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EUROPEAN COMMISSION  
REHABILITATION AID FOLLOWING  
THE TSUNAMI AND HURRICANE MITCH



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# EUROPEAN COMMISSION REHABILITATION AID FOLLOWING THE TSUNAMI AND HURRICANE MITCH

(pursuant to Article 248(4), second subparagraph, EC)

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# EXECUTIVE SUMMARY

## I.

Following the Indian Ocean tsunami of 26 December 2004, which killed over 200 000 people and caused damage of around 10 billion euro, the Court of Auditors reported on the Commission's immediate humanitarian aid response designed to prevent or relieve human suffering. The Parliament and the Council, during their discussions on this report, requested the Court to report on the subsequent longer-term rehabilitation phase to which the Commission contributed some 300 million euro. The current audit therefore examines rehabilitation aid following the tsunami. The scope of the audit was extended to include also the Commission's 250 million euro rehabilitation response to Hurricane Mitch, which struck Central America in October 1998 (see paragraphs 1 to 14).

## II.

This audit addresses the following three questions with the objective of assessing the Commission's performance in managing rehabilitation aid following Hurricane Mitch and the tsunami (see paragraphs 15 and 16).

- (a) Did the Commission adequately identify the rehabilitation needs of those affected by disasters?
- (b) Do Commission procedures ensure that aid is implemented in a timely and efficient manner?
- (c) Have projects achieved their expected results including satisfactory links with short-term relief and longer-term development?

## EXECUTIVE SUMMARY

### III.

Following both Hurricane Mitch and the tsunami, the Commission developed a rehabilitation strategy in less than six months which recognised the need not only to reconstruct damaged infrastructure, but also to address longer-term development and the needs of those not directly affected by the disasters. After Hurricane Mitch, the design process which subsequently translated the rehabilitation strategy into specific projects was lengthy and lasted until October 2002, four years after the disaster. In contrast, following the tsunami, the design process, carried out by international organisations through which the Commission channelled its funding, was more rapid, and designs for major projects were approved within eight months of the disaster in Indonesia and within 11 months in Sri Lanka. Moreover, in order to help ensure real needs were identified, the Commission response has evolved to include better coordination and consultation with beneficiary countries at national and local levels (see paragraphs 17 to 22).

### IV.

In Central America, following the lengthy design process after Hurricane Mitch, there were further delays in implementation due to difficulties in finding satisfactory contractors and identifying suitable land. The implementation of the Commission's rehabilitation response has been most rapid in Indonesia, where many outputs were achieved in the two years following the tsunami through the Multi-Donor Trust Fund. In Sri Lanka, in contrast, little has so far been achieved largely due to the renewal of conflict. The Commission has not addressed all key weaknesses in monitoring and supervision of the efficiency of rehabilitation aid, although it did succeed in improving the quality of monitoring information from the Multi-Donor Trust Fund in Indonesia. In Sri Lanka, adequate monitoring and supervision procedures for international organisations have not yet been established for all projects. After both disasters the Commission did not ensure that clearly quantified output targets were developed for all projects and that systems generated sufficient information to monitor and demonstrate the efficiency of implementation (see paragraphs 23 to 29).

### V.

Despite the above, many useful outputs have been achieved. In Central America projects completed with Commission funding have included schools, houses, health centres, sewage works and drinking water systems. In Indonesia outputs have included houses, roads, schools and community centres. Price increases following both disasters have reduced the quantity of outputs. Projects have generally consisted of development rather than rehabilitation activities and the links with preceding humanitarian aid have been variable. The strong link with longer-term development enhances the prospects of sustainability, though project designs have not sufficiently identified sources of finance to ensure activities continue to function when project financing ends (see paragraphs 30 to 41).

### VI.

On the basis of these observations, the Court makes recommendations which could help the Commission to provide more efficient and effective rehabilitation aid (see paragraphs 42 to 45).

# CHAPTER 1 INTRODUCTION

## SECTION 1.1. – CONTEXT OF THE AUDIT

1. On 26 December 2004 the Indian Ocean tsunami killed over 200 000 people and caused 10 billion euro worth of damage. The Indonesian province of Aceh suffered the worst of the devastation with over 160 000 people dead or missing and over half a million displaced. In Sri Lanka, the second worst affected country, some 35 000 people were dead or missing and half a million displaced.
2. The Court of Auditors' Special Report No 3/2006<sup>1</sup> examined the Commission's humanitarian aid response to the disaster. The Court was one of the first to produce an audit report on the response to the tsunami and at this early time focused on the Commission's short-term humanitarian relief. During its discussion on this report, the Committee on Budgetary Control of the European Parliament expressed the wish for the Court to report on the subsequent longer-term rehabilitation phase<sup>2</sup> and the Council welcomed this suggestion<sup>3</sup>.

<sup>1</sup> Special Report No 3/2006 concerning the European Commission Humanitarian Aid Response to the tsunami (OJ C 170, 21.7.2006, p. 1).

<sup>2</sup> Meeting of the Committee on Budgetary Control of 19 and 20 June 2006.

<sup>3</sup> Council Conclusions on Special Report No 3/2006 by the Court of Auditors concerning the European Commission Humanitarian Aid Response to the tsunami adopted by the October 2006 External Relations Council.



- 3.** It was in this context that the Court decided to carry out an audit of rehabilitation aid following the tsunami, with the objective of assessing the Commission's performance in managing rehabilitation aid. The scope of the audit was extended to include the Commission's response to Hurricane Mitch in Central America which struck Honduras, Nicaragua, El Salvador and Guatemala on 30 and 31 October 1998, resulting in the death of over 10 000 people and material damage of around 5 billion euro. The combined Commission contributions of some 550 million euro for rehabilitation following Hurricane Mitch and the tsunami represent in the order of 70 % of rehabilitation funding following natural disasters since 1998 financed from the general budget.
- 4.** Following Hurricane Mitch, the Commission provided in the order of 250 million euro from the rehabilitation budget line for the Regional Programme for the Reconstruction of Central America (PRRAC). Most of this funding was channelled through 15 programme management units<sup>4</sup> (PMUs) as shown in Table 1.

<sup>4</sup> Programme management units were established following an international tendering exercise. Headed by a Director, they were responsible for the implementation of programmes of rehabilitation activities approved by the Commission.

TABLE 1

## PRRAC INTERVENTIONS BY COUNTRY AND PARTNER

Million euro

Country	Large projects managed by 15 programme management units (PMUs)	Medium projects managed by public institutions and United Nations	Small NGO projects	Total
Honduras	111.0	5.2	3.1	<b>119.3</b>
Nicaragua	72.9	5.1	5.3	<b>83.3</b>
El Salvador	24.5	0.9	3.1	<b>28.5</b>
Guatemala	13.6	2.7	2.3	<b>18.6</b>
<b>Total</b>	<b>222.0</b>	<b>13.9</b>	<b>13.8</b>	<b>249.7</b>

Source: PRRAC annual report 2005.

5. After the tsunami, the Commission channelled its aid for Indonesia (some 200 million euro) through the World Bank Multi-Donor Trust Fund as shown in Table 2. A Steering Committee, co-chaired by the Commission, the World Bank and the government agency responsible for coordinating the reconstruction effort<sup>5</sup>, was responsible for setting the priorities, approving the projects and monitoring the progress of the Multi-Donor Trust Fund. Projects were supervised by a partner agency, usually the World Bank, and executed by an implementing agency, generally a government department<sup>6</sup>.
6. The Commission's aid for Sri Lanka after the tsunami was channelled through international organisations, mainly the Asian Development Bank and the United Nations (see Table 3).

<sup>5</sup> The Agency for the Rehabilitation and Reconstruction of Aceh-Nias (BRR or Badan Rehabilitasi dan Rekonstruksi).

<sup>6</sup> The European Commission was the largest donor to the Multi-Donor Trust Fund, pledging over 200 million euros or 40 % of total pledges. The next largest contributors were the Netherlands (26 %) the United Kingdom (11 %) and the World Bank (4 %).

TABLE 2

### EU BUDGET CONTRIBUTIONS TO THE MULTI-DONOR TRUST FUND IN INDONESIA

*Million euro*

Contribution	Source	Date agreed	Total
Rapid Reaction Mechanism	Rapid Reaction Mechanism	12.08.2005	3.5
First contribution	Cooperation Asia and Latin America	29.08.2005	29.9
Second contribution		21.09.2005	37.7
Third contribution		16.12.2005	13.9
Fourth contribution	Rehabilitation	25.04.2006	117.5
<b>Total</b>			<b>202.5</b>

## SECTION 1.2. – REGULATORY FRAMEWORK

7. The rehabilitation regulation<sup>7</sup> describes the procedures for the specific budget lines for rehabilitation and identifies the place of rehabilitation aid as the second of the following three key phases of assistance following a natural disaster:

- (a) initial short-term humanitarian relief which aims to save the lives and address the immediate needs of individuals affected by a crisis, for example by the provision of emergency food aid, water, shelter and medicines.
- (b) medium-term rehabilitation aid which aims to reconstruct basic infrastructure, relaunch production and reinforce institutions.
- (c) the resumption of longer-term development aid.

<sup>7</sup> Council Regulation (EC) No 2258/96 of 22 November 1996 on rehabilitation and reconstruction operations in developing countries (OJ L 306, 28.11.1996, p. 1).

TABLE 3

### PROJECTS FUNDED IN SRI LANKA

*Million euro*

Decision	Budget	Partner	Title	Amount
2005 45 million euro	Cooperation Asia and Latin America	United Nations agency	Immediate liveli- hood programme	5.4
		Asian Development Bank	Rehabilitation Matara-Batticaloa road	39.4
2006 50 million euro	Rehabilitation	International organisation	Community livelihood development	9.9
		United Nations agency	Community access roads	29.9
		United Nations agency	Environmental remediation	9.9
<b>Total</b>				<b>94.5</b>

- 8.** The Communication on linking relief, rehabilitation and development (LRRD)<sup>8</sup> emphasises that these three phases should not be addressed in isolation, but should be coordinated in order to ensure strong links between them.
- 9.** The regulation for cooperation with Asia and Latin America<sup>9</sup> also includes provisions for financing rehabilitation following disasters<sup>10</sup>. The EuropeAid Co-operation Office (EuropeAid) is responsible for the implementation of rehabilitation aid financed through both the rehabilitation regulation and the regulation for cooperation with Asia and Latin America.
- 10.** The Rapid Reaction Mechanism, set up by Council Regulation (EC) No 381/2001<sup>11</sup> and based in The Directorate-General for External Relations, was created to respond urgently to the needs of countries suffering from a disaster. It cannot finance humanitarian assistance and can only finance actions of six months' duration or less which could not be launched sufficiently quickly under existing instruments. The procedures of the Rapid Reaction Mechanism enable a fast response because the Commission merely has to inform the Council of intended actions without requiring formal adoption.

<sup>8</sup> COM(96) 153 of 30.4.1996 on Linking Relief, Rehabilitation and Development (LRRD).

<sup>9</sup> Council Regulation (EEC) No 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America (OJ L 52, 27.2.1992, p. 1).

<sup>10</sup> The Rehabilitation Regulation allows decisions up to 2 million euro to be taken without adoption by the Committee of Member States, whilst in the Regulation for Cooperation with Asia and Latin America this ceiling is 1 million euro.

<sup>11</sup> OJ L 57, 27.2.2001, p. 5.

- 11.** From 2007, the Development Cooperation Instrument<sup>12</sup>, to be implemented by EuropeAid, and the Stability Instrument<sup>13</sup>, to be implemented by External Relations DG, have replaced the existing regulations. They both include streamlined procedures for responding to disasters<sup>14</sup>.

<sup>12</sup> Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation (OJ L 378, 27.12.2006, p. 41).

<sup>13</sup> Regulation (EC) No 1717/2006 of the European Parliament and of the Council of 15 November 2006 establishing an Instrument for Stability (OJ L 327, 24.11.2006, p. 1).

<sup>14</sup> Funding decisions are generally taken following the adoption by the management committee of Member States. However, in a crisis situation, the Stability Instrument provides for measures up to 20 million euro to be financed without the adoption by the management committee of Member States. The Development Cooperation Instrument includes a facility for providing a rapid response through special measures up to 10 million euro, in the event of unforeseen circumstances such as a natural disaster, without the adoption by the management committee of Member States.

### Waste water treatment plant under construction in Honduras



Source: ECA.

## CHAPTER 2

# AUDIT SCOPE AND APPROACH

- 12.** This audit examines the Commission's rehabilitation response to the Indian Ocean tsunami of December 2004 and complements this with an examination of the Commission's response to Hurricane Mitch. Although Hurricane Mitch struck Central America in 1998, projects were still being finalised in 2007.
- 13.** Humanitarian aid is outside the scope of this audit as it has been examined in the Court of Auditors' Special Report No 3/2006 on the Commission's humanitarian aid response to the tsunami. However, the audit does examine the link between short-term humanitarian relief and longer-term rehabilitation and the contribution of the Rapid Reaction Mechanism in this regard.
- 14.** Examining the Commission's response to these two major disasters enables the audit to focus on three different implementing mechanisms:
  - (a) programme management units (PMUs) in Central America.
  - (b) contributions to a multi-donor trust fund in Indonesia.
  - (c) contributions to international organisations in Sri Lanka.
- 15.** The key questions addressed by this report with the objective of assessing the Commission's performance in managing rehabilitation aid following Hurricane Mitch and the tsunami are as follows.
  - (a) Did the Commission adequately identify the rehabilitation needs of those affected by disasters?
  - (b) Do Commission procedures ensure that aid is implemented in a timely and efficient manner?
  - (c) Have projects achieved their expected results including satisfactory links with short-term relief and longer-term development?
- 16.** The audit was based on an examination of documentation, on interviews and on-the-spot visits. The systems for managing, monitoring and controlling aid were assessed and corroborated by visits to partners and projects in Nicaragua, Honduras, Indonesia and Sri Lanka. Table 4 shows projects and partners visited on the spot. Projects for on-the-spot visits were selected according to criteria of sector, location, amount, stage of implementation and type of partner in order to obtain a reasonable overall picture.

TABLE 4

## REHABILITATION PROJECTS VISITED ON THE SPOT

Million euro

Partner	Project description	Commission funding <sup>1</sup>
<b>NICARAGUA</b>		
PMU	Reinforcing education sector (FOSED)	18.7
PMU	Integrated project Estelí-Ocotol (PRIESO)	18.9
PMU	Rehabilitation and strengthening of health services in Managua (FORSIMA)	10.2
PMU	Managua periphery integrated project (PROMAPER)	23.9
United Nations	Water and sanitation in the department of León	1.5
<b>Total value of projects visited in Nicaragua</b>		<b>73.2</b>
<b>HONDURAS</b>		
PMU	Water and sanitation in Tegucigalpa	26.7
PMU	Health and Education	23.1
PMU	Support to municipal management, housing and private sector (local development)	23.9
<b>Total value of projects visited in Honduras</b>		<b>73.7</b>
<b>INDONESIA</b>		
World Bank	Reconstruction of Aceh Land Administration System	8.4
World Bank	Kecamatan development project (KDP)	19.0
World Bank	Urban poverty project (UPP)	5.3
World Bank	Community-based settlement rehabilitation and reconstruction project (REKOMPAK)	24.9
United Nations	tsunami recovery waste management programme	4.2
<b>Total value of projects visited in Indonesia</b>		<b>61.8</b>
<b>SRI LANKA</b>		
United Nations	Immediate livelihood programme	5.4
Asian Development Bank	Rehabilitation of Matara-Battialoa road	39.4
International organisation	Community livelihood development	9.9
United Nations	Community access roads	29.9
United Nations	Environmental remediation	9.9
<b>Total value of projects visited in Sri Lanka</b>		<b>94.5</b>

<sup>1</sup> For projects in Indonesia, the amount shown is 40 % of the financing by the Multi Donor Trust Fund which receives 40 % of its funding from the Commission.

# CHAPTER 3 OBSERVATIONS

## SECTION 3.1. – IDENTIFYING REHABILITATION NEEDS AND DESIGNING PROJECTS

- 17.** The audit examined whether, in the wake of Hurricane Mitch and the tsunami, during the initial humanitarian relief phase, the Commission developed a strategy for the subsequent rehabilitation phase, which focused not only on the physical rehabilitation of basic infrastructure but also on wider needs<sup>15</sup>. The audit also examined whether this rehabilitation strategy was then translated into projects in a timely way, and the extent of beneficiary participation to aid sustainability.

### TIMELY REHABILITATION STRATEGY INCORPORATING WIDER ISSUES

- 18.** Following Hurricane Mitch in October 1998, the Commission developed its rehabilitation strategy in less than six months. Its planned rehabilitation response was set out in the April 1999 Community action plan for the reconstruction of Central America<sup>16</sup>. This document was the basis for establishing the regional programme for the reconstruction of Central America (PRRAC). The programme focused on education and health, and aimed not only to rehabilitate damaged infrastructure but also to improve and transform services providing a basis for more sustainable development.
- 19.** After the Indian Ocean tsunami of December 2004, the Commission's planned rehabilitation response was also developed in less than six months and was set out in the May 2005 tsunami indicative programme<sup>17</sup>. The programme aimed to rebuild roads, houses, schools and hospitals and to restart livelihoods. It recognised that the impact of the tsunami went beyond the narrow coastal belt actually inundated by the wave and aimed to provide support for wider development to the whole population of the districts affected. It also recognised the need for sensitivity to long-standing conflicts between the government and separatist organisations in both Aceh and Sri Lanka. In Aceh, a 30-year conflict between the government of Indonesia and the Free Aceh Movement (GAM) had claimed 15 000 lives. In Sri Lanka there had been on-and-off civil war between the government and the Liberation Tigers of Tamil Eelam (LTTE) since 1983 leaving 60 000 people dead. At the time the tsunami struck in December 2004, after three years of ceasefire and the return of 400 000 people to their places of origin, there were still an estimated 400 000 cases of displacement due to the conflict.

<sup>15</sup> Commission Communication COM(2001) 153 of 23.4.2001 on Linking Relief, Rehabilitation and Development – An assessment and Commission Communication COM(2005) 153 of 20.4.2005 on Reinforcing EU Disaster and Crisis Response in third countries.

<sup>16</sup> COM(1999) 201 of 28.4.1999 – Communication of the Commission to the Council and European Parliament relating to a community action plan for the reconstruction of Central America.

<sup>17</sup> C(2005) 1490 of 23.5.2005 – tsunami Indicative Programme, Indonesia, Sri Lanka, Maldives (2005-2006).



## FASTER DESIGN AND BETTER BENEFICIARY PARTICIPATION FOR TSUNAMI THAN FOR HURRICANE MITCH

- 20.** Following Hurricane Mitch, the initial strategy set out in the April 1999 Community action plan for the reconstruction of Central America was then translated into specific projects by a technical assistance office. This design process began in October 1999 and lasted for three years until October 2002, four years after Hurricane Mitch struck. Because of the length of this design process, some projects had to be redesigned by the programme management units (PMUs) responsible for implementation, further lengthening the time before projects could begin. Furthermore, opting for 15 programme management units with no national counterparts reduced the link with national authorities during the design phase.
- 21.** In contrast, in Indonesia after the tsunami, the design process was more rapid. The first Steering Committee meeting of the Multi-Donor Trust Fund in May 2005 endorsed four project concept proposals for a total of some 150 million euro and detailed project proposals were then approved for all four projects by August 2005. One of the main reasons for the Commission's decision to channel its aid through the Multi-Donor Trust Fund was to enhance coordination. The Multi-Donor Trust Fund only approved projects which had previously been screened by the government agency responsible for coordinating the reconstruction effort. In addition, projects have frequently incorporated a participatory planning approach in order to ensure that real needs are addressed and to enhance the prospects of sustainability of projects.
- 22.** Similarly, in Sri Lanka, the design phase was more rapid, and agreements were signed by November 2005 for the first tranche of 45 million euro, channelled through international organisations. Also, as in Indonesia, the Commission worked through the coordinating mechanisms of the beneficiary country, though at district level, which it considered more effective, and projects frequently involved a participatory planning approach to aid sustainability. In contrast, there were delays in the design phase for the second tranche of 50 million euro in Sri Lanka due to serious political problems in the country. These funds were initially planned to be channelled through the Post tsunami Operational Management Structure (PTOMS) Trust Fund agreed in June 2005<sup>18</sup>. In December 2005, however, the PTOMS was declared unconstitutional and following its failure the delegation started immediately redesigning.

<sup>18</sup> The Post tsunami Operational Management Structure (PTOMS) was a mechanism for allocating externally financed post-tsunami funds to the North East through a series of committees containing representatives from the Government (largely representing the Sinhalese population) the Liberation Tigers of Tamil Eelam (LTTE) and the Muslim community.

## SECTION 3.2. – IMPLEMENTATION OF AID

- 23.** The audit examined whether the implementation of rehabilitation aid was sufficiently rapid to meet the needs of those affected by disasters<sup>19</sup> and whether the systems on which the Commission relied for monitoring efficiency of implementation and progress against plans enabled it to ensure sound financial management of aid<sup>20</sup>.

<sup>19</sup> Council Regulation (EC) No 2258/96 of 22 November 1996 on rehabilitation and reconstruction operations in developing countries (OJ L 306, 28.11.1996, p. 1).

<sup>20</sup> Commission Communication COM(2005) 153 of 20.4.2005 on Reinforcing EU Disaster and Crisis Response in third countries.

### FAST IMPLEMENTATION FOR INDONESIA, SLOW FOR SRI LANKA AND HURRICANE MITCH

- 24.** After the lengthy project design phase in Central America, there were further delays during implementation, frequently linked to difficulties in finding satisfactory contractors or identifying suitable land (see Box 1).

#### BOX 1

#### EXAMPLES OF DELAYS

In [Nicaragua](#), a sewage works project did not start until 2006, i.e. more than seven years after Hurricane Mitch, due to the long design phase, the need to redesign because of the unsatisfactory initial design and the difficulties in finding a suitable contractor. Deadlines were extended for the [programme management unit](#) responsible for the water and sanitation project in [Honduras](#) due to difficulties in identifying suitable land, and for the programme management unit responsible for the health and education project in Honduras due to the lack of capacity of the implementing agency.

In [Sri Lanka](#), the Commission channelled 40 million euro through the [Asian Development Bank](#) for the rehabilitation of national roads. Work on the A2 in the south only began in 2007 whilst the tender for work on the A4 in the east was still being evaluated in September 2007. The completion of the 5 million euro project for developing livelihoods, implemented by a [United Nations agency](#), was delayed by the deteriorating security situation and has been extended by one year to September 2008.

25. Of the different responses, that of the Multi-Donor Trust Fund in Indonesia was the fastest and, despite some delays, many outputs were achieved there in the two years following the tsunami.
26. In Sri Lanka, progress has been slow. There have been delays on the rehabilitation of national roads funded through the Asian Development Bank. Furthermore, as a consequence of the need to redesign (see paragraph 22), work on projects implemented by United Nations agencies was only just beginning in the second half of 2007. There have been further delays due mainly to difficulties in recruiting staff. Consequently, almost three years after the tsunami, work was only just beginning on the projects for environmental remediation and community roads implemented by United Nations agencies.

#### Work in progress on the A2 national road in Sri Lanka



Source: ECA.

## NEED TO REINFORCE SUPERVISORY SYSTEMS TO ENSURE EFFICIENCY

- 27.** In Central America rehabilitation projects were implemented through programme management units, and the delegation generally exercised close monitoring and control of expenditure. However, the Commission did not ensure that comparative or standard cost information was available to monitor and demonstrate the efficiency of implementation (see Box 2). Also, for some projects, such as water and sewage works, the Commission did not ensure that clearly quantified output targets were developed to assess whether planned outputs were achieved. Furthermore, the planned external mid-term evaluation of the regional programme for the reconstruction of Central America (PRRAC) was not carried out.

### BOX 2

#### LACK OF COMPARATIVE OR STANDARD COST INFORMATION

The unit costs of comparable activities within the regional programme for the reconstruction of [Central America](#) (for example cost per house, per cubic metre of water storage, per latrine, per metre of sewerage and water piping) are not systematically calculated and compared by the delegation so that significant variations can be followed up, justified and explained. This is despite indications of a wide range of unit costs of activities. For example, the [programme management unit](#) responsible for the project for the periphery of Managua paid 7 000 euro per house to a United Nations agency, whilst the programme management unit responsible for the municipal management project in Honduras was able to build houses for just 2 900 euro each by involving the beneficiaries in construction teams.

The reports of the [Multi-Donor Trust Fund](#) in Indonesia do not link project outputs with the corresponding costs and consequently provide no basis for assessing cost-effectiveness or for benchmarking.

In [Sri Lanka](#) the delegation awarded projects totalling some 40 million euro to [United Nations agencies](#). On the basis of a broad assessment the delegation considered this approach preferable to using private contractors or non-governmental organisations. In order to demonstrate the efficiency of the chosen approach, unit costs such as the cost per kilometre of the roads built by the United Nations agency through community contracts (taking into account local conditions) could be monitored and compared with the costs of alternative mechanisms.

- 28.** In Indonesia, the Multi-Donor Trust Fund receives 40 % of its funds from the Commission and a further 50 % from EU Member States. Most of the projects funded by the Multi-Donor Trust Fund are managed by the World Bank which did not systematically share with the Steering Committee internal monitoring reports following field visits to projects. The annual published progress reports of the Multi-Donor Trust Fund did not provide a complete and balanced view of the state of implementation of projects, but instead highlighted progress whilst not mentioning backlogs. The Commission and other donors succeeded in improving the quality of information by obtaining an in-depth progress report for the period up to December 2006 and subsequent half year periods. As was the case following Hurricane Mitch, comparative cost information was not available and clearly quantified output targets were not developed for some projects, such as the urban poverty project, for which a list of total needs was provided which exceeded the funding available.
- 29.** In Sri Lanka, for projects implemented by one United Nations agency, the Commission did not ensure that comparative cost information was available to monitor and demonstrate the efficiency of implementation. Similarly, the Commission did not ensure that clearly quantified output targets were developed for projects being implemented by United Nations agencies, to assess whether planned outputs have been achieved. Moreover, for these projects, the delegation had not yet established procedures for approving the design of planned works and for accepting finished works.

## SECTION 3.3. – ACHIEVEMENT OF RESULTS

<sup>21</sup> Regulation (EC) No 2258/96.

- 30.** The audit examined whether expected outputs were achieved with adequate visibility and whether projects met the needs not only of those directly affected by Hurricane Mitch and the tsunami but also of the wider population. It also examined whether rehabilitation aid formed an effective link between initial short-term humanitarian relief on the one hand and longer-term development aid on the other<sup>21</sup>. The extent of ownership and plans for future funding were also examined in order to assess the prospects for sustainability.

### BOX 3

#### OUTPUTS

The **programme management units** which implemented the PRRAC in **Nicaragua** have, among other actions, constructed or rehabilitated 139 schools, over 1 050 houses, five health centres, a health authority headquarters, drinking water and sewage works including wells, water storage and latrines. In **Honduras** outputs included drinking water and sewage works, 1 280 new and 200 rehabilitated houses, and 336 new or rehabilitated schools and health centres.

By the end of 2006 the Multi-Donor Trust Fund in Indonesia had supported the construction or the rehabilitation of 2 100 houses, 1 900 km of village roads, 240 schools, 118 community centres, 40 health centres and 680 clean water works. However, the Commission's decision to channel its funding

through the Multi-Donor Trust Fund reduced the EU's visibility in the eyes of beneficiaries and donors.

In **Sri Lanka**, by the second half of 2007, outputs were still limited as work was only just commencing on the national and community road projects implemented by the **Asian Development Bank** and a **United Nations agency**. About 100 livelihood activities were underway or completed in the framework of the livelihood development projects. Almost half of the planned rubble collection had taken place in the framework of the environmental remediation programme but the construction of landfill sites and recycling centres had not begun due to delays in identifying suitable locations.

### MANY USEFUL OUTPUTS ACHIEVED

- 31.** Despite the difficulties in comparing achievements with planned targets (see paragraphs 27 to 29), projects funded by the Commission have nevertheless produced many outputs in Central America and Indonesia (see Box 3). However, the Commission and its partners in some cases did not generate sufficient information — such as comparative cost information — to help demonstrate whether these outputs represented an efficient use of funds (see paragraphs 27 to 29). In Sri Lanka, due largely to the renewed conflict (see paragraphs 22 and 26) there were very few outputs by the second half of 2007.

#### Water storage in Nicaragua



Source: ECA.

- 32.** After both disasters there were significant price increases due to increased demand for labour, plant and materials. For projects without clearly quantified output targets the impact of inflation could not be measured, but where clear targets had been set there have been insufficient funds to carry out all activities initially intended (see Box 4).
- 33.** The achievement of project results depends not only on producing outputs, but also on ensuring that these outputs are useful to beneficiaries. In Indonesia, the Commission has recognised the need to enhance the utility of the houses funded by the Multi-Donor Trust Fund by providing the necessary supporting infrastructure, particularly for the supply of drinking water. In all three countries visited, projects did not aim simply to replace damaged infrastructure and to assist the directly affected population (see paragraphs 18 and 19). Instead, projects consisted largely of development rather than rehabilitation activities and beneficiaries included the wider population (see Box 5).

## BOX 4

## IMPACT OF INFLATION ON OUTPUTS

The [programme management unit](#) responsible for improving health services in [Nicaragua](#) had insufficient funds to construct the planned health centre at San Rafael del Sur. This was due to price increases for labour and materials which had more than offset the additional local funding made available from the strengthening of the euro against the Nicaraguan córdoba.

The [Multi-Donor Trust Fund](#) in [Indonesia](#) planned to construct up to 10 000 houses and repair a further 15 000. However, these targets have been reduced to 6 000 and 8 400 houses respectively due to price increases.

In [Sri Lanka](#), due to price increases, funds were insufficient to cover all roads and activities initially planned in the framework of the road rehabilitation project implemented through the [Asian Development Bank](#). Consequently, some 8 million euro of planned capacity building and road construction activities were dropped and additional funding of 13 million euro was transferred in from another road rehabilitation programme in order to meet the higher than expected costs of construction. The growing strength of the euro against the Sri Lankan rupiah in 2006 and 2007 is expected to offset the impact of any further price increases.



### House in Aceh funded by the Multi-Donor Trust Fund



Source: ECA.

#### BOX 5

### PROJECTS NOT SIMPLY REPLACING DAMAGED INFRASTRUCTURE

The education project in [Nicaragua](#) and the water and sanitation project in [Honduras](#) mainly addressed needs which existed prior to Hurricane Mitch. None of the health centres built by the [programme management unit](#) responsible for the health project in Nicaragua were to replace those which had been destroyed or severely damaged by Hurricane Mitch. Similarly most houses constructed through programme management units were not built to replace those destroyed by the hurricane. Instead, beneficiaries were selected on the basis of poverty and vulnerability. The old town hall in Sandino had not been destroyed by Mitch, but a new town hall was built because the influx of refugees from Mitch put greater demands on the municipal administration.

In [Indonesia](#), the [Multi-Donor Trust Fund](#) financed a 50 million euro project to develop sub-districts (the Kecamatan Development Project). Out of 221 sub-districts covered by the project, 134 (over 60 %) were not directly affected by the tsunami.

In [Sri Lanka](#) some 70 million euro was allocated to the rehabilitation of national and rural roads through projects managed by the [Asian Development Bank](#) and a [United Nations agency](#). These roads were in a poor state of repair before the tsunami. The waste management project implemented by a United Nations agency covers the whole district of Ampara and not just the directly affected coastal part.

#### CONTRASTING LINKS WITH PRECEDING HUMANITARIAN AID

- 34.** There was a weak link between initial humanitarian relief and subsequent rehabilitation aid following Hurricane Mitch in 1998 due to the long design process and subsequent delays regarding the rehabilitation response (see paragraphs 20 and 24).
- 35.** Following the tsunami, the Commission's response was more sensitive to the link between relief and rehabilitation and in Indonesia, in particular, a number of factors combined to strengthen this link:
- (a) The relatively fast response of the Multi-Donor Trust Fund (see paragraph 25) enabled some rehabilitation projects to provide a link with earlier Directorate-General for Humanitarian Aid (ECHO) humanitarian projects. For example ECHO provided temporary shelters whilst the Multi-Donor Trust Fund then followed up this activity by building permanent housing.
  - (b) The long duration of ECHO's humanitarian intervention until mid-2007 helped the link between relief and rehabilitation, particularly as it included short-term rehabilitation, such as the construction of boats and a wharf at Lampuuk in Aceh.
  - (c) The Rapid Reaction Mechanism funded activities which helped link relief with rehabilitation, such as the provision of satellite imagery. It also financed mediation efforts between the government of Indonesia and the Free Aceh Movement (GAM), which led to a peace agreement in August 2005, strengthening the foundations for rehabilitation and longer term development.

- 36.** Nevertheless, the Multi-Donor Trust Fund has addressed with delay the key area of restoration of livelihoods lost in the tsunami. It was not until May 2007 that the Multi-Donor Trust Fund earmarked 50 million euro for economic development and livelihoods. Although many people have been employed on Multi-Donor Trust Fund projects this has been on a short-term basis only and most skilled workers come from outside Aceh.

**ECHO project to restore livelihoods of fishermen in Aceh**



Source: ECA.

- 37.** In Sri Lanka, ECHO also stayed until mid-2007 and the Rapid Reaction Mechanism funded a 2 million euro quick recovery project to clear debris and improve drainage. However, despite these measures, the link between relief and rehabilitation was nevertheless tenuous because ECHO had concentrated its humanitarian activities in the north and east which subsequently became largely inaccessible due to the escalation of the conflict. Consequently rehabilitation activities could not be implemented in many areas where ECHO activities had previously been carried out. Moreover, the Commission chose not to follow up the provision of transitional shelters with the construction of permanent housing because the tsunami housing sector was comparatively over-funded by other donors.

#### **STRONG LINK WITH LONGER-TERM DEVELOPMENT**

- 38.** The Commission's response strategy following both disasters was not simply to reconstruct damaged infrastructure and restore livelihoods for those directly affected by the disasters, but also to address longer-term development needs, and not simply of those directly affected by the disaster, but of a wider population (see paragraphs 18, 19 and 33). This wider development orientation has been implemented in practice. This approach was consistent with national strategies and therefore appreciated by beneficiary governments which emphasised the importance of 'transformation' following Hurricane Mitch and 'building back better' following the tsunami. For example, the Sri Lankan government's December 2006 report on post-tsunami recovery commended those partners who targeted whole districts and not just the coastal parts directly affected by the tsunami.

## CONCERNS OVER THE SUSTAINABILITY OF PROJECTS

- 39.** After Hurricane Mitch, the implementation of the Commission's rehabilitation response in Central America through programme management units without a national counterpart now appears inconsistent with the emphasis on ownership in current development policy<sup>22</sup>. Consequently there is a risk of low sustainability due to lack of involvement of local institutions which some projects tried to address by building in local ownership during project implementation. Nevertheless, beneficiary communities were not directly involved in building health centres and schools, and the sustainability of water and sewerage projects will depend on the establishment of effective charging mechanisms and of national policies in this area.

<sup>22</sup> The European Consensus on Development jointly adopted in December 2005 by the Council and Member States, the Commission and the Parliament (OJ C 46, 24.2.2006, p. 1) states that a common principle of development cooperation is the ownership of programmes by partner countries. The Paris Declaration on Aid Effectiveness of March 2005 signed by Ministers of Developed and Developing Countries similarly affirms a commitment to aligning aid with partner countries' systems and procedures and helping to strengthen their capacities.

### Newly constructed school in Honduras



Source: ECA.

- 40.** In contrast, in Indonesia following the tsunami, the national agency responsible for coordinating the reconstruction effort screened all project proposals of the Multi-Donor Trust Fund and was also co-chair. Furthermore, projects also adopted a participatory planning approach to ensure they met local priorities. Working in this way with the beneficiary population has enhanced the prospects of sustainability, particularly given the peace agreement to which the Commission contributed by funding mediation efforts. Nevertheless, continued government support and sustainable financing remain sensitive issues.
- 41.** Similarly, in Sri Lanka, there was considerable consultation with the local population. Nevertheless, the sustainability of the waste management project, implemented by a United Nations agency, will depend on the establishment of an effective charging mechanism. The sustainability of national roads, implemented through the Asian Development Bank, will depend on the correct functioning of the newly established roads maintenance fund. Regarding the sustainability of local roads, implemented by a United Nations agency, this will depend on the quality of construction. Whilst Commission financed projects provide a concrete framework for the different ethnic communities to work together, the continued conflict in Sri Lanka jeopardises all the efforts undertaken to ensure the technical and financial sustainability of projects.

**Construction of a local road using community labour in Sri Lanka**



*Source: ECA.*

# CHAPTER 4 CONCLUSIONS AND RECOMMENDATIONS

42. The Commission used three different implementing mechanisms to deliver its rehabilitation aid response following Hurricane Mitch and the tsunami (programme management units in Central America, contributions to a Multi-Donor Trust Fund in Indonesia and contributions to international organisations in Sri Lanka). Table 5 shows the Commission's performance in these three locations regarding the three audit questions. The choice of implementing mechanism is not the only factor influencing performance as was clearly demonstrated by the example of Sri Lanka where the renewal of conflict following the tsunami has slowed the pace of rehabilitation and limited its geographical scope.

TABLE 5

SUMMARY OF STRENGTHS AND WEAKNESSES

Audit question	Criteria	Central America following Hurricane Mitch	Indonesia following tsunami	Sri Lanka following tsunami
Identifying needs	Timely strategy incorporating wider issues	+	+	+
	Timely design with beneficiary participation	-	+	+ <sup>-1</sup>
Implementing aid	Timely implementation	-	+	- <sup>1</sup>
	Monitoring of efficiency	- <sup>2</sup>	- <sup>2</sup>	- <sup>2</sup>
Achievement of results	Achieving useful outputs	+	+	- <sup>1</sup>
	Link with humanitarian relief	-	+	- <sup>1</sup>
	Link with longer-term development	+	+	+
	Prospects for sustainability	-	+	- <sup>1</sup>

+ = strength; - = weakness

<sup>1</sup> Linked to Conflict in the Country

<sup>2</sup> Relates principally to the collection of comparative cost information and clearly defined output targets.



*Did the Commission adequately identify the rehabilitation needs of those affected by disasters?*

- 43.** Concerning the identification of needs and project design, in the wake of both disasters the Commission rapidly developed a strategy which was sensitive to the needs of a wider population than those whose assets were damaged or destroyed by the disaster. Following the tsunami the Commission designed projects more rapidly than after Hurricane Mitch and with greater beneficiary participation to aid sustainability (see paragraphs 17 to 22).

**RECOMMENDATION 1**

The Commission should continue to build on its approach adopted after the tsunami which enables the rapid design of rehabilitation projects and involves beneficiaries in order to enhance ownership and sustainability.

*Do Commission procedures ensure that aid is implemented in a timely and efficient way?*

- 44.** Implementation has been most rapid in Indonesia, whilst in Sri Lanka little has so far been achieved largely due to the renewal of conflict. For the tsunami, the Commission did not address all key weaknesses in the systems for monitoring and supervising the efficiency of rehabilitation aid already observed in the case of Mitch. In particular, it did not ensure for all projects that clearly quantified output targets were developed and that systems generated sufficient information to demonstrate the efficiency of implementation (see paragraphs 23 to 29).

**RECOMMENDATION 2**

In order to improve the supervision of funds, the Commission should continue its efforts, in full cooperation with other donors, to improve the transparency of Multi-Donor Trust Fund reporting in Indonesia and should establish independent quality review of project designs and acceptance of finished works for United Nations organisations managing EU funds in Sri Lanka.

**RECOMMENDATION 3**

The Commission should ensure that comparative cost information is available to monitor and demonstrate the efficiency of project implementation, and that clear project targets are developed in order to be able to assess whether planned outputs have been achieved.

*Have projects achieved their expected results including satisfactory links with short-term relief and longer-term development?*

- 45.** Concerning the achievement of results, considerable useful outputs have been achieved in Central America and in Indonesia although price increases following both disasters have reduced the quantity of outputs. In Indonesia, visibility in the eyes of beneficiaries and donors was reduced because funds were channelled through the Multi-Donor Trust Fund. Following both Hurricane Mitch and the tsunami, beneficiaries included not just those directly affected by the disaster, but also the wider population. Whilst the link with preceding humanitarian aid has been variable, the link with longer-term development has been strong which enhances the prospects of sustainability. Nevertheless, continued government support and sustainable financing remain sensitive issues (see paragraphs 30 to 41).

**RECOMMENDATION 4**

The Commission should better anticipate significant price increases following natural disasters in order to manage them, for example through increased use of community labour and local resources.

**RECOMMENDATION 5**

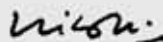
Adequate visibility for the EU should be ensured, particularly when projects are implemented through international organisations.

**RECOMMENDATION 6**

Starting at the design phase of projects, the Commission should take appropriate and timely action in order to ensure the sustainability of projects

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 12 June 2008.

*For the Court of Auditors*



Vítor Manuel da Silva Caldeira  
*President*

# THE COMMISSION'S REPLIES

## EXECUTIVE SUMMARY

### III.

The circumstances in the aftermath of Hurricane Mitch and the tsunami were different. As regards Hurricane Mitch, a large consultation process took place involving all stakeholders, both public and private, in the design as well as in the implementation of the regional programme for the reconstruction of Central America (PRRAC). Actions following Hurricane Mitch gave rise to substantial involvement of civil society.

Drawing on lessons learned from the consultation process from Hurricane Mitch, the response provided to the tsunami was well coordinated at international level, and built quickly on the success of the humanitarian phase and the rapid inception of national reconstruction plans. In particular, the creation of the Multi-Donor Trust Fund in Indonesia, led by the EU, was instrumental in facilitating donor coordination and pooling of funds, to quickly launch the recovery process with sound policies <sup>(1)</sup>.

### IV.

In Central America, some activities, mainly for smaller actions, were launched in 2001. All projects included output estimates and foresaw periodical reports to monitor progress in order to undertake the corresponding corrective actions. Monitoring, as well as intermediate and final evaluations, were carried out as planned.

<sup>1</sup> The Multi-Donor Trust Fund for the Reconstruction of Aceh and Nias (MDTF) is funded by 15 international and bilateral organisations, with 90 % of the funds provided by the EU (the European Commission and Member States).

As regards the tsunami, both in Indonesia and Sri Lanka, expected outputs and cost assessments are included in appraisal documents for each project and in the contractual arrangements with implementing partners. The efficient use of funds is continuously monitored by the Commission. Final actual costs are established at the end of the project as resulting from a bidding process and other needs or adjustments required during project implementation. The Commission will include assessments of cost effectiveness for each project in mid-term and final evaluations.

In Sri Lanka, further to the visit of the Court, the Commission has reinforced independent quality control before acceptance of finished works.

#### **V.**

The PRRAC projects were designed and implemented following an approach which took into consideration not only infrastructure outputs but also awareness raising and training activities in order to strengthen national and municipal institutions and beneficiary organisations. In some cases the PRRAC also contributed to reinforcing decentralisation initiatives by developing management capacities of local actors to overcome regional inequities (i.e. health and education projects in El Salvador).

In the case of the tsunami, the Commission response was an integral part of overall national reconstruction plans. Under the concept of 'building back better', maintenance and sustainability of reconstruction projects should be ensured, in the case of housing and livelihood recovery by private beneficiaries, and in the case of public infrastructures and services by commitments in the budgets of local and central governments.

#### **VI.**

The Commission's replies to the Court's specific recommendations are provided in paragraphs 42 to 45.

### **CHAPTER 1. INTRODUCTION**

#### **4.**

The regional programme for the reconstruction of Central America (PRRAC) was the main response that the Commission provided following Hurricane Mitch and was complemented by some reorientations in the bilateral cooperation programmes, increases in allocations to NGOs' cofinancing and additional support in the context of food security.

### **CHAPTER 3. OBSERVATIONS**

#### **20.**

The implementation through project management units was the result of an ad-hoc agreement with the beneficiary countries, taking account of the exceptional circumstances and the lack of local capacity to take on the tasks involved. The PRRAC has proved that it is possible to achieve a high level of participation of national institutions and beneficiaries, without having the implementation of the programme directly or solely managed by them. In the PRRAC, the implementation of projects through programme management units (PMUs) eliminated some of the political tensions and rivalries as well as administrative shortcomings which usually hinder projects with large infrastructure components.

#### **24.**

The time required for project design and implementation is explained by the complex nature of a project covering multi-dimensional recovery needs. Some activities, mainly for smaller PRRAC actions, were progressively launched from late 2001.

**26.**

The gradual intensification of the conflict in Sri Lanka has provided a very difficult context to operate in, particularly as regards making progress in reaching local communities.

**Box 1**

In spite of the delays mentioned about the PRRAC in Honduras, the health and education projects achieved their goals and, for instance, contributed to improving the official school system.

**27.**

The Commission notes the usefulness of comparing unit costs in order to carry out a better budget preparation and expected cost-effectiveness analysis, but wishes to stress the difficulty of applying such a tool in various reconstruction contexts and in different countries with diverse socio-economic patterns.

Each large PRRAC project has been evaluated. While no specific mid-term evaluation of the PRRAC was undertaken, a more general evaluation report *Evaluation des actions de réhabilitation et de reconstruction financées par la Communauté Européenne dans les pays ACP/ALA/MED/TACIS*, which covered PRRAC, was published in 2003. These evaluations contain recommendations that have been taken into consideration.

The final overview of comparative or standard cost information will be part of PRRAC evaluation planned to be carried out towards the end of 2008.

**28.**

At the Commission's and other donors' request, the World Bank agreed from 2007 to share systematically with the MDTF Steering Committee its internal monitoring reports following field visits.

For all MDTF projects, the analysis of reasonableness of the proposed output and estimated costs are examined by the MDTF Steering Committee during the appraisal stage. After approval, the contractual arrangements with implementing partners always include estimates of costs and corresponding outputs/results. For each financed project, a financial report from the implementing agency to the trustee enables the trustee to track any deviation and take corrective actions, in line with its contractual obligations. Some projects, such as the urban poverty project, allocate grants to communities that should identify and prioritise the particular small works to be undertaken, subject to specific review and acceptance procedures. Final actual costs of outputs are calculated at the end of the project.

**29.**

Further to the visit of the Court, the Commission will include an assessment of cost effectiveness in the final evaluation. The Commission has reinforced independent quality control before acceptance of finished works (i.e. a supervision engineer for access roads and community infrastructure).

**Box 2**

The wide geographical dispersion of interventions in the PRRAC and the different socio-economic conditions made some cost comparisons less relevant, as for example houses in two different countries and in rural and urban settings.

In the case of the PRRAC in Ciudad Sandino (Managua), it was agreed that each beneficiary family should provide one full-time worker for the construction works of its house, as well as 100 hours of community labour.

As regards the tsunami, both in Indonesia and Sri Lanka, expected outputs and cost assessments are included in appraisal documents and in the contractual arrangements with international organisations and/or implementing partner agencies. Final actual costs are established at the end of the project as resulting from a bidding process and other needs or adjustments required during project implementation. The Commission will include assessment on the cost effectiveness in the final evaluation.

### 31.

In Central America, the individual intermediate and final evaluations of PRRAC projects covered the information needed as regards efficient use of funds. This aspect will also be covered in the foreseen final evaluation of the PRRAC as a whole in 2008. For Indonesia and Sri Lanka, the efficient use of funds is being continuously monitored and will be a specific topic for the mid-term evaluations planned in 2008.

See also replies to paragraphs 27 to 29 and Box 2.

### Box 3

The Commission in its role of co-chair of the Steering Committee has enhanced the visibility of the EU in Indonesia through its *strategic influence* in the MDTF, as well as linking the reconstruction to the complementary initiatives in support of the Aceh peace process, in full dialogue and as a privileged partner of Indonesian authorities at the central and local levels. The Commission considers that its constructive role of coordination, as leading donor in the Steering Committee, has created very positive visibility and high appreciation with beneficiaries as well as implementing partners.

### Box 4

The Court's observation on the planned health centre at San Rafael del Sur is correct. However, the community already has a functional health centre serving the local population. For these reasons, it was concluded that a supplementary centre was no longer a priority.

The Commission contributes to the overall housing reconstruction plan of the government of Indonesia. Since the visit of the Court, the revised targets related to housing funded by the MDTF have been updated to 8 000 new houses and 7 000 repaired houses. The shortfall of the MDTF housing is covered by government funding.

### 33.

In the case of the Hurricane Mitch, the programme preparation phase took into consideration the general situation in Central America, striking a balance between short to medium-term needs and longer-term development strategy.

For the tsunami, both in Indonesia and Sri Lanka, the Commission support has been an integral part of national reconstruction and development plans to ensure ownership and sustainability in 'building back better'. For Sri Lanka, the donor community unanimously agreed that the assistance had to be conflict-sensitive and should benefit the most vulnerable populations in the tsunami-affected areas.

#### **Box 5**

The MDTF response is consistent with national reconstruction plans which covered the whole of the Aceh province, due to the large number of displaced people, many of whom were traumatised and did not want to return to the coastal area.

#### **34.**

The time required for project design and implementation following Hurricane Mitch is explained by the complex nature of a project covering multi-dimensional recovery needs (see replies to paragraphs 20 and 24).

#### **36.**

In Indonesia, the focus was put on reconstruction of infrastructure in a first phase, in accordance with the priority of needs as expressed by the national and local authorities. There existed a general consensus that, in order to ensure the sustainability of the livelihood recovery activities, those needed to be embedded in a locally-owned economic recovery strategy. The preparation of such a strategy was contingent upon political progress and the establishment of a provincial government which only took place from 2007 onwards (after the December 2006 Aceh local elections). On this basis, a project for an Economic Development Finance Facility (USD 50 million) was agreed in 2007.

#### **39.**

Actions in the health, education, local development, water and sanitation sectors often include an institutional strengthening component for the national managing entities with a view to promoting sustainable policies in these sectors. The first *ex-post* evaluation reports for two projects in El Salvador and one in Honduras concluded that sustainability was achieved.

#### **40.**

Complete financing for Aceh reconstruction is ensured by the budget of the government of Indonesia.

## **CHAPTER 4. CONCLUSIONS AND RECOMMENDATIONS**

#### **42.**

For the tsunami, both for Indonesia and Sri Lanka, the Commission considers that the steps undertaken in relation to monitoring efficiency have resulted in improvements within the legal arrangements concluded with international organisations (see replies to paragraphs 27 to 29 and Box 2). The Commission is continuing to work in this sense.

The Commission considers that the Court's summary presented in Table 5 of the monitoring of efficiency does not take sufficient account of other criteria than the availability of comparative cost information and targets. The Commission considers it to be too early to conclude definitively on sustainability and will examine this issue in forthcoming evaluations.



### **Recommendation 1**

The Commission agrees with the Court's recommendation, which represents a very positive appreciation of the multi-donor coordinated approach followed for the tsunami, and will endeavour to apply it whenever the preconditions exist.

#### **44.**

In general, following a major disaster, there is need to strike a balance between providing a fast response and the appraisal of very detailed needs and unit cost estimates, considering that cost efficiency is mainly ensured by competitive procurement. In the case of the tsunami response, expected outputs and cost assessments are included in appraisal documents and in the contractual arrangements with implementing partners. For some projects, precise works are identified and prioritised by local communities during implementation, and therefore clearly quantified outputs cannot be determined at the outset of the programmes. The efficient use of funds is continuously monitored by the Commission. An independent assessment on the cost-effectiveness for each project will be made in the mid-term and final evaluations.

### **Recommendation 2**

The Commission shares the views of the Court regarding transparency of MDTF monitoring and considers that, in the case of Indonesia, it has taken steps, in cooperation with other donors, to improve transparency (as demonstrated by the availability of in-depth progress reports since December 2006).

For Sri Lanka, since November 2007, the Commission has reinforced the independent quality control before acceptance of finished works by contracting additional services for infrastructure projects.

### **Recommendation 3**

The Commission notes the usefulness of comparing unit costs in order to carry out a better budget preparation and expected cost-effectiveness analysis, but wishes to stress the difficulty of applying such a tool in various reconstruction contexts and in different countries with diverse socio-economic patterns.

The Commission will continue its efforts to specify project targets as clearly as possible.

#### **45.**

In the Multi-Donor Trust Fund, much attention was given by the donors' group to achieving visibility focused on results. The Commission considers that its constructive role of coordination, as co-chair of the Steering Committee, has created very positive visibility for the European Union and high appreciation among beneficiaries as well as implementing partners.

The Commission supports the concept of 'building back better' in reconstruction, that should reinforce ownership and sustainability.

**Recommendation 4**

The Commission takes note of the recommendation of the Court and will reflect about how best to deal with anticipating significant price increases following natural disasters, in full cooperation with other donors and the authorities of the beneficiary country.

**Recommendation 5**

The Commission considers that visibility is a very important topic which it always tries to enhance.

**Recommendation 6**

The Commission agrees that sustainability issues should be addressed from the design phase. Risks, including sustainability issues, are generally assessed in the design phase of the projects, and the Commission will endeavour to reinforce this aspect throughout project implementation.

European Court of Auditors

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IN THIS REPORT, THE COURT ANALYSES THE EUROPEAN COMMISSION'S MANAGEMENT OF REHABILITATION AID AFTER TWO MAJOR NATURAL DISASTERS: HURRICANE MITCH IN 1998 AND THE 2004 TSUNAMI. THE COMMISSION'S COMBINED REHABILITATION AID OF 550 MILLION EURO AIMED TO RECONSTRUCT BASIC INFRASTRUCTURE AND PROVIDE A BASIS FOR SUSTAINABLE DEVELOPMENT. THE COURT MAKES RECOMMENDATIONS WHICH COULD HELP THE EUROPEAN COMMISSION TO PROVIDE MORE EFFICIENT AND EFFECTIVE REHABILITATION AID IN THE FUTURE.



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