

**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 REPUBLIC OF LITHUANIA,
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 Lithuania to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Republic of Lithuania 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 Republic of Lithuania, 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 € 27.000.000 shall be made available to the Republic of Lithuania 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 Republic of Lithuania 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 Lithuania has authorized the Ministry of Finance (Finansų ministerija) 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 Lithuania, including financial control and audit and serve as a contact point. Its managerial setup is contained in Annex A.
6. The Ministry of Finance 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 of the Republic of Lithuania 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 Ministry of Finance 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 Ministry of Finance 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 Ministry of Finance.
 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 Republic of Lithuania shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Republic of Lithuania 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 the Republic of Lithuania'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 Oslo on _____

For the Republic of Lithuania

Signed in Brussels on _____

For the Principality of Liechtenstein

Signed in Brussels on _____

For the Kingdom of Norway,

LITHUANIA'S MANAGERIAL SET-UP FOR THE IMPLEMENTATION OF THE EEA FINANCIAL MECHANISM

A. NATIONAL FOCAL POINT

The Ministry of Finance (Finansų ministerija) shall be the National Focal Point. The implementation of the functions of the National Focal Point within the Ministry of Finance shall be performed by the European Union Programmes Management Department of the Ministry of Finance. The National Focal Point has the overall responsibility for the management of the EEA Financial Mechanism's activities in Lithuania as described in this Memorandum of Understanding (MoU) and the Rules and Procedures adopted by the Financial Mechanism Committee, including the overall responsibility for the use of funds, financial control and audit. In particular, its responsibilities include, but are not limited to, the following:

- to ensure adoption of the necessary national legal documents on the implementation and monitoring of projects;
- to submit project proposals with reasoned opinions to the Financial Mechanism Office (FMO);
- to ensure efficient and correct use of available funds;
- to ensure financial control, complete and sufficient audit trails in all engaged institutions;
- to ensure regular reporting to the FMO on the implementation of projects financed by the EEA Financial Mechanism, as well as to immediately report any irregularities;
- to organise annual meetings with the Financial Mechanism Committee;
- to be responsible for reimbursement of unduly paid amounts to the EEA Financial Mechanism;
- to ensure information and publicity about available funds;
- to store all relevant documents relating to projects implemented within the EEA Financial Mechanism for 10 years after the completion of projects.

Certain tasks would be assigned to the Central Project Management Agency (CPMA), which shall act as an Implementing Body for the EEA Financial Mechanism. CPMA is a public institution established by the Ministry of Finance. The main tasks of the Implementing Body are as follows:

- to call for and collect project applications from project promoters/intermediaries, review compliance with the application procedures and assess technical quality of submitted applications; submit them with assessment reports to the National Focal Point;
- to supervise and control the implementation of projects in accordance with the project implementation agreements concluded between the project promoters/intermediaries, CPMA and National Focal Point, and carry out the necessary controls;
- to check payment claims received from project promoters/intermediaries and verify the authenticity and correctness of submitted documents;

- to certify payment claims and submit certified payment claims to the Financial Mechanism Office;
- to prepare the applications to the State Treasury for paying projects expenditures;
- to report to the National Focal Point on progress of implementation of projects;
- to check for irregularities and report them to the National Focal Point;
- to store all relevant documents relating to projects implemented within the EEA Financial Mechanism for 10 years after the completion of projects.

Auditing arrangements

The National Audit Office of the Republic of Lithuania (Supreme Audit Institution) shall be involved and have the right to carry out audits of projects.

The National Focal Point and CPMA shall ensure the continuous audit of projects as well as spot checks and report to the FMO. In addition, the National Focal Point shall provide the FMO with copies of any audit report that is made by it or CPMA or the National Audit Office of the Republic of Lithuania about projects or other activities related to the EEA Financial Mechanism.

Disbursement arrangements

In order to increase the quality of operations and ensure good business practices, the financial management will be separated from other functions of the National Focal Point. Management of all operations related to financial transactions will be assigned to the State Treasury Department of the Ministry of Finance.

The responsibility of the State Treasury Department of the Ministry of Finance is to:

- manage the accounts on which grants from the EEA Financial Mechanism are kept;
- check the applications for payment prepared by the CPMA;
- ensure that payments are made to beneficiaries as quickly as possible;
- store all relevant documents relating to projects implemented within the EEA Financial Mechanism for 10 years after the completion of projects.

The CPMA will be responsible for checking and certification of the payment claims to the FMO.

The disbursement procedure (see Chart No. 1): Project promoters/intermediaries shall prepare payment claims and submit them to CPMA. They shall be accompanied by all necessary documentary evidence. The CPMA shall check the payment claims, verify the authenticity and correctness of submitted documents, prepare requests for disbursements of project expenditures and submit them to the State Treasury. The State Treasury shall check disbursement requests and shall ensure that payments are made to the project promoters/intermediaries as quickly as possible. After payments are made to project promoters, the CPMA shall submit certified payment claims to the FMO.

The FMO will verify payment claims and progress of projects as it deems necessary. Should the FMO decide to draw upon the services of a monitoring agent to perform such verification, the costs will be deducted from the net amounts referred to in Article 1.9 of the Rules and Procedures.

B. ADDITIONAL IMPLEMENTING STRUCTURES

The Monitoring Committee

The National Focal Point will establish one Monitoring Committee for the EEA Financial Mechanism and the Norwegian Financial Mechanism. The Monitoring Committee is an advisory body to the National Focal Point regarding the selection, management and monitoring of projects. The Monitoring Committee shall:

- give recommendation to the National Focal Point on applications to be submitted to the FMO;
- monitor compliance with the Rules and Procedures;
- review overall progress and financial reports;
- approve the Annual Monitoring Report prepared by the National Focal Point.

The Monitoring Committee shall consist of representatives from:

- the National Focal Point;
- the CPMA;
- relevant line ministries;
- regional and local level government;
- non-governmental institutions, including social and economic partners.

Representatives of the Financial Mechanism Office will be invited as observers.

C. APPLICATION PROCEDURE

The application procedure (see Chart No. 2): Project proposals shall be submitted to the CPMA, which after an initial review of compliance with the application procedures and careful assessment of the technical quality of submitted applications, forwards the applications and assessment reports to the National Focal Point. The National Focal Point shall submit applications to the Monitoring Committee.

Based on the recommendations of the Monitoring Committee and the National Focal Point's confirmation 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, the National Focal Point shall forward the application to the FMO along with its reasoned opinion.

After the approval of applications, a Grant Agreement will be signed between the National Focal Point on behalf of the Republic of Lithuania and the Financial Mechanism Committee. Subsequently, the National Focal Point shall sign a separate Project implementation agreement with the CPMA and the project promoter/intermediary to ensure the correct implementation of the project.

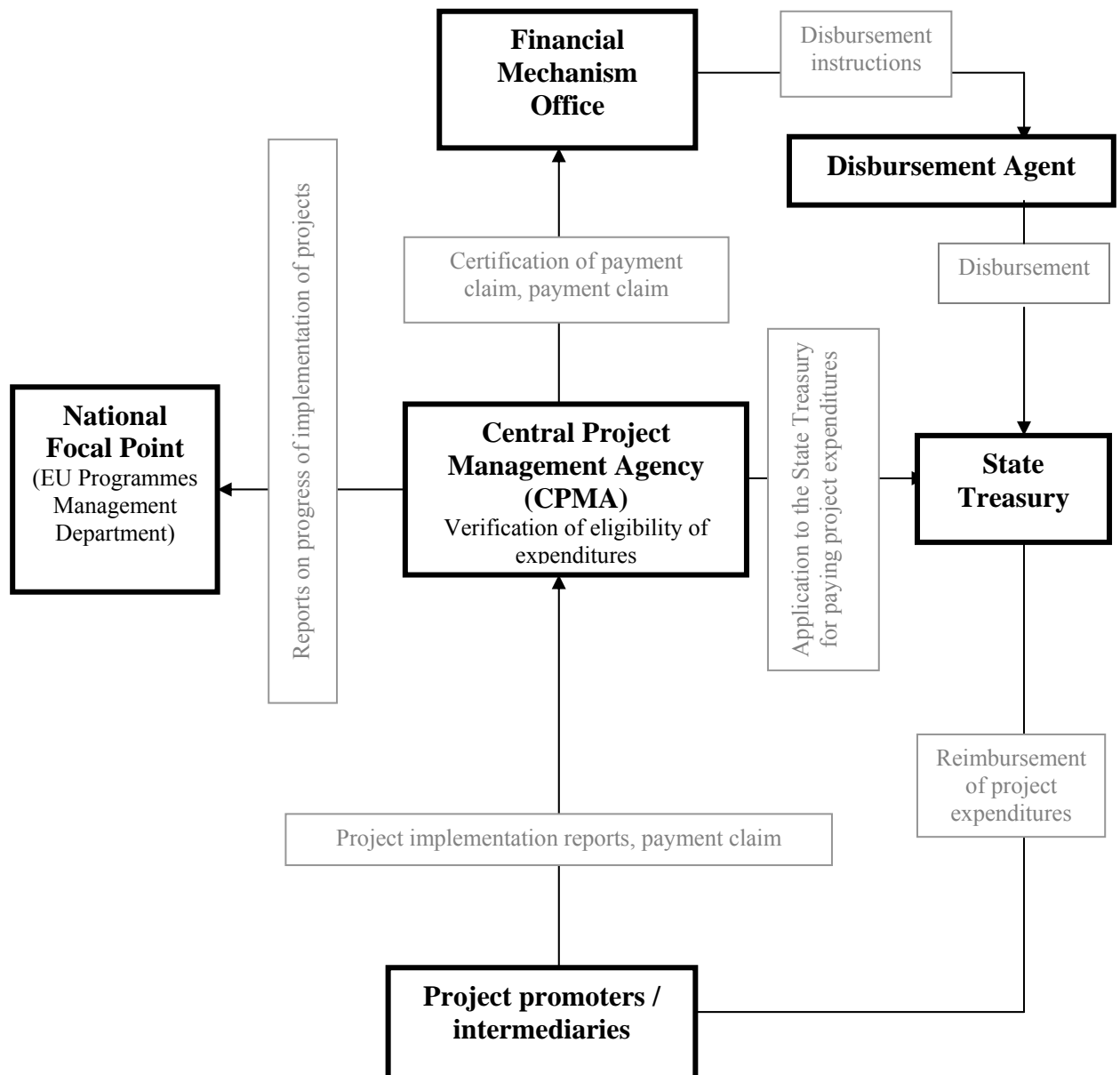
Procurement

Any procurement shall comply with the relevant law applicable in Lithuania.

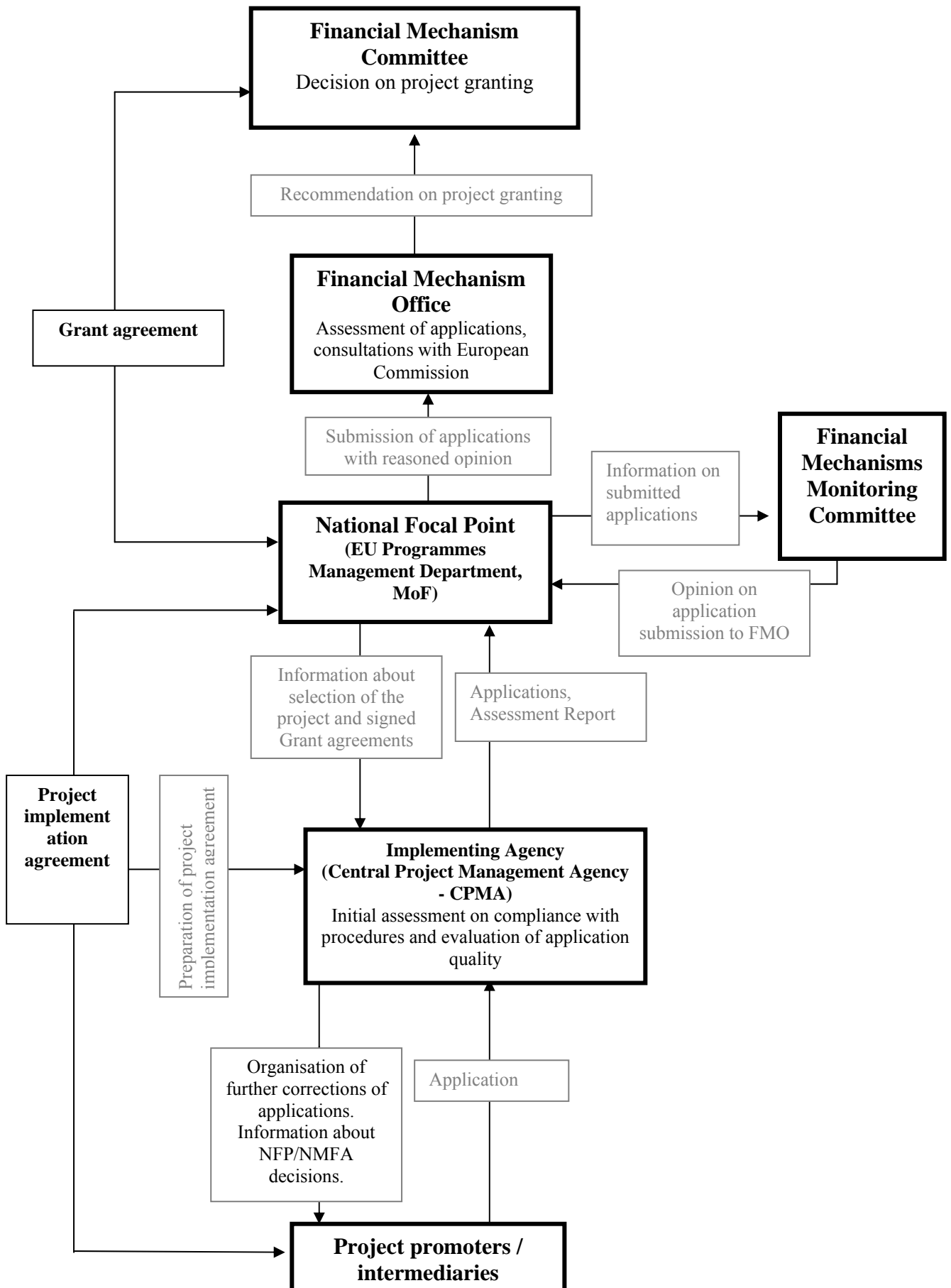
Language

All communication between the EEA Financial Mechanism and Lithuanian institutions shall be in English. Original documents in Lithuanian provided to the EEA Financial Mechanism shall be accompanied by translations into English. Documents that do not need to be sent to the EEA Financial Mechanism can be prepared in Lithuanian.

Disbursement – Chart 1



Submission, appraisal and selection of projects – Chart 2



ANNEX B

The Programming Framework Referred to in Article 7 of the Memorandum of Understanding of 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, including the human environment, through, inter alia, reduction of pollution and promotion of renewable energy	<ul style="list-style-type: none"> • Not a focus area for the financial years 2004-2005. Exceptions are made to the specific forms of assistance referred to in Annex C of the MoU.
2	Promotion of sustainable development through improved resources use and management	<ul style="list-style-type: none"> • Improved sustainable management and surveillance of marine resources, through inter alia introduction of new information technology
3	Conservation of the European cultural heritage including public transport and urban renewal	<ul style="list-style-type: none"> • Conservation and adaptation for cultural and other public needs of cultural heritage buildings with emphasis of Lithuanian manor houses and castles, including teaching of restorers of cultural heritage objects • Restoration and adaptation for cultural and other needs of Lithuanian wooden architecture (historic villages, churches, etc.), including revitalising and teaching of Lithuanian traditional handicrafts (thatchery, carpentry, etc.)
4	Human resource development through, inter alia, promotion of education and training, strengthening of administrative or public service capacities of local government or its institutions and the democratic processes that support it	<ul style="list-style-type: none"> • Education and training, including the study of the EEA EFTA countries' languages • Strengthening administrative and public service capacities of regional and local authorities and their institutions
5	Health and childcare	<ul style="list-style-type: none"> • Improvement of prevention, early diagnostics, and adequate treatment of cancer diseases • Improvement of access and quality of paediatric care (early diagnosis and treatment) and assurance of health services quality control • Prevention and treatment of communicable diseases and improvement of epidemiological surveillance system • Improving the juvenile justice system through improvement of living and educational conditions of juveniles in penitentiary institutions as well as through training of relevant staff • Resocialisation of juveniles released from imprisonment • Renovation of foster care homes for children and training of relevant staff • Informal education for children and youths through after-school and summer activities
6	Research	<ul style="list-style-type: none"> • Research activities within all the eligible areas of the Financial Mechanism

**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:

- Block grants for NGOs for projects relevant to priority areas indicated in Article 6 of the Memorandum of Understanding, and in Annex B;
- Block grants for projects aiming to strengthen the administrative capacities of regional and local authorities;
- Block grants for the management of the EEA Financial Mechanism;
- Seed money.