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Government-Business 'Fusion' Blamed For Corruption in Armenia

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EFFORTS TO COMBAT ENDEMIC CORRUPTION IN ARMENIA WILL BE DOOMED TO FAILURE AS LONG AS THE COUNTRY'S TOP GOVERNMENT OFFICIALS HAVE EXTENSIVE BUSINESS INTERESTS AND ARE ABLE TO STRANGLE ENTREPRENEURS CHALLENGING THEM, A LEADING ANTI-GRAFT WATCHDOG SAID ON THURSDAY.

"I can not take any supposedly anti-corruption reform in our country seriously until the fusion between large entrepreneurs and politicians is addressed," said Amalia Kostanian, head of the Armenian branch of Transparency International. "That's not even a fusion, that's two in one."

"There has to be a serious material sacrifice on the part of the current authorities, something which I don't see happening," she told RFE/RL in an interview. "The authorities are better off continuing the imitation [of an anti-corruption fight] and punishing only low-ranking officials to show the public ... and foreign donors that they are tackling the problem."

The Armenian authorities claim to have stepped up their declared fight against corruption in recent years, adopting various anti-graft programs and forming special bodies tasked with their implementation. Transparency International and its Yerevan-based affiliate, the Anti-Corruption Center (ACC) see no significant decrease in the scale of corrupt practices among various state officials, however. Armenia ranked only 109th out of 180 countries covered by the Berlin-based watchdog's 2008 Corruption Perceptions Index.

The ACC believes that close ties between government and business are the root cause of the problem. Many government, law-enforcement and other officials in Armenia are believed to own lucrative businesses, both directly and through their cronies, and/or share in the profits of other firms sponsored by them. Government connections therefore remain essential for engaging in large-scale economic activities.

The problem was highlighted in a special global report released by Transparency International on Wednesday. It looks into the impact of corruption on the private sectors of 46 countries, including Armenia, around the world.

“The intertwining of business and politics gives free rein to those companies that do not challenge the authorities politically and are very often drawn into various political processes,” said Varuzhan Hochtanian, another ACC leader who authored the report’s Armenia chapter. “But when an entrepreneur tries to adopt a different position he comes under strong pressure.”

The chapter details the sagas of two Armenian companies that ended up in serious trouble after their owners took actions challenging the authorities. One of them, Gagik Hakobian of the Royal Armenia coffee packaging company, was sentenced to six years in prison in November 2007 on highly controversial fraud charges.

The case was brought by prosecutors in 2004 shortly after Hakobian and other Royal Armenia representatives publicly alleged high-level corruption within Armenia’s customs service. They claimed that their company is being driven out of business for refusing to engage in a fraud scam with the then deputy chief of the customs, Gagik Khachatryan.

Khachatryan, who reportedly owns several lucrative businesses, has also faced corruption allegations from opposition politicians and media. But that did not prevent President Serzh Sarkisian from appointing him as head of the State Revenue Committee (SCR), a new agency formed in August last year as a result of the merger of Armenia’s tax and customs agencies.

“This case is exceptional, because it demonstrates how businesspeople who consistently defended their rights and refused to submit to the illegal demands of the authorities were ultimately victimized and investigated on corruption charges,” Hochtanian wrote in the Transparency International report.

“Regardless of Royal Armenia’s actual behavior in this regard, the important conclusion is that the authorities appear to close their eyes to violations until the business in question ‘sticks its head above the parapet’ and makes life for the regime uncomfortable,” he said. “Then, when the authorities do act, as in this case, the punishment can be as swift as it is severe.”

“When one person has many businesses and views all other importers, who hold no government posts, as his competitors, he will naturally be disinterested in promoting a market-based economy,” Kostanian argued in an apparent reference to the controversial SCR chief.

“Also, if some businesspeople dare to support or finance the opposition, which is what happened in 2007-2009, they will face criminal proceedings and be driven in to bankruptcy,” added Kostanian. She cited the example of Khachatur Sukiasian, a wealthy businessman, and its SIL Concern group.

Several of its companies were raided and fined by tax authorities after Sukiasian publicly voiced support for former President Levon Ter-Petrosian in September 2007. One of them, a mineral water plant, was effectively confiscated by the state last October because of alleged tax evasion.

The Armenian government, meanwhile, declined to immediately comment on the issue when contacted by RFE/RL on Thursday. An official at its press service said the government will present its position “in a few days’ time.”