

**MEMORANDUM OF UNDERSTANDING
ON THE IMPLEMENTATION OF THE EEA FINANCIAL MECHANISM
2004-2009**

between

THE GOVERNMENTS OF THE REPUBLIC OF ICELAND,
THE PRINCIPALITY OF LIECHTENSTEIN,
THE KINGDOM OF NORWAY,
hereinafter referred to as the “EFTA States”

and

THE GOVERNMENT OF THE REPUBLIC OF HUNGARY,
hereinafter referred to as the “Beneficiary State”

together hereinafter referred to as the “Parties”,

WHEREAS the Agreement of 14 October 2003 on the participation of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic in the European Economic Area (hereinafter referred to as the “EEA Enlargement Agreement”) is applicable as of 1 May 2004;

WHEREAS Protocol 38a to the EEA Agreement, incorporated into the EEA Agreement by the EEA Enlargement Agreement, establishes a financial mechanism through which the EFTA States will contribute to the reduction of economic and social disparities in the European Economic Area (hereinafter referred to as the “EEA Financial Mechanism”);

WHEREAS by decision of the Standing Committee of the EFTA States No. 4/2004/SC of 3 June 2004 the EFTA States have established a Financial Mechanism Committee, which shall manage the EEA Financial Mechanism (2004-2009);

WHEREAS the EEA Enlargement Agreement and the EEA Financial Mechanism will strengthen relations between the EFTA States and the Republic of Hungary to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Republic of Hungary will contribute to securing a stable, peaceful and prosperous Europe, based on good governance, democratic institutions, the rule of law, respect for human rights and sustainable development;

WHEREAS the Parties agree to establish a framework for cooperation in order to ensure the effective implementation of the EEA Financial Mechanism;

HAVE DECIDED to conclude the following Memorandum of Understanding (hereinafter referred to as the “MoU”):

Article 1

(Objectives)

In accordance with Article 1 of Protocol 38a, the EFTA States have established the EEA Financial Mechanism in order to contribute to the reduction of economic and social disparities in the European Economic Area. Accordingly, the Parties to this MoU shall endeavour to select for funding, projects that contribute to the achievement of that objective.

Article 2

(Legal Framework)

This MoU, agreed between the Governments of the EFTA States and the Government of the Republic of Hungary, shall be read in conjunction with and subject to the conditions in the following documents, which constitute the legal framework of the EEA Financial Mechanism:

- Protocol 38a to the EEA Agreement (hereinafter referred to as “Protocol 38a”), establishing the EEA Financial Mechanism,
- the Rules and Procedures on the implementation of the EEA Financial Mechanism (hereinafter referred to as the “Rules and Procedures”) and subsequent amendments thereof. The Rules and Procedures are adopted by the EFTA States in accordance with Article 8 of Protocol 38a,
- the Grant Agreements, which will be concluded between the Financial Mechanism Committee and the Beneficiary State for each project.

Article 3

(Financial Framework)

1. In accordance with Article 2 of Protocol 38a, the EFTA States will commit € 600 million to the EEA Financial Mechanism in annual tranches of € 120 million over the period running from 1 May 2004 to 30 April 2009, inclusive.

2. In accordance with Article 5 of Protocol 38a, a total of € 60.780.000 shall be made available to the Republic of Hungary over the period referred to in Paragraph 1.
3. In accordance with Article 8 of Protocol 38a, the management costs of the EEA Financial Mechanism shall be covered by the amounts referred to above. Further provisions to this effect are set out in the Rules and Procedures.
4. In accordance with Article 6 of Protocol 38a, a review will be carried out in November 2006 and again in November 2008 with a view to reallocating any non-committed available funds for high priority projects from any Beneficiary State.

Article 4

(Roles and Responsibilities)

1. The Governments of the EFTA States shall make funds available in support of eligible projects proposed by the Government of the Republic of Hungary and agreed on by the Financial Mechanism within the priority sectors listed in Article 6 of this MoU.
2. The Beneficiary State shall assure the full co-financing of projects that benefit from support from the EEA Financial Mechanism.
3. The EEA Financial Mechanism Committee shall manage the EEA Financial Mechanism and take decisions on the granting of financial assistance.
4. The Committee shall be assisted by the Financial Mechanism Office (hereinafter referred to as the “FMO”). The FMO shall be responsible for the day-to-day operations of the EEA Financial Mechanism and shall serve as a contact point.
5. The Republic of Hungary has authorized the National Development Office to act on its behalf as its national focal point. It shall have overall responsibility for the management of the EEA Financial Mechanisms activities in the Republic of Hungary, including financial control and audit and serve as a contact point. Its managerial setup is contained in Annex A.
6. The National Development Office shall be responsible and accountable for the identification, planning, implementation and monitoring of projects as well as for the use of funds under the EEA Financial Mechanism in accordance with the Rules and Procedures. It shall report on these activities to the FMO. Any irregularities shall be reported to the FMO without delay. The Hungarian Government Control Office (Kormányzati Ellenőrzési Hivatal – KEHI) carries out independent control activities. The audit of the Government Control Office is separate from the audit of the State Audit Office which has the right to carry out its own audits.
7. As a general rule, the gathering of project applications shall be carried out by open calls for proposals.

8. The National Development Office shall ensure that the project promoters are fully committed and equipped to ensure successful project implementation.

Article 5

(Annual Meetings and Reporting)

1. In order to ensure the effective implementation of the EEA Financial Mechanism, the Parties agree to hold annual meetings between the Financial Mechanism Committee and the Focal Point. The Focal Point shall at the meeting present an annual report, which shall amongst other things address:

- the progress made towards the achievement of the overall objective of the EEA Financial Mechanism,
- the progress of project identification in the Beneficiary State,
- the reporting of ongoing project implementation against established criteria,
- financial progress pertaining to commitments and disbursements,
- fields of intervention and measures for the following year.

2. The National Development Office shall organise the meetings, in cooperation with the FMO. The Commission of the European Communities may be invited to observe the meetings.

3. The minutes of the meetings shall be drafted by the National Development Office.

4. The first meeting shall be held no later than one year after the entry into force of this MoU.

Article 6

(Priority Sectors)

1. In accordance with Article 3 of Protocol 38a, grants shall be available for projects in the following priority sectors:

- (a) Protection of the environment, including the human environment, through, inter alia, reduction of pollution and promotion of renewable energy;
- (b) Promotion of sustainable development through improved resource use and management;
- (c) Conservation of European cultural heritage, including public transport, and urban renewal;

(d) Human resource development through, inter alia, promotion of education and training, strengthening of administrative or public service capacities of local government or its institutions as well as the democratic processes, which support it;

(e) Health and childcare.

2. Academic research may be eligible for funding in so far as it is targeted at one or more of the priority sectors.

Article 7

(Programming Framework)

1. With a view to ensuring effective use of the EEA Financial Mechanism funding and without prejudice to Article 6 above, particular attention shall be given to the fields of intervention outlined in the programming framework in Annex B to this MoU.

2. Annex B shall be subject to review in the annual meetings referred to in Article 5 above.

Article 8

(Specific Forms of Grant Assistance)

1. In accordance with the Priority Sectors referred to in Article 6 and with particular attention given to the fields of intervention outlined in the Programming Framework referred to in Article 7, the Parties have agreed to establish, within the overall amount referred to in Article 3, the Specific Forms of Grant Assistance listed in Annex C.

2. The Parties shall conclude Grant Agreements laying down the terms and conditions of each grant commitment.

3. Annex C shall be subject to review in the annual meetings referred to in Article 5 above.

Article 9

(Control and Access to Information)

The EEA Financial Mechanism Committee, the EFTA Board of Auditors and their representatives have the right to carry out any technical or financial mission or review they consider necessary to follow the planning, implementation and monitoring of projects as well as the use of funds. The Government of the Republic of Hungary shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Government of the Republic of Hungary and the FMO shall closely coordinate the use of the EEA Financial Mechanism with the use of the Norwegian Financial Mechanism. All projects submitted to the Mechanisms shall be consistent with Hungary's national priorities and relevant arrangements with the European Union.

Article 11

(Governing Principles)

1. The implementation of this MoU shall in all aspects be governed by the Rules and Procedures of the EEA Financial Mechanism and subsequent amendments thereof.
2. The Parties agree to apply the highest degree of transparency and accountability in the implementation of the EEA Financial Mechanism, as well as objectives and principles of good governance, sustainable development and gender equality.

Article 12

(Entry into Force)

This MoU shall enter into force on the day after the date of the last signature.

The present Memorandum of Understanding is signed in four originals in the English language.

Done in Brussels on 7 July 2005,

For the Government of the
Republic of Iceland

For the Government of the
Republic of Hungary

For the Government of the
Principality of Liechtenstein

For the Government of the
Kingdom of Norway

**The Managerial Set-up for the Implementation of the
EEA Financial Mechanism in the Republic of Hungary**

National Focal Point

The Minister Without Portfolio responsible for EU Affairs and supervising the National Development Office has, on behalf of the Beneficiary State, designated the National Development Office (Nemzeti Fejlesztési Hivatal) to carry out the tasks of the National Focal Point. A separate government regulation will be issued *on the management of the EEA and the Norwegian Financial Mechanisms*.

The National Focal Point has the overall responsibility for the management of the EEA Financial Mechanism's activities in Hungary as described in this Memorandum of Understanding (MoU) and in the Rules and Procedures for the EEA Financial Mechanism, which is adopted by the Financial Mechanism Committee, and their subsequent amendments, including the overall responsibility for the use of funds, financial control and audit.

The responsibilities of the National Development Office as the National Focal Point include, but are not limited to, the following:

- call for and collect proposals, and, with its reasoned opinion of the proposed projects, submit them to the Financial Mechanism Office
- ensure correctness of management and implementation of realised projects
- ensure regular reporting to the Financial Mechanism Office on the implementation of projects financed by the EEA Financial Mechanisms, as well as to immediately report any irregularities
- chair the Monitoring Committee
- draw up annual reports on implementation of projects financed by the EEA Financial Mechanism, which are to be forwarded for approval to the Monitoring Committee and submitted to the Financial Mechanism Office
- ensure efficiency, correctness and transparency of use of available funds
- supervise the adherence to the rules governing the EEA Financial Mechanism
- ensure that project promoters are fully committed and equipped to successfully implement projects
- ensure a complete and sufficient audit path in all engaged institutions
- provide information and publicity about available funds and ensure that the general public is informed about the projects implemented under the EEA Financial Mechanism
- store all documents connected with projects realised within the EEA Financial Mechanism in its field of responsibility for 10 years after the completion of projects

The role of the National Focal Point may be further elaborated in the Grant Agreements.

Central Finance and Contracts Unit (CFCU)

The National Focal Point will delegate the following tasks to the CFCU:

- ensuring public procurement and contracting of funds under the EEA Financial Mechanism for the project promoters/intermediaries
- checking the factual and formal correctness of requests for payments submitted by project promoters/intermediaries
- managing the accounts on which payments from the National Authorising Officer's Office are kept until they are transferred to the project promoters/intermediaries
- managing the register of irregularities and its update as well as reporting irregularities to the National Focal Point
- settling irregularities in its scope of function in accordance with the relevant regulations and instructions
- preparing background documentation for the Annual Monitoring Reports
- transferring payments to the project promoters/intermediaries as quickly as possible and within the specified deadlines
- storing all documents related to projects realised within the EEA Financial Mechanism in its field of responsibility for 10 years after the completion of projects

A written agreement shall regulate spheres of responsibility, tasks and duties as well as the procedures and co-operation between the head of the CFCU and the project promoters/intermediaries.

Paying Authority

Paying Authority functions for the EEA Financial Mechanism are performed by the National Authorising Officer's Office (NAO) within the Ministry of Finance. Disbursements from the FMO will be made to a designated bank account held by the Ministry of Finance. The tasks of the Paying Authority are in particular to:

- manage the accounts on which grants from both Mechanisms are kept
- certify, based on the verification of CFCU, that the national co-financing allocated to projects is available
- certify, based on the verification of the CFCU, that the national co-financing allocated to the project has been paid
- certify to the FMO that expenditure declarations are made on the basis of reliable and verified documents
- submit certified requests for disbursements to the FMO accompanied by the necessary documentary evidence demonstrating fulfilment of the conditions for each disbursement
- report on financial flows to the National Focal Point,
- transfer payments to the CFCU and ensure that payments are made to the promoters/intermediaries as quickly as possible and within the specified deadlines
- ensure reimbursement of unused or unduly paid funds to the EEA Financial Mechanism

The Paying Authority will, through fact-finding missions and other means, certify that the systems and procedures of the CFCU regarding verification of payment claims from promoters/intermediaries and supporting documents are sufficient to ensure that funds from the EEA Financial Mechanism are being used efficiently and correctly and in accordance with the principles of sound financial management.

Furthermore, the Paying Authority is responsible to the National Focal Point for developing, implementing and maintaining the procedures for financial management and control.

Application procedure

Subsequently to the signing of the present Memorandum of Understanding, an open call for proposals will be launched by the National Development Office. Projects will be evaluated on the basis of criteria set in advance in the call for proposals. Calls for proposals will be repeated as appropriate.

A Project Selection Committee will select and recommend project proposals for submission to the FMO from the applications received through the open calls. The Project Selection Committee will be composed of representatives from:

- The National Development Office
- The Office for EU Affairs
- The Ministry of Foreign Affairs
- The Ministry of Finance
- The Ministry of Economy and Transport (chairing the Hungarian EFTA Committee Working Group)

The National Focal Point will, in close co-operation with the FMO, work out a methodology on how to involve representatives from NGOs, social and economic partners, and regional and local governments in the Project Selection Committee.

Public Procurement

The project department of the CFCU will be responsible for the public procurement procedures. Act CXXIX of 2003 on public procurement regulates the procedures. All procurements related to the EEA Financial Mechanism will be executed according to this Act.

Monitoring Committee (MC)

The Monitoring Committee will assist the National Focal Point in the selection and management of projects. Its tasks and responsibilities are as follows:

- monitor compliance with the Rules and Procedures
- review and provide recommendation on the selection process
- review overall progress and financial reports
- recommend/adopt corrective actions, if necessary
- approve the Annual Monitoring Report prepared by the National Focal Point

The Monitoring Committee shall include representatives from:

- the National Focal Point (chair)
- relevant line ministries and/or governmental bodies
- the NAO Office
- social and economic partners
- regional and local level government
- NGOs

The National Focal Point will appoint the members of the Monitoring Committee. The appointment of representatives of line ministries and/or governmental bodies will be made on the basis of proposals from the relevant ministries.

The Financial Mechanism Office and, where appropriate, representatives of other institutions and organisations, will be invited to observe the meetings of the Committee.

Auditing

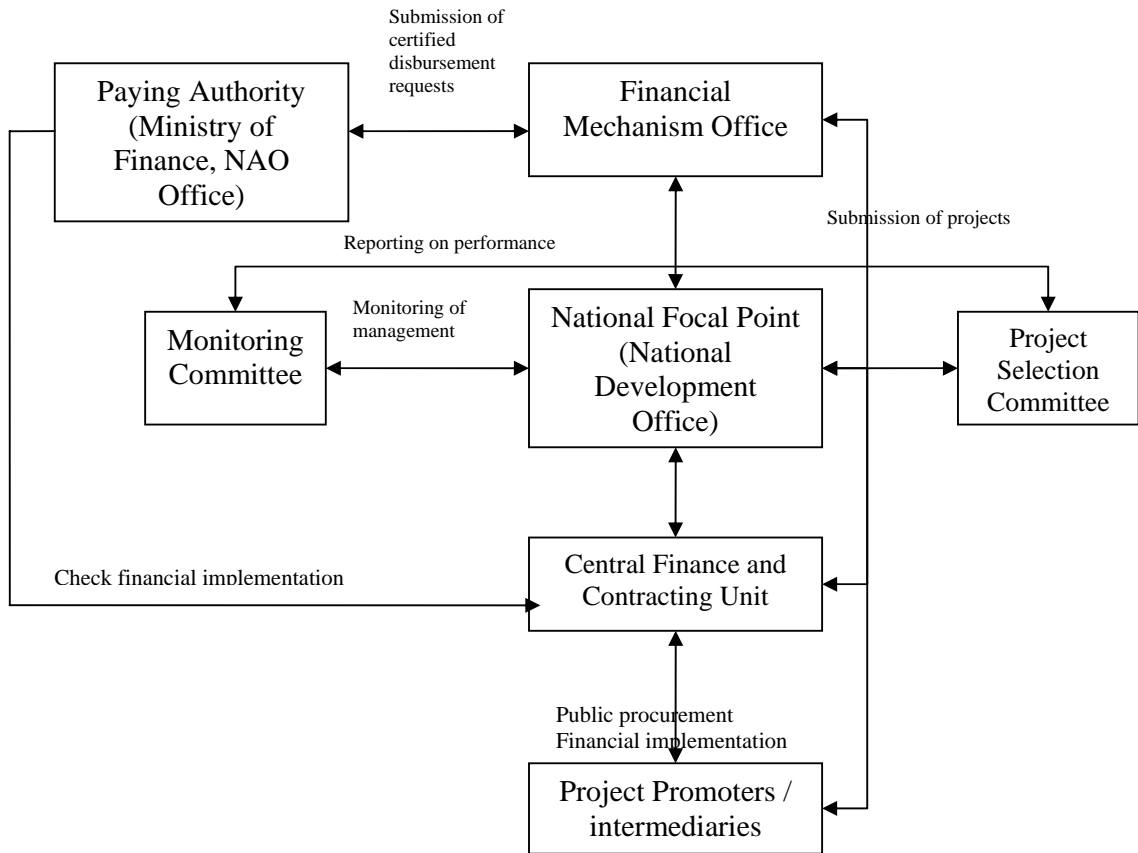
According to Hungarian legislation, the Government Control Office (GCO) carries out continuous auditing of approved projects financed from EEA Financial Mechanism as well as spot checks. The GCO continuously ensures on the basis of risk analysis that the projects are audited to an adequate extent.

The objective of the activities of the GCO is to ascertain that actions carried out are lawful, correct, economical and efficient. The Government Control Office is independent from the National Focal Point and the CFCU.

The audit of the GCO is separate from the audit of the State Audit Office which has the right to carry out its own audits.

The National Focal Point has, in accordance with Article 6.2 of the Rules and Procedures, a duty to provide the Financial Mechanism Office with copies of any report that is made by the Government Control Office, the State Audit Office, or any other entity, about the projects or other activities related to the EEA Financial Mechanism.

Chart of the administrative set-up in Hungary



**THE PROGRAMMING FRAMEWORK REFERRED TO IN ARTICLE 7 OF THE
MEMORANDUM OF UNDERSTANDING ON THE EEA FINANCIAL MECHANISM**

Within the overall framework of the priorities mentioned in Article 6 of the MOU, particular attention shall be given to the Focus Areas indicated below.

	PRIORITY AREA	FOCUS AREAS
1	Protection of the environment	<ul style="list-style-type: none"> • Promoting the involvement of NGOs in the field of environment protection (<i>See also in Annex C</i>) • Environmental-awareness education (<i>See also in Annex C</i>) • Promoting the use of renewable / alternative energy (e.g. geothermal energy and hydropower) • Noise reduction / protection • Promoting the introduction of clean production
2	Sustainable development	<ul style="list-style-type: none"> • Encouraging organic agriculture; production and breeding of ancient Hungarian domestic plant and animal species • Establishing and further developing of innovation centres • Promoting sustainable economic development
3	Conservation of European heritage	<ul style="list-style-type: none"> • Restoration of historical sites and buildings, based on utilisation plans • Conservation of world heritage sites in Hungary • Restoration of museums and establishment of collections for the introduction of certain fields of the European heritage • Public transport development in connection with the conservation of European cultural heritage and environment protection.
4	Human resource development, education	<ul style="list-style-type: none"> • Adult training, vocational education and training, life-long learning • Strengthening the relationship between higher education, targeting the manpower needs of the private sector through education and training • Scholarship programs (<i>See also in Annex C</i>) • Ensuring the accessibility of primary schools and providing of after-school care (<i>See also in Annex C</i>) • Increasing the competence and administrative capacity of central, regional and local authorities / municipalities, including the use of information technology

5	Health care	<p><i>(See also in Annex C)</i></p> <ul style="list-style-type: none"> • Enhance preventative measures and health promotion activities • Improve mental health care • Fight against addictions • Fight against AIDS, promote the treatment of HIV-positive patients • Capacity building of health care related NGOs
6	Children and youth	<p><i>(See also in Annex C)</i></p> <ul style="list-style-type: none"> • Integration of multiple disadvantaged youth – including Roma – and of children with special needs • Development and extension of the network of integrated local information and advisory centres for the youth • Improvement of living conditions and promotion of social integration of children in state care
7	Academic research	<ul style="list-style-type: none"> • Joint R&D programmes • Research related to priority areas <i>(See also in Annex C)</i>

**SPECIFIC FORMS OF GRANT ASSISTANCE REFERRED TO IN ARTICLE 8 OF THE
MEMORANDUM OF UNDERSTANDING**

According to Article 2.2.3 of the Rules and Procedures, specific forms of grant assistance (block grants and seed money facilities) may be established in addition to individual projects and programmes. Initially, the following specific forms for grant assistance will be developed for final approval according to the application procedures of the Rules and Procedures:

1. Block grants

	Focus areas	Eligible applicants of sub-projects
1	Promoting the involvement of NGOs in the field of environment protection	<ul style="list-style-type: none"> • NGOs • Non-profit organisations
2	Environment-awareness training	<ul style="list-style-type: none"> • NGOs • Training institutions • Schools in the regular education system (primary-, secondary-, higher-)
3	Scholarship and mobility programmes	<ul style="list-style-type: none"> • Individuals, e.g. students, teachers, researchers
4	Healthcare and preventative measures	<ul style="list-style-type: none"> • NGOs • Healthcare institutions including hospitals
5	Anti-discrimination, advocacy	<ul style="list-style-type: none"> • NGOs • Local minority governments
6	Childcare	<ul style="list-style-type: none"> • NGOs • Kindergartens, primary schools or their maintaining institutions • State childcare institutions
7	Promoting the accessibility of public buildings	<ul style="list-style-type: none"> • Schools in the regular education system (primary, secondary, higher), public institutions, local, regional and central governments, healthcare institutions, public transport companies
8	R&D	<ul style="list-style-type: none"> • Research institutions • Universities • Individuals

9	Cross-border cooperation	<ul style="list-style-type: none"> • National, regional, local public authorities, • Regional and local public organisations, professional organisations, development agencies; • Municipalities and their organisations acting as legal entities; • Non-governmental organisations, legal entities established by private law with non-profit status and purpose of operating.
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2. Seed money

A seed money facility to support the preparation of project applications and a block grant for the proper management and implementation of the Financial Mechanisms will also be established.