

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 LATVIA , 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:

<u>Programme number:</u>	LE 9803 to LE 9809
<u>Title:</u>	1998 Phare National Programme for Latvia
<u>Duration:</u>	until 31 October 2000.

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of 18.637.000 ECU 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 October 2000**, subject to the provisions of this 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 October 2001** with the exception of the Infrastructure project LE 9808.02 (development of water services in Jaunjelgava) where the deadline for disbursement is **31 October 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:

Delegation of the European Commission
Jacob's Barracks
Tornu 4, Block 1C
1050 Riga, Latvia

Tel.: +371-732 72 50
Fax: +371-732 52 79

for THE RECIPIENT:

Government of Latvia
Ministry of Finance
Mr. Roberts ZILE, National Aid Co-ordinator
Minister of Finance
Smilsu Street 1
1919 Riga, Latvia
Tel.: +371-722 66 72
Fax: +371-782 00 10

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.

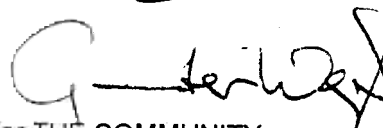
The Annexes shall be deemed an integral part of this Memorandum.

Done at Riga
Date: 2. 12. 98



for THE RECIPIENT
Minister of Finance
Roberts ZILE

Done at Riga
Date: 2 XII 98



for THE COMMUNITY
Head of EC Delegation in Latvia
Gunter WEISS

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

ANNEX C – Special Provisions

1. OBJECTIVES AND DESCRIPTION

OBJECTIVE 1: ACCELERATION OF THE INTEGRATION OF NON-CITIZENS INTO THE LATVIAN SOCIETY (9803)

Due to immigration in the period of Soviet rule, Latvia has sizable ethnic minorities. Out of Latvia's 2,5 million inhabitants, approximately 30% are of Russian ethnic origin and 14% include other minorities such as Belarussians, Ukrainians, Poles and Lithuanians. The non-Latvian population is concentrated to urban areas and to Eastern Latvia. After the re-establishment of independence in 1991, citizenship was granted automatically only to people who were citizens of Latvia in 1940 or their descendants. As a result around 28% of the population (685.000 people), mainly Russian-speakers, are without Latvian citizenship.

Since it is recognised that the balanced development of the social as well as the economic sectors in Latvia is of equal importance in the process of European integration, it is important that Latvia continues to take measures to further promote the integration of different minorities into the society. Among such measures, the acceleration of the naturalisation process as well as wider Latvian language training to non-citizens are of significant importance.

9803.01: Improve language training of non Latvian speaking non-citizens

The primary objective of the project is to enhance social integration in Latvia by supporting the implementation of the first four years of the National Programme for Latvian Language Training. An important component of the project is the development of a significant core of "Latvian-as-a-second-language-teachers" (LSL) within the educational system and providing the necessary materials to allow effective delivery of language training. The learner-oriented approach to teaching Latvian as a second language shall benefit not only the students, but also the teachers involved, as the concept of LSL represents a first step towards introducing modern pedagogical techniques into the Latvian educational system. Through providing Latvian language training, the programme also aims at exposing its target groups to the basic principles of an open and democratic society.

This project is also supported by a number of bilateral donors with UNDP in a coordinating role.

Conditionalities:

- Continued political and financial support by the Latvian Government to on-going as well as to an extension of the National Programme of Latvian Language Training.
- Elaboration of a budget strategy for sustaining and enlarging the National Programme of Latvian Language Training and the Latvian Language Programme Unit in advance of the end of the current project in 1999.
- Amendments by the end of 1998 of the draft Language Law and the proposed amendments of the Labour Code so that they correspond to international standards as described by the OSCE.
- Continuous analysis and comments by the Latvian Language Programme Unit on regulations issued by the Ministry of Education and Science to ensure that requirements for minority school teacher are harmonised (realistic in comparison) with the actual capacity and/or that provisions are made to build the capacity accordingly.

9803.02: Accelerate the naturalisation process for non-citizens

The Latvian Government and a number of international donors including the Phare-programme are paying particular attention to improvements in the process of naturalisation and have undertaken extensive studies to determine the factors, which can interfere with the process. In addition, the Government decided on 15 April to submit a proposal to the Parliament to abolish the current

"naturalisation windows" and to introduce citizenship for stateless children in order to accelerate the naturalisation process for non-citizens. Against this background, the suggested project will assist in developing an information centre within the Naturalisation Board, which is responsible for receiving applications for citizenship. The information centre will ensure that information on naturalisation procedures including citizenship requirements as well as social integration issues are available to all interested parties. This will address one of the main reasons behind the low rate of naturalisation in Latvia, identified in a recently published survey among non-citizens and citizens. Twinning arrangements could be foreseen for this project.

Conditionalities:

- Implementation of the 15 April 1998 Government decision to abolish the window system and grant citizenship to stateless children
- Elaboration of integration plan by 30 June 1998 on how to further accelerate the process of naturalisation
- Adequate staffing of the Naturalisation Board in order to be able to process an increased amount of applications for citizenship which might follow the currently proposed (15 April 1998) liberalisation of the Citizenship Law.

OBJECTIVE 2: ECONOMIC REFORM (9804)

In 1998 the focus will be put on acceleration of market based infrastructure, rural development, specific support to modernisation of the agricultural sector and the development of efficient veterinary and phytosanitary inspections.

- I 9804.01: *Modernise and restructure the agricultural sector; development of a land use policy for the agriculture and forestry sectors as well as facilitation of the process of land, farm and forest consolidation; technical assistance and supply of equipment to strengthen the capacity for veterinary and phytosanitary control (including at border controls) within the Ministry of Agriculture'*

The restructuring of the Latvian agricultural sector is a key part of the economic policy of the Latvian government. In line with the CAP recommendations, the Ministry of Agriculture will seek to implement measures which will improve sustainability and competitiveness for the agricultural sector at the level of individual farms to ensure that they are of viable size. These actions will be undertaken in parallel with land reform activities already on-going and to be continued.

In order to ensure that Latvia has the agricultural policies, systems and procedures to compete effectively within the CAP environment, measures will be undertaken to improve the internal management capacity of the Ministry of Agriculture and its subordinate institutions. In particular, this project will help Latvia develop of a land use policy for the agriculture and forestry sectors as well as facilitate the process of land, farm and forest consolidation. Technical assistance as well as supply of equipment is also foreseen in the field of veterinary and phytosanitary control. Twinning arrangements could be foreseen for this project.

Conditionalities:

- Appropriate levels of staffing, including correct training levels, in the Ministry of Agriculture, veterinary, phytosanitary and border control services to implement EC-legislation.

' Also included in the Accession Partnership under "Reinforcement of institutional and administrative capacity".

- Establish the 13 legal harmonisation working groups covering all agricultural sectors by the end of 1998.
- A decision has to be taken by July 1998 by the Cabinet of Ministers concerning the clear definition of responsibility of institutions engaged in food control.
- Ensure access to, credits for farmers and other rural entrepreneurs for attaining more efficient agricultural production.

OBJECTIVE 3: REINFORCEMENT-OF-THE INSTITUTIONAL AND ADMINISTRATIVE CAPACITY (9805)

The ability of the Latvian civil service to prepare and implement systematic programmes of administrative reforms to support the process of European integration and legal approximation is a critical success factor in the preparations for EU-membership. The institution building and training priorities outlined below come from the key issues which were set out in the Accession Partnership and further elaborated for this National Programme in a series of technical fiches from the various participating Ministries and the Public Administration Reform Bureau.

9805.01: Strengthen the budgetary process; State Treasury information technology upgrade programme

As a separate entity under the direct supervision of the Ministry of Finance, the State Treasury of Latvia is the key institution responsible for national budget execution and the management of the state debt. The State Treasury is in direct daily communication with a wide range of institutions including commercial banks, government ministries, regional treasury units, budget executors and the State Revenue Service. As such, the services provided by the State Treasury to these various budget institutions is an essential element in the efficient management of budgetary resources. This project will ensure that an adequate information technology solution is installed to support the work of the State Treasury.

Conditionalities:

The following activities should be completed before the Project should begin:

- experienced and capable State Treasury staff available and retained for project implementation;
- establishment of data transferring system (State Treasury head office - regional Treasury Units)
- establishment of project steering committee and coordinating structures

1 9805.02: Management and development of EuroFaculty for restructuring the teaching and learning of public administration, law and economics at the University of Latvia

EuroFaculty is an ongoing programme in the University of Latvia. It is operated by the EuroFaculty Centre Riga, which is the Latvian operating institution of the pan-Baltic international EuroFaculty. The primary objective is to establish a self-sustaining process of transformation in teaching and learning in public administration, law, and economics at the University of Latvia. This also involves curricula reform to the standard European level and development of international standard course materials.

Conditionalities:

- political and financial commitment for the EuroFaculty from the Latvian Government to the end of its mandate, i.e. the year 2005
- commitment to gradually ensure self-sustenance of the EuroFaculty
- commitment to develop a long-term reform programme for adapting existing curricula to standard European level

1 9805.03: *Establish regional development plans*

Across a range of line Ministries, activities will need to be undertaken to put in place the necessary institutional arrangements to allow planning and development of Structural Funds Programmes. The Pre-Accession Structural Funds Preparatory Programme, which will be available under the 1998 Phare programme, will specifically help develop a legal framework for the preparation and implementation of - a National Economic Development Programme (NEPD), appropriate institutional framework and budgetary procedures, prepare a NEPD for the whole national territory, set up a central unit within the Ministry of Finance responsible for coordinating the preaccession preparatory programme and to launch one or two projects for integrated regional development in designated areas.

Conditionalities:

- adequate coordination between concerned ministries i.a. by establishing a steering committee
- the implementation of projects for integrated regional development will be conditional upon the use of structural funds principles (programming, monitoring, evaluation and control, etc.) at the national and sub-national levels
- relating to projects for integrated regional development, national cofinancing will be required at progressive rates according to the Structural Funds principles for objective 1-countries

9805.04: *General Technical Assistance Facility: Capacity Building for Management of Programmes*

The Ministry of Finance in Latvia is responsible for the coordination of foreign assistance, implementation of the Phare programme and structural funds management. This entails being an interlocutor and giving support to line ministries when identifying needs for further reform, institution building needs (in coordination with the Bureau for Public Administration Reform) and investment requirements in specific areas. Since adequate needs identification as well as project definition are crucial for a successful project implementation, this project will provide technical assistance in the areas of programming and management of external funds, planning and design, financial audits of international contracts as well as prepare the management structure of the 5th RTD Framework Directive.

Conditionalities:

- establishment of national fund in May/June 1998 within the decentralisation process of Phare funds
- establishment of pre-structural funds coordination unit in May 1998
- coordination of the above outlined assistance together with line ministries
- provision of sufficient local staff to work and learn from experts provided under the above outlined project

OBJECTIVE 4: FURTHER INTEGRATION OF LATVIA INTO THE INTERNAL MARKET (9806)

Article 7a of the Treaty defines the Union's internal market as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open market economy in which competition and economic and social cohesion must play a full part and on full implementation of the EC-directives in the different sectors of the internal market.

9806.01: Internal market capacity building and enforcement

This project will provide assistance in a number of areas which are under the responsibility of the Ministry of Finance, Ministry of Economy and the Central Statistical Bureau and which are essential for the functioning of the Community's internal market including state aid control (institutional support to the State Aid Surveillance Commission), government procurement (link to international databases, drafting of secondary legislation, strengthening of procurement audit system), tax and customs administration (assist in finding an appropriate information technology solution), statistics (upgrading of data management system) as well as strengthening the national standardisation body with regard to information systems and implementation of EC directives. The project will also assist in the reformulation of the economic policy strategy and the preparation of a medium term economic strategy. Twinning arrangements could be foreseen for this project.

Conditionalities:

Draft a joint assessment on the medium-term economic strategy of Latvia, in cooperation with the European Commission, and adopt it by the end of 1998

Complete the legal basis in the area of state aid/state aid control by December 1999 in accordance with EC requirement

Ensure free competition for government and municipal procurement contracts also in the fields of water supply, energy, transport and telecommunications enterprises by December 1999.

Adjust the excise taxation in accordance with EC directives by December 1999. Establishment of a standardisation development programme by December 1998. Adequate staffing in the recipient institutions has to be in place for implementation and monitoring of project components.

The project components must be closely co-ordinated with other programmes and projects funded by budget, or bilateral sources.

OBJECTIVE 5: JUSTICE AND HOME AFFAIRS (9807)

A key part of achieving economic and political stability is the creation of an effective judicial system, which has a strong legal basis, efficient asylum regime, control of external border and immigration, combatting corruption and organised crime including drugs trafficking. Reiterating the objective of developing the Union into an "area of freedom, security and justice", the new Amsterdam Treaty brings these matters, including the free movement of persons, asylum and immigration, into the Community's sphere of competence, and preparations need to be taken by the candidate countries to fulfil the requirements.

9807.01: Continuation of court system reform

This project will strengthen the capacity of the judicial system to cope with new legislative demands including preparations for future EU-membership. The actions, which will be undertaken by the Ministry of Justice, will include continuation of the work already begun on reform of the laws on judicial power and bailiffs, training in the application and enforcement of Community legislation, training of judges and promotion of the transparency of the legislative system (including computerisation of courts). Twinning arrangements could be foreseen for the technical assistance part of this project.

Conditionalities:

- political and financial commitment to continued judicial reform
- sufficient local staff provided by the Ministry of Justice, regional courts and district (city) courts to implement the project
- coordination with other international donors
- the project should ensure compatibility with court systems in EU member states

I 9807.02: Develop the Eastern border management: Training of the Border Guards

In line with the need to secure future external borders of the European Union, Latvia will undertake to introduce the necessary technical, surveillance, communication and information systems to guard against criminal and illegal activities and the illegal import of contraband goods, weapons, narcotics and radioactive substances. In addition to the security aspects of border controls such measures will help to protect economic interests in terms of stemming the tide of illegal imports and exports. A very important aspect of the securing the borders is the human resources development to support this development. This project will enhance the capabilities of the Latvian Border Guard to **carry out effective** border supervision and control border crossings through expert and training assistance. The training will concentrate on frontier surveillance planning, command and practical accomplishment training at the various levels of organisation, as well as on passport inspection training and is particularly suitable for twinning arrangements.

Conditionalities:

- develop human resource programmes to encourage personnel trained under this project to stay on their posts for some time in order for the Latvian administration to benefit from their acquired knowledge
- ensure coordination (inclusion if possible) with training of customs staff
- ensure that Latvian trainers will be able to continue the training once the project has finished (train-the-trainer)
- the project should be an integrated part in a long-term strategy for developing the Eastern border management in Latvia to be presented (including human resource needs) to be presented by the end of 1998

OBJECTIVE 6: IMPLEMENTING THE COMMUNITY ENVIRONMENTAL POLICY AND THE ACQUIS (9808)

The Community's environmental policy, derived from the Treaty, aims towards sustainability based on the integration of environmental protection into Community sectoral policies, preventive action, the polluter pays principle, fighting environmental damage at the source and shared responsibility. The *acquis* which will have to be transposed and implemented in the candidate countries comprises approximately 200 legal acts covering a wide range of matters.

I 9808.01: Institutional strengthening of Latvian environmental administration for implementation and enforcement of EC environmental legislation

This project will strengthen the environmental administration in Latvia including central administration (Ministry of Environment and Regional Development), regional inspectorates and laboratories as well as local environmental administrations in the largest towns (above 45.000 inhabitants) in order for these institutions to be able to implement and enforce the Community environmental legislation, especially in the sectors of water, air, waste and industrial pollution. Training programmes, reorganisation recommendations, issuing of informative materials and guidance documents on Community legislation are essential parts of this project. Twinning arrangements could be foreseen for the implementation of this project.

Conditionalities:

- Establishment of detailed approximation programmes and implementation strategies related to individual acts by the end of 1998.
- Reinforcement of the European Integration Unit by December 1998 so as to adequately perform monitoring on the harmonisation to EC legislation



The project components must be closely co-ordinated with other programmes and projects funded by budget, or bilateral sources.

9808.02: Development of the infrastructure for waste water treatment in four towns

Creation of an infrastructure to meet environmental concerns is a part of the Latvian environment policy and endowed in the Development of Water Services in Latvian Towns included in the Public Investment Programme under the heading 800+. This specific project aims at general rehabilitation and extension of existing water supply and sewerage facilities in the towns of Jaunjelgava, Ainazi, Saulkrasti and Plavinas which were given priority in the investment programme. An essential part of the project is capacity building in local companies..
Conditionalities:

Reinforcement of the Project Unit in the Ministry of Environment and Regional Development with permanent staff to ensure adequate project monitoring.

In parallel to project implementation Latvia should develop approximation and implementation strategies for the water sector.

Specifically on waste water ensure harmonisation with EC-legislation before the end of 1998.

Co-financing from national budget to ensure sustainability of the project.

OBJECTIVE 7: TRANSPORT (LE 9809)

9809.01: Integrate Latvia into Trans-European Networks; Road safety improvement on Via Baltica in Bauska city

In line with its transport policy the Latvian government is going to take steps to develop an integrated and balanced multi-modal transport system by approximating legislation and making the necessary adaptations in the transport system. The transport system, will be developed to better integrate and observe environmental standards. Investment in the transport sector will be key to implement this policy and it has therefore been chosen to include in this years Phare programme a provision for investment support to Via Baltica.

Conditionalities:

- co-financing via national budget
- adequate implementation structures must be available

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

Equal opportunity for men and women to participate in all projects will be ensured. Indicators will be elaborated to assess the extent of womens' participation in projects.

5 BUDGET²

Phare Programming 1998		Total Phare budget in MECU	Institution-building	Investment
Project Title				
Objective 1				
LE 9803: Acceleration of the integration of non-citizens		1,00	0,50	0,50
9803.01	Promotion of Social Integration in Latvia: Support to the National Programme for Latvian Language training			
9803.02	Integration of the Society through Information and Education			
Objective 2				
LE 9804: Continue the economic Reform Process		1,6	0,6	1,0
9804.01	Technical Assistance to Ministry of Agriculture for support of modernisation and restructuring of the agricultural sector			
Objective 3				
LE 9805: Reinforcement of the institutional and administrative capacity		6,037	1,15	4,887
9805.01	State Treasury information technology upgrade programme			
9805.02	EuroFaculty: Management and Development of EuroFaculty for restructuring and teaching and learning of public Administration, Law and Economics at the University of Latvia			
9805.03	Special Preparatory Programme for Structural Funds			
9805.04	Capacity Building for Programme Management			
Objective 4				
LE 9806: Further integration of Latvia into the internal market		1,30	0,80	0,50
9806.01	Internal Market Capacity Building & Enforcement			
Objective 5				
LE 9807: Justice & Home Affairs		2,20	1,70	0,50
9807.01	Court System Reform			
9807.02	Training and expert assistance to the Latvian Border Guards on border management procedures for Border Guards			
Objective 6				
LE 9808: Environment		4,00	1,30	2,70
9808.01	Institutional Strengthening of Latvian environmental administration for implementation and enforcement of EC environmental legislation			
9808.02	Development of water services in Jaunjelgava			
Objective 7				
LE 9809: Transport		2,5	0	2,5
9809.01	Via Baltica Road Safety Improvement in Bauska City			
TOTAL		18,637	6,05	12,587
Community Programmes (1.363 MECU) and Tempus (1.0 MECU)				
committed under separate Financing Proposals				

² Up to 20 % of the budget may be contracted directly by the Commission and will not, therefore, be transferred to the National Fund

6. IMPLEMENTATION ARRANGEMENTS

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

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 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 the funds to the NF in accordance with the Memorandum of Understanding between the Commission and the Ministry of Finance to be signed in autumn 1998. Funds will be transferred following requests from the NAO. A payment of up to 2.981.920 ECU will be transferred to the NF following signature of the Financing Memorandum. Four Replenishments will be made of up to 2.981.920 ECU 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.

In the case of **twinning arrangements in the following areas**, the Commission may transfer funds to finance long-term secondments of staff directly to the "Bureau d'Assistance Technique" which will be established in Brussels to implement the following:

- Ministry of Agriculture: - strengthening of veterinary and phytosanitary inspections at the borders as well as development of land use policy
- Ministry of Finance: - internal market capacity building and enforcement in particular in the fields of state aid and public procurement
- Ministry of Justice - continuation of court reform
- Ministry of the Interior: - training of border guards
- Ministry of Environment - institutional strengthening of Latvian environmental administration
- Naturalisation Board - integration of non-citizens in the society

Implementing Agencies will be responsible for programmes as follows:

Central Financing and Contracting Unit:

Technical Assistance to Ministry of Agriculture for support of modernisation and restructuring of the agricultural sector (LE9804.01)

Promotion of Social Integration in Latvia; Support to the implementation of the National Programme for Latvian Language Training (LE9803.01).

Integration of the Society through Information and Education (LE9803.02)

General Technical Assistance Facility - Capacity Building for Programme Management (LE9805.04) State Treasury information technology upgrade programme (LE9805.01) Internal Market Capacity Building and Enforcement (LE9806.01) Court System Reform (LE9807.01) Training and expert assistance to the Latvian Border Guards on border management procedures (LE9807.02)

Ministry of Finance (Co-ordination Unit for Structural Funds)

Special Preparatory Programme for Structural Funds (LE9805.03)

Ministry of Transport

Via Baltica Road Safety Improvement in Bauska City (LE9809.01)

Ministry of Environmental Protection & Regional Development:

Institutional Strengthening of Latvian environmental administration for implementation and enforcement of EC environmental legislation (LE9808.01). Development of water services in Jaunjelgava (LE9808.02).

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 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 there will be no transfer of funds from the NF to the CFCU. 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.

A separate interest bearing bank account, denominated in ECU will be opened and managed by the NF in a separate accounting system in a Bank agreed in advance with the Commission. 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 prepared in accordance with the procedures set out in the DIS Manual, except for twinning arrangements for which separate measures are being defined by the Commission..

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 programmes duration. In the case of the infrastructure project LE 9808.02 (water services in Jaunelgava) disbursements must be made within the first 48 months of the project's duration.

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

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.

7. 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 reallocation 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) 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.

8. AUDIT AND EVALUATION

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.

9. 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 at annex.

10. SPECIAL CONDITIONS

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

