

**Memorandum of Understanding on the establishment of A Central
Finance and Contracts Unit (CFCU) Between the Government
of Turkey and the European Commission**

Whereas the establishment of the Central Finance and Contracts Unit is to be seen against the background of the following developments:

- the size and complexity of the EU support for Turkey and the concomitant increase in the number of programmes and projects under implementation, its changing role as an instrument for supporting the Turkish pre-accession strategy, and the need to establish sustainable financial procedures and management structures as required by EU regulations;
- the fact that the size of the EU support in Turkey, is such that supporting an overly diffused Programme Management Units (PMU) structure, is not cost effective, and the necessity to limit the number of PMUs for individual sector programmes, thereby avoiding complexity in the transfer and monitoring of funds, and divergence in the methods of financial reporting and accounting, vis-à-vis the European Commission;
- the need to establish a financial management system compatible with EU regulations and budgetary procedures and ensuring effective financial control; and
- the benefit in terms of sound financial management and effectiveness of a single adequately staffed unit to handle the financial administration, accounting and payments for EU funds on behalf of the Turkish Government.
- the fact that new Regulation aligns Turkey to the other candidates countries also implying that as far as possible the DIS-Turkey will follow the DIS-Phare

Therefore

The European Community, represented by the European Commission, hereinafter referred to as "The Commission", of the one part, and

The Government of Turkey, acting on behalf of the Republic of Turkey, hereinafter referred to as "The Recipient", of the other part,

have agreed as follows:

Article 1

Definitions

Decentralised Implementation System (DIS)

Implementation System of the EU's external aid programme where part of the management and responsibilities have been transferred to the Partner Country whilst the Commission retains the final responsibility under the EC Treaties.

Central Finance and Contracts Unit (CFCU)

An implementing body of the DIS within the national administration in charge of tendering, contracting and payments for institution building projects and other projects if so specifically provided. For these projects the technical implementation is carried out by a SPO.

National Aid Co-ordinator (NAC)

The State Minister responsible for EU affairs in charge of the programming within the Recipient. The NAC also ensures a close link between the general accession process and the use of Community financial assistance, and is responsible for the monitoring and assessment of EU programmes.

National Authorising Officer (NAO)

The State Minister responsible for the Treasury heading the NF. The NAO has the overall responsibility for the financial management of EU funds.

National Fund (NF)

The Central treasury entity within the Undersecretariat of Treasury through which the Community funds are channelled towards the Recipient.

Perseus

The current financial reporting system of the European Commission.

Programme Authorising Officer (PAO)

An official of the national administration heading the CFCU or an IA. The PAO is responsible for the operations of the IA/CFCU and for the sound financial management of the projects to be implemented.

Senior Programme Officer (SPO)

An official of the national administration (line ministry/agency) in charge of the technical implementation of the projects in case where the CFCU is responsible for the administrative and financial implementation of the projects.

Article 2 - PAO and CFCU

1. A CFCU will be established as an integral part of the Turkish administration and will take all decisions autonomously under the responsibility of a Programme Authorising Officer (PAO). The management of EU funds by the CFCU shall be subject to the provisions of this Memorandum and EU rules governing the use of external aid. The CFCU will administratively be linked (eg for logistic support) to the EU Secretariat General.
2. The Programme Authorising Officer (PAO), described in Article 6 hereafter, will be an official appointed by the National Authorising Officer (NAO) after consulting the National Aid Co-ordinator.
3. The PAO will be responsible in accordance with Article 3 for the financial and administrative side of the procurement of services supplies and works for all projects unless otherwise agreed in Turkey. The technical side of programme implementation

will be covered by the responsible Senior Programme Officers (SPO). The responsibility of the Senior Programme Officer is described in Article 7 hereafter.

Article 3 - Tasks of the CFCU

1. The CFCU will have the sole responsibility over the overall budgeting, tendering, contracting, payments, accounting and financial reporting aspects of the procurement of services, supplies, works and grants in the context of the EU funded programmes in Turkey. The CFCU shall ensure that the EU rules, regulations and procedures pertaining to the procurement of services, supplies, works and grants are adhered to, and that a proper reporting system is functioning.
2. The technical issues of programme implementation will be the full responsibility of the authority responsible for implementing each individual programme (SPO).
3. The CFCU will advise the SPO, on his/her request, on EU external aid implementation procedures (e.g. procurement and contracting procedures), it being clear however that full responsibility, for technical implementation, remains with the SPO. The CFCU will develop a specialised advisory capacity and maintain the necessary documentation for this purpose.
4. Specifically, the CFCU will have the following tasks:

a) Tendering:

Receiving Terms of Reference, Tender Requests and tender summary sheets in standard format from the SPO; providing information for tenderers in line with EU procedures and request to the European Commission for publishing of notices of tender opportunities under Internet (Europaid WWW site), and in the Official Journal of the European Communities as foreseen under amended Article 118 of the financial regulation; checking the preparation of a proper quarterly update of status of programmes implementation, prepared by the SPO; administrative verification of short lists and tender documentation prepared by the SPO which also receive all the letters of interest; checking and requesting changes, as appropriate, for conformity with EU rules; ensuring the good preparation of tender dossiers; dispatching of tender dossiers to bidders; checking the composition of the Evaluation Committee; acting as the non-voting chairperson and as the non-voting secretary of the evaluation committee at tender evaluations, securing the respect of the procedures; providing advice and administrative support to the carrying out of tender evaluations; ensuring the proper preparation of the tender evaluation report to be drafted by the relevant Evaluation Committee.

b) Contracting:

Supervising evaluation and contract awarding to ensure that proper EU administrative procedures are followed (but not involving itself, apart from advice on procedures, in the evaluation process, technical or financial, selection, which remain the responsibility of the SPO); contract negotiations, where appropriate (the SPO shall provide technical assistance) drafting, preparation and signature of contracts on the basis of the request and technical

recommendations of the SPO; ensuring conformity with the EU administrative and legal requirements (in case of non-conformity, the PAO has to inform the concerned SPO in writing); the PAO shall sign the contract (endorsed by the European Commission); recording contract awarded by programme and project.

c) Accounting:

Establishing and maintaining an accounting system; keeping separate records for each sector programme and adequate accounting recording all payments registered by programme, project, contract, etc; operating financial accounts with all the standard checks and reconciliations;

d) Payments:

Carrying out payments in accordance with standard EU procedures, in force at the time; receiving requests for payment from contractors, checking these are legitimate, request the authorization from the SPO ("conforme aux faits"/"read & approved"), or returning for amendment to contractor, as appropriate.

e) Reporting:

Providing to the National Fund for distribution to the NAC and EC Representation in Ankara monthly reports covering the financial status of each programme; schedules for upcoming tenders; effected tender evaluations and contracts awarded; details on how the projects are implemented, problems encountered (if any), perspectives for the future, and any other necessary information which may be requested by the Commission and/or NAO and NAC. The reporting will also cover the co-financed parts of any programme.

f) Fund requests and management of account:

Preparation of requests for advance payments as set out in the financing agreement with the National Fund. Such requests are to be approved and certified by the PAO and sent to the National Authorising Officer for approval and certification prior to transmission to the European Commission.

Operation of an account for each Programme to be managed by the CFCU in accordance with the relevant Financing Agreement. The CFCU will be accountable for the operation of the account to the National Fund.

Maintaining, monitoring and arranging for replenishment of the bank accounts, based on the disbursement performances, reporting on a monthly basis on the status of the bank account; preparation of requests to the National Fund for advance payments.

g) Training and Advice:

Arranging and providing, where appropriate, training in EU payments and procurement procedures for any implementing bodies of the Decentralised Implementation System, advising SPOs on EU procurement and financial implementation procedures, it being clear however that full responsibility, for technical implementation, remains with the recipient

SPO. The CFCU will develop a specialised advisory training capacity and maintain the necessary documentation for this purpose.

h) Audit:

The CFCU can undertake on its own initiative audits of projects implemented by implementing authorities and will provide full assistance and co-operation to the Treasury controllers and EC auditors. All audit findings and any irregularity detected in the management of the funds will be reported to the European Commission through the NAO.

Article 4 – CFCU Staff

The organigramme of the CFCU will be subject to the endorsement of the NAO, NAC and the Delegation. The PAO will ensure appropriate staffing of the CFCU with the approval of the NAC and the NAO. The Government of Turkey shall cover all staff costs without prejudice to Article 5.2 of this Memorandum of Understanding. The principles and procedures regarding the staff of the CFCU will be regulated within the framework of Turkish legislation.

Article 5 – CFCU Location, Facilities and Operational Cost

1. The CFCU shall be located at premises identified by the NAC and provided by the Turkish authorities. The premises shall comprise ample and adequate office space for the staff of the CFCU, including space for meetings, advisory support, training and visiting audit staff.
2. The administrative, salary and all other operating costs of the CFCU shall in principle be covered by the national budget of the Turkish Government. In the initial start up phase and subject to an explicit agreement of the European Commission, some of these costs may however be financed from the national allocation for Turkey on a digressive basis over three years (100% first year, 66% second year, 33% third year).
3. The cost of advisory support and appropriate training for the efficient operation of the CFCU may also be covered for a start-up period from the national allocation for Turkey if expressly agreed between the Commission and Turkey.

Article 6 – Programme Authorising Officer (PAO)

1. The CFCU will operate under the authority of a Programme Authorising Officer (PAO) who will be nominated by the National Authorising Officer of Turkey after consulting the National Aid Co-ordinator. The PAO is responsible for the execution of EU funded programmes. Additional responsibilities may be defined in the financing agreement with the National Fund.
2. The PAO is responsible for the sound financial management of all projects.

3. The PAO may delegate part of his responsibilities, including the right of signature for all documents and actions listed in Article 3, paragraph 4, to other delegated signatories, up to a maximum of two officials whose signatures becomes equally valid. The responsibilities thus delegated will be clearly enumerated in a separate document and communicated to the Commission. The PAO can, at any time, revoke the delegation of the right of signature.
4. The PAO (or his delegated representative) will sign or endorse, as required, the documents as described in Articles 8, 9, 10 and 11.

Article 7 - Responsibilities of the Senior Programme Officers (SPO)

1. A Senior Programme Officer (SPO) will be an official appointed by the line Ministry or Agency involved in the project, in order to ensure the good and timely implementation of projects at technical level.
2. The SPO formalises his or her authority by endorsing commitments and disbursement documents prior to their transmission by the CFCU.
3. The SPO may delegate part of his/her responsibility and actions, including the right of endorsement of documents ("conforme aux faits"/"read & approved"), to a maximum of two officials within the same Ministry or Agency.
4. The names and signatures of the SPOs and, if relevant, the delegated officials to whom the SPOs have delegated their responsibility will be communicated to the PAO, CFCU and the Commission.
5. More specifically the responsibilities of the SPO will include:
 - (a) Technical implementation and follow-up of EU funded projects
 - (b) Planning and reporting to the responsible authority and maintaining contact on technical issues with the Commission,
 - (c) Input into the preparation of financial and reporting documents necessary for the operation of the CFCU
 - (d) Preparation of Terms of Reference,
 - (e) Submitting requests to the CFCU to launch tenders,
 - (f) Requests to the CFCU to negotiate and conclude contracts,
 - (g) Provision of assistance to the CFCU for the contract negotiations,
 - (h) Endorsement of payments against invoices ("conforme aux faits/read and approved")

Article 8 – CFCU Bank Account

The CFCU will establish and manage a bank account for the given programme in accordance with the provisions of the relevant Financing Agreement.

The bank accounts will be denominated in Euro. The amount of interest earned on the bank accounts will be communicated to the European Commission on a regular basis and may be reinvested in the activities covered by the relevant Financing Memorandum, after the approval of the European Commission, and in accordance with DIS provisions in force at the time.

The bank accounts will be operated on the basis of a double signature system requiring at least the signature of the PAO.

The CFCU will communicate to the European Commission by means of a bank confirmation all relevant information (name and address of the bank, account numbers, name(s) of account holders and interest rates).

Article 9 – Payments

Once advance payments have been received in the bank account, the funds will be used to execute payments against invoices relating to EU funded contracts signed by the CFCU, after confirmation of the Implementing Authorities.

Article 10 – Contract Award Procedures

The contract award procedures to be followed by the CFCU shall be those that are laid down in the EU's Practical Guide to contract procedures, in force at the time.

Article 11 – Accounting

1. The CFCU will operate a system covering all contractual and other financial operations pertaining to the relevant EU financed programmes in Turkey.
2. This system should be in line with the requirements of any DIS reporting system provided by the EC.

Article 12 – Audit

1. The accounts and operations of the CFCU directly related to EU programmes and projects and the related co-financing may be checked at regular intervals by Treasury controllers and/or an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Union's Court of Auditors.
2. Written records of the entire financial management, tendering and contracting shall be stored for five years after the closure of the programme (i.e. after completion of the audit to accompany closure of programme).

Article 13 - Final Stipulations

1. This Memorandum is drawn up in duplicate in English and shall enter into force on the date on which it has been signed by both parties.¹
2. This Memorandum of Understanding will remain valid unless otherwise specified.
3. This Memorandum of Understanding may be subject to a review after each year of operation, and may then be amended by an exchange of letters and this without prejudice to the responsibilities of the European Commission, which retains the right to review the implementation provisions, as appropriate, in accordance with the DIS.

Ankara, 14 February 2002

On behalf of the Turkish Government

On behalf of the European
Commission

Mesut YILMAZ
Deputy Prime Minister and
State Minister

Günter VERHEUGEN
Member of the European Commission
Responsible for Enlargement

¹ This is without prejudice to the ratification of the MOU by the Turkish Grand National Assembly

MEMORANDUM OF UNDERSTANDING ON THE ESTABLISHMENT OF THE NATIONAL FUND

Whereas the enhanced pre-accession strategy is intended to enable all the applicant States eventually to become members of the European Union and, to that end, to align themselves as far as possible on the Community acquis prior to accession;

Whereas the Accession Partnership is the key feature of the enhanced pre-accession strategy which will mobilize all forms of assistance to the applicant countries within a single framework;

Therefore

The European Community, represented by the European Commission, hereinafter referred to as "The Commission", of the one part, and

The Government of Turkey, acting on behalf of the Republic of Turkey, hereinafter referred to as "The Recipient", of the other part,

have agreed as follows:

Article I Definitions

Decentralised Implementation System (DIS)

Implementation System of the EU's external aid programme where part of the management and responsibilities have been transferred to the Partner Country whilst the Commission retains the final responsibility under the EC Treaties.

Central Finance and Contracts Unit (CFCU)

An implementing body of the DIS within the national administration in charge of tendering, contracting and payments for institution building projects and other projects if so specifically provided. For these projects the technical implementation is carried out by a SPO.

Implementing Agency (IA)

An implementing body of the DIS within the national administration in charge of tendering, contracting, payments and technical implementation of Investment Support projects and other projects if so specifically provided.

Joint Monitoring Committee (JMC)

A committee, consisting of the NAO, NAC and the Commission representatives, in charge of the review of EU programmes

National Aid Co-ordinator (NAC)

The State Minister responsible for EU Affairs in charge of the programming within the Recipient. The NAC also ensures a close link between the general accession process and the use of Community financial assistance, and is responsible for the monitoring and assessment of EU programmes.

National Authorising Officer (NAO)

The State Minister responsible for the Treasury heading the NF. The NAO has the overall responsibility for the financial management of EU funds.

National Fund (NF)

The Central treasury entity within the Undersecretariat of Treasury through which the Community funds are channelled towards the Recipient.

Perseus

The current reporting system of the European Commission.

Programme Authorising Officer (PAO)

An official of the national administration heading the CFCU or an IA. The PAO is responsible for the operations of the CFCU/IA and for the sound financial management of the projects to be implemented.

Senior Programme Officer (SPO)

An official of the national administration (line ministry/agency) in charge of the technical implementation of the projects in case where the CFCU is responsible for the administrative and financial implementation of the projects.

Article 2

National Fund and National Authorising Officer

15

The Recipient shall establish the National Fund as a central treasury entity under the responsibility of a National Authorising Officer (hereinafter the NAO) in the Undersecretariat of Treasury to manage the Community assistance allocated to the Recipient under the Decentralised Implementation System (hereinafter the DIS).

25

The National Authorising Officer shall be an official of ministerial or state secretary status, appointed by the Recipient. The National Authorising Officer may not hold at the same time the office of the National Aid Coordinator. The National Authorising Officer may delegate his responsibilities to a maximum of two other officials, but he shall remain finally accountable for all the responsibilities vested in him in this Memorandum of Understanding and other agreements.

Article 3

Responsibilities of National Authorising Officer

15

The National Authorising Officer shall have overall responsibility for financial management of EU funds. He shall ensure that the EU rules, regulations and procedures pertaining to procurement, reporting and financial management are respected, and that a proper reporting and project information system is functioning. The National Authorising Officer shall have the full overall accountability for the EU funds of a programme until the closure of the programme.

2§

Appropriate financial control will be carried out by Treasury controllers and SAYIŞTAY. The National Authorising Officer shall maintain a financial reporting system for all EU funds. He shall be accountable to the Commission for the use of the funds. In carrying out these responsibilities, the National Authorising Officer shall be responsible for the following tasks:

- (i) request and manage the funds from the Commission
- (ii) appoint Programme Authorising Officers (PAOs) in the Central Finance and Contracts Unit (CFCU) and in each Implementing Agency (IA), where applicable, after consulting the National Aid Coordinator.
- (iii) conclude the Financing Agreements which he/she will sign with each of the Implementing Agencies, and CFCU where applicable, selected and endorsed by the Commission and the relevant Turkish authorities.
- (iv) ensure the flow of national and other co-financing resources as set out in Financing Memoranda for EU programmes.
- (v) ensure that the reporting system (Perseus) for EU funds is regularly updated and reporting procedures properly respected by the IA or CFCU (where applicable).
- (vi) transfer funds to Implementing Agencies (IA) and to the Central Finance and Contracts Unit (CFCU) where applicable, according to the mechanism which will be set out in the Financing Agreement.
- (vii) participate with the Commission and National Aid Coordinator in a Joint Monitoring Committee.
- (viii) recover non-used funds from the CFCU/IA at the end of the programme

3§

The technical and administrative issues of programme implementation, including tendering and contracting will be the full responsibility of the Implementing Agency, CFCU or the line ministry/agency concerned.

4§

The National Authorising Officer shall immediately report all suspected and actual cases of fraud and irregularity and the findings of the audits they carry out to the European Commission.

5§

The National Authorising Officer shall be obliged to recover any sum wrongly paid and transfer such sums to the European Commission.

6§

Failure to carry out any of the responsibilities set out in this Memorandum of Understanding will lead to reimbursement of EU funds to the Commission.

Article 4

Request of funds from the Commission

1§

An advance payment, a percentage of the total budget of the Financing Memorandum that will be managed in a decentralised manner, will be transferred by the Commission to the National Fund after the signature of the Financing Memorandum, provided that the conditions included in Article 13 (bank accounts) have been fulfilled. The advance payment may not exceed 20 % of the total budget of the programme.

2§

The amount of the advance payment and subsequent replenishments, as well as the trigger points therefor will be specified in the Financing Memorandum. Any request to derogate from these specifications needs to be duly justified by the NAO

3§

The request for advance payments and replenishments, to be certified and approved by the National Authorising Officer, is submitted to the Commission for approval and transfer. The request for replenishments shall be supported by:

- (i) a declaration of expenditure showing the cumulative amount contracted and paid broken down by subprogramme and project and sub-project (where appropriate) - so demonstrating the link between the indicative budget (i.e. Financing Memorandum) and the expenditure and payments actually made based on the financial reporting as presented by the CFCU/LA. To this end, a table showing the link between the CFCU/LA and the project they manage should also be enclosed.
- (ii) appropriate reporting (Perseus) indicating effected contracts and payments covering also the co-financed part of the programme.
- (iii) bank reconciliation corresponding to the bank accounts opened by the NF and CFCU/LA. Interest earned on the bank accounts shall be communicated as well.
- (iv) The latest monthly progress reports as stipulated in Article 8.
- (v) written declaration by the NAO that the information contained in the Request for Replenishment is correct and that the implementation of the EU assistance is progressing at a satisfactory rate and according to the objectives laid down in the Financing Memorandum.

4§

A final written declaration with supporting documentation shall be issued by the NAO just after the end of the disbursement period of the Financing Memorandum showing the total amount contracted and disbursed. A final bank reconciliation showing the existing balances in the NF, CFCU/LA shall be enclosed as well.

5§

The Commission retains the right to request additional information in support of transfers of funds.

6§

Exceptionally, the National Authorising Officer may request a larger advance payment where it can be illustrated by a cash-flow projection based on a list of commitments by the LA/CFCU that the cash flow requirements in the subsequent period will exceed the foreseen installment

7§

The precise provisions and conditions for the transfer of funds will be laid down in the Financing Memorandum.

8§

The National Fund shall keep account of all advance payments and replenishments received for the benefit of implementing individual EU funded programmes, subprogrammes, projects, and sub-projects (where appropriate).

Article 5
Reallocation of funds

1§

The NAO may request a reallocation of funds from one subprogramme to another inside the same Financing Memorandum (Programme adjustment) following a recommendation from the Joint Monitoring Committee. This can only take effect following Commission endorsement on the basis of a detailed justification.

If the reallocation is less than 15% of the Financing Memorandum and does not involve a modification of the objectives set in the Financing Memorandum, this endorsement will be provided by the Commission Delegation. The subsequent declaration of expenditure (Article 4.3 (i)) shall incorporate these reallocations and a copy of the endorsement made by the Delegation enclosed.

2§

If the reallocation is below 15% but involves a change of objectives from those in the relevant Financing Memorandum or if the proposed reallocation exceeds 15% or if existing projects are suppressed or new projects are created involving a change of objectives from those in the relevant Financing Memorandum, the reallocation request will have to be submitted to Commission Headquarters for approval, and will be subject to a new Commission Decision.

3§

Where appropriate, the NAO may request a reallocation of funds from one sub-project to another inside the same project after a recommendation from the Monitoring Sub-committee. The reallocation can only take effect following a Commission Delegation endorsement on the basis of detailed justification. If the reallocation involves a change of objectives from those in the relevant FM or if existing sub-projects are suppressed or new sub-projects created involving a change of objectives from those in the relevant Financing Memorandum, the reallocation request will have to be submitted to the Commission HQ for approval. The subsequent declaration of expenditure (Article 4§3(i)) shall incorporate these reallocations and a copy of the endorsement made by the Delegation enclosed.

Article 6
Transfer of funds to the CFCU and Implementing Agencies

1§

The transfers of funds to the CFCU and Implementing Agencies, where appropriate, shall be made on the basis of cash flow estimates.

2§

The CFCU/IA shall submit transfer requests to the National Fund according to its needs as set out in the relevant Financing Agreement.

3§

The provisions of the Financing Agreement will define the basis upon which this transfer will take place.

4§

On the basis of the request and supporting documentation, the National Authorising Officer shall verify the disbursement level of the preceding tranche by the CFCU/IA and, if the request is justified, the NAO shall approve the release of the next tranche of funds. The CFCU/IA shall only make payments against signed contracts.

5§

The National Fund and NAO shall be held ultimately responsible to the Commission that the transfers are made properly and based on correct information.

6§

The Financing Agreement to be concluded between the National Fund and the CFCU/LA and to be endorsed by the Commission will make detailed provisions for the transfers.

7§

The National Fund shall keep account of all transfers made for the benefit of implementing individual EU funded programmes, subprogrammes, projects, and sub-projects (where appropriate).

8§

Where the National Fund acts as a paying agent for a project, the National Fund shall effect the payments to contractors following requests from the CFCU/LA, in accordance with the provisions of the Financing Agreements. The NF shall report the payments to the CFCU/LA to enter the data in Perseus without delay.

Article 7

Audit

1§

Appropriate audit in accordance with internationally accepted auditing standards shall be carried out by SAYIŞTAY with respect to the implementation of the Financing Agreements signed with each IA, and CFCU where applicable. Each year an audit plan and a summary of the findings of the audits carried out shall be sent to the Commission. Audit reports shall be at the disposal of the Commission.

2§

The accounts and operations of all relevant implementation structures directly related to EU programmes and projects and the related co-financing may also be checked at regular intervals by Treasury controllers and/or an outside auditor contracted by the Commission without prejudice to the responsibilities of the Commission and the European Union's Court of Auditors.

3§

Written records of the entire financial management, tendering and contracting shall be stored for five years after the closure of the programme.

Article 8

Reporting

1§

The National Authorising Officer shall ensure that the NF (where appropriate), the CFCU and IAs maintain a viable technical and financial reporting system (Perseus; including i.a. prequalification and tendering data) for all EU funds including funds transferred to the CFCU and Implementing Agencies, where applicable.

2§

In addition, the National Fund shall compile for distribution to the NAC and EC Representation in Ankara upon the basis of inputs from the CFCU and/or IAs, monthly reports covering the financial status of each programme; schedules for upcoming tenders; effected tender evaluations and contracts awarded; details on how the projects are

implemented, problems encountered (if any), perspectives for the future, and any other necessary information which may be requested by the Commission and the NAC. The reporting will also cover the co-financed parts of any programme.

Article 9

Staff

The Recipient shall provide at its own costs that necessary human resources are available for the timely and correct execution of the tasks entrusted to the National Fund.

Article 10

Location, Facilities

The Recipient shall provide on its own costs necessary premises, office furniture and other facilities for the National Fund within the Undersecretariat of Treasury.

Article 11

Operational costs of the National Fund

Operational costs of the National Fund shall be covered by the Recipient.

Article 12

Bank Accounts

1§

The National Fund shall for each Financing Memorandum open up a bank account in the Central Bank. This bank account shall have sub-accounts from which the IAs/CFCU are entitled to execute payments. In cases where this system cannot be implemented, specific arrangements can be agreed between the Commission services and the National Fund. The account shall, in principle, be interest-generating.

2§

The amount of interest earned on the bank accounts shall be communicated to the Commission each time the NF requests for a replenishment, and at the end of the programme. If the Commission so decides, on the basis of a proposal from the NAO, interest may be reinvested in the programme.

3§

The bank account shall be operated on the basis of double signature system, requiring the signatures of the National Authorising Officer or either of the officials delegated in accordance with article 2 para 2 and a Senior Treasury Officer.

4§

The National Fund shall communicate to the Commission all relevant information on the accounts at the National Fund as well as on all other accounts in the Implementing Agencies and others to which EU funds have been transferred. Relevant information encompasses i.a. name and address of the bank, account number, name(s) of account holders, interest rates, and any other information the Commission deems appropriate.

Article 13

Procurement

1§

Procurement will be carried out according to the Practical Guide ensuring free access, fair competition and transparency as provided by Title IX of the Financial Regulation applicable to the general budget of the European Communities and by the Phare Regulation.

2§

On a case by case basis, the Commission may approve a derogation to the use of standard EU external aid rules, if foreseen in the Financial Regulation and specified in the Financing Memorandum.

3§

The National Fund shall ensure that the relevant procurement rules and procedures are respected.

Article 14

Monitoring and Assessment

1§

The Recipient shall establish a Joint Monitoring Committee (JMC). It shall consist of the National Aid Coordinator, the NAO, the representatives of other members of the Financial Cooperation Committee and the Commission. The JMC will meet at least once a year and will review all Phare funded programmes. On the basis of monitoring reports the JMC will assess the programmes' progress towards meeting the operational objectives for accession as set out in the Financial Memorandum. The JMC will recommend a change of priorities and/or the re-allocation of EU funds, if need be, to ensure that stated objectives and targets are met.

2§

To monitor programmes the JMC will nominate a Monitoring Sub-Committee. It will consist of the National Aid Co-ordinator, the NAO, the Programme Authorising Officer of each Implementing Agency and the Commission. The Sub-Committee will review in detail the progress of each programme and its components and contracts in accordance with the Practical Guide, looking i.a. at relevance and design, efficiency, effectiveness and likely impact, on the basis of reports produced for the PAO and the Commission and any other relevant evaluations. The Sub-Committee will review i.a. actual output as compared to plan; rate of implementation and contracting; financial flow; and the management structures of the programmes and projects; put forward recommendations for improvement and if these steps are not followed by the Implementing Agency without good reason, take necessary corrective steps. The Sub-Committee will report to the JMC and prior to its annual meeting submit an overall detailed report on all programmes.

3§

Notwithstanding any monitoring reports produced at the demand of the JMC, the Commission and the NAO can request, at any stage in the programme cycle, jointly or separately, an independent evaluation report. Evaluation will also measure impacts and appropriateness in the fulfillment of objectives. The Commission's evaluation methodology covering the full range of key evaluation issues as relevance, design, efficiency, effectiveness, utility and sustainability will be used for this exercise.

Article 15

Accounting

1§

The National Fund shall operate a double entry or analytical accounting system covering all contractual and other financial operations pertaining to all EU financed programmes in Turkey.

Article 16
Settlement of disputes

19

Any question relating to the execution or interpretation of this Memorandum of Understanding shall be the subject of consultation between the Recipient and the Commission, leading, where necessary, to an amendment of the Memorandum of Understanding.

25

Where there is a failure to carry out an obligation set out in *this* Memorandum of Understanding or the related instructions, and no sufficient remedial measures have been taken in due time, the Commission may suspend the financing of the programmes implemented through the system introduced by this Memorandum of Understanding, after consultation with the Recipient and ask for reimbursement of EU funds.

35

If the consultation does not lead to amicable settlement, the parties may resort to arbitration.

Article 17
Final provisions

This Memorandum of Understanding may only be amended in writing by common consent of the parties.

This Memorandum is drawn up in duplicate in English and shall enter into force on the date on which it has been signed by both parties.¹

Ankara, 14 February 2002

On behalf of the Turkish Government

On behalf of the

European Commission

Kemal DERVIŞ
State Minister

Günter VERHEUGEN
Member of the European Commission
Responsible for Enlargement

¹ This is without prejudice to the ratification of the MOU by the Turkish Grand National Assembly