



# Accounting for Haiti aid funds 2011





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# Contents

	<b>Summary</b>	<b>1</b>
<b>1</b>	<b>Introduction</b>	<b>4</b>
1.1	Reason and background	4
1.2	Audit objectives and questions	5
1.3	Scope of the audit	6
1.4	Structure of this report	7
<b>2</b>	<b>Reconstruction work in Haiti</b>	<b>8</b>
2.1	General picture of the aid effort	8
2.2	Success factors, impediments and SHO's accounts for reconstruction work in Haiti	9
2.2.1	Success factors	9
2.2.2	Impediments	12
2.2.3	Accounts for the aid programmes	14
<b>3</b>	<b>SHO's accounts for 2011</b>	<b>20</b>
3.1	Results of comparison of SHO reports	20
3.1.1	More and better information	20
3.1.2	Scope for improvement	21
3.2	Expenditure	22
3.2.1	SHO aid flows to Haiti	22
3.2.2	Aid expenditure in Haiti	24
3.3	External audit	27
3.4	Cost calculations	28
3.4.1	Overhead costs	28
3.4.2	Programme management expenses	28
3.5	Size of reports	29
<b>4</b>	<b>Supervision by the Ministry of Foreign Affairs</b>	<b>31</b>
4.1	Introduction	31
4.2	Supervision in Haiti	31
4.3	Assessment of SHO reports	32



<b>5</b>	<b>Conclusions and recommendations</b>	<b>33</b>
5.1	Conclusions	33
5.2	Recommendations	35
5.2.1	Recommendations for future aid appeals	35
5.2.2	Follow-up of our previous recommendations	36
<b>6</b>	<b>Responses from the ministry and SHO; Court afterword</b>	<b>38</b>
6.1	Response of the State Secretary for Foreign Affairs	38
6.2	Response of the SHO	38
6.3	Afterword	39
<b>Appendix 1</b>	<b>Main conclusions, recommendations and undertakings</b>	<b>41</b>
<b>Appendix 2</b>	<b>Detailed findings in relation to SHO report</b>	<b>45</b>
<b>Appendix 3</b>	<b>Methodology and standards</b>	<b>46</b>
	<b>Abbreviations</b>	<b>49</b>
	<b>Bibliography</b>	<b>50</b>



# Summary

1

This is a report on the audit performed by the Netherlands Court of Audit on the spending of aid on the reconstruction of Haiti in the wake of the 2010 earthquake. We examined the success factors and impediments in relation to the reconstruction programmes and investigated the way in which the joint Dutch aid agencies (SHO) accounted for their spending.

## *Conclusions*

By the end of 2011, the aid agencies had spent € 68 million of the € 112 million donated for emergency relief and reconstruction. The Dutch money has been well spent: it has been spent on houses, latrines, schools, health care and microcredits for those in need. We identified a number of success factors in this respect. Firstly, recipients are carefully selected so that those in the greatest need are helped first. Secondly, the recipients have considerable say in the aid programmes. Thirdly, the agencies recognise the importance of designing sustainable houses and schools.

There are also impediments to the aid agencies' work. External impediments include a cholera outbreak and the poor functioning of the Haitian government. Internal impediments include the overambitious scope of the agencies' activities and organisational problems in implementing the aid programmes. Coordination among the aid agencies on the ground is also weak.

The accounts for the aid programmes reveal that a complex chain of organisations is often involved. In part because of current reporting requirements, this makes it difficult to allocate costs and results to the appropriate donors. We noted a number of interesting developments that could, in due course, help the aid agencies cut their costs, reduce the accounting burden and increase transparency:

- The use of integrated databases to plan, monitor and evaluate the aid programmes.
- The standardisation of donor contract terms among aid agencies and the adoption of a uniform management system.



- The more prominent role played by qualitative accounting makes it easier to report on aid programmes that incur additional costs, for example in order to deliver sustainable aid to vulnerable target groups.
- The use of 'proportional allocation' to allocate results to individual donors.

We also found that the SHO's accounts in the fourth Haiti report were presented in accordance with the agreements with the Ministry of Foreign Affairs. As far as the third report is concerned, we found that the Ministry of Foreign Affairs had completed its supervisory activities this year and that the standard of supervision had been satisfactory. We also noted that the report on 2011 was more comprehensive and more transparent than the third report. The present audit report contains a number of recommendations for ways in which the SHO can improve its reporting.

#### *Recommendations*

This report contains a number of recommendations for increasing the effectiveness, efficiency and transparency of future aid campaigns. We recommend that the SHO:

- encourage its members to develop integrated databases to facilitate their internal organisation and accounting procedures, and simplify their accounting;
- encourage its members to standardise the terms of donor contracts with implementing agencies;
- attach greater importance to qualitative accounting that explains the relatively high cost of programme management where programmes seek to deliver sustainable aid or to reach specific target groups;
- examine the possibility of including a condition in future aid campaigns to the effect that members should supply funds where possible to umbrella organisations and other aid agencies by means of 'proportional allocation' or at least by 'output earmarking'.

We make the following recommendations on reporting procedures. The SHO should:

- ensure that members correctly allocate results to SHO funds;
- ensure that members formulate both goals and outcomes in SMART terms where possible and ensure that they are logically consistent with each other. Where there is a substantial discrepancy between the preset goal and the outcome, the reasons for this should be given and a reference made to the relevant impediments;
- consider the possibility of tailoring published reports more to the needs of individual target groups, such as supervisory authorities, journalists or the general public.



We repeat our recommendation that the SHO should broaden the scope of the external audit. **3**

The State Secretary for Foreign Affairs and the SHO responded to our report. The State Secretary described our report as 'balanced', endorsed our recommendations and said that they would be taken into consideration in future aid campaigns. The SHO said that it attached great importance to the conclusions and recommendations, and believed that both it and its members would benefit from the recommendations on procedures and management. The SHO also noted that making proportional allocation compulsory would complicate accounting procedures.

Our afterword stresses that proportional allocation means more accurate, more transparent and simpler accounts, and need not necessarily complicate accounting procedures.



# 1 Introduction

4

## 1.1 Reason and background

According to official estimates, the earthquake that hit Haiti on 12 January 2010 left 220,000 people dead and over 300,000 injured. Some 1.5 million Haitians were left homeless and the infrastructure in the capital, Port-au-Prince, was largely destroyed. On 21 January, the joint Dutch aid agencies (SHO) organised a nationwide television appeal to raise funds, to be paid into a special disaster relief account. The Dutch government supported the appeal by pledging €41.7 million from the development cooperation budget. This brought the total value of the aid for Haiti to € 112 million.

Shortly after the Haiti disaster, the Netherlands Court of Audit decided to audit the way in which government funds had been spent and accounted for. In a press release issued jointly with the SHO and the Ministry of Foreign Affairs, we stated that we would be working in consultation with the SHO and the ministry, using our expertise and our contacts with other national audit offices, to improve transparency and the way in which aid spending is accounted for and monitored (Netherlands Court of Audit, 2010b).

In March 2010, the SHO drew up a management plan containing mechanisms for managing and accounting for aid flows.<sup>1</sup> The management plan contains rules on how the SHO and its member agencies are supposed to coordinate, account for and communicate on the aid for Haiti. We had regular meetings with the SHO and the Ministry of Foreign Affairs about this management plan in 2010, with the aim of improving the standard of reporting on the aid for Haiti compared with

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<sup>1</sup> A Dutch version of the SHO's management plan, published in March 2010, has been posted on <http://www.haitinu.nl/pages/rapportage/>.





the SHO's past aid campaigns.<sup>2</sup> In December 2010, we explained, in a letter to the Dutch House of Representatives, how we audit the regularity and effectiveness of the spending of aid for Haiti (Netherlands Court of Audit, 2010a).

5

In our report on 2010 (Netherlands Court of Audit, 2011), we looked at the way in which some of the main Dutch development organisations accounted for the humanitarian aid they had received from the Ministry of Foreign Affairs (via the SHO), and how this money had been spent in 2010. See Appendix 1 for a list of last year's recommendations.

We will continue to inform the House of Representatives on a regular basis, by sending the House progress reports on the accounts relating to SHO's reconstruction work in Haiti. Once the SHO has published its final set of accounts at the end of 2015, we will publish our own final report in 2016.

## 1.2 Audit objectives and questions

Our aim is to provide information on the way which the spending of aid for Haiti is monitored. We wish to foster transparency and improve accounting for aid projects. We also wish to improve the way in which aid agencies and the government account for the spending of aid.

This second audit is part of a long-term process of monitoring the way in which the spending of aid for Haiti was accounted for during the period between 2010 and 2014. We are interested in particular in answering the following four questions:

1. What are the factors that contribute to the success of the reconstruction project in Haiti, and what are the impediments?
2. Were the accounts prepared on the aid supplied to Haiti in 2011 consistent with the arrangements between the SHO and the aid agencies about reporting procedures in relation to the Haiti earthquake appeal, and also with the arrangements made between the Ministry of Foreign Affairs and the SHO?

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<sup>2</sup> Our interest in accounting for aid spending after humanitarian disasters is not new. In 2008, we published a report on the way in which the aid for the tsunami victims had been accounted for (Netherlands Court of Audit, 2008). We are also members of the Task Force on the Accountability for and Audit of Disaster-related Aid (AADA), which is a committee of INTOSAI, the international association of national audit offices. The AADA task force looked specifically at aid flows in the wake of the 2004 tsunami and is currently developing international standards for enhancing the transparency of international aid flows sparked by humanitarian disasters. These standards are set to be adopted at the next INTOSAI assembly in 2013.



3. How did the Ministry of Foreign Affairs supervise the spending of the grant to the SHO?
4. Have the various parties adopted the recommendations in our previous report on reporting procedures in relation to aid flows?

6

### 1.3 Scope of the audit

In terms of the way in which aid has been spent in Haiti, it is not possible to distinguish the € 41.7 million government grant from private donations. For this reason, our audit covers all the SHO's income and expenditure in relation to Haiti,<sup>3</sup> including donations received from central government, local authorities, private-sector companies and private individuals.

Last year, we examined spending in 2010 on the basis of the first tranche of € 12 million disbursed by the Ministry of Foreign Affairs. This report examines the SHO's accounts for 2010, and the supervision exercised by the Ministry of Foreign Affairs on both the first tranche and the second tranche of € 8,853,609 disbursed to the SHO in 2011. Our aim was to ascertain whether the accounts and the supervision were adequate. The main criteria we used were the arrangements between the SHO and the aid agencies (as set out in the management plan), as well as the SHO's internal regulations, appeal regulations and audit guidelines. Our audit was also based on the wording of the grant decision by the Ministry of Foreign Affairs. Finally, we also assessed the information in the light of international standards for humanitarian aid and our own criteria (see Appendix 3).

In performing this audit, we also examined the audited annual accounts published by the SHO and the 15 aid agencies. We were guided by the external auditors' opinions on the accounts of the agencies involved in the aid campaign. By observing the 'single audit principle', under which auditors are assumed to be able to rely on previously performed audits, we were able to avoid duplication and hence reduce the amount of work performed by our auditors. In other words, we did not perform an audit of our own of the reliability of the financial statements drawn up by the SHO and the 15 aid organisations.

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<sup>3</sup> The aid organisations involved in the SHO's aid campaign for Haiti consist of the SHO's ten permanent members, i.e. Cordaid, the Netherlands Red Cross, ICCO and Kerk in Actie, Oxfam Novib, Save the Children, Stichting Vluchteling, Tear, Terre des Hommes, UNICEF Nederland and World Vision, plus five 'guest members', i.e. the Salvation Army, Dorcas, VNG International, CARE Nederland, Habitat for Humanity and Plan Nederland.



## **1.4 Structure of this report**

Chapter 2 contains our analysis of the success factors and impediments relating to the reconstruction of Haiti. Our assessment of the SHO's report on 2011 and the extent to which the SHO has adopted our recommendations are set out in chapter 3. We then discuss in chapter 4 the supervision exercised by the Ministry of Foreign Affairs. Chapter 5 contains our conclusions and recommendations. Summaries of the responses received from the State Secretary for Foreign Affairs and the SHO, together with our own afterword, are given in chapter 6. Appendix 1 summarises the conclusions, recommendations and undertakings. Appendix 2 sets out a number of detailed findings in relation to the figures in the SHO's report. Finally, our audit methods and assessment criteria are described in Appendix 3.



## 2 Reconstruction work in Haiti

8

This chapter contains a detailed examination of the results, effectiveness and efficiency of the SHO-funded aid programmes in Haiti and the financial statements produced on these programmes. We are particularly interested in the success factors and impediments affecting the reconstruction of Haiti. Before discussing these at length, we will first present a general picture of the aid effort up to the end of 2011.

This part of our report is based in part on field research performed in Haiti in 2012 that centred on three aid programmes funded partly by the SHO.

### 2.1 General picture of the aid effort

At the start of 2012, over half the debris had been cleared from Port-au-Prince, the capital of Haiti. Around 500,000 people were still living in camps all over the city at this time, as much as a third of the original number made homeless in the wake of the earthquake that hit Haiti in January 2010. The remaining group of homeless people consists mainly of tenants who do not own any homes or land themselves and are too poor to rent a new home. This group poses a huge challenge to the international aid community, given that affordable rented accommodation and land are both very scarce in Port-au-Prince (UNDP, 2012; World Bank, 2011a and b).

Although aid agencies are able to operate small-scale programmes of their own in the various districts of Port-au-Prince, the big infrastructural programmes funded by multilateral donors in consultation with the Haitian government have taken a long time to get off the ground. Aid organisations and UN agencies alike have described the capacity problems faced by the Haitian authorities in contributing to the reconstruction effort, as well as the lack of political decisiveness and coordination at central government level (IASC, 2012; Oxfam, 2012).



Various specific factors caused delays in 2011, as well as more modest outcomes than had been projected. The main external factors, i.e. beyond the control of the aid agencies, were:

9

- The outbreak of a cholera epidemic, in conjunction with the threat of hurricanes, forced the aid agencies to spend some of their resources on emergency relief and disaster planning, thus preventing them from concentrating all their energy and resources on the reconstruction effort.
- The ineffectiveness of the Haitian authorities caused many delays:
  - There were massive delays – sometimes of months at a time – in clearing relief goods through customs, due to problems affecting the customs service in the port of Port-au-Prince.
  - The absence of an official land registry sparked disputes over ownership rights and forced aid agencies to go through time-consuming legal procedures before they could start building houses and schools.
  - A protracted conflict between President Martelly and the Haitian parliament meant that, for a period of six months in 2011, there was no legitimate government that could approve the reconstruction plans.

## **2.2 Success factors, impediments and SHO's accounts for reconstruction work in Haiti**

We devoted our field research to studying the effectiveness and efficiency of three reconstruction programmes that are partially financed with SHO funds, as well as the accounts for these programmes, looking specifically at both good and bad points. We then sought to identify the underlying factors within the agencies' control that have contributed to the results. We identified a number of success factors that are conducive to the reconstruction work, as well as a number of impediments that have hampered the reconstruction effort.

### **2.2.1 Success factors**

#### *Effectiveness and achievement of project aims*

We found that those in need in Haiti have benefited from the aid paid with Dutch money. SHO funds have been used to give shelter to the needy or to repair their homes; in a number of districts, sanitary amenities and the standard of healthcare services have been improved. Children are now taught in new or repaired classrooms which are safer than the old ones, and where they are provided with a higher standard of education. People



from vulnerable groups and prospective entrepreneurs have received micro-credits with which to start a shop or a business that can generate a living income. SHO funds have also been used for training and capacity-building, thus helping to strengthen civil society and build greater resilience to future earthquakes and hurricanes. This approach has been in contrast with that adopted by certain foreign aid agencies who have flown in experts to gain quick wins for their donors, before rapidly leaving the scene (DARA, 2011; Webster, 2012).

10

We identified a number of success factors in relation to the three SHO-funded aid programmes we audited which have helped them to achieve their aims and ensure that the right aid gets to the right people:

- Close consultation with local organisations in identifying those most in need, i.e. the people who need to be helped first, and meeting their needs (see box 1).
- Helping to raise incomes by recruiting local staff for construction programmes, and promoting sustainability by building robust classrooms and shelter, and by training people in 'disaster risk reduction' (see box 1).
- Ensuring that the target group is involved in all stages of the programme, and strengthening civil-society organisations working on behalf of vulnerable groups.
- Supporting and representing the interests of those in need and local organisations seeking to bring about social or political change in Haiti (i.e. advocacy).

**Box 1 Working with local residents to build sustainable housing**

11

With the support of funds from Dutch donors (among others), aid agencies in Haiti devoted a great deal of time and effort to designing robust shelters and classrooms. Users and, where possible, local authorities were invited to comment on the designs for both types of building. The design of the shelters is similar to that of the wooden houses traditionally built in rural areas of Haiti. The building style is typically Haitian, with two front doors one of which is intended (depending on which explanation you prefer to believe) either for extra ventilation or as a special entrance for spirits. Apart from being designed to international standards, the shelters are also sustainable in that they should be able to stand up to earthquakes and hurricanes.

The aid agencies spent a great deal of time supervising the building work and made maximum use of local builders, who have thus learnt to work with sustainable building techniques in addition to earning an income. The fact that the buildings are sustainable also means that the occupants do not need to set aside as much money for maintenance as they used to.

Special instruction books have been compiled to take the reader step by step through the building process. These have been posted on the internet to ensure that the information is disseminated as widely as possible and also so that the designs can be reused in any future aid operations.

Dutch aid agencies have adjusted the land-use planning in two districts of Port-au-Prince. Working together with local residents, they have drawn up a plan for the adjustment and relocation of roads, public buildings, latrines and drains.

*Efficiency*

The three SHO-funded programmes examined by our auditors have certain features that are conducive to efficiency and which are not present in many of the other internationally funded aid programmes in Haiti (IASC, 2012; DARA, 2011; Patrick, 2011). The success factors are as follows:

- The careful selection of local partners. Because the Dutch aid agencies had worked in Haiti for many years, they were able to select reliable partners from the vast range of Haitian NGOs to perform their activities.



- The use of HAP standards<sup>4</sup> and an adequate system of monitoring and evaluation. The learning cycles, internal checks and balances and reporting mechanisms put in place by the aid agencies have proved adequate.
- The agencies working with SHO funds are active members of clusters and are members of technical and strategic committees set up by the clusters. They also team up with Haitian authorities and local NGOs, helping them to acquire expertise and coordinate the reconstruction effort.
- The use of integrated databases for planning, monitoring and evaluation (see box 2).

12

### **Box 2 The use of digitisation and GIS in reconstruction programmes**

Aid agencies such as Cordaid have started to use an integrated database for planning and managing shelter programmes. Project documents that used to be filed on paper are now stored in an integrated database in which data on the target group and its needs are linked to the project aims. Field staff update the database with information on the progress of project activities and plot the building sites in Google Maps. The result is a map of the area produced with the aid of a geographic information system (GIS) and containing up-to-date information on the plans, progress and problems at each building site, as well as the amount of expenditure to date and the results achieved. This information is readily available in a visual format for monitoring and evaluation, and is easier to manage than hard-copy files. The database can also be supplemented with external data supplied by other organisations, complaints from private citizens, or photographs distributed with the aid of social media.

### **2.2.2 Impediments**

#### *Effectiveness and achievement of project aims*

Various implementing agencies have either revised or only partially achieved the projects aims originally set for 2011 (SHO, 2012, Appendix 1). This is a consequence not merely of the external impediments described in section 2.1, but also of certain internal impediments:

<sup>4</sup> The Humanitarian Accountability Partnership (HAP) has defined a set of minimum standards that affiliated aid organisations are required to meet in performing their activities. These standards cover areas including human rights, capacity-building, communication, participation, monitoring and a complaints procedure (HAP, 2007).





- The overambitious scope of the agencies' activities has prevented them from achieving some of their aims. This is the result of the highly ambitious, internationally agreed 'build back better' strategy for Haiti.<sup>5</sup> Most of the aid agencies involved in the reconstruction work had no expertise in or experience with certain aspects of their programmes, such as the construction of sanitary amenities and shelter. This is not a problem the agencies could easily overcome, given the shortage of qualified, affordable staff. Moreover, most of the agencies had previously been working on multi-year development programmes in rural areas of Haiti. For this reason, the implementation of ambitious reconstruction programmes in Port-au-Prince with its complex urban problems proved more difficult than had been anticipated.
- Poor coordination and cooperation between aid agencies and multilateral organisations and poor coordination among clusters<sup>6</sup> is a common problem in Haiti (IASC, 2012). This also applies to programmes funded with Dutch money, where the emphasis is on achieving the specific programme aims and where cooperation with other aid agencies operating in the same district is not always effective. These problems have led to time wastage and failures to achieve preset aims.

13

### *Efficiency*

Many SHO-funded aid programmes were affected by delays in 2011, and these have had an adverse impact on their efficiency. The problem is that there is no let-up in overhead costs, such as wages and salaries, administrative expenses and the cost of premises and cars, during delays. We will have to wait and see in the years ahead whether these delays have reduced the money available for assisting those in need. The main causes of the problems have been the external impediments referred to in section 2.1. However, we also identified a number of impediments to the three aid programmes that we did include in the field research:

- Overoptimistic planning meant that delays were inevitable. Aid agencies failed to make adequate provision for slow progress in implementing the participative components of their programmes, even though it was common knowledge in Haiti that local organisations and implementing agencies did not have enough operational capacity. Experienced aid agencies – who claim to be able to cope professionally

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<sup>5</sup> 'Build back better' is the name of the strategy adopted by the international aid community in the wake of humanitarian disasters. The idea is to build basic amenities for the victims that are of a higher standard than those available to them before the disaster.

<sup>6</sup> OCHA, the UN organisation for humanitarian aid, classifies international aid provision into nine different categories or 'clusters': shelter, water and sanitation, food security, livelihood, health, education, protection, disaster management, and programme management.



with emergencies all over the world – should nonetheless be capable of more realistic planning. Moreover, plenty of reports and guidelines have been published containing lessons learned from previous humanitarian campaigns on how to deal with recurrent delays in shelter the homeless (COHRE, 2005).

14

- The internal management and organisation of the programme and project cycle was not up to standard, resulting in failures to respond to delays in good time.
- Staff policies were not consistently adequate. As a result, there were staffing problems and shortages of qualified staff, and no safeguards were put in place to guarantee the continuity of the agency in question and safeguard its institutional memory.
- Negotiations on objectives and accounting procedures between Dutch aid agencies as contracting agencies and their operational partners (i.e. fellow aid organisations or international umbrella organisations) ran into frequent problems. Time and money were wasted arguing about definitions and setting standards.

### **2.2.3 Accounts for the aid programmes**

#### *Management and reporting costs*

The process of reporting on the spending of aid and on the results achieved by the aid programmes is a complex one. SHO members generally transfer the relevant SHO funds to an umbrella organisation, which then draws up a detailed aid programme, usually leaving the operational aspect to an implementing agency. As a further complication, the aid programmes devised by the umbrella organisations and partners are funded by dozens of donors from all sorts of different countries. Each of these donors, including those based in the Netherlands, makes its own separate arrangements with the implementing agencies about objectives, conditions and reporting procedures.

A higher level of expenditure on management and reporting means less money available for programmes. For efficiency reasons, therefore, these costs need to be contained as much as possible. In certain cases, though, this aim may be less important than specific programme objectives, such as helping vulnerable groups in inaccessible regions. Here, a high level of management expenditure is both inevitable and justified. As far as reporting costs are concerned, these depend primarily on the requirements set by donors and supervisory authorities. Greater demands for transparency and accountability tend to push up rather than lessen the reporting costs.



We asked the three aid agencies how much time they spent managing and reporting on the three aid programmes covered by the audit in 2011. The SHO members all said that they spent around the same amount of time meeting reporting requirements in the Netherlands, viz. around 70 days. This is in spite of wide discrepancies in the programme budgets, i.e. € 8.7 million, € 3 million and € 2 million. This is understandable, given that all programmes, big and small alike, are required to satisfy the same reporting requirements. At the same time, it also means that upscaling would be a simple way of boosting efficiency.

15

There were wide discrepancies in the amount of time that the three aid agencies said was spent by the implementing agencies in Haiti. It is difficult to draw any conclusions from these differences, however, as individual circumstances are not comparable: each implementing agency in Haiti has its own specific programme objectives with its own management method. As a result, each implementing agency adopts a different approach to management and reporting.

#### *New reporting techniques*

Four interesting new developments are capable of improving the standard of reporting. We are referring to four methods for accounting for and presenting costs and results that could help to lower the aid agencies' expenditure on accounting and reporting, thus raising the amount of money available for helping those in need and creating greater transparency for donors.

### **1 Integrated databases**

Aid agencies have started to develop integrated databases for the building programmes (see box 2 on p. 12). The databases have gradually been developed during the course of operational activities, which has meant that information initially stored in the form of hard-copy files had to be typed in at a later stage. Although this created additional work, it did demonstrate that the data in the database is both much more accessible and more functional than the hard-copy files. If a GIS component is added, this type of database can save management both time and money; it is also highly transparent. An evaluator or supervisory authority can check the digital files and easily extract a random sample of the results. These can then be examined on the spot.



## **2 Standardising donor contract terms**

16

A number of international aid umbrella organisations, such as Oxfam International and Save the Children International, are trying to standardise the contract terms agreed among partner organisations for aid programmes, and are hoping to introduce a uniform management system for country programmes. The aim is for staff to use a single system for managing, coordinating, implementing and reporting on aid programmes. This should simplify accounting procedures and standardise the contracts signed with implementing agencies, thus facilitating negotiations and fostering single-format reporting. Although work on the new standards has yet to be completed, it should reduce administrative costs and simplify reporting in the long run.<sup>7</sup>

## **3 The importance of qualitative accounting**

The aim of preparing financial statements is to present a transparent and accurate set of financial figures. However, the emphasis placed on figures and quantifiable results means that less attention is paid to the extra cost of delivering sustainable quality. For example, the SHO-funded aid programmes have been designed with the specific aim of reaching vulnerable groups and fostering sustainable techniques. Indeed, such objectives play a far more prominent role than they do in other international programmes now operating in Haiti, many of which centre on emergency relief and quick fixes. This approach comes with a higher level of cost, though. Hence the need to link the story behind the figures – about strategy and results – with the costs. Qualitative accounting can help to explain either slower progress in achieving results or lower numbers of recipients (see box 3).

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<sup>7</sup> The AADA committee is also working on a reporting standard under the 'Integrated Financial Accountability Framework' (IFAF). This is intended to enhance the transparency of and generate more data on humanitarian aid. The IFAF format is being tested and refined at present, with the aim of converting humanitarian aid flows from current management systems to the new format, and also in order to ascertain how much extra work this will involve.

**Box 3 Micro-credits for vulnerable groups**

17

Under livelihood programmes, small business owners and people from vulnerable groups in society are supplied with micro-credits, financial expertise and assistance. These are risky programmes delivering time-consuming, customised packages that are slower to generate visible results than house-building programmes, for example. In order to gain the maximum impact from micro-credits, aid agencies spend a great deal of time on planning, personal assistance for borrowers and follow-up activities. Local organisations are asked to supply a list of people most in need (such as disabled people and single mothers). The USD 500 loans granted by the aid agencies come with training courses and personal supervision to ensure that the borrowers make the best possible use of the money. The aim is to ensure that someone who borrows seed money, say, to open a grocer's shop, is able to earn a permanent income from the shop.

The organisational cost of this type of programme is relatively high compared with average loan values. Nonetheless, micro-credits of this nature can be tremendously beneficial to the ability of vulnerable families to sustain themselves.

**4 Cost efficiency of result allocation**

Where a Dutch aid agency is one of the donors supporting an aid programme in Haiti, the implementing agency will attribute the relevant results and costs to the Dutch agency. A number of Dutch aid agencies now draft their contracts in such a way that implementing agencies in Haiti need only to allocate results and costs on a proportional basis (SHO, 2012: 39). In the light of the administrative burden, proportional allocation is the simplest and most cost-effective way of attributing results and costs (see box 4).

**Box 4 Three methods of cost allocation**

18

An aid agency implementing a district aid programme in Haiti, the aim of which is to build 1,000 dwellings, 10 latrines and 10 classrooms, for example, receives funding from dozens of donors. There are three different ways of allocating the programme results and costs, each of which comes with its own specific cost:

- 1 The most straightforward form of support from an accounting viewpoint is where donors contribute to the programme as a whole without imposing any additional conditions. The implementing agency then allocates the costs and results to the donors **on a proportional basis**. If a district aid programme has an aggregate budget of € 10 million, a donor contributing €1 million towards the programme will be allocated 10% of the costs incurred, i.e. the cost of building 100 dwellings, 1 latrine and 1 classroom.
- 2 Donors who decide to earmark their contribution for shelter only (known as 'output earmarking') impose more of an administrative burden. The implementing agency needs to make a separate calculation of the costs and results pertaining to the shelter component of the programme in order to earmark it. If the shelter component has a total budget of € 8 million, an earmarked contribution of € 1 million means that 12.5% of the costs are allocated to the donor in question and that the result of its contribution is taken as being the construction of 125 dwellings.
- 3 Donors who arrange to fund specific objectives (known as 'input earmarking') impose the greatest administrative burden. If a donor fully funds the construction of five specific classrooms, the implementing agency must record each item of expenditure on the construction of the five classrooms under a separate budget code and also compile a separate set of financial statements. The advantage is that a plaque commemorating the donor's name can be hung up at each of the five schools. This is a direct, tangible result that the donor organisation can show its sponsors back in the Netherlands.



The majority of SHO members – both permanent and guest members – use either input or output earmarking to allocate the results of aid programmes.<sup>8</sup> The disadvantage of this is the extra administrative cost involved. The implementing agency has to keep a separate record of the earmarked parts of the programme in order to be able to submit either annual or six-monthly reports to the donors. This earmarked form of cost allocation requires a large number of administrative staff if an aid programme is funded by, say, 60 donor organisations each of which insists on being supplied with separate annual or six-monthly reports on its earmarked contribution. The advantage of input earmarking for the donors is that they can agree to fund specific objectives and can then produce direct, visual evidence showing that the earmarked project, building or school has been fully funded with the money supplied by their sponsors in the Netherlands.

19

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<sup>8</sup> The SHO states that 'direct funding' is one of the allocation methods used by its members (SHO, 2012: 38). However, we believe that direct funding should be regarded from an accounting viewpoint as a form of input earmarking. The fact is that an implementing agency never performs just one directly funded project for a single aid agency. Where direct funding comes into the picture, the project objectives are always part of a wider aid programme supported by multiple donors. This means that, even in the case of a directly funded project, the implementing agency has to earmark the money in its own accounts in order to be able to report directly to the contracting organisation on the specific objectives in question.



## **3 SHO's accounts for 2011**

20

This chapter contains our analysis and assessment of the SHO's accounts for the aid supplied to Haiti in 2011, based on the SHO's fourth annual report, on 2011 (SHO, 2012). We compared the latter with the SHO's annual report on 2010 (SHO, 2011). We sought to establish what action was taken by the SHO in order to adopt the recommendations in our previous audit report on the spending of aid for Haiti. A number of detailed findings in relation to the figures in the SHO reports are discussed in Appendix 2.

### **3.1 Results of comparison of SHO reports**

#### **3.1.1 More and better information**

The SHO's report on 2011 (SHO, 2012) contains more and better information than the report on 2010 (SHO, 2011). The SHO has enhanced the transparency of its work:

- The SHO describes the plans for activities in each cluster at the beginning of the year, and explains what has actually been done. This makes clear to what extent the objectives in question have been achieved.
- The SHO includes an explanation of the allocation formula, so that it is now clearer how it distributes the aid among its 15 member organisations. In doing so, the SHO has adopted the recommendation we made last year on the allocation formula.
- The SHO explains, for each individual aid agency, how the funding flows pass through a range of channels from SHO members to the ultimate beneficiaries, and how they are allocated.
- The SHO includes more extensive notes on impediments and unforeseen events, thus showing how such issues affected operational activities. We are referring to external factors such as the problems affecting the Haitian government, the outbreak of cholera and the rising costs of construction materials and transport.





### 3.1.2 Scope for improvement

21

Despite the fact that the SHO's report on 2011 contains more and better information than the report on 2010, we still feel that the SHO can do more to improve the accuracy and transparency of its reports. This is particularly important in relation to the allocation of results, so that donors are given an accurate picture of what SHO members have actually done with the money. From an administrative viewpoint, proportional allocation is the easiest way of establishing what share of results can be attributed to individual donors contributing to an aid programme funded by multiple donors (see section 2.2.4). This allocation must be performed as accurately and as carefully as possible.

We found, on examining the reports, that the allocation had not always been performed accurately. In the shelter cluster, for example, we found that one SHO member failed to state that SHO funds accounted for only 70% of the overall shelter programme. The remaining 30% came from foreign sister organisations and from the programme's own fund-raising activities. As a result, the SHO member in question created the impression that 3,200 dwellings had been built with SHO funds, whereas an accurate proportional allocation would have made clear that the actual number was 2,240.

There are a further three minor problems in the SHO's reports which, if remedied, would enhance their transparency and clarity for the general public:

- The list of money flows from SHO aid agencies to international umbrella organisations and partner organisations (SHO, 2012: Appendix 5) is a clear improvement on last year's report. However, the list is not complete until the SHO also states the amounts involved, so that it is clear how much money goes to which organisation and how much is spent on overhead costs in the Netherlands. No notes are provided on that part of the chain where the money becomes anonymous, as we recommended last year. These two corrections would create full transparency and would also paint a systematic picture of the money flows.
- The descriptions of activities planned are not always logically consistent with those of activities performed, which means it is sometimes unclear whether an objective has actually been achieved in practice. Examples of such inconsistencies are surface areas expressed in hectares in the programme proposal, but in square metres in the programme report, or a goal described in the programme proposal as being 'capacity-building' whereas 'the organisation of a one-day



course' is cited as the outcome in the programme report. By describing planned activities as much as possible in SMART<sup>9</sup> terms and ensuring that the descriptions in proposals and reports are logically consistent with each other, the SHO can improve the clarity of its reports without incurring extra work or additional administrative charges. 22

- It is now unclear exactly why certain goals are not achieved. For example, only 540 of the target number of 4,500 people actually took part in the 'cash for work' programme. An explanation of why this goal was not achieved would have clarified the situation and made clear why the money was still spent despite the lower than expected participation rate. Information on the reasons for discrepancies between programme plans and programme outcomes, including the related expenditure, will need to be included in the final reports prepared in 2014, when SHO members report on the results achieved with the money.

## **3.2 Expenditure**

### **3.2.1 SHO aid flows to Haiti**

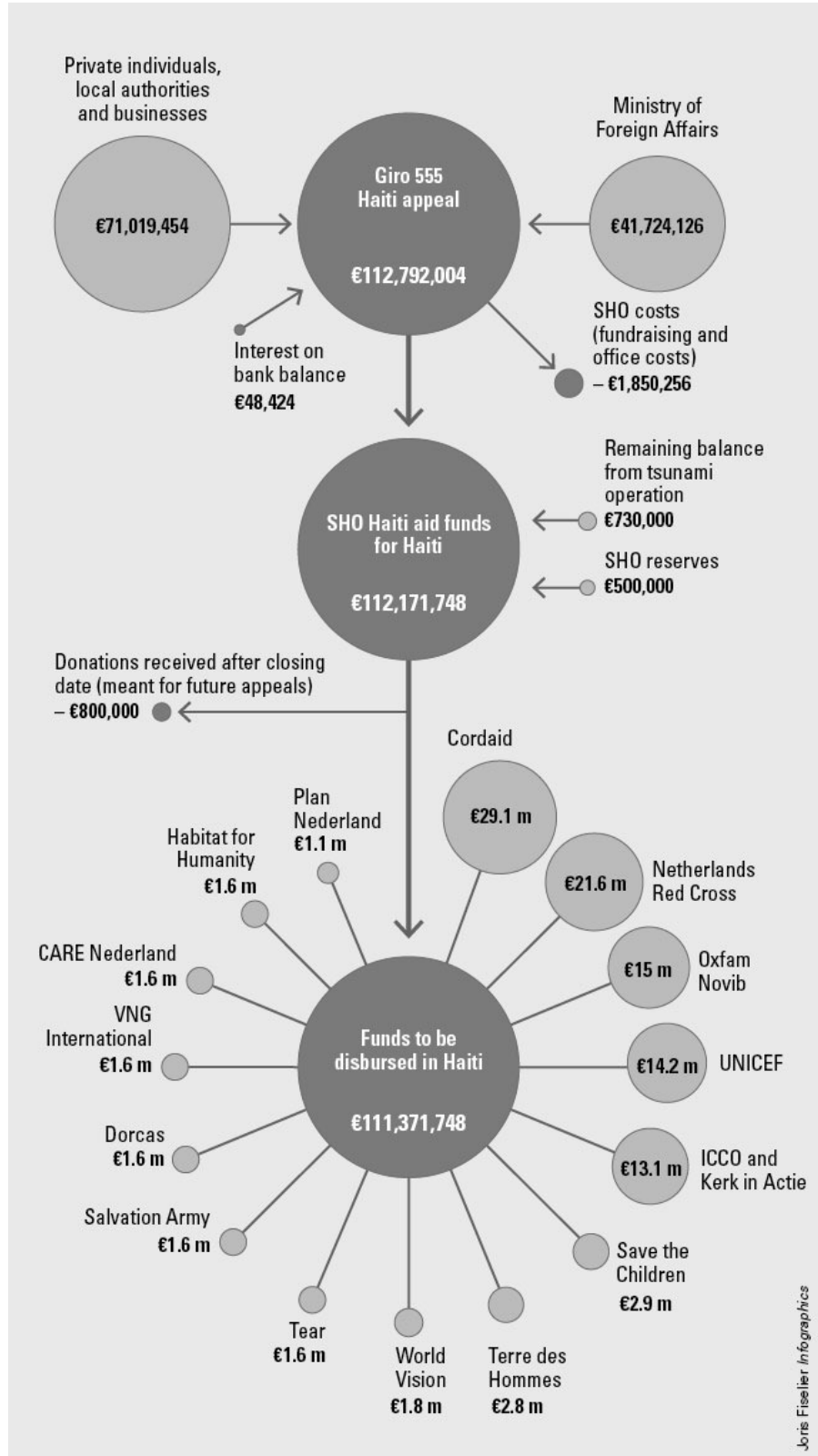
The SHO raised a total of € 112 million in the wake of the public fund-raising appeal on 21 January 2010 in aid of the Haitian earthquake victims. Of this figure, € 41.7 was supplied by the Ministry of Foreign Affairs (see Figure 1). The SHO deducted over € 1.8 million from the total to account for fund-raising costs, administrative expenses and reporting costs. The SHO deducted a further €800,000 from the total to account for donations received after the closing date. In accordance with the terms of the management plan, the SHO will be reserving this money for a future fund-raising campaign. The SHO also supplemented the total with various amounts, viz. interest paid in 2010 and 2011 on the funds raised for the earthquake victims (€ 48,424), a sum from the SHO's reserves (€ 500,000) and money held over from the previous SHO campaign (€ 730,000). These figures indicate that a total of € 111,371,748 was distributed among the 15 aid agencies for spending in Haiti.

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<sup>9</sup> The term 'SMART' means that objectives should be formulated in terms that are as clear and as concrete as possible. The acronym stands for 'Specific, Measurable, Achievable, Realistic and Time-bound'.



Figure 1 Distribution of SHO aid flows for Haiti



Source: SHO, 2011 and 2012.



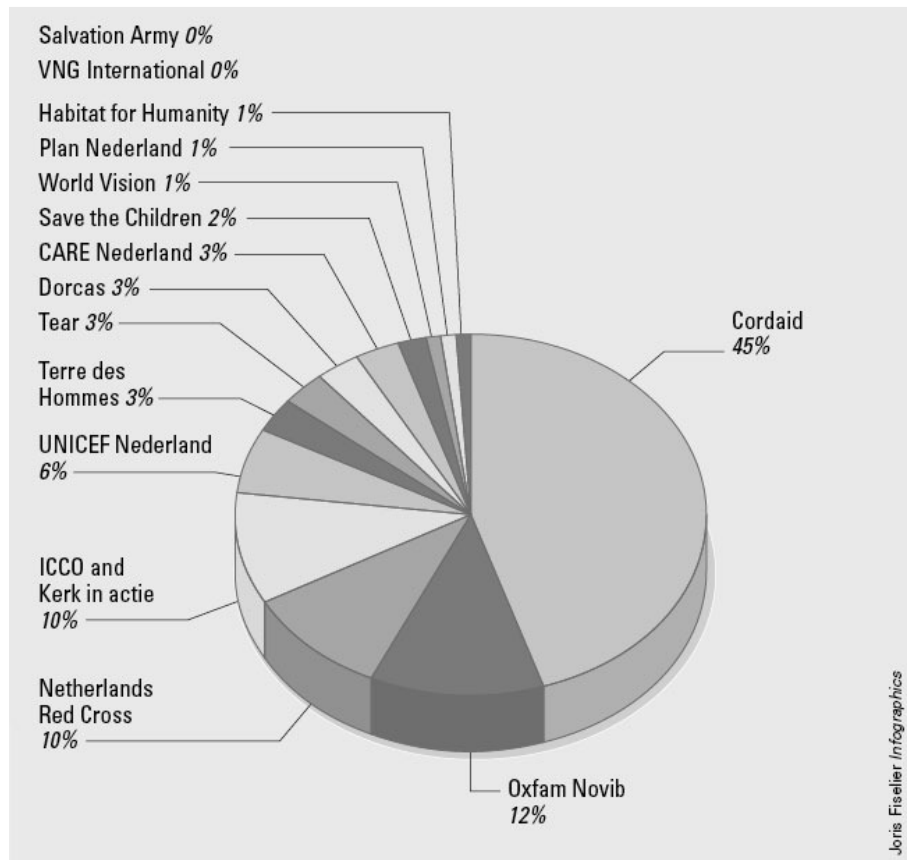
### 3.2.2 Aid expenditure in Haiti

24

#### *Purpose and scale of spending*

The 15 SHO member agencies spent a total of € 25,311,449 (SHO, 2012), excluding overhead costs, in 2011. This means that, including the € 42.5 million spent in 2010, almost € 68 million worth of SHO funds was spent in total in 2010 and 2011. Four organisations accounted for three-quarters of the expenditure in 2011: Cordaid, Oxfam Novib, the Netherlands Red Cross and ICCO + Kerk in Actie (see Figure 2).

**Figure 2 Percentage expenditure in Haiti in 2011, by SHO member**



Source: SHO 2011 and 2012

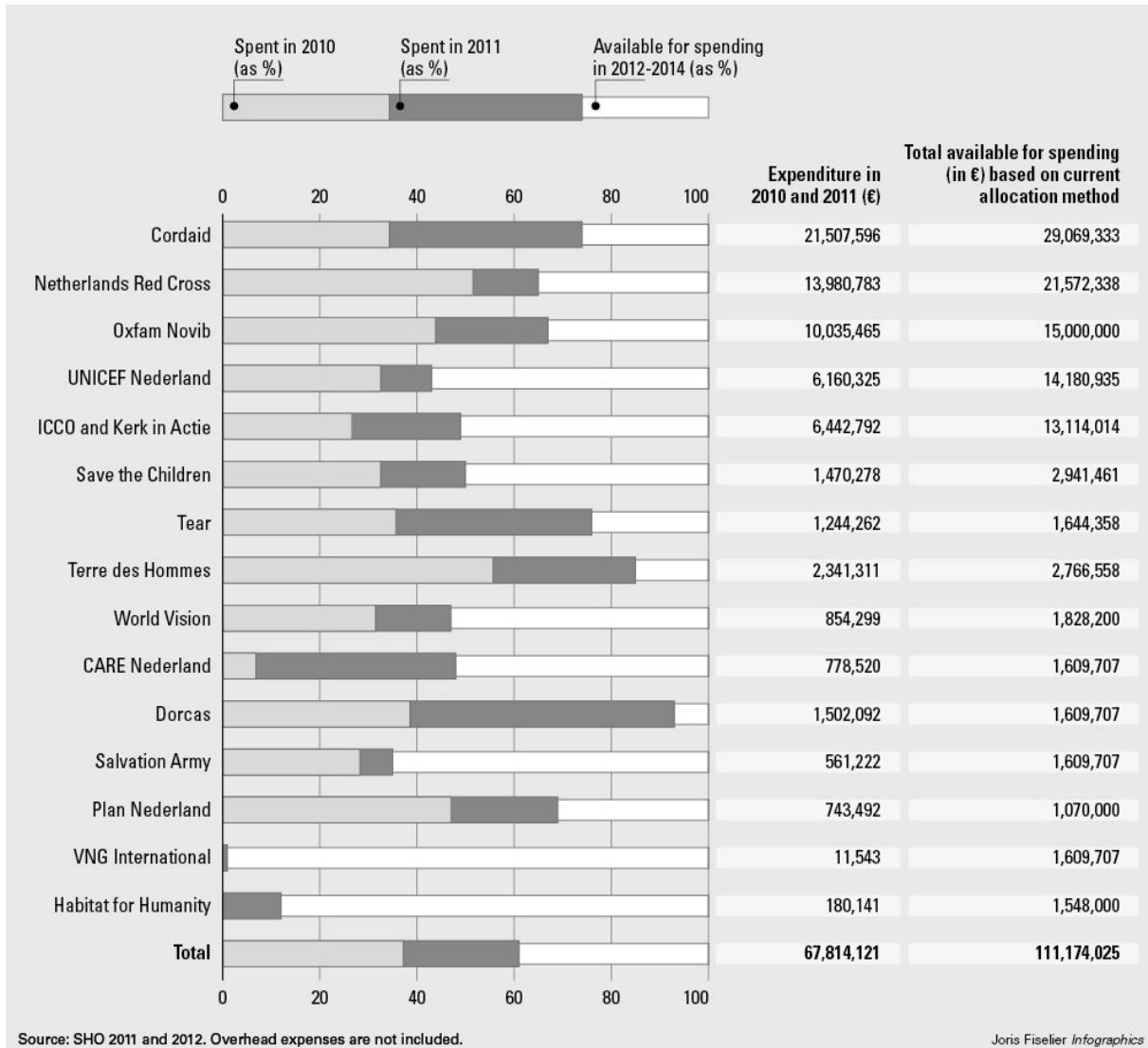
Overhead costs are not included in the percentages quoted in Figure 2.

Four aid agencies, i.e. Dorcas, Cordaid, Tear and Terre des Hommes, already spent the bulk of their budgets in 2010 and 2011 (see Figure 3). For this reason, they announced in June 2012 that they would be ending their activities for the SHO (SHO, 2012b). The other 11 agencies will be continuing their work up to 2014.



**Figure 3 Percentage expenditure by SHO member in Haiti up to 31 December 2011, compared with available long-term budget**

25



Source: SHO 2011 and 2012

Overhead costs are not included.

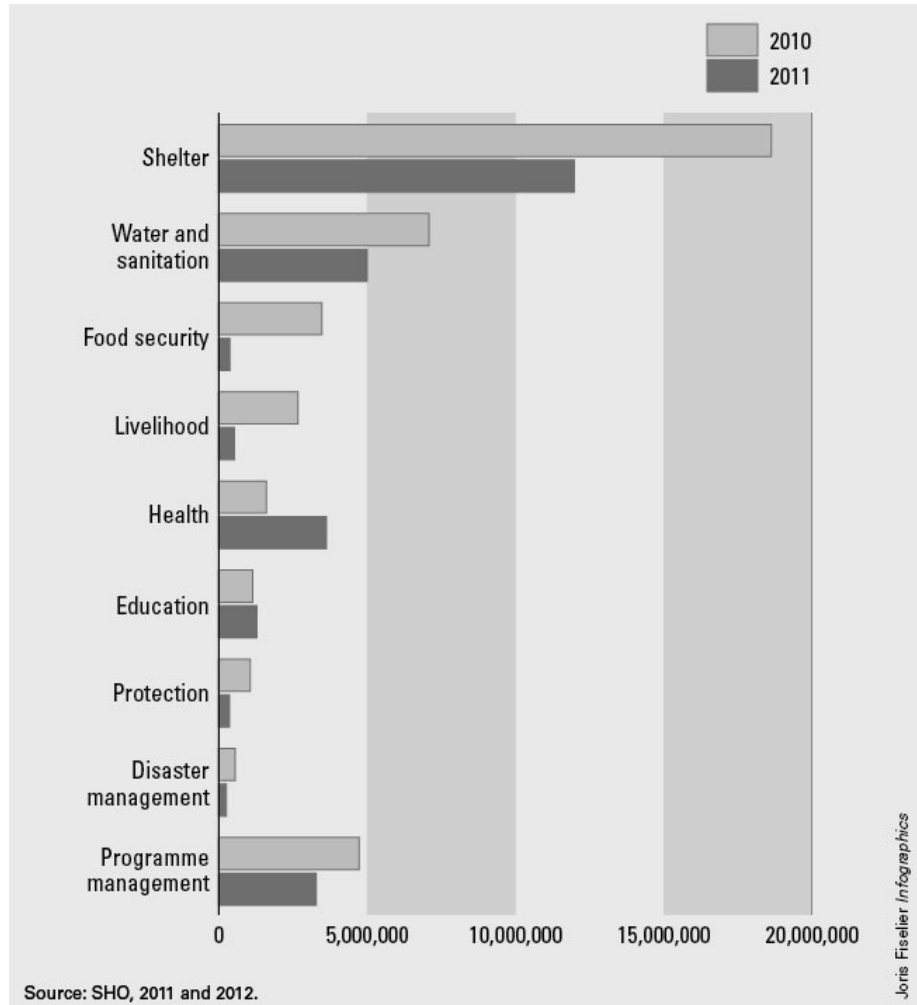
In 2010, the SHO spent most of the funds (81%) on emergency relief. In 2011, the SHO spent 90% of the funds on reconstruction and 10% on emergency relief.

In 2011, the aid agencies spent most of the funds on the construction of shelter and the provision of drinking water and sanitary amenities. Spending in 2011 was generally much lower than in 2010 (see Figure 4). Slow progress was made in relation to reconstruction in 2011 (see chapter 2). Healthcare was an exception in this respect: much more money was spent on healthcare in 2011 than in 2010, as a direct result of



the cholera epidemic that broke out at the end of 2010 and persisted into 2011. 26

**Figure 4 Spending by SHO member in Haiti in 2010 and 2011<sup>10</sup> (by cluster and in €)**



Source: SHO, 2011 and 2012

#### *Actual compared with projected expenditure*

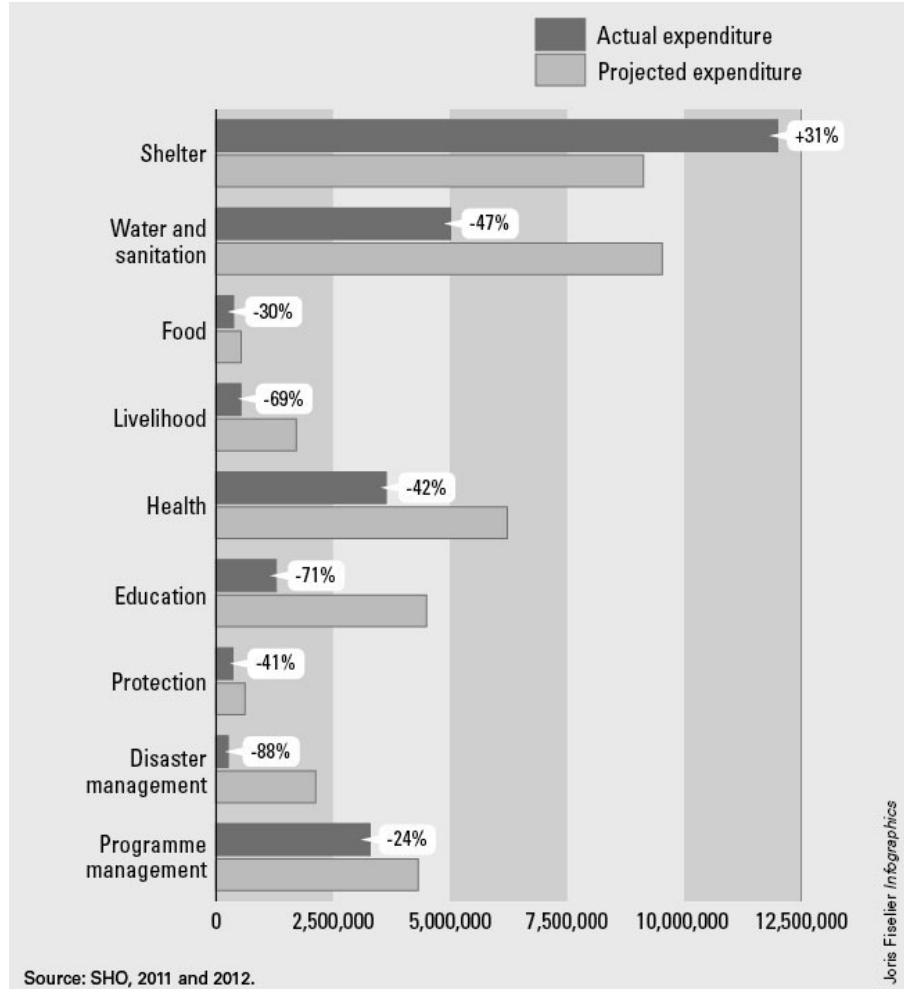
In 2011, the SHO spent approximately a third less than had been budgeted. Whereas the reconstruction plan assumed that € 38.7 million would be spent, the actual sum spent was € 25.3 million, representing an underspend of € 13.4 million (35%). With the exception of the 'shelter' cluster, the aid agencies were unable to achieve their targets (see

<sup>10</sup> The fourth SHO report presents cumulative data on expenditure in 2010 and 2011, i.e. without any quoting separate figures for 2011 or on the distribution of spending over the various clusters. We reconstructed the expenditure on each cluster in 2011 by deducting the expenditure in 2010 from the cumulative figures for 2010 and 2011 (SHO, 2012).



Figure 5). This was caused by delays in operational activities, the reasons for which have already been discussed in chapter 2. 27

**Figure 5 Actual compared with projected expenditure in each cluster in 2011 (as %)**



Source: SHO, 2011 and 2012

### 3.3 External audit

#### *Recommendation made in 2010*

We made the following recommendation in 2010:

“Widen the scope of the external audit to include the statement in the aid organisations’ annual accounts on the income, expenses, commitments and disbursements for Haiti. Have the audit protocol state that the auditor must check the reliability of the statement, including its accuracy, completeness and timeliness (Netherlands Court of Audit, 2011).”



The SHO expressed doubts about the added value of extending the scope of the external audit, pointing to the extra cost of including the above standard breakdown of income and expenditure in the audit.

28

Six auditors working for SHO members expressed an opinion on the relevant agency's accounts for 2011, as we had recommended. We believe that the accounts of all SHO members should be audited by an external auditor, given that the amounts quoted in the above breakdown are substantial and inaccuracies could pass unnoticed in the present situation. The added value lies in the auditor's ability to provide a formal guarantee of the reliability of the figures in the breakdown statement presented by the members. This is why we are repeating this recommendation.

## **3.4 Cost calculations**

### **3.4.1 Overhead costs**

'Overhead costs' are defined as expenses incurred by the back offices at the SHO and the member agencies in planning and coordinating the implementation of the aid activities. These include, for example, the cost of assessing potential projects, drawing up project proposals, monitoring projects, performing financial checks and producing reports.

Overhead costs stood at € 4,114,993 in 2010. The comparative figure was considerably lower in 2011, at € 827,910, due to the provisions made by the aid agencies in 2010. The SHO members have paid a total of € 4,942,903 in overhead costs to date.<sup>11</sup> The percentage figure was 9.1% in 2010. The cumulative percentage accounted for by overhead costs is now 6.8%. Both figures are a snapshot: the final figure will be calculated once the campaign has come to an end in 2014. The management plan states that overhead costs as calculated over the entire duration of the aid campaign in Haiti may not exceed 7%.

### **3.4.2 Programme management expenses**

'Programme management expenses' are defined as costs incurred by implementing agencies and local partners in Haiti in getting the aid to

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<sup>11</sup> The figure for total overhead costs is based on the audited financial statements prepared by the member agencies for 2010 and 2011.





those in need. They include, for example, expenditure on staff and offices, the storage of relief goods and administrative support in Haiti.

29

Last year, we urged the SHO to ask each individual member agency to explain exactly how they calculated their programme management expenses and to give examples by way of illustration. The aim in itemising these expenses is to reveal the large amounts involved and at the same time to minimise the cost of reporting (Netherlands Court of Audit, 2011). Although we found that the SHO does give examples of programme management expenses in its reports, it does not break these down on an individual basis. The SHO informed us in April 2012 that it needed more time in order to produce separate statements of programme management expenses for each member agency. It expects to be able to include this information in its next report, to be published in 2013.

### **3.5 Size of reports**

For the second year in a row, we found that the SHO's reports contained more and better information and provided a more transparent account of the way the aid had been spent and the results that had been achieved. Last year, we also noted that there had been an improvement in the standard of reporting compared with the reports on previous SHO appeal, viz. in the wake of the tsunami (SHO, 2008) and the floods in Surinam (SHO, 2009). However, one of the consequences of this trend is that the reports contain more details than they used to, which means they are probably less easy to read for members of the public. In addition, the SHO has decided not to include all information in its public reports, as the inclusion of complex financial data does not improve readability.

Taken together, these two trends suggest that the SHO's reports have reached a point at which the production of a single report for all target groups is no longer the most appropriate way of presenting its results. For donors who would like to gain a general impression of the results of the public appeal, the current reporting format may well have reached the limits of its practicality. For experts, journalists and supervisors, however, the provision of more detailed information could help to improve communication and foster a constructive engagement with the SHO's activities.



In determining a new communication strategy, the SHO needs to decide how best to get the right information to the right target group. The aim must be to ensure that a different way of reporting is less time-consuming and hence to reduce the cost of reporting.



## **4 Supervision by the Ministry of Foreign Affairs**

31

### **4.1 Introduction**

In 2011, the Dutch Ministry of Foreign Affairs paid the SHO more than € 8.8 million to fund reconstruction work in Haiti. Together with a previous payment of € 12 million in 2010, this means that the SHO has now received over € 20 million from the ministry. The total amount received by the SHO during the period between 2010 and 2014 to pay for reconstruction work in Haiti is €41.7 million.

In 2011, the Ministry of Foreign Affairs supervised and monitored the SHO's compliance with the terms of the grant decision by holding regular meetings with the SHO to discuss progress, by making monitoring visits to Haiti and by analysing the SHO's reports. The ministry also makes use of reports on the situation in Haiti compiled by international organisations such as the UN Office for the Coordination of Humanitarian Affairs (OCHA).

### **4.2 Supervision in Haiti**

In a letter to the Dutch House of Representatives written in February 2012, the State Secretary for Foreign Affairs explained how the Ministry of Foreign Affairs had supervised the SHO's spending of the grant for Haiti in 2011 (Ministry of Foreign Affairs, 2012).

The ministry's Humanitarian Aid Policy Department adequately supervised the way in which the SHO spent its grant, based on the terms of the grant decision. The Dutch embassy in the Dominican Republic and the Consulate-General in Haiti were indirectly involved in supervising the spending of the aid donations and in assessing the regular reports submitted by the SHO. The embassy reports to the ministry in The Hague on the general progress of the humanitarian aid effort and the reconstruction work in Haiti, and on the political, economic and social context.



An official from the Ministry of Foreign Affairs visited Haiti more or less every month in 2011, using the embassy in the Dominican Republic as a base. By making visits to UN organisations, the EU delegation, embassies and the Haitian government, this official kept herself fully up to date with the political and security situation in Haiti. She also kept in touch with SHO members on the progress of the projects, shared monitoring information with the members and asked the members to report on their experiences with the delivery of aid. These findings were used in assessing the SHO's financial statements.

32

### **4.3 Assessment of SHO reports**

#### *Supervision in 2010*

We found that the Ministry of Foreign Affairs had reviewed the SHO's report on 2010 and had approved the technical, financial and auditor's reports. We describe the supervision exercised by the ministry as being adequate.

#### *Supervision in 2011*

The Ministry of Foreign Affairs is in the process of assessing the SHO's report on 2011, as well as other documents such as the auditor's reports. We will examine this supervision at a later stage and will report on it in our next audit report.



## 5 Conclusions and recommendations

33

### 5.1 Conclusions

#### *Aid activities in Haiti*

In 2010 and 2011, the aid agencies spent €68 million of the available funds in Haiti. This represents 61% of the total value of the resources made available in the wake of the public appeal for Haiti in January 2010. The SHO's funds were used for emergency relief and the reconstruction of the country following the earthquake.

Good results were achieved with the reconstruction work in 2011. Dutch money has been spent on houses, latrines, schools, healthcare and microcredits for those in need.

We identified a number of success factors in relation to the aid programmes we audited, which are funded partly with money supplied by the SHO. The first of these is the careful selection of target groups in coordination with other aid agencies, so that those in the greatest need are helped first. The aid agencies have also recognised the importance of designing sustainable houses and schools and ensuring that recipients have a say in the aid programmes. These factors have helped to ensure that the aid is in tune with local needs, and hence satisfies an essential condition for its sustainability and effectiveness.

We also found that certain objectives that the aid agencies had set for themselves had not been achieved in 2011, which means that the aid has not always been efficacious in terms of meeting preset targets. Moreover, certain programmes have encountered delays that have hampered their efficiency. The problem is that overhead costs continue as normal during any delays. The cholera outbreak and the poor functioning of the Haitian government are both factors that have hampered results and caused delays. However, there are also certain factors for which the aid agencies themselves are responsible, including the overambitious scope of their plans, organisational problems in implementing the aid programmes and weak coordination among the agencies on the ground.



### *Accounting for the aid*

34

The amount of time and money aid agencies are required to spend reporting on expenditure and results depends in part on the reporting requirements laid down by parliament, the SHO and supervisory authorities, but also in part on the choices made by the agencies themselves. The agencies are part of complex chains of contracting bodies, umbrella organisations, partner organisations and many implementing agencies all of whom are required to report to each other. The complexity of this chain makes it difficult to allocate costs and results to the appropriate donor.

We identified four interesting trends in relation to organisation and management that have already been adopted by a number of aid agencies. These are new organisational and reporting techniques that could, in due course, help the agencies cut their costs, reduce the accounting burden and increase transparency:

- The use of integrated databases to plan, monitor and evaluate aid programmes. These databases are capable of rapidly generating easily accessible data on aid spending and the activities performed with the aid. By incorporating GIS technology, aid agencies can use these databases as a flexible source of reporting information.
- The standardisation of donor contract terms among aid agencies and the adoption of a uniform management system will simplify management costs. The adoption of these standardised contract terms will lower administrative costs and simplify reporting procedures in due course.
- Thanks to the more prominent role played by qualitative accounting, it is now easier to report on aid programmes that incur additional costs, for example in delivering sustainable aid to vulnerable target groups. The qualitative accounts produced for donors and sponsors help aid agencies to demonstrate that slower or costlier results may be valuable or necessary.
- The use of 'proportional allocation' to allocate results to individual donors comes with a lower administrative cost than 'earmarked allocation'.

### *SHO's reports and the supervision exercised by the Ministry of Foreign Affairs*

Our auditors also found that the SHO's accounts as presented in the fourth report on Haiti were consistent with the agreements made with the Ministry of Foreign Affairs. As far as the third report is concerned, we found that the Ministry of Foreign Affairs had completed its supervisory activities this year and that the standard of supervision had been



satisfactory. We also noted that the reports for 2011 showed that the SHO was continuing to raise the standards of its reporting, as we had already found last year in our audit report on the emergency relief. Although the report on 2011 is more comprehensive and more transparent than the third report, we nonetheless identified a number of areas in which the SHO can improve its reporting on the reconstruction work:

35

- Where aid programmes are funded by more than one donor, SHO members do not always correctly attribute their results to SHO funds.
- The goals and outcomes are not always described in SMART terms by SHO members. This means it is not clear whether outcomes are in accordance with the preset goals.
- The current method of reporting used by the SHO contains many different types of information aimed at different target groups. Donors who want to know what has been done with their money may find the SHO's reports too extensive and hence difficult to understand. An expert reader, on the other hand, might find the reports not sufficiently specific, given that not all figures have been updated to match the most recent financial statements produced by the members.

## **5.2 Recommendations**

### **5.2.1 Recommendations for future aid appeals**

We recommend that the SHO take the following action in order to boost the effectiveness and efficiency of future aid appeals:

- Encourage SHO members to develop integrated databases from the start of any new aid programme, so as to facilitate their internal management and accounting procedures and simplify their accounts.
- Encourage SHO members to standardise the terms of their donor contracts with implementing agencies, bringing them into line with the terms and conditions now being developed by large umbrella organisations.
- Produce qualitative accounts that explain the relatively high cost of programme management where programmes seek to deliver sustainable aid or to reach specific target groups.
- Look into the possibility of inserting a clause in the terms and conditions for future aid campaigns, to the effect that SHO members should distribute funds where possible to umbrella organisations and other aid agencies by means of 'proportional allocation' or at least by output earmarking. This would enable the Dutch contribution to become a proportional part of a wider programme that would be easy



to administrate. This recommendation is also consistent with the Good Humanitarian Donorship (GHD) plan, which is designed to promote the more effective delivery of humanitarian relief. Reducing earmarking or using a more flexible form of earmarking is one of the 23 GHD principles endorsed by the Dutch government in conjunction with 36 other donor countries (GHD, 2003).

36

We recommend that the SHO take the following action with regard to future reporting procedures:

- The SHO should ensure that members correctly allocate results to the SHO funds. Where aid programmes are complex, involving multiple donors and different types of contribution, each contribution needs to be accurately valued so that results can be allocated.
- The SHO should ensure that its members formulate both goals and outcomes in SMART terms where possible and ensure that they are logically consistent with each other. Where there is a substantial discrepancy between the goal and the outcome, the SHO members should state the reasons for this and describe the relevant impediments.
- The SHO should consider producing several versions of the available accounting information on a given aid campaign, so that the right information goes to the right target group and reporting costs are reduced:
  - donors and regulatory bodies should receive reports containing all essential information;
  - external readers consisting of experts and journalists should be sent a selection of material from the full report;
  - the general public (i.e. individual sponsors) should have access to a public report containing only basic information.

The SHO could consider adopting the recommendations for the remainder of the reconstruction programme for Haiti or for a future appeal, provided that it does not need to incur any extra administrative costs in doing so.

### **5.2.2 Follow-up of our previous recommendations**

This report shows that action has been taken to implement two of the four recommendations in our previous audit report, which the SHO promised to adopt. The recommendations in question relate to the following points:





- The clear explanation given of the method used by the SHO for allocating the aid.
- The information provided on the results and the way in which these are allocated.

37

The SHO has partially implemented two recommendations:

- To ensure that each aid agency explains how it calculates the cost of programme management (illustrated with examples). The SHO has said that it needs more time for this.
- The SHO has added a systematic list of aid flows to its report. This list will be fully transparent only if the SHO includes in the figures, alongside the names of the recipient organisations, the values of the aid flows together with an explanation of the point at which the money becomes anonymous.

The SHO expressed doubts last year about the added value presented by our fifth recommendation on the extension of the scope of the external audit. We still feel that it would be worth extending the scope of the audit, as the external auditor is the only person who can guarantee the reliability of the figures in the standardised breakdown of income and expenditure. The additional administrative cost would be marginal.

We urge the SHO to adopt these as yet unimplemented recommendations.



## **6 Responses from the ministry and SHO; Court afterword**

38

The SHO responded to our report on 20 September. We received a response from the State Secretary for Foreign Affairs on 28 September. The full Dutch text of their letters has been posted on our website (see <http://www.rekenkamer.nl>). We were prompted by the SHO's response to formulate an afterword, which we have reproduced in section 6.3.

### **6.1 Response of the State Secretary for Foreign Affairs**

The State Secretary for Foreign Affairs described our report as being balanced, and endorsed our recommendations on efficiency, effectiveness and reporting, which he said were valuable. The Ministry of Foreign Affairs is aware of the importance of these points. The State Secretary said he would bear our recommendations in mind in any future appeals organised by the SHO.

### **6.2 Response of the SHO**

The SHO said it highly valued the conclusions and recommendations set out in the report and appreciated our conclusion that the SHO members had gained impressive results in Haiti with the aid donations. The SHO shared our conclusion that the money had been properly accounted for and that the report was more comprehensive and more transparent than previous SHO reports.

The SHO felt that both the organisation and its members could benefit from the recommendations in our audit report with regard to management and organisation. In view of the ambitious nature of certain recommendations, the SHO agreed with our suggestion that it should act as an advocate in this respect.

The SHO said that it was pleased with our recommendations but made the following comments in this connection:



- Although integrated databases used for management and the verification of results are particularly suited to projects generating visible results, they are less appropriate where aid activities are geared towards psychosocial assistance, capacity-building and lobbying.
- The terms and conditions of donor contracts need to be standardised. This would be a step in the right direction. The SHO would like to have our support in advocating this on the international stage.
- Making proportional allocation compulsory would increase the administrative costs for those members currently using a different method of result allocation. This is not consistent with the SHO's aim of aligning its own accounting procedures with those used by its members and reducing administrative costs.

39

In response to our comments on the correct allocation of results, the SHO pointed out that these could not simply be allocated to the SHO. The SHO took as an example our comment in section 3.1.2 to the effect that a member should not have allocated 30% of the houses to the SHO as part of the cost had been paid by other aid agencies. In this particular case, the SHO had paid for the walls and the finishing work. The houses would not have been built without this money, which is why the results were allocated to the SHO.

The SHO also stated that the annual report contained all the information required and requested by the Ministry of Foreign Affairs. The report had been prepared for the general public, and anyone interested could always obtain more information. The SHO had deliberately adopted this approach to save money. At the same time, the SHO said it was currently working on a new communication strategy for improving its public reports. The SHO said that future reports would be consistent with our recommendations for improvements in its reporting procedures.

Finally, the SHO pointed out that twice as many SHO members as last year had adopted the recommendation we made in 2010 on the extension of the scope of the external audit to include the standardised breakdown of income and expenditure (see section 3.3).

### **6.3 Afterword**

We were pleased to read the SHO's undertaking to adopt our recommendations for improving its reporting procedures.



Regarding the matter of the proportional allocation of results, we continue to believe (as do those behind the Good Humanitarian Donorship Initiative) that this would lead to better accounts and lower administrative costs. The shelter scheme cited by the SHO as an example illustrates the complexity and opacity of accounting procedures caused by the earmarking of SHO funds for walls and finishing work. The SHO member in question reported having built 3,200 houses with SHO funds. However, it would have been better if the SHO member had accounted for this particular result by indicating that it related to a € 11 million shelter scheme funded by multiple donors, with the SHO providing € 7.7 million (70%) of the total funds. It would then have been simpler, more transparent and clearer to proportionally allocate to the SHO 70% of the total of 3,320 houses built, i.e. 2,324 houses. **40**

Where we do agree with the SHO is that the standardisation of donors' contract terms is an issue on which international agreement needs to be sought. We are working actively within the international community of national audit offices (INTOSAI) on the development of standards, such as the Integrated Financial Accountability Framework, for enhancing the transparency of, and the information provided on, humanitarian aid. We are gladly prepared to continue this work in order to promote the harmonisation of contract terms.



## Appendix 1 Main conclusions, recommendations and undertakings

Conclusions drawn in 2012	Recommendations made to the SHO in 2012	Undertakings/response in 2012	Afterword
<p>In accordance with the recommendation we made in 2011, the SHO has added a list of aid flows to its report (appendix 5). This list does not include the value of the aid flows or an explanation of the point at which the funds become anonymous.</p>	<p>Specify the value of the aid flows in the following report and also include an explanation of the point at which the funds become anonymous.</p>	<p>The SHO is planning to adopt this recommendation in its next report.</p>	
<p>The SHO has not adopted our recommendation to widen the scope of the external audit to include the breakdown of income, expenses, commitments and disbursements for Haiti in the aid organisations' annual accounts. The SHO has also not included in the audit protocol a statement to the effect that the auditor must check the reliability of the above breakdown of income and expenses, including its accuracy, completeness and timeliness.</p> <p>Six of the 15 aid organisations have made their own arrangements for the breakdown of income and expenditure in their annual accounts to be checked by an external auditor.</p>	<p>Implement the recommendation we made in 2011.</p>	<p>Twice as many SHO members as last year have extended the scope of the external audit to include the breakdown of income and expenditure.</p>	
<p>The SHO said that it needed more time to ensure that each aid agency explains how it calculates the cost of programme management in relation to its working methods.</p>	<p>Implement the recommendation we made in 2011, with effect from the next report.</p>	<p>The SHO is planning to include more information in its next report on the way in which member agencies calculate their programme management expenses.</p>	



Conclusions drawn in 2012	Recommendations made to the SHO in 2012	Undertakings/response in 2012	Afterword
<p>The SHO has adopted our recommendation to provide more information on the results of the aid. The member agencies have explained how much of the aid is spent by an umbrella organisation and how much by implementing agencies, and how the results achieved in Haiti are allocated to the funds.</p>			
<p>The SHO has adopted our recommendation to explain how the € 111.4 million in aid is distributed among the 15 aid agencies, and thus to provide full information on the extent of discrepancies vis-à-vis its allocation formula and the reasons for departing from it.</p>			
<p>In 2010 and 2011, the aid agencies spent €68 million of the available funds in Haiti. The funds were used for emergency relief and reconstruction. Good results were achieved in 2011 in terms of the construction of shelters and schools, healthcare and microcredits for those in need.</p>			
<p>The success factors in relation to the aid programmes we audited are as follows: carefully selecting the target groups, designing sustainable houses and schools and ensuring that recipients have a say in the aid programmes.</p>			
<p>The aid was not as effective as it could have been because certain objectives were not achieved and certain programmes encountered delays. Although this was partly due to external factors, the aid agencies themselves also bear part of the blame. Among the factors for which they are</p>	<p>Encourage permanent SHO members to enhance their own preparedness for humanitarian disasters, to make adequate preparations, and to ensure that their staff acquire expertise in emergency relief and that aid agencies and umbrella organisations develop expertise in disaster relief and</p>		



Conclusions drawn in 2012	Recommendations made to the SHO in 2012	Undertakings/ response in 2012	Afterword
<p>responsible are the overambitious scope of their plans, organisational problems in implementing the aid programmes, and weak coordination among the agencies on the ground.</p>	<p>reconstruction (in both rural and urban areas).</p>		
<p>The combination of the reporting requirements imposed on aid agencies and the choices made by the agencies themselves places them under a huge administrative burden. There is a complex chain of commissioning authorities, umbrella organisations, partner organisations and numerous implementing organisations, all of which are required to report to each other. The earmarking of contributions also raises accounting costs and the amount of time spent on administration.</p>	<ul style="list-style-type: none"> <li>- Encourage SHO members to develop and use integrated databases, so as to facilitate their accounting procedures and simplify their accounts.</li> <li>- Encourage SHO members to standardise the terms of their donor contracts.</li> <li>- Look into the possibility of inserting a clause in the terms and conditions for future aid campaigns, to the effect that aid programmes should be funded solely by means of 'proportional allocation' or in any event by output earmarking, so as to reduce the administrative burden.</li> <li>- Encourage SHO members to produce more qualitative accounts.</li> </ul>	<ul style="list-style-type: none"> <li>- The SHO pointed out that, although integrated databases are particularly suited to projects generating visible results, they are less appropriate where aid activities are geared towards psychosocial assistance, capacity-building and lobbying.</li> <li>- The SHO agreed that the terms and conditions of donor contracts needed to be standardised. The SHO would like to have our support in advocating this on the international stage.</li> <li>- The SHO believes that making proportional allocation compulsory would increase the administrative costs for members and that this would not be consistent with the SHO's aims.</li> </ul>	<ul style="list-style-type: none"> <li>- The Netherlands Court of Audit is working actively with sister organisations to develop standards as part of the IFAF.</li> <li>- We continue to believe that a system of proportional allocation would lead to better accounts and lower administrative costs.</li> </ul>
<p>The SHO's accounts in the fourth Haiti report were presented in accordance with the agreements with the Ministry of Foreign Affairs.</p> <p>The Ministry of Foreign Affairs completed and satisfactorily discharged its supervisory duties in relation to the fourth Haiti report.</p>			



Conclusions drawn in 2012	Recommendations made to the SHO in 2012	Undertakings/ response in 2012	Afterword
<p>The SHO's report on 2011 was more comprehensive and more transparent than the third report. In this sense, the SHO is continuing the work it began last year to raise the standard of its reporting.</p>			
<p>Where aid programmes are funded by more than one donor, SHO members do not always correctly attribute their results to SHO funds.</p>	<p>Ensure that SHO members correctly allocate results to SHO funds.</p>	<p>The SHO pointed out that it was not always possible to allocate results to SHO funds on a strict one-to-one basis.</p>	
<p>Goals and outcomes are not always described in SMART terms by SHO members. This means it is not clear whether outcomes are in accordance with the preset goals.</p>	<p>Ensure that SHO members formulate both goals and outcomes in SMART terms where possible, that they are logically consistent with each other and that reasons are given for any substantial discrepancies between goals and outcomes.</p>	<p>The SHO said it would encourage its members to describe both goals and outcomes in terms that are as SMART as possible. The final report published in 2015 would contain extra information on any substantial discrepancies and the reasons for them.</p>	
<p>The current form of reporting used by the SHO contains many different types of information aimed at different target groups, such as donors, experts and regulatory bodies.</p>	<p>Consider the possibility of producing several versions of the available accounting information on a given aid campaign, so that the right information goes to the right target group and reporting costs are reduced.</p>	<p>The SHO stated that the annual report contained all the information required and requested by the Ministry of Foreign Affairs. The report was written for the general public, and anyone interested could always obtain more information.</p>	





## Appendix 2 Detailed findings in relation to SHO report

45

We compared the audited financial statements and the auditors' reports for 2010 (including the standardised breakdown of income and expenditure) with the expenditure figures for 2010 quoted in the SHO's report on 2011. Below follows an explanation of a number of discrepancies between the projected figures and the outcomes.

### *Updated figures*

Every April, the SHO publishes its joint annual report on the preceding year. However, the audited financial statements of the SHO's members, both permanent and guest members, are not published until July, i.e. sometime after the publication of the SHO's report. This means that the latter contains provisional figures that are not consistent with the updated figures in the audited financial statements. As a result, the audited financial statements for 2010 show that the SHO's members spent approximately €1 million more than the figure quoted in the SHO's report published in 2011.

### *Inaccuracies in the SHO's report*

- The SHO's report on 2011 wrongly attributes an expense item of €475,000 incurred in 2010 to both a permanent SHO member and a guest member (SHO, 2012: 56).
- According to the terms of the management plan, members should supply the SHO with standardised breakdowns of income and expenditure for both themselves and their guest members. In certain cases, the breakdowns prepared for guest members do not contain figures on their expenditure in 2010. It is clear from the information received from the Ministry of Foreign Affairs as the supervisory authority that the ministry made enquiries about these figures. The SHO did not provide the ministry with any formal explanation of these omissions.



## Appendix 3 Methodology and standards

46

For the purposes of our audit of the SHO's expenditure in 2011, we used the joint report prepared by the SHO in April 2012 and the reports drawn up by the auditors appointed by the 15 agencies who took part in the SHO's aid campaign for Haiti.

For the purposes of our audit of the results of the reconstruction work, and the methods used by the aid agencies, we selected three SHO members in consultation with the SHO. These were Cordaid, Oxfam Novib and Save the Children Nederland. These three agencies accounted for 60% of the SHO's aggregate aid expenditure in 2011. They are also representative of the way in which the delivery of humanitarian relief is currently organised, i.e. some agencies work with their own field offices (as in the case of Cordaid), whereas other agencies are part of a strictly coordinated umbrella body (as in the case of Save the Children Nederland) and yet others are members of an umbrella organisation but operate on a highly autonomous basis (as in the case of Oxfam Novib).

In March 2012, we audited three programmes in Haiti that are funded partly with SHO aid supplied by these three agencies. We focused on Cordaid's shelter programme, the sustenance programme operated by Oxfam Novib, and Save the Children Nederland's educational programme. The selection of the programmes was based on:

- the strategic importance and financial value of Cordaid's shelter programme (i.e. the biggest SHO programme in financial terms);
- the complexity, in terms of operational management and target-group impact, of Oxfam Novib's sustenance programme;
- the representativeness of the school-building and educational improvement schemes in relation to Save the Children Nederland's programme as a whole.

The aim of our fieldwork was to conduct on-the-spot audits of the following aspects:

- how the implementing agencies account for money and aid activities, and the transparency of the aid flows;
- which success factors and impediments affect the efficiency and effectiveness of the aid programmes;
- the way in which the agencies work together, acquire and share knowledge, and develop their learning capacity in Haiti.



In addition to auditing the three aid programmes, we also interviewed various actors and experts working in Haiti:

47

- Alexandre Abrantes, World Bank Special Envoy to Haiti;
- Benoist Bazin, EuropeAid office for Reconstruction at the European Commission;
- Marise Salnave and Patricio Crausaz, financial specialists at the Interamerican Development Bank;
- Jessica Faieta, UNDP Senior Country Director in Haiti;
- Afke Bootsma, UNDP Program Coordinator in Haiti;
- Asif Khan, Political Affairs Division of the MINUSTAH;
- Francisco Osler, Chief of Civil Affairs Division of the MINUSTAH;
- Arol Elie, Auditor General at the Cour des Comptes et du Contentieux Administrative de Haiti;
- Pamela Hamilton, USAID Office of Inspector General in Haiti;
- Jan Smid, USAID Office of Inspector General in Haiti;
- Gerrit Desloovere, Belgian consul in Haiti;
- Rob Padberg, Dutch Consul in Haiti.

**Court of Audit assessment criteria for:**

1 Ministry of Foreign Affairs

- The grant decision for the SHO should satisfy all conditions relating to the preparation of an accurate set of accounts.
- The SHO's accounts as submitted to the ministry should be audited in accordance with the auditing standards applying to government grants.
- The minister should inform the Dutch House of Representative in good time and supply the House with comprehensive, relevant information on the objectives of the aid programmes, the activities for which the grant was used, and the results achieved.
- The principal rules for the presentation of policy information:
  - relevant and accurate presentation, comprehensible and comparable.
- The principal rules for the preparation of policy information:
  - reliable, valid, orderly/verifiable and cost-effective.
- The principal rules for reporting information presented to the House of Representatives:
  - reliable, up to date, consistent and complete.

2 The SHO

The following assessment criteria applying to the delivery of aid in disaster zones:

- The resources must actually be spent on achieving the preset goals.
- The resources must be lawfully spent in accordance with the terms of the grant decision.



- The resources must be spent efficiently and effectively in accordance with the guidelines set out in the grant decision issued by the Ministry of Foreign Affairs.
- The SHO must inform the minister in good time, and supply him or her with comprehensive, relevant information on the way in which the SHO's aid for Haiti has been spent, as laid down in the grant decision.

48

**OECD-DAC evaluation criteria for humanitarian emergencies  
(OECD-DAC, 2000; ALNAP, 2006)**

- 'Sustainability' looks at whether the benefits of the interventions are likely to continue after the financial support provided by the programme has come to an end. Sustainability is also about the ecological, social and economic aspects. More specifically, it is about whether the programme is likely to have long-term benefits and about the users' resilience and ability to cope in face of risks.
- 'Efficiency' measures the outputs – qualitative and quantitative – achieved as a result of inputs. This generally requires comparing alternative approaches to achieving an output, to see whether the most efficient approach has been used. The following three questions are relevant in assessing the efficiency of an approach:
  - Has the aid been managed in a cost-effective manner, in particular with regard to the programme and project cycles, staffing, the agencies' duties and responsibilities, and coordination and cooperation among the agencies involved?
  - Were the objectives achieved on time?
  - Was the programme implemented in the most efficient manner compared with alternative approaches, by:
    - selecting the right partners;
    - monitoring progress;
    - incorporating learning cycles;
    - using internal checks and balances and reporting mechanisms?
- 'Effectiveness' measures the extent to which an activity achieves its purpose. The following questions need to be answered in this connection:
  - To what extent have the programme's aims been achieved?
  - Which factors determined the agencies' success or failure to achieve the programme's aims?



## Abbreviations

AADA	(Task force for the) Accountability for and Audit of Disaster-related Aid
ALNAP	Active Learning Network for Accountability and Performance
Cordaid	Catholic Organisation for Relief & Development Aid
GHD	Good Humanitarian Donorship
HAP	Humanitarian Accountability Partnership
IASC	Inter-Agency Standing Committee
ICCO	Interkerkelijke Coördinatie Commissie Ontwikkelingssamenwerking (Interchurch Organisation for Development Cooperation)
IFAF	Integrated Financial Accountability Framework
INTOSAI	International Organisation of Supreme Audit Institutions
MINUSTAH	United Nations Stabilization Mission in Haiti
NGO	Non-governmental organisation
Novib	Nederlandse Organisatie voor Internationale Bijstand (Netherlands Organisation for International Development Cooperation; Oxfam Netherlands)
OCHA	Office for the Coordination of Humanitarian Affairs
OECD-DAC	Organisation for Economic Cooperation and Development/Development Assistance Committee
Oxfam	Oxford Committee for Famine Relief
SHO	Samenwerkende Hulporganisaties (joint Dutch aid agencies)
UN	United Nations
UNDP	United Nations Development Programme
UN-HABITAT	United National Human Settlements Programme
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
VNG	Vereniging van Nederlandse Gemeenten (association of Dutch municipalities)



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50

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51

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**Audit team**

Mr H.M.R.H. Cleuren (Project Manager)

Mr J. Chhatta

Ms L. van Loon

Ms T. Vandersmissen

**The Netherlands Court of Audit**

Algemene Rekenkamer

Lange Voorhout 8

P.O. Box 20015

2500 EA The Hague

phone +31 70 342 43 00

[www.courttofaudit.nl](http://www.courttofaudit.nl)

**Translation**

Tony Parr

**Cover**

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Photo: Tanneke Vandersmissen/

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