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# Belarus beckons

EUROPE'S FINAL FDI FRONTIER OPENS UP

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# Investors think again on Belarus

BELARUS IS OFTEN REGARDED AS EUROPE'S FINAL FRONTIER, THE CONTINENT'S LAST DICTATORSHIP WHERE FOREIGN BUSINESSES FEAR TO TREAD. HOWEVER, THERE IS A GROWING INTEREST IN THE COUNTRY AMONG INVESTORS LOOKING BEYOND THE NEGATIVE HEADLINES AND INSTEAD STRIVING TO BE AMONG THE FIRST TO TAP ITS UNEXPLOITED POTENTIAL.

**COURTNEY FINGAR REPORTS**

**T**here are thousands of investment promotion agencies in the world – government agencies or departments focused on attracting foreign investment. Most countries in the world have them. But new ones, nonetheless, keep appearing, sometimes in places unexpected. On the FDI conference circuit in 2011 there was a fresh new face: Dr Dmitry Klevzhits, director of the National Agency of Investment and Privatization of Belarus.

Young and fluent in English, with a background in business and experience of living in the UK, the US and Russia, in many ways Mr Klevzhits confounds expectations of a Belarusian bureaucrat. He is new to the investment-promotion game, but then, so is Belarus; and the country for which he is tasked with bringing in foreign capital also confounds many expectations. Most would be surprised to hear that Belarus is proactively seeking FDI in the first place, let alone that Western names such as Microsoft, SAP and Henkel are already investing in the country that bears the sobriquet of 'Europe's last dictatorship'.

#### **Europe's final frontier**

At least in European terms, Belarus remains something of a frontier market. But it is not exactly a wild and woolly place – less chaotic,

for example, than Ukraine, less erratic than Russia and less enigmatic than many other Commonwealth of Independent States countries – and while it has its share of red tape and some layers of communist-era bureaucracy have yet to be shaved off, doing business in Belarus is less complicated than is often believed. The market is not yet liberalised compared with western European countries – the vast majority of Belarusian companies are still state-owned – but the doors have been opened. A privatisation programme is in place, and investment is being sought in a range of sectors.

"Belarus as a 'brand' carries with it a lot of historical baggage, which colours the first impressions of many. But European companies who take the step to visit the country, and carry out their own research about the opportunities Belarus offers, come back with quite a different and informed picture," says James Wilson, director of the Belarus EU Business Council.

The political picture is, to put it mildly, not to Anglo-Saxon tastes: president Alexander Lukashenko has a firm grip on all levers and political freedom is limited. Tales of hard-fisted crackdowns on dissent chill many Western spines and do few favours for Belarus' international image. The 'brand', as it were, is a hard one to sell. (Although Belarusians can argue they are held to a different standard by virtue of being European, and repression in China, for example, has hardly scared off private capital nor stopped the West from wooing it.)



THE INVESTMENT CLIMATE IN [BELARUS] IS A BIT SURPRISING, IN A POSITIVE WAY





Confounding expectations: the reality of the investment situation in Minsk is often discovered to be better than expected

Some companies will continue to be put off by the politics; others feel that engagement is more conducive to encouraging change; others still just see the potential return on investment of an as-yet unexploited market – albeit a small one – and the first-mover advantages of getting in while competitors shy away.

#### Time to act

Mr Wilson is among those who believe the time to start taking a closer look at Belarus is now. “The current economic turmoil in the eurozone is prompting a total re-evaluation of risk in central and eastern Europe. Belarus has a clear strategic vision to be a transit hub between the Customs Union [between Belarus, Kazakhstan and Russia] and the EU. I believe that the time has come to take a fresh look at what Belarus can offer to focused entrepreneurs in the rapidly changing investment climate,” he says.

The investment climate in itself is a bit surprising, in a positive way. The World Bank’s ‘Doing Business 2012’ report ranked Belarus 69th among 183 countries for ease of doing business, higher than Russia and Ukraine, although it gets substantially less FDI than either of its neighbours. Government officials pin the blame on the country’s image problems.

“The way the Republic of Belarus is perceived in the international political arena certainly affects the success in attracting foreign investments,” acknowledges minister of economy Nikolai Snopkov. “An unfair negative

image of Belarus that was formed alongside the lack of truthful information about the ongoing reforms aimed at improving the business climate in the country had a negative impact in the past. But now much has been done, and we consider the international assessments of ‘Doing Business 2012’ as a definite recognition of the efforts of the government of Belarus and the confirmation of the right course chosen to liberalise economic relations within the country and create a favourable investment climate.”

But there is more to be done, he says, adding that the reform process “is far from completion”. There is a stated goal of becoming a top 30 country for business and investment climate.

#### A modern approach

The economic policy of Belarus’s government is summarised by Mr Snopkov as such: “The main focus is on modernising the national economy with an emphasis on large-scale development of highly innovative industries... In this regard, a special significance is given to the task of securing FDI inflow through increased international co-operation and attraction of strategic investors to participate in privatisation.”

The purpose of this fDi special report is to assess the realities of the business environment and outline what opportunities might exist for those strategic investors and foreign companies considering involvement in this little-known market. ■

#### COUNTRY PROFILE BELARUS

Population:	9.58 million
Pop. growth rate:	-0.363%
Area:	207,600 sq km
Real GDP growth:	7.6%
GDP per capita:	\$13,600
Current account:	-\$8.5bn
Largest sector (% of GDP):	Services
Labour force:	4.7 million

Source: CIA World Factbook, 2011





No barriers: SAP and Nokia (pictured) are doing business in Belarus, while legal advisory companies such as Sorainen (also pictured) provide services for foreign investors

# Be prepared

THERE IS A COMMON PERCEPTION THAT INVESTING IN BELARUS IS ONLY FOR THE RISK-TAKERS. HOWEVER, THE COUNTRY CAN POINT TO MANY EXAMPLES OF COMPANIES LARGE AND SMALL OPERATING SUCCESSFULLY WITHIN IT. THE KEY, ACCORDING TO THOSE WORKING IN THE COUNTRY, IS IN THE PREPARATION. POLLY BOTSFORD AND MICHAL KACZMARSKI REPORT

**W**atching Puccini's famous opera *Madame Butterfly* in Minsk is a somewhat surreal experience. Geisha-dressed actors of the National Academic Opera and Ballet Theatre put on quite a show. Then there is the fact that even on a cold weekday night, the glitzy opera building filled with golden incrustations and impressive chandeliers is packed with people.

The main part of Puccini's opera that resonates, however, is the fact that it takes place at the beginning of the 20th century in Japan, at the time when the country was opening up for overseas visitors, and the story focuses on a love-hate relationship between a foreigner and a local.

Foreign investors can experience an equal measure of plot twists when coming to Belarus, but at the same time it is not just a country for the adventurous, as is the common perception. "There are about 300 German companies operating in the country. They are free to conduct their business here and make profit, otherwise why would they be here?" asks Dr Klaus Baier, chairman of the board of the German-Belarusian Economic Club.

Mr Baier also notes that conditions in Belarus differ from what investors are used to in other countries, and that needs to be taken into account. "Law can change overnight, with one presidential decree, [and] that adds to the uncertainty," he says, while stressing that he does not recall a single situation when a sudden change of law meant that a company found itself unable to operate.

## Essential homework

The key to succeeding when investing in Belarus is proper and well-thought-out preparation, including not only securing sources of investment and studying legislation, but also defining risk factors and having strategies

prepared in the event that when something, for whatever reason, does not go according to plan. "It still surprises me how many investors come here without doing their homework. They arrive in the country because one of their colleagues told them about the business opportunity and they find it isn't enough. It does not work like this here," says Mr Baier.

Information on market conditions and certain regulations can be obtained from well-respected audit firms such as KPMG, Deloitte, Ernst & Young and PricewaterhouseCoopers, all of which have services focused on Belarus. Additionally, advice and assistance can be obtained from the international law firms that have their offices in Minsk, such as Sorainen. On top of that, information can be found from such entities as Mr Baier's German-Belarusian Economic Club or the Belarus EU Business Council, a Brussels-based non-profit organisation facilitating contacts between Belarusian businesses and their foreign counterparts.

## Legal considerations

There are three main ways for foreign investors to establish them-



## THERE ARE ABOUT 300 GERMAN COMPANIES OPERATING IN BELARUS. THEY ARE FREE TO CONDUCT THEIR BUSINESS HERE AND MAKE PROFIT, OTHERWISE WHY WOULD THEY BE HERE?



selves in Belarus: by establishing a legal entity, by having a representative office, or through an agent. Of these options, using an agent is probably the most restrictive; this is because agents are often prohibited from being granted licences, which are needed in a huge number of activities (anything to do with cars or telecoms, for instance). And while some foreign businesses have set up legal entities, most have taken the representative office route.

The main legislative document that regulates business activity in Belarus is the Investment Code. However, according to the Vassily Tarasevich, corporate finance manager of KPMG Belarus, the new draft of the document, which contains auxiliary preferences and guarantees, should be approved by the end of 2011. Meanwhile, a bill on public private partnerships (PPPs) is still being drafted, and it is unknown when it will come into play. Although PPPs may be a new concept for Belarusian legislators, international property protection and arbitration is not. Since 1992 Belarus has been a member of the Multilateral Investment Guarantee Agency and

International Centre for the Settlement of Investment Disputes.

### **Idea, not size, matters**

As there is a high level of international focus on Belarus's political situation, this tends to take away attention from its business environment, and consequently information on starting a company in the country is scarce. Since access to the unbiased intelligence is limited and costly, it is more likely to be the big, seasoned investors that enter the country, rather than small and medium-sized enterprises looking for their first international venture.

"With bigger budgets, real or perceived political backing and greater experience of operating in frontier markets, multinationals are certainly better equipped to manage the risks of operating in countries such as Belarus," says Andre Durant, senior managing director at FTI Consulting, a business advisory firm. But at the same time he adds that "smaller companies may fall below the radar screen and therefore be able to operate with lower levels of interference".

So while the likes of Coca-Cola,

Pepsico and Henkel are present in Belarus, there are also smaller foreign businesses thriving in the country. One example is Bedelco, a Belgian off-road tyre company. Bedelco is the official dealer in Europe and Africa for Belshina, a Belarusian tyre manufacturer, and it is tapping into one of the country's key strengths, the manufacturing of large agricultural machinery.

Bernard Delhez, general manager of Bedelco, says that while they should take all the usual cautionary measures, as is expected when making any foreign investment, businesspeople are not at risk in Belarus, both in terms of their enterprises or their personal protection. "Belarus is safe. There are more policemen in Brussels than in Minsk," says Mr Delhez, adding that he believes the country is far less corrupt than some other Commonwealth of Independent States countries.

The story of Madame Butterfly, revolving around cultural differences and misunderstandings, ends tragically. Foreign businesses coming to Belarus may find a completely different ending, as long as they have done their homework. ■

# Out of the wilderness

WHILE MANY OF ITS FORMER SOVIET PEERS WERE EMBRACING PRIVATISATION PROGRAMMES, BELARUS SHIED AWAY FROM SUCH ACTIVITY. HOWEVER, THE GOVERNMENT HAS RECENTLY ANNOUNCED THAT IT WILL BE CONDUCTING TENDERS FOR MANY OF ITS STATE-OWNED COMPANIES, AND WHILE FOREIGN COMPANIES FACE A FEW OBSTACLES SHOULD THEY WANT TO GET INVOLVED, FIRST-MOVER ADVANTAGES MIGHT BE WORTH CONSIDERING. MICHAL KACZMARSKI REPORTS

**B**elarus has been shy when it comes to privatising its companies. The business structure it inherited from Soviet times can still clearly be seen in a country with 80% of all companies belonging to the state.

However, this situation is about to change. The Belarusian Council of Ministers announced in March 2011 a list of 244 state-owned enterprises to be privatised before the end of 2013, while an additional 134 are to be transformed into joint stock companies by 2013. The whole privatisation process is overseen by State Property Committee (SPC), though the National Agency of Investment and Privatisation (NAIP), which is an agency of the Belarusian Ministry of Economy, will oversee eight of the

tenders. The companies open for tender or auction span a variety of business activities, ranging from manufacturing and construction to transportation.

Such an extensive and ambitious programme of privatisation is borne out of a combination of necessity and learning from its neighbours. One of the key motivations behind the programme is the need to kick-start the recovery of Belarusian foreign exchange reserves, which were heavily distressed by the crisis. Loosening the state grip on a number of enterprises is also one of the conditions of the external loans recently granted to Belarus from the Eurasian Economic Community, which stated directly that the loan from its anti-crisis fund was granted

under the premise that Belarus must privatise \$7.5bn-worth of assets.

#### **Advantage Belarus**

“Competition in Belarus is still limited and therefore margins on investments [in the country] can be attractive. Many opportunities can arise simply from improving organisational efficiency or increasing marketing efforts,” says Viktorija Trimbel, managing partner at advisory boutique Quantum Capital. Ms Trimbel, who for the past six years has been advising businesses looking to invest in Belarus for the first time, says that for local authorities, privatisation has become something more than just a necessary evil used to raise revenues. “Advantages as perceived by locals are: bringing busi-

## **PRIVATISATION OF BELARUSIAN COMPANIES OVERSEEN BY NAIP**

<b>COMPANY NAME</b>	<b>ACTIVITY</b>	<b>VALUE OF NET ASSETS IN 2010</b>	<b>SALES REVENUES IN 2010</b>	<b>EMPLOYEE FIGURES</b>
<b>Construction</b>				
Belsantekhmontazh-2	Construction, installation and repair work of sanitary, gas and ventilating systems	\$2.5m	\$9.7m	1902
Avtomagistral	Maintenance and construction of roads, airfields and sport venues	\$8.1m	\$8.2m	929
Construction and Mounting Trust No 8	Building services for gas supply devices	\$5.8m	\$9.4m	625
Belgazstroy	Construction and setting	\$0.28m	\$7.8m	807
<b>Food industry</b>				
Konfa	Production of confectionery	\$0.35m	\$2.8m	384
Minsk Margarine Plant	Margarine and mayonnaise production	\$5.1m	\$9.7m	459
<b>Plastics</b>				
Medplast	Production of plastic medical instruments	\$5.6m	\$2.7m	271

Source: [www.economy.gov.by](http://www.economy.gov.by)



Government House: the Belarusian government is to privatise a large amount of state-owned enterprises; the tenders are to be overseen by the State Property Committee and National Agency of Investment and Privatisation

ness know-how, providing access to export markets and the replacement of imports with locally produced goods, which is expected to have a positive effect on the current account deficit," she says.

A reason for this attitude, and something that investors should be aware of, is that most of the companies up for privatisation in Belarus have been making a loss. "Many local companies offered for privatisation might have non-core businesses or carry post-privatisation commitments, such as an obligation to retain jobs, that make [their] business case less attractive," warns Ms Trimbel.

#### **Short notice**

Apart from the structural issues, investors should also be aware that any information about privatisation tenders tends to be published at a very short notice, and often information about the company in question is scarce. "Public notification about the tender comes five to six weeks before and bids are to be submitted about two weeks before the tender. That gives too little time to get in touch with the target, conduct due diligence and make informed decision about the purchase," says Maksim Salahub, an office

managing partner at law practice Sorainen Belarus. Mr Salahub, who has been involved with many public procurement and privatisation tenders, says that some of them were unsuccessful because of the insufficient information regarding the target and short timeline.

However, Mr Salahub stresses that entering the Belarusian market is not as complicated as it is commonly perceived. "It takes one week to register a company with foreign capital, accounts are opened freely and the number of licences is permanently decreasing," he says.

#### **Signs of change**

Though the privatisation situation in Belarus still lags behind that of many of its former Soviet-bloc counterparts, things are improving. As KPMG's recent 'Investment in Belarus' report notes, the new revision of the country's law on privatisation, which came into being at the beginning of 2011, allows foreigners to be directly involved in the privatisation process, while the rules for setting the initial process of privatisation have been relaxed.

In addition to this, NAIP, while conducting its pilot privatisation process, is co-operating with the World Bank over its plans to hire

international financial advisers. Agency officials are also keen to stress that the winning bids will not simply be the highest ones, but the those that will make a sustainable contribution to the local economy. Significantly, NAIP will publish information about the tender long before it is conducted.

However, it is SPC that carries out the vast majority of the tenders, and it is here that a lack of transparency can be an obstacle for the foreign investors. Mr Salahub offers a solution to this. "We recommend that our clients seek attractive targets on the list of yearly privatisation plans, and approach the target even before it is officially put up for sale, thus winning time," he says, adding that such a "pre-emptive strike" can be used in order to obtain more detailed information about a company's financial performance and technical capability.

Conducting due diligence of Belarusian companies may at times resemble something of a scavenger hunt, but local authorities are no longer as shy as they once were when it comes to privatisation. It just remains to be seen whether in times of such sluggish economic growth, will they find enough investors to justify this new-found passion for private companies. ■



# Healthy ambition

THE PHARMACEUTICAL MARKET IN BELARUS IS SEEN AS ONE OF THE COUNTRY'S MOST PROMISING AREAS FOR ECONOMIC GROWTH, AND WITH TWO PHARMA PRODUCERS AMONG ITS MOST PROFITABLE STATE-OWNED ENTERPRISES, THIS IS A FACT NOT LOST ON FOREIGN INVESTORS.  
**MICHAL KACZMARSKI REPORTS**

**T**he \$350m state-of-the-art Minsk Arena Complex is going to be one of the main venues of the 2014 World Ice Hockey championships. But even before the world's ice hockey elite arrive in the venue, the great and good of an entirely different field will descend upon it, and in March 2012 the complex will host Belarus Medika and in October the Medicine Minsk trade shows intended to facilitate new relationships between pharmaceutical and medicine equipment producers.

Mikhail Gavrilov, director of Academfarm, a Belarusian producer of drugs and supplements, is planning to be present at both industry events. "We are constantly looking for foreign partners and relationships that will help us increase the number of products we offer," he says. Managed by Mr Gavrilov, the company was established in 2009 as a spin-off of the National Belarusian Academy of Sciences.

## **Prescriptive approach**

Academfarm already has a positive experience of international co-operation, as it forged a deal with Cipla, one of the key players in the Indian pharmaceutical industry, and bought drug-making equipment from Italian and South Korean companies. "Currently we are also in talks with Indian companies Ranbaxy and Sun Pharma and Israeli Teva Pharmaceutical Industries. What we need at the moment is the components, which with the use of our equipment we can turn into pills, especially now that we have been awarded Good Medical Practice certification," says Mr Gavrilov.

At present, Academfarm produces 1.5 million pills a month, but at full capacity this figure could potentially be increased to 100 million pills a month. Mr Gavrilov says that Academfarm is reliant upon both foreign co-operation and the production of generic drugs, as a lack of financial resources gives little room from the company to develop its own drugs, especially

because pharma-related operations are both time-consuming and costly. The company itself was established precisely for that reason.

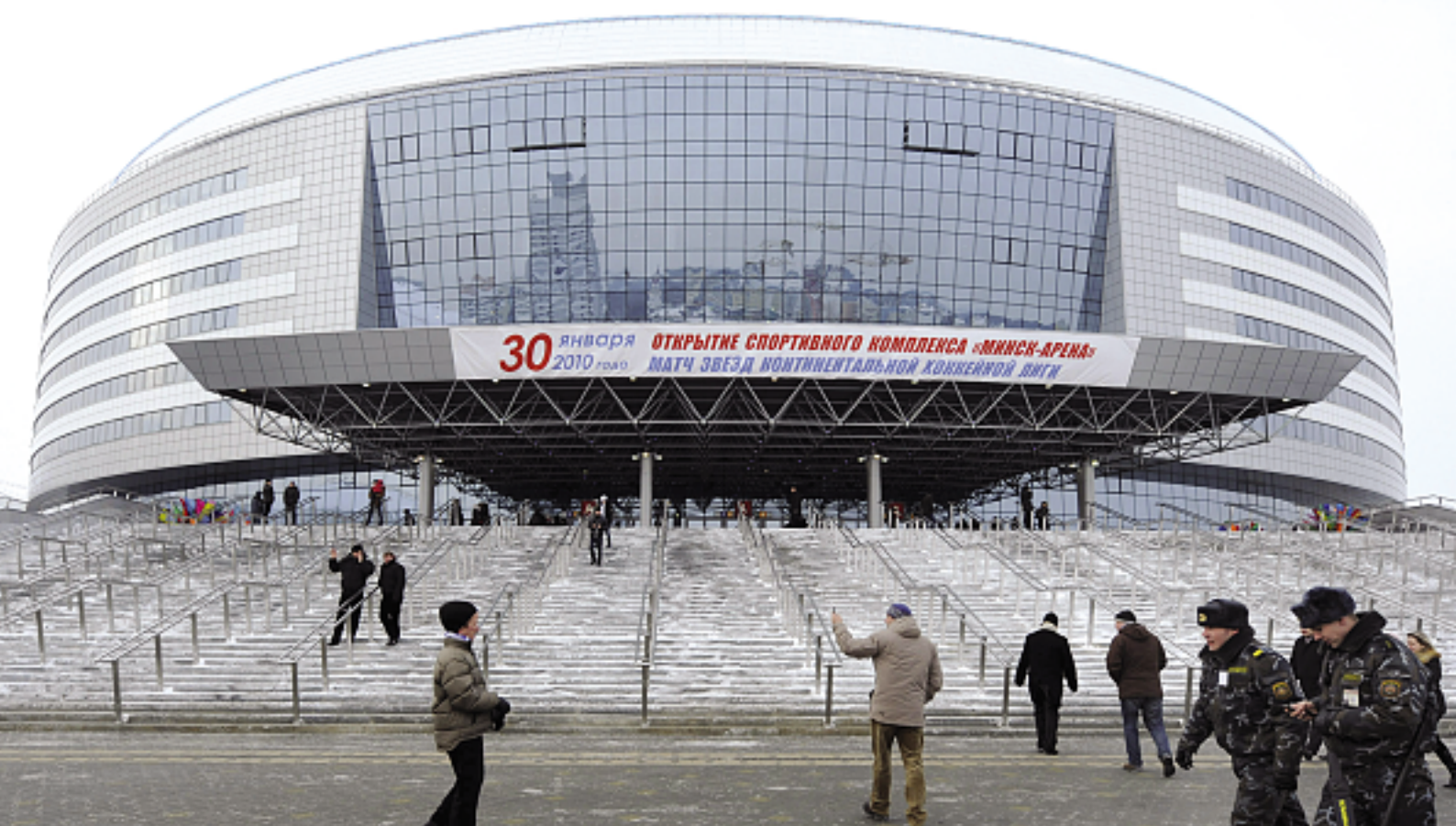
In addition to this, authorities at the National Academy of Sciences of Belarus decided that rather than counting on state-awarded funds, a more market-oriented approach was needed, and that profits from its spin-offs could fund the academy's R&D in the Belarusian pharmaceutical sector. Another spin-off, focused on producing injections used in cancer treatment, will start its operations in 2012.

## **On the up**

If Academfarm manages to reach full capacity, the supply of 100 million pills will probably exceed demand in Belarus, a country with 9 million inhabitants. However, Belarus's participation in a customs union with Russia and Kazakhstan – which came into force in January 2010 – gives companies such as Academfarm free access to a market of more than 150 million customers.

Another boost to Belarus's pharmaceutical sector will come in 2013, from which time all drugs produced in the Belarus/Russia/Kazakhstan union can be sold in pharmacies without country-specific certification, as long as certification has been awarded by the ministry of health in the country in which the drugs originated. However, this could be a double-edged sword, as it also means that Russian and Kazakh companies will have easier access to the Belarusian market, which is already saturated with imported drugs. Additionally, prices of the drugs manufactured in Belarus are still state controlled, and imported drugs can be sold without such restrictions.

Notwithstanding that, in recognition of the Belarusian pharmaceutical industry, Business Monitor International (BMI), a leading research company in the sector, added Belarus to its reporting portfolio in 2009. On its first appearance in a BMI report, Belarus occupied 59th position out of 71 markets covered.



Enter the arena: in 2012 the Minsk Arena (top) will host two major pharmaceutical events – Belarus Medika and Medicine Minsk; Belarusian drugs manufacturer Academfarm (pictured along bottom row) is hoping to find foreign partners in order to make full use of its producing capabilities

Barbara Obstoj-Cardwell, editor of *The Pharma Letter*, a London-based pharmaceutical, generics and biotechnology news service, is very positive about the pharmaceutical market in Belarus. “Although Belarus is facing a period of prolonged economic and political upheaval, the pharma market retains significant long-term potential,” she says. BMI’s ‘Belarus Pharmaceuticals and Healthcare Report Q4 2011’ notes that projected growth in pharmaceutical expenditure will rise from \$720m in 2010 to \$752m in 2011, which gives 4.4% annual growth.

#### Signs of change

Belarusian authorities see the pharmaceutical industry as one of the country’s most promising areas of economic growth. Two major local pharmaceutical producers – Belbiopharm and Borimed –

are among the most profitable state-owned enterprises. Furthermore, in 2009 Borimed, which generates 58% of its revenues from exports, was turned into a joint stock company and is seeking investors, targeting mainly European and Asian investors, while PharmLand, a part of Belbiopharm established in 1998, is a Belarusian-Dutch joint venture.

Changes are also seen in the way drugs are distributed in Belarus. In 2006, about 90% of pharmacies were still state-owned. Five years later state involvement decreased to 50%, and in 2011 Bulgaria’s largest drug-maker, Sopharma, acquired two Belarusian pharmacy chains – Tabina and Interfarm, which gives the company a total number of 33 pharmacies in Belarus, with a turnover of \$10.3m.

Visitors may be drawn to the distinctly modern look of the Minsk Arena, which breaks the mould of

the traditional communist-era architecture that largely dominates Minsk’s city centre, but aesthetically pleasing architecture aside, its importance to Belarus in providing the country with the means to host such events as the Belarus Medika events is invaluable. And, according to Dr Wim A Timmermans, a partner at Brussels-based legal practice Timmermans & Simons, which specialises in advising customers wanting to enter eastern European markets, establishing strong links in this sector could be beneficial for future activity in the country.

“Many regulations in the pharmaceutical sector may be in line with EU regulations, since Belarusian authorities endorse exports of drugs manufactured in Belarus. At the same time, Belarusian law can often be unclear to the foreign businessmen, so finding a local partner is strongly advised,” he says. ■



Centre of excellence: Hi-Tech Park in Minsk (above) houses many successful business: Velcom (top left) has enjoyed above-expected growth since being taken over by Telekom Austria

# A web of potential

HI-TECH PARK IN BELARUS IS A GROWING HUB FOR BOTH REGIONAL AND INTERNATIONAL SOFTWARE AND IT FIRMS THAT OFFERS ITS REGISTERED BUSINESSES ECONOMIC INCENTIVES. THIS IS ONE EXAMPLE OF HOW THE EASTERN EUROPEAN COUNTRY IS CAPITALISING ON ITS HIGHLY SKILLED WORKFORCE OF ENGINEERS, WHICH HAS ALSO ATTRACTED THE ATTENTION OF THE LIKES OF MICROSOFT AND NEC.  
**MICHAL KACZMARSKI REPORTS**

**E**ach month more than 2.7 million people visit the US National Hockey League website. While the site deals with the fortunes of some of the most famous sporting teams in North America, its origins lie in eastern Europe, as it was designed by the Minsk-based programmers Object Style.

The company is one of the 100 businesses registered at the Hi-Tech Park (HTP), which is a software and IT cluster in Belarus's capital city. HTP came to life in 2005, after presi-

dent Alexander Lukashenko signed the decree which led to its commencing operations. According to the decree, all companies that are part of the HTP project until 2020 are exempt from corporate taxes and custom duties, while income tax for the employees working at HTP software and IT development companies is held at the fixed rate of 9%.

Incentives for investors, along with modelling the cluster on similar initiatives in Sweden, Finland and China, brought a string of companies to HTP, with 50% being started with foreign capital. In 2010, HTP-registered companies exported \$161m worth of products, which counted for 80% of the revenues of the park's companies. One of Belarus's most successful private companies, Epam Systems, is also a part of HTP, where it has more than 1000 employees. The company is expected to float on the Nasdaq stock market in 2012 with an initial public offering of about \$1bn.

#### **Skilled workforce**

Natallia Makarchenko, deputy head of the foreign economic and market-

ing department at HTP, says that the park benefited not only from the economic incentives granted by the decree, but also from Belarus's highly skilled workforce. "We have a number of technical higher education institutions, with HTP supporting 30 research labs," says Ms Makarchenko. She adds that in order to keep the number of graduates with tech-related degrees high, HTP organises meetings with primary school students, which sees children as young as five years being given information on the benefits of a career in IT and software.

Employment in the IT sector also offers a significantly lucrative salary for workers in Belarus, at an average of \$1200 (the overall average monthly salary in Belarus was \$530 in 2010). Though this is high for Belarus, this is still three or four times cheaper than average salaries in Germany or the US.

A capable and inexpensive workforce undoubtedly appeals to investors seeking sites for their foreign operations. According to greenfield investment monitor **fDi** Markets, since 2003 a total of 37 foreign



# SAP HAS A STRONG POSITION IN THE BELARUSIAN MARKET. THERE IS A STRONG CULTURE OF IT DEVELOPMENT AND INNOVATION AND THAT IS THE MOST VALUABLE ASSET A COMPANY CAN HAVE IN THE IT BUSINESS



investment projects were established in Belarus in the IT and software and information and communications technology (ICT) sectors, with 2010 seeing an increase in both the number of projects and their size (50% and 115%, respectively). The International Telecommunication Union and the United Nations ranked Belarus in 52nd position out of the 152 countries in their 2011 ICT development index.

Germany's SAP, which is one of the world's leading software companies, plans to double its number of employees in Belarus by the end of 2011. "SAP has a strong position in the Belarusian market and continues to see benefits from the investments here. There is a strong culture of IT development and innovation and that is the most valuable asset a company can have in the IT business," says Ilya Yuriev, managing director of SAP Belarus.

Mr Yuriev also highlights that in terms of revenue, SAP's decision to invest in Belarus pays dividends too. "Since 2007 we have doubled our revenue and initiated a number of

large-scale transformation projects with several of the country's biggest companies," he says.

## Cloud nine

Mr Yuriev is not the only satisfied foreign investor in Belarus. Industry giants Microsoft and NEC both entered the Belarusian market in 2011, with the intention to develop cloud services. NEC opened its representative office together with Russia's leading telecommunications provider MTS.

Raymond Armes, managing director of NEC Neva Communication Systems, says that the investment decision is based on the fact that "Belarus has been extremely active in implementing a broad range of ICT projects in the past five years". Apart from the customer-driven demand for IT and ICT development, demand comes also from the public sector, as since 2003, a series of 'e-Belarus' programmes have been implemented with the aim of increasing the use of IT and ICT solutions in administration.

Mr Armes states that the joint venture between MTS and

NEC is also intended to serve as a gateway to Russia. "The cloud computing business application store launched by MTS and NEC is the first step and we are planning to use this great experience on the Belarusian market before large-scale provision of cloud services in Russia," he says.

MTS made additional investments in the country in the telecommunications sector, expanding its 3G coverage network. However, the company has a powerful foreign rival in the Belarusian telecommunications sector, as Velcom, one of the country's most popular mobile operators, was acquired in 2007 by Telekom Austria.

"After four years we are operationally clearly ahead of our initial expectations," says Helmut Duhs, CEO of Velcom. Nevertheless, Mr Duhs says that his company's operational growth in 2011 is offset by the devaluation of the Belarusian currency. "We are adjusting our business model to the new situation," he says. And local tech companies are adjusting their offering to the foreign demand. ■

# Money matters

BELARUS'S EXPERTISE IN NANOTECHNOLOGY IS RESPECTED IN THE SCIENTIFIC COMMUNITY BUT HAS YET TO ATTRACT THE ATTENTION OF THE COUNTRY'S PRIVATE SECTOR. PROFESSIONALS IN THE FIELD HOPE THAT FOREIGN INVESTORS CAN HELP FILL THIS GAP. MICHAL KACZMARSKI REPORTS

In Soviet times, thanks to its well developed industry, Belarus was known as the USSR's 'assembly plant'. Even now, heavy machinery remains the staple of Belarusian exports, with every 10th tractor in the world produced in Minsk. The future of Belarusian exports may lie, however, with something much lighter than heavy farming equipment: nanotechnology research. The study of the molecular and atomic scale of matter is a field in which Belarusian scientists have developed an expertise that is recognised by their international peers.

Belarusian scientists are now waiting for recognition from the private sector in the hope that their complex research will find practical use. "We do see investors coming, but not as often as we would like them to," says professor Sergei Chizhik, general scientific secretary at the National Academy of Sciences of Belarus (NASB). There is little wonder that investors in this field are

welcome; according to the estimates by the Organisation for Economic Co-operation and Development (OECD), the global market for nanotechnology is worth as much as a \$3000bn, and countries such as Indonesia and the US have launched programmes linking research in nano-related fields with the private sector.

## **Push for the co-operation**

The National Nanotechnology Initiative programme in the US releases as much as \$1.7bn a year to be allocated into federal R&D projects. Belarusian scientists cannot count on such generous cash injections, but that does not mean they have given up and produce only theoretical models.

"Two-thirds of our budget should come from co-operation with the private sector, half of that with international partners," says Mr Chizhik, who stresses that the NASB is proactive in commercialising its research,

as it has contracts signed with international partners from 44 countries, which in 2010 brought \$26m in revenues (up from \$17.1m in 2009).

Significantly, while exports from Belarusian R&D entities increase, recognition for their work does not necessarily follow. "Often we hear from our foreign partners that they want to work with us, but under a different label than ours. We need to develop our co-operation networks and market [our achievements] better," says Mr Chizhik. And there are plenty of achievements to be showcased, as the NASB produces about 600 patents annually with the projects ranging from delivering solutions to LED panels production to the modification of cutting and drilling tools made with synthetic diamonds and cubic boron nitride.

In the field of nanotechnology, the NASB focuses on studies of mechanical and thermal properties of micro and nanometer scale, the development of computational mod-



SINCE SOVIET TIMES, THERE HAS BEEN A STRONG EMPHASIS ON SCIENCE [IN BELARUS]. WE MAY NOT HAVE ENOUGH RESOURCES, BUT POWERFUL MINDS – DEFINITELY





Raising the profile: in 2010 the National Academy of Sciences of Belarus exported \$26m-worth of commercialised research to its international partners

els of molecular dynamics, methods of thermal probe microscopy and the development of a new type of hydrogen storage in nano-sized metal films and instruments for the formation of molecular thin films.

#### **The power of tradition**

“Traditionally, since Soviet times, there has been a strong emphasis on science. We may not have enough resources, but powerful minds – definitely,” says Dr Andrei A Leshok, director of nanoelectronics and novel materials centre at the Belarusian State University of Informatics and Radioelectronics (BSUIR).

Belarusian scientists are keen not to be marginalised, even if current conditions in the domestic R&D field do not always play in their favour. For that reason, once every two years, scientists from BSUIR organise Nanomeetings – an international conference aimed at gathering together specialists working on nanostructures.

“After each conference our papers are published by *World Scientific*, and that is very prestig-

ious,” stresses Professor Victor E Borisenko, chairman of the micro and nanoelectronics department at BSUIR. However, as much as international co-operation is a priority for BSUIR, its efforts have not resulted in many commercial products to date, though there are a few. “Among other projects, we currently work on silicon nanowires that can be used in electronics and also in solar cells. We also conduct research in processes connected in purification of air and water,” says Mr Borisenko.

The scientists from NASB and BSUIR declare in unison that they would like to see more of their research used by the industries, and in order to do that, foreign investors are crucial. “Our big local companies are not always willing to take risks and try new approaches or methods. Smaller, private companies are more [likely] to take risks... and if a foreign company wants to work on the project with us... we will not refuse,” says Mr Chizhik. Mr Borisenko agrees: “Our results are mostly scientific and they need to be adapted. There should be linkages between research and industrial production.” ■

## NIKOLAI SNOPKOV AND DR DMITRY KLEVZHITS

# An optimistic outlook

BELARUS'S MINISTER OF ECONOMY AND THE DIRECTOR OF THE COUNTRY'S NATIONAL INVESTMENT AGENCY EXPLAIN TO **MICHAL KACZMARSKI** HOW THE FORMER SOVIET STATE OFFERS A WELCOMING ENVIRONMENT FOR FOREIGN INVESTORS



**Nikolai Snopkov, minister of economy, Belarus**

**Q** Is the increasing openness of Belarus to foreign investors a matter of economic necessity given the country's current financial situation?

**A** No, it is a question of harmonious integration into the global economy. Belarus has always been open to foreign investors. By improving the investment climate for foreign investors, Belarus does not open locked doors but only opens them wider.

In Belarus, a significant number of foreign companies that are leaders in the CIS and Europe have already been operating successfully for a long time. As of December 1, 2011, the number of companies with foreign investments registered in Belarus more than doubled compared with December 1, 2004, to total 6430. According to UN Conference on Trade and Development statistics, in 2010 the inflow of FDI in Belarus was 4.5 times greater than in 2005.

Among the international companies that are listed in Forbes 2000 and present on the Belarusian market are Gazprom, Lukoil, Raiffeisen International Bank-Holding, Sberbank, McDonald's, Henkel, Heineken, Telekom Austria Group and Turkcell. Recently IKEA and Lithuania's Vakarų Medienos Group invested in the construction of a wood-processing complex, and inter-

national market leader in wood-processing Kronospan is building a plant in Belarus. There are also representative offices of companies such as ZTE, United Parcel Service, ABB, Wartsila and SAP.

**Q** Although Belarus survived the global recession in good condition in 2009, the financial crisis hit in 2010 and 2011. What is the government's strategy to get out of the crisis?

**A** The year 2010 can be described as a period of growing unbalances that had been accumulating in the Belarusian economy, which in fact caused the financial crisis in 2011. In order to find the way out from this situation the government adopted measures aimed at limiting overall domestic consumption, and above all the intermediate imports, and bringing it in balance with production capabilities.

The measures taken by the government in 2011 along with the national currency devaluation have already resulted in a positive balance of foreign trade. This suggests that the economy has now been re-focused on external demand and we will need to secure and strengthen this trend in 2012.



**Dr Dmitry Klevzhits, director of Belarus's National Agency of Investment and Privatization**

**Q** When looking for investment opportunities, which sectors

could be especially attractive for foreign investors?

**A** Good opportunities can be found across all sectors. But we especially welcome inward FDI into the pharma industry and biotech, information and communications technology and R&D, especially in projects connected with nanotechnology. We would like to see these fields become Belarusian staples and the main source of exports. This choice of sectors is not a matter of wishful thinking, but it is supported by the supply of necessary human resources and years of expertise. That is especially crucial, because we see inward FDI not only as cash flowing into our country, but [more importantly bringing in] know-how, good management practices and connections with foreign markets.

**Q** Most of Belarus's neighbours are finishing their privatisation processes at the moment. Why is Belarus's privatisation being conducted so late?

**A** It could be done earlier, but [by doing it so late], at least we could see how the process was carried out in other countries and what practices we should follow or problems we could encounter. We have made some mistakes in the past, but we are learning. One of the outcomes of such a learning process is to look at privatisation as obtaining funds by selling assets in our companies. What matters to us now is the sustainability of investments, as prosperous companies mean larger gains for the local economy than [it would get through a] one-off investment. For that reason, it is not always the highest bidder who wins the tender, but the one that is able to present a convincing plan of running the company that was formerly state owned. ■



# Belarus factfile

## A GUIDE TO THE KEY DATA AND USEFUL INFORMATION REGARDING BELARUS

### **Location**

Belarus is located in eastern Europe, and is bordered by Poland, Lithuania, Latvia, Russia and Ukraine. Although the country is landlocked, it is strategically positioned to serve as a land transit transport corridor between the EU, Russia and Asia.

### **Administration**

Belarus is a presidential republic, and its main legal framework is a constitution enacted in March 1994 (significant amendments to the constitution were made in 1996 and 2004). The president, along with the Council of Ministers headed by the prime minister, is the main branch of executive, and there is no limit to the number presidential terms that a person can serve. The National Assembly, with two houses – House of Representatives and Council of Republic – is the main legislative branch of the republic, although presidential decrees and orders can often become a *de facto* source of law.

### **Labour force**

The country's workforce is about 4.7 million. This is split between

services (51.3%), industry (34.7%) and agriculture (14%). The nominal gross average pay in 2010 was \$530 a month (though in capital city Minsk it was \$700). Belarus's literacy rate is at 99.7% and the country ranks 65th in United Nations Development Programme's 2011 Human Development Index, which is the highest position among Commonwealth of Independent State countries. There are 55 higher education establishments in the country.

### **Basic data**

*Time zone:* Further-eastern European Time, which is three hours ahead of Greenwich Mean Time.

*International dialling code:* +375.

*Currency:* Belarusian ruble (Rbs), which is divided into 100 kapeykas.

*Exchange rate:* \$1 = Rbs8625.

*Language:* Both Belarusian and Russian are official languages, though Russian is more widely used.

*Population:* 9,577,552 (July 2011 estimate, CIA World Factbook). ▶



**CONDITIONS FOR DOING BUSINESS IN BELARUS**

CLAUSES TO COMPARE	IN THE WHOLE COUNTRY	FREE ECONOMIC ZONES	SMALL TOWNS	RURAL AREAS
Special legal regime applies to	n/a	FEZ residents with a stated investment of no less than €1m; at least 70% of the total volume of goods should be sold outside of Belarus, to other FEZ residents, or to other individuals in the domestic market related to import substitution	Commercial organisations located in communities with up to 50,000 people and operating there	Organisations and individual entrepreneurs who are situated and carry out activities in rural areas (special order established up to December 31, 2012)
Profit tax	24 %	Exempt from payment during five years since the earnings announcement date. Later on -50 % of the rate, but at a rate of no more than 12 %	Exempt from payment during seven years since the registration date	Exempt from payment (up to December 31, 2012)
Real estate tax	1%	Exemption from payment for buildings and structures located on FEZ	Exempt from payment during five years since the registration date	Exempt from payment (up to December 31, 2012)
Value-added tax (on sales)	20 %	10 % (of goods manufactured in FEZs, with conditions)	No benefit	No benefit
Customs duties	n/a	Exemption from payment. In compliance with the Agreement on Free Economic zones, on the customs territory of the Customs Union	Exemption from payment for manufacturing equipment that is imported to country as a contribution to an authorised fund	Exemption from payment for manufacturing equipment that is imported to the country as a contribution to an authorised fund

Source: NAIP

**Economy**

GDP: \$13,600 per capita (2010 estimate, CIA World Factbook).

Industrial growth rate: 10.5% (2010).

Exports: \$25.35bn (2010).

Imports: \$34.47bn (2010).

**Industries**

Belarus has a well developed industrial base, with machinery equipment being one of the main staples of its exports.

**Natural resources**

Timber, peat deposits, granite, dolomitic limestone, marl, chalk, sand, clay, gravel. Belarus has the third largest deposits of potash ore (a salt used as agricultural fertiliser), after Canada and Russia.

**Foreign investments**

FDI inflows: \$1.35bn (2010).

Membership of regional or global economic organisations: European Economic Commission; United Nations Conference on Trade and Development; World Trade Organisation (observer status); World Customs Organisation; European Bank of Reconstruction and Development; Commonwealth of Independent States; Customs Union of Belarus, Kazakhstan and Russia.

UN agencies: United Nations Industrial Development Organisation; International Monetary Fund; World Intellectual Property Organisation; International Labour Organisation.

World Bank associations: International Bank for Reconstruction and Development; International Finance Corporation; Multilateral Investment Guarantee Agency; International Centre for the Settlement of Investment Disputes.

Sectors: The leading sector for inward FDI in Belarus is financial services, which accounted for 14% of all projects between 2008 and 2011. Manufacturing is the leading business activity, accounting for 25% of all projects between 2008 and 2011.

FDI source markets: Between 2008 and 2011, the top three source markets for outward investment were Russia (26%), Germany (9%) and Austria (7%).

FDI destination cities: Between 2008 and 2011, Minsk, Vitebsk and Mogilev were the main destination cities for greenfield FDI, with a share of 41%, 6%, 4%, respectively.

**Investment guarantees**

The Investment Code (updated in 2008) is the main legal framework for foreign investors coming into

Belarus. Guarantees for investors include: full equality of rights to foreign investors, freedom to repatriate profits outside of Belarus, the right for foreign ownership of property. The Investment Code also provides the right to appeal against any state actions that can be perceived as violating investors' rights.

**Legal entities**

Foreign investors can establish legal entities such as: unitary enterprise, limited liability company, superadded liability company, closed joint-stock company and opened joint-stock company

**Useful links**

Official website of Belarus: [www.belarus.by/en/business/investing](http://www.belarus.by/en/business/investing)

National Agency of Investment and Privatization: [www.economy.gov.by/en/naip](http://www.economy.gov.by/en/naip)

National Investment Site of the Republic of Belarus: [www.invest.belarus.by](http://www.invest.belarus.by)

Belarusian office of KPMG: [www.kpmg.com/by](http://www.kpmg.com/by)

Sorainen regional law practice: [www.sorainen.com](http://www.sorainen.com) ■

Sources: fDi Markets, KPMG, CIA World Factbook 2011, Belarusian National Agency of Investment and Privatization