

**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 CZECH REPUBLIC
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 Czech Republic to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Czech Republic 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 “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 Czech Republic, 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 €48.54 million shall be made available to the Czech Republic 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 Czech Republic 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 Czech Republic has authorized the Ministry of Finance 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 Czech Republic, 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.
7. The Beneficiary State shall be responsible for the financial control and audit of approved projects. The Supreme Audit Office carries out the independent control activities.
8. As a general rule and based on the nature of the project, the gathering of applications shall be carried out by open calls for proposals.
9. 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 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 Czech Republic shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Czech Republic 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 Czech Republic'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.

Done in Brussels on 2 December 2004,

For the Republic of Iceland

For the Czech Republic

For the Principality of Liechtenstein

For the Kingdom of Norway

ANNEX A

THE CZECH REPUBLIC MANAGERIAL SET-UP FOR THE IMPLEMENTATION OF THE EEA AND NORWEGIAN FINANCIAL MECHANISMS

1. THE NATIONAL FOCAL POINT (NFP) – THE MINISTRY OF FINANCE

In accordance with **Government Resolution No. 242**, of March 17, 2004, the **Ministry of Finance will act as the National Focal Point (NFP)** for the EEA/Norwegian Financial Mechanisms.

As the National Focal Point, the Ministry of Finance has the overall responsibility for managing the activities of the EEA/Norwegian Financial Mechanisms in the Czech Republic in accordance with this Memorandum of Understanding and the Rules and Procedures. The NFP will:

- have overall responsibility for reaching the Financial Mechanisms' objectives and the use of funds, financial control and audit,
- collect project proposals and submit them with justified opinion to the Financial Mechanism Office (FMO),
- manage financial flows and proof of expenditures according to Grant Agreements,
- draw up annual reports for submission to the FMO,
- ensure complete and sufficient audit trails in relevant institutions,
- ensure information and publicity on availability of funds.

The roles of the National Focal Point and the Monitoring Committee are described below and will also be elaborated in the Grant Agreements between the Financial Mechanisms and the National Focal Point.

2. DIVISION OF RESPONSIBILITIES

The administrative structure is based on the structure set up for previous EU programmes (Phare / Transition Facility) as well as the Cohesion and the Structural Funds. It is made up of the following bodies:

- **The Centre for Foreign Assistance (CFA)**, which is the executive body of the National Aid Coordinator (NAC). It is set up under the direction of the Deputy Minister of Finance, who is responsible for international relations as well as for the coordination, preparation and monitoring of the implementation of foreign assistance.
- **The Monitoring Committee (MC)**, which will assist the National Focal Point in the selection and management of projects. The Minister of Finance will appoint the members of the Monitoring Committee on the basis of proposals from the relevant Ministers or Heads of Institutions.
- **The National Fund (NF)**, which is the executive body of the National Authorising Officer (NAO). It is set up under the direction of the 1st Deputy Minister of Finance, who is responsible for the state budget.
- **The Central Finance and Contracts Unit (CFCU)**, which is an independent unit directly subordinate to the Deputy Minister of Finance. The CFCU is the

implementing agency of the centrally administered projects and is responsible for payments to the intermediary bodies and appropriate final beneficiaries. For payments the CFCU is directly accountable to the NAO.

- **The National Control Authority, the Central Harmonisation Unit for Financial Control**, which is directly subordinate to the Minister of Finance.

2.1 ADMINISTRATION – PROJECT SELECTION – MONITORING

THE CENTRE FOR FOREIGN ASSISTANCE (CFA) THE UNIT FOR COORDINATION OF FOREIGN ASSISTANCE (UCFA)

The Unit will be responsible for the overall administration, coordination and the use of funds from the Financial Mechanisms. It will:

- a) handle the administration of the National Focal Point (NFP)
- b) prepare all key documents required by the FMO in cooperation with the Ministry of Foreign Affairs and other entities
- c) serve as a secretariat for the Financial Mechanisms Joint Annual Meeting (AM) with the Focal Point and prepare Annual Monitoring Reports
- d) serve as a secretariat of the Monitoring Committee (MC)
- e) prepare proposals of the priority areas and present them to the FMO for approval
- f) provide an assessment of project proposals, submitted by the intermediary bodies, to the MC
- g) submit approved project proposals to the FMO
- h) ensure overall coordination and complementarities of the Financial Mechanisms with EU funds, in cooperation with other relevant national authorities and bodies
- i) prepare detailed rules for the preparation, selection, implementation, co-financing, monitoring and evaluation of projects financed by the Financial Mechanisms
- j) assist in the preparation of the Grant Agreements
- k) ensure regular monitoring of projects and prepare monitoring reports
- l) ensure the overall publicity of the Financial Mechanisms
- m) keep originals of relevant documents for 10 years after completion of projects

MONITORING COMMITTEE (MC)

The Committee will assist the National Focal Point in the selection and management of projects. It will:

- recommend project proposals to the National Focal Point for submission 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 Minister of Finance will appoint the members of the Monitoring Committee on the basis of proposals from the relevant Ministers or Heads of Institutions. They will represent ministries, public administration offices, Social Partners, the non-governmental sector, regional and local government and other relevant bodies.

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

2.2. FINANCIAL FLOWS

DEPARTMENT – NATIONAL FUND (NF)

The NF is the central body responsible for transferring funds between the Czech Republic and the FMO. It will:

- a) open bank accounts in the Czech National Bank for the transfer of funds from the Financial Mechanisms to the Czech Republic
- b) request the transfer of funds from the Financial Mechanisms to the NF bank account on the basis of the relevant documentation summarising information on actual expenditures incurred during projects implementation or, if appropriate, submit requests for advance payments
- c) transfer funds to the bank accounts of the Ministry of Finance administered by the CFCU on the basis of the CFCU request. The request must be supported by documents on payments executed or, if appropriate, by requests for advance payments submitted by intermediary bodies and/or final beneficiaries
- d) ensure reimbursement of unused or unduly paid funds to the Financial Mechanisms
- e) set and adjust the methodology governing financial flows from the EEA/Norwegian Financial Mechanisms
- f) conduct accounting in the NF information system on all financial transactions realised on the accounts of the Ministry of Finance, which were opened for funds from the EEA/Norwegian Financial Mechanisms
- g) keep originals of relevant documents for 10 years after completion of projects

INDEPENDENT UNIT - THE CENTRAL FINANCE AND CONTRACTS UNIT (CFCU)

The Unit is responsible for payments to the intermediary bodies / final beneficiaries and the preparation of related contracts. It will:

- a) ensure conclusion of contracts with Intermediary Bodies or final beneficiaries
- b) check the factual and formal correctness of requests for payment submitted by Intermediary bodies / final beneficiaries
- c) ensure payments to Intermediary bodies or final beneficiaries within 10 days from approval of all the necessary documents by the NFP (CFA – UCFA)
- d) conduct accounting in the NF information system, including relevant information on accounts, requests, payments and reimbursements, on all financial transactions realised on the accounts of the Ministry of Finance, which were opened for funds from the EEA/Norwegian Financial Mechanisms and which are administered by the CFCU

- e) prepare and submit regular reports to the NF in the required format as a basis of the request for the transfer of funds to the NF and CFCU
- f) manage the register of irregularities and its update as well as report irregularities to Central Harmonisation Unit for Financial control and NF
- g) settle irregularities in its scope of function in accordance with the relevant regulations and instructions
- h) prepare background documentation for the Annual Monitoring Report
- i) keep originals of relevant documents 10 years after completion of projects

2.3. FINANCIAL CONTROL – AUDIT¹

DEPARTMENT – CENTRAL HARMONISATION UNIT FOR FINANCIAL CONTROL (CHU)

The CHU is the department of the Ministry of Finance authorised to execute functions of the central administrative body for financial control in line with Act No. 320/2001 Coll., on financial control. Its tasks are to:

- a) methodically manage and coordinate the execution of financial control of the entire implementation structure
- b) cooperate with financial control and internal audit departments at all levels and provide consultancy and training during implementation of the EEA/Norwegian Financial Mechanisms
- c) prepare the plan of control activities on the basis of the plans proposed by the control units of the central administrative bodies for the given period and inform the FMO on its fulfilment
- d) execute audit of the system of control in order to guarantee observation of international standards of financial control
- e) prepare a report on controls of utilisation of funds from the EEA/Norwegian Financial Mechanisms on the basis of annual report on outcomes of financial controls, which are submitted to CHU by control units of the central administrative bodies within the given deadline. This report will be annexed to the Annual Monitoring Report
- f) inform the State Prosecution Office (copy to NFP and NF) in cases of significant irregularity and breach of *Rules and Procedures* and other related rules
- g) cooperate on controls and internal audits managed by the FMO, the EEA Financial Mechanism Committee, the Norwegian MFA, the EFTA Board of Auditors and the Office of the Norwegian Auditor General and provide all necessary information to the above mentioned bodies
- h) archive originals of relevant documents for 10 years after completion of projects

In addition, central bodies and regional self-government bodies at the level of “kraj” and municipality have been obliged by law to set up a system of management control and a functionally independent system of internal audit. At the Ministry of Finance the function of the internal audit is provided by Department 56 – Internal Audit.

¹ The control and audit will be executed in accordance with the provisions of Act No. 320/2001 Coll., on financial control within public administration and on changes of some acts as amended and Act No. 420/2004 Coll. on the audit of economic activities of territorial self-governing units and voluntary alliances.

The Supreme Audit Office executes independent control according to the relevant provisions of the Act No. 166/1993 Coll. on the Supreme Audit Office. The Focal Point will provide the FMO with copies of any reports the Supreme Audit Office makes with regard to the Financial Mechanisms.

3. INTERMEDIARY BODIES

On the basis of an agreement with the Financial Mechanism Office, the NFP will delegate some responsibilities of project preparation and implementation to Intermediary Bodies (relevant ministries, regional governments, relevant organisations of public administration and other agreed bodies). The Intermediary Body will ensure all activities related to these responsibilities including project co-financing. Their detailed responsibility will be defined in the Agreement or Memorandum of Understanding between the Intermediary Body and the Ministry of Finance – NFP (CFA – Unit for Coordination of Foreign Assistance).

ANNEX B

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

	PRIORITY AREA	FOCUS AREAS
1	Conservation of the European cultural heritage	<ul style="list-style-type: none">• Protection and renewal of immovable cultural heritage• Improvement of care and protection of movable cultural heritage• Renewal of urban areas and historical parts in regions
2	Protection of the environment	<ul style="list-style-type: none">• Monitoring systems in regions and systems to follow up results of monitoring• Environmental education on all levels of state administration• Waste treatment and management at municipal level• Reduction of greenhouse gases in Czech Republic• Reduce the loss of biodiversity and preserve untouched natural habitats• Support of public transport safety measures
3	Human resource development	<ul style="list-style-type: none">• Modernisation and equipment crèches, nursery schools, schools, special school – education centres, orphanages
4	Health and childcare	<ul style="list-style-type: none">• Systematic and primary prevention of drug abuse• Prevention of communicable diseases• Food safety measures• Programmes to support children with specific problems
5	Promotion of sustainable development	<ul style="list-style-type: none">• Assistance with enforcing and implementation of Strategy on Sustainable Development on local and regional level
6	Academic research and development	<ul style="list-style-type: none">• Academic research and development within the above-mentioned areas, in particular environment, health and children's living conditions

ANNEX C

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

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

I. NGO FUND

NGO fund will support non-governmental, non-profit organisations that promote issues in the public interest. It could support the strengthening of NGOs as an active partner in the public debate and the involvement of NGOs in areas related to Annex B as well as the decision making process of projects. Special attention will be given to the development and compliance of environmental standards and activities with a view to foster sustainable development in all areas defined in Annex B.

Other target areas are strengthening the multicultural environment in local communities, the protection of human rights and anti-discrimination efforts as well as support to children and youth with specific problems.

II. TECHNICAL ASSISTANCE FUND

The fund will support co-operation and transfer of knowledge between Czech subjects and subjects in the EEA EFTA States especially on exchange of experience in area of co-operation with EU on adoption of relevant legislation in areas stated in the Annex B.

The co-operation will be enabled on all administrative levels (state administrative, regional and local self-government), state institutions, universities and schools, professional chambers and unions and non-governmental non-profit organisations.

III. FUND FOR SUPPORT OF CO-OPERATION AMONG SCHOOLS/SCHOLARSHIPS

A Grant scheme will be developed to support cooperation, programmes for training courses of students, lecturers and experts of secondary, high school and universities between the relevant institutions in Czech Republic and the EEA EFTA States in key areas defined in Annex B.

IV. RESEARCH FUND

The fund will support activities in key areas defined in Annex B with respect to the *National policy of research and development of the Czech Republic for the period 2004 – 2008*.

The activities will focus on cooperation of Research institutions with institutions in the EEA EFTA States and transfer of experience of these countries focusing on improvement of innovation effect of available funds in key areas defined in Annex B.

V. SEED MONEY FUND

The fund will focus on technical assistance in the development of project applications, which will be presented for co-financing from the Financial Mechanisms particularly within target areas environment, sustainable development and cultural heritages.

Activities could include organising joint seminars, information campaign, preparation of publications and studies, etc.