



THE PRESIDENT
OF THE
GENERAL ASSEMBLY

4 August 2015

Excellencies,

I have the honour to transmit herewith a letter from the Secretary-General of the United Nations, H.E. Mr. Ban Ki-moon, dated 4 August 2015, on a Special Report on the financial crisis facing the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), submitted by the Commissioner-General, Mr. Pierre Krähenbühl.

The report points out that as of 3 August 2015, UNRWA lacks the funds to open its 685 plus schools, which provide education for some 500,000 Palestine refugee boys and girls in its five fields of operation, and eight vocational training centres, which provide training for some 7,000 youth.

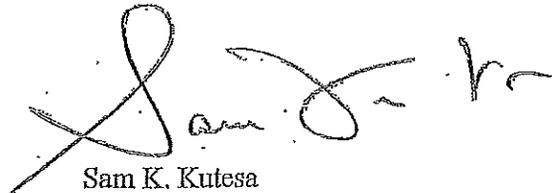
The report further states that in spite of efforts to secure funding and the measures taken to maintain critical Agency services, UNRWA currently has a deficit of \$ 101 million on its core budget, the General Fund, which is funded by voluntary contributions.

Unless the shortfall is fully funded by the middle of August, the financial crisis may force the suspension of the landmark education programme of UNRWA. I join the Secretary-General in expressing deep concern over the financial situation confronting the Agency and its consequences, if adequate and sustainable financing is not made available.

In its role of providing education, health care, relief and social services, infrastructure, microfinance and emergency assistance to Palestine refugees, including in times of armed conflict, the Agency acts as a strong stabilizing factor in the region.

I therefore encourage your active engagement in efforts to urgently address this unprecedented funding shortfall of UNRWA for 2015, and the financial issues faced by the Agency for 2016 and beyond, including through supporting the proposals contained in the Special Report.

Please accept, Excellency, the assurances of my highest consideration.



Sam K. Kutesa

All Permanent Representatives and
Permanent Observers to the United Nations
New York



THE SECRETARY-GENERAL

4 August 2015

Dear Mr. President,

I have the honour to convey a letter dated 3 August 2015, which I received from Mr. Pierre Krähenbühl, Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), submitting a Special Report pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949.

In this Special Report on the financial crisis, the Commissioner-General sets out the dramatic dimensions of the funding shortfall, the efforts undertaken to secure funding and the measures taken to maintain critical Agency services. The report concludes with a number of proposals for Member States and Observers of the United Nations and appropriate organs.

The report states that as of 3 August 2015 UNRWA lacks the funds to open its 685 plus schools, which provide education for some 500,000 Palestine refugee boys and girls in its five fields of operation, and eight vocational training centres, which provide training for some 7,000 youth. Unless the shortfall in the core General Fund budget is fully funded by the middle of August, the financial crisis may force the suspension of the landmark education programme of UNRWA.

In view of the continued critical financial position of the Agency, the Commissioner-General requested an extraordinary session of the Advisory Commission to be convened on 26 July 2015. At the extraordinary session, Members and Observers, and in particular Hosts, raised great concern and reservations about a possible delay in opening the school year, noting the likely impact on security and stability in the countries and the region, as well as on students, staff and their families.

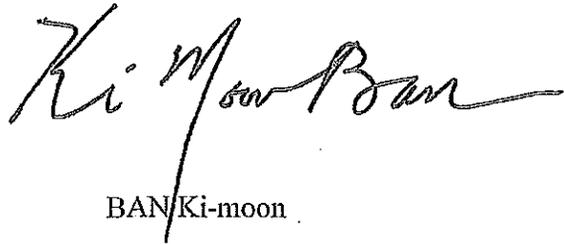
His Excellency
Mr. Sam Kahamba Kutesa
President of the General Assembly
New York

I wish to express my deep concern over the financial situation confronting the Agency and the humanitarian, political and security consequences that will result if adequate and sustainable financing for 2015 and beyond is not made available. I would like to emphasize that at a time when crises are growing throughout the Middle East, it is imperative that UNRWA, a pillar of stability for a registered population of some 5 million Palestine refugees, is provided with the resources necessary to enable it to continue providing services to this vulnerable population in accordance with its General Assembly mandate.

I wish to underline my full support for the proposals of the Commissioner-General to ensure immediate attention to the gravity of the situation caused by the unprecedented financial shortfall for 2015 of UNRWA, and to address urgently the chronic funding issues faced by the Agency for 2016 and beyond.

I should be grateful if you could bring the present letter and its attachments to the attention of Member States and Observer Missions.

Please accept, Mr. President, the assurances of my highest consideration.



BAN/Ki-moon

Letter of transmittal

3 August 2015

I have the honour to submit to the Secretary-General a Special Report by the Commissioner-General of UNRWA dated 3 August 2015, pursuant to paragraph 21 of General Assembly resolution 302 (IV) of 8 December 1949.

I would be grateful if the Secretary-General could bring the Special Report to the urgent attention of the Permanent Representatives of Members and Observers of the United Nations.

I would like to take the opportunity to express my deep appreciation for the strong support for UNRWA of the Secretary-General, Deputy Secretary-General and the staff of the Executive Office of the Secretary-General.



Pierre Krähenbühl
Commissioner-General

**Special Report of the Commissioner-
General of the United Nations Relief and
Works Agency for Palestine Refugees in the
Near East on the Financial Crisis of the
Agency**

3 August 2015

Introduction

1. Palestine refugees are facing one of their most critical times ever, in an increasingly unstable Middle East. UNRWA is confronted with its most severe financial crisis since its establishment in 1949. These two realities are placing immense pressures on the Agency and its ability to live up to the Agency's mandated core responsibilities.

2. UNRWA has a deficit of \$101 million on its core budget, the General Fund, which is largely funded by voluntary contributions.¹ UNRWA has taken measures to ensure that its essential services in health, relief and sanitation can be delivered through the end of 2015 to protect the public health and safety of Palestine refugee and host communities. As of 3 August 2015 UNRWA lacks the funds to open its 685 plus schools, which provide education for some 500,000 Palestine refugee boys and girls in its five fields of operation, and eight vocational training centres, which provide training for some 7,000 youth. Unless the shortfall in the core General Fund budget is fully funded by the middle of August, the financial crisis may force the suspension of UNRWA's landmark education programme. Without secured funding, UNRWA lacks the ability to pay teachers and cover the expenses associated with operating 685 schools. This would directly affect refugee and host communities in Jordan, Lebanon, Syria, Gaza and the West Bank (including East Jerusalem) and some 22,000 staff members who would not be paid during the suspension, as well as the extended families they support in difficult circumstances. Furthermore a suspension of the education programme would hamper the enjoyment of the right of children to education and expose vulnerable children and youths to additional risk that could contribute to instability in the Palestine refugee community at a time of great turbulence in the Middle East; this scenario has been received with great concern by all Host States.

3. In this report, the Commissioner-General sets out the dramatic dimensions of the funding shortfall, the efforts undertaken to secure funding and the measures taken to maintain critical Agency services. The report concludes with a number of proposals for Member States and Observers of the United Nations and appropriate organs.

Funding

4. The General Assembly, in its resolution 68/76 of 11 December 2013, extended the Agency's mandate until 30 June 2017. The General Assembly has routinely urged all States, the specialized agencies and non-governmental organizations to support the Agency's valuable and necessary work in assisting the Palestine refugees in all fields of operation by providing or increasing their contributions to the Agency in order to address the serious financial constraints and underfunding affecting the Agency's core General Fund budget, noting that financial needs have been

¹ Figure advised to the Advisory Commission, and subject to continuing adjustments for foreign exchange movements, conversion of any pledges into cash contributions or hard commitments, and so on.

exacerbated by proliferating conflicts, instability and the deteriorating humanitarian situation on the ground.²

5. Over 97 per cent of UNRWA's income is voluntarily contributed through three funding portals; the core General Fund, which covers the costs of UNRWA's direct delivery of core services to a population of five million registered Palestine refugees; a projects budget, through which UNRWA seeks to meet infrastructural requirements as well as technical assistance and monitoring and evaluation; and emergency appeals to address the situation in the occupied Palestinian territory and in Syria, Lebanon and Jordan.³

6. While UNRWA has made significant progress in expanding and deepening the donor base through its resource mobilisation strategy, and despite generous voluntary contributions to its portals, funding has fallen far behind cumulative needs, which are growing year-on-year. The Commissioner-General notes that some donors have significantly increased contributions to essential projects while UNRWA's General Fund remains under-funded; extra-budgetary funds for projects and emergency appeals are not available to cover the shortfall for the core General Fund budget. At the same time, pressures on UNRWA's core General Fund budget have grown as a result of increased expenditures necessitated by UN system-wide requirements and donor demands in the areas of internal oversight, results based management, enterprise risk management, enterprise resource planning, administration of justice, and safety and security. During the last three years, this accounts for approximately \$48.2 million in added General Fund expenditure, albeit with an expected contribution to Agency effectiveness and efficiency and the human development of Palestine refugees. While in 2010 UNRWA had an average cash balance of about \$80 million, the Agency has had virtually no working capital since 2012. Each year over the past three years UNRWA has had to temporarily suspend creditor payments owing to a shortage of cash, reducing supplier confidence and exposing UNRWA to increased legal and financial risks. At the end of 2014, \$7.5 million of creditor payments were suspended and carried over to early 2015. Moreover, each year over the past five years UNRWA has had to secure donor advances to the core General Fund from the following year, which has also directly increased the shortfall in subsequent years.

7. Although the Agency has faced financial crises before, today the Agency faces its most serious financial crisis ever, which is the culmination of several years' deteriorating financial circumstances. It is a crisis that affects not only Agency core programmatic activities such as education but Agency emergency appeal activities and projects as well, all of which are funded overwhelmingly through voluntary contributions. The Agency faces a General Fund funding shortfall for core programmatic activities to cover the year 2015 of \$101 million. With a workforce of about 30,000 staff, nearly all of whom are Palestine refugees, operating some 1,135 premises across the Agency's five fields and a monthly cash flow requirement of about \$47 million for the costs of the Agency's teachers, doctors, social workers and other staff, the Agency cannot pay the salaries of its staff in full and cover all activities for the remainder of 2015.

² See, for example, General Assembly resolution 69/88 adopted on 5 December 2014.

³ See further the Programme budget for 2014-2015, Addendum to Report of the Commissioner-General of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (A/68/13/Add.1).

8. The Agency estimates that to continue core services at current levels and fulfil its commitments and obligations, it would require funds to cover:

(a) The 2015 funding shortfall in its core General Fund budget, estimated at \$101 million (representing payroll for the education programme workforce and the operational costs for running 685 schools for four months);

(b) The funding shortfall in its core General Fund budget in subsequent years, which is presently estimated at \$135.2 million in 2016;

(c) The establishment of a working capital of \$171 million as a minimal operational and management requirement for the Agency's finances, equivalent to three months' average expenditure.

Measures taken and under consideration

9. UNRWA has long maintained a high degree of cost-efficiency and effectiveness. The annual cost per pupil in UNRWA's schools is less than 14 per cent of that spent on children in OECD member states. Similarly, UNRWA's average annual expenditure per person on health care is less than one per cent of the per capita expenditure on health in OECD member states. UNRWA's locally-recruited Palestinian staff are on UNRWA-specific salary scales that are significantly lower than national staff performing similar functions in other UN funds and programmes. At the same time, UNRWA has achieved high standards of human development among the Palestine refugees in all fields of operation, as measured by key indicators of literacy, student enrolment and achievement, gender parity and maternal and child health. These achievements have been largely sustained in a region of intense protracted conflicts in the occupied Palestinian territory and Syria. It is the Agency's workforce and infrastructure, which are funded primarily from its core General Fund, that have enabled it to be one of the most effective responders in the UN system in rapid on-set crises including those in Gaza, Syria and Lebanon in recent years.

10. UNRWA has developed, in consultation with Host States and key donors, a Medium Term Strategy for the period 2016 – 2021 that will enable it to become even more cost-efficient and cost-effective whilst delivering quality core services and thus better able to meet increasing needs of refugees with the resources made available to it. The Medium Term Strategy was welcomed by the Agency's Advisory Commission in June 2015.

11. Notwithstanding its cost-efficiency and effectiveness and its future strategic commitments, in light of its financial projections for 2015 in June 2015 the Agency devised and began implementing a series of difficult measures to reduce costs while endeavouring to preserve core services to Palestine refugees.

(a) Education comprises more than 60 per cent of the Agency's core budget. To help address the shortfall, the Agency has examined different options for allocating teachers to, and amending student ratios in its 685 schools. After efforts to reduce the number of children in any class, the Agency is considering the reintroduction of a class ceiling planning number of 50 students per class. For more than 30 years the Agency reserved, but did not enforce, a planning number of 50 as the trigger point for when a class would be divided. The enforcement of such a planning number

would reduce the teachers required to operate the Agency's schools but UNRWA also projects that it would impact the quality of education that children receive and undermine previous investments. The Commissioner-General notes that the Agency already operates a certain number of classes with 50 students and that the Agency is examining measures to prevent an increase to more than 45 students per class while simultaneously seeking cost reductions.

(b) On 14 May 2015, the Agency introduced a recruitment freeze of staff funded from the General Fund until further notice. The Agency's management has been working on identifying non-critical vacant positions, that is, those not providing direct services to Palestine refugees, with a view to reducing these posts.

(c) The Agency introduced a new policy of Exceptional Voluntary Separation for Area Staff in June 2015, which allows eligible staff to avail themselves of certain benefits in exchange for voluntarily separating from the Agency. If approved, every vacated post would then be reviewed to determine the need for further recruitment or post reduction.

(d) Under the Commissioner-General's overall authority to amend UNRWA staff rules in a manner consistent with UNRWA staff regulations, the Commissioner-General is introducing a new area and international staff rule whereby the Commissioner-General may, on his own initiative, place relevant area and international staff on exceptional leave without pay should operations need to be suspended.

(e) On 29 June, the Agency announced that 85 per cent of its complement of some 130 international consultants and contractors would be separated in a phased process through the end of September. As they represent some 25 per cent of the total number of internationals engaged by UNRWA, the reduction of these contracts impacts the international character of UNRWA.

(f) Since 2012 the Agency has implemented a range of austerity measures, including suspension of business travel for overseas duty travel for almost all staff, restricted use of venues for Agency activities other than Agency installations, restriction of Agency travel to essential missions, reduction on expenditure on discretionary training and consultancies, and introduction of budget cuts during the allocation of envelopes for Agency departments.

12. In recent years, and throughout 2014, the Commissioner-General continued to brief donors and host Governments about the Agency's financial challenges and warned of the widening shortfall facing the Agency. UNRWA has updated Advisory Commission members monthly on the Agency's financial situation, and the Director of Finance has routinely presented at meetings of the Advisory Commission. In turn, Advisory Commission Members and Observers have provided advice on addressing UNRWA's financial situation. The United Nations' Working Group on the Financing of UNRWA has regularly drawn attention to UNRWA's critical financial situation in its annual reports to the General Assembly. During a regular session of the Advisory Commission in November 2014, the Commissioner-General described what the Agency's strategy would be to address some of the structural dimensions of UNRWA's financial situation. The strategy revolved around seeking to stabilize and where possible increase contributions, engaging new partners to obtain new funding, and adopting measures (management commitments) to address some of the Agency's financial problems.

13. During the most recent regular session of the Advisory Commission in June 2015, the Commissioner-General informed the Advisory Commission of the funding shortfall, and explained the austerity measures undertaken and that owing to the General Fund shortfall, the Agency would not be able to pay the salaries of its staff in full and cover all activities beyond September 2015.

14. In view of the situation and in order to consult and involve the international community fully, the Commissioner-General has informed representatives of donors and Host States about the serious and deteriorating financial situation on numerous occasions, including during the Conference organized by UNRWA on the occasion of its 65th anniversary in June in New York. At the Conference both the Secretary General and UNRWA's Commissioner-General underlined the need to urgently support UNRWA's work and called for mobilization by the UN Member States to help the Agency to address the Agency's financial situation. The Chair's summary of the event noted that participants expressed great concern about the growing disparity between increasing Palestine refugee needs and the resources available to the Agency, whose structural underfunding, reflected in recurring and escalating core budget deficits, remains unresolved.⁴ The Commissioner-General is deeply grateful for the support of the Secretary-General and Deputy Secretary-General, including through direct high-level communications with key stakeholders during the latter part of July.

15. In view of the continued critical financial position of the Agency, the Commissioner-General requested an extraordinary session of the Advisory Commission to be convened on 26 July 2015. At the extraordinary session, the Commissioner-General updated the Advisory Commission on the dramatic funding shortfall and the measures taken by the Agency to address it. The Commissioner-General shared a draft of this special report with the Advisory Commission and reiterated that without the General Fund shortfall of \$101 million being fully funded the Agency would not be in a position open the school year on time, from late August 2015.

16. At the extraordinary session of the Advisory Commission, Members and Observers, and in particular Hosts, raised great concern and reservations about a possible delay in opening the school year, noting the likely impact on security and stability in the countries and the region, as well as on students, staff and their families. Members and Observers welcomed the draft special report and their advice and comments have been taken into account in this report. Members and Observers expressed strong support for the mandate of UNRWA, alarm about the financial crisis, and a willingness to assist UNRWA in exploring measures to ensure more sustainable funding of UNRWA's operations funded by the core General Fund budget. While many Members and Observers noted the substantial contributions they have made to UNRWA, only one Member announced a possible increase in funding for 2015 or 2016 at the session.

17. As of 3 August 2015, the extraordinary Agency efforts to raise awareness about the situation and secure the necessary funding have not, regrettably, yielded the necessary results or commitments. As things currently stand, with stringent austerity and management measures in place, the Agency should just about be able to continue with services that are life-saving, protect the most vulnerable refugees

⁴ A/69/925.

from extreme hardship, or maintain public health and safety until the end of the year. These include the Agency's health programme, assistance to impoverished families through the relief and social services programme, and sanitation and emergency activities for which the Agency has funds. However, this does not include UNRWA's school and vocational training system for half a million children and 7,000 youth across the Middle East in Jordan, Lebanon, the occupied Palestinian territory and Syria.

18. This means that while services funded from the General Fund in the areas of health, relief and social services and sanitation, and emergency assistance and projects already funded will continue through December 2015, unless funding for the full amount of the General Fund shortfall of \$101 million is secured by the middle of August, the financial crisis may force the suspension of services relating to the Agency's education programme until funding for the full amount of the shortfall is secured, thereby enabling the school year to start and continue in a predictable, undisrupted manner.

19. The Commissioner-General is gravely concerned that the measures outlined above may be required to be taken at a time when the Agency's services remain essential to the Palestine refugees, and education is a right of the child and essential to the post-2015 sustainable development agenda and its vision of a life of dignity for all. It is of particular concern that these measures could be required when crises are growing throughout the Middle East, and in a context in which UNRWA is a pillar of stability. Refugee communities, including UNRWA staff, are protesting these actions and tensions are rising in the 58 camps, as UNRWA continues to implement and plan for more measures caused by the lack of funding. In renewing the Agency's mandate, the General Assembly has routinely commended the Agency for the vital assistance to Palestine refugees it has provided and its role as a stabilizing factor in the region.⁵ The General Assembly has also regularly drawn attention to the financial challenges facing the Agency, and addressed them on a number of occasions, including through General Assembly resolutions 3331B (XXIX) and 64/89.

20. The Commissioner-General further notes that the situation is equally perilous in terms of emergency funding. At present, funding for the Agency's Syria appeal for 2015 is only 37 per cent. As a result the Agency has had to scale back the frequency and amount of cash assistance that is distributed to Palestine refugees in Syria who are living in situations of extreme vulnerability. Further, in Lebanon and in Jordan, Palestine refugees from Syria are no longer receiving assistance towards housing, which gravely affects families without the means to secure shelter. In addition, the 2015 Emergency Appeal for the occupied Palestinian territory is 46 per cent funded. The Gaza reconstruction appeal for \$720 million has only received approximately \$227 million in pledges, of which around 70 per cent has been received in concrete financial donations.

⁵ See, for example, General Assembly resolution 68/76, adopted on 11 December 2013 and General Assembly resolution 69/86, adopted on 5 December 2014.

Conclusion and proposals

21. As the Agency faces this very difficult situation, the international community is confronted with a major test of its collective will to find solutions that allow UNRWA to continue to effectively support Palestine refugees as the Agency has done for 65 years. What is at stake is the Agency's ability to fully deliver on the international community's reaffirmation of the necessity for the continuation of the Agency's work for the well-being, protection and human development of Palestine refugees and for the stability of the region, pending a just resolution of the question of the Palestine refugees. Palestine refugees are looking to UNRWA and the international community for protection and assistance and UNRWA's ability to respond to their pressing needs in accordance with the General Assembly's expectations is increasingly limited.

22. Through all its trials and tribulations, the Palestine refugee community has shown a remarkable degree of resilience and a steadfast commitment to human development that has helped to make UNRWA one of the United Nations system's most effective programmes and, albeit in difficult circumstances, an extraordinary success story to the credit of both hosts and donors. Numerous independent evaluations and studies have recognized UNRWA and its core programmes for its efficiency, good results, and its contribution to regional stability, including ones conducted in recent years by DFID, the EU and the World Bank, amongst others. It would be damaging to the credibility of the United Nations for the international community to allow the Agency's mandated activities to be so drastically affected and for decades of investments in human development to be unravelled, when a special effort on the part of existing and new donors and partners can ensure its continuation.

23. With a view to ensuring immediate attention to the gravity of the situation caused by the unprecedented financial shortfall for 2015 currently faced by the Agency, the Commissioner-General proposes the following:

(a) That the Special Report be brought to the attention of Members and Observers of the United Nations and appropriate organs of the United Nations.

(b) An Emergency Flash appeal be launched by the Secretary-General calling for the full funding of the Agency's General Fund for 2015.

24. With a view to addressing urgently the chronic funding issues faced by the Agency for 2016 and beyond, the Commissioner-General proposes the following:

(a) That the annual UNRWA pledging conference for 2016 be advanced to October 2015, to draw further attention to the scale and impact of the financial crisis and the urgent need for it being effectively addressed.

(b) That a process be established, based on consultations with appropriate stakeholders, to continue exploring actively measures that result in a decisive change towards more sustainable funding of UNRWA's operations with a view to enabling the Agency to continue to provide adequate levels of assistance and protection to Palestine refugees in accordance with its mandate.

25. This special report is about much more than UNRWA's deficit of \$101 million for 2015. It is about taking decisive steps to ensure predictable, sustained funding

for the human development and protection of Palestine refugees pending a just and lasting solution to their plight. UNRWA can no longer operate on the basis of monthly cashflow forecasts.
