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 Slovenia, 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 7th October 1992 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: SI0108
Title: 2001 CBC Programme Slovenia - Italy
Duration: Until 15/12/2003

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 5,000,000 EUR 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 15/12/2003 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 15/12/2004. All

1 The Financing Memorandum structure is as follows: 1. the coverpages with the references to the country concerned, amount and authority to sign, 2. Annex A of the Framework Agreement, 3. Annex B of the Framework Agreement; Annex C -Special Conditions (the text of the adopted financing proposal starting from Description and Objectives onwards; and Annex D 'Visibility/Publicity.
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:**

European Commission Delegation in Ljubljana  
Trg Republike, 3, XI.,  
1000 Ljubljana  
SLOVENIA

Telegraphic address  
Telex:  
Fax: (386-1) 4252085

**for THE RECIPIENT:**

H.E. Mr Igor BAVCAR  
Minister for European Affairs  
Government Office for European Affairs  
Phare National Co-ordinator  
Subiceva 11,  
1000 Ljubljana  
SLOVENIA

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

1. OBJECTIVES, DESCRIPTION AND CONDITIONALITY

There are two projects: ECO ADRIA – Ecological Improvement of the Primorska Region and a Small Projects Fund.

Project 1: ECO ADRIA, Ecological Improvement of the Primorska Region (SI0108.01)

Objective

The first project has been chosen because it will contribute to a significant objective of the Joint Programming Document, will provide practical experience of the methodology of a grant scheme and will involve local authorities as final beneficiaries.

The project will help to:

• safeguard and upgrade the environmental and land resources which are a prerequisite for creating the basic conditions for an integral regional development (integrated protection and appropriate socio-economic development of the area based on water availability and on the values of the natural and cultural heritage);

• reduce internal imbalances in development and quality of life within the statistical regions bordering to Italy;

• raise awareness about sustainable development;

• protect the situation of the water in the hydro-graphical basins in order to ensure economic benefits by contributing to the ichthyic populations, also in the coastal area;

• co-ordinate protection measures for the hydro-graphical basins where water use can have repercussions at cross-border level, in order to pursue the environmental aims provided by EC Directive 2000/60, having particular attention for valley areas.

The results will be:

• to increase the number of inhabitants and other potential polluters connected to the public sewage system and waste-water treatment plants;

• to extend the network of and modernise the existing WWTP;

• to establish an integrated approach to the reduction of pollution sources by means of co-operation among sectors (e.g. industry, agriculture with livestock-breeding farms);

• to reduce emissions from point sources – waste-water from industry and livestock farms, urban waste-water.

• to reduce emissions from diffuse sources – intensive agriculture, dispersed settlements without waste-water treatment facilities, traffic;

• to restrict old pollution sources threatening the aquatic environment.
Description

Analysis of the environmental situation on the Slovene-Italian border show that the region is characterised by a high-value, high-variety, well-preserved, but also very fragile natural environment and cultural heritage. This makes the environment very attractive and constitutes an important asset for the sustainable development of the region. Several protected areas already exist and more parks are planned to be established in order to protect ecosystems as well as the remarkable cultural heritage and landscape. The awareness of the importance of environmental issues is widespread and there is willingness to co-operate on both sides.

A great part of the territory of the Goriska and Obalno-Kraska regions is a karst area of limestone, which is highly permeable and soluble. This holds specially true for the Kras-Brkini Subregion, i.e., the Classical Karst, which is characterised by a very high density of underground caves due to its very high permeability. The Reka river flows through the Skocjan caves and comes out on the Italian side as the Timavo river, which represents the source of drinking water for Trieste.

Because of the given natural conditions and the specific pattern of population distribution, Slovenia has a relatively large number of sewage systems, of which only a few include a sewage treatment plant. At present only 53% of the inhabitants of the area are connected to the public sewage system, only 30% are connected to the waste water treatment facilities, and only 15% of waste-water is treated biologically. Moreover, many sewers are not watertight which is why the dispersal of pollution into the groundwater occurs.

The activities under the Action Plan for Urban Wastewater Collection and Treatment with the Programme of Water Supply Projects focuses on the implementation of technical measures for reducing discharges into waters from municipal sources of pollution, and protecting the quality and quantity of waters earmarked for drinking water and the supply of the population in water-deficient areas.

The first phase focuses on the building of wastewater treatment plants for big towns in compliance with the Waste Management Strategy of the Republic of Slovenia and the Rules on waste Management. The second phase comprises the construction of treatment plants for settlements with less than 2,000 and between 2,000 and 25,000 inhabitants – according to the Operational Programme for the Collection and Treatment of Urban Waste Water in the Sensitive Areas of the Republic of Slovenia. The programme determines the timetable for the implementation of measures and is now in the phase of inter-ministerial approval.

The Phare CBC 2001 will fund smaller projects in the field of waste-water treatment and sewage systems in order to support the on-going activities at municipal level. Co-ordination with possible larger projects financed by ISPA will be assured.

A grant scheme will be designed which will be co-financed by Phare CBC. Further financing will be provided by the national budget and own resources of the beneficiaries who will all be municipalities.

Conditionalities

- Where required under the Environmental Impact Assessment directive (85/337/EEC as amended by 97/11/EC) the projects will be assessed according to the Directive.

- The WWTP will meet the standards of the EU Urban Wastewater Directive, the Habitat Directive, the Bathing Water Directive, and, where applicable, the Directive on the
discharge of dangerous substances into surface waters, in accordance with relevant Community legislation.

Project 2: Small Projects Fund (SI0108.02)

The ultimate objective is to enhance the capacity of the local and regional authorities to develop and implement projects. Co-financed by Phare and by local beneficiaries, the Small Projects Fund will support small-scale “people-to-people” and local development activities (no infrastructure actions) of a cross-border nature, involving local people from the region through a flexible funding instrument. Other objectives of the SPF are:

• encouragement and support for the creation of sustainable co-operation networks between local and regional actors,

• decentralisation of responsibilities and decision-making to local and regional actors,

• assistance with the development of the capability and capacity of local organisation to develop and implement projects within the border region through development of innovative CBC projects.

Among the eligible actions for the SPF are: local economic development, including promotion of tourism, health, in particular sharing of infrastructure resources, information flow of transnational character, cultural exchanges, local democracy, human resources, spatial planning and development studies, management and technical assistance.

The SPF component is supporting regional development structures. One of the region’s development structures will host the Secretariat responsible for running the SPF. Technical Assistance will be needed to support the efficient implementation of the measure. The project is related to the activities envisaged in the Italian INTERREG III Programmes.

The project will respect the guidelines for the SPF as well as the specific guidelines approved by the delegation.

Up to 7% of the Phare contribution may be used for expenditure relating to the preparation, selection, appraisal and monitoring of the assistance.

All investment projects which, according to the rules stipulated in Directive 85/337/EC, 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 Project Fiches will contain 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.

2. BUDGET

The following table specifies the EU contribution to the Programme:
### Budget (in €):

<table>
<thead>
<tr>
<th>Sub-programme and Projects</th>
<th>PHARE Budget</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>INV</td>
<td>IB</td>
</tr>
<tr>
<td>SI0108 PHARE CBC Slovenia - Italy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SI0108.01 Eco Adria, Ecological Improvement of the Primorska Region</td>
<td>4,000,000</td>
<td>0</td>
</tr>
<tr>
<td>SI0108.02 Joint Small Projects Fund</td>
<td>0</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,000,000</strong></td>
<td><strong>1,000,000</strong></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 National Aid Co-ordinator and the National Authoring Officer 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 National Authorising Officer shall have overall responsibility for financial management of the Phare funds. He shall ensure that the Phare rules, regulations and procedures pertaining to procurement, reporting and financial management, as well as Commission state aid rules, are respected, and that a proper reporting and project information system is functioning. The National Authorising Officer 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 competent National Control Authority with respect to the implementation of the programme.

The Commission will transfer funds to the NF in accordance with the Memorandum of Understanding signed between the Commission and the Government of Slovenia on 23rd December 1998. Funds will be transferred following requests from the NAO. 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 Agreement (FA) between the NF and the 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 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 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 aforementioned Memorandum of Understanding.

The National Fund will transfer funds to the CFCU in accordance with the Financing Agreement signed between the NF and the CFCU. The FA will be endorsed in advance by the European Commission. In cases where the NF is itself the paying agent for the CFCU there will be no transfer of funds from the NF to the CFCU. The CFCU must be headed by a Programme Authorising Officer (PAO) appointed by the NAO after consultation with the NAC. The PAO will be responsible for all the operations carried out by the CFCU.

Additionally, the following ministries and institutions will play an important technical role:

- Ministry of the Economy, National Agency for Regional Development Central Office of the NARD and Regional Office in Stanjel.

- Ministry of the Environment and Spatial Planning.

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 the CFCU.

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

Considering the small size of the national Phare allocation for Slovenia and the significant/large national co-financing involved the motive for the fixing of a minimum € 2 million size for investment projects is considered to have been respected in the project design.

The CBC programme covers the two years 2000 and 2001 and the total Phare contribution to the Slovenia side of the Programme is therefore € 5 million. The SPF may not use more than 20% of this allocation, i.e. € 1 million.

The Special Projects Fund thus falls under the minimum investment project size because of the smallness of the Phare allocation and the 20% limit on its share in this allocation.

All contracts must be concluded by 15th December 2003.

All disbursements must be made by 15th December 2004.

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

For those contracts with funds 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 the 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 payments 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 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) has been 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 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 published with the assistance of external consultants (in accordance with the provisions of the DIS manual) and will put forward recommendations on aspects of management and design, ensuring 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) n° 2185/96 dated from 11th November 1996, concerning on-the-spot checks and inspections carried out by the Commission in order to protect the Commission’s financial interests against fraud and other irregularities.

The procedures foreseen in Art. 15 para 3 of the Commission Regulation N° 2222/2000 dated from 7th June 2000, on the communication in case of irregularities and the putting in place of a system to administrate 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 Court of Auditors as referred to in the General Conditions relating to the Financing Memorandum attached to the Framework Agreement.

The Commission services shall ensure that an ex-post evaluation is carried out after completion of the programme.
6. VISIBILITY AND PUBLICITY

The appropriate Programme Authorising Officer will be responsible for ensuring that the necessary measures are taken to ensure appropriate publicity for all activities financed from the programme. This will be done in close liaison with the Commission Delegation. Further details are in the Annex 3 -Visibility/Publicity.

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 Slovenia, 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.