BARRIER OF FOREIGN DIRECT INVESTMENT IN POLAND

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**Abstract**

The article presents the characteristics of foreign direct investments in Poland. It points out the factors hindering their realization in our country. Attention has been paid to the meaning of those investments for the development of domestic economy.

**Key words**

Foreign Direct Investments, forms of investment, investment barriers.

**Introduction**

Foreign Direct Investments (FDI) belong to fundamental forms of capital flow in world-wide economy. They have an enormous impact also on Polish economy and in the recent years they have been characterized by intensive dynamics of growth.

According to National Bank of Poland (NBP) in 2011 the flow of foreign direct investment into Poland will amount to approximately 12.7 billion euro. Compared with previous year the increase will reach about 3 billion euro. This growth will be the result of expected increase in capital flow on international level, relatively high investment attractiveness of Poland and boosting reinvested profits.

In the opinion of the United Nations (UN) economists who work on the preparation of World Investment Reports, countries which attracted the majority of foreign direct investment are the most developed countries able to guarantee predictable law and beneficial infrastructure (www.nbp.pl, 2011).

**Foreign direct investment**

Foreign Direct Investment is a form of long-term foreign capital deposit which aim is to establish in a foreign country a new enterprises and equip it with share capital. It may also refer to purchasing such number of shares of foreign company which will allow for controlling it. Among Foreign Direct Investment there is also granting loans to foreign or based overseas subsidiaries and providing them with resources for capital expenditure.

FDI also includes business ventures embracing purchase of ready-made investment goods in order to guarantee increase in fixed assets for the benefit of production development and material services in production and in non-production sphere for the increase of stable infrastructure of social services.

In Figure 1 influx of foreign direct investment into Poland between 2000 and 2011 was presented. The presented data proves that over the last twelve years FDI value in Poland fluctuated between 4067 mln euro in 2003 and 17242 mln euro in 2007. Such significant differences are the result of various factors. Substantial increase in investment flow to Poland from European Union which took place in 2004 was the result of Poland accession to the EU structures while the decrease noted in 2008 was the effect of world-wide economy crises.

![Influx of Foreign Direct Investment to Poland between 2000 and 2011](image-url)

**Fig. 1** Influx of Foreign Direct Investment to Poland between 2000 and 2011. (Data for 2011 is a forecast)

Source: Own elaboration based on NBP
Foreign direct investment is made to win stable share in an enterprise which functions in a different economy than the one of the investor and the investor’s goal is winding an efficient impact on company management.

<table>
<thead>
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<th>Table 1 Fundamental forms of investment within FDI</th>
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<td><strong>Form</strong></td>
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Source: Own elaboration based on www.wikipedia.pl

**Investment barriers in Poland**

Poland is a country with enormous economic potential. It is perceived as a political leader in Central and Eastern Europe as well as a reliable business partner. Despite such positive image, foreign entrepreneurs often signal problems impeding their investment. They relate to both legal and practical aspects of it. Investors often emphasize the lack of efficient institutional support, which is the result of weak and poorly equipped investment agency and the engagement of numerous government agencies in the same tasks. The result is lack of responsibility for specific actions and provided information.

The system of investment incentives is also criticized. Currently binding in Poland system of social help does not allow for precise determination of support level at the stage when an investor makes investment decisions. The only formula in which the government supports individual investment projects is long-term programme which is passed on the basis of the Act on Public Finances. Passing of each programme requires however undergoing a time-consuming legal procedure and help granted based on the Act of Cabinet of Poland always requires individual notification to the European Commission.

Points of dispute also relate to the exemption from property tax. The possibility to use it exists only when County Council passes adequate bill concerning the exemption from the tax and then registers it at Office of Competition and Consumer Protection to be presented to the European Commission. Insufficient encouragement promoting investment into research and development is yet another problem. Obtaining a status of research and development centre, according to an Act on some forms of supporting investment activities requires possessing at least 50% of income from self-made research or results of developmental works, which the entrepreneurs acting in a corporation are not able to obtain outside of corporation. A very important factor for foreign investors is adequate preparation of investment areas which does not always take place in Poland. Unclear legal status of many properties which could be assigned for investment, lack of large investment parcels with determined ownership (investment area often consists of parcels which belong to many owners, very often private ones), the need to engage investors own financial resources to build technical infrastructure are not the only problems related to that issue. Troublesome from investment point of view are longsome procedures in land registries and too long procedures of changing of status of farm land and forest land. The time of the procedures related to those changes depends on the class of the land in question, the higher the class the more public institutions participate in the procedure. Thus the time needed for formalities gets longer. Investors often encounter the lack of land utilisation plans. According to a report prepared by Polish Academy of Sciences in 2007 on the request from Ministry of Infrastructure only 19.7% of the area of our country is accounted for in current binding zoning which undeniably hinders obtaining construction permit (Report Warsaw 2007).

Investors’ problems also concern possessing labour which is an effect of their high rotation. It is also difficult to find employees with specific qualifications and in case of foreigners also...
crucial is a long-lasting and complex procedure of obtaining work permit and residence in Poland. Formalities of this type last up to a few months and require dealing with issues both in Poland and the foreigner’s country of origin. Additionally, constant growth of cost of labour does not make their actions any easier. Investors often meet long and cumbersome procedures related to obtaining administrative decisions required in investment process. The most frequently met administrative problems are presented in Figure 2.

**Fig. 2 Administrative problems most frequently encountered by investors.**
Source: Own elaboration based on Report Warsaw 2010

Among the problems which foreign investors come across in Poland one should include poorly developed transport infrastructure that is road, railway and air transport. Insufficient system of highways and motorways, lack of efficient links between various forms of transport for example harbour-railway and air and road transport to a large extend hinders distribution of goods.

Also the decision of European Commission concerning limits of CO\textsubscript{2} emission is problematic for investment. It foresees that between 2008 and 2012 Poland will be allowed to emit only about 208 mln tonnes of CO\textsubscript{2} annually, which requires 27% decrease. The decrease of this limit may cause increase of energy prices and lower industrial production (www.mg.gov.pl 2011).

**Summary**

Needless to say, barriers which foreign investors encounter in Poland, impede their market operations. However substantial share of value of foreign investment also points out positive aspects of their decisions. Despite problems, Poland offers its foreign investors investment incentives.

Among them there are *Special Economic Zones* prepared for preferable economic operations where investors may count on attractive tax reliefs or easier employment procedures. Due to that their operating costs are lower and efficiency higher. Foreign direct investment has an impact on the more intensive country development. They brought along a huge financial inflow which facilitated the creation of new workplaces and in global aspect contributed to a better condition of Polish economy and its positive image world-wide.

**References**

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