

**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 CYPRUS,
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 Cyprus to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Republic of Cyprus 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 Cyprus, 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 € 1.260.000 shall be made available to the Republic of Cyprus 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 Cyprus 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 Cyprus has authorized the Planning Bureau 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 Cyprus, including financial control and audit and serve as a contact point. Its managerial setup is contained in Annex A.
6. The Planning Bureau 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 Audit Office of the Republic of Cyprus 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 Planning Bureau 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 Planning Bureau 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 Planning Bureau.
 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 Cyprus shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Republic of Cyprus 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 Cyprus'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.

Signed in Brussels on _____

For the Republic of Iceland

Signed in Brussels on _____

For the Republic of Cyprus

Signed in Brussels on _____

For the Principality of Liechtenstein

Signed in Brussels on _____

For the Kingdom of Norway

**THE REPUBLIC OF CYPRUS'
IMPLEMENTATION SYSTEM – MANAGERIAL SET-UP FOR THE
EEA FINANCIAL MECHANISM**

Annex A describes, in accordance with Article 4 of the MoU, Cyprus's managerial set-up for the implementation of the EEA Financial Mechanism. The system's aim is to satisfy both the principles of openness and transparency as well as requirements for financial control and audit procedures.

A. NATIONAL FOCAL POINT

The Planning Bureau fulfils the tasks of the National Focal Point (NFP). The NFP has the overall responsibility for the management and coordination of the Financial Mechanisms' activities in the Republic of Cyprus as described in this MoU and the Rules and Procedures, including the overall responsibility for the use of funds, financial control and audit. Additionally, its responsibilities include, but are not limited to, the following:

- call for, identify, and select proposals to be forwarded to the Financial Mechanism Office (FMO)
- coordinate implementation and monitoring of projects, programmes and other specific forms of grant assistance
- ensure regular reporting to the FMO on the implementation of projects financed by the EEA Financial Mechanism, as well as immediate reporting on any irregularities
- organise annual meetings with the Financial Mechanism Committee
- ensure information and publicity about available funds and inform the general public about projects implemented under the EEA Financial Mechanism
- ensure that project promoters are fully committed and equipped to successfully implement individual projects, programmes and other specific forms of grant assistance
- ensure storing of all documents connected with projects realised within the EEA Financial Mechanism

In accordance with the Rules and Procedures, the NFP will ensure that financial control and auditing of projects is conducted in compliance with applicable rules. In doing so, the NFP shall in particular 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.

Auditing arranged by the National Focal Point

The Internal Audit Service carries out auditing of approved projects financed from EEA Financial Mechanism as well as spot checks. The Internal Audit Service ensures on the basis of risk analysis that the projects are audited to an adequate extent.

The objective of the activities of the Internal Audit Service is to ascertain that actions carried out are lawful, correct, economical and efficient. The Internal Audit Service is independent from the NFP.

The audit of the Internal Audit Service is independent and separate from the audit of the Audit Office of the Republic of Cyprus, which has the right to conduct its own audit.

The NFP 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 Internal Audit Service, the Audit Office, or any other entity, about the projects or other activities related to the EEA Financial Mechanism.

Functions/Responsibilities

Among duties of the Internal Audit Service in relation to this Financial Mechanism are:

- organising and carrying out of sample audits
- carrying out audits of management systems as well as projects and programmes
- submitting information on irregularities identified to the NFP and the Paying Authority
- providing the NFP with other necessary information related to financial control and audit

Disbursement arrangements

The Treasury of the Republic of Cyprus will be designated as the Paying Authority, managing all operations related to financial transactions. The Treasury will be entrusted with the task of developing, implementing and maintaining the procedures concerning financial management and control. Among duties to be performed by the Paying Authority are:

- open a bank account with the Central Bank of the Republic of Cyprus for the transfer of funds from the EEA Financial Mechanism to the Republic of Cyprus
- ensure payments to promoters/intermediaries of the amounts due through normal national budget procedures
- check payment claims requests submitted by promoters/intermediaries and verify and certify to the EEA Financial Mechanism the authenticity and correctness of submitted documents

- request the transfer of funds from the EEA Financial Mechanism to the designated bank account on the basis of relevant documentation summarising information on actual expenditures incurred during project implementation or, if appropriate, submit requests for advance payments
- ensure reimbursement of unused or unduly paid funds to the EEA Financial Mechanism
- keep accounts on all financial transactions realised in the designated bank account
- keep originals of relevant documents for 10 years after completion of projects

The NFP remains responsible towards the EEA Financial Mechanism for the correct implementation of the disbursements system.

B. ADDITIONAL IMPLEMENTING STRUCTURES

Steering Committee

A Steering Committee will be set up to act as an advisory body to the NFP in the identification, development and selection of proposals.

The Steering Committee shall include representatives of:

- the NFP (Chair)
- relevant line ministries and/or governmental bodies

The NFP will appoint *ad hoc* experts, as required.

The main functions of the Steering Committee are:

- assess eligibility of project proposals in line with the priority areas
- rank eligible project proposals in line with criteria approved by the Monitoring Committee
- make recommendations to the NFP on which projects should be forwarded to the FMO

The Steering Committee will operate in an open and transparent manner.

Monitoring Committee

One Monitoring Committee will be set up by the NFP for both the EEA Financial Mechanism and the Norwegian Financial Mechanism to assist the NFP in the monitoring and the follow-up of projects. The Monitoring Committee will be broad-based, comprised of members from relevant ministries, social and economic partners, actors from civil society and NGOs. The Monitoring Committee will be chaired by the NFP.

The FMO will be invited to participate as an observer. The Monitoring Committee's responsibilities will include, but will not be limited to, the following:

- review the overall progress and approve periodical reports on the use of financial resources
- periodical review of the programmes and project progress
- review and provide recommendations to the NFP on the project selection process
- approval of selection criteria

C. APPLICATION PROCEDURE

Applications for projects (individual projects, programmes, and block grants) will be submitted to the NFP. After initial screening, the applications will be forwarded to the Steering Committee. Based on the recommendations of the Steering Committee, the NFP decides which project applications will be forwarded to the Financial Mechanism Office for approval by the Financial Mechanism Committee.

The estimated timeframe for the review of applications is three months.

The Planning Bureau will, on behalf of the Republic of Cyprus, sign a Grant Agreement with the Financial Mechanism Committee.

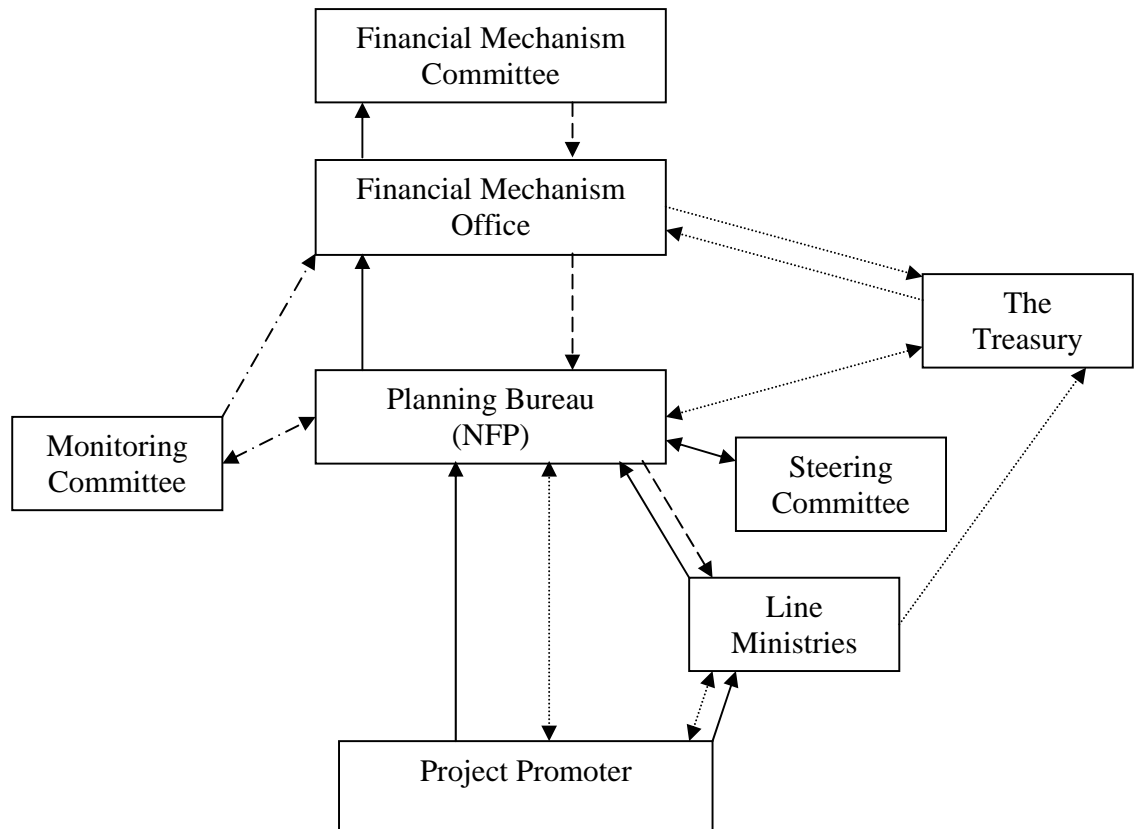
Procurement

Any procurement shall be carried out in accordance with the relevant law applicable in the Republic of Cyprus.

Project Implementation Chart

The managerial setup and the structure of communication between the different entities is provided below.

Project Implementation Chart



- ▶ Project Proposal
- ▶ Accepted Project
- .-.-.-.-▶ Consultation/Information Flows
-▶ Payments and Relevant Documents

**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"> • Integrated pollution prevention and control • Reduction of CO2 emissions • Management of selective solid waste and possible recycling, e.g. of electric and electronic equipment waste
2	Promotion of sustainable development	<ul style="list-style-type: none"> • Promote sustainable natural resources management and efficient use • Sustainable forest management • Implementation of management plans for NATURE 2000 sites
3	Conservation of the European cultural heritage	<ul style="list-style-type: none"> • Conservation, revitalization, renovation of cultural heritage sites and objects • Restoration of village squares
4	Human resource development	<ul style="list-style-type: none"> • Improvement of education, training and lifelong education systems within the public sector and local government • Support social inclusion and dialogue
5	Health and childcare	<ul style="list-style-type: none"> • Reduction of mortality and spread of communicable diseases • Reduction and prevention of lifestyle-related diseases • Improvement of mental health care, focused on youth and children

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

In addition to individual projects and programmes the parties have agreed on the following grant schemes to be developed for final approval according to the application procedures of the Rules and Procedures:

I. NGO FUND

To support non-governmental non-profit organisations operating in the sectors of Health and Childcare, as well as empowerment of young people in the civil society.

II. SCHOLARSHIP PROGRAMME

To address public sector needs in the priority sectors referred to in Article 6 of the MoU, through twinning with institutions in the EEA/EFTA countries.

III. TECHNICAL ASSISTANCE FUND

To set up a Technical Assistance Fund to aid in the implementation of the Financial Mechanisms.