

Kirill Gorskii, “Interview with Kakha Bendukidze: I Am Useful” ([«Я приношу пользу»](#)), *Forbes*, 15 November 2007.

Kakha Bendukidze speaks with *Forbes* about the path that a small poor country has to take in order to have a chance of joining the “gold billion;” tells how the Russian economy is viewed from the outside and discusses the feelings of an entrepreneur who got an opportunity to implement liberal reforms in an entire country.

Forbes: Three years ago, you became State Minister of Georgia for Reform Coordination and promised to liberalize the Georgian economy. What have you achieved during this time period?

Bendukidze: We have achieved a lot. And there is still a lot that remains to be done. I won’t enumerate all the reforms, it would take too long. I will cite the results of the study called *Doing Business*, which is conducted by the World Bank and the International Financial Corporation and analyzes the ease of doing business in different countries. They have a set of criteria looking at the ease of starting a business, at bankruptcy, property registration, labour legislation, and so on. In 2003, we did not even make it to the 130th place (there are 178 countries in the ranking), and in the past few years we have moved up the ranking and reached the 18th place this year. On the Index of Economic Freedom published by the Wall Street Journal together with the Heritage Foundation, Georgia has left the group of countries with a “mostly unfree economy” and became a country with a “moderately free economy,” rising from the second hundred to the 35th place.

Over the past four years, the GDP growth has been around 9 percent. This year we’re expecting a more than 12 percent growth. It’s a very good result. In this year, foreign investment will amount to 2.5 billion USD (Georgia’s GDP is 8 billion USD). The volume of foreign investment this year is twice last year’s volume, and last year it was twice the volume from the year before. Georgia has become a country that interests very diverse investors. To the right of where we are right now, in the mountains, there is a place that people jokingly call “Sector Gaza”: one side is being developed by Israeli developers, the other side by Arab ones.

And what are they building there?

Some are building a cottage village, others are building a golf course and hotels... There is a lot of investment in the hotel business, which is not surprising. It is almost impossible to find a spare hotel room in the city. Both Marriott hotels in Tbilisi have the densest occupancy rates in Eurasia – and they are probably the most expensive ones, too. The number of visitors coming to Georgia is growing by several times each year.

And what did you not succeed in achieving?

The state apparatus is not fully reformed yet. It has been reduced by 40 percent and is much more effective right now, but we still have some problems with it – both with its size and quality. We haven't succeeded in eliminating corruption in some services, for example, in customs, although, of course, its extent is incomparable to what was going on in the past. We haven't managed to resolve the territorial conflicts. Besides, we need to conduct a pension reform, we need to complete the health care reform, and to reform the entire system of social provision.

In Russia and in other post-Soviet countries, the population did not like many of the reforms. Has this been the case with Georgia?

Some reforms went through painlessly. When you are replacing some government institution which never worked well anyway and only caused damage, it doesn't hurt anyone - except for the people who worked there. When I became Minister of Economy, the ministry had 2500 staff, and I left less than a thousand of them. It is unlikely that the dismissed people are happy about it. In Georgia, we had a radical police reform, created new institutions such as patrol police, for which we recruited people from the street on the basis of competition. More than 20,000 policemen were dismissed, and I don't think they feel overjoyed about it. It's understandable that there will always be a part of the population that has been affected directly [by the reforms] and they are not happy about the changes. There are other reforms, too. Tax cuts – who will suffer from them? Now it's a different thing that there are people who are unhappy that earlier we had higher taxes but it wasn't obligatory to pay them because of the corruption, and now the taxes are low, but you have to pay them. There will always be people who are not content.

In democratic countries there is a very simple indicator for that – voting. In last year's municipal elections throughout the country, the ruling party won, which means that people generally support the course of the government. In one year, we will have presidential and parliamentary elections, where we will check once again to what extent people trust the government.

Recently you stated that no one in Georgia has a capital worth several billion dollars...

I meant that there were no such fortunes earned within Georgia!

But if there are no large fortunes in the country, can you speak about the success of the liberal reforms?

Of course. If you look at smaller European countries, you will see that they don't have large fortunes either. You won't find billionaires in Austria or Slovenia. Georgia has its own specificity: in the past 20 years, so many people left the country, made a career, but remained tied to their homeland through emotional, blood and economic ties. One can go as far as to say that there is another Georgia located outside of Georgia's borders. Plus there are ethnic Georgians who historically have lived in other countries – in Turkey, for example. Many of them are actively investing in Georgia. If everything goes well, in 20

years Georgia's GDP will reach 60 billion USD. In such an economy there will be room for making billion-dollar fortunes.

And what about the Georgian entrepreneurs who are well-known in Russia – Boris Ivanishvili and Badri Patarkatsishvili – do they invest in Georgia?

Yes. Over there (points to the building made of glass and concrete on one side of the mountain – Forbes) Mr Ivanishvili is building an office complex. Patarkatsishvili recently purchased a controlling stake in the largest mobile phone company called Magticom. By the way, another owner of Magticom is Gia Jokhtaberidze, the son-in-law of the ex-president. This is also an answer to the question whether the former elite was hurt as a result of the revolution.

He still owns his stake?

Yes, and he doesn't want to sell it. Whether he likes the current government or not, he is one of the largest beneficiaries of the new government simply because he has gained no less than 300 million USD as the value of his stocks increased. Badri, although, as you know, he is not the biggest supporter of our government and is in the opposition to it, still continues to invest money here.

In Russia, Georgia is primarily perceived as an agrarian country. Have your reforms helped the Georgian industry?

What agrarian country? Agriculture accounts for 15 percent of Georgia's GDP and this share is diminishing every year. New industrial objects appear, all kinds of them – from metallurgic to those that process agricultural produce. In general though, I don't think that there will be some kind of extensive industrialization in Georgia. For industrialization, you need certain conditions, in particular, the availability of a cheap resource and (or) a large internal market. There is an oversupply of productive capital in the world. (...) I think that on the whole Georgia's development will be oriented toward service-based economy and not production-based economy.

Forbes: And when you say the service sector is growing, which areas do you mean exactly?

All kinds. Georgia's economy, by God's mercy, is not a mono-economy. Everything is developing – hotel business, communications, tourism, transport, medical services. I found recently that there is a company that does hair transplants for South Korean patients.

Right here?

Right here. To me, this is a wonderful example of entrepreneurship – and no Gosplan could have ever come up with such an idea.

Is Russian investment coming to Georgia?

The Madneuli mining complex belongs to Sergey Generalov's Promyshlennye Investory (Industrial Investors) company. A jewelry plant. Power stations. Wine factories. Those were built to export wine to Russia. Now there is no export to Russia, but the factories are not being sold, they are searching for new markets.

And where does most investment come from – from Turkey?

No. The leaders constantly change. In the first half of this year, the largest investor was a Danish company. Last year it was investment from the UK, in the year before that the largest investment came from Kazakhstan, in the form of several large projects implemented by the Turan Alem group. Money does not have a nationality.

In your opinion, does it make sense for Russian companies to invest in Georgia, and why?

Russian companies can invest in Georgia with the same goals that they invest in other countries, for instance, in Portugal. Why do Dutch or British companies invest in Georgia? Are we neighbors? No, people just want to make money. Georgia is a country in which it is good to invest not only for Russian companies, but for any companies. By the way, one should note that despite the problems created by Russia, Russian companies enjoyed the same conditions here as all the rest. No one tried to interfere with them or limit them somehow. Today, Inter RAO, a daughter company of RAO UES, wants to build a power plant here, and that's very good.

So RAO UES investment is not seen here as a threat?

You know, there are sick people everywhere. But if you have an empty space, and then you have a power plant instead of the empty space – what can be bad about it? The electricity supply to Tbilisi is fully controlled by Inter RAO, but there have been no instances when Inter RAO would do something bad in Georgia due to political considerations. ... One can behave in a non-civilized way only when there is a wall between you. But if the wall is removed, we'll have to either fight or to make peace. That is why the fact that INTER RAO will build power plants here is good, and investment in the distribution network is good, and export of electricity through Georgia is good, and that RAO buys Georgian electricity for the South of Russia – is also good."

You left OMZ business and became a civil servant at the time when the Russian machine-building sector was on the rise. If you hadn't left your business, you could have become a billionaire by now. Do you regret that things have turned out this way and not differently?

But I didn't throw away my assets, I sold them.

But since then, they have considerably increased in price.

So what, should I go hang myself now over regrets? Some ten years ago our group owned a range of oil and gas fields. We sold them for what they were worth at that time. Today, some of them cost two billion, others even three billion. If I hadn't sold them, if I had found 500 million USD to invest in its development, and then would have issued an IPO, I would have had 10 billion dollars. On the other hand, what does it mean to say "it would have been like this"? When in 1997 we did a private placement in London, we invested the money into the acquisition of the Izhora Plants and a range of other assets. My financier colleagues said, "This is not reasonable, it would have been better to invest in GKO's [Russian government bonds], and we invested instead in some indebted factories!" I also had my doubts: if we had bought GKO's, 50 million would have turned into 150 million. And then the crisis came, and the factories remained there, while GKO's became worth nothing. One can't regret the past, because if you went back and did something different, you would have not had the life you have now but some other life instead, and you never know how everything would have turned out. Perhaps you would have been stuck in Krasnokamensk [in prison] drinking *chifir* [strong black tea frequently drunk in prison].

When you came here, you stated in one interview that you would never own a business in Georgia. And you still don't?

No. To be honest, I don't really have businesses in other countries either. There are only some remnants of business, some money left. The people who are managing my money will invest it in different countries, but I think it would be incorrect to do it in Georgia. In Georgia I have created a non-profit foundation with educational goals. The foundation has purchased a small university here, on the basis of which we will develop a full-fledged university. A serious university costs some 100 million dollars or more.

Do you participate in the management of your assets?

Sometimes I am asked to do so, of course, but not very often. People try to convince me that I should create an independent company to manage my assets, and in addition to this, to attract the funds of other investors and do big things.

Still, how much money do you have left after you pulled out of your main business, and how do you estimate your wealth?

If I only knew... There are some assets which you would have to convert into cash in order to find out their price. I have enough for a comfortable life [literally: for bread and butter]. And besides, I don't spend that much money.

What is more interesting – to manage the machine-building holding or to implement reforms in an entire country?

I would put this question a bit differently. At first, I went into business to gain money for some very specific needs: I had to solve financial problems in my laboratory and pay salaries to my staff. Afterwards, I did business just because I didn't do anything else.

Then I did business with a goal in mind – that is, to build a large company. The tasks, goals and motivation kept changing. At some point, the task of making money becomes the main goal yet it takes a lower priority at the same time. What do I mean by that? Business is something that whatever you do, you do it for money. The phrase “I am a good businessman but I just don’t have money” is meaningless. One who has more money is a better businessman. “Others were lucky and I wasn’t” – it’s also a meaningless statement, a loser’s position. But what for do you do this? I posed this question to many of the “older guys,” meaning to the richer people. Many answer honestly: we simply cannot do anything else.

Because they don’t know how to do anything else?

To put it more simply, the only thing I can do in life is business. The criterion is very simple too: if I do business right, I make more money. I make money not because I need it, but because I work right. For example, you have 10 billion dollars and you have 12 billion dollars – what’s the difference? You can use the 2 extra billion dollars to implement a lot of things but you cannot translate the difference into some material goods.

The question is also whether you are still working on the tasks you already had in the past or whether you are working on new ones that you haven’t encountered yet. When I was establishing and developing OMZ, it was a time of learning for me. I was learning how to create a company, how to structure the management system, how to organize its finances, which direction of development to choose, what is essential and what isn’t, how to restructure the company financially and functionally, how to make the company more focused, how to enter new markets, and so forth. In 2002, I realized that I had understood almost everything. And that all my future activities in the company would be a combination of the things I had already learned. So I decided: it’s time to finish, otherwise it would be not business, but service.

So you decided to retire?

I communicated my decision to leave to the Board of Directors. We adopted a resolution that I would resign in early 2004 and by that time I had to prepare a replacement for myself. I started looking for new people inside and outside the company, hired Ward Howell, we did an assessment inside the company – I was ready to give over the reins by the end of the first half of 2004.

Did you have to learn everything from scratch when you joined the government service?

Government service, politics, economic reforms – everything was new to me here. It is one thing to talk about economic reforms and prepare legal drafts in the RSPP, or to talk to economists at seminars, and it’s a completely different thing to do the real work. Here, I am learning plus I have a specific vision – the vision of what I need to accomplish. As long as you’re learning something, as long as you’re doing something, as long as you

haven't yet achieved something that you believe is necessary – you can use the word “interesting.” Once you accomplished everything, it's no longer interesting. There are still some things to do in order to make Georgia's economy even more dynamic.

What will be the criterion that the task is accomplished?

The mega-task is to have Georgia become a normal country. To make sure that Georgia is not in that part of the world which is plagued by hunger, illnesses, injustice and poverty, and that it is not in the part of the world where these things are being overcome. That it becomes part of the world which is called the “golden billion.” We have to reach the level where development takes on an irreversible nature. That means, having the GDP per capita at the level of some 15,000-20,000 USD (currently we have 4,500 USD). When I see that we stand firm on this development path, then it means it's time.

And what are the indicators that tell you that the country is on the right path?

Sustained growth, diversified economy, political stability, a lot of sectors, a lot of countries with which there is an exchange of services, goods, capital. And (this is very important) there should be an understanding that all of this is the result of the reforms, that the reforms are appreciated. As Turkey, for example, assesses the reforms implemented by Turgut Özal. A good example of a country on the right path is the Czech Republic or Estonia. Today, Estonia can have this government or that, right-wing or left-wing, but it is growing at 7 to 10 percent annually. Ten is better than seven, but seven percent is also good...

And what is your opinion about the past three to four years in the Russian economy?

Several good things have been done. One of them is, of course, the stabilization fund. It has allowed to classify macroeconomic management in Russia as “very good.” I think this example will become textbook material. Also, paying off debts ahead of schedule... There's also the liberalization of the currency regime – the Law on the Currency Regulation and Control, to which I have contributed, has come into force. But aside from this, there haven't been significant institutional reforms in the Russian economy.

Nothing at all?

And that's when the counter-revolution started. In the shape of nationalization, which took different forms – from simple *razborki* [criminal settling of accounts, mostly violently] to the creation of state corporations.

The events in Georgia and the events in Russia looked similar on the surface: part of the people who became rich under the former president, lost their wealth; the tax collection improved... One can draw an analogy.

No! It's easy to say this, but let's take a closer look at Georgia. The head of the special police units had his property confiscated. The head of our Control Chamber had his palace confiscated. But was he a businessman? I told you about the Magticom company which still belongs to the ex-president's son-in-law. Speaker of the Parliament Vakhtang Rcheushvili was in strong opposition to Saakashvili, but his family owns the most thriving real estate development company in Georgia. I don't know any established business that has changed its owner. There is the same situation in Ukraine. They had the Orange Revolution but as a result some people simply began getting richer more slowly, while others faster. It's a psychologically convenient explanation: what happens in Georgia is the same as in Russia, but it's not true.

In Russia, the nationalization process comes down to two things (let's even forget about Yukos for a moment). First, it's the state purchasing private companies: for example, Rosoboronexport [Russian arms exports corporation] acquires large private assets. I am convinced that private property is the precondition for economic growth and wealth of nations. In Georgia, it's not in our interest if Russia doesn't develop. It is known that the countries with successful neighbours also experience economic growth. We want Russia to grow, we want Ukraine to grow, we want Moldova, Bulgaria, Turkey, Greece, Iran, Armenia, Azerbaijan, Kazakhstan – all of them - to grow. But nationalization amounts to taking away from the economy.

Secondly, in Russia, state corporations are created to solve problems which, as far as I understand, don't need to be solved by such corporations. Economic science says that the creation of such corporations worsens the quality of economic growth. I read the interview of (the General Director of State Corporation Rosnanotekh, Leonid) Melamed. In the opinion of our common acquaintances, he is a very intelligent person. But I understood that when this state corporation was being created, the idea was rather simple: if you have money and call something an impressive name like “nanotechnologies” – then you'll probably end up with something good. But how would it come to be, and how much – no one thought about it. Semyon Weinstock is one of the strongest managers today. But what's the sense of having a corporation whose goal is the development of the city of Sochi? What's the economic rationale for that?

And why would then Melamed or Weinstock manage these state corporations!

Well, imagine a person has been invited to manage a multi-billion corporation! If you were appointed Editor-in-Chief of the Wall Street Journal, would you say no?

In your opinion, what is the significance of the recent political events – namely, President Putin's decision to head the pre-election lists of United Russia – i.e. that he allows for the possibility to become Prime Minister?

I left Russia a long time ago and have already lost the intuitive feeling for what is happening there. That's why I am not sure that I can interpret this in a qualified way. For this, you have to live in Moscow, talk to people, listen to the rumors, think about it, otherwise it's just Kremlinology.

But you do know well you former business colleagues. How would you comment the recent statement of Oleg Deripaska that he would be ready to leave business at any moment if the state tells him to?

It's a task for psycholinguistics: these words can mean either "I love the state so much that if they ask me, I will give [my company] away," or alternatively, "The state is so powerful that if it wants my company, it would be better to give it up immediately." Or it can be a sign of loyalty.

But basing on what you know about Deripaska, which explanation is right - the first, second, or third?

He just said, using different words, that there is no God but Allah and Muhammad is His prophet.

You yourself joined the government on the invitation from Mikheil Saakashvili, but this invitation was to a certain extent an accident. If there hadn't been the Rose Revolution, there would have been no invitation. In this case, what would you have become in Russia – a businessman again, a representative of the opposition, a pensioner, maybe even a Ukrainian businessman?

I don't think I would have become a businessman: this stage is already in the past. Concerning public policy, I'll rephrase Fukuyama and say that in the recent years we've seen the end of public policy in Russia. I have become more involved in education, I devote more time to teaching in the Higher School of Economics (HSE), I joined an informal group which was working on HSE's institutional development. Together with my colleagues – there are several successful businessmen who studied in the same university – we have created a small foundation which organizes scholarship programmes for young scholars. Maybe I would have continued on this path.

And since I am an adventurer by nature (although quite a staid one), I would have most likely occupied myself with something unpredictable. Maybe I would have become a Kyrgyz entrepreneur. Or an American professor. Or I would have gone to some of my friends who teach at American universities, and I would have told them, "Do you need a well-educated, but a bit outdated person who would work well and doesn't need a salary?" My hands still miss these things, I miss looking into the microscope, transferring bacteria from one Petri dish to another... (...)

Many spontaneous things could have happened. But I am very happy with my decision. I think it makes me very happy: I am useful. Without me, there would have been someone else, maybe something would have been worse or better, but it would have been different. I believe that if there is a country whose main trade partner declared an embargo, a blockade, cut the post links and all other imaginable links - and yet this country still grows at 9 to 12 percent annually, that such a country has a future. It's still at the beginning of its path, but it has already acquired the flexibility it needs for survival. And I am part of this.