the payment of social security contributions in accordance with the legal provisions of the country where they are established.

1.3.7 They have not fulfilled obligations related to the payment of taxes in accordance with the legal provisions of the country where they are established.

1.3.8 They are guilty of serious misrepresentation in supplying the information required by the MAE-DGCS as a condition of participation in a tender procedure or contract.

1.3.9 They have been declared to be in serious breach of contract for failure to comply with obligations in connection with another contract with the MAE-DGCS or another contract financed with Italian funds.

2. CONTRACT GENERAL PRINCIPLES

2.1 Contract award and execution shall assure proper quality of performance, and respect the principles of economical convenience, efficiency, timeliness, and fairness. Contract award must also abide by the principles of free competition, equal treatment, non-discrimination, transparency, proportionality, and, whenever possible, publicity.

2.2 Upon prior agreement of the parties, economical convenience may be counterbalanced by social fairness, protection of public health, conservation of environment, and promotion of sustainable development.

2.3 Award procedures shall be cancelled if there are fewer than three eligible candidates/bidders. In presence of adequately motivated technical reasons, even less than three eligible offers may be accepted, shall the fundamental principles mentioned in the introduction be respected.

2.4 Contracts may not be modified, unless the modification is approved by the MAE-DGCS pursuant to following clauses. Contractors are not entitled to any payment or reimbursement whatsoever for activities carried out without prior authorization. If MAE-DGCS or the contracting authority so requires, contractors may be forced to restore, at their own expenses, the original state before the unauthorized modification.

2.5 Bidding documents shall specify the financial resources made available by the Italian Government for the contract to be awarded. This amount will not be considered as a maximum amount of the auction. In case of the amount of the contract awarded by Contracting authority being higher, any additional cost will be covered by the local Government either directly or through other donors

2.6 Modifications of supply and service contracts shall be effective upon MAE-DGCS prior authorization, which may only be granted in the following cases:

2.6.1) modifications of applicable laws and regulations;

2.6.2) unforeseen and unforeseeable circumstances, including the implementation of new materials, components or technology not existing when the award procedure was

commenced, provided that the modifications ameliorate the quality of the performance, without increasing the contract total amount;

2.6.3) events related to the nature or the quality of the goods or places where the contract activities take place, which occur during the contract execution and were unforeseeable when the contract was made;

2.6.4) unless otherwise provided, the above-mentioned modifications may not increase or reduce the total contract amount beyond 20%;

2.6.5) modifications, which, in the interest of the contracting authority, increase or reduce the total contract amount, necessary to improve the quality and performance of the project are allowed up to 5%, provided that the funding is available and no substantial modification is made; the modifications shall be only due to objective reasons, unforeseeable when the contract was made;

2.6.6) contractors may not refuse the above-mentioned modifications; such modifications shall be executed at the same contractual conditions;

2.6.7) contractors shall execute any non-substantial modification that the contracting authority may see fit, provided that the nature of the activity is not fundamentally altered and no additional costs are imposed.

2.7 Modifications of works contracts shall be effective upon MAE-DGCS prior authorization, which may only be granted in the following cases:

2.7.1) modifications of applicable laws and regulations;

2.7.2) unforeseen and unforeseeable circumstances, including the implementation of new materials, components or technology not existing when the project was made, provided that the modifications ameliorate the quality of the performance, without altering the initial project and without increasing the contract total amount;

2.7.3) events related to the specific nature of the contract activities which occur during the contract execution;

2.7.4) geological problems not predictable in the executive project;

2.7.5) errors or omissions of the project which prevent the contract implementation; in this case, the engineering consultants are responsible for the damages; the contractor may not refuse to perform such modifications if their value does not exceed 20% of the total contract amount;

2.7.6) modifications, which increase or reduce the total contract amount, necessary to improve the quality and performance of the project are allowed up to 5%, provided that the funding is available.

2.8 Contracts may not be assigned to a third party. In case of assignment, the contract shall be automatically terminated.

2.9 Subcontract is allowed up to an amount of 30% of the total contract amount. The bidding documents must specify if subcontract is allowed and the conditions thereof. Upon submitting their bids, bidders must declare which supplies/services/works they intend to subcontract. Contractors must deposit subcontracts with the contracting authority at least 20 days before commencing the execution of the subcontracts. Subcontractors must be eligible for the supplies/services/works they are assigned.

2.10 Contract prices shall be firm, fixed, and non-revisable.

2.11 Contract prices shall be denominated and paid exclusively in euros. Exchange rate risk or variations may not be subject to compensation whatsoever.

2.12 The contract shall be automatically terminated if the contractors are the subject of proceedings for a declaration of bankruptcy, for winding-up, for administration by the courts, for an arrangement with creditors or for any similar procedure provided for in national legislation or regulations.

- 2.13 In case of malice or grave negligence, contractors' liability may not be limited.
- 2.14 Contract execution shall be governed by the law of the beneficiary state.
- 2.15 Disputes arising between the contractors and the contracting authority shall not be submitted to the jurisdiction of the Italian courts.
- 2.16 Bidding documents shall include the above-mentioned principles.
- 2.17 The Italian party reserves the right to apply the fundamental principles of Italian law, should any legal gap arise.

3. ELIGIBLE AND INELIGIBLE COSTS

- 3.1 The costs included in the contract(s) shall be eligible if they are actual, economic, and necessary for carrying out the Project pursuant to Project document.
- 3.2 In any case, the following items shall not be considered eligible:
- a) voluptuary or luxury goods (e.g. perfumes, cosmetics, art objects, spirits, sports goods, etc.);
 - b) goods, services and civil works directly or indirectly connected to police or military activities;
 - c) non-income / non-profit taxes (including VAT) and import duties;
 - d) provisions for outstanding debts and future losses of the beneficiary or the final users;
 - e) interests owed by the beneficiary or the final users to any third party.

4. ETHICAL CLAUSES

- 4.1 Any attempt by candidates or bidders to obtain confidential information, enter into unlawful agreements with competitors or influence the contracting authority during the process of examining, clarifying, evaluating, and comparing tenders will lead to the rejection of his candidacy or tender and may result in administrative penalties;
- 4.2 Without the contracting authority's prior written authorisation, contractors and their staff or any other company with which the contractor is associated or linked may not, even on an ancillary or subcontracting basis, supply other services, carry out works or supply equipment for the Project. This prohibition also applies to any other Projects that could, owing to the nature of the contract, give rise to a conflict of interest on the part of the contractors.
- 4.3 When putting forward their candidacy or participating in a tender, candidates or bidders must declare that they are affected by no potential conflict of interest, and that they have no particular link with other bidders or parties involved in the Project. Should such a situation arise during the performance of the contract, the contractors must immediately inform the contracting authority.
- 4.4 Civil servants or other officials of the public administration of the beneficiary country, regardless of their administrative situation, must not be engaged as experts by the tenders unless the prior approval of the MAE-DGCS has been obtained.
- 4.5 Contractors must at all time act impartially and as a faithful adviser in accordance with the code of conduct of their profession. They must refrain from making public statements about the Project or services without the contracting authority's prior approval. They may not commit the contracting authority in any way without its prior written consent.
- 4.6 For the duration of the contract, contractors and their staff must respect human rights and undertake not to offend the political, cultural and religious mores of the beneficiary

state. In particular, tenders who have been awarded contracts shall respect core labour standards as defined in the relevant International Labour Organisation conventions (such as the conventions on freedom of association and collective bargaining; elimination of forced and compulsory labour; elimination of discrimination in respect of employment and occupation; abolition of child labour).

4.7 The contractors may accept no payment connected with the contract other than that provided for therein. The contractors and their staff must not exercise any activity or receive any advantage inconsistent with their obligations to the contracting authority.

4.8 The contractor and their staff are obliged to maintain professional secrecy for the entire duration of the contract and after its completion. All reports and documents drawn up or received by the contractor are confidential.

4.9 The contract shall govern the contracting parties' use of all reports and documents drawn up, received or presented by them during the execution of the contract.

4.10 The contractors shall refrain from any relationship likely to compromise their independence or that of their staff. If contractors cease to be independent, the contracting authority may, regardless of injury, terminate the contract without further notice and without the supplier having any claim to compensation.

4.11 The MAE-DGCS reserves the right to suspend or cancel Project financing if corrupt practices of any kind are discovered at any stage of the award process and if the contracting authority fails to take all appropriate measures to remedy the situation. For the purposes of this provision, "corrupt practices" are the offer of a bribe, gift, gratuity or commission to any person as an inducement or reward for performing or refraining from any act relating to the award of a contract or implementation of a contract already concluded with the contracting authority.

4.12 More specifically, all tender dossiers and contracts for works, supplies and services must include a clause stipulating that tenders will be rejected or contracts terminated if it emerges that the award or execution of a contract has given rise to unusual commercial expenses. Such unusual commercial expenses are commissions not mentioned in the main contract or not stemming from a properly concluded contract referring to the main contract, commissions not paid in return for any actual and legitimate service, commissions remitted to a tax haven, commissions paid to a recipient who is not clearly identified or commissions paid to a company which has every appearance of being a front company.

4.13 Contractors undertake to supply the MAE-DGCS on request with supporting evidence regarding the conditions in which the contract is being executed. The MAE-DGCS may carry out whatever documentary or on-the-spot checks it deems necessary to find evidence in cases of suspected unusual commercial expenses.

4.14 Contractors found to have paid unusual commercial expenses on Projects funded by the MAE-DGCS are liable, depending on the seriousness of the facts observed, to have their contracts terminated or to be permanently excluded from receiving MAE-DGCS funds.

4.15 Failure to comply with one or more of the ethics clauses may result in the exclusion of the candidate, bidder or contractor from other MAE-DGCS contracts and in penalties. The individual or company in question must be informed of the fact in writing.

4.16 It is the obligation of the contracting authority to ensure that the procurement procedure is concluded in a transparent manner, based on objective criteria and disregarding any possible external influences.