PISM | POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

STRATEGIC FILE

No. 4 (31), June 2013 © PISM

Investment in Sub-Saharan Africa: Opportunities for Polish Companies

Maya Rostowska

Africa is rising, and attracting investment flows from around the world—particularly from emerging markets. Despite some ongoing risks, the investment climate is improving, and returns on investments can be substantial. Polish companies, whose trade and investments focus almost exclusively on the EU, would do well to explore Sub-Saharan markets, particularly in countries with a Polish presence and which display political stability, economic growth, and an attractive investment climate. Promising sectors for Polish investment include natural resource extraction, infrastructure, ICT, agriculture and services. In order to boost Polish investment in Africa, Poland's government should optimise its presence on the continent and extend its existing economic programmes there. Polish companies should establish a physical presence, seek out investment niches, get to know the African investment climate and adapt to local specificities.

For several decades after decolonisation in the 1960s, Africa was dubbed a hopeless continent, characterised by poverty, famine, conflict, and health crises. The West's interaction with Sub-Saharan Africa (SSA) in particular was based on aid, rather than trade or investment. As other developing countries, especially in East Asia, gained emerging market status and began to attract foreign investment, SSA continued to get very little interest from Western companies until well into the first decade of the 21st century. But today it seems that Africa is rising. Of the world's ten fastest-growing economies, six are in Africa (Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda), and the IMF predicts that, in the next five years, ten of the world's 20 fastest growing economies will be African.[1] With this trend in mind, Western and emerging market investors have turned their attention—and their capital flows—toward SSA.

In a period of slowing growth in the European Union, it is important for Polish companies—78% of whose exports,[2] and 97% of whose investment, is directed towards the EU[3]—diversify beyond the Old Continent. SSA, with its renewed dynamism, could prove a profitable destination for Polish investment. An analysis of economic and investment conditions in the region highlights several countries that seem particularly promising. An overview of African demand and Polish strengths highlights which sectors of Polish business in particular could find niches in SSA.

[1] IMF, "Sub-Saharan Africa: Building Momentum in a Multi-Speed World," *Regional Economic Outlook*, May 2013, p. 1.

[2] Ministry of the Economy of the Republic of Poland, "Ocena sytuacji w handlu zagranicznym w 2012 roku," March 2013, www.mg.gov.pl.

[3] Ministry of the Economy of the Republic of Poland, "Polskie inwestycje bezpośrednie w 2011 roku," March 2013, www.mg.gov.pl.

The Changing Face of Investment in Africa

SSA is bucking global investment trends. While foreign direct investment (FDI) is declining globally, flows to SSA are growing. FDI into Africa increased by 5.5% last year, reaching $38 billion, even as the total to developing countries fell by 6%. It is forecast to reach $56 billion by 2015. This is a result of changing investor perceptions of the region, due to improving political stability and governance, strong economic growth, and high commodity prices. The trend is likely to continue thanks to good FDI profitability (U.S. data shows a 20% return on investment in Africa, compared to 15% in Asia and 14% in Latin America).[4]

The principal beneficiaries of FDI in Africa are still oil and gas-producing countries, such as Nigeria and Angola. As natural resource-related activities diversify beyond extraction, FDI targeting construction, distribution and storage is increasing. Investment in the service sector now exceeds that in the primary sector.[5]

Poverty reduction has meant an increase in investment targeting the rising African middle class. A recent poll of investors found that key motives for FDI in Africa were potential growth of domestic markets and proximity to consumers.[6] As a result, a substantial amount of FDI goes to manufacturing industries like food, beverages, tobacco, and motor vehicles.[7]

Whereas before the crisis European and U.S. firms were the principal investors in Africa, companies from emerging markets (mainly China and India, but also Brazil, South Korea, Malaysia, Vietnam and Turkey) are now the main source of FDI on the continent. According to UNCTAD (The United Nations Conference on Trade and Investment) estimates, in 2012 FDI inflows from developing economies into Africa exceeded those from developed economies for the first time.[8]

An Improving Investment Climate

Despite the current 'Africa rising' narrative, SSA still presents investment risks. The region as a whole continues to score poorly in terms of ease of doing business: 40 out of 46 SSA states are among the world's 100 worst performers for business environment.[9] This is broadly due to continued poor performance in terms of corruption, red tape and governance. In some cases, the conditions for doing business are actually deteriorating (e.g. Uganda has complicated property registration procedures).[10]

Additionally, investors find their costs increased by difficulties other than business regulations. High tariffs between African states reduce market access and increase costs for foreign investors. Low labour productivity, a result of poor education and a mismatch between skills and demand, forces many foreign companies to rely on expatriate labour. Poor health may mean extra costs such as the provision of AIDS medication to employees and/or their families, or planning specialised mechanisms (medical services, training of replacement staff). Finally, political instability, with all its associated risks to investment, continues to be a danger in some SSA countries.

However, the investment climate in SSA is generally improving. Positive regulatory reform broadly outweighs the deterioration witnessed in some areas. In several countries there have been improvements in terms of regulations surrounding access to electricity, dealing with construction permits, enforcing contracts, trading across borders, registering a property, paying taxes and protecting investors.[11]

[4] UNCTAD, *World Investment Report 2012,* pp. 40–41, www.unctad.org.

[5] *Ibidem,* p. 39.

[6] CEED Institute, "Africa-Europe on the Global Chessboard: The New Opening," 2013, p. 26, www.ceedinstitute.org.

[7] UNCTAD, *op. cit.,* p. 39.

[8] CEED Institute, *op. cit.,* p. 45.

[9] World Bank, "Doing Business 2013 Fact Sheet: Sub-Saharan Africa," March 2013.

[10] *Ibidem*.

[11] *Ibidem*.

Among the factors attracting FDI in the region is strong economic growth. Average SSA growth exceeded 5% in 2012, and is forecast to rise.[12] This is partly due to increased domestic spending, growing domestic demand, and improving trade and investment relations with emerging markets. The investment climate in many SSA countries is also improved by sound economic policies. Debt has shrunk significantly across the continent (to as low as 0–10% GDP in some states).[13] This is linked to improving political stability: the number of conflicts in the region has declined by half since the end of the Cold War. [14]

The domestic market is growing. Poverty is declining fast, and real income per person has increased by over a third in the last decade.[15] Most SSA states should reach 'middle income' status by 2025.[16] The region's increasing urbanisation rate (over 50%)[17] is also shaping consumption habits. This is illustrated by the thriving fast food sector, with global chains such as KFC and Pizza Hut venturing into SSA.

SSA also presents some technical advantages for investors. The workforce is characterised by a young population (the average age in Africa is 20, compared to 30 in Asia and 40 in Europe)[18] and high mobility. The continent's natural resources are considerable: it has 12% of global oil reserves,[19] as well as vast mineral resources and extensive arable land. Moreover, investor incentives are growing: many states already offer special economic zones (SEZs) and tax incentives, and almost all operate an investment promotion agency. Western (particularly European) investors benefit from some similarities with Africa, including language, legal systems, and time zones.

Polish Investment in Africa

Poland's trade with Africa is small. In 2011, it amounted to $3.5 billion, just 0.86% of total Polish trade.[20] As a result, Poland has a very narrow presence on the continent: since 2009, there are only five Polish embassies in SSA (in Angola, Ethiopia, Kenya, Nigeria and South Africa). Polish investment on the continent is limited to a few big players in the oil and gas, energy, and mining sectors—although firms from the service sector, such as IT company Asecco, are also present. Key investors include Kulczyk Investments (which has production licenses in Nigeria, and plans to invest further in gas and refineries), Polskie LNG (which builds regasification plants), H. Cegielski-Poznań (which builds turnkey power plants), Grupa Azoty (which has an annual African turnover of €150 million),[21] Consus Carbon Engineering (owner of companies in Togo and Ghana, with plans to build a power station), Exallo Drilling (in Mozambique and Uganda, with plans to expand further), and Krezus SA (in Guinea).

Some Competitive Advantages

This limited presence on the African continent belies a degree of competitive edge enjoyed by potential Polish investors in SSA. First, Poland's historic ties with African countries are an advantage. The 4,000 Africans who have gone through the Polish education system since the 1960s create the potential for stronger personal ties between Polish companies and local businesses and politicians, which are particularly important in Africa. Moreover, a number of African graduates of Polish universities have gone on to serve in high office (e.g. Libertine Appolus Amathila, Deputy Prime Minister of Namibia since 2005, João Teta, Minister for Science and Technology in Angola), and some have gone on to set up Polish organisations at home. Moreover, Poland's lack of a colonial history means there is no reason for animosity in relations between locals and potential Polish investors.

---

12 IMF, "Sub-Saharan Africa: Building Momentum in a Multi-Speed World," *Regional Economic Outlook*, May 2013, p. 1.

13 E. Aryeetey et al., *The Oxford Companion to the Economics of Africa,* OUP, Oxford, 2012, p. 10.

14 CEED Institute*, op. cit.*

15 "Africa Rising, A Hopeful Continent," *The Economist*, 2 March 2013.

16 World Bank, "Africa's Pulse, An Analysis of Issues Shaping Africa's Economic Future," Vol, 6, October 2012.

17 CEED Institute*, op. cit*., p. 30.

18 A. Sofuł, "Europa Centralna-Afryka: łączy nas ogromny apetyt na lepsze jutro," WNP, 6 May 2013, www.wnp.pl.

19 UNECA, *Economic Report on Africa 2013*, p. 8, www.uneca.africa-devnet.org.

20 P. Kugiel, "Poland's Development Cooperation in Africa," *Bulletin PISM*, No. 104 (437), 8 November 2012, www.pism.pl.

21 "Współpraca z Afryką wymaga lepszej koordynacji," WNP, 15 May 2013, www.wnp.pl.

Investors from Poland also benefit from their transformation experience. Many Polish companies went through the period of economic transition in Poland in the 1990s, which has given them experience in adapting to difficult conditions. Moreover, most Polish businesses, even multinationals, are smaller than other Western companies (or Chinese SOEs), and thus benefit from a knack for quicker decision-making, which is advantageous in less stable institutional environments. Outgoing Polish FDI is increasingly targeting destinations beyond the usual suspects of the EU and Eastern Europe, with a growing number of greenfield investments by Polish companies in countries with more difficult investment climates such as China and Brazil (e.g. Polish companies eSKY, Medcom, and LUG have established branches in Brazil).[22]

Finally, Polish investors can benefit from Africans' growing disenchantment with certain investors. In some quarters, Chinese and Indian companies are accused of behaving as "new colonialists,"[23] as they focus on extracting energy and mineral resources, without promoting value-added sectors. Moreover, some emerging market companies have had time to show their weaknesses: H. Cegielski-Poznań received a tender that had previously been won by a Chinese company that failed to keep to schedule. As a result, SSA states are increasingly seeking to diversify the sources of their FDI inflows.

Promising Countries

The choice of FDI destination largely depends on which sector the investor wishes to target. However, certain indicators can help determine where investment is more advisable.[24] For prospective Polish investors, factors worth taking into account include an established Polish presence (whether diplomatic, commercial or private), political stability, economic environment, investment climate, and incentives. These criteria highlight a few countries that could prove particularly attractive for Polish investors.

Angola and Nigeria host Polish embassies, and benefit from high growth, rich resource wealth, and growing domestic markets. Nigeria scores well in the World Bank's ease of doing business ranking (14th in SSA), and though Angola has a worse score (35th),[25] it is introducing a host of investor incentives that are likely to improve its position. South Africa, Ethiopia and Kenya also have Polish embassies and rank highly in terms of ease of doing business (2nd, 13th and 10th in SSA respectively). South Africa is currently Poland's biggest trading partner in the region, and several Polish companies already invest there. Ethiopia has been forecast to become the world's third fastest-growing economy, propelled by growing public and private investment, particularly in services and manufacturing. Kenya is an increasingly popular tourist destination for Poles, and the Polish embassy in Nairobi provides practical information and support for prospective Polish investors in the country.

Although they have no direct Polish diplomatic presence, Ghana and Gabon are attractive potential FDI destinations due to their stable political environment and good economic situation (and Ghana hosts the Ghana-Poland Association). Rwanda's appeal lies in its attractive investment climate, and it has been dubbed 'Africa's new Singapore' as a result of its active reforms regime. Namibia has an advantageous geographical location, as well as several FTAs, which boost trade. It has vast mineral resources, high levels of know-how, a good industrial environment, and offers investment incentives. Mozambique is a resource-rich, high-growth country, and is set to become the world's fourth-fastest growing economy.[26] It has a Polish association (*Clube Polónia e Amigos*), and there is an honorary Polish consul in Maputo. Other potential FDI destinations can be determined using these criteria (Polish presence, political and economic situation, and investment climate).

---

[22] Ministry of the Economy of the Republic of Poland, "Notatka nt. polsko-brazylijskiej współpracy gospodarczej," www.mg.gov.pl.

[23] F. Chetu, C. Obi (eds.), *The Rise of China and India in Africa*, Zed Books, London, 2010, p. 6.

[24] For example, KGHM's failed investment in the Democratic Republic of Congo cost the company over $36 million, due to low returns and high political risk.

[25] World Bank, "Doing Business Report 2013," March 2013, www.doingbusiness.org.

[26] CEED Institute*, op. cit.*, p. 16.

Prospective Sectors

Several Polish business sectors have the potential to carry out successful investments in SSA. An area that is already seeing some Polish investment is the extractive industry. Africa has some of the biggest reserves of natural resources in the world, and a vast amount of investment is going towards their extraction. Poland's successful mining equipment industry has a strong basis to enter the African market. According to Ministry of the Economy data, the mining and fuel sector dominates overall Polish outgoing FDI.[27] Other companies could also benefit from Africa's cheaper natural resources (Grupa Azoty is to invest in Africa for that very reason). Resource-rich countries such as Nigeria and Angola are already teeming with foreign investors, but other prospective destinations include Gabon (which is rich in oil), Ghana (also oil) and Mozambique (gas).

There is huge demand for infrastructure development in SSA. Africa needs 37,000 km of modern roads, and around the same amount of railways. There is a big demand for infrastructure to improve access to water and electricity. Ever-growing urbanisation rates create a demand for housing construction and urban development and planning. The Polish construction industry is competitive, with high quality construction materials and equipment but lower prices than Western companies. Polish multinationals in the construction materials sector are among Poland's biggest FDI exporters.[28] Particularly attractive destinations include Gabon (with its vast government capital expenditure on ports, dams, roads and railways), Rwanda (the state is prioritising commercial and residential construction, and energy transportation infrastructure), Angola (the government is promoting FDI in housing and transport), and South Africa (a nation in dire need of electricity production and transportation infrastructure).

A related sector is information and communications technology (ICT). The SSA telecoms penetration rate is extremely low (6% compared to 40% on average elsewhere).[29] Considerable barriers to fixture installations (e.g. great distances) make mobile broadband very attractive, and there are opportunities for expansion, as it is forecast to increase 36-fold by 2015.[30] The Polish ICT sector, which ranks fifth globally in terms of competitiveness and is already is responsible for a large part of Polish FDI,[31] is in a good position to compete for contracts on the SSA market.

African economies continue to be reliant on agriculture, which accounts for 40% of export earnings.[32] The sector is inefficient due to a dearth of infrastructure, fertilisers and machinery, and Africa's growing population increases pressure on agricultural land. This creates opportunities for investors who can provide more efficient tools for land cultivation. India supplies agricultural equipment, and invests in irrigation and small and medium-scale agribusinesses in SSA. This could be a model for Polish companies, which have a good track record in agriculture. Polish companies may also wish to invest in food production in Africa, particularly in processed food, given the growth of the continent's middle class. African countries such as Rwanda, Gabon and Angola, which are looking to promote investment in agribusiness, could be a starting point for Polish food sector multinationals, which currently invest very little abroad, despite their high levels of international trade.[33]

With rising development, opportunities for investment are emerging in a variety of service sectors. There is a substantial demand for healthcare services. Medical equipment is an important Polish export and Poland is becoming a growing player on the pharmaceutical and biotechnological market: multinationals in the pharmaceutical industry are among Poland's biggest foreign investors.[34] Polish companies operating in that sector could follow the Indian model of investing in African hospitals and clinics (e.g. in infrastructure) to promote the sale of their medical products. The African education sector is another niche that foreign companies are increasingly entering, whether in the area of low-cost private education or universities.

27 Ministry of the Economy of Poland, "Przedsiębiorczość w Polsce," p. 54, www.mg.gov.pl.

28 *Ibidem*, p. 54.

29 UNECA, *op. cit.*, pp. 115–116.

30 CEED Institute, *op. cit.*, p. 30.

31 Ministry of the Economy of Poland, "Przedsiębiorczość w Polsce," *op. cit.,* p. 54.

32 UNECA, *op. cit.*, p. 120.

33 Ministry of the Economy of Poland, "Przedsiębiorczość w Polsce," *op. cit.,* p. 54.

34 *Ibidem*, p. 54.

Poland has experience of new educational establishments emerging during the transition, and these could potentially invest in SSA.

Recommendations for Government and Business

In order to help Polish companies make the most of attractive investment opportunities in SSA, Poland should optimise its diplomatic presence in the region. All five of its embassies should focus on promoting Polish business in Africa, for example through trade officers. Embassies should continue to maintain contact with Africans who have studied in Poland, as these can prove particularly useful contacts for potential Polish investors. They could also consider extending the network of honorary consuls on the continent.

The principal hurdle for Polish investment in SSA is a lack of interest among investors. Better-targeted Polish official development assistance (ODA) could help reassure Polish companies that doing business in the region is safe.[35] In particular, ODA directed at healthcare and education could promote investment by Polish companies in those sectors. The Ministry of the Economy could extend its 'Go Africa!' project to other countries (it currently encompasses South Africa, Angola, Kenya, Mozambique and Nigeria). Following the success of China-Africa and India-Africa conclaves, organising a Polish-African (or Central European-African) business forum, along the lines of the European Economic Congress's Africa Forum, could prove very productive.

There is also a case for cooperation within the V4 framework to expand economic activity in Africa. Poland, Hungary, the Czech Republic and Slovakia share a common interest in expanding to markets beyond the EU, as they are all too reliant on the internal market, and all have to make up for their backwardness in terms of presence in Africa (caused by their near complete exit from that continent in the 1990s). Common promotion of information about Central Europe in Africa and vice-versa could be a productive first step.

Polish investors should play on their strengths in the same way that Chinese investment uses competitiveness developed at home. Given the importance of a local presence, they could also follow the Chinese model of setting up trading posts to become acquainted with the domestic environment before undertaking further investment (the Hazan company began with a small production facility and ended up building a 40,000 square metre factory in Nigeria). Moreover, companies should work out tailored business models for Africa, expanding beyond their core activities in order to ensure water and energy supply. They should also consider the form their investment will take; equity joint ventures are a way of avoiding total exposure to risk, while wholly owned enterprises bring higher returns. Finally, when choosing their investment destination, companies should bear in mind the available multilateral organisations in Africa, such as the Economic Community of West African States and the Economic and Monetary Union of West Africa.

[35] P. Kugiel, *op. cit.*