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 September, 3rd, 1990 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:

Project number: HU 9803 to HU 9810
Title: 1998 PHARE National Programme for HUNGARY
Duration Until October 1, 2000

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 67 MECU hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - DURATION AND EXPIRY

The EC grant is subject to an expiry date, after which any balance of funds shall be cancelled. The duration of the programme reflects that all payments must take place before the expiry of this Financing Memorandum. For the present measure, the expiry date of THE EC GRANT is hereby set at 1 October 2001. All disbursements must be completed by this date. The deadline for contracting of THE EC GRANT is 1 October 2000. All contracts must be made by this date. THE COMMISSION may however, in exceptional circumstances, agree to an appropriate extension of the expiry date, should such an extension be requested and properly justified by THE RECIPIENT.
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:

European Commission
Directorate General IA.B
External Relations: Europe and the New Independent States
Rue de la Loi, 200
B-1049 Brussels, Belgium

Telegraphic address: COMEUR BRUXELLES
Telex: 21877 COMEU B
Fax: 32/2/295.75.02

for THE RECIPIENT:

Government of the Republic of HUNGARY
Prime Minister's Office
Dr. Imre BOROS
Minister without portfolio responsible for PHARE
Pozsonyi ut. 56
1133 Budapest
Tel.: 36/1. 320.50.75
Fax: 36/1. 320.44.73

ARTICLE 5 - NUMBER OF COPIES

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. Only expenditure incurred from this date is eligible for the EC GRANT.

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

Done at Budapest
Date: ____________

for THE RECIPIENT
Minister without Portfolio responsible for PHARE
Dr. Imre BOROS

for THE COMMUNITY
Head of the EC Delegation in Hungary
Michael LAKE

Annex B: Special Provisions (Annex C)
1.  ANNEX C - SPECIAL PROVISIONS

2.

3.  1. OBJECTIVES AND DESCRIPTION

3.1.  1.1.  Reinforcement of institutional and administrative capacity

1.1.1.  Objectives

(i) modernisation of the public finance sector

(ii) improvement of financial control, audit and monitoring capacities of the State Audit and Government Control Offices

(iii) facilitation of foreign trade and improvement of border management at the future external border of the EU

1.1.2.  Description

3.1.1.  1.1.2.1. Public Finance (Project Hu 98.03.01)

The Ministry of Finance (MoF), in co-operation with the Hungarian Competition Office (HCO) and the Central Statistical Office (CSO) has elaborated a comprehensive institution building project in the field of public finances addressing the principal harmonisation and approximation tasks contained in the Accession Partnership and the NPAA. The programme covers

- The development of the state aid monitoring system, transformation of the existing paper-based state-aid monitoring system into fully inter-active computerised information system supporting de-centralised data-entry and providing for a reliable control of state aid policy and implementation.

- The modernisation of the tax system aimed at the harmonisation of legislation and institutional structures. Principal fields of activity include excise duties, VAT, company law, income tax and other forms of direct taxation. Issues of fraud prevention in the fields of VAT and excise duties are also addressed.

- Institutional development in the area of private funds, insurance and financial services supervisory bodies with the aim of strengthening the supervisory functions including voluntary pension schemes, enhancing internal control and investment-assessment methodologies, consumer protection and the liberalisation of cross-border services.

- The development of accounting and audit standards, establishment of National Accounting and Audit Standard Committees and strengthening the role of professional bodies.

- Macro-economic modelling and macro-statistics aimed at incorporating all relevant financial and statistical data in harmony with EC methodological requirements (Eurostat, ESA 95), into a single government information system, providing reliable data on National Account, GDP, PPP, and other principal main economic indicators, as well as the data transmission between the Eurostat and the HCSO.
• The development of the HCO as the national anti-trust authority with the aim of increased concentration on the effective surveillance and enforcement of competition rules. Familiarisation with and the translation of Community case law on competition enjoys special attention.

Proposed activities are to be based on twinning arrangements including long-term secondments of foreign experts to Hungary, workshops, seminars, study visits, acquisition and dissemination of information on EC rules and international best practices, controlling methodologies. Institution building activities are supported by the procurement and installation of necessary IT-equipment needed for comprehensive interactive information systems.

The Ministry of Finance is responsible for the overall coordination of the projects and has to supervise the implementation of the projects within the institutions involved.

1.1.2.2. Financial Control, Monitoring and Audit (Project HU 98.03.02)

The areas of financial control, monitoring and audit are addressed by a comprehensive project of the Hungarian State Audit Office (HSAO) and the Government Control Office (GCO).

Government Resolution 1009/1998 (I.30) has established a monitoring system charged with the supervision of the implementation of foreign aid programmes. The system co-ordinated by the Office of the Prime Minister and based on secretarial services provided by the Government Control Office is made up of a Central Monitoring Committee and Local Monitoring Committees. Phare shall support the establishment and further development of this system towards a monitoring structure fulfilling the requirements of EU structural policy by providing for methodology development, technical assistance involving field specific assignments of foreign experts, training, computing equipment and necessary communication infrastructure.

The State Audit Office, as the supreme audit and control institution controlled by Parliament is charged, inter alia, with the control of central and local government budgets, social security and other public funds. After EU accession the HSAO shall also be responsible for supervising the utilisation of EU structural and agricultural and cohesion funds. Therefore, Phare assistance is needed to enable the HSAO to fully enforce related Community requirements and standards. The project includes studies on the rules and tasks of Supreme Audit Institutions in selected EU countries, methodological development, training, twinning co-operation with EU-based partner institutions and some limited infrastructural investment.

Coordination with past and ongoing activities financed under previous Phare programmes or by other financial sources must be ensured.

1.1.2.3. Introduction of Binding Tariff Information and Binding Origin Information systems. (Project HU 98.03.03)

As an essential part of the harmonisation of customs regulations and procedures the Central Customs Laboratory must be enabled to perform the required quantity of product examination and establish a direct information link with the relevant EU information system. Similarly, some mobile laboratories have also to be equipped. The IB part of the project would be realised through twinning arrangements with interested Member States.

The project has to be integrated into the national customs information system.
1.2. Internal Market

1.2.1. Objectives

(i) further integration of Hungary into the internal market through the continuation of the adoption and implementation of the White Paper legislation including the development of conformity assessment bodies and market surveillance institutions

1.2.2 Description

Testing and certification bodies, market surveillance (Project HU 98.04.01)

Legislative harmonisation in relation to the free movement of industrial goods is a key element of the accession process. Apart from the continuation of the transposition of Single Market legislation and European norms and standards the 1995 Cannes White Paper highlights the importance of effective implementation and enforcement structures for Single Market rules. An action plan concerning the approximation of White Paper legislation was adopted in Hungary through Government Resolution 2282/1996 (X.25). Within its framework the development of testing, inspection, certification and supervisory bodies ensures the reliable implementation of the Acquis relating to the Single Market.

Under the 1998 Programme Phare shall support the development of testing and certification bodies by transferring know-how and investing in necessary testing and IT-equipment, with the aim of establishing the institutional conditions for the implementation of the most important directives in the field of industrial product safety (e.g. directives relating to general product safety, low voltage equipment, electro-magnetic compatibility, toys, construction products, safety of machinery, simple pressure vessels, new hot water boilers, gas appliances, non-automatic weighting instruments, personal protective equipment, explosives for civil uses, and directives on the noise levels of industrial products).

With the end to the compulsory third party conformity assessment regime Hungarian market surveillance authorities must further develop their methodologies and enhance their capacities in order to be able to control effectively conformity declarations provided by the producers themselves. The harmonisation with the Council Directive on general product safety also requires the establishment of a central information system on market surveillance connected to that of the European Union. In this area Phare shall support the implementation of the relevant three-year government programme, by the end of which all human, technical and infrastructural requirements of an effective market control and consumer information system shall be put in place.

Finally, under the 1998 NP Phare shall continue to support the process of legal harmonisation through the continued provision of legal assistance and the provision of expertise in EC Law, its implementation in the Member States, as well as its relation to existing Hungarian legislation. Areas to be addressed are, inter alia, public procurement, civil law, consumer protection, company law, intellectual property, data protection, as well as justice and home affairs. Another important activity is the continuation of assistance to legal harmonisation activities and the translation of EC-legislation into Hungarian with particular emphasis on a final overview of previously translated texts and the compilation of a unified glossary of legal expressions. This project represents a continuation of activities begun under earlier Phare (Euro GTAF, COP 1996) projects.

Therefore a strong coordination with past and ongoing actions in the fields of certification, market surveillance, legal analysis and translation of legislation financed in the framework of
previous Phare programmes or by other financial sources must be ensured. Progress in legal approximation activities in accordance with the Government strategy and effective integration of institutional support structures as well as sufficient administrative support for the management of the project must also be ensured.

1.3. **Justice and Home Affairs**

1.3.1. Objectives

(i) improvement of the cooperation between Hungary and Member States in the fight against organised crime

(ii) improvement of border management

1.3.2. Description

1.3.2.1. Strengthening Border Management (Project HU 98.05.01)

This component will cover the following activities:

1. Reinforcement of institutional and administrative capacity in the field of asylum
2. comprehensive training programme in the field of the fight against organised crime;
3. Purchase of specialised equipment, including communication, transport, control, screening, and other technical devices.
4. Procurement of computer equipment, (hardware and software) for the Police, the Border Guard, State Prosecutors’ Office and the Migration Office.

An appropriate institutional structure ensuring equal access of all concerned law enforcement agencies and avoiding double investment will be put in place. The development of the border management system is declared a priority in the strategy of the Hungarian law enforcement authorities. The start of the project is conditional on the completion of a study to be financed out of programme HU 9703 on the development needs of the border management system.

It is envisaged, that the above projects should be financed mainly by Hungarian Government funds. Twinning arrangements are also envisaged.

1.3.2.2. Modernisation of Border Crossing Points (Project HU98.05.02)

In the area of the free movement of goods Phare shall support two projects elaborated by the Hungarian Customs and Finance Guard (HCFG). The projects consist of co-financing **infrastructural investment at two principal border stations** on Hungary’s southern borders (Croatia and Yugoslavia) which shall form part of the Union’s external borders after accession.

The implementation of the project is conditional on the provision of the Government’s co-financing prior to the start of the project.
1.4. Agriculture

1.4.1. Objectives

(I) improvement of the international movement of live animals and products of animal origin as well as plant consignments

(ii) development of institutions responsible for the future implementation of the CAP

(iii) creation of pre-conditions for the free movement of agricultural products

(iv) development of management and administrative structures facilitating the implementation of structural and rural development measures

1.4.2. Description

Phare support would be provided as complement to the NPAA in the following areas:

1.4.2.1. Veterinary Issues (Project HU 98.06.01)

In the case of an outbreak of any infectious disease, fast and accurate action is needed to keep economic loss at a low level. Therefore Phare shall support the establishment of Border Inspection Posts at future EU external borders, the further development of the Veterinary Information System including the identification and traceability of movement of animals, and the upgrading of diagnostic laboratories. Investment measures are accompanied by training and methodology development. In order to implement the project successfully a formal system of interministerial cooperation between the Ministry of Agriculture, the Ministry of Finance and the Ministry of Interior has to be set up.

1.4.2.2. Phytosanitary System (Project HU 98.06.02)

This project, consisting of the two elements of strengthening phytosanitary BIPs at the EU’s future external borders and the development of the Phytosanitary information system, shall, upon its completion enable Hungary to control the transport of plant consignments and introduce the system of plant passports. Phytosanitary controls shall be raised to internationally accepted standards, and enabled to obtain international certificates. Information on Phytosanitary Controls shall be available 24 hours on an EUROPHTHET-compatible information system. The project must be carried out in line with the new Hungarian law on Plant Protection which shall be approved by the Hungarian Parliament in the course of 1998.

1.4.2.3. CAP Implementation (Project HU 98.06.03)

If Hungary is to benefit from the Common Agricultural Policy, it needs to establish a fully EC-compatible statistical information system covering both producers and products, a payment agent (Agricultural Intervention Centre) and the necessary institutional network to channel and monitor payments from the EAGGF. The government programme supported by this project aims at establishing by the time of accession the entire institutional framework required for the efficient operation of the CAP in Hungary.

The project provides additional impetus and resources to ongoing activities that will continue beyond 1999. The implementation of the project is conditional on the provision of the Government co-financing. The project should also be coordinated with similar activities which are planned to be financed under a World Bank loan.
1.4.2.4. Quality and Competitiveness in the Agri-Food Sector (Project HU 98.06.04)

The compliance with quality control and quality assurance regulations of the EC is a precondition for the free circulation of Hungarian agricultural and food products in the Single market. Thereby Hungary needs to extend the sphere of competence and capacities of the National Institute for Agricultural Quality Control and the National Wine Institute, enabling them to issue certificates allowing the free circulation of goods. Furthermore, in order to attenuate the impact of adapting to EC standards and competition in the agro-food industry a major modernisation and restructuring effort within the Hungarian agricultural sector is needed. The project contributes to the elaboration of preparatory studies required if community contribution is to be used in combination of budgetary funds and private capital.

The implementation of the project is conditional on the proper staffing of the Departments for Food Industry, Animal Health and Quality Control within the Ministry of Agriculture.

1.4.2.5. Planning Capacity for Structural- and Agri-Environmental Development Schemes
(Project HU 98.06.05)

By the time of accession Hungary must be able to absorb financial assistance provided by the Union, inter alia with respect to agri-environmental development initiatives. In this regard the establishment of a country-wide network of experts well versed in project definition, planning and implementation is of prime importance. A skeleton of regional offices of the Ministry of Agriculture is already available, but they need to enhance their capacities by improving their human resources and equipment. The proposed project aims at the development of these regional offices in the fields of rural development and agro-environmental planning. At least one “pilot institution” shall be fully equipped with all tools and human resources required.

The implementation of the project is conditional on the provision of the Government’s co-financing. The project must be closely coordinated with project n° HU 98.08.01 (SPP). Twinning arrangements are also envisaged.

1.5. Environment

1.5.1. Objectives

(i) harmonisation of Hungarian environmental legislation with the acquis
(ii) undertaking investments to implement the legislation
(iii) strengthening/improving the implementation capacity of the Central Environmental Protection Fund
(iv) modernisation of environmental inspectorates

1.5.2. Description

1.5.2.1. Legal approximation (Project Hu 98.07.01)

Under this year’s programme Phare support shall be used for **further legislative harmonisation and the implementation of key environmental directives** (e.g. Seveso, Habitats, air pollution). Legal harmonisation work shall concentrate on the continuous
approximation of emerging EC environmental legislation, including comparative legal analysis, training, workshops and study tours for ministry officials, as well as the further development of a library system on environmental law and its application and continued supply to the ministry of relevant EC documentation, including translation activities. Twinning arrangements are also envisaged. As a specific activity, in an effort to facilitate the implementation of the Seveso II Directive, taking into account the division of related responsibilities within the Hungarian administration, the 1998 National Programme is contributing a limited amount to the up-grading to EC-standards of technical rescue and disaster prevention equipment of the Fire Service. Concentrating on chemical hazards, industrial accidents and environmental catastrophes specialised vehicles, basic technical rescue equipment as well as personal protection devices shall be procured. Investment is concentrated into 3 selected fire stations which, as part of the aforementioned large-scale governmental programme, shall form the core of a country-wide network of disaster prevention facilities.

The project has to be coordinated closely with the ongoing Phare activities on legal approximation.

1.5.2.2. Support to the Central Environmental Protection Fund (Project HU98.07.02)

A second element is the development of the Central Environmental Protection Fund (CEPF), the main instrument of government co-financing for environmental projects. Its operation is regulated by laws, and the CEPF was already successfully used under 1992 and 1994 Phare programmes for channelling Phare aid into the sector. Nevertheless, its procedures require further development in order to achieve full EC-conformity. Institution building activities [technical assistance and consultancy from the Union and its member states (Portugal, Ireland), exchange of experiences with other associated countries’ (Poland, Slovenia, Estonia) environmental funds] is planned to be complemented by investment support, under the CEPF for projects initiated by local governments in areas such as liquid and solid waste management and sewage treatment, etc.

The implementation of the project is conditional on the provision of the Government’s co-financing.

1.5.2.3. Environmental Inspectorates (Project HU98.07.03)

Finally, Phare shall support Phase II. of Institution Building activities relating to the 12 regional Environmental Inspectorates as well as the Institute for Environmental Management. Phare programme HU9402 was used for the acquisition of some basic laboratory equipment for environmental inspectorates. Building on this project, based on a recent complete inventory of laboratory equipment available, this project shall finance the procurement of further tools, taking into account the concrete tasks of Supervisory Laboratories, as differentiated into basic and special duties according to regions. Special emphasis is put on urgent needs relating to the implementing EC Directives relating to soil, water and air protection, hazardous waste treatment and noise levels.

The implementation of the project is conditional on the establishment of a country-wide network of environmental inspectorates.
1.6. **Regional Policy and Cohesion**

1.6.1 Objectives

(i) Prepare Hungary to design and implement Objective 1 type interventions under structural policy rules and procedures regulation by promoting the development of efficient administrative and budgetary structures in conformity with the priorities laid down in the Accession Partnership as well in the Hungarian National Programme for the adoption of the Acquis Communautaire. These actions also aim at preparing the structures to implement ISPA –having recourse to the relevant experience of the Cohesion Fund- and SAPARD.

1.6.2. Description

**Further support to Regional Development and Structural Policy Coordination**

(Project HU 98.08.01)

Currently Hungary is the only country among associated CEECs having adopted a Law on Regional Development (1996). Thereby the legislative basis for an EU-conform regional development policy and for the establishment of necessary institutions (regional development councils and development agencies) has been put in place.

The 7 Million ECU allocation to this objective area is covered by the newly created multi-beneficiary programme for Structural Funds Preparations. In an effort to facilitate and accelerate preparations for the Structural Funds, the 1998 Phare programme shall support the further improvement of regional, structural and rural development and structural policy coordination with a special emphasis on the introduction of project identification, planning, implementation and supervision capacities in the field of structural policy. For this purpose twinning arrangements are envisaged.

As a complementary measure the NP shall provide investment support for the practical implementation of an integrated rural- and regional development programme.

The project must be carried out in close cooperation with the other Ministries concerned. (Ministry of Finance, Ministry of Agriculture, Ministry of Labour, Ministry of Transport, etc.)

1.7. **Participation in Community Programmes**

1.7.1. Objectives

(i) continued familiarisation of Hungarian institutions with Community practices and methods and facilitation of Hungarian participation

1.7.2. Description

**End-user support (Project HU 98.09.01)**

The 1997 Phare programme provided support for Hungarian participation in the Community Programmes of Socrates, Leonardo, and Youth for Europe. Phare funds were used for a near 50% co-financing Hungarian “entry tickets”, while another 1.038 MECU was provided for “end-user support”. In 1998, the Community Programmes of Kaleidoscope, Ariane, Media II, Aids Prevention, Fight Against Drugs, Fight Against Cancer, Equal Opportunities, Life, Save and SME are expected to be opened for Hungary as well. Similarly to COP 1997, the this
The year’s National programme includes Phare funds for supporting the final beneficiaries of Community Programmes. The financing of entry tickets shall be provided for under a separate financing memorandum.

The implementation of the project is inseparably linked to the participation in the Community programmes concerned. The timing of the support to the end-user has to be strictly based on the implementation schedule of these Community programmes.

1.8. **Programme Management**

1.8.1. Objectives

(i) establishment of an efficient management structure for the Phare programme in line with the requirements of the New Phare Guidelines

1.8.2. Description

**Establishment of new implementation structures (Project Hu 98.10.01)**

The New Orientation of Phare modifies the implementation structures of Phare programmes. Candidate countries are to establish, without exception, a Central Finance and Contracting Unit (CFCU) responsible for the administrative aspects of programme implementation. From May 1998 onwards funds of the Hungarian Phare programme are handled by the Hungarian State Treasury via a Single Account. The establishment of a „National Fund” is also required.

The tasks of the CFCU as well as the distribution of tasks between the CFCU, the National Fund, and national authorities responsible for particular programmes shall be defined by a Memorandum of Understanding between the Commission and the Hungarian Government. The MoU is due to be prepared before the signature of the 1998 National Phare Programme.

The 1998 Phare programme shall contribute to the introduction of the new management structures with a further 1 million ECU. Support shall be used to co-finance the procurement of necessary office equipment as well as providing for a gradually decreasing contribution to personnel-related expenditure as well as running costs.

The implementation of this project is conditional on the utilisation of the allocation provided under the 1997 programme.

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

Equal opportunities for men and women to participate in all projects will be ensured. Indicators will be elaborated to assess the extent of women’s participation in projects.
2. BUDGET

<table>
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<th>Objective Area (activities)</th>
<th>Phare Amount MECU</th>
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<td>I. Reinforcement of institutional &amp; administrative capacity (HU98.03)</td>
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<td>• public finance, competition (HU 98.03.01)</td>
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<td>• financial control, monitoring and audit (HU 98.03.02)</td>
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<td>• introduction of BTI and BOI systems (HU98.03.03)</td>
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<td>• phytosanitary controls (HU 98.06.02)</td>
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<td>• development of environmental inspectorates (HU98.07.03)</td>
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<td>VI. Regional Development (HU98.08)</td>
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<td>• Development of regional policy institutions and practices, implementation of an integrated regional-rural development programme (HU98.08.01)</td>
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<td>VII. Participation in Community Programmes (HU98.09)</td>
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<td>• End user support to community programmes to be opened for Hungarian participation (HU98.09.01)</td>
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<td>VIII. Programme Management (HU98.10)</td>
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(See footnote)

Up to 10% of the budget may be contracted directly by the Commission and will not, therefore, be transferred to the National Fund.

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1 Further 10 MECU has been provided under separate financing proposals for Tempus (5 MECU) and for Hungary’s participation in Community Programmes (5 MECU).
4. 3. IMPLEMENTATION ARRANGEMENTS

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

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

The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding to be signed between the Hungarian Government and the Commission in the autumn of 1998.

Funds will be transferred following requests from the NAO. A payment of 12,06 MECU will be transferred to the NF following requests from the NAO the payment up to 12,06 MECU will be transferred to the NF following signature of the Financing Memorandum. Four replenishments will be made of 12,06 MECU or the full budget whichever is the less amount.

The first replenishment will be triggered when 10% of the budget has been disbursed by the IAs and the CFCU. The second replenishment may be requested when 30% of the total budget in force has been disbursed. The trigger point for the third replenishment is 50% and for the final fourth instalment when 70% is disbursed. Save for express prior authorisation from the Commission HQ, no replenishment request may be made if the aggregate of the funds deposited in the NF and the IAs exceeds 10% of the total budget in force of the commitment. Exceptionally the NAO may request an advance payment of more than 20% in accordance with the procedures laid down in the aforesaid Memorandum of Understanding.

IAs (Implementing Agencies) will be responsible for sub-programmes as follows:

The Central Environmental Protection Fund will implement project HU 98.07.02, where the institutional capacities exist in the municipality, CEPF procurement procedures may be used on works tenders, subject to meeting the standard EC requirements in terms of transparency, open competition and conformity to FIDIC. The Ministry of Agriculture and Regional Development will be responsible for sub-programme 98.08 (Project HU98.08.01), whereas all the other projects will be implemented by the CFCU.

In the case of long term secondments the Commission transfer funds directly to the Bureau d’Assistance Technique. Twinning arrangements are planned in the case of the following projects: HU98.03.01, HU98.05.01, HU98.06.03, HU 98.06.05, HU 98.07.01, HU98.08.01

The National Fund will transfer funds to Implementing Agencies (IAs), including the Central Financing and Contracting Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs and the IAs/CFCU. 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 will each be headed by a Programme Authorising Officer (PAO) appointed by the NAO after consultation with the NAC. The PAO will be responsible for all the operations carried out by the relevant CFCU/IA. The CFCU is responsible for handling tendering and contracting contracts on behalf of various ministries and agencies which themselves shall be responsible for preparing projects and managing their technical implementation.

A separate interest bearing account, denominated in ECU will be opened and managed by the NF in a separate accounting system in the Hungarian National Bank. 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 the IAs or the CFCU.

The NAO and the PAOs will ensure that all contracts are prepared in accordance with the procedures set out in the DIS Manual. All contracts must be concluded within the first 24 months of the programme’s duration. All disbursements must be made within the first 36 months of the programme’s duration.

Any funds not used by the expiry date of the programme will be recovered by the Commission.

5. __

6. 4. **MONITORING AND ASSESSMENT**

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

The JMC will be assisted by Monitoring Sub-Committees (MSC) and will include the NAC, the NAO and 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 consultant (in accordance with the provisions of the DIS Manual), and will put forward recommendations on aspects of management and design, ensuring these are effected. The MSC will report to the JMC, to which it will submit overall detailed reports on all Phare financed programmes.

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8. 5. **AUDIT AND EVALUATION**

The accounts and operations of the National Fund, and the CFCU and all relevant Implementing Agencies may be checked at the Commission’s discretion by an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Union's Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement. The Commission services shall ensure that an ex-post evaluation is carried out after completion of the Programme.

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10. 6. **VISIBILITY/PUBLICITY**

The Programme Authorising Officers 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.

11. 7. **SPECIAL CONDITIONS**

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

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