



Important Factor of Economic Growth

In 2015 Belarus expects to get \$7-7.5 billion of foreign direct investments on a net basis

Nikolai SNOPKOV,
Economy Minister of the Republic of Belarus

The Republic of Belarus is working to improve the investment climate and raise foreign direct investments taking into consideration the guidelines formalized in the Strategy of Raising Foreign Direct Investments in the Republic of Belarus by 2015. The strategy was passed by a resolution of the Council of Ministers and the National Bank on 18 January 2012.

International Recognition

Belarus is located in the center of Europe. It has a great development potential and a number of competitive advantages based on the geographical location, type and structure of production, qualifications and cost of human resources, availability of developed scientific and innovative centers.

Special polls are held to provide a detailed and objective evaluation of the terms and advantages of investing in Belarus. In 2011 a poll like this was held at commercial companies with foreign investments. The respondents were asked to evaluate the investment climate in Belarus and name favorable factors.

The following factors were mentioned: business registration procedures, property rights guarantees, financial support and benefits, real estate lease and purchase terms, business closure terms, privatization terms for foreign investors, developed network of telecommunications and information technologies, as well as transport and logistics infrastructure.

Besides, the list of favorable factors included the price regulation system. During the 2009 poll, almost 55% of respondents said that it was an unfavorable factor, while in 2011 only 37.4% of them thought the same.

We also take into consideration the evaluation of Belarus by for-

eign countries. I should say that our business and investment terms are praised by international organizations.

Belarus was ranked 69th out of 183 countries in the Doing Business 2012 report by the World Bank. The Doing Business 2010 report placed Belarus on the 91st position. For comparison, the Russian Federation was ranked 120th, Ukraine 152nd.

Belarus was recognized one of the leading reformers over the last six years and was named the third most active reformer taking into consideration the aggregate effect of business liberalization.

In the latest report Belarus moved up from the 183rd to the 156th position in Paying Taxes, from the 98th to the 82nd position in Resolving Insolvency, from the 6th to the 4th position in Registering Property. Our country was also ranked 79th in the category Protecting Investors.

Some figures are discouraging. Belarus' rank has fallen in the category Getting Electricity to the 175th position, which is the worst figure demonstrated by the country.

The measures to create a favorable investment climate as well as the policy of economic reforms pursued by the Government of the Republic of Belarus were acknowledged by the World Bank's annual report Investing Across Borders 2010. This ranking assesses prosperity factors and their impact on the economic



growth and long-term well-being of the population. Belarus was placed 54th leaving behind Russia (63rd position) and Ukraine (69th position).

These estimates confirm our determination to create an environment conducive to raising investments. At present, we are consistently optimizing the legal framework to run investment projects.

In late 2001 the Investment Code defining the concept of a company with foreign investments came into force. Since then the number of such companies has been on the rise. In 2010 their number made about 5,000, up almost 2.5 times compared with 2002.

Reforms were introduced in a number of industries. The key reforms were as follows:

- The taxation system was streamlined;
- Number of licensable activities was reduced;
- List of goods requiring mandatory certification in the Republic of Belarus was revised downward;



- Time and money spent on starting and running a business were decreased;

- Price formation was liberalized;

- The controversial “golden share” rule was abolished;

- Watchdog activities were optimized in line with Presidential Decree No. 510 of 16 October 2009. The decree restricted the number of watchdogs and introduced a random control method depending on the orderliness of a company;

- Administrative procedures were streamlined;

- Decision-making procedures related to allocation of land plots were made easier and faster;

- The institute of investment agreements with the Republic of Belarus was introduced, providing investors with additional guarantees, benefits and preferences.

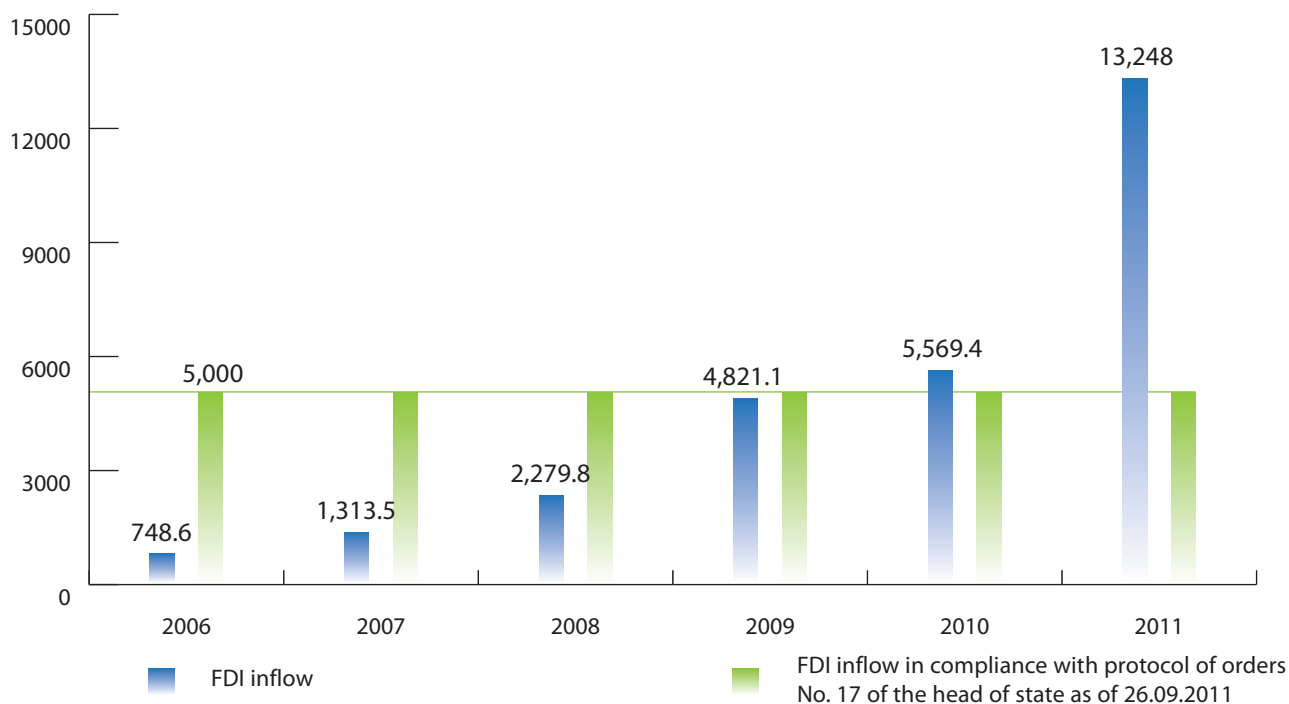
Today investors are offered a number of preferences in free economic zones, small and medium-sized towns, rural communities and the High-Tech Park.

Besides, Presidential Decree No. 413 of 6 August 2009 introduced the institution of investment agents.

Investment agents are individuals or legal entities that help



Inflow of foreign direct investment (FDI) in 2006-2011, USD million



TriplePharm produces new-generation antibiotics that meet the European pharmacopeia standards. In 2011 the company saved over €400,000 for the country's budget



find potential investors and manage investment projects. They can provide consulting, legal, and marketing services and help investors go through the related paperwork.

To date, Belarus has thirteen investment agents who have the right to represent interests of the country in the international investor community, namely: AKJ Capital, Renaissance Investments Limited, Management Company of the Beltech Holding Company, BT Telecommunications, small business incubator "Law and Order" law group, CBT Development (Logistics) Limited, Brostok, Archipenko, Goretsky and partners, Management Company of the HORIZONT Holding Company, Zubr Capital, UFS Investment Company, SB-Global, and Mr. Jenó Faller.

Foreign Investments on the Rise

The investment policy pursued by the Government of the Republic of Belarus is aimed, first of all, at raising foreign direct investment. Foreign direct investment means acquisition by a foreign company of at least 10% of the shares and the right to take part in managerial decision-making. Such invest-

ments are crucial for promoting economic growth, ensuring stable resources provision and increasing the competitiveness of the national economy.

Despite the crisis, Belarus remains attractive to foreign investors and maintains a positive dynamics in the area of attracting foreign direct investment.

In 2011, Belarus raised \$18.9 billion in gross foreign investment, including \$13.2 billion in foreign direct investment. This is twice as much as in 2010 (\$5.6 billion) and 44 times as much as in 2002 (\$298.8 million).

Foreign direct investment on a net basis is the best indicator of investment attractiveness of a country, excluding debts to a direct investor for goods, works and services.

In 2011 Belarus raised \$3.97 billion in such investments, which was well above \$1.2 billion in 2010.

Belarus is home to a number of large foreign and domestic companies that have a great reputation in the CIS and Europe.

One of the first major international companies that came to the Belarusian market was Coca-Cola. It happened back in 1994. MAZ-MAN, the Belarusian-German joint venture producing heavy-duty trucks and tractors, was founded in Belarus in 1997.

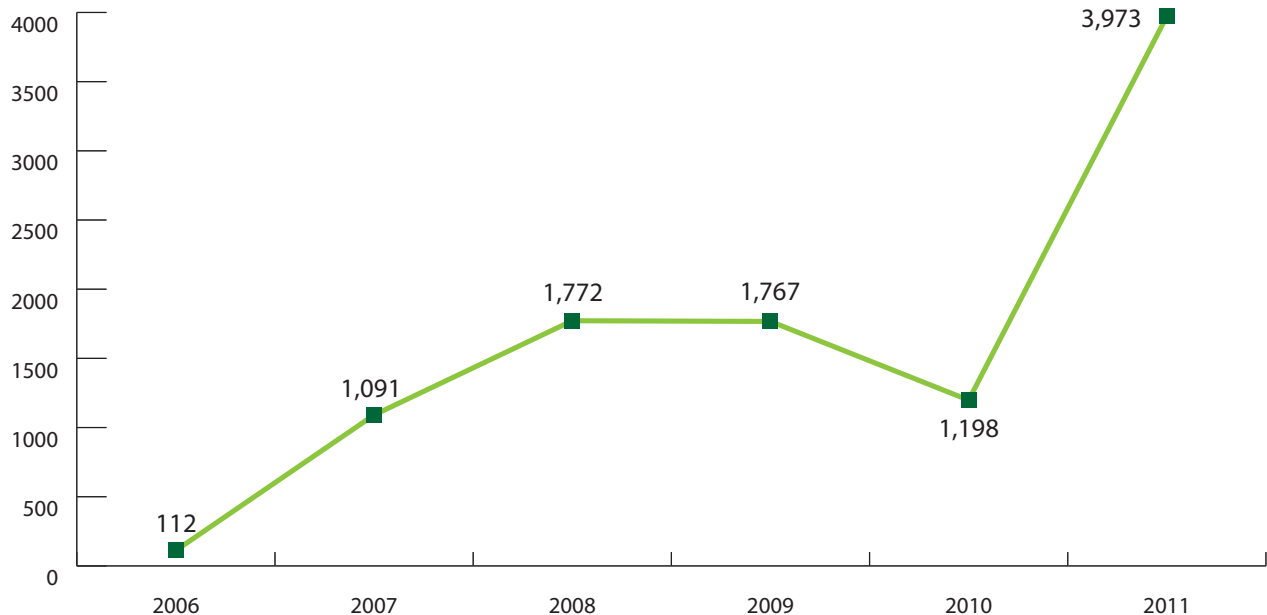
We would also like to mention the acquisition of Beltransgaz shares by Gazprom, shares of Mozyr Oil Refinery by Russian oil companies (TNK-BP and Gazpromneft). In the telecommunications industry these are MTS (MTS, Russia), velcom (Telekom Austria, Austria) and BeST (Turkcell, Turkey). In the brewing industry, these are Heineken and Olvi. In the banking sector, 25 out of 31 banks have foreign investors among their shareholders.

Availability of the bilateral regulatory framework between the Republic of Belarus and other countries is an important prerequisite for attracting investment. Belarus has signed more than 50 bilateral agreements on investment protection, and concluded double taxation agreements with more than 60 countries.

Last year amendments to the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) were ratified. Two basic agreements, namely on legal protection of guaranteed foreign investment and on the use of local currency, are expected to be signed with MIGA soon.

These documents will allow creating conditions compliant with international standards for risk insurance of foreign investors in this country and will help attract

Inflow of foreign direct investment on a net basis in 2006-2011, USD million





foreign financial resources without having to provide guarantees of the Government of the Republic of Belarus (and therefore without increasing the size of the public external debt of the country).

Extension of MIGA guarantee obligations to Belarus confirms Belarus' willingness to comply with the generally accepted norms and standards of international economic cooperation. They will remove barriers to large investors, and will add to the positive image of Belarus in the international arena.

A framework agreement between the Republic of Belarus and the Nordic Investment Bank was ratified in 2010. Negotiations are underway to sign a framework agreement with the Nordic Environment Finance Corporation (NEFCO). These international financial organizations are possible sources of financing investment environmental projects.

Due to all this effort, the share of foreign direct investment to the Republic of Belarus has been increasing in the world total volume of foreign direct investment.

Investment Strategy

The strategy of attracting foreign direct investment into the Republic of Belarus is aimed at stimulating an inflow of investment in accordance with the needs of the country in economic reforms and innovative development of the country, at increasing investment and improving the quality of its use on the basis of continuous improvement of the investment climate, reforming of state-owned property and development of public-private partnerships in Belarus.

The main objectives of the strategy are to identify the areas of attracting foreign direct investment and to encourage foreign investment into knowledge-based high-tech industries. It is also planned to improve the structure of foreign direct investment, to increase the share of investment into fixed assets in use.

The strategy is designed to ensure stable and long-term inflow of foreign direct investment in those areas of the national economy that are competitive, export-oriented and can manufacture import-substitution products.



The best form of FDI for Belarus is the creation of joint ventures and foreign enterprises to implement greenfield investment projects. These are direct foreign investment in new "from scratch" manufactures. Such projects promote new progressive technologies and equipment as well as innovative marketing and management solutions, encourage production of goods unavailable on the domestic market, facilitate faster advancement of competitive products to new markets and reduction of inefficient import, and finally, contribute to higher efficiency of the national economy.

Brownfield investment projects (partial sales of the government stake in a company to foreign investors, apart from strategically important portfolios) are another way to get money flow into the country.

Belarus is primarily interested in strategic investors producing high-tech goods and services as well as those investing in assets of export-oriented companies.

The strategy prioritizes FDI in high-tech sectors, like pharmacy, bio and nanotechnologies, high-tech industry, new materials, information and communication technolo-

gies. Among the priorities is also the development of clusters, i.e. groups of companies possessing manufacturing, technological, sci-tech and commercial ties and located on a particular territory. Such amalgamation secures competitiveness on the domestic and international markets (for instance, pharmaceutical and linen clusters).

Encouraging FDI in traditional industries looks very promising as well. These are chemical production, machinery and equipment, electric accessories, electronic and optical equipment, vehicles, transport and communications, construction and production of building materials, agriculture and processing, engineering and transport infrastructure, light industry.

One of the ways to raise FDI in motor-car construction is to set up joint companies together with transnational corporations, sell shares of state-run organizations or develop international alliances to produce car parts, agricultural machinery, and trucks.

High-speed construction using energy and resource efficient technologies, including construction of large-panel buildings, monolithic and cast-in-place buildings will help

Over the last 17 years Marko has grown into Belarus' largest footwear producer. Today the company employs about 2,600 professionals



Brest-based Interliniya furniture center manufactures cabinet items, kitchen and bathroom furniture. Products are in high demand in Belarus and Russia



make the construction sector attractive for FDI.

Trust-Building Measures

Improvement of the investment climate will be based on higher transparency of government bodies, regulation of economic activities, observance of the competitiveness principle, legal rights and interests of investors and investment protection. A wide range of measures will be implemented to raise investment and create favorable economic conditions, reduce risks and build up trust.

We are going to conduct an additional legal evaluation of the Belarusian laws that guarantee protection of investors' rights. Other steps include assessment of the efficiency of the institution of investment agents, working out proposals to develop an integrated business model (franchising) as well as provision of consulting services on organizing franchising activities.

One of the measures is to streamline accountancy in compliance with international financial report-

ing standards, train and retrain specialists in the sector.

Special attention is attached to reforming property relations and land acquisition.

Further privatization of the public sector is the key condition to court foreign companies to Belarus. This secures rational use of resources and production potential, improves the financial standing of companies, and enhances the investment activity of economic agents.

Privatization is aimed at raising additional budget resources of at least \$2.5 billion on an annual basis.

Apart from this, the government is expected to be authorized to restructure the debts of business entities to the national budget for shares acquired in privatization. Belarusian nationals and private legal entities will be able to deduct the amount of the fee for the right to conclude a land lease agreement for the next period from the cost of the land plot they are going to buy.

Certain amendments will be introduced to the procedure for handing over to the operating organ-

izations the complete engineering and transport infrastructure within free economic zones.

Thus, residents of free economic zones registered after 1 January 2012 will not have to pay for the right to conclude an agreement on the lease of a land plot, to set off losses in agricultural and forestry production caused by the expropriation of a land plot, compensatory payments for the removal of flora during the construction of facilities under an investment project.

Regional authorities and Minsk City Hall will be vested with the right to decide upon the sale of unitary companies as assets with unlimited estimated value; in this case the President should be informed about the terms of the settlement. Shares of business entities might be allowed for sale at the nominal value if they show negative fiscal results within one calendar year.

Public-private partnership remains the only unengaged mechanism of raising investment, including FDI. Such cooperation between the government and business will help smooth out economic



contradictions when strategically important facilities cannot be sold into private ownership and at the same time they cannot be funded properly by the central and regional budgets. Moreover, public-private partnership is one of the effective mechanisms to replenish government funds needed for the development of infrastructure.

Its objective is to implement projects using private capital and administrative potential, while the public sector remains responsible for providing necessary services to the population.

Public-private partnership will be applied in the transport sector and transport infrastructure, utilities services, energy supply, health-care, education, culture and social services sector, tourism, recreation and sport, mining industry, etc. Meanwhile, before relevant legal documents are adopted, public-private partnership projects may be implemented as part of investment and concession agreements with Belarus.

The strategy of raising FDI draws special attention to the ongoing project to construct the Chinese-Belarusian industrial park.

This unique project has immense geopolitical and economic importance for Belarus. It has no analogues in terms of scale, management mechanisms, and status. This project is expected to boost the inflow of FDI to Belarus, set up a number of new export-oriented and innovative enterprises, use the best practices and sci-tech potential of Chinese and other global corporations. These are strategic priorities of the Belarusian social and economic development.

Belarus has adopted a number of legal documents to provide the industrial park with the status equivalent to the status of Belarusian free economic zones. The special policy of investment benefits, including land use, tax, financial, export-import, foreign currency regulation, and other preferences will facilitate the implementation of the project.

The park will specialize in fine chemistry, biomedicine, electronics, machinery engineering.

A complex industrial zone with the total area of about 80 square meters will be built in the vicin-

ity of the National Airport Minsk in Smolevichi District, Minsk Oblast.

The joint Belarusian-Chinese company is being founded to build infrastructure and other facilities in the park. The industrial zone is expected to attract leading transnational companies and big inter-

national investors, who are interested in the market of the Customs Union.

Let me remind our readers that China has opened credit lines to the tune of about \$15 billion for Belarus. Such credit support is a stimulus for the development of cooperation between our companies

STRATEGY FOR ATTRACTING FOREIGN DIRECT INVESTMENTS till 2015 has been passed in Belarus

FORMS OF FOREIGN DIRECT INVESTMENTS:



Establishment of joint ventures and foreign-owned companies for implementing green field projects (creation of enterprises from scratch)



Sale of shares in state-owned enterprises* to foreign investors for implementing brown field projects (modernization of existing enterprises)

ECONOMY BRANCHES FOR ATTRACTING FOREIGN DIRECT INVESTMENTS

pharmaceutics, bio and nanotech industries, high-tech production technologies, new materials, information and communication technologies.

CREATION OF CLUSTERS **



Pharmaceutical cluster



Cluster to make flax products

2015

FDI – **\$7-7.5** billion

FDI per employee – **\$1,600** (\$1,200 in 2010)

The share of foreign investments in basic capital – **21%** (4.4% in 2010)

The share of high-tech products in the total merchandise export – **14%** (7.4% in 2010)

* Except for shares of companies vital for national security

** A group of tightly located enterprises with interconnecting manufacturing ties with a competitive share in the industry market, national market, and the international market



in many areas. Chinese loans are currently used to implement joint projects in the cement, energy, construction, cellulose and paper, transport industries.

Belarus makes use of Chinese FDI. In 2008 Chinese Midea Group and Belarus' Horizont set up Midea-Horizont joint venture. In 2010 Minsk Wheel Tractor Plant (MZKT trademark) and China's Xiang Jiang founded the joint enterprise Volat Xiang Jiang. Chinese companies partake in the construction of the residential district Lebyazhy, the Peking Hotel, and a China town.

Efforts to attract investors will soon become the main trend of global competition. Belarus should not lag behind this process, especially in the Customs Union.

In order to create more favorable foreign trade regulations, there are plans to complete harmonization of the Customs Union technical regulations which set forth unified requirements for products and related processes. These requirements aim to lift technical barriers in foreign trade and streamline statistical declaration.

Furthermore, there are plans to improve the system of tax administration in order to reduce time and labor costs using the system of electronic declaration.

The strategy of raising foreign direct investments provides for measures to create a positive investment image of Belarus informing the public both in the country and abroad about the investment climate in Belarus, holding investment forums and information events with mass media.

We hope that the National Agency of Investment and Privatization will play the leading role in this field. But the agency is expected to encourage investment activities not only through the effort to cultivate a positive image of Belarus. The organization is expected to get actively involved in implementing the national investment and privatization policy. Particularly, the agency will help work out draft resolutions on privatization of state-owned shares, prepare proposals regarding the sale of privatization facilities, organize and hold auctions and tenders to sell these facili-

ties, and create a single database on investment activities, including a single registry of investment projects which are financed with the help of foreign direct investments.

We believe that the strategy of raising foreign direct investments in the Republic of Belarus till 2015 will help ensure an annual increase in FDI.

In 2015 the inflow of FDI on a net basis is expected to make up \$7-7.5 billion. The share of foreign sources in capital investments is planned to reach at least 21%. There is another reference point, namely the inflow of FDI per person employed in the country's economy. In 2010 this figure was \$1,200, in 2015 it is expected to reach \$1,600.

We also expect that the strategy will help Belarus make it to the top 30 countries on the World Bank's Doing Business rankings and improve the position of Belarus in the rankings of Moody's Investors Service, Fitch Ratings, The Heritage Foundation, and others. ■

A modern biogas plant has been installed at the Snow agricultural company in Nesvizh District. Nearly €7 million was invested in this Belarusian-Swiss project

