



Foreign Investment: one IT sector cannot conquer alone¹

Maryia Akulava, 2020

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Summary

Only the *information and communication technology* sector continued to generate stable investment demand in 2019. It was effective in attracting investment not only because of the preferences granted to the industry, but also thanks to businesses' determined efforts to raise investment funds as a well-proven tool for expansion in the market. However, in general, Belarus still lags behind other countries in terms of the investment attractiveness.

Trends:

- Low activity in the M&A market, except for IT projects;
- Difficulties in raising funds from external sources, and orientation to the domestic portfolio investment market;
- Continued efforts of the government to create a favorable investment climate.

¹ The policy paper was published in the [Belarusian Yearbook 2020](http://nmnby.eu/yearbook/2020/index.html), which is presented under expert community of Belarus Nashe Mnenie ("Our Opinion"). <http://nmnby.eu/yearbook/2020/index.html>

In 2019, foreign investments increased considerably year on year to USD 2.4 billion against USD 1.47 billion in 2018², largely because Belarus was a net borrower last year, while 2018 saw net lending to the rest of the world, mostly through the retirement of Eurobonds placed in 2011.

Belarus' foreign debt decreased 1.6% to 27.1% of GDP (USD 17.15 billion) as of January 1, 2020 against 29.1% and USD 17.42 billion, respectively, a year before. The aggregate foreign debt increased 3.7% to USD 40.75 billion as of January 1, 2020 to compare with USD 39.29 billion a year before.

Foreign direct investment

No fundamental changes in attracting foreign direct investment occurred in 2019. The net FDI target for 2019 was set at USD 1.6 billion³. Belarus managed to raise USD 1.27 billion in FDI, which is less than in 2018 (89.3%, FDI receipts standing at USD 1.43 billion).

As in all previous years, FDI was mostly constituted by reinvested profits of Belarusian financial and non-financial organizations (USD 0.7 billion). This amount stood at USD 0.8 billion a year before. New investors and technologies brought USD 0.4 billion, which is also less than in 2018 (USD 0.54 billion). In general, investors showed less interest in the country in 2019 compared with the previous year.

The insignificant contribution of foreign investment to the industrial sector remains unchanged: only 14.7% of total FDI (16.3% in 2018)⁴, which is quite insignificant given constantly growing competition. Today, sustainable development of the economy is impossible without a rise in innovation and technological effectiveness, which are directly dependent on the quantity and quality of foreign investment into the national economy.

Privatization of state property

Privatization remains frozen, and nothing suggests that this would change any time soon. In January 2019, the State Property Committee compiled one more list of OJSCs for sale. The list contained 23 assets, which had been offered for privatization for several years now. The number of such assets is constantly decreasing: 38 in 2018 against 43 in 2016. The government, apparently, does not count on raising funds from the sale of state property.

² <http://www.nbrb.by/publications/BalPay/balpay2019.pdf>

³ <http://pravo.by/document/?guid=12551&p0=P31800483&p1=1>

⁴ https://www.belstat.gov.by/upload-belstat/upload-belstat-excel/Oficial_statistika/2019/invest-2019g-20.02.12.xls

The sale of the state-owned stake in *Belvest* shoe factory in summer 2019 is almost the only successful transaction with the participation of state last year. The repurchase of a 55% stake took place under two conditions: to maintain the average number of employees at least at the level of January 2019 and to invest 30 million Belarusian rubles (BYN) or over in an upgrade of production facilities.

The deal on the sale of a state share in the Baranovichi Dairy Plant OJSC was closed in late December 2019. *Savushkin Product* OJSC purchased a 50.6% stake for BYN 48.3 million. The new owner must maintain the jobs and the average wage at the enterprise, and invest at least BYN 10 million to increase the plant's capacity.

The situation remains basically the same: low efficiency of state-owned JSCs, high selling price, additional conditions, and, most importantly, far too long negotiations. All this has a negative impact on investment demand.

M&As

Unlike the public sector, the private sector is more active in seeking external financing. The acquisition of the *Zabotlivaya Apteka (Caring Pharmacy)* drug-store chain by Apteka Group was among the most significant transactions. The amount was not disclosed. It is estimated to be one of the largest transactions in the pharmaceutical industry of Belarus.

One more acquisition was made by the Swiss Sika AG chemical company, which bought BELINECO, the Belarusian manufacturer of polyurethane foams.

Zubr Capital private equity firm in partnership with the European Bank for Reconstruction and Development (EBRD) bought 20% of Mila, one of the largest suppliers of color cosmetics, perfumes and household chemicals. The transaction amount has not been disclosed. It presumably ranges from USD 3 to 10 million.

As in the past few years, IT projects generated profound investment interest. According to preliminary estimates, in 2019, residents of the High Technology Park (HTP) raised around USD 2 billion through the export of their services. Investments in the real sector are quite often much smaller than required, but the main difference is that the companies themselves are interested in finding investors.

PandaDoc is an example of success in this respect. The company raised USD 10 million in 2019 from several sources that had previously invested in it: the EBRD, *Rembrandt*, *Altos* and *Silicon*

Valley Bank and *Microsoft*. *PandaDoc* raised around USD 30 million in total, which enabled the company to grow and increase its presence in Belarus and the United States.

Capital Times invested in *Altaras* food company, which works on the *Beesender* platform for connecting chat bots to corporate business processes. The exact amount is unknown.

Blinger, the developer of a helpdesk system for business clients, raised USD 500,000 from *Admitad Invest*. *MobiWise*, which develops a platform for promoting educational applications, received USD 100,000 from local investors.

Swag Masha game design studio was bought by *My.Games*, which is part of Mail.ru Group. *Playrix*, one of the global leaders in mobile app development, invested in *Vizor Games* computer games developer. Belarusian *Belka Games* and *AppLovin* entered into an investment agreement.

Yamoto Samokato startup, which develops software for sharing companies, has successfully closed an angel round of funding in the amount of USD 1.5 million. A minority stake in *MediaCube* became part of the Zubr Capital's portfolio. Proceeds will be channeled into their ecosystems for video creators and musicians.

Medical projects continue to be of high interest. *Healthy Networks* startup (respiratory problems diagnosis) closed the seed round of venture investment, and received around USD 925,000 for a wireless (Bluetooth) stethoscope and the *LungPass* application for the Belarusian and other European markets. *Flo Health* raised USD 7.5 million from *Founders Fund* to develop its product and enlarge the team. The total amount of the funds raised stands at USD 20.5 million.

EPAM Systems bought 100% stakes in German *Test IO* (developer of a cloud platform for testing), Russian *Competentum* (educational platforms), Israeli *NAYA Technologies* and its American subsidiary *NAYA Tech* (data management).

Bulba Ventures investment company, which continues to invest in high-tech projects, is worth attention. In spring 2019, the company launched in summer the computer vision-based *VOCHI* project and GERO anti-aging methods searcher, and invested in the AI-based *ZENIA* yoga application with individual approach to each user.

Importantly, almost all IT companies that managed to raise funds use them to develop their products and expand businesses. Many of them are able not only to increase their incomes in the future, but also make a social difference at the national level. The IT sector is a vivid example of

how important the active position of product manufacturers is when potential investors are looked for.

Turkish *Guris Holding* stands out in the Greenfield investment segment. The company is going to build a 25 MW wind park in Belarus. The estimated investment stands at USD 40 million. Chinese *Merchants Shekou Holdings* and *Sichuan Chengdu Xingcheng Investment Group* have reached an agreement on the construction of a business center in the Great Stone Industrial Park. According to preliminary estimates, the investment will total around USD 30 million. An agreement was also reached with German *Recom AG* on the construction of a plant for production of photovoltaic modules and solar panels.

Portfolio investments

It would be wrong to say that 2019 showed better progress in external borrowing by means of floating government bonds on foreign markets than the past few years. In fact, there was only one major placement. In August, Belarus floated its bonds worth 10 billion Russian rubles (RUB) on the Moscow Exchange. The maturity period is three years, and the coupon rate is 8.95%.

Last year, the government continued placing securities on the domestic market. The total amount of bonds denominated in foreign exchange reached USD 800 million in equivalent. The target for 2020 is USD 1.35 billion in Eurobonds. However, the outlook is not very optimistic given the situation on the oil market, the COVID-19 pandemic and the global recession.

Tokenization of Eurobonds took place for the first time in 2019. Belarus currency.com crypto currency exchange issued tokens secured by bonds. One token equals one bond worth USD 1,000 at 4.2% per annum.

The corporate segment also actively used this tool to raise funds, USD 435 million in total in 2019. *Eurotorg* accounted for 14.3%, Belarusian Railway – 18.4% and Conte-Spa – 20.7%. *Eurotorg* was Belarus' first corporate issuer to enter the Russian securities market. Last year, the company placed its 10-year corporate bonds on the Moscow Exchange twice to the total of RUB 10 billion at a 10.95% coupon rate. The Development Bank of the Republic of Belarus placed its three-year Eurobonds worth BYN 210 million at 12% per annum on the domestic market.

Other foreign liabilities

Belarus' net external liabilities increased in 2019 by USD 43 million to USD 590 million. USD 1.5 billion was allocated to pay off the foreign debt, including to Russia, China and the Eurasian Fund for Stabilization and Development (EFSD)⁵.

Belarus was waiting for the last, *seventh* tranche under the EFSD loan program in 2019, but was turned down due to the failure to meet the set terms. Russia, however, agreed to lend USD 600 million to refinance Belarus' foreign debt.

China remains the second largest lender. Belarus borrowed CNY 3.5 billion (USD 500 million) from China in a term loan in late 2019.

Negotiations with the IMF on a new loan program did not resume in 2019, basically because the IMF wants Belarus to begin restructuring and enhance the efficiency of the public sector.

Measures to attract external financing and improve the investment climate:

*Council of Ministers' resolution No.374 of June 11, 2019*⁶ approves the draft memorandum of cooperation with the EBRD on elevating the status and improving effectiveness of the Foreign Investment Council. The EBRD stated its willingness to finance activities of the Council for *three* years, and then assist in attracting foreign capital. The Council is to include not only officials, but also heads of international organizations that have already invested in Belarus or plan to do that.

*Draft strategy for attracting foreign direct investment for the period to 2035*⁷ prepared by the Ministry of Economy is expected to be some kind of a roadmap and to identify key areas to make Belarus more attractive in terms of investment in comparison with the neighboring states. This draft suggests that the Belarusian leadership is aware of the role and the need of foreign capital for sustainability and competitiveness of the national economy.

Conclusion

The plans for 2020 involve raising at least USD 1.7 billion in foreign direct investment. The amount will apparently be much smaller due to the global recession that, among other things, stems from the COVID-19 pandemic. According to the United Nations Conference on Trade and

⁵ http://www.minfin.gov.by/ru/public_debt/pressreleases/4c6b30d611354542.html

⁶ <http://pravo.by/document/?guid=12551&p0=C21900374&p1=1&p5=0>

⁷ http://forumpravo.by/files/Proekt_postanovlenie_SM_Strategia_privlechenia_inostrannykh_investicij.pdf

Development (UNCTAD)⁸, global FDI may be fall by 40%, which will obviously affect Belarus' performance in Greenfield investment and M&A deals.

Eurobond placements are also unlikely in 2020. Most probably, they will be postponed to 2021. Placements of government bonds in foreign exchange on the domestic market will continue, but demand will also be significantly lower than in previous years due to the economic downslide.

The absence of structural economic reforms remains the main factor that constrains the inflow of capital, technologies and innovations to Belarus. In the present conditions, the government will have to be more flexible and accept the IMF terms on the country loan program, which would accelerate the economic recovery and enhance its sustainability and competitiveness.

⁸ https://unctad.org/en/PublicationsLibrary/diaciainf2020d3_en.pdf