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 Lithuania, 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 November 1991 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:

<table>
<thead>
<tr>
<th>Programme number:</th>
<th>LT 01.10.01 to LT 01.15.01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>2001 National Programme for Lithuania (part 2)</td>
</tr>
<tr>
<td>Duration:</td>
<td>Until 31/10/2003</td>
</tr>
</tbody>
</table>

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 15.5775 MEUR 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 31/10/2003 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 31/10/2004. 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:

Delegation of the European Commission to Lithuania
Naugarduko g.10
2001 Vilnius
Lithuania

Fax: (+370) 2 31 31 92

for the RECIPIENT:

Finansu Ministerija (Ministry of Finance)
J. Tumo-Vaizganto g. 8a/2
2600 Vilnius
Lithuania

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 Vilnius
Date December 14th

Done at Vilnius
Date 14.12.2001

for the RECIPIENT

for the COMMUNITY
Encl
1. Framework Agreement (Annexes A & B)
2. Special Provisions (Annex C)
3. Visibility/Publicity (Annex D)
SPECIAL PROVISIONS

1. OBJECTIVES, DESCRIPTION AND CONDITIONALITY

The part of the National Phare Programme for Lithuania covered by this Financing Proposal aims at contributing towards building up structures and procedures that will allow Lithuania to implement support available from the Structural Funds on accession in accordance with the acquis.

This part of the National Phare Programme covers a set of pilot projects of a sectoral or regional scope aiming at familiarising Lithuania with procedures similar to those of the Structural Funds. The projects will contribute to the medium-term AP objectives of preparing for the regional development programme and Community initiatives and improving the administrative structures and procedures according to Structural Funds standards, including appraisal and evaluation. The projects have been selected having in mind their possibility of contributing towards reducing development gaps and disparities between regions by promoting business activity, easing social and employment problems and developing physical infrastructure.

This Financing Proposal includes three environmental projects and five other projects dealing with innovation, tourism, vocational training including a grant scheme, a special action programme for the Ignalina region as well as a project preparation facility. The projects, which reflect national priorities, are related to three different types of support: productive sector support, strengthening of human resources and improvement of business-related infrastructure. The environmental projects were selected from the three target regions that were established in 2000. These projects fall under the minimum project size required for support from ISPA. For a small country such as Lithuania it is difficult to find large investment projects. The project dealing with vocational education and training is important to assist in the process of elaborating policies for human resources development and life-long learning. The special action programme for the Ignalina region is especially important contribution towards the social effects of the closure of Unit 1 of the Ignalina Nuclear Power Plant and to establish a co-ordinating body for support to this region. It can be seen as a complement to the decommissioning support that has been made available to deal with the “hard” components of decommissioning. The tourism project is a means of finding new employment opportunities in the SME sector and at the same time taking advantage of the tourism potential existing in the region. In order to assist in the elaboration of an adequate project pipeline for ESC and Structural Funds for the future, a Project Preparation Facility has been included in the proposal.

In view of the provisions of Article 4 of the Accession Partnership Regulation (EC 622/98), overall agreement on the Phare 2001 programme will depend on the Government’s commitment, as described in the individual project fiches. Any structures to be set up in relation to the projects should be established on a sustainable basis.

Objective 10 Regional Environment

LT01.10.01 Water Supply and Sewerage System Development in Anyksciai

This project addresses the medium-term Accession Partnership priority of preparing for the implementation of a regional development programme and is consistent with the medium-term environmental AP priorities to continue implementation of the environmental acquis according to directive specific pre-defined timetables in nature protection, air, water and industrial-related directives. The overall objective is to strengthen economic and social cohesion in the Utena region. The project aims to promote economic growth and development in the town of Anyksciai through improved business access infrastructure, including the town’s water supply, wastewater collection and waste
treatment systems. The project is linked to previous environmental protection projects financed under the 1998, 1999, and 2000 programmes. The results of the project would be that the Anyksciai water supply and sewerage networks will be brought up to standards that comply with the environmental acquis. This is an investment project. The project is conditional on approval of the feasibility and environmental impact assessment studies and on the provision of adequate co-financing.

**LT01.10.02 Water Supply, Sewerage Systems and Waste Water Treatment Plan in Kazlu Ruda**

The project addresses the medium-term Accession Partnership objective of preparing for the implementation of a regional development programme and is consistent with the medium-term environmental AP priorities to continue implementation of the environmental acquis according to directive specific pre-defined timetable in nature protection, air, water and industrial related directives. The overall objective is to promote economic and social cohesion in the Marijampole region. The project aims at promoting economic growth and development in the town of Kazlu Ruda through improved business access infrastructure including the town’s water supply, and waste water collection and treatment systems. It is linked to projects in the field of environmental protection financed under the 1998, 1999 and 2000 programmes. As a result of the project, the Kazlu Ruda waste water treatment plant will be upgraded and the water supply and sewerage networks renovated, bringing them up to standards that comply with the environmental acquis. It is an investment project. The project is conditional on approval of the feasibility and environmental impact assessment studies and on cofinancing.

**LT01.10.03 Water Supply, and Waste Water Collection system development in Kretinga**

The project addresses the medium-term Accession Partnership objective of preparing for the implementation of a regional development programme and is consistent with the medium-term environmental AP priorities to continue implementation of the environmental acquis according to directive specific pre-defined timetable in nature protection, air, water and industrial related directives. The overall objective is to promote economic growth and development in the town of Kazlu Ruda through improved business access infrastructure including the town’s water supply, and waste water collection and treatment systems. It is linked to projects in the field of environmental protection financed under the 1998, 1999 and 2000 programmes. The results of the projects will be that the Kretinga water supply and sewerage networks will be expanded and brought up to standards that comply with the environmental acquis. This is an investment project. The project is conditional on approval of the feasibility and environmental impact assessment studies and on cofinancing.

**Objective 11 Innovation**

**LT01.11.01 Innovation Capacity**

The project addresses the short- and medium-term Accession Partnership objective of promoting innovation and technological development. The overall objective is to strengthen the economic and social cohesion of Lithuania through increased innovation capacity. The aim of the project is to develop a concrete national framework for supporting innovation activity in all areas of Lithuania as part of a national innovation system. In particular, it aims to strengthen the institutional capacity across Lithuania for innovation development and to establish a national framework to support the technical co-ordination of regional innovation activities. It is linked and will be complementary to projects in the areas of business support, competitiveness, and innovation financed under the 2000 programmes. The results of
the project will be a proposal for national co-financing for innovation in the framework of the future
SPD; a national framework and operational basis for technical co-ordination and facilitation of regional
innovation support; structures to enhance future implementation of innovation measures and improved
absorption capacity; capacity to develop strategic support for innovation, institutions established
promoting innovation, a number of concrete innovation projects for financing. The project will be
implemented through twinning complemented by a small supply component. The project is conditional
on national co-financing, commitment by the Government of long-term support to the project to ensure
its sustainability and a decision by the Government on the institutional set-up for channeling support
from the Structural Funds towards business development.

Objective 12  Tourism

LT01.12.01 National Tourism Information and Pilot Tourism Infrastructure in Utena region

The project is in line with the medium-term Accession Partnership priority of economic and social
cohesion. The overall objective is economic and social cohesion based on increased tourism activities.
The aim is to sustain the development and growth of the tourism sector in Lithuania. The results will be
the development of the national infrastructure for tourism and the creation of the infrastructure for
campsites in the Utena Region. The project is linked to the Phare CREDO programme and the 2000
Phare ESC projects. This is a technical assistance project with an investment component. The project
is conditional on formal agreement concerning the reinvestment of operating profits by the
municipalities involved and on the provision of adequate cofinancing.

Objective 13  Vocational Training

LT01.13.01 Vocational Training as a means for Economic and Social Cohesion

The project is in line with the medium-term Accession Partnership priority of economic and social
cohesion. The overall objective is economic and social cohesion contributing to employment growth via
initial vocational education and training (VET), continued vocational training (CVT) and life-long
learning (LLL). The purpose of the project is to develop the necessary management and administrative
capacities within the relevant Lithuanian institutions to implement future support from the European
Social Fund (ESF), to increase the employability of the work force and to adapt it to new labour market
conditions, to set up a policy framework and to build institutional capacity as well as to support the
effective and high-quality development of VET, CVT and LLL. The results will be 1) action plan,
strategies and certain revised legislation in the area of LLL, CVT and VET ii) analyses of training
needs for different sectors, training courses developed, training of staff and specialist training
undertaken iv) new occupational standards, establishment of new careers guidance centres, publication
and dissemination of national guidance materials iii) improvement in the management and operation of
the national Grant Scheme and improved partnership between training providers of pilot projects. The
project is linked to earlier Phare projects (“The development of the system to provide labour market
in Education Reform”) and Phare 2000 projects, including twinning project “Preparation for
Participation in European Employment Strategy.” This is a twinning light and technical assistance
project with supply and works contracts. The project is conditional on the establishment of the Joint
Pre-ESF Agency, cofinancing and notification of the institutional set-up foreseen for the programming
and implementation of support from the Structural Funds.

Objective 14  Special Action Programme for the Ignalina region
LT01.14.01 Framework for Economic Restructuring in Ignalina, Visaginas and Zarasai Municipalities

The project addresses the medium-term Accession Partnership objectives of preparing for regional development programmes and Community initiatives, and the short-term priority of promoting industrial competitiveness through the development of SMEs. The overall objective is the strengthening of economic and social cohesion in the Utena region. The purpose of the project is to stimulate SME activity and diversify economic structures in the municipalities of Zarasai, Ignalina and Visaginas in Utena County. It is linked to earlier Phare projects (“SME Development project,” “Reinforcement of Institutional and Administrative Capacity,” “Utena SPP Rural Pilot Project”) and will be linked to the Phare 2000 Economic and Social Cohesion measures in Utena County. The results will be a strategy for development of the region, establishment of viable structures for delivery of assistance, an operating Regional Development Agency, a Business Information-Consultation Centre and a Business Incubator. This is a technical assistance project with works and supply contracts. The project is conditional on co-financing; completion of feasibility study for business incubator and refurbishment of the buildings; establishment of the Regional Development Agency, the Business Information Consultation Centre and the Business Incubator; and on provision of the necessary administrative structures and staff.

Objective 15  Project Preparation Facility

LT01.15.01 Project Preparation Facility

The project is in line with the Accession Partnership medium-term priority of economic and social cohesion. The overall objective is to facilitate the successful launch and implementation of Phare support to economic and social cohesion in 2002/2003 and support from the Structural Funds on accession. The project aims to ensure the speedy and efficient tendering of Phare investment support projects of Economic and Social Cohesion, projects financed by the Structural Funds or other funding sources as long as they fulfil the conditions that have been set. It is linked to the Phare project to facilitate the launch and implementation of Phare support to social and economic cohesion in 2000. The results of the project will be elaborated feasibility studies, detailed technical designs/bills of quantity, procurement plans and tender documentation and environmental impact screenings/assessments. It is a technical assistance project. It is conditional on the provision of adequate co-financing.

GENERAL PROVISION

All investment projects which, according to the rules stipulated in Directive 85/337/CEE, as amended by Directive 97/11, require an Environmental Impact Assessment, should be the subject of an Environmental Impact Assessment. If the directive has not yet been fully transposed, the procedure should be similar to that established by the above-mentioned directive. All investment projects shall be carried out in compliance with the relevant Community environmental legislation. The relevant project fiche contains specific clauses on compliance with the relevant EU-legislation in the field of the environment according to the type of activity carried out under each investment project. In the case of a project coming under Annex II of the Directive 85/337/EEC, as amended by Directive 97/11/EC, for which an EIA is not required, the authorities should assess if the project is likely to affect an environmentally sensitive area. If so, a declaration from the responsible authorities for

1 Definition of environmentally sensitive areas:
   a) areas protected by national legislation;
   b) internationally important wetlands (sites fulfilling RAMSAR Convention ornithological criteria) and other sites meeting the criteria which would require designation as Special Protected Areas under Directive 79/409/EEC;
nature conservation should be included stating that their conclusion is that the zone’s environmental potential will not be directly affected by the project.

c) areas to which the Bern Convention on the conservation of European Wildlife and natural habitats (article 4) applies, in particular site meeting the criteria of the Emerald network;
d) breeding or resting place of an animal species listed in Annex IV of Directive 92/43/EEC (Article 12).
2. BUDGET

<table>
<thead>
<tr>
<th>No.</th>
<th>OBJECTIVE/Project</th>
<th>IB</th>
<th>INV</th>
<th>Total Phare</th>
</tr>
</thead>
<tbody>
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<td>8.00</td>
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<td>3.00</td>
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<td>LT01.10.02</td>
<td>Water Supply, Sewerage Systems and Waste Water Treatment Plan in Kazlu Ruda</td>
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<td>2.00</td>
</tr>
<tr>
<td>LT01.10.03</td>
<td>Water Supply, and Waste Water Collection system development in Kretinga</td>
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<td></td>
<td>3.00</td>
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<td>LT01.11</td>
<td>INNOVATION</td>
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<tr>
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<td>TOURISM</td>
<td>0.23</td>
<td>0.6425</td>
<td>0.8725</td>
</tr>
<tr>
<td>LT01.12.01</td>
<td>National Tourism Information and Pilot Tourism Infrastructure in Utena region</td>
<td>0.23</td>
<td>0.6425</td>
<td>0.8725</td>
</tr>
<tr>
<td>LT01.13</td>
<td>VOCATIONAL TRAINING</td>
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<td>2.615</td>
<td>3.04</td>
</tr>
<tr>
<td>LT01.13.01</td>
<td>Vocational Training as a means for Economic and Social Cohesion</td>
<td>0.425</td>
<td>2.615</td>
<td>3.04</td>
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<td>LT01.14</td>
<td>SPECIAL ACTION PROGRAMME FOR THE IGNALINA REGION</td>
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<td>LT01.14.01</td>
<td>Framework for Economic Restructuring in Ignalina, Visaginas and Zarasai Municipalities</td>
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<td>LT01.15</td>
<td>PROJECT PREPARATION FACILITY</td>
<td>1.5</td>
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</tr>
<tr>
<td>LT01.15.01</td>
<td>Project Preparation Facility</td>
<td>1.5</td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>2.575</td>
<td>13.0025</td>
<td>15.5775</td>
</tr>
</tbody>
</table>

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 overall responsibility for programming, monitoring and implementation of Phare programmes. The NAC and the NAO shall be jointly responsible for co-ordination between Phare (including Phare CBC), ISPA and SAPARD.

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. The NAO shall have the overall responsibility for the financial management of Phare funds. He shall ensure that Phare rules, regulations and procedures pertaining to procurement, reporting and financial management as well as community state aid rules are respected, and that a proper reporting and project information system is functioning. The NAO shall have the full overall accountability for the Phare funds of a programme until the closure of the programme.

Appropriate financial control shall be carried out by the national Financial Control Authority with respect to the implementation of the programme. The NAO shall maintain a financial reporting system for all Phare funds.
The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and the Republic of Lithuania on 7 December 1998. Funds will be transferred following requests from the NAO.

A distinction should be made between the payments concerning the participation in Community Programmes and Agencies and the payments concerning the other sub-programmes. However, only one bank account will be opened at the National Fund.

Other Sub-Programmes: A payment of **up to 20%** of the funds to be managed locally* will be transferred to the NF following signature of the Financing Memorandum and the Financing Agreements (FAs) between the NF and the Implementing Agencies (IAs)/Central Finance and Contracts Unit (CFCU). 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 PAOs and a description of the system put in place, highlighting the flow of information between the NF and the IA/CFCU and the manner in which the payment function will be carried out.

Four Replenishments will be made of **up to 20%** of the funds to be managed locally* or the full balance of the budget whichever is the lesser amount. The first replenishment will be triggered when 10% of the budget has been disbursed by the 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.

Implementing Agencies will be responsible for projects as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>OBJECTIVE/Project</th>
<th>Implementing Agency</th>
<th>Ministries or Institutions with a technical role</th>
</tr>
</thead>
<tbody>
<tr>
<td>LT01.10</td>
<td>REGIONAL ENVIRONMENT PROJECTS</td>
<td>CFCU</td>
<td>District Municipality and Municipal Water Companies</td>
</tr>
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<td>LT01.11</td>
<td>INNOVATION</td>
<td>CFCU</td>
<td>Ministry of Economy</td>
</tr>
<tr>
<td>LT01.12</td>
<td>TOURISM</td>
<td>CFCU</td>
<td>State Department for Tourism</td>
</tr>
<tr>
<td>LT01.14</td>
<td>SPECIAL ACTION PROGRAMME FOR THE IGALINA REGION</td>
<td>CFCU</td>
<td>Ministry of Economy, municipalities affected by the project.</td>
</tr>
<tr>
<td>LT01.15</td>
<td>PROJECT PREPARATION FACILITY</td>
<td>CFCU</td>
<td>na</td>
</tr>
</tbody>
</table>

* excluding the amount foreseen for the Community Programmes and Agencies

* excluding the amount foreseen for the Community Programmes and Agencies
The National Fund (NF) will transfer funds to IAs, including the Central Financing and Contracting Unit (CFCU), in accordance with Financing Agreements (FAs) signed between the NFs 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 CFCU/IA there will be no transfer of funds from the NF to the CFCU/IA. 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 CFCU/IA.

In most projects other ministries or institutions play an important technical role. The organisation playing the lead technical role is indicated in the table above. These organisations will have the responsibility for designing, selecting and monitoring the projects, while the Implementing Agency will assist in all these tasks, playing particular attention to the principles of good project design and implementation and Phare procurement and payment rules.

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 will 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.

The NAO and the PAOs will ensure that all contracts are being prepared in accordance with the procedures set out in the DIS Manual.

For grant schemes, whose procedures and formats are not covered by the current DIS Manual, the precise implementation arrangements will be specified in the relevant project fiches in line with the following principles:

- the procedures and formats to be used in the implementation of the schemes and award of the grants will follow the provisions of the Practical Guide. In particular, due care will be given to the selection process of the beneficiary projects, which has to be done at technical level through selection committees composed of experts appointed by the authorities which are co-financing the schemes as well as by the relevant administrations and interest groups involved in the schemes.

- The competent PAO for the programme under which the grant scheme is financed has to retain his/her contractual and financial responsibility for the implementation of the schemes. In particular, the PAO has to formally approve the call for proposals, application forms, evaluation criteria, as well as the selection process and results. The PAO has also to sign the grant contracts with the beneficiaries and to ensure adequate monitoring and financial control under his/her authority and responsibility. With this reservation, the management of the schemes can be decentralised from the PAO to the appropriate bodies at sectoral or regional level.

- The ex ante approval of the Commission (Delegation in Vilnius) will be required for the call for proposals, application forms, evaluation criteria, the selection procedures (including the composition of the committees) and results (list of projects to be funded). The grant contracts signed by the PAO will be subject to the ex-ante control of the EC Delegation.

- The implementation of the selected projects through the provision of works, supplies and services sub-contracted by the final beneficiaries of the individual grants shall be subject to the procurement regulations in the Practical Guide. The decentralised system established for CBC small projects is to be applied to all such contracts below 300 000 EUR (or any increased threshold to be fixed by EC Headquarters for small project funds under CBC programmes). Tenders and contracts above this threshold will be presented to the EC Delegation for ex ante approval. The financial commitments in Phare terms will be effected at the date of signature of the grant contracts by the
competent PAO. Project implementation and all Phare disbursements are to be done before the expiry date of the present financing memorandum.

The amounts earmarked for twinning will cover the eligible costs (as set down in the DIS instructions) for implementing the work plan agreed between the Member State and the Applicant Country. The eligible costs may include costs incurred by the selected Member State during the preparation of the twining covenant in the period between signature of the Financing Memorandum and the final notification of the financing approval of the covenant.

Four projects will be smaller than 2 MEUR, such as Innovation, Tourism, the Special Action Programme for the Visaginas Region and the Project Preparation Facility. Except for the Project Preparation Facility the projects mentioned are of a pilot character and are therefore smaller in size. An assessment has been made of the costs of the projects and the Commission considers that the project size is appropriate given the purpose of these activities.

All contracts (and twinning covenants) must be concluded by 31 October 2003. All disbursements must be made by 31 October 2004. However, in order to ensure that projects are implemented as quickly as possible, all tender dossiers (or, where applicable, grant schemes, requests for services or contract dossiers) must be submitted to the Commission within 6 months of signature of the FM. Specifications will be reviewed by independent experts within the framework of twinning, where possible and appropriate. Any project for which the relevant documents are not submitted within the deadline specified will be cancelled and the money made available for reallocation. The first consolidated draft of twinning covenants must be submitted to the EC Delegation within 3 months of the Delegation’s notification to the Member States of their selection as twinning partner. Failure to meet this deadline can result in the re-circulation of the relevant project fiche. If funds are re-allocated to a new project, the tender dossier (or other documents as applicable) must be submitted to the Commission within 3 months of the re-allocation decision or by 31 May 2003, whichever is the earlier.

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

All tender dossiers (or other documents as applicable) must be accompanied by a logframe matrix, in order to demonstrate the relevance, feasibility and sustainability of the final project design.

For those contracts with funds retained for a warranty period extending beyond the end of the disbursement period of the programme, the overall total of funds related to those contracts, as calculated by the PAO and established by the Commission, will be paid to the Implementing Agency before the official closure of the programme. The Implementing Agency assumes full responsibility of depositing the funds until final payment is due and for ensuring that said funds will only be used to make payments related to the retention clauses. The Implementing Agency further assumes full responsibility towards the contractors for fulfilling the obligations related to the retention clauses. Interests accrued on the funds deposited will be paid to the Commission after final payment to the contractors. Funds not paid out to the contractors after final payments have been settled shall be reimbursed to the Commission. An overview of the use of funds deposited on warranty accounts - and notably of the payments made out of them - and of interests accrued will annually be provided by the NAO to the Commission.

4. MONITORING AND ASSESSMENT

A Joint Monitoring Committee (JMC) will be established. It includes 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 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.

5. ANTI-FRAUD MEASURES, AUDIT AND EVALUATION

All financing memoranda as well as the resulting contracts are subject to supervision and financial control by the Commission (including the European Anti-fraud Office) and the Court of Auditors. This includes measures such as ex-ante verification of tendering and contracting carried out by the Delegation in the Candidate Country concerned and on-the-spot checks.

In order to ensure efficient protection of the financial interests of the Community, the Commission can conduct check-ups and inspections on site in accordance with the procedures foreseen in Council Regulation (Euratom, EC) No. 2185/96 dated from November 11, 1996, concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities.

The procedures foreseen in Art. 15 para 3 of Commission Regulation No. 2222/2000 dated from June 7, 2000, on the communication in case of irregularities and the putting in place of a system to administrate the information in this field shall apply.

The accounts and operations of the National Fund, and, where applicable, 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.

6. VISIBILITY/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 given in the Annex "Visibility/Publicity" (enclosed).

7. SPECIAL CONDITIONS

In the event that agreed commitments are not met for reasons which are within the control of the Government of the Republic of Lithuania, 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.