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 HUNGARY, 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 3 September 1990 between THE COMMISSION and HUNGARY, 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: HU 9916
Title: CROSS BORDER COOPERATION PROGRAMME BETWEEN HUNGARY AND SLOVAKIA
Duration: Until 31 December 2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of € 2 MEURO 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 December 2001. 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 December 2002. 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:
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 Budapest
Date 22 Dec. 99

for THE RECIPIENT

Annex 1 Framework Agreement (Annexes A & B)
Annex 2 Special Provisions (Annex C)

for THE COMMUNITY

1. OBJECTIVES AND DESCRIPTION

1.1. Wider objectives

The general objective of the Hungary-Slovakia Phare CBC Programme is to promote co-operation in the border regions of the two countries. Cross-border co-operation is regarded as a means of stimulating economic activities in these regions and to assist them in overcoming specific development problems which arise from their peripheral position within national economy. In addition, the Phare CBC Programme aims to promote the creation and further development of networks on both sides of the border. The programme supports the process of integrating Hungary and Slovakia into the European Union.

1.2. Immediate Objectives and Programme Results

The following priority area of cross-border co-operation has been agreed with Slovakia for 1999:

Nature and environment protection

In this first programming year, out of the general cross-border regional development priorities the programme focuses on the objective of nature protection, with environment protection issues as sub-objectives. It is also considered a substantial target of the programme to support preparations for the next programming period.

In Hungary, the proposed Regional Waste Depot project will help to intervene in urgent and endangering situations in order to protect and improve the natural environment in a short term. Hence, the aim and direct impact of this cross border project on the Hungarian side of the border is to drastically improve this situation thereby leading to a more environmental sustainable situation.

In the Slovak Republic, the modernisation of the wastewater treatment plant in Luženec will improve the quality of the surface water in the Ipeľ river, which is creating a natural border between Slovakia and Hungary and is a tributary of the Danube.

A Small Projects Fund will facilitate contacts between people living in the border region and will support the preparation of feasibility studies, plans etc. in order to get prepared for the coming programming periods.

1.3. Programme description

Since similar problems occurred on both sides of the Hungarian-Slovak border, similar ideas arose to solve these problems in the development plans of both countries. In accordance with these, from the global objectives and the priorities defined in general, both countries support the developments aimed at improving natural and environmental assets of the cross-border region within the framework of the 1999 programme. In the nature protection programme/project framework, every sub-priority is in harmony with the natural characteristics of the given region and has been developed jointly with the Hungarian and Slovak partners.
Both the Slovak and Hungarian project proposals are initiated to take actions for the improvement of the natural environment and to create favourable conditions for the future sustainable development of the Slovak-Hungarian border region. It is in these terms that the impact of the proposal has to be seen.

**Priority 01: Environmental Protection**

**Project HU9916.01.01 - Regional Waste Depot**

The Hungarian project proposal is targeted at nature and environmental protection development through investments (regional waste depot) in the cross-border regions.

The project supports nature and environmental protection investments targeted at solving severe problems in the border areas in the short run. Through the nature protection/water management investments, the construction of the regional waste depot in Jánossomorja can be started. The regional waste disposal site in Jánossomorja is targeted at solving acute problems which require immediate measures by relieving the area of the Fertő-Hanság National Park Directorate and surrounding areas under nature protection from the burden of waste problems.

The planned regional waste disposal site at Jánossomorja is to solve the waste disposal problems of the 61 settlements located in the region (110.000 inhabitants altogether). The concerned area is a sensitive and vulnerable lowland with valuable natural assets. Its western part is partly covered by the Fertő-Hanság National Park and its eastern part by the Szigetköz Landscape Protection Area. Despite the fact that the whole area is in the environmentally sensitive category and it is also a groundwater protection zone, waste disposal is still not solved in the region. The regional waste disposal site will indirectly provide a long-term solution for the communal waste disposal problems of the region with partially recovering the utilizable components and providing a maximum utilisation of the available dumping capacity.

With the establishment of the regional waste disposal site, the currently operating 4 non-regulated (without technical protection) and 50 illegal waste dumps can be liquidated. As a consequence, the ratio of waste used as secondary raw material or compost can increase and selective waste collection and management can be introduced in the region.

**Project SR9918.01.01: Modernisation of the wastewater treatment plant in Luňenec**

The town of Luňenec is the biggest district agglomeration discharging the wastewater into the Ipeýriver on the Slovak side of the Slovak-Hungarian border. The treated wastewater is discharged into the Krivansky potok, which flows into the Ipeýriver. The existing WWTP was build in the year 1966 and with some capacity increase is being working up to present time.

Due to the growth of the town and the stricter legislation in place, the discharged treated wastewater is not fulfilling the quality criteria set by Slovak legislation. According to urbanistic studies, a further growth of the town and its surroundings is foreseen in the following years. In order to face the increasing needs, it is therefore imperative to modernise the wastewater treatment plant. This will allow to decrease the pollution of surface and groundwater in Luňenec district and neighbouring villages, contributing at the same time to meet EU environmental standards. This project will also have a positive environmental impact.
on the Ipeř river and its tributaries and clear cross-border impact on the Hungarian side of the border.

Phare will finance the „equipment” component of the project, complementing in this way the Slovak financing of the construction works.

**Project: Small Projects Fund (HU'9916.02.01 – SR'9918.02.01)**

The general aim of the JSPF is the support of ‘people to people’ projects and non-investment projects with a genuinely cross-border impact. The purpose of the support of these projects is to encourage local involvement and to facilitate the implementation of small-scale actions which may constitute the basis for larger cross-border cooperation projects. Priority will be given to projects that are planned, selected and realised jointly by Hungarian and Slovak partners and supported from both JSPFs on the Hungarian and on the Slovak side. The JSPF aims also at the building and developing of specialist resources for local and regional institutions involved in regional development, groundwork and implementation of cross-border projects in line with EU practice.

The specific JSPF objectives in Slovakia and Hungary are in accordance with regional priorities: the development of cultural and youth co-operation between neighbouring regions on both sides of the border; support for actions aimed at local and regional socio-economic development, in particular measures in support of tourism development; the support of educational activities for institutions and individuals involved in local/regional development, in local government and in organisations of public interest.

The minimum co-financing contribution of the beneficiary to the project is 10%; the minimum contribution of the beneficiary to the administrative costs (Secretariat) is 5% of the project’s value. The minimum Phare contribution per project is 1.000 EUR, the maximum contribution is 50.000 EUR. Within these limits, the regional Steering Committee may establish differing limits (in particular lowering the maximum contribution of Phare, keeping in view the overall amount available, and increase of the beneficiary’s own contribution).

The JSPF will be implemented following the General Guidelines of the Commission for Small Projects Funds and draw on the Hungarian and Slovak Guidelines for the SPF, endorsed by the Commission. A Regional Steering Committee (RSC) will be established for the whole Hungarian-Slovak border region and will be the principle responsible institution for the operation of the JSPF, under the auspices of the relevant Implementing Agencies identified in Section 6.

The RSC will include *inter alia* representatives of the local/regional public administration and of any other relevant institutions of the eligible regions.

The European Union’s contribution to the JSPF will be 0.5 M€ (0.25 M€ for each country).

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

2. **BUDGET**
The following table specifies the EU contribution as well as the national co-finance (in MEUR) of the programme.

<table>
<thead>
<tr>
<th>No.</th>
<th>Projects</th>
<th>Total</th>
<th>Phare HU</th>
<th>Phare SR</th>
<th>Co-fin. HU</th>
<th>Co-fin. SR</th>
<th>Phare Indicative</th>
</tr>
</thead>
<tbody>
<tr>
<td>HU9916.01 01</td>
<td>HU – Regional Waste Depot</td>
<td>2,350</td>
<td>1,750</td>
<td>0,600</td>
<td>1,750</td>
<td>1,750</td>
<td></td>
</tr>
<tr>
<td>SR9918.01 01</td>
<td>SR – WWTP in Lucenec</td>
<td>3,973</td>
<td>1,750</td>
<td>2.223</td>
<td>1,750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HU9916.02 01</td>
<td>JSPF</td>
<td>0,290</td>
<td>0,250</td>
<td>0,040</td>
<td>0,250</td>
<td>0,250</td>
<td></td>
</tr>
<tr>
<td>SR9918.02 01</td>
<td>JSPF</td>
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<td>0,040</td>
<td>0,250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>6,903</td>
<td>2,000</td>
<td>2,000</td>
<td>0,640</td>
<td>2,263</td>
<td>0,500 3,500</td>
</tr>
</tbody>
</table>

3. IMPLEMENTATION ARRANGEMENTS

In each country, the programme will be managed in accordance with the Phare Decentralised Implementation System (DIS) procedures. The National Aid Co-ordinator (NAC) will have overall responsibility for programming, monitoring and implementing 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 reporting to the European Commission. Appropriate financial control will 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 the Memorandum of Understanding (MoU) signed between the Commission and Hungary on 17 December 1998 and between the Commission and the Slovak Republic on 10th December, 1998. Funds will be transferred following requests from the NAO. A payment of up to 20% of the funds to be managed locally will be transferred to the NF following signature of the Financing Memorandum and the Financing Agreement (FA) between the NF and the Implementing Agency (IA). The provisions foreseen in articles 2 and 13 of the MoU on the NF must also be met. The provisions in the articles titled “Implementing Agency and Programme Authorising Officer” and “Bank Accounts” of the FA 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 IAs/CFCU and the manner in which the payment function will be carried out.

Four Replenishments will be made of up to 20% of the funds to be managed locally or 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 IA. 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 IA 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 Hungary, the Ministry of Agriculture and Regional Development will be the Implementing Agency (IA) responsible for all sub-programmes. In the Slovak Republic, the CFCU will be the Implementing Agency for all relevant sub-programmes.

A separate bank account denominated in EUR will be opened and managed by the NF in a separate accounting system in a Bank agreed in advance with the European Commission. In principle, all bank accounts will be interest bearing. Interests will be reported to the European Commission. If the European Commission so decides, on the basis of a proposal from the NAO, interests 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 PAO will ensure that all contracts are being prepared in accordance with the procedures set out in the DIS Manual.

The application of the otherwise required minimum size of projects (€2Mio) will allow derogations only on the basis of a case by case assessment and under the circumstances of genuine cross-border cooperation falling within the priority measures defined in the joint Phare-INTERREG programming documents.

The following contracts will be prepared with special procedures: The Small Projects Fund will be contracted in accordance with the General Guidelines of the Commission for Small Projects Funds and with the Hungarian and Slovak Guidelines for the SPF endorsed by the Commission.

All funds must be contracted by 31 December, 2001. All disbursements must be made by 31 December 2002. 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 for the programme including 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 relating to each beneficiary country. 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 where applicable) 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 consultants (in accordance with the provisions of the DIS Manual), and will put forward recommendations on aspects of management and design ensuring that 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 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 Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement signed with the Government of each beneficiary country.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.

6. VISIBILITY AND 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 in the relevant beneficiary country. Further details are at annex 3.

7. SPECIAL CONDITIONS

The Hungarian and Slovak Governments shall ensure that appropriate counterpart staff and facilities for programme implementation will be provided by the beneficiary institutions, relevant budget appropriations (co-financing resources) will be available within the time schedules foreseen, and appropriate institutional and legislative measures are taken.

The European Union’s financial contribution is limited to 4 M€. This contribution will not cover any additional costs, cost increases or extensions which must be provided for by the implementing and contracting authorities.

In the event that agreed commitments are not met for reasons which are within the control of the Governments of Hungary and the Slovak Republic, 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.
### Annex 4 – Cumulative Budget

The following table specifies the EU contribution as well as national co-financing (in MEUR) of the programme.

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<td>0,640</td>
<td>0,250 1,750</td>
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