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Linking FDI and Sustainable Environment in EU Countries

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Abstract: The aim of this study is to emphasize the link between the foreign direct investments (FDIs) and the sustainable environment in EU countries. We also focus on investigating the influence of other factors related to business environment on FDIs, considering the investors' sustainable choice for the host countries, grouped according to FTSE Russell criteria. Using panel methodology and applying Ordinary Least Squares (OLS) method of data analysis, the authors reached the conclusion that a better-rated business environment, with concern for sustainability, has more of a chance to attract larger sums of FDIs, mostly in the case of developed economies. This fact proves that the main advantage considered by a foreign investor in developed EU countries is represented by CO_2 emissions (sustainable environment) and a good ease of doing business environment. The study highlights the factors that influence the decision of investing in developed countries, rather than in emerging and frontier ones. This paper contributes to the existing literature by identifying the group of countries which need a more sustainable approach to attract a large amount of FDIs, given that the inflow of FDIs is a crucial factor of economic growth, a possible source of innovation and technology, and a way to reduce poverty.

Keywords: the investors profile; ease of doing business; FDI; sustainable environment; economic growth; climate change; climate business

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1. Introduction

Business climate is a term which describes the coordinates of the economic environment in which a company must activate, and is described by various conditions related to institutional, economic, or sustainable regulations.

In our paper, we intend to analyse whether foreign direct investments (FDIs) are influenced by the business climate of the host country, considering both the institutional and the sustainable indicators. A foreign direct investment (FDI) is a specific form of international capital movement, which does not lead to foreign debt and allows for the-significant influence of another company or investor, non-resident in target company's country, in a company [1]. Another commonly used explanation of FDIs is provided by the Organisation for Economic Co-operation and Development (OECD) [2], which considers that FDIs contemplate the goal of the acquisition of a long-term interest by a resident enterprise in a single economy ("direct investor") in a resident organization in another economy out of the one of the contractors ("direct investment enterprise").

Many scientific articles have argued as to whether FDIs are a crucial factor of economic growth [3–7]. Alfaro [4,8] asserted that they may be the origin of precious technology, which can help lunch an economic market. The study of Wacziarg [9] disclosed that FDIs multiply commercial advantages, which, in turn, supports economic growth. Phoung [10] argued that increased tax revenues obtained from FDI can reduce poverty. In their study, Masron and Abdullah [11] stated that FDIs have an essential role in the economic development of emerging markets.

In their studies, different researchers have proposed different models and variables regarding the investigation of FDI determinants [12–18]. In their research, these papers have used institutional and macroeconomic variables such as taxes, GDP growth, inflation, GDP per capita, the openness of the economy, and the real exchange rate. They argued that, the higher the GDP, the more economies of scale are obtained, and, if there is a high value of GDP per capita, this may mean that the market is large—two variables important for FDI, as the exchange rate can influence FDI flows in that foreign companies can buy relatively cheaper goods in a host country, taking advantage of a better exchange rate. Controlling for inflation is a factor that matters because, in a host country, if the currency is indexed at a higher rate, then any profit obtained in the same country would have a lower value for the country of origin. The authors Walsh and Yu [14] used inflation in their research and demonstrated that the importance of taxes in attracting or rejecting FDI flows depends on the kind of tax. For a host country, for example, having a dual tax policy instead [18] and differences in indirect business taxes and profit taxes [19] may have an influence on FDI inflows. The degree of openness of a country is calculated as a ratio of imports and exports upon GDP, and it can also determine the attraction of FDI. Masron and Abdhullah [11] found an important positive link among trade degree openness and inflows of FDI in Asian countries, in contradistinction to Walsh and Yu [14], who found no considerable bond between trade degree openness and FDI inflows in the case of developing and advanced economies.

In this context, the literature considers that the quality of a country's institutions is likely to influence FDI inflows. Among the institutional variables, quality of government policies, political stability, control of corruption, efficiency of the legal system, quality infrastructure, and flexibility of work are mentioned. Some researchers have posited that FDI inflows are attracted by legal rights and powerful property rights [20–22], and others have found very little or no connection between FDIs and a country's institutions [13,14,23]. Given the aforementioned variables, the degree of development of the host countries is important. In this regard, the FTSE Russell classification was considered.

The business regulations in a country are of great interest in assessing the potential for investment, and World Bank provides, through the ease of doing business (EDB) index, comparable measures for the indicators which compose it [24]. The index provides, for domestic investors as well as for the foreign ones, a clearer attribution of the reforms in different areas, which could serve the economic cycle and limit competition [25]. The potential for investment must be complemented by a sustainable approach for both the government and the companies (public or private), and sustainable indicators, such as the carbon emissions and their evolution, are significant for the concern for the environment [26].

The studies regarding FDIs in EU-27, which take into consideration the type of economy, are very scarce and present contradictory conclusions. In the current context, financial information and ease of doing business are orientated to the technical aspects of business; however, in the literature, there is an increasing emphasis on non-financial reporting and a sustainable approach to business. Thus, through this study, we add the institutional component, ease of doing business (EDB), and a sustainable component, represented by the carbon emissions.

Therefore, this research tries to answer to the question: are investors looking for a country that will offer them technical, institutional, and economic support for developing a business, or is there also the intention to look for a sustainable ("clean") country?

More specifically, the purpose of the study is to establish the link between FDI inflows, EDB, and carbon emissions in EU-27 countries, based on the following types of economy: emerging countries (EM), developed countries (D), and frontier countries (F).

Given the importance of the business climate of a country, the present paper considers the Ease Doing Business rankings as an independent variable which can influence the inflows of FDI (the dependent variable). Although the literature abounds for research on the bond between FDI and business environment [15,27–35], very few studies include sustainable variables in research, and it does not provide much research on the issue of

regulatory framework and FDI, especially in EU countries, by considering the following types of economies: emerging, developed, and frontier. Moreover, the paper considers the sustainable view of the host country, by considering the evolution of the CO_2 emissions, as an independent variable. We used the proxy CO_2 per capita emissions (CO_2PC in tons) for sustainable and clean environment. We assume that the countries with less emissions of carbon (cleaner and more sustainable environments) could be the most attractive destinations for investors. Therefore, in accordance with ease of doing business (EDB) investment trends, we assume fewer degrees of CO_2PC to be related to a higher degree of FDI. The idea of a sustainable behaviour is a known fact for developed economies and has been recently expanded to emerging countries [36], since the advantages of compliance the business outlines was proven to have a significant effect on the investors' perception, despite the risk of debt collection, poor infrastructure, bureaucracy or corruption [37].

Starting from the model proposed by Niranjan Chipalkatti et al. [38], we used panel data of 243 observations that took place between 2012 and 2020.

The paper is structured as follows: Section 2 realizes a brief literature regarding FDI determinants and the link between the indicator of ease of doing business, sustainable environment, and FDI; Section 3 describes the sample, data, and the methodology used; Section 4 describes the results obtained and discusses them. Finally, the study ends with concluding remarks.

2. Theoretical Background and Hypothesis Development

Our research is based on the theory of the internationalization of production. The basic idea is that, in the foreign market, companies can have growth prospects through the mechanism of horizontal or vertical diversification. Diversification can be done by gaining new product lines or activities or by gaining knowledge [39–42].

This theory has been the aim of numerous research studies, and it is known in the economic literature as the Ownership, Location, and Internationalization (OLI) model. The finding of these studies points out that the competing advantage of companies has its origins in ownership benefits on the external market and the benefits of the location where the production takes place. One study was conducted on a sample of US companies in the 1970s and, in this study, the authors introduced the institutional variables into the OLI model components [39]. Through this, they highlighted the importance of institutions and good governance for economic efficiency, social wellbeing, and growth for a sustainable environment. Dunning and Lundan [43] associated at the beginning of twenty-first century the institutional dimension with the three components of the OLI theory. In order to attract FDI inflows to the host country, institutional indicators should promote an attractive business climate (sustainable environment) and an effective regulatory environment.

Donaubauer et al. [44] studied the OLI model in relation to emerging and developed countries and highlighted that the investment level increases with better developed financial markets in both the host and the source country. Since the end of the twentieth century, another theory has attracted attention, namely the neo-institutional theory. The new model promoted the importance of institution variables for economic and sustainable growth. The author of neo-institutionalism's theoretical direction, Douglas North [45], described the sustainable approach by formal rules (regulation, laws, and constitutions) and informal constraints (code of conduct, observe behaviour, norms, and convention).

Many empirical papers investigated the effects of regulatory environment and institutional indicators in order to attract FDIs [46–49]. In the majority of these papers, bureaucracy, corruption, and institutional gaps are indicated as limiting factors for attracting FDIs.

The World Bank, through its Ease of Doing Business project, is assisting in the development of a regulatory framework that may be important for FDI inflows. [50].

Various researchers have looked at the link between the World Bank's proposed indicators and FDI inflows, and most of them have studied the linkage across globe, on Asia or Africa, but without take into consideration the types of economy, as we intend to do in this research.

Hassain et al. in 2011–2015, analysed the link between the business environment and FDI inflows in 177 countries and concluded that the indicators starting a business and paying taxes did not influence FDIs [24].

Olival [51] also sought to establish a link between the business and sustainable environment and FDIs and conducted an analysis of 144 emerging and 33 developed countries. He found that a better-rated business and a sustainable environment were much more likely to attract larger amounts of investments, particularly in emerging economies. Piwonski [52] emphasized that, if the government increased their country's Ease of Doing Business rank by one level, 44 million USD would be brought into the country. FDI is encouraged by an efficient, impartial, transparent legal system that protects property rights [53,54]. Mahuni and Bonga [55] promoted a great need to improve tax procedures.

When focusing on global developing countries in isolation, the relationship is insignificant [35].

African and Asian countries (Afghanistan, Iran, India, Pakistan, Bangladesh, and Sri Lanka) have been the subject of other similar studies [54–58]. A surprisingly negative correlation between the business environment (starting a business, dealing with construction permits, and resolving insolvency) and FDI was found by Klimis Vogiatzoglou [57]. Azam et al. [54] found in their study that institutional quality and poor government policy discourage foreign investment.

Studies regarding European countries and the evolution of FDI depending on types of economies are very limited and have contradictory results [59–67]. Starting a Business, one of the Doing Business indicators, has a positive influence in attracting FDI in the majority of the studies, but some authors have concluded that, in developed countries, there is no effect on FDIs [7,35], but, at the same time, other researchers have found a positive effect in frontier countries [59]. Moreover, the dealing with construction permits variable does not show the same result in all studies. Thus, in frontier and emerging countries, some studies have concluded that there is a negative effect between the business environment and FDIs [60] and, according to other authors, the ease of doing business did not influence investments [61]. In emerging countries, Sedmihradsky and Klazar [7] affirmed that Paying Taxes has no effect on FDIs, while Gondor and Nistor [64], and also Dinuk Jayasuriya [35], found a positive result among the variables analysed. In developed countries, there is negative effect, according to Sedmihradsky and Klazar [7], but no effect according to Dinuk Jayasuriya [35]. The link between FDI and paying taxes in frontier countries is positive and significant in some studies [65], negative in other studies [66–73], and lacks any impact on attracting FDI in others [59]. There is no link between resolving insolvency and FDI in developed countries [59], but there is a significantly good effect on frontier countries, in accordance with other studies [24]. Some authors have argued that most FDI inflows occur in less developed countries, where environmental regulations are less stringent [68–72].

UN policies include Environmental Policy and Sustainable Growth Initiatives across the country (Sustainable Development Goals, or SDGs).

Investors are behaving more and more sustainably, investing in companies that seek to combat climate change and environmental destruction [38,74,75]. The same thing is said by Morgan [76], who warns that the 2020 pandemic is a "major wake-up call" for sustainable investment. SO_2, CO, and NOX, municipal wastes, energy consumption, and traffic noise are among the most important local pollutants and the largest global pollutant is CO_2 [77,78]. Municipal wastes and energy consumption create infectious diseases and land and water pollution, while traffic noise creates irritation, hypertension, sleep disturbances, cardiovascular disease, risk of stroke and diabetes, and loss of hearing. An important topic in all countries of the world is increasing greenhouse gases (GHGs) caused by CO_2 emissions in the atmosphere that cannot lead to a sustainable environment [79–82].

CO_2 emissions increase in economies where there is a weak legal system that does not strictly comply with UN standards for a clean and sustainable environment [83].

However, although only few studies have been done on the connection between CO_2 emissions, FDIs, and business climate [84–90], the sustainable approach has proven to be important for local investment and investors in the case of European countries.

Economic growth triggers high CO_2 emissions, but FDIs can reduce emissions through technological innovation and investment in renewable energy production processes. FDIs can reduce CO_2 if there are partnerships between the private business environment and the public environment, in the sense that governments must take good business and sustainable measures [91–94].

Better business climate of the host country, considering both the institutional and the sustainable indicators is likely to increase FDI inflows into a country.

Taking into account the literature on FDIs and business climate analysed in this section, we assume that technical, institutional, and economic support and a good business environment with concern for sustainability are important determinants of FDIs in a host country. Therefore, our research hypotheses are:

Hypotheses 1 (H1). *Investors are looking for a country that offers them technical, institutional, and economic support for a business;*

Hypotheses 2 (H2). *Investors are looking for a sustainable ("clean") country and good business environment when they decide to invest;*

Hypotheses 3 (H3). *Most FDI inflows occur in less developed countries, where environmental regulations are less stringent.*

3. Sample, Data and Methodology

The purpose of our research is to study the FDI inflows in EU-27 countries, considering the quality of the business environment, but also the "clean" host countries from the perspective of the investors. The FTSE classification was considered in order to identify the group of countries for which the proposed influence is significant.

Starting from the model proposed by Niranjan Chipalkatti et al. [38], we used panel data of 243 observations that took place between 2012 and 2020. To analyse the intention of the non-resident companies to invest in "clean" countries, we used the CO_2 per capita emissions (CO_2PC) as our variable of interest for a sustainable environment. We assumed that the countries with less emissions of carbon (cleaner and more sustainable environments) would be the most attractive destinations for investors. Therefore, in accordance with ease of doing business (EDB) investment trends, we assumed that fewer degrees of CO_2PC would be related to a higher degree of FDIs.

To achieve this purpose, we used as sample formed of the EU-27 countries divided into three categories, according to FTSE Russell [95]. Thus, the developed countries included in the analysis were Austria, Denmark, Finland, Belgium, France, Germany, Italy, Luxembourg, Netherlands, Ireland, Poland, Spain, Portugal, and Sweden; the emerging countries considered in the sample were Czech Republic, Greece, and Hungary, and, as frontier countries, we analysed Romania, Cyprus, Croatia, Estonia, Latvia, Lithuania, Bulgaria, Slovenia, Slovakia, and Malta.

For our study, we collected data from the Eurostat European Statistics Institute [96], World Bank's Ease of Doing Business [50] rankings, and the FTSE Russell Index [95] over 9 years (2012–2020). The research completes the one conducted by [85], who found a relationship between the business climate (reflected in EDB) and the CO_2 emissions (as representative for a sustainable behaviour), for several examples of developing countries.

For testing the hypotheses developed in Section 2, we use panel data regression models, which were run with the help of the EViews program. The model used for the analysis of the data was:

$$FDI_{it} = \beta_1 BENV_{it} + \beta_2 SUST_{it} + \beta_3 Z_{it} + \mu_{it}, \quad (1)$$

where: i is the country and t represents time (2012–2020), FDI_{it} represents the dependent variable which is expressing the direct investment in the reporting economy; $BENV_{it}$ represents the indicators measuring different characteristics of the business environment; $SUST_{it}$ represents the indicator measuring sustainable environment; Zit represents the control variables; β_1, β_2, and β_3 are the coefficients; and μ_{it} represents the error term.

The variables used for our model are presented in Table 1.

Table 1. Description of variables used in the analysis.

Indicators (Abbreviation)	Definition
FDI	
Foreign direct investment (FDI)	is a type of investment made by a company resident in a country (direct investor) to obtain a long-term interest in a company operating in a country other than that of the investor (direct investment company)
	the variable is calculated as a percentage of GDP
Business regulatory environment	
Ease of doing business (EDB)	is the average of the scores of the EDB subcomponents
Starting a business (START)	is the calculated average of the scores for the number and cost in terms of the procedures to open a business as well as the value of the minimum subscribed capital
Dealing with construction permits (CONSTR)	is the calculated average of the scores for procedures, time, cost to obtain, the building quality control index, of the quality control and safety mechanisms, insurance procedures, and professional certification requirements
Paying taxes (TAX)	is the calculated average of the scores for the payments, time and total tax, and contribution rate for a company to comply with tax laws in an economy, the post filing procedures to request and process a VAT refund claim and to comply with and complete a corporate income tax correction
Resolving insolvency (INSOLV)	is the calculated average of the scores for the recovery rate of insolvency proceedings and the quality of judiciary
Sustainable environment	
Carbon dioxide emissions metric tons per capita (CO_2)	carbon dioxide emissions are the result of the manufacture of cement and the burning of fossil fuels
Macroeconomic variables	
Real GDP growth rate (GDP%)	is adjusted for inflation or deflation and measures the growth of one period from another

Source: the definitions of the variables are taken from the Eurostat database and from the World Bank report.

4. Results and Discussions

The results of the descriptive statistics show that the variable measuring FDI vary significantly between countries and years (see Table 2). Therefore, our sample contained countries with very high FDI inflows and countries with reduced inflows of FDI.

The independent variables also register significant variations. Thus, resolving insolvency also has a high standard deviation, with this indicator varying between a minimum of 38 in Malta in 2019 and a maximum of 93 in Finland in 2017. Dealing with construction permits also varies significantly between a minimum of 21 in Croatia in 2013 and a maximum of 91 in Denmark in 2012. Paying taxes recorded the lowest value in Romania in the year 2012 and the highest value in Ireland, also in 2012. In Malta, in 2016, starting a business had the lowest value (75), while, in Greece and Hungary, in 2020, the indicator had the highest value (95). In Denmark, in 2020, it was the easiest to do business (85) and the hardest in Greece (60) in 2012. The proxy for sustainable environment registered a maximum value in Luxembourg

and a minimum value in Malta. The control variable considered real GDP growth rate and also registered thesignificant variations between countries.

Table 2. Descriptive statistics of the variables.

Variable	Mean	Max.	Min.	Std. Dev.	Obs.
FDIinwGDP	500.253	9052.300	11.700	14.401	243
CO_2 per capita	6.704	20.133	2.964	2.826	243
Real GDP growth rate	1.595	25.200	10.800	3.700	243
EDB	74.145	85.288	60.062	5.619	243
Starting a business	87.975	95.995	75.206	5.261	243
Dealing with construction	69.611	91.589	21.663	11.441	243
Paying taxes	80.852	95.327	49.348	8.054	243
Resolving insolvency	69.022	93.894	38.066	14.419	243

Source: authors' own calculations.

Table 3 compares the means for all of the variables considered in the analysis by groups of countries.

Table 3. Comparing the means of the variables by groups of countries.

Variable	EM	D	F
FDIinwGDP	106.7815	**654.3659**	402.5378
CO_2 per capita	6.841904	**6.383395**	5.711675
Real GDP growth rate	0.777778	1.269048	**2.296667**
EDB	69.16328	**76.59822**	72.20613
Starting a business	85.69195	**89.51528**	86.50557
Dealing with construction	62.96486	**74.67584**	64.51594
Paying taxes	78.22393	**83.02709**	78.59646
Resolving insolvency	62.47952	**77.50490**	59.10993

Source: authors' own calculations.

Most FDI inflows were made on the group of developed countries, with a value of 654,365, and the smallest value of 106.785 in emerging EU countries. Thus, the developed countries have a more favourable business and sustainable environment (fiscal stability; qualified multilingual workforce; quality infrastructure; favourable regulatory affairs; a high standard of living; port activity; exports are diversified and very flexible with surplus in external accounts; oil and natural gas deposits; well-capitalized banking system; political stability; European crossroads with great communication network; low CO_2 emissions, municipal wastes, energy consumption, and traffic noise) compared to those included in emerging European countries (unfavourable demography; ageing and immigration; dependence on rainfall and hydropower; exposure to seismic risk; ineffective political system and administration; reduction in labour force; poor public investment in local transport, education, and health; corruption, clientelism, and administrative delays; Fragile consumer and business confidence; industrial dependence on imported inputs; lack of skilled workers; public debt very high; moderate growth; unsustainable climate). Countries with large economies tend to be the largest emitting countries.

Table 4 centralizes the brief of the regression analysis performed on the panel data. The results are structured by groups of countries. The correlation analysis demonstrates that there are high correlation coefficients between the variables that express the characteristics of the sustainable and business environments. Therefore, for the accuracy of the results, we

ran two regression models for each dependent variable, excluding, in turn, the strongly correlated variables.

Table 4. Regression analysis.

Dependent Variable	EM		D		F	
	FDI (1)	**FDI (2)**	**FDI (1)**	**FDI (2)**	**FDI (1)**	**FDI (2)**
CO_2 per capita	**−29.961** **(8.862)**	−28.456 (7.488)	**−62.520** *** **(5.001)**	**−73.424** *** **(5.924)**	**−36.497** *** **(9.037)**	**−25.883** * **(10.369)**
Real GDP growth rate	0.237 (1.082)	1.437 (1.655)	**8.446** * **(4.597)**	**8.573** * **(4.758)**	10.228 (2.694)	2.591 (2.925)
EDB	**7.497** *** **(2.089)**	-	9.474 (10.963)	-	**4.816** *** **(10.210)**	-
Starting a business	0.841 (2.296)	0.852 (1.848)	1.222 (2.383)	5.668 (4.575)	**9.369** ** **(9.063)**	**9.785** *** **(8.794)**
Dealing with construction	**15.930** *** **(4.014)**	7.553 (6.024)	**13.330** ** **(5.086)**	**13.274** *** **(4.457)**	**12.398** *** **(3.274)**	10.604 *** (3.362)
Paying taxes	**6.044** *** **(1.874)**	**8.829** *** **(1.447)**	2.793 (3.850)	1.569 (1.710)	**5.729** *** **(3.274)**	8.556 *** (4.716)
Resolving insolvency	-	**8.582** *** **(2.323)**	-	**4.166** * **(2.407)**	-	6.234 *** (2.978)
Obs.	27	27	126	126	90	90
R-squared	0.624	0.634	0.974	0.974	0.557	0.257
R-squared adjusted	0.512	0.525	0.970	0.970	0.525	0.203
F-statistic	5.553 ***	5.791 ***	6.896 ***	6.703 ***	7.400 ***	4.790 ***

Note: *, **, and *** represents significant values at 1%, 5%, and 10%, respectively. Standard error in parenthesis. Source: authors own calculations.

The ease of doing business is a factor that positively influences the FDI inflows in all three groups. The highest value of the coefficient registered in developed countries shows that, when it is easier to do business in a country, high FDI inflow is easier to achieve.

Starting business procedures also has a positive and significant coefficient in relation to FDI. The indicator demonstrates that the smaller the number of procedures for the official establishment and operation of an enterprise, and the shorter the time needed to finish every procedure (calendar days) and as the lower the cost required to complete each procedure (% of income per capita), the more foreign investments will be attracted.

There is a significant link between the dependent variable and CO_2 per capita. The higher the CO_2 emissions, the lower the foreign direct investment inflows, which stand for a sustainable behaviour from the part of the investing companies. Usually, in more industrialized countries, emissions are higher, but the EU continues to reduce the carbon dioxide emissions generated by industry, which obliged to have a permit for each tone of CO_2 they emit.

Another indicator with a positive and statistically significant coefficient measuring FDI inflows for developed and frontier groups is dealing with construction permits. When the number of procedures for setting up a company (submitting documents and obtaining permits to connect to utilities, licenses, permits, and certificates), time needed to finish all steps, and cost needed to complete each operation decrease, investors are more attracted to make foreign direct investments in these countries. Improving the quality control before, during, and after construction determines the attractiveness to investors.

Paying taxes is also a significant coefficient for all three groups. The value of paying taxes indicator shows us an improvement in the fiscal incentives and deductions, which determine the increase in the FDI inflows. During the analysed period, a number of sustainable business measures can be noted at European emerging and frontier countries: the

granting of fiscal incentives to construction and IT employees in Romania; total deduction from the payment of profits tax from the removal of intellectual property rights in Cyprus. In Lithuania, companies investing in fixed assets and intellectual property rights can reduce taxable profits by up to 100% of the actual acquisition costs. Fewer measures have been taken in developed countries. For example, in Norway, companies that invest in research and development projects can apply for a deduction of 19% of the costs realized.

Resolving insolvency turned out to be positively correlated with the dependent variable because the better the time to resolve the insufficiency of liquidity and the recovery of receivables, the more FDI increases.

Regarding the control variable, GDP growth was positively correlated with FDI inflows, as we expected. The large economies of scale achieved by high GDP growth are conducive to FDIs [3–7]. The greatest influence of GDP on FDIs is observed in developed countries. The investors are attracted by fiscal stability; a qualified multilingual workforce; quality infrastructure; favourable regulatory affairs; a high standard of living; port activity; diversified and very flexible exports with surplus in external accounts; oil and natural gas deposits; a well-capitalized banking system; and political stability.

The values obtained for the adjusted R squared show the overall explanatory power of the variables included in the model.

Given that most FDI inflows were made in the developed countries group with a number of 654,365, and considering the coefficients of the analysed model (CO_2 is –29; EDB 9,47), at the level of this group, the hypothesis that is validated is: H2: Investors are looking for a ("clean") sustainable country and good business environment when they decide to make an FDI.

Investors in developed countries were attracted by the time, cost, and number of all steps to complete the formalities for setting up companies, the value of the minimum subscribed capital, insurance mechanisms, taxes, the quality of the judiciary, and, last but not least, the rate of recovery of insolvencies.

Investors in the group of emerging countries are also looking for a cleaner country with a good business climate; however, due to the higher level of CO_2 emissions in these countries, the level of foreign investment is lower than that of the previous group. This group is not characterized by such sustainable behaviour as the previous one. Such remarks are consistent with the analyses of Qichang et al. [91] and Zahoor et al. [93]. Emerging countries have a strong desire to introduce FDI to stimulate revenue growth due to the need for economic development, thus leading to lower environmental standards [91].

At the level of frontier countries, fewer direct investments are attracted, but some investors will move their business to less developed countries in order to benefit from less tight sustainable business regulation. FDI inflows were attracted by the time and cost, the procedure of starting a business, smaller income tax, income tax in the nature of salaries, employees' contributions to health, pensions, unemployment, and having only 6 h to comply with VAT refund (see Table 5).

Table 5. Investor profile in accordance with the group average.

Indicators/Countries Type		EM	D	F
Starting a business	Procedures number	**8.37**	6.06	5.85
	Time-days	**23.97**	18.61	15.18
	Cost—(% of income per capita)	**11.63**	5.75	3.85
	Paid-in Minimum capital (% of income per capita)	**35.83**	24.08	11.1
Dealing with construction	Procedures (number)	**19.29**	11.54	15
	Time (days)	**211.14**	153	**227**
	Professional certifications index (0–4)	3	4	**2**

Table 5. *Cont.*

Indicators/Countries Type		EM	D	F
Paying taxes	Payments (number per year)	9.14	10.74	**15**
	Time (hours per year)	**240**	157	**196**
	Total tax and contribution rate (% of profit)	47.13	43.84	36
	Profit tax (% of profit)	11.58	13.81	9.87
	Labour tax and contributions (% of profit)	**33.72**	28	25
	Other taxes (% of profit)	1.82	1.97	1.71
	Time to obtain VAT refund (weeks)	**21.18**	15.34	16
	Time to comply with VAT refund (hours)	**12.73**	7.6	6
	Time to export: Documentary compliance (hours)	0.75	0.71	**3.47**
	Cost to export (USD per container deflated)	**1071**	1065	**1072**
	Cost to import (USD per container deflated)	1100	1102	**1125**
Resolving insolvency	Time (years)	**2.52**	1.53	**2.61**
	Cost (% of estate)	**13.5**	9.42	11
	Recovery rate (cents on the dollar)	67.5	75	**46**
	Trial and judgment (days)	**680**	415	437
	Cost (% of claim)	**23**	20	20
	Court fees (% of claim)	**6.1**	4	5.58

Source: authors own calculations based on WORLD BANK data.

According to some studies, to attract more foreign investment, technological innovation should be stimulated by policymakers to provide cleaner production; moreover, they should be stimulated by the investments in renewable energy consumption through public–private participation; taxes should be imposed on the energy-intensive commodities; tariffs should be imposed on the import of energy-intensive machinery and emission-friendly commodities [90,92].

Based on Table 5, the investor profile is in accordance with the group average, and the governments of Czech Republic, Greece, and Hungary should take the following business and sustainable measures:

- To decrease procedures for setting up a company by 2;
- To decrease time for setting up a company by 5 days;
- To decrease cost to start a business by 6%;
- To decrease the number of documents and obtaining all necessary clearances, licenses, permits, and certificates of construction by 7;
- Time needed to realize each step in dealing with construction permits should be no more than 153 days;
- Labour tax and contributions should be no more than 28% of profit;
- Time to obtain VAT refund must decrease by 6 weeks;
- Cost to export should be cheaper, with 10 USD per container;
- Time required to recover debt through insolvency procedure must decrease by 12 months.

The governments of Romania, Cyprus, Croatia, Estonia, Latvia, Lithuania, Bulgaria, Slovenia, Slovakia, and Malta should take the following sustainable business measures:

- Time required to complete each procedure in obtaining construction permits should decrease by 74 days;
- Total number of consumption taxes should decrease by 5;
- The time required to calculate the tax payable and to complete the tax returns to the state should decrease by 44 h;
- Cost to export should be cheaper, with 7 USD per container, and cost to import should be cheaper, with 3 USD per container;
- Time required to recover debt through insolvency procedure must decrease by 11 months.

Accordingly, the government must raise sustainable business environmental standards in order to attract FDI inflows.

Examples of business and sustainable measures that can be taken by governments that want to attract more FDI in their countries are given by developed countries, and the emerging and frontier countries could become inspire by them to apply the measures which are suitable for them.

Regarding the aspect/indicator making it easier to start a business, we can mention that Austria reduced the value of paid-in minimum capital, and has lowered notary fees; Belgium eliminated the paid-in minimum capital and introduced an electronic registration and publication system available to all notaries.; Denmark introduced an online platform which allows the uploading of the company's founding documents and which allows the payment of the establishment fees; Portugal eliminated the requirement to report to the Ministry of Work; Sweden imposed the company registry to register a company in five days.

Regarding making it easier to resolve insolvency, Austria has passed a law making the restructuring procedure easier; Belgium introduced new preventive measures; Spain made insolvency proceedings more public; Portugal eliminated the formality of publishing insolvency notices in newspapers; Germany has adopted Finanzmarktstabilisierungsgesetz, a Financial Market Stabilization Act.

With regard to another important aspect, making it easier to pay taxes, Belgium and Spain reduced the share of corporate income tax and lowered the share of social security contributions; Finland has reduced the share of social security contributions paid by employers and introduced an online portal for filing income tax returns, called "MyTax"; France and Spain have accelerated customs clearance procedures by introducing the electronic customs declaration; Italy has allowed the full cost of work to be deductible (IRAP), and reduced the tax on real estate and municipal service tax; Germany cancelled ELENA procedures and introduced electronic payment system for taxes.

Denmark and France made dealing with construction permits cheaper by eliminating fees for building permits; Portugal has introduced an established fire safety assessment system.

5. Conclusions

Investment is very important in the development of the economy and is the main factor of economic growth. Increasing investment involves a good evolution of gross domestic product and national income. Moreover, it induces economic prosperity and an improvement in welfare improvement, generally speaking.

FDI is becoming increasingly important for economic growth. There is a clear expectation among both home countries and host countries that private capital would be the principal engine of future development. Although countries are generally open to foreign investors, the nature of each country's unique sustainable and business regulations makes it an environment more difficult or easier to penetrate. Investors will always search for methods to make their business more successful, which translates into finding a proper business and sustainable environment. Investors are now looking all over the world, in this highly inclusive world, for these occasions, spending a lot of time and consuming a lot of resources to search for "clean(er)" economies to invest in.

The present study builds the profile of the investor in the EU-27 countries, in search of a "clean(er)" business environment. The results of our research are in line with those of Olival [51], namely that a more appreciated business environment has more chances to produce large amounts of FDI, particularly in developed countries. We also found that countries with lower carbon emissions (cleaner environments) will be perceived as more attractive destinations for FDI inflows. A negative relation between sustainable environment (CO_2 per capita) and FDI was also obtained in the literature by Niranjan Chipalkatti et al. [38]. The results of our research are contradictory to Dinuk Jayasuriya [35], who stated that, when focusing on global developing countries in isolation, the relationship is insignificant.

Overall, the study highlights the factors that influence the decision of investing in developed countries rather than emerging and frontier countries. This fact is proof that the main advantage considered by a foreign investor in developed EU countries is represented by their CO_2 emissions (sustainable environment) and their good ease of doing business environment.

An important reason for the localization of the investment is the existence of good coefficients in terms of the time, cost, and number of all steps to complete the formalities for setting up companies, the value of the minimum subscribed capital, insurance mechanisms, taxes on salary, profit, income, goods, sales and services, time and cost to export and import the goods, the quality of the judiciary, and, last but not least, the rate of recovery of insolvencies.

Another aspect to highlight is that FDI raises environmental standards. Investors in developed countries have taken responsibility for their operations abroad, their individual companies have gone beyond their core responsibility and have become active citizens who help raise sustainable corporate environmental standards within the markets and communities in which they operate. The fact is that a sustainable economy does not happen overnight, but instead takes many smaller steps, sometimes challenging and others unknown, to truly take sustainability to the next level and beyond. Emerging and frontier countries need to follow the example of developed countries to do their economies sustainable. For example, Austria has introduced The Tax Reform Act 2020, which has implemented sustainable and business measures such as the eligibility of electric bicycles for input tax deduction and tax incentives offered for sustainable fuels. The Danish government has invested in renewable energy by installing wind turbines and creating public–private partnerships. France introduced financial compensation that encouraged people to replace their old vehicles which do not meet the Air Quality Certificate standards with a cleaner one. Italy has improved its business climate by temporarily exempting (in 2018) employees from paying social security contributions. The Netherlands has reduced the level of social security contributions paid by employers and real estate taxes and, at the same time, has increased taxes on petrol and diesel cars.

A limitation of our study is that our FDI data does not contain separate data between mergers and acquisitions (M&As) and greenfield FDI. Further research could be extended to the link between ease of doing business, sustainable environment, and FDI inflows compared to FDI outflows.

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