

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 9902 TO 9906
<u>Title:</u>	1999 Phare National Programme for Latvia
<u>Duration:</u>	Until 31 July 2001

ARTICLE 2 - COMMITMENT OF THE COMMUNITY

The financial contribution of THE COMMUNITY is fixed at a maximum of **€ 14,200,000** hereinafter referred to as "THE EC GRANT".

ARTICLE 3 - DURATION AND EXPIRY

For the present MEASURE, THE EC GRANT is hereby available for contracting until **31 July 2001** 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 July 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

Telex: +371-732 72 50
Fax: +371-732 52 79

for THE RECIPIENT:

Government of Latvia
Mr. Roberts Zile, National Aid Co-ordinator
Minister for Special Assignment for Cooperation with
International Financial Agencies
Smilsu Street 1
LV-1919 Riga
Tel.: +371-709 5690
Fax: +371-709 5693

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

Done at Riga
Date 13 VI 0


for THE RECIPIENT
Minister for Special Assignment
For Cooperation with International Financial
Agencies
Roberts ZILE


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

1. OBJECTIVES AND DESCRIPTION

Objective 1: ACCELERATION OF THE INTEGRATION OF NON-CITIZENS INTO THE LATVIAN SOCIETY (LE 99.02)

Due to immigration in the period of Soviet rule, Latvia has sizeable 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, 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.

LE 9902.01: Improvement of 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:

A gradual increased financing of the programme by the state budget

Compatibility of the Latvian Language Law and the Labour Code with international requirements.

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 teachers are realistic in relation to actual capacities and that provisions are made for necessary capacity building.

All materials (books, audiovisual material, teachers' handbooks, etc.) shall bear the logo of the European Union.

Objective 2: REINFORCEMENT OF THE INSTITUTIONAL AND ADMINISTRATIVE CAPACITY (LE 9903)

The ability of the Latvian civil service to prepare and systematically implement 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 priorities 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.

LE 9903.01: Strengthening of the tax and customs administration; Institution building/human resource development and installation of a tax audit management system (State Revenue Service modernisation)

In 1994 the State Finance Inspection Board (for inland taxes) and the Customs Department (for customs duties and taxes on international trade) were merged and became the State Revenue Service (SRS). To improve the efficiency of the revenue administration, the SRS has embarked on a broad based modernisation programme known as the "Four year State Revenue Service modernisation project". The programme is financed by the state budget, bilateral donors and Phare. It is also backed by loan from the World Bank. The present Phare project forms a part of this modernisation project. It includes the following elements: human resource development (training in performance monitoring, project planning, reporting systems, etc.), establishment of SRS training centres and installation of a tax audit management system. The project will be partly implemented through twinning arrangements.

Conditionalities:

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

Adequate staffing in the recipient institutions has to be in place for implementation and monitoring of the project.

The project components must be closely coordinated with other programmes and projects funded by the state budget or bilateral sources.

A project steering committee should be established.

LE 9903.02: 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 at 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-sustainability of the EuroFaculty so that the Latvian Government can fully finance the activities from the year 2005

Commitment to develop a long-term reform programme for adapting existing curricula to standard European level

LE 9903.03: Capacity Building for the Central Finance and Contracting Unit (CFCU)

The Central Finance and Contracting Unit (CFCU), under the supervision of the Ministry of Finance, is responsible for the implementation of the institution building component under the Phare decentralised implementation system. This project will assist in strengthening the overall capacity of the CFCU in project implementation, more specifically in improving the procurement systems and supporting the establishment of sound financial management and internal control systems. The support is fully in line with the Memorandum of Understanding signed between the European Commission and Latvia in October 1997 on the phasing out of assistance to the CFCU during the first five years of its operations.

Conditionalities:

Continued commitment to develop and increase the capacity to implement programmes under the decentralised implementation system.

Provision of adequate resources for project implementation.

Continued support to the Central Finance and Contracting Unit by the Government of Latvia.

**Objective 3: FURTHER INTEGRATION OF LATVIA INTO THE INTERNAL MARKET
(LE 9904)**

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.

The following projects are aimed at helping Latvia prepare for participation in the EU's internal market.

LE 9904.01: Integration into the European Union: Law approximation

Phare is during 1998 and 1999 financing a significant law approximation project which provides both long and short term expertise to those Latvian ministries in need of assistance for transposing and implementing the *acquis communautaire* in accordance with the Accession Partnership priorities and the Latvian National Programme for Integration into the EU.

The new project will continue this assistance and will provide an overall pre-accession adviser to the European Integration Bureau to assist in planning and coordinating the general law approximation process in Latvia. It will also provide pre-accession advisers in four specific areas which have been identified as priority areas; i) in the Ministry of Economy to help elaborating a long term industrial policy, ii) in the Ministry of Agriculture for institution building purposes to prepare for the Common Agricultural Policy (in particular EU Common Market Organisations, Marketing Boards and Guarantee funds), iii) in all Ministries dealing with intellectual property rights and iv) in the Ministry of Welfare to help develop the necessary laws, structures and controls to ensure compliance with EU legislation concerning Occupational Health and Safety. The project will be implemented through twinning arrangements with EU Member States.

Conditionalities:

The activities under this project must be in line with the findings in the screening process and in the Commission's Regular Report.

Full coordination with other similar projects in the areas concerned.

Full coordination with the 1998 and 1999 law approximation project (ALL-project) in order to ensure additionality and synergy between the two projects.

Appropriate staffing to implement the project.

Adoption of the appropriate legislation and strategic documents by the Government for institution building purposes, as a necessary complement to the law approximation process.

LE 9904.02: Agriculture: Modernisation and Capacity Building for Food Control at National and Regional Level

In order to ensure that the goods circulating on the internal market meets the relevant standards as regards health and safety, adequate regulations and control mechanisms need to be put in place. In Latvia, the control of food products is ensured by supervising bodies subordinated to the Ministries of Welfare and Agriculture. As regards veterinary legislation, the State Veterinary Service is the organisation responsible for legislative implementation, while the State Border Inspection Service carries out veterinary, phytosanitary and sanitary hygiene controls at the border.

The present project is a continuation of previous Phare projects in the same area. It consists of the following components; i) twinning with EU Member States to design a control system as regards food safety, hygiene and quality, ii) procure the necessary equipment for the chosen food control system including the necessary

training for using such equipment (including implementation of the HACCP system), iii) assist in the harmonisation with EU food control legislation, iv) procure the necessary equipment for the Veterinary service, v) install a communication system in the Ministry of Welfare to ensure the establishment of a food control database and register and which will link the Ministry to its subordinated institutions in this area.

Conditionalities:

Adequate staffing in the recipient institutions for implementation and monitoring of the project activities.

Close coordination with other programmes and projects in the concerned area.

Co-financing with the state budget.

LE 9904.03: Statistics: Up-grading of the Latvian Statistical Information System

Phare has, since 1994, continuously supported the Central Statistical Bureau (CSB) in Latvia in order to improve the quality of statistical data. The reliability of the information from the CSB is essential to the national budgetary process, but also to the Government's overall planning activities including its medium term economic plan. The CSB objective is to implement an integrated statistical data processing and management system in accordance with Government needs and the requirements of Eurostat. In this manner, CSB will be able to provide statistical data in accordance with internationally accepted standards.

The 1999 project will provide the support required to enhance the quantity/quality of statistical primary data whilst providing the necessary data processing capacity to process and analyse the increased volumes of data. More specifically the project will be divided into the following two components: i) completion of the CSB data management system (which has also received financing from Phare 1997 and 1998) covering Eurostat's online enquiry system (Comex) on trade statistics, modern methods for data protection and improvement of economic data for macroeconomic forecasting ii) continuation of upgrading of survey activities, adoption of new statistical indicators according to EU requirements and introduction of international classifications in data collection and analysis

Conditionalities:

Financial approval of the 1999 state budget which ensures co-financing of the project

Recruitment of additional staff to the newly established IT department in the CSB to ensure a successful project implementation

Finalisation of the technical specifications and tender dossier taking into account the latest directives from Eurostat and the achievements under previous Phare projects

Objective 4: JUSTICE AND HOME AFFAIRS (LE 9905)

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.

LE 9905.01: Development of the Eastern border management: Frontiers with Belarus

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.

Against the background of the 1998 Phare project which concentrated on developing the human resources of the Latvian Border Guards, this project will instead focus on improving the border infrastructure. It covers the construction of four border facilities for border guard units on the Latvian-Belarus border. The new facilities will serve as centres for both surveillance of the green border (patrols, guarding centre) and control of persons and vehicles crossing the border. Four local surveillance points will also be constructed. The two other project components cover procurement of vehicles to improve the mobility of border guards and training of border guards (mainly language training).

Conditionalities:

The Latvian Border Guards will ensure:

full basic maintenance of the equipment/infrastructure provided under this project.

completion of the building schedule for the border posts and installation of technical surveillance and communication systems.

the necessary coordination with other Latvian ministries including in particular the Ministry for Foreign Affairs

that long term career prospects are available to Border Guard recruits to the continuity of personnel

premises and personnel for the conduct of training courses

Objective 5: TRANSPORT (LE 9906)

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 continue to support in this years Phare programme a provision for investment support to Via Baltica.

LE 9906.01: Integrate Latvia into Trans-European Networks: Reconstruction of Via Baltica (Iecava-Bauska)

The Via Baltica connects the three Baltic states through a North-South highway. The reconstruction of the Via Baltica is a long term transport project which is being co-financed by the World Bank, the Latvian Public Investment Programme, Sweden, Finland, France and EU Phare. The resurfacing of the highway includes replacement and reinforcement of the asphalt concrete pavement as well as improvement of traffic safety at crossings, junctions and buss stops. The current Phare project comprises the 20,5 km long section between Iecava and Bauska cities.

Conditionalities:

Co-financing via national budget

Adequate implementation structures must be available

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

2. BUDGET

	<i>Project title</i>	Total €	IB	INV
Objective 1				
LE 9902: Acceleration of the integration of non-citizens				
01	Improvement of language training on non-Latvian speaking non-citizens	500.000	500.000	
	Sub-total	500.000	500.000	
Objective 2				
LE 9903: Reinforcement of the institutional and administrative capacity				
01	State Revenue Service Modernisation	2.000.000	780.000	1.220.000
02	EuroFaculty at the University of Latvia	200.000	200.000	
03	Capacity Building for CFCU	200.000	200.000	
	Sub-total	2.400.000	1.180.000	1.220.000
Objective 3				
LE 9904: Further integration of Latvia into the internal market				
01	Integration into the EU: Law approximation	1.500.000	1.500.000	
02	Modernisation and Capacity Building of Food Control at National and Regional level	2.500.000	540.000	1.960.000
03	Upgrading of the Latvian Statistical Information System	1.000.000	1.000.000	
	Sub-total	5.000.000	3.040.000	1.960.000
Objective 4				
LE 9905 Justice & Home Affairs				
01	Latvian Eastern Border Management and Infrastructure (Frontier with Belarus)	4.500.000	150.000	4.350.000
	Sub-total	4.500.000	150.000	4.350.000
Objective 5				
LE 9906 Transport				
01	Via Baltica Reconstruction (Iecava-Bauska)	1.800.000		1.800.000
	Sub-total	1.800.000		1.800.000
	TOTAL	14.200.000	4.870.000	9.330.000
Community Programms (1.6 MEUR) + RTD (0.3 MEUR)		1.900.000		
(Committed under separate Financing Proposals)				

3. 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 reporting to the European Commission. 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 between the Commission and Latvia signed on 02.12.1998. 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 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 CFCU/IA 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.

Twinning arrangements including long-term secondments are proposed under the following projects:

- LE 9903.01: State Revenue Service
- LE 9904.01: European Integration Bureau
- Saeima (Parliament) - European Affairs Committee
- Ministry of Economy
- Ministry of Agriculture
- Ministries of Interior/Justice/Culture/Finance on Intellectual property
- Ministry of Welfare
- LE 9904.02: Ministry of Welfare

Implementing Agencies will be responsible for programmes as follows:

1. Central Financing and Contracting Unit (CFCU):

- LE 9902.01 Improvement of language training of non-Latvian speaking non-citizens
- LE 9903.01 Strengthening of the tax and customs administration; Human Resource development and installation of a tax audit management system
- LE 9903.02 Management and development of EuroFaculty for restructuring the teaching and learning of public administration, law and economics at the University of Latvia
- LE 9903.03 Capacity building for CFCU
- LE 9904.01 Integration into the European Union: Law approximation

- LE990402 Agriculture: Modernisation and Capacity Building for Food Control at National and Regional Level
- LE 9904.03 Statistics: Up-grading of the Latvian Statistical Information System
- LE 05.01 Development of the Eastern border management: Frontiers with Belarus

2. Ministry of Transport

- LE 9906.01 Reconstruction of Via Baltica (Iecava-Bauska)

The National Fund 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.

A separate bank account, denominated in EUR 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 prepared in accordance with the procedures set out in the DIS Manual.

All contracts must be concluded **by** 31 July 2001. All disbursements must be made **by** 31 July 2002.

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/CFCU before the official closure of the programme. The Implementing Agency/CFCU 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/CFCU 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 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 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) 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. 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.

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 provided in the Annex "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 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.