

AUGUSTA VICTORIA HOSPITAL Jerusalem

FINANCIAL RISK “FAQs”

(updated 4 February 2015)

The context for these “FAQs” is the cash flow crisis that the LWF’s Augusta Victoria Hospital (AVH) is currently facing. This liquidity crisis is the result of the failure of the Palestinian Authority (PA) to pay the fees for the patients it referred to AVH during 2014.

1. Is Augusta Victoria Hospital well-managed and operating according to international standards?
 - In May 2013, AVH received JCI (Joint Commission International) accreditation, and before that the ISO (International Organization for Standardization) certification. Also, AVH continues to comply with all regulatory bodies locally, including the Israeli Ministry of Health.
2. Is AVH operating with a deficit?
 - No, as evidenced by the external yearly audits released to the LWF and the Board.
3. Does AVH provide medical services that are unavailable anywhere else in the West Bank and Gaza Strip?
 - Yes, this has been a source of strategic, political and financial strength locally and internationally.
4. Has the Palestinian Authority solidly confirmed that it owes Augusta Victoria Hospital approximately 64.9 million NIS (16.6 million USD) for the treatment of patients referred to AVH by the PA in the period from June through December 2014?
 - Yes, as evidenced by the official financial referrals issued by the PA.
5. Have Arab countries, EU, and the USA/Canada invested in AVH in the last seven years?

- Yes, both in development and operations.
6. Have the EU and USAID agreed to contribute toward the PA debts to East Jerusalem Hospitals, including AVH?
 - Yes, as part of alleviating the debt burden of the PA, the EU and USAID have included in their bilateral programs (which provide direct general support to PA operating costs) a restricted line item designated for East Jerusalem hospitals.
 7. Is there a history of international support for East Jerusalem hospitals when the PA was unable to pay its bills?
 - On three occasions with the EU: The Temporary International Mechanism in 2006/7, in 2013, and in 2014. In the first two occasions, the international assistance cleared the receivables of AVH from the PA totally.
 8. Does the PA have a history of making payments to AVH when it has cash available?
 - Yes, as evidenced by the age of receivables. In previous periods, AVH carried arrears that went back many years. Now the PA is paying, or authorizing donors to pay, as soon as possible, and the arrears (as of 31 December 2014) go back only six months.
 9. Does AVH have close connections to the PA decision-makers and has it been effective in the past at communicating the needs of AVH and the East Jerusalem hospitals?
 - Yes, as evidenced by the priority AVH and the East Jerusalem hospitals are getting over many other local enterprises in payments. Local companies and institutions carry arrears going back many years. In addition, AVH documents a long string of communications with top officials in the PA regarding the cash crisis.
 10. Is the United States likely to support AVH with payments for 2014 PA receivables?
 - While the US government came through in November 2014 with a large payment, it is not known at this point if the US Congress will withhold funding to the PA due to the PA's decision to join the International Criminal Court or to take a case to the ICC. There is a readiness within USAID to help to reduce the PA debt to East Jerusalem hospitals if allowed to do so by Congress.

11. Is it advantageous to the PA, and also to the EU and US, that patients continue to be referred to AVH for treatment, rather than to Israeli hospitals or abroad?
- Yes, AVH offers excellent medical services to West Bank and Gaza patients at a *fraction* of the cost compared to other places to which the PA refers in Israel or elsewhere. Thus, it is cost beneficial to international donors for AVH to continue to provide the services as the donors fully subsidize the overall economy and expenditures of the PA.
12. Should AVH continue to grow and offer new services?
- Growth in services while managing costs is what gave AVH the advantage of narrowing the gap between expenses and revenues to a point where AVH is running in the black. In addition, every new specialty service that AVH offers is a sign of increased PA capacity in the field of health and means a real reduction in PA medical costs. A reduction in PA medical costs is a direct benefit to donors to the PA and also a signal that donor investment in the PA is making progress toward a sustainable state. However, if new services add each month to the overall amount owed to AVH by the PA *and* the PA is not able to pay regularly for these new services, then AVH may need to delay offering such services.
13. Can AVH manage its cash flow for the next six months until the political situation and US financial support for the PA is sorted out?
- This will be difficult for AVH. AVH could continue to pay salaries (or at least partial salaries) and make payments to suppliers if it cuts costs, receives payments from the EU and USAID, receives monthly payments from the PA, and utilizes other financial facilities.
14. Has AVH successfully reduced costs in the past when it was necessary?
- Since 1997, the current administration of AVH has had to reduce costs on several occasions, including severe measures, such as laying off 120 people, reducing the benefits package, and reducing waste and inefficiencies in the system.
15. Is AVH prepared to take measures to reduce costs in response to the current cash crisis?
- Yes, the AVH/LWF has developed strong mitigation measures related to the AVH cash crisis.
16. Despite past and current cash flow problems, has the LWF Jerusalem Program continued to reduce every year the deficit stemming from the 1990s?

- *Every year* for the past eight years, the LWF Jerusalem Program has reduced the deficit by at least 150,000 USD per year, and in many years the amount has been significantly higher.

17. Does AVH have a contingency plan in place if, in a worst-case scenario, it is decided to close the hospital?

- Yes, such a plan was presented to the AVH Board and discussed and a revision of the plan will be finalized early in 2015.

18. Is AVH taking steps to diversify its income in the future?

- Yes, the Elder Care Pavilion is one example. Significant funding for the operations of the Elder Care Pavilion would be coming from Israeli sick funds. (A feasibility study was presented to the LWF General Secretary.)

19. Is it in the best interest of all who seek a two-state solution and a shared Jerusalem to help ensure that AVH and the other five Palestinian East Jerusalem Hospitals grow and develop?

- Yes.

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