

## Note on UNRWA's Financial Situation

November 2009

### BACKGROUND

UNRWA implements its programme against a backdrop of extraordinary operational and financial challenges. To maximise its capacity to deliver quality services at the lowest possible cost, in concert with its partners, the Agency has embraced a thoroughgoing organisational development programme, and has made major, tangible progress in its effort to modernise and streamline its strategic planning, programme delivery, accountability and resource mobilisation systems.

Nonetheless, the prevailing global financial crisis, increased social safety needs in Gaza, losses due to foreign exchange fluctuations, cost pressures and socio-economic trends in the region have come together to militate against our finances – always strained – to a new degree of unprecedented seriousness. In spite of some very significant additional support from a number of key donors, shortfalls in income against expenditure in successive years since 2005 have resulted in the complete depletion of UNRWA's working capital.

### 2009 FINANCIAL SITUATION OF UNRWA'S CORE PROGRAMME

UNRWA is currently projecting a shortfall of \$79.6 million for 2009 and of \$125.7 for 2010 against its Programme requirements of \$565.5 and \$598.5 million respectively. To manage the shortfall UNRWA has had to cut or defer activities for 2009 to the tune of \$67.8 million. After scaling back its Programme to the bare minimum, **UNRWA's deficit today still amounts to \$12.0 million for 2009 and to \$39.4 million for 2010.**

With no working capital to resort to, in the present circumstances UNRWA is unable to meet all its commitments in 2009. The Agency will also be severely challenged to meet its obligations in the first quarter of 2010.

Of further concern is the situation with regard to cashflow. UNRWA requires a minimum of \$38.5m per month in order to meet liabilities as they fall due. Of this sum, by far the largest component – \$33.4m – represents salaries for the Agency's 28,000 staff: teachers, health workers and other personnel who are deployed in the direct implementation of the core programme. On the basis of current projections, UNRWA foresees a cash deficit of \$2.1m by the end of November and \$7.7m at the end of December. Therefore, barring additional contributions before year's end, UNRWA will also face a cash crisis.

### IMPLICATIONS

#### For refugees:

*Gaza:* no additional teachers to meet the needs of the 8,000 new students this year, resulting in dysfunctionally large class sizes;

*West Bank:* reductions in hospitalisation services; possible cuts to staffing;

*Jordan:* reductions in vocational training provision;

*Syria:* hiring freeze on teachers, despite an increase of 2,000 pupils; further cuts in hospitalisation;

*Lebanon:* services in health and education curtailed and/or under severe pressure; precarious living conditions in all camps.

#### For staff:

Strained labour relations: UNRWA has been unable to maintain salary levels in line with those of its host country comparators. This has already resulted in strong dissatisfaction among staff and tension with unions.

#### For stability and development:

It is accepted by all parties that UNRWA makes a crucial contribution to the maintenance of stability and development in the region. Current financial difficulties undermine this role.

On an operational level multiple challenges simultaneously loom on the horizon, including: in Lebanon, delays in the reconstruction of Nahr al-Bared Camp and continued precarious living conditions; increasing instability in other camps; in Jordan, reduction in services due to cost saving measures, resulting in tension and additional burdens on local authorities; in Gaza, education reforms and gender initiatives jeopardised; in West Bank, an impoverished population under occupation will have to endure further hardship and reductions in services, with demonstrations by camp committees against such cuts.

UNRWA has managed such challenges in the past, but the current financial crisis and the lack of financial reserves have resulted in a situation of unprecedented gravity. UNRWA represents – and is seen as representing – the expression of the will of the international community to support the refugee population until a comprehensive, just and durable solution is reached. Underfunding the Agency to the point where it can no longer meet its obligations under its mandate is risky and highly counterproductive, particularly as the international community is poised to revive the Middle East peace process.