Property Rights as a Factor of Foreign Direct Investment. The Case of Poland

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Abstract: Clearly defined property rights enable people and business to make contracts over such property, and thus to engage in business – most business transactions concern the transfer of some sort of property, or rights to property. It seems that property rights have huge influence on foreign direct investment inflow, especially in the Polish economy. Therefore, the aim of this article is to verify the hypothesis that property rights are an important factor for foreign direct investment flow. The object of the research is the Polish economy in the years 1994-2011. The first part of this paper shows the dynamics and structure of FDI inflows to the Polish economy in the years 1994-2011. Next two parts clarify the idea of property rights, their transformation, importance to the growth and foreign direct investment inflow. Verification of the hypothesis will be made on the basis of domestic and foreign literature.
Introduction

Foreign direct investment is one of the basic types of capital flows. The positive effects of the inflow to the transition economies and developing countries have been described by many authors. Its importance is seen to be not only in providing finance for the acquisition of new plants and equipment, but also in the transfer of technology and organizational forms from relatively more technologically advanced economies. Poland’s economy also displays positive aspects of foreign capital influence. Faster economic growth, higher investment rate, flow of technological and organizational ideas, broader range and better quality of products are only some of the positive effects stemming from companies with foreign capital. This is one of the reasons why growing economies (including Poland) compete in attracting foreign investors.

The institutional environment of any business enterprise includes property rights. With the transformation of the Polish economy, significant changes can be seen in their quality, as well as transparency. The Polish law is increasingly protective of private property, which is a significant element from the perspective of investment attractiveness. Undoubtedly, the security, transparency, and lack of limitation of property rights influence the ventures in which entities, also foreign ones, are willing and able to take on. In general, the safer and more exclusive is the disposition of income, the stronger the tendency of long-term effective resource use.

The aim of the article is to present the past and present roles of coherent and transparent property rights in the decision-making process of localisation of foreign investments. It is also a specific attempt at evaluating the property rights and their changes in the Polish economy in the context of the inflow of foreign direct investments on the course of the last 15 years.

The first section of this paper provides an overview of the basic trends of FDI in Poland in the last 15 years, such as the size of FDI inflow, its accumulated value and dynamics. The second section explains the notion and the role of property rights as a main formal institutions which influence on economic activity. The next part of article presents an evaluation of changing property rights in Polish economy and there are some investigations about influencing of this transformation to FDI inflow. There is a summary in the last section.
Methodology of the Research

The hypothesis taken in this article is that good (efficient) property rights are a factor in the inflow of foreign direct investment. In order to verify this hypothesis Polish and foreign literature is reviewed on the role of property rights in attracting FDI. This article contains an analysis of the changes in the legal rules related to property rights in Poland and their assessment. The rules that were considered are the ones that apply to foreign investors. It is also assumed that the effect of the rights’ changes was privatization with the participation of foreign investors.

The evaluation of the property rights in Poland from the point of view of foreign direct investors follows the International Property Rights Index, subindexes Registering Property and Dealing with Construction Permits which come from Doing Business Report and the last one is Corruption Perception Index. It should be mentioned that besides the indexes used in the study, there are many indicators which show how the property rights change in times. Among these are: Index of Economic Freedom (by Heritage Foundation), Global Competitiveness Index (by World Economic Forum), Worldwide Governance Indicators (by World Bank Institute), Index of Patent Rights (by Ginarte-Park) et al.

Foreign Direct Investment in Poland between 1994-2011

Many have presented their definition of foreign direct investments, among them: P. Krugman and M. Obstfeld, Ch. P. Kindleberger, J. H. Dunning and J. Cantwell, A. Budnikowski and E. Kawecka-Wyrzykowska, P. Misala, W. Karaszewski, etc. Each of those definitions indicates to an international transfer of capital resulting in the creation of a new enterprise or an acquisition of an existing enterprise in order to have a permanent influence on its activity, outside the borders of the nation that was the source of the capital. Similar elements can be traced in the definition provided by the International Monetary Fund and the so-called benchmark definition of direct investment established by the OECD.

The most popular, albeit imperfect, measure of foreign direct investments is its annual income viewed internationally and registered by particular countries in their balance of payments. From the perspective of the analysed country or region, the streams of foreign direct investments can be inflows or outflows. Another popular measure of FDI are the investment resources, which reflect the accumulated amount of foreign investor’s as-
sets in the capital of their foreign subsidiaries, as well as the net liabilities between them (Kluzek 2012, p. 39).

Direct foreign investments increase the economic capacity of the receiving countries, but also the countries of origin, as they promote job creation, increase the population’s income, consumption, production, etc. (Budner 2011, p.226). Therefore, from the beginning of the eighties of the twentieth century, there has been an observed, dynamic increase in the volume of FDI measured by the annual stream of those investments in the global economy. According to UNCTAD database in 1980, the total global investment amounted to less than $54 billion, in 1990, it was more than $207 billion, in 2000, the inflow of FDIs was more than $1.4 trillion, and it was at an all-time high in 2007, amounting to $2 trillion.1

Nowadays, it would be difficult to imagine the Polish economy without participation of foreign entities. This particularly concerns such sectors as automotive and electronic industry. The role and significance of foreign companies in the Polish economy keeps growing regularly. The dynamic growth in the volume of FDI can be seen in the Polish economy, but from the late 90s The twentieth century. On the one hand, it was due to greater liberalization of capital flow and by the ongoing transformation of the economy after 1989. On the other hand, the preparation for accession to the EU structures. In 2001, as a result of the upcoming accession to the EU and detailed demands laid out in the Agenda 2000, Poland introduced new legal changes. The further improvements included the mutual reciprocity principle, which we said that the treatment of foreign investor in Poland should be the same as the one received by Polish firms at the country of investor’s origin. The Polish absorption into the structure of the European Union raised the credibility of our country in the eyes of current and potential investors and business partners (Owczarczuk 2011, p. 206). Since year 2006 we see an even greater rate of growth of FDI in Poland.

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1 Global foreign direct investment increased by 16% to 1.536 trillion dollars in 2011.
The amount of FDI liabilities in Poland, as seen in Fig. 1, is constantly on the rise (left horizontal axis) and at the end of 2011 it was at $198,196 million. The sum consists of:

- the value of share capitals and reinvested gains of Polish foreign direct investment companies of foreign direct investors in the amount of $137,298 million, which is 69.3% FDI liabilities.
- the sum of liabilities of companies from debt financial instruments to foreign investors, decreased by the amount of obligations to foreign partners, amounting to $60,868 million, i.e. 30.7% of total foreign investment liabilities (NBP 2012b, p.20).

Poland is the leader in the amount of attracted capital among the Central-European, transforming states. It is followed by the Czech Republic, whose accumulated inward FDI flow in 2011 was $125,245 million, next are Hungary: $84,447 million, Slovakia: $51,293 million, and Slovenia: $15,145 million (UNCTAD 2012, p. 173). The case is different when the FDI inflow is presented per capita. Here, the leader is the Czech Republic ($11,889 per capita) with Poland closing the list with $5,158 per capita (UNCTAD database). Nevertheless, since 2006, Poland has been leading the ranks in FDI inflows. In addition, that year was when the dynamics of FDI inflow per capita was higher in Poland than the total dynamics of FDI inflow (see Fig. 1).
Notion and Significance of Property Rights

The literature defines property rights in various ways. Bromley and Cernea (1989, p. 5) define property rights as „a right to a benefit stream that is only as secure as the duty of all others to respect the conditions that protect that stream“. Pejovich and Furubotn said that property rights are „…the sanctioned behavioral relations among men that arises from the existence of goods and pertain to their use“ (Furubotn, Pejovich 1974, p. 3). Thus, property rights involve institutional issues which relate human behavior to the exploitation of a particular resource. Property is, in fact, a social institution, and the same pattern of behavior inherited from the past, referring to the relationship of the individual and the community to objects and goods in situations involving intent to use them (Stankiewicz 2012, p.67). Institutional Economics is committed to this concept, system, structure, ownership, location in the process of evolution and improvement of economic policy. New institutional economists regard property rights as an eternal and universal instrument of society to help its members deal with each other in economic exchanges. Property rights are defined as an exclusive, transferable, and legal right to the physical use of scarce resources, the returns thereon, and the alienation thereof. If this right is designated to a specific person, it is termed a private, or individual, property right, and a common, or state, property right if it is assigned to all members of „society.” The latter right is defined as a right without exclusivity of use. A resource to which a private property right applies is referred to as private property and, correspondingly, the application of common property right turns the resource into common property (Steiger 2006, p.192). Examples of property include homes, offices and factories.

It is important to note that property rights empower owner to acquire benefit or harm oneself or others (Demsetz 1967, p.347). Property rights provide the basic economic incentive system that shapes resource allocation. In principle, property rights can be defined by formal arrangements or informal conventions and customs regarding the allocations and uses of property. However, informal conventions are rarely effective beyond clearly defined communities (Peng, Meyer 2009, p. 51). We have to know that property rights do not only refer to written laws of the Roman law, but also to the common law (Boehlke 2007, p. 78). Positive aspects of ownership (the ability to draw benefits from one’s own goods; to sell them or transform them) are usually emphasized. However, the right of property or ownership may also be troublesome – for the owner who is exposed to risk connected with how he disposes of his property, and for outsiders who are excluded from the right to dispose of property, but who are exposed to po-
tential external effects connected with it (for instance trouble, noise, threats to the natural environment etc.) (Lissowska 2008, p. 122). That’s why it is clear then that property rights specify how persons may be benefited and harmed, and, therefore, who must pay whom to modify the actions taken by persons. The recognition of this leads easily to the close relationship between property rights and externalities (Demsetz 1967, p.347).

There is no doubt that the feeling of security, lack of restrictions and clarify of property rights, affect undertakings that an agent may wish to undertake. Generally, the more secure and exclusive right a person has to have revenue at his disposal, the stronger the trend to long-term effective use of resources. The protection of property rights is fundamental to growth because individuals’ power to own, transfer and enjoy fully their property determines their incentives to acquire it. If property rights are protected, people should work harder, invest more and generally be more productive. Thus, strong and resilient property rights institutions should result in increased growth (Fedderke, Garlick 2012, p. 494). Generally people who invest in new capital or -in the case of intellectual property rights new ideas expect to have the freedom to use and profit from them as they see fit. If that condition is not met, if people believe that their capital may be expropriated or their ideas stolen, they will refrain from making those investments in the first place (Angeles 2011, p. 160). La Porta et al. (1998) found that countries with better legal systems tend to have a smaller number of diversified investors.

The role of property rights and its relationships to economic development can be discussed within the broader economic literature of institutional, environmental and development economics. Some authors proceed to conflate property rights institutions with political institutions. There is an argument that democratic governments are more inclined to respect property rights, due to the power of the general population to hold them in check, and for similar reasons are likely to be more transparent and less corrupt (thus decreasing unproductive diversions of resources) (Fedderke, Garlick 2012, p. 494). Moreover democratic political systems favor the grassroots initiatives to changes of institutions, including property rights institutions. Among many scholars there is the opinion that to a large extent changes in the property rights in Poland in the 90’s of the twentieth century were the result of grassroots movements. Then people wanted to have own business. Therefore, in the early 90's in Poland, there was the relatively large scale of grassroots privatization. There is a lot of evidence that private individual ownership has substantial advantages over other form of property rights (in particular group or state ownership). The main argument in favor of privatization was higher effectiveness of action taken by private owners, in com-
parison to those taken by the state owner. Individual ownership allows an individual owner to better assess the effects of his activities. So, we have to know that formal and informal institutions interact with each other (Pejovich 1999, p.171), so in many cases institutional change (property rights change) are created by grassroots initiative. Usually, these grassroots initiatives are the result of informal rules.

Property rights, as all institutions, are the subject of evolution and they change incrementally. But one of important sources of uncertainty for international investments is the instability of property rights. For example, in the countries where a set of property rights is easily changed, multinational corporations face additional political hazards of two types. Firstly, the government is more likely to behave in an opportunistic manner for its own benefit. Secondly, the host country partner or a host-country competitor may opportunistically approach the government with request to take actions that have the effect of favoring them at the expense of the multinational (Mudambi, Navarra 2002, p. 641).

Many studies found that good institutions or democratic institutions would increase FDI, and that weak institutions impede FDI. Some of them are focused on property rights institutions. For example, English and Moore (2002) found that a firm’s stock value was negatively affected by the announcement of its foreign investment in a country with ambiguous property rights. Globerman and Shapiro (2003) found that governance infrastructure – including the nature of the legal system – is an important determinant of FDI. Specifically, more impartial and transparent legal systems and a better protection of property rights attract more FDI. Kapuria-Foreman (2007) found that increasing the protection of property rights, reducing government intervention, and lowering barriers to capital flows and foreign investment are likely to increase FDI (Wu et al. 2012, p.646-647). Ali et al. (2010) by using a panel of 69 countries between 1981 and 2005, found that the property rights institutional variable as the most relevant factor (in terms of magnitude and significance of the coefficient) compared with other variables, such as political instability, democracy, corruption, and social tension (Tintin 2013, p. 289).

We can identify four characteristics of effective (good) property rights which are necessary (Prasad 2003, p.748):
– universality – all resources are privately owned, and all entitlements completely specified;
– exclusivity – all benefits and costs accrued as a result of owning and using the resources should accrue to the owner, and only to the owner, either directly or indirectly by sale to others;
– transferability – all property rights should be transferable from one owner to another in a voluntary exchange; and
– enforceability – property rights should be secure from involuntary seizure or encroachment by others.

The theory of property rights and the institutions that support the maintenance of particular types of property rights invariably implies that it is an important factor in explaining the differences in economic growth and development amongst countries and in particular the Third World or post-communist countries. While many theorists agree that a system of private property rights which meets the four characteristics of universality, exclusivity, transferability and enforceability will ensure efficient allocation of resources, they realize that in most cases these characteristics are never met. This leads them to conclude that the analysis of property rights and associated institutions can provide improved evidence of the problems or impediments to effective economic growth and development (Prasad 2003, p. 750).

The theory of property rights is one of the most popular topics discussed on the pages of institutional economics. Highlighting the ownership issues institutionalists try to fill the gap in mainstream economics, where for many years the importance of this institution has not been appreciated. However, an institutional system with efficiency property right forms the basis of economic development. The main conclusion arises from the property rights theory is that a well-functioning market can only operate in conditions of respect for private property.

Transformation of Property Institutions on Polish Economy and FDI in Empirical Evidence

In the Polish law, significant reforms in ownership relations similar to those in capitalist states did not take place until the 1989 Economic Activity Act, which abolished barriers in entering the market for entrepreneurs and introduced equality between the private and public sector. Further changes oriented at opening the space for the private sector’s expansion were based on the assumptions and directions outlined in the programme of transformation of Poland’s political system of October 12, 1989, which contained, among other elements, declarations of ultimately creating an ownership structure analogous to that of contemporary, developed capitalist states. The creation of a legal basis for privatization and a capital market integrated with private property took several years. Further changes oriented at opening the space
for the private sector’s expansion, apart from the said regulation, were possible due to:

– a new Civil Code adopted in the beginning of 1990;
– Privatization of State Owned Enterprises Act of July 13, 1990;
– Management of Agricultural Real Estate of the State Treasury Act of October 19, 1991;
– The so-called Transitional State Enterprise Pact of February 22, 1993;
– National Investment Funds and Their Privatization Act of April 30, 1993;
– Commercialization and Privatization of State Owned Enterprises Act of August 30, 1996;

The unique scale of ownership transformation in the Polish economy was the basis for free capital flow, not only between industries, but also between nations (Sobolewski 2007, p. 187). It must be emphasised here that the improvements in the ownership rights institutions allowed for growing participation of foreign capital in the privatization of Polish enterprises. Foreign investors were allowed to participate both in indirect (capital) privatisation and direct privatisation through liquidation. Capital privatization, began with the transformation of a state-owned enterprise into a sole-shareholder company owned by the State Treasury ("commercialisation"), followed by the sale of shares of this company via public tender. Most of the large state-owned companies were privatised through this method, which has been the best suited and by far the most often used by foreign investors.

The dynamics of property rights transformations had its peak in the beginning of the 90’s. 1991 was a record year, with the commencement of privatization of 1126 state owned enterprises. The following year brought less privatization, i.e. 821 enterprises. Since 1996 there has been an observed decrease in undertaking privatization of state owned enterprises. In general, capital privatization involves large enterprises of good financial standing. From 1995 to 2002, FDI participating in indirect privatization constituted a marked part of total foreign capital inflow to Poland in the form of FDI (Table 1). It was at its peak in 1999-2000, due to the highest number of capital transactions with foreign investors in that year. The following years (especially 2004) showed decreased interest of foreign investors in capital privatization, which could stem from easier access of land purchase for foreigners, and therefore the possibility to establish Greenfield investments by foreign investors.
Property Rights as a Factor of Foreign Direct Investment…

Table 1. Share of foreign direct investment in the capital privatization in the overall inflow of FDI in the years 1994-2011 in Poland

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The share of FDI in privatization (%)</td>
<td>5.5</td>
<td>13.1</td>
<td>9.4</td>
<td>9.5</td>
<td>4.5</td>
<td>32.8</td>
<td>52.1</td>
</tr>
<tr>
<td>The share of FDI in privatization (%)</td>
<td>9.2</td>
<td>11.7</td>
<td>2.5</td>
<td>0.1</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>


Foreign investors participated mainly in capital (indirect) privatization of state owned enterprises. Between 1990 and 2010, 118 state owned enterprises were privatized with a foreign capital share. However, in the course of direct privatization, or based on liquidated assets of state owned enterprises, 59 companies with foreign capital were established (GUS 2012, p. 629).

Foreign investors were allowed to participate in privatization through liquidation only if there were no domestic buyers. A new company, jointly owned by the State Treasury and the private (foreign) investor, was set up, and assets of the liquidated enterprise were transferred to it as the Treasury's share. Privatization through liquidation was mostly applied to smaller enterprises. As a result, this path was dominated by employee buy-outs. By the end of 2011, there were 1,827 completed cases of privatization through liquidation, of which only about 59 with foreign participation (GUS 2012, p. 629).

Foreign investors also had a role in the Mass Privatisation Programme. Polish government distributed mass privatisation certificates among citizens. The certificates were converted into shares of National Investment Funds, which managed the shares of 512 best-performing stocks and pre-commercialized state-owned enterprises. Foreign participation in the Programme was, firstly, in the form of foreign management groups hired to manage the Funds and, secondly, as foreign acquirers of the companies included into Funds' portfolios. Until the mid 1999, 47 foreign investors were engaged in the acquisition of enterprises from Funds' portfolios. Detailed data, available for June 1996-June 1998, show that foreign investors were responsible for 69% (USD 587 million) of all Funds' transactions in that period. Foreign investors bought large companies in selected attractive industries (cement, automobile and chemical industries) (Umiński 2001, p. 79).
Nevertheless, the legal bases for privatization were insufficient safeguards against the pathologies observed in the process of denationalization. The lack of proper institutional structure in terms of penal law resulted in the development of a black market of privatization, where decisions on privatization could be arbitrary, violating the necessary social control, and based on personal contacts (Woźniak 2011, p. 207). Under the conditions of perpetual contacts between the state administration and the private and public sectors, the domination of private interests over the public became practice. Because of the many legal loopholes, it was impossible to enforce criminal responsibility for the majority of illegal private or group profit made at the expense of the state budget and the privatized enterprises. Here it should be emphasized that in transforming economies, corruption is more frequent than in other parts of the world. The intensity of corruptive practices in post-socialist states also originates from the institutional (i.e., the transformation of systemic regulations), political (motivation and the behaviour of the elite), and cultural sphere (the manner in which the rulers and the citizens treat the state). In a control study conducted by the Polish Supreme Chamber of Control (NIK 2005, p. 8), the main area prone to corruption in 2004 was the process of privatization, especially the system of valuation of assets. Other areas indicated in the study were: public procurement, management of public assets, activity of special purpose funds and agencies, granting of quotas and licenses, activities of broadly defined financial services, and functioning of internal audit, supervision, officials, and inspections. In the most recent annual report prepared by the Supreme Chamber of Control some of the main activities in danger of corruption (NIK 2012, p. 383) include: issuing discretionary decisions, executing contracts between public and private entities, supervision and control conducted by public authorities and their distribution of deficit goods. It must be borne in mind that some of these areas of activity are in contact with foreign investors. However, there are also studies that positively verify the hypothesis that corruption is a factor which discourages foreign investors (Javorcik-Smarzynska, Wei 2009, p. 605-624). The statistical analysis in their article, reveals a strong „volume effect”: more corrupt transition economies have a significantly less chance to attract foreign direct investment than less corrupt economies. This is true when one controls for the influence from the host country’s size, labor cost, tax rate, trade openness, and other characteristics. Corruption also makes a country’s business transaction and the interaction between the government and the business less transparent.

On the other hand, a foreign firm with sophisticated technology may worry about the leakage of the technology through the local partner. This could reduce the profit of the foreign firm even in a third market. In a corrupt host country, the chance declines that the foreign firm can get an ade-
quate protection from the local court system in the event of an unlawful leakage of its technology by the local partner. Therefore, other things equal, a foreign firm with more sophisticated technology is less likely to invest in a more corrupt host country, and if it does decide to invest, is more likely to prefer the wholly-owned mode (Wei 2001). We can say that property rights are not fully protected if an agent must pay bribes to open shops, create factories or use his assets the way he prefers (Asoni 2008, p.957).

It must be emphasized that according to the corruption perception index (prepared annually by Transparency International since 1995), in the first years of transformation, the index for Poland was one of the worst among the Central European countries (which were also in the process of transformation). Only recent years have shown an improvement in the index, meaning a decrease in the level of perceived corruption. The last available report places Poland on the 41st position among 182 countries (CPI Index 2011, pp. 6-7). Poland has also boosted its position among Central European countries.

**Table 2.** Corruption Perception Index in years 2001-2011 in East and Central Europe

<table>
<thead>
<tr>
<th>Economy</th>
<th>Year of study/number of countries covered by the study</th>
<th>2001/91</th>
<th>2003/133</th>
<th>2005/158</th>
<th>2010/178</th>
<th>2011/182</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The index value/rank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3,9/47</td>
<td>3,9/54</td>
<td>4,0/55</td>
<td>3,6/73</td>
<td>3,3/86</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3,9/47</td>
<td>3,9/54</td>
<td>4,3/47</td>
<td>4,6/53</td>
<td>4,4/57</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>5,6/28</td>
<td>5,5/33</td>
<td>6,4/27</td>
<td>6,5/26</td>
<td>6,4/29</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>5,3/31</td>
<td>4,8/40</td>
<td>5,0/40</td>
<td>4,7/50</td>
<td>4,6/54</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>3,4/59</td>
<td>3,8/57</td>
<td>4,2/51</td>
<td>4,3/59</td>
<td>4,2/61</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>4,8/38</td>
<td>4,7/41</td>
<td>4,8/44</td>
<td>5,0/46</td>
<td>4,8/50</td>
<td></td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td><strong>4,1/44</strong></td>
<td><strong>3,6/64</strong></td>
<td><strong>3,4/70</strong></td>
<td><strong>5,3/41</strong></td>
<td><strong>5,5/41</strong></td>
<td></td>
</tr>
<tr>
<td>Rumunia</td>
<td>2,8/69</td>
<td>2,8/83</td>
<td>3,0/85</td>
<td>3,7/69</td>
<td>3,6/75</td>
<td></td>
</tr>
<tr>
<td>Slovenia</td>
<td>5,2/34</td>
<td>5,9/29</td>
<td>6,1/31</td>
<td>6,4/27</td>
<td>5,9/35</td>
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</table>

Source: *Corruption Perception Index.*
Reducing the level of perceived corruption suggests that the law, including the right to property in Poland is better protected and enforced. A measure of the efficiency of property rights in Poland is, among others, a decrease in the cost of their registration. Within that cost, what should be taken into account is the cost of the actual transfer of ownership, the time that is needed to register property rights, or the number of procedures that must be completed at registration. In the last year a significant improvement (decrease) in the time required to complete the formalities for the registration of property rights in Poland can be seen, from 152 days in 2012 to 54 days in 2013. The data from the Doing Business reports, summarized in Table 3, show that since 2005 there has been seen a significant improvement in this area.

**Table 3. Conditions of registration of property rights and dealing with construction permits in Poland in the years 2005-2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Registering property</th>
<th>Dealing with construction permits</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Procedures (number)</td>
<td>Time (days)</td>
</tr>
<tr>
<td>2005</td>
<td>7</td>
<td>204</td>
</tr>
<tr>
<td>2006</td>
<td>6</td>
<td>197</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>197</td>
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<tr>
<td>2008</td>
<td>6</td>
<td>197</td>
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<tr>
<td>2009</td>
<td>6</td>
<td>197</td>
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<tr>
<td>2010</td>
<td>6</td>
<td>197</td>
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<tr>
<td>2011</td>
<td>6</td>
<td>152</td>
</tr>
<tr>
<td>2012</td>
<td>6</td>
<td>152</td>
</tr>
<tr>
<td>2013</td>
<td>6</td>
<td>54</td>
</tr>
</tbody>
</table>

Source: Doing Business Data.

The actual costs associated with the transfer of ownership (measured as % of value of the transferred goods) decreased during these nine years by more than 1 percentage point, while the cost of obtaining the necessary permits for construction decreased more than 70 percentage points since 2008. Virtually there was no reduction in the number of procedures for
registration of property rights or obtaining a building permit. However, compared to the countries of Central Europe, assessment of registration of property rights in Poland is not favorable. In 2013 only 17 days are needed to register property rights in Slovakia and Hungary and 24 days in the Czech Republic. At the same time, to get a building permission in Poland it is necessary to go through 29 procedures, whereas in Slovenia and Slovakia it takes only 11. Furthermore, to register a property right in Poland, 6 procedures are required, while in the Czech Republic and Slovakia it takes only half as many (Doing Business 2013, p. 159, 169, 189, 194). In Poland, under the Construction Law Act, construction works may only commence once the final decision on building permit has been obtained. The procedure of obtaining a building permit depends whether there is a binding local zoning plan for the area covering the real property concerned. If such a plan has been adopted, a building permit may be obtained on its basis and if there is no local zoning plan, then the investor must obtain a planning permit (Legal Aspects... 2012, p. 50).

**Figure 2.** International Property Rights Index in Poland in years 2007-2012

The International Property Rights Index (IPRI) is an international comparative study that measures the significance of both physical and intellectual property rights and their protection for economic well-being. In order to incorporate and grasp the important aspects related to property rights protection, the Index focuses on three areas: Legal and Political Environment (LP), Physical Property Rights (PPR), and Intellectual Property Rights (IPR). The current study analyzes data for 130 countries around the globe, representing ninety-six percent of world GDP (IPRI Report 2012, p. 11). As this Index shows, there isn’t a big change in Polish property rights. There are only 5 year available. Figure 2. shows how this index has changed in Poland for the 5 recent years.

As we see in Figure 3, there was some progress in every part of IPRI. That’s why the whole Index is better in 2012 than 2007. It seems that this result is very promising for the Polish investment attractiveness, as in the same report there is some consideration and calculations that protection of property rights plays a big role in FDI inflow. Figure 3. demonstrates that there is a positive relationship between the average IPRI score and average FDI inflows measured as a percentage of GDP.

**Figure 3.** Relationship between IPRI and FDI inflows as a percentage of GDP

![Graph showing the relationship between IPRI and FDI inflows as a percentage of GDP](source: IPRI Report 2012, p. 38).
The relationship between property rights and the inflow of foreign direct investments shown above allows to determine that, assuming all other factors being constant, transparent and effective property rights in Poland have been, and are, a factor in FDI inflow. The fact that the Polish law is increasingly more protective of private property is encouraging. Evidence of that is seen in Poland’s rising position in international rankings which take into account the quality of institutional environment (such as IPRI) or the decreasing level of corruption. Nevertheless, foreign investors still consider the transparency of the Polish law, including property rights, to be weak. This comes as no surprise, since even in the process of preparing the Act on Freedom of Business Activity of July 2, 2004, the Sejm Deputies had to examine 800 different acts of law (Starczewska-Krzysztoszek 2007, p.185).

As you can see, despite the continuous improvement in the process of property rights registration, Poland still loses in comparison to countries with a similar level of development. The long waiting time for administrative decisions is a serious barrier to the functioning of enterprises. It becomes even more important when concerns such long, as it is in Poland, waiting time for obtaining a construction permit, which is necessary for foreign investors to start greenfield operations.

Conclusions

This paper analyzed the relationship between good property rights and the FDI inflow into Polish economy in last 15 years. The considerations set in this article allow to draw a number of conclusions.

Review of existing research reveals the relationship between property rights and the FDI inflows. Clearly defined property rights enable people and businesses to make contract over such property, and thus to engage in business – most business transactions concern the transfer of some sort of property, or right to property. However, the case of the Polish economy seems to partially confirm this relationship. The changes in the Polish legislation on property rights, to a large degree, were the result of changing in political system and the Polish accession to the EU. This was reflected, among other things, in the process of privatization. Foreign investors, as indicated in the article, also had the opportunity to participate in the privatization of Polish enterprises. In 1999 and 2000, this opportunity resulted in the highest FDI share in privatized enterprises. While since 2006, can be seen an even greater rate growth of FDI inflows in Poland.
However, since the beginning of the transition period, the quality improvement of Polish property rights occurs at a very slow pace. In recent years only the reduction of the time required to register property can be seen. However, as has been shown, the next steps, time and cost associated with registering properties by the entrepreneur in Poland still do not meet the requirements of the business sphere. This area still remains a significant administrative burden, which, in turn, downgrades the investment attractiveness of the country. In addition, a reflection of poor quality of Polish property rights is still persist a high level of corruption. Despite a marked improvement in this respect, the degree of corruption in Poland is still closer to the developing countries than to the highly developed ones. The high level of corruption is the extra cost and the element of uncertainty for businesses, which in turn worsens the investment attractiveness of the country. Knowing that the protection and transparency of property rights in Poland is not at the sufficient level, high foreign capital inflows in recent years should be explained by other factors. But, as the experience of other countries and previous studies show, there is no doubt that in order to create an attractive investment environment it is important for the Polish government to further improve the security and transparency of ownership.

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