

Natalie Jaresko: “If I Had a Choice, I Would Still Work With Small- and Medium-Sized Companies”

By Yulia Zagoruyko

Natalie Jaresko is one of the most experienced and successful investors in Ukraine. Today, she is a cofounder of Horizon Capital that manages two investment funds.

During the last 11 years, as Western NIS Enterprise Fund (WNISEF) CEO, Jaresko has been responsible for setting long-term business goals in Ukraine and Moldova. During this time, the fund has invested \$108 million into 28 companies in the region, creating over 21,000 jobs. Such well-known companies in Ukraine as AVK, ProCredit Bank, Shvydko, Energy Alliance, International Mortgage Bank are currently developing owing to equity investments received from “Jaresko’s funds”. In 2003, Natalie Jaresko received the Order of Princess Olha for her contributions to the Ukrainian economy.

A U.S. citizen of Ukrainian origin with the Harvard education, she is one of those not indifferent people, who without fine words and pompous PR, actively, specifically and efficiently work every day for Ukraine’s future. It’s so natural to hear her say “we” when she speaks about Ukraine and Ukrainians. And our talk with Ms. Natalie is also about Ukraine – investment, successful, competitiveness.

On Business, Investment and Deregulation

- Ms. Natalie, you have been working in the Ukrainian business environment for quite a while. What is your assessment of the competitiveness of Ukrainian business? How will you score it according to a five-grade scale?

- On the one hand, I would give all five points because the spirit of entrepreneurship is really high. Otherwise, business would not have survived over the last 10, 12, and 15 years. The situation was so difficult, bureaucracy was so rampant... Nevertheless, Ukrainian entrepreneurs found a way out of it and managed to gain ground and learn how to earn a profit. I think if they were given a chance to work in a normal environment, they would produce much better results.

- Do you mean the economic environment?

- As well as the regulatory and bureaucratic environment. Corruption is unfortunately at every level and takes so much time and attention of an entrepreneur.

- And a lot of creativity...

- That’s true. And they cannot apply their creativity, attention, and energy to their own business because they apply them to solve various taxation, sanitary, or registration problems. So if we look at the business competitiveness from this angle, we can give it only three points.

And speaking about business efficiency in terms of cost efficiency, one can give it two points or even one point only. Currently, Ukrainian industrial enterprises make excessive use energy. Electricity rates were not market-based and only now they are reaching the market level. Ukraine seems to be among the most ineffective energy user per GDP unit.

The situation will change over time and will have a great impact on the metallurgy or chemical industry, as well as other energy-consuming industries. Restructuring will become vital for every enterprise. Those who have already started it and are seriously considering energy savings will soon rise to a much higher level of competitiveness.

- As an experienced investor, what can you say about competitiveness of the Ukrainian investment environment? Could you name two or three positive factors and two or three factors, which hinder its development?

- The first big plus for Ukraine is its geographical location. Ukraine is located in the middle of all transport routes: from East to West, and from North to South. This will be Ukraine's long-term competitive advantage if it develops a good transport infrastructure: sea and river ports, highways, and railroads.

The diversified economy is the second important positive factor. Ukraine is neither an agricultural, nor an oil country. It does not depend on only one product group. This means that even the price rise for energy sources will not destroy our economy, since we have other sources of raw materials. And this, by the way, this tells on the salary growth, which is 20% to 25% per year, and especially by that part which is spent on nonfoods. Now people can afford to obtain loans and to repay them. It is a desirable country for businesses because it has real buyers with real incomes. That is why I, as an investor, give a very positive assessment of the state of Ukraine's economy.

- But there are quite tangible barriers for foreign investors' entry, who, for instance, instead of Ukraine choose faraway Sri Lanka or close Romania, let alone India and China.

- Well, not always Shri-Lanka and not only it... Speaking seriously, there are two major barriers in Ukraine---corruption and bureaucracy.

Of course, there are other countries – less corrupt and less bureaucratized – so it's easier to invest there. And while you have to wait, say, for a year and a half in Ukraine to obtain a permit to open a store and you are not even sure whether you will open it, in another country you can make profit over the same period of time. Time is a very important category in the investment business.

-Let me ask you a trivial question: Is it possible to overcome these “diseases” in principle? Or will they remain in Ukraine forever?

- Of course, one cannot destroy or abolish corruption at one stretch. It is the culture that must be changed. There should be a respect and fear of the law.

For example, you can show every day on TV how certain people were arrested for taking or giving bribes. I come from the city of Chicago and, as you know, corruption flourished there in the 1930s. But there were politicians who concentrated on this problem and overcame this “disease.” It takes political will to come out and say, “Going, everyone who oversteps this line will be in jail. I don't care about what was before, but starting from tomorrow, we all will be moving forward - I, you, and everyone.”

- What laws do we need to attract investors, from the point of a foreign investor?

- We need deregulation. We exist in an already set frame of reference, which was then changed but remained Soviet all the same. It would have been much easier to annul everything and to start from scratch. It is a drop in the ocean when we say that 4,000 regulatory acts were abolished last year. It is only a drop.

First, deregulation of the registration process is required to save people from standing in line for months to a “one stop shop”.

Second are land issues. It might make sense to write a whole manual about the land: how to find, evaluate, buy, and get the right to own it. Generally speaking, all the land-related issues in Ukraine are not clear to foreign investors. I believe that Ukraine’s agriculture will never win an appropriate place in the world without private property for land.

Third is education. It should be both improved and changed, especially if we want to encourage such investors as Intel and Microsoft, which deal with intellect rather than with manual labor. I, for example, would not even bother to attract such investors, who are interested in producing textiles or something like this. This is not the future of Ukraine, especially if we want to make Ukraine competitive at a worldwide level.

On the Country’s Reputation and Economic Breakthrough

- What else does Western business expect from Ukraine? After all, investments or their withdrawal is the indicator of the economic health of the state.

- Furthermore, this is also an indicator of the country’s reputation. There are certain realities in this country and there is simply a reputation.

- That is, earned?

- Exactly. I believe that most of the current problems in Ukraine are due to its earned reputation. That is why we need much better PR to reveal the changes in this country.

Today I can affirm that the banking sphere of Ukraine has totally changed due to the influx of foreign investments in the last 12 months. These are billions of dollars invested in purchasing Ukrainian banks: Ukrsotsbank, Ukrsibbank, Aval, and several more. The financial structure of the whole country has changed. With the arrival of foreign banks, we can expect lower credit rates because their capital costs less. We can expect more creative new credit services both for businesses and private persons. This will enable businesses to invest more, since there is no business without a credit base.

This is currently our biggest plus. But does the world know about this, is it properly informed about this? I don’t think so. Someone starts speaking about it, but there is no powerful advertising machine as there is in Russia. We spent much time fighting with our inherited bad reputation.

- Do you think that open, transparent, and equal competition exists in Ukraine’s economy as a basic principle of market economy, or it is dominated by monopolies?

- I work with small- and medium-sized enterprises (SMEs) because this is our fund’s objective and mission. Yet, I must tell you that even if I had a choice, I would still work with them because there is competition there. There is no competition in the metal, chemical or gas industries. There is a monopoly, which you are talking about, in these industries. But there is

competition in small- and medium-sized enterprises: either between supermarkets or between brick producers. We compete in prices, product quality, customer service. And we obtain the results very quickly.

- Our country heads to the future with the structure of the economy that is oriented at extraction and enrichment of raw materials. For 15 years of independence, this structure has not changed and does not correspond to the structures of developed economies, in particular, the European ones. Don't you think that Ukraine needs a new level of economic thinking, a qualitatively new economic policy, and maybe a certain economic breakthrough?

- For example, a rise on gas prices could be one on those shocks, which can change...

- But this has not resulted in a new economic thinking as yet. It has become a shock to a certain extent, but ...

- It takes time for any change to take place. Yet, it is possible to do everything. For example, if all the energy wasted for politics was applied to this area, if politicians did not worry so much about their seats but started thinking and discussing various options of economic rearrangement of the state....because the economic breakthrough is necessary indeed.

- Do you think that Ukraine is able to survive it? Say, like Poland, for which it was difficult, but it nevertheless survived.

- No, the Poles did not have a breakthrough. Finland, Ireland, Costa Rica did, though. Of course, the changes in Poland occurred much faster than in Ukraine, but that was not a breakthrough; there were no significant changes. That was a shock therapy with respect to ownership, but not for the economy structure.

- But can we make such a breakthrough at all?

- I don't know whether it will take place. But I do know that we can, if there is a political will, leadership, and support from businesses. Is Ireland much better or more powerful than Ukraine? Or Finland? Of course, we can. I've just had a thought that the Council on Competitiveness could implement this idea in different spheres and prepare the society for such a breakthrough.

On Competitiveness

- By the way, you were one of the first to support the idea of establishing the Council on Competitiveness and the one who later became one of its founders and co-sponsors. Obviously, you don't question its expediency. Why?

- First, the man who proposed this idea was very confident and convincing. What Yuriy Poluneev described as a problem, I face every day in my business and my life. As an American citizen, I know what competitiveness is in the United States. But since I love Ukraine, where I have lived and worked for the last 13 years, I am looking for every possibility to bring Ukraine up to worldwide standards - in culture, sport, economy, and business. I have been thinking about this idea for quite a while.

- As a member of the Council, are you satisfied with its work (for almost a year), its goals, and its new members?

- I can tell you that I did not expect such success. I thought that it would take much more time to bring this topic out for a nationwide discussion. This was achieved, primarily due to the press, and, in particular, due to your Weekly and the 5th TV channel, and the support of various echelons of power. A rather powerful step forward has been made, and people started thinking and asking themselves how we can increase the competitiveness of the country. Look how fast everyone learned such a difficult word as ‘competitiveness’.

- Natalie, do you really believe that the idea of competitiveness can become a national idea that would consolidate Ukraine?

- Yet, it can. It is not only the matter of business. It is the matter of country’s existence. After all, like it or not, there are many people who insist that Ukraine does not have the right to exist and that it has never been a state. “There are different languages, different confessions, different peoples; this is not a single nation,” they say. We have to show and prove that not only do we have the right to exist, but also we have a reason to exist, to have our place in the world, a worthy place. Obviously, we cannot be the best in every sphere - after all, nobody can be number one in every sphere. But there are areas where Ukraine has a very strong position.

- For example?

- For example, in art. Ukraine is home to many prominent artists, who have influenced whole trends, whether in music or in fine arts, and not only historically. Today, there are as many talented sculptors, artists, musicians, and writers in Ukraine. The same can be said about business and different spheres of the economy. Also, Ukraine is highly competitive in civil rocket building and is among the world’s top three. There are large opportunities in computer programming, but they just need to be commercialized.

- What are, in your opinion, the main objectives of the Council on Competitiveness of Ukraine?

- I believe that we need to continue promoting this idea to public. In addition, it is necessary to work with politicians to implement the idea in our system of education to make it competitive. We know that, in Soviet times, it used to be competitive, but it has lost something since then. Also, we need to make our country more open to the world and to use the best foreign experiences and not reinvent the wheel. Our children should compare themselves with the whole world and search for opportunities to become the best inventors, innovators, entrepreneurs. The culture should encourage them to live in creative competition.

- The Council on Competitiveness of Ukraine is known to have introduced to President the initiative to organize an international forum for country competitiveness in Ukraine. The president supported this idea and such a forum will be held in October. Do you believe it is correct when non-governmental organizations (NGOs), such as the Council on Competitiveness, initiate cooperation with the state bodies and government? Does the Council fulfill its mission in such a way?

- I believe that the mission of NGOs is much wider than cooperation with politicians and governments. But this is also part of the mission because we need to promote this idea both from top and from bottom.

- Can such cooperation have hidden threats?

- It can, but only if the Council becomes a “hand of a ministry, or secretariat, or political party.” The Council should be public, and it should accommodate different points of view. It cannot have one definite answer to all the questions. Its function is to discuss various visions of the problems not only in a narrow circle, but also in the society.

- What is the best format for relations with the government?

- Of course, it is necessary to work with the government because it depends, to a great extent, on the government whether Ukrainian competitiveness will increase in this or that sphere. It is very good if the government asks for advice and listens not only to this Council, but also to many other public organizations. Nobody has the monopoly on truth.

To be someone’s “hand” is a threat, while to be an independent body that can give qualified recommendations - to be a place where all experts in various spheres can unite and where ideas are accumulated - is a very important mission of the Council. Its members can give specific recommendations on how to resolve specific problems and quite often they can be first to point a problem itself.

On Romance, Job and Revolution

- Natalie, you have been working in Ukraine for 13 years. Was your choice governed by patriotism?

- I was an economist with the U.S. Department of State. When Ukraine became independent, new embassies were set up in the countries of the former Soviet Union. They needed people with economic experience and language skills. Thus, Russian-speaking people were sent to Russia, Kazakhstan, Uzbekistan, Turkmenistan... Ukrainian speaking people were sent here. I worked as an economic attache in the U.S. embassy in Ukraine. It was a very interesting and uneasy time then.

- And also romantic ...

- And romantic, and patriotic. It was then when my husband and I decided that it was much more interesting to live here, among the Ukrainian people.

I grew up in America with a Ukrainian soul, but my true patriotism was born here. There were two types of Ukrainian Diaspora who came to Ukraine at that time. The first one was attracted by ethnographic features, such as songs, dances, costumes. But there were also those who realized that modern Ukraine is a fantastic, diverse, rich, and highly professional culture. And the opportunities for me and my business are enormous here. For example, I can bring investors to Ukraine who would never think about this country.

- You have recently established a private equity fund. But wasn’t it originally a U.S. government supported fund?

- Yes, I retired from the embassy and went to work for WNISEF (Western NIS Enterprise Fund), which was initially capitalized by the U.S. government. Our mission was to invest in SMEs and, due to our success (profits), we were to encourage other investors to come to Ukraine. We have worked successfully for 10 years and built a great team of high caliber professionals, so we decided to establish Emerging Europe Growth Fund (EEGF), a new private fund, and Horizon Capital, a private equity fund manager.

Our target for this year is US\$150 million. We focus on medium business, on the projects that may become competitive not only in Ukraine, that would set an example and encourage other

investors, foreign and domestic alike. For me, it's a highly creative job. And instead of being a diplomat and persuading business to invest in Ukraine, I have a chance to do it myself. Given all the problems, corruption and all the rest, I am nonetheless doing this and am glad.

- What does one need to establish a private investment fund in Ukraine?

- First of all, one needs to have a team that gives a necessary signal to investors - it can work here but according to international standards. Most of the members of our team, which we have built during 10 years, are Ukrainians, and only four of them are foreigners. All of them are highly professional people.

- How many projects do you currently have?

- We have already four [projects] in the "new" fund and about 10 projects in the "old" one.

-In which one do you have special pride?

- Slobozhanska Budivelna Keramika. We have already sold this company, and we started with an almost destroyed brick plant in Sumy oblast. There was a great Ukrainian team, we built a new kiln and decided to manufacture premium-quality facade bricks. And you know, it has spread all over Ukraine and set up a new architectural style.

My other pride is our International Mortgage Bank. By now, there are many in mortgage business, but we were the first and we are growing rather fast.

- I remember that, during the Orange Revolution, you were sending out by e-mail very inspired letters about the events on the Maidan and in Ukraine. What prompted you to do this?

- I was prompted by the fact that, during the first days of the revolution, Western journalists were standing against the background of Kremlin and saying that there was nothing special in Ukraine. I myself was here and I saw it all, I went to the Maidan with my younger daughter.

- How old was she at that time?

- One year and four months. I believed that there should be someone to tell the truth and to spread the real news. A week later, all journalists were here and reported the events more objectively. I could stop writing, but people asked me to continue. They sent this information to other addresses.

- You could have published a whole book.

- To tell the truth, I don't know if I even kept those e-mails. For me, it was like... You know, people said that some American spies did this. I even did not go to Maidan too often - I was afraid that, when they heard my accent, they would say, "Oh, American." But what could I do? I could communicate to others my feelings and my truth. And that was my contribution. I thought that, if people knew more, they would understand, support, and assist.

- How do you find time – you are a very successful businesswoman, you have a family, two small kids? Are you so superorganized?

-I have a wonderful husband. He spends more time with the children, though I, too, spend every free minute with them. I don't go to discotheques, massages, or restaurants. On the other hand, work is also very important and I teach my children that this is what life is all about.