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*Committee on Budgetary Control*

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## **WORKING DOCUMENT**

on European Court of Auditors' Special Report No 13/2014 (2013 Discharge):  
“EU support for rehabilitation following the earthquake in Haiti”

Committee on Budgetary Control

Rapporteur: Jens Geier

## ***Introduction***

Haiti is one of the most fragile states in the world and the earthquake which hit the country on 12 January 2010 dramatically exacerbated the situation. It claimed a heavy toll in human lives, caused massive destruction, had a grave impact on the national economy and reduced the already weak administration's capacity to provide basic services to the population. Likewise the EU delegation was also severely affected both at human and operational level. It can be acknowledged that the EU delegation made significant monitoring efforts and that the programmes examined by the European Court of Auditors were appropriately designed to link humanitarian and rehabilitation phases and allowed conditions for sustainable development. It has to be taken into account; however, that working in a fragile country including limited resources and the lack of administrative capacity and reforms entails risks, which ultimately challenge the effective and efficient implementation of programmes.

As part of the important international financial mobilization, the European Union response amounted to 1.23 billion EUR, out of which 460 Million EUR for rehabilitation and development of Haiti from the Commission on EDF funds (later increased to 522 million EUR), 18 Member States, which contributed 759 million EUR altogether, and 16 million EUR from the European Investment Bank. In addition, humanitarian aid was also provided by the Commission through the Directorate General for Humanitarian Aid and Civil Protection (ECHO) up to 232 million EUR for 2012-2013.

Despite the international effort, the recovery was still hindered end 2013 by pre-existing structural and operational issues before the earthquake in 2010 i.e. a weak public administration in sectors like health, education, water and sanitation combined with a poor public finance management making it difficult to optimize the use of resources and prevent fraud and corruption.

## **Audit Scope and Objectives**

The Court examined whether the EU support for rehabilitation in Haiti following the earthquake was well designed and implemented with three main questions:

- Did the Commission address priority rehabilitation needs?
- Did the Commission ensure linkage between relief, rehabilitation and development?
- Did the Commission ensure effective implementation of EU support for rehabilitation?

The audit covered the support provided to Haiti in 2010-2013 by ECHO, the Directorate-General for Development and Cooperation (EuropeAid) and the Service for Foreign Policy Instruments (FPI) and was carried out between May and November 2013. It included a review of the 10th EDF country cooperation strategy and other key policy documents, interviews with Commission and European External Action Service (EEAS) officials in Brussels, a visit to Haiti from 26 August to 6 September 2013 involving interviews with EU delegation staff, representatives of the Haitian authorities, the main international development partners, international NGOs and civil society organisations, as well as visits to projects.

13 EU-funded programmes aimed to provide support for rehabilitation and disaster risk reduction were examined representing in financial terms about two thirds of the commitments made by the Commission for those two areas i.e. 141 million EUR out of an overall commitment from the Commission of 202 million EUR from February 2010 to December 2012. The review focused on assessing the relevance, design and outputs of these programmes, which were scored using relevant criteria from the Commission's Results Oriented Monitoring.

## **Court's Findings and Observations**

### *- Did the Commission address priority rehabilitation needs?*

The Court found that EU support for rehabilitation after the 2010 earthquake in Haiti was based on an appropriate assessment of needs agreed between experts, main donors and the government of Haiti. Several needs assessment were performed by ECHO experts on preliminary and multi-sectors needs assessment, by a joint team of experts from Commission and three Member states (DE, FR ES) on needs assessment in the areas of infrastructure, Public Finance Management (PFM), governance, justice and security and social services while the Commission also supported the Post Disaster Needs Assessment (PDNA)<sup>1</sup> aiming at setting up a framework for development and growth. Furthermore, due to the multiple rehabilitation needs and scarce public resources, it is to be noted that budget support was considered crucial to fuel the restart and recovery of essential state functions in the very fragile context in the post-disaster era. A diagnosis of PFM weaknesses and an action plan with priority measures were agreed between the government and the donors involved in supporting economic governance.

The Court's examination also revealed that the EU support for rehabilitation was set up within a sound new cooperation strategy: the Commission revised the 10th EDF cooperation strategy with Haiti in relation with the above needs assessments while continuing supporting both long-term socio-economic development to eradicate poverty as well as responding to post-earthquake rehabilitation challenges. This revised strategy was also accompanied with an increased financial allocation respectively of 100 million for the programmable aid to reach 391 million euro and an increase from 13.6 to 73.6 million euro to cover unforeseen events such as emergency assistance. In addition, the programmes reviewed by the Court generally reflected the strategy defined by the Commission.

As regards the geographical division of labour between the Commission and other main donors, the Court considered it was appropriate but nonetheless highlighted a difficult day-to-day coordination during the implementation of programmes. Three major difficulties with regard to the coordination among donors in Haiti were identified namely (i) the limited effectiveness of the coordination mechanism for humanitarian assistance run by the Office for the Coordination of Humanitarian Affairs (OCHA) wherein ECHO participated due to its complexity, the high number of humanitarian actors with their own operational methods or the reluctance of certain donors to work together, (ii) the complex coordination mechanisms

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<sup>1</sup> The PDNA covers eight domains: governance, production, social sectors, infrastructure, regional development, environment and disaster risk management and cross-cutting issues such as gender, youth and vulnerable populations.

for development aid pre-existing to the earthquake and involving many stakeholders with different mandates and (iii) the slow decision-making by the Haitian government and the inability of Haitian authorities (the Interim Haiti Recovery Commission and the 'Cadre de Coordination de l'Aide Externe au Développement d'Haiti') to coordinate and provide strategic guidance for the increased support from international donors.

Likewise, for budget support, the Court also observed, as already the CONT Delegation reported it, that the priority action plan designed to seek a better coordinated monitoring and policy dialogue with Haitian authorities and whose purpose was to improve financial controls, introduce reforms and a common matrix of progress indicators, faded out progressively during implementation.

*- Did the Commission ensure linkage between relief, rehabilitation and development (LRRD)?*

Despite some Commission efforts, relief, rehabilitation and development were not sufficiently linked. The Commission used a range of complementary instruments flexibly involving discussion with national authorities and coordination with other donors and designed a variety of individual rehabilitation programmes to ensure the linkage between relief, rehabilitation and development.

However, the Court stated that the overall coordination within the Commission had several weaknesses. Even though the Commission established a crisis platform to coordinate the EU response, it was found that ECHO and EuropeAid had no clear common country strategy on LRRD to optimise the synergies and smooth transition between their respective activities. This weakness was also stressed by the Internal Audit Service and during the visit of the CONT delegation in February 2012 in particular between ECHO and the EU delegation. The Court highlighted the lack of continuity (gap in time) between the end of ECHO short-term oriented programmes and the availability of EuropeAid's funding, the differing views between humanitarian and development partners for addressing housing needs for instance and also the lack of formalization of ECHO's exit strategy and handover to the EU delegation.

The examination by the Court of certain LRRD programmes showed that their design was appropriate in particular for linking humanitarian and rehabilitation phases, creating the conditions for sustainable development or restoring essential functions of public services. Nevertheless, the Court questioned the prospects of achieving these objectives due to lack of appropriate reforms, the Haitian authorities' failure to take ownership and the absence of a properly functioning national administration in order to create appropriate conditions for sustainable development. It has to be taken into account, however, that working in a fragile country inevitably entails risks, which ultimately challenge the effective and efficient implementation of these objectives. The Court identified certain impeding factors such as delays in the implementation of programs, the lack of effective controls by the administration in the field of reconstruction including issues of property rights and the long process of developing the land register for the whole country, the limited prospects for setting up a continuous supply of good quality seeds for agricultural production or the slow progress made by the Government in the General Budget Support programmes.

*- Did the Commission ensure effective implementation of EU support for rehabilitation?*

The Court stated that the Commission did not sufficiently ensure effective implementation of EU support for rehabilitation. Ten out of the thirteen programmes<sup>1</sup> examined by the Court delivered, or were likely to deliver, their planned outputs, although almost all with delays compared to initial timetables. These delays were only to a certain extent caused by a difficult post-earthquake context, but also due to deficiencies in the Commission's programme implementation. Three programmes achieved limited progress, including the 10th EDF general budget support programme aimed to support the implementation of the Government's action plan for post-disaster reconstruction and its growth and poverty reduction strategy. It should be noted that the Court reported that disbursements were stopped by the Commission and other budget support donors for this programme in 2013 due to unsatisfactory progress in the reform of the Government's Public Finance Management.

With regard to risk management and while the Commission was well aware of the difficult post-disaster context, the Court found that the Commission did not sufficiently manage some significant resulting risks to the implementation and achievement of its programme objectives<sup>2</sup> such as *inter alia* long customs delays impacting ECHO's programme notably the construction of temporary shelters or the high fiduciary risk in providing budget support considering inadequate national control and accounting systems as recorded during the CONT delegation visit to Haiti in February 2012.

The Court finally observed that the monitoring of programmes was based on an appropriate framework but the Commission and the EEAS did not take timely measures to swiftly strengthen the resources of the EU delegation which had insufficient capacity, in particular that no re-deployment has been done in the immediate aftermath of the earthquake, to perform on the-spot visits and in particular not enough specific competence in Public Financial Management.

### **Summary of the Commission and European External Action Service Replies**

Given the need for a comprehensive approach and coordination among Commission services, a link between relief and development is necessary on a sectorial basis, despite the lack of a formal joint country strategy for LRRD in Haiti. Full and systematic integration of the LRRD approach has been eventually included in the funding cycle covering 2014-2020. The Commission pointed out the different mandates and procedures between the services namely for ECHO not being mandated to implement long term development investments.

The Commission and the EEAS emphasized that most projects have achieved their intended results despite the difficult context leading to delays in their implementation. As regards risks, the Commission and EEAS recalled that working in a fragile country inevitably entailed risks. While these risks were identified, the Commission managed to mitigate the impact of some external factors that caused delays. The Commission and the EEAS also mentioned that it was decided, in some cases, to implement the programmes despite the risks involved in order to contribute to the benefits of the population.

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<sup>1</sup> The programmes examined were related to ECHO projects, Instrument for Stability, Neighbourhood reconstruction and development, Food security and Budget support.

<sup>2</sup> The main risk factors identified concerned political instability, security, land ownership rights, shortage of land and urban complexity, poor administrative capacity, low levels of participation at community level, inadequate coordination and natural hazards.

The Commission underlined that for countries in situations of fragility and crisis/post-crisis, assistance has to be adapted to the situation in order to achieve a measure of success. To this effect, the Commission has developed a specific instrument of intervention known as the “State Building Contract” containing provisions for such situations.

The Delegation’s capacity was strengthened to the extent that budgetary and human resources constraints and standing administrative procedures allowed. Learning from the experience of the earthquake in Haiti and crisis events in other countries, the Commission and the EEAS have introduced a number of rapid response measures and a rationalisation of procedures in order to ensure a higher level of efficiency and effectiveness as well as a better utilisation of human resources.

The Commission and the EEAS also pointed out that business continuity procedures, established under responsibility of the EEAS, and provisions for emergency personnel redeployment have been established for all Delegations in the meantime.

### **Rapporteur’s recommendations for possible inclusion in the Commissions’ annual discharge report**

[The European Parliament]

1. Welcomes the special report evaluating the EU support for rehabilitation following the earthquake in Haiti as an important contribution to the overall political debate about the European Union's external humanitarian and development policies; takes note of the findings and recommendations;
2. Welcomes and takes note of the main conclusions and recommendations of the final report on the evaluation of the EU cooperation with the Republic of Haiti carried out by DG DEVCO at the request of the Parliament and sets out its observations and recommendations below;

#### General comments

3. Reiterates the overall satisfaction with the work and efforts carried out by the Commission's services in response to the earthquake in Haiti in 2010 and this, in an extremely critical situation for the EU delegation and its staff; welcomes in this respect the Commission's ability to withhold payments and disbursements as a consequence to unsatisfactory progress in the Government's financial management and deficiencies in national public procurement procedures;
4. Regrets the weaknesses identified in the coordination between donors and within the Commission's services as also elaborated by an evaluation of the EU's cooperation with the Republic of Haiti (2008-2012)<sup>1</sup>, which was issued on behalf of the Commission, calls in this respect for a better articulation of the humanitarian aid and development aid with a stronger linkage between relief, rehabilitation and development by means of a permanent LRRD interservices platform; considers that

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<sup>1</sup> Evaluation of the EU's co-operation with the Republic of Haiti (2008-2012), Particip GmbH, carried out on behalf of the Commission, August 2014

integrated approaches with clearly stated coordination objectives and a coherent country strategy between ECHO and EuropeAid alongside with best practices sharing have to be set up wherever possible; welcomes in this respect the inclusion of the systematic integration of the LRRD approach in the funding cycle covering 2014–20; calls furthermore on the Commission services for a better transition from short-term humanitarian activities to long-term development interventions and a coherent coordination not only among different EU actors but also with national priorities through a common strategy by means of a joint humanitarian and development framework; invites the Commission to enter into a dialogue with the Parliament if an effective coordination among the various financial instruments in humanitarian and development aid is hindered by the existing legal framework; believes also that the involvement of local civil society' NGOs can strengthen the use of the local knowledge base in order to better identify rehabilitation needs and to supervise progress achieved by national authorities;

5. Recalls the recommendations in the aftermath of the CONT delegation visit to Haiti in February 2012 and insists, as a constant principle, on the salient issue of traceability and accountability of EU development funds in particular by linking budget support to performance notably with clear definition of obligations and duties in the national administration<sup>1</sup> to ensure adequate transparency, traceability and accountability; reiterates its call for putting more emphasis on the fight against endemic corruption; points out that humanitarian aid should be based on an exit strategy and stresses that funds should be channelled through the Haitian Procurement Agency, which should act as a control filter; invites the Commission and the EEAS to emphasize on the conditionality matrix for sectorial budget support;
6. Recalls that 'State building' to be at the centre of the EU development strategy and the cornerstone of any such crisis situation, in line with the principles for intervention in fragile contexts; this includes support institutional building, transparency and efficiency of public financial management, budgetary allocations and effectiveness of public expenditure, with reinforced political and policy dialogues;
7. Calls for the definition of a good policy mix in the logic of the EU intervention through a comprehensive approach to state and non-state/non-governmental stakeholders and to the sectors support to be provided through rapid sectorial needs assessment and this, to the benefit of the viability, complementarity and sustainability of projects;

#### Orientations for the future

8. Beyond the Haitian situation, measures need to be discussed and improved in order to strengthen the policy framework of intervention and disaster risk reduction with the ultimate purpose to limit the risk for human lives and their living conditions to a minimum; believes that investment in disaster risk reduction is crucial as a full component of sustainable development as well as highly cost-effective by allowing a

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<sup>1</sup> The eligibility criteria are laid down by the 2011 Commission's communication entitled 'the future approach to EU budget support to third countries'.

significantly more efficient and effective use of resources than paying the bill for disaster response;

9. Considers that those situations of crisis and fragility require to develop policies which call for new approaches, new methods and expertise, particularly concerning activities such as (i) identifying risks at different operational levels, (ii) making scenario and projections of likely consequences and (iii) designing instruments to avoid, reduce and prepare for risks and potential disaster; calls for a flexible approach in order to allow the Commission to adapt its measures and instruments for assistance adequately and rapidly to a crisis and post-crisis situation; notes in this context that in the meantime the Commission set up a system to mobilize experts in various fields of competence in order to allow at short notice the deployment of additional staff to EU delegations or headquarter services in case of staff shortage;
10. Encourages the European Commission and the EEAS to work systematically on the four phases of the disaster management cycle i.e. mitigation and preparedness, response and recovery towards the definition of strategic framework for disaster risk management and resilience-building; calls on the Commission and the EEAS to inform the European Parliament about the developments in particular with regard to risk management and the preparedness to implement and achieve programme objectives in a post-disaster context;
11. Recalls that in any such crisis circumstances, due care has to be attributed to the soundness and operational effectiveness of the national governance framework for managing disaster risk reduction as a pre-condition for the success of the EU intervention; recalls that the assessment of any national governance framework should take into account *inter alia* the existing accountability frameworks for outcomes, the existing definition and decision of responsibilities at central and local levels, a clear chain of commands and controls, information channels among various actors/donors alongside with feedback mechanisms on projects;
12. Supports the Court's recommendations with regard to EU support for rehabilitation following the earthquake in Haiti and welcomes the Commission's response to also accept the recommendations;

#### The Court' recommendations

The Court recommends that during operations in the context of a post disaster or fragile situation the Commission should:

13. The Commission should, at the outset of programmes and, where appropriate, during implementation, assess the likelihood and potential impact of the main risks to the achievement of programme objectives and take measures to prevent or mitigate these risks.
14. EuropeAid and ECHO should adopt a common strategy on LRRD to ensure effective linkage and synergy between their respective activities. The strategy should set:



- the objectives and mandates of the respective departments;
  - the procedures to prepare coordinated country action plans;
  - exit strategies and handover procedures.
15. When providing budget support, the Commission should, in coordination with other donors:
- provide adequate capacity-building support and focus on key PFM functions, including accountability and anti-corruption mechanisms;
  - support the timely preparation of an appropriate PFM reform programme and;
  - where appropriate, set out shorter-term measures for safeguarding EU funds against waste, leakage and inefficiency.
16. In cases involving natural disasters or other similar events, and particularly those affecting the functioning of the EU delegation, the Commission and the EEAS should develop business continuity procedures, including provisions for emergency personnel redeployment.