

## **Interview with Dr Mohammad Mustafa Deputy Prime Minister for Economic Affairs and Chairman of the Palestine Investment Fund**

*Dr Mohammad Mustafa was appointed Deputy Prime Minister for Economic Affairs in June 2013. He is also currently the Chairman of the Palestine Investment Fund (PIF), which he joined as CEO in 2005. Prior to the PIF, Dr Mustafa worked for the World Bank (Washington DC) for 15 years, specialising in economic development, economic reform, project finance and infrastructure development. Dr Mustafa has also previously served as economic advisor to the Government of Kuwait and the Kingdom of Saudi Arabia, worked as a professor at George Washington University and was the founding CEO of the Palestinian Telecommunications Company (Paltel).*

*The latest reports to the Ad Hoc Liaison Committee (AHLC) by the Palestinian National Authority (PNA), the International Monetary Fund (IMF) and the World Bank are all in agreement regarding the diagnosis of the Palestinian economy. Lower than expected growth (much lower than in the booming 2006-2011 period) and sustained fiscal issues, which are partly beyond the PNA's control (lower than expected clearance revenues coming from Israel, and lower than budgeted foreign assistance), left the PNA with a financing gap which is estimated will be over \$300m by the end of 2013. During the first half of the year the PNA has increasingly relied on domestic arrears to bridge this gap.*

### **What actions will the government adopt to bridge the gap towards the end of this year?**

Dr Mohammad Mustafa: We will continue in the same direction we have been following from the beginning of this year: trying to rationalise our expenditure, increase our revenue collection and work with the donor community in order to improve the timing and scheduling of their payments (especially those already committed). Some good news is that during the first three quarters of 2013 we have been able to pay part of our domestic arrears, which improved our debt level with the banks as well as with the private sector. Also some of the donors paid their commitments, including the government of Saudi Arabia, and the UK decided to increase its contribution. It is not yet

clear whether we will be able to bridge the fiscal gap by the end of the year but we are doing our best to make it happen.

The PNA has acknowledged that the high level of arrears with the domestic private sector can negatively impact business performance in the medium term. But during the first half of the year we saw how these arrears increased, while debt with the banks decreased.

### **How is the government planning to control the level of arrears over the coming months?**

We are taking multiple actions to address this important issue. We have had positive discussions with the US government in order to seek specific assistance to balance the public deficit situation, especially focused on lowering arrears with the private sector. As a result, a sum of around \$150m paid by the US government about three months ago was actually assigned to this kind of expenditure. Additionally we have worked with the US and some Arab countries to secure extraordinary assistance to pay off part of the Palestinian government debt to the banks and the private sector. There is also already some progress on this front: a commitment from the Qatari government to contribute \$150m was announced a week ago, and this will go directly to paying off part of the arrears. We expect another \$150m to be raised before the end of the year. Our target is to raise \$600m in additional support to reduce the debt with the private sector and the banks.

**“We have been able to pay part of our domestic arrears, which improved our debt level with the banks as well as with the private sector”**

There have also been positive discussions between the Ministry of Finance and the banks in order to improve the management of bank debt by renegotiation of the repayment period and the interest rates of loans. I would call this an ‘initial restructuring’ of the loans, which also includes joint work between the banks, the Minister of Finance and the Palestinian Monetary Authority (PMA) to further restructure the total debt by issuing a bond.

In its September 2013 report to the AHLC the PNA highlighted the economic initiative by the Office of the Quartet Representative (OQR) as one of the strategic priorities to be included in its National Development Plan.

#### **How is the government aiming to integrate the two?**

I think that one of the most important aspects of this economic initiative is that it does acknowledge what we have been saying for quite some time now, that enabling our private sector to invest and contribute to developing the economy is critical to build a sustainable economy, and that donor assistance on its own will not be enough to solve our economic or fiscal problems.

#### **You are saying that your views have been taken on board...is this something new? What was the situation in the past?**

Well...the acknowledgement of our views probably came before, especially in the IMF and World Bank reports to the AHLC, but little was done in terms of changing the status quo. I think that what is important about the OQR’s economic initiative is that it does not only acknowledge the importance of removing the obstacles and enabling the private sector but it actually puts the private sector at the heart of dealing with the economic challenges, by proposing not a donor package but rather a private investment package.

Another important aspect of the initiative is a clear recognition that any investment programme will not be successful without a significant improvement of the enabling environment, and this is presented around three pillars: political enablers to be unblocked by the Israeli government, a programme of public infrastructure development which would make investment by the private sector possible, and a number of actions that

the Palestinian government intends to adopt to align its strategies, regulations and procedures in order to support the initiative’s implementation.

#### **How involved is the government in shaping the initiative?**

When we first read and reviewed it we found that it is very much aligned with our economic development priorities. More than 15 Palestinian government ministries and agencies reviewed the OQR’s document and provided extensive feedback. Based on this review we are deciding on what aspects of the initiative will be included in our medium term plan for the years 2014-2016, which is the platform for the implementation of government strategy. Our plan will naturally include only the public sector component, although it will also talk about a number of strategic objectives in various economic sectors.

#### **The PNA has also recently highlighted among its priorities the need to diversify the economy, to develop an enabling environment for business and investment and to provide adequate regulation. How do you align these with the initiative currently under development by the private sector, ‘Beyond Aid’? How do you welcome it in the light of what the government (and also the OQR) is doing? How is the government planning to support efforts by the private sector?**

We welcome and evaluate every initiative and proposal we receive, from the OQR’s to the PIF’s plans to establish funds for SMEs, infrastructure and energy, and, of course, the ‘Beyond Aid’ private sector initiative that is also supported by The Portland Trust. All these are studied and discussed with their sponsors with two main goals. One, to decide what policies and regulations are needed from the government in order to enable them, and two, to provide the necessary support for their implementation through our work on the enabling environment. We will ensure political support to all of the initiatives that are being developed and promoted and will support the private sector’s efforts by providing the public infrastructure needed, with the assistance of the donor community.

#### **Have you seen the private sector coming together under such a comprehensive platform before?**

I think that is what is new about the ‘Beyond Aid’ initiative. The private sector is not coming together just to advocate general policy or regulation change. They are going beyond that by proposing a specific way to translate their efforts into opportunities for investment. This means the private sector is focusing on implementation and not only

showing interest about the enabling environment. This is something new. What the government is doing is to try to meet the private sector in the middle.

**“What is new about the ‘Beyond Aid’ initiative is that the private sector is not coming together to simply demand government action: they are going beyond that by proposing a specific way to translate their efforts into opportunities for investment”**

As the private sector moves away from simply demanding government action, the government is also moving away from being passive and waiting for the private sector to take their own action. We are studying their proposals and analysing what specific issues need to be addressed to enable their investment programme. Through this private sector initiative government and business are developing specific areas of common interest, and also working jointly to successfully develop and implement investment opportunities. This is also a very positive signal for international investors and donors. It could set a new working model for the future.

**Moving now to your role as the chairman of the PIF, it is surprising how many people still do not know that Palestine has a sovereign development fund which successfully invests and does business. Can you tell us more about the PIF’s vision and mission?**

As you mentioned, PIF is a ‘sovereign development fund’, not a ‘sovereign wealth fund’. This is because our mandate is to invest with the objective of not only making adequate returns, but also of boosting a number of strategic sectors in Palestine in partnership with the private sector, and also with the objective of attracting additional foreign investment. As part of this ‘transformation’ we aim to also reduce the relatively high risk perceived by (especially foreign) investors by not only providing our financial investment arm, but also by contributing our knowledge of the political and economic development aspects of the country. We put together professional teams that prepare many of the projects we evaluate and undertake in order to present them in a reasonable fashion to investors, who in turn feel comfortable as they know that they can count on a credible, capable partner willing to share the risk.

**“Every dollar the PIF invests is attracting three to four dollars from other investors”**

By doing this we develop a specific mandate to serve the Palestinian economy and at the same time leverage our resources: while the paid-in capital of the PIF is around \$600m and total assets are almost \$800m, we are implementing a \$4bn programme. This means that every dollar we invest is attracting three to four dollars from other investors, and that is substantial. Many countries, including some developed countries, are starting to do the same. Why? Because given the change in the global economy they, like us, see a role for the State in shaping a change of direction in the economy.

**Can you tell us about the projects you have in an important area such as energy?**

We believe that the energy sector has huge potential to transform the economy. We have an investment programme of about \$1.5bn in the sector, which includes the development of the Gaza Marine off-shore field with British Gas and CCC as our flagship project. We are also working with partners to build two new power stations in the West Bank and to upgrade and expand the capacity of the existing plant in Gaza. Overall we aim to have the capacity to domestically produce around 1000 MW of electricity using off-shore gas in five years, up from just 70 MW at present.

For the development of a new plant in the north of the West Bank (in Jenin) we have already established a company jointly with PADICO, APIC, Bank of Palestine and CCC. And recently the government has decided to issue an international tender to build a third power plant in the southern West Bank, in Hebron. In this project the PIF will take the lead by providing 30% of the investment, while we expect international partners will contribute the remaining 70%.

The development of the gas-fuelled power plants will enable us to bring down the cost of producing electricity domestically, which is currently high because of the price of the fuel we use (oil). Reducing the cost of energy will have an important impact on the private sector by bringing down industrial production costs. Many industrial projects (including cement and steel factories) cannot be built today primarily because they are energy intensive and the supply is limited and priced too high.

## **Is progress on the development of gas plants tied to the OQR Initiative?**

Well...we started this work a few years ago. Construction rights were granted back in 1999, so this is an old story! This is another good example of the fact that what we need from Israel and the international community is not primarily the funds, but the enabling environment and a political solution. The investor in the [Gaza Marine] gas project has always been there. They have been ready to do this project with us since 1999, and they continue to be. What prevented this development until today is actually the political issue.

## **If a foreign investor comes across this interview and learns about the many interesting projects and opportunities you are talking about, what would you say to that investor? Why invest in Palestine and why now?**

First of all I would say that one of the major advantages of the Palestinian economy is that it has very high potential. There are very few places left in this world where you have so much untapped potential, so little investment and so much development to support. I believe investors will find opportunities in Palestine financially rewarding - if the financial incentive is their only reason to be here. But also for some other investors, such as Arab and diaspora international investors, there are other considerations. They also have an interest for the development of the country and for stability and peace in the region. I think this is also a reasonable factor because economic development in Palestine will clearly have a positive impact on stability in the whole region.

**“Our private sector has proved its resilience through the years. Businesses have shown ability to work under very challenging conditions...and that is a big asset”**

This is what we are trying to do with the international community through the OQR. It is actually about improving the perception of the region and especially of Palestine by providing a better political environment. We are committed to do our part in terms of the business environment and in terms of doing everything we can to reduce the risk for investors. But also we will continue to promote partnerships with our local companies, since this is one of the most important assets we have. You see... one of the advantages of our private sector is that it has proved its resilience through the years. Businesses have shown ability to work under very challenging conditions... and that is a big asset. I know that occupation and its constraints are a problem, but the fact that we have learnt to work under such difficult conditions is a credit to our private sector. For all these reasons I think the potential here is significant: investment will be financially rewarding but also it will also hopefully lead to greater peace, prosperity and stability and benefit all countries in the region.

## The Portland Trust



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