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 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: HU0017


Duration: Until 31/12/2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of € 14.001.378 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 31/12/2001 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 31/12/2002. 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 EC Delegation
Bérc utca 23
1016 BUDAPEST

for THE RECIPIENT:

Minister Imre Boros
National Coordinator of the International Assistance Programme
Poszonyuit 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 2000 - 12 - 27
Date

for THE RECIPIENT

for THE COMMUNITY

Annex A & B of the Framework Agreement
Annex C Special conditions and Annexes I-VIII
Annex D Visibility/Publicity
1. SUMMARY

The ten candidate countries of Central and Eastern Europe (CEECs) have continued participating increasingly in 1999 and 2000 in the various Community programmes currently opened to them on the basis of the relevant Association Council decisions defining the terms and conditions for such a participation.

To participate in these programmes, the CEECs have to pay each year a financial contribution, which is established in the Association Council decisions. This contribution is added to the programmes' budget. Most CEECs expressed their wish to use part of their national Phare allocations as a complement to their national budget to finance their contribution as entry ticket to most of these programmes.

This is the third Financing Proposal submitted this year to the Phare Management Committee for CEEC participation in Community programmes. The two previous ones (approved on 30 March and 18 July 2000 respectively) dealt with participation of these countries in 12 programmes in 2000. This one covers programmes for which this kind of participation will take place next year.

In order to overcome past difficulties related to the timing of the Phare programming cycle, the Commission agreed with the 10 CEECs on the possibility of front-loading the amount allocated for participation in programmes in 2001. This amount would continue to come from the national allocation which has been programmed in 2000.

This Financing Proposal covers thus participation in programmes in 2001 (from the Phare 2000 budget, i.e. front-loading). In 2001 there will be a single Financing Proposal to cover participation in programmes in 2002 and so on.

2. BACKGROUND

The European Council of Helsinki (December 1999) confirmed the enlargement process launched at its meeting of December 1997 in Luxembourg. The enhanced Pre-Accession Strategy defined in 1997 was reiterated, including the participation of the 13 candidate countries in Community programmes as an important part of such strategy.

As regards the ten candidate countries of Central and Eastern Europe (CEECs), participation in Community programmes is established in their respective Europe Agreements. According to these specific provisions,

- 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 on 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 from the national Phare appropriations.
In this connection, the Luxembourg European Council indicated that candidate countries should steadily increase their own financial contribution, but agreed that Phare, if necessary, would continue to part-finance these countries’ financial contributions up to around 10% of the Phare appropriation, "not including participation in the research and development framework programme".

The ten CEECs have increasingly been participating in the various Community programmes currently opened to them on the basis of more than 100 Association Council Decisions defining the terms and conditions for such a participation.

A total amount of 85,401,787 EUR has been approved so far by the Phare Management Committee in 2000 for supporting the participation of CEECs in 12 Community programmes (82,465,556 EUR on 30 March, regarding Leonardo da Vinci II, Socrates II, Youth and the 5th Framework Programme on research; and 2,936,231 EUR on 18 July, regarding the Small and Medium-sized Enterprises, Equal Opportunities for men and women, SAVE II, Media II, Combating Cancer, Drug Dependence, Health Promotion and Prevention of Aids programmes). On 18 July an additional amount of 8,110,593 EUR was approved to allocate special funds in order to prepare the forthcoming participation of the ten CEECs in 6 Community agencies.

3. POLICY ASSESSMENT

Participation of candidate 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, social and cultural co-operation in the Europe Agreements; it will also enable these countries to familiarise themselves with the Union policies and working methods.

Following the extension or renewal of most Community programmes in 1999-2000, candidate countries have shown a very strong interest in continuing this kind of participation, as much as possible on the same footing as Member States, in the new generation of programmes. Confirmations of actual interest thereto are taken at Government level, as is the case for the budgetary appropriations, which they have to earmark for this purpose.

Participation in these programmes will allow citizens and national administrations of CEECs and Member States to develop co-operation and exchange networks and should speed up these countries' preparation for accession to the European Union. Full participation will benefit both the CEECs and the EU. It will support economic development in the CEECs. This will also contribute to progressively achieving the goal of training personnel for the public administrations involved in the Community programmes concerned and thus correspond to “Institution Building”, a major priority for Phare in the context of the Pre-Accession Strategy.

This Financing Proposal covers only those programmes for which the required Association Council Decisions have been adopted or will be adopted by 2001 (see Annex).
4. **Cost and Financing Plan**

As announced by the Commission to the Council in its Communication of 20 December 1999 on "Participation of candidate countries in the Community programmes, agencies and committees", new financial modalities are being applied to simplify the management of the participation of the candidate countries in programmes. Among these modalities, it was foreseen that each year the funds would be transferred directly to the country concerned to help the country pay its contribution within the deadline requested by the programme. Furthermore, given the specific character of this Phare support (funds decided in advance and contracting guaranteed annually after commitment), these funds would be committed in advance (in year \(n\) to be used in the year \(n+1\)) to allow satisfactory budget planning.

Together with the country’s own contribution, the Phare contribution will constitute the country’s overall contribution, out of which it will make payments in response to Commission calls for funds for the different programmes.

Most of the CEECs expressed their willingness to use part of their Phare funds to co-finance their contributions to the Community programmes covered by this Financing Proposal. The breakdown between financial efforts of their own and support from their national Phare programmes, within the 10% limit, has been defined in relevant Association Council decisions, which cover the lifetime of the Community programmes in which each of these countries participates. This breakdown differs, sometimes substantially, country by country. Some countries have opted for paying each year more or less equal parts from their State budget and from Phare. Others draw heavily on their Phare allocation in the first year of participation, with a steadily increasing effort of their own during the following years. In all cases administrative costs will be covered by these countries from their own State budgets.

As referred to above, it is now proposed to allocate, on the basis of 2000 budget, the Phare funds necessary to cover CEEC participation in Community programmes in 2001. Since this amount will continue to come from the national allocation which has been programmed this year, extra Phare funds may be allocated for this purpose should the current 2000 allocation set up for each country not be enough to pay for 2001 participation.

As a result of the recent outcome of the programming process for Phare 2000, as well as the real needs for participation in Community programmes in 2001, the following Phare funds are required in **2000** to cover participation in **2001** (i.e. front-loading) in **LIFE III** (environment), the **Fifth Framework Programme on research and technological development (FP5)**, **FISCALIS** (indirect taxation), **Leonardo da Vinci II** (vocational training), **Socrates II** (education), **Youth** and **Culture 2000**: 
<table>
<thead>
<tr>
<th>Country</th>
<th>Financing Memorandum Code</th>
<th>LIFE III</th>
<th>5FP</th>
<th>FISCALIS</th>
<th>Leonardo</th>
<th>Socrates</th>
<th>Youth</th>
<th>Culture 2000</th>
<th>TOTAL</th>
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<tr>
<td>Bulgaria</td>
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<td>51.232</td>
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</table>

= No participation in this programme
The Phare funds will only be transferred after the entry into force of the corresponding Association Council Decisions still pending (see Annex).

The Phare funds concerning **FP5** also cover 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. Estonia, Lithuania and Poland are not participating in this programme, and the Czech Republic has not requested Phare support for its participation in **FP5**.

At any rate, all funds will be transferred, according to Phare rules, from Budget article B7-030 to the countries concerned on the basis of separate Financing Memoranda. The Phare funds will constitute, together with the country’s own contribution from its State budget, the country’s national contribution, out of which it will make payments in response to the calls for funds of the Commission’s Directorates-General responsible for the respective programmes. The Phare funds should thus be transferred so as to allow CEECs to meet the deadlines for paying their national contribution.

The total contribution will be entered in the EU Budget as earmarked revenue giving rise to supplementary appropriations opened under the relevant articles of the programmes concerned.

5. **IMPLEMENTATION ARRANGEMENTS**

The Phare funds will be transferred directly to the CEECs on the basis of separate Financing Memoranda to be signed between the Commission and each country. Due to the specificity to these activities, funds will be transferred in a single tranche to the National Fund of each of the countries. These funds will be taken from their national Phare allocations. The National Fund will be responsible for transferring the funds back to the Commission as part of the country’s national contribution, following the call for funds of the Commission's Directorates General responsible for the programmes concerned. Article 4 of the Memorandum of Understanding on the establishment of the National Fund will thus not apply in this particular case. It should be noted, however, that the Phare contribution for each programme may only be transferred after the entry into force of the corresponding Association Council Decisions. If there is a delay in the entry into force of some of the Association Council Decisions the payment to the National Fund may be divided into two or more tranches.

6. **AUDIT, MONITORING AND EVALUATION**

The monitoring procedures applied in the programmes will also cover operations financed for candidate country beneficiaries.

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 evaluation foreseen in the decisions establishing the programmes will also cover operations financed for candidate country beneficiaries.