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**Foreign investments in Polish agribusiness as a factor  
increasing the pace of its development**

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# **Foreign investments in Polish agribusiness as a factor increasing the pace of its development**

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*Abstract* : The study presented the scale of foreign direct investments in Poland in the years 1993-2004. It was found out that these investments related both to production and financial, commercial and logistical activity. A considerable part of investments was made in the agricultural and food industry, especially in the first years after the transition from a socialist economy to a market economy. The greatest resources were invested in the tobacco industry and then in the production of sweets and beverages. As a result of research it was found out that the agricultural and food industry in Poland developed dynamically after the transformation, both increasing the value of production and investing more than the consumption of fixed assets amounted to.

Keywords: foreign direct investments, agricultural and food industry.

## **Introduction**

One of the basic problems of the development of states in the contemporary world is to obtain economic (financial), real and human capital. Countries which first stepped onto the path of capitalist development, which are also leading now, such as England, the USA or Germany followed the development process for decades using own and foreign sources. Modern societies as a result of the development of means of communications, travel and other contacts would like to reach the development level of the leading countries as soon as possible. Meanwhile the less developed states most frequently lack the most important factors of growth and development, especially funds, state of the art technologies and human resources to employ advanced methods in management and marketing. Saving funds, developing effective technologies and educating human resources are a long-lasting process. Foreign direct investments made usually by large international consortia with all attributes of modernity at their disposal give an opportunity to shorten the process and in consequence to speed up the economic development. That is the cause of the existence of a specific type of competition in the contemporary world – competition for encouraging resource owners to invest precisely in our country either by buying out existing companies or by making greenfield investments. The scale of foreign investments is enormous. In the years 1998 – 2004 it fluctuated between 560 bn USD (2003) and almost 1.4 million million USD (2000) annually [List ... 2006].

## **1. Scale of foreign direct investments in the 1990's in Poland**

Poland became such a competitor after the transformation from a socialist centrally planned economy to a capitalist market economy. About 25 to 36 bn USD would come yearly to the countries of Central and Eastern Europe from the beginning of the 1990's to 2004; investments in Poland constituted a considerable part of that. For example, in 2004 only in Russia greater investments were made (27% of the total in the countries of Central and Eastern Europe) than in Poland (14%) [List ... 2006].

The scale of foreign investments in Poland was diversified in particular years. We present its level in figure 1.

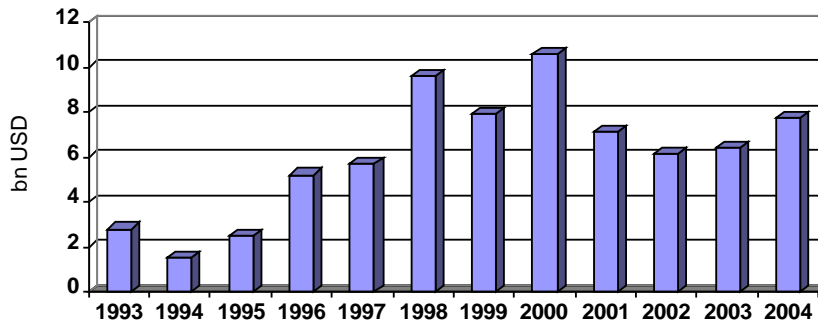


Figure 1. Value of foreign investments in Poland in the years 1993 – 2004

Source: Data of the Polish Information and Foreign Investment Agency, 2006.

After the beginning of the economic and political (democratisation) transformation of Poland there was an increase in the interest in Poland as a place for investing capital. The liberalisation of laws concerning business and the opening up to foreign markets encouraged that. Many actions were undertaken, a few of which could be mentioned as more important:

1. deregulation, that is the elimination of the role or even the withdrawal of the state from influencing directly the functioning of the market; after the significant deregulation at the beginning of the 1990's, there appeared, however, a number of limitations, licences, quotas and permits later,
2. denationalisation, which means a reduction in the direct involvement of the state in the organisation and performing of business activity,
3. liberalisation, that is focusing on the rights of the market,
4. privatisation, disposal of state property in the form of sale, re-privatisation, transfer or leasing property; the main aim of the privatisation was to increase the significance and share of private entities as more effective than state units in the production and services,
5. municipalisation, transfer of some state property to local governments,
6. commercialisation, recognising the economic independence of companies which contributes to the development of competitiveness, improvement in the rationality of production and increase in the extent of introducing innovations in them,
7. restructuring, changes in the resources of companies (property, employment and quality of employees), production organisation and technologies, contacts with the environment (outlets, marketing etc.), management and organisational structures aimed at the adaptation of companies and organisations to the conditions of the market economy.

Many new legal regulations, development schemes, plans and reforms were undertaken during the transformation. The programme of L. Balcerowicz [1990] had the greatest publicity and influence on the economy and the whole country. It contained such actions as: "freeing" prices (liberalisation), bringing down the very high inflation ("hyperinflation"), removing barriers in foreign trade ("opening up the economy to the world"), privatisation and re-privatisation of property managed by the State, introducing conditions which would encourage foreign (mostly Western) investors to make new investments and deposit capital in Poland and also creating a capital market, especially a stock exchange. It should be stated that most assumptions made were implemented consistently. As a result of many sacrifices of the society, the crisis was resolved and foundations were formed for the future economic growth.

Considerable liberalism in the economy encouraged investment in Poland. Unfortunately, in the second half of the 1990's subsequent governments departed more and more from the economic liberty towards the ever greater number of legal regulations, concessions and other barriers. It was reflected in the limitation on foreign investments, especially at the beginning of the 21st century. Besides internal factors it

was also influenced by the growing competition on the part of neighbours of Poland, especially the Czech Republic and Slovakia.

From 2003 the value of foreign investments grew again; Poland turned out to be a relatively stable country (despite the changes of cabinets), with numerous human resources of better and better educated employees<sup>1</sup> [Yearbook ... 2005]. It is also an attractive large (38.2 m people) outlet neighbouring the huge markets of Russia and Ukraine.

Besides the value of investments in particular years their aggregate value is also important. We present its level in the years 1993 - 2004 in figure 2.

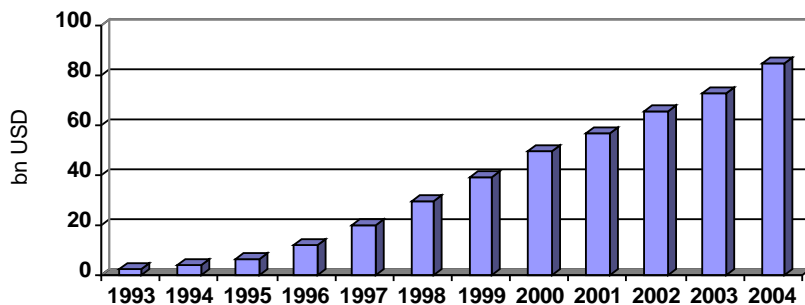


Figure 2. Aggregate value of foreign investments in Poland in the years 1993 – 2004  
Source: Data of the Polish Information and Foreign Investment Agency, 2006.

Poland is not a country which is a special place for foreign investments; however, during the analysed period of twelve years almost 85 bn USD were invested here. For a country which is not very affluent and was destroyed by the many years of the communist rule, this is a considerable amount. To understand its magnitude it should be said that the whole Gross Domestic Product of the country in 2003 amounted to 252 bn USD (6.6 thousand USD per 1 citizen) and increased in relation to 1995 by 81.3% (from 139.1 bn USD) [Yearbook ... 2005]. It was foreign direct investments that had a great significance for this increase.

## 2. Significance of investments in the food industry within the total foreign direct investments

Funds from abroad were invested in production, financial, commercial activity etc. We present detailed information in this respect in table 1.

Table 1. Value and structure of foreign direct investments in Poland in the years 1993 – 2004

Item	Type of activity	Capital invested [m]	Structure [%]
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<sup>1</sup> In Poland in 2004 there were 535 students to every 10 thousand of the population while in the whole EU 371 only. People with at least vocational secondary education aged from 24 to 64 constituted 89.5% in Poland while 76.7% in the whole group.

no.		USD]	
1.	Production activity	32199.9	39.9
	Transport equipment	6663.6	8.3
	– Foodstuffs	6624.8	8.2
	– Other non- metallic raw materials	4205.5	5.2
	– Electrical and optical apparatus	3250.0	4.0
	– Chemicals	3245.2	4.0
	– Paper, publishing	2086.0	2.6
	– Wood and wooden ware	1692.1	2.1
	– Rubber and plastic products	1459.0	1.8
	– Metals and processed metal products	1278.3	1.6
	– Machines and apparatus	1023.7	1.3
	– Others	349.7	0.4
	– Fabrics and textile products	290.5	0.4
	– Leather and leather products	31.4	0.0
2.	Financial brokerage	18878.5	23.4
3.	Trade and repairs	9517.4	11.8
4.	Transport, warehouse management, communication	7861.4	9.7
5.	Supply of electric energy, gas and water	3207.6	4.0
6.	Real estate service, business related activity	2952.7	3.7
7.	Other service, municipal and social activity	2732.2	3.4
8.	Construction	2110.1	2.6
9.	Hotels and i restaurants	885.3	1.1
10	Mining and quarrying	228.6	0.3
.			
11	Agriculture	76.3	0.1
.			
	Investments above 1 m USD	80649.8	100.0
	Investments below 1 m USD	3827.8	-
	Total	84477.6	-

Source: Prachowska A., 2006: PAIIZ

On the basis of the data presented one may state that production-type investments prevailed (almost 40%), although financial, trade and logistic investments were also significant while investments in activity which was not very profitable (agriculture) or had a long term of return of capital invested (mining) were relatively small. The majority of investments consisted of expensive acquisitions or constructions, above 1 m USD, while the smaller ones amounted to 4.5% only of the total expenditures.

Within foreign investments there was a positive phenomenon. Initially they concerned almost exclusively the acquisition of privatised entities and in recent years new, greenfield investments have been playing an ever greater part. For example in 2002 their share in total investments amounted to 37%, in 2004 – 51% and in 2005 as much as 58% [Liczba (*Number*) ... 2006]. The number of work places created by foreign investors grew as well (almost 5 thousand in 2004).

Within production investments most money was allotted to the manufacture of means of transport (mainly the automotive industry) and to the food industry. We present the share of the latter in production investments in figure 3.

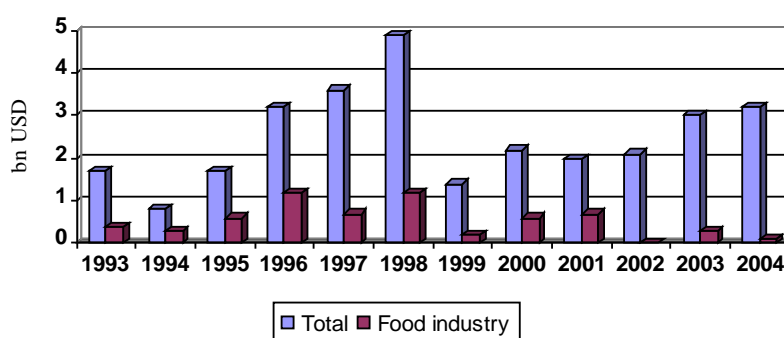


Figure 3. Value of the foreign capital invested in the food, beverage and tobacco industry against a background of the total investment in the production activity  
Source: Data of the Polish Information and Foreign Investment Agency, 2006.

The situation as regards the share of the food industry in production investments was diversified. In the initial period it was the main consumer of resources. Its share amounted to as much as 37.5% in 1994 and 1996. It was understandable on account of the interest of foreign investors first of all in those branches of industry which could bring in fast and certain profits. In the next years the significance of investing in the food industry decreased. It resulted, on the one hand, from the fact that most companies from this industry were sold by the Polish government because they were offered for privatisation in the first place and, on the other hand, the interest in investing in industry other than food industry, automotive, chemical, electric industry etc. grew.

### 3. Trends in investing in the agricultural and food industry

Foreign direct investments in Poland related to the production of foodstuffs, alcoholic and non-alcoholic beverages and tobacco goods as of 31.12.2000. constituted about 10% of all FDI's [Report 2001]. Main trends in foreign investments, their value and share in particular branches of industry in 2002 were presented in table 2.

Table 2. Foreign investments in the main branches of agricultural and food production (state as of 31.12.2002.)

Investment trend	Number of investors	Value of investments <sup>a</sup> [mln USD]	Investment structure [%]
Production of tobacco goods	5	1768	25.7
Production of sweets and snacks	23	1288	18.7
Production of beer and malt	13	1038	15.1
Production of non-alcoholic beverages	5	555	8.0
Production of meat and preserves	12	483	7.0
Milk processing	14	372	5.4
Production of fruit and vegetable preserves and chips	11	318	4.6
Production of vegetable fats	5	254	3.7
Sugar production	3	167	2.4
Fodder production	4	160	2.3
Production of concentrates and additives and coffee processing	10	162	2.3
Production of spirits	5	150	2.2
Grain processing	8	49	0.7
Others	5	127	1.9

Total	123	6891 <sup>b</sup>	100.0
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a – together with obligations, b – the amount is a sum of outlays of foreign investors which also includes their investments in other sectors of the Polish economy.

Source: Urban R., 2004: Przemiany przemysłu spożywczego w latach 1988- 2003. Studia i Monografie no. 121, IERiGŻ, Warsaw.

The production of tobacco goods, sweets and beer had the greatest share of foreign investments. The tobacco industry, in which one in every four dollars was invested, had an especially significant position. At the same time investments here were very concentrated (figure 4), because the average value of an investment in this branch of industry amounted to 353.6 m USD. There were five investors only but these were the huge international concerns.

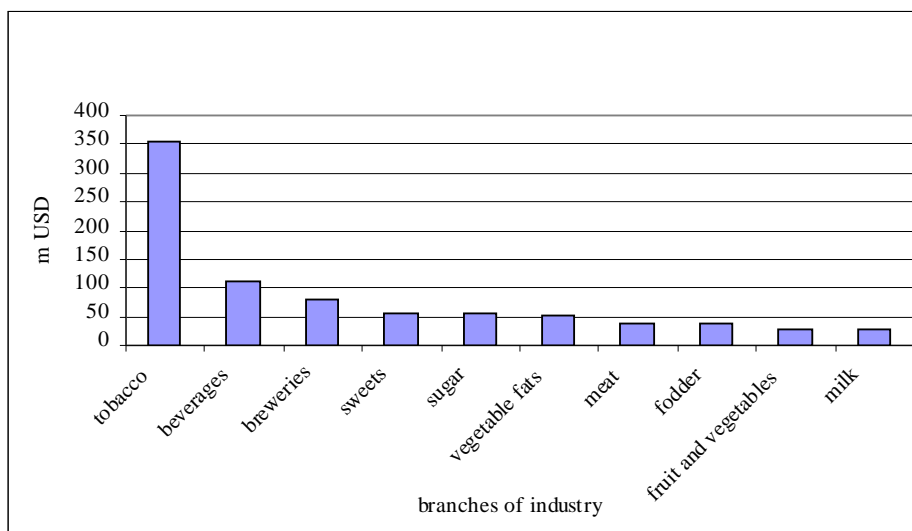


Figure 4. Average value of investments in more important branches of industry  
Source: Own calculations on the basis of Urban R., 2004: Przemiany przemysłu spożywczego w latach 1988- 2003. Studia i Monografie no. 121, IERiGŻ, Warsaw.

From the point of view of investors the greatest interest concerned the production of sweets and snacks, dairies, breweries and fruit and vegetable processing. In these branches of industry, however, much smaller unit expenditures were incurred, especially in the dairy industry, fruit and vegetable processing, fodder industry and meat industry. It results from lack of concentration and a great number of relatively small companies.

#### 4. Economic effectiveness of the food industry in Poland in the 1990's and at the beginning of the 21st century

Every business activity is performed mostly for economic purposes. We present the level of these results at the level of the sector in table 3.

Table 3. Economic results of the food industry in the years 1993- 2002

Detailed list	More important economic results in the years									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Production growth in constant prices [%]	9.4	12.5	8.5	11.0	10.7	7.5	0.4	0.4	2.6	3.5
Profitability ratio [%] of net revenues										
- gross profit	2.98	3.08	3.42	3.80	3.16	2.62	0.95	1.32	2.58	3.03
- net profit	-0.25	0.81	1.33	1.80	1.45	1.15	-0.39	0.24	1.19	1.99
- cash takings <sup>a</sup>	2.85	4.20	4.54	4.75	4.23	4.32	3.01	3.58	5.20	5.47
- operating	11.18	11.04	10.63	10.08	9.71	9.36	8.17	8.08	10.75	8.87



surplus <sup>b</sup>										
Financial costs [w %] of net revenues	5.15	4.56	3.99	3.37	3.77	3.56	3.82	3.42	4.20	2.36
Liquidity ratio	1.21	1.12	1.33	1.32	1.26	1.26	1.21	1.19	1.20	1.19
Investment rate <sup>c</sup>	1.85	1.56	1.94	2.16	2.21	1.88	1.75	1.39	1.28	1.15
Share of companies with net profit [%] - in the general number of companies	47.2	60.77	64.5	64.6	67.9	60.0	60.6	65.3	69.4	72.1
- in the revenues of industry	70.2	73.0	80.6	81.6	76.5	65.7	67.3	70.9	73.6	78.3

a – net profit + amortisation, b – gross profit + amortisation + financial costs, c – investment expenditures/amortisation, d – concerns big and medium producers of food and beverages.

Source: Woś A. et al: Analiza produkcyjno- ekonomiczna sytuacji rolnictwa i gospodarki żywnościowej w 2001 i 2002 roku. IERiGŻ, Warsaw 2002 and 2003.

During the whole period studied the level of the production in the agricultural and food industry was increasing although at the greatest pace between 1993- 1998, that is in the period when the inflow of funds from abroad was the greatest. One may thus state that foreign direct investments constituted a very important factor dynamising the development of the agricultural and food industry in Poland. Besides the production aspect, a phenomenon which was difficult to overestimate was the very clear growth of the quality of products, improvement of production and company management and also of relations of entities with the market (market research, marketing, promotion etc.).

The economic situation of the branch of industry studied was changeable, although profitability was maintained almost all the time (with the exception of 1993 and 1999). Companies managed to increase their property, which is proven by the fact that investments amounted to 1.15 to 2.21 times more than the consumption of fixed assets did. On the whole, the share of profitable companies from the perspective of net profit achieved was generally high (60- 70%).

## Conclusions

The research carried out allows one to draw a few conclusions.

1. After the economic transformation, which meant a transition from the socialist economy to the market economy, Poland became an attractive place for foreign investments, taking a considerable part of the capital invested in Central and Eastern Europe.
2. Expenditure on production activity, financial brokerage and trade and logistics prevailed among foreign investments. There was a positive tendency in the structure of investments because the share of acquisitions of privatised companies decreased giving way to greenfield investments.
3. In the first period of privatisation investment in the food industry was considerable. In the following years their share decreased while the interest of investors in other industries and in (financial, commercial) brokerage grew.
4. Within the agricultural and food industry investors were interested most in the production of tobacco, sweets and (alcoholic and non- alcoholic) beverages. Expenditures in the meat, dairy and fruit and vegetable industry were also significant. However, the scale of unit investments was different, the greatest being in the tobacco industry (over 353 m USD).
5. The economic results of companies within the agricultural and food industry were changeable; however, the industry as a whole maintained liquidity and profitability during the years studied. It is also important that in each year the level of investment expenditure was higher than the consumption of fixed assets. This means that the companies of the sector studied developed and expenditure

from other countries or international companies contributed to this considerably.

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