Belarus

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Investment Profile 2001

Held on the occasion of the
EBRD ANNUAL MEETING

Contents

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Foreword

More than 10 years have passed since the countries of the former socialist bloc started to build a market economy. The experience of these 10 years shows that transition to the free market – the search for the optimal reform mechanisms and the formation of a stably developing market oriented economy – does not come easily. The experience gained allows us to reconsider previous views on the transition process, to revise the principles of reform for countries undergoing transition, and to acknowledge the role of specific local socio-economic and historical conditions and the need to identify them.

Belarus is seeking out its own individual path and is developing successfully, while at the same time making a valuable contribution to the diversity of the modern world. The government of the Republic of Belarus accepts the principle that economic reform will only be successful if it includes a consistent balance of both macroeconomic and microeconomic reform processes. The model of a socially oriented market economy, adopted by the Republic of Belarus as the basis for its development, combines free private initiative and competition with an active role for the state, and economic efficiency with a high level of social protection for the population. The reforms being undertaken in Belarus, as in other countries with a transition economy, are aimed at improving the people's prosperity, and at replacing the administrative command system with market mechanisms.

The transition to a new economic system in Belarus is being implemented on the basis of a balanced approach, oriented towards socio-economic stability. Having rejected the "shock therapy" approach, Belarus is conducting an evolutionary reform of the economy with the active participation of the state in the creation of a market infrastructure. In addition, alongside internal macroeconomic, structural, financial and social aspects of development, Belarus pays considerable attention to the global and regional aspects of transition. This is the result of its geographic position, its history and culture, and the structure of its economy. Inevitably, Belarus is an active participant in the integration processes taking place on the European continent.

The involvement of the Republic of Belarus in European economic cooperation is of equal service to the long-term interests of both the expanding European structures and our own country. The government of the Republic of Belarus recognises that the EBRD mandate will contribute to the process of economic reforms in Belarus. We from our side will strive to create a favourable economic and investment climate, and the conditions for the expansion of mutual cooperation.

Vladimir Ermoshin
Prime Minister of the Republic of Belarus

Introduction

Belarus has economic potential in view of its diversified economy, its geographical location, its transport corridors and regional trade. The transport sector is of considerable importance for the country, particularly given its location as a gateway between east and west.

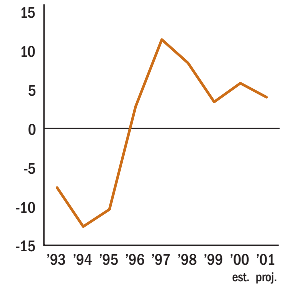
Belarus borders Poland, Russia, Ukraine and two of the Baltic states, which could provide it with a considerable regional role to play. Thanks to the function it had within the former Soviet Union, Belarus has a reputation for producing quality goods at competitive prices across a wide range of sectors. Compared to other FSU countries, Belarus has a relatively well developed and diversified industrial profile. The main industrial activities in Belarus include machine building, electronics, chemicals, light industry, defence-related products, prefabricated construction materials and wood products.

In December 1999 Belarus and the Russian Federation signed a new Union Treaty, which sets out the principles for the future formation of a single economic zone and includes plans for its introduction through a subsequent merger of the currency systems, harmonised national legislation and uniform policies on tax, customs, borders and defence as well as a common securities market, though not until 2005. It also calls for a unification of the banking systems, external debt management and foreign investment regulation. Apart from pegging the currency, no concrete steps have yet been outlined on the economic issues of integration. Belarus has sought union as a way to resolve economic issues, while Russia has concentrated on specific areas of integration, particularly military-security aspects.

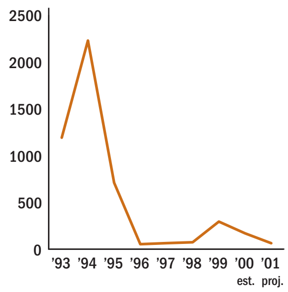
Belarus' strategic location and its skilled labour forces provide incentives for potential investors. However, the level of foreign investment remains low due to the difficult political and economic environment with strong state involvement. According to the five-year economic development programme presented by the government in May 2000, the state will continue to play a dominant role in the economy.

Economic Summary

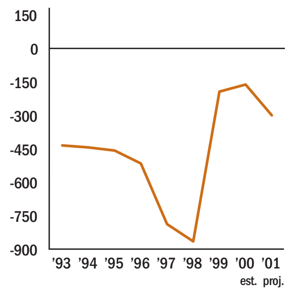
GDP at constant prices
% change



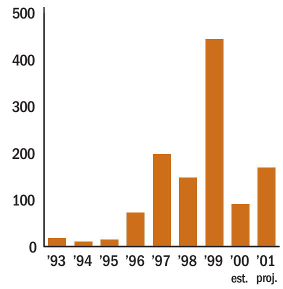
Consumer prices
Annual average, % change



Current account
US$ millions



Total FDI
US$ millions, cash receipts, net



Source: Ministry of Statistics and Analysis, February 2001

The economy of Belarus grew in 2000 as foreign trade picked up sharply on the strength of the Russian recovery. Inflation has been reduced considerably, but remains the highest in the CIS. The unification of the exchange rates and liberalisation of the foreign exchange market in September 2000 have resolved distortions in the market. The unified currency exchange rate has been relatively stable since then. The country's economic policy remains characterised by firm government control. The new Currency Union with Russia may encourage a more prudent economic policy. The IMF is urging the authorities to further tighten the monetary and crediting policy and to start structural reforms as a condition for the resumption of lending.

GDP growth

Increased demand for exports from Russia, which accounted for almost half of Belarus's exports, and directed credits to agriculture and enterprises supported growth. GDP rose by 6 per cent according to the authorities' statistics, compared to 3.4 per cent in 1999, and is projected to grow by 4 per cent in 2001.

Inflation

Some tightening of monetary policy occurred when, in the first quarter of 2000, the government decreased monetary emissions, reducing monthly inflation to 5.1 per cent in November from 14.1 per cent in January. Average annual inflation in 2000 stood at 168.8 per cent, down from 293.7 per cent in 1999, and is forecast by the government to decrease to 63 per cent in 2001. The government continues to rely on price controls as a means of limiting inflation and allocating resources. Although inflation is slowing, it remains the highest in all the CIS countries.

Current account

Foreign trade picked up sharply during the first half of 2000 on the strength of the Russian recovery. This was accompanied by a sharp increase of the current account deficit, partly due to the rise in oil prices. According to official statistics, the deficit amounted to an estimated US$ 161.9 million in 2000, which is 83.5 per cent of the 1999 level.

Foreign direct investment (FDI)

The combination of trade and foreign currency restrictions and state intervention in private sector operations has kept FDI flows in 2000 to low levels. According to official statistics, FDI inflows are estimated to have decreased from US$ 443.2 million in 1999 (of which US$ 352.5 million was for the Yamal-Western Europe pipeline alone) to US$ 90 million in 2000, and are projected to increase to a level of US$ 169 million in 2001. In mid-1999, the government announced plans to accelerate the sale of shares in state-owned companies, aiming to increase privatisation revenues. However, some foreign investors are discouraged by the fact that majority stakes are not offered, and privatisation revenues were disappointing again in 2000.

Government balance

In 2000, according to government estimates, the deficit of the republican budget was 0.8 per cent of GDP, while the deficit of the consolidated budget stood at 0.6 per cent of GDP, down from 2.9 per cent in 1999.

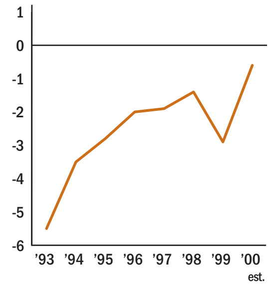
Exchange rate

In September 1999, the authorities approved the Concept of Currency and the Monetary Policy for 2000, which envisaged the unification of exchange rates and gradual introduction of a crawling peg exchange rate regime. The official exchange rate stood at BRb 215.8 at the end of 2000. In mid-September the official exchange rate was unified with the four main non-official exchange markets, which had by then converged to within 2 per cent of each other from 25 per cent at the beginning of 2000. The Concept called for a maximum rate of devaluation of 2 per cent per month. Following the meeting of the Council of the Union State in November 2000, Russia will provide Belarus with a currency stabilisation fund. The Belarussian currency was pegged to the Russian rouble on 1 January 2001. Under the terms of the Union Treaty, the Russian rouble is to be used as the common currency from the beginning of 2005, to be replaced by a new currency in 2008.

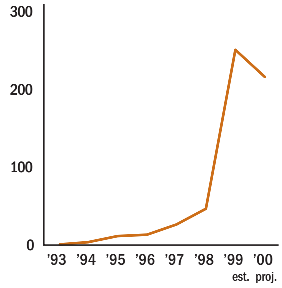
IMF agreements

Since Belarus entered into cooperation with the IMF, it has received two tranches under the Systemic Transformation Programme (US$ 98 million in 1993 and US$ 101.7 million in 1995), and a US$ 70 million tranche of a Stand-by Loan in 1995. Subsequently, the IMF halted the extension of loans to Belarus. During its September 2000 visit to Belarus, the IMF delegation urged the authorities to further tighten the monetary and crediting policy and start structural reforms. There were two more IMF-missions, in December 2000 and February 2001, as a result of which the government and the IMF agreed on the basic indicators for a Staff Monitored Programme, which was expected to enter into force from 1 April 2001. Work is progressing on the framework for a non-official IMF programme to monitor the economic situation in Belarus. Successful fulfilment of the Staff Monitored Programme by the end of September 2001 will allow new negotiations on the prospects for renewed cooperation on a Stand-by Agreement.

General government balance
% of GDP



Exchange rate
Annual average, BRb per US$



Source: Ministry of Statistics and Analysis, February 2001

Selected economic indicators

	1993	1994	1995	1996	1997	1998	1999	2000 est.	2001 proj.
GDP (% change)	-7.6	-12.6	-10.4	2.8	11.4	8.4	3.4	5.8	4.0
Consumer prices (annual average % change)	1,190	2,221	709.3	52.7	63.8	73.2	293.7	168.6	63.0
Current account (in US$ millions)	-435	-444	-458	-516	-788	-865.5	-193.7	-161.94	-300
General government balance (% of GDP)	-5.5	-3.5	-2.8	-2.0	-1.9	-1.4	-2.9	-0.6	na
Trade balance (in US$ millions)	-568.6	-556.3	-760.4	-1,287.8	-1,387.6	-1,479.6	-764.8	-1,097.1	-1,074
Total FDI (in US$ millions, cash receipts, net)	17.6	10.5	14.7	72.6	197.9	146.9	443.2	90.0	169.0
Government external debt stock (US$ millions)	1,013.6	1,251.1	1,513.1	950.0	976.4	1,010.7	886.3	829.0	775.7
Unemployment (% of labour force)	1.4	2.1	2.7	4.0	2.8	2.3	2.1	2.1	2
Exchange rate, annual average, BRb per US$	0.269	3.7	11.5	13.3	26.4	46.6	250.6	215.8	na
Gross reserves, excluding gold (end-year, US$ millions)	na	na	337.0	469.0	393.6	339.0	304.6	356.8	343.3

Source: Ministry of Statistics and Analysis, February 2001

Investment climate

The "Belarussian model" has de-emphasised markets and private ownership while relying on the provision of finance to priority sectors of the economy. State interference in private sector operations, price and wage controls, foreign trade restrictions and slow privatisation have kept FDI flows to low levels. There have been some positive dynamics recently. The unification of the exchange rates and liberalisation of the foreign exchange market (14 September 2000) have resolved distortions on the foreign exchange market. The export revenue surrender regime has, however, remained unchanged, at 30 per cent. Under the terms of the Union Treaty with Russia, Belarus has agreed to abolish or significantly relax state price controls for oil and oil products and natural gas, as well as to accelerate large-scale privatisation in 2001. The government is preparing proposals to ease business registration and licensing and has expressed interest in attracting more FDI.

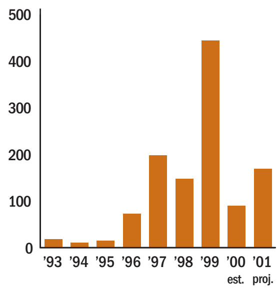
Foreign direct investment

According to government statistics, FDI in 2000 amounted to US$ 90.0 million, down from US$ 443.2 million in 1999. This was caused mainly by the decreased Russian investments in building the Yamal-Western Europe pipeline in Belarus, which in 1999 stood at US$ 352.5 million, but amounted to only US$ 37.8 million in 2000. Cumulative net FDI from 1993 until the end of 2000 is estimated at US$ 903.4 million.

The most common forms of foreign investment in Belarus are joint ventures and wholly foreign-owned businesses. A considerable part of FDI (up to 70 per cent) has been invested in the Yamal-Western Europe pipeline. The largest number of joint ventures and foreign-owned companies are from Germany (441), Poland (437), the US (337), Russia (233), Italy (123), Cyprus (103), the UK (98), the Czech Republic (90), Ireland (52), and Switzerland (51). Apart from the Russian investments in Yamal, the major sources of FDI in Belarus to date are Germany, the Netherlands, Cyprus, the US, the UK and Poland. Most investors are attracted by the country's strategic location on the main road and rail link between Russia and Europe.

There have been few western companies that have invested in Belarus. Coca-Cola has established a manufacturing plant, and McDonald's has established a restaurant chain (see *Major sectors of the economy: Case studies* below). The automotive industry, engineering, machinery and electronics have also been among the sectors attracting some investment. Investors include MAN, Fresiniuss, Bosch, Salamander, Premium, Logistic, Simod, Aupperle Gmbh, Rudolph Riegler Gmbh, Vikos Narungsmitteln (all of Germany), Torag (Switzerland), Maersk Medical (Denmark), SB Telecom, Double Star International,and United Oil Resources.

Total FDI
US$ millions, cash receipts, net



Source: Ministry of Statistics and Analysis, February 2001

Main sources of cumulative FDI from non-CIS countries

Country	% of total investments
Germany	12.4
Netherlands	10.9
Cyprus	6.9
US	6.6
UK	4.2
Poland	4.1
Austria	2.8
Italy	2.2
Switzerland	1.7

Source: Ministry of Statistics and Analysis, February 2001

Largest foreign investors in Belarus

Investor	Foundation year	Equity in US$m
Coca-Cola (US)	1994	60.0
Fresiniuss (Germany)	1989	55.0
McDonalds (US)	1996	7.0
MAN (Germany)	1998	7.0

Source: Foreign Investment Promotion Agency

Investment policy and incentives

According to the government, its Programme of Attraction of Foreign Investment into Priority Sectors and Enterprises is based on the following principles:

- equal conditions for all entities regardless of form of ownership or residence;
- promotion of healthy competition in production and service sectors;

- state support for investment projects with short payback periods and support of enterprises undergoing privatisation.

In practice, economic and political trends in Belarus continue to raise concerns regarding the country's progress in furthering the transition towards a market-oriented economy and a favourable investment climate.

Priority sectors for FDI in Belarus are (petro) chemicals, precision tool making and radio electronics, the automotive industry, woodworking, construction, pharmaceuticals, and agricultural production and processing.

According to the government, its policy priorities for attracting FDI are:

- promoting the development of new export-oriented and import-substituting industries;
- privatisation of state-owned entities by direct sale;
- creating favourable conditions for portfolio investment;
- involving banks in the concentration of financial resources; and
- encouragement of leasing.

Belarussian Foreign Investment Promotion Agency (BFIPA)

The Ministry of Foreign Economic Relations created the Belarussian Foreign Investment Promotion Agency (BFIPA) to promote FDI into the country by lending assistance to potential foreign investors. BFIPA was founded with the support of leading local banks and consulting companies. BFIPA works with relevant government bodies and regional administrations to provide investors with the data required for investment appraisals. BFIPA can provide direction, guidance and counselling for investors, and support in such areas as legalisation of business, search for local partners, preliminary marketing research, providing necessary support via mass media, or other organisations. BFIPA works in close cooperation with government ministries and trade, industry and investment bodies, and with international financial and economic organisations, manufacturer's associations and chambers of commerce.

BFIPA

7 Masherov Prospekt, 220004 Minsk
Tel: (+375-17) 211 2826
Fax: (+375-17) 211 2826
Contact: Acting Director Mr.Yuri Baranchik

Coordinating Council for Foreign Investment

Following a government resolution of July 2000, the Coordinating Council for Foreign Investment was established under the council of ministers of the Republic of Belarus aiming to coordinate the activities of government agencies in defining a strategy for the attraction of foreign investments and the creation of a favourable investment climate. Any investor planning to realise an investment project on the territory of Belarus can have it monitored by the Council. If the project brings benefit to the republic, it may receive extra support from the government in solving organisational and other issues related to its implementation. The first meeting of the Council took place on 16 November 2000, during which two projects were reviewed and approved, and are expected to attract US$ 40 million of investment in agriculture and forestry. It is expected that representatives of international economic organisations and foreign business circles will also take part in the Council.

Free Economic Zones

In an effort to attract foreign investment, the government has created four free economic zones (FEZ). Presidential regulations resulted in FEZs in the border town of Brest (December 1996), the capital Minsk (March 1998), Gomel-Raton (March 1998), and Vitebsk (August 1999). The FEZs in Belarus were created to attract foreign investments, promote manufactures based on new and high technologies, and promote trade and economic relations. According to the authorities, the FEZ residents enjoy the following tax privileges and preferences:

- support for their investment from the central and local authorities;
- low land rents;
- reduced profit and income taxes from 30 per cent to 15 per cent and 20 per cent to 10 per cent respectively;
- five-year tax exemption from taxation on profit growth from production;
- manufacturers that export more than 70 per cent of production can expect tax breaks up to 50 per cent in the first five years (only in FEZ Brest);
- goods imported into and exported from the zone, as well as production exported outside Belarus, are exempt from VAT and excise taxes;
- exemption from tax on dividends during the first five years (only in FEZ Brest).

Privatisation

The government has established two main principles for its policy on privatisation, or the transformation of state property: to increase the efficiency of production through the implementation of step-by-step and balanced reforms, while avoiding social dislocation. Defined by the government as its denationalisation process, the aim is to reorganise state-owned and leased enterprises by turning them into open joint-stock companies. According to the existing legislation, sales of stakes over 50 per cent in industrial companies are forbidden, while sales of shares with a book value over US$ 40,000 require the approval of the President. The government retains a golden share in most enterprises, even those which are privatised.

There are four main avenues for foreign investment in the privatisation and transformation processes in Belarus. Through the privatisation process, foreign investors can participate in setting up an open joint-stock company through capital or in-kind investment for an ownership stake, buy state-owned shares of open joint-stock companies, buy shares in the share issues of open joint stock companies, and form joint ventures in accordance with the law “On Foreign Investment on the Territory of the Republic of Belarus”.

Privatisation of *communal* enterprises, mainly SMEs, has been significantly faster than privatisation of *republican* assets, comprising mainly large-scale industrial and agricultural companies. According to the five-year economic development programme presented by the government in May 2000, the state will continue to play a dominant role in the economy. As at 21 February 2001, 3,379 companies were privatised, of which 376 were in the industrial sector, 232 in the construction sector, 1,312 in retail, 393 in the service sector and 1,066 in other sectors. In the process, 1,354 joint stock companies were established, and 1,312 were sold by tender or auction. About half of the joint stock companies established by privatisation have a government stake of less than 50 per cent in their share capital. Under the terms of the Union Treaty with Russia, Belarus has agreed to accelerate large-scale privatisation in 2001. Before 1 July 2001 the government will submit the draft law On Privatisation of Property in the Republic of Belarus to parliament. According to this legislation, by the end of 2002 no less than 75 per cent of state companies with up to 200 employees should be privatised.

The government has postponed its plan to privatise the national telecommunications operator, Beltelecom. In June 2000, explaining this postponement, the Belarussian President cited two main reasons for the delay: unfavourable market conditions (low potential price of the utility) and a desire to avoid mistakes made from rapid privatisations in other countries. He added, however, that a new tender was being prepared. No time frame for its implementation has yet been set.

Agriculture continues to be dominated by Soviet-style collective farms. The presidential decree on private ownership of land signed in February 2000 excludes agricultural land. The agricultural sector remains largely unreformed and production has fallen in recent years, but the President has stressed that collective farms and state enterprises should remain the foundation of the agricultural sector.

Markets and trade

According to the Ministry of Statistics and Analysis, in 2000, Belarus had a trade turnover of US$ 15.9 billion. The volume of exports was US$ 6.1 billion (24.9 per cent more than in 1999), while the country imported US$ 8.5 billion worth of goods (27 per cent more). CIS countries accounted for 60.3 per cent of exports and 70.8 per cent of imports. Foreign trade picked up sharply in 2000 on the strength of the Russian economic recovery. There was increased demand for exports from Russia, which was, as traditionally, the most important trading partner by far, both in import and in export terms. Other important export markets included Ukraine, Latvia and Lithuania. Other major sources of imports included Germany, Ukraine and Poland.

There was an increase in exports to countries outside the CIS of oil products, chemical products, refrigerators and freezers, motorcycles, metal and engineering products, televisions and wood products. Belarus exported less potash, tractors, tyres for trucks and agricultural machines, flax and bicycles than in 1999 to countries outside the CIS.

A unified exchange rate for the Belarussian rouble at the Belarussian Currency and Stock Exchange (BCSE) was introduced on 14 September 2000, when the main and additional trading sessions were merged. Nevertheless, exchange rates in the non-resident market (Riga, Moscow) and the interbank market rate are 2 to 3.5 per cent higher than the official rate. On 20 September 2000 the National Bank removed the restriction on invoicing imports in roubles. Remaining restricting measures include a 30 per cent surrender requirement for exporters, a daily limit of US$ 300 per person on cash purchases per kiosk, and limitations on settlements in roubles with non-residents via correspondent accounts of non-resident banks, the latter with a view to limiting activities in the offshore markets.

Barter trade

In 2000, there was a reduction in the share of barter trade in comparison with 1999. The share of barter in exports fell from 35.6 per cent to 26.5 per cent; the share of barter in imports fell from 29 per cent to 21.7 per cent. This reflects primarily increased cash transactions in trade with Russia. The demand for payments in cash for Russian exports of energy and the partial liberalisation in the Belarussian foreign exchange market helped to lower the share of barter in trade with Russia in 2000. The share of barter in exports to Russia decreased from 52.4 per cent in 1999 to 43.7 per cent in 2000 while the share of barter in imports from Russia fell from 38.9 per cent in 1999 to 27.3 per cent in 2000.

The government is currently implementing the 2001-05 state import substitution programme. As stated in resolution No. 1580, the moves are aimed at raising the effectiveness of state bodies that are responsible for protecting the national market and domestic producers. The resolution also aims to reinforce positive trends towards producing price-competitive import substitution products, creating new work places and increasing the country's export potential.

Main export destinations in 2000

Country	Volume, US$m	% of total exports	% increase from 1999
Russia	3,764.2	51.0	16.8
Ukraine	559.8	7.6	99.5
Latvia	467.3	6.3	79.5
Lithuania	348.8	6.1	99.7
Poland	276.8	3.8	32.9
Germany	231.7	3.1	7.5
China	136.2	1.8	-19.6
Netherlands	130.3	1.8	136.0
US	97.0	1.3	21.5
UK	96.0	1.3	85.7
Total	**7,379.7**	**100**	**24.9**

Main sources of imports in 2000

Country	Volume, US$m	% of total exports	% increase from 1999
Russia	5,535.2	65.3	47.0
Germany	585.9	6.9	-15.5
Ukraine	340.7	4.0	-18.0
Poland	215.8	2.5	1.6
Italy	166.1	2.0	-1.1
US	138.7	1.6	7.1
UK	106.2	1.3	32.6
Netherlands	79.4	0.9	0.2
Lithuania	69.3	0.8	-32.4
China	47.4	0.6	25.3
Total	**8,476.8**	**100**	**27.0**

Main export and import commodities in 2000

Commodity	Export		Import	
	% of total	+ % from 1999	% of total	+ % from 1999
Machinery & equipment	25.0	5.5	16.7	9.5
Mineral products	20.1	163.8	31.2	66.1
Metal & metal products	7.2	13.2	11.3	10.8
Chemical products	10.9	1.2	9.5	13.1
Mineral fertilisers	6.6	-4.4	0.2	4.7
Wood & wood products	2.4	15.8	0.5	36.1
Light industry goods	10.6	18.4	4.3	9.4
Food products	3.5	18.4	5.0	10.3
Other goods	20.3	15.7	21.5	45.4

Source: Ministry of Statistics and Analysis, February 2001

Oil and gas imports

The recovery of trade flows in the first half of 2000 was accompanied by a sharp increase in the current account deficit, partly due to the rise in oil prices. Belarus routinely pays for imported energy in barter and offsets with its industrial products. Energy subsidies provided by Gazprom remain pervasive. Gazprom cut its gas supplies to Belarus in spring 2000 due to arrears. In 2000, Belarus fulfilled its current payments for gas and electricity deliveries and brought down its debts for deliveries from previous periods.

Under the terms of the Union treaty with Russia, Belarus has agreed to adjust to the Russian standard the national laws on Natural Monopolies and State Regulations for Energy Tariffs. Belarus has also agreed to harmonise state price controls for oil and oil products and natural gas.

Taxation and social expenditure

The major sources of tax revenue are internal taxes on goods and services such as VAT and excises, as well as deductions for specially directed government funds, which account for more than half of the budget revenue. Direct taxes on revenue, profit and capital increase amount to only about 17 per cent of the total revenue.

Belarussian tax laws are being brought into line with those of Russia. Under the reintegration treaty which Belarus signed with Russia in December 1999 the two countries will have a common legal and tax system by 2005, as well as a single currency. The tax law changes affect both existing legislation and a draft code, which is being altered in keeping with the Russian tax code. The Belarussian tax code will, however, retain certain features determined by the Belarussian constitution and other laws.

Major sectors of the economy

The transport sector is of considerable importance for Belarus, particularly given its location as a gateway between east and west. Especially the transit of Russian oil and gas is becoming an increasingly important sector. Due to specialisation in the Soviet era, Belarus has a number of well-developed industry sectors: automobiles, (agricultural) machinery, electronics and radio engineering, oil extraction and processing, production of synthetic fibres, mineral fertiliser production, pharmaceuticals and chemicals, and construction materials.

Automotive industry

The world's third largest producer of tractors (at the Minsk Tractor Works, MTZ) after the US and Japan, Belarus is also a major manufacturer of lorries, motorcycles and other motor vehicles, and exports these goods to new European markets. MTZ produces 7-8 per cent of the world's tractors and its products are used in 105 countries. The production of tractors and diesel vehicles has received the international certificate ISO 9001.

A joint venture between MAN Group (Germany) subsidiary MAN Nutzfahrzeuge (51 per cent), state-run MAZ (39 per cent), and Lada-OMC Holding (a UK joint venture, 10 per cent) has a truck production plant in Belarus. Under MAN management, the MAZ-MAN joint venture's US$ 2.8 million plant produces heavy semi-trailer tractors for regional and international road goods transport.

MAZ is receiving US$ 50 million of investments from Libya in the form of a loan with the assistance of a Russian bank. The loan is to be repaid through the Minsk plant production sales to Libya which has showed interest in acquiring the Belarus truck tractors and all-wheel drive vehicles. MAZ has resumed supplies of products to North Korea and the Mogiliov automobile plant (MoAZ) has resumed supplies to Vietnam.

The Belarussian Automobile Works (BelAZ) in Zhodino in the Minsk region has signed an agreement with the Czech export bank granting its second and third individual loans worth US$ 60 million and aimed at modernisation of BelAZ production facilities. Earlier, the Czech side granted the first loan of US$ 30 million. The funds have been spent on the purchase and implementation of updated equipment.

Ford (US), which had run an assembly operation in Belarus since 1996, withdrew from its activities in 2000 and has sold its Obchuk plant holdings to J&W Sanderson (UK), a plastic-injection moulding manufacturer. Ford's exit is part of a large reorganisation.

Electronics

Belarus played an important role in electronics in the former Soviet military industrial complex. The industry manufactures radios, televisions, electric measurement devices, and control and regulating devices. There are opportunities for investors in high-tech industries such as laser technology applications, manufacturing of sophisticated household and medical electronic equipment, production of industrial robots and personal computers. Belarus, one of the main suppliers of televisions, household appliances, computers and electronics to the FSU, now exports refrigerators and freezers to a number of non-CIS countries.

Horizont PA is the largest producer of TV sets in Belarus. In 2000 the company produced 296,500 televisions or 55 per cent of the total production in Belarus. Horizont exported 66 per cent of its production to Russia, Latvia, Lithuania, the Czech Republic, Moldova and Ukraine.

Transport

The transport sector has played and will continue to play a key role in the development of the Belarussian economy. Although no significant privatisation has yet taken place in the transport sector and the majority of transport companies continue to operate under direct state ownership, the practice of leasing enterprises is well established. In the longer term, the government aims to reform public passenger road transport in order to improve service.

The Belarussian Ministry of Transport and Communication regularly meets with its Russian counterpart at the Coordination Committee on a Belarus-Russia Transport System for the creation of equal terms for economic entities of Belarus and Russia. The aim is to achieve implementation of a Convention on the Formation of a Common Transport System. The intention is to gradually reduce subsidies and to increase tariffs towards commercial levels, and to make most bus enterprises responsible to local authorities.

Roads

Belarus has over 55,000 kilometres of roads, which are in relatively good condition by CIS standards. Belarus lies at an important crossroads in eastern Europe intersected by three major highways: the M1, which connects Brest, on the Polish border, with Moscow; the M20, which runs in a north-south direction linking Riga, Vitebsk, Mogilev and Kyiv; and the M13, which runs along the southern border from Brest to Russia.

The development of a trucking industry is a priority, as is upgrading of key inter-city road routes, improvements in facilities and procedures to expedite traffic flow at international borders. Challenges in the road sector include reconstruction of maintenance depots in order to set up manufacture of spare parts, vehicle repair facilities and motorway service infrastructure for the M1/E30. An EBRD-financed project has part-financed upgrading this major highway from Brest to Minsk and on to the Russian border (see *EBRD activities* below).

The government has invested a further € 49.2 million to finance the upgrading and repair of the M1/E30. In 2001, the renovation of an 80-kilometre segment is scheduled to be completed. Already 500 kilometres of the highway, which is part of the Pan-European international transport corridor II that links into the Trans-European Network (TEN), has been upgraded. There are also plans to renovate and bring up to European standards the Minsk-Vilnius motorway which is part of branch B of transport corridor IX. A bridge is being constructed over the river Bug near the Kozlovitchi border checkpoint, and design work for a cargo customs clearance terminal is underway in Brest. Road infrastructure is being developed with a view to boosting transit transportation via Belarus.

Railways

Over 30 per cent of bulk cargo and 10 per cent of passengers are conveyed by train on a railway network of 5,500 kilometres, though railway transportation has been decreasing and only about 50 per cent of capacity, including transhipment, is now used.

Aviation

Belarus has international airports in each of its six regions. The government's plan for air transport is to encourage foreign investment in the modernisation of the airline's infrastructure facilities, including the construction of a hotel for transit passengers with a business centre, offices and a trading mall, and the establishment of a flight catering division with the capacity of 800 rations an hour.

Transit of Russian gas through Belarus

In exchange for lower gas prices, Russia receives reduced tariff rates (one third of the tariff in other countries) for the transit of gas across Belarus to Ukraine, Poland, Lithuania and on to Germany and other west European countries. Belarus currently pays for 13 per cent of Russian gas supplies with the income from transit, and by 2005 this share will reach 15 per cent. More than 25 billion cubic metres of Russian gas were delivered via Belarus to western Europe in 2000, and in 2001 gas transit volumes will grow to 27-28 billion cubic metres. The second extension of the Yamal-Western Europe pipeline will become operational in the first half of 2001, allowing Belarus' transit capacity to increase further. The first leg of the pipeline pumped more than 13.5 billion cubic metres in 2000. When the second and third extensions become operational, and new compressor stations are built, the pipeline's capacity will more than double. Construction of the Krupskaya compressor station has begun, and the Minsk and Orsha stations will be built within the next two or three years.
By 2005, gas transit to Europe via the Yamal pipeline may exceed 30 billion cubic metres.
In October 2000 Gazprom announced plans to run a new pipeline from the northern Yamal gas fields to western Europe, transecting Belarus, Poland, and Slovakia, and bypassing Ukraine, which it accused of illegally siphoning gas from the existing pipeline. This new natural gas pipeline would link Kobryn to Poland and Slovakia. Beltransgaz has stated that the proposed pipeline needs to be only 538 kilometres long, of which 67 kilometres through the territory of Belarus. The cost of the Belarussian section is estimated at approximately US$ 70 million.

Transit of Russian oil via Belarus

The northern branch of Russia's Druzhba oil export pipeline goes through Belarus on its way to the coastal oil terminal at Ventspils (Latvia), as well as to Poland and Germany. Approximately 50 per cent of Russia's net oil exports go through Belarus. Oil exported from Russia via Belarus is not subject to export duties due to the Russian-Belarussian Union Treaty. Combined with high oil prices throughout much of 2000, this contributed to a 5.3 per cent increase in the amount of oil via the Druzhba oil pipeline running through Belarus in comparison to 1999.

Agriculture

During the Soviet era, Belarussian agriculture served as a source of food, particularly meat, for the cities in the north-western Soviet Union. However, livestock production has dropped since independence. Emphasis on grain production has increased in an attempt to attain self-sufficiency and to reduce reliance on expensive grain imports. In 2000 Belarus reaped over 5 million tonnes of grain, up 2 million tonnes from 1999, enabling it to do without imported grain, except for some special types of wheat.

Official accounting ascribes 40 per cent of agricultural output to private plots and small subsidiary farms. However, most of the land is still publicly or collectively farmed, despite the much greater productivity of the private sector. Smallholders supply 86 per cent of potatoes, 37 per cent of vegetables, 80 per cent of fruit, 25 per cent of meat and 40 per cent of dairy products. There are 2,650 farms and about 1.3 million individual agricultural producers in Belarus. The financial condition of agricultural entities did not improve in 2000 despite the quite high output of agricultural produce.

The main agricultural fields are meat and dairy production, potato, grain, flax, sugar beet and vegetable and fruit growing, but there is also activity in apiculture. Total arable land is 9.3 million hectares or 75 per cent of land mass, of which 66.6 per cent is ploughed land and 32.1 per cent is pasture.

The state programme of agricultural reform envisages joint-stock ownership of land at the first stage, and preference for large agricultural enterprises in the future. The amount of land managed by privately owned farms has increased significantly, but it is still a small proportion of the total, with state-owned farms managing 90 per cent of agricultural land. The ministry of finance is allocating money to collective and state farms for buying livestock and poultry, part of which was provided in 2000 from the National Fund for Support of Agricultural Producers under a programme of urgent measures to boost livestock production.

In January 1999, a new Land Code was adopted, which enables legal and physical entities to acquire property rights on land, subject to presidential approval, on a case-by-case basis. However, most of the land is still publicly or collectively owned. The agriculture sector is heavily subsidised by the government, but still needs substantial capital investment and working capital financing.

Food processing

Food processing offers opportunities for foreign investment, with a number of western companies already active in Belarus. Other opportunities exist in research and research-related activities, production of baby-food, improvement in packaging facilities, and manufacture of equipment for soil cultivation and chemical plant protection.

Macdonald's

McDonald's was launched on the Belarus market on 10 December 1996 with a triple opening in Minsk, accompanied by great fanfare as Belarus became the 100th country of operations. So far, McDonald's has invested about US$ 15 million in its Belarus venture. It was encouraged by the response of the market, which, at its height allowed the Belarus outlets to record physical volumes of 1.5 times the European average. The company built up a strong brand loyalty and remains an "event" attraction for casual diners, being the only family restaurant in the capital

Six restaurants operate in the Belarussian capital. The company remains one of the largest foreign investors in the country and about 500 working places have been created.

McDonald's originally planned to operate a network of 20 outlets. It has since reviewed its plans under the pressure of crisis linked to the financial collapse in neighbouring Russia and restrictions on prices, currency exchange and imports.

According to McDonald's, it encountered difficulties in 1999. With the Belarussian Rouble in freefall since March on the unregulated interbank market, McDonald has had to convert local currency at the official rate – several times less favourable than the free-market rate. The company was also subject to controls limiting monthly price rises to 2 per cent Nevertheless, it still has hopes for the long term in the Belarus market. Luckily some of these issues were overcome during 2000 with unified exchanged rate and free price establishment.

As in other countries in the region, McDonald's Belarus outlets are bigger than those in western Europe. Its flagship in downtown Minsk seats 280 customers, another near the central railway station seats 200, while the other two seat between 150-160.

At the moment, McDonald's imports most of its raw materials and food inputs. Its main supplier is the McDonald's integrated food processing plant in Moscow, which was created from scratch by the company as a self-sufficient pontoon for entry into the Russian market.

Supplies are ferried from Moscow at the rate of one truckload a day. The Moscow plant supplies 70 per cent of the Belarus chain's needs. Other McDonald's plants in the region – particularly the Polish plant – also act as suppliers. The company plans to gradually switch to local suppliers. Nowadays Belarus suppliers produce caps, uniform, paper products, detergent, different kind of services.

The year 2000 was very successful for McDonald's with a record number of visitors and sales. The company has already planned new openings in Brest and Minsk.

Coca-Cola

Coca-Cola is the biggest single western investor in Belarus with a total investment of US$ 52 million and has secured its position as the country's leading soft drinks producer. The company entered the Belarus market in May 1994, using a number of bottling plants to produce Coca-Cola. Raw materials were imported. At first the product was restricted to a traditional 25 cl. glass bottle. This was supplemented in September 1994 with 2-litre bottles and a few months later with a widening of the product range to Sprite, which was imported from other Coca-Cola manufacturing plants in the region. By the end of 1995, the company had introduced much of its product range and sales were burgeoning.

In 1995, the company decided to establish a manufacturing plant in Belarus with a US$ 30 million investment. First, it needed a plot of land, yet foreign ownership of land was prohibited by law. The problem was overcome early in 1996, when the Belarussian parliament voted in favour of allowing Coca-Cola to lease for 99 years a plot of land near Minsk.

The greenfield site has a modern bottling plant and distribution centre. It also has facilities which produce PET bottles. Coca-Cola employs 250 people throughout Belarus. Apart from the Coca-Cola concentrate, which is always imported, all other inputs are sourced locally. Resin is an important ingredient. Crowns, bottles, labels and packaging all come from Belarus manufacturers and are paid for in local currency.

Distribution has been a key element in the company's successful penetration of the market. From its distribution centre in Minsk, it supplies seven warehouses and flow depots located strategically around the country. More than 7,000 medium-sized and small retailers have been equipped with Coca-Cola coolers.

In July 1996, Coca-Cola launched its first national promotion campaign with "under the crown" competitions. The prizes ranged from a free bottle of one of the company's products to a holiday abroad. This was the first promotional campaign of its kind in Belarus. The campaign resulted in a marked increase in sales of the company's product line.

In 2000, per capita consumption of the company's soft-drinks range – Coca-Cola, Fanta orange, Fanta lemon, Sprite and Bonaqua – was 6.3 eight-ounce servings. The company is confident that its share of this market of 10 million consumers will increase measurably in the coming years.

Confectionery

The biggest confectionery producers include Belgospischeprom, Belarussian-Polish joint venture "Belarussian Coffee Company", Spartak, Kommunarka, Krasny Pischevik, Krasny Mozyryanin, Ivkon, Slodych and Konfa. Schwartauer Werke GmbH & Co. (Germany) now has two subsidiary production units in Vitebsk FEZ: Vicos (since 1996), and Vitella (since 2000), a plant producing chocolate glaze in Vitebsk, in which it invested about US$ 11 million.

Confectionery production increased by 3.5 per cent in 2000, with Spartak recording a 9 per cent increase. The only company to record losses was Ivkon, which produced 15.4 per cent less. The companies Belgospischeprom and Spartak increased production by 0.8 per cent and 9 per cent respectively.

Brewing

Due to outdated production facilities, Belarussian breweries have difficulty in maintaining production of high-quality beer and in competing with Russian companies, according to brewers' corporation Belpivo. Most Belarussian breweries are suffering from obsolete, worn-out machinery and the financial state of most beer producers is not good enough for technical re-equipment. High purchase prices for barley aggravate the situation further, and companies are obliged to apply huge efforts to ensuring a supply of primary materials.

Gomel brewery ARAGAST has recently set up a joint venture, ARAGAST-Czech Beer. The Czech side is represented by Gas Industries Group (Prague) and Interservice (Galichkov Brod). Initially, the Czech beer production line was to be put in operation by late summer 2000, but production was postponed to early 2001. The volume of investments totals US$ 1.7 million, of which US$ 1.5 million will pay for imported brewery equipment. In the future the joint venture intends to start producing its own malt beer, of which large amounts are to be exported to Russia.

Chemicals

Enterprises in Soligorsk, Gomel and Grodno produce potassium fertilisers, aminophosphate and high quality nitric fertilisers, which in recent years have found new markets abroad. Opportunities in the chemicals sector include: production of pharmaceuticals and various medicines, development of new composite materials, polymers and plastics, upgraded processing technologies for chemical fibres and threads, plant protection chemicals, household chemical goods, varnishes, paints and pigments, rubber items, deep processing of oil and other raw materials, production of wall, facing, heat-insulating and other energy efficient construction materials and items, production of synthetic fibres, mineral fertiliser production and further opportunities in the pharmaceutical industry.

Machine building

The machine-building sector specialises in the production of various metal cutting machines, smith and pressing equipment. Opportunities in this sector exist in: instrument engineering and making, manufacture of machine tools and equipment, production of high precision machine-tools, metal cutting instruments, manufacturing of transportation means and equipment for their maintenance, construction engineering, small mechanisation means, road-building machines and modern equipment for food and light industries.

Science and technology

Foreign investment is needed to make use of the country's scientific abilities and to redress the low level of commercial utilisation of the achievements of the science and technology sector. There are opportunities in: technologies based on high concentration energy flows – laser and optical, plasma, and other fields; computer-based data and information technologies – development of neuro-computers, databases, software, ecological monitoring; integrated computer-based production technologies – automated control and management systems, industrial robotics, control and diagnostic equipment; biotechnologies – use of micro-organisms, genetic and cell engineering, membrane technologies; new materials and composites – ceramic high temperature super-conductors, semi-conductors, magnetic and polymer composites, non-organic coatings.

Defence

Defence production was formerly well developed in the following high technology sectors: radio equipment, optic systems for satellite imaging and image processing equipment, electronics, and transportation. Until the break-up of the former Soviet Union the sector employed 400,000 workers and represented a significant proportion of Belarus' overall industrial output, with estimates ranging from 20 per cent to 40 per cent.

Enterprises in this sector have always produced consumer goods as well as defence products, depending on their specific technology. Most enterprises changed their entire production to their traditional consumer product range when defence conversion officially began.

Forestry and wood processing

Belarus has good potential for the timber and wood processing industries. The country has significant forest resources with forest lands covering about 36 per cent of total land area.

By law, forestry lands are the property of the state. The quality of timber is good, particularly spruce and birch. However, the industry needs investment. Over the past several years the government has tried to develop the timber industry and adopted a programme through the year 2000 for increasing exports of wood, wood processing, and pulp products.

Wood and paper products have been some of the fastest moving exports. The wood and paper industry is heavily supported by the ministry of forestry and BelLesBumProm, a state-owned consortium, which has aggressively implemented an export-promotion programme. The consortium includes BelLesInvest, BelGosLes, and BelLesExport. BelLesInvest in October 2000 announced an international tender for hardware and software for processing satellite information on the condition of the forests. The equipment will include a satellite receiver, management system and computers. It will be used to receive, register and process information on natural resources.

Natural resources

Gas

Belarus produces 250 million cubic metres of gas yearly. Most gas is imported and Gazprom (Russia) is the major gas supplier to Belarus. Belarus has faced a serious threat of sharp cutbacks in energy deliveries from Russian suppliers due to chronic payment arrears for past deliveries. Although Gazprom has traditionally supplied gas at subsidised prices to Belarus, the latter has had difficulty in paying. Belarus is paying for the Russian gas and accumulated arrears by supplying agricultural machinery and food products. Belarus pays for most of its gas with supplies of material resources such as farm produce. In this way, gas, oil and electricity debts to Russia have been reduced considerably. In 2000 Belarus' debt to Russia for consumed natural gas and electricity decreased. The debt to Russia decreased by US$ 48.7 million since the start of the year, bringing its total debt to approximately US$ 200 million.

Belarus pays a lower price for its gas deliveries from Russia than any other CIS country. In 2000, the price of Russian gas remained at the same level as in 1999, at US$ 30 per 1,000 cubic metres.

Oil

Belarus has estimated reserves of about than 190 million tonnes of oil. Domestic production is growing, with 30 of the country's 50 known oilfields operating. Belarus imports 80 per cent of its oil, all of which comes from Russia. In 2000 Belarus itself produced 36,700 barrels per day (bbl/d) of oil.

Belarusnafta, the state-owned oil production monopoly, estimates that active oil deposits may last for 18 years, with more difficult deposits lasting for 34 years. Belarus is also joint owner with Russia of the Slavneft oil company.

In November 2000 the Belarussian prime minister announced that the government plans to receive licences for oil exploration and production in Russia. The government signed an agreement with the Nenets Autonomous Region, to which the Russian prime minister also gave his assent. The oil produced is to be delivered to Belarussian refineries, with the processed products to be sold both in and outside Belarus.

Refining

Belarus has a fairly large refining industry. In 2000 Belarus' refining capacity stood at 265,000 bbl/d, far higher than its domestic production and consumption. The two refineries, Naftan in the Novopolotsk Vitebsk region and Mozyr in the Gomel region, are supplied with crude oil from Russia, and the 28,000 tonnes extracted each month within Belarus. The Mozyr oil refinery is a Belarussian-Russian joint venture operated by Slavneft. Slavneft has upgraded the facility and, in negotiation with the government, has also founded a commercial bank in Minsk, Slavneftebank, which has a licence to carry out a limited range of banking operations.

Energy

Both power generation and consumption dropped considerably during the 1990s, by 38 per cent and 27 per cent respectively. Natural gas-fired power plants account for 71 per cent of power generated, oil-fired plants for 29 per cent, and hydropower plants just 0.1 per cent. While electricity consumption still exceeds production, Belarus has looked mainly to Russia and Lithuania to supplement its electricity needs. Belarus stills owes Lithuania around US$ 56 million for electricity supplied in 1998 and 1999, but after a one-year break, Lithuania agreed in May 2000 to supply Belarus with electricity again after concluding an unusual three-way barter agreement with Russia and Belarus.

Russian company Energiya pays with nuclear fuel for Ignalina, while Belarus supplies Russia with commodities. Lithuania resumed the export of electricity to Belarus in July 2000. After Lithuania temporarily halted exports in October due to a lack of payment guarantees, the contract was slightly revised and electricity deliveries were resumed again.

Belarus is hoping to benefit as a transit country for Russian electricity being exported to Europe. In October 2000 Russia began exporting about 1.5 million kwh per day along the Ross (Belarus) – Bialystok (Poland) power cable. Russia increased exports in 2001, which gave Belarus the benefit of transit income, as well as the import of some electricity for its own consumption.

At the beginning of 1999, the country announced plans to restructure its energy sector through privatisation up until 2010. However, no concrete action has been taken in this direction. The government has estimated that as much as US$ 5 billion would be needed to upgrade the industry.

Telecommunications

The Ministry of Communications is the state-owned monopoly operator of all telecommunication services. It has begun to implement market tariffs for telephone, telegraph and postal services to allow all costs to be covered as well as to permit the financing of new investments in the sector. It also involves foreign companies in joint development and updating of the telecommunications networks. Cable and Wireless has been involved with cellular phones and other western telecom companies (Deutsche Telekom (Germany), US West (US), AT&T (US) and British Telecom) have considered opportunities to upgrade local and international switching systems.

The main sub-sectors where foreign investment is needed are: the purchase of equipment for cellular telephone networks; construction of an earth satellite station (Teleport) and development of modern telecommunication services.

The telecoms network is in the process of modernisation, with the installation of automatic exchanges. Rapid data transmission facilities are only beginning to come on stream. Current investment includes bringing a number of new automatic exchanges on line and connecting 70,000 subscribers.

Mobile telecommunications

The first cellular phone service, BelCel, started in 1993, based in Minsk. BelCel was originally founded by Cable & Wireless (UK) but is now half owned by Metromedia (US). In April 1999, the first GSM cellular digital telecommunications system in Belarus was launched by a joint network between two state-owned companies, which hold a controlling stake, and a Swiss investor, SB Telecom. The arrival of this new provider, Velcom, broke the monopoly previously enjoyed by BelCel, and resulted in a significant reduction in cellular rates. Still, there are no more than 35,000 mobile telephone subscribers in Belarus.

Financial sector

The fundamentals of the financial sector have in many ways remained unchanged since the Soviet era. A few of the reforms instituted immediately after independence have endured, especially in so far as there is some private capital in the banking sector. Non-banking financial institutions are less developed than the banking system. Capital markets are virtually non-existent: assets of non-bank financial institutions represent less than 10 per cent of all assets in the financial sector. There is no full regulatory framework in place, although banking supervision is developing in compliance with Basle Committee recommendations.

Banking sector

The Belarussian banking sector consists of 28 commercial banks with a total of 524 branch offices and total assets of BRb 4.5 trillion. Seven major banks (Belagroprombank, Belvnesheconombank, Belarusbank, Belbusinessbank, Belpromstrojbank, Belarussky Bank Razvitii, and Priorbank) dominate the banking system and account for 87.5 per cent of banking operations. Belarusbank alone accounts for 39 per cent of total system assets. Most activities of the large banks focus on state-directed operations in the Belarussian GKO market to finance the government deficit, as well as support for loss-making enterprises. They all have state organs – including the national bank – and state enterprises as shareholders. Of the 28 banks, 19 have some foreign capital, of which two are 100 per cent foreign-owned. On 25 January 2001 Atom-Bank was registered, with foreign capital participation. There are 11 representative offices of foreign banks and financial organisations. Lending to the private sector and bond operations are limited by the slow pace of both privatisation and growth of the new private sector. The stock of credit to the private sector amounts to about 9 per cent of GDP.

Priorbank (PB) is the largest private bank in Belarus. Its shareholders include some of the largest Belarussian enterprises. PB is the fifth largest Belarussian bank in terms of assets, representing some 8 per cent of the banking system's total assets. The bank offers a wide range of services, being one of the most active banks in foreign trade and a leader in the credit card business in Belarus. The bank has 33 domestic branches and 40 sub branches and over 100 foreign exchange counters. Its foreign representative offices are in Russia, Poland and Germany.
To support PB's future growth and strengthen its capital base the EBRD made a US$ 2.8 million investment in 1998. The EBRD is now the biggest single shareholder. The EBRD's presence has also enhanced PB's international recognition. The EBRD has been working with PB for almost six years. In May 1995 PB was one of the first two banks accredited under the sovereign-guaranteed SME Credit Line to local commercial banks.

The government extended its control over the banking system during the 1990s. In 1997, the government increased its ownership of all former state-owned banks to 48 per cent (which includes all the country's largest banks) through state-owned companies. In the case of Belvnesheconombank, the National Bank of the Republic of Belarus (NBB, the central bank) made an additional equity injection, increasing the overall state holding from 64 per cent to 82 per cent.

The NBB does not enjoy *de jure* independence and reports to the President. The NBB conducts on-site and off-site banking supervision. Loan provisioning regulations follow NBB standards that are based on past due loans, borrower's solvency and pledged collateral. Some banks have implemented international accounting principles. The NBB has settled the minimum share capital requirement for domestic banks at € 2 million and for foreign and joint venture banks at € 5 million.

Non-bank financial institutions

Securities markets and instruments

The Law on Commercial Paper and Stock Exchanges was passed in 1992. The Belarus Stock Exchange trades once a week, mostly with the shares of several dozen companies (mostly banks) traded. According to a presidential decree of 20 July 1998, the Joint-Stock "Belarussian Currency and Stock Exchange" was founded on the basis of the state company "Interbank Currency Exchange". It is expected that the Belarussian Stock Exchange will soon join and that the JSC "Belarussian Currency and Stock Exchange" will concentrate on trading in currencies and securities.

In order to use non-inflationary sources of financing for the state budget deficit the government has increased the issue of government papers. Treasury securities are the most liquid, tax-exempt, financial instrument on the primary and secondary markets. The yield on these securities is pegged to the refinance rate.

Insurance

A number of restrictions on foreign insurers have been lifted as the result of a presidential decree in October 2000. Foreign insurers are allowed to set up subsidiaries in Belarus and also to invest in existing local insurance companies. To invest in a domestic insurer, however, they will need to show at least 10 years of experience in the insurance business and two years of experience in the insurance business in Belarus. If the total foreign share of all local insurance companies rises to above 30 per cent, however, the government will be entitled to stop issuing licences to foreign companies. Furthermore, companies with more than 49 per cent foreign participation are not allowed to offer life insurance or cover for state or municipal property or for services procured by the government. Belarus life insurers, however, may not offer any other kind of insurance. The decree allows mutual insurance. It also contains new measures on the establishment of insurance companies and their financial stability.

There are about 40 insurance companies. The insurance market is less concentrated in Belarus than in many other countries in the region, with the top five providers accounting for about 76 per cent of collected premiums. The state insurance company Belgosstrakh accounts for 60 per cent of collected premiums.

SME financing and development

The existing EBRD SME credit line is the main vehicle for reaching SMEs and is an important source of financing for the SME private sector. By early 2001, the credit line had financed 32 projects for a total of US$ 28 million. Preparatory work on a micro lending programme to reach very small-scale entrepreneurs has been completed.The programme will be run through branches of two banks (Priorbank and Belgasprombank), with funds sourced from the existing SME credit line.

The IFC's new SME Development Project funded by USAID was launched in May 2000. The project aims to promote SME development by building on the momentum generated by the IFC's previous technical assistance projects. The project maintains an extensive network of field offices covering all oblast cities with a Coordination Centre (CC) in Minsk. The CC develops an overall strategy and oversees its implementation. The field offices serve as a link between the CC and local business communities. The project cooperates with partner organisations such as business associations, business support centres, educational establishments, business incubators, trade unions, international organisations, unions of entrepreneurs and NGOs.

EBRD activities in Belarus

As at 31 December 2000, the European Bank for Reconstruction and Development (EBRD) had signed six projects in Belarus totalling € 175 million. In the private sector, the EBRD has provided a € 32.2 million credit line for small and medium-sized enterprises (SMEs) and has made a € 2.6 million equity participation in a private bank. The four public sector projects are in agribusiness, telecommunications, power generation and transport.

Overview of EBRD activities and key objectives

The EBRD's operational strategy focuses on the following priorities:

- development of the private sector through: provision of term finance to SMEs through local financial intermediaries; support of needs of SMEs through TurnAround Management (TAM); and direct financing of individual private sector projects;
- financial sector development through: the implementation of the SME credit line and micro-lending programme, which is channelled through the local participating banks; the expansion of the trade facilitation programme to eligible banks in order to promote long-term institutional development and to assist the banking system in accessing international markets; and direct investment in eligible local commercial banks.

Signed projects as at 31 December 2000

Belarus Telecom

In July 1992 the EBRD signed a loan agreement for € 40.2 million with the Belarussian government to finance telecommunications facilities, including construction of a digital overlay network for business subscribers providing direct access to the international telecommunications network.

Orsha power plant modernisation

In December 1993 the EBRD signed a loan agreement for € 35.0 million with the Belarussian Ministry of Energy to modernise the Orsha power plant, which is situated in the north east of the country. The loan has been used to build a combined-cycle heat and power plant with a capacity of 62 MW, the first in Belarus. This allowed the country to reduce its dependence on expensive energy imports and introduced efficient, environmentally friendly technology. It also improved the reliability of the domestic energy supply and led to further progress in the restructuring of the power industry along more commercial lines.

Minsk wholesale market

In December 1993 the EBRD signed a loan agreement for € 6.8 million to finance the Minsk Wholesale Market Company, transforming an existing vegetable distribution base into a modern fruit and vegetable wholesale market complex, with the aim of providing year-round supplies of fresh produce for the capital city. The market opened in August 1996.

Brest-Minsk Russian border highway improvement

In April 1994 the EBRD signed a loan agreement for € 50.8 million to finance the repair and upgrading of the highest priority sections of the M1/E30 highway in Belarus, which links Moscow, Minsk, Warsaw and Berlin. The Belarussian government invested a further € 25.1 million. About 230 km of the road has been repaired, and road user tolls have been introduced.

SME credit line

In November 1994 the EBRD signed a loan of € 32.2 million for a credit line specifically designed to fund private SMEs in Belarus. The funds are being on-lent to SMEs through participating local commercial banks. The credit line provides the private sector with medium- and long-term financing in foreign currency for investment and working capital, and is also helping to strengthen the financial sector. The credit line was supplemented by technical assistance financed by EC Tacis, British Know-How Fund, the International Co-operation and Development Fund of Taiwan (ICDF)/Eximbank of China and was designed to help the participating banks with institutional strengthening and project implementation. Over € 26.2 million has been disbursed to 32 private sector sub-projects in a wide range of activities, from services to manufacturing.

Priorbank

In January 1998 the EBRD invested in a 27 per cent share in Priorbank, one of the largest privately controlled banks in Belarus.

EBRD Trade Facilitation Programme (TFP)

Priorbank and Belvnesheconombank joined the TFP 2000. At the moment both of the banks are active under the programme. As of January 2001 the turnover under the facility was in excess of € 4 million.

Milavitsa

In December 2000 an equity investment of US$ 1 million was provided to a Joint Venture Milavitsa in the apparel sector.

Contact names

Olivier Descamps
Business Group Director for Southern
and Eastern Europe and the Caucasus
Tel: +44 20 7338 7164
Fax: +44 20 7338 6599
European Bank for Reconstruction and Development
One Exchange Square, London EC2A 2JN

Hildegard Gacek
Country Director for Armenia, Azerbaijan,
Belarus, Georgia and Moldova
Tel: +44 20 7338 7257
Fax: +44 20 7338 6599
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN

Renata Iksar
Administrative Secretary
EBRD Resident Office
2 Gertsena Street
220050 Minsk
Belarus
Tel: +375 17 211 0370
Fax: +375 17 211 0410

Serguei Ovseitchik
Director
Igor Kovtun
Alternate Director
EBRD constituency office for the Russian Federation,
Belarus and Tajikistan
One Exchange Square
London EC2A 2JN
Tel: +44 20 7338 6510/6514
Fax: +44 20 7338 6042

Signed projects as at 31 December 2000 (in € million), exchange rates as at 31 December 2000

Operation name	Sector	Total cost	EBRD Debt	EBRD Equity	EBRD Total
Private					
SME credit line	Finance	40.3	32.2	0	32.2
Priorbank	Finance	3.0	0	2.6	2.6
Milavitsa	Apparel	3.0	0	1.0	1.0
Regional TFP: Priorbank	Finance	0.1	0	0	2.61
Regional TFP: Belvnesheconombank	Finance	0.2	0	0	0.71
Sub-total		***46.6***	***32.2***	***3.6***	***39.1***
Public					
Minsk wholesale market	Agribusiness	11.8	6.6	0	6.6
Orsha Power Plant Modernisation	Power and energy	35.0	36.8		36.8
Belarus Telecom	Telecommunications	41.7	41.7	0	41.7
Brest-Minsk-Russian Border Highway	Transport	92.8	50.8	0	50.8
Sub-total		***181.3***	***135.9***	***0***	***135.9***
Signed projects total		**228.0**	**168.1**	**3.6**	**175.0**
of which private					22.3%
of which public					77.7%