Problems and prospects for the Belarusian IT industry

On 7 June 2017, the Microsoft Corporation held a Government Industry Day at Belarus’s Hi-Tech Park with the participation of both Belarusian ministers and Microsoft experts. The seminar addressed issues surrounding the digital transformation of the economy and aimed to present technologies that could work for the finance, transport, health, education, and other economic sectors to the Belarusian authorities.

IT has become the fastest-growing sector in the Belarusian economy, increasing by over 20% annually. However, the nature of the industry in Belarus, which focuses on outsourcing, primarily targets foreign customers. This is partially due to the reluctance of the Belarusian state to embrace tech achievements at home.

Given the limited growth potential of outsourcing, Belarusian IT needs to shift from software services to production, as well as increase local consumption. These processes require economic liberalisation – including venture legislation and favourable investment conditions – larger number of specialists, and modernised national tech management.

The prevalence of the outsourcing model

On 12 June 2017, the number of Hi-Tech Park residents reached 181. Last year, HTP revenue nearly reached $1b – a huge leap from $22m in 2007. The World Bank’s Doing Business 2017 index ranked Belarus 37th due to its good outsourcing conditions.
However, outsourcing may soon reach its apex, given Belarus’s limited human resources and the world’s spending on outsourcing. The outsourcing-dependent IT sector sells ‘brains’, thus letting most income go abroad; it may also become less economically attractive after HTP tax exemptions terminate in 2020.

On the other hand, the presence of global outsourcing companies fosters the development of Belarusian IT infrastructure, thus increasing the productivity and stability of the IT sector and reducing risks and costs. It also sustains a labour market with a number of wealthy and skilled professionals who receive wages significantly higher than the average.

What’s more, many outsourcing companies are now moving beyond software services. For instance, EPAM Systems, owned by Belarusian businessman Arkadź Dobkin, has expanded its focus to product development in such areas as medicine, media, and banking.

Rising software production

At the moment, out of a total of over a 1,000 IT companies operating in Belarus, only 10-15 per cent create their own products. Nevertheless, product software remains the most promising direction, as ready-made projects earn more than services. In particular, Belarus will benefit from companies that create machine learning and artificial intelligence products – fields which will dominate the tech industry in the near future.
Software producers, however, are encountering problems finding specialists in such spheres as marketing and product management. Dominated by outsourcing, Belarus has so far failed to create the necessary job market for software producers. Last week, Wargaming, a game developer with Belarusian roots, began a liquidation process at its London ‘mother’ company. Belarus’s richest product developer, famous for the game World of Tanks, now faces serious business stagnation.

Nonetheless, Wargaming recently opened a mobile division in an attempt to reorient its functioning. Other Belarusian startups also remain active and receive foreign investment. This year, the mobility company Gett acquired the Belarusian-Israeli startup Juno, while the public company Globant acquired PointSource. Other promising startups include DroneX, which develops custom-made Unmanned Aerial Vehicles, Blinger – an app that allows communication via multiple platforms, the trip-planner Eightdays.me, and an emotion recognition app called NeoSound. These projects have already been noticed internationally and have high chances of becoming successful.

Problems in state policy and legislation

In a recent interview, Ivan Michnievič, a co-founder of Wargaming who left the company in 2014, described the state policy towards business as ‘short-sighted’. Belarus barely invests in IT and has complex legislation for the IT business.
State investments in R&D have been declining since 2011, never exceeding 1 per cent of GDP. This consequently reduces Belarus’s ability to retain regional leadership in the current technology race.

During the conference IT Spring 2017, various speakers discussed investment problems in Belarus. Not only do specifics of legislation prohibit venture funds, they also fail to protect the investor. Belarusian law neither secures investor’s property rights nor protects him or her from employees transitioning to competitors.

What’s more, occasional arrests and administrative punishments of shareholders and managers for violations of economic and bureaucratic procedures frighten off potential investors. The government, which is incapable of scraping together national funds to support IT, should at least allow venture funds and amend legislation to attract more investment.

As for advertising, Belarusian legislation stipulates complex bureaucratic procedures. For example, paying for advertising services of foreign sites (such as Facebook, GooglePlay, or Apple) involves a 35% tax on non-resident services comes, making advertising from Belarus highly unprofitable.

Lastly, the reason why Belarus lacks many major corporations is the country’s image. In order to attract companies like Microsoft or Facebook, Belarus should cultivate a positive image in foreign media; this requires political will rather than large amounts of money.
Domestic IT consumption and social division

Lack of domestic consumption remains a challenge for the Belarusian IT industry. State companies which have their own tech specialists remain unwilling to move on to a new type of technology management. Beside being insufficiently informed about the opportunities offered by the IT industry, officials have no real interest in the tech-supported success of state-owned businesses.

Arkadź Dobkin expressed his readiness to work in Belarus provided that the customer has a sincere interest in the result and ‘wants to be your real partner, and not a boss on a high chair’. If Belarusian manufacturing and agricultural giants make better use of Belarusian IT services, this will eventually benefit both sides, improving the country’s economy overall.

Moreover, Belarus should address IT education, as the current level of IT training does not meet requirements. To increase its supply of professionals, Belarus could attract specialists from neighbouring countries by offering special visas or residence permits, reducing payroll tax, or providing other benefits.

On the other hand, the state must maintain a balance in the way it treats the IT sector. At the moment, IT specialists receive significantly larger salaries with many tax benefits; these are unavailable to the rest of the working population. Excessive attention to IT could contribute to the creation of a distinct labour elite, which brings inequality and division to society. The authorities should pay more attention to other spheres, such as education or health, regardless of the profit they bring.
Thus, provided the state implements legislative changes, the ICT sector will grow faster, bringing more companies, revenue, and technological advancement to Belarus. However, in order for ICT not to become overly exclusive and divisive, the sector should work out a way to directly benefit the Belarusian economy and society.

*This article is a part of a series of publications on IT sector in Belarus supported by VP Capital.*