

Business is attractive, but difficult

BY: HENRIK JEPSEN
BA. SCIENT. POL.

Each year the World Bank and Transparency International publish indexes that hint the state of the Ukrainian economy. The figures are rarely encouraging and 2008 was no exception.

The general difficulty of doing business and the corruption level in a country are two interlinked factors that business owners often look to when deciding where to do business. Time-consuming dealings with public administration are a major nuisance that may tempt business-owners to take dodgy measurers.

The ease of doing business

If time-consuming contact with the local administration will raise your incentive to

engage in corruption, Ukraine is probably not the place to go. The World Bank's "Doing Business 2009" data, which was published in October, ranks Ukraine as the 145th country out of 181 surveyed.

According to the World Bank, construction permits, property registrations and tax payments are among the most burdensome tasks - they each take more than 140 days. At the other end of the scale, getting credit and enforcing contracts can both be done within less than 50 days.

Ease versus attractiveness

While the index is based on the reading of laws and first-hand information from business professionals, it should be noted that it is limited in scope. The index does not take into account Ukraine's proximity to large markets, the quality and

low cost of labour, security from theft and looting or institutional strength. Neither does it take into account that some economies may be more complex than others because of a higher level of technology or regulation.

The index is thus an "ease of doing business index" based on a specific set of indicators - not an "attractiveness of doing business". Ukraine may well fall behind, say Georgia or Algeria, on the index, but still be far more attractive from a business point of view.

Nonetheless, administration procedures in Ukraine remain a hassle. This is the one conclusion you can draw from the 'Doing Business Index'. Could the temptation to jump the lines be the reason that Ukraine has a high level of corruption?

The level of corruption

Transparency International's Corruption Perceptions Index (CPI) is the best-known source for analysts. In the 2008 edition, Ukraine ranks as 134th out of 180 countries alongside countries such as Nicaragua and The Comoros.

Before jumping to conclusion about the actual level of corruption in Ukraine, however, it should be noted that the CPI is based on perceptions of how corrupt a country is. This entails a bias, since beliefs are hard to change - today's perceptions are usually based on yesterday's perceptions.

Perceptions, however, remain important, since people who believe their government and fellow countrymen to be corrupt are more likely to engage in corruption

themselves. To some degree, this is a vicious cycle.

Take advice, not shortcuts

There can be no doubt that both the World Bank and Transparency International point to some real difficulties of doing business in Ukraine. But no matter how difficult things are, or how widespread corruption already seems, business-owners are ill-advised to take illegal shortcuts. It will only worsen the problem, as the corrupt officials will also expect to be bribed in future dealings.

Instead, prepare yourself, learn your way around Ukrainian customs and contact those who have the experience and expertise you lack. This is by far the best way of speeding up processes.

Read more about this issue: [click here](#)



The Corruption perceptions index

1	Denmark
1	N. Zealand
1	Sweden
4	Singapore
5	Finland
5	Switzerland
7	Iceland
7	Netherlands
9	Australia
9	Canada
11	Luxembourg
12	Austria
12	Hong Kong
14	Germany
14	Norway
16	Ireland
16	U. Kingdom
18	Belgium
18	Japan
18	USA
21	Saint Lucia
22	Barbados
23	Chile
23	France
23	Uruguay
26	Slovenia
27	Estonia
28	Qatar
28	St. V&G
28	Spain
31	Cyprus
32	Portugal
33	Dominica
33	Israel
35	UAE
36	Botswana
36	Malta
36	Puerto Rico
39	Taiwan
40	South Korea
41	Mauritius
41	Oman
43	Bahrain
43	Macao
45	Bhutan
45	Czech Rep.

134 Comoros
134 Nicaragua
134 Pakistan

134 Ukraine

147 Russia
151 Belarus

180 Somalia

Source:
Transparency International

Corruption: Diagnosis and prescription

Lone Høgholt



Lone finished her law studies in 1991 and has since then combined a profound knowledge of Russian language and culture with her legal work. From 1996 to 2000, Lone worked as an in-house counsel at Dandy A/S, before taking up a position as head of the Moscow offices of Danish law firm Bech-Bruun Dragsted International A/S. In 2004, she switched to a similar position at the Moscow offices of DLA Piper. Today, Lone works as a Chief legal advisor for Uhrenholt A/S

INTERVIEW WITH
LONE HØGHOLT
CHIEF LEGAL
ADVISOR, UHRENHOLT
A/S

People who think of Ukraine as a country ripe with corruption will have their beliefs confirmed when looking at recent

studies conducted by Transparency International and the World Bank. Nevertheless, legal advisor Lone Høgholt's hands-on experience testifies to the fact that it is indeed possible for businesses to operate without corruption.

The World Bank's 'Doing Business 2008' comparison of the difficulty of dealing with licenses ranks Ukraine as 174th out of 178 countries surveyed. In particular the construction sector faces difficulties when dealing with licenses: without contacting an intermediary consultant, it took the World Bank investigators 429 days to obtain the 29 officially required licenses for setting up a new warehouse in Kyiv. This may be the reason why some business people turn to bribes, and corruption thrives. In Transparency International's most recent publication, Ukraine shares the position of 118th out of 179 countries with Malawi, Mali and Sao Tome and Principe. These figures and analyses paint a gloomy picture of Ukraine. But what is the experience of people dealing continuously with the challenges of the Ukrainian private sector?

Black or white?

In fact, the business life has undergone tremendous changes in the right

direction, and those who have spent years in the region confirm this. One of them is Lone Høgholt, who has acted as legal advisor for companies wishing to establish sales or production in Russia during several years. She does acknowledge that corruption exists in Eastern Europe, but she also points out that the word 'corruption' has several, different meanings. What she calls 'black corruption' is the classical blackmail involving money for security, and it was quite wide-spread in the 1990s. Today, however, investors generally know how to handle this type of corruption, and it should no longer be considered a problem. That investors are likely to face - typically in connection with public administration is 'white corruption'. "Flowers, bottles and chocolate are considered a normal cultural gift, and any investor will face it at some point", Lone Høgholt says. In some cases investors are still met by a demand to pay bribes to officials, but it is generally acknowledged that Western companies have internal policies prohibiting participation in unethical practices.

...Or simply not transparent?

Also, while it is clear from newspapers and other

publicly available resources that corruption does play a role in imports, customs handlings, invoices, permissions, licenses or any other consents required to operate a business, many delays and costs are not due to corruption, but to lack of transparency in legislation. Lone Høgholt explains that investors are often unaware that expedition fees in relation to a number of application procedures or other procedures involving public authorities are fully legal. "For instance, obtaining a visa for traveling to Russia takes two weeks - unless you pay an expedition fee and get it the very same day. This standard principle of expedition fees is fully legal, generally accepted and applies to a number of administrative functions".

How to deal with it

Nevertheless, even if you do pay the expedition fees, most administrative procedures are heavy and time consuming, and this is why some businesses may still be tempted to take shortcuts through participation in corruption. Lone Høgholt warns that this is a dangerous route as you may start an avalanche of expectations. Furthermore, you may get into trouble if the management of the bribed authority is replaced and the new people find out

that your permissions were issued on an illegal basis. Lone Høgholt's advice: "in the long run, it is cheaper to accept that you have to act in compliance with rules and regulations".

The lesson to be learned

The survey figures and the hands-on experiences certainly tell different stories, but they all point to one advice: Be prepared that operating in Eastern Europe will inevitably lead to situations, where your business ethics are challenged. However, entering Ukraine with preparedness and the right set of principles will save you time and costs. If you do this, it is indeed possible to operate a fully legal, and very profitable, business. "As a matter of fact, avoiding corruption and irregular or unethical proposals is often much easier for a foreign investor than for a Russian company, as it is generally accepted that norms in Europe and the United States are different from local habits", Lone Høgholt explains before concluding: "you may of course point out market segments, where corruption is part of the routine and as such unavoidable, but I think you may find such areas of business in any country".