

# Conservatism not in fashion

Enterprises advised to search for cheap finances on foreign capital markets

By Alexander Borovikov

Until recently, such instruments as corporate bonds and initial public offerings (IPO) were of no great interest to Belarusian enterprises. However, international experience shows that these can be more beneficial than bank loans in the structure of external financing sources.

Until now, conservative domestic industrialists had no need to search for capital on foreign markets, since bank loans were enough to satisfy their needs. However, times are changing, with enterprises responding to the state's appeal to find alternative mechanisms of long-term financing.

The Economy Ministry is prioritising the creation of conditions to help businesses develop, explains Dmitry Golukhov, Belarus' Deputy Economy Minister. "The initiative should come primarily from enterprises themselves, rather than being given from above," he asserts. "There are no ready-made decisions in this sphere; we need to study external and domestic markets before taking corresponding decisions."

IPOs allow investors to become shareholders in a company but involve a complex range of organisational, legal and financial procedures, with many intermediaries, beside the enterprise itself and potential investors. The Belarusian Summit of Capital Markets, recently hosted



Minsk Automobile Works is able to make a beneficial proposal to investors to become its shareholders

by Minsk, demonstrated that Belarusian enterprises wishing to try the IPO route can count on assistance. For example, Deutsche Bank promises to more actively collaborate with domestic financial structures and enterprises. It would help Belarusian companies to take their first steps on the international capital market. In particular, a working group including German bankers is discussing this opportunity with BelAZ; the industrial giant could soon

place shares on the international market. "BelAZ is only in the first stage of such work so it's too early to speak of pricing parameters. It could take over a year to prepare," explains Joerg Bongartz, the Chairman of Deutsche Bank's Board of Directors.

Nobody is saying that it will be easy for Belarusian enterprises to gain prominence on foreign capital markets, as shown by the experience of our closest neighbours. For example, in 2010, of twenty

Ukrainian enterprises wishing to attract international capital, only four entered the global IPO market. The volume of initial placement of Ukrainian companies totalled just \$335m — almost five times less than their planned \$1.5bn. According to specialists, the Ukrainian failure was the result of the debt crisis, which began in Eurozone countries in the second quarter of the previous year. 2011 should be more successful for those wishing to borrow

money from international financial institutes.

Mr. Golukhov notes that the entrance of Belarusian enterprises onto the international capital market should be fulfilled as part of a single strategy. Of course, it's unlikely that Belarus will achieve its aim at a single stroke. The Deputy Economy Minister believes that the process of IPO share placement is unique to each enterprise and relies on long-term preparations.

## Oil to be extracted in new way

**In less than five years' time, an ore-dressing and processing enterprise for industrial mining of oil shale will be operational in the country**

Oil shale is to be the next step towards Belarus' energy security. The construction of an ore-dressing and processing enterprise will cost \$2bn, with investors already showing interest in Belarus' deposits of oil shale. The layers were formed hundreds of millions of years ago on the sea bed, from plant and animal remains. Shale oil is similar to oil in its composition but requires rock to be specially processed. Scientists believe these natural resources contain even more oil than natural deposits. Estimates show that Belarus possesses about 9bn tonnes of oil shale.

Lyuban and Turov oil shale deposits were discovered in the 1960s, when oil and gas were cheap, making it economically unfeasible to mine. Now, production profitability is rising, along with prices, making it reasonable to start developing these sites. The Turov deposit will be the first, having greater stocks at a shallower depth. The most optimal technology for mining and processing is soon to be tested. It's been proven that the Turov deposit boasts 10m tonnes of oil shale, with over 500,000 tonnes of oil potentially reaped annually.

## Milk and meat to suit everyone

**Last year, Belarusian food exports increased almost 1.5 times, to exceed \$3bn**

In 2010, over 500,000 tonnes of milk and dairy products were exported, alongside 200,000 tonnes of meat, with food products accounting for more than half of total exports of consumer goods. At the same time, the import of major products fell; almost half the volume of cereal crops was imported, compared to 2009. Accordingly, the foreign trade balance in consumer goods was positive and more than doubled.

## Fur for Europe

**Belarusian mink causes a stir at recent international fur auction in Helsinki**

Our mink's quality worthily rivalled that of acknowledged European leaders and enjoyed great demand. Suppliers traded \$24.6m of 'soft gold' in Helsinki — a true breakthrough for Belarus' fur breeders. A year ago, almost half the volume of fur was exported.

## German partner investing in machine building

By Sergey Kononov

**Belarusian-German JV to produce metal processing machines in Vitebsk**

A principal agreement has been reached between Vitebsk's Stankoremont Plant and German AXA GmbH, creating a whole new level of machine building for our country. Demand is high, since the equipment is used in machine building, machine tool building, metallurgy and other branches.

Initially, only assembly manufacture is to be organised in Vitebsk, but individual components for metal processing machines are to be made in Belarus in the future at joint enterprises, with our German partner. The latter is to give us the necessary technologies and organise staff training while supplying control and measuring devices to assess the quality of production.

## Making personal contribution to shared wellbeing

Citizens are likely to pay more taxes than companies

By Roman Averianov

Last year, Belarusian salaries rose, as did tax payments into the budget. Experts expect the trend to continue, with the Ministry for Taxes and Duties explaining that, in 2010, citizens paid almost 3 percent more than in 2009. "We are gradually approaching the level of developed foreign states, where over half of all taxes are paid by citizens rather than enterprises," notes candidate of economic sciences Vladimir Poplyko.

However, to reach a similar situation as that seen in the USA or Germany, Belarusians need to become property owners. As home owners (and share holders), foreign citizens pay extra taxes. The state currently owns most

property and land in Belarus, so must gradually pass on some part of ownership to citizens. The process has begun, with restrictions on the circulation of shares lifted, privatisation expanded and conditions created to allow entrepreneurs to purchase buildings they currently rent from the state.

Mr. Poplyko believes the state must further simplify and ease taxation, encouraging citizens to declare all their earnings. By reducing taxation for landlords, more people will be encouraged to declare such earnings. The transition to a single 12 percent income tax rate has demonstrated the efficiency of this step: private individuals' tax payments into the budget have risen almost 1.5-



Citizens ready to support social programmes via taxes

fold, while people no longer need to spend time collecting references and filling in declarations.

The Government warns that, in future, some part of the tax burden will shift from companies to individuals. If our income continues to grow, this seems quite reasonable. Moreover, we need to realise that our taxes are returned to us via free medi-

cine, new schools and stadiums. The state provides for our social needs, with such spending rising by 40 percent this year (compared to 2010). Germany and Sweden are known for their high social standards, with citizens paying higher taxes (up to 55 percent in Sweden and slightly less in Germany). Naturally, they receive significant social support in return.