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Guest post: Ukraine has done nothing to tackle corruption; it must learn from Georgia

Україна нічого не зробила для боротьби з корупцією; вона повинна вчитися у Грузії

Я інвестував і вів бізнес в Україні з моменту здобуття нею незалежності в 1991 році. Вперше я приїхав сюди у 19 років з Карачі на стипендію для вивчення металургії в Донецькому технічному університеті та після розпаду Радянського Союзу залишилася і в кінці кінців інвестував \$ 150 млн. в Істіл Україна, в створення найбільш технічно просунутого сталевих заводу в СНД. Я залишив сталевий бізнес в 2008 році, і сьогодні Істіл Група є українським конгломератом, що працює в багатьох областях, включаючи нерухомість, медіа, видобуток та збагачення вугілля. Тепер, як і багато підприємців в Україні я в депресії через конфлікт, який потенційно скоротить ВВП цього року на 7 відсотків, і продовжує щоденно коштувати життів. Проте, як підприємець я також в захваті від інвестиційних можливостей в Україні. Але я повною мірою відчув важливість для розкриття цих можливостей того, аби прозахідні партії, які домінували на парламентських виборах минулого тижня, вирішили давнє питання корупції.

<http://blogs.ft.com/beyond-brics/2014/11/04/guest-post-ukraine-has-done-nothing-to-tackle-corruption-it-must-learn-from-georgia/>

I have been investing and doing business in Ukraine since its independence in 1991. I first arrived, aged 19, from Karachi on a scholarship to study metallurgy at Donetsk Technical University and after the break up of the Soviet Union stayed on and eventually invested \$150m in Istil Ukraine, creating the most technically advanced steel facility in the CIS. I left the steel business in 2008, and today Istil Group is a Ukrainian conglomerate operating in many areas including real estate, media, manufacturing and coal enrichment.

Now, like many entrepreneurs in Ukraine I find myself depressed by the conflict, which potentially will cut GDP by 7 per cent this year and continues to cost lives every day. However, as an entrepreneur I am also excited by the investment opportunities in Ukraine. But for these opportunities to be fully realised it is essential that the pro-western parties who dominated last week's parliamentary elections address the long-running issue of corruption.

Before we come to concrete advice, I think we need to establish two points. First, in my opinion this conflict with Russia will not be a long one. I would urge international investors in

Ukraine to hold their nerve. A solution will be found; it has to be found, as Ukraine is in no position to fight a long war with Russia. Because of this fact alone, a negotiated peace rather than a shaky ceasefire must be found, and will be found, and soon. It is what form this peace takes and whether it is built on solid, lasting foundations that concerns me. Ultimately, a bad peace is always preferable to a good war, and everyone concerned must keep this firmly at the front of their minds. Second, there are investments to be made, and excellent returns in the medium term for those with patience, especially in heritage real estate, in telecommunications, internet technologies and media in general and other areas including health care.

Ukraine has more than 35 per cent of the most fertile land in the world, it has minerals, steel and metallurgy, as well as chemicals, and an almost 100 per cent literacy rate. Ukrainians are highly proficient in IT. But Ukraine's potential has been repeatedly squandered – by corruption and ill governance as much as by today's security issues.

Now the results are in from last week's parliamentary elections there is a clear mandate from the people for a pro-western and pro-reform policy in Ukraine, especially in terms of tackling corruption to encourage inward investment.

As a businessman in Ukraine one of my biggest frustrations is with the VAT system. When I owned a steel mill at Queenborough on the Isle of Sheppey in the UK, in nine years the tax inspector never visited us once. Everything was done online and we never had a problem with getting VAT refunded back to us. In Ukraine, tax inspectors turn up all the time, even when we have perfect accounting. Often it is suggested that there is no way you can get your VAT back quickly unless you agree to pay at least 30 per cent to the head of the tax authorities. Because of cash flow problems many businesses smaller than ours find they have no option but to pay as they cannot live without the remaining 70 per cent. The people who benefit from this corruption are top civil servants in Kiev, some of whom have yachts and private jets kept, mostly, outside the country.

Another area where corruption is encountered regularly is in the legal system, where filing litigation is often more akin to a tendering process with mediators openly running around saying, 'the other party has quoted a certain figure they are going to pay the judge, will you be able to beat that offer?' Frequently, the merits of the case aren't even discussed.

President Petro Poroshenko arrived in office five months ago promising change. But nothing has changed.

Now, after last week's elections, there are high expectations of the EuroMaidan generation of political newcomers in parliament. They are negotiating to form a cross-party reform platform. Many hope that these relative youngsters – some in their 20s and 30s – will upend Ukraine's corruption-as-usual politics.

The reformers' agenda includes stripping members of parliament of immunity from prosecution, creating public television and undercutting the financial power of oligarchs through public financing of political parties.

I wish them well but experience says that although activists and academics are often considered a positive force, their arrival from outside the ruling system often means that they have trouble navigating it.

They will find themselves up against the "mid-level mafia" – the same raft of long-time bureaucrats skilled at making money through corrupt schemes that I come up against when reclaiming VAT for my businesses. Many serve as deputy ministers or heads of departments, often holding more real power than their formal bosses and having their roots in the Soviet nomenclature.

Without thorough administrative reform of the civil service, success in changing government will be limited.

More than this, the government in Ukraine needs to look to outsiders. Georgia, Ukraine's near neighbour, earned itself the title of 'best corruption-buster in the world' from Transparency International just seven years after its Rose Revolution of 2003. From a standing start where it was considered one of the most corrupt countries in the world, Georgia is now the number one economic reformer in the world and ranked by the World Bank Group as 9th in terms of ease of doing business. Most of Georgia's neighbours are ranked somewhere in the hundreds.

To achieve this, Georgia looked abroad and adopted other countries' practices, such as Italian anti-Mafia legislation and German police training.

To his credit, Poroshenko has brought in teams from Georgia – but their advice has been ignored. If you solicit good advice but have no policy of execution, then the exercise is pointless – in fact, it is worse than pointless, because you've just wasted more money on the advice.

In my opinion the Ukrainian government needs to extend this policy of looking abroad to beat systemic corruption. There is an enormous Ukrainian diaspora dating back many years, many of whom have attained senior positions in international commerce and banking. President Poroshenko must bring these people in as advisers if he is not prepared to give them ministerial positions but, and this is key, he needs to listen to and act on their advice.

At the mid-level he needs to bring in Ukrainians who have lived and worked abroad to oversee and sit alongside the judiciary. To change the banking system, the monetary system, the legal system – I suggest bringing in the Ukrainian diaspora to work alongside the incumbents. If you have a judge, appoint another judge, a Ukrainian by parentage who has spent a lifetime in the diaspora, to work alongside the incumbent – and if he or she sees the judge is finding in favour of one party in a case when that party is clearly in the wrong, then you know the judge is either totally incompetent or totally corrupt. Either way that judge should go. The same principal can be followed in banking and finance and other areas until corruption and the building of unjust personal influence has been uprooted.

Whatever the course Poroshenko decides on, it's clear that, in the words of Morgan Williams, president of the US Ukraine Business Council, "time is running out" for Ukraine's leaders to make good on their often-repeated but never-delivered promises of reform and fighting corruption.

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