FINANCING MEMORANDUM

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

The Government of the Republic of 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 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: HU0012
Title: 2000 Cross-Border Co-operation Programme between Hungary and Slovakia
Duration: Until 31 December 2002

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of € 2 million 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 2002 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 December 2003. All disbursements must be completed by this date 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.
1. OBJECTIVES AND DESCRIPTION

1.1. Wider objectives

The general objective of this 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 at promoting the creation and further development of networks on both sides of the border. This programme supports the process of European integration of both countries.

1.2. Immediate Objectives

In line with the Joint Programming Document, the 2000 programme for the Hungarian/Slovak cross-border co-operation identifies for both countries a common objective: the environmental protection specifically as regards the common groundwater resources of the Ronyva/Ronava river basin.

The proposed project for the “Canalisation and sewage treatment system in the Hungarian-Slovak border region” (Hungary) will allow to intervene in urgent and endangering situations in order to protect and improve the common aquifer of the border region. The same objective will be achieved in the Slovak Republic through the project for “Common sewage system and wastewater treatment in Slovak-Hungarian “Tokaj” region”.

A Joint Small Projects Fund, for the same amount in both countries, will facilitate and further strengthen contacts between people living in the border region. It may also support the preparation of feasibility studies, plans etc. in the light of future programming exercises.

1.3. Programme description

A Joint Programming Document (JPD) covering the period 2000-2006 (with an interim revision in 2003) has been prepared and agreed unanimously by the JCC. The projects selected for support in the Phare 2000 CBC Hungary-Slovak Republic Programme are in accordance with the priorities identified by the JPD. The following priorities have been selected:

- Improvement of environmental situation and co-operation in nature protection
- Improvement of physical and public infrastructure

The JCC approved the following projects:

1.3.1. – HU0012.01 - Environmental Protection: Canalisation and sewage treatment in the Hungarian-Slovakian border region

In accordance with the priorities identified in the Joint Programming Document, both countries, in the framework of the 2000 programme, aim at improving the natural and environmental assets of the cross-border regions.

In line with the principle of sustainable development, the Hungarian - Slovak project proposal is initiated to take actions for the improvement of the natural environment of the border region.
and guarantee the protection in the long-term of the region’s water reserves. As a result of the project, the common drinking water reserves of the Sátoraljaújhely-Slovenska Nove Mesto border section will be protected. The water quality of the river Ronyva/Ronava is expected to improve, thus it will not pollute the river Bodrog. The water quality of the regional wells that provide drinking water will improve with the implementation of the investment.

In the frame of the project the sewage treatment plant and the sewage system of the region of Sátoraljaújhely will be extended. During the investment 28,730 metres of gravitational waste-pipe and 7,650 metres of compressed waste-pipe will be built, and 11 main sewage pumps and 209 small capacity household sewage pumps will be installed. The plant currently operating with a capacity of 3300m3/day is to be extended to 5000m3/day.

Once the sewerage system has been built and the households have been connected, direct pollution of the ground water will be ceased. At the same time, the development of the sewage treatment plant will result in the decrease of nitrogenous, phosphorous and other kinds of pollution.

The extension of the sewage treatment plant and the sewage system of the region of Sátoraljaújhely will bring the treatment of waste water and sewage in compliance with the requirements of the EU environmental acquis. In particular, compliance with the Urban Waste Water Treatment Directive (91/271/EEC as amended by Directive 98/15/EC) and related decision 93/481/EEC and the Sewage Sludge Directive 86/278/EEC.

1.3.2. SK0011.01 - Environmental Protection: Common sewage system and wastewater treatment plant in Slovak-Hungarian “Tokaj region”

This project will lead to an improved quality of ground and surface waters in the Slovak “Tokaj region” and in the border river Bodrog and some of its tributaries (river Ronava). Both surface and underground water contamination will be reduced. It will improve environmental conditions on both sides of the border region, the quality of life of the border population and substantially reduce health risks.

In the Tokaj region live altogether some 50,000 inhabitants. Drinking water wells are situated on the Slovak side directly in the locality of Slovenske Nove Mesto. Wells on the Hungarian side are linked to the Slovak ones. The actual quality of the surface waters of the rivers Ronava and Bodrog is evaluated of III° and IV° grade, i.e. polluted and strongly polluted water respectively. The absence of sewerage and waste water treatment in the Slovak municipalities causes pollution of the above mentioned drinking water sources. With the aim to develop an integrated approach, the municipalities of Cerhov, Mala Trna, Slovenske Nove Mesto, Velka Trna and Borsa established the “Association of the Tokaj Municipalities”. This Association together with the representatives of the Hungarian micro-region of Sátoraljaújhely agreed in January 2000 to support projects aiming at reducing the pollution of surface waters.

The construction of the common sewage plant among the relevant municipalities and the conservation of the common WWTP in Borsa will bring the treatment of waste water and sewage in compliance with the Urban Waste Water Treatment Directive (91/271/EEC as amended by Directive 98/15/EC) and related decision 93/481/EEC and the Sewage Sludge Directive 86/278/EEC.

1.3.3. - HU0012.02- SK0011.02 - Joint Small Projects Fund
The general aim of the JSPF is the support of ‘people to people’ projects and small scale infrastructure 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. 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 JSPF will be implemented following the General Guidelines on the Operation of the Joint Small Project Fund. The two Implementing Agencies will elaborate a joint set of guidelines (to be endorsed by the respective Delegation of the European 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.

The Phare contribution may finance indirect (overhead) costs up to 7% of the total amount of direct eligible costs.

1.3.4. - SK0011.03 – Tender evaluation, monitoring

A small allocation of 50,000 EUR is set aside to ensure the financing of short-term expertise for tender evaluation and monitoring purposes. This component will be tendered out in strict compliance with Phare tendering procedures.

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An environmental impact assessment according to the EU Environmental Impact Assessment Directive (85/337/EEC as amended by 97/11/EC) will be carried out for all investment projects, where applicable, according to this directive.

2. BUDGET

The programme will have a duration of 3 years. The contracting and the disbursement period will expire respectively on 31st December 2002 and on 31st December 2003. The following table specifies the EU contribution as well as the national co-financing (in MEUR) of the programme.

<table>
<thead>
<tr>
<th>No.</th>
<th>Project title</th>
<th>Phare HU</th>
<th>Phare SK</th>
<th>Co-fin. HU</th>
<th>Co-fin. SK</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>HU0012.01</td>
<td>Canalisation and sewage treatment in the Hungarian-Slovak border region</td>
<td>1.6</td>
<td></td>
<td>2.64</td>
<td></td>
<td>4.24</td>
</tr>
</tbody>
</table>
3. IMPLEMENTATION ARRANGEMENTS

The programme will be managed in accordance with the Phare Decentralised Implementation System (DIS) procedures. In both countries, 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 in both countries 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 signed between the Commission and the Hungarian Government on 17th December 1998 and between the Commission and the Slovak Government on 10th December 1998. Funds will be transferred following requests from the respective NAO. A payment of up to 20% of the funds to be managed locally will be transferred to the relevant NF following signature of the Financing Memorandum and the Financing Agreement (FA) between the NF and the relevant Implementing Agency (IA). 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 PAO and a description of the system put in place, highlighting the flow of information between he NF and the IA 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.

The National Fund will transfer funds to the IAs, in accordance with Financing Agreements (FAs) signed between the NF 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 IAs/CFCU there will be no transfer of funds from the NF to the IAs/CFCU. 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 IA/CFCU.
In Hungary the Ministry of Agriculture and Regional Development will act as the Implementing Agency (IA).

In the Slovak Republic, the Central Finance and Contracting Unit (CFCU) will act as the Implementing Agency. The CBC Unit established at the Government Office, Department of Foreign Assistance, will be the Implementing Authority.

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

Each individual FA will be endorsed in advance by the European Commission. The IA must 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 IA.

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 project described under 4.3.3 (Joint Small Projects Fund) will be implemented in accordance with the General Guidelines of the Commission for JSPF.

The projects proposed are in line with the Phare guidelines (point 5.1.7), which foresee that given the specific nature of cross-border projects, the principle of minimum size of projects will be applied with flexibility.

All funds must be contracted by 31st December 2002. All disbursements must be made by 31st December 2003.

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.

3.1. The Institutional Structure of the Programme

In Hungary, the overall responsibility for the Hungary–Slovakia Phare CBC Programme will rest with the Hungarian Ministry of Agriculture and Regional Development as the IA of all
sub-programmes of the Programme. The Ministry has nominated a PAO and a Programme Director and set up a Programme Management Unit. The PMU became operational with an initial contingent of four Hungarian professionals on 2 May 1996. The implementation capacity of the PMU was reinforced by its integration with the Regional Development PMU in February 1998 and now operates with 40 Hungarian professionals. This institution will be the Implementing Agency (IA) of the 2000 Hungary-Slovakia PHARE CBC Programme.

The PAO will hold regular consultations to determine the Government objectives and turn these into a priorities and guidelines to be applied by the IA. He will organise the meetings of the national Steering Committee at which, *inter alia*, information on strategic objectives and priorities will be reviewed, and where questions of national co-finance will be discussed. A specific responsibility in this regard will be – similarly to previous Phare CBC Programmes – to co-ordinate activities supported under the CBC programme with those under other assistance programmes including those funded from the Hungarian Government’s own resources, by Phare and by other international donors.

A Working Group has been established in order to discuss priorities for the annual programming rounds and technically evaluates project proposals for each of the priorities.

In Slovakia, the overall responsibility for the Slovak-Hungarian Phare CBC Programme will lie with the Phare CBC Unit, established at the Government Office, as Implementing Authority and with the Slovak CFCU as the Implementing Agency for all projects of the Programme.

The Phare CBC Slovakia–Hungary 2000 Programme is based on the resolution of the JCC and also on the Joint Programming Document for the years 2000-2006.

3.2. The Joint Programming and Monitoring Committee

Based on the EC Regulation Nr. 2760/98 a bilateral Joint Co-operation Committee (JCC) has been set-up as the main joint body of the organisational structure of cross-border activities. JCC meetings are being chaired jointly by the heads of the Hungarian and Slovak delegations.

4. MONITORING AND ASSESSMENT

A Joint Monitoring Committee (JMC) in each partner country 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. 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 in Slovakia) 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 both respective the National Funds 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 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. Further details are at annex 5.

7. SPECIAL CONDITIONS

The Hungarian and Slovak Governments will carry the legal liability to carry out the projects specified under the programme to a satisfactory outcome and shall carry out by its own means any work on which contractors default. In the measures specified under this programme, in which the European Union grant contributes to the financing of revenue generating activities, the Commission shall determine, in consultation with the Implementing Authority, specific arrangements for financing which could include co-financing by the project revenues or reimbursement of the initial grant.

The European Union's financial contribution is limited to a maximum of 4 MEUR (2 MEUR per country). This contribution will not cover any additional costs, cost increases or extensions which must therefore be catered 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 Hungarian and Slovak Governments, 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.

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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:

The Delegation of the European Communities in Budapest
Bérc utca 23, H -1016 Budapest

Telephone: 36.1.209.9700
Fax: 36.1.466.42.21

for THE RECIPIENT:

Minister Imre Boros
Office of the Prime Minister
Assistance Coordination Secretariat
Pozsonyi ut, 56 -
1133 Budapest

Telephone: 36.1.320.5075
Fax: 36.1.320.4473

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 5th December 2000

for THE RECIPIENT

Mr M. Lake
Head of European Commission
Delegation to the Republic of Hungary

Annex 1 Framework Agreement
Annex 2 Special Provisions
Annex 3 Visibility and Publicity