MEMORANDUM OF UNDERSTANDING

between

THE KINGDOM OF NORWAY,
hereinafter referred to as “Norway”

and

THE REPUBLIC OF ESTONIA,
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 the Agreement of 14 October 2003 between the Kingdom of Norway and the European Community on a Norwegian Financial Mechanism for the period 2004-2009 (hereinafter referred to as the Agreement), establishes a financial mechanism through which Norway will contribute to the reduction of economic and social disparities in the European Economic Area (hereinafter referred to as the “Norwegian Financial Mechanism”);

WHEREAS the EEA Enlargement Agreement and the Norwegian Financial Mechanism will strengthen relations between Norway and the Republic of Estonia to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between Norway and the Republic of Estonia 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 Norwegian 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 the Norwegian Financial Mechanism Agreement, Norway has established the Norwegian 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 projects for funding, which contribute to the achievement of that objective.

Article 2

(Legal Framework)

This MoU between Norway and the Republic of Estonia, shall be read in conjunction with and be subject to the conditions in the following documents, which constitute the legal framework of the Norwegian Financial Mechanism.

- The Agreement of 14.10.2003 between the Kingdom of Norway and the European Community on a Norwegian Financial Mechanism for the period 2004-2009 (hereinafter referred to as the “Agreement”),

- The Rules and Procedures for the implementation of the Norwegian Financial Mechanism (hereinafter referred to as the “Rules and Procedures”) and subsequent amendments thereof. The Rules and Procedures are adopted by Norway in accordance with Article 8 of the Norwegian Financial Mechanism Agreement,

- The Grant Agreements, which will be concluded between Norway and the Beneficiary State for each project.

Article 3

(Financial Framework)

1. In accordance with Article 2 of the Agreement, Norway shall make available EUR 567 million for the Norwegian Financial Mechanism in annual tranches of € 113,4 million over the period running from 1 May 2004 to 30 April 2009, inclusive.

2. In accordance with Article 5 of the Agreement, a total of € 22.680.000 shall be made available to the Republic of Estonia over the period referred to in Paragraph 1.

3. In accordance with Article 8 of the Agreement, the management costs of the Norwegian 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 the Agreement, 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. Norway shall make funds available in support of eligible projects proposed by the Republic of Estonia and agreed by the Norwegian 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, which benefit from support from the Norwegian Financial Mechanism.

3. The Norwegian Ministry of Foreign Affairs shall manage the Norwegian Financial Mechanism. Decisions on the granting of financial assistance from the Norwegian Financial Mechanism shall be taken by the Norwegian Ministry of Foreign Affairs.

4. The Norwegian Ministry of Foreign Affairs shall be assisted by the “Office for the EEA Financial Mechanism and the Norwegian Financial Mechanism, (hereinafter referred to as the “FMO”). The FMO shall be responsible for the day-to-day operations of the EEA Financial Mechanism and the Norwegian Financial Mechanism, and shall serve as a contact point.

5. The Republic of Estonia has authorized the Ministry of Finance to act on its behalf as its national focal point. It shall have the overall responsibility for the management of the Norwegian Financial Mechanism’s activities in the Republic of Estonia, including the overall responsibility for 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 the use of funds under the Norwegian 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 State Audit Office 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 Norwegian Financial Mechanism, the Parties agree to hold annual meetings between the Norwegian Ministry of Foreign Affairs 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 Norwegian 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. Minutes of the discussions in the meeting 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 the Agreement, grants shall be available for projects in the same sectors as under the EEA Financial Mechanism as well as in the areas of:

- Implementation of Schengen acquis, support of National Schengen Action Plans as well as strengthening the judiciary,
- Environment, i. a. with emphasis on strengthening the administrative capacity to implement relevant acquis and investments in infrastructure and technology with priority given to municipal waste management,
- Regional policy and cross-border activities,
- Technical assistance relating to implementation of acquis communautaire.

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 Norwegian Financial Mechanism funding and without prejudice to Article 6 above, particular attention will be given to the fields of intervention outlined in the programming framework listed 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 Norwegian Ministry of Foreign Affairs, the Office of the Auditor General of Norway 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 the funds. The Republic of Estonia shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Republic of Estonia and the FMO shall closely coordinate the use of the Norwegian Financial Mechanism with the use of the EEA Financial Mechanism. All projects submitted to the mechanisms shall be consistent with the Republic of Estonia’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 Norwegian Financial Mechanism and subsequent amendments thereof.

2. The Parties agree to apply the highest degree of transparency and accountability in the implementation of the Norwegian Financial Mechanism, as well as objectives and principles of good governance, sustainable development and gender equality.
Article 12

(Entry into Force)

The Parties shall notify each other, through diplomatic channels, of the completion of internal procedures necessary for bringing this MoU into force.

This MoU shall enter into force on the day following the receipt of the last notification.

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

Done in Tallinn on 17 November 2004,

For the Kingdom of Norway For the Republic of Estonia
Estonia’s Managerial Set-up for the Implementation of the Norwegian Financial Mechanism

Annex A describes Estonia’s managerial set-up for the implementation of the Norwegian Financial Mechanism. The overview consists of a description of the National Focal Point (NFP) and Intermediate Bodies and of the project selection and payment process.

I. Bodies Implementing the Mechanism

A. National Focal Point

The National Focal Point (NFP) of the Norwegian Financial Mechanism is the Ministry of Finance. The National Focal Point has the overall responsibility for the management of the Norwegian Financial Mechanism’s activities in the Republic of Estonia in accordance with the Rules and Procedures, including overall responsibility for the use of funds, financial control and auditing.

The functions of the NFP are divided between different departments of the Ministry:

- the State Budget Department is responsible for programming;
- the Foreign Financing Department is the co-ordinating, implementing and monitoring unit and contact partner of the Financial Mechanism Office (FMO);
- the European Union Payments Department and State Treasury Department are responsible for payments;
- the Financial Control Department is responsible for financial control and auditing.

The State Budget Department’s programming responsibilities are, among others, to:

- call for, collect, identify and select proposals to be forwarded to the Norwegian Financial Mechanism;
- set up and negotiate priorities in Estonia;
- prepare the programming framework;
- review and adjust the programming framework, where necessary.

The Foreign Financing Department’s co-ordination and implementation responsibilities are, among others, to:

- enter into Grant Agreements with the Norwegian Ministry of Foreign Affairs for approved proposals, and conclude an agreement with the Project Promoter;
- ensure implementation and monitoring of projects, programmes and other specific forms of grant assistance;
- ensure regular reporting to the Financial Mechanism Office (FMO) on the implementation of projects financed by the Norwegian Financial Mechanism;
- ensure a complete and sufficient audit path in all engaged institutions;
- ensure information and publicity about available funds;
• ensure that Project Promoters are fully committed and equipped to successfully implement projects, programmes and other specific forms of grant assistance;
• store all documents relating to projects realised within the Norwegian Financial Mechanism.

The Financial Control Department’s financial control and auditing responsibilities are, among others, to:
• organise the auditing of the management and control systems of the administration and execute project audits on a sample basis, independently from the State Audit Office;
• present to the FMO the annual audit plan once a year. The annual audit plan is based on the Strategic Audit Plan and the results of risk assessment. The annual audit plan indicates the areas or objects subject to auditing;
• compile and submit to the FMO a report summarising the outcome of audits conducted over the reporting period, in particular any irregularities detected;
• report found and suspected cases of fraud and irregularity as well as all measures related thereto, taken by competent authorities, to the FMO without delay.

The European Union Payments Department and State Treasury Department jointly function as the Paying Authority. Their payment responsibilities are, among others, to:
• receive requests for disbursements from Programme, Block Grant and Seed Money Intermediaries, or final beneficiaries, where appropriate;
• check requests and verify the authenticity and correctness of submitted documents;
• verify the co-financing amounts allocated to projects;
• submit requests for disbursements to the FMO. Accompany requests with all the necessary documentary evidence demonstrating fulfilment of the conditions for each disbursement;
• receive funds from the FMO (from its designated Disbursement Agent);
• ensure pre-financing of projects from the state budget in case of need;
• maintain necessary documentation and audit trail of payments;
• hold a register of irregularities related to the Norwegian Financial Mechanism;
• reimburse unduly paid amounts to the FMO;
• hold a bank account to which the funds will be allocated by the Disbursement Agent;
• manage the bank account and make the necessary transactions via an electronic payment system;
• conduct accounting on all financial transactions realised.

B. MONITORING COMMITTEE

The Monitoring Committee is an advisory body to the NFP regarding the identification, development, selection and management of proposals.
The Ministry of Finance will appoint the members of the Monitoring Committee. The appointment of representatives of line ministries and governmental bodies will be made on the basis of proposals from the relevant ministries.

The Monitoring Committee shall include representatives of:
- the National Focal Point;
- relevant line ministries or governmental bodies;
- social and economic partners;
- regional and local level government;
- NGOs.

The Monitoring Committee is to, among other tasks:
- give an opinion and make recommendations to the Focal Point on the selection of projects;
- monitor compliance with the Rules and Procedures;
- review overall progress and financial reports;
- approve the Annual Monitoring Report prepared by the National Focal Point.

In order to properly evaluate project applications, the NFP may create steering committees and working groups and make use of the services of individual experts or other institutions.

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

C. INTERMEDIATE BODIES

On the basis of an agreement with the FMO, the NFP may delegate some tasks of project preparation and implementation to Intermediate Bodies (relevant ministries, regional governments, relevant organisations of public administration and other agreed bodies). Their tasks and responsibilities will be defined in detail in the legal act, agreement or memorandum of understanding between the Intermediate Body and the Ministry of Finance.

II. IMPLEMENTATION OF PROJECTS

A. INDIVIDUAL PROJECTS

Individual projects shall be implemented by a Promoter, which shall be a ministry or other legal entity with strong ties either with the sector concerned or the geographical area in which the project is to be implemented.

In the case where a ministry submits an individual project, the ministry will be considered as the Promoter.

Selection process

The Promoter of individual projects submits its complete application to the NFP (prior to which the Promoter may submit a project outline to the FMO via the NFP. In such a case, the FMO conducts preliminary assessment and may provide guidance...
to the Beneficiary State.). The NFP submits approved projects to the FMO with its reasoned opinion. The FMO organises the appraisal of projects and consults the European Commission. The FMO submits its reasoned recommendation for decision to the Norwegian Ministry of Foreign Affairs, which decides on whether the grant application is to be approved or not. If the application is approved, the Norwegian Ministry of Foreign Affairs sends a grant offer letter to the NFP. A Grant Agreement is then signed between the Norwegian Ministry of Foreign Affairs and the NFP on behalf of the Beneficiary State. The NFP organises the signing of an agreement with the Project Promoter.

Payment process within the Beneficiary State
Payments will be effected electronically from an account in the National Focal Point (under the supervision of the EU Payments Department). Payments will be conducted according to requests and invoices received from the Intermediate Bodies or Project Promoters, where appropriate. The state reserve will be used to pre-finance projects. After the allocation of funds from the Norwegian Financial Mechanism, the funds borrowed from the state budget will be returned.

B. PROGRAMMES (GROUPS OF PROJECTS)
Programmes shall be implemented by a Programme Intermediary, which shall be a ministry or other legal entity with strong ties either with the sector concerned or the geographical area in which the programme is to be implemented.

Selection process
The Programme Intermediary, together with partners, produces an application with information on the administrative set-up of the programme, including the selection criteria and procedures, and submits it to the NFP (As with Individual Projects, the Programme Intermediary can submit a programme outline to the FMO via the NFP for consultation and guidance.). The NFP drafts its opinion on the programme and submits it to the FMO. The FMO organises an appraisal of the programme and implementation arrangements and submits its reasoned recommendation for decision to the Norwegian Ministry of Foreign Affairs, which decides on whether or not the programme application is to be approved. If the application is approved, the Norwegian Ministry of Foreign Affairs sends a grant offer letter to the NFP. A Grant Agreement is then signed between the Norwegian Ministry of Foreign Affairs and the NFP on behalf of the Beneficiary State. The NFP organises the signing of an agreement with the Programme Intermediary. The Programme Intermediary appraises the component projects and makes recommendations to the programme partnership. The Programme Intermediary and the partnership approve the component projects.

Payment process within the Beneficiary State
Payments will be effected electronically from an account in the National Focal Point. As this account will be under the supervision of the EU Payments Department, all payments will have to be electronically accepted by the EU Payments Department and the State Treasury Department. Payments will be conducted according to requests received (accompanied by invoices) from Intermediate Bodies or Programme Intermediaries, where appropriate. The state reserve will be used to pre-finance projects. After the allocation of funds from the Norwegian Financial Mechanism, the funds borrowed from the state budget will be returned.
C. BLOCK GRANTS

Block grants shall be implemented by a Block Grant Intermediary, which shall be an independent legal entity with strong ties either with the sector concerned or the geographical area in which the block grant is to be implemented. In order to start implementing a block grant, the relevant ministry signs a management agreement with a Block Grant Intermediary delegating its functions to the latter. The management agreement has to be approved by the NFP before it enters into force.

Selection process

The Block Grant Intermediary submits a block grant application, which includes implementation arrangements and selection criteria to the NFP (As with individual projects, the Block Grant Intermediary can submit a block grant outline to the FMO via the NFP for consultation and guidance). The NFP submits approved applications to the FMO along with its reasoned opinion. The FMO organises the appraisal of the block grant and implementation arrangements and submits its reasoned recommendation for decision to the Norwegian Ministry of Foreign Affairs, which decides on whether the block grant application is to be approved or not. If the application is approved, the Norwegian Ministry of Foreign Affairs sends a grant offer letter to the NFP. A Grant Agreement is then signed between the Norwegian Ministry of Foreign Affairs and the NFP on behalf of the Beneficiary State. The NFP organises the signing of an agreement with the Block Grant Intermediary. The Block Grant Intermediary organises calls for grant applications and conducts assessment. The Block Grant Intermediary approves grant applications.

Payment process within the Beneficiary State

Payments will be effected electronically from an account in the National Focal Point. As this account will be under the supervision of the EU Payments Department, all payments will have to be electronically accepted by the EU Payments Department and the State Treasury Department. Payments will be made according to requests received (accompanied by invoices) from Intermediate Bodies or Block Grant Intermediaries, where appropriate. The state reserve will be used to pre-finance projects. After the allocation of funds from the Norwegian Financial Mechanism, the funds borrowed from the state budget will be returned.

III. PROGRAMMING FRAMEWORK

According to Article 7 of the MoU, the programming framework that is specified in Annex B outlines the national fields of intervention of the Norwegian Financial Mechanism. The programming framework will be annually reviewed in order to guarantee the most effective use of funds from the Norwegian Financial Mechanism. The annual review process will involve evaluation of the implementation process and, if necessary, inter-ministerial consultations for negotiating changes in the programming framework.

During the implementation phase, the Cabinet of Ministers will periodically receive an overview of the state of implementation of the Norwegian Financial Mechanism from the National Focal Point.
IV. INFORMATION SYSTEM
A Structural Funds Information System shall be developed and specific technical options that will enable it to enter project information into the system will be added.

The main functions of the information system shall be to:
- avoid overlaps between the Norwegian Financial Mechanism and other European Union funded programmes;
- facilitate the aggregation of monitoring reports;
- facilitate the checking of pre-set indicators;
- facilitate the use of different statistical data.
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. The Norwegian Financial Mechanism also aims to strengthen the bilateral relations between Estonia and Norway.

<table>
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<th>PRIORITY AREA</th>
<th>FOCUS AREAS</th>
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| Protection of the environment, including the human environment, through, inter alia, reduction of pollution and promotion of renewable energy | - Promotion of energy efficiency, including energy auditing in buildings  
- Development of monitoring systems for ground water and air pollution  
- Reduction of greenhouse gases in Estonia  
- Development and implementation of waste assembling and recycling systems |
| Promotion of sustainable development through improved resources use and management | - Enhancement of biodiversity preservation in NATURA areas |
| Conservation of European cultural heritage including public transport and urban renewal | - Preservation and possible utilisation of architectural heritage in Estonia in particular support to the multifunctional use of historical manor buildings (schools) |
| 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 | - Increasing the competence and administrative capacity of regional and local authorities, including through the use of information technology  
- Increasing the competence and administrative capacity of NGOs to enable them to be better involved in national and EU policy-making processes  
- Supporting social integration |
| Health and childcare | - Prevention and improved treatment of communicable diseases (HIV/AIDS and TB), including increasing preparedness for bioterrorism and epidemics  
- Improvement of the learning and development environment for children with special needs  
- Development and implementation of new facilities to increase the availability of social activities, including sports, in the less developed regions |
| Implementation of Schengen Acquis and the Judiciary | - Strengthening of the court and prison system  
- Development of systems for safeguarding and exchange of confidential and classified information with EU and NATO states and organisations |
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<th>7</th>
<th>Regional policy and cross-border activities</th>
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<tr>
<td></td>
<td>• Strengthening police co-operation and competence transfer in Schengen-related issues between Estonia and Norway</td>
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<td>• Combating organised crime in the area of trafficking in human beings</td>
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<td>• Strengthening competence and administrative capacity of regional and local authorities to support regional development</td>
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<td>• Support of bilateral co-operation between Estonian and Norwegian local governments, local government associations, county governments, enterprises (only internships and scholarships) as well as co-operation projects within the priority areas of the agreement</td>
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<td>• Increasing co-operation between local authorities and development of common services</td>
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<td>• Supporting small scale projects in the field of local economic development and diversification of employment opportunities</td>
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<td>• Innovative models for large infrastructure investment projects, including development of public-private partnership (local, regional and national level)</td>
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<td>• Cross-border co-operation in the areas outlined in 1-7</td>
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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.

1. NGO fund

A fund for non-governmental non-profit organisations operating in the areas outlined in Annex B, in particular in priority area 4, i.e., human resources.

2. Technical assistance and cross-border co-operation fund

The fund will support co-operation and transfer of knowledge (including scholarships and training) between Estonian subjects and subjects in Norway in the areas outlined in Annex B.

3. Seed money facility

The fund will increase the possibility to develop qualified project applications.