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Selling a piece of Palestinian Main Street

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Is the West Bank ready for Wall Street?

That's a question soon to be answered with the launch of the first-of-its-kind Palestinian private equity fund, which managers hope will raise \$50 million to invest in businesses in the Palestinian territories.

The Palestine Liberation Organization's finances have at times drawn criticism. Late PLO Chairman Yasser Arafat was accused of controlling a \$1-billion investment portfolio that, Western intelligence agencies said, was funded in part through money laundering, arms dealing and diversion of international aid.

International pressure led to the 2003 launch of the Palestine Investment Fund, which took over the PLO's old portfolio -- now worth about \$800 million -- and invests the money in projects to assist Palestinians, such as housing and infrastructure construction. The PIF operates with its own board but reports to Palestinian Authority President Mahmoud Abbas.

The new private equity fund, the PIF's latest project, will try to raise cash from international investors and use the money to help small and medium-sized businesses. Such enterprises employ about 85% of Palestinians and contribute to more than half the gross domestic product in the West Bank and Gaza Strip, but they often lack access to banks and capital markets.

Mohammad Mustafa, chairman of the PIF and a former World Bank official, spoke recently to *The Times*.

Investing in the West Bank sounds risky. In the 1990s, after the Oslo peace agreements,

there was an economic boom. But after the violence resumed in 2000, many of the new hotels, casinos and exporters shut down. What happens if there's another intifada?

One of the major lessons we've learned is that there are sectors and projects that are less sensitive to such changes.

This fund is focusing on smaller companies that have shown resilience over the last years. They are driven and led by people who have lived there for many years, not by those who are coming from the outside. They are primarily local investors who are producing things needed for the Palestinian economy. Some of it might be for export, but not necessarily.

Allegations of corruption have dogged the Palestinian Authority for years and helped lead to the creation of the Palestine Investment Fund. How can investors be assured that their money will be safe?

We have a very competent management team, an independent board, a general [oversight] assembly of 30 individuals. We have Pricewaterhouse as internal auditor and Ernst & Young as external auditor. In the last few years we have worked with several international investors and institutions.

Who do you expect to invest in the private equity fund?

Investors will have different motivations. Some in the Palestinian diaspora have been looking for an opportunity to invest in Palestine, [and] this presents them with the right vehicle.

There are also regional investors who might be interested in socially responsible investing. There has been interest from local investors, local banks, companies that typically invest with Abraaj [Capital, the fund's manager], which works a lot in the region.

How will the new fund invest -- what sort of companies will you look for and how will you recoup the investment?

This is equity participation for small to medium enterprises, ranging from a half-million dollars to \$7.5 million. . . . The private equity fund intends to own a minority stake in a new or existing company, add value or help turn [it] around.

We'll look at several sectors where Palestine has a competitive advantage, such as the ICT [information and communications technology] sector and other knowledge-based enterprises, high-value-added agriculture, financial services, education and tourism.

Typically we estimate it will take about four years. Then we'll sell the stake back to the existing owners, or to other investors, or take the company to the stock market.

Small businesses have a high failure rate. What's been your experience with these types of businesses in the loan-guarantee program you offer? Are defaults high?

I'm happy to say that after 18 months, the program has extended 200 loans for a total of \$50 million. It's created 3,000 jobs. And zero defaults. It's unbelievable.

Given the Hamas takeover of the Gaza Strip and border restrictions imposed by Israel and Egypt, will you invest there?

We are looking at the option, but things are complicated given the siege. It's very risky right

now. So it's included in the program, but we are not active there right now.

What role will Israel play in the success of the fund?

Companies need markets. Israel could be one of those markets. But even if it isn't, companies need to reach other markets, and would have to go through Israel, which controls the airport and borders with Jordan. So we hope that they realize the importance of the success of these programs and ensure that nothing adversely affects them.

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