

**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 LATVIA,
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 Latvia to the mutual benefit of their peoples;

WHEREAS the enhanced co-operation between the EFTA States and the Republic of Latvia 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 Latvia, 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 €19.740.000 shall be made available to the Republic of Latvia 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 Latvia 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 Latvia 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 Republic of Latvia, 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 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 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 Latvia shall provide all necessary assistance, information and documentation.

Article 10

(Coordination)

The Republic of Latvia 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 Latvia'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 Republic of Latvia

For the Principality of Liechtenstein

For the Kingdom of Norway

Managerial set-up for the implementation of the EEA Financial Mechanism

IMPLEMENTATION SYSTEM

The EEA Financial Mechanism Committee manages the EEA Financial Mechanism and decides on the granting of assistance.

The Financial Mechanism Office (FMO) is responsible for the day-to-day implementation of the EEA Financial Mechanism and serves as a contact point.

A. NATIONAL FOCAL POINT

The Ministry of Finance performs the function of National Focal Point (NFP). The NFP has the overall responsibility for the management of the EEA Financial Mechanism's activities in the Republic of Latvia, as described in this Memorandum of Understanding (MoU) and the Rules and Procedures adopted by the Financial Mechanism Committee, including overall responsibility for the use of funds, financial control and audit. In particular, its responsibilities include but are not limited to the following:

- ensure adoption of the necessary national legal documents on the implementation and monitoring of projects;
- ensure appropriate management and implementation of realised projects;
- collect project proposals and submit them with its reasoned opinion to the Financial Mechanism Office (FMO);
- chair the Monitoring Committee and the Steering Committee;
- ensure efficient and correct use of available funds;
- ensure complete and sufficient audit path in all engaged institutions;
- ensure information and publicity about available funds;
- ensure regular reporting to the FMO on implementation of projects financed by the EEA Financial Mechanism,¹ as well as to immediately report any irregularities;
- store all documents relating to projects realized within the Financial Mechanism.

The role of the NFP is to be further elaborated in the Grant Agreements between the EEA Financial Mechanism and the Beneficiary State.

Certain tasks of the NFP are entrusted (in form of agreement) with the Central Finance and Contracting Agency (CFCA). The CFCA is a state agency under the supervision of the Ministry of Finance. Its main functions are to:

- conclude agreements with the beneficiaries on project implementation;

¹ Latvia will describe the monitoring and reporting system in more detail when relevant guidelines have been finalised by the Financial Mechanism.

- supervise and control the implementation of projects in accordance with the agreements concluded with the beneficiaries and carry out the necessary controls;
- check requests for reimbursement and verify the authenticity and correctness of submitted documents;
- prepare expenditure declarations and submit them to the Paying Authority (the Treasury);
- report to the NFP on progress of implementation of projects;
- detect irregularities and report them to the NFP;
- store all documents relating to projects realised within the EEA Financial Mechanism.

Auditing arranged by the NFP

The NFP will carry out continuous auditing of approved projects as well as spot checks and report to the FMO.

The Supreme Audit Institution of Latvia (the State Audit Office) has the right to carry out audits of projects. According to the national legislation, the State Audit Office shall examine utilisation of resources from the European Union and other international organisations or institutions that have been included in the state budget or local government budgets. The objective of the activities of the State Audit Office is to ascertain that actions carried out with the above mentioned resources are lawful, correct, economical and efficient. The State Audit Office is sufficiently independent of the NFP and the Paying Authority.

The NFP has the duty to provide the FMO with copies of any report that is made by the State Audit Office about projects or other activities related to the Financial Mechanism.

Disbursement arrangements by the NFP – the Paying Authority

In order to increase the quality of operations and ensure good business practices, the NFP may delegate the task of financial management and control to the Paying Authority (the Treasury), whose responsibility is in particular to:²

- manage the accounts on which grants from both Mechanisms are kept;
- develop and adopt principles and methodology for accounting of received, disbursed, unspent and recovered funds for the state budget institutions involved in the management of the EEA Financial Mechanism;
- ensure reimbursement of unused or unduly paid funds to the Financial Mechanisms;
- check expenditure declarations prepared by the CFCA and submit them to the FMO;
- ensure that payments are made to beneficiaries as quickly as possible and within the specified deadlines;
- report on finance flow to the NFP.

² Latvia will describe the functions of the Treasury with regard to the management of financial flow in more detail when the relevant guidelines have been finalised by the Financial Mechanism.

B. ADDITIONAL IMPLEMENTING STRUCTURES

(Steering Committee, Monitoring Committee and Intermediate Bodies)

Steering Committee

The Ministry of Finance will establish one Steering Committee for the EEA Financial Mechanism and the Norwegian Financial Mechanism. The Steering Committee is an advisory body to the NFP. The Steering Committee's tasks include giving an opinion and making recommendations on projects that are eligible for support within the Financial Mechanisms, and in the case of Programmes and Block Grants, on the project selection criteria and application process.

A representative of the NFP shall chair the Steering Committee. The Committee shall be made up of representatives of:

- the NFP;
- relevant line ministries;
- the CFCA;
- the Paying Authority (Treasury);
- social and economic partners;
- NGOs,
- regional representatives (of 5 planning regions).

The Chairman of the Committee invites, as observers, representatives of the Financial Mechanism Office, and, as appropriate, representatives of other institutions and organisations, whose presence could be essential to the effective implementation of the assistance provided by the Financial Mechanisms.

In order to properly evaluate applications for funds for Projects, Programmes, or Block Grants, the Steering Committee may create working groups and use the services of individual experts or other institutions.

Monitoring Committee

The Ministry of Finance will establish one Monitoring Committee for the EEA Financial Mechanism and the Norwegian Financial Mechanism. The Committee is responsible for monitoring the implementation progress of already accepted projects and for providing overall guidance to the Focal Point on the project selection process. The Monitoring Committee will operate on behalf of the NFP. The Monitoring Committee is responsible, in particular, for the following:

- periodically review the project implementation progress;
- assess proposals for changes to the distribution of funds between priority fields or sectors;
- assess and approve periodical reports on the use of financial resources;
- assess the efficiency and effectiveness of the use of financial resources available under both Mechanisms;
- ensure that the NFP is fully informed about the progress of projects and instances of non-compliance with the terms and conditions of the grant.

The Committee shall be made up of representatives of:

- the NFP;
- the Paying Authority (the Treasury);
- relevant line ministries;
- the CFCA;
- NGOs;
- social and economic partners;
- regional representatives (of 5 planning regions).

The Chairman of the Committee invites, as observers, representatives of the Financial Mechanism Office.

Intermediate Bodies

The tasks of Intermediate Bodies have been entrusted with the line ministries responsible for **each priority sector**. The main tasks that the NFP may delegate to the line ministries are to:

- evaluate project applications and recommend selected projects for financing;
- prepare project progress reports;
- monitor project implementation, in particular preparation for NFP periodical monitoring reports on the use of financial resources;
- detect irregularities and report on them to NFP;
- inform the general public about the projects implemented under the EEA Financial Mechanism;
- store all documents relating to projects realized within the EEA Financial Mechanism.

C. APPLICATION PROCEDURE

Proposals for projects should be submitted to the NFP, which, after an initial review, forwards the application for review to the Steering Committee. After positive recommendations from the Steering Committee, and if the NFP is satisfied that the application is in an appropriate format, in accordance with Protocol 38a, and is in furtherance of the overall goal of the EEA Financial Mechanism, it may forward the application to the FMO with its reasoned opinion. If the Steering Committee recommends against forwarding an application to the FMO, the NFP notifies the applicant about this decision. If the NFP finds that additional information is needed from the applicant for the application to be considered, it will notify the applicant and explain the corrections or additions required.

An estimated timeframe for the review of applications in Latvia is 3 months.

The NFP notifies the applicant of the approval or rejection of the project by the EEA Financial Mechanism Committee. If the application is approved, the NFP, on behalf of the Beneficiary State, signs a Grant Agreement with the EEA Financial Mechanism

Committee. The NFP then signs a separate agreement with the applicant to ensure the correct implementation of the project.

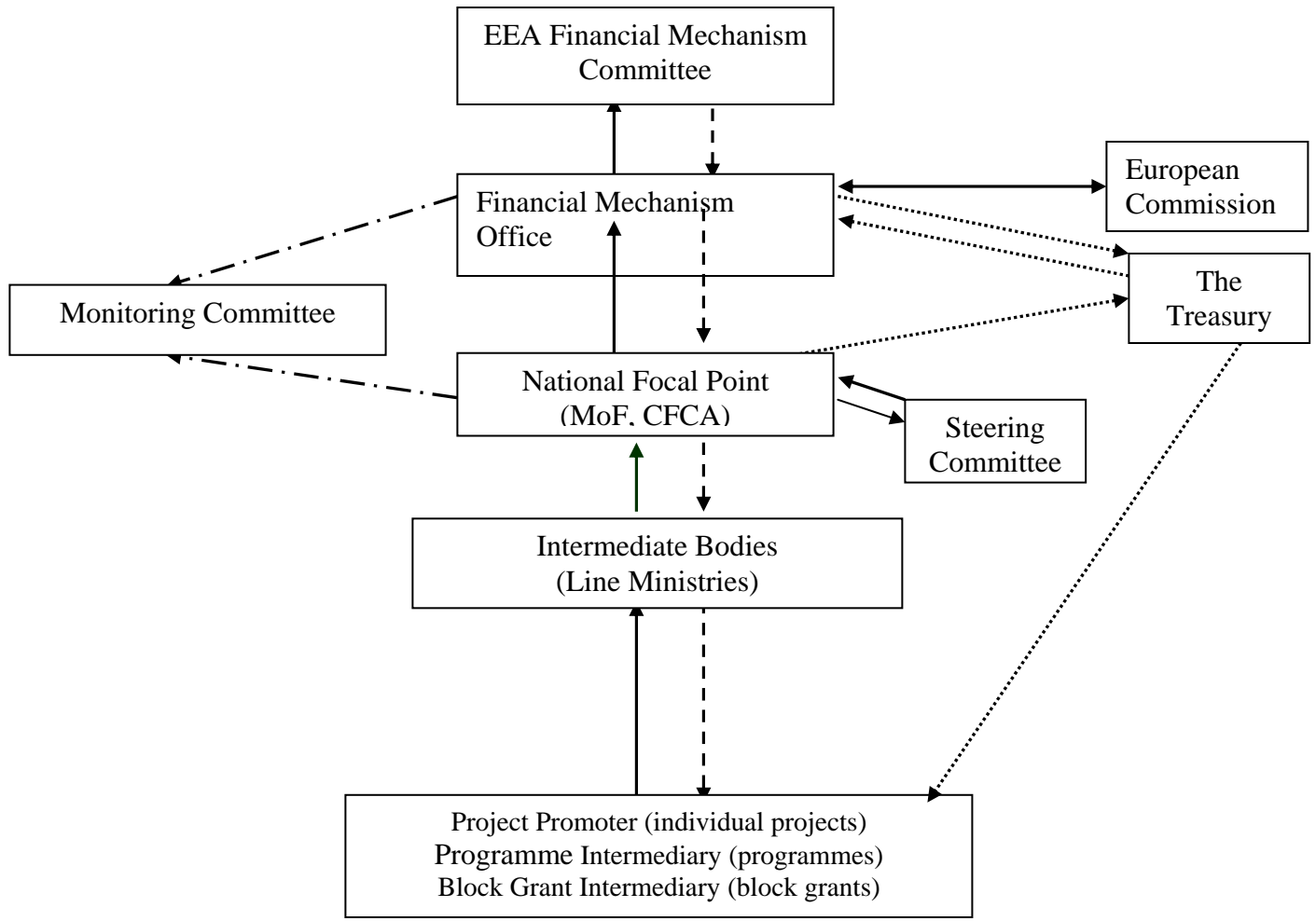
Procurement

Any procurement shall be carried out in accordance with the national procurement legislation of the Republic of Latvia.

Language

All communication between the EEA Financial Mechanism and Latvian institutions shall be in English. Original documents in Latvian 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 Latvian.

Project implementation chart for all priority sectors



———▶	Project Proposal
- - - -▶	Accepted project
- . . .▶	Representatives of relevant institutions
.....▶	Payments and relevant documents

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

Within the overall framework of the priority areas mentioned in Article 6 of the MoU, particular attention shall be given to the following priority areas:

1. Protection of the environment

- Integrated pollution prevention and control
- Encouraging the use of renewable energy
- Improved monitoring systems of pollution, especially from agricultural activity
- Development of electric and electronic equipment waste management system

2. Sustainable development

- Competence building in the field of sustainable development and possible establishment of the Sustainable Development Institute
- Encouraging organic agriculture
- Increased natural resources management and efficient use

3. Conservation of European heritage

- Training craftsmen/women in restoration
- Restoration of historical centres of Latvian towns
- Possible establishment of an Art-Nouveau centre in Riga
- Documentation and preservation of Soviet period non-conformist heritage
- Restoration of wooden architecture

4. Health

- Reduction of mortality and spread of communicable diseases
- Reduction and prevention of lifestyle-related diseases
- Improvement of mental health care
- Improvement of technical and professional capacity of health care institutions

5. Children with special needs

- Improved access and treatment of children with special needs in the health care system
- Integration of children with special needs in the educational system

6. Human resources development and education

- Improvement of education, training and lifelong education systems
- Strengthening of civil society and society integration in accordance with the priorities set out in the national programme for civil society development, including language training
- Support to education programmes in multi-media field and environmental protection

7. Academic research

- Fields of intervention as outlined in 1-6 above

8. Technical assistance

- Fields of intervention as outlined in 1-6 above

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

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

- Non-governmental organisation (NGO) grant scheme (capacity building and project support)
- Scholarship grant scheme
- Technical assistance fund
- Seed money grant scheme

- **NGO grant scheme**

An NGO grant scheme 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 fostering sustainable development in all areas defined in Annex B.

- **Scholarship grant scheme**

A grant scheme will be developed to support cooperation between the relevant educational institutions in the Republic of Latvia and the EEA EFTA States in key areas defined in Annex B. Such cooperation will include creating opportunities for Latvian students, lecturers, and experts of secondary, high school, and universities to study or receive training in the EEA EFTA States.

- **Technical assistance fund**

Measures relating to information on and promotion of the possibilities of using funds from the Norwegian/EEA Financial Mechanism, preparation of technical documentation, translation of documents, the assistance of experts and advisors, and support for particular activities managed by the NFP in compliance with the Rules and Procedures.

- **Seed money grant scheme**

The grant scheme 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 defined in Annex B.