



## **Coping with Crisis: Palestinian Authority Institutional Performance**

This monitoring note is an attempt to assess the impact of the Palestinian Authority's (PA) fiscal crisis on the functioning of the PA's institutions and service provision. The report defines institutions broadly to include the functioning of core systems and processes of government, with particular emphasis upon policy coordination, financial management and human resource management. In terms of service provision, it focuses on health, education, and social services. The assessment is based on a mixture of ten quantitative and qualitative indicators (see Box 1). It is hoped that the exercise will eventually serve as the core of a broader monitoring effort for government performance on the part of the PA.

### **Box 1 PA Institutional Capacity Indicators**

The ten areas examined in this assessment include: Cabinet meetings; the relationship between the presidency and the government; financial transfers to line ministries and departments; delays and reductions in the salary payments; accumulated arrears to service providers; the functioning of financial control and reporting procedures; staff absenteeism or work stoppages; interruptions in study at public schools; medicine and medical supplies reserve coverage; and delays or reductions in social security payments.

## **EXECUTIVE SUMMARY**

Until recently, the PA has done an impressive job maintaining the basic institutions of government and coping with the bleak fiscal picture it has faced since March 2006. PA ministries and departments have largely been able to continue to operate (albeit at reduced levels), and core services were provided in areas such as education, health and social services. However, there are strong indications that the PA is currently experiencing severe difficulties in sustaining government operations in terms of both routine administrative tasks and service provision. As of end-September, work has ground to a halt in many ministries and agencies. As the fiscal and administrative crisis has intensified, the risk has increased that significant long-term damage will be done to PA governing structures. Specifically:

- The PA is facing an unprecedented fiscal crisis, with a 61 percent fall in gross revenues. Existing donor support through the Arab League and the Emergency Services Support Program (ESSP) and Temporary International Mechanism (TIM) are able to address only the most urgent needs.
- Financial transfers to cover the operating costs of line ministries and departments have dropped drastically, and for most the last transfer they received was to cover their February expenses. Arrears have accumulated, and some service providers are responding by refusing to pay the VAT they owe to the government.

- Public sector salaries have largely gone unpaid since March. Several partial salary payments were made by the PA and Arab League through the Office of the President (OoP), amounting to about 28 percent of total salaries owed since March 2006. Wage arrears owed to PA employees since March to October inclusive exceed \$572 million.
- The vast majority of PA employees and their families are enduring considerable financial hardship that is impacting their ability to pay basic expenses, such as rent or electricity bills. The EC have been financing social allowances to health workers, pensioners, low income public sector employees, and social hardship cases in order alleviate the socio-economic crisis brought about by the current situation. These allowances are categorically not considered as salary payments by PA employees.
- In spite of the fiscal crisis and imprisonment of ministers and parliament members, the basic functions of cabinet and the Palestinian Legislative Council (PLC) have continued. But much of this business has been routine and few significant policy decisions or reforms have been adopted during this time. Although there is variation between ministries, the transition between the incoming Hamas ministers and the largely Fatah dominated bureaucracy has in some cases been problematic.
- External finance is being directed through the OoP, and thereby carries a risk (recognized by most donors) of creating parallel structures and undermining existing government institutions. This is particularly true with regard to the Single Treasury Account (STA), which was the major achievement of earlier reform efforts to consolidate and manage financial inflows in a transparent manner but is now no longer functioning. There has been adequate coordination in managing financial inflows between the OoP and its technical counterparts within government, although not without delays. Other financial procedures, such as auditing, have been maintained. Financial reporting continues, although with less regularity.
- Until August, ministries were operating with around 70 percent of their staff in attendance, although absenteeism rates were higher in the West Bank than Gaza. On September 2, a crippling public sector strike broke out across all sectors. No official data is available on the number of workers striking, but informal estimates place it higher than 75 percent in the West Bank and much lower in Gaza. Ministries involved in front-line service delivery have, on average, higher levels of attendance. Although the roots of the strike appear to be widespread resentment at the non-payment of salaries, political rivalries are exacerbating current labor unrest and there are indications that coercion has been used in some cases to enforce the strike.
- Education, health and social services have been compromised significantly by the fiscal crisis and, more recently, by the strikes. A large majority of public schools in the West Bank remain closed. In Gaza, schools were closed for a few days initially but are since operating fully.
- In the West Bank, public health facilities no longer operate except for the provision of emergency treatment, chemotherapy, and dialysis. Stocks of essential drugs and medical disposables have been depleted in public hospitals and primary health care centers. Health centers in Gaza have also been adversely affected by electricity shortages. As a result, some services are no longer provided.

- Social service payments to poor families have been adversely affected by the crisis. In the Social Hardship Case program, only two payments were made to the 47,000 families who fall within this program until September, at which point delays stood at over five months. A third payment, financed by the Temporary International Mechanism (TIM), was made in September.

While the primary goal of this exercise is to examine the effects of the ongoing fiscal crisis on PA institutions, one must bear in mind that not all of the trends observed can be attributed to the financial crisis alone. Some may be attributable to other factors, such as border closures and the fragmentation of the Palestinian economy, Israeli military measures, conflicts between Palestinian political factions, and the disruption caused by a change in Government.

## **THE NATURE OF THE CURRENT FISCAL CRISIS**

Following Hamas' election victory, the PA has been confronted with unprecedented financial shortfalls. The Israeli decision to withhold clearance revenues, the partial termination of budget support from the donor community, and the U.S. threat to impose sanctions on banks engaging in financial transactions with the PA are the primary factors that brought about the crisis. A further factor has been the unwillingness of private banks to extend credit to the PA without the pledge of collateral. (PA debt amounted to \$642 million by end of 2005.)

In 2005, the PA's actual expenditures (both recurrent and investment) and net lending were estimated at \$1.92 billion. Almost 42 percent of this amount was covered by the clearance revenues collected by the GoI on behalf of the PA, which amounted to \$814.3 million, and 20 percent was financed through domestic revenues totaling \$394.29 million (excluding tax refunds). The financing gap of around 38 percent was bridged by external finance for budgetary support of \$348.5 million, while the remainder was covered through other sources (such as proceeds from the sale of Palestinian Investment Fund assets, finance from commercial banks, and the transfer of previous clearance revenues).

According to published reports of the Ministry of Finance (MoF), gross revenues generated in the first and second quarter of 2006 dropped by 61 percent as compared to same periods of 2005. Gross revenues amounted to \$231.3 million in the first and second quarters of 2006, as compared to \$597.6 million for the same period of 2005. In 2006, \$68.7 million in clearance revenues was collected in the first quarter and \$162.6 million in domestic revenues were collected in both quarters. Total domestic revenue dropped from around \$40 million per month in 2005 to \$21.3 million per month in the second quarter of 2006. The MoF notes that, if the current strikes continue for a prolonged period, the collection of domestic revenues is itself in jeopardy since tax collection offices remain closed.

Since March 2006, the majority of external finance has been channeled through the OoP. According to the OoP, bilateral funds received since March 2006 amount to \$265.5 million, of which US\$246 million has been provided from Arab League States, including Saudi Arabia, Qatar and Kuwait. The remaining US\$19.5 million has been received from Russia, Norway, Spain, and Sweden.

In addition, funds have been received through the Temporary International Mechanism (TIM) that was endorsed by the Quartet on May 9, 2006. The TIM has three windows: (1) commitments made through the World Bank administered Emergency Services Support Program (ESSP); (2) the Interim Emergency Relief Contribution (IERC), which aims at financing the procurement of

fuel for the benefit of hospitals in both the West Bank and Gaza; and (3) the Cash-Transfer Scheme, which provides allowances for both front-line health sectors workers and for the poor. Under TIM, total commitments made by the EU amounted to €90 million (approximately \$114.7 million); including €10 million (\$12.7 million) for essential supplies and running costs of hospitals and health care centers through the ESSP (Window I); €40 million (\$51 million) for uninterrupted supply of energy utilities through the Interim Emergency Relief Contribution (Window II); and €40 million (\$51 million) to support vulnerable Palestinians, through the payment of social allowances to the poorest part of the population and to workers delivering essential public services (Window III).

Under Window III, payments as of October 20 include €2.9 million (\$16.5 million) as the first three installments of social allowances to nearly 12,000 workers in the health sector. Payments were also made to 44,609 low income cases (LICs) and 5,126 retirees to the amount of €13.6 million (\$17.3 million). A second round of payments was made to LICs (both civil servants and pensioners), with health care workers included in the scheme during October. The number of beneficiaries in this round reached 61,627 beneficiaries with total payments reaching EUR 16.8 million (\$21 million). Additionally, €9.6 million (\$12.2 million) was paid to 35,047 social hardship cases. In addition to TIM, around €2 million (\$15.2 million) has been allocated by the EC for technical assistance and capacity building to the OoP.<sup>1</sup>

The ESSP is an existing World Bank administered mechanism that finances non-salary recurrent expenditure in the core social ministries of health, education, and social affairs, including essential pharmaceuticals and medical supplies, urgent supplies and running costs in public hospitals, primary health care centers run by the Ministry of Health (MoH), and shelters and rehabilitation centers managed by the Ministry of Social Affairs (MoSA). In addition, resources will be allocated for rehabilitation of schools, procurement of essential learning materials, and grants for universities and other higher education institutions. Seven donors have pledged a total of \$55.3 million for the ESSP.

## THE FUNCTIONALITY OF CORE PA INSTITUTIONS

### 1. Policy Formulation and Internal Decision Processes

The functioning of the PA's central mechanisms for policy planning and coordination has been hindered by a number of factors in addition to the financial crisis and absence of a budget. They include the imprisonment of Cabinet ministers and PLC members as well as the destruction of ministry buildings in Gaza, such as the Prime Minister's office, the Ministry of Foreign Affairs, the Ministry of Interior, and the Ministry of Planning. In addition, internal tensions between political parties, some of which have ultimately resulted in clashes between rival security forces, have also contributed to the difficult operating environment. Cabinet has considered several mitigating measures to address the crisis and some routine business has gone forward. But the PA's ability to pursue new policies or major reform initiatives has been compromised.

**PLC and Council of Ministers:** Currently, 41 members of parliament are imprisoned, including the PLC President. As of October 26, nine ministers were imprisoned, seven of whom have subsequently been released. Acting ministers have typically been appointed in their stead.

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<sup>1</sup> TIM consolidated activity report 26 June 2006 to 8 September 2006, and phone interviews with TIM staff

Despite the detention of a number of their members, PLC and Council of Ministers meetings have been among the PA functions least degraded by the current crisis. With regard to the PLC, a study examining the first 100 days of the new government showed that PLC meetings continued to take place regularly, with 76 percent attendance on average until August. Imprisoned PLC members represent more than 50 percent of those who were absent from these sessions. A number of tasks have been completed, including the formation of permanent committees according to bylaws; the disclosure of bank accounts for PLC members; and the opening of sessions to the public. Two laws were passed during the first session.

#### Box 2 Ministers Arrested

As of October 26, nine ministers were arrested by Israeli military forces since June 2006, and seven have subsequently been released:

1. Deputy Prime Minister/Minister of Education and Higher Education (released)
2. Minister of Finance
3. Minister of Local Governance (released)
4. Minister of State for Jerusalem Affairs (released)
5. Minister of Awqaf and Religious Affairs
6. Minister of Planning (released)
7. Minister of Social Affairs (released)
8. Minister of Labor (released)
9. Minister of Detainees and Ex-Detainee Affairs (released)

Regular Council of Ministers meetings have continued, although due to restrictions on travel between the West Bank and Gaza meetings were held via video conference (VC). Twelve meetings were held by the Council during the first 100 days of the government. In these meetings, 113 decisions were taken. Policy decisions included measures to minimize expenditure in order to deal with the fiscal crisis and a review of organizational structure within ministries among other issues. However, most of the decisions appear to have involved routine business. The Council formed a number of specialized ministerial committees, although only two are now operational: the Economic Affairs and Administrative Affairs Committees. Some PA officials note that due to concerns about the security of VC facilities, full discussions on sensitive issues have been restricted.

Anecdotal evidence indicates that some senior bureaucrats feel they have less engagement and information regarding decisions that have taken place in the Council of Ministers. During the previous government, minutes used to be disseminated to ministry officials, who were also actively involved in preparing material for discussion in the meetings. Currently, minutes are not being distributed and some bureaucrats feel that they are consulted less and therefore feel less engaged in the process overall.

***Relationship Between the Office of the President and the Government:*** One of the most significant short-term impacts of the crisis is the duplication in roles that has emerged between the MoF and the OoP. Previously, the MoF was the focal point for a number of critical financial functions, including treasury, the budget and donor budgetary support. The MoF and/or the relevant project implementation units within line ministries were the authorized counterparts and signatories for donor finance.

Donors have recently sought to bypass the existing financial institutions and channel funds via the OoP. The OoP is working in close coordination with various PA counterparts and continuing to utilize the expertise that has been built up during the past decade. Regular meetings take place between relevant OoP officials and high-level technical counterparts in various ministries, who continue to take responsibility for prioritization, proposal preparation, financial oversight, and project implementation. The OoP's chief responsibility is to be the signatory for all documents on behalf of the PA.

Though there is close cooperation between OoP and ministries, some PA counterparts and donors note that the current system has fostered some inefficiencies. Because the OoP is now legally responsible for the use of funds, its staff face pressure to carefully evaluate all documents and oversee donor inflows. This creates a duplication of roles and can thereby contribute to delays. An additional concern expressed by donors and PA officials is that some line ministries have attempted to circumvent the MoF to influence the OoP in order to increase allocations to their respective ministries. While the OoP has not bypassed the MoF or the MoP, the current system has created the potential for such institutions to be undermined.

Pressures have also been increasing for more direct execution of projects via the UNDP and through PEC DAR, bypassing the existing institutions within line ministries. There are also indications that pressure is being applied on UNDP to change their local counterparts for project work, shifting from elected municipalities to Fatah appointed officials at the governorate level. Such developments can lead to a re-centralization of decision making, working against donor efforts during the past decades to decentralize and push for greater accountability at the local level.

***Internal Functioning of Ministries:*** As is often true in administrations undergoing a change in government, the transition between incoming and outgoing officials has not been entirely smooth. Although there is considerable variation between ministries, anecdotal evidence based on detailed interviews with number of senior PA officials reveal tension between the largely Fatah-dominated senior bureaucratic personnel and the newly appointed Hamas ministers and deputy ministers. Some officials perceive high levels of distrust between their minister and ministry employees, and some indicate that they feel marginalized from decision making processes in the ministries. Fatah officials in some ministries report being unfairly accused of corrupt practices by the incoming ministers, which has contributed to tense working relationships. There is also the perception that a number of new senior aides have been hired by the ministers. (A review of cabinet decisions shows that the number of new recruits has been fairly modest—as of August 2006, 29 new senior employees at 17 ministries and government institutions have been recruited and commenced work.) Other officials, including independents, allege that some senior Fatah officials are trying to undermine the work of the new ministers. Movement restrictions between West Bank and Gaza, and the fact that a number of ministers are based in Gaza while the majority of their staff are in the West Bank, has also been cited as a reason why working relations have been difficult.

## **2. Financial Systems and Procedures**

***Annual Budget Process:*** Not surprisingly, one of the areas most adversely affected by the current fiscal crisis is the annual budget process. As of September, the budget for 2006 had still not been submitted to the PLC for approval. The PLC has granted two extensions to the government for submission, with the last deadline being September 1, but this deadline has not been met. The PA is instead authorized to continue expenditures based on 2005 budget allocations, using the rule of “one twelfth” for monthly expenditures. The budget circular for FY2007 was submitted to ministries in August, though there are concerns about the credibility of the overall budget framework.

The absence of a budget renders any new reforms and programs an exercise on paper and almost impossible to implement. Ministry officials note that no significant sectoral policy decisions or reform steps have been undertaken in the past months. Key national documents such as the Medium Term Development Plan and Emergency Plan have not been revised or modified by the new government.

**Financial Transfers to Line Ministries and Departments:** Monthly transfers to line ministries to cover their basic operations have been severely impacted by the crisis. According to data from the MoF, as of August 2006 only two payments have been made to line ministries to cover operating expenses. They were payments to cover the operational costs of January and February, with amounts of \$17.3 million and \$7.6 million respectively. Assuming monthly operating expenditures of \$15.3 per month from January 2006 to August 2006, transfers made to date are about 20.5 percent of operating expenditures. Under the ESSP mechanism, additional expenditures are expected to be covered.

**Salary Payments:** Since March 2006, the government has been unable to pay most of its salary commitments owed to PA employees. The PA's wage bill is the single largest item of government expenditure, averaging almost \$99 million per month for the period March to October 2006 for more than 142,000 registered employees. (This figure does not include the employees in the category "soldiers under probation/trainees," who number 17,000 as of June 2006 according to MoF data.). Four "partial salary payments" have been made to public sector employees from March 2006 to October 2006. The first payment was made in June through the MoF accounts from domestic revenues and other sources, whereby employees with income less than NIS 1,500 received their full salary and those with income above this amount received NIS 1,500. The second payment was made in July using Arab League funds transferred via the OoP. Employees with less than NIS 1,400 received full salaries, while those earning between NIS 1,400 to NIS 2,800 received NIS 1,400, and staff with incomes exceeding NIS 2,800 received one half of their salary. In August, the same Arab League funds transferred via the OoP were used to finance a payment of NIS 1,500 to all PA employees. A fourth payment was made in late September using funds sent by Qatar and Saudi Arabia through the OoP through which NIS 1,500 was given to PA employees, excepting health sector employees and social hardship cases.

Total payments made to date (through the MoF and OoP) are estimated at around \$220 million. Salary payments owed for the months of March until October inclusive amount to \$793 million. If the payments from MoF and OoP are considered as partial salary payments, then an estimated 28 percent of salary obligations have been paid. For PA civil employees with a salary less than NIS 1,500, 4 full salary payments out of 8, or 50 percent, have been received. Mid to high level managers in the PA have received a much smaller fraction of their salaries. PA salary arrears amount to approximately \$572 million, encompassing salary owed for the months of March until October. These estimates do not include the category "soldiers under probation."<sup>2</sup>

A recent poll by Near East Consulting, a private survey center based in Ramallah, sheds some light on the current socio-economic situation of PA employees. According to the study<sup>3</sup>, 95% of public sector employees perceive that it has become more difficult to make ends meet in the last 3 months. This is as compared to 67% of those in the private sector, and 83% of the general public. 71% of government employees fall below the poverty line defined as income level of less than \$460 per month for an average household of six, as compared to 35% in June 2005. According to the study, 36% of government employees fall in the extreme poverty case with monthly income less than \$180 for a household of six, as compared to 4% in June 2005. The UN

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<sup>2</sup> Estimates by Bank staff based on information from MoF and OoP., A portion of the OoP payments were directed to retirees, but data is not available on the exact amount.

<sup>3</sup> Source: Near East Consulting Monthly Bulletin on Palestinian Perceptions Towards Political, Economic, and Social Conditions, Bulletin No. 11, November 8, 2006. The poll was conducted between November 1 and 4, 2006 based on telephone interviews with 790 respondents. For the total sample, the margin of error is (+/-) 3.4% based on a 95% confidence interval. Government employees comprise 17% of the sample. The poverty analysis is not based on detailed consumption/expenditure household survey, but on responses to questions regarding overall household income.

reports that PA employees are increasingly relying on UN agencies for assistance. UNRWA reports that at the end of July 2006, around 4,700 PA employee families in the West Bank and 17,000 in Gaza Strip have started to receive food aid. For the Gaza Strip this figure is expected to increase to 25,000 in the coming months.

**Arrears to Suppliers:** Ministries have been accumulating arrears in the absence of a budget and transfers from the MoF. Aggregate data on arrears is very uncertain. Box 3 provides examples of the arrears that have accumulated in some PA ministries. As a response, some Palestinian service providers are holding the VAT payments they owe to the MoF until they are fully repaid for services rendered. According to MoF officials, the amount of the VAT owed to MoF can be worth twice the amount of the arrears due to these companies, and their decision to withhold payment can feed into a downward spiral leading to a further decline in domestic revenues. Arrears to utility providers, including funds for Israeli companies that provide utility services to Gaza, are deducted directly from the Palestinian clearance revenues withheld by GoI. The partial payment of arrears accumulated to electricity and telecommunications service providers in the West Bank is being financed by the EC.

**Box 3**  
**Accumulated Arrears in Selected PA Ministries**

**Fuel Supplies in the Ministry of Agriculture:** Budgets for fuel and transport have been exhausted by the financial crisis, which affects the ability of MoA to perform its extension service. In January 2006, MoA received its first and only payment of NIS 8,333 to cover transport expenses (including fuel, maintenance and insurance) for both the West Bank & Gaza. The monthly budget requested from the MoF for the period January 2006 to July 2006 was NIS 222,333. MoA has continued to purchase fuel and incur expenses for car maintenance by accumulating debts with oil stations. From January 2006 to July 2006, actual monthly expenses have averaged NIS 78,240 for the West Bank, which according to MoA reflect operations at levels well below capacity.

Source: Finance Department, MoA

**Drugs and Medical Supplies in the Ministry of Health:** The required annual budget for medical supplies is \$28 million for pharmaceuticals, \$9 million for disposables, and \$4 million for lab materials and blood banks. Thus far, MoH has secured \$8 million in donations for the above-mentioned line items. Through the ESSP program, a portion of the funds allocated to the MoH will be used for pharmaceuticals. A major concern expressed by MoH is that the procurement process to get drugs under the ESSP will take between 6 to 8 months, and as such there is an immediate need for drugs which remains critical. The ESSP does not allow for retroactive financing. MoH has currently purchased a stock of drugs and medical supplies without financial cover, and have accumulated arrears to the amount of NIS 33 million (\$7.4 million) in 2006.

Source: Finance Department, MoH

**Text Books in the Ministry of Education:** Text books printing for the year 2006/2007 will cost MoE around \$9.8 million. The arrears from the previous year 2005/2006 are about \$1 million that are not paid yet. The cost should be covered directly by the Ministry of Finance. In total, the arrears by second school semester will amount to nearly \$11 million.

Source: Finance Department, MoE

**Financial Transactions:** Following U.S. Office of Foreign Asset Control (OFAC) prohibitions, a number of banks stopped all transactions with the PA after the elections. Chief among them is the Arab Bank, which maintained the PA's single treasury account. A major achievement of the reform agenda during the past five years, this system was developed to consolidate financial flows and allow for more accountable and transparent financial management. A key consequence of the current crisis is that the single treasury account is no longer operational, which has raised

concerns about how comprehensively external finance is being accounted for and whether an overall weakening of transparency in financial management is taking place.

Another key challenge is how to physically transact and disburse donor funds. For example, some donors have historically maintained special accounts with the local banks, through which donor funds are disbursed to the PA. Checks can be written against these accounts by relevant authorities. Following OFAC prohibitions, local banks refused to allow replenishments into donor special accounts. This policy was later reversed in few cases, although new accounts are not allowed. Restrictions are also in place for funds flowing in the reverse direction from the PA to donors.

Mechanisms for audit and financial management that were being used prior to the crisis continue to be used to the extent possible. The Financial and Administrative Control Bureau, the PA's external audit institution, is in place though facing significant resource constraints. According to the Bureau, its strategic plan and proposal for organizational structure has been submitted to the PLC and an audit of FY2006 budget implementation is expected to be undertaken in November. Quarterly spot audits and an annual audit are also planned for the implementation of the ESSP, for which private firms will be contracted.

Other reporting functions continue to take place but with less frequency and regularity, especially with regards to the minutes of the Cabinet meetings, which have not been published since March 2006. MoF reports have also been delayed and some data which used to be available on a monthly level is now available only on a quarterly level. Since January 2006, only three reports were published on budget implementation on the Arabic website and two on the English website. These reports were posted on June 2006 for the months of January, February and March. In early September, another six reports were published on the Arabic website.

### 3. Public Sector Employment

***Strikes and Staff Attrition/Attendance:*** For the first five months, PA staff showed considerable perseverance in the face of reduced and volatile salary payments. In order to reduce absenteeism, many ministries adopted temporary policies such as allowing workers to work several days of the week in ministry/department offices close to their homes, or allowing employees to work extra shifts or hours for 3-4 days of the week and thereby take 1 or 2 days off in order to minimize transportation costs. Recently, the PA took a decision to let employees take a two-day weekly holiday instead one day and to extend its regular working hours from 7:30 am to 3:30 pm.

Analysis of official absenteeism records for ministries and departments in Gaza show that there are no significant differences between the first five months of 2006 as compared to 2005. However, official figures are unlikely to reveal the full extent of the phenomenon. A recent analysis suggested that the absenteeism rate, whether full or partial, was around 32 percent across the PA. It was higher in the West Bank (around 38 percent) than in Gaza (about 20 percent). Out of the 32 percent total figure, 21 percent was partial and 10 percent full absenteeism. The research shows that the absenteeism rate was higher during May and reached almost 50 percent, but it was brought down due to a combination of partial salary payments and other measures taken by the PA. The research results also suggest that absenteeism rate in fields that require direct interaction with the public is lower than the average across the civil service. For example, in the health and education sector, absenteeism was 20 percent. PA officials stress that poor motivation and inadequate funding for operations compromised performance even for those employees who continued to attend work.

**Table 1**  
**Nature and Extent of Absenteeism for PA Civil Servants**  
**March-August 2006**

Nature of absenteeism	WB (%)	GS (%)	OPT (%)
Complete absenteeism	1	1	1
Partial attendance (days)	25	17	21
Partial attendance (hours)	9	4	7
Seconded (full)	1	1	1
Seconded (partial)	2	2	2
Total	38%	25%	32%

*Source: Ramallah-based consulting firm, unpublished report, September 2006. The research was based on interviews with Director Generals in 11 ministries and 5 PA institutions, for a total of 92 Director Generals across the districts.*

Since the beginning of September, the situation has changed markedly for the worse. Following partial strikes in late August, a general strike of public sector employees has been underway since September 2. The strike is open-ended and appears to have broad support across many sectors. Officially, data is not available on the number of employees who are participating, though the strike appears to be widespread and affecting all ministries and institutions. Nearly all staff in the Ministries of Finance and Planning are out on strike, as well as staff in the Ministries of Culture and central Ministries of Education and Health. As a result of the teachers strike, public schools have witnessed major closures in the West Bank. Similarly, in the health sector, strikes are comprehensive in the West Bank with nearly all workers participating. In the course of field interviews, exceptions were seen in the Ministry of Social Affairs, where senior officials indicate that a majority of employees are coming to work given the number of programs for social hardship families that need to be implemented in this crisis period.

The major cause of the strikes is the non-payment of salaries. However, accusations are also being leveled that underlying political rivalries between Fatah and Hamas are in part fueling these strikes in order to undermine the elected government. Newspaper accounts and field interviews with PA officials note some instances in which coercive means are being employed to enforce the strike. Interviews indicate that the strike is less pronounced in Gaza than in the West Bank for reasons that are partly political and partly due to better internal mobility.

**Hiring of New Public Sector Employees:** From March until June of this year, the number of registered PA employees has increased by 305 (or 0.2 percent). According to official MoF data, the number of civilian employees increased by 93, from 81,043 in March to 81,136 in June. The number of official security service personnel increased by 3,984, from 57,067 to 61,051. The number of “security officers under probation/trainees” decreased by 3,772, from 20,792 to 17,021. MoF officials note that these figures in fact do not reflect current levels of civil servant recruitment because it takes several months for new recruits to be officially registered in the system. If this is the case, it would imply that these increases actually reflect recruitment prior to the currently elected government. It is known that 3,000 officers were recruited for the executive force.

**Possible Attrition of Senior Technocrats:** One possible longer term impact of the economic crisis and internal political tensions is to increase attrition among senior technocrats. The nonpayment of salaries has meant that qualified staff who can find private sector opportunities or postings with international organizations may elect to do so. While there is no concrete data on the extent

to which attrition has taken place, anecdotal evidence suggests that it is a potential area of concern.

### THE IMPACT UPON SERVICE DELIVERY IN KEY SECTORS

**Education:** As noted above, on September 2 the General Teachers Union issued an announcement that it would not support efforts to re-open schools. Since that time, the majority of public schools in the West Bank continue to remain closed. In Gaza, schools were closed for the initial days of the school year, but have subsequently resumed fully. According to MoE records pertaining to the strike in its sixth day (see Table 2), more than 60 percent of the West Bank teachers were participating in the strike. The numbers vary from 40 percent in Hebron up to 91 percent in Jenin. Relevant data on Gaza is not available, but interviews indicate that the strike is less prominent there than in the West Bank. The MoE acknowledges that the data mentioned above may not be fully accurate for a variety of reasons involving data collection and verification.

**Table 2**  
**Attendance in the West Bank Education Sector**  
**as of Day 5 in the Teacher Strike (Sept. 6)**

District	No. of Teachers	No. of Strikers	%
Jenin	1,801	1,648	91.5%
Toulkarm	1,978	1,636	82.7%
Qabatyah	1,520	742	48.8%
Qalqilyah	1,303	752	57.7%
Nablus	3,938	2,610	66.3%
Salfit	1,003	666	66.4%
Ramallah	N/A	N/A	N/A
Jerusalem sub-regions	1,197	903	75.4%
Bethlehem	1,588	1,328	83.6%
Khalil (Hebron)	3,706	1,495	40.3%
South Hebron	3,310	1,392	42.1%
Jericho	354	283	79.9%
<b>Total</b>	<b>21,698</b>	<b>13,455</b>	<b>62.0%</b>

*Source: Ministry of Education, 2006. The data collection process is subject to some uncertainties. Many of the employees responsible for data collection are themselves participating in the strike, including some school headmasters responsible for data reporting and some regional directors who approve the data, verify it and send it to MoE headquarters.*

Even in schools that are not closed, the strike appears to be having an effect. Some school administrators are keeping schools open by pooling classes or having teachers teach subjects for which they were not accredited. There are reports that replacement workers affiliated with Hamas are being brought into some schools, raising the risk of downstream tensions within the education labor force. In addition, the MoE estimates that approximately \$2 million was invested in programs related to school health, psychological counseling and extracurricular activities. Many of these programs were covered by donor project finance, whose suspension has meant that a number will need to be cancelled or curtailed.

**Health:** One of the most pressing concerns emanating from the fiscal crisis is the availability of medicines and medical supplies. Stocks of drugs have been depleted in public health centers and

hospitals. According to the MoH, the most critical areas of concern are in the areas of intensive care, emergency, surgery, chronic, and non-communicable diseases, and drugs for vulnerable groups including children and pregnant women. The World Health Organization (WHO) monthly analysis shows that by the end of August 2006, 173 drug items (37 percent) from MoH's Essential Drug List were out of stock or had less than one month's availability in the West Bank central drug stores. In Gaza, 66 drug items fell in this category. In addition, another 81 items are below the three month supply in West Bank and Gaza. (Prior to the fiscal crisis, the average number of essential drugs at zero stock level was 10 percent.) According to MoH, the stock of drugs alone does not always reflect the severity of crisis; another key issue is whether the combination of drugs required for the treatment of some diseases such as cancer is available.

**Table 3**  
**Availability of Medical Supplies**

	Number of Essential Drug Items at "Zero-Level"	Number of Essential Drug Items at Less Than 3-Month Stock	Medical Supplies and Disposables at "Zero-Level"	Medical Supplies and Disposables at Less Than 3-Month Stock
June 30, 2006	95	74	168	120
Percent Total	20%	16%	19%	14%
July 30, 2006	196	80	217	143
Percent Total	41%	17%	24%	16%
August 30, 2006	173	81	217	143
Percent Total	37%	17%	24%	16%

*Source: World Health Organization, "Health Sector Surveillance Indicators," 2006. "Zero Level" refers to all items out of stock or having less than one month stock according to the average monthly consumption rate. There are a total of 473 items in MoH Essential Drug List, 416 of which are used regularly. These include drugs for chronic diseases, cancer and palliative treatments, intravenous and parental dehydration solutions, anti-inflammatory drugs; solution for hemodialysis, drugs for chronic kidney disease management, drugs for surgical operations such as anesthesia and muscle relaxants, nutritional supplements, antibacterial and antiviral drugs, and psychotherapeutic drugs. The category medical supplies and disposables includes general disposables, orthopedic supplies, ophthalmology supplies, x-ray supplies, and dental supplies. A total of 886 items are included in this category.*

Hospital and clinic operations have also been affected by lack of funds. One critical issue relates to lack of electricity, generators, and fuel in the Gaza Strip. Electricity is cut off regularly, and 31 of the 56 primary clinics in the Gaza Strip have no generators. The WHO study finds that maintenance of equipment has deteriorated. As a result, services are curtailed or simply not provided, including diagnostic services, elective surgery, out-patient services and immunization.

Strikes in the health sector have commenced as part of the general strike, and they are widespread in the West Bank. Public health facilities are not operating, with the exception of emergency services (i.e. for accidents, at risk maternity deliveries, chemotherapy and dialysis). All other services are not being provided. In Gaza, while labor unrest may be present, health services are not experiencing major disruptions. However, according to WHO, an increase in the number of staff on annual leave has been observed.

**Social Services:** The most direct impact of the financial crisis has fallen upon beneficiaries enrolled in social support programs. The Special Hardship Case (SHC) program supports 47,000 heads of household who fall within vulnerable groups (i.e. the disabled, female head of household, the elderly, etc). Disbursements through these programs average NIS 7 to 8 million

monthly, which comes directly from the Ministry. Until January 2006, monthly payments were made broadly on time. Payment for February was made at the beginning of July, and the payment for March was made in August. Accumulated arrears are in the range of NIS 28 million from the period March to June 2006. Through the TIM mechanism, €9.6 million (\$12.2 million) was paid to 35,047 social hardship cases in September.

The second program to be affected is the Social Safety Net Reform Project, which is meant to support 45,000 families and requires a commitment of \$7 million per month. It is similar to a conditional cash transfer program, although in addition to social support payments, families are provided with incentives for the health and education of children. The program required \$84 million yearly, which was to be covered by the PA budget, World Bank, EC, and other donors. Available financing is now \$10 million. The number of households expected to be covered is 2,722 households. Payments for July and August have been made.