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 between THE COMMISSION and THE RECIPIENT, and supplemented by the terms of this Memorandum and the Special Provisions annexed hereeto.

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: HU9919
Title: 1999 Hungary National Programme (Participation in 5th RTD Framework Programme)
Duration: Until 30/12/2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of € 3,531,000 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 30/12/2001 subject to the provisions of his 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 30/12/2002. 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:

Mr. Michael Lake
Head of Hungarian Delegation
Bérc utca 23
1016 Budapest
Hungary

for THE RECIPIENT:

Minister Imre Boros
National Co-ordinator of the International Assistance Programme
Poszonyiut 56
1133 Budapest
Hungary

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 29/12/99

for THE RECIPIENT

for THE COMMUNITY

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

The European Council, at its meeting in Luxembourg of 12-13 December 1997, reiterated the importance of the participation in Community programmes as part of the enhanced Pre-Accession Strategy.

Europe Agreements and where applicable Additional Protocols concerning participation in Community programmes are now in force for all applicant countries from Central and Eastern Europe and provide the following:

- these countries may participate in Community programmes in a wide range of areas enumerated in a non-exhaustive manner;
- it will be up to each Association Council to decide the terms and conditions of participation;
- CEECs will themselves bear the cost of their participation. The Community may, however, decide to provide complementary financial support which, in practice, will come from the national Phare appropriations.

In this connection, the Luxembourg European Council indicated that applicant States should steadily increase their own financial contribution, but agreed that Phare, if necessary, would continue to part-finance these countries’ financial contributions.

POLICY ASSESSMENT

Participation of applicant countries from Central and Eastern Europe in Community programmes has been confirmed by the European Council as one of the key-features of the enhanced Pre-Accession Strategy. Their participation will not only contribute towards the implementation of the provisions relating to economic, scientific and cultural co-operation in the Europe Agreements; it will also enable these countries to familiarise themselves with the Union policies and working methods.

All CEECs have shown a very strong interest in participating in this RTD framework programme on the same footing as Member States. Decisions on this participation have been taken at Government level, as is the case for the budgetary appropriations, which they have to earmark for this purpose.

The possibility to use part of the national Phare allocations for supporting these countries’ participation in Community programmes has been reconfirmed by the European Council in Luxembourg. Participation in this specific RTD framework programme should speed up their integration into the scientific and technological community at European level, and support their preparation for accession to the European Union. Full participation, as provided in the Association Council Decisions (see Annex A), will benefit both the CEECs and the EU. It will support economic development in the CEECs and encourage closer contacts of the EU with the high scientific potential present in the CEECs.
COST AND FINANCING PLAN

The financial contribution of CEECs will be added to FP5 budget, with no direct allocation to the projects funded, since the total amount of support received from FP5 by a country is independent of the financial contribution paid by that country. Financial contributions have been calculated by the Commission services involved on the basis of objective parameters inherent to the FP5 and taking into account the CEEC Gross Domestic Product. However, as the financial contribution required from these countries could present some difficulties, they are being offered, in addition to Phare funding, a reduction of around 29% of their total theoretical GDP-based contributions, to be progressively applied over the 4-year period (1999-2002) of FP5.

Nine CEECs have chosen to make use of the possibility to utilise part of their national Phare allocation to supplement their own financial contribution. The level up to which Phare funds will be used in 1999 differs country by country. Nevertheless, the total Phare support over the above-mentioned 4-year period will not exceed 33% of the theoretical (if no reduction would be offered) GDP-based contribution (see Annex B). CEECs are encouraged to steadily increase their own financial effort. However, these countries can decide if, from 1999 to 2002, Phare support will be either distributed in equal annual amounts or adapted to their State budget contributions. Contributions from these countries’ own State budgets will cover the administrative costs.

All CEECs, excepting the Czech Republic, expressed their intention to use part of their Phare funds for supplementing their own contributions in 1999.

Thus Phare funds required for 1999 for the 10 CEECs as regards their participation in the Fifth Framework Programme on research and technological development, and subject to this Financing Proposal, are those set out in the table below.

The Phare funds will be transferred, according to Phare-rules, from budget item B7-500 (from the year 2000 it will be B7-030) to all countries concerned by means of 9 separate Financing Memoranda.

<table>
<thead>
<tr>
<th>Country</th>
<th>EURO</th>
<th>Financing Memorandum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1,310,000</td>
<td>BG.9920</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>307,200</td>
<td>ES.9913</td>
</tr>
<tr>
<td>Hungary</td>
<td>3,531,000</td>
<td>HU.9919</td>
</tr>
<tr>
<td>Latvia</td>
<td>300,000</td>
<td>LE.9915</td>
</tr>
<tr>
<td>Lithuania</td>
<td>895,620</td>
<td>LI.9918</td>
</tr>
<tr>
<td>Poland</td>
<td>10,000,000</td>
<td>PL.9919</td>
</tr>
<tr>
<td>Romania</td>
<td>2,950,000</td>
<td>RO.9916</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1,730,000</td>
<td>SR.9921</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1,500,000</td>
<td>SL.9915</td>
</tr>
</tbody>
</table>

Total: € 22,523,820
The amounts above cover also the participation of six of these countries (Bulgaria, Hungary, Latvia, Romania, Slovakia and Slovenia) in the Fifth Framework Programme of the European Atomic Energy Community (Euratom) for Research and Training Activities.

Following the relevant call for funds by the Commission’s Directorate-General Research, the participating countries will send the total amount of the contribution foreseen. The total contribution will be entered in the budget as earmarked revenue giving rise to supplementary appropriations opened under articles B6-451 (JRC) and B6-551 (indirect actions).

The specific project financing mechanism of FP5 (calls for proposals, project selection and contracting) as well as the new terms and conditions set up for CEEC participation in this Framework Programme do not allow for any realistic contracting and disbursement schedule.

IMPLEMENTATION ARRANGEMENTS

The specific programmes of FP5 will be implemented by the Commission in close co-operation with the national authorities. The capacity of the CEECs to participate in FP5 depends to a large extent on the capabilities of these authorities in spreading relevant information to potential beneficiaries in their country.

To promote effective participation of organisations from these countries from the very beginning and to avoid any discouraging effect upon prospective partners, arising from the fact that the Association Council Decisions have entered into force between July and October 1999, the Commission services have made it widely known through the available information means that project proposals involving partners from the future participating countries would be evaluated as if these countries were already participating. The eligibility criterion has been considered at the latest possible moment before decisions are taken on the projects. This should normally occur after the entry into force of the Association Council Decisions.

The following initiatives have been taken to ensure optimal information of the CEECs:

- A network of National Contact Points (NCPs) in these countries has been established along the same lines as for the Member States. Already these NCPs are fully and systematically involved in the interaction with the specific programmes.

- Informal meetings between the chairmen of the specific programme committees and CEEC representatives have been organised around the time of the committee meetings, which has given them the possibility to be well informed about the work of the committees, awaiting their observship in these committees.

- A group of Personal Representatives of the Ministers dealing with research in these countries was set up and three meetings with the Commission have already taken place, at which questions of a horizontal nature regarding the implementation of FP5 were discussed.

- Contacts have been made with associations of research organisations and universities at European level, which have already declared their willingness to promote among their members the incorporation of research organisations from the CEECs into consortia presenting FP5 proposals.
AUDIT, MONITORING AND EVALUATION

The Commission services shall monitor the implementation of this framework programme on the basis of the regular reports. In order to facilitate this, a detailed set of indicators of achievement will be defined according to the objectives and targets of FP5.

The monitoring procedures applied in FP5 will also cover operations financed for applicant country beneficiaries. Moreover, the participation of CEECs in the specific programmes will be monitored on a partnership basis involving the Commission and these countries. They will submit to the Commission relevant reports and take part in other specific activities set out by the Community to this end.

All contracts, agreements and legal commitments between the Commission and recipients of payments provide for in situ checks by the Commission and the Court of Auditors. The accounts and operations of the programme 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.

Recipients of support under specific actions are under the obligation to provide a report and financial statement which are analysed from the point of view of content and eligibility of expenditure in accordance with the objective of Community funding and bearing in mind the contractual obligations and the principles of sound and efficient management.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the specific programmes of the FP5.

SPECIAL CONDITIONS

- As for the Member States, projects involving CEECs will be selected according to strict criteria of scientific and technological quality. The CEEC involvement will take place in accordance with the terms and conditions laid down in the "Rules for the participation of undertakings, research centres and universities and for the dissemination of research results for the implementation of the Fifth Framework Programme of the European Community", and where applicable, in accordance with the terms and conditions laid down in the "Rules for the participation of undertakings, research centres and universities in the implementation of the Fifth Framework Programme of the European Atomic Energy Community".

- To ensure the Community dimension of the specific programmes, the projects and activities proposed by CEECs will be required to include at least one partner from the Member States of the Union.

Representatives of these countries will participate as observers (without voting rights) and for the points which concern them, in the programme committees of the FP5.
NOTE TO HEADS OF EC DELEGATION IN ACCESSION COUNTRIES

Subject: Signature of Financing Memorandum

In order to allow for the signature of the FM by Mr. Imre Boros, it will be sent to you in two originals by diplomatic pouch.

Once the signature of the Financing Memorandum has taken place one original is to be retained by the local authorities. As regards the second original please return it to Mihaela Stanescu Vlasie of ELARG DG - Phare Unit.

Yours sincerely,

Catherine Day

Enclosures: 2x Financing Memorandum (1 back to Brussels)