



# **ANNUAL REPORT**

*for the*

## **EUROPEAN ECONOMIC AREA (EEA) FINANCIAL MECHANISM**

### **MALTA**

**15 September 2007 – 30 September 2008**

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## LIST OF ACRONYMS

AIR	Annual Implementation Report
APR	Annual Progress Report
CHIMS	National inventory of cultural property
DoC	Department of Contracts
EEA	European Economic Area
EEAFM	EEA Financial Mechanism
EU	European Union
FDP	Full Development Permit
FMO	Financial Mechanism Office
FP	Focal Point
GA	Grant Agreement
GIS	Global Information System
GOL	Grant Offer Letter
IAID	Internal Audit and Investigations Directorate
IFAC	International Federation of Accounts
MC	Monitoring Committee
MEPA	Malta Environment and Planning Authority
MOP	Manual of Procedures
MoU	Memorandum of Understanding
MMA	Malta Maritime Authority
MRAE	Ministry for Rural Affairs and the Environment
MRRA	Ministry for Resources and Rural Affairs
MRES	Ministry for Resources and Infrastructure
NFM	Norwegian Financial Mechanism
NSRF	National Strategic Reference Framework
OPM	Office of the Prime Minister
PA	Paying Authority

PIP	Project Implementation Plan
PIR	Project Interim Report
PP	Project Promoter
PPCD	Planning and Priorities Coordination Division
PSC	Project Selection Committee
TA	Technical Assistance

**EXECUTIVE SUMMARY**

This annual report gives an analysis of the implementation of the EEA Financial Mechanism between 15 September 2007 and 30 September 2008 and an overview of the various stages of progress which the projects have undergone. In addition, it sets specific objectives for the following one year period.

The main highlights of the reporting period are:

- (a) the progress registered by the projects;
- (b) the modifications, de-commitments and re-allocations proposed by the Maltese Focal Point;
- (c) financial control and other management issues.

During the third year of implementation, 5 projects kicked off and registered steady progress in their implementation whilst 2 got to an advanced stage of the tendering process. The on-the-spot checks carried out over the last months by the national Focal Point have helped to heighten the sense of responsibility and ownership by Project Promoters and further defined the monitoring and coordinating role of the Line Ministry. The finalisation and roll-out of the electronic database should enable payments and requests for reimbursements to be processed electronically from the second half of Q4 2008. Meanwhile, a first request for reimbursements is being processed manually between October and November 2008.

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## A REVIEW OF THE IMPLEMENTATION STATUS

### 1. AN OVERVIEW OF THE FINANCIAL MECHANISMS

#### 1.1. EEA Enlargement

In May 2004, the European Economic Area (EEA) was enlarged by the ten new European Union (EU) Member States, and an additional two countries became members in 2007, bringing the total to 27 members; all sharing access to the Internal Market. At the same time the three non-EU members of the EEA – Iceland, Liechtenstein and Norway – established the EEA Financial Mechanism (EEAFM) and the Norwegian Financial Mechanism (NFM) for the period 2004-9 to support social and economic cohesion within the enlarged EEA.

#### 1.2. Aims

*EEA Financial Mechanism:*

“To reduce social and economic disparities within the EEA and to enable Iceland, Liechtenstein and Norway to participate fully in the Internal Market.”

*The Republic of Malta:*

“To select projects for funding, which contribute to the achievement of reducing social and economic disparities.”

*Maltese Focal Point (FP):*

“To ensure the effective implementation of the EEA Financial Mechanism.”

#### 1.3. Objectives

Through the EEA Financial Mechanism, EEA EFTA states will contribute towards:

- **Solidarity**, by reducing the social and economic disparities in the newly enlarged EEA.
- **Opportunity**, by helping new EEA members become fully integrated in the Internal Market.

- **Cooperation**, by bringing old and new EEA members together and opening new arenas for political and economic relations.

#### 1.4. The Grants in Malta

Following its accession to the European Union on 1 May 2004, Malta automatically became a party to the EEA Agreement. Furthermore, the EEA Enlargement Agreement became applicable as of 1 May 2004 and Malta became eligible for funding under the EEA Financial Mechanism. On 28 April 2005, the Memorandum of Understanding (MoU) on the implementation of the EEA Financial Mechanism was signed by Malta and the donor countries, namely Iceland, Liechtenstein and Norway.

As a result, a total of € 1.92 million have been made available to Malta for the commitment period running from 1 May 2004 to 30 April 2009. The specific target areas agreed to in the MoU are:

- Protection of the environment, including the human environment
- Conservation of the European cultural heritage, including public transport, and urban renewal
- Health and childcare
- Academic research (as long as it is targeted at one or more of the selected priorities for Malta )

The Planning and Priorities Co-ordination Division (PPCD) within the Office of the Prime Minister (OPM) is the designated Maltese Focal Point (FP).

Following a call for proposals, a total of 5 projects were selected for funding under the EEA Financial Mechanism. Of these projects, 3 are solely funded by the EEAFM whilst 2 are co-financed by both the EEAFM and the Norwegian Financial Mechanism. Following the donors' approval, the projects which were ultimately selected and which are now being implemented through co-financing by the EEA Financial Mechanism are:

EEA FINANCIAL MECHANISM PROJECTS <sup>1</sup>						
Code MT	Project Title	EEA / Norway Grant	Project Promoter Co-financing	Total Project Value (excl. VAT)	Mechanism	Beneficiary
0005	Masterplan for the Ċittadella - the Old Fortified City of the Island of Gozo	€ 256,275.00	€ 45,225.00	€ 301,500.00	EEA	Ministry for Gozo (MGOZ)
0010	Setting up an Oil Spill Response Capability for the Protection of our Seas	€ 800,000.00	€ 200,000.00	€ 1,000,000.00	EEA	Malta Maritime Authority (MMA)
0011	Xrobb I-Għaġin Nature Park and Sustainable Development Centre	€ 263,389.00	€ 88,916.00	€ 724,641.00	EEA	Nature Trust Malta
		€ 372,336.00			NFM	
0012	Consolidation of Terrain and Historic Ramparts Underlying Council Square Mdina <sup>2</sup>	€ 425,000.00	€ 75,000.00	€ 500,000.00	EEA	Ministry for Resources and Rural Affairs (MRRRA) (Restoration Unit)
0013	Technical Assistance	€ 43,240.00	€ 15,260.00	€ 101,740.00	EEA	Office of the Prime Minister (OPM), Planning and Priorities Coordination Division (PPCD)
		€ 43,240.00			NFM	

<sup>1</sup> Projects MT0011 (Xrobb I-Għaġin) and MT0013 (TA) are co-financed by both the EEA Financial Mechanism and the Norwegian Financial Mechanism. In the case of MT0011, this was done following a recommendation by the Financial Mechanism Office (FMO) after the application was submitted.

<sup>2</sup> A request to reallocate reserve funds as well as amounts de-committed from other projects following the procurement process is being made by the FP to the FMO. Should this reallocation be granted, the total project cost would increase to €629,747.80.

## 2. SUMMARY OF PREVIOUS ANNUAL MEETING AND REPORT

### 2.1. The Annual Meeting between the Maltese FP and the Donor states

The last Annual Meeting took place in Malta on 23 October 2007 and it was addressed by the Head of the Focal Point (FP), the Assistant Director General of the Royal Norwegian Ministry of Foreign Affairs as well as by the Minister Counsellor at the Royal Norwegian Embassy to Malta. The Director, Country Portfolio Officer and Head of Legal Affairs from the Financial Mechanism Office (FMO) were present on the part of the Donors. Apart from the FP, Malta was represented by Director Corporate Services, Ministry of Foreign Affairs, Assistant Director PPCD and other senior officers from the Paying Authority (PA), the Department of Contracts (DoC), the Internal Audit and Investigations Directorate (IAID) and the Treasury Department, all within the Ministry of Finance<sup>3</sup>.

The meeting comprised a High-level Session and Joint Technical Meeting for the EEA and Norwegian Financial Mechanisms wherein an overview of the implementation of both mechanisms between June 2006 and September 2007 was given. As part of the introduction, a brief description of the EU National Strategic Reference Framework (NSRF) for Malta as well as an update of the Cohesion Policy process was also presented.

The presentation on the progress of the EEA projects as well as on the highlights of the annual reports was delivered by the FP. Following the presentation, a discussion ensued on how the Grants were comparing, in terms of projects selected, control systems in place and publicity material, with other Financial Instruments particularly the EU Structural Funds. The procurement procedures and respective timeframes were also discussed.

Another point which emerged during this discussion was the utilisation of an amount of funds (€34,596) which up to that time were still unallocated<sup>4</sup>. However, in view of the fact that the procurement of most projects was still ongoing, it was decided that the allocation of these funds would be best left to a later stage in the lifetime of the programme so that any re-allocation would be inclusive of savings / needs of the ongoing projects following the procurement process.

### 2.2. Main points arising from the Annual Report

The previous report was the second Annual Report for the EEA Financial Mechanism and covered the period 1 June 2006 to 14 September 2007.

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<sup>3</sup> This Ministry is now called Ministry for Finance, the Economy and Investment following the General Election that was held in March 2008.

<sup>4</sup> The reserve funds (€34,596) comprise €18,432 unallocated funds under the EEA Financial Mechanism and €16,164 unallocated funds under the Norwegian Financial Mechanism.

The main sections of the second Annual Report were:

- **Legal and Cross-Cutting Issues** where an overview of the process which led to the amendments to the Memoranda of Understanding was set out. This section also focussed on how the projects are targeting cross-cutting issues such as sustainable development, gender equality and good governance;
- **The Appraisal Process** described the 5 stages each project had to go through prior to being selected;
- Another section dealt with **The Projects' Progress** wherein an overview of what had been achieved to date since the receipt of the Grant Offer Letter was given;
- A section dealing with **High Level Monitoring** described the proceedings of the September 2006 Monitoring Committee which had taken place just over a month prior to the Annual Meeting;
- In the section entitled **Management**, a summary of the main FP tasks for the previous year was drawn up. These tasks included the drawing up of a Manual of Procedures, training to all stakeholders, the design of a template for the Implementation Agreements and the implementation of the electronic database;
- The section dealing with **Publicity** described any publicity related actions which had taken place at a project level;
- The **Work Plan for the next year** described the FP activities foreseen for the following year;
- The **Audit** section described the Systems Audit which had taken place as well as a brief overview of the audit plan for the following year.

### 2.3. Conclusions drawn from the Annual Report

In the second year of implementation of the EEA Financial Mechanism, all stakeholders received training on the Financial Mechanisms.

This second year was described as a long year, particularly with regard to the approval process of the projects. There was a steep learning curve for all stakeholders in the Maltese administration, particularly the FP and the Project Promoters. Most management structures were put in place and projects had started the first phase of implementation.

Despite difficulties and also unforeseen delays, good progress was registered, due largely to effective co-operation between the FMO and the FP. The annual report concluded by arguing that the implementation pace will continue to accelerate with physical results on the ground foreseen for the coming year (2007-8).

### 3. THE PROJECTS' PROGRESS

For most projects being co-financed under this Financial Mechanism, this third year of implementation has registered substantial progress. Tenders have been drafted, launched on the market and awarded and work on the ground has kicked off at a good pace. Publicity actions undertaken as part of the start of the implementation of the project are not reported here but under section 6 of this report.

#### 3.1. MTooos Master Plan for the Ċittadella, the old fortified city of the island of Gozo

This project targets the *Conservation of European cultural heritage, including public transport and urban renewal and academic research* priority. The Project Promoter is the Ministry for Gozo. The Total Eligible Cost for this project is €301,500.00 with a Grant Rate of 85% (€256,275.00). The Grant Agreement was signed in July 2007 but forwarded for the FMO's counter-endorsement in September 2007 after settlement of potential misinterpreted phrasing between the FP and the FMO.

In the last Annual Report, it was stated that the Terms of Reference for the Master Plan tender were to be finalised and the tender was in the process of being launched. This was in fact published on the Malta Government Gazette on 8 January 2008, closing on 28 February 2008. Following extensive evaluation which saw the evaluation committee ferrying between Malta and Gozo in order to hold the committee meetings on a weekly basis, a decision was reached and the evaluation report was forwarded to the Department of Contracts on 19 August 2008. The General Contracts Committee approved the decision on 11 September 2008, with an appeals period running until 23 September 2008. No appeals were registered with the DoC and therefore, the Contracting Authority is now proceeding to draw up the contract with the selected bidder for the value of €264,000 exclusive of VAT. Taking into account the € 116 (excl. VAT) utilised for publicity, savings of €31,776.40 have resulted on the grant amount. The Project Promoter is considering options to utilise these savings in the best manner possible.

The service contract is planned to be signed by end October 2008 and once this is done, work shall commence on the first phase of the contract, namely that of data collection and evaluation. This phase will also comprise meetings with the various stakeholders as well as collection of documentation and carrying out of surveys. Phase one is planned to start in October and last 12 months.

### 3.2. MT0010 Setting up an Oil Spill Response Capability for the Protection of Our Seas

This project targets the *Protection of the Environment* priority. The Project Promoter is the Malta Maritime Authority and the Total Eligible Cost for this project is €1,000,000 with a Grant Rate of 80% (€800,000.00). The Grant Agreement for this project was signed on 23 July 2007.

The contract for the first component of the project, namely the Services component, comprising of project management, services and publicity actions was awarded on 9 May 2008. The contract price was of € 191,000 (excl. VAT). The contractor has carried out the necessary studies and has started drawing up the technical specifications which are planned to be completed by mid-October 2008. These are required for the Equipment tender which makes up the second phase of the project. Work on the Services contract has thus far included the compilation of three reports relating to Incident Risk Assessment, Environmental Sensitivity and Collation of Hydrographic Data. The Services component also envisages a number of seminars which will take place throughout its duration<sup>5</sup>. It is envisaged that the tender for the equipment required will be put on the market by the end of 2008, soon after the Services contract is completed.

### 3.3. MT0011 Xrobb I-Ghagin Nature Park and Sustainable Development Centre

This project also targets the *Protection of the Environment* priority. The Project Promoter is Nature Trust (Malta). The Total Eligible Cost for this project is €724,641.00 with a Grant Rate of 87.73% (€635,725.00).

Over the past year, the project has faced some stumbling blocks, however the Promoter has managed to make quite important achievements. The Grant Agreement was signed on 23 October 2007 and a Management Agreement between the former Ministry for Rural Affairs and Environment<sup>6</sup>, the Malta Environment and Planning Authority (MEPA) and Nature Trust (Malta) was signed on 12 December 2007. Through this agreement, Nature Trust has undertaken to manage an area of land on behalf of the Ministry. This includes, in a broad sense, the conservation, management and monitoring of the biological diversity of the area, the rehabilitation of degraded areas, the maintenance and restoration of natural habitats and population of species of wild fauna and flora among other objectives.

The issue which has held the project behind in terms of the larger part of its implementation has been the granting of the Full Development Permit (FDP) required both to carry out works (beyond the afforestation and restoration components which are covered by the Outline Development Permit) on site and as one of the pre-disbursement conditions set out in the

<sup>5</sup> One such seminar was that held at the start of implementation on 28 May 2008 where all the stakeholders were given more information on the project and its expected outcome. Participants from Enemalta, the Ministry for Resources and Rural Affairs (MRRRA), Birdlife (Malta), Nature Trust (Malta) and Malta Maritime Authority attended the event.

<sup>6</sup> This Ministry is now called Ministry for Resources and Rural Affairs following the General Election held in March 2008.

Grant Offer Letter. A positive decision on the permit was taken by the MEPA board on 9 July 2008. The official FDP still remains to be issued since there were a number of conditions which the board made, including the submission of a detailed Construction Management Plan. This will be submitted at the beginning of October and the official FDP is expected to be granted within a couple of weeks. The location of the two wind turbines envisaged in the project was a bone of contention with the MEPA board as well as the residents of the area. Discussions were held between Nature Trust (Malta) and these stakeholders and an agreement in principle was reached on the location of these wind turbines. A separate application for an FDP specifically covering the location of the turbines is to be applied for once the official FDP for the entire site is issued by MEPA.

In the meantime, work on the afforestation and restoration components has been progressing since these were already cleared in an Outline Development Permit which was issued earlier last year. To date, 5,572 trees have been planted. A total of just under €81,000 has so far been utilised<sup>7</sup>. Over the next six months, the afforestation activity will be finalised and the restoration works are expected to be at an advanced stage. Preparations for the installation of the water treatment facility and the renewable energy based production will also be under way.

#### **3.4. MT0012 Consolidation of Terrain and Historic Ramparts Underlying Council Square, Mdina**

The Mdina project, lead by the Ministry for Resources and Rural Affairs (MRRRA)<sup>8</sup> targets the *Conservation of European Cultural Heritage* priority. The Total Eligible Cost for this project is €500,000.00 with a Grant Rate of 85% (€425,000.00).

The Grant Agreement for this project was signed on 23 October 2007. The procurement was finalised on 20 November 2007 with the signature of the design and build contract for the consolidation of unstable terrain and restoration works. This was followed with a press launch by the then Minister for Resources and Infrastructure (MRES) being held the following day. The total contract price was of just under €489,000 (excl. VAT).

Over the past months, work has progressed and part of the preliminaries (activity 1) and about 40% of the consolidation of unstable foundations (activity 2) have been completed. It is planned that over the next six months, activity 2 will be completed and the consolidation and restoration of unstable ramparts (activity 3) will be well under way.

<sup>7</sup> This figure includes the monetary value of the trees which have so far been planted (€48,846.96). The various trees being planted in the afforestation component are an in-kind contribution.

<sup>8</sup> The name of the Ministry used to be the Ministry for Resources and Infrastructure (MRES)

The works being carried out in this project have regained momentum after having been stalled for a short while around March / April of 2008. The reason for this momentary halt was the fact that the excavations which had thus far been carried out led to a very important archaeological discovery. The remains of a medieval tower were unearthed during the preliminary excavations. Despite Malta's rich archaeological heritage, the Middle Ages are somewhat seen as a lacuna and therefore this discovery had to be preserved and taken account of in the works which had to be carried out in the project. This discovery led to a re-thinking of the approach which needed to be taken in order to consolidate the bastions which rise above it and which are being targeted by this project. Work on the site was resumed after a short while and the interventions are now being carried out in a way which does not jeopardise the archaeological find but still guarantees continuation of works on the project and the achievement of the desired results.

## **4. MODIFICATIONS, DE-COMMITMENTS AND RE-ALLOCATIONS**

### **4.1. Proposed Changes**

There was one project modification request which were forwarded to the FMO during the reporting period.

The modification related to project MT0005 Master plan for the Ċittadella – The Old Fortified City of the Island of Gozo. This amendment was a minor one and involved the customisation of an already existing system rather than the acquisition of a new system as originally envisaged in the project. Part of Activity 1 of the project initially envisaged the procurement and subsequent customisation of a Global Imaging System (GIS) and related training. The need for this project modification was brought about by the establishment of a National Inventory of Cultural Property (CHIMS). Through the Cultural Heritage Act 2002, the Superintendence of Cultural Heritage was identified as the statutory body responsible for the development and management of the aforementioned CHIMS. At the time of the submission of the application for EEA / Norwegian Funds, the said CHIMS, which is also a GIS, had not yet been officially launched and the Project Promoter was not informed of the particular set-up of the said system and the possibility or otherwise of adapting it to the needs of the Master Plan project since CHIMS was then still being established. Therefore at the application stage, the Ministry for Gozo had no option but to include the procurement and customisation of a GIS within the project activities. This GIS would have served as a database for all the information collected under Phase 1 of the project (4.3 of the application).

On the official launching of CHIMS and subsequent consultations with the Superintendence for Cultural Heritage, it transpired that a separate GIS was not required since CHIMS could be customised to the specific needs of the MT0005 project. In other words, if the Project Promoter had gone ahead with the procurement of the GIS there would have been two systems serving a similar purpose and would thus have led to duplication of information collected and resources used.

The FMO, through an email from the Country Portfolio Officer, approved this modification on 22 April 2008.

### **4.2. De-Commitments**

With reference to the letter to the Focal Points sent by the FMO in August 2008 relating to the de-commitment of funds from projects which have either encountered savings or for other reasons have funds available for re-allocation, the FP intends to submit a request for de-commitments by 31 October 2008. This letter shall request the de-commitment of funds from

project MT0013 Technical Assistance Fund for Malta since the amount earmarked for VAT is considered ineligible and is being de-committed from the project.

The table below shows the amounts being de-committed.

Project No.	Financial Mechanism	Amount to de-commit	Reason
MT0013	EEAFM	€ 6,595.86	non-eligible VAT
	NFM	€ 6,595.86	non-eligible VAT
<b>Total</b>		<b>€ 13,191.72</b>	

The FP ascertains that despite these de-commitments, the activities, results, and indicators agreed to in respect of each of the above projects are not being jeopardized and shall be carried out and achieved as planned.

#### 4.3. Re-Allocations of de-committed amounts and reserve funds

The same letter making the request for de-commitment of funds also includes a proposal for the re-allocation of the de-committed funds (from both EEA and NFM) as well as the reserve funds<sup>9</sup> as yet untapped. The proposal being put forward considers the extension of the interventions being carried out under project MT0012 Consolidation of Terrain and Historic Ramparts Underlying Council Square, Mdina.

In summary, the action proposed is an extension to the consolidation works being carried out along the bastion wall underneath one of the main squares of the Medieval City of Mdina. The total amount to be re-allocated to this proposal was calculated as follows:

<sup>9</sup> Vide last paragraph of section 2.1

<b>Reserve funds</b>	€	€
EEAFM	18,432.00	
NFM	<u>16,164.00</u>	
		<b>34,596.00</b>
<b>De-commitments</b>		
MT0008 NFM	4,020.80	
MT0013 EEAFM	6,595.86	
NFM	6,595.86	
MT0014 NFM	<u>58,475.38</u>	<u><b>75,687.90</b></u>
		<b>110,283.90</b>

This amount is being proposed as the 85% Grant amount while the Project Promoter will be responsible to contribute 15% co-financing as well as any VAT payable.

The new total project cost is therefore calculated as:

Contribution		Current		Additional		Total
EEA(&N)FM						
85%	EEA	€425,000.00	+	€ 25,027.86		
	N			€ 85,256.04	=	€535,283.90
<u>PP 15%</u>		<u>€ 75,000.00</u>	+	<u>€ 19,462.17</u>	=	<u>€ 94,462.17</u>
100%		€500,000.00	+	€129,746.07	=	€629,746.07

Should this proposal be approved by the FMO, the project will henceforth be co-financed by both mechanisms in the following ratio:

Total	€535,283.99	85.00%
EEA FM	€450,027.86	71.46%
N FM	€ 85,256.04	13.54%

The Project Promoter's 15% contribution will thus increase to €94,462.17.

The fact that the Norwegian Financial Mechanism will be roped in to the co-financing of this project will further address the priority area of 'Conservation of European cultural heritage, including public transport, and urban renewal' which both Financial Mechanisms target. The extension of the interventions currently being carried out will also further increase the visibility of this project. The rationale and justification are being fully explained in the proposal to the FMO.

## 5. MONITORING AND MANAGEMENT ISSUES

### 5.1. Monitoring Committee (MC) Meeting

The third Monitoring Committee Meeting took place on 20 September 2007 chaired by the Principal Permanent Secretary and Head of the Public Service. Permanent Secretaries and other officials from line ministries, socio-economic partners as well as representatives of the Civil Society also participated in the meeting.

#### 5.1.1. Main points raised in the MC Meeting

A presentation on the progress achieved by the individual projects was delivered by the Focal Point. The presentation described the project approval procedure whereby the projects were subjected to an appraisal by consultants commissioned by the FMO, followed by the receipt of Grant Offer Letters which denoted the official approval of the projects. The Project Implementation Plan and signing of Grant Agreements procedures were also covered. Special reference was made to the publicity measures which each project is undertaking. The presentation was then uploaded on the PPCD website.

During the meeting, the Annual Implementation Reports for both Financial Mechanisms were approved by all members following a presentation giving an overview of the content of both reports.

The last item on the agenda concerned the Addenda to the Memoranda of Understanding (MoU). The FP explained to the committee members that a modification to the MoU was proposed during the May 2006 Annual Meeting with the FMO. The change related to the alignment of the Grants paying system to the system which Malta uses in line with its national implementation system. This was also due to the fact that by virtue of its title ‘Paying Authority’, the Donors interpreted the Paying Authority as the entity which in fact authorises the payments when in the Maltese system, this role is fulfilled by the Treasury. The Paying Authority’s main role is to present requests for reimbursement to the Donors and receive, on behalf of Government, such reimbursement from the Donors.<sup>10</sup>

#### 5.1.2. Conclusions drawn from the MC Meeting

No further matters were discussed and therefore the Chairperson brought the meeting to a close with some concluding remarks.

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<sup>10</sup> It is to be noted that the Addenda to the MoUs were signed by all stakeholders on 14 March 2008.

## 5.2. Financial Control

Between April and September 2008, a number of the projects being co-financed under the EEA and Norwegian Financial Mechanism have undergone an ‘on-the-spot’ check. On-the-spot-checks are carried out by the FP and focus on the administrative, financial, technical and physical aspects of the project. During these checks, the FP gains assurance that the project is being implemented as planned and in accordance with sound financial management principles. The projects which have been checked during the period April – September 2008 are:

- MT0006 Implementation of Schengen Acquis Requirements at Malta International Airport (NFM)
- MT0008 Procurement and Installation of Security / Safety Equipment for Building Sites housing SIS Equipment (NFM)
- MT0012 Consolidation of Terrain and Historical Ramparts underlying Council Square, Mdina (EEAFM)
- MT0010 Setting up an Oil Spill Response Capability for the Protection of Our Seas (EEAFM)

All projects checked have shown that the works carried out, whether these consisted of supplies of equipment or services, are in line with the Project Implementation Plans and respective contracts. The Public Procurement Regulations were followed in all public sector projects. In the case of project MT0006 which was implemented by the Malta International Airport plc (private company) the basic principles of fair competition, transparency and good governance were applied.

A weakness which emerged in some of the projects checked was of an administrative nature. In some cases, the Project Promoters lacked the support staff required to assist them in filing the required documents in the appropriate manner as required by the Manual of Procedures. The situation is however alleviated by the support given by the Line Ministries’ staff in charge of monitoring the projects. In fact, an approach which has largely been adopted is for staff in the EU Affairs / Programme Implementation Directorates within the respective Line Ministries, to assist the Project Promoters in tasks which are of a more administrative nature, such as compilation and correct retention of documents related to the project.

It is planned that by the end of the current calendar year, the remaining projects being co-financed by both Mechanisms will undergo an on-the-spot check. These are:

- MT0005 Masterplan for the Ċittadella – the Old Fortified City of the Island of Gozo (EEAFM)

- MT0011 Xrobb I-Għagin Nature Park and Sustainable Development Centre (EEA & NFM)
- MT0014 Conservation of Ħal Saflieni Hypogeum World Heritage Site (NFM)

It is envisaged that these checks will target the documentary aspect of the projects in view of the fact that by the end of the year, little of the physical aspect of projects MT0011 and MT0014 will have been implemented since during this quarter, tenders would be on the market or in the process of being evaluated. Furthermore, project MT0005 does not involve any infrastructural works, and therefore the physical check will be limited to the documents being drawn up as part of the master plan.

### 5.3. Manual of Procedures

The Manual of Procedures which was being revised during the last reporting period has been finalised and is accessible to all stakeholders on the webpage dedicated to the EEA and Norwegian Financial Mechanisms on the FP's website <http://ppcd.gov.mt/eeanorwegian?l=1>.

The MOP serves as a guideline for procedures related to, *inter alia*, Programming and Project Selection; Project Implementation; Contracting; Monitoring and Evaluation; Eligible Expenditure; the Payment Process and the subsequent Reimbursement process from the FMO as well as Audit and Financial Control. Apart from procedural information, it also contains a number of templates which are to be used for the different management tasks by the different stakeholders.

### 5.4. The Implementation Agreement Template

As required under Article 3.7 of the General Terms and Conditions attached to the Grant Agreement, a standard template of the Implementation Agreement to be signed by Project Promoters (PP) and the FP as a commitment to successful implementation was drawn up. This template was revised by the FP following comments received from the FMO during the last reporting period. The template was agreed to between the FP and the FMO on 21 April 2008. The templates were then tailored for the individual projects and circulated for signatures between the FP and PPs. The following list denotes when the Implementation Agreements were signed:

- MT0005 Masterplan for the Ċittadella – the Old Fortified City of the Island of Gozo – 5 May 2008

- MT0006 Implementation of Schengen Acquis Requirements at the Malta International Airport – 12 May 2008
- MT0008 Procurement and Installation of Security / Safety Equipment for Building Sites housing SIS Equipment – 6 June 2008
- MT0010 Setting up an Oil Spill Response Capability for the Protection of Our Seas – 14 May 2008
- MT0011 Xrobb I-Għagin Nature Park and Sustainable Development Centre – 13 May 2008
- MT0012 Consolidation of Terrain and Historic Ramparts Underlying Council Square, Mdina – 5 May 2008

No Implementation Agreement has as yet been drawn up for project MT0014 Conservation of Ħal Saflieni Hypogeum World Heritage Site since the Grant Agreement for this project has not yet been signed. A request for modification and de-commitment of funds has been put forward to the FMO in terms of this project. Briefly, the modification involved the removal of costs from two activities as well as the inclusion of a new component (within one of the activities) as well as an entirely new activity. Furthermore, the VAT element which had previously been earmarked as an eligible cost is being de-committed. Once this modification is approved by the FMO, a Project Implementation Plan will be drawn up for the Hypogeum project, which will be included as an annex to the Grant Agreement and Implementation Agreement.

### **5.5. Electronic Database and Payments**

One of the objectives of the Technical Assistance Fund for Malta (MT0013) envisages the “modification of the application database” which will ensure the quicker collection of information from various sources as well as more effective monitoring on a day-to-day basis of the financial and implementation status according to the implementation schedules of the individual projects. The database also facilitates the verification and certification process for the Focal Point and Paying Authority and the actual authorisation of payments by the Treasury. This information system forms part of a larger system which is used to monitor projects being financed by EU funds.

During the current reporting period, work on the EEA and Norwegian Financial Mechanisms module of this database was still underway. Over the last year, the customisation of this module faced a number of technical difficulties which have delayed its operability. However, work to overcome these technical difficulties has been largely completed and the FP envisages that the system will be fully operational by the end of the year.

The Project Interim Reports (PIR) were received in May 2008, however, due to the technical difficulties referred to above which delayed the generation of supporting documentation to the PIRs from the database, these were being verified and certified manually in 3Q 2008 and will be submitted together with the payment claims by the beginning of 4Q 2008.

## 6. PUBLICITY

### 6.1. Publicity carried out by the individual Projects

The Manual of Procedures issued by the FP as well as the Publicity Guidelines made available by the FMO serve as a guide to the PPs on the way the support received by the Financial Mechanisms can be acknowledged and made visible.

#### 6.1.1. **MT0005 Master Plan for the Ċittadella, the old fortified city of the island of Gozo**

A Billboard to make the public aware of the ongoing project was erected in a prominent place on the site. There has also been frequent mention of the project in national press articles even covering other activities which have taken place around the Ċittadella where the Minister for Gozo would be addressing the media. Reference to the co-financing was also made on the tender advert, dossier and subsequent contract.

#### 6.1.2. **MT0010 Setting up an Oil Spill Response Capability for the Protection of Our Seas**

Apart from the co-financing statement which appeared at all stages of the tendering and contracting procedure, the project was given publicity through a press release at the start of the Services Contract implementation which appeared on all the major newspapers and media vehicles.

Furthermore, an inception seminar was organised on 28 May 2008 where all the stakeholders were given more information on the project and its expected outcome. Participants from Enemalta, the Ministry for Resources and Rural Affairs (MRRRA), Birdlife (Malta), Nature Trust (Malta) and Malta Maritime Authority attended the event. A number of actions are planned for the upcoming months, including affixing of a commemorative plaque, seminars at the conclusion of the studies being carried out under the service contract and internet coverage.

#### 6.1.3. **MT0011 Xrobb I-Għaġin Nature Park and Sustainable Development Centre**

A tree-planting event which formed part of the afforestation component of the project took place in November 2007 and was attended by 1,500 school children who planted over 5,500 trees in the nature park which is being developed as part of the project. This event was given a lot of publicity in the media. The project was also given coverage during a local television production. The programme, which tackles mostly animal welfare, was aired in June 2008 with various repeats over the following weeks. The Project Promoter gave an overview of the project during a five minute interview.

#### **6.1.4. MT0012 Consolidation of Terrain and Historic Ramparts Underlying Council Square, Mdina**

In contrast to what was reported during the last reporting period, the Mdina project has now moved very much into the public eye. The project was launched through a press conference in November 2007, where the media attended the event which was reported on local TV stations and newspapers. In addition to this and following the official launch, features about this project have appeared regularly on local newspapers and magazines. Moreover, a billboard has been set up and placed on site to inform the general public about this project. A specific webpage has been created within the MRRRA website to promote the project's activities, the URL being: <http://mri.gov.mt/default.aspx?MLEV=15&MDIS=91>. The unearthing of the Medieval tower mentioned earlier in this report has augmented the visibility and public interest in this project.

### **6.2. General publicity of the Financial Mechanism**

#### **6.2.1. Publicity Tender**

The terms of reference drawn up by the FP as the PP in charge of implementing the Technical Assistance Fund for Malta have been reviewed once again during the current reporting period. This was due to a re-orientation on the activities which are to be implemented in the publicity contract (services). The FP is envisaging a publicity campaign that will create an awareness among the general public on the results being achieved through the EEA and Norwegian Financial Mechanisms in the priority areas being targeted by these mechanisms. The approach the FP plans to take is to hold press conferences and set up street banners or similar which will be visible to all, locals and foreigners alike.

It is nevertheless planned that the tender will be launched as a departmental tender in Q4 2008 and that the implementation will reach its peak during April / May 2009 to coincide with the end of commitment events being planned by the FMO and the Donor States.

#### **6.2.2. Dedicated webpage**

A dedicated webpage which deals solely with the EEA and Norwegian Financial Mechanisms within its website has been set up by the FP. The webpage can be accessed either through [www.eeagrants.gov.mt](http://www.eeagrants.gov.mt) or <http://ppcd.gov.mt/eeanorwegian>. This webpage contains general information on the Financial Mechanisms, as well as a number of downloadable documents such as, *inter alia*, MoUs, Annual Implementation Reports,

Manual of Procedures and other guidelines. The webpage is updated regularly with new downloads and links.

## 7. WORK PLAN FOR THE NEXT YEAR

### 7.1. Work Plan

October 2008	November 2008	December 2008
<ul style="list-style-type: none"> <li>• Publish Publicity Tender</li> <li>• Forward PIRs to PA for certification</li> <li>• Roll out electronic database to all stakeholders &amp; process payments</li> <li>• Holding of Monitoring Committee meeting</li> </ul>	<ul style="list-style-type: none"> <li>• Annual Meeting in Brussels</li> <li>• Evaluate publicity tender offers</li> <li>• Submission of PIRs and first claim for reimbursement by PA to FMO</li> </ul>	<ul style="list-style-type: none"> <li>• Publicity Tender kick off</li> </ul>
<ul style="list-style-type: none"> <li>• Carry out on-the-spot checks</li> <li>• Day-to-day implementation of projects including ad hoc meetings</li> </ul>		
January 2009	February 2009	March 2009
	<ul style="list-style-type: none"> <li>• Kick-off round 2 of the on-the-spot checks</li> </ul>	<ul style="list-style-type: none"> <li>• Forward PIRs to PA for certification</li> </ul>
<ul style="list-style-type: none"> <li>• Carry out on-the-spot checks</li> <li>• Day-to-day implementation of projects including ad hoc meetings</li> </ul>		
April 2009	May 2009	June 2009
<ul style="list-style-type: none"> <li>• Publicity Campaign reaches peak</li> <li>• Submission of PIRs and payment claim for reimbursement by PA to FMO</li> </ul>		
<ul style="list-style-type: none"> <li>• Carry out on-the-spot checks</li> <li>• Day-to-day implementation of projects including ad hoc meetings</li> </ul>		
July 2009	August 2009	September 2009
		<ul style="list-style-type: none"> <li>• Hold Monitoring Committee</li> </ul>
<ul style="list-style-type: none"> <li>• Carry out on-the-spot checks</li> <li>• Day-to-day implementation of projects including ad hoc meetings</li> </ul>		

## 8. AUDIT

### 8.1. Systems Audit and Sample Checks

During the year under review, the Internal Audit and Investigations Directorate (IAID) followed up the systems audit it had conducted in the preceding year for both Mechanisms. The IAID had concluded that the management and control systems in place ensure the sound financial management of the EEA and Norwegian Financial Mechanisms and are adequate and operating effectively. No problems of a systemic character had been identified and thus no financial corrections resulting from this audit were necessary. It is to be noted that the system used for the EEA and Norwegian Financial Mechanisms is very similar to that adopted by the Maltese Authorities for other financial instruments, including the EU Structural Funds.

Since no expenditure has as yet been claimed from the Financial Mechanism Office by the PA, the IAID has not yet conducted sample checks on expenditure. Sample checks shall start being conducted next year as explained below.

### 8.2. Audit Plan

The IAID is responsible for drawing an annual audit plan with respect to the audits of the EEA and Norwegian Financial Mechanisms (2004-2009). The IAID is independent of the Focal Point and the Paying Authority.

#### *Systems audits:*

During the forthcoming year the IAID will proceed with following up the systems audits it has carried out with respect to the FP, the PA, the DoC and the Treasury Department.

There are seven (7) Project Promoters in all for both the Norwegian and the EEA Financial Mechanism<sup>11</sup>. During the year October 2008 – September 2009, the IAID will conduct audits on 3 Project Promoters. These 3 Project Promoters will be chosen on the basis of a risk assessment. It is envisaged that out of the 3 projects selected for auditing, there would be at least one from each Financial Mechanism.

This Risk Assessment will be based on both historical and factual information about the Project Promoters available to the IAID. Amongst the risk factors that will be taken into consideration there will be the following:

- A. Type of Project Promoter;
- B. Previously Reported Irregularities or Errors;
- C. Complexity of the Project.

The Risk Factors will be allotted a weight factor on a score number ranging from 1 to 5 where 1 represents the lowest risk and 5 the highest risk. Thus the higher the score means the higher the risk.

<sup>11</sup> This Audit Plan does not take into consideration MT0013 as an Individual Project.

#### *Sample checks on Expenditure*

The IAID is also responsible for conducting sample checks on expenditure. During the forthcoming year, depending on materiality, it will conduct checks on a sample of expenditure declared to the Financial Mechanisms Office by the Paying Authority.

The expenditure to be audited, including that in the years following 2009, will be chosen on the basis of a risk assessment similar to the one used for choosing which of the Project Promoters are to undergo a systems audit.

The work done by the IAID in the sample checks will basically involve a thorough financial audit aimed at establishing whether selected expenditure is eligible and regular and thus determining the reliability of payment claims and the effectiveness of controls by the Focal Point and by all the stakeholders involved in the management, implementation and control of the EEA and Norwegian Financial Mechanisms.

#### *Scope and Methodology*

The methodology used by the IAID is based on internationally accepted audit standards including those published by the International Federation of Accountants (IFAC).

## 9. CONCLUSION

The third year of implementation has brought about a lot of progress in the individual projects despite the stumbling blocks which have been encountered in terms of payment processing and various other project-specific situations.

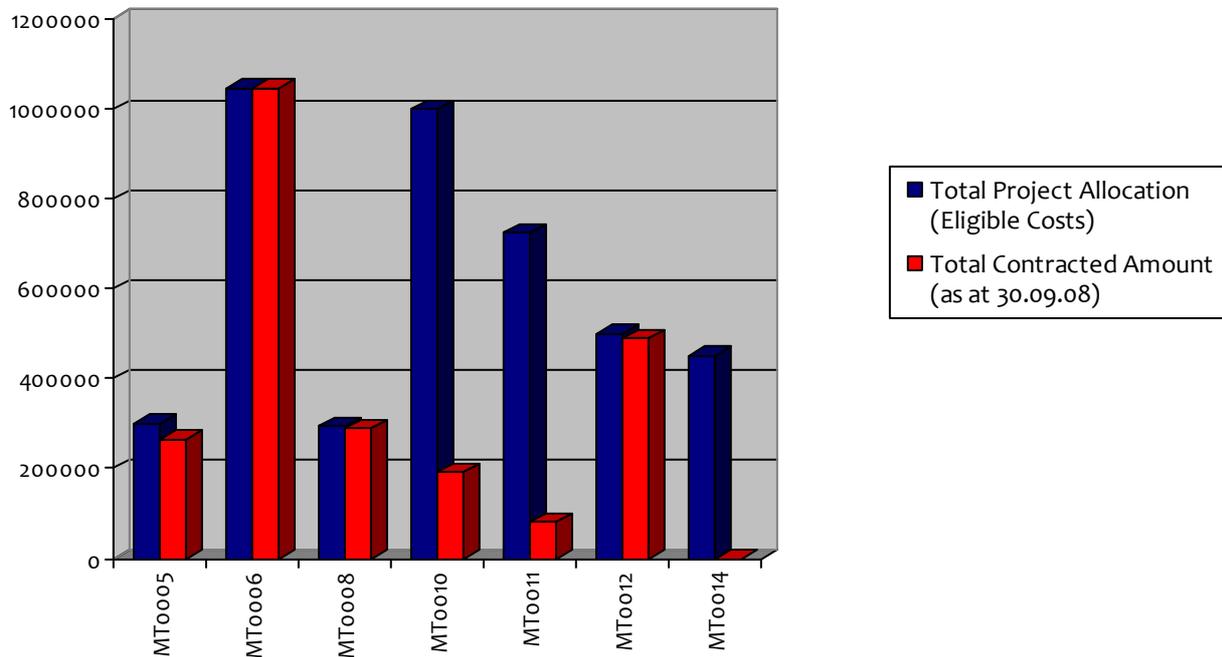
By the end of the year all individual projects would have undergone an on-the-spot check and addressed any findings which would have emerged. The fact that the tendering is moving at a good speed is also a positive, especially when one considers that, across both mechanisms, there is 1 project completed, 1 which is almost complete and 2 which have concluded all the tendering envisaged in their plans.

It is however rather early to determine the overall impact the projects are having on cross-cutting issues and priority areas they target since, as mentioned earlier there is only one project which is complete and the others are still at a ‘works in progress’ stage. Nevertheless, it has already been evident that the work carried out under the projects targeting the Implementation of the Schengen Acquis have contributed to Malta’s successful entry in the Schengen Zone. All Project Promoters had submitted their intended approach towards addressing cross-cutting issues in their application forms. These are still being adhered to by all promoters. A case in point is that, where PPs are not public entities, and therefore not obliged to follow the Public Procurement Regulations, these are still applying the key principles of these regulations (transparency, fair competition etc) in an effort to ensure good governance.

There have admittedly been delays in acquiring MEPA permits and in the definition of project activities in one case, however, the modifications being proposed together with the reallocations suggested will ensure that the funds available for Malta are maximised and used in the most effective and efficient manner.

Once these pending items are cleared, the actions being co-financed by the EEA and Norwegian Financial Mechanisms will be on the way to a smooth and successful implementation and in some cases even completion in the next reporting period.

## ANNEX 1: PROJECT CONTRACTING PROGRESS AS AT 30 SEPTEMBER 2008



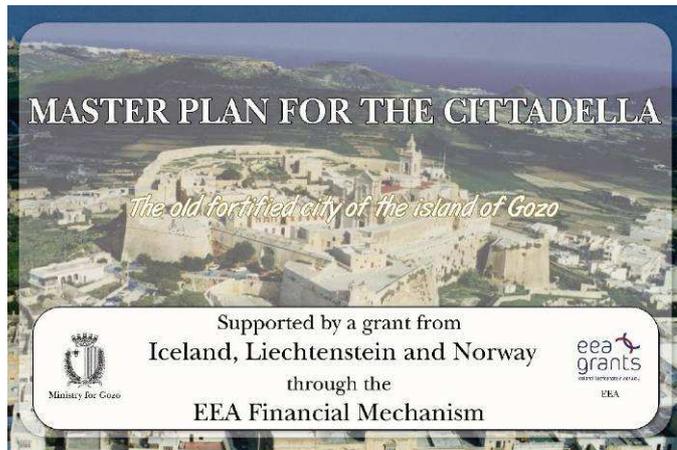
Project	Total Project Value (Eligible Costs)	Total Contracted Amount (as at 30.09.08)
MT0005 Master plan for the Ċittadella – the Old Fortified City of the Island of Gozo <sup>12</sup> (EEAFM)	€301,500.00	€264,116.00
MT0006 Implementation of Schengen Acquis Requirements at Malta International Airport (NFM)	€1,045,822.00	€1,045,822.00 <sup>13</sup>
MT0008 Procurement and Installation of Security / Safety Equipment for Building Sites housing the SIS Equipment (NFM)	€294,915.00	€290,185.00
MT0010 Setting up an Oil Spill Response Capability for the Protection of Our Seas (EEAFM)	€1,000,000.00	€191,000.00
MT0011 Xrobb l-Għagin Nature Park and Sustainable Development Centre (EEA & NFM)	€724,641.00	€80,875.35
MT0012 Consolidation of Terrain and Historic Ramparts Underlying Council Square, Mdina (EEAFM)	€500,000.00	€488,936.64
MT0014 Conservation of Hal Saflieni Hypogeum World Heritage Site <sup>14</sup> (NFM)	€451,000.00	€0.00

<sup>12</sup> As reported in Section 3.1, the contract for the Masterplan for €264,000 exclusive of VAT was being drafted while this report was being compiled. The additional €116 refer to the expenditure related to publicity incurred so far.

<sup>13</sup> In addition to this amount the Project Promoter financed €16,905.60 as additional costs.

<sup>14</sup> Contracting for this project has not yet started in view of the delays in determining the exact project activities following the request for modification by the Project Promoter.

**ANNEX 2: PUBLICITY**



**1** Project Billboard (left) and Minister for Gozo Giovanna Debono holding a Press Conference with Parliamentary Secretary Chris Said (right)



**2** Minister for Resources and Rural Affairs George Pullicino holding a Press Conference (left) and planting a tree (right) during the tree-planting event



3 Former Minister for Resources and Infrastructure Ninu Zammit addressing the Press during the project launch (top), the billboard on site (bottom right) and the Medieval tower foundations unearthed during the excavations (bottom left)