

11159
15719, 11, 5

AGREEMENT

between

THE GOVERNMENT OF THE ITALIAN REPUBLIC

and

THE GOVERNMENT OF ISLAMIC REPUBLIC OF AFGHANISTAN

concerning

A GRANT

FOR THE IMPLEMENTATION OF THE INITIATIVE:

"SUPPORT TO AGRICULTURE AND RURAL DEVELOPMENT IN WESTERN PROVINCES"

The Government of the Italian Republic and the Islamic Republic of Afghanistan, both jointly referred to as "the Parties" and separately as "Party",

Considering the mutual relationship of friendship, appreciating positively their ongoing cooperation activities and intending to promote further the economic and social development of Afghanistan;

In line with the commitment of the international community to contribute to the achievement of the development objectives of Afghanistan as set out in the Afghanistan

National Development Strategy, as well as to contribute to the achievement of the Millennium Development Goals;

Whereas respectively, on April 2nd, 2010 and April 18th, 2010 the Ministry of Agriculture, Irrigation and Livestock – MAIL and the Ministry of Rural Rehabilitation and Development – MRRD of Afghanistan both requested a grant to the Italian Ministry of Foreign Affairs for the implementation of the joint MRRD and MAIL: "Support to Agriculture and Rural Development in Western Provinces" - SARD Initiative

Whereas the Steering Committee for Development Cooperation of the Italian Ministry of the Foreign Affairs has approved, on November 08, 2010, the funding of the: "Support to Agriculture and Rural development in Western Provinces" – SARD Initiative.

HAVE AGREED THE FOLLOWING:

Article 1

Contents and Definitions

1.1 The present Agreement is composed of 18 Articles and three Annexes that form an integral part of the Agreement thereof:

1.1.1 ANNEX 1 Program Implementation Guidelines;

1.1.2 ANNEX 2 DGCS's Eligibility criteria, ethical clauses, and contract general principles;

1.1.3 ANNEX 3 DGCS's procurement table.

1.2 To the aim of the present Agreement the terms and acronyms indicated below have the following meaning:

- *Agreement*: the present Agreement
- *Parties*: the Government of the Italian Republic and the Government of the Islamic Republic of Afghanistan
- *GoI*: the Government of the Italian Republic

- *IRA*: the Government of the Islamic Republic of Afghanistan
- *MAIL*: the Ministry of Agriculture, Irrigation and Livestock of the Islamic Republic of Afghanistan.
- *MRRD*: the Ministry of Rural Rehabilitation and Development of the Islamic Republic of Afghanistan.
- *MoF*: Ministry of Finance of the Islamic Republic of Afghanistan
- *MAE-DGCS*: Italian Ministry of Foreign Affairs - Directorate General for Development Cooperation.
- *Initiative*: "Support to Agriculture and Rural Development in Western Provinces - SARD", funded by GoI.

Article 2 Purpose of the Agreement

- 2.1 This Agreement establishes the mutual obligations of the Parties concerning the financing and the implementation of the "Support to Agriculture and Rural Development in Western Provinces" - SARD Initiative.
- 2.2 In this context, this Agreement defines modalities and procedures for the transfer of funds, management, procurement, disbursement, reporting, monitoring and evaluation related to the Initiative.

ARTICLE 3

Objectives, Expected Results and Initiative Components

- 3.1 The purpose of the Initiative is to sustain MAIL and MRRD in implementing the Agriculture and Rural Development sector of the *Afghanistan National Development Strategy* - *ANDS*, directly supporting relevant national programs: NABDP, belonging to MRRD, and NRM - Natural Resources Management, APP - Agriculture Productivity and Production e ER - Economic Regeneration, belonging to MAIL.
- 3.2 Activities foreseen in order to achieve the above goal are detailed in the technical Annex 1, and are divided into three components, as follows:
- 3.2.1 COMPONENT A: including activities to be financed out of the proceeds of the Grant Fund provided by the GoI to the IRA, with the MAIL acting as Implementing Agency;
 - 3.2.2 COMPONENT B: including activities to be financed directly to UNDP for the support of NABDP Projects, with the UNDP acting as Implementing Agency;
 - 3.2.3 COMPONENT C: including activities to be directly financed by the GoI, with the Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs (hereinafter referred to as the "DGCS") acting as Executing Agency.

3.3 The Initiative shall focus on the support to the above mentioned National Programs in the four Western Provinces of Herat, Farah, Badghis and Ghor, entailing actions as described in Annex 1.

The aims of the three major components belonging to the initiative are:

- 3.3.1 Through the MAIL Programs: Support to income generating activities in order to improve the social and economical conditions of agricultural groups – such as farmers' families, growers associations and production cooperatives – with the aim to develop sustainable and market-oriented activities, linked to selected agro business value chains like saffron, silk, fresh and dried fruits, nut fruits, cereals.
- 3.3.2 Through NABDP: Support to the implementation and rehabilitation of rural infrastructures (Water distribution infrastructures, for drinkable purpose and for irrigation, roads, bridges, etc.) and social services. Improvement of local population's capability in economic and territorial planning at District level, through the presence of community organizations (CDC and CCDC).
- 3.3.3 Through a Coordination Unit: facilitation, coordination and technical support to the Initiative and national programs, providing technical assistance, supervision, monitoring and capacity building.

ARTICLE 4

Institutions and Bodies Involved in Initiative Implementation

- 4.1 The Institutions and Bodies ensuring the governance of the Initiative are the MoF and the MAIL concerning the component directed to IRA and UNDP/MRRD concerning the component released to UNDP which will be ruled by a separated agreement.
- 4.2 The MoF will be responsible for the financial management of the Grant Fund. The Budget and Treasury departments will use established practices for the management of the grant funds, including budget controls, opening, maintaining and accounting for the bank account opened for the grant at the Da Afghanistan Bank (hereinafter referred to as the "DAB").
- 4.3 MAIL and MRRD will ensure that all Afghan institutions – directly or indirectly involved in the Initiative's implementation – will fully apply this Agreement.
- 4.4 As for agricultural activities in Component A, MAIL will represent the contracting party for all contracts, orders and payments relevant to the Grant. The MAIL shall also select and appoint an Auditing Firm or Institution for auditing and certifying the Financial Reports, including procurement, as required by this Agreement. Relevant costs shall be sustained through Component A proceeds.
- 4.5 The Programs Implementation Coordination Unit – PICU – is the office in charge of the Initiative within MAIL. The PICU is already managing several projects funded by

international donors, using the Afghan "Procurement law" and the internal MAIL departments for Procurement, Finance Management, Monitor and Audit. The PICU will be supported by additional staff – paid for with Italian funds under Component A and partially from component C, but working for the MAIL – managing the Initiative according to the same procedures applied for other internationally funded Programs such as the ones foreseen by the "Financial Management Manual" of the World Bank supported "HLP – Horticulture and Livestock Project".

4.6 The Provincial Departments for Agriculture, Livestock and Irrigation in Herat, Badghis, Farah and Ghor, under the technical guidance of the Coordination Unit (hereinafter referred to as the "CU"), are the local offices of the MAIL, in charge of managing local activities and projects. The Initiative will support these offices with Component A funds and partially with component C funds.

4.7 The Ministry of Rural Rehabilitation and Development is in charge of the rural development activities in Afghanistan. MRRD use UNDP to implement the National Area-Based Development Program (hereinafter referred to as the NABDP) which will utilize a dedicated grant as per component B.

4.8 NABDP is a joint effort between MRRD and UNDP with the aim of contributing to sustainable poverty reduction and to improved life conditions in rural Afghanistan. It is supported by several donors such as Canada, United Kingdom, Japan, Spain, Belgium, the Netherlands, Norway, and Denmark. NABDP acts through clusters of communities and had until now about two million beneficiaries. From July 2009, NABDP entered in its third phase.

4.9 UNDP is presently managing NABDP administratively and financially. Thus, the Italian Grant for rural development, as per Component B, will be released directly to UNDP through a voluntary contribution in favour of the NABDP, earmarked for the provinces and districts involved in the programme.

4.10 The DGCS will act as the Italian Financing Agency providing funds for Components A, B and C of the Program. DGCS shall represent the GoI as for the implementation of the Program, acting through UTL/Embassy of Italy in Kabul.

4.11 The Italian Embassy in Kabul (hereinafter referred to as the "Embassy") represents GoI in Afghanistan and is responsible – through its Development Co-operation Office in Kabul (hereinafter referred to as the "UTL") – for the supervision of all development cooperation activities between Italy and Afghanistan.

4.12 The Coordination Unit (hereinafter referred to as the "CU"), established at local level in Herat, will facilitate an effective and efficient implementation of the Initiative and fully

assist MAIL and NABDP in their work and in all their Initiatives-related tasks, including procurement, contract management and reporting. The CU will remain in operation for the whole duration of the Initiative. The CU is composed by the Afghan Initiative Manager (IM), designated by MAIL, supported by the Italian Initiative Coordinator (IC). The IC will also manage – in coordination with the IM – activities directly implemented by the Italian Cooperation as per Component C.

4.13 The Joint Steering Committee (hereinafter referred to as the “JSC”) shall be constituted as a high-level, consultative and supervision body for the Initiative. It will be composed on the Afghan side by representatives of MoF, supported by MAIL and MRRD officers as advisers, and on the Italian side by representatives of the Italian Embassy in Afghanistan supported by officers of the Italian Cooperation as advisers. The IM and the IC will also attend as advisers, representing the CU.

4.14 A Stakeholders Committee might be set-up in Herat with the purpose to involve in and have the support to the Initiative’s activities, representatives of local sub-governments (Province, District), entrepreneurs, representatives of social and agricultural organizations, opinion leaders, members of the financial community, etc.

Article 5

Obligations and Responsibilities of the Italian Government

5.1 The GoI engages itself in committing – upon approval by DGCS’s Steering Committee – a Grant Fund for the global amount of Euro 6,200,000.00.

5.2 A total of Euro 2,500,000.00 will be used for Component A, disbursed in favour of and managed by the IRA for agriculture sector, according to procedures set in this Agreement, and compounded in budget lines, as follows:

5.2.1 Euro 2,268,250.00 for assisting MAIL in increasing availability of means and infrastructures for development of commercial productions in the Western Provinces.

5.2.2 Euro 102,400.00 for strengthening entrepreneurial and technical capabilities of farmers and associations and/or cooperatives

5.2.3 Euro 129,350.00 for improving public utilities in support of production activities (extension, research, training, quality regulation and control on agricultural products).

- 5.2.4 The funds allocated in the aforesaid budget lines may be re-allocated during the formulation of the General Operational Plan, maintaining unmodified the total amount of 2,500,000 Euros available for component A
- 5.3 A total of Euro 2,500,000.00 will be used for Component B, disbursed in favour of and managed by UNDP for implementing NABDP, in close co-ordination and with the support of the Coordination Unit, in the same Districts and areas of the MAIL component implementation. Allocations and management of this component shall follow the procedures of UNDP's management of NABDP.
- 5.4 The DGCS will make available and manage, according to its internal rules and regulations, additional funds – under Component C – worth Euro 1,200,000.00, of which
- 5.3.1 Euro 735,000.00 for field activities, including Coordination Unit running cost, monitoring and visibility.
- 5.3.2 Euro 465,000.00 for technical assistance provided through Italian experts selected and paid for by DGCS with a separate fund.
- 5.5 The Grant provided by GoI pursuant to this Agreement will be entirely and exclusively used for the Initiative. Funds provided for rural development and agriculture activities under Components A, B and C, will be used for:
- 5.5.1 Procurement of equipment, office facility and furniture, agricultural equipment and materials;
- 5.5.2 Training of personnel in Afghanistan and abroad (primarily in Italy);
- 5.5.3 Running costs (maintenance, services, consumable, fuel, etc.);
- 5.5.4 Agricultural related activities (nurseries, orchards plantation, cash crops, etc.) and rural infrastructures carried out in favour of the beneficiaries. 5.5.5 Salaries and travel allowances of local officers.
- 5.6 DGCS shall designate an Italian expert/focal point, who shall also act as its representative within the Joint Steering Committee.

Article 6

Obligations and Responsibilities of Government of Islamic Republic of Afghanistan

- 6.1 The MoF shall officially represent the IRA as being the “*recipient*” of the grant and the “*executing agency*” as for what Component A is concerned.
- 6.2 MAIL component and UNDP/NABDP component shall act as “*implementing agencies*” for the Initiative.
- 6.3. MoF shall:
- 6.3.1. Designate a Reference Person selected from its staff to represent MOF and communicate his/her contact details to the Embassy of Italy in Kabul;
 - 6.3.2. Provide financial information pertaining to the Grant that will be used by the implementing agencies for preparing Half Yearly Progress and Financial Reports the overall Initiative in the Western Provinces.
 - 6.3.3. Maintain a financial management system endorsed by the Joint Steering Committee, with DGCS’s no-objection;
 - 6.3.4. Keep all the Initiative documents for a minimum of five years after its completion for auditing purposes carried out by the DGCS;
- 6.4 MAIL shall:
- 6.4.1 Designate a Person in charge and a dedicated working team, selected from the PICU’s staff, to manage the Initiative’s activities, with the support of technical assistance provided by local consultants and DGCS experts.
 - 6.4.2 Set-up a Coordination Unit (CU), based in Herat composed by the Initiative Manager (IM) and by Italian DGCS expert as Initiative Coordinator (IC);
 - 6.4.3 Designate an IM and a deputy IM and a dedicated working team within the Coordination Unit premises in Herat for implementing the planned Initiative’s activities under their responsibilities;
 - 6.4.4 Provide the necessary premises, facilities and logistics to the Initiative staff, making available premises and specifically facilitate the availability of infrastructures or areas where dedicated offices could be rehabilitated or newly constructed. Those offices – labelled “Italian Cooperation” – will be utilized by the Coordination Unit’s joint staff.
 - 6.4.5 Prepare within the first two months since the signature of this Agreement and after completion of Provinces general assessment, the General Operational Plan and submit it to the Joint Steering Committee for approval;

- 6.4.6 Prepare within the first two months since the signature of this Agreement the Financial Management Manual setting out arrangements and procedures for the Initiative's implementation;
 - 6.4.7 Prepare annual and final audited reports (technical and financial, including procurement) and submit them to the Joint Steering Committee and DGCS, through the Embassy of Italy in Kabul;
 - 6.4.8 Submit to MoF all relevant technical and financial documents in a timely manner in order to allow the Person in charge and his/her team to prepare all the official technical and financial reports as stated in 6.3.2 and 6.3.3;
 - 6.4.9 Submit reports to the JSC and to the Italian Embassy in Kabul not later than 45 calendar days after the period covered by such reports.
 - 6.4.10 Keep all the Initiative's documents for a minimum of five years after its completion for auditing purposes by DGCS;
 - 6.4.11 Ensure appropriate visibility to the Initiative: DGCS logo shall be displayed in every initiative event and activity, on all good supplied, in all building constructed or rehabilitated and displayed on the MRRD and MAIL web-sites.
- 6.5. MAIL and MRRD, as well as the Provincial Authority shall take (or cause to be taken) all actions to acquire land and rights – and to support relevant costs – in respect of needs for the implementation of works as for any infrastructure foreseen in the General Operation Plan endorsed by JSC, or on request by the Italian Party, shown legal evidence of such land and rights.
- 6.6. MAIL and MRRD shall take (or cause to be taken) all actions to acquire all legal rights and permits in order to implement those Initiative's activities that need permits and licences, such as civil works.
- 6.7. MAIL and MRRD shall take all actions related to guarantee an autonomous and long term efficient management of all infrastructures and services organized or supplied in order to benefit farmers and rural population.

Article 7

Privileges, immunities and exemptions

- 7.1 Assets – either movable or immovable – property of the Italian Development Co-operation and purchased with the Initiative's fund enjoy privileges and immunities set by the Vienna Convention of 1961 on diplomatic relations. The use of those properties for

development co-operation ends cannot be called upon as exclusion cause from the application of the said Convention.

7.2 To the Initiative's personnel and to personnel on duty from Italy for periods of at least four months and not of Afghan citizenship, Afghanistan applies – in relations to their residence and their families and their service staff – immunities, privileges, exemptions and facilities not less than the one applied to personnel of International Development Co-operation Organizations working in the Country.

7.3 The Italian Embassy will notify to IRA the list of personnel of the Initiative and any changes in that list.

7.4 In all cases, IRA undertakes to grant to the personnel named in this article, the following exemptions:

- 7.4.1 From military service and from any other performance of military kind;
- 7.4.2 From restrictions imposed by immigration laws;
- 7.4.3 From taxes or levies on income coming from salaries, remunerations, and benefits paid by Italy under component C;
- 7.4.4 From custom taxes or levies and any other charges for import and export, within a period of six month from their arrival in the Country, on goods and personal effects imported, subject to their re-exportation at the end of their mandate, save in the case of sale in Afghanistan;
- 7.4.5 From custom taxes or levies for one vehicle – new or used – imported for personal use, subject to its re-export; in case of sale of the vehicle in Afghanistan, import taxes shall be paid unless the buyer holds the same privileges; being the vehicle damaged without possibility of repairing it at a reasonable cost, Afghanistan allows the import of another vehicle at the same conditions; after three years of work in the Country and if the mandate is prolonged for at least one year, Afghanistan allows the import of another vehicle, at the same conditions;
- 7.4.6 From any restrictions on exchange, possession, import and export of foreign currency;
- 7.4.7 From norms on social security and insurance for accidents at work;
- 7.4.8 From subscription to professional boards or from obtaining professional licences, limited to initiatives included in this Framework Agreement and in the relevant subsidiary agreements.

7.5 In all cases, IRA undertakes to grant to the personnel as named in this article, the following rights:

7.5.1 Opening of bank accounts;

7.5.2 Immediate information to the Italian Authorities in case of arrest, detention, or set-up of criminal proceedings;

7.5.3 Being visited by the Embassy's personnel or represented by a Lawyer in case of arrest, detention, or set-up of criminal proceedings;

7.5.4 To accede to the projects' areas and to travel around the Country in the measure necessary for the projects' implementation, in the limits of the national security legislation;

7.5.5 To export funds deriving from the sale of imported personal goods or furnishings;

7.5.6 Inviolability for all the documents and all information related to this Agreement, unless evidences of illegal activities exist.

7.6 In all cases, IRA grants to the personnel named in this article the following facilities:

7.6.1 Issue of a multiple-entry not-tourist visa, on the Italian Embassy's request;

7.6.2 Immediate and free issue of a personal identity card through the Ministry of Foreign Affairs;

7.6.3 Issue of all permits and licences needed for staying and working;

7.6.4 Use of the Italian driving licence, to be accompanied with an official translation in English and Dari languages;

7.6.5 Issue or changeover of the national driving licence;

7.6.6 Facilitation of custom procedures for goods and vehicles.

7.7 All payments from the Grant Fund to personnel, contractors or sub-contractors, unless separately provided for in the Development Cooperation Framework Agreement, shall be subject to the Afghanistan laws and regulations in force, including the income tax law.

Article 8

Personnel on short-term mission

- 8.1 For the needs of the Initiative or for implementing or monitoring the Initiative's activities included in this Agreement, the Ministry of Foreign Affairs of the Italian Republic may despatch personnel on short-term missions, for a period up to four months.
- 8.2 IRA undertakes to grant to the short-term mission personnel the following exemptions:
- 8.2.1 From income taxes based on salaries, remunerations or benefits paid by the Initiative under component C;
 - 8.2.2 From restrictions on exchange, possession, import or export of foreign currency;
 - 8.2.3 From norms related to social security and to insurances for accidents at work;
 - 8.2.4 From subscription to professional boards or from obtaining professional licences, limited to initiatives included in this Framework Agreement and in the relevant subsidiary agreements.
- 8.3 IRA undertakes to grant to short-term mission personnel the following rights:
- 8.3.1 Immediate information to the Italian Authorities in case of arrest, detention, or set-up of criminal proceedings;
 - 8.3.2 Being visited by the Embassy's personnel or represented by a Lawyer in case arrest, detention, or set-up of criminal proceedings;
 - 8.3.3 To accede to the projects' areas and to travel around the Country in the measure necessary for the projects' implementation, in the limits of the national security legislation;
 - 8.3.4 Inviolability for all the documents and all information related to this Agreement, unless evidences of illegal activities exist.
- 8.4 IRA grants to the short-term mission personnel the following facilities:
- 8.4.1 Issue a multi-entry not-tourist visa for an equal period as the mission's duration;
 - 8.4.2 Immediate and free issue of an identity card through the Ministry of Foreign Affairs, when necessary;

- 8.4.3 Issue permits and licences required for staying and working in the Country for the mission time-span;
- 8.4.4 Use of the International driving licence.
- 8.5 Italian personnel of NGOs acting as prime contractors to the Initiative are granted the exemptions, rights, and facilities as per items 8.2, 8.3 and 8.4 of this Agreement.

Article 9

Transfer Procedures for the Grant

- 9.1 DGCS shall commit funds for Component A upon signature of the present Agreement and disburse a first instalment worth Euro 1,250,000.00 after the Agreement's entry into force and after approval of the Project's General Operation Plan and Financial Manual.
- 9.2 A second instalment worth Euro 1,250,000.00 will be disbursed after the approval of:
- 9.2.1 An audited report stating that:
- At least 60% of the first instalment has been committed through contracts.
 - At least 40% of the first instalment has been disbursed and reported for.
- 9.2.2 An updated General Operation Plan.
- 9.3 The Grant for Component A will be credited on a US Dollars denominated current account at the DA Afghanistan Bank, held by the MoF and named "Italian Grant for Support to Agriculture and Rural Development - SARD" in Western Provinces. Upon entry into force of the Agreement, the MoF shall inform the DGCS of the relevant bank details of the aforesaid account.
- 9.4 MoF shall inform DGCS of the actual amount of USD transferred, immediately upon reception, attaching relevant bank statements.
- 9.5 The Grant for Component B will be disbursed directly to UNDP subsequent to the signing of the present agreement.
- 9.6 The Grant for Component C – as defined per clause 5.4 – will be disbursed immediately after approval of the Initiative by the DGCS' s Board, according to requests of the Italian Cooperation Office in Kabul.

Article 10
Procurement and Auditing Procedures

- 10.1 The Initiative will be managed by the Programs Implementation and Coordination Unit (PICU) at MAIL, and by the NABDP Unit at MRRD.
- 10.2 As for MAIL, the Initiative will use PICU's procedures which are already utilized for the World Bank's HLP Project. The World Bank has signed a specific agreement with the Ministry of Agriculture, Livestock and Irrigation and developed a Financial Manual for its initiative.
- 10.3 Procurement for agriculture will be carried out by the MAIL's internal Procurement Offices at National and Local levels, according to the Procurement procedures of the "Procurement Law" of Afghanistan, also abiding to the DGCS's rules on procurement as spelt-out in ANNEX 3 of this Agreement.
- 10.4 For agriculture, financial management, monitoring, control and audit will be carried out by the respective departments of the MAIL, as already applies to the World Bank's HLP Project.
- 10.5 Technical issues will be in line with the MAIL's National Programs – as already applies to the World Bank HLP Project – and with NABDP sectors of intervention.
- 10.6 All procurement, financial, control, monitoring, and audit procedures – including the "Procurement Law" – utilized by MAIL and PICU will be followed for the Component A. In case a management or technical procedure is not defined, it will be referred to the JSC for resolution and guidance. Being the JSC unable to provide guidance, World Bank's manuals or guidelines will be used.
- 10.7 For NABDP, procurement, financial management, monitoring, evaluation, audit and reporting shall follow UNDP rules and regulations.
- 10.8 All procurement, financial, monitoring, evaluation, audit and reporting issues for Component C shall be regulated by the Italian law and DGCS's internal rules and regulations.
- 10.9 At Provincial level, the Initiative will be managed and monitored by the MAIL local offices for agriculture activities, and by NABDP Regional office in Heart for rural development activities, both supported by the Coordination Unit.
- 10.11 For a matter of transparency and easy reference, the MAIL/PICU shall no later than two (2) months after signature of this Agreement, prepare and adopt a Financial

Management Manual. The Manual will include procedures, rules and regulations coming from different sources such as the "Procurement law" of IRA, the "Labour law" (taxes, pension applicable to staff), etc.

This Financial Management Manual (FMM) will use as a guide / reference the World Bank's Horticulture and Livestock Project's FMM, already operated by PICU and implemented in three Afghan Provinces.

This manual will detail financial management arrangements and procedures for the implementation of Component A, including roles and responsibilities of all financial management staff, documentation and approval procedures for payments, reporting requirements and quality assurance measures.

The Financial Management Manual will be submitted to the Steering Committee for final endorsement.

10.12 All payments – except petty cash expenses which are possible on the basis of an approved expenditure plan – shall be carried out by the Ministry of Finance. Requests of payment from the MAIL shall be checked by the MoF through its internal offices and finalized only after proper verification. At Provincial level, the MoF will use its own Provincial office (Mustafiat) and will accept payment requests – through MAIL – at the Mustafiat.

10.13 The Joint Steering Committee may endorse re-allocations of funds or variations of activities, provided that they do not exceed 20% of the budget lines as identified by the General Operational Plan. Under no circumstances may such modifications exceed the financial resources made available by the GoI for Component A.

DGCS will be informed – through the Embassy – of any such modifications on the budget lines, or variations concerning budget allocations or technical activities as set in Annex 1 or in the General Operation Plan of the Initiative.

10.14 Re-allocations and variations exceeding 20% of the budget lines as set per the General Operational Plan must be endorsed by the Steering Committee and receive DGCS's no-objection, upon written request by the MoF, submitted through the Embassy of Italy in Kabul. These variations are subject to approval by both Parties, through an exchange of letters and do not require amendments to this Agreement. Under no circumstances may such modifications exceed the financial resources made available by the GoI for Component A.

10.15 The IRA shall:

- (i) Have the Financial Statements, including procurement, from the Italian Grant for each Afghan Fiscal Year, audited by an internationally recognised Audit Firm or

by the Control and Audit Office (CAO) of the IRA, member of INTOSAI, ASOSAI and ECOSAI, selected in compliance with international standards and donors' practices.. The audit firm or CAO will be selected by IRA, endorsed by the Steering Committee and accepted by DGCS through its no-objection;

- (ii) Submit to the Joint Steering Committee and to DGCS, not later than six (6) months after the end of the Afghan Fiscal Year, the Financial Statement as so audited, and such other information as the Italian Party and the Steering Committee may request.

10.17 All financial accounts and statements shall be expressed in US Dollars.

Article 11 **Monitoring and Reporting**

11.1 Every six months the MAIL shall submit a Progress Report to the Joint Steering Committee. The first Progress Report shall be submitted six months after the disbursement of the Grant as per Component A.

11.2 Within six months from the end of the Afghan Fiscal Year, the MoF through MAIL shall submit to the JSC an audited Financial Statement, including procurement, on the Grant.

11.3 The Joint Steering Committee shall orient, monitor and evaluate the Initiative in the framework of the aforesaid national programs.

11.4 The Joint Steering Committee shall meet at the beginning of the Initiative and at least every six months or as necessary, and shall be responsible for the overall orientation, monitoring and evaluation of the Initiative, as well as discussing and endorsing the following issues:

11.4.1 General Operational Plan (GOP) of the Initiative;

11.4.2 Selection of the Auditing firm or institution – as per clause 11.16;

11.4.3 Six-month Progress Reports (narrative and financial);

11.4.4 Six-month forecast expenditures plans;

11.4.5 Activities' variations, as per clause 9.1, or budget lines' re-allocations, as per clauses 5.2, 10.13 and 10.14;

11.4.6 Tender documents for contracts exceeding Euro 200,000;

11.4.7 Annual financial statements, including procurement, audited as per clause 10.16;

11.4.8 Final Report (narrative and financial).

11.5 After JSC's endorsement, all the documents included in clause 11.4 shall be forwarded to DGCS for information and those at item 11.4.1, 11.4.2, 11.4.5, 11.4.6, will be forwarded for its no-objection.

11.6 The Italian Party may monitor the Initiative's activities at any time, in agreement with and supported by the IRA; MoF, MAIL-PICU and shall make available all documents and means for this assessment.

Article 12

Anti corruption and Security

12.1 No offer, payment, consideration or benefit of any kind, which could be regarded as an illegal or corrupt practice shall be made, promised, sought or accepted by the Parties – directly or indirectly – as an inducement or reward in relation to activities funded under this Agreement including tendering reward, or execution of contracts.

12.2 Either Party may cancel any contract covering specific activities funded under this Agreement if it determines that corrupt or fraudulent practices were engaged in – by representatives of the donor country, the recipient country, or of a beneficiary – managing funds during procurement or during execution of the contract, without the party in question having taken timely and appropriate action satisfactory towards the party wishing to rescind the contract in order to remedy the situation.

12.3 The IRA holds responsibility for putting in place all feasible measures for the security of personnel employed in the Initiative, either foreign or national. The IRA is also liable of any damages to property purchased with Initiative's fund, or accidents occurred to the personnel employed by the Initiative using the Italian Grant.

Article 13

Amendments to the Agreement

13.1 This Agreement can be modified by mutual written consent of the Parties according to their respective procedures.

13.2 Amendments to this Agreement, requested by one Party or mutually agreed, shall be endorsed by the JSC and submitted to DGCS for no-objection.

13.3 Amendments shall enter into force on the date of the receipt of the last of the two Verbal Notes by which the Parties shall officially have notified to each other the completion of their respective ratification procedures.

Article 14

Suspension of activities

- 14.1 If serious irregularities in the implementation of the activities funded under this Agreement, or suspicion thereof, had been ascertained, either Party may suspend the Initiative's implementation, wholly or in part, until the suspending party receives appropriate clarification and decides to resume implementation.
- 14.2 Before suspension, the concerned Party will officially notify the issue to the other Party, to ascertain whether a solution might be found. No satisfactory answers being provided within a 90 day period, the notifying Party has the right to suspend activities. Notification of requests of clarification, and Initiative's suspension and restart will follow official channels.
- 14.3 In the event of impediments of force majeure – such as conflicts, natural disasters or riots – which temporarily impede the Initiative's implementation, activities shall be suspended until conditions for resuming the Initiative are re-established. The concerned Party will officially notify the other Party of the reason for suspension, dates of suspension and date for restart of activities.
- 14.4 Should any dispute arise in relation to this Agreement, the GoI retains the right to suspend its implementation until the Parties have found a solution.
- 14.5 Should the cause of the suspension persist beyond a period of six months, each Party may terminate the Agreement by giving the other Party a ninety-day notice through diplomatic channels.
- 14.6 All Verbal Notes and letters exchanged to these effects shall become an integral part of the Agreement.

Article 15

Termination of the Agreement and destination of Funds

- 15.1 This Agreement may be terminated by either Party by written notice to the other and shall terminate 90 days after receipt of such notice, as per clause 13.
- 15.2 The DGCS reserves the right to resolve this Agreement in the following cases:
- 15.2.1 Failure of the Project to reach its objectives or of the IRA to produce the pertinent documentation requested for the financial management of the Grant.
- 15.2.2 Severe fault by the MAIL, MRRD or MoF, such as:
- a) Unmotivated and prolonged delays (more than six months) in the scheduled use of the proceeds of the Grant Fund such to threat the achievement of the Initiative's Specific Objective;

- b) Use of the proceeds of the Grant for purposes different than those included in this Agreement and its Annex or its amendments;
 - c) Prolonged failure to provide appropriated supporting documentation to the financial and procurement reports;
 - d) Severe mismanagement of funds;
- 15.2.3 Protracted impediment or force majeure.

15.3 The obligations assumed by the Parties under this Agreement shall survive the termination of the Agreement to the extent necessary to permit the orderly conclusion of activities, the withdrawal of personnel, funds and property, the settlement of accounts between the Parties hereto and the settlement of contractual liabilities that are required in respect of contractors or suppliers.

15.4 In case of an early termination of this Agreement, the IRA shall submit to the GoI a final report and a final financial statement.

15.5 Any unspent funds or any funds spent outside the scope of this Agreement or for which the financial statement is not approved by the DGCS shall be refunded by MoF to the DGCS.

Article 16

Disputes

16.1 Any dispute, controversy or claim arising out of or in relation to the Agreement, or the breach, termination or invalidity thereof, shall be settled amicably by negotiation between the Parties.

Article 17

Validity and duration

17.1 This Agreement shall enter into force on the date of the receipt of the last of the two Verbal Notes by which the Parties shall officially have notified to each other the completion of their respective ratification procedures.

17.2 The present Agreement shall remain in force until all agreed activities have been completed. Any remaining unspent balance after completion of the Program shall be returned to the DGCS, unless otherwise agreed between the Parties.

Article 18

Communication

18.1. All communication and information relating to the Agreement and the Initiative shall be addressed to the Recipient and to the Donor and in copy to the Implementing Agencies.

18.2 Recipient's address :

Ministry of Finance of the Islamic Republic of Afghanistan

Pashunistan Watt

Kabul Islamic Republic of Afghanistan

18.3 Donor' representative address:

The Embassy of Italy – Office for Development Cooperation

Great Masood Road; Kabul

18.4 Ministries addresses:

- Ministry of Agriculture, Irrigation and Livestock;

Jamal Mina, District 3 University Area

Kabul Islamic Republic of Afghanistan

- Ministry of Rural Rehabilitation and Development

Nila Bagh Street Dar-Ul-Aman Road Seh Rahee Allaudin

Kabul Islamic Republic of Afghanistan

In witness thereof the undersigned Representatives, duly authorised by their respective Governments, have signed the present Agreement.

Done in _____, on _____, in two originals in the English language.

For the Government
of the Italian Republic

H.E. Claudio Glaentzer
Ambassador

For the Government
of the Islamic Republic of
Afghanistan

H.E. Dr. Hazrat Omar Zakhilwal
Minister of Finance

H.E. Mohamad Asif Rahimi

Minister of Agriculture, Irrigation and Livestock