THE ROLE OF INVESTMENT PROMOTION POLICY IN ATTRACTING FOREIGN DIRECT INVESTMENT: THE CASE OF SLOVAKIA

Aneta Bobenič Hintošová
Dr., Ph.D., Associate Professor, Department of Management,
Faculty of Business Economics with seat in Košice,
University of Economics in Bratislava.
Address: 13 Tajovského, 041 30 Košice, Slovak Republic.
E-mail: aneta.bobenic.hintosova@euba.sk
(corresponding author)

Terézia Barlašová
Ph.D. Student, Department of Management,
Faculty of Business Economics with seat in Košice,
University of Economics in Bratislava.
Address: 13 Tajovského, 041 30 Košice, Slovak Republic.
E-mail: terezia.barlasova@euba.sk

Abstract

Foreign direct investment (FDI) is generally considered as an important driver of economic growth and employment opportunities. In particular, countries in transition are adopting their investment promotion policies to attract FDI and direct it to the required sectors and regions. Public financial support in the form of investment incentives is used as one of the direct tools of investment promotion policy. However, this financial support is only considered effective in attracting FDI if the country attains the minimum threshold of quality of the business environment. The aim of the present study is to evaluate development of investment promotion policy, especially the provision of financial and fiscal investment incentives, as well as the level of economic freedom with regard to attracting FDI in Slovakia. The findings indicate that the preference of particular forms of investment incentives by the Slovak government has changed over time. The results of the regression analysis further show that while financial incentives have a positive statistically significant effect on FDI inflows, in the case of fiscal stimuli this effect is surprisingly negative. Based on our results, the overall level of economic freedom seems to not have a statistically significant effect on attracting FDI in Slovakia. The study contributes to the literature by providing a rationale for investment promotion policy reform and by offering some implications for governments seeking to attract targeted FDI.

Keywords: investment promotion policy; investment incentives; financial aid; fiscal aid; economic freedom; foreign direct investment; Slovakia.

Citation: Bobenič Hintošová, A. & Barlašová, T. (2021). The Role of Investment Promotion Policy in Attracting Foreign Direct Investment: The Case of Slovakia. *Public Administration Issues*, no 5 (Special Issue I, electronic edition), pp. 27–40 (in English). DOI: 10.17323/1999-5431-2021-0-5-27-40

Introduction

In an effort to attract a higher volume of foreign direct investment (FDI) and target it to particular sectors and regions, countries usually implement various investment promotion policies. According to Kartasheva (2012), the government's investment promotion policies consist of drafting rules for the selection of infrastructure projects, procurement procedures, support and legal regulations. Financial support in the form of public subsidies is one of the most used instruments of investment policy in terms of fostering capital openness (Pradhan et al., 2019), especially for transition countries, which have become attractive investment locations due to the changing direction of cross-border capital flows (Afanasiev & Shash, 2019). This support usually takes the form of investment incentives within which are typically distinguished (based on OECD, 2003):

1. *Regulatory incentives* that attract foreign investors through exemptions from national laws and rules, such as reduction of the social, environmental or labor related requirements imposed on investors;
2. *Fiscal incentives* that are typically granted in the form of reduced corporate income tax rates, tax holidays, tax reliefs on profits reinvested in the host country, reduction of tax costs for cross-border activities, reductions of value added tax, etc.; and
3. *Financial incentives* that besides infrastructure subsidies are available in the form of incentives connected with the labor force, such as subsidies for temporary wage coverage or job training subsidies. In the group of financial incentives, various grants in the form of cost participation (investment cost subsidy) can also be included.

The preference for a particular form of investment incentive depends on several factors including the disposition of a certain amount of public resources, goals of investment promotion policy, nature of potentially supported investments, etc. However, in the case of large investments, it is common practice to offer to an investor a comprehensive incentive package comprising, to a certain extent, more forms of incentives.

Since the attraction of particular foreign investment, especially a lucrative one, can be subject to the efforts of more countries, investment promotion tools, such as investment incentives, can play a critical role in this regard. Competition among Central European countries within the politics of investment attraction and promotion of particular investors has previously been highlighted,

e.g., by Drahokoupil (2008). Hence, the setting of investment promotion policy is an important FDI location determinant which is often unique and according to a review study by Jain et al. (2016) can also be considered to be country specific.

At the same time, each country should evaluate the effectiveness of the investment promotion policy with regard to achievement of its goals. The topic of effective allocation of public sources in the form of investment incentives is even more crucial in the current pandemic situation and beyond, since there is huge pressure on public budgets due to necessary social and economic measures. Hence, every public expenditure should be considered very carefully with respect to the accompanying future benefits.

This paper focuses on the analysis of the development of investment promotion policy and its current setting with regard to attracting FDI under the conditions of the Slovak Republic within the period 2002–2018. In the observed period, the country received a total FDI inflow of USD 42 billion in absolute terms, which is the lowest volume within the Central European countries, but in the relative terms (in relation to population) it is the second largest volume after the Czech Republic. Many significant foreign direct investment projects in this region were supported by a package of investment incentives. However, there is a lack of analytical studies that would evaluate the role that the investment incentives played in attracting foreign direct investment that the country received. Existing studies have a rather descriptive nature (e.g. Fabuš & Csabay, 2018), generally concluding that investment incentives are still an essential instrument for fostering foreign investing activities in Slovakia.

At the same time, according to several studies, it is important to distinguish forms of investment incentives or aid since the structure of aid matters (e.g. Selaya & Sunesen, 2012). Moreover, several authors (e.g. Ruane, 2008) argue that investment incentives should be supplemented by friendly overall policy settings and a business environment that reduces costs of doing business in the host country, as only in this case do investment incentives seem to bring about visible effects. Hence, the aim of this paper is to evaluate if the frequent changes in the Slovakian legislation regulating the provision of investment incentives and changes of preference of the particular forms of incentives have led to an increase in FDI inflows or if these flows can be rather attributed to the overall investment environment and freedom in this country. As a research methodology the analysis of legal documents and reports accompanied by quantitative analysis based on correlation and linear regression analysis is used.

The rest of the paper is organized as follows. The first section presents a literature review related to the relation between FDI and investment incentives as well as the business environment conducted especially under the conditions of transforming countries; the second section is an analysis of the development of the legal environment regulating provision of the investment incentives in Slovakia; the third section examines the impact of investment incentives and economic freedom on attracting FDI, within which the research methodology is explained, followed by a presentation of our own empirical findings together with their discussion; the fourth section presents the concluding notes.

Literature Review

The effectiveness of investment incentives is usually evaluated according to their ability to attract FDI, since there are further expectations of positive direct and spill-over effects associated with FDI inflows. According to Yanikkaya and Karaboga (2017) the context is logical: boosting the volume of investments is directly associated with the accumulation of capital that leads to productivity enhancements and the creation of new job opportunities resulting in economic growth and prosperity.

A number of studies have evaluated the effect of investment incentives on foreign direct investment flows in various countries, with rather ambiguous results. In the study by Šimelyté and Liučvaitiené (2012) it was pointed out that diverse policies pursued by the governments toward FDI remain a focal driver in attracting inward FDI to the country. However, the comparison of Visegrad and Baltic countries in this regard showed that the results in attracting FDI are superior for Visegrad countries, since they offer fiscal incentives together with financial incentives.

There have also been some single-country specific studies conducted, e.g., in conditions of the Czech Republic by Cedidlová (2013) who analyzed effectiveness of investment incentives from the government as their provider point of view. She generally concluded that the provision of investment incentives is effective in most cases. Another study conducted exclusively in the Czech environment by Hlaváček and Janáček (2019) showed that the policy of supporting inflows of foreign direct investment through investment incentives is positively associated with the development of the regions in the Czech Republic.

These positive findings can be explained by the common rationale for provision of investment incentives, namely the existence of a gap in performance between multinational and domestic firms when it is more effective to attract FDI through incentives than to support the development of local firms (Lundan, 2016). Moreover, investment incentives remain a popular policy instrument since there are many examples that they attracted a considerable amount of FDI inflows into particular countries.

On the other hand, Havránek and Iršová (2010) indicate that host countries´ governments use investment incentives as a compensation tool addressed to foreign investors due to the existence of high employment costs burden and/or insufficient labor productivity in the host country. Thus, investment incentives per se do not appear to be effective in attracting FDI. In a similar sense, Ruane (2008) argues that investment incentives should be supplemented by friendly overall policy settings that create political and economic stability, provide human, physical and institutional infrastructure and reduce the cost of doing business in the targeted country; only in this case do investment incentives seem to have a visible effect.

When distinguishing particular forms of investment incentives, it is generally stated that developed and transition countries favor financial incentives, while developing countries, which cannot afford a direct outflow of sources from public budgets, rather apply less attractive fiscal measures (OECD, 2003), which, in addition, are linked to the fulfilment of specific performance requirements (De Schutter, 2013). However, this is also a relative assumption since Šimelyté and

Liučvaitiené (2012) pointed out that Visegrad and Baltic countries that are often considered as transition countries, focus mostly on fiscal incentives, such as taxes.

The preference of individual forms of investment incentives also appears to be different from the point of view of the government as their provider, as well as from the point of view of their recipient. In this regard, Burger et al. (2012) explain that host countries tend to favor fiscal incentives over financial ones because financial incentives generate direct expenditures from the public budgets, while fiscal incentives form only the abandonment of possible budgetary revenues. On the other hand, investors are expected to admire financial incentives, notably grants and subsidies, because these are usually granted during the investment process or at the beginning of business activities. However, the benefits associated with fiscal incentives can only be used by the investor if the investment to which they are tied is successful and generates profits. Rosenboim et al. (2008) also point out that the amount of the financial subsidy is indifferent of future situations, whereas the value of a fiscal incentives in the form of tax relief depends on future profits. These aspects are also important for managers´ preferences regarding the types of incentives required.

The effectiveness of specific forms of investment incentives in attracting FDI has also been assessed empirically, but the results are far from conclusive. Fiscal incentives, especially taxes, receive much more attention in the available literature. In this regard, we can mention a study by Ślusarczyk (2018) who investigated tax incentives and stated that tax incentives granted by the Polish government form an essential factor influencing foreign investors´ decision to allocate their investment in Poland. A review study by Munongo et al. (2017) on the other hand found that most of the empirical studies explored by them concluded that although tax incentives might be important in attracting FDI, they are more effective when combined with other non-tax factors. Macroeconomic conditions, transparent institutions and infrastructure were found to be important non-tax factors that improve the attractiveness of the host country toward inward FDI.

There are also studies (e.g. Sarkar, 2012; Di Corato, 2016) that simultaneously evaluate the effectiveness of financial and fiscal incentives. In this regard it is worth mentioning a recent work by Tian (2018) who examined the two policies for attracting FDI, namely the government´s immediate and certain lump-sum cost of the subsidy against the future random flow of tax rate reduction. He concluded that the optimal policy depends on the growth rate, the volatility of the profit and the discount rate, but in the case of insufficient information of the local government regarding the investment, a combination of investment cost subsidy and tax rate reduction may be optimal.

Based on a meta-analytic review conducted by Bailey (2018), it can be concluded that "good government" attracts FDI. However, governments that successfully attract foreign direct investment provide, in addition to various forms of investment incentives, at least a stable political environment with reliable and predictable public institutions that allow foreign investors to enjoy country-specific benefits. Thus, investment incentives are important only in cases where the business environment of the host country is considered satisfactory. In this context, there are also works evaluating success in attracting FDI according to the quality of the

business environment measured by various indicators. High popularity possesses specific composite indicators, such as the *Ease of Doing Business Indicator* of the World Bank (used e.g. in: Corcoran & Gillanders, 2015; Jovanovic & Jovanovic, 2018) or the *Index of Economic Freedom* of the Heritage Foundation (used e.g. in: Sambharya & Rasheed, 2015). In both cases it was proved that the significance of the overall index in attracting FDI is mostly driven by only some of the dimensions.

Based on the literature review, we hypothesize that the investment promotion policy plays an important role in attracting FDI, however we assume that the magnitude and strength of relationship of particular forms of investment incentives to FDI inflows is different. At the same time, we hypothesize that there is a relationship between the quality of the overall economic environment and freedom in the country and the success in attracting FDI.

Research Methodology

In the first step of our research, our aim is to evaluate the development of key legislation regulating the provision of investment incentives under the conditions of Slovakia and to provide an overview of the granted investment incentives in the period 2002–2018. It is in our particular interest to compare the provision of different types of investment incentives. For this purpose, we use a database of entities to which investment incentives have been provided, published by the Ministry of Economy of the Slovak Republic.

In the second step of our research, our aim is to examine the impact of fiscal and financial investment incentives, as well as overall level of economic freedom in the country on the inward foreign direct investment in the Slovak republic in the period 2002–2018. It is in our interest to answer the research question, if and to what extent the particular forms of investment incentives and the level of economic freedom contribute to attracting foreign investors to Slovakia. As the dependent variable foreign direct investment inflow (*FDI*) expressed as a percentage of GDP is used, data on FDI inflow were taken from the World bank database.

As key independent variables, the total volume of fiscal investment incentives (*FisAID*) as well as financial investment incentives (*FinAID*) provided in individual years are used. Data on provided investment aid in the structure of fiscal and financial aid were calculated on the basis of data given in the above-mentioned list of entities to which investment aid have been granted. In addition, the quality of the overall economic environment in the country is measured through the Index of Economic Freedom (*IEF*). When using the index, higher values are associated with a higher level of economic freedom. Data on the Index of Economic Freedom were taken from the Heritage Foundation.

Before we introduce the regression model and analyze the empirical results of the model, we present the summary statistics of all the variables (Table 1). The average inflow of FDI in the observed period is 3.7% of GDP. Based on the value of skewness, the dependent variable is approximately symmetric and platykurtic. The volumes of forms of investment aid are expressed in absolute terms in thousands of euros. The average volume of fiscal investment aid is €55,286 thousand and the distribution of this independent variable is skewed to the right side and

leptokurtic. The average volume of financial investment aid is €61,532 thousand and its distribution is skewed to the right side and leptokurtic. The average value of the Index of Economic freedom is 66.9. It is skewed to the left side and leptokurtic.

Table 1

Summary statistics of the variables

Variable	Mean	Median	Min.	Max.	St. dev.	Skewness	Kurtosis
FDI	3.742	3.426	-0.359	8.063	2.446	0.146	-1.118
FisAID	55,286	33,067	0.000	206,95	5.340	1.515	2.015
FinAID	61,532	34,894	0.000	241,03	7.075	1.224	0.533
IEF	66.862	67.100	59.000	70.000	3.360	-1.290	0.754

Source: Own processing of the data.

The correlation matrix of all used variables is represented in Table 2. Based on correlation coefficients, there is a positive relation between financial investment aid and the inflow of FDI. On the other hand, fiscal investment aid as well as the Index of Economic Freedom seem to be only weakly and negatively associated with FDI inflows. However, the correlation coefficient is not statistically significant in both cases.

Table 2

Correlation matrix

	FDI	FisAID	FinAID	IEF
FDI	1	-0.110	0.547 **	-0.217
FisAID		1	0.307	0.271
FinAID			1	-0.096
IEF				1

Note: The asterisks denote the statistical significance of coefficients at a level of 10% (*), 5% (**), and 1% (***).
Source: Own processing of the data.

To study the effect of the individual forms of investment aid as well as level of the economic freedom on attracting FDI, the following regression model is proposed:

$$FDI_t = \beta_0 + \beta_1 \ln FisAID_{t-1} + \beta_2 \ln FinAID_{t-1} + \beta_3 IEF_{t-1} + \varepsilon_t \quad (1)$$

In the model, all the independent variables are used with a one-year lag (similarly as in the study e.g. by Bevan & Estrin (2004)), since we expect a delay in the effect of independent variables on attracting foreign investors. Since volumes

of investment aid are in absolute numbers and based on summary statistics are skewed to the right side, we follow the suggestion of Osborne (2002) and apply logarithmic transformation of these data. β_0 represents a constant, $\beta_{1,} \beta_{2,} \beta_3$ represent the coefficients to be estimated by regression analysis, ε represents the residuals of the model and t denotes time subscript.

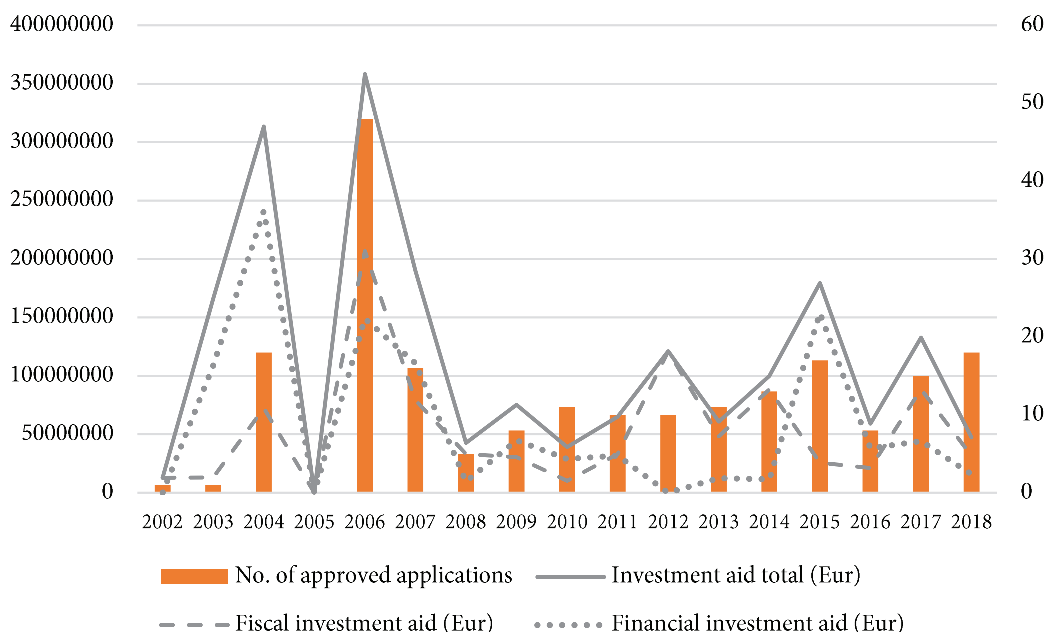
Legal Framework for Provision of Investment Incentives

The first law that regulated the provision of investment incentives under the conditions of Slovakia was Act No. 565/2001 Coll. on Investment Incentives and on Amendments to Certain Acts, effective from January 1, 2002 until December 31, 2007. This law allowed one to apply for only one form of fiscal incentive, namely corporate income tax relief, and initially two forms of financial incentives, namely contribution for newly-created jobs and an allowance for the retraining of staff recruited to the new jobs created. Later, subsidies for acquired long-term tangible assets and long-term intangible assets were introduced. This initial law regulated only the basic conditions for the provision of investment incentives without differentiating the sectors or regions to which the investment incentive was to be directed. In the first period (2002–2007), a total of 84 applications for investment incentives to the total amount of €1,040 million were approved. Almost 60% of this amount was provided in the form of financial incentives and the rest as corporate income tax relief.

When new European legislation was adopted, namely Commission Regulation (EC) No. 1628/2006 on the application of Articles 87 and 88 of the Treaty to national regional investment aid, it was necessary to adopt a comprehensive national state aid program in regions where state aid could be granted. These efforts were reflected in the adoption of the Act No. 561/2007 on Investment Aid and on Amendments to Certain Acts, which was also intended to make the process of providing investment incentives more efficient. At the same time, this law modified the terminology, namely introducing the concept of investment aid instead of the designation of investment incentive and adjusting in detail differentiated conditions for the provision of investment aid in individual areas / sectors and regions. This law was effective from January 1, 2008 to March 31, 2018. In this period, a total of 127 applications for investment aid to the total amount of almost €923 million were approved. Compared to the previous period, more projects were supported, but the total amount of investment aid provided was lower, which means that smaller investment projects were supported, especially in marginalized regions. In terms of the structure of investment aid provided, the ratio between financial and fiscal stimuli had changed significantly compared to the previous period. The government began to prefer fiscal incentives with less immediate impact on the state budget, which was reflected in the share of fiscal incentives in the total investment aid provided of almost 58%.

The development of provided investment aid in the whole monitored period from 2002 to 2018, including its structure as well as the number of approved applications is shown in Figure 1. The figure also reflects the changes in preference of the particular forms of investment aid.

Figure 1: **Volume of investment aid and number of approved projects**



Source: Own processing based on data from the Ministry of Economy of the Slovak Republic

The legal regulation has further been adapted to significant changes not only in the Slovak but also in the international environment and the key law no. 561/2007 was amended a total of 11 times during the ten years of its effectiveness. As a consequence of frequent changes, the new legislation, namely Act No. 57/2018 Coll. on Regional Investment Aid and on Amendments to Certain Acts was adopted. This reflects changes in the needs of the Slovak Republic in the field of investment support, changes in the strategic intentions and attitudes of investors as well as changes in European legislation that required direct application. The new act is thus in compliance with European legislation, namely Commission Regulation (EU) No. 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, as amended. Detailed conditions for the provision of investment aid are regulated within other by-laws, such as guidelines, government regulation and decree of the Ministry of Economy. The potentially supported projects shall fall into one of the defined categories, namely an industrial production, a technology center, a combination of industrial production and a technology center, and a business services center. The investment aid can be provided in the following four forms:

1. a grant for tangible fixed assets and intangible fixed assets;
2. a contribution for new job creation;
3. corporate income tax relief; and
4. the transfer or rental of real estate for a value lower than a value of real estate or a rental value of real estate determined by an expert opinion.

The preference of the particular form of the investment aid is not clearly defined in the legislation. However, there are precise conditions that need to be fulfilled for the provision of the particular forms of incentives. In practice, the majority of investment projects (53%) received a package of investment incentives, consisting of at least two forms, combining fiscal and financial incentives.

Impact of Investment Incentives and Economic Freedom on Attracting FDI

Since there were changes in the preference of the particular forms of investment incentives provided to the investors in the observed period of 2002–2018, it is in our interest to investigate in more detail the impact of the particular forms of investment aid on attracting FDI. In addition, our analysis also takes into account changes in the country's level of economic freedom, which basically reflects the degree of freedom of movement of the labor force, capital and goods. At the same time, the economic freedom is expected to have broader strong effects not only on economic welfare and poverty reduction but also on the development of democracy and citizens, cleanliness of the environment and the health of society. Thus, level of economic freedom can generally be considered as a potentially significant determinant of FDI inflows.

The empirical results of the model (1) based on the ordinary least squares (OLS) estimation are shown in the Table 3. This model can explain 52% of the dependent variable variance based on R-squared. The White´s test for heteroscedasticity does not show a heteroscedasticity problem, and residuals seem to be normally distributed. The independent variables show no indication of a collinearity problem.

Table 3

Empirical results of the model (1)

Variable	Coefficient	Std. Error	t-ratio	p-value	VIF
The constant	24.717**	10.240	2.414	0.033	–
lnFisAID	-0.435***	0.130	-3.370	0.006	1.406
lnFinAID	0.211**	0.084	2.511	0.027	1.541
IEF	-0.252	0.153	-1.648	0.125	1.114

Notes: the asterisks denote statistical significance – * on a level of 10%, ** on a level of 5%, and *** on a level of 1%. The VIF value above 10.00 may indicate a collinearity problem.

R-squared	0.525	Adjusted R-squared	0.406
F-statistic (3, 12)	4.421	With p-value	0.026
White´s test for heteroskedasticity	7.010	With p-value	0.636
LM test for autocorrelation	0.426	With p-value	0.859
Chi-squared	0.409	With p-value	0.815

Source: Own processing of the data.

Except for the constant, the statistically significant positive effect on the dependent variable was found only in the case of the variable financial investment aid. Fiscal investment aid seems to be surprisingly negative and level of economic freedom has no statistically significant impact on FDI inflows. Thus, while financial investment aid granted in one year seems to have a small positive effect on inflows of FDI in the next year, in the case of the fiscal investment aid the effect is rather opposite.

Our results are to some extent similar to those detected by Šimelyté and Liučvaitiené (2012), since we have also not found fiscal incentives to play a significant role in attracting FDI. Rather the opposite seems to be true in the conditions of Slovakia. Moreover, there are plenty of risks associated with fiscal incentives such as possible tax evasion (Androniceanu, 2019), since companies may in some instances move income from taxable activities to those subject to tax incentives, thus avoiding tax liability. Moreover, Munongo et al. (2017) highlight other problems associated with tax incentives, such as misallocation of resources, difficulties associated with administration of tax incentives and potential corruption. On the other hand, our results show that FDI inflow is positively and significantly associated with financial incentives granted in the previous year. Thus, we can agree with Burger et al. (2012) that investors prefer financial incentives, especially in the form of grants and subsidies. Moreover, as stated by Šestáková (2008), one of their advantages compared to the fiscal ones is the possibility of greater influence on the aid recipient and the related monitoring of the specific strategic goals of the incentive provider. They also make it possible to compensate investors differently in the case of structural disadvantages and risks.

With regard to the nation's overall environment evaluated by the Index of Economic Freedom, we did not find significant evidence of its impact on FDI inflows. However, we used the values of the overall composite index without distinguishing particular dimensions. Based on previous studies (such as Sambharya & Rasheed, 2015), it is reasonable to assume that some of the dimensions are significant determinants of FDI inflows, which should be investigated in more detail within our future research.

Our results at the same time indicate and to some extent confirm the findings of Szent-Iványi (2017) that investment promotion policy in Visegrad countries including Slovakia is lagging behind and a number of essential changes are needed in this regard. In particular, in addition to attracting further more targeted foreign investments, active post-stimulus cooperation with investors already active in the country accompanied by provision of various aftercare services to encourage reinvestment and productivity spill-overs, would be appropriate.

Conclusion

Descriptive analysis of provided investment aid in Slovakia showed that the preference for particular forms of investment aid has changed over time. While until 2007 more financial incentives were provided, attracting mainly large foreign investments, after a significant modification of the legislation, this trend has changed. More targeted conditions for the provision of investment aid have also made it possible for smaller entities to apply for it. With the growing num-

ber of business entities to which investment aid was provided, the ratio between financial and fiscal incentives has been changed too. The Slovak government has begun to prefer fiscal incentives in the form of corporate income tax relief with an indirect impact on the public budget. However, in the majority of cases, the investors were granted a whole package of incentives consisting to some extent of financial as well as fiscal incentives.

Our subsequent analysis was therefore focused on evaluating the effects of these individual forms of investment incentives on the inflow of foreign direct investment to Slovakia in order to examine the role of the investment promotion policy in attracting FDI. The results of regression analysis proved positive statistically significant impact on inward FDI only in the case of financial investment aid. Thus, direct financial subsidies, in the form of grants for tangible fixed assets and intangible fixed assets and/or contribution for newly-created jobs, are attracting foreign investors to allocate their investment in Slovakia. Surprisingly, fiscal incentives are not a motivating factor for inward foreign direct investment, probably due to foreign investors´ possibilities of other means of optimization of the tax base at the international level. Although these results are limited to the conditions of Slovakia, the study provides an important contribution to the literature regarding the effect of individual forms of investment incentives in attracting FDI.

In addition, we also tested the effect of the overall economic freedom in the country on the FDI inflows; however, no statistically significant results were detected, possibly due to the fact that values of overall index were taken into account. It is reasonable to believe that foreign investors rather evaluate individual partial aspects of economic freedom when placing an investment in a certain country, which we consider is something important to examine in future research.

Based on our results, it is recommended for the investment promotion policy setting to change the priority tool of this policy in favor of financial incentives. A good example of this change can be the experience of countries that, based on an evaluation of the effectiveness of tax incentives, have decided to abolish them. Financial incentives, if linked to the fulfilment of specific strategic goals in the longer term and combined with other post-incentive benefits that would bind the investor intensively to the given host country, could have a more significant impact on attracting FDI. At the same time, we consider it important to create and implement a scheme for evaluating the effectiveness of investment incentives provided, since this scheme is still missing under the conditions of Slovakia.

REFERENCES

1. Afanasiev, M. & Shash, N. (2019). Russian Federation Cross-Border Investments and Bank Expansion. *Public Administration Issues*, no 6 (Special Issue II), pp. 105–120.

2. Androniceanu, A., Gherghina, R. & Ciobănașu, M. (2019). The Interdependence between Fiscal Public Policies and Tax Evasion. *Administratie si Management Public,* no 32, pp. 32–41.

3. Bailey, N. (2018). Exploring the Relationship between Institutional Factors and FDI Attractiveness: A Meta-Analytic Review. *International Business Review,* vol. 27, no 1, pp. 139–148.

4. Bevan, A. A. & Estrin, S. (2004). The Determinants of Foreign Direct Investment into European Transition Economies. *Journal of Comparative Economics,* no 32, pp. 775–787.

5. Burger, A., Jaklič, A. & Rojec, M. (2012). The Effectiveness of Investment Incentives: The Slovenian FDI Co-Financing Grant Scheme. *Post-Communist Economies,* vol. 24, no 3, pp. 383–401.

6. Cedidlová, M. (2013). The Effectiveness of Investment Incentives in Certain Foreign Companies Operating in the Czech Republic. *Journal of Competitiveness*, vol. 5, no 1, pp. 108–120.

7. Corcoran, A. & Gillanders, R. (2015). Foreign Direct Investment and the Ease of Doing Business. *Review of World Economics,* vol. 151, no 1, pp. 103–26.

8. De Schutter, O., Swinnen, J. & Wouters, J. (2013). *Foreign Direct Investment and Human Development*. Oxon: Routledge.

9. Di Corato, I. (2016). Investment Stimuli under Government Present-Biased Time Preferences. *Journal of Economics,* vol. 119, no 2, pp. 101–111.

10. Drahokoupil, J. (2008). The Investment-Promotion Machines: The Politics of Foreign Direct Investment Promotion in Central and Eastern Europe. *Europe-Asia Studies*, vol. 60, no 2, pp. 197–225.

11. Fabuš, M. & Csabay, M. (2018). State Aid and Investment: Case of Slovakia. *Entrepreneurship and Sustainability Issues,* vol. 6, no 2, pp. 480–488.

12. Havránek, T. & Iršová, Z. (2010). On the Intensity of International Subsidy Competition for FDI. *Theoretical and Applied Economics,* vol. 17, no 2, pp. 25–54.

13. Hlaváček, P. & Janáček, J. (2019). The Influence of Foreign Direct Investment and Public Incentives on the Socio-Economic Development of Regions: An Empirical Study from the Czech Republic. *E+M,* vol. 22, no 3, pp. 4–19.

14. Jain, N. K.., Kothari, T. & Kumar, V. (2016). Location Choice Research: Proposing New Agenda. *Management International Review*, vol. 56, no 3, pp. 303–324.

15. Jovanovic, B. & Jovanovic, B. (2018). Ease of Doing Business and FDI in the Ex-Socialist Countries. *International Economics and Economic Policy*, vol. 15, no 3, pp. 587–627.

16. Kartasheva, A. V. (2012). Design of Investment Promotion Policies. *International Journal of Industrial Organization,* vol. 30, no 2, pp. 127–136.

17. Lundan, S. M. (2016). Definitions, Motivations, and Locational Determinants of Foreign Direct Investment. In: Tavares-Lehmann, A. T. et al. *Rethinking Investment Incentives,* New York: Columbia University Press.

18. Munongo, S., Akanbi, O. A. & Robinson, Z. (2017). Do Tax Incentives Matter for Investment? A Literature Review. *Business and Economic Horizons*, vol. 13, no 2, pp. 152–168.

19. OECD (2003). Checklist for Foreign Direct Investment Incentive Policies. Paris: OECD. Available at https://www.oecd.org/investment/investment-policy/2506900.pdf (accessed: 10 July 2020).

20. Osborne, J. (2002). Notes on the Use of Data Transformations. *Practical Assessment, Research, and Evaluation*, vol. 8, no 6, pp. 1–7.

21. Pradhan, R., Arvin, M. B., Bahmani, S. & Hall, J. H. (2019). Attaining Economic Growth through Financial Development and Foreign Direct Investment. *Journal of Economic Studies,* vol. 46, no 6, pp. 1201–1223.

22. Rosenboim, M., Luski, I. & Shavit, T. (2008). Behavioral Approaches to Optimal FDI Incentives. *Managerial and Decision Economics*. vol. 29, no 7, pp. 601–607.

23. Ruane, M.C.M. (2008). Attracting Foreign Direct Investments: Challenges and Opportunities for Smaller Host Economies. *Journal of International Business Research,* vol. 7, no 2, pp. 65–74.

24. Sambharya, R.B. & Rasheed, A.A. (2015). Does Economic Freedom in Host Countries Lead to Increased Foreign Direct Investment? *Competitiveness Review*, vol. 25, no 1, pp. 2–24.

25. Sarkar, S. (2012). Attracting Private Investment: Tax Reduction, Investment Subsidy, or Both? *Economic Modelling,* vol. 29, no 5, pp. 1780–1785.

26. Selaya, P. & Sunesen, E. R. (2012). Does Foreign Aid Increase Foreign Direct Investment? *World Development*, vol. 40, no 11, pp. 2155–2176.

27. Šestáková, M. (2008). *Konkurencia Medzi Štátmi v Oblasti Získavania a Udržania Zahraničných Investícií* [Competition Among States in Obtaining and Retaining Foreign Investment]. Bratislava: Ekonomický ústav SAV.

28. Šimelyté, A. & Liučvaitiené, A. (2012). Foreign Direct Investment, Policy-Friendly Business Environment in R&D Sectors: Baltic States versus Visegrad Countries. *Journal of East-West Business*, vol. 18, no 1, pp. 66–93.

29. Ślusarczyk, B. (2018). Tax Incentives as a Main Factor to Attract Foreign Direct Investments in Poland. *Administratie si Management Public,* no 30, pp. 67–81.

30. Szent-Iványi, B. (2017). Investment Promotion in the Visegrad Four Countries: Post-FDI Challenges. In: Galgoczi, B. and Drahokoupil, J. (Eds.) *Condemned to be Left Behind? Can Central Eastern Europe Emerge from Its Low-Wage FDI-Based Growth Model?* Brussels: ETUI, pp. 171–187.

31. Tian, Y. (2018). Optimal Policy for Attracting FDI: Investment Cost Subsidy versus Tax Rate Reduction. *International Review of Economics and Finance*, vol. 53, no C, pp. 151–159.

32. The Heritage Foundation. *Index of Economic Freedom*. Available at: https://www.heritage.org/index/ (accessed: 24 August 2020).

33. The Ministry of Economy of the Slovak Republic. *Investičná Pomoc*. Available at: https://www.mhsr.sk/podpora-investicii/investicna-pomoc/zoznamy (accessed: 7 August 2020).

34. The World Bank. *World Bank Open Data*. Available at: https://data.worldbank.org/ (accessed: 24 August 2020).

35. Yanikkaya, H. & Karaboga, H. (2017). The Effectiveness of Investment Incentives in the Turkish Manufacturing Industry. *Prague Economic Papers*, vol. 26, no 6, pp. 744–760.