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 12 December 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:

Programme number: 2003/004-582
Title: Phare National Programme for Estonia 2003 – First Part
Duration: Until 30/04/2005

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 12,493,600 € 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 30/04/2005 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 30/04/2006.

1 The Financing Memorandum structure is as follows: 1. the coverpages with the references to the country concerned, amount and authority to sign, 2. Annex A of the Framework Agreement; 3. Annex B of the Framework Agreement; Annex C – Special Conditions (the text of the adopted financing proposal starting from Description and Objectives onwards; and Annex D – Visibility/Visibility.

2 Expiry Date for Disbursements should be set out at maximum 36 months after signature of the FM.
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:**

Delegation of the European Commission  
Kohtu 10  
10130 Tallinn  
Estonia  
Tel: 00 372 626 44 00  
Fax: 00 372 626 44 39  
E-mail: eudelest@delest.cec.eu.int

**for THE RECIPIENT:**

Mr Tonis Palts  
Minister of Finance and National Aid Coordinator  
Ministry of Finance  
Suur-Ameerika 1  
15006 Tallinn  
Estonia  

Tel: 00 372 61 13 444  
Fax: 00 372 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 ..........  
Date 9/6/03

for THE RECIPIENT


for THE COMMUNITY


Encl.
1. Framework Agreement (Annexes A & B)
2. Special Provisions (Annex C)
3. Visibility/Publicity (Annex D)
ANNEX C: SPECIAL CONDITIONS

1. Objectives and Description

The first part of the Phare 2003 programme for Estonia focuses on three objectives. A description of the proposed projects is provided below.

Objective 1: Administrative capacity

Project 2003/004-582.01.01: Establishment of a customs laboratory

This project aims at reinforcing the administrative capacity of the Estonian Customs by supporting the establishment of customs laboratory capacities under the responsibility of the Estonian Customs Board (ECB). The Estonian government selected by public procurement the Estonian Environmental Research Centre (EERC), a public owned laboratory, as the future customs laboratory. The agreement between EERC and ECB of 14 October 2002 specifies the institutional arrangements for the administrative functioning of the customs laboratory.

Within this framework, Phare assistance will support:

- The provision of necessary equipment to perform analyses for customs purposes, to be located at EERC premises;
- Adequate training of the relevant staff of both EERC and ECB, covering in particular sample taking, conduct and interpretation of results for classification purposes, as well as assistance for preparation towards accreditation.

This project aims at institution building, and will be implemented through a twinning light and related investments.

This project is conditional upon the recruitment/allocation of dedicated staff for the customs laboratory.

In order to ensure consistency between the two projects, the training plan of the Phare 2002 project on the reinforcement of the administrative capacity of the ECB (2002/000-579.01.01) must be approved before contracting of the twinning light.

ECB is responsible for the appropriate use of the equipment for customs purposes, as well as for its storage and maintenance and will ensure that it will be operated by qualified staff. The agreement between ECB and EERC foresees the payment for laboratory services, including the maintenance costs of the procured equipment.

Project 2003/004-582.01.02: Accession Facility

This project is aimed at covering certain institution building needs remaining before accession. It also aims, following previous support for technical assistance covering computer hardware and software and training from TAIEX, at finalising translation into Estonian of secondary EC legislation with a view to its publication in the Official Journal of the European Communities, in addition to the primary and secondary acquis of direct application already translated, which was financed from the national budget.
This project includes three components: a twinning light facility, technical assistance for the translation of the remaining secondary EU legislation into Estonian and technical assistance to strengthen the administrative capacity regarding monitoring and evaluation of the implementation of EU-funded projects.

Concerning the twinning light facility, an unallocated institution building envelope will be implemented through approximately 15 twinning light projects in several fields where needs still exist, such as, inter alia, internal market, justice and home affairs, agriculture, social policy and employment, energy, environment, financial control and financial and budgetary provisions.

The twinning light projects might cover, as appropriate, verification of transposition, implementation and enforcement of the Acquis, and reinforcement of administrative capacity in the relevant fields.

The twinning light facility will be implemented according to standard Phare rules, on the basis of terms of reference prepared by the relevant ministries and approved by the EC delegation in Tallinn. Only in case that Member States do not provide experts through the twinning call for proposals rounds, the terms of reference could be tendered as classical service contracts (technical assistance).

For all contracts under the twinning light facility, projects must be programmed and terms of reference agreed by the EC delegation by no later than the date of Accession. In the field of supervising the implementation of EU-funded measures by the Estonian authorities, Phare will provide technical assistance for the evaluation of its implementation, which includes transfer of know-how and training of the Estonian administration to set up a monitoring and evaluation system at sectoral level. Phare will also assist the development of a national evaluation strategy and an action plan for creating the adequate evaluation capacities at national level, with a view to Structural Funds.

**Objective 2: Public Sector Financial Management**

**Project 2003/004-582.02.01: Assistance to the Ministry of Finance in preparing the administration of the European Communities’ Own Resources and participation in the EU budgetary process**

The project aims at finalising the preparations for the effective administration of own resources upon accession according to EU requirements.

Phare support will be provided for:

- Finalising the legal and institutional framework for the collection, accounting, reporting and auditing of EU own resources
- Developing an integrated system of electronic databases with the aim to co-ordinate the management of own resources, to provide the Ministry of Finance with relevant information on the EU own resources and to allow for data exchange with the European Commission.

This project aims at institution building and will be implemented through twinning as well as a service contract for setting up the IT common interface.
Project 2003/004-582.02.02: Strengthening Financial Management and Control System – Phase II

As a follow up of an on-going Phare 2000 project, this project aims at reinforcing the Public Internal Financial Control System in Estonia, including specific provisions for financial control for Structural and Cohesion funds.

Phare support will be used to:

- Provide training at internationally accepted audit standard level to public internal auditors, through traineeships in Member States, mentorship, and a “train the trainer” programme, and establish sustainable training capacities.
- Provide specific training for internal auditors on the implementation of financial control requirements for the Structural and Cohesion Funds.

The beneficiaries of the training include internal auditors from Estonian administrations and public bodies, counties as well as local governments.

The training needs analysis will be reviewed in the light of a comprehensive strategy 2003-2009 and of a detailed action plan for 2003-2005 for the development of the Public Internal Financial Control system in Estonia, to be provided by Ministry of Finance to the EC delegation before approval of the twinning covenant.

The Estonian authorities will ensure the sustainability of the financial control training scheme through appropriate mechanisms, in particular commitment of beneficiaries to remain in office after completion of the project as well as agreement with training institutions to ensure future training of internal auditors.

Objective 3: Economic and Social Cohesion

Project 2003/004-582.03.01: Support for Tourism Development

The current project provides Phare support to the overall national strategy towards tourism development, building upon the tourism projects financed under the Phare 2000 and 2001 programmes. It is consistent with the measure foreseen for tourism development in the draft SPD, which it will contribute to pilot test.

Phare support will be provided for:

- infrastructure projects in the field of tourism, including inter alia historical and cultural heritage, nature activities, active holidays, conference tourism, health and leisure
- marketing projects to promote different tourism products (various tourism destinations and tourism themes)
- supply contracts for the marketing of Estonia as a tourism destination (the publication of promotional material).

The project aims at strengthening Economic and Social Cohesion in Estonia through increased competitiveness of the tourism sector.
It will be implemented through two grant schemes and supply contracts.

The two grant schemes, for infrastructure projects and for the development of marketing products, will be managed by the Foundation Enterprise Estonia and implemented according to the procedures and standard documents defined and most recently published by the European Commission for the implementation of External Actions. The grant is open to the following eligible beneficiaries: local government, county government, local government associations and non-profit organisations, which will be the final owners of the assets. Assistance for the management of the grant scheme will be provided by national co-financing.

Following the outcome of the “grant scheme assessment” undertaken by the EC delegation on the basis of Phare Programming Guide 2003, the implementation of the two grant schemes is conditional upon evidence that the recommendations of such assessment have been addressed, and in particular, that the CFCU has strengthened its capacity and clearly outlined its procedures and systems in place for subcontracting, taking account of relevant state aids requirements.

The Tourism Marketing Grant Scheme is also conditional upon the recruitment of a dedicated project manager in Enterprise Estonia for its implementation. The detailed design of the two grant schemes will be prepared before the start of the project.

Enterprise Estonia will ensure that the projects financed under the Grant Schemes do not receive other assistance from SAPARD Agency or Phare CBC.

Project 2003/004-582.03.02: Support for industrial infrastructure development

This project aims at supporting public infrastructure for the development of industrial parks in Estonia. This measure fits into the Estonian national policy aimed at supporting SMEs and is complementary to other related national measures. It is consistent with the measures foreseen for business development in the draft Single Programming Document and will contribute to pilot-test their future implementation under Structural Funds.

Phare will finance industrial infrastructure projects prepared by local government, county government, local government associations and non-profit organisations that will be the final owners of the assets. Eligible activities for individual projects cover public infrastructure, such as, e.g., development of power networks, water supply and sewerage, communication systems, and transportation links.

The project will be implemented through a grant scheme managed by the Foundation Enterprise Estonia according to the procedures and standard documents defined and most recently published by the European Commission for the implementation of External Actions. Assistance for the management of the grant scheme will be provided by national co-financing.

Following the outcome of the “grant scheme assessment” undertaken by the EC delegation on the basis of Phare Programming Guide 2003, the implementation of the grant scheme is conditional upon evidence that the recommendations of such assessment have been addressed, and in particular, that the CFCU has strengthened its capacity and clearly outlined its procedures and systems in place for subcontracting.
It is also conditional upon the recruitment of a dedicated project manager in Enterprise Estonia for its implementation.

The detailed design of the grant scheme will be prepared before the start of the project.

Project 2003/004-582.03.03: Testing and notification of shale oil chemicals produced from oil shale

This project aims at ensuring compliance of 14 chemical products derived from oil shale with the acquis requirements concerning notification of "new" substances in the sense of Directive 67/548/EEC as amended by Directive 92/32/EEC and its Annex VII A.

Phare will support the completion of laboratory tests needed for the preparation of the technical dossier ("base set") for notification of these substances to the Estonian Competent Authority, in line with the requirements as stipulated in Directive 67/548/EEC as amended by Directive 92/32/EEC and its Annex VII A.

Notification dossiers should be submitted to the Competent Authority in time for it to examine the conformity of the substances in question with the requirements of the Directive 67/548/EEC prior to Estonia accession to the EU. Notification should be completed by December 2003 at the latest, in order to allow the Competent Authority to immediately develop testing programmes for the 14 substances according to Annex VIII (Level 1 or 2), which should be well underway at the date of Accession.

This project will also contribute to address the economic conversion of the oilshale industry and economic and social cohesion of the Ida-Virumaa region.

The project will be implemented through technical assistance for carrying out laboratory tests and other necessary works for the preparation of the above-mentioned notification dossiers.

It is conditional upon the recruitment of a project manager prior to the start of the project.

Project 2003/004-582.03.04: Estonian Language Training and Teaching in Estonian for Non-Estonian Speakers

As a follow-up to a previous Phare 2000 project, this new project aims at continuing support to the integration of the Russian speaking minority into the Estonian society with specific focus on the enhancement of language skills. This Phare project is complementary and fully consistent with the implementation of the activities foreseen by the state programme "Integration in Estonian Society 2000-2007".

Phare funds will be used in particular to develop:

- Training for teachers, in particular in Estonian and Russian Medium Schools, Russian Vocational Schools and Kindergartens
- Language training for adults
- Estonian language study material
- Language camps and family exchanges
- Public awareness activities on measures developed to assist in social integration
- Integration-related grants for NGOs and local government.
This project aims at increasing the economic and social cohesion of Estonian society. It will be implemented through a combination of services and supply contracts, direct grant contract to the Non-Estonians' Integration Foundation (NEIF) considering its specific experience in the management of previous language teaching programmes, and a grant scheme open to NGOs and local municipalities to support integration-related projects.

The grant scheme for integration projects will be implemented according to the procedures and standard documents defined and most recently published by the European Commission for the implementation of External Actions. The grant is open to local government, non-profit organisations and State institutions.

Following the outcome of the "grant scheme assessment" undertaken by the EC delegation on the basis of Phare Programming Guide 2003, the implementation of the direct grant contract to the NEIF and of the grant scheme for NGOs and local governments are conditional upon evidence that the recommendations of such assessment have been addressed, and in particular, that the CFCU has strengthened its capacity and clearly outlined its procedures and systems in place for subcontracting.

It is also conditional upon the conclusion of a Memorandum of Understanding between the NEIF and the Ministry of Education, describing their respective tasks and responsibilities for implementation of the project.
2. Budget

<table>
<thead>
<tr>
<th>Project number</th>
<th>Project Name</th>
<th>Project description</th>
<th>Year 2003</th>
<th>Year 2004</th>
<th>Year 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>ADMINISTRATIVE CAPACITY</td>
<td>Establishment of a customs laboratory</td>
<td>110.000</td>
<td>311.000</td>
<td>421.000</td>
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<tr>
<td>02</td>
<td>PUBLIC SECTOR FINANCIAL MANAGEMENT</td>
<td>Assistance to the Ministry of Finances in preparing the administration of the European Communities’ Own Resources and participation in the EU budgetary process</td>
<td>541.900</td>
<td>541.900</td>
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<tr>
<td>03</td>
<td>ECONOMIC AND SOCIAL COHESION</td>
<td>Strengthening Financial Management and Control System – Phase II</td>
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<tr>
<td></td>
<td></td>
<td>Support for Tourism Development</td>
<td>2.700.000</td>
<td>2.700.000</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>Support for industrial infrastructure development</td>
<td>1.400.000</td>
<td>1.400.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Testing and notification of oil shale chemicals produced from oil shale</td>
<td>1.000.000</td>
<td>1.000.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Estonian Language Training and Teaching in Estonian for Non-Estonish Speakers</td>
<td>3.098.700</td>
<td>198.000</td>
<td>3.296.700</td>
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<td></td>
<td></td>
<td>GRAND TOTAL</td>
<td>7,381.800</td>
<td>600.000</td>
<td>11,492.600</td>
</tr>
</tbody>
</table>

(The figures in the budget table are indicative only)

**Government co-financing**

The programme is co-financed by the Estonian Government. The amounts that the Government will provide are specified in detail in the individual project fiches. The Estonian Government will ensure that appropriate co-financing in accordance with the details included in the project fiches will be available on time.

The ratio between the Phare and the national amount has to be applied to the final contract price.

In accordance with the Phare Guidelines of 1999 and Revised Guidelines of 2002, all investment projects supported by Phare must receive co-financing from national public funds. The Community contribution may amount to up to 75% of the total eligible\(^1\) public expenditure.

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\(^1\) Taxes are not an element eligible for co-financing
Co-financing for Institution Building projects is provided by the beneficiary bearing certain infrastructure and operational implementation costs, through financing the human and other resources, required for effective and efficient absorption of PHARE assistance.

3. Implementation Arrangements

a.) Financial and Project Management by the Candidate Country

The programme will be managed in accordance with the Phare Extended Decentralised Implementation System (EDIS) procedures as set down in the EDIS accreditation decision and the agreement on the implementation of EDIS (EDIS Implementation Agreement; EIA) concluded between Estonia and the Commission\(^2\). Prior to the conclusion of said Agreement, implementation will exceptionally follow Phare Decentralised Implementation System (DIS) procedures\(^3\). Extended decentralisation will, however, apply from the date of accession at the latest.

The National Aid Co-ordinator (NAC) will have overall responsibility for programming and monitoring of Phare programmes. The National Authorising Officer (NAO) and the Project Authorising Officers (PAO) will ensure that the programmes are implemented in line with the procedures laid down in the EDIS implementation agreement and/or the DIS Manual as well as the other instructions of the Commission, and that all contracts required to implement the Financing Memorandum are awarded using the procedures and standard documents defined and most recently published by the European Commission for the implementation of External Actions.

The NAC and the NAO shall be jointly responsible for co-ordination between Phare (including Phare CBC), ISPA and SAPARD as well as the Structural and Cohesion Funds.

The National Fund (NF) in the Ministry of Finance, headed by the NAO, will supervise the financial management of the Programme, and will be responsible for reporting to the European Commission. The NAO shall have overall responsibility for financial management of the Phare funds. He shall ensure that the Phare rules, regulations and procedures pertaining to procurement, reporting and financial management as well as Community state aid rules are respected, and that a reporting and project information system is functioning. This includes the responsibility of reporting all suspected and actual cases of fraud and irregularity. The NAO shall have the full overall accountability for the Phare funds of a programme until the closure of the programme.

b.) Project size

All projects will be greater than 2 M€, except those in the following areas: administration of own resources, establishment of a customs laboratory, strengthening financial management and control system, testing and notification of oil shale chemicals and support for industrial infrastructure development.

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\(^2\) In accordance with the rules set down in the Council Regulation 1605/2002 (Financial Regulation, in particular Art. 164), Commission Regulation 2342/2002 (Implementing rules of the Financial Regulation) and the annex of Council Regulation 1266/1999

\(^3\) In accordance with the rules set down in Council Regulation 1605/2002 (Financial Regulation), Commission Regulation 2342/2002 (Implementing Rules of the Financial Regulation) and the annex of Council Regulation 1266/1999
This is mostly due to the proportionality of resources in relation to the needs of the
Estonian administration as well as to the nature of some projects, especially as regards
some institution building actions. Some very useful actions such as twinning, twinning
lights, training sessions on implementation of the Acquis require a low level of
financing.

c.) Contracting and disbursement deadline; programming deadline

All contracts must be concluded by 30 April 2005. In no case can the contracting period
exceed 3 years after the date of the global commitment.
All disbursements must be made by 30 April 2006. Budgetary commitments which have
not given rise to payments during three years counted from the date of the
legal commitment will be decommitted.

Concerning the amount foreseen under the Unallocated Institution Building Envelope
(project number: 01.02 Accession Facility), projects must be programmed and Terms of
Reference agreed by the Delegation by no later than the date of accession (1st May
2004).

d.) Clearance of Accounts Procedure and Recovery of Funds

A clearance-of-accounts procedure in line with Art. 53 para 5 of the Financial
Regulation4 and Art. 42 of the Implementing Rules to the Financial Regulation5 will be
put in place.

Any proven irregularity or fraud6 discovered at any time during the implementation of
the programme will lead to the recovery of funds by the Commission.

If the implementation of a measure appears not to justify either a part or the whole of
the assistance allocated, the Commission is to conduct an appropriate examination of
the case, in particular requesting the beneficiary country to submit its comments within
a specified period of time and to correct any irregularity.

Following the examination referred to in the previous paragraph, the Commission may
reduce, suspend or cancel assistance in respect of the measures concerned if the
examination reveals irregularity, an improper combination of funds or a failure to
comply with one of the conditions in the financing memorandum and in particular any
significant change affecting the nature or conditions of implementation of the measure
for which the Commission’s approval has not been sought. Any reduction or
cancellation of the assistance is to give rise to recovery of the sums paid.

Where the Commission considers that an irregularity has not been corrected or that all
or part of an operation does not justify either all or part of the assistance granted to it,
the Commission is to conduct a suitable examination of the case and request the
beneficiary country to submit its comments within a specified period. After the
examination, if the beneficiary country has undertaken no corrective measures, the
Commission may:

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5 Commission Regulation 2342/2002 of 23 December 2002

6 As defined under number 8a (Audit and Anti-fraud Measures by the Candidate Countries) of this document
(a) reduce or cancel any advance;

(b) cancel all or part of the assistance granted to the measure.

The Commission is to determine the size of a correction taking into account the nature of the irregularity and the extent of any failures in the management and control systems.

Any funds not used by the expiry date of the programme will be recovered by the Commission. A final written declaration with supporting documentation shall be issued by the NAO just after the end of the disbursement period of the Financing Memorandum showing the total amount contracted and disbursed. A final bank reconciliation showing the existing balances in the NF/IA/CFCU shall also be enclosed.

Notwithstanding the recovery of unused and ineligible funds after expiry of the Financing Memorandum, a complementary recovery order may be issued after the final audit of the reliability and consistency of contracts and disbursements as well as their compliance with the provisions of the Financing Memorandum has been carried out, taking into account the independent opinion of the final audit.

The National Authorising Officer will ensure the reimbursement of any unused funds or any sum wrongly paid within sixty calendar days of the date of notification. If the NAO does not repay the amount due to the Community, the beneficiary country shall refund this amount to the Commission. Interest on account of late payments shall be charged on sums not repaid by applying the rules specified in the Financial Regulation governing the Community Budget.

e.) Financial Flows

The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and Estonia in December 1998. Funds will be transferred following requests from the NAO onto a separate bank account, denominated in €, which will be opened and managed by the NF in the Central Bank or in a Bank agreed in advance with the Commission.

aa) Transfer of Funds to the National Fund

A first transfer of up to 20% of the funds to be managed locally, representing pre-financing, will be sent to the NF following signature of the Financing Memorandum and the Financing Agreements (FAs) between the NF and the Implementing Agencies (IAs)/Central Finance and Contracts Unit (CFCU). The provisions foreseen in articles 2 and 13 of the MoU on the NF must also be met. Furthermore, the NAO must submit to the Commission the designation of the PAOs and a description of the system put in place, highlighting the flow of information between the NF and the IA/CFCU and the manner in which the payment function will be carried out.

Two further transfers of up to 30% each of the funds to be managed locally will be made. The second transfer will be triggered when 5% of the budget has been disbursed by the IAs and the CFCU. The third transfer may be requested when 35% of the total budget in force has been disbursed. A fourth transfer will be made when 70% of the total budget in force is disbursed and when all expenditure has been incurred (i.e. fully contracted). No later than 2 months after expiry of the disbursement deadline the

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7 as defined in Art. 81.1.b.i of the Financial Regulation
National Fund will submit a final declaration of expenditure, which will trigger a balancing operation of all transfers against final certified expenditure incurred, which at that point will be equal to payments made (closure of expenditure)\(^8\).

Exceptionally the NAO may request payment of more than the percentages mentioned above in accordance with the procedures laid down in the aforesaid Memorandum of Understanding. Save for express prior authorisation from the Commission HQs, no interim payments may be made if the trigger points mentioned above have not been respected.

**bb.) Transfer of Funds to the Implementing Agencies**

The National Fund will transfer funds to 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. Bank accounts for sub-programmes shall be opened in the name of the relevant Implementing Agency/CFCU in charge of the financial administration of the sub-programme in line with Art. 13 of the MoU on the Establishment of the National Fund.

Under DIS, 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.

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. 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.

**dd.) Interest**

In principle, all bank accounts\(^9\) 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.

\(^8\) as defined in Art.105 of the Implementing Rules

\(^9\) in particular, but not exclusively, accounts run by the NF, the CFCU and IAs
f.) Implementing Agencies will be responsible for sub-programmes as follows:

<table>
<thead>
<tr>
<th>Project number</th>
<th>Project Name</th>
<th>Implementing Agency</th>
<th>Ministry or Institution with a specific role</th>
<th>Project Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003/004-582.01.01</td>
<td>Establishment of a customs laboratory</td>
<td>CFCU</td>
<td>Estonian Customs Board Estonian Environmental Research Center</td>
<td>TL INV</td>
</tr>
<tr>
<td>2003/004-582.01.02</td>
<td>Accession Facility</td>
<td>CFCU</td>
<td>Ministry of Finance All relevant line Ministries Estonian Legal Translation Centre</td>
<td>TL TA</td>
</tr>
<tr>
<td>2003/004-582.02.01</td>
<td>Assistance to the Ministry of Finances in preparing the administration of the European Communities' Own Resources and participation in the EU budgetary process</td>
<td>CFCU</td>
<td>Ministry of Finance</td>
<td>TW INV</td>
</tr>
<tr>
<td>2003/004-582.02.02</td>
<td>Strengthening Financial Management and Control System – Phase II</td>
<td>CFCU</td>
<td>Ministry of Finance</td>
<td>TW INV</td>
</tr>
<tr>
<td>2003/004-582.03.01</td>
<td>Support for Tourism Development</td>
<td>CFCU</td>
<td>Ministry of Economic Affairs and Communication Enterprise Estonia</td>
<td>2. grants schemes INV</td>
</tr>
<tr>
<td>2003/004-582.03.02</td>
<td>Support for industrial infrastructure development</td>
<td>CFCU</td>
<td>Ministry of Economic Affairs and Communication Enterprise Estonia</td>
<td>1 grant scheme INV</td>
</tr>
<tr>
<td>2003/004-582.03.03</td>
<td>Testing and notification of oil shale chemicals produced from oil shale</td>
<td>CFCU</td>
<td>Ministry of Economic Affairs and Communication Enterprise Estonia</td>
<td>TA INV</td>
</tr>
<tr>
<td>2003/004-582.03.04</td>
<td>Estonian Language Training and Teaching in Estonian for Non-Estonian Speakers</td>
<td>CFCU</td>
<td>Ministry of Education Non-Estonians' Integration Foundation</td>
<td>TA Direct grant 1 grant scheme</td>
</tr>
</tbody>
</table>

g.) Environmental Impact Assessment and Nature Conservation

The procedures for environmental impact assessment as set down in the EIA-directive\textsuperscript{10} are fully applicable for all investment projects under PHARE. If the EIA-directive has not yet been fully transposed, the procedures should be similar to the ones established in the above-mentioned directive. If a project would fall within the scope of annex I or annex II of the EIA Directive, the carrying out of the EIA-procedure must be documented\textsuperscript{11}. If a project is likely to affect sites of nature conservation importance, an appropriate assessment according to Art. 6 of the Habitats-Directive\textsuperscript{12} must be documented\textsuperscript{13}. All investment projects shall be carried out in compliance with the relevant Community environmental legislation. The Project Fiches will contain specific clauses on compliance with the relevant EU-legislation in the field of the environment according to the type of activity carried out under each investment project.

h.) Special rules for certain components for the programme

Twinning

The amounts earmarked for twinning projects will cover the eligible costs (as set down in the DIS instructions) for implementing the work plan agreed between the Member State and the Applicant Country. The eligible costs may include costs incurred by the selected Member State during the preparation of the twinning covenant in the period between signature of the Financing Memorandum and the final notification of the financing approval of the covenant.

Grant Schemes

For Grant Schemes in the field of Economic and Social Cohesion the precise implementation arrangements will be specified in the relevant project fiches in line with the following principles:

- The procedures and formats to be used in the implementation of the schemes and award of the grants will follow the provisions of the Practical Guide. In particular, due care will be given to the selection process of the beneficiary projects, which has to be done at a technical level through selection committees composed of experts appointed by the authorities which are co-financing the schemes, as well as by the relevant administrations and interest groups involved in the schemes.

- The competent PAO for the programme under which the grant scheme is financed has to retain his/her contractual and financial responsibility for the implementation of the schemes. In particular, the PAO has to formally approve the call for proposals, application forms, evaluation criteria, as well as the selection process and results. The PAO has also to sign the grant contracts with the beneficiaries and to ensure adequate monitoring and financial control under his/her authority and responsibility. With this reservation, the management of the schemes can be decentralised from the PAO to the appropriate bodies at sectorial or regional level.

\textsuperscript{10} DIR 85/337/EEC; OJ L 175/40; 5.7.1985; as amended by DIR 97/11/EEC; OJ L 73/5; 14.3.1997

\textsuperscript{11} in Annex EIA to the corresponding investment project fiche

\textsuperscript{12} DIR 92/43/EEC; OJ 206/7; 22.7.1992

\textsuperscript{13} in Annex Nature Conservation to the corresponding investment project fiche
• Prior to EDIS accreditation, the ex-ante approval of the Commission Delegation in Estonia will be required, in conformity with the provisions of chapter 6 of the Practical Guide (decentralised ex-ante control). The implementation of selected projects through provision of works, supplies and services, sub-contracted by the final beneficiaries of the individual grants, shall be subject to the procurement regulations in the Practical Guide.

• Following a positive assessment of the Implementing Agency’s capacity to operationally and financially manage the schemes in a sound and efficient manner (cf. Section 11 and Annex 4 of the 2003 PHARE Programming Guide), the Commission Delegation may decide to waive its ex-ante approval of sub-contracting carried out by final beneficiaries of individual grants. The detailed provisions governing the role of the Delegation in the above mentioned sub-contracting phase will be specified, as appropriate, in the exchange of letters between the Delegation and the National Authorities following the above mentioned assessment exercise.

• Grant schemes will not involve projects for which PHARE contribution is more than € 2 million and less than € 50.000. This lower limit may be waived as a result of the above-mentioned assessment of the Implementing Agency's capacity of giving assurance of sound financial management. This lower limit is not applicable in the case of NGOs.

• The financial commitments in Phare terms will be effected at the date of signature of the grant contracts by the competent PAO. Project implementation and all Phare disbursements are to be done before the expiry date of the present Financing Memorandum.

4. Monitoring and Evaluation

Project implementation of this programme will be monitored through the Joint Monitoring Committee (JMC). It includes the NAO, the NAC and the Commission services. 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. Furthermore the JMC will review the progress of all pre-accession EU-funded assistance programmes once a year (PHARE, ISPA and SAPARD).

For the PHARE programme, the JMC will be assisted by Sectoral Monitoring Sub-Committees (SMSC) which will include the NAC, the PAO of each Implementing Agency (and of the CFCU where applicable) and the Commission Services. The SMSC will review in detail the progress of each programme, including its components and contracts, assembled by the JMC into suitable monitoring sectors. Each sector will be supervised by one SMSC on the basis of regular monitoring reports produced by the Implementing Agency, and interim evaluations undertaken by independent evaluators. The SMSC will put forward recommendations on aspects of management and design, ensuring these are effected. The SMSC will report to the JMC, to which it will submit overall detailed opinions on all Phare financed programmes in its sector.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.
5.) Audit and Anti-Fraud Measures

a.) By the Candidate Countries\textsuperscript{14}

Each year an audit plan and a summary of the findings of the audits carried out shall be sent to the Commission. Audit reports shall be at the disposal of the Commission.

Appropriate financial control shall be carried out by the competent national financial control authority with respect to the implementation of the programme.

Beneficiary countries shall ensure investigation and satisfactory treatment of suspected and actual cases of fraud and irregularity following national or Community controls.

Irregularity shall mean any infringement of a provision of national or Community law\textsuperscript{15}, this Financing Memorandum or ensuing contracts or resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.

Fraud shall mean any intentional act or omission relating to:

(i) the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities,

(ii) non-disclosure of information in violation of a specific obligation, with the same effect,

(iii) the misapplication of such funds for purposes other than those for which they are originally granted.

The national authorities shall ensure the functioning of a control and reporting mechanism equivalent to the one foreseen in Commission Regulation 1681/94\textsuperscript{16}.

In particular, all suspected and actual cases of fraud and irregularity as well as all measures related thereto taken by the national authority must be reported to the Commission services without delay. Should there be no suspected or actual cases of fraud and irregularity to report, the beneficiary country shall inform the Commission of this fact within two months following the end of each quarter.

b.) By the Commission

All Financing Memoranda as well as the resulting contracts are subject to supervision and financial control by the Commission (including the European Anti-fraud Office) and audits by the Court of Auditors. This includes on-the-spot checks and, as long as the Extended Decentralisation System is not yet applicable to the Implementing Agencies in

\textsuperscript{14} in accordance with the rules set down in Art. 54 of the Financial Regulation

\textsuperscript{15} Defined as the entirety of Community rules applicable between the Parties of the Financing Memorandum (for example the Europe Agreements, the Framework Agreement, the Memorandum of Understanding on the establishment of the National Fund, etc.).

\textsuperscript{16} OJ L 178; 12.7.94; p. 43-46
the Candidate Country concerned, measures such as ex-ante verification of tendering and contracting carried out by the Delegation in the Candidate Country concerned. In order to ensure efficient protection of the financial interests of the Community, the Commission may conduct on-the-spot checks and inspections in accordance with the procedures foreseen in Council Regulation (Euratom, EC) No. 2185/96. 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.

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. Further details are set down in the Annex “Visibility/Publicity”. (enclosed)

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 Phare programme.

\[17\] OJ L 292; 15.11.1996; p. 2-5
ANNEX D
INFORMATION AND PUBLICITY FOR THE PHARE, ISPA AND SAPARD PROGRAMMES OF THE EUROPEAN COMMUNITIES

1. Objective and scope

Information and publicity measures concerning assistance from the European Community Phare Programme are intended to increase public awareness and transparency of EU action and to create a consistent image of the measures concerned in all applicant countries. Information and publicity shall concern measures receiving a contribution from the Phare Programme.

2. General principles

The appropriate Programme Authorising Officer in charge of the implementation of Financing Memoranda, and other forms of assistance shall be responsible for publicity on the spot. Publicity shall be carried out in co-operation with the EC Delegations, which shall be informed of measures taken for this purpose.

The competent national and regional authorities shall take all the appropriate administrative steps to ensure the effective application of these arrangements and to collaborate with the EC Delegations on the spot.

The information and publicity measures described below are based on the provisions of the regulations and decisions applicable to the Structural Funds. They are:


Specific provisions concerning ISPA are included in:


Information and publicity measures must comply with the provisions of the above mentioned regulation and decision. A manual on compliance is available to national, regional and local authorities from the EC Delegation in the country concerned.

3. Information and publicity concerning Phare programmes

Information and publicity shall be the subject of a coherent set of measures defined by the competent national, regional and local authorities in collaboration with the EC Delegations for the duration of the Financing Memorandum and shall concern both programmes and other forms of assistance.
The costs of information and publicity relating to individual projects shall be met from the budget for those projects.

When Phare programmes are implemented, the measures set out at (a) and (b) below shall apply:

(a) The competent authorities of the applicant countries shall publish the content of programmes and other forms of assistance in the most appropriate form. They shall ensure that such documents are appropriately disseminated and shall hold them available for interested parties. They shall ensure the consistent presentation throughout the territory of the applicant country of information and publicity material produced.

(b) Information and publicity measures on the spot shall include the following:

(i) In the case of infrastructure investments with a cost exceeding EUR 1 million:

- billboards erected on the sites, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

- permanent commemorative plaques for infrastructures accessible to the general public, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

(ii) In the case of productive investments, measures to develop local potential and all other measures receiving financial assistance from Phare, Ispa or Sapard:

- measures to make potential beneficiaries and the general public aware of Phare, Ispa or Sapard assistance, in accordance with the provisions cited at paragraph 3(b)(i) above.

- measures targeting applicants for public aids part-financed by Phare, ISPA or SAPARD in the form of an indication on the forms to be filled out by such applications, that part of the aid comes from the EU, and specifically, the Phare, ISPA or SAPARD Programmes in accordance with the provisions outlined above.

4. Visibility of EU assistance in business circles and among potential beneficiaries and the general public

4.1 Business circles

Business circles must be involved as closely as possible with the assistance, which concerns them most directly.

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to potential beneficiaries, particularly SMEs. These should include an indication of the administrative procedures to be followed.
4.2 Other potential beneficiaries

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to all persons who benefit or could benefit from measures concerning training, employment or the development of human resources. To this end, they shall secure the co-operation of vocational training bodies involved in employment, business and groups of business, training centres and non-governmental organisations.

Forms

Forms issued by national, regional or local authorities concerning the announcement of, application for and grant of assistance intended for final beneficiaries or any other person eligible for such assistance shall indicate that the EU, and specifically the Phare, Ispa or Sapard Programmes, is providing financial support. The notification of aid sent to beneficiaries shall mention the amount or percentage of the assistance financed by the Programme in question. If such documents bear the national or regional emblem, they shall also bear the EU logo of the same size.

4.3 The general public

The media

The competent authorities shall inform the media in the most appropriate manner about actions co-financed by the EU, and Phare, ISPA or SAPARD in particular. Such participation shall be fairly reflected in this information.

To this end, the launch of operations (once they have been adopted by the Commission) and important phases in their implementation shall be the subject of information measures, particularly in respect of regional media (press, radio and television). Appropriate collaboration must be ensured with the EC Delegation in the applicant country.

The principles laid down in the two preceding paragraphs shall apply to advertisements such as press releases or publicity communiqués.

Information events

The organisers of information events such as conferences, seminars, fairs and exhibitions in connection with the implementation of operations part-financed by the Phare, Ispa or Sapard Programmes shall undertake to make explicit the participation of the EU. The opportunity could be taken of displaying the European flags in meeting rooms and the EU logo upon documents depending on the circumstances. The EC Delegation in the applicant country shall assist, as necessary, in the preparation and implementation of such events.

Information material

Publications (such as brochures and pamphlets) about programmes or similar measures financed or co-financed by Phare, Ispa or Sapard should, on the title page, contain a clear indication of the EU participation as well as the EU logo where the national or regional emblem is used.
Where such publications include a preface, it should be signed by both the person responsible in the applicant country and, for the Commission, the Delegate of the Commission to ensure that EU participation is made clear.

Such publications shall refer to the national and regional bodies responsible for informing interested parties.

The above-mentioned principles shall also apply to audio-visual material.

5. Special arrangements concerning billboards, commemorative plaques and posters

In order to ensure the visibility of measures part-financed by the Phare, Ispa or Sapard Programmes, applicant countries shall ensure that the following information and publicity measures are complied with:

Billboards

Billboards providing information on EU participation in the financing of the investment should be erected on the sites of all projects in which EU participation amounts to EUR 1 million or more. Even where the competent national or regional authorities do not erect a billboard announcing their own involvement in financing the EU assistance must nevertheless be announced on a special billboard. Billboards must be of a size which is appreciable to the scale of operation (taking into account the amount of co-financing from the EU) and should be prepared according to the instructions contained in the technical manual obtainable from EC Delegations, referred to above.

Billboards shall be removed not earlier than six months after completion of the work and replaced, wherever possible, by a commemorative plaque in accordance with the specifications outlined in the technical manual referred to above.

Commemorative plaques

Permanent commemorative plaques should be placed at sites accessible to the general public (congress centres, airports, stations, etc.). In addition to the EU logo, such plaques must mention the EU part financing together with a mention of the relevant Programme (Phare, Ispa or Sapard).

Where a national, regional or local authority or another final beneficiary decides to erect a billboard, place a commemorative plaque, display a poster or take any other step to provide information about projects with a cost of less than EUR 1 million, the EU participation must also be indicated.

6. Final provisions

The national, regional or local authorities concerned may, in any event, carry out additional measures if they deem this appropriate. They shall consult the EC Delegation and inform it of the initiatives they take so that the Delegation may participate appropriately in their realisation.
In order to facilitate the implementation of these provisions, the Commission, through its Delegations on the spot, shall provide technical assistance in the form of guidance on design requirements, where necessary. A manual will be prepared in the relevant national language, which will contain detailed design guidelines in electronic form and this will be available upon request.