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Belarus

MORE OPEN THAN IT MIGHT SEEM,
BELARUS INVITES INVESTORS TO
LOOK BEYOND THE POLITICS TO
ITS BUSINESS CREDENTIALS



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Bridge, London SE1 9HL,
UK Tel: +44 (0)20 7873 3000.
Editorial fax: +44 (0)1858 461873.

Staff members can be contacted by
dialing +44 (0)20 7775 followed by
their extension number

Editor-in-Chief

Courtney Fingar 6365
courtney.fingar@ft.com

Executive Editor

Brian Caplen 6364
brian.caplen@ft.com

Americas and Europe Editor

Michal Kaczmarek 6848
michal.kaczmarek@ft.com

Asia, Middle East & Africa Editor

Barbara Njau 6480
barbara.njau@ft.com

Production Editor

Richard Gardham 6367
richard.gardham@ft.com

Deputy Production Editors

Andrea Crisp 6338
andrea.crisp@ft.com

Helen Wilson 6825
helen.wilson@ft.com

Art Director

Paramjit Virdee 6535
paramjit.virdee@ft.com

Advertisement Executive

Daniel Macklin 4120
daniel.macklin@ft.com

International

Sales Manager

Chris Knight 6718
chris.knight@ft.com

Associate Publisher

Luke McGreevy +971 (0)4 391 4398
luke.mcgreevy@ft.com

Publishing Director

Angus Cushley 6354
angus.cushley@ft.com

Senior Marketing Manager

Dino Ribeiro +44 (0)20 7873 3964
dino.ribeiro@ft.com

Controlled circulation

Peter Culleton 4847
peter.culleton@ft.com

Subscriptions/ Customer services

CDS Global, Tower House, Lathkill
Street, Sovereign Park, Market
Harborough, Leics, UK. LE16 9EF
ft@subscription.co.uk
tel: 0845 456 1516 (customer
services) 01858 438417 (overseas),
fax: +44 (0)1858 461 873

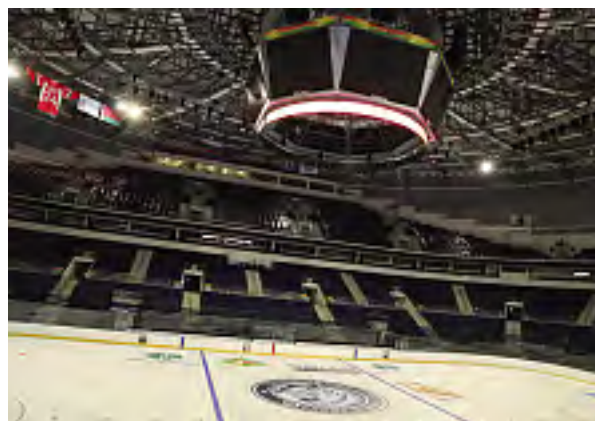
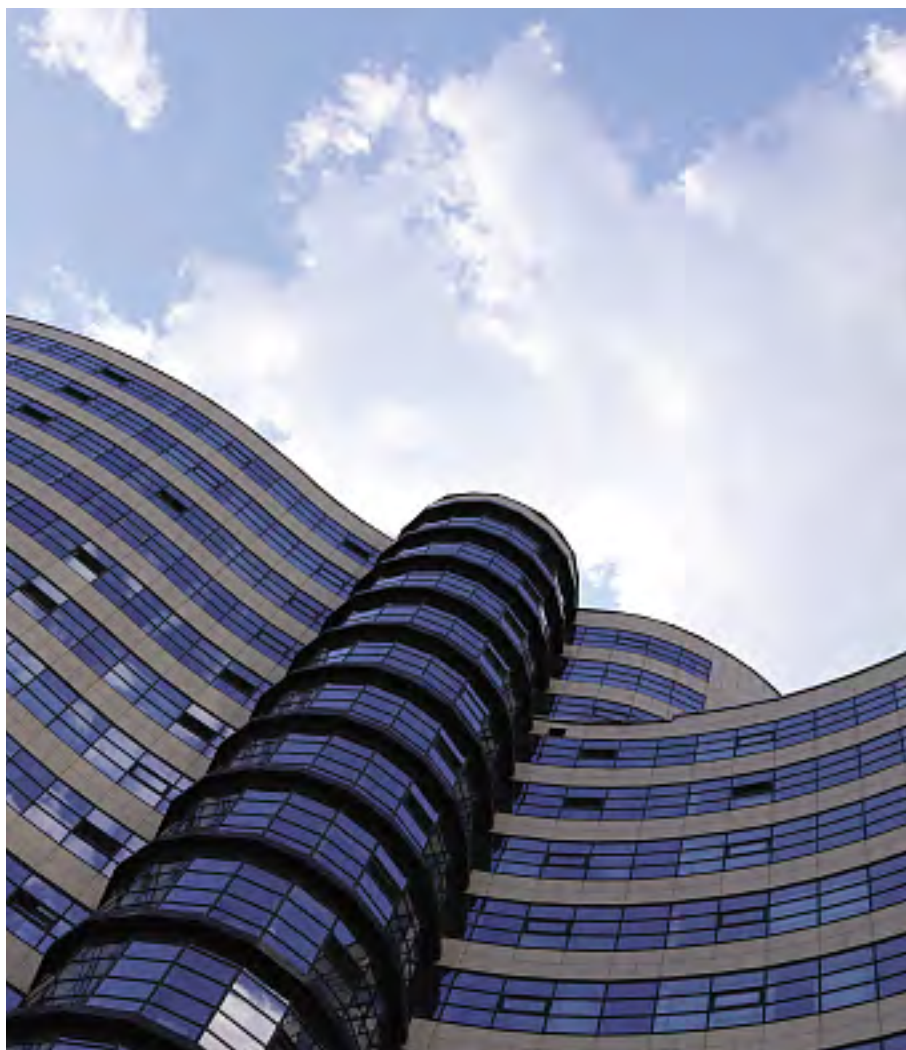
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AP Photos: Andrew Wrobel

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An open invitation

LONG ESTABLISHED AS A HUB OF MANUFACTURING EXCELLENCE AMONG CENTRAL AND EASTERN EUROPEAN COUNTRIES, BELARUS IS NOW TARGETING WESTERN COMPANIES, WRITES **ANDREW WROBEL**, AS IT LOOKS TO DEMONSTRATE ITS OPENNESS AND BUSINESS CREDENTIALS ON A GLOBAL SCALE

When the International Ice Hockey Federation World Championship was held in Minsk earlier this year, Belarus was not only competing on the ice, but also hoping to score points for its hospitality. The event was a chance to show a friendlier face to the world and to counter its image as a closed, Soviet-style outpost.

“It was a great event for Belarus and for the Belarusian people,” says the chief manager at the Minsk Arena, which hosted the final match, in which Russia prevailed over Finland. “And it showed how open and hospitable we are.”

The championship saw a new attendance record set, with almost 650,000 people attending over the course of the tournament and with sports fans visiting the country from Europe and America. This was helped by a free-visa entry for anyone with a match ticket.

However, Belarus’s efforts to improve its openness and hospitality are not restricted to the sports domain, and the country is now focusing on bringing in business from abroad.

Doors wide open

The openness to business is at odds with Belarus’s political isolation from much of the Western world, due to its lack of democratic credentials and the heavy-handed nature of its

autocratic government under long-standing president Alexander Lukashenko. Last October, EU sanctions against Belarus were extended for another year, with Brussels expressing its disappointment in the lack of progress in instilling human rights, rule of law and democratic principles in the country. The annual review updated the list of those targeted with a travel ban and a freezing of their assets within the EU. More than 200 Belarusian individuals and 25 entities remain subject to EU sanctions. The US has also extended its sanctions against various Belarusian officials.

Against this backdrop, a push to increase international trade and investment links goes on.

“Belarus has always been open to foreign markets,” says deputy foreign minister Aleksandr E Guryanov. “Even being part of the Soviet Union, the country was like a production facility for the whole USSR and most of the union’s exports came from Belarus. In recent years, the figures [have gone] up and down but exports have always constituted more than 60% of our GDP.”

At the end of the 2000s, the government decided to diversify its trade markets, but Russia remains Belarus’s most important trading partner, absorbing almost half of the country’s



BELARUS HAS ALWAYS BEEN OPEN
TO FOREIGN MARKETS





Building blocks: Belarus is working on modernising its economy, which will involve privatising state-owned companies

international trade. According to the European Commission, however, the EU-Belarus bilateral trade in goods has been growing steadily in recent years and the EU is now Belarus's second main trade partner, with almost a one-third share in the country's overall trade.

"In order to be able to sell more to foreign markets, Belarus's companies need to be more competitive," says Pavel Laschenko, country managing partner for Belarus at Ernst & Young. "We need to finish modernising the economy first. Now only the oil industry is competitive enough as it was modernised first."

The private model

Such modernisation could be done through privatisation, given that private investors typically bring new technologies, know-how and access to new markets, but it has taken Belarus almost two decades to start privatising state-owned companies.

"We are working on a joint privatisation project with the World Bank. Its goal is to create a model example," says Natalia Nikandrava, director of Belarus's National Agency of Investment and Privatisation. "One investment is at its final stage and all the documents will soon be submitted to the president's administration, who makes the ultimate decision about privatisation. Four state-owned companies have passed the pre-sale stage and are ready for sale."

Some companies are already competitive. BelAZ, a state-owned automotive company, exports 95% of its production and owns 48% of the global market in 130-tonne mine trucks. For BelAZ, its success can be largely attributed to it finding a lucrative niche.

"Only five companies produce similar equipment and we successfully compete with

the Americans, Germans and Japanese," says Aleh Stsiapuk, first deputy director at BelAZ. "For our consumers it is not important where the product is manufactured."

Vladimir Rybakov, deputy general director at Belarusian roller shutter systems producer Alutech, understands that for his company to be competitive, it is important to work to global market principles and follow the best global practices. The company has recently acquired a factory in Germany, has another one in Austria and a logistics centre in the Czech Republic. It sells its products to some 40 countries.

"Sometimes we still invite our partners to show what we can produce in Belarus, and it usually takes about four years to convince our clients to work with us, even though we have modern equipment and machines and all the necessary quality certificates, and sometimes even additional ones," says Mr Rybakov.

Educated workforce

But such examples of state-of-the-art production facilities are not Belarus's only assets. According to the European Commission, there are about 500,000 students enrolled at Belarus's 55 higher education institutions each year, an impressive number bearing in mind the country's relatively small population of about 10 million.

Although getting credit, paying taxes and trading across borders can still be an obstacle for companies operating in Belarus, according to the World Bank's Doing Business 2014 ranking, the country was placed 63rd in the ranking and is therefore more business friendly than some EU economies, such as Greece or the Czech Republic.

Currently, the government is working on ►



All photos Andrew Wrobel



Ice breaker: Having attracted global attention as host of the International Ice Hockey Federation World Championship in May, Belarus wants to promote its hospitality and openness to foreign investors. The country already has a strong manufacturing sector comprising both foreign firms, such as Swiss light railway vehicle maker Stadler (top left), and state-owned companies, such as automotive firm BelAZ (top right)

internet communication between government agencies and business to be able to process all the necessary administrative procedures online. "Once we complete that, we'll be in the ranking's top 30 countries," says economy minister Nikolai Snopkov.

"In the mid- to long-term, small and medium-sized businesses will be the driver of our economy. There is a lot of discussion about innovation but we forget that the basis for innovation is entrepreneurship and initiative. When both of them are missing, there cannot be any innovation, that is why my target is to create a comfortable and proper environment for entrepreneurship and use it as a basis to boost an innovative economy," he adds.

A gateway to the East

According to the country's National Statistical Committee, in 2013 there were almost 92,600 small and medium-sized companies, more than twice as many as in 2007. Also, the num-

ber of registered companies with foreign capital doubled to reach 7000 last year. Within the past five years, foreign companies have invested almost \$10.5bn.

In 2012, Stadler, a Swiss producer of light railway vehicles, set up a joint venture with a local partner in the Minsk Free Economic Zone, one of the six such zones in Belarus, which hosts almost 140 companies from the UK, the US, Germany and even as far as New Zealand.

"The factory in Minsk will be used to supply the [Commonwealth of Independent States] market, especially Russia. One of the first orders we acquired was the construction of 25 double-decker multiple-unit trains for the Russian company Aeroexpress," says Vladimir Korol, chief executive at Stadler Belarus.

Austrian IT company Kapsch had a similar goal when the company first looked to the Belarusian market. After a few years of preparation to sign an investment agreement and then building the infrastructure, the company started operating the national electronic toll collection system in August 2014, thus running the first public-private partnership (PPP) in Belarus.

"Around the world, PPP has a wide application, but in Belarus we haven't established the regulatory and administrative framework. Now we are working on it," says Sergei Roumas, CEO of the Development Bank of the Republic of Belarus.

Safe and sound

The lack of necessary regulations, administration hierarchy and decision-making processes can be challenging, but is also an opportunity to negotiate individual incentives, benefits and privileges, such as in the case of Kapsch.

"You have to be very patient because everything might seem very complicated at the beginning, especially if you have a Western-minded approach, but everything is possible," says Sergey Boury, marketing manager at Kapsch.

"The truth is that Western investors are hesitating whether to come over here and investors from the East are not. That is why they start occupying the niches which could be taken by investors from the West," says Kiryl Rudy, economic advisor to President Lukashenko.

Dmitry Matveev, a partner at law firm Aleinikov & Partners, confirms Belarus is a legally safe place to do business. "The country is a member of the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes. So far, for example, there have been 12 cases against Ukraine, three against Poland and none against Belarus," he says.

Belarus is working hard to reverse its long-standing negative reputation and seems very committed. Mr Rudy says: "If the hockey championships weren't enough, we will undertake other measures to change that image of Belarus in the West. We have a clear message, we welcome Western partners and we do not see any reasons for them not to come to our country." ■

Q&A: BELARUSIAN OFFICIALS

Has Belarus's time arrived?

THE BELARUSIAN PRESIDENT'S ECONOMIC ADVISOR, KIRYL RUDY; THE MINISTER OF THE ECONOMY, NIKOLAI SNOPOKOV; AND DEPUTY FOREIGN MINISTER ALEKSANDR E GURYANOV EXPLAIN TO ANDREW WROBEL THE ADVANTAGES FOREIGN COMPANIES WILL GAIN FROM INVESTING IN BELARUS

Q After almost a decade of high growth, the Belarusian economy slowed in 2008, and is yet to recover, with GDP at just 0.9% in 2013. What caused this slowdown?

A Kiryl Rudy: It would be naive of us to only blame the global crisis for the current slowdown in our economy. A big part of our economy depends on developments in Russia. This is a conscious policy of ours; neighbouring such a big economic player, it makes sense for us to try to benefit from that. Of course, it is beneficial when everything goes well, but slowdowns in Russia also affect us.

Apart from that, there are some internal aspects [of the Belarus economy] that need improving and we are trying to do that. In 2011, we had a large devaluation of our currency, but we didn't experience any of the social consequences that accompanied similar devaluations in Argentina and in parts of central and eastern Europe. The current economic slowdown is a result of our gradual recovery from the devaluation.

Our policy of gradual social development doesn't include making harsh economic reforms. Because of that, it has taken us three to four years to recover [from the global financial crisis] instead of just one. As a result, interest rates are up and credit is less available. This affects businesses, economic processes and GDP growth. But these are challenges primarily for our Belarusian companies. For foreign

companies coming to Belarus it is an opportunity to make money.

During the past few years, foreign companies operating in Belarus have achieved higher profits compared with subsidiaries in other countries. And it is interesting for us to see that these companies do not take their profits out of the country but decide to reinvest them here.

Q At the beginning of August 2014, the EU and the US tightened sanctions against Russia. Will these sanctions affect Belarus?

A Mr Rudy: The slowdown in Belarus started before the sanctions were imposed against Russia. That is why economic growth that we are forecasting may, in fact, coincide with the sanctions.

I wouldn't say these sanctions will necessarily have a knock-on effect on Belarus. The Russian economy has its own challenges and I am sure that the government will see to them and will tackle them. What we would be more afraid of is a slowdown in the entire region Russia collaborates with. I wouldn't link the slowdown to the sanctions.

As far as the sanctions against Belarus are concerned, [when these were imposed in 1996] we were experiencing high growth and we weren't really affected by them. They were more detrimental to businesses that originated from the countries that imposed those sanctions.



Kiryl Rudy, the Belarusian president's economic advisor

Q With GDP growth of 0.9%, 2013 was a challenging year for the Belarusian economy. The government's forecast for economic growth this year is 3.3%. What is the government's strategy to achieve that growth?

A Nikolai Snopkov: The only strategy to strengthen our growth is to sell. Our domestic market has some limitations. It only has 10 million consumers, and that is why our aim is not to grow through domestic consumption but through exports.

Foreign trade is sometimes worth more than 140% of our country's GDP. But, as far as Western markets are concerned, we don't see it as strategically correct to focus exclusively on the export of [Belarusian] products and services. What I mean by that is that if particular goods are not identified as Belarusian products, but instead as international products manufactured in Belarus by a foreign company or by a joint venture, then that [allows them to be] distributed in the markets of the Eurasian Economic Union, the EU and the US. This is the best option open to us.

Q So, in other words, you would like to invite more Western companies to come and operate in Belarus?

A Mr Snopkov: My task is to generate value here in Belarus, that is why I am focused on Western companies coming here and opening their manufacturing facilities here. There are many reasons why Belarus is a good location for businesses.

The first is human capital – we have a very disciplined, not demanding and highly qualified workforce with technical degrees. We also have social stability. Another advantage is our geographic location, with numerous oil and gas pipelines, railways, roads and waterways linking western Europe and Russia, as well as Asian countries.

Another advantage is our progressive investment legislation, which is based on the Principles of European Contract Law, and allows the use of British, Italian, Swiss or any other ►

European system of law and arbitration. Finally, 95% of the territory of Belarus has preferential regimes for investments. This means simplified access to tax and customs allowances, and other advantages for starting and doing business in the country.

Q Most of these factors and opportunities have been there for quite some time. Why is now the right moment to consider Belarus?

A Mr Snopkov: Again, there are a few reasons. One of them is that Russia, Kazakhstan and Belarus are all competing for investors right now, and it seems to be easier to do business here than in the other two countries.

After the fall of the Soviet Union, Belarus kept a lot of state-owned production companies and their performance is quite strong compared with their Russian and Kazakh counterparts, but it is weaker compared with companies in the EU. We have two choices in this situation, either to invest our internal resources or we can attract investors who already have the technologies needed to upgrade and strengthen these companies.

In the end, both methods would achieve the same result. But I prefer the second option, as it is faster, more

cost-effective, more profitable for the companies in question, as well as being beneficial for foreign investors. I believe that if the government begins to invest in the companies, in a few years, foreign investment won't be as attractive to us as it is now, as this is the time when we need to upgrade our manufacturing facilities.

And finally, today we offer a market of not only 10 million Belarusians but 170 million consumers in the Eurasian Economic Union, because, as far as goods and services are concerned, there are no limitations. The union allows for the free movement of goods, equal access to services of natural monopolies, common technical regulations, a liberalisation of trade in services and, from 2016, a unified pharmaceutical market.

Q Now that the agreement to establish the Eurasian Economic Union [between Belarus, Russia and Kazakhstan] has been signed, will that help foreign companies operate in Belarus and the wider region?

A Aleksandr E Guryanov: Now, thanks to the Eurasian Economic Union, many companies are coming to Belarus to start their



Nikolai Snopkov, Belarus's minister of the economy

business and mark their presence in the union. They decide to set up here, and not in Russia or Kazakhstan, because Belarus offers greater political stability, less corruption and bureaucracy, as well as a better business environment.

Belarus was instrumental in establishing this union, because we believe that integration helps development, both economically and politically. But, when we created first the Customs Union and then the Eurasian Economic Union, we didn't want to build any walls between Belarus and the EU or the US. On the contrary, we wanted to strengthen our international relationships and increase trade, investment and joint production.

Q Is there a chance of closer collaboration between the Eurasian Economic Union and the EU in the future, especially now that the EU and the US are working on their Transatlantic Trade and Investment Partnership?

A Mr Guryanov: We understand that the development of closer relations between the US and the EU will increase competition here in our region. This is a challenge for us and, of course, our priority is not to have additional barriers in our collaborations with either the EU or Russia.

About 45% of our foreign trade is with Russia and almost 40% with the EU, which implies that these partners are of equal importance to us. That is why we suggested discussions between the European Commission and the Eurasian Economic Commission, in the hope that such talks would enable us to remove some of the technical and regulatory barriers between the two unions, thus increasing collaboration. Unfortunately, politics has prevented such talks taking place. ■



Aleksandr E Guryanov, Belarus's deputy foreign minister



Opening doors: since it opened in 2005, the Hi-Tech Park (pictured) in Minsk has been a focal point of Belarus's IT sector, which is now worth more than \$500m per year

Cracking the IT success code

BELARUS'S HI-TECH PARK IS ATTRACTING A GROWING NUMBER OF DOMESTIC AND INTERNATIONAL SOFTWARE AND IT COMPANIES, THANKS TO ECONOMIC INCENTIVES AND A HIGHLY SKILLED WORKFORCE. ANDREW WROBEL REPORTS

When, in 1993, two native Belarusians, Arkadiy Dobkin and Leo Lozner, set up EPAM (or Effective Programming for America), operating the business out of their respective bedrooms – one in New Jersey, the US, and the other in Minsk, Belarus – they had no idea how successful their modest enterprise would become.

Some 19 years later, in 2012, the Belarusian flag waved on Wall Street when EPAM was listed on the New York Stock Exchange. Last year alone, the global software engineering service company opened new offices in Hong Kong, Armenia and Australia,

employed some 10,000 IT workers across 17 countries and four continents, and recorded revenue in excess of \$550m.

Homegrown talent

When the Hi-Tech Park (HTP) was set up in Minsk in 2005, by the decree of president Alexander Lukashenko to support Belarus's software industry, EPAM was its very first resident.

"About 10 years ago, I attended a lecture in the US and visited a company producing simulators for planes. I found out that the chief engineer was originally from Belarus," says Valery V Tsepikalo, director of HTP and a former ambassador to the US. "This pushed my idea to set up a hi-tech park. If Belarusian engineers can be successful in the US, on foreign soil, why couldn't they be successful in their own country, I thought."

It was not long before EPAM was joined at the park by others, including Viber Media, the company behind instant messaging platform Viber, which has more than 360 mil-

lion users across the world; ObjectStyle, a software development and outsourcing company that has designed, among other things, the US National Hockey League's website, which gets 2.7 million visitors a month; and WarGaming, the developer of the 'War of Tanks' online game, which has 85 million registered users globally.

Today, WarGaming is one of the leaders in the free-to-play massively multi-player online gaming market, and has 16 offices worldwide. The company's goal is to expand and support the global online gaming community. While it likes to treat each market individually, "our roots are here [in Belarus]," says Andrei Yarantsau, WarGaming's vice-president of global operations.

Ambitious plan

In total, there are 140 companies registered in the HTP and they work with a large number of respected clients: Barclays, Bank of America, Citibank, Western Union, the London Stock Exchange, Google, ►



Ahead of the curve: Belarus's Hi-Tech Park already plays host to a number of foreign firms, including strategy game developer WarGaming (pictured), but it is looking to attract even more

IBM, Expedia, BP, Chevron, Microsoft and Airbus, to name but a few.

"When I wrote a substantiation to the president to prove that it was necessary to create a hi-tech park I had a projection that in 10 years we would have exports worth \$300m to \$350m. It was a very optimistic projection because, at the time, the country exported software worth about \$14m. Now, the reality is a bit different," says Mr Tsepkalo.

In 2013, HTP's production volume amounted to \$527m, 41% higher than in 2012. Exports account for 88% all the software produced in the park. Of this, 45% is sold to Europe, 40% to the US and Canada, and 12% to Russia and other Commonwealth of Independent States countries.

HTP residents account for about 90% of all Belarusian IT companies. The country's per capita income from IT exports amounts to \$58,000 and is higher than, for example, in India (\$41,000), the US (\$36,000) or Russia (\$17,000).

In 2013, the International Association of Outsourcing Professionals's Global Outsourcing 100 ranking included five HTP-based companies, while *Software Magazine's* 500 Companies, ranking the world's largest 500 software and services companies, included seven of the park's residents. Furthermore, in 2014, Belarus was named one of 30 leading locations for offshore services by US-based IT research and advisory firm Gartner.

Top marks

According to Mr Lukashenko's decree, all of the companies that

operate in HTP and stay in the park until 2020 are exempt from corporate taxes, custom duties, real estate and land taxes, while income tax for employees of software and IT development companies in the park is held at a fixed rate of 9%.

These incentives are not the only reason that the IT sector has enjoyed such significant growth in Belarus, however. Its success is also owing to the efforts that have been made to nurture a highly skilled workforce.

In 2013, there were 18,000 IT and software engineers working in the park, 3000 more than in 2012. As well as possessing the technical skills needed for their job, about 90% of these engineers also have a good command of English.

Meanwhile, the country's universities are producing about 16,000 graduates with ICT and related technical skills every year. Most of them already have excellent technical knowledge but, to make them more employable, HTP wants to provide students with more practical skills, and so it has established 63 labs in universities across the country. These labs are open to students in their third, or sometimes second, year of university, and provide computer classes, which are run by companies from HTP, as well as mentors, who encourage students to work on practical projects from creating apps for mobile phones to working with the banking sector or creating games.

Initially, these labs were focused exclusively on software engineering; now they also teach business analytics and a number of other disciplines.

"If a new company wants to enter the market, it would definitely be able to find 20 to 25 employees who could become the core of their business at the outset. Then we would be able to make a commitment to set up a lab at a university and start working with the educational system to provide the best employees," says Mr Tsepkalo.

Additional training is also available through education centres as well as directly in companies. This encourages companies to increase employment.

Growth agenda

Six years ago, US-based app development company Softeq opened an office in Minsk, Belarus, with just five employees. Today, the company has more than 150 employees, most of which are based in Belarus, and it has plans for further growth.

"We are working with large global companies and our projects result in long-term relationships with our clients. We can see now that next year we will increase the number of employees by some 40%," says Alex Kovalenko, business development director at Softeq in Belarus.

Of the 40 companies registered in HTP, 27% are wholly foreign owned, with 53% funded by Belarusian investors. The park's biggest companies are either joint ventures or foreign-owned ones, with the largest investors hailing from the US, Germany and Japan. And HTP wants to attract even more investors and IT businesses.

Work is just about to be completed on a 10,000-square-metre business incubator, which has been designed to house an ecosystem where innovators can meet engineers, and ideas for new business ventures can be born. It is developments such as this that have helped HTP's director, Mr Tsepkalo, maintain the same level of optimism that he started out with when the park opened, a decade ago.

"When we were setting up the park, we based our estimates on India's software exports," he says. "It had taken India 20 years to reach \$3bn. But, we have a stronger base than India because, apart from outsourcing, we also have our own products. If we keep up this pace of growth, next year we will reach the \$1bn mark in just our 10th year of operation. That means that, within 20 years, we'll make more than \$3bn." ■

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