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The Impact of the Ease Doing Business Indicators on Foreign Direct Investment in the European Transition Economies

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Abstract. The objective (aim) of this paper is to explore the impact of the Ease of Doing Business Indicators on FDI on transition economies in Europe. Authors have used the dynamic panel methodology, by using three methods: Pooled Ordinary Least Square (POLS), Fixed Effect (FE), and Two Step-System Generalised Method of Moments (GMM) estimation techniques. By referring to the GMM technique, it can be seen that variables such as: Starting a Business, Registering property, Getting electricity and Resolving insolvency have a positive and significant impact in attracting FDI in 16 European transition countries, while variables as: Dealing with construction permits, Getting credit, Paying taxes, Protecting minority investors, have shown negative impact, whereas Trading Across Border and Enforcing contracts have not shown any impact on attracting FDIs in European transition countries. This paper contributes to the enrichment of existing literature in this field by using these three methods.
Keywords: FDI; Ease of Doing Business Indicators; Transition economies.

1. Introduction

Nowadays there is a continuing debate among various authors regarding the impact of the indicators of Doing Business in attracting Foreign Direct Investment (FDI) flows. Based on search results, there are different indicators towards FDI withdrawal. Since transition countries have fewer financial resources to develop their own countries, they need greater attention in attracting FDI flows in their countries. This would enable these states to revitalize their economies, enabling the raising of the standard of living of their citizens.

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Due to the great importance of Foreign Direct Investment (FDI) for the countries in transition, the latter are taking steps to improve the business environment in these countries, since the decision of the foreign investors might depend on various dimensions of business environment.

These facilities are made in order to simplify the procedures during the investment process and reduce the costs for investors.

Before investing in a particular location, the investor make an observation of the business environment of that country, as investors are keen to find places to invest their assets in a more stable country, to avoid risks and bureaucratic procedures and to earn as much as possible from their investments.

This paper will attempt to investigate the impact of 10 indicators from Doing Business, such as Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Resolving Insolvency, in attracting Foreign Direct Investment (FDI). These areas, mentioned before, are composed of several indicators (36) which provide a quantitative measure of the degree of bureaucracy in a country in the areas mentioned before.

This paper will contribute to enriching the existing literature related to areas of doing business (mentioned above) in attracting Foreign Direct Investment (FDI) for 16 transition countries, included in this research for the time period of 2009–2016. Furthermore, the use of three methods, Pooled Ordinary Least Square (POLS), Fixed Effect (FE), and Two Step-System Generalised Method of Moments (GMM) estimation techniques, especially the latter, as it is more advanced, make the value and scientific contribution of this paper to be even higher.

Furthermore, information from this paper can be used either by the governments of these countries, regarding the taking of institutional measures to improve the business environment in the country, by foreign investors, by students of different academic levels, and others interested in this field of study.

These indicators (9 of them) also have been investigated by Olival (2012), using the panel data, including 144 developing countries and 33 developed countries for the period 2004–2009. It is important to note that from this research, Kosovo (included in this research) has been excluded, because Kosovo has declared its independence in 2008 and only since 2009 has started to record data in international financial institutions, so, before this year, the data for Kosovo were missing.

Also, Shahadan et al. (2014), by using panel data for six Asian countries, namely Afghanistan, Bangladesh, India, Iran, Pakistan, and Sri Lanka for the period 2004–2013, have investigated the areas (indicators) of doing business (9 of them) in attracting FDI net inflows through pooled OLS, fixed effect, and random effect models estimations.

The paper continues as follows: the theoretical and empirical literature review is discussed in section 2. The methodology of the study is provided in section 3, whereas the same section describes the various and different statistics related to the dataset. Section 4 concludes the study.

2. Literature Review

Different authors have studied the indicators of Doing Business for different countries in attracting Foreign Direct Investment (FDI), which are listed below:

Hossain et al. (2018) used panel data to investigate the impact of Ease of Doing Business on Inward FDI over the period from 2011 to 2015 across the globe. (177 countries), respectively they have treated 5 indicators (areas) of Doing Business, such as, starting a business, getting credit, registering property, paying taxes and enforcing contracts. They emphasize that Enforcing Contracts was found to have a positive significant impact on Inward FDI, while Getting Credit and Registering Property were found to have a negative significant impact on Inward FDI, whereas starting a Business and Paying Taxes have no significant impact on Inward FDI.

Olival (2012) from his study, using panel data for the period 2004–2009, through a fixed effects estimator, has tried to find a link between nine indicators of Doing Business and Foreign Direct Investment (FDI) inward for 144 developing countries and 33 developed countries. The major implication is that in general, a better-rated business environment is more likely to attract greater amounts of FDI, especially in the case of developing countries. Further institutional areas that are most likely to influence inward FDI are: starting a business, registering a property, and trading across borders. Shahadan et al. (2014) in their study investigated how FDI is influenced by Doing Business Indexes (DBI) for six Asian countries, namely Afghanistan, Bangladesh, India, Iran, Pakistan and Sri Lanka. Panel data were employed for the period 2004–2013, investigating nine indices of Doing Business using pooled OLS, fixed effect, and random effect models estimations. The authors pointed out that there is a strong negative correlation between starting a business and dealing with construction permits indexes. It is a quite small and negative correlation with closing business or resolving insolvency index, but surprisingly, FDI inflows are highly negatively correlated with the paying taxes index.

Kasongo (2013) found out a relationship between changes in inward foreign direct investment and the Doing Business Indicators by investigating variables, such as time to start a business, cost to start a business, time to register property, and cost to register a property, time to import, and time to export, and he noticed that some indicators from Doing Business results suggest an insignificant (albeit negative) association between the cost to start a business, time to register a property, time to import, time to export, and FDI, and in his study he points out that starting a business and the cost of registering a property were found to be significant in determining FDI inflows.

Mahuni & Bonga, (2017) analysed the impact of Ease of Doing Business Indicators on FDI inflows in Zimbabwe employing a Time Series Analyses for period from 2009–2016 using the OLS regression model. They pointed out that Paying Taxes (PT), Enforcing Contracts (EC), and Getting Electricity (GE) had negative significant impact on FDI inflows. Their study suggests that there is a greater need to improve efficiency in the enforcement of contracts, fair distribution of electricity and energy, improving taxes procedures and compliance enforcement, and correctly dealing with construction permits.

A study by Anderson & Gonzalez (2013) opines that higher Distance To Frontier (DTF) scores are associated with high FDI inflows.

Azam et al. (2010) analysed the role of institutional factors and macroeconomic policy factors on FDI inflows, a study which implies that a good institutional quality plays a key role in attractiveness of FDI inflows. A poor macroeconomic policy situation produces negative impact on FDI. Good Institutional quality and poor macroeconomic policy generate negative effect in a combined form on FDI. This study further implies that poor macroeconomic policy deteriorates institutional quality and creates a negative effect on FDI inflows.

Piwonski (2010) emphasizes that, by increasing their country's Doing Business rank one level, a government can bring in over $44 million USD.

A legal system that is effective, impartial, as well as transparent and protects property rights is virtually a prerequisite for FDI consideration (Globerman & Shapiro, 2003, Sethi et al., 2002, 2003).

Sedmihradsky & Klazar, (2002) found out that the most governments of the Central and East European countries adopted tax measures in the 1990s to support foreign direct investments. According to their study, the incentives are effective in attracting new FDI to the countries.

Göndör & Nistor (2012) pointed out that the fiscal policy is a major factor influencing Foreign Direct Investment.

According to "Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises", World Bank Group, Washington DC it can be seen that, even though Doing Business indicators focus on small to medium-size domestic firms, many policymakers have associated improvements in the indicators with greater inflows of Foreign Direct Investment (FDI). Cross-country correlations show that FDI inflows are indeed higher for economies performing better on Doing Business indicators, even when taking into account differences across economies in other factors considered important for FDI. Results suggest that on average across economies, a difference of 1 percentage point in regulatory quality, as measured by Doing Business distance to frontier scores, is associated with a difference in annual FDI inflows of $250–500 million. Although this correlation does not imply causation, the evidence suggests that Doing Business reflects more about the overall investment climate than what matters only to small and medium size domestic firms. In particular, these findings support the claim that economies that provide a good regulatory environment for domestic firms tend to also provide a good one for foreign firms.[1]

3. Methodology research and data

Authors used three methods: Pooled Ordinary Least Square (POLS), Fixed Effect (FE), and Two Step-System Generalised Method of Moments (GMM) estimation techniques.

[1] Source: www.worldbank.org

Data regarding this paper are taken from credible institutions, the World Bank,[2] and International Monetary Fund.[3]

Table 1 contains information about variables and their sources:

Table 1. Definition of variables and their sources

Variable name	Acronym	Variable type	Expected effect	Log	Source
Foreign Direct Investment	FDI	Dependent		No	World Bank
Starting a Business	SB	Independent	+	No	World Bank
Dealing with Construction Permits	DCP	Independent	+	No	World Bank
Getting Electricity	GE	Independent	+	No	World Bank
Registering Property	RP	Independent	+	No	World Bank
Getting Credit	GC	Independent	+	No	World Bank
Protecting Minority Investors	PMI	Independent	+	No	World Bank
Paying Taxes	PT	Independent	+	No	World Bank
Trading Across Borders	TAB	Independent	+	No	World Bank
Enforcing Contracts	EC	Independent	+	No	World Bank
Resolving Insolvency	RI	Independent	+	No	World Bank
Inflation	INF	Instrumental Variable		No	International Monetary Fund
Real GDP growth rate	GDPGR	Instrumental Variable		No	International Monetary Fund
Population	POP	Instrumental Variable		Yes	World Bank
GDP (current US$)	GDP	Instrumental Variable		Yes	World Bank

Source: Authors' compilation

Formula 1 is used in our study:

$$FDI_{it} = \beta_1 FDI_{i\,t-1} + \beta_2 SB_{it} + \beta_3 DCP_{it} + \beta_4 GE_{it} + \beta_5 RP_{it} + \beta_6 GC_{it} + \beta_7 PMI_{it} + \beta_8 PT_{it} + \beta_9 TAB_{it} + \beta_{10} EC_{it} + \beta_{11} RI_{it} + \beta_{12} GDPGR_{it} + \beta_{13} GDP + \beta_{14} INF_{it} + \beta_{15} POP_{it} + \mu_{it} \quad (1)$$

where:

⟦FDI⟧_it represents the Foreign Direct Investments as percentage of GDP,

⟦FDI⟧_(i t-1) represents the first lag of Foreign Direct Investments, thus the main independent variables,

β_2 SBit, represents Starting a Business (SB);

β_3 DCPit, represents Dealing with Construction Permit (DCP)

[2] World Bank (2019), "World Governance Indicators", available at: https://data.worldbank.org/ (Accessed on: January 10, 2019)

[3] International Monetary Fund (2019), available at: www.imf.org (Accessed on: January 10, 2019)

β_4 GEit, represents Getting Electricity (GE);
"β" _"5" "RPit", represents Registering Property (RP);
"β" _"6" "GCit" , represents Getting Credit (GC)
"β" _"7" "PMIit", represents Protecting Minority Investors (PMI);
"β" _"8" "PTit", represents Paying Taxes (PT)
"β" _"9" "TABit", represents Trading Across Borders (TAB)
"β" _"10" "ECit", represents Enforcing Contracts (EC)
"β" _"11" "RIit", represents Resolving Insolvency (RI)

While as instrumental variable are used:
"β" _"12" "GDPANit", represents GDP in absolute numbers (GDPAN)
"β" _"13" "GDPGRit", represents GDP growth rate (GDPGR)
"β" _"14" "INFit", represents Inflation rate (INF)
"β" _"15" "POPit", represents Population (POP)

While the error term is:
u_it, represents the error term over years.

The aim of this paper is to explore the impact of the Ease of Doing Business Indicators on FDI in transition economies in Europe. The authors selected countries in transition in Europe in order to explore the Ease of Doing Business Indicators on FDI to those countries. The countries selected (the aim was to analyse only transition economies in Europe) in this research are: Poland, Czech Republic, Lithuania, Bulgaria, Croatia, Romania, Slovenia, Estonia, Latvia, and the Slovak Republic, and 6 Western Balkans states: Kosovo, Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, and Serbia. Our study covers the time period of 2009–2016.

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI of GDP	128	4.430	4.554	-3.201	37.249
Starting a Business	128	84.567	9.009	51.39	95.54
Dealing with construction permit	128	54.391	20.304	0	85.53
Enforcing contracts	128	62.336	8.357	46.13	83.44
Protecting minority investors	128	56.875	9.110	26.67	73.33
Getting credit	128	73.125	14.572	25	93.75
Getting electricity	128	69.498	12.771	35.16	87.68
Registering property	128	73.734	11.887	47.5	92.24
Trading across border	128	79.291	9.192	60.87	100
Resolving insolvency	128	43.579	11.367	22.48	94.91
Paying taxes	128	69.893	12.439	43.64	94.17
Inflation	128	1.780	2.264	-2.4	11.1
GDP growth rate (%)	128	1.221	3.621	-14.8	7.6
Population (Log)	128	1.385	1.011	0.481	3.641
GDP (Log)	128	24.355	1.253	22.122	27.024

Source: Authors' compilation

Table 2 can be seen above, which shows the descriptive statistics of the dataset used in the analyses. Respectively presented: the number of Observations (Obs), Average (Mean), Standard Deviation (Std. Dev), Minimum (Min) and Maximum (Max). From the results it can be seen the average of dependent variable is 4.43, minimum it is -3.20, while maximum value is 37.249 with standard deviation 4.55.

The data are present in percentage; only variables Population and GDP are transformed in logarithm, and for this reason data in the descriptive statistics are close.

Table no. 3 shows the results of: Pooled Ordinary Least Square (POLS), Fixed Effect (FE) and Two Step-System Generalised Method of Moments (GMM) estimation techniques. The GMM estimation results are preferred, as it is the more advance techniques, which is proposed by Arellano & Bover (1995) and used also by Blundell & Bond (1998), which corrects endogeneity by introducing instruments to improve efficiency and to transforms the instruments to make them uncorrelated (exogenous) with the fixed effects.

Table 3. Results from POLS, FE, Two step system GMM

Variables	POLS	FE	GMM
FDI of GDP_L1			-1.242***
			(-0.379)
Starting a business	-0.05	-0.126	2.108**
	(-0.073)	(-0.159)	(-0.837)
Dealing with construction permit	-0.063***	-0.045*	-1.978***
	(-0.02)	(-0.023)	(-0.765)
Enforcing contracts	-0.180***	-0.037	0.886
	(-0.055)	(-0.065)	(-0.609)
Protecting minority investors	0.095	0.128	-2.036**
	(-0.09)	(-0.123)	(-0.796)
Getting credit	0.137***	-0.004	-2.165***
	(-0.034)	(-0.04)	(-0.814)
Getting electricity	0.05	0.107	3.158***
	(-0.033)	(-0.063)	(-1.092)
Registering property	0.059	0.204	2.016**
	(-0.068)	(-0.147)	(-0.905)
Trading across border	0.303***	0.260**	-0.14
	(-0.085)	(-0.11)	(-0.175)
Resolving insolvency	0.079*	0	2.628**
	(-0.042)	(-0.028)	(-1.028)
Paying taxes	-0.075*	0.047	-4.472***
	(-0.04)	(-0.054)	(-1.474)

Variables	POLS	FE	GMM
Inflation	0.325*	0.583**	-1.618**
	(-0.189)	(-0.263)	(-0.637)
GDP growth rate (%)	0.023	0.007	0.507
	(-0.108)	(-0.152)	(-0.357)
Population (Log)	-3.765*	-69.264*	0
	(-1.976)	(-33.016)	0
GDP (Log)	1.886	-0.103	0
	(-1.555)	(-9.262)	0
Year dummies	Yes	Yes	Yes
Constant	-64.746*	57.882	
	(-38.19)	(-208.93)	
Observations	128	128	127
R-squared	0.613	0.327	
AB test AR (1) p-value			0.013
AB test AR (2) p-value			0.139
Hansen Test p-value			0.768
Number of states		16	16

For AR (1), H_0 = there exist no autocorrelation, For AR (2), H_0 = there exist no autocorrelation.
m1 test for AR (1): p <0.05 suggests the rejection of the null hypothesis (there is no autocorrelation in the first order in the differenced residuals) so it is acknowledged that there is autocorrelation in the first order.
m2 test for AR (2): p> 0.05 suggests non-rejection (accepting) the null hypothesis (there is no autocorrelation in the second order in the differenced residuals). This supports the validity of the instruments.
First lag of FDIofGDP, GDP (Log), GDP growth rate, inflation and Population (Log), has been used as an instruments.
Standard errors in parentheses.

* statistically significant at 90% level of significance.
** statistically significant at 95% level of significance.
*** statistically significant at 99% level of significance.

Source: Authors' compilation

Referring to the GMM technique, it can be seen that variables such as: Starting a Business (SB), Registering Property (RP), Getting Electricity (GE), and Resolving Insolvency (RI) have a positive and significant impact in attracting FDI in 16 European transition countries, while the variables of Dealing with Construction Permits (DCP), Getting Credit (GC), Paying Taxes (PT), and Protecting Minority Investors (PMI) have shown negative impact in attracting FDI in these countries, whereas the variables of Trading Across Border (TAB) and Enforcing Contracts (EC) have not shown any impact on attracting FDIs in European transition countries. A detailed explanation is presented below in Table no. 4:

Table 4. A summary of results for each variable

Variable name	Increasing % of indicator	Effect on FDI	Level of significance
Starting a Business	+1.0%	+ 2.10%	95%
Getting electricity	+1.0%	+3.16%	99%
Registering property	+1.0%	+2.02%	95%
Resolving insolvency	+1.0%	+2.62%	95%
Protecting minority investors	+1.0%	- 2.03%	95%
Getting credit	+1.0%	-2.16%	99%
Dealing with construction permits	+1.0%	-1.97%	99%
Paying taxes	+1.0%	-4.47%	99%

Source: Authors' compilation

A more detailed explanation of the impact of independent variables (10 indicators from Doing Business) on the dependent variable (FDI net inflows as percentage of GDP) can be seen below:

- **Starting a Business** has a positive impact in attracting FDI flows in European transition countries over years 2009–2016. Similar results are found by Olival (2012). Based on these results, it can be concluded that: "By increasing the indicator of Starting a Business by 1 percent, will cause an increase on FDI-s for 2.10%." This variable is statistically significant at a 95% level of significance. Regarding the Starting a business indicator, North Macedonia, comparing to all the countries involved in the study leads from the reforms taken recently, where only one procedure is required to register a business, which can be carried out within a day, with only 0.1 costs as a percentage per capita income and without having minimum capital as a percentage of per capita income. While the country that has made less reform in this area is Bosnia and Herzegovina, where the number of procedures for registering a business in this country is 12, for a period of 67 days, at a cost as a percentage of income per capita of 14.8% and 28% minimum capital, as a percentage per capita. Regarding the cost of per capita income, Slovenia is at the most favourable level, with 0%, while Bosnia and Herzegovina reaches the highest level with 14.8%. Kosovo is making progress in improving this area, and it is recommended to follow the model of North Macedonia.
- **Getting electricity** has a positive impact in attracting FDI flows in European transition countries over years 2009–2016. Based on these results, it can be concluded that: "By increasing Getting electricity by 1 percent, level of FDI-s will be increased for 3.16%." This variable is statistically significant at a 99% level of significance. Less procedures to access on getting electricity are in the following countries: Lithuania, Poland, and Serbia, while most procedures are required in the following countries: Bosnia and Herzegovina and Romania. Investors need less time to have access in electricity in Slovenia, whereas the longest time in providing this service is Romania. Lower electricity costs, as a percentage per capita income, is in Poland, with only

19.5%, while the country with the most expensive energy among these countries is the Republic of Kosovo, with 788.5% of income per capita. The reliability of supply and transparency of the highest tariff indicator is in Slovakia, with the highest 8 points, while the lowest is presented in Albania with 0 points, as well as in Montenegro.

- **Registering property** has a positive impact in attracting FDI flows in European transition countries over the years 2009–2016. Similar results are found by Olival (2012) in opposition to Hossain et al. (2018). Based on these results, it can be concluded that: "By increasing Registering property by 1 percent, it will cause an increase in the level of FDI-s for 2.02%." This variable is statistically significant at a 95% level of significance. Regarding the number of procedures for registering a property, the lowest ones are presented in Estonia, Lithuania, and Slovakia, with 3 procedures, while most procedures are presented in Bulgaria and Romania, with 8 procedures. The shortest time to register a property is presented in Lithuania, with only 2.5 days, while the longest is presented in Montenegro, with 69 days. The lowest cost to register a property is presented in Slovenia, with 0% expense, while the highest is presented in Albania, with 10.2% of the property value. The highest quality of the property management index is presented in Lithuania, with 28.5%, while the lowest in the state of Bosnia and Herzegovina, with 12.5%.
- **Resolving insolvency** has a positive impact in attracting FDI flows in European transition countries over years 2009–2016. Similar results are found by Olival (2012). Based on these results, it can be concluded that: "By increasing Resolving insolvency by 1 percent, it will cause an increase level of FDI-s for 2.62%." This variable is statistically significant at a 95% level of significance. This indicator implies the commencement of bankruptcy proceedings, asset management of the debtor (company), reorganization procedures and creditors' participation in bankruptcy proceedings. It is therefore important to establish a good legal framework for bankruptcy resolution in order to reduce the time of bankruptcy and at the same time at a lower cost of the debtor's assets, so that the company can be reclaimed or sold as a continuous business. The lowest number of bankruptcy settlement procedures has appeared in Slovenia, with 0.8 procedures, while the highest one is presented in Slovakia, with 4 procedures. The lowest cost as a percentage of wealth for settlement of bankruptcy is in the state of Slovenia, with 4%, while the highest one is displayed in the state of Serbia by 20%. The lowest rate of recovery (cents in dollars) of bankrupt businesses is presented in Serbia, with 30.3%, while the highest is in Slovenia, with 88%. Lower strength index bankruptcy framework is in Kosovo, with 0 points, while the highest is in Bosnia and Herzegovina, with 15 points.
- **Protecting minority** investors has a negative impact in attracting FDI flows in European transition countries over years 2009–2016. Similar results are found by Olival (2012) and Shahadan et al. (2014). Based on these results, it can be concluded that: "By increasing Protecting minority investors by 1 percent, it will cause a decrease in FDI level for 2.03%." This variable is statistically significant at a 95% level of significance. The protection of minority investors, despite trying to give its contribu-

tion to investor protection, cannot achieve the right effect, because the judicial and prosecutorial system should pursue cases of misuse (conflict of interest, corruption, or other forms of misuse), therefore taking into account the countries involved in the study, which are in the transition phase, some of them have just started this transition phase and have failed to establish strong, professional institutions and perform their work in an independent way, causing many cases of misuse never to be discovered or judged, thus affecting the frustration of foreign investors to invest in these countries and at the same time seeking to place their investments in countries where they have regulated the legal aspects better, in order to feel confident and comfortable in their investment, thus reducing the level of FDI in these countries.

- **Getting credit** has a negative impact in attracting FDI flows in European transition countries over years 2009–2016. Contrary to the results of Hossain et al. (2018), Shahadan et al. (2014) and Olival (2012). Based on these results, it can be concluded that: "By increasing Getting credit by 1 percent, it will cause a decrease in FDI level for 2.16%." This variable is statistically significant at a 99% level of significance. Getting credit, which measures more the legal aspect of borrowers and lenders, as well as procedural aspects, does not focus on interest rates and loan terms that banks apply when they give loans to potential clients (potential investors), which is very important for investors. Therefore, despite lowering the interest rate on loans in some of the countries surveyed, they has not been able to reach the level required by investors, as well as the conditions for granting loans (the time of the loan payment, procedures, leaving the collateral, delays, etc.), so this may have an impact on the reduction of the level of FDI, and respectively on the transfer of investments of foreign investors to countries with lower interest rates and more favourable conditions for granting loans.
- **Dealing with construction** permits has a negative impact in attracting FDI flows in European transition countries over years 2009–2016. Similar results are found by Olival (2012), Shahadan et al. (2014). Based on these results, it can be concluded that: "By increasing Dealing with construction permits by 1 percent, it will cause a decrease in FDI level for 1.97%." This variable is statistically significant at a 99% level of significance. Based on this indicator, it is noted that some of the countries in this research have made some concessions in issuing construction permits to investors, but some of these countries have not associated this with the complete accompanying infrastructure (electricity, water supply, central heating, sewage, roads, etc.), which are indispensable for investors in starting the investment activity, which has affected the disappointment of investors and the possibility of investing in a more favourable country, affecting the reduction of FDI in these countries.
- **Paying taxes** has a negative impact in attracting FDI flows in European transition countries over years 2009–2016. Contrary to the results found by Shahadan et al. (2014) and Olival (2012). Based on these results, it can be concluded that: "By increasing Paying taxes by 1 percent, it will cause a decrease in FDI level for 4.47%." This variable is statistically significant at a 99% level of significance. Paying taxes, addressing more procedural aspect of the number of payments made, time spent, and introducing

only the tax on profit tax treatment, this indicator cannot measure the full effect of the tax payment on the Foreign Direct Investment, because income tax is not included. Therefore, it can be said that the effect of this indicator on FDI may be partial. Also, Inflation, used as an instrumental variable, has had a significant negative impact on the attracting of Foreign Direct Investment in the European economies in transition and Kosovo during 2009–2016. All the while the instrumental variables 'Population' and 'Real GDP Growth Rate' did not show any impact on attracting Foreign Direct Investment in these countries during this period of time.

4. Conclusion

Based on the results of our study, the main business-led indicators that have a positive and significant impact in attracting FDI in 16 European transition countries are: Starting a Business, Registering property, Getting electricity and Resolving insolvency, while variables as Dealing with construction permits, Getting credit, Paying taxes and Protecting minority investors have shown a negative impact in attracting FDI. The variables of Trading Across Border and Enforcing Contracts have not shown any impact on attracting FDIs. While from instrumental variables, such as Gross Domestic Product (GDP) at country level, GDP growth rate, Inflation and Population, only the Inflation variable has a negative impact on FDI, whereas other variables have no impact on FDIs.

These results were obtained through the usage of dynamic panel methodology, using three methods: Pooled Ordinary Least Square (POLS), Fixed Effect (FE), and Two Step-System Generalised Method of Moments (GMM) estimation techniques, but because the GMM method is more advanced and proper, only the results of this specific method are commented on this paper.

Based on our study, results of countries that have made more evident reforms in improving the business environment are: North Macedonia (increased by 16.65%), whether in reducing/eliminating the procedures, expenses, time and other facilities offered to investors from the first investment stage up to the investor's ongoing operation. While other countries like Serbia 15.39%, Poland 14.3%, Czech Republic 13.08, and Kosovo 11.94% (which is doing reforms to improve the business environment continuously, but it needs a faster pace in this direction), and Croatia had an increase (improvement of these indicators) of 10.54% during this time of period.

Institutions of these states which are taking over the FDI field can learn from each other by improving their business environments by following the models as stated below:

- To follow the model of North Macedonia by improving the indicator of "Starting a business" (Time and cost, business registration within one day, with simple procedures in place and only 0.1% of expenses as a percentage per capita income). As a comparison, investors starting a business in Kosovo must respect stricter rules, such as: 5 procedures, 11 days, 1.1% of expenses as a percentage per capita income. Thus, it is important to reduce or eliminate the minimum capital requirement and to create

a single interface or a one stop-shop, where some of the countries have already it, to enable online access to the execution of all procedures, to have in place information and easy access to forms.

- Follow the example of Poland in the provision of electricity, which provides this resource to investors adequately and with the lowest price comparing with all other countries involved in our study, at a cost of only 19.5% as a percentage per capita income.
- Follow the good practices of Lithuania in regulating the aspect of property registration for businesses (3 procedures, 2.5 days, 0.8% of the cost of property and 28.5 points out of 30 points on Quality of Property Management). Thus, countries involved in our study have to reduce the procedures for registering property, which would also reduce the time of property registration. Moreover, reducing the cost of property registration, in relation to the value of the property, would be recommended in these countries.
- Establish a strong legal framework for bankruptcy resolution in order to reduce the time of bankruptcy resolution and at the same time to reduce the costs of a debtor's assets percentage so that the company can recover or be sold as a continuing business. The best example to follow in this case is Slovenia (number of procedures 0.8, cost as a percentage of property 4%, recovery rate 'cents in dollars' 88.2, index of bankruptcy index 11.5 out of 15). It is important to establish special insolvency departments, specialized in these areas, which can establish more efficient processes, to offer greater transparency and to guarantee the rights of creditors.

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