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Report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

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Summary

The present report of the Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) describes the activities of the Group during 2010 and provides a detailed outline of the current financial situation of UNRWA. The Working Group unanimously adopted the report at its meeting on 28 October 2010. As in previous reports of the Group, the present report closes with a number of concluding remarks addressed to all Member States.

I. Introduction: origin and background of the Working Group

1. The Working Group on the Financing of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established by the General Assembly under resolution 2656 (XXV) to study all aspects of the financing of the Agency. In that resolution, the Assembly requested the Working Group to assist the Secretary-General and the Commissioner-General of UNRWA in reaching solutions to the problems posed by the Agency's financial crisis. UNRWA was established under General Assembly resolution 302 (IV) and its mandate was renewed most recently until 30 June 2011 (General Assembly resolution 62/12).
2. At its twenty-fifth session and all those that followed, the General Assembly considered the reports submitted to it by the Working Group (in 2009, A/64/519) and adopted resolutions commending the efforts of the Working Group and requesting it to continue them for a further year (General Assembly resolution 64/89).
3. The Working Group consists of the representatives of France, Ghana, Japan, Lebanon, Norway, Trinidad and Tobago, Turkey, the United Kingdom of Great Britain and Northern Ireland and the United States of America. The Working Group is currently chaired by Mr. Ertuğrul Apakan of Turkey.

II. Activities of the Working Group during 2010

4. The Working Group was convened on an extraordinary basis by its Chair on 15 March 2010. The meeting took place at the Permanent Representative level and provided an opportunity for its members to hear from the new Commissioner-General of UNRWA about the Agency's grave financial situation and discuss measures that could be taken to ensure that it is more adequately funded in the future, including possible additional support from the United Nations regular budget. The Working Group met for its regular annual session on 13 September 2010 and was briefed by the Director of the UNRWA Representative Office on the Agency's financial situation and other recent developments. The Working Group also met on 28 September and 6 October 2010 during its regular session, agreeing on and adopting the present report on 28 October 2010.

III. Financial situation of the United Nations Relief and Works Agency for Palestine Refugees in the Near East

5. The United Nations Relief and Works Agency for Palestine Refugees in the Near East cash and in-kind regular budget for the biennium 2010-2011 amounts to

\$1,226.7 million, of which the cash component for its programme requirements is \$598.5 million for 2010 and \$621.2 million for 2011. In addition, the programme budget for 2011 includes in-kind assistance amounting to \$3.5 million. Given the unusually dire financial outlook faced by the Agency, in November 2009 it reduced its programme requirements for 2010 by \$57 million to \$541.5 million. As at early September 2010, the anticipated funding gap was \$80.8 million against the downsized 2010 budget. This funding gap comprised a deficit of \$54.4 million as at 1 January 2010; a net foreign exchange loss of \$21.8 million; and decreased donor income when translated into United States dollars at the time of receipt of funds. If the forecast funding gap materializes at year end, UNRWA will be faced with a working capital deficit of \$44.4 million. Included in the cash budget of \$598.5 million for 2010 is funding of \$29.1 million from the United Nations assessed contributions to cover the costs of 133 international posts funded from the United Nations regular budget, including 14 new posts agreed in the 2010-2011 biennial budget.

6. The capital requirements of UNRWA programmes, as well as expenditure related to environmental health improvements and shelter rehabilitation, are mainly contained in the Agency's project budget. These requirements include construction and expansion of schools, health centres and water and sanitation facilities, and camp improvement activities in general. The project budget is set at \$262 million for 2010, out of which \$50.4 million (19 per cent) has been pledged by donors as at 15 August 2010. The growth of the project budget from 2009 to 2010 stemmed from a change in methodology and the introduction of the medium term strategy which placed greater emphasis on the project needs of field offices, as reflected in their respective field implementation plans. Funds received amounted to \$19.6 million leaving a deficit of \$211.6 million in terms of pledges and \$242.4 million in terms of contributions received. The Working Group was deeply concerned about the inadequacy of project funding in light of the Agency's urgent need to construct new facilities and upgrade existing ones, to enable it to deliver quality services to refugees.

7. UNRWA provided details to the Working Group on the extent and nature of the funding crisis facing the Agency and on the renewed efforts it is taking to address the issue. UNRWA is deeply thankful to its donors for their generous donations, not least given the extremely difficult global financial environment. Regrettably, however, the level of current contributions for its General Fund budget is inadequate to meet the basic needs of a growing and increasingly marginalized Palestine refugee population. Higher, and more predictable, income remains critical, as shortfalls of the kind witnessed in 2010 have become structural. These shortfalls are fully expected to continue in the coming years unless donor income is significantly increased and maintained at the higher level. Increased funding is particularly required during the first quarter of the year when the inflow of donor contributions is traditionally low while UNRWA costs are structurally high and fixed. Approximately 80 per cent of expenditure relates to labour costs. The Agency renewed its appeal to donors to make additional efforts to fully fund the General Fund budget, on the grounds that UNRWA represents the principal source of basic services for the Palestine refugee population. The continued commitment of the international community to the refugees remains essential, in the absence of a just and durable solution to their problem and in light of the continuing conflicts in the region, which have had devastating economic and social consequences.

8. The consequences of this financial crisis are many and dramatic. The Working Group was informed that in addition to undermining access to, and the quality of, some UNRWA services, the lack of funding had resulted in increased hardships for staff due to the Agency's recent inability to raise salaries fully in line with public sector pay increases in the host countries in which it operates. Lack of financial resources is also jeopardizing the ability of the Agency to continue and sustain the major management reform efforts undertaken under the organizational development initiative in 2007-2009. As detailed in the "Sustaining Change" document shared with the Agency's Advisory Commission at its meeting in Cairo on 21-22 June 2010, and building on the basic management reform and strategic planning measures introduced under the organizational development initiative, the focus of the reform effort over the next two years has now become programmatic to improve the provision of health, education, and relief and social services, and to strengthen its resource mobilization and strategic communication capacity. A detailed project proposal will be presented to the Advisory Commission and donors in November 2010. Finally, the Agency's deficit is making it difficult for UNRWA to comply fully with General Assembly mandated initiatives such as the International Public Sector Accounting Standards (IPSAS), the minimum operational security standards directives of the United Nations, the reform of internal justice, as well as the badly needed acquisition of an enterprise resource planning data management system. The system will enable the Agency to manage its resources proactively, report comprehensively to donors and be IPSAS-compliant.

9. Turning to the steps taken by the Agency to address the financial crisis, and as developed in the "Sustaining Change" document, UNRWA shared with the members of the Working Group the key challenges it faces. These include the need to: (a) increase substantially the level of funds received from existing donors and expand the range of donors that contribute to the Agency, including through partnerships with the private sector and foundations; (b) restore the financial health of the Agency through ensuring predictable and sustainable funding at appropriate levels; (c) re-establish an adequate working capital reserve; (d) communicate in a more strategic manner through the development of a stronger single corporate identity and make use of innovative technology; and (e) reorganize its resource mobilization and strategic communications structures, so as to be able to seize opportunities more systematically and market the Agency in a more proactive and creative way.

10. The Working Group was apprised of the efforts made by the Agency to raise more funds in 2010 and of the new, more strategic approach to resource mobilization it has adopted. In this respect, UNRWA is strengthening the capacity of its Representative Office in Brussels and that of its Arab Partners Unit in Amman to work with its Arab donors. Resources permitting, it also plans to strengthen engagement with the United States Government through the establishment of a small presence in Washington, D.C. The Agency is also seeking to enhance its partnership capacity with a range of governmental, non-governmental and private sector actors, in line with current global United Nations practices. In addition, it is working to strengthen its multilateral engagement, notably with its Advisory Commission and internal United Nations processes such as the annual United Nations Pledging Conference for UNRWA. The Agency also plans to articulate its budgetary requirements in a more consistent and disciplined manner along the following three main portals: (a) regular budget (including the social safety net programme); (b) emergency appeals; and (c) projects. It will seek a more predictable and sustainable funding base through the pursuit of multi-year bilateral compacts with key stakeholders. Finally, it is restructuring its internal capacity through the establishment of a new external relations and communications department. The Working Group welcomed the efforts made by UNRWA to sustain changes and raise more funds and urged donors to come forward to fund this important new initiative.

11. Enhanced resource mobilization alone will not be sufficient to improve the financial deficit of UNRWA. For the second consecutive year, the working capital of UNRWA, which has been used in the past to compensate for shortfalls of income against expenditure, is now virtually exhausted. The Agency began 2010 with a cash balance of only \$18 million (equivalent to 12.5 days average expenditure). The situation has become even more serious this year. As of September 2010, UNRWA forecasts a cash deficit of \$43 million in December 2010, taking into account donor contributions, project support charges, and other sources of income. On those estimates, the Agency will thus not be in a position to fund the November and December 2010 payrolls, nor will it be able to meet any other budgeted or unanticipated operational priorities. The working capital reserve of UNRWA therefore needs to be replenished as a matter of high priority. Given the Agency's rigid cost structure and unpredictable funding environment, it estimates that it would be prudent to maintain the equivalent of at least three months cash requirement. With a monthly cash outflow of around \$43 million — comprising \$35 million in staff costs and \$8 million in non-staff costs — an injection of about \$130 million in working capital is required to create a safety cushion for the Agency's finances.

12. The Working Group was also informed that another cause of serious concern is the unfunded provision of severance payments, audited to be \$227 million as at December 2009. Should UNRWA in future need to seek greater flexibility in the efficient use of staff, an immediate requirement will be the availability of sufficient funds to effect severance payments. UNRWA thus wishes to bring to the attention of the General Assembly the need to identify potential sources of funding that could be made available to finance UNRWA severance payments, on a standby basis and if required.

13. In light of the serious underlying financial challenges facing the Agency in the coming period, the Working Group was informed about the intended purpose and thrust of the forthcoming report of the Secretary-General on the strengthening of the management capacity of UNRWA. The report was requested by the General Assembly at its sixty-fourth session for submission at the earliest possible date; it is expected to be taken up by the Assembly at its sixty-fifth session, initially by the Special Political and Decolonization Committee, then later by the Advisory Committee on Administrative and Budgetary Questions. The Working Group welcomed this and other steps being taken by UNRWA to bring to the attention of the General Assembly, as a matter of urgency, the need to rectify the structural imbalance

existing between the Agency's forecast income and planned programme and administrative expenditure. In this regard, the Working Group recalled the conclusions of its extraordinary meeting in June 2009, when the inadequacy of current levels, and scope, of funding from the United Nations regular budget to meet contemporary demands on the Agency's management was highlighted.

14. The Working Group was informed that, as at 31 July 2010, the Palestinian Authority owed approximately \$34.8 million in value added tax reimbursements to the Agency, an increase of 29 per cent on the amount of approximately \$27 million owed on 30 June 2009. This represented the largest amount ever owed by the Palestinian Authority to the Agency. UNRWA also noted that it continued to be concerned about port and related transit charges and the financial burden caused by Israeli security procedures required for humanitarian goods imported through Israel. The Israeli authorities continued to impose transit charges on shipments entering the Gaza Strip, obliging UNRWA to pay \$92,265 between 1 January and 30 June 2010. In the Agency's view, the charges are a direct tax from which it ought to be exempt under the 1946 Convention on the Privileges and Immunities of the United Nations. Largely owing to the closure of the Karni crossing and the requirement from June 2007 to palletize all container shipments, the Agency's excess operating charges in 2009 for the storage, demurrage, transportation and palletization of over 2,000 containers were some \$3.61 million. In the first six months of 2010, excess charges for these items for about 500 containers — about half the average level of imports recorded the previous year — amounted to some \$1.05 million. The Agency considers that, for substantial periods, the throughput of goods was not consistent with Israel's obligations under the Comay-Michelmores Agreement of 1967 and Israel's obligations under international humanitarian law. In this regard, the Working Group called on all parties concerned to facilitate the mission of UNRWA to provide humanitarian assistance to the Palestine refugee population.

15. UNRWA also explained to the Working Group its concern over the continued prohibition of materials essential for the reconstruction of Gaza, and the resulting increased costs to the Agency. From June 2007 to May 2010, importation of construction materials was almost completely prohibited as a consequence of the very tight economic and movement restrictions imposed on the Gaza Strip. In consequence, UNRWA was unable to complete, or compelled to suspend or halt tendering on, construction and infrastructure projects worth nearly \$100 million. Following the Israeli military operation that began on 27 December 2008 and fighting in Gaza that continued until 18 January 2009, UNRWA developed a comprehensive reconstruction plan — involving construction and infrastructure projects worth \$569 million — to reconstruct refugee assets and restore basic infrastructure for health and education. The restrictions on entry of construction materials have hindered the implementation of this plan. The additional cost to UNRWA, and thus to its donors, of delays to projects under way in Gaza as of June 2007 which have been frozen since then amounts to an estimated \$45 million. This represents a 50 per cent increase on the original cost of these projects. On 15 January 2010, an arrangement was concluded whereby the Government of Israel made a payment of \$10.5 million to the United Nations in respect of losses sustained by UNRWA and UNSCO in the nine incidents investigated by the Gaza Board of Inquiry, of which \$10.27 million was remitted to the Agency on 1 March 2010. In March 2010, UNRWA finally received initial approval to bring in construction materials for two small, now completed, projects: upgrading of the Tel el-Sultan sewage pumping station and 151 housing units in Khan Younis (out of a total need to build or totally rebuild 10,294 refugee shelters in Gaza, at an estimated cost of \$420 million). In July 2010, under new guidelines introduced by the Government of Israel following the tragic Gaza flotilla incident of 31 May 2010, UNRWA also received initial verbal approval to proceed with the construction of eight schools (later reduced to four), eight classrooms and two health centres, which will cost an estimated \$16.3 million. Further construction materials, including paint and bathroom supplies, were allowed to enter for the private sector in Gaza, but other essential items, including cement and gravel, remain barred. UNRWA continues to have to request approval for these items on a project-by-project basis, resulting in significant delays and inefficient utilization of donor funds. The continued need to secure project-by-project approval for the necessary reconstruction materials, accounting for every bag of cement as well as the time involved in the coordination of these imports with Israeli authorities will cost UNRWA an estimated \$5 million over the next two years. As of 1 October 2010, the entry of goods for only a further \$17.3 million worth of UNRWA projects had been verbally approved out of an overall total worth \$669 million. The Working Group reiterated its concern about the lack of substantial progress in the lifting of the ongoing restrictions and facilitating the entry of materials necessary for projects to benefit refugees in Gaza. The Working Group stressed that much more progress was needed to address the situation in Gaza and underscored the importance of the full implementation of Security Council resolutions 1850 (2008) and 1860 (2009). Emphasizing the need to ensure the sustained and regular flow of goods and people through the Gaza crossings, as well as the unimpeded provision and distribution of humanitarian assistance throughout Gaza, the Working Group recognized the vital role played by UNRWA in providing humanitarian and economic assistance in Gaza.

16. In December 2009, UNRWA launched an appeal for \$323.3 million to address the emergency needs of Palestine refugees in the occupied Palestinian territory. Towards the appeal for \$249.6 million for Gaza and \$73.0 million for the West Bank, by 16 August 2010, UNRWA had only received pledges totalling \$159.1 million. This figure represents less than half of the total appeal, and falls short of meeting the basic needs of the 1.1 million registered refugees — approximately two thirds of the total population — in Gaza where living conditions have continued to decline. Considering that the Agency has identified an additional 200,000 abject poor refugees in Gaza over the last year through its new poverty benchmarking mechanism, greatly increasing needs to be met, the donor response to date has been disappointing. The lack of funding jeopardizes food aid, temporary employment and cash assistance programmes, all needed to mitigate the worst impacts of the protracted crisis on poor families. UNRWA's emergency work also seeks to address psychosocial needs through community mental health projects. Through systematic monitoring and reporting of conditions, the emergency programmes also observe human rights concerns and attempt to ensure that there is no abuse of UNRWA facilities.

17. The fierce conflict from May to September 2007 in and around the Nahr el-Bared refugee camp in northern Lebanon, between the Lebanese Army and a terrorist militant group known as Fatah al-Islam, resulted in the destruction of the entire camp. Severe damage was also caused to adjacent areas. The task of rebuilding the Nahr el-Bared Camp and caring for some 27,000 displaced refugees is one of the largest ever undertaken by UNRWA. Three years after the fighting ended, about 20 per cent of those displaced have been able to return to their original homes in the adjacent areas. The majority, however, are still living in temporary accommodation. Most are renting their own accommodation, supported by UNRWA rental subsidies, while others are living in UNRWA constructed temporary shelters or in collective centres leased and modified by UNRWA. Donors have responded relatively generously to the three appeals launched so far by UNRWA to support those displaced. The relief and early recovery appeal, which originally covered a 16-month period from September 2008 to the end of 2009, sought \$42.7 million. By the end of 2009, about \$28 million (65 per cent) had been received. While UNRWA did not launch another appeal in 2010 to care for the displaced persons, it sought \$16.3 million for its core relief and recovery activities in 2010. By the end of August, most of the funds to cover these needs were secured. However, the increased cost of health expenditures might still lead to a shortfall. Assistance for temporary accommodation, food and hospitalization, as well as other regular expenses such as water and power supplies and maintenance of the temporary shelter facilities must continue in 2011 until the camp is rebuilt, at an estimated cost comparable to that incurred in 2010. UNRWA will have to continue providing relief support to the displaced families of the Nahr el-Bared Camp until the full reconstruction of the camp. The time frame for the progressive reduction and eventual cessation of this relief support is entirely conditional on the speed of progress in the reconstruction, which in turn depends largely on the availability of further donor funding.

18. At the Vienna donor conference, held on 23 June 2008 together with the Lebanese Government and the World Bank, a joint appeal was launched for \$445 million over a three-year period to 2011, to cover the reconstruction of the camp, repairs in the adjacent areas and improvements in the surrounding Lebanese municipalities. The UNRWA component of this appeal for reconstruction within the official camp boundaries and UNRWA's compound, comprising schools and other supporting facilities, has since been revised upwards from \$282.1 million to \$327.7 million, in addition to \$17 million for pre-reconstruction operations (rubble removal and demining). Including funds received through the World Bank-administered multi-donor trust fund, as at 17 August 2010, firm pledges received have totalled \$134.4 million. While this amount is sufficient to cover the construction of residential and commercial units and related infrastructure outlined in packages 1 and 2 and most of package 3, as well as three out of six school buildings within the UNRWA compound, the balance of \$210.3 million (64 per cent of the total amount required) still needs to be raised. The Working Group called upon all donors, particularly countries in the region, to lend their full support to the reconstruction and relief operations until the camp is rebuilt, as failure to do so might have serious consequences for the security of the refugees and the stability of Lebanon. It also encouraged UNRWA to continue with its comprehensive camp improvement initiative, which seeks to upgrade living conditions in the other 11 Palestine refugee camps in Lebanon, a project fully supported by the Government. Finally, the Working Group welcomed the amendments to the employment legislation adopted by the Lebanese Parliament on 17 August 2010, granting additional employment rights to Palestine refugees, as a step in the right direction.

IV. Concluding remarks

19. The Working Group reiterated its belief that UNRWA plays a vital role in providing assistance to the Palestine refugees as well as in preserving the stability and security of the region. To assist in meeting this strategic goal, adequate funding of the Agency's programmes, in accordance with the changing needs of the refugee community and in line with the comparable level of services provided by host authorities to their own citizens, is essential. In this regard, the Working Group welcomes UNRWA's efforts to build on the progress in organizational development reforms, to focus on implementing changes at the programme level and pursue a more aggressive resource mobilization strategy.

20. The Working Group notes with serious concern the exceptionally large funding gap anticipated for UNRWA's regular budget in 2010 and reiterates that it is the responsibility of the international community to ensure that UNRWA services are maintained at an acceptable level, in quantitative and qualitative terms, and to ensure that funding keeps pace with the changing needs of the refugee population.

21. The Working Group also notes with serious concern the structural nature of UNRWA's financial crisis whereby UNRWA's General Fund is under-funded year after year, leading the Agency to finance its annual deficit partly by spending its working capital, now virtually depleted. It welcomes further discussion on how to address this issue, notably within the context of the anticipated discussions at the sixty-fifth session of the General Assembly on the forthcoming report of the Secretary-General on the strengthening of the management capacity of UNRWA. Recalling the conclusions of its extraordinary meeting in June 2009, reached prior to the inclusion of 14 new posts agreed in the 2010-2011 biennial budget, the Working Group reiterated serious concern that if adequate resources from the regular budget of the United Nations are not provided to the Agency, the achievements from the comprehensive overhaul of the Agency's work currently being undertaken by its management could be put at risk.

22. In view of the deep humanitarian crisis in the occupied Palestinian territory, the Working Group recognizes the essential humanitarian role played by UNRWA emergency operations in alleviating the hardship of the refugees and in mitigating further declines in their living conditions. It thus urges all potential donors, traditional and non-traditional, to redouble their efforts to fully fund the Agency's emergency appeals for 2010.

23. The Working Group reiterates concern about the continued tight restrictions on the movement of UNRWA staff and humanitarian goods into and out of the occupied Palestinian territory, and between its parts. It calls on the Israeli Government to accord the Agency free and unfettered access. The Working Group supports opening the Gaza crossings to allow the unimpeded flow of humanitarian aid, commercial goods and persons to and from Gaza, consistent with Security Council resolution 1860 (2009).

24. The Working Group commends the Commissioner-General and all UNRWA staff for their tireless efforts over the past year to maintain the regular and emergency services of the Agency under very difficult operational circumstances. It encourages the Commissioner-General to continue his fund-raising efforts and his commitment to keeping major donors and host authorities informed and involved, opening new avenues of support and funding. The Working Group is gratified by the support of a growing number of non-traditional donors and encourages UNRWA to continue its efforts to widen the donor support base.

25. The Working Group calls for the early and complete fulfilment of outstanding donor pledges to UNRWA. It also takes note of the importance for the Agency's planning purposes of early payment of pledges, coupled, where possible, with multi-year commitments of funds.

26. The humanitarian problems faced by the Palestinian refugees today must be addressed as a shared international responsibility pending a final and comprehensive settlement of the Israeli-Palestinian conflict in accordance with international law, including relevant United Nations resolutions. The services provided by UNRWA must be viewed as the minimum required, to enable the refugees to lead productive lives. Any reduction in those services would not only unfairly deprive them of the minimum level of support to which they are entitled, but could also have a destabilizing effect on the entire region. Above all, the Working Group expresses the hope that the international support for UNRWA embodied in the resolutions adopted each year by the General Assembly, in which the Assembly recognizes the importance of the work of the Agency, will be translated in practice into increased support to ensure the continuation of the Agency's work on a sound financial basis.

27. The Working Group strongly urges all Governments to bear in mind the foregoing considerations when deciding upon the level of their contributions to UNRWA for 2010 and 2011, and once again:

- (a) Urges those Governments that have not yet contributed to UNRWA to do so on a regular basis;
 - (b) Urges Governments that have so far made only relatively small contributions or else contributions that have not kept up with increased needs to raise the level of their support;
 - (c) Urges Governments that in the past have made generous contributions to UNRWA to continue to do so in a timely manner and to strive to increase them;
 - (d) Urges Governments that traditionally have shown special interest in the welfare of the Palestine refugees, both in the region and beyond, to begin contributing to UNRWA or to increase their contributions;
 - (e) Urges Governments to fully fund UNRWA's budget for the biennium 2010-2011, to ensure that the real value of contributions to the Agency is maintained, and to ensure that donor support for emergency-related and special programmes does not in any way decrease contributions to or divert them from its regular programme;
 - (f) Urges donor Governments, where possible, to provide multi-year funding to allow UNRWA to better plan its activities.
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