

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

between

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

and

THE KINGDOM OF SPAIN,
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 Kingdom of Spain to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Kingdom of Spain 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 EFTA States and the Kingdom of Spain, 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 €45.840.000 shall be made available to the Kingdom of Spain 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 EFTA States shall make funds available in support of eligible projects proposed by the Kingdom of Spain 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 Kingdom of Spain has authorized the General Directorate of European Funds 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 Kingdom of Spain, including financial control and audit and serve as a contact point. Its managerial setup is contained in Annex A.
6. The General Directorate of European Funds 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 National Audit Office (Tribunal de Cuentas) carries out independent control activities.
7. As a general rule, the gathering of project applications shall be carried out by open calls for proposals.
8. The General Directorate of European Funds 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 General Directorate of European Funds 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 General Directorate of European Funds.
 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 Kingdom of Spain shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

All projects submitted to the EEA Financial Mechanism shall be consistent with the Kingdom of Spain'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 of signature.

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

Signed in Brussels on _____

For the Republic of Iceland

Signed in Brussels on _____

For the Kingdom of Spain

Signed in Brussels on _____

For the Principality of Liechtenstein

Signed in Brussels on _____

For the Kingdom of Norway,

Annex A

IMPLEMENTATION SYSTEM – MANAGERIAL SET-UP

The General Directorate of European Funds fulfils the tasks of the **National Focal Point**. The National Focal Point has the overall responsibility for the management and coordination of the activities of the EEA Financial Mechanism in Spain, including the overall responsibility for the use of funds, financial control and audit. Additionally, its responsibilities include, but are not limited to, the following:

- identifying and selecting proposals to be forwarded to the EEA Financial Mechanism
- implementing and monitoring of projects
- ensuring regular reporting to the Financial Mechanism Office (hereinafter referred to as the FMO) on the implementation of projects financed by the Financial Mechanism, as well as to immediately report any irregularities
- organising annual meetings with the Financial Mechanism Committee (hereinafter referred to as the FMC)
- ensuring information and publicity about available funds
- ensuring that project promoters are fully committed and equipped to successfully implement projects
- storing all documents connected with projects realised within the EEA Financial Mechanism for 10 years after the completion of projects.

In accordance with the Rules and Procedures, the National Focal Point will ensure that financial control and auditing of projects is conducted in compliance with applicable rules. In doing so, the National Focal Point will ensure:

- efficient and correct use of available funds
- complete and sufficient audit trails in all institutions
- effective financial control and audits of approved projects

These tasks shall be performed as described below.

A. Monitoring and audits arranged by the National Focal Point

In accordance with Article 6.2 of the Rules and Procedures and as listed above, the National Focal Point is responsible for the financial control and audit of approved projects.

In order to perform the necessary monitoring and audit functions, the National Focal Point will make an open call to appoint an international consultancy company which will

monitor the management and payment of all projects financed by the EEA Financial Mechanism, undertake monitoring and spot checks and produce the necessary reports on the projects' progress.

In addition to monitoring and audit performed as described above, the IGAE (*Intervención General del Estado*) conducts audits as considered necessary.

The Supreme Audit Institution of Spain, the National Audit Office (Tribunal de Cuentas) has the right to carry out audits of projects.

B. Disbursement arrangements by the National Focal Point/Paying Authority

In order to increase the quality of operations and ensure good business practices, the financial management and control, including the Paying Authority, are separated from other functions of the National Focal Point. This is done by entrusting the functions of a Paying Authority to a different Department within the General Directorate of European Funds. This Department is called the Control and Paying Department.

The Control and Paying Department manages all operations related to financial transactions. It also fulfils the tasks of developing, implementing and maintaining the procedures concerning financial management and control.

C. Additional implementing structures

The National Focal Point remains responsible to the FMC for the correct implementation of project selection and project monitoring.

C.1. Procedure for the selection of projects

The National Focal Point will implement the following procedure for the selection of project proposals that will allow for a broad participation in the access of the funds by the different institutions/regions of the country.

The minimum amount of the cost of each programme/project will generally be limited to 3 million euros. This minimum amount would be lower in the case of NGOs, due to their lower financial capacity. To the extent possible, priority will be given to programmes/projects to be implemented in the least prosperous regions of Spain, that is those regions where per capita income is below 75% of the EU average (the so-called Objective 1 regions).

The following public and private institutions will be asked to submit to the General Directorate of European Funds a preliminary executive summary of a limited number of programmes and project ideas:

1. Each of the following line ministries, according to the prioritised areas to be included in Annex B of the MoU, will be asked to submit summaries of three programmes/projects ideas:

Ministry of Environment
Ministry of Labour and Human Resources
Ministry responsible for Public Works and Transportation
Ministry of Culture
Ministry of Education and Science
Ministry of Justice
Ministry of Industry, Tourism and Commerce

2. The 17 Regional Communities and the Autonomous Towns of Ceuta and Melilla will each be asked to submit summaries of three programmes/projects ideas.
3. The Association of Municipalities, FEMP, which includes the City Councils, will be asked to submit summaries of fifteen programmes/projects.
4. The four following NGOs, devoted to environmental protection and which have a reputed management capacity, will be asked, through the Ministry of Environment, to send us summaries of three programmes/projects ideas for a maximum total amount of 3 million euros:

Amigos de la Tierra
ADENA
Ecologistas en Acción
Greenpeace

After receiving the aforementioned programme/project proposals, and considering the total amount of funds available for commitment, the National Focal Point will select those considered most appropriate according to the objectives of the EEA Financial Mechanism.

C.2. Monitoring Committee

In order to secure an open and transparent implementation of the EEA Financial Mechanism, a Monitoring Committee will assist the National Focal Point in the monitoring and the follow-up of projects. The Monitoring Committee will be broad-based, comprised of members from the line ministries, representatives of regional and local administrations, social and economic partners, NGOs and final beneficiaries, for which projects have been approved by the Financial Mechanism Committee.

In particular, the Monitoring Committee's responsibilities include, but are not limited to, the following:

- review overall progress and financial reports

- periodical review of the project progress
- examine and approve periodical reports on the use of financial resources
- ensure the compliance with the rules and regulations and with the terms and conditions of the grants.

D. Application procedure

D.1. Before the General Directorate of European Funds submits the application to the FMO

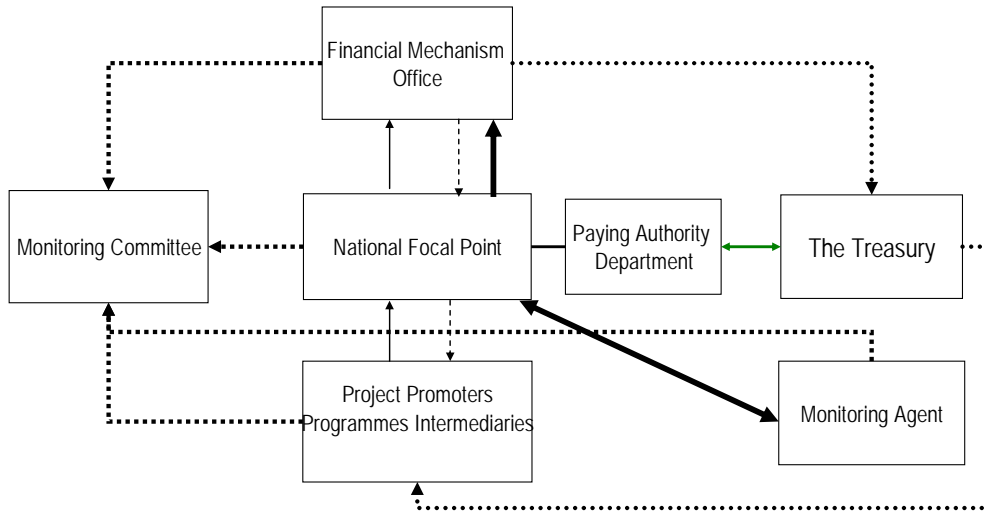
Once the National Focal Point has selected which programme/project ideas are suitable for support from the EEA Financial Mechanism (see C.1. Procedure for the selection of projects), the applicants under C.1 above and applicants for specific types of grant assistance referred to in Article 8 of the Memorandum of Understanding will be asked to present their formal applications for programmes, projects, or other specific forms of grant assistance. After these are received and reviewed by the National Focal Point, the applicants will be notified about approval or rejection of their applications by the National Focal Point. The National Focal Point will submit the approved applications to the FMO.

If the National Focal Point finds that additional information is needed from the applicant, it will notify the applicant and explain what corrections or additions are required. If the National Focal Point is satisfied that the application is in an appropriate format, in accordance with Protocol 38a and is in furtherance of the overall goal of the EEA Financial Mechanism, it may forward the application to the FMO.

D.2. After the National Focal Point submits the application to the FMO

The National Focal Point will notify the applicant of the project's approval or rejection by the FMC. If the application is approved, the National Focal Point will, of behalf of the Kingdom of Spain, sign a Grant Agreement with the FMC. The National Focal Point will subsequently sign a separate agreement with the applicant to ensure the correct implementation of the project.

Structure of the managerial set-up and the lines of communication between different entities within the Beneficiary State



- ▶ Project proposal
- - - - -▶ Accepted project
- ▶ Representatives of relevant institutions
-▶ Payments and relevant documents
- ▶ Monitoring of projects, audits and preparation of documents to be submitted to FMO
- ◀—▶ Exchange of information and payment orders from the Paying Authority to the Treasury

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

	PRIORITY AREA	FOCUS AREAS
1	Protection of the environment	<ul style="list-style-type: none"> • <i>Reduced atmospheric and noise pollution</i> • <i>Renewable energy</i> • <i>Development of LICs (Places of EU Interest)</i> • <i>Riverbed and seashore cleaning and restoration</i> • <i>Restoration of environmentally impoverished areas (through afforestation, dump sealing)</i> • <i>Improved forest management</i> • <i>Improved sustainable water supply</i> • <i>Improved waste water management</i>
2	Promotion of sustainable development	<ul style="list-style-type: none"> • <i>Promotion of rural tourism</i> • <i>Geographic information, geodesy, hydrography and geomatics</i>
3	Conservation of the European cultural heritage	<ul style="list-style-type: none"> • <i>Sustainable restoration of buildings and urban areas of cultural heritage value</i> • <i>Construction of cultural infrastructure</i> • <i>Promotion of tourism in areas of cultural heritage value</i> • <i>Urban renewal in areas of cultural heritage value</i> • <i>Improvement of public transportation in areas of cultural heritage value</i>
4	Development of human resource and equal gender opportunities	<ul style="list-style-type: none"> • <i>Establishment of life-long learning centres and training</i> • <i>Social integration</i> • <i>Training courses specific to working areas and for the use of information technology and other new technologies</i>
5	Academic research and development within the priority areas	<ul style="list-style-type: none"> • <i>Academic research and development within the priority areas</i>

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

The parties have agreed on the following possible grant schemes to be further developed for final approval:

- Technical assistance fund to appoint a monitoring agent for the whole period of the EEA Financial Mechanism
- Seed money grant scheme
- Scholarship grant scheme

I. TECHNICAL ASSISTANCE FUND FOR IMPLEMENTATION OF EEA FINANCIAL MECHANISM

A fund will be developed to co-finance expenses related to monitoring project progress, verification of payment claims, verification of the management and control systems of all end beneficiaries/intermediaries and supervision of the production of reports. The management and control systems shall include procedures to verify the authenticity of the expenditure claimed and that the execution of the project is in accordance with the terms of the grant agreement, with the objectives assigned to the project, the eligibility of expenditure for support from the Fund and with applicable national and EU rules related to, in particular, protection of the environment, transport, competition and public procurement.

II. SEED MONEY FUND

A seed money fund will be set up to facilitate the preparation of project applications. The management of that fund may be entrusted to an intermediary such as a consultancy company, appointed through an open call.

III. SCHOLARSHIP PROGRAMME

A scholarship programme will be developed to support cooperation with the EEA EFTA countries in programmes for long or short term training of students, lecturers and experts of secondary school, high school and universities.