



*Understanding the EU's Association Agreements and Deep and Comprehensive Free Trade Areas with Ukraine, Moldova and Georgia*

# Oligarchs in Ukraine, Moldova and Georgia as key obstacles to reforms

Wojciech Konończuk, Denis Cenuşa and Kornely Kakachia

24 May 2017

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## Abstract

The paper reviews the role of oligarchs in Georgia, Moldova and Ukraine. Oligarchy can be briefly defined as a system of governance in which a small and informal group of people, using their vast economic and financial resources, is able to control a state or exert a major or dominant influence on its policy. The portfolios of economic assets of the major oligarchs of the three countries is described in some detail. The nature of their influence on policy making is further analysed, in particular the disadvantages for the governance of these countries. While these impacts differ in their detail by country, in general terms they tend towards limiting political pluralism, capturing state institutions, corruption, monopolisation, and more broadly the blocking of reform processes. Oligarchs are symptoms rather than causes of weak political institutions. The remedies correspondingly need a wide reach, including institutional capacity building, effective anti-corruption bodies, suitable public funding for political parties, effective competition policy, independence of the judiciary and of the media, supported by many features of the Association Agreements and DCFTAs with the EU. Modern economies will always need major business leaders and enterprises. The challenge is precisely to bring the oligarchs into becoming normal business leaders.

Wojciech Konończuk is a senior associate at the Centre for Eastern Studies (OSW) in Warsaw.

Denis Cenuşa is a researcher and Program Director at Expert-Grup, Chisinau.

Kornely Kakachia is an executive director of the Georgian Institute of Politics in Tbilisi.

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# Oligarchs in Ukraine, Moldova and Georgia as key obstacles to reforms

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## 1. Introduction

Oligarchy can be briefly defined as a system of governance in which a small and informal group of people, using their vast resources, is able to control a state or exert a major or dominant influence on its policy. The oligarchic system has been known since the ancient times, and it is an ongoing phenomenon in some of the post-Soviet states<sup>1</sup>. In this paper we will research three cases: Ukraine, Moldova and Georgia, where oligarchs are either indirect key players in the politics and economy, or have even captured state power. Although the situation in each of those countries is different, there are also some important similarities. The most obvious is that Ukraine, Moldova and Georgia have signed Association Agreements with the EU and declared European integration to be a key priority of their domestic and foreign policies.

It appears that the negative phenomenon of post-Soviet oligarchs has not been fully acknowledged by the West, and has therefore still been insufficiently studied. Part of the explanation may be difficulties in fact-finding, describing and proving the oligarchic influence, which is often a chain of opaque political, economic or financial operations. Oligarchy is an informal institution and in Ukraine, Moldova and Georgia it is in some respects more important than formal institutions and norms based on the constitutions. Hence any researcher studying oligarchy is forced to rely on presumptions rather than hard facts. Behind-the-scenes oligarchic systems are an issue of extraordinarily importance in understanding the real policy-shaping mechanisms at work in Ukraine, Moldova and Georgia, as well as a key obstacle to structural reforms.

## 2. Who are the oligarchs?

The oligarchs' origins have different roots in each of the three countries. Oligarchs in **Ukraine** first emerged as important players there in the mid-1990s and quickly became a dominant feature of domestic political and economic life. The Ukrainian

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\* Wojciech Konończuk is a senior associate at the Centre for Eastern Studies (OSW) in Warsaw. Denis Cenuşa is a researcher and Program Director at Expert-Grup, Chisinau. Kornely Kakachia is an executive director of the Georgian Institute of Politics in Tbilisi.

<sup>1</sup> 'Oligarchy', as a term defining representatives of the post-Soviet big business who transfer their economic power into political influence, was coined in the mid-1990s in Russia, and popularised by Russian sociologist Olga Kryshtanovskaya.

transformation and privatisation process resulted in the emergence of several business groups, who accumulated strong economic power by controlling key economic sectors. In order to defend their assets they started investing in politics, thus becoming important political actors. The most powerful oligarchs are Rinat Akhmetov, Ihor Kolomoyskyi and Dmytro Firtash,<sup>2</sup> who have been major players in the last two decades. In addition over a dozen smaller groups can be defined as oligarchic.

The oligarchs in Ukraine have mostly been reluctant to hold public positions, but instead either establish their own political force or support existing parties in exchange for the lobbying their interests. They have never monopolised state power, but thanks to their resources they have become indispensable partners for the political class. One distinctive characteristic of the oligarchs is their political flexibility. They lack consistent political sympathies, and support any political party which they find appropriate for the protection of their business empires.<sup>3</sup>

The last two decades have shown that the periodical changes of political regime in Ukraine have had merely a limited effect on the oligarchic system, which has itself proved to be more stable. There have been some reshuffles amongst Ukrainian oligarchic groups and some of them have lost their influence, however, a core of oligarchs remains stable.<sup>4</sup> Likewise, in the three years since the Revolution of Dignity the oligarchic system has been weakened but still remains as an important element in the political and economic life. Some of the formerly most powerful oligarchs were eliminated as a factor in Ukrainian politics (the so-called 'Family', or the oligarchic group centred around the former President Victor Yanukovych's and led by his son Oleksandr as well as by Serhiy Kurchenko), or lost part of their influence (Dmytro Firtash's group), but other are still influential (like the group of Kolomoyskyi and so-called agrarian oligarchs representing fast-growing agriculture sector). A special case is Petro Poroshenko, who – before being elected president – had been considered a second-rank oligarch with substantial political experience (formerly he served as minister of foreign affairs and economy). Obviously, his position and influence has increased significantly but his main business asset, the Roshen confectionery company, was passed to a trust fund managed by the Rothschild Group.<sup>5</sup> Overall, the oligarchic system remains one of the key mechanisms shaping Ukraine's politics and economy.

In **Moldova** the first significant steps to develop an oligarchic system were seen during the rule of the Communist Party (2001-2009), but the process of the country's oligarchisation accelerated during the first period in power of the Alliance of

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<sup>2</sup> See further below on requests for Firtash's extradition, which may now limit his influence.

<sup>3</sup> Jaba Devderiani, [Between Europe and Russia, oligarchs rule](#), Carnegie Europe, 1 December, 2016.

<sup>4</sup> Heiko Pleines, 'Oligarchs and politics in Ukraine', *Demokratizatsiya: The Journal of Post-Soviet Democratisation*, 24 (1), Winter 2016, p. 125.

<sup>5</sup> [Rothschild says Ukraine president's trust up to international standards](#), Reuters, 7 April 2016.

European Integration coalition (2009-2013). Its main shareholders were the Prime Minister Vlad Filat, leader of the Liberal Democratic Party of Moldova (PLDM), and Vlad Plahotniuc, the informal leader and sponsor of the Democratic Party of Moldova (PDM). Both politicians became allies and key players in Moldovan politics, but there was also a constant 'under the carpet' struggle between them for political influence and business assets. This period of difficult co-habitation has also been called 'oligarchic pluralism', as before entering politics Plahotniuc and Filat were seen as successful businessmen, and both are among the richest citizens of Moldova.<sup>6</sup>

In 2014 the relationship between the two politicians suffered a definitive and harsh rupture, and as a result in October 2015 Filat was arrested and sentenced to nine years in prison. This led to the monopolisation of power by one oligarch, Vlad Plahotniuc, who due to his control over all of the state's main institutions has concentrated unprecedented political and economic instruments in his hands. The overwhelming scale of Plahotniuc's influence and his currently unchallenged position make it possible to say that Moldova is now displaying the symptoms of a 'captured state'.<sup>7</sup>

The situation **in Georgia** is considerably different from Ukraine and Moldova because there had not previously been any oligarchy in the sense of a group of wealthy people who divided spheres of control. Georgia's slow economic development, relatively small size of its market and unstable political situation did not allow such a luxury. During Eduard Shevardnadze's presidency (1995-2003) attempts were made by members of his family to take control over some business assets, but ultimately this failed. Instead, a specific type of oligarchs emerged who made their fortunes in Russia in the 1990s and belonged to the Russian oligarchy in the period when it was at its most powerful (from the mid-1990s to 2003, when the so-called Yukos affair started and the previous oligarchs lost their former power).

In the late 2000s these Russian oligarchs of Georgian descent returned to their homeland and decided to translate their wealth into political power. The three most important figures were Badri Patarkatsishvili, who tried a state takeover in 2007 but failed (and subsequently he died in 2008), Kakha Bendukidze, who after his return to Georgia in 2004 became the Rose Revolution's ideological dynamo and served as a State Minister for Reform Co-ordination" (but died in 2014 in London),<sup>8</sup> and Bidzina Ivanishvili, who established the Georgian Dream coalition which won the parliamentary elections in 2012.<sup>9</sup> Ivanishvili decided to assume the position of Prime

<sup>6</sup> Kamil Cașus, [Moldova: from oligarchic pluralism to Plahotniuc's hegemony](#), *Centre for Eastern Studies*, 11 April 2016.

<sup>7</sup> Denis Cenușă, ["Captured state" and "useful oligarchs" in proximity of EU: Moldova, Georgia and Ukraine](#), IPN, 17 October 2016.

<sup>8</sup> Stephen Jones, [Kakha Bendukidze and Georgia's failed experiment](#), *Opendemocracy.net*, 2 January 2015.

<sup>9</sup> Bidzina Ivanishvili used to be one of the most secretive oligarchs in Russia. In the mid-1990s he was a member of the so-called *Semibankirshchina*, an informal group of seven Russian oligarchs established with the aim of re-

Minister (2012-2013) but eventually resigned and gave up this position to a member of his party. Nevertheless, since then he has been widely perceived as the most influential political actor in Georgia, and essentially controls Georgian politics even if formally he does not hold any public or party functions. In October 2016 the Georgian Dream won a constitutional majority in the parliamentary elections, which has further increased Ivanishvili's influence over the country.

### 3. Oligarchic portfolios

#### Ukraine

The oligarchs have been able to maintain their status as important players in Ukraine's politics thanks to a number of factors. The most important is their dominance of strategic branches of the economy. Oligarchic capital in Ukraine is much stronger in comparison with other countries in the region. According to Deloitte's CEE Top 500 report, which ranks the largest companies from Central Europe and Ukraine, 64% of Ukrainian enterprises are controlled by local private capital (compared to 29.4% in Poland, 23.2% in the Czech Republic and 4.6% in Romania).<sup>10</sup> The share of foreign capital in the ownership structure of the Ukrainian companies consists of just 12%, and is the weakest among the CEE countries (compared to 54.4% in Poland, 63.8% in the Czech Republic and 84% in Romania). The *Economist's* crony-capitalism index estimates that the Ukrainian oligarchs' wealth equals 7,8% of the country GDP.<sup>11</sup>

Traditionally there have been a dozen or so oligarchic groups in Ukraine, whose assets extended into all key sectors of the economy, especially energy, raw materials and heavy metals. They have never consolidated in one integrated group; on the contrary, they have often had contradictory interests and compete with each other for new assets and political influence. Several of these oligarchs have had the strongest positions:

- Rinat Akhmetov, the richest oligarch in Ukraine, who among many other assets owns the largest electric energy and coal company (DTEK, with a 25% share in the total production of electricity and 70% share in the production of electricity from fossil fuels), the largest metallurgy corporation (Metinvest), crucial companies in the agricultural (HarvEast), gas production (Neftegasdobycha) and telecommunications (Ukrtelecom) sectors, as well as one of the most popular TV channels (Ukraina TV) etc.;
- the Privat Group of Ihor Kolomoysky and his business partner Hennadiy Bogoliubov, one of Ukraine's most powerful oligarchic groups since the 1990s,

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electing President Boris Yeltsin. Regis Gente, [Bidzina Ivanishvili, a man who plays according to Russian rules?](#), *Caucasus Survey* 1, 2013.

<sup>10</sup> [Deloitte Central Europe Top 500](#)

<sup>11</sup> [Comparing crony capitalism around the world](#), *The Economist*, 5 May 2016.

which controls assets in the energy sector (42% stake in Ukrnafta, the main player in the oil market<sup>12</sup>), the chemical, metallurgic and transport sectors, the media (1+1 TV channel), agriculture (Privat Agro-Holding), and the biggest Ukrainian bank (Privatbank, until December 2016 when it was nationalised as a failing bank of systemic importance);

- the group of Dmytro Firtash, whose interests are mainly in the chemical and gas sectors (DF Group) and the media (the Inter TV channel, among others). Although since 2014 he has been under house arrest in Vienna waiting for possible extradition to the US on bribery charges, he remains an important factor in Ukrainian politics.<sup>13</sup> Traditionally Firtash has had close ties with Russia, and his business expansion was supported by Gazprombank's loans.

There are also other oligarchs whose interests are focused on particular branches of the economy, such as Viktor Pinchuk (metallurgy and media), Yuri Kosiuk, Andriy Verevskiy and Oleg Bakhmatiuk (the agriculture sector), Kostyantyn Zhevago (the iron ore mining industry) and Petro Poroshenko (confectionery and automobile industry). According to some assessments, the wealth of the 50 richest Ukrainians in 2010 was equivalent to 46% of Ukraine's GDP (compared to 16% in Russia and 4% in the US) but due to the economic crisis this level dropped to around 18% of the GDP in 2016.<sup>14</sup> The general map of the oligarchs' assets has remained relatively stable over the last ten or so years.

Many of the oligarchic groups have additional powerful instruments, which make their position vis-a-vis with regard to the authorities even more powerful. In particular they control most of the media market as the major TV channels owned by four oligarchs (Kolomoysky, Firtash, Akhmetov and Pinchuk) control around 80% of the Ukrainian television market.<sup>15</sup>

## Moldova

In the last few years Moldova's economy has become monopolised by the country's two most powerful oligarchs, who combine political and business activities. Although it is not easy to assess their business assets, which they often hold through proxies and offshore companies, information from 2010 indicates that Vlad Plahotniuc's personal wealth amounted then to over \$2 billion and Vlad Filat's to approximately

<sup>12</sup> Сергей Куюн, [Преступление и наказание по Черчиллю](#), Zerkalo Nedeli, 10 March 2017

<sup>13</sup> In February 2017 the Austrian court granted the US's extradition request, but the final decision will be taken by the Austrian minister of justice. Additionally, a separate warrant for Firtash has been issued by Spain on money laundering charges. His political interests in Ukraine are represented by Serhiy Lyovochkin and Opposition Bloc party.

<sup>14</sup> Iryna Zhak, Pasquale Tridico, [A plea for change](#), *The Ukrainian Week*, 8 October 2014. According to [the most recent Forbes](#) ranking of the richest people in the world, six Ukrainians have wealth estimated at more than US\$1 billion: Akhmetov (US\$4.6bn), Kolomoysky and his business partner Hennadiy Boholubov (respectively US\$1.4bn and US\$1.1bn), Kosiuk (US\$1bn), Kostyantyn Zhevago (US\$1.2 bn) and Pinchuk (US\$1.1bn). Poroshenko's assets are estimated at US\$850 million.

<sup>15</sup> This calculation is based on figures from the [Television Industry Committee](#) (2016).



\$1.2 billion (altogether around half of Moldova's GDP)<sup>16</sup>. They increased their political and economic powers by replacing the monopoly of the Communist Party as a result of political turmoil in April 2009.

Apart from the Plahotniuc/Filat tandem,<sup>17</sup> other smaller oligarchs attempted to gain and/or increase political influence during 2009-2014, but they failed. Ilan Shor, who gained a significant share of his fortune through transactions on the banking market, has faced some investigations and trials related to various banking frauds, in addition to evidence that his companies were involved in the massive 'stolen billion' banking fraud revealed in late 2014<sup>18</sup>. There are indications that Shor, under pressure from Plahotniuc, agreed to make serious corruption-related accusations against Filat in 2015. Consequently, the General Prosecutor Office exempted him from the accusations currently imputed on banking frauds<sup>19</sup>.

Another oligarch, Veaceslav Platon made big gains from illegal operations in the banking sector since the 1990s. He has been accused of illegal takeovers of banks, money laundering involving Russia, and many other criminal offenses. Platon repeatedly avoided arrest by moving his business to Ukraine, where he worked with Victor Yanukovych's proxies, and before that entering the Moldovan politics (2009-2010)<sup>20</sup>. In August 2016 Platon was detained and extradited from Ukraine and sentenced to 18 years of prison in April 2017 in regards to the 'stolen billion' affair.

Renato Usatii came to prominence after building his fortune in Russia, where he also established close relations with Russian oligarchs in the railroad sector, including various Russian criminal entities and the intelligence services. Both Shor and Usatii planned to enter high-level politics by creating new or building up already existing political parties, and won local elections in 2015 in Orhei and Bălţi respectively. According to recent polls<sup>21</sup>, Usatii still maintains significant political popularity, although he runs his party from Moscow, as he is afraid of being arrested on the basis of a controversial warrant issued by the Moldovan law enforcement bodies.

Abundant information about Plahotniuc and other oligarchs' operations became available since the break between him and Vlad Filat. According to reports from investigative journalists, civil society and the opposition, Plahotniuc promotes the majority of his interests via proxies in the real estate, media and scrap metal industries, among others. A company associated with Plahotniuc controlled by March

<sup>16</sup> [Presa rusa: Premierul Vlad Filat, locul trei in topul celor mai bogati oameni din R. Moldova](#), 2010.

10 July

<sup>17</sup> Denis Cenuşa, ["Captured state" and "useful oligarchs" in proximity of EU: Moldova, Georgia and Ukraine](#), 17 October 2016.

<sup>18</sup> <https://www.rise.md/articol/codrii-shorheiului/>

<sup>19</sup> <http://newsmaker.md/rus/novosti/shor-iskupil-svoyu-vinu-tem-chto-napisal-etot-donos-intervyu-nm-s-genprokurorom-ed-29986>

<sup>20</sup> [Povestea lui Veaceslav Platon: urmărit de procurori fără succes din 2001](#), 25 July 2016

<sup>21</sup> [Barometrul de Opinie Publică](#), October 2016



2017 a big share of the media market: four TV stations out of the five with nationwide coverage and three radio stations.<sup>22</sup> These outlets reportedly cover 60-70% of the market.<sup>23</sup> Control over the media is important not only because they are engaged in building up a favourable public image for Plahotniuc, but also because they ensure income from advertising, which is channelled to another Plahotniuc-related company.<sup>24</sup> Due to this media advantage, Plahotniuc and his Democratic Party are able to access a large audience and therefore influence the daily public agenda. Even after, the Audiovisual Code was adjusted in March 2017 by imposing limits of up to two licenses per one owner both for TV and Radio channels and respective sanctions, Plahotniuc didn't stop to control the majority of the media market. Therefore, Plahotniuc's company (General Media Group) transmitted the rights of emissions for two of its channel to a recently created company (Telestar Media) that belong to one of Plahotniuc's advisors.<sup>25</sup>

Plahotniuc has been involved in the energy sector and allegedly in the recent crisis of the banking sector, but rather through intermediary persons and companies. The offshore intermediary company Energokapital, which sold electricity produced in Transnistria's Cuciurgan power plant between December 2014 and March 2017, seems to be linked to him.<sup>26</sup> The banking sector started to run out of resources at previous stages (2010-2013) through various transactions involving offshore companies. However, the hardest hit came between January-December 2014, when three banks – two of which, Banca de Economii and Banca Sociala, were government-backed and of systemic importance – became involved in illegal lending operations. According to investigations led by the Kroll Company, these schemes had a direct connection with companies associated with Shor<sup>27</sup> and Russian banks, but without any clear links to Plahotniuc. However, Platon has claimed that Plahotniuc, via his proxies and thanks to his control over the National Bank of Moldova, contributed to the mass fraud.<sup>28</sup> Apart from Platon, another high profile figure is prosecuted for charges concerning to the "stolen billion" affair – Chiril Lucinschi, son of the former president Petru Lucinschi and former Member of the Parliament from the Liberal Democrat Party, run by former Prime minister Vlad Filat between 2007-May 2016.

<sup>22</sup> <https://anticoruptie.md/ro/stiri/oficial-vlad-plahotniuc-proprietar-a-patru-televiziuni-si-trei-posturi-de-radio>

<sup>23</sup> [Press Freedom of Republic of Moldova 2015](#), Independent Journalism Center 2015.

<sup>24</sup> [Offshoreplaha: Cum și-a construit Plahotniuc imperiul](#), *Crime Moldova*, 30 September 2016.

<sup>25</sup> Mold-Street, Noul magnat de televiziune, un consilier al lui Vlad Plahotniuc, 12 May 2017, <https://www.mold-street.com/?go=news&n=5915>.

<sup>26</sup> Michael Bird, Andrei Cotrut, [Moldovan energy intermediary company linked to "billion-dollar bank theft" scandal](#), 14 March 2016.

<sup>27</sup> [Kroll Report](#), 2015.

<sup>28</sup> [Veaceslav Platon: „Detin documente despre implicarea lui Plahotniuc în furtul miliardului”](#). *Ce spune despre Gofman și Iaralov*, *Ziarul Natiua*, 25 July 2016.

## Georgia

Bidzina Ivanishvili's dominant position in Georgian politics is based on his personal wealth, which is estimated at around \$4.5 billion (a third of Georgia's entire GDP).<sup>29</sup> He made his money in Russia and moved back home in 2003 after selling his business shares there.<sup>30</sup> His bank Rossiyskiy Kredit was sold for \$352 million, to a group of investors comprising major Russian bankers. His drugstore chain Doktor Stoletov was sold for \$60 million to the Imperia-Pharma company, which according to the Russian press is controlled by the Chairman of the Federation Council Valentina Matvienko's son, Sergey. He also found purchasers for his agriculture company Stoilenskiy Niva. Due to offshore companies and lack of transparency, it is hard to get an exact calculation of Bidzina Ivanishvili's current assets. According to the Panama Papers,<sup>31</sup> Ivanishvili has not indicated all companies in his asset declarations. The declaration also revealed a significant part of Ivanishvili's assets were registered under the names of family members.

Apart from his assets in Georgia,<sup>32</sup> Ivanishvili owns a substantial portfolio of shares and bonds in blue-chip western companies.<sup>33</sup> His art collection is estimated at \$1 billion, accounting for around 25% of his capital.<sup>34</sup> These two categories of assets would have nothing to do with his oligarchal powers in Georgia.

According to the Officials' Asset Declarations database,<sup>35</sup> at least 38 officials have in the past worked in companies associated with Bidzina Ivanishvili, many of whom currently hold political office. While nobody could claim that these people have been illegally appointed or elected to their positions, this trend raises concerns whether the principle of merit-based selection of public officials has been justly applied.<sup>36</sup> Ivanishvili's name is also associated with GDS TV, which is 100% owned by his son Bera Ivanishvili.

Now that Saakashvili is out of the political picture, Ivanashvili represents himself as a kind of messianic figure that Georgian society is prone to like.<sup>37</sup> While outside democratic control and beyond any institutional checks and balances, Ivanashvili is believed to be the overarching controller of the Georgian government, even though he

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<sup>29</sup> <http://www.forbes.com/profile/bidzina-ivanishvili/>

<sup>30</sup> Marina Maximova, [Бидзина Иванишвили продал финансовые активы в России](#), RBC Daily, 11 May 2012.

<sup>31</sup> Luisa Kroll, [Billionaires, Former Billionaires Outed For Offshore Wealth By The Panama Papers](#), 3 April 2016.

<sup>32</sup> Ivanishvili owns vast land across Georgia, including in Borjomi, a resort town in south-central Georgia and wealthy Tbilisi suburb. The report revealed he also owned a property in Moscow.

<sup>33</sup> Tamar Khurtsia, [What do Georgian Government members own?](#) Agenda.ge, 8 January 2014.

<sup>34</sup> [Bidzina Ivanishvili's Net Worth Dropped by \\$400 Million: Forbes Releases Billionaires List](#), Caucasus Business week, 2 March, 2016.

<sup>35</sup> <https://declaration.gov.ge/>

<sup>36</sup> [Ivanishvili's companies – the forge for government officials](#), TI Georgia, 22 April 2015.

<sup>37</sup> All three of Georgia's previous post-independence leaders, Zviad Gamsakhurdia, Eduard Shevardnadze and Mikheil Saakashvili, fitted this mould.

has not held any official post since he stepped down as prime minister at the end of 2013. The Ivanishvili factor alone makes many Georgians question the government's transparency and complain about the persistent, informal system of political governance. A major risk is the continuing dependence of the nation and its ruling party on the financial resources and personality of a single person.

### To summarise

As described above, and schematised in Table 1, the nature of the oligarchic influences is different in Ukraine, Moldova and Georgia. In Ukraine there has tended to have been a balance between the various oligarchic factions and state power, although the former have always had enough resources to put pressure on the decision-makers. The Moldovan case represents a classic case of 'state capture', where the *de facto* merger between economic and political powers has had far-reaching consequences for the quality of democracy. The case of Georgia is the least obvious, and it would be an exaggeration to claim that it is a 'captured state', but the current Georgian leadership could lead the country in this direction.

*Table 1. Anatomy of the oligarchic groups in Ukraine, Moldova and Georgia*

	<b>Ukraine</b>	<b>Moldova</b>	<b>Georgia</b>
<b>Type of oligarchic influence</b>	Balance between different groups of oligarchs	Severe form of oligarchic presence – "state capture"	Informal governance with an oligarch in the key political decisions
<b>Number of oligarchic groups</b>	Numerous oligarchs – "oligarchic pluralism"	Dominant position of one oligarch, with no challenger or competitor	Dominant position of one oligarch, with no challenger or competitor
<b>Key areas of economic activity</b>	Energy, metallurgy, agriculture, media	Media, real estate	Real estate, media
<b>Means of operations</b>	Direct and indirect influence (via the parliament and informal ties with the government)	Indirect via offshore companies and proxies, and direct via political parties and state institutions	Via political institutions and political parties

## 4. The disadvantages of oligarchy

The oligarchic system has numerous negative consequences for political, economic and social activities in Ukraine, Moldova and Georgia. The oligarchs emerged in specific conditions in each country, and are usually the products of the weakness of

the state, the ineffectiveness of the state's public institutions, endemic corruption and political party systems that are either inefficient or completely absent in the normal sense. Yet the oligarchs are a symptom of the crisis condition of the state, rather than a direct cause of it.<sup>38</sup>

The oligarchs are usually not interested in changing the *status quo*, and support the existing regimes, albeit only on condition that they do not pose any threat to their business interests. Hence the oligarchic systems fossilise the weaknesses of a state, and in many case make them even weaker. Successful modernisation would mean a change to conditions that had previously been favourable for them.

Below we review the different types of impacts the oligarchs have had in Ukraine, Moldova and Georgia. Some of them are relevant to all three countries, albeit with varying degrees of intensity, but others have occurred in just some of them. Generally it is difficult to track the activities of the oligarchy and the damage it does with great precision, as they are usually shadow actors and prefer to act behind the scenes. But there are also obvious oligarch-backed activities which provide enough evidence to assess the nature and goals of their influence.

### **Limiting political pluralism**

In a poorly managed state with ineffective and corrupt bureaucracy, the oligarchs are the best-organised group and know how to use their competitive advantages. Thanks to the resources at their disposal (financial power, dominance of the media, etc.) they can afford to spend huge amounts of money on political bribes, and to hire lobbyists working domestically and abroad. Since the beginning of the 1990s, ensuring as big a representation in parliament as possible has become one of the oligarchs' key political goals. This mechanism has been clearly visible in Ukraine since the 1990s. To protect their business interests they need to win support from key political parties, and so in exchange for financing campaign expenditures and granting access to the media they control, the political parties agree to lobby for the oligarchs' interests or hand some of the seats on their electoral lists to individuals put forward by the oligarchs.

The experience of the Ukrainian parliamentary system has shown that no serious political force is able to successfully operate without financial backing from the oligarchs. This does not mean that the politicians become mere puppets in the oligarchs' hands, but their role in the shaping of important political decisions has often been decisive. According to press reports, Dmytro Firtash was one of the brokers of a deal between Petro Poroshenko and Vitali Klitschko in March 2014. Klitschko, whose UDAR party was probably financed by Firtash, withdrew from the presidential race and left room for Poroshenko.<sup>39</sup> Moreover, the post-Maidan

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<sup>38</sup> Heiko Pleines, [Oligarchs. More a symptom than a cause of Ukraine's crisis](#), *VoxUkraine*, 19 January 2017.

<sup>39</sup> Сергій Лещенко, [Порошенко - Кличко. Віденський альянс під патронатом Фірташа](#), *Ukrainska Pravda*, 2 April 2014.

parliamentary elections of 26 October 2014 confirmed that the major Ukrainian oligarchic groups have retained significant influence in the parliament thanks to their control over at least a few dozen deputies (however, in the previous terms of the parliament oligarchic impact was bigger). It is difficult to assess the influence the oligarchs' hold over the political parties more precisely, but almost all the main parties (including the Petro Poroshenko Bloc and the People's Front) are influenced by the most powerful oligarchic groups.<sup>40</sup>

In the case of Moldova, two crucial political parties (i.e. Democrats and Liberal-Democrats) have been almost completely taken over in the last several years by their oligarchic 'owners', namely Vlad Plahotniuc and Vlad Filat respectively. Georgia faces a similar situation, where Bidzina Ivanishvili backed the Georgian Dream party, which became the winner of the parliamentary elections in October 2016.<sup>41</sup> The broad scope of the oligarchs' influence is a serious obstacle to creating normal political party systems, because the oligarch-dependent parties receive informal benefits at the expense of other political forces. It creates unequal conditions and undermines political pluralism and expands political corruption. It also has triggered opposition outside the conventional political system.<sup>42</sup> As a result, shadow actors, whose power and influence are not constrained by any law and who occupy no elected positions, participate informally in the decision-making process.<sup>43</sup> In this way, the oligarchs have become a permanent element of politics (in Ukraine), or hold the real power (in Moldova and Georgia).

In Georgia a new wave of 'oligarchisation' of the country's politics emerged in pre-2012 election period and most vividly in the aftermath of the 2012 elections. However unlike in a case of Ukraine or Moldova, in Georgia the oligarchic influence is not closely linked with corrupt structures or inefficient institutions. Bidzina Ivanishvili appeared in the period when Georgia's institutions were the strongest and most efficient in the post-Soviet space and Georgia had emerged as a model example in the post-Soviet space and broader region in terms of fighting corruption.

Yet key figures of the Georgian political parties in power are financially dependent on the oligarch. Bidzina Ivanishvili has two main types of influence: political, as no key decisions are made without him or his instruction, and financial, whereby he funds some of the key politicians to maintain influence over them. Ivanishvili's openly declared objective has been to destroy the political opposition and in particular the United National Movement, the main alternative political party. Important political

<sup>40</sup> More details: Wojciech Konończuk, [Oligarchs after the Maidan: the old system in a 'new' Ukraine](#), *Centre for Eastern Studies*, 16 February 2015.

<sup>41</sup> Maciej Falkowski, [The Georgian Dream takes total control](#), *Centre for Eastern Studies*, 9 November 2016.

<sup>42</sup> Denis Cenușă, Moldova between protests and "state capture", CIDOB, March 2016, ([https://www.cidob.org/publicaciones/serie\\_de\\_publicacion/opinion/europa/moldova\\_between\\_protests\\_and\\_state\\_capture](https://www.cidob.org/publicaciones/serie_de_publicacion/opinion/europa/moldova_between_protests_and_state_capture)).

<sup>43</sup> Some Ukrainian oligarchs were members of the parliament in the past, including Akhmetov, Poroshenko and Pinchuk.

opponents and politicians have been jailed, or sued based on criminal charges including former president Mikhail Saakashvili, former mayor of Tbilisi Gigi Ugulava, former Minister of Interior Vano Maribishvili, etc. This ambiguous situation puts Georgia in a vulnerable position vis-à-vis both its commitment to democracy and its foreign policy orientation, and increases regime and institutional uncertainty for the future. Oligarchic informal governance is also associated in Georgia with a gradual emergence of pro-Russian sentiment and increased Russian influence over Georgian NGOs and the political party landscape. After the 2016 elections for the first time since independence an openly Eurosceptic nationalist party, which is widely believed also to be harbouring pro-Russian sentiments entered the Georgian Parliament, allegedly backed behind the scenes by Bidzina Ivanishvili.

### **Capturing state institutions**

The restriction of political pluralism leads to the 'capture' of specific state institutions, which are thus transformed into façades. Such institutions serve not the public interests but the private interests of politicians, or the oligarchs directly if they succeed in capturing a state power. The first model is seen in Ukraine, where state institutions are very fragile, and dependent on the ruling coalition, which does not have the will to reform and convert them into independent bodies, which is always a prerequisite for successful transformation.<sup>44</sup> An example of this is the Prosecutor General's Office, which is subordinated to the Ukrainian president, and is perceived to be a strong weapon against potential political rivals. In 2016 Yuriy Lutsenko, a close ally of Petro Poroshenko and the former head of the president's party in parliament, was appointed as the new prosecutor general, and his activities have so far been very beneficial for the president due to use of his legal instruments to start investigations against the president's political foes.<sup>45</sup>

Moldova is probably the most 'advanced' model of state capture in Europe. Many of its key institutions (in particular from the law enforcement area like the Prosecutor General Office, Anti-Corruption Centre) are seen under the full control of Vlad Plahotniuc.<sup>46</sup> This explains the initial interest of his Democratic Party to opt for the Prosecutor General Office, when the first pro-European coalition was formed in 2009 and later up until today. Control over the Anti-Corruption Centre turned into a matter of permanent dispute between Vladimir Plahotniuc and ex-prime-minister Vlad Filat, who ultimately was arrested by this institution after being stripped of his immunity in the Parliament. As the oligarchic Filat/Plahotniuc tandem was dismantled, the Democratic Party's government controlled by Plahotniuc significantly increased its

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<sup>44</sup> Many such arguments are given in Daron Acemoglu, James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business 2012.

<sup>45</sup> [Генеральна прокуратура Юрського періоду](#), Radio Svoboda, 14 April 2017; Sergej Leshchenko, [Corruption Inc.](#), Die Zeit, 5 May 2017.

<sup>46</sup> Joint Statement EPP-ALDE: Moldova – the uninominal system is a desperate attempt to keep the Democratic Party in power, (<http://www.epp.eu/press-releases/joint-statement-epp-alde-moldova-the-uninominal-system-is-a-desperate-attempt-to-keep-the-democratic-party-in-power/>).



power in the country.<sup>47</sup> In his last speech before the Parliament in October 2015 (anticipating his imminent arrest), Filat named the law enforcement state institutions (the General Prosecutor's Office and the Anti-Corruption Centre) as having fallen under the control of Plahotniuc. The Council of Audits seems also to be under a certain level of influence from political stakeholders, including Plahotniuc. Some other institutions related to media or energy regulation are also of questionable independence from the Democrat Party and its dwarf political allies. The economic position of Plahotniuc and his proxies is protected by their control over those crucial public institutions. Neither the General Prosecutor's Office nor the Anti-Corruption Centre has reacted over the involvement of the oligarch's proxies in banking frauds, shady schemes in energy sector, or embezzlement cases that concern state-owned enterprises. The same institutions have engaged in only a rather selective fighting of corruption (notably against Filat and his proxies, Platon etc.) rather than targeting all cases systematically.

The "capture" element is seen also in the Parliament. By May 2017, the Democratic Party had drawn more than forty MPs via different forms of 'stick and carrots' (pressure) into the Democratic Party's faction in the Parliament. As a result the Democrats more than doubled their number of seats in the legislative body from their initial nineteen MPs after the elections in November 2014. Increasing the number of MPs is meant to ease the law making process for the Democrats. In addition the Democrats seek to change the electoral system without having full support from the opposition and the majority of the civil society, and being openly criticized by the major pan-European political parties. Recent polls show that the Democrats risk falling below the threshold of 6% necessary to remain in the Parliament. They seek to justify the need to switch from the current proportional system to a mixed system that would see half the seats elected by uninominal voting, which will include representatives from the diaspora and the Transnistrian region. They argue that this would give more control over MPs to the voters. On this they might reach a consensus with Socialists, with whom President Igor Dodon is associated.

As regards Georgia, Transparency International recently published analysis shows that its system of democratic checks and balances remains weak. The report found in the case of the judiciary, that parliamentary oversight is too weak to serve as an effective check on the power of the executive branch, whose power remains largely secured by the ruling party's constitutional majority in Parliament.<sup>48</sup>

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<sup>47</sup> After Filat's downfall in late 2015, the governing coalition reshaped and included the Democrats, their junior ally the Liberal Party, and fugitive MPs from other parliamentary parties (the Liberal Democratic Party, the Communist Party), totalling around 57 MPs. This allowed the Democrats to extend their control over 12 of the 16 ministries (four being conceded to the Liberal Party), [Expert-Grup, State of the Country Report 2016](#).

<sup>48</sup> Andrew McDevitt, [The State Of Corruption: Armenia, Azerbaijan, Georgia, Moldova And Ukraine](#), Transparency International 2015.



## Corruption

Ukraine and Moldova are among the most corrupt countries in the world, currently ranked 134th and 123rd respectively on the Transparency International Corruption Perception Index 2016.<sup>49</sup> Meanwhile Georgia (44th place) is an example that great progress can be made in reducing corruption, which was one of the biggest achievements of Mikheil Saakashvili's presidency (2004-2012).

The system of governance in both Ukraine and Moldova has been transformed into rent-seeking mechanisms<sup>50</sup>. Systemic corruption is an important factor in keeping the oligarchs powerful. They did not invent political corruption, but they actively participate in various corrupt schemes with the political class. The oligarchs' businesses can thrive thanks to shadowy corruption-based deals with the ruling elite, as well as public tenders or privatisations whose results may be fixed in advance. The authorities participate in illegal schemes sharing their profits with the oligarchs, with consequences for the state budget.

In the case of Ukraine this long-lasting model of specific synergy between the authorities and the oligarchs was preserved after the Revolution of Dignity due to the decision taken by the post-Maidan elite to enter into informal alliance with the main oligarchic groups. However the scale is smaller scale than during Viktor Yanukovich presidency. Furthermore, the new anti-corruption bodies were created: the National Anti-Corruption Bureau (NABU), the National Agency for the Prevention of Corruption and the Anti-Corruption Prosecutor's Office, which is a good start to fight against systemic corruption. The experience of their work show that only the NABU can be perceived as a truly independent institution. Other two fall under the influence of the presidential office, which also attempt to limit NABU operation<sup>51</sup>. Despite some achievements in the anti-corruption campaign (including investigations against a few high level officials) moderate progress has been achieved.

There is not enough space in this paper to present all the 'old-new' shadow deals since 2014, but some major examples can be mentioned.

In March 2016 the National Commission for Energy, Housing and Utilities Services Regulation (NKREKU) introduced a new formula for calculating the price of the electricity generated by power plants. The new system is based on the price of coal in the port of Rotterdam plus the cost of its delivery to Ukraine. The so-called 'Rotterdam-plus' formula means in effect that Ukrainian customers have started to pay energy tariffs which are three and a half times higher than in 2015, which was itself justified to a degree.<sup>52</sup> The main beneficiary of the new price formula is DTEK, owned by Rinat Akhmetov; this company is not only Ukraine's largest coal producer

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<sup>49</sup> [Transparency International Corruption Index 2016](#).

<sup>50</sup> Heiko Pleines, [Oligarchs. More a symptom than a cause of Ukraine's crisis](#), *VoxUkraine*, 19 January 2017.

<sup>51</sup> Sergej Leshchenko, *Corruption Inc.*, *Die Zeit*, 5 May 2017.

<sup>52</sup> [В Україні відсьогодні знову подорожчала електроенергія](#), 1 March 2017.

but also produces 70 per cent of Ukrainian energy from thermal power plants. The Rotterdam price formula has been widely criticised by Ukrainian experts as lacking economic logic and being politically motivated.<sup>53</sup> Thanks to the new formula, the energy companies, mainly DTEK and Centrenego (state-owned, but media reported it to be under influence of Igor Kononenko, a Poroshenko Bloc deputy and the President's trusted man), have received additional revenues of up to US\$400 million a year.<sup>54</sup> According to the government's initial statements, the new energy formula was intended to enable Ukrainian power plants to switch to coal sourced other than from the separatist-controlled part of Donbas region. However, the Ukrainian government has not implemented any directive aimed at creating the legal framework to force power plants to spend additional revenues on their technological modernisation. On the contrary, the 'Rotterdam-plus' formula can be seen as a government-designed helping hand for the heavily indebted DTEK (the company's debts are estimated at US\$2.3bn).

Some shady schemes related to energy sector are visible in Moldova. In particular, this concerns supplies of electricity to Moldova from the Transnistrian region's Cuciurgan power plant via traders with offshore presences, namely through Energokapital<sup>55</sup> between December 2014 - March 2017, which conducted transactions offshore via VictoriaBank, associated until autumn 2016 with Plahotniuc's proxies.

Since 2003, as already noted, Georgia has made significantly progress in fighting corruption. Following transfers of power in 2012 and 2013, the then Prime Minister Bidzina Ivanishvili and his successor Prime Minister Irakli Garibashvili both pledged to strengthen Georgia's anti-corruption stance. Georgia is widely recognised as having been largely successful in tackling petty corruption and public sector bribery. This means that the reforms implemented in Georgia since 2004 have indeed had a substantial impact in reducing corruption. Transparency International's Corruption Perception Index concluded that perceived corruption in Georgia is lower than in several EU member states, including Slovakia, Italy, Greece, Romania and Bulgaria, and much lower than in neighbouring Armenia, Russia and Azerbaijan.

## Monopolising the economy

The oligarchs gain control over some of key sectors of the economy, hindering normal market competition. In Ukraine, for instance, oligarch-controlled companies have large market power in the electric energy sector, coal mining (in the dominant position of DTEK), the media, gas distribution (mainly controlled by Firtash), and the

<sup>53</sup> Andriy Gerus, [What's Wrong With the 'Rotterdam Formula'?](#), *Ukrainska Pravda*, 22 June 2016.

<sup>54</sup> Владислав Шве́ц, [Баланс недели: чрезвычайные меры в электроэнергетике, рост ВВП и прокурорская проверка тарифов](#), *Unian*, 18 February 2017.

<sup>55</sup> Denis Cenuşă, Otilia Nuţu, [The Bridge over the Prut, version 2.0: the electricity interconnection between Romania and Moldova](#), *Expert Grup*, 19 January 2017.

oil refinery sector (Ukratnafta controlled by Kolomoysky). In addition to the assets that the oligarchs own, they also manage some of the most valuable state-owned monopolies (especially in the sectors of energy, ports, transport, and alcoholic drinks) thanks to their informal deals with the authorities. Ukraine's Anti-Monopoly Committee has not hindered this, quite to the contrary. One of the many negative effects of this monopolisation of economic activities is the poor investment climate. The 2017 Index of Economic Freedom ranks Ukraine 166th (out of 180 countries), Moldova 110th, contrasting with Georgia's 13th rank.<sup>56</sup> Foreign investors are discouraged from entering Ukraine and Moldova because of informal preferences for oligarchic capital, the weak rule of law, and the fear of corporate raiding.<sup>57</sup> As a result, the level of FDI in these two countries is among the lowest per capita in Europe.

In Moldova there is a little evidence of direct interference by Vlad Plahotniuc in the decision-making process which would favour the specific sectors allegedly controlled by him and/or his 'inner circle'. However, some cases can be traced. In early 2016, the parliamentary majority of the Democrat deputies passed a draft law to modify the country's existing broadcasting code. The law aimed at reducing the monopoly in the media sector by introducing legal limitations to the number of broadcasting licenses, from five to two per media owner. Nevertheless, the already existing licenses are to be maintained until they expire.<sup>58</sup> In 2016, the Democrat Party proposed new modifications in the code, criticized by local NGOs and by international organizations.<sup>59</sup> The critics regarded the amendments as favourable for the big outlets, similar to those controlled by Plahotniuc's proxies, which have nationwide coverage and control more than 50% of the advertising media market. Facing harsh criticism from the media NGOs, the draft law was then overtaken by a new broadcasting code that got support in the first reading in 2016, having been welcomed by local NGOs.

Another case is the government's decision in December 2016 to create a monopoly for pharmaceutical procurement in the public sector, which raised serious concerns among local observers.<sup>60</sup> The authorities justified their decision by highlighting the need to eliminate frequent contractual irregularities in the procurement of pharmaceuticals for the public sector. A similar initiative is being proposed for the gambling sector, where new regulations will replace the current, poorly-governed state of affairs, but only by introducing another state monopoly<sup>61</sup>. The state's poor

<sup>56</sup> <http://www.heritage.org/index/ranking>

<sup>57</sup> Matthew Rojansky, *Corporate Raiding in Ukraine: Causes, Methods and Consequences*, *Demokratizatsiya: The Journal of Post-Soviet Democratization* vol. 22, 3/2014.

<sup>58</sup> [Statement of the civil society, March 2016](#)

<sup>59</sup> <https://freedomhouse.org/article/moldova-restrictions-foreign-broadcasters-undermine-press>

<sup>60</sup> [Governmental Decision no. 1336](#) of December 2016 regarding the establishment of the state-controlled joint stock company MoldFarm.

<sup>61</sup> <http://eco.md/index.php/home/rss/item/4975-plahotniuc-multiplic%C4%83-metalferosul>

performance in managing public properties intensifies the worries concerning the creation of new state monopolies, which would be controlled by Plahotniuc's proxies. Overall, the Democratic Party has not engaged extensively in the de-monopolization of sectors where Plahotniuc's interests mostly stand (metal scrap, advertising market).

In Georgia, Ivanishvili's influence is stronger in the political field (namely on the government and parliamentary majority) than on the economy. He did not make money in Georgia, although he owns some assets and increasingly gains control over the media. Unlike some other oligarchs, Ivanishvili does not focus so much on investment projects in his home country. The main exception is a much-vaunted private equity fund he launched less than a month before key presidential elections. The \$6bn Georgian Co-Investment Fund has attracted heavyweight investors including the UAE's Abu Dhabi Group, Turkey's Calik Holdings and China's Milestone Intl. Holding – plus a commitment of \$1bn of his own money from Ivanishvili himself. The fund's size and governance structures raise concerns in an environment where business and politics have often been intertwined. The Fund aims to finance projects in energy, tourism, manufacturing, agriculture, infrastructure and other areas.

Recent developments in the media landscape in Georgia may potentially endanger media pluralism. These include the merger of three major television channels (Imedi TV, GDS, and Maestro TV<sup>62</sup>), and controversial events surrounding the Georgian Public broadcaster. In addition the courts have transferred ownership of the Rustavi2 TV channel, the highly popular network that is consistently critical of the government, to someone who is close to the ruling party. Critics view this as politically motivated and initiated by the government<sup>63</sup>, and timed to precede local elections.<sup>64</sup>

## Blocking reforms

The existence of the oligarchs remains one of the key obstacles impeding reforms. Any programme for the systemic modernisation of the state and for establishing a rule-of-law based system would pose a threat to the oligarchs' interests. Hence, they have tried to use their available instruments to influence the reform process, in order to ensure that it would not strike at their business interests (in Ukraine), or, thanks to control over the state's institutions, to block changes less favourable to their interests (Moldova and Georgia).

<sup>62</sup> Imedi TV is owned by the family of deceased businessman Badri Patarkatsishvili, GDS is owned by Bera Ivanishvili – the son of Bidzina Ivanishvili – and Maestro TV has several shareholders. Controlling shares in Maestro TV and GDS will be transferred to Imedi TV, and Patarkatsishvili's family will own the new media conglomerate.

<sup>63</sup> K. Kakachia, B. Lebanidze, J. Larsen, M. Grigalashvili, [The First 100 Days of The Georgian Dream Government: A Reality Check](#), Georgian Institute of Politics 2017.

<sup>64</sup> Cory Welt, [The Curious Case of Rustavi-2: Protecting Media Freedom and the Rule of Law in Georgia](#), PONARS Eurasia Policy Memo, November, 2015.

However reforms in Ukraine since 2014 have already weakened the interests of some Ukrainian oligarchs (especially in the gas and banking sectors). However, it is absolutely crucial. Another step in the right direction has been the decision to fund political parties from the state's budget, but it is still too early to say whether this will have a positive effect in curbing the oligarchs' influence. The oligarchs have still proved skilful in obstructing or delaying reforms. They notably still hold 'golden shares' in many decision-making processes. In cooperation with some of the ruling elite, the oligarchs have been accused of blocking the modernisation and privatisation of many major state-owned enterprises, particularly in the energy sector (Ukrainian Railways, controlled by Kolomoysky and Kononenko respectively<sup>65</sup>), the chemical sector (the Odessa Port Plant, controlled by Kononenko<sup>66</sup>), and the Ukrainian Railways (which is under the influence of Akhmentov and Leonid Yurushev).<sup>67</sup>

One of the most important achievements of the Ukrainian reform process has been the creation of the independent National Anti-Corruption Bureau. However the experience of the initial period of its operation has shown that its work is being obstructed by part of the ruling elite, including the Prosecutor General's Office, as it poses a danger to the interests of corrupt politicians and oligarchs. Another example concerns the case of a new energy regulator, established in September 2016 after long-lasting pressure from the IMF and the European Commission. Though the regulator is a desirable part of energy sector reform, the authorities (the President, the Parliament and the Ministry of Energy) have informally reserved themselves the right to select the members of the new institution's board, which will give them significant leverage to influence the regulator's work<sup>68</sup>.

In Moldova, Plahotniuc's objective clashes with the logic of reforms that would reduce political and systemic corruption in public, private and overall justice sectors. The most recent and illustrative cases of blocking the reforms refer to the appointment of the new General Prosecutor, and the 'Integrity' legislative package that empowers the National Commission of Integrity to enforce asset declarations of public officials. The quick and controversial appointment of Eduard Harunjen as new general prosecutor in late 2016 raised serious questions about the commitment of the authorities to continue the prosecutor offices' reform, initiated in 2015. The Democrat Party blocked the 'Integrity' package law in 2015, and the new legislation has only progressed subsequently under the pressure of the EU and Western

<sup>65</sup> [Как Коломойский выводит миллиарды из «Укрнафты»](#), *Capital.ua*, 14 June 2016.

<sup>66</sup> [Приватизацию ОПЗ сворачивают, завод возглавит экс-помощник Кононенко](#), *Epravda.com.ua*, 13 December 2016.

<sup>67</sup> The Ukrainian Railways (Ukrzaliznytsia) accounts for around 3% of the country's GDP. Иван Верстюк, [Тяжелый рок Войцеха Балчуна](#), *nv.ua*, 3 February 2017. [http://www.liga.net/projects/corruption\\_transport/](http://www.liga.net/projects/corruption_transport/)

<sup>68</sup> Tadeusz Iwański, [Ukraine: new regulator of the Energy sector](#), Centre for Eastern Studies, 28 September 2016.

partners.<sup>69</sup> The new law should increase the powers and the efficacy of the body in charge with verification and investigation of the asset declarations public officials. However, the body requires an administration formed from people selected in a transparent way and with no political affiliation.

Ivanishvili's Georgian Dream Government came to power after a very active and successful phase of reforms, which lasted 8-9 years and transformed Georgia from a failing state with weak institutions into a fast growing liberal economy which increasingly emerged as a regional hub. But since 2012 the pace of reforms became slower. However, Georgia is making headway in implementing a number of reforms to strengthen democracy, uphold the rule of law and bolster the economy, according to a report released on 29 November 2016 by the European External Action Service and the European Commission. According to the findings, Georgia has implemented a number of measures required under the EU-Georgia Association Agreement, which came into force on 1 July 2016. The report also notes that Georgia successfully met all benchmarks under the Visa Liberalisation Action Plan, as evidenced by the European Commission's proposal to the Council and the European Parliament that subsequently led to the lifting visa obligations for Georgian citizens in March 2016.<sup>70</sup>

## **5. How to respond the challenges posed by the oligarchs?**

The fragmentary reforms in Ukraine, Moldova and their slow pace in Georgia since 2012 have not curbed oligarchic influence to any significant degree. The majority of reforms implemented have been adopted under pressure from Western institutions (the EU, the US, the IMF), often against the will of the oligarch-backed governments. Moreover, these reforms are not irreversible, and are still far from laying the foundation for genuine systemic change. Measures urgently needed to cleanse the political, economic and justice systems of interference by the oligarchs can be summarised as follows:

### **Institutional capacity building**

Each of the countries discussed has weak and dependent state institutions, which leads to the lack of check and balance mechanisms. It is essential to free law enforcement institutions of political influence by ensuring the transparent appointment of senior officials, initially under the possible supervision of the EU and other international donors. Law enforcement institutions should be subject to the oversight of parliament, as the more representative political body. The ultimate goal should be a situation where the state institutions are strong enough to pressures

<sup>69</sup> Elena Prohnițchi, [Reformarea Comisiei Naționale de Integritate: De la o instituție ineficientă la o agenție puternică și imparțială](#) ADEPT, February 2017.

<sup>70</sup> [EU report: Georgia making headway in the implementation of its Association Agenda](#), Brussels, 29 November 2016.



from the oligarchic groups. Another element should be fair salaries for the staff of the state's institutions.

### **Effective anti-corruption bodies**

Independent anti-corruption institutions should play a crucial role in diminishing the role of informal political and economic actors. Combatting corruption directly benefits the reform process. Building the principles of transparency and accountability into the governance system is the best way of reducing corruption risks: public officials are likely to refrain from using power for personal gain, if they know that citizens can easily access information about their activities (transparency) and that whatever crimes they commit will definitely result in punishment (accountability). It is effectively impossible to have transparency and accountability mechanisms (such as an independent judiciary or free media) in an undemocratic system.

### **Funding for political parties**

The essential steps here are to cleanse the political parties of vested interests and oligarchic groups, by effectively implementing new legislation on financing political parties from the state budget (in Moldova<sup>71</sup> and Georgia), in parallel with a close permanent audit of their finances, and sanctions for offenses. In Ukraine, where new legislation for financing the political parties has been implemented, it has yet to prove its effectiveness. This should also include building stronger capacities and more specialised (financial) competences for the Central Electoral Committee. Only normal political parties with transparent budgets, audited regularly by a truly independent state institution, can be immune from the oligarchic pressure.

### **Competition policy**

It is necessary to beef up the institutions that promote competition, and developing stronger legislation and mechanisms for dismantling *de jure* or *de facto* monopolies which involve state enterprises or private entities controlled by vested interests. The DCFTA provisions are extremely helpful, but only their consistent implementation can genuinely change the current state of affairs and reduce the oligarchs' influence. Another important contribution should be the creation of independent regulators for various branches of the economy, especially in regards to the energy market. Without an effective competition and deregulation policy, better conditions for the development of small and medium-sized enterprises will not be created. The development of SMEs played an important role in transforming the economies of Central European countries.

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<sup>71</sup> The Electoral Committee demanded the eligible political parties to create banking accounts in order to receive monthly the corresponding money from the budget, which overall accounts for approx. 40 million MDL (approx. 19 million EUR). [Report on the implementation of the Priority Reform Action Plan](#), Expert-Grup, ADEPT, CRJM, September 2016.



## **Independent judiciary**

Cleansing corrupt justice systems should be one of the priorities of the reform process as it will affect many other dimensions, including undermining the influence of the oligarchs and corrupt politicians, creating a positive business climate, and enhancing the public's trust in the. Part of the broader approach towards reform of the justice system should be a fundamental reform of rules in the Prosecutor General's Office, to liberate the judiciary from control of the prosecutor's office or the government.

## **Independent media**

To balance the near-monopoly influence of the oligarch-owned media (especially TV stations), public media should be strengthened. This would require reform of the state's funding policy, as well as the introduction of television licences (regular fee paid by citizens). Additional laws limiting the concentration of media outlets in the hands of one company or individuals are also needed. This will improve the quality of the information and will increase the public awareness regarding the vital policy issues faced by the countries. Additionally, the audiovisual bodies require both capacity building and stronger competences in sanctioning the disinformation and fake-news.

## **Association Agreements and DCFTA implementation**

All three countries have started to implement Association Agreements (including DCFTAs), which include many provisions aimed at reinforcing, directly or indirectly, the policy priorities summarised above for curbing the undue influence of oligarchs, and more broadly for accelerating the modernisation of their economy and political institutions by reforming the state's regulations in many spheres<sup>72</sup>. The first and foremost mechanism is through the liberalisation of external trade, which puts an end to the process of oligarchal interests securing protection for specific sectors, especially when backed up by reforms of internal competition, public procurement, and diverse regulatory functions.

## **6. Overall conclusion**

Curbing the power of the oligarchies in Ukraine, Moldova and Georgia depends on the effectiveness of the above-mentioned reforms. Only their successful implementation will offer these countries the opportunity to fundamentally revise the relationship between political power and the oligarchs. Transforming the oligarchs into normal economic players – as major business leaders – can only be achieved by a radical change of the economic and political system in the three countries

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<sup>72</sup> Michael Emerson, Veronika Movchan (eds.), [Deepening EU-Ukrainian Relations: What, why and how?](#), CEPS 2016; with companion publications on Georgia and Moldova.

examined here. 'De-oligarchisation' depends on the de-politicization of specific state institutions, in particular of those fighting the corruption, and on the demonopolization of the media sector and key economic sectors. This is one of the key conditions for successful modernisation and building up democratic institutions in these countries.