FINANCING MEMORANDUM

The European Commission, hereinafter referred to as "THE COMMISSION", acting for and on behalf of the European Community, hereinafter referred to as "THE COMMUNITY" on the one part, and

The Government of the Republic of Cyprus, hereinafter referred to as "THE RECIPIENT" on the other part,

HAVE AGREED AS FOLLOWS:

The measure referred to in Article 1 below shall be executed and financed out of the budget resources of THE COMMUNITY in accordance with the provisions set out in this Memorandum. The technical, legal, and administrative framework within which the measure referred to in Article 1 below shall be implemented will be set out in an agreement to be signed between the Commission and the Recipient at a later stage, and supplemented by the terms of this Memorandum, and the Special Provisions annexed hereto.

ARTICLE 1 - NATURE AND SUBJECT

As part of its aid programme, THE COMMUNITY shall contribute, by way of grant, towards the financing of the following MEASURE:

<table>
<thead>
<tr>
<th>Title:</th>
<th>2000 National Programme for Cyprus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration:</td>
<td>Until 31/12/2002</td>
</tr>
<tr>
<td>Code:</td>
<td>CY/00/01</td>
</tr>
</tbody>
</table>

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 7,3 MEUR hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - DURATION AND EXPIRY

For the present MEASURE, THE EC GRANT is hereby available for contracting until 31/12/2002 subject to the provisions of his Memorandum. All contracts must be signed by this date. Any balance of funds of the EC GRANT which have not been contracted by this date shall be cancelled. The deadline for disbursement of THE EC GRANT is 31/12/2003. All disbursements must be completed by the deadline for disbursement. THE COMMISSION may however, in exceptional circumstances, agree to an appropriate extension of the contracting period or of the disbursement period, should this be requested in due time and properly justified by THE RECIPIENT. This Memorandum shall expire at the expiry of the disbursement period of the EC GRANT. All the funds which have not been disbursed shall be returned to the Commission.
ARTICLE 4 - ADDRESSES

Correspondence relating to the execution of THE MEASURE, stating THE MEASURE’s number and title, shall be addressed to the following:

for the COMMUNITY:
Commission of the European Communities
Directorate General Enlargement
Cyprus Team
Rue de la Loi 200
B-1049 Brussels

Tel 00 32 2 299 52 28
Fax 00 32 2 296 87 51

for THE RECIPIENT:

Permanent Delegation of the Republic of Cyprus to the European Union
2, Square Ambiorix
B-1000 Brussels

Tel 00 32 2 735 35 10
Fax 00 32 2 735 45 52

ARTICLE 5 - NUMBER OF ORIGINALS

This Memorandum is drawn up in duplicate in the English language.

ARTICLE 6 - ENTRY INTO FORCE

This Memorandum shall enter into force on the date on which it has been signed by both parties. No expenditure incurred before this date is eligible for the EC GRANT.

The Annexes shall be deemed an integral part of this Memorandum.

Done at…….
Date
for THE RECIPIENT

Encl.

Special Conditions (Annex A)
2. Visibility/Publicity (Annex B)
1. Objectives, Description and Conditionality

In view of Art. 6 of the regulation, overall agreement on the programme for the year 2000 will depend on the commitment of the Cyprus government as described in the paragraph entitled “Conditionality” of the Cyprus Accession Partnership (March 2000):

“Community assistance for financing projects is conditional on respect by Cyprus of its commitments under the Association Agreement, further steps towards satisfying the Copenhagen criteria and in particular progress in meeting the specific priorities of the Accession Partnership in 2000. Failure to respect these general conditions could lead to a decision by the Council on the suspension of financial assistance on the basis of article 4 of Regulation (EC) N° 622/98.”

The 2000 programme for Cyprus will focus on four objectives:

- Objective 1 – Reinforcement of the institutional and administrative capacity of Cyprus to adopt and apply the Acquis Communautaire

**Administrative Cooperation**

The objective of the cooperation is the following:

To strengthen Cyprus's institutional and administrative capacity for the effective implementation and enforcement of the acquis in various sectors, as regards both the new structures or institutions that need to be set up as well as the measures to be undertaken for the enhancement of the administrative capacity of already existing structures or institutions.

To promote the training of public sector officials and of representatives from the organised groups of the private sector, with a view to enhancing their understanding and improving their capacity and efficiency to deal with issues related to the harmonisation process and particularly in familiarising themselves with the procedures required for in implementing the acquis.

To facilitate contacts and deliberations between the Republic of Cyprus and the European Union, through participation, inter alia, of the various bodies/organisations/services of both the public and private sector in working groups, special meetings, committees and EU agencies during the pre-accession period.

It comprises the following activities:

- Organisation of seminars, conferences, workshops and training sessions in the European Union or in the Republic of Cyprus, aiming at informing, familiarising and educating the public and private sector on issues relating to the adoption and effective implementation of the acquis.

- Visits of elements of the civil society of the Republic of Cyprus (journalists, trade unionists, businessmen, members of non-governmental organizations, personalities, etc.) to the E.U. headquarters and member states.

It should be noted that part of the community budget for Cyprus in 2000 will be allocated to the new multi-beneficiary programme supporting TAIEX activities. This programme, which will allow each of the ten CEECs plus Cyprus and Malta to benefit from the services of the Technical Assistance and Information Exchange Office (TAIEX), will be programmed separately.

**Conditionalities:**
The Cypriot government will ensure sufficient and adequate staffing in the Cypriot beneficiary institutions.

- **Objective 2 – Further integration of Cyprus in the Internal Market**

  **Project 1 – Customs**

  *Measures to develop the operational capacity of the Department of Customs and Excise to apply the acquis*

  The objective of this project is to strengthen the legal, administrative and operational capacity of the department through the development and implementation of legislation, and the establishment of robust operational policies, systems and procedures to support it. In particular, the project will comprise:

  1. The harmonization of customs and excise legislation with the acquis;
  2. The development and strengthening of operational capacity in the key functional areas of border control, customs and tax warehouses, post-clearance audit, procedures with economic impact, fraud investigation and enforcement and trade facilitation; and
  3. The development of organizational systems for business planning, management information, operational management, and training of personnel.

  **Project 2 – Taxation**

  *Development of the V.A.T. Service through the Reform and Modernisation Programme to apply and enforce the acquis*

  The objective of this project is to strengthen the administrative capacity of the VAT Service to collect and control VAT revenues in accordance with EU standards. In particular, the project will comprise:

  1. Harmonization of VAT legislation with the acquis;
  2. The strengthening of operational capacity in the areas of VAT registration, assessment, collection and enforcement;
  3. The strengthening of operational capacity in the area of VAT control; and
  4. The development of operational capacity in the field of administrative co-operation and mutual assistance.

- **Objective 3 - Justice and Home Affairs**

  **Project 1 – Home Affairs : Schengen Information System**

  *Establishment of a National Schengen Information System and training for and acquisition of computer equipment for upgrading the system*

  The objective of this project is to upgrade and allow the geographical expansion of the Police Central Computer System for compatibility with the Schengen Information System, the setting up of the National Schengen Information System and personnel training on S.I.S. and external border and control equipment. This was set out under the short-term priorities under Justice and Home Affairs in the Accession Partnership.

  In particular it will comprise:
1. The upgrading of the Central Computer System of the Cyprus Police Force by increasing the memory and capacity
2. The developing of a peripheral computer network with all Police departments and other governmental services dealing with matters of border control and law enforcement
3. The modernization of the existing computer network of Interpol, Nicosia NCB in order to be compatible with NSIS
4. The creation and development of the appropriate databases required for the setting up of the NSIS
5. The training of the Police computer experts and the border control officers
6. The securing of the services of an expert for consultation on the setting up of the NSIS databases

- Objective 4 –Political Criteria

Project 1 - Bi-communal projects

Contribution to the Nicosia Master Plan in the area of Omeriye and of the Selimiye mosque.

The objectives of these bi-communal projects are multifaceted:

- To bring together members of the Greek and Turkish Cypriot communities, to work jointly in the preparation and implementation of bi-communal projects.

- To support the revitalization of the Walled City of Nicosia and the conservation of its architectural and cultural heritage, according to the policies and provisions of the bi-communal Nicosia Master Plan.

- To sensitize Nicosia residents to conservation issues and the importance of their shared heritage and to mobilize them towards these goals.

- To increase the visibility of, and thereby to cultivate positive attitudes towards, the EU.

- To improve the living environment of the residents of two neighborhoods: One Greek Cypriot around the Omeriye Mosque and one Turkish Cypriot around mainly the two Ottomans khans (near the Selimiye Mosque, formerly the Saint-Sofia cathedral).

This will be realized through revitalization and related activities in these two neighborhoods:

- Multiplication of contacts between technicians of the two communities
- Face-lifting of facades and pedestrianisation works in the Selimiye area
- Creation of a public open space, restoration of buildings and monuments, improvement of the shopping and community facilities in the Omeriye area
- Awareness campaigns in the old city of Nicosia; organization of technical seminars
- Promotional campaigns on the achievements reached.

It was agreed between the European Commission and the Republic of Cyprus that this component will be implemented according to the rules fixed in 1999 in the "Agreement between the United Nations and the European Community on the principles applying to the financing or co-financing by the community of programmes and projects administered by the United Nations".

- An environmental impact assessment will be carried out for all investment projects (when relevant).
2. Budget

The following table specifies the EU contribution to the programme:

<table>
<thead>
<tr>
<th>Programme/Project</th>
<th>Budget in MEUR</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>INV</td>
<td>IB</td>
</tr>
<tr>
<td>CY0001.01 Administrative Cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– various administrative cooperation activities</td>
<td>0,300</td>
<td></td>
</tr>
<tr>
<td>CY0001.02 Internal Market: customs and taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Measures to Develop the Operational Capacity of the Department of Customs and Excise to apply the acquis</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>– Development of the V.A.T. Service through the Reform and Modernization Programme to apply and enforce the Acquis</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>CY0001.03 Justice and Home Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Establishment of a National Schengen Information System and Training and acquisition of computer equipment for upgrading the system</td>
<td>1,773</td>
<td>0,227</td>
</tr>
<tr>
<td>CY0001.04 Bi-Communal Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Contribution to the Nicosia Master Plan under the auspices of the UN.</td>
<td>2,705</td>
<td>0,295</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,478</td>
<td>2,822</td>
</tr>
</tbody>
</table>

6. Implementation arrangements

This first year of programming pre-accession assistance for Cyprus under the scrutiny of the PHARE Management Committee is a transition year in terms of procedures. It is however the intention of the Commission and of the Cypriot authorities to apply as soon as possible the standard rules for decentralizing community pre-accession assistance to Cyprus.

The 2000 programme will therefore be managed in accordance with the Phare Decentralised Implementation System (DIS) procedures, adapted to the case of Cyprus. These adapted procedures will be the object of a “Guidance Note” addressed by the Commission to the Cypriot authorities. A National Aid Co-ordinator (NAC) will have overall responsibility for programming, monitoring and implementation of the programmes.

A National Fund (NF) will be set-up in a relevant Ministry, and headed by the National Authorising Officer (NAO), who will supervise the financial management of the Programme, and will be responsible for reporting to the European Commission. Appropriate financial control shall be carried out by the competent National Control Authority with respect to the implementation of the programme.

The Commission will transfer funds to the NF in accordance with a Memorandum of Understanding on the establishment of the National Fund, to be signed between the Commission and the Republic of Cyprus prior to the implementation of the programme. In the case of the bi-communal project, the Commission will delegate management responsibility, and transfer funds directly to the UNDP, following the rules set-out in the “Agreement between the United Nations and the European
Community on the principles applying to the financing or co-financing by the Community of programmes and projects administered by the United Nations” signed in 1999.

The National Fund will transfer funds to Implementing Agencies (IAs), including the Central Financing and Contracting Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU where applicable. Each individual FA will be endorsed in advance by the European Commission. In cases where the NF is itself the paying agent for the CFCU/IA there will be no transfer of funds from the NF to the CFCU/IA. The CFCU and the IAs must each be headed by a Programme Authorising Officer (PAO) appointed by the NAO after consultation with the NAC. The PAO will be responsible for all the operations carried out by the relevant CFCU/IA.

A separate bank account, denominated in EURO will be opened and managed by the NF in a separate accounting system in the Central Bank or in a Bank agreed in advance with the Commission. In principle, all bank accounts will be interest bearing. Interest will be reported to the European Commission. If the Commission so decides, on the basis of a proposal from the NAO, interest may be reinvested in the Programme. The same procedures will apply to any funds transferred to an IA or the CFCU.

The NAO and the PAOs will ensure that all contracts are being prepared in accordance with the latest procedures developed by the Commission services and applicable for aid to third countries. The only exception to these procedures will be the bi-communal project (contracted under the rules agreed with United Nations).

All contracts must be concluded by 31st December 2002. All disbursements must be made by 31st December 2003. The Commission will recover any funds not used by the expiry date of the programme.

For those contracts with funds retained for a warranty period extending beyond the end of the disbursement period of the programme, the overall total of funds related to those contracts, as calculated by the PAO and established by the Commission, will be paid to the CFCU/Implementing Agency before the official closure of the programme. The CFCU/Implementing Agency assumes full responsibility of depositing the funds until final payment is due and for ensuring that said funds will only be used to make payments related to the retention clauses. The CFCU/Implementing Agency further assumes full responsibility towards the contractors for fulfilling the obligations related to the retention clauses. Interests accrued on the funds deposited will be paid to the Commission after final payment to the contractors. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission. An overview of the use of funds deposited on warranty accounts - and notably of the payments made out of them - and of interests accrued, will annually be provided by the NAO to the Commission.

7. Monitoring and Assessment

A Joint Monitoring Committee (JMC) will be established. It will include the NAO, the NAC and the Commission. The JMC will meet at least once a year to review all Community funded programmes in order to assess their progress towards meeting the objectives set out in Financing Memoranda and the Accession Partnership. The JMC may recommend a change of priorities and/or the re-allocation of Community funds.

The JMC will be assisted by Monitoring Sub-Committees (MSC) and will include the NAC, the PAO of each IA (and of the CFCU where applicable) and the Commission Services. The MSC will review in detail the progress of each programme/project, including its components and contracts, on the basis of regular Monitoring and Assessment reports produced with the assistance of external consultants, and will put forward recommendations on aspects of management and design, ensuring these are
effected. The MSC will report to the JMC, to which it will submit overall detailed reports on all Community financed programmes.

8. Audit and Evaluation

The accounts and operations of the National Fund, and, where applicable, the CFCU and all relevant Implementing Agencies may be checked at the Commission’s discretion by an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Community's Court of Auditors. The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.”

9. Visibility/Publicity

The appropriate Programme Authorising Officer will be responsible for ensuring that the necessary measures are taken to ensure appropriate publicity for all activities financed from the programme. This will be done in close liaison with the Commission Delegation. Further details are at the Annex ‘Visibility / Publicity’.

10. Special conditions

10.1 In the event that agreed commitments are not met for reasons which are within the control of the Government of Cyprus, the Commission may review the programme with a view, at the Commission’s discretion, to cancelling all or part of it and/or to reallocate unused funds for other purposes consistent with the objectives of the programme.

10.2 It is the intention of the Commission to extend decentralisation fully to candidate countries as soon as possible, in order to familiarise them with the joint responsibility principles that underpin the implementation of the Structural Funds. The possibility of full-decentralisation is foreseen in Regulation N° 555/2000, which stipulates in Article 7, §4:

“The Commission may decide, on the basis of a case-by-case analysis of national and sectorial programme/project management capacity, financial control procedures, and structures regarding public finance, to waive the ex-ante approval requirement referred to in §3 and confer on implementing agencies in applicant countries management of aid on a decentralised basis. Such a waiver shall be subject to:

a) the minimum criteria for assessing the ability of implementing agencies in applicant countries to manage aid under minimum conditions applicable to such agencies set out in the annex to this regulation;

b) and specific provisions concerning, inter alia, invitations to tender, scrutiny and evaluation of tenders, the award of contracts, and the implementation of community public procurement directives which shall be laid down in financing agreements with each beneficiary country.”

Prior to the implementation of the projects, the Commission together with the competent Cypriot authorities will review the structures and procedures set up by the Cypriot government for the Decentralized Implementation of the programme (NAC, NF, NAO, CFCU/IA, Audit function). If the structures and procedures meet the Commission criteria referred to in Council Regulation N° (EC) 555/2000, the Commission may decide to waive the ex-ante approval requirement, for projects other than the bi-communal operations.
Annexes

- Project fiches (with logframe)
- Contracting and disbursement schedule
- Cumulative budget
- Visibility/Publicity