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 ESTONIA, 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 is set out in the General Conditions annexed to the Framework Agreement of November 1991 between THE COMMISSION and THE RECIPIENT, 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>Programme number:</th>
<th>ES 9803 to ES 9806</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>1998 Phare National Programme for Estonia</td>
</tr>
<tr>
<td>Duration:</td>
<td>until 31 October 2000</td>
</tr>
</tbody>
</table>

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 18.913.500 ECU 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 October 2000, subject to the provisions of this 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 October 2001. All disbursements must be completed by this date. 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:

Delegation of the European Commission
Kohtu 10
10130 Tallinn, Estonia

Tel.: +372-646 02 30
Fax: +372-646 02 39

for THE RECIPIENT:

Government of Estonia
Ministry of Finance
Mr Mart OPMANN, National Aid Co-ordinator
Minister of Finance
Suur-Ameerika Street 1
15006 Tallinn, Estonia

Tel.: +372-61 13 444
Fax: +372-63 17 810

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 Tallinn
Date 2 December 1998

for THE RECIPIENT
Minister of Finance
Mart OPMANN

for THE COMMUNITY
Head of EC Delegation in Estonia
Arhi PALOSUO

Annex 1 Framework Agreement (Annexes A & B)
Annex 2 Special Provisions (Annex C)
Annex 3 Information and Publicity...
SPECIAL PROVISIONS (ANNEX C)

1. OBJECTIVES AND DESCRIPTION

OBJECTIVE 1 REINFORCEMENT OF THE INSTITUTIONAL AND ADMINISTRATIVE CAPACITY (ES 9803)

The capacity of the Estonian public administration to implement the legislative and administrative reforms necessary for the process of European integration is identified by the Accession Partnership as a crucial factor in the preparations for EU-membership. The institution building and training priorities outlined below have been selected on the basis of the priorities set out in the Accession Partnership and the NPAA while taking into account the needs already covered by means of ongoing Phare programmes from previous years. The needs for institutional and administrative capacity building within environment and agriculture will be addressed within the specific sectors programmes.

9803.01: Modernisation of the agricultural sector

- Development of agricultural information systems, in order to strengthen the collection and processing of information for agricultural statistics, economic accounts for agriculture, farm accountancy data network, and market and price information system. The systems will be instrumental for the acceleration of land restitution and consolidation and make out a precondition for entering the common agricultural policy;
- Development of the phytosanitary control services, by upgrading the plans production control laboratories through provision of analysing equipment and training of laboratory staff in accordance with EC requirements;
- Preparation of the fisheries sector for the accession to the EU, by supporting the adoption and implementation of the common fisheries policy and development of a sustainable fisheries resource management system

Conditionalities:
- The ongoing process of approximation of legislation in the field of agriculture must be continued in accordance with the NPAA
- Steps must be taken within the Ministry of Agriculture to ensure the upgrading of civil servants in order to make full use of the information systems, also in the period after completion of the Phare assistance

9803.02: Upgrading the skills of the work force

- development of European Studies at the University of Tartu, in continuation of the on-going Eurofaculty which, since 1993, has contributed to the reform of university education in Estonia, Latvia and Lithuania. The Eurofaculty is co-ordinated under the auspices of the Council of Baltic Sea States. Eurofaculty plays an important role in terms of institution building by upgrading civil servants in areas of importance to the accession process.
- vocational training reform, by introduction of modernised curricula and teaching methods in accordance with standards in the EU Member States and by preparation of for the mutual recognition of professional skills. The project is finalising of the Phare 1994 VET Reform programme. Modernisation of vocational training is a key element in the strengthening of Estonia’s international competitiveness.
Conditionalities

- the Phare support is conditioned on the availability of the foreseen funding by the recipient.
- the Ministry of Education must take the necessary steps to ensure that the modernised vocational education and training programmes can be continued in the schools involved in the reform programme also after the completion of the Phare project. Appropriate measures must also be taken for staff development within the Ministry of Education in order to fully benefit from the experience and results gained during the VET Reform programmes
- in particular as regards the support for Eurofaculty, the Phare support conditioned on the availability of the foreseen funding by the recipient and bilateral donors. Measures must be taken at Tartu University to ensure the sustainability of the activities beyond the completion of the Phare assistance.

9803.03: Strengthening of the Ministry of Finance for harmonisation and enforcement of legislation and programme management

- harmonisation and enforcement of legislation in the fields of competition, direct and indirect taxation, and customs.
- implementation of integrated information system to support the budget process
- strengthening of the capacity of the Ministry of Finance for coordination of the implementation of the Phare programme

Conditionalities

- the ongoing process of approximation of legislation within the responsibility of the Ministry of Finance must be continued in accordance with the NPAA
- the Ministry of Finance must take the necessary steps to ensure the sustainability of the administration and information systems established on the basis of the Phare support in the period after completion of the assistance. Appropriate measures must be taken for staff development within the Ministry in order to fully benefit from the experience and results gained by means of the Phare programme.
- immediate steps must be taken within the Ministry of Finance to strengthen the allocation of experienced civil servants for the coordination of Phare assistance with a view to gradually reduce the dependence on international technical assistance. Upgrading and training of civil servants of the coordination of the Phare assistance must be a core element of this component.

9803.04: Special Preparatory Programme for Structural Funds

The aim of the Special Preparatory Programme for Estonia’s participation in the Community’s Structural Funds is to develop the necessary structures within the Estonian administration for the sound and effective management of the Structural Fund and the Cohesion Fund so that they can be fully operational at the date of Accession to the European Union.

- preparation of a National Development Programme similar to those drawn up for the EU cohesion countries
- preparation for the full and effective use of the new preaccession instruments introduced from year 2000 onwards
- preparation for a progressive shift in Phare procedures towards Structural Fund principles
- institution building in terms of a central coordination unit at national level and training of civil servants
- projects for integrated regional development in order to give the Estonian authorities practical experience with the operational aspects of “objective 1” programmes.
Conditionalities

- the implementation of the projects for integrated regional development will be conditional on the use of structural funds principles (programming, monitoring, evaluation and control etc.) at the national and sub-national level
- relating to projects for integrated regional development national co-financing will be required at progressive rates, up to the minimum, Objective 1 cofinancing rate i.e. 25%

**OBJECTIVE 2: JUSTICE AND HOME AFFAIRS (ES 9804)**

A key part of achieving economic and political stability is the creation of an effective judicial system, which has a strong legal basis, efficient asylum regime, control of external border and immigration, combating corruption and organised crime including drugs trafficking. Reiterating the objective of developing the Union into an “area of freedom, security and justice”, the new Amsterdam Treaty brings these matters, including the free movement of persons, asylum and immigration, into the Community’s sphere of competence, and preparations need to be taken by the candidate countries to fulfil the requirements. Phare 1998 will improve the Estonian judicial system by training officials working in the court system and by supporting structural changes and enhanced information systems.

**9804.01: Strengthening the judicial system**

- training for judges and prosecutors in national private, public and penal law, and EC law and development of post-graduate programme for lawyers
- training for probation officers concerning social work with criminals, including information of the public and the relevant authorities of the probation system
- training of enforcement officers
- development of information systems for court records, the probation system, and the enforcement department

The training projects will be carried out within twinning arrangements.

Conditionalities

- the Phare support is conditioned on the availability of the agreed funding by the recipient.
- the Ministry of Justice must take the necessary steps to ensure the sustainability of the systems established on the basis of the Phare support, also in the period after the completion of the assistance. Appropriate measures must be taken for staff development within the Ministry of Justice in order to fully benefit from the experience and results gained by means of the Phare programme.

**OBJECTIVE 3: ENVIRONMENT (ES 9805)**

The Community’s environmental policy, derived from the Treaty, aims towards sustainability based on the integration of environmental protection into EC sectoral policies, preventive action, the polluter pays principle, fighting environmental damage at the source and shared responsibility. The *acquis* which will have to be incorporated into the candidate countries legislation comprises approximately 200 legal acts covering a wide range of matters. Phare 1998 will in particular address the transposition of framework legislation, the establishment of detailed approximation programmes, as well as the development of the infrastructure regarding water treatment and air quality. These projects form part of a large-scale investment programme co-financed by Phare, by the EBRD and NEFCO as well as by national funds.
9805.01: Water Accession Project

- harmonisation as regards water legislation, in particular the Water Framework Directive, through institution building and investment in water projects in the fields of water supply and sewerage.

9805.02: Air Accession Project

- harmonisation as regards air legislation, in particular the Air Framework Directive, in the form of institution building and investment in on-line ambient air quality monitoring at priority locations.

Conditionalities
- The Phare support is conditioned on the availability of the foreseen funding by the recipient and by IFIs
- The ongoing process of approximation of legislation in the field of environment must be continued in accordance with the NPAA.
- Immediate steps must be taken within the Ministry of Environment to strengthen the allocation of experienced civil servants to the management of the Phare supported activities in order to diminish the dependence on international experts. Upgrading and training of civil servants must be a core element of the Phare project.

OBJECTIVE 4: TRANSPORT (ES 9806)

9806.01: Reconstruction of Tallinn airport

Reconstruction of the apron at Tallinn airport as a component of the large scale airport reconstruction programme implemented under co-financing by the EIB, the EBRD, Phare and national funds.

Conditionalities:
- The ongoing process of approximation of legislation in the field of transport must be continued in accordance with the NPAA
- The Phare support is conditioned on the availability of the foreseen co-funding by the recipient as well as by the EIB and the EBRD

An environmental impact assessment will be carried out for all investment projects.

Equal opportunity for men and women to participate in all projects will be ensured. Indicators will be elaborated to assess the extent of women’s participation in projects.
<table>
<thead>
<tr>
<th>Objective</th>
<th>Project No</th>
<th>Title</th>
<th>Investment</th>
<th>Inst. Buildg</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ES9803</td>
<td>Reinforcement of the institutional and administrative capacity</td>
<td>4.377.400</td>
<td>4.732.600</td>
<td>9.110.000</td>
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<td></td>
<td>ES9803.01</td>
<td>Modernisation of the agricultural sector</td>
<td>2.100.000</td>
<td>1.000.000</td>
<td>3.100.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development of Agricultural Information Systems</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Development of Phytosanitary Control Services</td>
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<tr>
<td></td>
<td></td>
<td>Preparation of Estonian Fisheries Sector for Accession to the EU</td>
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<tr>
<td></td>
<td>ES9803.02</td>
<td>Upgrading the skills of the work force</td>
<td>400.000</td>
<td>900.000</td>
<td>1.300.000</td>
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<tr>
<td></td>
<td></td>
<td>Vocational Training reform</td>
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<td>Euro-faculty</td>
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<td>ES9803.03</td>
<td>Strengthening of the Ministry of Finance</td>
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<td></td>
<td></td>
<td>Implementation of IT masterplan</td>
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<td>Harmonisation of legislation</td>
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<td>Programme management</td>
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<td></td>
<td>ES9803.04</td>
<td>Special Preparatory Programme for Structural Funds</td>
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<td>2</td>
<td>ES9804</td>
<td>Justice and Home Affairs</td>
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<td>ES9804.01</td>
<td>Strengthening of the Judicial System</td>
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<td></td>
<td>Training projects (twinning) and IT systems</td>
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<td>3</td>
<td>ES9805</td>
<td>Environment</td>
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<td>ES9805.01</td>
<td>Water Accession Project</td>
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<tr>
<td></td>
<td>ES9805.02</td>
<td>Air Accession Project</td>
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<tr>
<td>4</td>
<td>ES9806</td>
<td>Transport</td>
<td>2.500.000</td>
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<td>2.500.000</td>
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<td></td>
<td>ES9806.01</td>
<td>Reconstruction of Tallinn Airport (Apron)</td>
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<td></td>
<td>TOTAL</td>
<td>12.305.400</td>
<td>6.608.100</td>
<td>18.913.500</td>
</tr>
</tbody>
</table>

Community programmes*)

*) 586.500 ECU committed for Community programmes and 1.5 MECU for Tempus - committed under separate Financing proposals

1. Up to 20 % of the budget may be contracted directly by the Commission and will not, therefore, be transferred to the National Fund
3. **IMPLEMENTATION ARRANGEMENTS**

The programme will be managed in accordance with the Phare Decentralised Implementation System (DIS) Procedures. The National Aid Coordinator (NAC) will have overall responsibility for programming, monitoring and implementation of Phare programmes.

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

The Commission will transfer the funds to the NF in accordance with the Memorandum of Understanding between the Commission and the Ministry of Finance to be signed in autumn 1998. Funds will be transferred following requests from the NAO. A payment of up to 3.026.160 ECU will be transferred to the NF following signature of the Financing Memorandum. Four Replenishments will be made of up to 3.026.160 ECU of the full balance of the budget whichever is the lesser amount. The first replenishment will be triggered when 10% of the budget has been disbursed by the IAs and the CFCU. The second replenishment may be requested when 30% of the total budget in force has been disbursed. The trigger point for the third replenishment is 50%, and for the final fourth instalment when 70% is disbursed. Save for express prior authorisation from the Commission HQ, no replenishment request may be made if the aggregate of the funds deposited in the NF and the IAs exceeds 10% of the total budget in force of the commitment. Exceptionally the NAO may request an advance payment of more than 20% in accordance with the procedures laid down in the aforesaid Memorandum of Understanding.

In the case of **twinning arrangements** within the following areas, the Commission may transfer funds to finance long-term secondments of staff directly to the Bureau d’Assistance Technique which will be established in Brussels to implement the following:

- **Ministry of Agriculture:** Development of agricultural information systems, preparation of the fisheries sector for accession, development of phytosanitary control services.
- **Ministry of Finance:** Reinforcement of the capacity of the Ministry of Finance in particular in the fields of budgeting and approximation of legislation in the fields of competition, direct and indirect taxation and customs
- **Ministry of Justice:** Strengthening of the judicial system (training projects)
- **Ministry of Environment:** Accession preparations in the water and air sectors

**Implementing Agencies** will be responsible for sub-programmes as follows:

**CFCU:**
- ES 9803.01.01 Agricultural information system
- ES 9803.01.02 Phytosanitary control services
- ES 9803.01.03 Preparation of Estonian fisheries
- ES 9803.02.02 Euro-Faculty
- ES 9803.03 Strengthening of the Ministry of Finance
- ES 9804.01 Strengthening the judicial system (IT systems)

**Ministries of Finance/Interior**
- ES 9803.04 Special Preparatory Progr. for Structural Funds

**Ministry of Environment**
- ES 9805.01 Water Accession Programme
- ES 9805.02 Air Accession Programme

**Ministry of Transport**
- ES 9806.01 Tallinn Airport
ES9803.02.01 Vocational training will be managed by the European Training Foundation in liaison with the Foundation for VET Reform and the Ministry of Education in line with the existing cooperation.

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 there will be no transfer of funds from the NF to the CFCU. The CFCU and the IAs will 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 interest bearing bank account, denominated in ECU will be opened and managed by the NF in a separate accounting system in a Bank agreed in advance with the Commission. 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 prepared in accordance with the procedures set out in the DIS Manual, except for twinning arrangements for which separate measures are being defined by the Commission.

All contracts must be concluded by 31 October 2000. All disbursements must be made by 31 October 2001. Any funds not used by the expiry date of the programme will be recovered by the Commission.

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 Implementing Agency before the official closure of the programme. The 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 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.

4. 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 Phare 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 Phare 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) and the Commission Services. The MSC will review in detail the progress of each programme, including its components and contracts, on the basis of regular Monitoring and Assessment reports produced with the assistance of external consultant (in accordance with the provisions of the DIS Manual), 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 Phare financed programmes.

5. **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 Union's Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement. The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.

6. **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.

7. **SPECIAL CONDITIONS**

In the event that agreed commitments are not met for reasons which are within the control of the Government of Estonia, 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 global Phare programme.