

AGREEMENT

Between

THE GOVERNMENT OF THE REPUBLIC OF ITALY

And

THE GOVERNMENT OF THE REPUBLIC OF LEBANON

For the implementation of the co-operation project

*“Implementation of two Sanitation Systems for the Municipalities of Hrajel and Mish-Mish in Central and Northern Lebanon”*

The Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs (MFA-DGDC) and the Council for Development and Reconstruction (CDR) of the Government of the Republic of Lebanon, hereinafter referred to as the “Parties”, have decided to enter into this Agreement, hereinafter referred to as the “Agreement”, pertaining to the project *“Implementation of two Sanitation Systems for the Municipalities of Hrajel and Mish-Mish in Central and Northern Lebanon”*, hereinafter referred to as the “Project”.

- WHEREAS in the framework of the “Memorandum of Understanding between the Government of the Italian Republic and the Government of the Lebanese Republic concerning the 1998-2000 Technical and Financial Co-operation Programme” signed on April 24<sup>th</sup>, 1998;
- WHEREAS in the framework of the Agreement signed on June 24<sup>th</sup>, 2002, the Government of the Republic of Italy (hereinafter referred to as GOI) expressed its willingness to finance through soft loans some cooperation projects;
- WHEREAS in August 16<sup>th</sup>, 2007, CDR requested the funding of the Project through a Soft Loan;
- WHEREAS in March, 2008, the MFA-DGDC, carried out its appraisal which assessed the validity of the Project;
- WHEREAS in February 13<sup>th</sup>, 2009, CDR indicated the order of priority for the implementation of the Project;
- WHEREAS in July 19<sup>th</sup>, 2010, the MFA-DGDC approved a Soft Loan of up to Euro 13,839,383.76 for the financing of the Project and a grant of up to Euro 153,900.00 to finance control activities and technical assistance;
- CONSIDERING that CDR has already carried out the Preliminary Design and the Environment Assessment of the Project (Feasibility Study and EIA prepared by local consultants);
- CONSIDERING that CDR has awarded the preparation of the Final Design and the Tender Documents of the waste water treatment plants to the appointed Local consultants.

The Parties hereby agree to implement the Project according to the following provisions.

WAT/A12/4

**ARTICLE 1**  
**Purpose of the Agreement**

- 1.1 This Agreement establishes the mutual obligations of the Parties concerning the financing and the implementation of the Project.
- 1.2 In this context, it defines modalities and procedures for management, crediting, disbursement, procurement, monitoring, evaluation and reporting related to the Project.
- 1.3 No party other than the Government of the Republic of Italy and CDR, on behalf of the Government of the Republic of Lebanon, shall derive any rights from this Agreement or have claim to the funds involved.

**ARTICLE 2**  
**Parts and Definitions**

- 2.1 This Agreement consists of 14 articles and two Annexes:  
Annex 1: Project Summary  
Annex 2: Eligibility Criteria, Ethical Clauses, Contract General Principles
- 2.2 The words and acronyms mentioned below have the following meaning:
- |                      |  |
|----------------------|--|
| GOL                  | Government of the Republic of Lebanon  |
| GOI                  | Government of the Republic of Italy  |
| CDR                  | Council for Development and Reconstruction   |
| PIU                  | Project Implementation Unit  |
| LTU                  | Local Technical Unit of Italian Cooperation in Beirut/Italian Embassy                                |
| MEW                  | Ministry of Energy and Water   |
| BMLWE                | Beirut and Mount Lebanon Water Establishment   |
| NLWE                 | North Lebanon Water Establishment  |
| MFA-DGDC             | Directorate General for Development Cooperation of the Italian Ministry of Foreign Affairs           |
| ARTIGIANCASSA        | Italian Finance Institution signatory of the Financial Convention for GOI                            |
| Financial Convention | Legal instrument for the soft loan between the Lender (GOI/ARTIGIANCASSA) and the Borrower (GOL/CDR) |

**ARTICLE 3**  
**Project Description**

- 3.1 The general objective of the Project, described in detail in Annex 1, is to contribute to the improvement of the living conditions of the families living in 2 Regions of Lebanon: Hrajel, Mount Lebanon and in Mish Mish, Northern Lebanon.
- 3.2 The Specific Objectives are the following:
- 3.2.1 Decreasing of the environmental and ground water contamination in the targeted areas for an estimated population of around 109.000 people within 2025.
- 3.2.2 Increasing of the Management skills of the Water Establishment in charge of the water and sanitation infrastructure in the area targeted by the intervention.
- 3.3 The main expected results to be achieved during the Project implementation are the following:

- 3.3.1 Hrajel area: construction of a waste water treatment plant and of around 30 km of sewage system.
- 3.3.2 Mish Mish area: construction of a waste water treatment plant and of around 14 km of sewage system
- 3.4 The estimated overall cost of the Project is Euro 13,993,282.76, out of which Euro 13,839,383.76 as a soft loan component, and Euro 153,900.00 as a grant component.
- 3.5 Up to 65% of the soft loan shall be used to finance the purchase of services and goods from Lebanon and/or neighboring countries, with or without the involvement of the Italian company. Not less than 35% shall be used to purchase services and goods from Italy.

#### ARTICLE 4

##### Institutions and Bodies involved in the implementation of the Project

- 4.1 The main Institutions and Bodies involved in the implementation of the Project are:
- 4.1.1 For the Government of the Republic of Lebanon:
- CDR as the Lebanese Counterpart for this Agreement, representing the Borrower;
  - CDR acting as the executing Agency for the negotiation, awarding and implementation of the contracts;
  - MEW acting as overall responsible for the water and waste water sector in the Country;
  - BMLWE and NLWE acting as beneficiaries and owners of the project.
- 4.1.2 For the Government of the Republic of Italy:
- MFA-DGDC, acting as the Italian Counterpart for this Agreement and as the Italian Financing Agency for the funds to be provided for the Project from the Italian side;
  - ARTIGIANCASSA, acting as the Lender and signatory for the Italian side of the Financial Convention, designated by the GOI to provide and to manage the Soft Loan, including disbursements and collection of repayments;
  - Embassy of Italy in Beirut, acting as part of the MFA-DGDC Project control system.
- 4.1.3 Project Implementation Unit (Joint Body):  
The Project Implementation Unit, local joint body based in Beirut funded under the "Jbeil Caza Water and Wastewater" project, within CDR could be enlarged for supporting CDR in implementation and monitoring of this Project activities.  
The PIU will consist of an operational core of Lebanese experts appointed by CDR and Italian Experts appointed by MAE-DGCS.  
Otherwise, the LTU will provide the needed support for the above mentioned activities (control, monitoring evaluation and technical assistance).

#### ARTICLE 5

##### Obligations of the GOI

- 5.1 The Government of the Italian Republic engages itself in fulfilling all the obligations deriving from this Agreement, in particular:
- 5.1.1 Providing a soft loan up to a maximum of Euro 13,839,383.76 to be utilised for financing the activities of the Italian component described in Annex 1;
- 5.1.2 Providing a grant up to Euro 153,900.00 to finance control, monitoring and evaluation activities and technical assistance for bidding activities. The grant will be directly managed by MFA-DGDC pursuant to its applicable internal regulations and procedures.

**ARTICLE 6**  
**Obligations of the GOL**

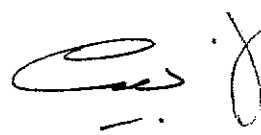
- 6.1 CDR, on behalf of the Government of the Republic of Lebanon, engages itself in fulfilling all the obligations deriving from the present Agreement, in particular:
- 6.1.1 Ensuring availability and timely provision of financial resources to meet project investment costs not covered by the soft loan, approximately equal to 3,785,571.01 euro for the final project design of the works, the tender documentation, the expenses of land expropriation, the cost of house connections to the sewage network, the treatment and the settling of the sludge;
  - 6.1.2 Ensuring the implementation of the Project according to the provisions of the present Agreement, being responsible for the use of the soft loan, for the awarding and management of the contracts and for the supervision of the activities;
  - 6.1.3 Providing a co-funding contribution covering all the investment costs and the running costs not covered by the Italian funds and unforeseen expenditure, additional requirements, prices fluctuation, etc...;
  - 6.1.4 Ensuring that, subject to Annex 2, CDR will apply the latest edition of Fédération Internationale des Ingénieurs Conseils (FIDIC) "Conditions of Contract for Construction"
  - 6.1.5 Ensuring that all the contracts signed by the Lebanese institutions to be financed out of the soft loan proceeds shall be exempt from all duties and non-income taxes including VAT;
  - 6.1.6 Ensuring that MFA-DGDC personnel will have access to the Project areas and to the Project technical documentation in order to allow control, monitoring and evaluation activities. CDR shall therefore retain records of the tendering and contracting procedures – including the originals of tenders submitted the corresponding tender dossiers and any related correspondence – for five years after the completion of the Project.

**ARTICLE 7**  
**Governance and Implementation of the Project**

- 7.1 After the signature of this Agreement, CDR and ARTIGIANCASSA shall enter into a Financial Convention relating to the whole amount of the Project to be financed under the Italian soft loan. Pursuant to the present Agreement the Financial Convention shall provide the legal framework between the GOI and the GOL and shall specify the procedures for the disbursement and repayment of the soft loan.
- 7.2 The CDR shall carry out the implementation of the Project, i.e. the preparation and launching of the bids, the execution, the monitoring and supervision of the works and the supply of goods and services according to Annex 1.
- 7.3 Once the Financial Convention is signed, CDR shall launch the tenders, upon receiving the no objection by MFA-DGDC on the tender documents.
- 7.4 The CDR shall launch the bids following the World Bank Guidelines and adopting the Standard Bidding documents, adapted to Italian law (D.Lgs. 163/2006 and title XIV of the D.P.R. 554/99), especially using the rule on objectivity and impartiality, the rule of economic, financial, professional and technical capacity, adapted to the Italian soft Loans specific requirements (Lg. 49/87).

Tenders will be opened to Italian qualified Companies, Joint Ventures and individuals, only.

- 7.5 The CDR shall evaluate the bids and submit a bid evaluation report to MFA-DGDC. No contract shall be signed before MFA-DGDC has issued a written "no objection".



- 7.6 A joint evaluation shall be carried out by MFA-DGDC and CDR after Project completion.

## **ARTICLE 8**

### **Soft Loan Terms, Conditions and Crediting Procedures**

- 8.1 The soft loan shall have a concessionality level of 80,1%. The financial terms and conditions that correspond to such level of concessionality in 2010 are:
- 8.1.1 Interest rate: 0,00 % per year;
  - 8.1.2 Duration: 38 years of which 24 years of grace period.
- 8.2 The soft loan crediting procedures shall be detailed in the Financial Convention. In particular, ARTIGIANCASSA shall credit the funds to the supplier, upon request of the Borrower, after control of the supply contract/exporter and of the administrative documentation (invoices, shipping documents, etc.) according to the modalities specified in the supply contract.

## **ARTICLE 9**

### **Controls during implementation**

- 9.1 MFA-DGDC reserves the right to control the implementation of the Project and the transparent, effective and efficient use of the funds provided by the Government of the Italian Republic. MFA-DGDC control activities may be carried out both in Italy and locally through: (i) MFA-DGDC experts during specific missions; (ii) personnel of the Italian Embassy.
- 9.2 Control activities on disbursement are assigned to ARTIGIANCASSA.

## **ARTICLE 10**

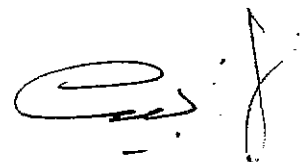
### **Impediments and Force Majeure**

- 10.1 In case of impediments to the implementation of the Project due to causes of force majeure recognised by both Parties according to practice (such as wars, floods, fires, typhoons, earthquakes, labour conflicts and strikes, acts of any government, unexpected transportation difficulties or other causes) or in case of peril or unsafe conditions for the expatriate personnel, the following provisions shall apply:
- 10.1.1 In case the duration of the impediment to the implementation of the Project is less than 12 months, the Project activities shall be suspended. The residual funds shall be maintained until the impediment finishes and MFA-DGDC authorises resumption of the Project activities;
  - 10.1.2 In case the duration of the impediment to the implementation of the Project is greater than 12 months, the Parties shall agree on the destination of the residual funds in written form.

## **ARTICLE 11**

### **Amendments to the Agreement**

- 11.1 The Parties may modify this Agreement, including its Annex, at any time. Any modification must be set out in written form through exchange of verbal notes that shall come into force upon the receipt of the acceptance of the second party.



**ARTICLE 12**  
**Settlement of Disputes**

- 12.1 Any dispute between the Parties arising out of the implementation of this Agreement shall be settled amicably by consultations or negotiations between the Parties through diplomatic channels. If the negotiations fail the Parties should be settled through international arbitration.

**ARTICLE 13**  
**Termination of the Agreement**

- 13.1 MFA-DGDC reserves the right to terminate this Agreement in case of evident, unmotivated and prolonged delays in implementation of the Project by giving the other party one month written notice.

**ARTICLE 14**  
**Entry into Force and Duration**

- 14.1 Each Party shall notify to the other in writing the completion of the formalities required by the respective national laws and regulations necessary for the entry into force of this Agreement. This Agreement shall enter into force on the date of the reception of the last of such notifications.
- 14.2 This Agreement shall have the same duration of the soft loan. Upon written agreement between the two Parties, its duration may be extended until completion of Project activities.

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

Done in two originals in English language, both texts being equally authentic.

Beirut, on 15 JUN 2012

For and on behalf of  
the Government of  
the Italian Republic

Giuseppe Morabito,  
Ambassador  
Italian Embassy

For and on behalf of  
the Government of  
the Republic of Lebanon

Nabil A. Et-Jisr,  
President  
Council for Development and Reconstruction

**PROJECT SUMMARY****1. STRATEGY OF INTERVENTION.****1.1 General Objective.**

The general objective of the intervention is the improvement of the hygienic conditions for the population of the areas interested by the project.

**1.2 Specific Objectives.**

The specific objectives of the intervention are:

- significant reduction of the environmental and ground water pollution in the areas object of the intervention for a total population that in 2040 is estimated to reach 141.500 people;
- increasing of the management skills of the Water Establishment in charge of the water and sanitation infrastructure in the area targeted by the intervention.

**1.3 Expected Results and indicators.**

In order to achieve the above described objectives, the project foresees the realization of the needed works for the collection and treatment of the waste water in the areas objects of the intervention, according to European standards. More in detail:

a) Hrajel area

- Sewage network with diameters from 300 to 500 mm, constructed and working for around 30 Km.
- Extended aeration treatment plant (active sludge) with sludge dehydration realized and working for an estimated and expected population of 40.160 people in 2025.

b) Mish Mish area

- Sewage network with diameters from 200 to 500 mm, constructed and working for around 14 Km.
- Extended aeration treatment plant (active sludge) with sludge dehydration realized and working for an estimated and expected population of 68.480 people in year 2025.

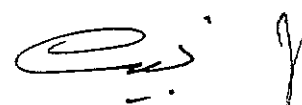
Indicators and verification sources are indicated in the Matrix's Logic framework approved by Directorate General for Development Cooperation (DGDC).

**1.4 Activities**

The activities to finance in relation to the expected results are therefore the following:

1. With the Soft Loan:

- a. engineering services for the works supervision related to the sewage networks and the wastewater treatment plants.
- b. Realization of the works for the waste water collection networks in the two localities.
- c. Executive planning and realization of the works for the two waste water treatment plants.



d. O&M of the systems (networks and plants) for a period of two years.

2. With the Grant:

e. control, monitoring, evaluation activities and the technical and institutional assistance provided probably through the enlargement of the already existing PIU (Jbeil Project) created at the Council for Development and Reconstruction (CDR) or in alternative through LTU.

3. With Lebanese funding:

f. engineering services related to the preliminary and final project design and preparation of the tender documentation for the waste water collecting networks.

g. Engineering services related to the project design at definitive level and preparation of the tender documentation of the waste water treatment plants.

h. Planning and realization of the "House Connections" of the main sewer network.

i. Collection and Treatment of the sludge resulting from the treatment plants (for a period of two years).

j. Expropriation of lands identified for the works.

1.4.1 Engineering Services.

These include the following services among which there are the different planning levels for the two sectors of the sewage system and the treatment plants.

- The design of sewage networks at preliminary and construction level (under the responsibility of the CDR, subject to "no objection" by the DGDC) where: - preliminary design means design ready for tendering consultancy services for final and construction design; - construction design means design ready for tendering the work contract in an actual quantities format;
- the design at definitive level of the waste water treatment plants in the two provinces of this project (under the responsibility of the CDR, subject to "no objection" by the DGDC) where final design means design ready for tendering the work contract in a turn key format;
- the preparation of the tender documentation for all the works, through a mixed integrated tender procedures (execution of the works for wastewater networks and final project design and implementation of the works for the two treatment plants) (under the responsibility of the CDR, subject to "no objection" by the DGDC);
- the verification of environmental compatibility and of environmental mitigation measures to be realized during the execution of the works (under the responsibility of the CDR, subject to "no objection" by the DGDC);
- the supervision of all the works (to be paid by the Italian soft loan, entrusted and executed according to the deadlines and modalities included in the relative convention and agreement).

The project design activities should be done in accordance to the International qualitative standards based on FORs that would be preventively approved by the DGDC.

The Supervision of the works would be awarded through a tender procedure to Italian companies and would have to aim, through the staff's continuous presence on the construction



site during the execution of the works (according to international procedures as EU or WB), to anticipate the resolution of any problem that could obstruct the regular achievement of the contractual activities, thus ensuring the realization of the planned works in full respect of the:

- technical specifications of the project;
- costs provided by the tender contract;
- environmental, landscapes and urban constraints;
- deadlines described in the timetable attached to the contract.

#### 1.4.2 – Realization of the works.

The construction of the sewage networks and of the waste water treatment plants will be realized in the two mentioned locations:

N.	Localition	Kind of treatment plant	Equivalent population, year 2040	Wastewater network (Km)
1	Hrajel	Extended aeration treatment plant (active sludge) + chlorination. Sludge dehydration not defined.	54.000	30
2	Mish Mish	Extended aeration treatment plant (active sludge) + chlorination. Sludge dehydration as straw drying.	87.500	14
<b>Total</b>			<b>141.500</b>	<b>44</b>

All the infrastructures are dimensioned to serve the population in the year 2040 with a first stage of construction to serve an average population estimated to reach 105.500 inhabitants in 2025.

In more details:

#### **Sewage System and wastewater treatment plant in Hrajel.**

##### General aspects.

The project is located in the region (Mohafazat) of Mount Lebanon. At the moment, the area has main sewers but not connected to the houses and waiting for the waste water treatment plant construction. Some houses have septic tanks, while the majority of the population discharges waste water directly in the environment.

The project aims to eliminate the drainage of waste water directly into the environment, through the construction of new sewage networks in the area of Hrajel and nearby villages. The underground water is polluted by these slurries that risk to seriously deteriorating Jeita spring. The spring is used to provide drinking water to a part of the city of Beirut.

The actual population, estimated to 27.000 inhabitants, including the nearby villages of Hrajel will increase up to 54.000 people in 2040 according to a feasibility study.

The treatment plant is foreseen to be with active sludge and extended aeration that, for the dimension of this plant, is compact and easy to manage. The sludge are thickened and dried in drying layers. The construction of the treatment plant is foreseen in phases, but it is organized in order to reach the final capacity necessary in 2040.

The planned wastewater network has a length of 30 km.

### Works description.

The sewage system will include lines at gravity in PVC of diameters between 300 mm and 500 mm for a total length approximately 30,000 m including around 1,000 Inspection manholes of different dimensions.

The waste water treatment plant will be composed of:

Description	Unit	Quantity
1 Access structure to the plant equipped with the first screening and electromagnetic instrument for the flow measuring	n	1
2 Homogenization tanks	n	1
3 Aeration tanks equipped with air compressor, diffusers, filters, valves. 40m x 10m x 4m each. With capacity of 1.500 m <sup>3</sup> each	n	3
4 Clarification tanks equipped with crashes and valves. Diameter: 16m. H: 4m	n	2
5 Thickening sludge basin	n	1
6 Basin of contact for disinfection with chlorine	n	1
7 Aerobic sludge digester	n	1
8 Water pressure washing system	n	1
9 Service building (Laboratory , Staff, administration)	n	1
10 Electronic system of process control	n	1
11 General electrical system with back-up generator	n	1
12 Fence of the plants areas and outdoor illuminating systems	n	1

### **Sewage System and waste water treatment plant in Mish Mish.**

#### General aspects.

The project is located in Northern Lebanon; it consists of the construction of the sewage networks and a waste water treatment plant to serve a population of 62.000 people in 2025 and an equivalent population of 68.500 people. The treatment plant is proposed in two phases; the first one to serve the population of 2015 and the second one for the population of 2025.

Different alternatives have been analyzed for the treatment plant. The selected treatment is with conventional active sludge that, from a feasibility study, appears to be the more economical than the treatment with extended aeration both in terms of investment costs and management costs.

The foreseen sewage network is long 14 km. A part of the population is served with an already existing sewage network, according to the information given by the municipalities of the project area; almost the 40% of the population is served by one sewage network that dumps in the environment without any kind of treatment.

#### Works description.

The sewage system will include lines at gravity in PVC of diameters between 200 mm and 500 mm for a total length of approximately 14,000 m including around 350 Inspection manholes of different dimensions.

The waste water treatment plant will be composed of:

Description	Unit	Quantity
1 Access structure to the plant equipped with the first screening and electromagnetic instrument for the flow measuring.	n	2
2 Clarification tanks equipped with crashes and valves. Diameter:	n	3

	11,56 m. H: 2,5 m.		
3	Aeration tanks equipped with air compressor, diffuser, filters, valves, equipped with air blowers of 36 kW each one of 21,20m x 10,00m x 4,50m.	n	3
4	Secondary Clarification tanks equipped with crashes and valves. Diameter: 16,35 m. H: 4,20 m.	n	3
5	Basin of contact for disinfection with chlorine. 10,40m x 4,75m x 4,00m.	n	2
6	Thickening sludge pool Diameter: 5,40m. H: 5,30m	n	3
7	Water pressure washing system	n	1
8	Aerobic sludge digester equipped with air blowers of 14 kW each one. 11,40m x 7,00m x 4,50m.	n	3
9	Sludge dehydration Shaker. Capacity 8 m <sup>3</sup> / per hour.	n	1
10	Service building (Laboratory , Staff, administration)	n	1
11	Electronic system of process control.	n	1
12	Fence of the plants areas and outdoor illuminating systems.	n	1

### Waste water treatment plants O&M.

The program foresees to entrust the operation and maintenance of the waste water treatment plants for a period of two years, to the same contractors who have been awarded the tender, within the same contract.

#### 1.4.3 – Possible enlargement of the existing PIU and its technical assistance.

In order to support, coordinate and facilitate the execution of the project activities, the PIU existing at CDR office in Beirut for the programs in the water sector financed by Italy, will be empowered for an initial period of three years, susceptible of being extended until the completion of the Program. The PIU will be supported with local personnel and financial resources, informatics' equipment, communication and transportation resources. The PIU will be assisted by Italian experts in long and short missions sent by DGDC. The PIU will be funded through a grant and directly implemented by LTU.

The task devolved to the PIU are the following:

- to examine and evaluate, in agreement with the CTU, the TORs that will be proposed by the CDR, for the engineering activities to be performed through local consultants selected by the CDR, and to obtain the "no objection" from the DGDC on the TORs;
- to assist the CDR, in agreement with the CDR itself and the DGDC, in the management of the contracts for the project design, awarded to local consultants from CDR;
- to examine and evaluate, in agreement with the CTU, the definitive and executive project design and the tender documentation for the works, prepared by the consultants and obtain the "no objection" from DGDC;
- to assist the CDR in its activity of procurement consisting in launching and managing the tender procedure for the realization of the activities (publications, clarifications to the participants, management of the received offers, participation to the commission of offers evaluation);
- to assist the CDR in its activity of managing works contracts stipulated by the CDR with the selected enterprises for executing the works;
- to monitor the correct execution of all the project activities;

- to manage the institutional relationships with the MEW, CDR, LTU, the Municipalities and the Water Establishments involved by the project;
- to prepare the periodic reports on the progress of the activities included in the Project agreement.

The assistance to the PIU will be carried out in three ways:

- with the financial support, equipping the PIU with all needed means in order to carry out its tasks adequately, in the office and in the field (car, furniture, air conditioners, telephone, PC emplacements, copy-machines, vehicle 4x4, etc.);
- with the financial support for the PIU running costs, including those relative to local auxiliary staff selected for the scope;
- with the technical support, with an assistance in several specialized fields (water, civil, legal and managerial), to be ensured through short-term missions of Italian experts, periodically organized in the crucial stages of the project (carrying on of the tenders, projects evaluation, offers study, delivery, progress and acceptance of the works).

## **2. REALIZATION OF THE INTERVENTION.**

### **2.1 Methodologies and technologies of the intervention.**

The realization of the intervention require goods and services of Italian and Lebanese origin as follow:

- a) engineering services (geognostic surveys, planning, verification of environmental compatibility, preparation of tenders specifications, supervision of the works);
- b) realization of the works and O&M of the systems for a period of two years;
- c) technical assistance to the PIU and monitoring during the execution phase.

Taken into account the nature of the interventions (realization of sewage networks, civil works for the waste water treatment systems), that require materials and human resources widely available in Lebanon, it is necessary and opportune to use up to 65% of the soft loan to purchase materials and services locally and/or in neighboring countries.

### **2.2 Responsibility and modality of execution.**

After the approval of the Financing Proposal, a Project Agreement will be signed by the representatives of the two governments in order to specify, among other things: i) the objectives, the planned activities and the expected results from the Project; ii) the institutional and functional organization and the operating modalities to be adopted during the realization phase of the Project and after its conclusion; iii) the responsibilities and the contributions, financial and not, respectively of the Italian and the Lebanese governments in the realization of the Project; iv) the tender procedures to be adopted; v) the modalities of supervision, monitoring and foreseen evaluations.

Several actors are involved in the project apart from MAE/DGDC and the LTU in Beirut. In particular:

- the already existing PIU created at the CDR for Jbeil Project through Italian funding, that will be in charge of supporting CDR for the implementation of the following activities and responsibilities:
  - carrying out of the tender procedures for technical services (Supervision of the works O & M) and works;

- monitoring of the Program, including the approval process of the certificate of payments submitted by the Consultant in charges of the supervision of the works;
  - preparing reports on the technical, financial and accounting activities related to the project.
- The CDR, which is the Lebanese institution in charge of the realization of the initiative (*Executing Agency*) and the guarantor of the respect of the prescriptions of the Project Agreement relative to the Program. The CDR, besides what indicated in the previous point, will be responsible, in particular of:
    - assigning to Lebanese consultants the executive (for the sewage networks of) and definitive (for the waste water treatment plants) project design;
    - signature and management of the contracts for technical services and works.
  - The "Water Establishments" of *North Lebanon and Beirut and Mount Lebanon* as final responsible of the operation and management of the systems financed by the Project.
  - The local Authorities at provincial and municipal levels that will be involved in the intervention, as representatives of the direct beneficiaries of the Program.
  - The Private Sector, and particularly the construction enterprises and the Italian consulting companies, selected through the specified procedures of contract described in the Project Agreement. Particular importance will be the involvement of the private sector in the phase of operation and management of the realized systems, phase that will be contracted as part of the same contracts for the realization of the works as further guarantee of their good execution.

#### Tender Procedure.

The components of the project to be financed with the soft loan, described in the previous paragraph 3.4, can be summarized as follow:

- realization of the works related to the sewage network of the two localities;
- executive planning and realization of the works related to the waste water treatment plants of the two localities;
- engineering services related to the Supervision of the works of the networks and the plants;
- two years operation and management of the systems (network and plants).

The above mentioned activities will have to be awarded through tender procedures (one for the works and for the O&M of the systems, and one for the supervision activities) reserved to Italian enterprises/companies, carried out by the CDR supported by the PIU.

All the procedures of acquisition of works, goods and services financed by Italy will be carried out according to the World Bank Procedure.

The modalities of assignment to the works executing company will be those of an integrated tender, in analogy to what it is disciplined by the Legislative Decree 163/2006, according to which the tender contracts of public works can have as object, in addition to the works execution, the executive planning, where the system or technological components have a remarkable incidence on the value of the work.

The integrated tender contract has been used, considering the specific characteristics of complexity of the works in the project, relatively to the waste water treatment plants and of technical solutions of detail for each competitor.

Concerning the waste water treatment plants, the tender for the works will be organized on the definitive project, (carried out by the engineering company), that will be accompanied by the draft of the contract agreement and by the technical specifications. The tender dossier will provide the deadlines of the executive planning and the control modalities of the respect, by the Contractor, of the indications of the definitive plan. Concerning the definitive project, *“graphical and descriptive papers as well as the preliminary calculations will be developed in such a level of definition that in the successive phase of executive planning there won't be any significant differences of techniques and costs”*.

#### Condition of the soft loan.

The soft loan is proposed with an element of concessionability equal to 80.1% as far as the convention is stipulated in the current financial year. The financial conditions corresponding to such element of concessionability are the following:

- interest rate: 0,0 %;
- period of reimbursement 38 years of which 24 of grace.

It is necessary to highlight that Lebanon is still classified in the category of the upper middle income countries (*category upper middle income economies- per capita income between USD 3.706 and USD 11.455*). Such countries do not satisfy the criteria of eligibility to the tied soft loans established by the OECD/Consensus agreement. However the Deliberation n. 103/2006 of the Directional Committee provides, for such countries, the extraordinary concession of soft loans with a concessionability superior to the 80% through a former agreement between the Ministry of Economy and Finance and the Ministry of International Affairs, (Such agreement, in this case, has been established through an exchange of correspondence between the two Ministries).

The soft loan could be used in order to finance goods and services of Italian origin, in customs and Value Added Tax exemption. In this specific case, as previously mentioned, up to 65% of the total amount of the soft loan can be used to purchase services and goods locally and/or in neighboring countries. Such percentage could be totally or partially des-intermediated.

#### **2.3 Duration of the intervention.**

The intervention can be realized in approximately 5 years, beginning from the stipulation of the financial Convention according to the following previsions:

Activity	Year I	Year II	Year III	Year IV	Year V
Works planning, “no objection” emission, implementation of tenders, contracts assignment.	██████████				
Construction of sewage network and waste water treatment plant		████████████████████			
Networks and plants O&M for a period of 2 years				████████████████████	
Works supervision		████████████████████			

#### **2.4 Costs estimation.**

##### 2.4.1 Estimation costs.

The estimation of the costs of the Project carried out is described in detail in the Annex 1 and is recapitulated in the following table:

Urban Aerea	Costs to be paid by Italy	Costs to be paid by Lebanon	Total
Hrajel	9,773,818.13	2,166,402.58	11,940,220.71
Mishmish	8,217,380.76	2,754,839.74	10,972,220.50
<b>Total in US\$</b>	<b>17,991,198.89</b>	<b>4,921,242.32</b>	<b>22,912,441.21</b>
<b>Total in Euro*</b>	<b>13,839,383.76</b>	<b>3,785,571.02</b>	<b>17,624,954.78</b>

\* Exchange Rate €/€ = 1,30

Such estimation of the costs refers to the estimations described in the Feasibility Studies, committed by the CDR to various engineering companies of primary importance operating in Lebanon, and formally sent to DGDC with the request of funding and successively integrated and updated to the values of 2007, and agreed in the Minutes of Meeting initialed on the 7<sup>th</sup> of March 2008 in Beirut, between CDR and DGDC. The calculations carried out by the writer and described in detail in the tables of Annex 1, take into account the general specifications indicated in the previous estimations and successive updating, but with the application of the elementary prices of 2009, which are also mentioned in the above mentioned annex. In the paragraphs 5.4.2 and 5.4.3 that follow are presented the details of the update and adequacy done in 2007/2008 and put at the base of the Lebanese request; in the paragraphs 5.4.4 and 5.4.5 that follow, the updates up to 2009 done by the writer and based, particularly for what concerns the plants, in a different method than the one applied by Lebanese consultants, are described. The method applied by the writer is the one proposed on the Handbook of the Engineer for the estimation of the quantities that has to be multiplied by the elementary prices of 2009 as highlighted in the specific tables of the annex 1.

#### 2.4.2 Update of the costs (2007/2008).

Initially the estimation of the costs of investment proposed by the CDR was referred to 10 systems in 10 different localities and was based on prevailing basic costs during the years 2004/2005, for a total of € 65 million, comprehensive of the costs of planning and expropriations. Successively, in March 2007, the CDR decided to cancel 2 plans, included in the funding programs of other donors, reducing the estimation of the costs, for 8 systems, to € 50 million.

With the aim to verify the present validity of the technical solutions proposed in the Feasibility Studies for the various sites, and to verify and to update the estimations of the works and the costs of O & M, a mission of the DGDC has been carried out in Lebanon, during March and April 2007.

During this mission it has been possible to visit, in coordination with the technical offices of the CDR, all the sites of the project and to discuss with the local Authorities, with the technical offices of the various Municipalities and with the representatives of the companies executing the Feasibility Studies, all the technical, economic and environmental aspects in need of clarifications, rectifications and update.

During the mission the prevailing costs on the local market of the materials and of the works of construction related to sewage networks have been detected and the offer prices resulting from different international tenders launched in the last two years by the CDR, related to treatment plants of similar type have been analyzed.

For the O & M costs, the data used are those given by the Lebanese counterpart, relatively to the cost of the staff, electric power, consumption materials and general expenses. The appraisal of managerial and maintenance costs have been made according to the above

mentioned basic costs, to the specific consumptions connected to abilities and technology of each plant, and for a period of 2 years.

In general the analysis and update of the costs carried out by the mission in March/April 2007, brought to an higher costs estimation for each plant. These important differences are due to various reasons:

- basic costs of the materials and labor exceeded. The feasibility studies were conducted in the years 2004/2005 years and in the meantime there were significant increases of specific materials costs (iron, copper etc);
- upgrading of the type of plants, particularly those in relation to protections from the smells, became necessary due to the proximity of the plants to the inhabited areas;
- adaptation to the morphology of the lands of the sites and of the tracings of the sewage networks in relation to the rocky lands not considered in the feasibility studies.

As a result of the mission of March 2007, the CDR updated the feasibility studies of the various plants in order to consider the modified conditions of the market of the materials and of the upgrading of the projects. These updates, contained in the letter of the CDR n. 4538/1, transmitted to this CTU from the Italian Embassy in Beirut with "telespresso" n. 1929 of the 31/08/2007, are those considered in the estimation of the costs described in the previous table.

#### 2.4.3 The updating of the costs (2007/2008).

The estimations of the works have been obtained applying the unit prices of the various categories of work, resulting in accordance with those of the market, as it appears from the following table where the prices of the most important items of work are considered.

The estimations of the Planning services (definitive for the treatment plants and executive for the sewage networks) and works supervision, have been estimated by the CDR as indicated in the following:

<b>Project</b>	<b>Works amount (US \$)</b>	<b>Project Amount &amp; work supervision (US \$)</b>	<b>Percentage on the works (%)</b>
Hrajel	8.649.992,36	565.200,28	6.5
Mishmish	6.951.676,22	462.591,64	6.7
<b>Total</b>	<b>15.601.668,58</b>	<b>1.027.791,92</b>	<b>6,6</b>

The estimation of the project costs and of the work supervision, proposed by the CDR, has to be considered consistent, as the percentages on the amounts of the works are usually coherent with the ones present in similar international contracts.

#### 2.4.4 Possible enlargement of the existing PIU and its technical assistance.

The CDR and the DGDC decided, during specific meetings in Beirut, ended with the Minutes of Meeting of the 5<sup>th</sup> of March 2008, to introduce the assistance for the management of the Project in the framework of the responsibilities of the existing PIU constituted at CDR for Jbeil project (decision CD n. 43 dated 08.06.2004). In this context the aforesaid PIU will have a mandate to supply assistance also for the project included in this financing proposal. For such mandate, the PIU will have to be upgraded in terms of staff and equipments in order to face the new tasks. It is therefore proposed that the DGDC finances with a grant the following:

- an Experts Fund to be utilized to assign external experts for specific short-term missions for technical and accounting-administrative monitoring, as needed. The experts fund



amounts to € 101.400, as mentioned in details in the annex Tables and in the following one;

- a Local Fund to supply furniture, equipments and local staff (n: 1 Assistant) also for the decentralized offices in the locations of the plants;
- the local fund amounts to € 52.500, as mentioned in details in the annex tables and in the following one.

Description	Unit	Unit cost (€)	Quantity	Total (€)
Experts in short mission	Month/man	15.000	6	90.000,00
Two ways air ticket	N.	1.000	6	6.000,00
Others	Day	30	180	5.400,00
<b>Total Experts Fund</b>				<b>101.400,00</b>
Equipments and purchase				3.000,00
Running cost for 1 year				49.500,00
<b>Total local fund</b>				<b>52.500,00</b>
<b>TOTAL GRANT COMPONENT</b>				<b>153.900,00</b>

The grant is calculated for an initial period of minimum 1 year, in order not to commit grants for successive periods of which the exact dates of beginning and duration are unknown, but this grant can be refinanced till the completion of the initiative according to the needs of the Project.

#### 2.4.5 – Summary of the costs.

The following table summarizes all the costs of the project to be financed by soft loan and the ones related to the grant, according to the above mentioned activities, have to be considered adequate and fair to set the starting price of the bid.

	Cost item	Total amount €	To be paid by Italy €	To be paid by Lebanon €
1	Works supervision	790.609,17	790.609,17	0,00
2	Realization of the sewage networks and of the treatment plants of Hrajel and Mishmish	12.001.283,52	12.001.283,52	0,00
3	O&M of the systems for a period of two years.	1.047.491,07	1.047.491,07	0,00
	<b>Total soft loan</b>	<b>13.839.383,76</b>	<b>13.839.383,76</b>	<b>0,00</b>
4	Planning and preparation of the tender documentations for the two systems.	430.499,07		430.499,07
	Expropriations	1.052.370,39		1.052.370,39
	House connections	2.179.056,18		2.179.056,18
	Sludge Collection and Treatment for two years.	123.645,37		123.645,37
	<b>Total to be paid by Lebanon</b>	<b>3.785.571,01</b>		<b>3.785.571,01</b>
	Local Fund (Empowerment of the PIU of the water sector at the CDR)	52.500,00	52.500,00	0,00
	Experts Fund (technical assistance and monitoring)	101.400,00	101.400,00	0,00
	<b>Total grant</b>	<b>153.900,00</b>	<b>153.900,00</b>	<b>0,00</b>

### **3. SUSTAINABILITY FACTORS.**

#### **3.1 Institutional Aspects.**

The proposed initiative is inserted in the framework of the country's development strategies for the water resources sector. Particularly the Program, elaborated according to the approach of the water service integrated water-waste water, sustains the process of administrative and managerial decentralization of the sector from the Central Authorities of the *Water Establishments*, to whom Lebanese law assigns primary competencies both in the sector of water supplying and in the waste water treatment. Moreover the Program, through the introduction of management contracts, is coherent with the policy of introduction of the private sector in the management of water and waste water management.

##### Managerial Aspects.

The law N° 221 of the 29 May 2000, the law N° 377 of the 14 December 2001 and the following decrees of July and August 2005, create the new societies for the regional water and they define their responsibility in the management of the drinkable water, waste water and irrigation water. 4 *Establishments of the Water* are established in the 4 regions: Beirut and Mount Lebanon, North Lebanon, South Lebanon and Bekaa.

The law n° 221 constitutes the 4 Establishments, living them the authorization to analyze and propose the new tariff systems and it defines their administrative and financial autonomy. The following decrees define the types of tariffs that have to be paid for the drinking water, the collection and treatment of the waste and the payment modalities, according to the type of use (decree n° 14597 for the Beirut and Mount Lebanon authorities). These decrees include also the installation of drinking water meters to assure that payments are based on the effective consumption.

##### Tariff Policy.

At the moment, concerning the drinking water, there are annual tariffs applied to all the users based on a daily supply of 1 m<sup>3</sup> for family. As required by the laws n° 221 and n° 377, the Water Establishments and the CDR are installing the meters to apply the tariffs to the real consumption of water. This program at a national level will firstly relate the big urban areas, as Beirut and the other big cities.

Concerning the tariff system related to the waste system and related depuration, this is less defined but seems to be well planned and in implementation. At the moment there are no purifiers active in Lebanon, thus it's evident that in this context the tariffs for depuration can't be applied yet.

#### **3.2 Technological and managerial aspects.**

The main characteristics of the project, that assure its technological and managerial sustainability are:

- a) adequate planning of the interventions;
- b) adequate supervision during the construction;
- c) technical assistance through three expatriates at the PMU of Binh Thuan, that will have long lasting positive impacts on the local workforce assigned there;
- d) already acquired experience by the 2 Management Bodies that will be in charge of the realized works.

#### **3.3 Environmental Aspects.**

All the environmental aspects related to the realization of the waste networks and of the treatment plants have been of great interest for the CDR. For all the various projects the Environmental Impact Assessment (EIA) have been carried out as established by the Lebanese law and particularly by the "Environment Code – Law 444/2000", that specifically rules modalities and responsibilities related to EIA implementation. These EIA studies have been assigned from the CDR to primary engineering societies working in Lebanon that carefully analyzed the possible impacts both for the temporary phase of construction of works and for the long time management of the plants.

All the studies have analyzed and evaluated the possible impacts deriving from the realization of the projects concerning the:

- natural and Cultural resources (Forests and vegetation, historical, archeological and cultural sites, superficial and underground water);
- socio-economical aspects (Employment, Public Health, Agriculture, Tourism, Traffic);
- biodiversity.

Considering the treatment plants and the various alternatives of process available the EEI studies have analyzed these possibilities and given indications of choice in relation to the minimum environmental impact.

All the studies have identified mitigation measures of the impacts both in the temporary phase of construction and in the long term one. These measures have been presented as "*Technical Specifications*" to be included in the project documents for the realization of the works and in the specification of plants management.

### **3.4 Economic and Financial Aspects.**

#### Financial Analysis.

The financial analysis is made within a time horizon of 38 years, 35 from the end of the construction works. The indicated values in the analysis are calculated with the tables of costs of investment and execution, based on the quantities derived from the formulas available in the literature (Engineering Manual, Colombo, Hoepli) and on the adequate unitary prices. Moreover some criteria have been fixed as follow:

- annual Tariff : 90\$ per family and 180 for the productive users;
- growth rate of the number of paying connections: 5% per year for domestic users and 10% per year for the productive users;
- only in the case of Hrajel, a governmental aid of 10\$ per year has been considered for each domestic user.

The analysis (at 38 years) produces the following results:

- Hrajel: *Net Present Value* 4,2 m€ and Internal Rate of Return of 2,20%;
- Mish Mish: *Net Present Value* 10,1 m€ and Internal Rate of Return of 3,70%

#### Economic Analysis.

Due to the total lack of statistical, reliable and updated data in Lebanon, concerning the sanitary situation, the impact of the diseases linked to environmental pollution, to the costs of hospitalization etc., it's not possible to make a realistic analysis of the program.

On the contrary, as remembered in the previous chapters, all the EEI studies have highlighted the relevant positive influence of the program on the environment and on the populations of the areas benefiting from the program.

Among the positive impacts, the most important from an environmental point of view are:

- the safeguard of the underground and superficial water from the pollution deriving from the urban not treated waste;
- the overall improvement of the hygienic-sanitary conditions in the valleys where the projects are located. Decrease of the diseases caused by water contamination;
- the significant reduction of the risks of contamination of Jeita source, located in the area of the Hrajel project, that at the moment represents the most important source of drinking water of the Lebanese capital (Hrajel Project).

The most relevant external benefits for the community concern the reduction of the intestinal diseases (due to the use of polluted water), that will bring to a reduction of the sanitary expenditures and to an increase of workforce productivity. It hasn't been possible to quantify these benefits resulting quite hard and arbitrary to make analytical evaluations without reliable and updated statistical data for each sector, referring to at least the previous 10 years, in the situation "without project".

However it seems clear that, from a qualitative point of view, an intervention characterized as highly rehabilitative of a local situation heavily degraded will bring to:

- a relevant improvement of the environment, of the sanitary conditions in the urban areas;
- an increase of the commercial exchanges and of the local real estate;
- a reduction of the medical expenses and of hospitalization of the population;
- a greater work productivity.

The initiative will also bring benefits to the municipal and state administration, through the collection of the fees on the sale of services, improved in quality and quantity, and of the various taxes applicable, at the reduction of medical expenses, at the reduction of the sick leaves on the work.

## ELIGIBILITY CRITERIA, ETHICAL CLAUSES, CONTRACT GENERAL PRINCIPLES

This Annex harmonizes the latest edition of the "*Conditions of Contract for Construction*" of the Fédération Internationale des Ingénieurs Conseils (FIDIC) with the fundamental principles of Italian law on procurement and development aid.

### I. CONTRACTOR ELIGIBILITY

#### 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.

#### 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.

#### 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.

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 available for the contract to be awarded.

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) 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;

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

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 do 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 tenderers unless the prior approval of the MAE-DGCS has been obtained.

4.5 Contractors must at all times 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, tenderers 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 undertakes 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.